PhilRatings
PHILIPPINE RATING SERVICES CORPORATION
The Pioneer Domestic Credit Rating Agency

RATING NEWS
November 13, 2024

MRT 3 Asset-Backed Notes Keeps PRS Aa minus Rating

Philippine Rating Services Corporation (PhilRatings) has maintained its rating of **PRS Aa minus** for Tranche 3 of MRT Funding Corporation's Asset-Backed Notes. The rating has a **Stable** Outlook.

The Asset-Backed Notes issue is a securitization of future dividends from Metro Rail Transit Corporation (MRTC), which flow through a series of holding companies and special purpose vehicles, to MRT III Funding Corporation, the Issuer of the Notes. The dividends arise from Equity Rental Payments (ERPs) made by the Department of Transportation and Communications (DOTC, now Department of Transportation or DOTr) to MRTC under a 25-year build-lease-transfer (BLT) agreement for the construction of the Light Rail Transit System, Phase 1 (LRTS Phase 1, or MRT) in Metro Manila.

Obligations rated **PRS Aa** are of high quality, and are subject to very low credit risk. The obligor's capacity to meet its financial commitment on the obligation is very strong. The "minus" further qualifies the rating.

An Outlook, on the other hand, is an indication as to the possible direction of any rating change within a one-year period, and serves as a further refinement to the assigned rating for the guidance of investors, regulators, and the general public. A **Stable** Outlook is assigned when a rating is likely to be maintained or to remain unchanged in the next twelve months.

Historically, ERP remittance by the government has not consistently followed a regular pattern. From 2005 to 2007, the issue rating for the Notes underwent a series of downgrades as the then irregular ERP remittance by the government raised significant doubts on the timely payment of maturing Note tranches.

Despite the then irregularity in ERP remittance, however, government managed to make full and prompt payment on the Note tranches as these became due in previous years. Significant also is the subsequent established pattern of regular ERP remittance by the government, which was noted by PhilRatings after its 2010 annual monitoring of the Notes' issue rating. These positive developments were major rating considerations in the subsequent issue ratings that were assigned to the Notes.

As of report writing date, based on PhilRatings' checking and the representation of particular parties, prompt debt servicing of the outstanding Notes has continued. As of October 31, 2024, the outstanding balance for Tranche 3 of the Notes was US$39.807 million. The Notes are scheduled to be fully settled on February 7, 2025.

While there are concerns that ERP remittances may be affected by the weaker than expected fares from the MRT III for this year, PhilRatings believes that it is highly likely that prompt debt servicing of the Notes will continue moving forward. PhilRatings notes the continued prompt servicing of the Notes even during the train system's zero ridership at the height of the COVID-19 pandemic.

PhilRatings also notes that government has identified the development of infrastructure for physical connectivity as one of its priorities. In line with this, the rehabilitation and maintenance of the MRT III train system continues as one of the government's five big ticket railway projects.