PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **April 8, 2024**

Petron Keeps Highest Credit Rating for P38 Billion Outstanding Bonds

Philippine Rating Services Corporation (PhilRatings) has maintained the Issue Credit Rating of **PRS Aaa**, with a **Stable Outlook**, for Petron Corporation's (Petron) total outstanding bonds worth P38.0 billion.

PRS Aaa is the highest credit rating on PhilRatings' long-term issue credit rating scale. Obligations rated **PRS Aaa** are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

On the other hand, an Outlook 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 credit rating for the guidance of investors, regulators, and the general public. A **Stable Outlook** is defined as: "The rating is likely to be maintained or to remain unchanged in the next 12 months."

PhilRatings considered the following key rating factors in the assignment of the rating: a) Petron's sustained retail presence and market leadership, both in the Philippines and Malaysia; b) its improving sales due to economic recovery and a significant upturn in the industrial and aviation sectors; c) its experienced management and synergies with companies belonging to the San Miguel Group; and d) increasing economic uncertainty due to the adverse impact of inflation and higher interest rates.

PhilRatings based its assessment on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to Petron and may change the rating and Outlook at any time, should circumstances warrant a change.

Petron is the largest oil refining and marketing company in the Philippines. It also has an integrated refining, distribution, and marketing business in Malaysia, increasing its regional presence in Southeast Asia. The company's primary business involves the refining of crude oil, as well as the marketing and distribution of refined petroleum products. Its principal products are mainly categorized into fuels, oil, lubricants and greases, and petrochemicals.

Based on the data from the Department of Energy (DOE), Petron continued to lead the local oil industry in the first half of 2023 (1H2023), accounting for a market share of 23.19%. In the Liquefied Petroleum Gas (LPG) industry, Petron regained its position as the market leader, with a 23.66% share of total LPG demand. On the other hand, Petron is currently the third top player in the Malaysian market, according to management. This is attributed to the sustained runs of the Port Dickson refinery, complemented by the additional services provided to customers in the retail service stations for a one-stop service experience, such as the availability of food and beverages via Treats convenience stores. The Petron service stations in Malaysia are also Go-to Safety Points (GTSPs) for customers to report local crimes.

Petron recently disclosed that 126.9 million barrels were sold in 2023, higher by 12.5% than the 112.8 million barrels sold in 2022. The growth was attributable to the significant growth in the Company's Jet Fuel and LPG sales, coupled with higher production at its Bataan and Port Dickson refineries. Despite higher sales volume, Petron posted lower revenues during the period at P801.0 billion, down by 6.6% from the P857.6 billion recorded in the previous year. Such was due to crude oil price correction, with full year average price of benchmark Dubai crude at USD82/bbl in 2023, a 14.6% decline from USD96/bbl in 2022. Nevertheless, Petron was able to record 50.7% growth in its net income, from P6.7 billion in 2022 to P10.1 billion in 2023, driven by the Company's efforts to capture the continued recovery in demand and respond to market volatility.[1]

Moving forward, Petron will continue to focus on volume growth, efficient operations, and the optimal use of assets amid a challenging business environment.

As of December 31, 2023, Petron had two principal common shareholders namely: SEA Refinery Corporation (SEA Refinery)–with 50.1% of Petron's common shares—and San Miguel Corporation (SMC)–with 18.16%. SEA Refinery is 100%-owned by SMC, allowing the latter to hold an aggregate 68.26% ownership of Petron. SMC is one of the largest and most diversified conglomerates in the Philippines, with business interests in beverage, food, packaging, fuel and oil, power, and infrastructure. Petron is seen to strongly benefit from Parent Company support given its shared directors and executive officers with SMC and other affiliates. In addition, the company has a highly capable and experienced management team with the technical expertise needed to run the business.

The country's Gross Domestic Product (GDP) growth in the last quarter of 2023 was logged at 5.6%, bringing full-year GDP growth to 5.6% in 2023. This was behind the government's target GDP growth of 6% to 7% for the year. The industries that contributed the most to the annual growth were: Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles (5.5%); Financial and Insurance Activities (8.9%); and Construction (8.8%).

Inflation in February 2024 broke the its four-month downtrend, going up to 3.4% (from 2.8% in January 2024) on the back of higher prices for key food items, particularly rice. The figure, however, still fell within the BSP projection of 2.8-3.6%. It also marked the third straight month that inflation was kept within the government's 2-4% target range. The target inflation rate for full-year 2024 was pegged within the range of 2% to 4%.

[1] Based on the press release of Petron dated March 5, 2024. Petron has yet to release its 2023 Audited Financial Statements, as of report writing date.