PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **November 19, 2024**

PhilRatings Assigns a Positive Outlook for STI ESG's Outstanding Bonds

Philippine Rating Services Corporation (PhilRatings) has maintained the Issue Credit Rating of **PRS A plus** for STI Education Services Group, Inc.'s (STI ESG) outstanding bond issuance of ₱820.0 million, based on its on-going and initial review of the account. Furthermore, after careful consideration, it has decided to assign a **Positive Outlook** given developments in relation to STI ESG.

Obligations rated **PRS A** have favorable investment attributes and are considered as upper-medium grade obligations. Although these obligations are somewhat more susceptible to the adverse effects of changes in economic conditions, the obligor's capacity to meet its financial commitments on the obligation is still strong. The "plus" further qualifies the assigned rating.

A **Positive Outlook**, on the other hand, is defined as: "There is a potential for the present credit rating to be upgraded in the next 12 months."

PhilRatings considered the following factors for the assignment of its latest Outlook: (1) STI ESG's improved profitability supported by the increasing number of enrollees; (2) its satisfactory capitalization with additional room for debt; (3) effective cost management strategies across its network of schools; and (4) the timely servicing of its seven-year P2.18 billion bonds through the pandemic and the eventual settlement in March 2024.

Established in 1983, STI ESG is involved in establishing, maintaining, and operating educational institutions. It currently provides Senior High School and tertiary education. It also offers post-secondary and lower tertiary non-degree programs, as well as post-graduate courses. As of end-June 2024, the STI ESG network had 63 active schools across the country, comprised of 60 STI Colleges and three STI Education Centers.

STI ESG's revenues consistently increased from ₱2.1 billion in fiscal year (FY) ending June 30, 2022 to ₱3.7 billion in FY2024, translating to a compound annual growth rate (CAGR) of 33.3%. This was due to the growth in the number of enrollees, which propelled tuition and other school fees to rise at a CAGR of 34.6%, from ₱1.8 billion in FY2022 to ₱3.3 billion in FY2024. STI ESG's enrollees started to recover in School Year (SY) 2021-2022, eventually reaching 103,982 students in SY 2023-2024.

The Company's net income likewise significantly grew from ₱253.3 million in FY2022 to ₱1.3 billion in FY2024, representing a CAGR of 124.4%. Margins similarly increased consistently. Gross profit margin climbed from 64.0% in FY2022 to 71.1% in FY2024. Net profit margin was also higher at 34.5% in FY2024, from 12.2% in FY2022.

PhilRatings notes the pronounced improvement in STI ESG's performance in the past three fiscal years, as opposed to its volatile profitability from 2011 to 2021. In FY2024, STI ESG also posted its highest net income since 2011.

STI ESG's capital structure had also been conservative, with an average debt-to-equity (DE) ratio of 0.6x from FY2022 to FY2024. Total debt declined from ₱4.2 billion in FY2022 to ₱2.9 billion in FY2024, with the Company successfully paying off its ₱2.18 billion Fixed Rate Series Seven-year Bonds in March 2024. Total equity, in contrast, expanded from ₱5.9 billion in FY2022 to ₱7.0 billion in FY2024, supported by the continuous plowback of earnings.

The assignment of a **Positive Outlook** resulted from PhilRatings' initial and continuing review of the account, during which it noted the above developments. PhilRatings will update the public should there be any change in the rating and Outlook for STI ESG's outstanding bonds once it has completed its on-going review of the account.