PhilRatings
PHILIPPINE RATING SERVICES CORPORATION
The Pioneer Domestic Credit Rating Agency

RATING NEWS
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San Miguel's Planned Bond Issue Gets Highest Credit Rating

Philippine Rating Services Corporation (PhilRatings) has assigned an Issue Credit Rating of **PRS Aaa**, with a **Stable Outlook**, to San Miguel Corporation's (SMC) proposed bonds of up to P20.0 billion.

PhilRatings also maintained its Issue Credit Rating of **PRS Aaa**, with a Stable Outlook, for the Company's outstanding rated bonds of P142.9 billion.

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. **PRS Aaa** is the highest rating assigned by PhilRatings. A **Stable Outlook**, on the other hand, indicates that the assigned rating is likely to be maintained or to remain unchanged in the next 12 months.

The assigned issue ratings took into account SMC's: (1) diversified portfolio that includes market-leading businesses; (2) solid leadership; (3) healthy profitability, driven by the continuous recovery of major businesses; and (4) adequate liquidity, supported by stable cash flow generation.

PhilRatings' ratings are based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to SMC and may change the ratings at any time, should circumstances warrant a change.

Over the years, SMC has accumulated a highly-diversified portfolio of businesses in various sectors, including: food and beverage, packaging, energy, fuel and oil, infrastructure, cement, property, and banking services. Such portfolio expansion has solidified the Company's standing as one of the largest and most diversified conglomerates in the Philippines. Its key businesses also have the advantage of well-entrenched market leadership in their respective industries, supported by strong brand equity and a proven track record. In 2023, the SMC Group's P1.4 trillion revenues represented approximately 6% of the country's Gross Domestic Product (GDP).

The management of SMC is also viewed as highly-skilled and well-experienced, with a track record of successfully steering the Company through economic and industry highs and lows. Ramon S. Ang, the Company's President and Chief Executive Officer (CEO), is largely credited with the successful diversification of SMC into non-food and non-beverage businesses.

In 2023, SMC's consolidated net income significantly recovered by 67%, amounting to P44.7 billion. The recovery was mainly backed by significant volume growth in its key business segments. Net profit margin improved to 3% in 2023, up from 2% in 2022.

The continuing strong performance of SMC's business segments is seen to bolster the expansion in consolidated sales moving forward. Net income will likewise be on an uptrend, although an expected uptick in costs would temper such growth. Price inflation, a weak peso, and high interest rates are anticipated to persist in the medium term. Margins, however, are expected to be stable as the Company

actively implements initiatives to control and reduce costs, and which are seen to benefit SMC more in the long run.

Cash flows were healthy, backed by the solid growth of earnings for the year. Net cash generated from operating activities amounted to P83.1 billion in 2023, a turnaround from the net cash outflow of P12.4 billion in 2022. Cash disbursements were mainly used in investing activities, which totaled P155.5 billion in 2023. This was mostly for property, plant, and equipment and additions to intangible assets. Due to significant investment activities, cash and cash equivalents stood at P261.4 billion as of end-2023, lower by 18% than in the previous year. Nonetheless, the Company's current ratio remained adequate at 1.1x as of end-2023. SMC continues to have ample flexibility to comfortably service its obligations.

Projected cash from operations is expected to be positive and on an upward trend, backed by a steady increase in earnings. Investing activities, mostly for plant, property, and equipment, as well as intangible assets, will be primarily funded by internally-generated cash. Debt maturities will be paid from a mix of internally-generated cash and refinancing.