PhilRatings
PHILIPPINE RATING SERVICES CORPORATION

CREDIT RATING REPORT

AYALA LAND, INC. (ALI)

Date: September 17, 2024
Analysts: Joan Grace P. Bual
Aline Lei A. Abon
Fatima Elaine R. Magpantay-Pascual
Jacob Kyler Nathaniel D. Salgado

5th Floor, ALGO Center
162 LP Leviste St., Salcedo Village
Makati City, Metro Manila
1227 Philippines

+632 8812 3210
+632 8812 3215
www.philratings.ph

PROPOSED ISSUANCE

Proposed KPI-Based Sustainability-Linked Bonds			
Amount*	**Tenor**	**Assigned Rating**	**Assigned Outlook**
₱10.0 billion	10 years	PRS Aaa	Stable
Total Proposed Issuance – ₱10.0 billion			

*The third tranche from the existing 2023 Debt Securities Program Shelf Registration of up to ₱50.0 billion.

Other salient terms:	
Key Performance Indicators (KPI) / Sustainability Performance Targets (SPT)	1. Reduce operational Scopes 1, 2, and 3 greenhouse gas (GHG) emissions of ALI's commercial properties[a] by 42% by 2030, with a baseline date of 2021; measurement date of March 2031, and 2. Obtain EDGE Zero Carbon certification for 1.5 million square meters (sqm) of office commercial properties by 2025; measurement date of March 2026
Interest Rate	10-year BVAL + 30 basis points (bps) Indicative rate of 6.35%
Interest Rate Step-up	The Interest Rate is to step-up by five bps for each KPI that is not achieved commencing on the quarterly interest period immediately succeeding the relevant measurement date.

[a] Comprised of mall, office and hotel properties

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.

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 assigned when a rating is likely to be maintained or to remain unchanged in the next 12 months.

The rating assigned to the proposed Sustainability-linked Bonds is mainly in relation to the Company's capacity to pay the rated bonds and is not an opinion on the attainability or capability to achieve the sustainability targets linked with the bonds.

OUTSTANDING ISSUANCES

Total Outstanding Bonds	₱109.25 billion	₱22.00 billion from 2016 SP, ₱31.00 billion from 2019 SP, ₱38.00 billion from 2021 SP, ₱16.25 billion from 2023 SP, and ₱2.0 billion from other outstanding bonds
Total of Proposed Issuances and Outstanding Bonds	₱119.25 billion	₱109.25 billion outstanding bonds and up to ₱10.00 billion proposed bonds

Earlier PRS-rated Bond

Amount	Interest Rate	Tenor	Maturity Date	Issue Date	Reviewed Rating	Reviewed Outlook
₱2.00 billion	6.0000%	20 years	Oct. 10, 2033	Oct. 10, 2013	PRS Aaa	Stable

3-year 2016 Securities Program of up to ₱50 billion

Amount	Interest Rate	Tenor	Maturity Date	Issue Date	Reviewed Rating	Reviewed Outlook
₱8.00 billion	4.8500%	10 years	Mar. 23, 2026	Mar. 23, 2016	PRS Aaa	Stable
₱7.00 billion	4.7500%	9 years	Oct. 25, 2025	Apr. 25, 2016	PRS Aaa	Stable
₱7.00 billion	5.2624%	10 years	May 02, 2027	May 02, 2017	PRS Aaa	Stable
Total Outstanding Amount Issued under the 2016 SP – ₱22.00 billion*						

*ALI issued ₱3.00 billion in Homestarter Bonds in October 2016. These bonds matured in October 2019. In October 2021, the Company also completed the early redemption of its ₱8.00 billion Fixed-Rate Bonds, which were issued in October 2018 with a tenor of 5 years. As such, the Company has fully utilized the 2016 SP.

3-year 2019 Securities Program of up to ₱50 billion

Amount	Interest Rate	Tenor	Maturity Date	Issue Date	Reviewed Rating	Reviewed Outlook
₱8.00 billion	6.3690%	7 years	May 06, 2026	May 06, 2019	PRS Aaa	Stable
₱3.00 billion	4.7580%	5 years	Sept. 30, 2024	Sept. 30, 2019	PRS Aaa	Stable
₱1.00 billion	4.9899%	8 years	Feb. 06, 2027	Nov. 06, 2019	PRS Aaa	Stable
₱6.25 billion	3.8620%	5 years	Sept. 29, 2025	Sept. 29, 2020	PRS Aaa	Stable
₱10.00 billion	3.6262%	4 years	May 04, 2025	May 04, 2021	PRS Aaa	Stable
₱0.25 billion†	4.0776%	10 years	Oct. 26, 2031	Oct. 26, 2021	PRS Aaa	Stable
₱2.50 billion†	5.8086%	6 years	May 05, 2028	May 05, 2022	PRS Aaa	Stable
Total Outstanding Amount Issued under the 2019 SP – ₱31.0 billion*						

*ALI issued Fixed-Rate Bonds of ₱9.00 billion in November 2019 and ₱10.00 billion in June 2020. These bonds matured in November 2021 and June 2022, respectively. As such, the Company has fully utilized the 2019 SP.

†A total of ₱2.75 billion from the 2019 SP was issued as part of two bond issuances, both of which were also partly drawn from the 2021 SP.

3-year 2021 Securities Program of up to ₱50 billion

Amount	Interest Rate	Tenor	Maturity Date	Issue Date	Reviewed Rating	Reviewed Outlook
₱2.75 billion†	4.0776%	10 years	Oct. 26, 2031	Oct. 26, 2021	PRS Aaa	Stable
₱9.50 billion†	5.8086%	6 years	May 05, 2028	May 05, 2022	PRS Aaa	Stable
₱7.00 billion	6.2110%	5 years	Jul. 04, 2027	Jul. 04, 2022	PRS Aaa	Stable
₱14.00 billion	6.8045%	7 years	Jul. 04, 2029	Jul. 04, 2022	PRS Aaa	Stable
₱4.75 billion†	6.0253%	5 years	Jun. 26, 2028	Jun. 26, 2023	PRS Aaa	Stable
Total Outstanding Amount Issued under the 2021 SP – ₱38.00 billion						

†As mentioned in the previous table, ₱0.25 billion from the 2019 SP was issued with ₱2.75 billion from the 2021 SP for a total issue amount of ₱3.0 billion. Similarly, ₱2.5 billion from the 2019 SP was issued with ₱9.5 billion from the 2021 SP for a total issue amount of ₱12.0 billion. The balance of ₱4.75 billion was the final tranche of the 2021 SP and issued with a total of ₱10.25 billion from the new 2023 SP. As such, the Company has fully utilized the 2021 SP.

3-year 2023 Securities Program of up to ₱50 billion

Amount	Interest Rate	Tenor	Maturity Date	Issue Date	Reviewed Rating	Reviewed Outlook
₱5.325 billion†	6.0253%	5 years	Jun. 26, 2028	Jun. 26, 2023	PRS Aaa	Stable
₱4.925 billion†	6.2948%	10 years	Jun. 26, 2033	Jun. 26, 2023	PRS Aaa	Stable
₱6.0 billion††	6.9931%	10 years	Jul. 18, 2034	Jul. 18, 2024	PRS Aaa	Stable
Total Outstanding Amount Issued under the 2023 SP – ₱16.25 billion						

†As mentioned in the previous table, ₱4.75 billion from the 2021 SP was issued with a total of ₱10.25 billion from the 2023 SP.
††First tranche of ASEAN Sustainability-Linked Bonds

OUTSTANDING ISSUANCES OF RELATED COMPANIES

Ayala Corporation (AC) – Parent Company of ALI
AC owned 51.0% of ALI's total outstanding shares as of end-February 2024.

Issue Amount	Interest Rate	Tenor	Maturity Date	Issue Date	Outstanding Rating	Outstanding Outlook
3-year 2016 Fixed-rate Bonds Program (FBP) of up to ₱20.00 billion						
₱10.00 billion	4.8200%	8 years	Feb. 10, 2025	Feb. 10, 2017	PRS Aaa	Stable
3-year 2021 Debt Securities Program (DSP) of up to ₱30.00 billion						
₱6.00 billion	3.7874%	5 years	May 28, 2026	May 28, 2021	PRS Aaa	Stable
₱5.00 billion	4.4542%	3 years	May 26, 2025	May 26, 2022	PRS Aaa	Stable
₱7.50 billion	5.6239%	5 years	May 26, 2027	May 26, 2022	PRS Aaa	Stable
₱2.50 billion	6.1351%	7 years	May 26, 2029	May 26, 2022	PRS Aaa	Stable
Total Outstanding PRS-rated Bonds of AC – ₱31.00 billion						

RATIONALE

1. A well-diversified portfolio, complemented by strong brand equity

ALI stands as one of the leading and most established property developers in the Philippines, with an operating history of more than 35 years since 1988. It is engaged in the development of large-scale, integrated, mixed-used and sustainable estates. It has a well-diversified portfolio of businesses that range from the development of residential, office, commercial, and industrial properties, commercial leasing through shopping centers, offices, hotels, resorts, factory buildings, warehouses, co-living, and co-working spaces, construction, property management, retail energy supply and airlines.

ALI's core business, residential development, includes a diverse portfolio that caters to different market segments. These operate under the following companies and brands: AyalaLand Premier (ALP) for the luxury segment; Alveo Land Corp. (Alveo) for the upscale segment; Avida Land Corp. (Avida) for the middle-income segment; Amaia Land Corp. (Amaia) for the affordable housing segment; and BellaVita Land Corp. (BellaVita) for the socialized housing segment.

ALI also manages a chain of Ayala Malls, office buildings, its own hotel brand, Seda, an eco-luxury resort in El Nido, and a tourism estate in Iloilo. ALI also entered into the leasing formats of co-working and co-living spaces through Clock In and The Flats. Additionally, ALI also holds equity interests in construction through Makati Development Corporation (MDC), a property management firm through Ayala Property Management Corporation (APMC) and a boutique airline business under the brand AirSWIFT.

The well-balanced portfolio of real estate properties and services places ALI in a good position to leverage on any potential opportunities and mitigate risks that might arise in those segments.

To date, ALI has 52 estates in its portfolio. These estates are comprised of 34 integrated mixed-use estates, two tourism estates, five residential estates, five commercial estates, and six industrial estates. The Company likewise held a land bank of 11,240 hectares as of end-2023, that is seen to support development of at least 14 years.

ALI is a highly-trusted brand, with a solid track record of successful expansions and delivery of high-quality projects nationwide. ALI is present in 57 growth centers across the country.

2. Experienced and competent management team and synergies with the Ayala Group

Mr. Jaime Augusto Zobel de Ayala is the Chairman of ALI effective in October 2022, taking over the role from Mr. Fernando Zobel de Ayala after his resignation. Mr. Jaime Augusto Zobel de Ayala is also the Chairman of ALI's parent company, Ayala Corporation (AC), since 2006 and is a Director since 1987. ALI's management is led by President and Chief Executive Officer (CEO) Ms. Anna Ma. Margarita B. Dy beginning October 1, 2023. Prior to becoming President and CEO, she was the Head of the Residential Business Group of ALI in 2022 and Head of the Malls Group in 2023. Before that, she also headed the Ayala Land Estates Group. The leadership and management of the Company are also being overseen by other key officers who also hold significant roles across various entities within the Ayala Group.

As of end-June 2024, Ayala Corporation (AC), ALI's parent Company, owned 51.6% of ALI. AC is one of the country's oldest and largest conglomerates, with diversified operations in real estate, telecommunications, financial services, water, industrial technologies, power, infrastructure, education, healthcare, and technology ventures.

ALI enjoys strategic advantages with its connection to a strong, well-diversified, and reputable conglomerate. ALI can continue to leverage on AC's resources and markets, seasoned management, and established networks and relationships to achieve its goals.

3. The Company's solid commitment to sustainability

ALI has been striving to reach its sustainability goals since the Company formalized sustainability as a guiding principle for the Group in 2007. In July 2024, ALI hit a major milestone with the issuance of the country's first KPI-based ASEAN Sustainability-Linked Bonds amounting to ₱6.0 billion. Such issuance forms part of ALI's debt package of ₱20.5-billion Sustainability-Linked Financing Program, alongside the ₱14.5-billion Sustainability-Linked Loan granted by the International Finance Corporation (IFC). ALI is moving forward with another key undertaking with its second Sustainability-Linked Bonds in the last quarter of the year.

The Company significantly achieved its medium-term goal of Carbon Neutrality[1] for its commercial properties by 2022. After the completed independent verification of third-party assessor Carbon Check India[2] in 2023, it was confirmed that ALI offset 86% of its Scopes 1 and 2 greenhouse gas (GHG) emissions from gross emissions of commercial properties in 2022. The Company's shift to renewable sources of energy primarily contributed to the reduction in GHG emissions. A total of 111 commercial properties or 91% of ALI's portfolio was now powered by renewable energy.

In 2021, ALI transitioned its decarbonization strategy from Carbon Neutrality to setting targets and identifying interventions for a Net Zero[3] by 2050 program. The latter is a collective endeavor of the Ayala Group, along with ALI's sister companies Globe Telecom (Globe), Bank of the Philippine Islands (BPI) and AC Energy (ACEN).

The structural/financial characteristics of the proposed bonds are tied to two predefined sustainability objectives: (1) reduce the operational Scopes 1, 2, and 3 GHG emissions of ALI's commercial properties by 42% by 2030, from a baseline date of 2021 – measurement date of March 2031, and (2) obtain EDGE[4] Zero Carbon certification for 1.5 million sqm of office commercial properties by 2025 – measurement date of March 2026. The SPTs for the proposed issuance are the same with the Sustainability-Linked Bonds issued in July 2024.

For the first sustainability objective, ALI already made notable progress in achieving Carbon Neutrality. PhilRatings notes, however, that reaching its net zero target is more ambitious and a longer-term commitment for the Company.

In terms of the second sustainability objective, 354,000 sqm comprising of eight office buildings were already awarded EDGE Zero Carbon certifications in January 2024.

[1] Carbon Neutrality refers to the state of emitting an equal amount of carbon dioxide (CO_2) into the atmosphere as is removed.
[2] "Carbon Check (India) Pvt. Ltd is a globally recognized organization that has validated and verified greenhouse gas (GHG) projects worldwide." *Source: https://www.carboncheck.co.in/*
[3] Net Zero refers to the state of emitting an equal amount of GHGs into the atmosphere as is removed. It accounts for the reduction of all GHG emissions across the whole supply chain.
[4] Established by the IFC in 2014, Excellence in Design For Greater Efficiencies (EDGE) is a green building certification system focused on making new residential and commercial buildings more resource-efficient.
Source: https://www.gbci.org/press-kit-edge

4. Robust profitability and healthy cash flows

In the first half of 2024 (1H2024), ALI's net income posted a 20% year-on-year (YoY) growth to ₱15.7 billion, driven by strong property demand and healthy consumer activity. Net income attributable to equity holders of ALI amounted to ₱13.1 billion, up by 15% from 1H2023. Consolidated revenues jumped by 28% YoY to ₱84.3 billion, as total real estate revenues similarly increased by 28% YoY to ₱82.5 billion. The latter was particularly attributed to higher residential and commercial lot bookings, additional contracts from external construction projects, and solid leasing operations.

Net profit margin for 1H2024 was 19%, slightly lower than the 20% recorded in 1H2023. Returns for the period were better. Return on average equity (ROAE) improved from 8% to 9%, while return on average assets (ROAA) inched up from 3% to 4%. Moreover, interest coverage ratio marginally increased from 3.3x in 1H2023 to 3.4x in 1H2024.

Backed by higher earnings, net cash from operating activities in 1H2024 amounted to ₱5.2 billion, almost triple the operating cash in 1H2023. ALI ended the first half of the year with cash and cash equivalents of ₱19.9 billion, a 16% increase from end-2023 level. Current ratio also remained above satisfactory at 1.7x as of end-June 2024.

ALI expects sustained growth in its earnings going forward, with margins and returns likewise improving.

5. Sound capital structure

ALI continues to have a conservative capital structure, with its debt-to-equity ratio stable at 0.8x as of end-June 2024. Leverage levels are also seen to remain more than manageable, going forward. PhilRatings notes that ALI's conservative capital structure (considering the nature of its business), along with its strong cash generation capacity and strategically spread-out debt maturities, puts the Company in a good position to pay off its obligations as these fall due.

BUSINESS PROFILE

Ayala Land (ALI) was incorporated in 1988 to focus on the development of the Ayala Group's existing real estate assets. ALI is known as one of the largest and most diversified real estate conglomerates in the Philippines. The Company is principally engaged in land acquisition; planning and development of large-scale, integrated, mixed-use, and sustainable estates; development and sale of residential condominiums and house and lots, office buildings, and commercial and industrial lots; development and lease of commercial and office spaces, factory buildings and warehouses; and development, operation, and management of hotels, resorts, and co-living spaces. In addition, it is also engaged in property management, construction, power and airline services.

ALI organized its main business lines in three categories, namely: (1) Property Development, which includes the sale of residential lots and units, office spaces, commercial and industrial lots, and operations of MCT Bhd, ALI's subsidiary based in Malaysia; (2) Commercial Leasing, which involves the operation of Shopping Centers, Office Buildings, and Hotels and Resorts; and (3) Services, which includes construction, property management, retail electricity supply, and airline services.

The next table summarizes the performance of the Company's business segments from 2022 to the first half of 2024 (1H2024):

Table 1. Revenue per Business Segment

(in PhP Millions) Business Segments	2022	% to total	2023	% to total	1H2023	% to total	1H2024	% to total
Property Development	81,243	66%	92,336	63%	38,731	60%	51,867	63%
Shopping Centers	16,075	13%	21,088	14%	10,237	16%	11,053	13%
Offices	11,122	9%	11,808	8%	5,795	9%	6,136	7%
Hotels and Resorts	6,194	5%	8,780	6%	4,164	6%	4,953	6%
Construction	4,236	3%	6,596	5%	2,689	4%	5,484	7%
Property Management & Others	4,181	3%	4,893	3%	2,904	5%	2,958	4%
Real Estate Revenues	123,051	100%	145,501	100%	64,520	100%	82,452	100%

Source: Analyst Briefing Presentations

In 2023, ALI sustained a healthy increase in real estate revenues, supported by higher bookings and project completions. Total real estate revenues posted growth of 18% from the previous year, and amounted to ₱145.5 billion in 2023.

The Property Development segment remained as the top contributor to total revenues, albeit its share to total revenues decreased, from 66% in 2022 to 63% in 2023. On the other hand, revenue contribution of the Commercial Leasing segment grew, from 27% in 2022 to 29% in 2023. The rest of the business segments recorded minimal changes in terms of their revenue contribution.

Revenues from the Property Development segment expanded by 14% in 2023. Residential sales accounted for the bulk of revenues from Property Development, or 83% of the total for the year. The increase in residential sales, however, was partly counterbalanced by the decline in the sale of industrial lots which declined by 25% and settled at ₱10.9 billion. The sale of residential projects, on the other hand, grew by 22% and amounted to ₱77.2 billion. The growth in residential sales was due to higher average selling price of projects, while the slowdown in industrial lots of sales were attributed to the product sales mix for the year. On the other hand, the revenues from office units for sale amounted to ₱4.2 billion, posting a solid growth of 31% in 2023, due to higher project completions and sellout of high-margin projects. Such added to the increase in revenues for the segment.

The commercial leasing segment grew by 25% in 2023 and consisted of 51% leasing revenues from shopping centers. The latter increased by 31% and amounted to ₱21.1 billion, driven by higher occupancy and rents in Glorietta, Manila Bay, Circuit Makati, and Capitol Central. Leasing revenues from hotels and resorts, likewise, rose by 42% and settled at ₱8.8 billion, while the leasing revenues of office units went up by 6% to ₱11.8 billion. Such growth rates were on account of higher occupancy and room rates for the year.

Table 2. Occupancy Rates of the Commercial Leasing Segment

	Malls	Offices	Hotels	Resorts
Change in percentage points (ppt)	+3 ppt	+4 ppt	+8 ppt	+13 ppt
2023	84%	92%	67%	42%
2022	81%	88%	59%	29%

Source: Analyst Briefing Presentation 2023

Revenues from the Services segment recorded the largest increase in 2023 of 36%, mainly backed by the construction business. Net construction revenues jumped by 56% to ₱6.6 billion in 2023, due to the revenues of Makati Development Corporation (MDC) from external projects. Revenues from property management and airline and retail electricity supply companies (RES) also increased by 15% and 18%, respectively, driven by increased parking usage and strong AirSWIFT ticket sales.

In 1H2024, all of the Company's main business lines posted growth. Revenues from Property Development amounted to ₱51.9 billion, a 34% increase from ₱38.7 billion in 1H2023. This was on account of higher residential bookings and lot sales, which offset the lower sales generated from the office segment. The contribution of property development to the Company's total revenues inched up, from 60% in 1H2023 to 63% in 1H2024.

Commercial leasing also grew in 1H2024, albeit its contribution to total real estate revenue declined to 27%, from 31% in 1H2023. Revenue from shopping centers, which continued to account to bulk of ALI's leasing revenues at 50%, improved by 8% from ₱10.2 billion in 1H2023 to ₱11.1 billion in 1H2024. Office leasing, likewise, grew by 6% to ₱6.1 billion in 1H2024. The improvements in revenue from the shopping center and office segments were on account of higher rents, increased occupancy and the contributions from One Ayala and Ayala Triangle Tower Two. Revenues from Hotels and Resorts also grew by 19% to ₱5.0 billion in 1H2024, owing to higher room rates, contribution of Seda Manila Bay, and higher occupancy of Seda Nuvali and Lio Estates.

Services recorded the highest growth in 1H2024 at 51%. Such growth was attributed to the significant increase in revenues generated from construction, given the contribution of its external projects. Net construction revenue grew by 104%, from ₱2.7 billion in 1H2023 to ₱5.5 billion in 1H2024. The combined revenues from property management, airline, and power service, grew marginally by 2% to ₱3.0 billion in 1H2024.

In terms of margins, commercial and industrial lots recorded notable improvement in gross profit margin (GPM) from 52% to 66% in 1H2024. A marginal improvement in GPM from vertical residential projects was also recorded in 1H2024, from 37% 1H2023 to 38%. Such, however, was offset by the decline in GPM from horizontal projects, from 48% in 1H2023 to 45% in 1H2024. Moreover, EBITDA margins of construction and property management and all segments of commercial leasing also tapered off in 1H2024. While margins are marginally lower, such remained within ALI's target levels.

Actual capital expenditures (CAPEX) in 2023 totaled ₱86.3 billion, higher than the ₱72.4 billion CAPEX spend in 2022, and equivalent to 79% of the 2019 pre-pandemic CAPEX of ₱108.7 billion. CAPEX for 2023 was mostly spent on residential projects (49%), followed by land acquisition (21%), estate development (16%), and commercial projects (11%).

For 2024, the Company initially allotted ₱100 billion for its CAPEX, with plans to launch ₱115 billion worth of projects. The planned launches will be comprised of ₱100 billion in residential projects and ₱15 billion in commercial and industrial projects. In August 2024, however, ALI disclosed that the planned residential project launches will be reduced to ₱85 billion, to manage ALI's inventory levels. ALI's current inventory level is equivalent to 19 months' worth of reservation sales. The Company aims to bring its inventory to pre-pandemic level, which was 16 months, by end of-2024. Of the Company's existing inventories, 60% were in Metro Manila and 40% were in the provinces.

In 2023, ALI launched four new estates, namely: (1) Batangas Technopark at Padre Garcia, Batangas; (2) Centrala at Angeles, Pampanga; (3) Southmont at Silang, Cavite; and (4) Arillo at Nasugbu, Batangas. To date, ALI has a total of 52 estates nationwide. These estates were comprised of 34 integrated mixed-use estates, two tourism estates, five residential estates, five commercial estates, and six industrial estates. Some of the flagship estates built by the Company include: the Makati CBD, Ayala Alabang, Cebu Park District, Bonifacio Global City (BGC), and Nuvali.

(1) Batangas Technopark is a 55-hectare mixed-use hub for international and domestic manufacturing logistics enterprises. It is located in Padre Garcia, Batangas — the province considered as the emerging industrial epicenter in the south of Metro Manila.
(2) Centrala is positioned to be a 32-hectare business district in Angeles City, Pampanga. The project will have a blend of commercial spaces, lifestyle centers, and a residential neighborhood that will be surrounded by green open spaces. It is accessible through the North Luzon Expressway (NLEX), the MacArthur Highway, and the proposed Eastern Circumferential Road (ECR).
(3) Southmont is envisioned to be a 789-hectare sustainable mixed-use community located in Silang, Cavite. The project is in partnership with Cathay Land and will offer horizontal residential developments. It is accessible through the Cavite-Laguna Expressway (CALAX) and the upcoming Cavite-Tagaytay-Batangas Expressway (CTBEX).
(4) Arillo is set to be a 62-hectare premier ecotourism leisure estate in Nasugbu, Batangas. The project will include open spaces, a nature sanctuary, canyon trails, an events venue, a restaurant district, and town center.

The summary of launched residential projects in 1H2024 and expected leasing openings within 2024 is shown in Table 3.

Table 3. Residential Project Launches and Leasing Openings within 2024

Segment	Projects
Residential - ALP	Miravera Phase 2 (Bulacan) Anvaya Seabridge Residences Building A (Bataan)
Residential - Alveo	Sereneo (Laguna) Caleia (Cavite) Orean Place Tower 3 (Quezon City) South Palmgrove Phase 2 (Batangas)
Residential - Avida	-
Residential - Amaia	Scapes Rizal Sector 2B Scapes San Fernando Sector 2 Scapes Iloilo Sector 2B
Residential - BellaVita	-
Malls	Vermosa
	Evo City Ph 1
Offices	One Ayala Headquarters
	Park Triangle
	Atria Park Technohub
	Nuvali Technohub

BUSINESS LINES

<u>Property Development</u>

The property development segment is subdivided into four groups: (1) Residential Business Group (RBG), (2) Strategic Land Bank Management Group (SLMG), (3) Visayas-Mindanao Group (VMG), and (4) Modular Construction Technology Berhad (MCT Bhd.).

The RBG handles the development and sale of residential and office condominiums and houses and lots, as well as the development and sale of commercial lots. It operates under five brands, each targeting a distinct segment of the market: AyalaLand Premier (ALP) for the luxury segment; Alveo Land Corp. (Alveo) for the upscale segment; Avida Land Corp. (Avida) for the middle-income segment; Amaia Land Corp. (Amaia) for the affordable housing segment; and BellaVita Land Corp. (BellaVita) for the socialized housing segment.

The SLMG handles the acquisition, planning, and development of large scale, mixed-use, and sustainable estates in Luzon. It also handles the development and sale, or lease of its commercial lots in its estates within the region. The VMG handles the development and sale of estates in the Visayas and Mindanao regions, as well as the sale or lease of its commercial lots in these estates.

MCT Bhd. is a publicly listed property developer in Malaysia. It is engaged in land acquisition, planning, and development of residential condominiums targeted towards the middle-income segment. ALI owns 66% of MCT Bhd., as of end-December 2023.

ALI launched 25 projects in the Property Development segment in 2023 worth ₱75.9 billion (30 projects worth ₱91.4 billion in 2022). Of the total launched projects for the year, 65% were vertical developments and the remaining 35% were on horizontal projects. In terms of product type, 88% was for premium projects and 12% was for middle-income and affordable housing projects.

Reservation sales in 2023 amounted to ₱113.9 billion, up by 9% from 2022, amidst the high interest rate environment. In terms of buyer profile, bulk of sales reservations came from local Filipinos, accounting for 67% of reservation sales. Such increased by 10% from last year to ₱76.3 billion in 2023. Overseas Filipino (OFs) cornered 21% of reservation sales, up by 2% from 2022 to ₱23.5 billion. Buyers from other nationalities (57% of which were Americans) accounted for the balance of 12% or ₱14.1 billion, higher by 12% from 2022.

In 1H2024, ALI launched ₱33.7 billion worth of projects. Of the launched projects, 92% were premium brands, and 52% were horizontal projects.

Reservation sales in 1H2024 amounted to ₱68.3 billion. Such was higher compared to the ₱58.3 billion reservation sales in the same period of 2023. Sales from local Filipinos, which accounted for 72% of the total sale reservations in 1H2024, grew by 26% to ₱49.1 billion. Overseas Filipino and Other Nationalities contributed 17% and 11%, respectively, to ALI's total sale reservations.

Commercial Leasing

The commercial leasing business involves the development and lease of shopping centers, offices, co-working spaces, and factory buildings and warehouses. It also consists of the operations of hotels and resorts and co-living spaces.

Shopping Centers

ALI is involved in the development of shopping centers under the Ayala Malls brand and the lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and car parks in these shopping centers; and the management and operation of malls which are co-owned with partners.

As of end-2023, ALI had 34 malls and 63 amenity retail shops. Total mall gross leasable area (GLA) stood at 2.1 million sqm as of the same period. Average occupancy rate rose to 84%, from 81% in 2022, driven by the ramp-up of tenancy at newly-opened spaces. There were two mall openings in 2023, namely: One Ayala Retail at the Makati Business District (44,000 sqm GLA) and Vermosa in Imus, Cavite (43,000 sqm

GLA). In 2024, there are a total of 46,000 sqm GLA in the pipeline. These will come from upcoming mall expansions in Vermosa (38,000 sqm GLA) and Evo City Ph1 (8,000 sqm GLA). The commercial space of the Park Triangle (22,000 sqm GLA) is set to open in 1Q2025.

The occupancy of malls in 2023 was still behind pre-pandemic levels of 85% as of end-2019. ALI noted that while occupancy is lower, the actual occupied GLA is higher. This was due to a larger GLA base in 2023 after additional GLA completions. The Company continues to talk with prospective tenants, as well as implement a reinvention strategy to optimize the tenant mix.

Total mall GLA as of end-June 2024 remained at 2.1 million sqm. The occupancy rate marginally declined from 83% in 1H2023 to 81% in 1H2024, while the lease out rate for 1H2024 was unchanged at 89%.[5]

Offices

Operating through Ayala Land Offices, ALI is likewise involved in the development and lease of office buildings.

As of end-2023, the Company's total office leasing GLA stood at 1.4 million sqm, with 65 buildings that cater to Business Process Outsourcing (BPO) and six buildings as Headquarters (HQ). The average occupancy rate for all offices improved to 92%, from 88% in 2022, driven by new office space take-up from BPO locators. Management views its occupancy rate as stable, adding that the 96% occupancy level in 2019 included Philippine Offshore Gaming Operators (POGO) and that the 92% occupancy rate was already better than the industry's. Nonetheless, ALI actively talks to existing tenants who are looking at expanding their space, as well as new potential occupiers to improve its occupancy rates.

The office occupancy mix in 2023 was as follows: BPO at 80% (72% in 2022), HQ at 11% (10% in 2022), POGO and others at 1% (6% in 2022), and vacant at 8% (12% in 2022). In 2024, there are a total of 95,000 sqm GLA in the pipeline. ALI is expecting the addition of the following office spaces: One Ayala South Tower (10,000 sqm), Park Triangle (35,000 sqm), Atria Technohub (25,000 sqm), and Nuvali Technohub (25,000 sqm).

Total office GLA remained at 1.4 million sqm as of end-June 2024. The lease out rate for office properties improved from 89% in 1H2023 to 91% in 1H2023. On the other hand, occupancy rate declined from 89% to 86%. In terms of tenant mix, there was a slight decline in the share of the BPO sector from 80% as of end-2023, to 78% as of end-June 2024. This was partially offset by the increase in contribution of HQ from 11% to 12% over the same period.

Hotels and Resorts

ALI is also involved in the development, operation and management of branded hotels and eco-resorts, as well as the lease of land to hotel tenants.

In 2023, higher travel and tourism demand supported the notable growth in the revenues of the segment. Occupancy rates increased for both the hotels and resorts to 67% (59% in 2022) and 42% (29% in 2022), respectively. According to ALI, the consolidated hotels and resorts occupancy rate in 2023 was 66% versus pre-pandemic levels of 69%. The Company attributed the lower occupancy rate to reduced foreign tourist

[5] The lease-out rate is when the term sheet between ALI and the lessee is signed, whereas the occupancy rate is determined once the rent begins or when the unit is occupied.

arrivals in 2023. The number of foreign visitors was recorded at 5.5 million in 2023 and has not yet reached the pre-pandemic foreign tourist arrivals of 8 million.

The Company managed 4,452 rooms (4,058 rooms as of end-2022) under its hotels and resorts business, as of end-2023. Of the total, 660 hotel rooms were from its international brand segment, such as Fairmont Hotel, Raffles Residences, and Holiday Inn & Suites in Makati Central Business District (CBD). It operated 3,224 rooms (2,804 rooms as of end-2022) from its 12 Seda hotels, and 255 rooms from its Circuit Corporate Residences. There was a total of 420 hotel rooms which were added in 2023 with the completion of Seda Manila Bay and Seda Nuvali Expansion.

ALI also operated 187 rooms (193 rooms as of end 2022) from its four El Nido Resorts, 50 rooms (70 rooms as of end 2022) under its Lio Tourism Bed and Breakfast (B&B) offerings, and 76 rooms (76 rooms as of end 2022) in its B&B in the Sicogon Tourism Estate.

As of end-June 2024, the hotels and resorts business operated a total of 4,522 rooms. There was no change in the number of rooms from international brands, Circuit Corporate Residences, El Nido Resorts, and Lio B&Bs. The additional 70 hotel rooms in 1H2024 were on account of the 44 new rooms in Seda Manila Bay and 26 new rooms in Sicogon Tourism Estate.

While the occupancy rate of resorts improved from 45% in 1H2023 to 52% in 1H2024, the occupancy rate of hotels declined from 67% to 64%. According to management, the decrease was on account of the increased room count from the opening of Seda Manila Bay in 2023. The consolidated hotel and resorts occupancy as of end-June 2024 was 61%.

ALI currently has 920 hotel and resort rooms in the pipeline.

Other Leasing Formats

Factory Buildings and Warehouses

ALI's industrial real estate business is operated and managed by its subsidiary, AyalaLand Logistics Holdings Corp. (ALLHC). ALLHC, formerly Prime Orion Philippines Inc. (POPI), is a publicly listed developer and operator of industrial parks and is a major player in real estate logistics in the country. ALLHC and its subsidiaries have principal business interests in holding companies, commercial leasing, industrial lot sales and development, and retail electricity supply.

The buildings and warehouses for lease were consolidated under the "ALogis" brand in 2020. ALLHC then entered into the cold logistics industry in 2021, under the "ALogis Artico" brand.

As of end-2023, ALLHC operated five industrial parks and had approximately 403,500 sqm of factory and warehouse GLA, up by 30% from 310,000 sqm GLA in 2022. The industrial leasing business recorded an occupancy rate of 71% and lease out rate of 84% as of end-2023. As of end-June 2024, the occupancy and lease out rate of ALI's industrial business improved to 87% and 94%, respectively.

ALLHC is, likewise, in the process of expanding its cold storage portfolio. As of end-2023, there were three facilities in its portfolio; ALogis Artico Biñan 1 and 2 in Laguna and ALogis Artico Mandaue in Cebu. The company is adding two more cold storage facilities in 2024 to increase its cold storage capacity with the target completion of ALogis Artico Santo Tomas in Batangas and ALogis Artico Mabalacat in Pampanga. The two mentioned facilities will add 10,000 palette positions (pp) to the existing portfolio, and raise the total cold storage portfolio to more than 20,000 pp, collectively. ALogis Artico Santo Tomas was completed in May 2024, with a ceremonial opening on May 3, while ALogis Artico Mabalacat is set to open in 1H2024.

According to the company, a pipeline of one more cold storage facility in Luzon and two more in Visayas and Mindanao are planned within the year.[6] In August 2024, ALI broke ground for its second cold storage facility in Cebu. This facility, which is projected to be completed by 3Q2025, is seen to add 6,000 pp to ALLHC's portfolio.

The cold storage business posted a 95% occupancy rate and 92% lease out rate as of end-2023. As of end-June 2024, occupancy rate was 88% while lease out rate was 100%.

The Flats

In 2018, ALI also opened its first co-living product under the brand "The Flats". These co-living spaces cater to young professionals who prefer the convenience of living close to their place of work but could not yet afford to invest in their own condominium unit. The Flats offers bed space for rent or a whole room for lease, for a minimum of six months. To date, The Flats has a total of 2,032 beds in three branches located in the 5th Avenue in BGC, Amorsolo in Makati, and Sacred Heart in Makati.

As of end-2023, the occupancy rate for monthly stay was at 76% and the daily stay was at 29%. Such improved in 1H2024, with occupancy rate for monthly stays at 80% and daily stays at 42%.

Clock In

In 2017, ALI launched a co-working space product under the brand "Clock In". It offers flexible, co-working, and serviced office facilities for start-up, small, and mid-sized enterprises. To date, Clock In has a total of 1,411 seats in eight branches located in Alabang Town Center, Ayala North Exchange, BGC Technology Center, Bonifacio High Street, Lio, Makati Stock Exchange, The 30th, and Vertis North.

As of end-June 2024, the occupancy rate was recorded at 42%, lower compared with the 57% as of end-2023.

Services

Under the Company's services business segment are its construction, property management, retail electricity supply, and airline services.

Construction

ALI's construction arm, Makati Development Corporation (MDC), is engaged in the engineering, design, and construction of vertical and horizontal development projects, including: roads, bridges, and utilities. It is responsible for horizontal construction works at ALI's land development projects and is likewise engaged in private industrial and government infrastructure projects. MDC also develops residential condominium buildings and mall projects. It continues to service site development requirements of Ayala-related projects, while also providing services to third-parties in both the private and public sectors. On the other hand, MDC Build Plus, a 100% subsidiary of MDC, caters primarily to projects focusing on the lower end of the market, particularly the residential brands Amaia and BellaVita.

On March 21, 2024, MDC launched MDTK Corp., a joint venture with Japanese firm Takenaka Corp. According to management, this partnership aims to exchange best design and construction practices and

[6] https://www.ayalalandlogistics.com/press_releases/alogis-artico-santo-tomas-and-mabalacat-set-for-completion-by-first-half-of-2024-and-three-more-facilities-to-be-unveiled-within-the-year/

technologies, as well as to introduce and explore complex construction projects in the country.[7]

Property Management

ALI conducts its property management business through Ayala Property Management Corporation (APMC). A leading property management company in the Philippines, APMC manages over 200 properties covering more than 100 million sqm nationwide, including residential buildings, malls, office buildings, parking facilities, and estates. APMC offers a full suite of services, not only to Ayala property owners and lessees but also to third-party clients.

Power Distribution

ALI is engaged in power distribution, particularly in retail electricity supply, through Direct Power Services, Inc. (DPSI), Ecozone Power Management, Inc. (EPMI), and Philippine Integrated Energy Solutions, Inc. (PhilEnergy). These companies supply power to commercial leasing assets and tenants of industrial parks.

Air Transport

ALI provides airline services for its hotels and resorts business through AirSWIFT. AirSWIFT is a boutique airline offering daily roundtrip flights from Manila, Clark, Cebu, Bohol, Coron and Boracay to El Nido.

In July 2024, ALI disclosed that the Company is engaged in exploratory talks with Cebu Pacific regarding the planned sale of AirSWIFT. In an interview with ALI's Chief Financial Officer (CFO), Mr. Augusto Bengzon, he noted that whoever ends up buying the airline would be required to service ALI's properties/resorts in Palawan.[8]

ALI will disclose more information once a definitive agreement has been reached.

OTHER UPDATES

<u>Merger and Acquisitions</u>

In December 2021, the Securities and Exchange Commission (SEC) approved and made effective the merger of Cebu Holdings, Inc. (CHI), Asian I-Office Properties, Inc. (AiO), Arca South Commercial Ventures Corp. (ASCVC), and Central Block Developers, Inc. (CBDI)—all of which are subsidiaries of ALI—with and into ALI, with ALI as the surviving entity. The merger is an internal restructuring, as well as a move to consolidate the Company's Cebu portfolio under a single listed entity. The merger is anticipated to result in operational synergies, efficient funds management, and simplified reporting to government agencies. On October 7, 2022, ALI commenced the processing of the Certificate Authorizing Registration (CAR) with the Bureau of Internal Revenue (BIR) for the transfer of the properties from the absorbed corporations to ALI. The CAR application is still under review and pending approval.

Still in relation to the plan of simplifying the ownership structure and operational efficiencies, ALI disclosed in March 2024 the approval of its Board of Directors of the merger of ALI and 34 entities, with ALI as the surviving entity. These entities were wholly owned directly by ALI, or through AyalaLand Estates, Inc. (ALEI) and AyalaLand Hotels and Resorts Corp. (AHRC).

[7] https://business.inquirer.net/452741/ayala-teams-up-with-japanese-firm-for-complex-construction-projects
[8] https://www.bworldonline.com/corporate/2024/08/09/613073/ayala-land-says-airswift-entices-several-buyers/

According to the merger plan, ALI will issue a total of 993,540,544 shares; 883,171,005 shares will be treasury shares, and 110,358,039 and 11,500 shares will be issued to AHRC and ALEI, respectively. The treasury shares will eventually be retired, subject to regulatory approval.

The Plan of Merger was recently approved by ALI's stockholders during its Annual Stockholders' Meeting held on April 25, 2024. The Plan of Merger is pending with the SEC as of the report writing date.

On March 14, 2024, Alveo Land Corp. acquired the common and preferred shares of Portico Land Corp (Portico) from the remaining investor. As such, Portico became a wholly-owned subsidiary.

In June 2024, ALI also entered into a share sale and purchase agreement with Aboitiz Land and AEV. The proposed acquisition involves ALI buying Aboitiz Land and AEV's 50% equity stake in Cebu District Property Enterprise Inc. (CDPEI) for ₱1.81 billion. After the transaction, ALI will have full ownership of CDPEI. CDPEI is a real estate developer incorporated in 2014 and is the developer behind the Gatewalk Central, a 17.5-hectare mixed-use estate in Mandaue City, Cebu. Gatewalk Central will be ALI's fourth major mixed-use district in Metro Cebu and is envisioned to contribute to ALI's growing presence in the Visayas region. According to management, malls and office developments are currently under construction in Gatewalk Central.

Property-for-Share Swap with AREIT, Inc. (AREIT)

AREIT, Inc. (AREIT) is the country's pioneer Real Estate Investment Trust (REIT), having completed its initial public offering (IPO) in August 2020. AREIT was established primarily to own and invest in an income-generating commercial portfolio of office, retail and hotel properties in the country that meets its investment criteria. A REIT is a type of investment instrument that gains rental income and gives returns to its investors in the form of dividends. ALI, as the Sponsor of AREIT, directly or indirectly, contributes cash or property in establishing the REIT.

In February 2024, shareholders of AREIT approved the share-for-property exchange valued at ₱28.6 billion. The deal involves ALI and its subsidiaries (Greenhaven Property Ventures, Inc., and Cebu Insular Hotel Co., Inc.), as well as Buendia Christiana Holdings Corporation (BCHC), a wholly-owned subsidiary of ACEN Corporation. ALI's Board of Directors also approved the planned 2024 asset infusions which comprised of Ayala Triangle Gardens Tower 2, luxury malls Greenbelt 3 and 5, Holiday Inn and Suites Makati, and Seda Ayala Center Cebu and Lio. Additionally, AREIT will acquire a 276-hectare industrial land in Zambales province from BCHC. The transaction will result in the issuance of a total of 841,259,410 common shares to ALI, its subsidiaries, and BCHC. The property-for-share swap is expected to be finalized by 3Q2024.[9]

The below table shows the summary of information of the property-share-swaps between ALI & AREIT.

[9] https://realestatenews.ph/national/areit-shareholders-approve-p286-billion-property-for-share-swap-with-ayala-land

Table 4. List of Properties Swapped with AREIT

Transaction value (PhP)	AREIT Share Issuance	Properties	Combined GLA (sqm)	AREIT's Total GLA (sqm)	SEC Approval Date
15,464,140,000	483,254,375	Vertis North Commercial Development	206,126	549,858	Oct-21
		Evotech Buildings 1 and 2			
		Bacolod Capitol Corporate Center			
		Ayala Northpoint Technohub			
		BPI-Philam Life Buildings (Makati & Alabang)			
11,257,889,536	252,136,383	eBloc Towers 1 to 4	124,299	674,157	Jan-23
		ACC Tower			
		Tech Tower			
22,479,697,060	607,559,380	Ove Ayala East and West Towers	190,000	864,157	Sep-23
		Glorietta 1 and 2			
		BPO Building at Ayala Center			
		Marquee Mall (Pampanga)			
21,800,000,000	642,149,974	Ayala Triangle Gardens Tower 2	200,780		
		Greenbelt 3 and 5			
		Holiday Inn and Suites Makati			
		Seda Ayala Center Cebu and Seda Lio			
6,770,000,000	199,109,436	276-hectare industrial land in Zambales*	2,759,135		

*A property of BBHC, a subsidiary of ACEN

In 1H2024, ALI sold an aggregate of 279,000,000 common shares in relation to the Company's property-for-share swap transaction with AREIT. As a result, ALI's holding in AREIT was reduced from 66.0% to 54.4% as of end-June 2024.

According to management, the property-for-share swap between ALI and AREIT would have no impact in revenue as AREIT will be fully consolidated to ALI.

LAND BANK

ALI had a total land bank of 11,240 hectares nationwide as of end-2023. ALI selected parcels of land based on accessibility of the locations in relation to anticipated transportation and infrastructure projects. The Company plans to utilize its land bank at an average annual usage of 800 hectares in the next five years for various development plans. There was no change/update in ALI's landbank as of end-June 2024.

Table 5. ALI's Land Bank as of end-June 2024

Location	Area (hectares)	% to total
Metro Manila	225	2%
Luzon *(excluding Metro Manila)*	9,101	81%
Visayas	1,178	10%
Mindanao	737	7%
Total	**11,240**	**100%**

OWNERSHIP

ALI's parent company, AC, held 51.6% of total outstanding common shares of the Company as of end-June 2024. AC is one of the country's oldest and largest conglomerates, with diversified operations in real estate, telecommunications, financial services, water, industrial technologies, power, infrastructure, education, healthcare, and technology ventures.

AC's consolidated net income jumped by 20% to ₱55.2 billion in 2023, from ₱45.9 billion in 2022. Such improvement was attributed primarily to the strong performance of its core subsidiaries — BPI, ALI, and ACEN. AC's top line increased by 12% to ₱341.9 billion, from ₱306.6 billion in the same period of 2022.

In 2023, BPI's net income rose by 44% to ₱51.7 billion due to strong loan growth, higher margins, and lower provisions. ALI posted a 32% increase in net income attributable to parent amounting to ₱24.5 billion, supported by the property development and commercial leasing businesses. Furthermore, ACEN's income from operating units (excluding cash value realization gains and other one-time cash adjustments) went up by 2.9x to ₱4.9 billion, driven by new operating capacity and a strengthened net seller position.

The Ayala Group's CAPEX in 2023 reached ₱247.7 billion, down by 12% from the prior year, mainly due to the tapering CAPEX of Globe Telecom, Inc. (Globe). Globe's net income in 2023 dropped by 29% to ₱24.6 billion, primarily due to the one-time gain from the partial sale of its data center business in 2022. Excluding one-off items, Globe's core net income was flat at ₱18.9 billion in 2023.

In 1H2024, AC's bottom-line grew by 27.8% to ₱32.5 billion owing to the stronger contributions from BPI, ALI, Globe, and ACEN. Improved earnings from AC Energy & Infrastructure (ACEIC), the parent company of ACEN, also contributed to the net income growth.

BPI ended 1H2024 with a record net income amounting to ₱30.6 billion, a 22% increase from the ₱25.3 billion in 1H2023. The growth was driven by the sustained growth in loans, net interest margins, and fee income. ALI's bottom line, likewise, grew by 20% to ₱15.7 billion in 1H2024, from ₱13.1 billion in 1H2023, as demand and consumer activity fueled the Company's topline. ACEN's net income accelerated by 37% to ₱6.9 billion. Excluding value realization gains, net income would have amounted to ₱4.9 billion, a 21% increase from 1H2023. The strong performance was on account of higher attributable renewable energy generation and improved net selling position in the Philippine Wholesale Electricity Spot Market (WESM). Due to higher contributions from ACEN, ACEIC's net income also went up by 25% to ₱6.7 billion. Globe's bottom line, on the other hand, grew marginally by 1% to ₱14.5 billion in 1H2024. Excluding the gain from the tower sale, Globe's normalized net income would have amounted to ₱11.9 billion, which was a 19% increase from the same period of 2023.[10]

AC disclosed that it is aiming to reach a core net income of ₱65 billion by 2026, approximately 18% higher from the net income in 2023. The company further outlined three steps to create more value for the Group, these are: (1) Drive market leadership and sustainable growth in core business units, (2) Achieve scale and generation of positive contributions to AC's bottom line for younger business units, and (3) Value realization and continued portfolio sharpening through the "VCE Framework". The latter being "Value, Cash, and Earnings" stands for the following: Value, or achieve $1 billion valuation within 10 years; Cash, return capital within seven years; and Earnings, achieve profitability within five years.

MANAGEMENT

ALI has a highly experienced and competent management team, supported by an architectural and engineering talent pool across all levels of the organization. Most have experience in relation to multiple business lines. PhilRatings noted, however, that there have been some key changes in the management of ALI since 2023.

Mr. Fernando Zobel de Ayala has served as Chairman of the Board of ALI since April 1999 before he resigned from all his positions in the Ayala Group in September 2022 due to health reasons. Five months

[10] Globe has sale and leaseback agreements with MIESCOR Infrastructure Development Corp. (MIDC), Frontier Towers, and Unity Digital Infrastructure, and PhilTower for the sale of a total of 7,506 (2,180 to MIDC; 3529 to Frontier Towers; 1,350 to PhilTower, 447 to Unity Digital Infrastructure) telecommunication towers and related passive infrastructure. Globe has turned over 6,628 out of the 7,506 towers included in the Sale and Leaseback portfolio.

after stepping down, Mr. Fernando Zobel de Ayala was appointed as advisor to the Board of ALI.[11] He was also seen to rejoin some Boards within and outside the Ayala Group. He was also appointed as an advisor to AC and is also working as co-chairman of the Ayala Foundation's board, and vice-chairman and director of Fort Bonifacio Development Corp. Pilipinas Shell Petroleum Corp. also announced the return of Mr. Fernando Zobel de Ayala as Chairman of the company's corporate governance committee.

The Board approved the election of Mr. Jaime Augusto Zobel de Ayala as Chairman and Ms. Mariana Zobel de Ayala as Director. Both will serve the unexpired term of Mr. Fernando Zobel de Ayala. Ms. Mariana Beatriz Zobel de Ayala was likewise appointed as ALI's Senior Vice President in October 2023. She is the daughter of Mr. Jaime Augusto Zobel de Ayala and niece of Mr. Fernando Zobel de Ayala. The commitment of the Ayala Family is seen through the involvement of the next generation of family members who hold key management positions within the Group.

Mr. Jaime Augusto Zobel de Ayala has served as the Company's Vice Chairman before his appointment as Chairman of the Board in October 2022. He is also the Chairman of AC since 2006 and is a Director since 1987. He holds various positions in other publicly listed companies. He is the Chairman of Globe, Integrated Micro-Electronics, Inc. and BPI, and Vice Chairman Manila Water Company, Inc. and AC Energy Philippines, Inc. He graduated Cum Laude from Harvard College with a Degree in Economics and obtained a Master's Degree in Business Administration from the Harvard Graduate School of Business in 1987.

Mr. Cezar P. Consing took over as Vice Chairman of ALI on April 26, 2023, after the position was vacated by Mr. Jaime Augusto Zobel de Ayala. Mr. Consing has been the President and CEO of AC since September 27, 2022. Prior to such, Mr. Consing was a Senior Managing Director of AC and President and CEO of BPI from 2013 to 2021. He is concurrently Vice Chairman of the following subsidiaries in the Ayala Group: Globe, BPI and ACEN. Mr. Consing graduated as Magna Cum Laude from De La Salle University with a Degree in Economics (Accelerated Program) in 1979. He obtained a Master's Degree in Applied Economics from the University of Michigan in 1980.

Ms. Anna Ma. Margarita B. Dy is Director, President and CEO of ALI beginning on October 1, 2023. Ms. Dy took over such positions after the resignation of Mr. Bernard Vincent O. Dy, who served as President and CEO since April 2014. Prior to becoming President and CEO, she was the Head of the Residential Business Group of ALI in 2022 and Head of the Malls Group in 2023. Before that, she also headed the Ayala Land Estates Group. Ms. Dy concurrently holds key management positions in other subsidiaries of the Group. She holds a Bachelor's Degree in Economics from Ateneo de Manila, a Master's Degree of Science in Economics from London School of Economics, and a Master's Degree in Business Administration from Harvard Business School.

ALI's CFO is Mr. Augusto Bengzon, who concurrently serves as the Company's Chief Compliance Officer (CCO) and Treasurer.[12] Mr. Bengzon assumed the CFO role in April 2017. He has been credited for putting in place robust accounting controls, financial reporting, and risk management in the Company. Mr. Bengzon graduated with a Bachelor of Science Degree in Business Management from Ateneo de Manila University. He earned his Master's Degree in Business Management from the Asian Institute of Management.

[11] https://edge.pse.com.ph/openDiscViewer.do?edge_no=ce852bfdc5a944889e4dc6f6c9b65995
[12] Mr. Bengzon is Treasurer until May 14, 2024

Table 6. Newly Appointed Officers in 2023 to 2024

Name	Position	Effective Date
Cezar P. Consing	Vice Chairman	April 16, 2023
Anna Ma. Margarita B. Dy	President and CEO	October 1, 2023
Mariana Beatriz Zobel de Ayala	Senior Vice President	October 1, 2023
Roscoe M. Pineda	Chief Information Officer	October 1, 2023
Isabel D. Sagun	Chief Human Resources Officer	October 1, 2023
Maria Franchette M. Acosta[13]	Corporate Secretary	March 12, 2024
Jose Eduardo A. Quimpo II	Vice President and Treasurer	May 15, 2024

Analysts' Note: The list enumerates some key positions only and does not encompass all of the newly appointed officers of ALI from 2023 to 2024.

As of end-December 2023, ALI had a total workforce of 264 regular employees; 35 senior management, 189 middle management, and 40 staff members.

STRATEGY

ALI has identified three major pillars in implementing its strategies: Brand, Business Model, and Bench. Under the first pillar, ALI values its customers' trust in relation to its brand and their confidence in the quality of its products and services. On the second pillar, ALI continues to focus on building sustainable mixed-use estates in the country's key growth centers. With these, the Company is able to create platforms to expand the reach of its products and services. For the third pillar, ALI commits to continue to enhance the capabilities of its team.

In 2024, the residential products will mainly come from the premium and horizontal segments as the Company saw resilient demand from these. Ms. Dy mentioned that instead of launching new estates, ALI will launch "new districts within existing estates" to maximize the use of land in the Company's existing estates. The malls and hotels will undergo a reinvention program while completing the projects in the pipeline. The mall's reinvention plan will cover 32% of total mall GLA and will continue for over three years. The hospitality assets, on the other hand, will undertake a comprehensive renovation program starting with two resorts and four hotels that have target completion dates within 2024. ALI also intends to roll out new products in line with the expectation that foreign arrivals will double in the next few years.[14] For the office leasing business, ALI constantly monitors dynamic shifts in the segment, particularly on the developments in artificial intelligence (AI) and its impact on both office demand and the country. Given such conditions, ALI is taking a deliberate approach to expansion and to concentrate on "winner sites" that are located near or at infrastructure projects and where BPO talent is concentrated.

Sustainability

The focus on sustainability is a Group-wide engagement for the Ayala Group, with subsidiaries actively incorporating sustainability in their operations and developments. ACEN, part of the power arm of AC, issued its ₱10-billion Fixed-Rate ASEAN Green Bonds in September 2022 (rated PRS Aaa, with a Stable Outlook). Moreover, ACEN is reportedly scaling up its renewable energy (RE) platforms and existing partnerships in order to reach 5,000 megawatts in attributable RE capacity by the year 2025. BPI, the Ayala Group's banking arm, also raised ₱33.7 billion from its Fixed-rate Sustainable, Environmental, and

[13] Ms. Acosta served the unexpired term of Mr. Solomon M. Hermosura, who has resigned and transitioned to government service effective on February 29, 2024

[14] https://www.manilatimes.net/2024/08/12/business/corporate-news/ayala-land-to-launch-more-projects/1963341

Equitable Development (SEED) Bonds in August 2024. The demand was great for the issuance as the final issue size closed 6.7 times higher than the initial offering.[15]

ALI's road to developing sustainable estates and communities was solidified in 2007. Sustainability was then formalized as a guiding principle to the Group's brand of land use and development. The Ayala Land Sustainability Framework was created in 2008 to serve as the Company's sustainability-management mechanism for more responsible land development. In the same year, the Sustainability Council and a full-time Sustainability Office was established. Mr. Robert S. Lao leads ALI's sustainability efforts as the appointed Chief Sustainability Officer. He is concurrently the President and CEO of ALLHC. Since then, ALI already made significant strides towards its sustainability goals.

In July 2024, ALI raised a total of ₱20.5 billion through its Sustainability-Linked Financing Program as a means to fund the Company's sustainability initiatives. The debt package consisted of the maiden issuance of KPI-based ASEAN Sustainability-Linked Bonds amounting to ₱6.0 billion and the ₱14.5-billion Sustainability-Linked Loan from the IFC. Both of these debt instruments marked specific milestones for ALI, the former being the first Sustainability-Linked Bond issued in the Philippines, while the latter was the first Sustainability-Linked Loan granted by the IFC to a Philippine corporation.

Proposed ₱10.0-billion KPI-based Sustainability-Linked Bonds

ALI is aiming to issue its second Sustainability-Linked Bonds for the year with an issue size of ₱10 billion. Sustainability-linked bonds are forward-looking instruments with changing structural and/or financial characteristics depending on whether issuers meet predefined sustainability objectives.[16] These objectives can be identified by selecting certain KPIs and setting SPTs[17] in relation to the selected KPIs. It is worth noting that unlike green bonds,[18] social bonds,[19] and sustainability bonds,[20] sustainability-linked bonds impose no restrictions on the use of proceeds and may be used for general corporate purposes or other purposes.

Predefined Sustainability Objectives

In the case of ALI, its predefined sustainability objectives for the aforementioned proposed bond issuance are the following:

1. Reduce the operational Scopes 1, 2, and 3 GHG emissions of ALI's commercial properties by 42% by 2030, from a baseline date of 2021 – measurement date of March 2031
2. Obtain EDGE Zero Carbon certification for 1.5 million sqm of office commercial properties by 2025 – measurement date of March 2026

[15] https://www.sunstar.com.ph/manila/bunye-bpi-ayala-land-ali-leading-the-charge-in-sustainable-finance
[16] OECD (2024), "Sustainability-linked bonds: How to make them work in developing countries, and how donors can help", OECD Publishing, Paris, 2024, p. 8
[17] Measurable improvements in key performance indicators on to which issuers commit to a predefined timeline
[18] Structurally the same as regular bonds, offering comparable risk/reward profiles and following the same issuance procedures, but the proceeds are used for a wide variety of climate and other environmental projects
[19] Any type of bond instrument where the proceeds will be exclusively applied to finance or refinance in part or in full new and/or existing eligible social projects and which are aligned with the four core components of the Social Bond Principles
[20] Bonds where the proceeds will be exclusively applied to finance or refinance a combination of both green and social projects and assets

PhilRatings notes that the SPTs of the proposed issuance are the same with ALI's first Sustainability-Linked Bonds issued in July 2024. The Company's first sustainability objective for the proposed bond issuance is in line with the Ayala Group's commitment to achieving net zero by 2050. In 2021, ALI transitioned its decarbonization strategy from Carbon Neutrality to setting targets and identifying interventions for a Net Zero 2050 program. The latter is a collective endeavor of the Ayala Group, along with ALI's sister companies Globe, BPI and ACEN. In 2023, Ayala Land completed its net zero roadmap which included target setting and identification of decarbonization strategies.

Net Zero refers to the state of emitting an equal amount of GHGs into the atmosphere as is removed. It accounts for all GHGs as opposed to Carbon Neutrality which focuses on carbon dioxide (CO_2) emissions only. Entities can achieve Net Zero by reducing all GHG emissions across their whole value chains. As such, of the two, net zero is a more ambitious goal than carbon neutrality, considering its wider focus. With organizations like the Science Based Targets initiative (SBTi),[21] the path to net zero emissions became clearer. In 2021, the world's first Net-Zero Corporate Standard was launched by SBTi. The standard aligns with the Paris Agreement's goal of keeping planetary warming to 1.5°C.[22]

GHG emissions by companies are divided into three categories - Scope 1, 2, and 3 emissions. Scope 1 emissions are direct emissions from operations that are owned or controlled by the reporting company. Scope 2 emissions, on the other hand, are indirect emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Lastly, Scope 3 emissions cover all other indirect emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions.[23]

To set creditable targets, ALI partnered with South Pole, a leading climate solutions provider, and completed the baseline (2021) GHG inventory for Scopes 1, 2 and 3 emissions. This data will be the benchmark for the first sustainability target, which is aimed to be reduced by 42% by 2030.

Scope	Ayala Land 2021 emissions (tCO_2e)	%
Scope 1	55,822	1.9%
Scope 2	84,515	2.9%
Scope 3	2,824,107	95.3%
Purchased goods and services	2,175,797	73.4%
Use of sold products	440,746	14.9%
Others	159,570	5.4%
Downstream leased assets	47,993	1.6%
Total	**2,964,443**	**100.0%**
Out-of-scope (biogenic CO_2)	376	-

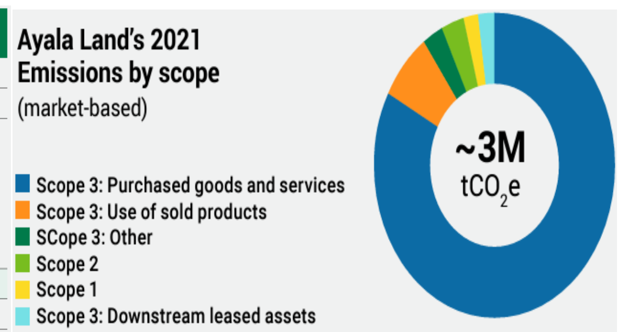

Figure 1. ALI's 2021 Baseline of GHG Inventory for Scopes 1, 2 and 3 Emissions
Source: Integrated Report 2023

Based on Figure 1, majority of ALI's total GHG footprint or 95.3% of the total were Scope 3 emissions. While Scope 1 and 2 emissions are associated with the Company's controllable emissions from fuel, refrigerant, and electricity use, Scope 3 covers all other emissions from its value chain, including those of its suppliers, tenants, and customers. The largest overall contributor was related to purchased goods and services, relating to materials such as steel, cement and Polyvinyl Chloride or PVC. The control and

[21] A corporate climate action organization that enables companies and financial institutions worldwide to play their part in combating the climate crisis
[22] https://illuminem.com/illuminemvoices/carbon-neutral-vs-net-zero-understanding-the-differences-and-implications
[23] https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporing-Standard_041613_2.pdf

reduction of the use of these materials continue to be a big hurdle for many companies as it entails an industry-wide change. ALI is prioritizing cost-neutral and readily available technologies to mitigate emissions, and collaborating with supply chain partners to implement changes that will transition towards a more conducive environment in achieving net zero emission.

After the verification process done by the third-party assessor Carbon Check India in 2023, it was confirmed that ALI has offset 86% of its Scopes 1 and 2 emissions from gross emissions of commercial properties by end-2022. Such was accomplished by switching to renewable energy, with 111 of its commercial properties or 91% of ALI's portfolio already powered by clean energy.

PhilRatings notes, however, that while achieving 86% carbon neutrality in Scope 1 and 2 emissions is a notable achievement for the Company, it still has a long way to go in reaching its net zero target of reducing the operational Scopes 1, 2, and 3 GHG emissions by 42% by 2030.

The second sustainability objective, on the other hand, is consistent with the signed Memorandum of Understanding (MOU) among ALI, AREIT, and IFC in September 2023, aimed at achieving EDGE Zero Carbon certification for 1.5 million sqm by 2025, establishing the Philippines' largest net zero building portfolio.[24] This also falls in line with the Ayala Group's target of achieving net zero by 2050.

EDGE[25] Zero Carbon certification is a globally recognized net zero building certification and the highest of three levels of certification for EDGE, namely; EDGE Certified[26], EDGE Advanced[27], and EDGE Zero Carbon. EDGE Zero Carbon is awarded to a project that produces 40% savings on energy use via onsite measures, and that the buildings must be carbon neutral[28], through renewable energy, carbon offsets[29], or a combination of both.

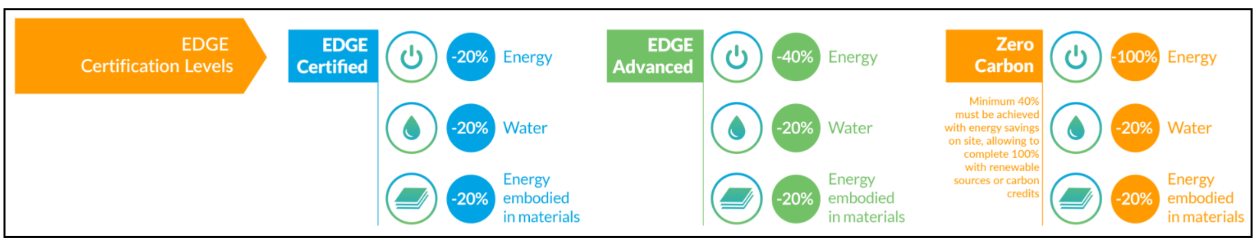

Figure 2. EDGE Certification Levels
Source: Bioconstrucción y Energía Alternativa S.A. de C.V.

In January 2024, 354,000 sqm comprising of eight buildings received EDGE Zero Carbon certification, namely: Glorietta 1 and 2 Corporate Center, Solaris One, McKinley Exchange Corporate Center, Vertis North Corporate Centers 1, 2, and 3, and The 30th Corporate Center.[30]

[24] https://www.ayalaland.com.ph/news/ayala-land-and-ifc-sign-agreement-in-pursuit-of-worlds-largest-edge-zero-carbon-certified-leasing-portfolio/
[25] Established by the IFC in 2014, EDGE is a green building certification system focused on making new residential and commercial buildings more resource-efficient. *Source: https://www.gbci.org/press-kit-edge*
[26] EDGE Certified is awarded to a project when a minimum savings of 20% is achieved in each of energy, water, and embodied carbon in the materials in the building.
[27] EDGE Advanced is awarded to a project that demonstrates a minimum 40% reduction in energy, and 20% savings in water and energy incorporated in the materials.
[28] Refers to an entity that is removing the same amount of carbon dioxide from the atmosphere as it is emitting
[29] Tradable "rights" or certificates linked to activities that lower the amount of carbon dioxide (CO_2) in the atmosphere
[30] https://www.pds.com.ph/wp-content/uploads/2024/01/Disclosure-No.-414-2024-Press-Release-Ayala-Lands-AREIT-receives-EDGE-Zero-Carbon-Certification-for-8-Office-Buildings.pdf

AHRC, the hospitality arm of ALI, also signed an agreement with the IFC as a commitment to achieve EDGE Zero Carbon certification for 11 of its hotel buildings with a total of 2,826 rooms in its hotel portfolio by 2026. It is the aim of AHRC to have more of its hotel portfolio be certified as EDGE Zero Carbon buildings in the future.[31]

To achieve these targets, ALI has set forth the following strategies:

- Consistent use of energy-efficient building designs
- Installation of energy efficient equipment and devices in its buildings
- Shifting the Company's commercial properties to renewable energy sources through onsite solar installation and through power purchase agreements (PPAs)
- Demand reduction and improvement through periodic energy efficiency audits and energy efficiency initiatives
- Bundling PPAs with quality renewable energy certificates (RECs)[32]

Monitoring

The relevant ESG data is collected monthly through a centralized software used to effectively collect, manage and collaborate information across the organization. The data is analyzed and consolidated in the Annual Sustainability Report that forms part of ALI's Integrated Report and is released during the Annual Stockholders' Meeting.

ALI employed the services of an independent external verification provider to assess the progress and achievement of the SPTs related to the Company's Sustainability-Linked Bonds. Part of the services provided also includes a Second Party Opinion (SPO) on the accuracy and integrity of a bond, loan, or framework based on globally recognized green, social and sustainable principles and standards.

Step-Up Mechanism

A unique feature of a sustainability-linked bond is that it involves structural and/or financial changes to the characteristics of the bond (e.g., coupon, maturity, repayment, interest payment date, amount, options, etc.) depending on whether the selected KPIs reach the predefined SPTs. For ALI's proposed sustainability-linked bond issuance, the interest rate is to step-up by five bps for each objective that is not achieved, commencing on the quarterly interest period immediately succeeding the relevant measurement date.

[31] https://www.ayalaland.com.ph/news/ayalaland-hotels-and-resorts-becomes-the-first-hotel-group-in-the-philippines-to-target-edge-zero-carbon-certification-by-2026/

[32] A type of energy attribute certificate that is issued when a 1 megawatt hour (MWh) of electricity is produced and delivered to the power grid from renewable sources (e.g., solar, wind). It is used to track renewable electricity generation and consumption, and it also enables end-users to claim reductions in carbon emissions. (Source: https://seads.adb.org/solutions/can-renewable-energy-certificates-increase-clean-energy-investments-bimp-eaga-countries)

ECONOMY AND INDUSTRY

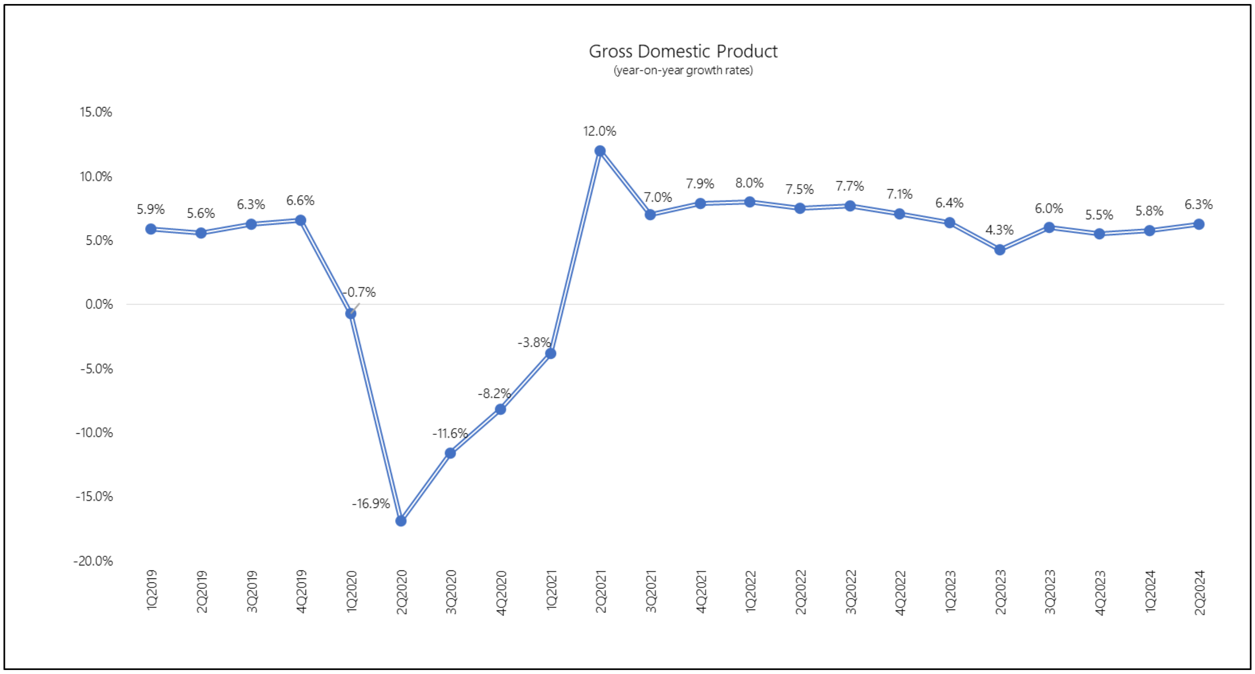

Figure 3. Historical Gross Domestic Product (%)

2023

In 2023, the Philippine economy grew by 5.6%. This is slower compared with the 7.6% growth in 2022, and short of the government's growth target of 6.0% to 7.0%.

Agriculture, Forestry, and Fishing grew by 1.2%, a significant improvement from the sector's minimal growth of 0.5% in 2022. The Industry and Services sectors, on the other hand, recorded slower growths compared to 2022, expanding by 3.6% and 7.2%, respectively.

The top contributors to the 2023 growth were Wholesale and retail trade, repair of motor vehicles and motorcycles (+5.5%); Financial and insurance activities (+8.9%); and Construction (+8.8%).

Household Final Consumption Expenditure (HFCE) expanded by 5.6% in 2023, slower compared with the 8.3% growth in 2022. HFCE growth slowed down for seven consecutive quarters, from 10.0% in 1Q2022 to 5.1% in 3Q2023. Household consumption then recorded a slight uptick to 5.3% in 4Q2023, backed by robust growth in spending for restaurants and hotels, transport, and recreation. Slow growth in food spending persisted however, despite the moderation in inflation, due to still elevated food prices.

Government Final Consumption Expenditure (GFCE) was relatively flat, recording a 0.4% growth in 2023. This was much lower than the growth recorded in 2022 of 4.9%. The slower growth was attributed to the fiscal consolidation program as well as the absence of election-related spending in 2023.

Nonetheless, the country was Southeast Asia's fastest-growing economy in 2023, surpassing Vietnam and Malaysia which held the top spots in 2022.[33]

[33] https://www.bloomberg.com/news/articles/2024-01-31/philippine-economy-grows-faster-than-expected-5-6-last-quarter

2Q2024

In second quarter 2024 (2Q2024), Gross Domestic Product (GDP) expanded by 6.3% year-on-year (YoY), higher than the 5.8% growth in the previous quarter. Such puts the average GDP growth at 6.0%, on track to meet the government's full-year target of 6.0% to 7.0%. The main contributors to the quarter's growth were: Construction (16%); Wholesale and retail trade, repair of motor vehicles and motorcycles (5.8%); and Financial and insurance activities (8.2%). The 2Q2024 growth was higher compared to the 4.3% growth in 2Q2023 and the 6.2% consensus estimate in a Reuters poll.

While HFCE expanded by 4.6% in 2Q2024, it was lower compared to the 5.5% growth in 2Q2023 and unchanged from the previous quarter. According to National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan, the growth in household spending is not as strong as expected since consumers still felt the effects of high inflation and interest rates.

Government spending increased by 10.7%, a notable improvement from the 1.7% growth recorded in the previous quarter owing to the infrastructure projects, defense equipment upgrades and preparations for the upcoming 2025 midterm polls.

Inflation and Interest Rates[34]

Headline inflation for the month of August 2024 slowed to 3.3%, coming down from 4.4% in the previous month and 5.3% in August 2023. The slowdown in prices for the month was due to the slower increase in the prices for food and non-alcoholic beverages (3.9% in August from 6.4% in July) and the deceleration in transportation prices (-0.2% in August from 3.6% in July).

The slower food inflation was attributed to the decline in the inflation of rice, posting a 14.7% growth in August from 20.9% growth in the previous month. Additionally, the price increases of vegetables, tubers, plantains, cooking bananas and pulses similarly decreased at 4.3% in August from 6.1% in July.

The year-to-date (YTD) headline inflation for 2024 settled at 3.6%, falling within the government's full-year target range of 2% to 4%. According to NEDA Secretary Arsenio Balisacan, the easing of inflation will encourage investments, promote consumer spending, and stimulate economic activity. While the downward trend continued, possible inflationary pressures could emerge from higher electricity rates and above-normal weather disturbances. The government is seeking to address the effects of the La Niña phenomenon in order to control inflation.

The Bangko Sentral ng Pilipinas (BSP) implemented a series of increases in the policy rate from 2.25% in May 2022 to 6.5% in October 2023 to mitigate the impact of inflation. In June 2024, the Monetary Board kept the policy rate unchanged at 6.5%—the highest in over 17 years. On August 15, 2024, the BSP cut the interest rate by 25 basis points to 6.25%. This was the first rate cut since November 2020. According to BSP Governor Eli Remolona, the country's headline inflation is expected to be on a downtrend and remain within the 2% to 4% target range of the government.

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[34] *Sources:* https://www.psa.gov.ph/content/summary-inflation-report-consumer-price-index-2018100-august-2024
https://www.pna.gov.ph/articles/1232665
https://www.bworldonline.com/top-stories/2024/07/08/606536/bsp-still-hints-at-rate-cut-in-august/

Outlook

The Development Budget Coordination Committee (DBCC) targets an economic growth ranging from 6.0% to 7.0% in 2024 and 6.5% to 7.5% in 2025. The BSP, however, expects GDP to settle below the government's target due to higher global crude oil prices and the impact of high interest rate on domestic demand. Nonetheless, the BSP expects economic growth to improve in 2025, on account of stronger net exports and improved global conditions.[35]

Table 7. GDP Outlook/Estimate

Institution	2024E	2025E
Development Budget Coordination Committee's (DBCC) Target	6.0% - 7.0%	6.5% - 7.5%
Asean Macroeconomic Research Office (AMRO)*	6.1%	6.3%
Asian Development Bank (ADB)	6.0%	6.2%
International Monetary Fund (IMF)	6.0%	6.2%
World Bank	5.8%	5.9%

*Projections were revised downwards

In July 2024, ASEAN+3 Macroeconomic Research Office (AMRO) cut its 2024 GDP outlook from 6.3% to 6.1%. Such was a result of the slower-than-expected economic expansion in 1Q2024. AMRO Chief Economist Hoe Ee Khor, however, noted that the lower forecasts is not just for the Philippines but also for other countries in the regions. He explained that the recovery in the external environment was weaker than expected.[36]

On the other hand, the Asian Development Bank (ADB) projected that the Philippine economy would grow by 6.0% in 2024 and 6.2% in 2025–the highest estimate for Southeast Asia. The moderating inflation and possible easing of monetary policy are expected to boost investment and household consumption. Moreover, government consumption is seen to rebound with the improvement in budget execution and procurement delays.[37]

Similarly, the International Monetary Fund's (IMF) 2024 GDP forecast was unchanged at 6.0%. Such was on the back of stronger consumption demand, higher public and private investment, and a recovery in exports. IMF, however, noted that high interest rates and climate-related shocks could negatively affect economic growth, while stronger foreign investment and improved competitiveness could lead to long-term growth. For 2025, IMF estimated a GDP growth of 6.2% for the Philippines.[38]

World Bank also retained its growth projection for the country at 5.8% in 2024 and 5.9% in 2025, lower than the government's target. Such expectation hinged on the possible inflation deceleration which would support domestic consumption.[39]

[35] https://mb.com.ph/2024/5/28/article-2320
[36] https://business.inquirer.net/468967/ph-gdp-growth-estimate-for-%CA%BC24-cut-but-still-2nd-fastest-in-asean
[37] https://www.adb.org/news/adb-raises-developing-asia-and-pacific-economic-growth-forecast-2024
[38] https://www.imf.org/en/News/Articles/2024/06/10/pr-24211-philippines-imf-staff-concludes-visit
[39] https://www.gmanetwork.com/news/money/economy/908945/world-bank-retains-5-8-economic-growth-outlook-for-ph-in-2024/story/

INDUSTRY[40]

Office

Demand for office space in 2Q2024 was strong, as Colliers Philippines (Colliers PH) recorded the delivery of 70,800 sqm of new office space. This brought the total new space delivered in 1H2024 to 166,900 sqm, higher than the 129,400 sqm recorded in 1H2023. Vacancy also improved quarter-on-quarter (QoQ), from 19.0% in 1Q2024 to 18.3% in 2Q2024.

Santos Knight Frank (SFK) found that the current industry sentiment still favors Prime and Grade A+ office buildings, as there is notable demand for these developments in CBDs such as Makati, BGC, and Ortigas.[41] The IT-BPM industry will also remain as the country's leading office space customer in 2024, according to a study from Knight Frank Asia-Pacific[42] pointing out that the Philippines is an ideal option for servicing tenants from the IT-BPM sector. Multinational corporations' (MNC) shared services are also eyeing a return to the Philippines. These operations are known to value the quality and environmental footprints of their office spaces. SFK then found that 51% of Asian-Pacific office developers are looking to further enhance their spaces to improve the working environment employees will be returning to; this is a 14% improvement from what it was in 2021.

On the other hand, the implementation of the ban on Philippine Offshore Gaming Operations (POGO) firms is expected to negatively impact the office space take-up in Metro Manila. As of 1H2024, POGO firms occupied 489,000 sqm of the Metro Manila office space. After adjusting its forecasts, Colliers PH sees the net space absorption to drop to -154,000 sqm by the end of 2024, indicating that surrendered office space will overtake absorbed office space. Vacancy is projected to subsequently rise from 19.3% in end-2023 to 22.2% in end-2024. Non-renewals from pre-pandemic contracts are also seen to contribute to the drop in space absorption for the year.

Colliers PH expects new office spaces will total 494,700 sqm by end-2024, lower than the previous forecast of 553,200 sqm. Average annual delivery of office spaces from 2024 to 2028 is expected to be at 384,000 sqm, lower than the average annual delivery from the pre-POGO period (2012-2015), which was at 443,100 sqm. Rent, on the other hand, is seen to remain stable.

Residential

In 1H2024, the number of pre-sold units in Metro Manila was down by 58% YoY to 6,200 units, on account of heightened mortgage rates. Only 5,200 pre-selling condominium units were launched for the period, which was also down by 65% YoY. This is attributable to the sizable number of ready-for-occupancy (RFO) units still available in Metro Manila. Colliers PH forecasts that as of 2Q2024, it will take nearly five years to sell out all available units in Metro Manila. This sluggish rate of launches and pre-sold units carried over from 2023. Colliers PH states that once the BSP capitalizes on its target to cut the policy rate by 50 basis points (bps), the number of pre-sold units and launches could improve.

In 1H2024, Colliers PH recorded the completion of 4,170 units in Metro Manila (1,990 units in 2Q2024), and it expects 7,120 more new units to be completed in 2H2024. This will result to a total of 11,290 units delivered in 2024. The Bay Area will likely account for most of the new supply.

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[40] https://www.jll.com.ph/en/trends-and-insights/research/4q22-metro-manila-and-metro-cebu-property-market-overview
[41] Santos Knight Frank's Philippine Real Estate Outlook 2024
[42] Knight Frank's Asia-Pacific Horizon: Harnessing the Potential of Offshoring

Vacancy in the Metro Manila secondary market slightly moved up from 17.0% in 1Q2024 to 17.2% in 2Q2024. The Bay Area was mainly affected by the implemented POGO ban, as vacancy rose in that submarket. Consequently, rent and prices marginally increased by 0.2% and 0.5%, respectively. These are weaker growth rates as compared to the respective 0.4% and 0.6% rates from the last quarter. Colliers PH also attributes such slow growth to the suppressed demand caused by the elevated mortgage rates. Vacancy growth and rent and price adjustments are seen to continue in the short-term following the POGO ban.

The dampened appetite for condominiums in Metro Manila was offset by the growth in demand for horizontal developments outside of Manila, mainly in the regions of Central Luzon, CALABA (Cavite, Laguna, Batangas), Central and Western Visayas, and Davao. Colliers PH foresees more horizontal project launches in these regions in the near to medium term.

Retail

With visits to shopping areas shifting back to their pre-pandemic form, retailers look forward to adding more developments to their pipeline and taking advantage of the opportunities for growth.

There was an increasing trend in available leasable areas in the retail industry in 2023. For the year's third quarter, the vacancy rate marginally rose to 14.4%, from 14.0% in the first quarter, on account of the increased supply of mall space. More retail space translated to higher revenues for retail developers, as the latter recorded a notable YoY revenue growth of 30-40% in the same period of 2023.

Projections continue to point to an upward movement in the number of additional retail space in 2024, as Colliers PH expects 338,900 sqm of new retail space this year. Consequently, vacancy rates will rise to 17% upon delivery of the forecasted space. In 1Q2024, retailers have already recorded a 15.5% vacancy rate in their retail branches. Store openings in select Metro Manila malls were also up by 1.0%, while store closures were trimmed by 8.7%. The F&B industry is taking up most of the new space in Metro Manila and will continue to do so going forward. CBDs are regarded as the prime location for the retail industry, as Makati, Fort Bonifacio, and Ortigas continue to record lower office and residential vacancies than the average for the entire Metro.

With the retail sector contributing one to two percent more to the economy each year, Philippine Retailers Association (PRA) President Roberto Claudio expects the sector to have a 20% contribution to the country's GDP by early 2025, backed by strong appetite from shoppers. Mr. Claudio mentioned that the sector accounts for 18.6% of the country's GDP with an average tax contribution of almost ₱750 billion from 2018 to 2023. The sector also provides employment for about five million Filipinos. The PRA acknowledges the growing online marketplace, as online sales already account for 15-20% of total retail sales transactions. This share is seen to grow to 25% in three to five years. As a result, 30-40% of Philippine retailers have adopted an omnichannel[43] strategy.

Colliers PH sees several options for revenue growth in retailers' high-density spaces. Robinsons Malls' spaces, for example, were offered as flexible workspaces, and Ayala Malls' spaces were used for active and sporting events. Colliers PH sees retailers increasing footfall in their branches by adopting strategies wherein retailers will be using their space for activities or events for their shoppers. Colliers PH also suggests that employers set up coworking spaces in malls and/or near transit-oriented retail spaces. Malls

[43] Omnichannel is a term used in retail wherein retailers provide its customers with a seamless experience across all channels, whether through its brick-and-mortar stores, mobile application, or online website.

are regarded to be ideal locations for flexible work areas, as these establishments give employees easy access to necessities and relaxation after working hours.

Hospitality

The Philippine tourism sector continued to recover, as foreign arrivals in 1H2024 reached 3 million (up by 12% YoY). Most of the country's foreign arrivals were from South Korea, followed by the United States, and then China. The Department of Tourism (DOT) is confident that the country will hit its 7.7 million target of tourist arrivals by end-2024 when the holiday season comes. BMI Research, however, expects that tourist arrivals would only return to its pre-pandemic levels in 2025, as current inflationary pressures could weaken the demand for travel. Furthermore, Fitch Solutions expects that the Philippines will continue to welcome more tourists until 2028, forecasting 9.5 million visitors. The average annual growth rate from Fitch Solution's 2024-2028 projections is 15.8%.

New hotel rooms delivered in 1H2024 totaled 2,700, which is more than triple the number of rooms delivered from the same period last year. Colliers PH projects a total of 4,560 rooms to be completed by end-2024, with Quezon City and the Bay Area covering up the majority (80% combined) of the new rooms. This is lower, however, than Colliers PH's initial forecast of 5,100 rooms for 2024 due to construction delays. On the other hand, average daily rates (ADR) grew at a slower rate of 1.3% in 1H2024, compared with the 5.1% ADR growth in 2H2023. This was driven by the increase in new hotel rooms and the depreciating Philippine peso.

Occupancy was slightly lower in 1H2024 at 63%, compared with the 65% occupancy rate in 2H2023. This was due to higher supply of rooms delivered for the period. The upcoming holiday season and heightened demand for Meetings, Incentives, Conferences, and Exhibitions (MICE) facilities are seen to drive demand for the whole year.

The ADR's forecasted growth, combined with a foreseen shortage of hotel rooms, could derail the Philippine tourism's goal of welcoming 12 million international visitors by 2028, according to Leechiu Property Consultants (LPC). With not enough hotel projects in the pipeline from 2025 to 2028, domestic hotel keys are expected to grow by less than one percent in the period. In 2023, Colliers PH's forecast of 5,300 additional hotel rooms was not met, as only 2,594 rooms were constructed. The effects of the pandemic, the current cost of funding, and inflationary pressures are to blame for the slow growth in hotel rooms and challenges in constructing new hotels.

Apart from construction delays, inflation also forced hotels to increase their daily rates by 10.4% in 2023, higher than Colliers PH's projection of 6%. This outpaced the occupancy growth rate, which is usually ahead of ADR growth rates. In 1H2024, 3-star and 4-star hotels saw a 3.1% and 5.1% YoY increase in its room rates, respectively. With hotel rooms getting more expensive, vacation-goers and tourists might find it difficult to find rooms that fit their budget. The rising rates, however, will be counterbalanced by the completion of additional rooms in 2024.

To address the shortage in hotel projects, the DOT is working with the Philippine Hotel Owners Association to develop a strategic action plan for the hotel industry. DOT Secretary Christina Garcia Frasco emphasized that hotels are one of the key items that should attract substantial investments to further encourage tourists to visits the country.

Industrial

In 1H2024, about 75 ha (750,000 sqm) of new industrial spaces were delivered. Demand was driven by F&B, semiconductor firms, and machinery manufacturers, as these firms took a total of 5 ha of industrial spaces during the period.

Vacancy rose to 7.0% in 1H2024, from the 5.5% vacancy in 4Q2023. This was attributable to additional space delivered in Laguna and Batangas and the non-renewals and pre-terminations from logistics firms due to slower demand in the e-commerce sector. Colliers PH expects demand to recover in 2H2024 when the holiday season commences, as fast-moving consumer goods (FMCG) firms tend to expand by that period.

Colliers PH believes that the industrial sector that will hugely benefit from the government's push to promote the country as a manufacturing hub in the ASEAN region. As of 1Q2024, 10% of the approved foreign investments in the country were allocated for manufacturing projects. Once these materialize, Colliers PH expects higher industrial space absorption and more supply of industrial space to be made available.

The Philippines' investment promotion agencies (IPA) also aim to present the country as a viable choice for firms that are seeking industrial spaces outside of China. PEZA disclosed that Taiwan would be one of the IPA's priority markets for investment missions this year, reaching out to more than 4,000 Taiwanese firms. PEZA is also aiming to tap into the Asia-Pacific and European markets, while Japan is expected to remain as a key investor in the Philippine industrial market. The US CHIPS (Creating Helpful Incentives to Promote Semiconductors) Act, which aims to boost the United States' semiconductor manufacturing, will also likely benefit the Philippine industrial market, as American operators are seen to include the country in their expansion plans.

From 2024 to 2026, Colliers PH expects approximately 700 ha of additional industrial space in the Southern and Central Luzon regions, with the latter aiming to establish its reputation as an agro-industrial corridor. Demand for industrial space will be supported by manufacturing firms that are looking to expand their operations in the Philippines. In addition, warehouse and land lease rates are expected to grow by 8% and 7.5% YoY in 2024, respectively.

IHS Marikit noted in January 2024 that the country had a Purchasing Managers Index (PMI) of 50.9, second only to Indonesia. The index score indicates that the Philippines has been expanding its manufacturing industry. The Philippine Development Plan (PDP) 2023 to 2028 would support the government's push for industrialization, which would result in a stronger focus on the development and modernization of the country's industrial space.

FINANCIAL PROFILE

Analysts' Note: PhilRatings' calculation of certain financial metrics may differ from that of ALI.

Balance Sheet Items

(in Millions PHP)	2021	2022	2023	1H2024
Cash and Cash Equivalents	13,971	11,885	17,066	19,871
Accounts & Notes Receivables – Current	100,097	102,151	105,530	112,228
Inventories	148,157	180,348	209,317	227,382
Investment Properties	243,398	245,526	241,062	242,103
Total Assets	745,464	779,655	846,632	881,874
Short-term Debt	16,783	6,547	16,905	24,808
Current Portion of Long-term Debt	26,174	19,258	18,969	29,717
Long-term Debt – Net of Current	180,140	210,233	222,380	211,601
Total Debt	223,097	236,039	258,254	266,126
Total Liabilities	474,962	485,990	526,703	546,474
Total Equity	270,502	293,665	319,929	335,400

Income Statement and Cash Flow Items

(in Millions PHP)	2021	2022	2023	1H2023	1H2024
Real Estate Sales	96,145	116,356	140,142	62,296	82,452
Interest Income from Real Estate Sales	6,801	6,695	5,360	2,223	-
Total Real Estate Revenues	102,946	123,051	145,501	64,520	82,452
Total Revenues	106,143	126,556	148,857	66,007	84,274
Real Estate Costs and Expenses	64,642	75,629	87,139	38,510	51,899
General and Administrative Expenses	6,539	7,264	8,910	4,139	4,547
Interest and Other Financing Charges	11,038	11,447	13,499	6,718	7,665
Income Before Income Tax	20,288	28,220	36,460	15,755	19,597
Net Income	15,659	22,524	29,004	13,066	15,716
Net Income Attributable to Equity Holders of ALI	12,228	18,617	24,508	11,392	13,129
Net Cash from Operating Activities	7,926	26,348	21,360	1,800	5,213
Net Cash from Investing Activities	(26,229)	(22,925)	(30,186)	(4,432)	(11,315)
Net Cash from Financing Activities	14,837	(5,537)	13,886	4,511	8,285

Key Financial Ratios

	2021	2022	2023	1H2023	1H2024
Gross Margin (%)	37.2	38.5	40.1	40.3	37.1
Net Profit Margin (%)	15.2	18.3	19.9	20.3	19.1
Return on Average Assets (%)	2.1	3.0	3.6	3.3	3.6
Return on Average Equity (%)	5.9	8.0	9.5	8.3	9.2
Interest Coverage Ratio (x)	3.7	4.4	4.4	3.3	3.4
Current Ratio (x)	1.6	1.8	1.8	1.9	1.7
Debt to Equity Ratio (x)	0.8	0.8	0.8	0.8	0.8
Solvency Ratio (x)	1.6	1.6	1.6	1.6	1.6

Profitability

1H2024 vs. 1H2023

Breakdown of Real Estate Revenues

(Amounts in Millions PHP)	1H2023	1H2024	% Change
Property Development	38,731	51,867	33.9%
Residential	31,249	43,687	39.8%
Office for Sale	2,130	1,810	-15.0%
Commercial and Industrial Lots	5,351	6,370	19.0%
Commercial Leasing	20,196	22,142	9.6%
Shopping Centers	10,237	11,053	8.0%
Offices	5,795	6,136	5.9%
Hotels and Resorts	4,164	4,953	18.9%
Services	5,593	8,442	50.9%
Construction	2,689	5,484	103.9%
Property Management, Airline and Retail Electricity Supply	2,904	2,958	1.9%
Total Real Estate Revenues	**64,520**	**82,452**	**27.8%**

For 1H2024, ALI's total real estate revenues amounted to ₱82.5 billion, up by 28% YoY. Such growth was on account of higher residential and commercial lot bookings, additional contracts from external construction projects, and solid leasing operations. Property development revenues jumped by 34% YoY to ₱51.9 billion, as residential revenues rose by 40% YoY and revenues from commercial and industrial lots increased by 19% YoY. Commercial leasing revenues grew by 10% YoY to ₱22.1 billion, as revenues from shopping centers, offices, and hotels and resorts all posted improvements. Revenues from the services segment registered a 51% YoY hike to ₱8.4 billion, largely driven by the twofold increase in construction revenues to ₱5.5 billion.

With interest and other income likewise climbing by 23% YoY to ₱1.8 billion, ALI's total revenues amounted to ₱84.3 billion. This was higher by 28% from revenues booked in the same period in 2023.

In line with top line growth, costs and expenses went up by 29% YoY to ₱64.7 billion. Real estate expenses jumped by 35% YoY to ₱51.9 billion, resulting in a lower gross margin of 37% (1H2023: 40%). General and administrative expenses, on the other hand, increased by 10% YoY to ₱4.5 billion, mainly due to higher manpower costs from additional headcount. Interest and other financing charges were higher by 14% YoY and amounted to ₱7.7 billion, on the back of elevated average borrowing rate and daily loan balance.

Given robust property demand and consumer activity, ALI's net income in 1H2024 registered a 20% YoY increase to ₱15.7 billion. Net income attributable to equity holders of ALI amounted to ₱13.1 billion, up by 15% from 1H2023. Net profit margin inched down, however, from 20% in 1H2023 to 19% in 1H2024. Returns were nevertheless better. ROAE improved from 8% to 9%, while ROAA inched up from 3% to 4%. Moreover, interest coverage ratio marginally increased from 3.3x in 1H2023 to 3.4x in 1H2024.

Projected Period

ALI anticipates sustained growth in both its top line and bottom line over the long term. Bulk of revenues will also continue to come from the Company's residential development business. With effective management of costs and expenses, margins and returns are likewise seen to improve.

Cash Flow and Liquidity

1H2024 vs. 1H2023

Backed by higher earnings, net cash from operating activities in 1H2024 amounted to ₱5.2 billion, almost triple the operating cash in 1H2023. Net cash used in investing activities also surged from ₱4.4 billion in 1H2023 to ₱11.3 billion in 1H2024, driven by the hike in cash outlays for additional investment properties. Funds were augmented by net cash from financing activities amounting to ₱8.3 billion, up by 84% YoY. Proceeds from additional debt totaled ₱68.3 billion, and these were predominantly used for refinancing. In 1H2024, the Company also declared dividends (₱3.1 billion to its equity holders) and purchased common shares (for a total consideration of ₱4.9 billion) under its share buyback program.

ALI therefore ended the first half of the year with cash and cash equivalents of ₱19.9 billion, a 16% increase from end-2023 level. Current ratio remained more than adequate at 1.7x as of end-June 2024, albeit slightly lower than the 1.8x as of end-2023.

Projected Period

ALI expects to continue generating positive operating cash flows throughout the projected period, supporting a healthy liquidity position. The Company's bonds that are maturing until next year are as follows: ₱3.0 billion due September 2024, ₱10.0 billion due May 2025, ₱6.25 billion due September 2025, and ₱7.0 billion due October 2025. ALI is seen to be a in a good position to settle maturing debt obligations in 2024 and 2025, including the enumerated bonds.

Capital Structure

1H2024 vs. 2023

ALI had an asset size of ₱881.9 billion as of end-June 2024, as it expanded by 4% from end-2023. Asset growth was mainly on account of increases in inventories and accounts and notes receivables. Investment properties remained the biggest asset component with a 27% share, closely followed by inventories which accounted for 26% of total assets.

Regarding its leverage levels, the Company's debt-to-equity ratio was relatively stable at 0.8x as of end-June 2024. Total equity increased by 5% to ₱335.4 billion, while total debt inched up by 3% to ₱266.1 billion. As of end-June 2024, long-term debt comprised 91% of total debt. Average maturity of borrowings stood at 4.1 years, and average borrowing cost was 5%. In addition, 75% of total debt had fixed interest rates.

Projected Period

ALI is seen retain its conservative capital structure going forward, backed by the continued plowback of earnings.

PhilRatings notes that the conservative capital structure of the Company (considering the nature of its business), along with its strategically spread-out debt maturities, places ALI in a good position to manage and settle its obligations.

Financial Flexibility

As of August 28, 2024, ALI had a significant amount of available credit facilities, which it could tap should the need arise. Furthermore, ALI and its Parent are both publicly listed in the Philippine Stock Exchange (PSE), and they have the option to sell shares to augment funds. As of September 12, 2024, ALI and AC had market capitalizations of ₱511.9 billion and ₱378.5 billion, respectively.