

 PHILIPPINE RATING SERVICES CORPORATION	CREDIT RATING REPORT
	AYALA LAND, INC. (ALI)

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PROPOSED ISSUANCE

Proposed KPI-Based Sustainability-Linked Bonds			
Amount*	Tenor	Assigned Rating	Assigned Outlook
₱6.0 billion	10 years	PRS Aaa	Stable
Total Proposed Issuance – Up to ₱6.0 billion			

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

<i>Other salient terms:</i>	
Key Performance Indicators (KPI) / Sustainability Performance Targets (SPT)	<ol style="list-style-type: none"> 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 (KPI-1); measurement date of March 2031, and Obtain EDGE Zero Carbon certification for 1.5 million square meters (sqm) of office commercial properties by 2025 (KPI-2); measurement date of 2026
Interest Rate	10-year BVAL + 30 basis points (bps) Indicative of 7.27%
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

Use of Proceeds: Net proceeds will be used on general corporate requirements including capital expenditures.

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	₱115.25 billion	₱22.00 billion from 2016 SP, ₱31.00 billion from 2019 SP, ₱50.00 billion from 2021 SP, ₱10.25 billion from 2023 SP, and ₱2.0 billion from other outstanding bonds
Total of Proposed Issuances and Outstanding Bonds	₱121.25 billion	₱115.25 billion outstanding bonds and up to ₱6.00 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
₱12.00 billion	4.3969%	2 years	Jul. 04, 2024	Jul. 04, 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 – ₱50.00 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
Total Outstanding Amount Issued under the 2023 SP – ₱10.25 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.

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						
₱4.00 billion	3.0260%	3 years	May 28, 2024	May 28, 2021	PRS Aaa	Stable
₱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 – ₱35.00 billion						

RATIONALE

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

ALI stands as one of the leading 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 also 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 is residential development, with a portfolio that caters to different market segments from socialized to luxury housing. These operate under the following companies and brands: Ayala Land Premier (ALP), Alveo Land Corp. (Alveo), Avida Land Corp. (Avida), Amaia Land Corp. (Amaia), and BellaVita Land Corp. (BellaVita). ALI also manages a chain of Ayala Malls, office buildings, its own hotel brand, Seda, and an eco-luxury resort in El Nido. To adapt to the changing needs of the market, ALI entered into the growing leasing formats of co-working and co-living spaces through Clock In and The Flats. ALI also holds equity interests in the following businesses: 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 diversity of ALI's portfolio places it in a good position to manage the risks within the segments. It also enables the Company to leverage on any potential opportunities that might arise in those segments.

The Company launched four new estates in 2023. 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.

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. The leadership and management of ALI are being overseen by other key officers who also hold significant positions in other companies within the Ayala Group. The synergies of the Group continue to drive the established brand equity that has been built throughout the years.

AC effectively owned 51.0% of ALI, as of end-February 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.

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. Ms. Dy took over such positions after the resignation of Mr. Bernard Vincent O. Dy, who served as President and CEO since April 2014. ALI continues to leverage on the expertise of its management in the apt execution of the Company's developments and goals moving forward.

3. The Company's commitment to sustainability, propelled by its planned issuance of the country's first sustainability-linked bonds

Over the years, ALI has been steadfast in its pursuit of sustainability. Since it was formalized as a guiding principle in the Company in 2007, ALI already made significant strides in its sustainability goals. The Company is set to hit another major milestone in its sustainability journey with its proposed issuance of the KPI-based¹ Sustainability-Linked Bonds amounting to ₱6.0 billion. PhilRatings notes that, based on available data from AsianBondsOnline, the foregoing will be the first of its kind in the country. The structural/financial characteristics of the bond are tied to two predefined sustainability objectives: (1) reduce the operational Scopes 1, 2, and 3 greenhouse gas (GHG) emissions of ALI's commercial properties by 42% by 2030, from a baseline date of 2021 – measurement date of 2031, and (2) obtain EDGE² Zero Carbon certification for 1.5 million sqm of office commercial properties by 2025 – measurement date of 2026.

In line with the first sustainability objective, ALI has offset 86% of its scopes 1 and 2 emissions by the close of 2023, a milestone independently verified by a third-party assessor. Such was accomplished by sourcing renewable energy, with 111 of its commercial properties or 90% of its portfolio already powered by clean energy. PhilRatings notes, however, that while achieving a carbon neutrality of 86% is no small feat for the Company, it still has a long way to go in achieving its net zero target of reducing the operational Scopes 1, 2, and 3 GHG emissions of its commercial properties by 42% by 2030.

PhilRatings notes that the second sustainability objective is consistent with the signed Memorandum of Understanding (MOU) among ALI, AREIT, and International Finance Corporation (IFC) in September 2023, aimed at achieving EDGE Zero Carbon certification for 1.5 million square meters by 2025, establishing the Philippines' largest net zero building portfolio. As of April 18, 2024, 354,000 sqm (eight buildings) or 23.6% have been EDGE Zero Carbon- certified according to the Company.³

4. Sustained revenue and profit expansion, supported by healthy operating cash flow

In 2023, ALI's total consolidated revenue and net income grew by 18% and 29%, respectively.

The Company's ₱148.9 billion revenue in 2023 was boosted by the property development segment which grew by 14% or ₱11.1 billion, from ₱81.2 billion to ₱92.3 billion. This was attributed to higher project completion, as well as robust property demand, which resulted in steady bookings. Residential sales contributed the most to the growth in the property development segment, posting a 22% increase from ₱63.5 billion in 2022 to ₱77.2 billion in 2023. This was a notable shift from the lackluster growth recorded in 2022. The higher project completion in the Company's office developments, likewise, contributed to the growth of the property development segment.

ALI's net income grew by 29% or ₱6.5 billion to ₱29.0 billion in 2023. Net profit margin, likewise, improved from 18% in 2022 to 20% in 2023, while ROAA and ROAE improved to 4% and 9%, respectively.

The Company had historically maintained healthy cash reserves, driven by ALI's strong cash flow from operations. As of end-2023, cash flow from operating activities amounted to ₱21.4 billion while cash and cash equivalents stood at ₱17.1 billion.

¹ KPI stands for Key Performance Indicator. KPIs are quantifiable metrics used to measure the performance of selected indicators.

² Excellence in Design For Greater Efficiencies

³ <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/>

5. Conservative capital structure with a well-managed debt portfolio

ALI's total debt increased by 9% to ₱258.3 billion, in line with the increase in total equity to ₱319.9 billion. As a result, the Company maintained a conservative debt-to-equity (DE) ratio of 0.8x, as of end-2023, unchanged from the previous year. Moving forward, ALI's capital structure will continue to be supported by the plowback of earnings.

In addition to its conservative capital structure, ALI effectively manages its debt portfolio with the spread-out maturity dates for its long-term obligations. The average maturity of borrowings stood at 5.1 years, and the average borrowing cost was 5%. Moreover, current debt only accounted for 14% of total debt while foreign currency-denominated debt remained minimal at 2% as of end-2023.⁴

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 to be 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 2021 to 2023:

Table 1. Revenue per Business Segment

(in PhP Millions) Business Segments	2021	% to total	2022	% to total	2023	% to total
Property Development	75,936	74%	81,243	66%	92,336	63%
Shopping Centers	7,924	8%	16,075	13%	21,088	14%
Offices	9,876	10%	11,122	9%	11,808	8%
Hotels and Resorts	2,833	3%	6,194	5%	8,780	6%
Construction	3,909	4%	4,236	3%	6,596	5%
Property Management & Others	2,468	2%	4,181	3%	4,893	3%
Real Estate Revenues	102,946	100%	123,051	100%	145,501	100%

Source: Analyst Briefing Presentation 2021-2023

⁴ Current Debt = Current Portion of Long-term Debt + Short-Term Debt

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 commercial lots, 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 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.

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%).

ALI allotted a higher CAPEX budget for 2024 amounting to ₱100 billion, up by 16% from last year. Of the budgeted CAPEX for 2024, the largest allocation of 34% is on residential projects. Estate development is allotted 24% of the total CAPEX, followed by commercial developments (23%) and land acquisition (19%). ALI aims to launch a total of ₱115-billion worth of Property Development projects: ₱100-billion residential developments and ₱15-billion commercial and industrial projects.

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.

BUSINESS LINES

Property Development

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 2022.

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 are Americans) accounted for the balance of 12% or ₱14.1 billion, higher by 12% from 2022.

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. According to ALI, average foot traffic in malls exceeded pre-pandemic levels by the end of 2022. 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 68,000 sqm GLA in the pipeline. These will come from upcoming mall expansions in Vermosa (38,000 sqm GLA), Evo City Ph1 (8,000 sqm GLA), and Park Triangle (22,000 sqm GLA).

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.

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.

The office occupancy mix in 2023 was as follows: BPO at 80% (72% in 2022), HQ at 11% (10% in 2022), Philippine Offshore Gaming Operators (POGO) and others at 1% (6% in 2022), and vacant at 8% (12% in 2022). In 2024, ALI is expecting the addition of the following office spaces: One Ayala South Tower (12,000 sqm), Park Triangle (35,000 sqm), Atria Technohub (25,500 sqm), and Nuvali Technohub (25,500 sqm).

Overall occupancy of offices in 2023 was 92%, likewise lower than the pre-pandemic rate of 96% as of end-2019. ALI actively talks to existing tenants who are looking at expanding their space, as well as new potential occupiers to improve its occupancy rates.

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 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 manages 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 operates 3,224 rooms (2,804 rooms as of end-2022) from its 11 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 operates 187 rooms (193 rooms) from its four El Nido Resorts, 50 rooms (70 rooms) under its Lio Tourism Bed and Breakfast (B&B) offerings, and 80 rooms (76 rooms) in its B&B in the Sicogon Tourism Estate.

ALI currently has 1,068 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 operates 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.

ALLHC is, likewise, in the process of expanding its cold storage portfolio. As of end-2023, there are 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 targeted to finish in July 2024. 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.⁵

The cold storage business posted a 95% occupancy rate and 92% lease out rate as of end-2023.

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%.

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-2023, the occupancy rate was recorded at 57%.

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.

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,

⁵ 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/

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.

OTHER UPDATES

Merger with Subsidiaries

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).

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 will then be filed with the SEC and is expected to be approved within the year.

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 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.

On March 7, 2023, AREIT's board of directors approved the third property-for-share swap with ALI.⁶ The property swap will transfer ALI's flagship offices and malls with an aggregate value of ₱22.5 billion. AREIT issued 607.56 million of its common shares in exchange for the combined leasable area of 190,000 sqm. The properties involved in the transaction have a total occupancy rate of 99%. These properties include: the recently completed One Ayala East and West Towers, Glorietta 1 and 2, BPO building at Ayala Center and Marquee Mall in Pampanga. The property-for-share swap was approved by the SEC on September 20, 2023.

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

Table 3. 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	October 2021
		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	January 2023
		ACC Tower			
		Tech Tower			
22,479,697,060	607,559,380	Ove Ayala East and West Towers	190,000	864,157	September 2023
		Glorietta 1 and 2			
		BPO Building at Ayala Center			
		Marquee Mall (Pampanga)			

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.

Table 4. ALI's Land Bank as of December 2023

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 51.0% of total outstanding common shares of the Company as of end-February 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.

⁶ <https://www.philstar.com/business/2023/03/08/2250170/areit-ayala-land-prepare-p2248-b-property-share-swap>

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 — Bank of the Philippine Islands (BPI), ALI, and AC Energy (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 the 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.

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 the last rating review in 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 after stepping down, Mr. Fernando Zobel de Ayala was appointed as advisor to the Board of ALI.⁷ 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.

⁷ https://edge.pse.com.ph/openDiscViewer.do?edge_no=ce852bfdc5a944889e4dc6f6c9b65995

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 Chief Financial Officer (CFO) is Mr. Augusto Bengzon, who concurrently serves as the Company's Chief Compliance Officer (CCO) and Treasurer.⁸ 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.

Table 5. 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 ⁹	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.

⁸ Mr. Bengzon is Treasurer until May 14, 2024

⁹ Ms. Acosta served the unexpired term of Mr. Solomon M. Hermosura, who has resigned and transitioned to government service effective on February 29, 2024

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.

The Company is geared to renew its growth path banking on a more stable 2023 performance. ALI will actively develop its existing estates while launching new projects. In 2024, the residential products will mainly come from the premium and horizontal segments as the Company saw the resilient demand in these segments. 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. 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.

ALI has also taken notable steps to incorporate sustainability in its developments, complemented by signed agreements to achieve the Company's sustainability targets. 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 2022.¹⁰ 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.

Proposed ₱6.0-billion KPI-based Sustainability-Linked Bonds

Over the years, ALI has been steadfast in its pursuit of sustainability. In 2007, sustainability was formalized as a guiding principle to ALI's brand of land use and development. In the year that followed, the Ayala Land Sustainability Framework was created to serve as the Company's sustainability-management mechanism for practicing land development more responsibly. Since then, ALI already made significant strides in its sustainability goals. Further highlighting ALI's commitment to sustainability is the its establishment of a Sustainability Council and a full-time Sustainability Office in 2008. Since 2010, ALI has been appointing a particular sustainability officer to spearhead the Company's sustainability efforts. At present, Mr. Robert S. Lao, the President and CEO of ALLHC, also serves as ALI's Chief Sustainability Officer.

Currently, ALI has Four Focus Areas for Sustainability: site resilience, pedestrian mobility and transit connectivity, resource efficiency, and local economic development. These are aligned with the United Nations' (UN) Sustainable Development Goals (SDGs), six capitals of the Integrated Reporting Framework, Global Reporting Initiative (GRI) Indicators, Sustainability Accounting Standards Board (SASB) Material Topics, and Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations.

¹⁰ Rated PRS Aaa, with a Stable Outlook



Figure 1. ALI's Sustainability Four Focus Areas

Source: Company Website

Further to its commitment to sustainability, the Company plans to issue the KPI-based Sustainability-Linked Bonds amounting to ₱6.0 billion. PhilRatings notes that, based on available data from AsianBondsOnline, the foregoing will be the first of its kind in the country.

Sustainability-linked bonds are forward-looking instruments with changing structural and/or financial characteristics depending on whether issuers meet predefined sustainability objectives.¹¹ These objectives can be identified by selecting certain KPIs and setting sustainability performance targets (SPTs)¹² in relation to the selected KPIs. It is worth noting that unlike green bonds,¹³ social bonds,¹⁴ and sustainability bonds,¹⁵ 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:

¹¹ OECD (2024), "Sustainability-linked bonds: How to make them work in developing countries, and how donors can help", OECD Publishing, Paris, 2024, p. 8

¹² Measurable improvements in key performance indicators on to which issuers commit to a predefined timeline

¹³ 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

¹⁴ 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

¹⁵ Bonds where the proceeds will be exclusively applied to finance or refinance a combination of both green and social projects and assets

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 2031
2. Obtain EDGE Zero Carbon certification for 1.5 million sqm of office commercial properties by 2025 – measurement date of 2026

The Company's first sustainability objective for the proposed bond issuance is aligned with its medium-term goal of reducing and eliminating its controllable emissions by 2030.

As a pioneer in sustainability in the Philippines, ALI's decarbonization journey began in 2007 by initiating comprehensive assessments of its carbon footprint and overall environmental impact through routine sustainability reports. Following the pivotal commitment made by the Ayala Group in 2021 to achieve Net Zero GHG emissions by 2050, ALI transitioned its decarbonization strategy from Carbon Neutrality to setting targets and identifying interventions for a Net Zero 2050 program. In 2023, Ayala Land completed its net zero roadmap which included target setting and identification of decarbonization strategies.

While both carbon neutrality and net zero are tools to reduce and ultimately balance the amount of GHGs released into the atmosphere, an important distinction between the two is the type of gas they target and the scope they cover.

Carbon neutrality refers to the state of emitting an equal amount of carbon dioxide (CO₂) into the atmosphere as is removed. Entities can achieve carbon neutrality through a variety of methods, such as reducing CO₂ emissions, offsetting CO₂ emissions, or a combination of both. Net zero emission, on the other hand, refers to the state of emitting an equal amount of GHGs into the atmosphere as is removed. It accounts for all GHGs. 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),¹⁶ 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.¹⁷

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.¹⁸

¹⁶ A corporate climate action organization that enables companies and financial institutions worldwide to play their part in combating the climate crisis

¹⁷ <https://illuminem.com/illuminemvoices/carbon-neutral-vs-net-zero-understanding-the-differences-and-implications>

¹⁸ https://ghgprotocol.org/sites/default/files/standards/Corporate-Value-Chain-Accounting-Reporting-Standard_041613_2.pdf

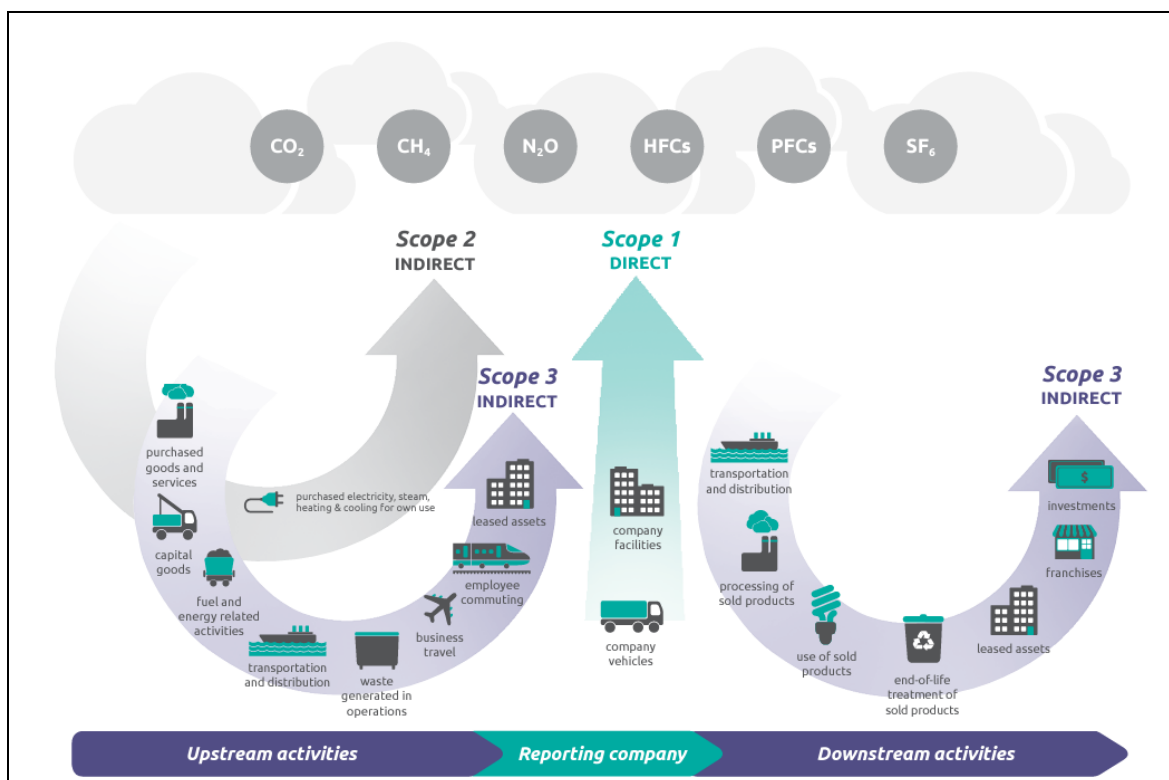


Figure 2. Overview of GHG Protocol scopes and emissions across the value chain

Source: Greenhouse Gas Protocol

In the case of ALI, its goal is to reduce the operational Scopes 1, 2, and 3 GHG emissions of ALI's commercial properties by 42% by 2030.

By the close of 2023, ALI has offset 86% of its scopes 1 and 2 emissions, a milestone independently verified by a third-party assessor. Such was accomplished by sourcing renewable energy, with 111 of its commercial properties or 90% of its portfolio already powered by clean energy.

PhilRatings notes, however, that while achieving a carbon neutrality of 86% is no small feat for the Company, it still has a long way to go in achieving its net zero target of reducing the operational Scopes 1, 2, and 3 GHG emissions of ALI's commercial properties by 42% by 2030.

The second sustainability objective, on the other hand, is consistent with the signed 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. As of April 18, 2024, 354,000 sqm (eight buildings) have been certified according to the Company.¹⁹

EDGE Zero Carbon certification is a globally recognized net zero²⁰ building certification and the highest of three levels of certification for EDGE. Established by the IFC in 2014, EDGE is a green building certification system focused on making new residential and commercial buildings more resource-efficient.²¹ It has

¹⁹ <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/>

²⁰ Refers to an entity that is removing an equal amount of all greenhouse gases as it is creating

²¹ <https://www.gbci.org/press-kit-edge>

three levels of certification – EDGE Certified, EDGE Advanced, and EDGE Zero Carbon. 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. EDGE Advanced is awarded to a project that demonstrates a minimum 40% reduction in energy; while the percentages in water and energy savings incorporated in the materials remain at 20% as in EDGE Certified.²² Lastly, EDGE Zero Carbon goes even a step further by requiring 40% savings on energy use via onsite measures, and that the buildings must be carbon neutral,²³ through renewable energy, carbon offsets,²⁴ or a combination of both.

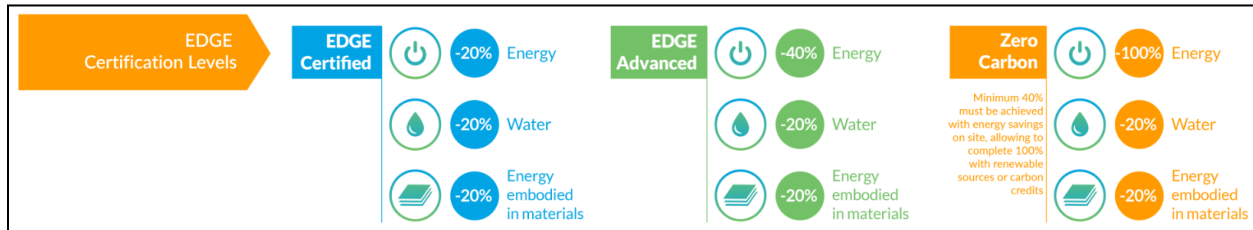


Figure 3. EDGE Certification Levels

Source: Bioconstrucción y Energía Alternativa S.A. de C.V.

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)²⁵

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.

²² <https://bioconstruccion.com.mx/en/edge-certification/>

²³ Refers to an entity that is removing the same amount of carbon dioxide from the atmosphere as it is emitting

²⁴ Tradable “rights” or certificates linked to activities that lower the amount of carbon dioxide (CO₂) in the atmosphere

²⁵ 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

Gross Domestic Product (GDP)²⁶

The Philippines' GDP growth in the last quarter of 2023 was at 5.6%, bringing full-year GDP growth to 5.6% in 2023. This was behind the government's target GDP growth of 6% to 7% for the year. The industries that contributed the most to the annual growth were: Wholesale and retail trade, repair of motor vehicles and motorcycles (5.5%); Financial and insurance activities (8.9%); and Construction (8.8%).

All major economic sectors posted full-year increases, as follows: Agriculture, forestry, and fishing (1.2% YoY and 1.4% in the 4Q 2023); Industry (3.6% YoY and 3.2% in 4Q 2023); and Services (7.2% YoY and 7.4% in 4Q 2023).

On the demand side, annual growth of Household spending was at 5.6% (5.3% in 4Q 2023) while Government spending rose by a minimal 0.4% (-1.8% in 4Q 2023) for the year. According to National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan, the latter's slower expansion was intentional, in line with the government's aim to achieve fiscal consolidation. This meant prioritizing the reduction of fiscal deficit and government debt. Data from the Bureau of the Treasury showed an improved debt-to-GDP ratio of 60.2% in 2023, from 60.9% at the end of 2022.

Despite falling behind its target GDP growth in 2023, the Philippines was still among the top performing countries in Asia. Secretary Balisacan noted that the Philippines recorded the second highest growth, as of January 2023, among some Asian countries that have released their performances in 2023. In the top spot was Vietnam which posted a growth of 6.7% in 2023. Third was China and followed by Malaysia, posting expansion of 5.2% and 3.4%, respectively.

GDP growth target for 2024 was set at 6.5% to 7.5%, nominally down from the previous goal of 6.5% to 8% growth for this year. Fitch Solutions unit BMI has maintained its economic growth outlook for the Philippines at 6.2% for 2024, banking on the rebound of investments that is expected to continue in 2024. BMI noted that the investment growth in the 4Q 2023 was 11.2%, bouncing back from a contraction of 1.4% in the previous period. BMI added that household spending will continue to fuel the economy as it boosts domestic consumption, particularly as the unemployment rate dropped to its decade-low of 3.6% in November 2023. The high inflationary environment, however, is seen by BMI as a risk to consumption for the year.

The International Monetary Fund (IMF), likewise, saw a positive outlook for the Philippines as it upgraded its economic outlook for the country in 2024. The GDP growth was revised slightly up to 6% in 2024 from the October 2023 forecast of 5.9%, amid the stronger rebound in investments and exports. The IMF similarly noted the Philippines' economic growth to be the fastest in the Association of Southeast Asian Nations (ASEAN) region. For 2025, IMF estimated a growth of 6.1%, still the fastest in the region.

Inflation²⁷

Inflation in February 2024 broke a four-month downtrend, as it posted an increase of 3.4% (from 2.8% in January 2024) on the back of higher prices for key food items, particularly rice. The figure, however, still

²⁶ Sources: <https://www.pna.gov.ph/articles/1218079>

<https://www.philstar.com/business/2024/01/31/2329700/imf-hikes-philippines-2024-growth-target>

²⁷ Sources: <https://www.pna.gov.ph/articles/1219055>

<https://www.pna.gov.ph/articles/1217191>

fell within the BSP projection of 2.8%-3.6%. It also marked the third straight month that inflation was kept within the government's 2%-4% target range.

The month's growth brought full-year average inflation rate to 6.0% in 2023, still higher than the government target of 2% to 4% for the year. This likely diminished the chances of key interest rate cuts from the Bangko Sentral ng Pilipinas (BSP). BSP Governor Eli Remolona Jr. stated that further rate cuts will not be considered by the central bank until the inflation rate settles within the target range.

Headline inflation in March 2024 was the second consecutive increase for the year at 3.7% (3.4% in February) driven by higher prices of food and transportation. The inflation for the month brought the average inflation for the three months in 2024 at 3.3%. While still within the government's target, it was nearing the higher end of the range.

The target inflation rate for full-year 2024 was pegged within the range of 2% to 4%. First Metro Investment Corporation (FMIC) and the University of Asia and the Pacific (UA&P) forecast that inflation will settle at 3.8% in 2024. This forecast was based on the slightly lower trend in crude oil prices, while imports and better second half harvests will limit rice price gains. The price of rice notably increased further by 22.6% in January from 19.6% in December 2023. The ASEAN+3 Macroeconomic Research Office (AMRO) also forecasts Philippine inflation at 3.6% in 2024, likewise within the government's target.

The Monetary Board left its benchmark rate unchanged at 6.5% in its second monetary meeting for the year in April 2024. This move was widely expected following the increase of inflation in March that was nearing the tail end of the target. The BSP stated that it will retain its hawkish stance while "contemplating" on an easing sometime in the third quarter. BSP Governor Eli Remolona Jr. pointed out that the BSP is not looking at further rate tightening but is waiting for some positive indication of weaker inflation to ease rates. If the results will be the opposite, the easing of monetary rate may be deferred to the first quarter of 2025, as stated by the BSP.

INDUSTRY²⁸

Metro Manila Property Market

Residential

There were tempered launches and take up of preselling condominium units in Metro Manila, partly attributed to still elevated interest and mortgage rates, as well as the large stock of vacant RFO units in the capital region.

In 2023, there was a recorded delivery of 3,540 units, lower than the initial estimate of 4,920 units, due to construction delays. The forecast condominium completion in 2024 will recover with the delivery of 11,290 units, and which will be the largest since 2018. The Bay Area is seen to likely account for more than 60% of new supply for the year.

The Metro Manila residential take up in 2023 was about 23,400 condominium units in the preselling market, higher than the 21,600 units sold in 2022. The affordable to lower mid income segments accounted for 57% of total take-up in 2023.

²⁸ Colliers Philippines Market Reports - Fourth Quarter 2023

Meanwhile, launches of preselling condominium units in 2023 was down by 4% from a year ago. Colliers attributed such to the cautious stance of developers in terms of residential launches, owing to the still sizable number of RFO units in Metro Manila. The remaining inventory life of the RFO units were estimated at 3.2 years.

Vacancy rates improved to 16.8% as of end-2023, from 17.1% in the previous quarter, mainly driven by returning expatriates and employees who are starting to return to the office and are looking for rental units in the prime business districts. Vacancy in 2024, however, is estimated to rise to 17.7% with the delivery of new units.

Rent increased by 3.5% in 2023 due to the mentioned demand from returning expatriates and employees. Rental corrections in these business hubs were starting to decelerate to between 6% and 14% as of end-2023, from 11% and 15% rental discounts in 2022 (compared to pre-pandemic rates). In 2024, rental rates and prices are seen to grow albeit at a slower pace. Colliers attributed the slower increase to elevated vacancy, given the new and substantial number of RFO units in the secondary market.

Property developers remained aggressive in developing master-planned projects outside Metro Manila. Colliers believes that the completion of major infrastructure such as the Metro Rail Transit-7 (MRT-7), New Manila International Airport, and North-South Commuter Railway will entice more property firms to locate projects near these areas.

Office

Net take-up of office space performed better than anticipated for full-year 2023. While pre-termination of lease contracts remained elevated, there was higher demand for office space from traditional firms. Office space deals in Metro Manila went up by 37% from a year ago. This was led by traditional firms which accounted for 46% of the total transactions in 2023. Outsourcing firms and Philippine Offshore Gaming Operators (POGO) took up 34% and 20% of office space transactions, respectively. The office take-up in 2023 was supported mostly by expansions and relocations. In 2024, net absorption is seen to gradually improve given the continued inquiries for new setups, expansions, and relocations within and outside the capital region.

As of end-2023, office vacancy reached 19.3%, lower than the projected rate of 21.2% for the year. This was primarily due to lesser office space completions than anticipated. New office space completions in 2023 totaled 611,700 sqm, which was lower than the additional 736,100 sqm of new space in 2022. Office space vacancy was driven by the delivery of new office buildings and vacancies from non-renewal of contracts.

Additional supply of office space in 2024 is expected to reach 598,300 sqm, nearly half of which will be coming from the Bay Area, Quezon City and Alabang. The annual delivery of new supply from 2024 to 2026, however, is forecast to be lower than the annual completions from 2020 to 2022 as developers remain cautious of their portfolio vacancies.

In 2024, vacancy is expected to inch higher at 19.6% due to low pre-commitment levels in upcoming buildings, new completions, and expected surrenders from non-renewals of pre-pandemic leases.

Average rent in Metro Manila dropped by 0.4% in 2023, but recorded a 0.5% increase quarter-on-quarter (QoQ). Rent recovery was observed in Fort Bonifacio, Makati CBD and Ortigas CBD, due to the pickup in demand. In 2024, Colliers estimated rents to marginally rise by 2.5% after posting a cumulative decline of 38% from 2020 to 2023.

In 2023, there was 36% higher office space transactions in green buildings with LEED, EDGE, WELL and BERDE certifications or pre-certifications.²⁹ Colliers recommends that developers incorporate green features into their portfolio given the heightened importance of sustainability in the office requirements of occupiers.

The flexible workspace market, likewise, grew to 16.7% from 11.9% in 2022. This is seen to continue, with increasing inquiries from potential occupiers. Colliers encouraged landlords to offer non-traditional leases (i.e. flexible workspace scheme) in their office buildings to capture this demand.

Retail³⁰

Two new shopping malls opened in Makati City and Parañaque City in 2023, adding 34,000 sqm and 30,000 sqm of retail space to the existing stock, respectively. The year ended with a total of 7 million sqm of retail stock. Additional 160,000 sqm of retail space is expected to open in 2024 in Quezon City, Parañaque City, Taguig City, and Muntinlupa City. Such may further push up vacancies in the medium term.

Quezon City continued to house majority of Metro Manila retail space as of end-2023. Future supply going online in 2024-2026 are mostly concentrated in Quezon City and Taguig City.

Metro Manila vacancy rate went up to 6.8% in the fourth quarter of 2023, attributable to newly introduced shopping malls which opened with high vacancy. Vacancy rate of existing malls before the fourth quarter of 2023 contracted to 5.7%, as store openings increased during the holiday season.

Hospitality

Foreign arrivals in 2023 exceeded the target of the government for the year. Data from the Department of Tourism showed foreign arrivals in the country reached 5.45 million in 2023, breaching the target of 4.8 million for the year and the 2.65 million recorded in 2022. The foreign arrivals in 2023 was equivalent to 66% of the all-time high of 8.26 million arrivals in 2019. Largely because of the foregoing, there was an overall improvement in occupancies and average daily rates in Metro Manila in 2023.

Average hotel occupancies in Metro Manila reached 65% in the second half of 2023, up from 61% in the first half of the year. This was driven by holiday-induced spending and the surge in foreign arrivals in 4Q 2023. Hotel occupancies are foreseen to improve to 68% with the expected inflow of tourists despite the substantial completion of hotel rooms in Metro Manila.

On the other hand, actual completion of new supply was lower in 2023 than the initial estimate due to construction delays. In 2024, however, the expected new supply will reach all-time high of 5,120 new hotel rooms after the completion of projects that had pushed-back construction schedules. The Bay Area is expected to cover nearly half of the new supply.

The average daily rate of rooms grew by 10.4% in 2023, higher than the forecast of 6%. The annual growth was driven by the sustained demand for leisure and in-person corporate events. In 2024, room rates are projected to increase, albeit lower, at 6%. This will be attributed to the expected substantial completion of new rooms that is foreseen to temper the increase in daily rates.

²⁹ LEED - Leadership in Energy and Environmental Design; EDGE - Excellence in Design for Greater Efficiencies; WELL – WELL Building Standard; BERDE - Building for Ecologically Responsible Design Excellence

³⁰ JLL Philippines, 4 Q2023 Property Market Overview

Industrial

In the second half of 2023, Colliers recorded the addition of about 70 hectares of industrial space in CALABA (Cavite, Laguna, Batangas). From 2024 to 2026, an average annual delivery of 120 hectares of new industrial supply is expected in CALABA and Central Luzon. The industrial parks likely to be completed include Batangas Technopark, Filinvest Park-Ciudad de Calamba, and the expansions of Cavite and Pampanga Technopark.

There is a positive demand outlook for the manufacturing sector given high foreign direct investments (FDI) secured by the government. Data from the Philippine Statistics Authority (PSA) showed that approved FDIs in 9M 2023 reached ₱494.6 billion, up from ₱68.3 billion in the same period of 2022. Of the total investments, 13% was accounted for by the manufacturing sector. These pledges are seen to boost industrial space absorption once it materializes.

Land leasehold and warehouse lease rates rose by 2.9% and 9.6%, respectively, in the second half of 2023. The foreseen demand is forecasted to support industrial lease rates but likely tempered by the delivery of new industrial space.

FINANCIAL PROFILE

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

Balance Sheet Items

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

Income Statement and Cash Flow Items

(in Millions PHP)	2021	2022	2023
Real Estate Sales	96,145	116,356	140,142
Interest Income from Real Estate Sales	6,801	6,695	5,360
Total Real Estate Revenues	102,946	123,051	145,501
Total Revenues	106,143	126,556	148,857
Real Estate Costs and Expenses	64,642	75,629	87,139
General and Administrative Expenses	6,539	7,264	8,910
Interest Expense and Other Financing Charges	11,038	11,447	13,499
Income Before Income Tax	20,288	28,220	36,460
Net Income	15,659	22,524	29,004
Net Income Attributable to Equity Holders of ALI	12,228	18,617	24,508
Net Cash from (used in) Operating Activities	7,926	26,348	21,360
Net Cash from (used in) Investing Activities	-26,229	-22,925	-30,186
Net Cash from (used in) Financing Activities	14,837	-5,537	13,886

Key Financial Ratios

(in Millions PHP)	2021	2022	2023
Gross Margin (%)	37.2	38.5	40.1
Net Profit Margin (%)	15.2	18.3	19.9
Return on Average Assets (%)	2.1	3.0	3.6
Return on Average Equity (%)	5.9	8.0	9.5
Interest Coverage Ratio (x)	3.7	4.4	4.4
Current Ratio (x)	1.6	1.8	1.8
Debt to Equity Ratio (x)	0.8	0.8	0.8
Solvency Ratio (x)	1.6	1.6	1.6

Profitability

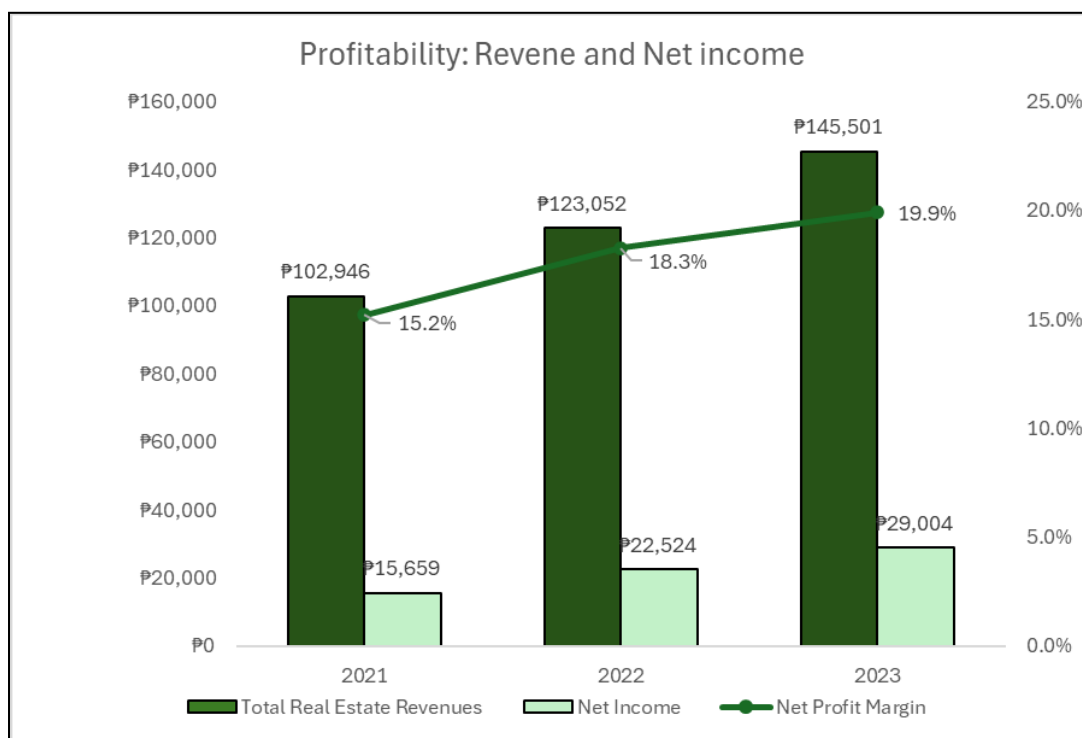


Figure 4. 2021-2023 Revenue and Net Income

2023 vs. 2022

Sustained revenue and net income growth. ALI's total consolidated revenues in 2023 amounted to ₱148.9 billion, up by 18% or ₱22.3 billion from the ₱126.6 billion revenues recorded in 2022. The growth stemmed from an increase in real estate sales, which comprised the majority of the Company's consolidated revenues. In 2023, revenues from real estate grew by 18% from ₱123.1 billion to ₱145.5 billion.

Breakdown of Real Estate Revenues

(in Millions PHP)	2022	2023	% Change
Property Development	81,243	92,336	14%
Residential	63,484	77,194	22%
Office for Sale	3,233	4,229	31%
Commercial and Industrial Lots	14,526	10,913	-25%
Commercial Leasing	33,391	41,677	25%
Shopping Centers	16,075	21,088	31%
Offices	11,122	11,808	6%
Hotels and Resorts	6,194	8,780	42%
Services	8,418	11,488	36%
Construction	4,236	6,596	56%
Property Management and Others	1,546	1,778	15%
Airline and Retail Electricity Supply	2,636	3,114	18%
Total Real Estate Revenues	123,052	145,501	18%

Contrary to the previous year, where commercial leasing drove real estate growth, property development fueled the growth in 2023. The property development segment grew by 14% or ₱11.1 billion from ₱81.2 billion to ₱92.3 billion. Such growth was attributed to the steady bookings, as well as higher project completion, particularly in the residential development, in 2023. Residential sales grew from ₱63.5 billion in 2022 to ₱77.2 billion, posting a 22% increase in revenues. This was a notable shift from the lackluster growth in 2022. The higher project completion in ALI's office developments, likewise, contributed to the growth in the property development segment.

Nonetheless, revenues from the Company's commercial leasing operations also grew in 2023. Commercial leasing grew by 25% to ₱41.7 billion driven by the improved occupancy and rents as travel and tourism continued to show recovery. Such growth in the leasing segment, however, was lower compared to the 62% growth posted in 2022.

The services segment, which contributed to roughly 8% of the total real estate revenues, also showed sustained growth posting a 36% increase attributed to the contribution of MDC's external projects.

In line with the revenue growth across all segments, real estate costs and expenses also increased from ₱75.6 billion in 2022 to ₱87.1 billion in 2023. Gross profit, therefore, amounted to ₱58.4 billion, up from ₱47.4 billion recorded the prior year. Gross profit margin (GPM) similarly improved from 39% to 40%.³¹ General and administrative expenses (GAE) were also 23% higher at ₱8.9 billion. Nonetheless, operating profit margin inched up from 33% in 2022 to 34% in 2023.

Interest expenses and other financing charges were notably higher in 2023. Interest expense and other financing charges amounted to ₱13.5 billion, up by 18% or by ₱2.1 billion from 2022. Such was attributed to higher interest rates and the Company's higher average daily loan balance.

ALI's net income grew by 29% or ₱6.5 billion to ₱29.0 billion in 2023. Net profit margin (NPM), likewise, improved from 18% in 2022 to 20% in 2023. ROAA and ROAE also further improved in 2023 at 4% and 9%, respectively.

Moreover, both the debt service coverage ratio (DSCR) and the interest coverage ratio remained more than adequate at 1.2x and 4.4x, respectively.

Projected Period

ALI expects the growth in total revenues and net income to be sustained over the long term. While Hotels & Resorts are expected to continue to grow along with the recovery of foreign tourist arrivals to pre-pandemic volumes in the coming years, residential developments will continue to account for the bulk of ALI's total revenues.

³¹ Total Real Estate Revenue was used to compute margins in this section.

Cash Flow and Liquidity

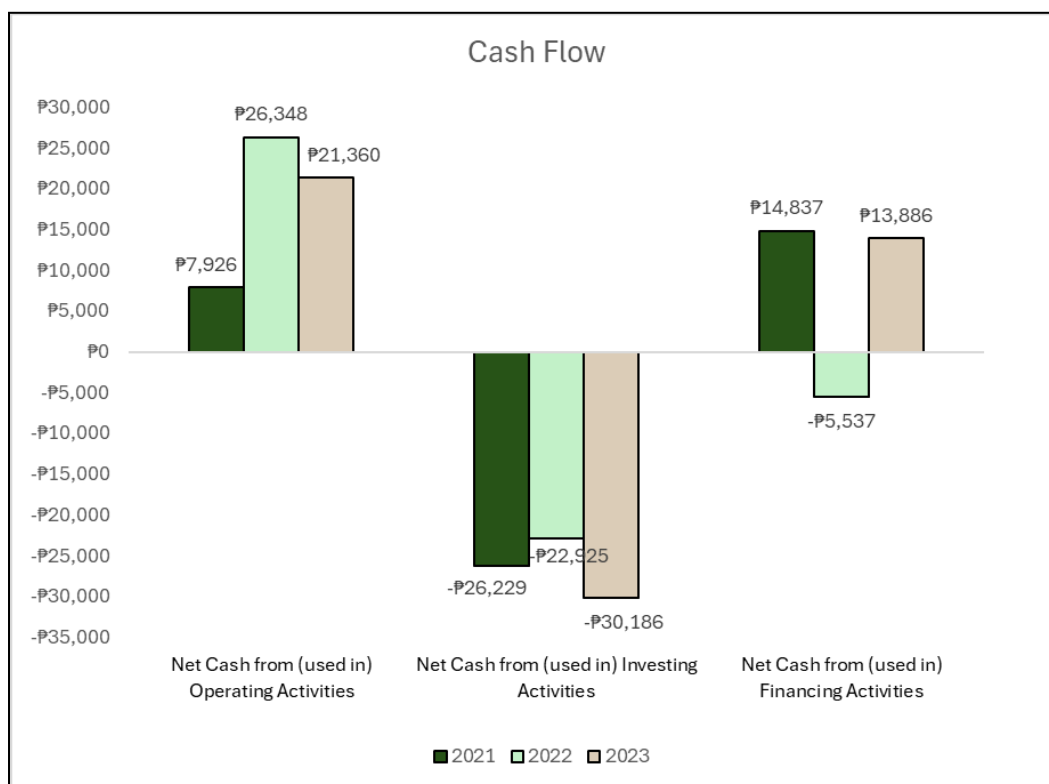


Figure 6. 2021 - 2023 Cash Flows

2023 vs 2022

Strong operating cash flow. ALI continued to generate strong operating cash flows in 2023. Although operating income before changes in working capital grew significantly by 27% to ₱53.4 billion in 2023, the net cash generated from operating activities was 19% lower compared with 2022 at ₱21.4 billion. Such decline was largely on account of the substantial increase in advances to contractors as a result of the higher construction activities for the year.

Cash was also generated through the availment of short- and long-term debts. In 2023, the net proceeds from these loans amounted to ₱22.4 billion, higher compared with the net proceeds of ₱12.9 billion in 2022. Aside from debt payments, cash was used for the settlement of liability for a purchased land, dividend distribution, and treasury share acquisition. In 2023, ALI's financing activities resulted in a cash inflow amounting to ₱13.9 billion, a turnaround from the outflow of ₱5.5 billion in 2022.

Aside from the aforementioned, the cash generated in 2023 was also used to partially fund the Company's investing needs. Net cash used in investing activities in 2023 amounted to ₱30.2 billion, up by 32% from the prior year. The majority of the outflow was for additional investment properties, particularly from additional land and buildings.

As a result of the foregoing, cash and cash equivalents jumped to ₱17.1 billion from ₱11.9 billion in 2023. As of end-2023, current assets stood at ₱413.0 billion, 15% higher compared with 2022, while current liabilities grew by 16% reaching ₱234.2 billion in 2023. Current ratio was unchanged and was more than satisfactory at 1.8x as of end-2023.

Projected Period

ALI sees its operating activities to continue generating strong cash flows over the projected period, supported by its growing recurring income base and sales from new projects. With this, ALI is also seen to maintain a healthy liquidity position over the projected period.

Of the Company's total outstanding bonds amounting to ₱115.3 billion, ₱38.3 billion will mature in 2024 (₱15.0 billion) and 2025 (₱23.3 billion). The Company intends to primarily use internally generated funds to settle these. Moreover, the Company also plans to raise up to ₱50.0 billion in debt to refinance ALI's other maturing obligations and partially fund general corporate requirements.³²

Capital Structure

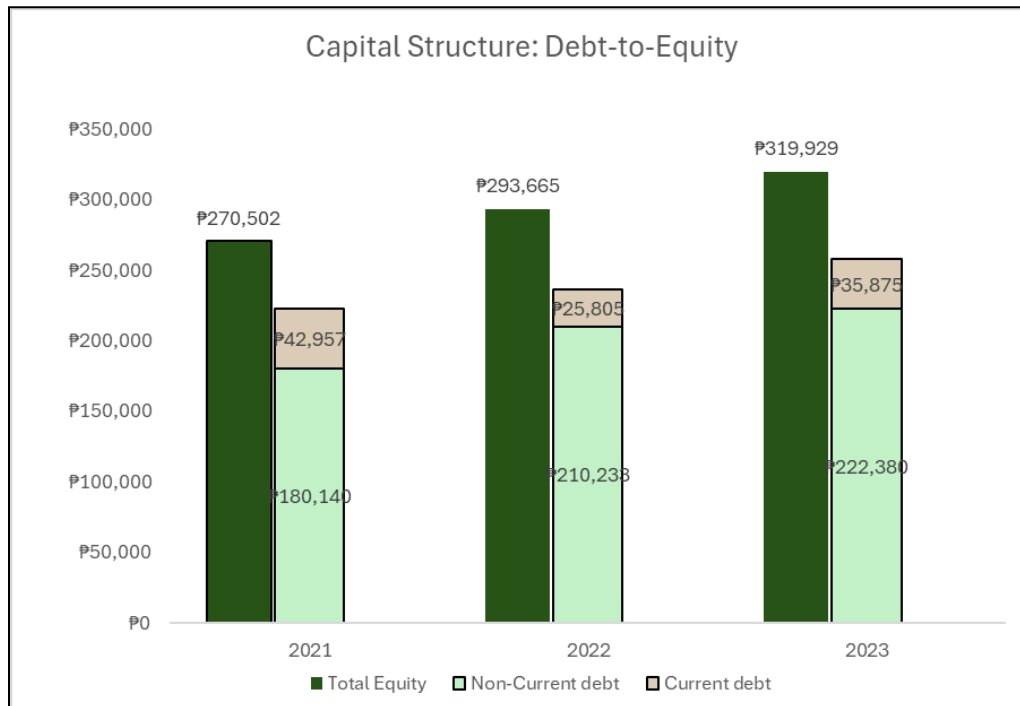


Figure 7. 2021 - 2023 Capital Structure

2023 vs 2022

Conservative capital structure. As of end-2023, ALI's total assets stood at ₱846.6 billion, 9% higher than a year ago. Asset expansion was largely driven by the 16% increase in real estate inventories attributed to land acquisitions, construction project completion, and transfers from investment properties. The increase in other current assets brought by higher construction activities likewise contributed to ALI's asset growth in 2023. Investment properties remained the biggest asset component at ₱241.1 billion, accounting to 29% of the total assets.

ALI's capital structure remained conservative, with its debt-to-equity (DE) ratio kept at 0.8x, as of end-2023. Total equity increased by 9% to ₱319.9 billion on account of the continued plowback of earnings. The Company's total debt likewise grew by 9% to ₱258.3 billion in 2023. Of the total debt, 14% or ₱35.9

billion were current. Additionally, the Company's total debt comprised 50% peso-denominated term/bank loans, 48% outstanding bonds, and a minimal 2% foreign currency-denominated debt.

In 2023 ALI recorded an increase in the portion of floating interest rate in its debt portfolio from 10% in 2022 to 23% in 2023. Nevertheless, these floating rate facilities/term loans provide the Company with the option to convert to fixed rates. ALI could utilize this option once interest rates begin to decline. The average maturity of borrowings stood at 5.1 years, and the average borrowing cost was 5%.

Projected Period

ALI is seen to maintain its conservative capital structure in the long term, supported by the 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 December 31, 2023, ALI had a significant amount of available credit facilities from various local and international banks. These provide additional flexibility in covering the Company's debt obligations. Furthermore, ALI and its Parent are both publicly listed in the Philippine Stock Exchange (PSE). As of April 26, 2024, ALI and AC had a market capitalization of ₱422.8 billion and ₱368.8 billion, respectively.