

 PhilRatings PHILIPPINE RATING SERVICES CORPORATION	RATING REPORT
	CITICORE ENERGY REIT CORP.

Date: February 10, 2025
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ISSUE CREDIT RATING

Outstanding Bond Issuance			
Format	Amount	Maturity Date (Tenor)	Assigned Rating and Outlook
Association of Southeast Asian Nations (ASEAN) Green Bonds	₱4.5 billion	February 10, 2028 (5 years)	PRS Aa plus Stable Outlook

Obligations rated **PRS Aa** are of high quality and are subject to very low credit risk. The obligor's capacity to meet its financial commitment on the obligation is very strong. The "**plus**" further qualifies the assigned rating.

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.

ISSUER CREDIT RATING

Assigned Rating: PRS Aa plus (corp.)

Assigned Outlook: Stable Outlook

An Issuer Credit Rating is an opinion on the general and overall creditworthiness of the issuer, evaluating its ability to meet all its financial obligations within a time horizon of one year. A company rated **PRS Aa (corp.)** differs from the highest rated corporates only to a small degree and has a strong capacity to meet its financial commitments relative to that of other Philippine corporates. The "**plus**" further qualifies the assigned rating.

RATING RATIONALE

1. Well-positioned to benefit from the country's growing renewable energy needs with its unique and fully occupied portfolio of green assets

Citicore Energy REIT Corp. (CREIT; the Company) is the first energy-focused Real Estate Investment Trust (REIT) in the Philippines. The Company is focused on the renewable energy space, which is poised for growth given the continuously growing demand for electricity and the government's push to expand the country's renewable energy capacity. The Philippine government aims to increase the share of renewable energy in power generation to 35% in 2030 and 50% in 2040.

CREIT's portfolio currently consists of a Company-owned solar power plant and 13 parcels of land leased or subleased to solar power plant operators. Additionally, the Company intends to diversify into other types of renewable energy properties. In October 2024, the Sponsor, Citicore Renewable Energy Corp. (CREC), entered into a joint development agreement with Levanta Renewables to develop four onshore wind projects in the Philippines.¹

As of end-September 2024, all of the Company's properties were being leased to companies within the Citicore Group. Nonetheless, the leased properties have been fully occupied by their respective lessees since 2017 and have a minimum remaining lease term of 15 years. Moreover, the offtake contracts with the lessees' customers had a weighted average (by contracted capacity) term of 8.1 years, as of end-September 2024.

2. Reputable shareholders

In March 2024, SM Investments Corporation (SMIC) acquired a 28.8% stake or 1.9 billion shares in CREIT from CREC and Citicore Solar Tarlac 1, Inc. (Citicore Tarlac 1). As a result of the transaction, Citicore Tarlac 1 no longer owned shares in CREIT, while CREC's ownership dropped to 33%, from approximately 62%.

SMIC is one of the country's largest conglomerates, with businesses in retail, banking, and property. SMIC also has portfolio investments in other sectors such as leisure properties, office buildings, commercial chains, logistics, food manufacturing, geothermal steam production and mining. As of report-writing date, SMIC's outstanding bonds amounting to ₱15.0 billion are rated PRS Aaa with a Stable Outlook.

CREC is a pure renewable energy developer engaged in the development and operation of solar, run-of-river hydro, and wind energy platforms in the country. CREC was the second largest solar power generator in the Philippines, with an overall capacity of 220MWdc as of end-2023. CREC's ultimate parent, Citicore Holdings Investment, Inc. (CHII), is also the parent company of Megawide Construction Corporation (Megawide). Megawide is one of the country's largest construction and infrastructure conglomerates. Megawide's outstanding bonds amounting to ₱9.0 billion are rated PRS Aa with a Stable Outlook.

CREC is currently pursuing aggressive development activities, with the goal of adding 5 gigawatts (GW) of renewable energy projects within the next five years (2024–2028). With CREC as the primary source of its new assets, the Company is seen to benefit from such growth, as it serves as Citicore Group's REIT platform. Additionally, CREIT can leverage CREC's strong relationships with key industry players and affiliates, as well as its extensive experience in the renewable energy market.

¹ A renewable energy platform backed by United Kingdom-based investment firm Actis

3. Strong profitability, underscored by its high margins

CREIT sustained strong revenue growth in 2023. The Company recorded a 30.8% increase in its topline, bringing total revenues to ₱1.8 billion. The increase in revenues for the year was on account of the new parcels of land acquired by the Company using the proceeds of its green bond offering in February 2023. Cost of services increased by 12.9% to ₱103.0 million, while operating expenses declined by 18.9% to ₱6.8 million. The Company's operating profit margin (OPM), therefore, increased to 93.9% in 2023, from 92.8% in 2022.

Due to the Company's green bond issuance in 2023, finance costs jumped to ₱309.4 million, nearly 18x higher than the previous year's ₱17.6 million. Notwithstanding the high level of finance costs, CREIT's bottom line grew by 11.6% to ₱1.4 billion in 2023. Net profit margin remained high, albeit lower, at 77.8% in 2023.

In the first nine months of 2024 (9M2024), CREIT posted a revenue and net income growth of 5.5% and 2.1%, respectively. CREIT's total revenues for 9M2024 amounted to ₱1.4 billion while net income amounted to ₱1.04 billion.

4. Sound financial position and more than satisfactory liquidity

Current assets as of end-2023 stood at ₱882.9 million, a 33.8% increase from end-2022. On the other hand, current liabilities grew at a much slower rate of 9.9%, from ₱387.3 million to ₱425.6 million. Current ratio, therefore, remained more than sufficient, increasing to 2.1x as of end-2023, from 1.7x as of end-2022. CREIT's current ratio marginally declined, albeit remained more than adequate, to 2.0x as of end-September 2024. CREIT also continued to generate positive operating cashflows in the 9M2024. Such amounted to ₱1.3 billion, a 27.6% increase from the same period of 2023.

On February 10, 2023, CREIT issued five-year ASEAN Green Bonds amounting to ₱4.5 billion. These were CREIT's sole interest-bearing debt, as of end-2023. Given the bond issuance, total liabilities grew by 593.1% to ₱5.3 billion, while debt-to-equity (DE) ratio stood at 1.0x as of end-2023. CREIT did not incur additional interest-bearing debt in 9M2024. The Company's total debt, therefore, remained at ₱4.5 billion. Similarly, the Company's total equity was also unchanged at ₱4.5 billion. DE ratio remained manageable at 1.0x as of end-September 2024.

BUSINESS REVIEW

Company Profile

CREIT (formerly Enfinity Philippines Renewable Resources, Inc.) is a REIT focused on the ownership of sustainable infrastructure projects. CREIT was registered with the Securities and Exchange Commission (SEC) on July 15, 2010, and was originally engaged in power generation, prior to changing its primary purpose to that of a REIT. In February 2022, CREIT listed its shares as a REIT company in the main board of the Philippine Stock Exchange (PSE).

CREIT was formed primarily to own and invest in income-generating renewable energy real estate properties, including land and properties used for harnessing power, that meet the Company's investment criteria. The Company is the real estate investment arm of the Citicore Power Group – the Group behind construction and infrastructure conglomerate Megawide. CREIT is the country's first renewable energy REIT and has become the largest renewable energy landlord in the country, with 7.1 million square meters (sqm) of total leasable area.

CREIT's green asset portfolio, comprising of 14 leasable assets, was valued at ₱20.0 billion as of end-2023. While the Company's assets are predominantly in Luzon, it also has a presence in Visayas and Mindanao.

Property Portfolio

As of end-September 2024, CREIT's portfolio consisted of the following, which are collectively referred to as the "Leased Properties":

- Clark Solar Power Plant in Clark Freeport Zone, Pampanga; and
- 13 parcels of land leased or subleased to solar power plant operators
 - Ten Company-owned parcels of land (freehold land assets): Armenia Property, Bulacan Property, South Cotabato Property, and the recently acquired parcels of land in Batangas, Pampanga, and Pangasinan
 - Three parcels of land which CREIT has leasehold rights: Toledo Property, Silay Property and Dalayap Property

As of end-September 2024, the Company's properties are being leased to companies within the Citicore Group. CREIT is currently focused on leasing its portfolio assets to companies and SPVs owned by CREC. PhilRatings notes, however, that should CREIT tap lessees from outside the Group in the future, such will lead to further diversification in its tenant base and reduce the Company's exposure to any possible adverse developments within the Citicore Group.

Key information, including the lessees/tenants of CREIT's leased properties, can be seen in Table 1.

Table 1. Details of CREIT's Leased Properties

Assets		Lessees	GLA (in sqm)	Gross Installed capacity (MW)	Tenants Lease term (in years)	Value (end-2023) (in millions)
IPO-Assets	Clark Solar Power Plant	CREC	250,318	22	15	₱2,964
	Armenia Property	Citicore Tarlac 1	138,164	9	22	₱680
	Toledo Property	Citicore Cebu	730,000	60	17	₱3,661
	Silay Property	Citicore Negros Occidental	431,408	25	16	₱2,767
	Dalayap Property	Citicore Tarlac 2	103,731	8	16	₱449
1st Infusion	Bulacan Property	Citicore Bulacan	253,880	15	23	₱2,400
	South Cotabato Property	Citicore South Cotabato	79,997	6	23	₱1,044
2nd Infusion	Lumbangan Property	Citicore Batangas 1	1,062,083	125	24	₱1,214
	Luntal Property	Citicore Batangas 1	839,535	72	24	₱1,053
	Bolbok Phase 1 Property	Citicore Batangas 2	741,016	72	24	₱918
	Bolbok Phase 2 Property	Citicore Batangas 2	933,979	105	24	₱1,132
	Pampanga Property (Arayat)	Citicore Pampanga 1	419,214	42	24	₱734
3rd Infusion	Pampanga Property (Magalang)	CREC	70,433	14	19	₱884
	Pangasinan Property	Citicore Pangasinan 2	1,049,102	113	24	₱90
Total			7,102,860	145*		₱19,991

*Excluding additional capacities from projects under construction

A. Clark Solar Power Plant

The Clark Solar Power Plant is comprised of a solar power plant with an installed capacity of 22.3 megawatt-peak of direct current (MW_{DC}) located in Clark Freeport Zone. The solar plant is built on a 250,318-sqm parcel of land which is subject to a 25-year lease with Clark Development Corporation. The Company's lease started on September 5, 2014, and is renewable upon mutual consent of the parties.

The Clark Solar Power Plant was commissioned on March 12, 2016, under the Solar Energy Service Contract (SESC) No. 2014-07-086. In October 2021, CREIT assigned the SESC to CREC and parent company, making CREC the operator of the Clark Solar Power Plant and CREIT as the lessor. CREIT and CREC executed

a lease contract for the latter's use of the Clark Solar Plant, in line with the assignment of SESC. The lease contract is effective on November 1, 2021 and ending on September 3, 2039 (approximately 18 years).

The Clark Solar Power Plant is qualified under the feed-in-tariff (FIT) II Program with Certificate of Compliance (COC) eligibility for FIT II rate from March 12, 2016 to March 11, 2036. Under the FIT regime, the offtaker of the Clark Solar Power Plant is National Transmission Corporation (TransCo). TransCo is the owner of the country's power transmission system that links power plants to the electric distribution utilities nationwide.

CREIT assigned the Board of Investments (BOI) registration in relation to the Clark Solar Power Plant to CREC. This registration entitles CREC to certain incentives such as a zero value-added tax (VAT) rating, income tax holiday for seven years until 2023 with a preferential rate thereafter and a tax exemption on carbon credits.

The Clark Property was valued at ₱3.1 billion for the period ending December 31, 2023.

B. Armenia Property

The Armenia Property is located in Brgy. Armenia, Tarlac City. It is comprised of 11 parcels of land with a total area of 138,164 sqm. The Armenia Property is owned by CREIT. It was acquired by the Company from CREC through a property-for-share swap.

CREIT leased out the Armenia Property to Citicore Tarlac 1 for a period of 25 years commencing on January 1, 2022. Citicore Tarlac 1 operates a solar power plant with an installed capacity of 8.84MW_{DC} on the Armenia Property. The said solar power plant was commissioned on February 29, 2016. Electricity generated by this power plant are sold to contestable customers operating in various industries.

The Armenia Property was valued at ₱680 million for the period ending December 31, 2023.

C. Toledo Property

The Toledo Property refers to a 730,000-sqm land located in Brgy. Talavera, Toledo City, Cebu over which CREIT has leasehold rights. CREIT owns the leasehold rights over the Toledo Property pursuant to a Deed of Assignment whereby Citicore Solar Cebu, Inc. (Citicore Cebu) transferred all its rights and obligation with respect to the said property to the Company. The lessor of the Toledo Property is Leavenworth Realty Development, Inc., which holds the usufructuary rights to the property. CREIT's leasehold rights are for a remaining term of 19 years, expiring on May 31, 2041 and renewable upon mutual agreement of the parties. CREIT has a right to match any bona fide offer from a third party to purchase the property from the landowner.

The Toledo Property was leased out by CREIT to Citicore Cebu for a period of 19 years, commencing on January 1, 2022 and expiring on May 31, 2041. Citicore Cebu in turn operates a solar power plant with an installed capacity of 60MW_{DC} on the Toledo Property. This power plant was commissioned on June 30, 2016, and electricity generated by such are sold to contestable customers belonging to different industries.

The Toledo Property had an appraised value of ₱3.7 billion for the period ending December 31, 2023.

D. Silay Property

The Silay Property refers to a 431,408-sqm land located in Silay City, Negros Occidental. CREIT owns leasehold rights over the Silay Property pursuant to a lease agreement between the Company as lessee and Claudio Lopez, Inc. as lessor. The lease has a term of 19 years expiring on October 31, 2040. The lease

can be extended for another five years unless earlier terminated by either party at least six months prior to the end of the original term.

The Silay Property was leased out by the Company to Citicore Solar Negros Occidental, Inc. (Citicore Negros Occidental) for a period of 18 years, beginning on January 1, 2022 and ending on October 31, 2040. Citicore Negros Occidental operates a solar power plant with an installed capacity of 25MW_{DC} on the Silay Property. This power plant was commissioned on March 8, 2016.

Electricity generated by Citicore Negros Occidental's solar power plant are sold to contestable customers from various industries.

The Silay Property was valued at ₱2.8 billion for the period ending December 31, 2023

E. Dalayap Property

The Dalayap Property is located in Brgy. Dalayap, Tarlac City. It is made up of parcels of land with a combined area of 103,731 sqm. CREIT owns the leasehold rights over the Dalayap Property pursuant to a lease agreement entered into with Ma. Paula Cecilia David and Juan Francisco David, and a sublease agreement with Benigno S. David and Vivencio M. Romero, Jr. The lease and sublease agreements have initial terms of 19 years, expiring on October 31, 2040. These are renewable for another 25 years subject to the consent of the lessor. CREIT also has the right of first refusal to purchase the said parcels of land in the event the lessor or sublessor decide to sell their properties.

CREIT leased out the Dalayap Property to Citicore Solar Tarlac 2, Inc. (Citicore Tarlac 2) for a period of 19 years, commencing on November 1, 2021. Citicore Tarlac 2 in turn operates a solar power plant with an installed capacity of 7.55MW_{DC} on the Dalayap Property. Citicore Tarlac 2's solar power plant was commissioned on February 27, 2016. Electricity generated by this power plant are sold to contestable customers operating in various industries.

The Dalayap Property was valued at ₱449 million for the period ending December 31, 2023.

F. Bulacan Property

The Bulacan Property covers several parcels of land in Brgy. Pasong Bangkal, San Ildefonso, Bulacan with an aggregate area of 253,880 sqm. It is located within 30 to 40 kilometers from the planned central business district (CBD) township development in the area and the future New Manila International Airport. The Bulacan Property is the site of Citicore Solar Bulacan, Inc.'s (Citicore Bulacan) 15MW_{DC} solar power plant that was commissioned on March 12, 2016. The Bulacan Property is also certified as FIT-eligible, hence, its capacity is fully-contracted to TransCo.

In March 2022, CREIT entered into a Deed of Absolute Sale with Citicore Bulacan for the acquisition of the Bulacan Property. CREIT purchased the Bulacan Property for a purchase price of ₱1.8 billion.

As of end-2023, the Bulacan Property was valued at ₱2.4 billion.

G. South Cotabato Property

The South Cotabato Property is a 79,997-sqm parcel of land located in Brgy. Centrala, Surallah, South Cotabato. It is the site of Citicore Solar South Cotabato, Inc.'s (Citicore South Cotabato) 6.23MW_{DC} FIT-eligible solar power plant that was commissioned on December 9, 2015. Given its qualification under the FIT Program, electricity sold by Citicore South Cotabato's solar power plant is sold to TransCo.

In June 2022, CREIT entered into a Deed of Absolute Sale with Citicore South Cotabato for the purchase of the South Cotabato Property for ₱753.8 million.

The South Cotabato Property was valued at ₱1.0 billion for the period ending December 31, 2023.

H. Newly Acquired Properties in 2023

On February 10, 2023, CREIT listed its maiden ASEAN Green Bonds amounting to ₱4.5 billion, maturing in 2028. The proceeds were used to acquire parcels of land with an aggregate total of 512 hectares in Batangas (Tuy and Bolbok), Pampanga, and Pangasinan. These lands were said to be ideal for developing utility scale solar power plants given its proximity to the National Grid Corporation of the Philippines' (NGCP) substation and proven solar irradiance resources.

In 2023, CREIT also entered into Lease Agreements with Citicore Solar Batangas 1, Inc. (Citicore Batangas 1), Citicore Solar Batangas 2, Inc. (Citicore Batangas 2), Citicore Solar Pampanga 1, Inc. (Citicore Pampanga 1), Citicore Solar Pangasinan 2, Inc. (Citicore Pangasinan 2), and CREC for the lease of the recently acquired parcels of land. The lease agreement is effective for 25 years with an extendable period of additional 50 years at the option of the lessor, while the lease payment is subject to an annual escalation rate of 2.5%.

These properties currently host solar power plants under construction, with a total capacity of more than 500 MW_{DC}. Most of the plants under construction in the newly acquired parcels of land are expected to be completed within 2025.

Table 2. Projects Under Construction in the Newly Acquired Properties

Properties/Projects	Installed capacity (MWpDC)
Lumbangan Property	125
Luntal Property	72
Bolbok Phase 1 Property	72
Bolbok Phase 2 Property	105
Pampanga Property (Arayat)	42
Pampanga Property (Magalang)	14
Pangasinan Property	113
Total Combined Capacity	543

Targets and Strategies

CREIT's principal strategy is to invest in income-generating renewable energy real estate properties that meet the following criteria: (i) primarily (but not exclusively) be a site suitable for solar power plants, but may include other renewable energy properties available in the market; and (ii) located in underdeveloped areas where CREIT has completed and validated the availability of resources and the potential of such area for future township developments to drive long-term appreciating land values.

The Sponsor's pipeline of projects is expected to be the primary source of new assets for infusion into the Company. CREC is currently pursuing aggressive development activities with the goal of adding 5 GW of renewable energy projects from 2024 to 2028, or 1 GW of energy each year. The Sponsor is reportedly on track to achieve this goal. As of end-2023, CREC had eight solar power plants in the Ready-to-Build/Under Construction stage. These projects, which have a combined installed capacity of 1.5 GW_{DC}, are expected to be completed by 2025.

To further meet the 5 GW of renewable energy by 2028, CREC has multiple projects in the pipeline in various stages. Table 3 shows details of the Sponsor's projects as of end-2023. CREC expects to complete

the projects in the 'Under Development' phase, including pre-development and early development stages, within the next five years.

Table 3. CREC's Projects (as of end-2023)

Number of projects	Gross Installed Capacity (in MW)	Type	Status	Earliest Expected NTP Date
Projects that are Ready-to-Build/Under Construction				
8	1,583	Solar	Under Construction	-
Projects in Advanced Development				
12	1,427	Solar and Onshore Wind	Advanced Development	June 2024
Projects Under Development				
13	1,991	Solar and Onshore Wind	Pre-development stage	March 2025
19	2,258	Solar	Early Development	June 2026
7	3,100	Offshore wind	Identified Pipeline	NA

The lease rental rate for the Leased Properties is composed of a guaranteed annual base rental rate (independent of the performance of the lessee's power plant) and a variable rental rate (which allows the Company to benefit from improved performance on the part of its lessees). The guaranteed base rental rate is payable on equal monthly installments, while the variable rental rate is equivalent to 50% of the incremental gross revenue earned by the lessee in excess of the agreed base revenue for the fiscal year.

The guaranteed base lease accounted for 98% of the Company's total rental income. As such, CREIT expects to receive steady cash flows over the term of the contracts. While variable rent contributed minimally to the Company's rental income, it also presents a growth opportunity as CREIT can benefit from the anticipated growth of its tenants, driven by the rising demand for renewable energy.

According to management, CREIT currently focuses on solar assets, as these take less time to develop and build. These are also relatively easier to manage, since such only involves cleaning of solar panels and grass cutting. Nevertheless, the Company intends to diversify into other types of renewable energy properties. Part of the diversification is to expand into onshore wind development. In October 2024, CREC partnered with Levanta Renewables, a utility-scale renewable energy developer and operator which focuses on Southeast Asia. Levanta Renewables is backed by United Kingdom-based investment firm Actis, which have invested a total of \$24 billion in sustainable infrastructure since its inception. Levanta Renewables and CREC, through its 100% owned subsidiary Citicore Wind Energy Corporation (CWEC), will establish a joint venture company that will develop four onshore wind projects in Luzon and Visayas. Currently, these projects are in early to advanced development, with construction expected to start in the latter part of 2025 or early 2026. The said projects will have a total combined capacity of 375 MW.

Operating Highlights

With the assignment of SESC of the Clark Solar Plant to CREC, the Company's sale of solar energy business was terminated effective 2021. As such, 2022 marks the Company's full REIT operation. Beginning 2022, CREIT solely generates cash flows from its assets in the form of lease income. Such is considered to be a more stable source of revenue compared to the sale of electricity.

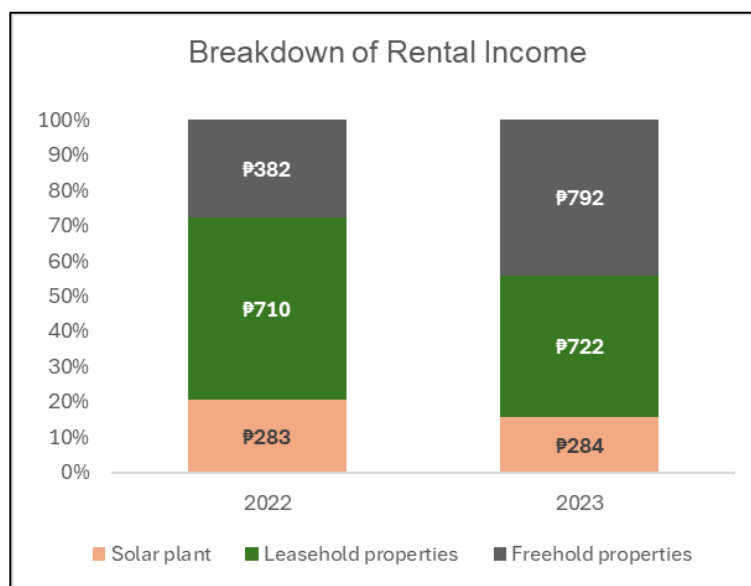
In 2022, CREIT expanded its asset portfolio by acquiring two properties – the Bulacan Property and South Cotabato Property. This acquisition increased the Company's leasable area to two million sqm and brought CREIT's leasable assets to seven.

In 2023, with the acquisition of seven parcels of land, CREIT's asset portfolio doubled to 14. Moreover, the Company's total leasable land area increased to 7.1 million and had an aggregate portfolio value of

₱20.0 billion as of end-2023. Such was 4.3x higher compared with the Company's leasable area when it had its initial public offering (IPO) in 2022. Revenues, primarily from lease of land, generated from the new asset acquisitions in 2023 accounted for 24% of CREIT's total revenue.

CREIT's rental income is from its leasehold and freehold assets and the lease of its solar power plant property. The breakdown of CREIT's rental income can be seen in Figure 1.

Figure 1. Breakdown of Rental Income (2022 - 2023)

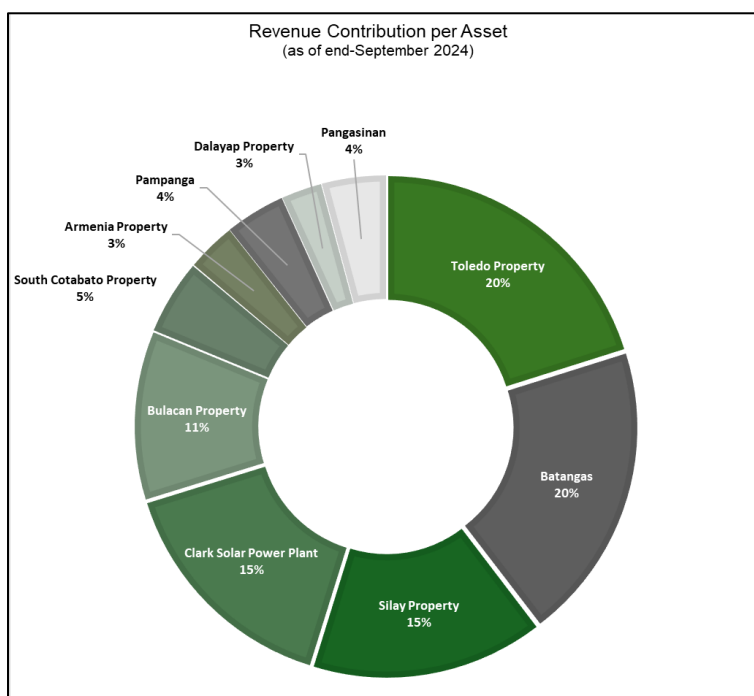


In 2022, the Company derived 51.6% or ₱710 million of rental income from its leasehold land assets in Cebu, Tarlac, and Negros Occidental.² Rental Income from CREIT's freehold properties amounted to ₱382 million in 2022. Such accounted for 27.8% of the total rental income. The Company's revenues from freehold properties increased to ₱792 million or 44.1% of total revenues in 2023 due to the seven newly acquired assets. While rental income from its leasehold land assets also increased in 2023 to ₱722 million, its contribution to total revenues, however, declined to 40.2%.

Rental income from Clark Solar Plant was relatively unchanged from 2022 to 2023 at ₱284 million.

As of end-September 2024, the Company's properties in Cebu and Batangas were the top contributors to CREIT's revenue, each contributing 20% to total. Such was followed by Silay Property and Clark Solar Plant, each contributing 15%. The Bulacan Property also made notable contribution of 11%.

² These properties are leased by CREIT with the owners of the land. CREIT sublease the land to other entities.

Figure 2. Revenue Contribution per Asset (2023)

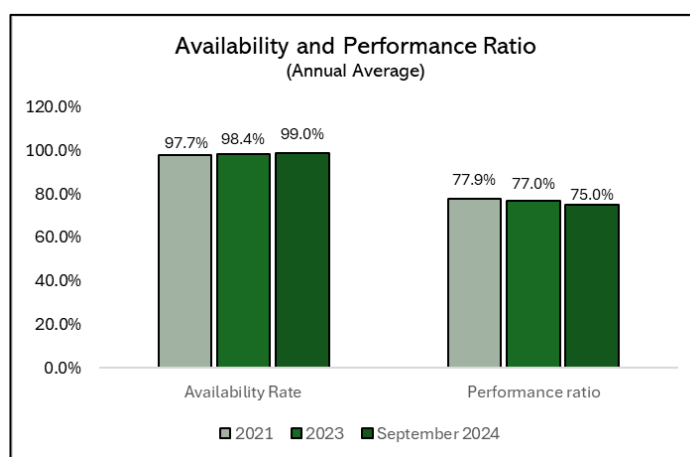
Solar Power Plant Operations

The solar power plants in the leased properties maintained high availability rates, slightly improving from an annual average of 97.7% as of end-2021 to 98.4% as of end-2023. Such reached 99.0% as of end-September 2024. The high availability rate proves that the plants are well-kept and well-maintained. To minimize unscheduled or unplanned internal outages, the operations teams of the lessees conduct regular preventive and predictive maintenance on major equipment in their respective plants.

All of CREIT's solar assets are in high solar irradiation between 4.7 to 5.5 kilowatt-hours per sqm (kWh/m²) per day based on the long-term historical irradiation data of the National Renewable Energy Laboratory (NREL), a national laboratory of the U.S. DOE Energy based in Texas.

According to the NREL, the standard performance ratio for a newly built photovoltaic (PV) system averages at 77%, and over time, the performance of the system reduces due to annual degradation of PV panels. In 2023, the Company's and its lessees' solar plants performance ratio was at 77.0%. Such, however, declined to 75.0% as of

end-September 2024, particularly brought by the decline in performance ratio of the Bulacan and Dalayap properties. According to management, the decline was due to solar panel degradation. Management highlighted that CREC will be upgrading all the solar panels of the existing/operating plants into a more modern type with higher capacity factor to improve performance and generation.

**Figure 3. Availability and Performance Ratio**

Customers

Given its unique business model, the leased properties—excluding the Clark Solar Power Plant—have been 100% occupied by their respective lessees since 2017. The properties also have a minimum remaining lease term of 15 years.

Moreover, the lessees had long-term offtake agreements with established customers. As of end-September 2024, offtake contracts with its lessees' customers had a weighted average (by contracted capacity) term of 8.1 years. This was longer compared with the average term of 6.8 years as of end-June 2022. Out of the total contracted capacity, 24% expired in 2024, 39% will expire in 2025, and 37% will expire beyond 2025. According to management, contracts that expired in 2024 have been renewed. The management is also confident that contracts expiring in 2025 will also be renewed, as customers have been renewing in the last 3-4 years. Many of its lessees' customers have been clients of the lessees since 2017.

CREC, which operates the Solar Power Plant in Clark, sells the electricity generated to TransCo, a government owned and controlled corporation (GOCC), pursuant to the 20-year offtake contract commencing on March 16, 2016.

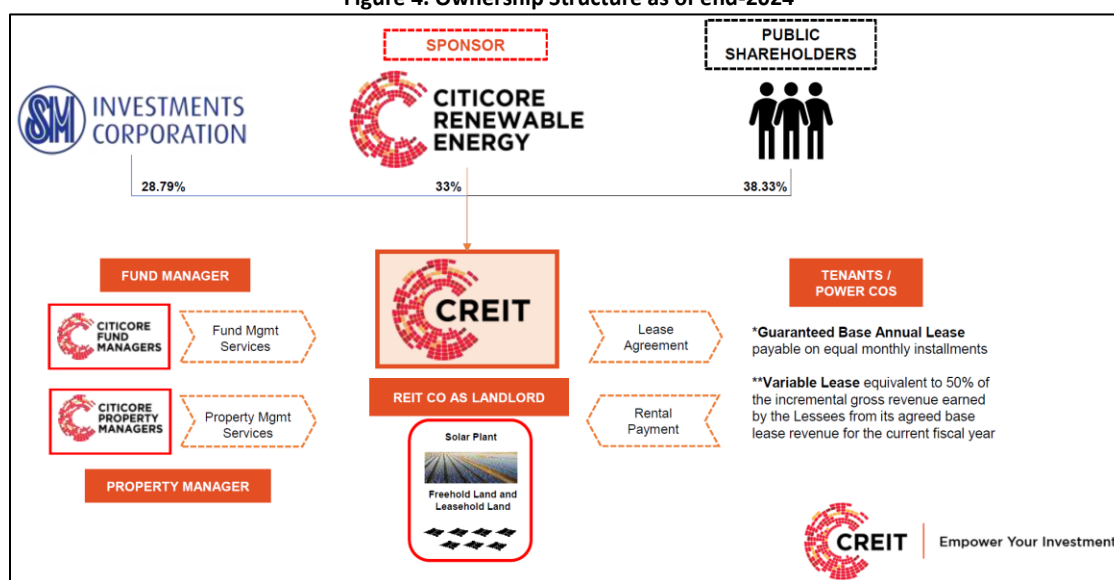
The Clark Solar Power Plant is a FIT-certified power plant, i.e., it has a guaranteed power purchase agreement with the government. The Bulacan Property and South Cotabato Property are likewise utilized by FIT-eligible solar power plants. Electricity generated by these solar plants is therefore contracted to TransCo.

On the other hand, the other lessees of the Company sell the electricity generated by their respective solar power plants to contestable customers in various industries, and any excess capacity to the Wholesale Electricity Spot Market (WESM). As of end-September 2024, 75% of the Company's total contracted capacity is under bilateral contracts, while the remaining 25% is under a FIT program with TransCo.

Ownership

As of end-December 2024, CREIT was 33% owned by the Sponsor (CREC), 29% by SMIC, and the rest or 38% are owned by the general public.

Figure 4. Ownership Structure as of end-2024



On March 15, 2024, the Company's sponsors, CREC and Citicore Tarlac 1, Inc., sold a total of 1,884,374,000 common shares of the Company at ₱2.65 per share to SMIC, raising approximately ₱5.0 billion. The proceeds from the sale would be used to fund further development of solar construction projects across different locations nationwide. As a result of the transaction, Citicore Tarlac 1 no longer owned shares in CREIT, while CREC's ownership dropped to 33%, from approximately 62% as of end-2023. Nonetheless, CREC continues to be the Company's largest shareholder as of end-September 2024. According to the Company, CREC will still be in charge of managing key business activities including day-to-day operations, hence, they believe that CREC still has the control over the Company.

As of end-2023, CREC had 39 direct and indirect subsidiaries, including Citicore Fund Managers, Inc. (CFMI) and Citicore Property Managers, Inc. (CPMI), which are CREIT's fund manager and property manager, respectively. From 2021 to 2023, CREC was able to double its installed capacity, having developed, operated, and maintained ten solar assets with a total gross installed capacity of 285.1 MW.

CREC's consolidated revenues in 2023 amounted to ₱3.7 billion, a solid 32.0% growth from the ₱2.8 billion recorded in 2022. Gross and operating margins, however, were lower at 35% and 29%, respectively, attributed to the increase in purchase of power and distribution charges. Nonetheless, net income grew in 2023, reaching ₱910 million. Net profit margin (NPM), however, was lower at 24.7%. Return on equity (ROE) was marginally up from 10.1% in 2022 to 10.6% in 2023, while return on assets (ROA) declined from 5.5% to 4.1%.

Earnings before interest and taxes (EBIT) interest coverage and current ratios remained more than satisfactory at 2.6x and 4.9x, respectively. Debt to equity (DE) ratio, however, increased from 0.7x as of end-2022 to 1.4x as of end-2023. Nonetheless, this was lower compared with CREC's DE ratio in 2021 which were hovering at more than 2.0x.

In 9M2024, CREC generated consolidated revenues amounting to ₱3.4 billion, a 29.2% increase from 9M2023. Net income in 9M2024 amounted to ₱755 million, a modest increase of 5.9% from ₱713 million recorded in 9M2023. NPM, on the other hand, declined from 27.2% to 22.3%. Such was attributed to higher finance costs as well as the decrease in GPS3's net income due to higher financing costs starting in the later part of 2023. EBIT interest coverage in 9M2024 climbed to 3.6x., from 2.6x in 9M2023.

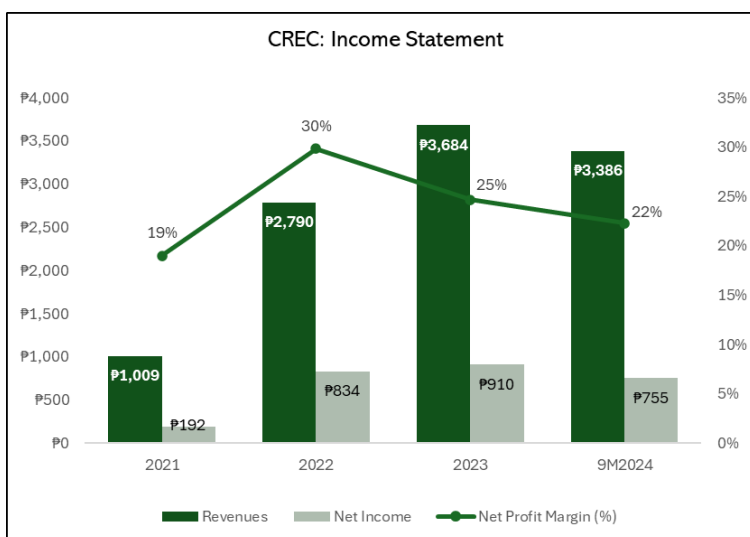


Figure 5. Sponsor's Income Statement

CREC's DE ratio improved to 1.0x as of end-September 2024, as the increase in equity outpaced the increase in total debt. On June 7, 2024, CREC successfully listed its shares with the PSE via the offer of 1,758,715,000 new common shares and over-allotment option of up to 178,572,000 shares held by CREC's parent company, Citicore Power, Inc. (CPI). All the shares offered by CREC and CPI were sold at an offer price of ₱2.70 per share. As a result of the IPO, CREC recognized an additional paid-up capital amounting to ₱4.44 billion in 2024. Moreover, CREC's sale of a total of 1,884,374,000 common shares in CREIT to SMIC also contributed to the increased equity. CREC's total equity amounted to ₱18.2 billion, while total debt amounted to ₱18.7 billion.

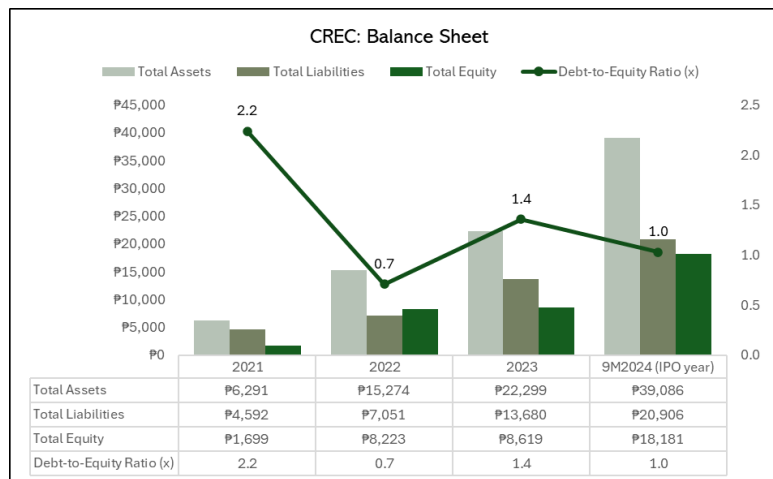


Figure 6. Sponsor's Balance Sheet

SMIC is one of the country's largest conglomerates, with businesses in retail, banking, and property. It also has portfolio investments in other sectors such as leisure properties, office buildings, commercial chains, logistics, food manufacturing, geothermal steam production and mining. As of report-writing date, SMIC has outstanding bonds amounting to ₱15.0 billion, all of which are rated PRS Aaa, with a Stable Outlook, by PhilRatings.

SMIC holds the country's largest solar energy portfolio, covering 33 hectares with 96,000 solar panels across Luzon and Visayas. SMIC's investment in CREIT aligns with the SM Group's sustainability agenda to achieve net zero by 2040. SM Supermalls' use of solar PV systems is a key initiative to reach this goal. SM Supermalls currently operates 44 malls with solar PV systems, generating a combined peak energy of 51.6 MW. The largest installation is in SM City Sta. Rosa.

In 9M2024, SMIC's consolidated revenues went up by 5.0% to ₱462.5 billion, while net income recorded a 9.0% increase to ₱60.9 billion. The sustained growth across SMIC's businesses, particularly in banking, contributed to the top-line and bottom-line growth. The growth in the business was likewise attributed to the macroeconomic environment, supported by easing inflation.

SMIC's property business had revenue and net income contributions of 20.0% and 27.0%, respectively, in 9M2024.

Management

CREIT's Board of Directors handles the overall management and supervision of the Company by setting its goals, strategies and policies, as well as regularly monitoring their implementation and effectiveness. Its executive officers and management team support the Board by preparing appropriate information and documents regarding the Company's business operations, financial condition and results of operations.

Edgar B. Saavedra has been the Chairman of the Board of CREIT since December 2018. He is also the Chairman of CREC and its parent company, CPI. Mr. Saavedra is one of the co-founders of Megawide where he serves as the Chairman, President and Chief Executive Officer (CEO). Mr. Saavedra has more than 20 years of engineering experience. He received his Bachelor's Degree in Engineering from De La Salle University. After obtaining his license as a Civil Engineer, he pursued special studies in Foundation Formworks in Germany, through the Philippine Institute of Civil Engineers.

Oliver Y. Tan has likewise served as the President and CEO of CREIT since December 2018. He is also a Director, Vice Chairman of the Finance Committee and Member of the Executive Committee and Audit and Compliance Committee of Megawide. Mr. Tan concurrently serves as a Director of various companies under the Citicore Group. Mr. Tan holds a degree in Business Administration from the Philippine School of Business Administration.

In September 2024, Mia Grace Paula S. Cortez, who served as the Chief Financial Officer (CFO) and Chief Risk Officer of CREIT and CREC, resigned due to personal reasons. Following her resignation, Michelle A. Magdato was appointed as the CFO and Chief Risk Officer, effective November 11, 2024. She was also appointed as the Company's Treasurer. Ms. Magdato is a Certified Public Accountant (CPA) and has been with Megawide since 2012, where she held various senior and managerial positions before transitioning to the Citicore Group in 2021. She concurrently holds the Deputy CFO position at CREC.

There were no other significant changes in CREIT, CREC, CFMI, and CPMI's management since the last rating review.

According to CREIT, its senior management team consists of experienced professionals with an average of over 10 years of accumulated experience in the Philippine real estate and renewable energy industries.

Significant Parties

A. Sponsors – CREC

The Sponsor of CREIT is CREC. CREC was registered with the SEC on May 15, 2018 with a primary purpose of engaging in power generation under the Renewable Energy Law.

CREC is reportedly one of the leading vertically integrated renewable energy generation companies in the Philippines. It is engaged in the development of renewable energy plants, including large-scale solar power plants. It is also in the business of renewable energy asset development, engineering, procurement and construction, as well as asset management. The last one involves the operation and maintenance of solar power generation facilities, for which CREC deploys cloud-based real-time supervisory control and data acquisition systems.

CREC is a wholly-owned subsidiary of CPI, which was incorporated in 2015 and is engaged in the development of renewable energy sources for power generation. CPI is in turn a direct subsidiary of CHII, the parent company of Megawide. With its vertically integrated construction business, Megawide has built a reputation as one of the top companies in the Philippine construction sector, with consolidated assets ₱P68.3 billion. Megawide's ₱9.0 billion outstanding bonds have issue credit ratings of PRS Aa, with a Stable Outlook

The Citicore Group boasts of a proven, albeit relatively short, track record in constructing, operating and maintaining solar power plants. As of end-2023, the Group was the second largest solar power generator in the Philippines with a total combined installed capacity of 285 MW_{DC}³. CREIT can leverage CREC's strong relationships with key industry players and affiliates, as well as its extensive experience in the renewable energy market.

B. Fund Manager - CFMI

CFMI, CREIT's Fund Manager, is a wholly-owned subsidiary of CREC. It was incorporated on July 21, 2021, and its license application was approved by the SEC on January 18, 2022. CFMI has general power of management over the assets of CREIT, pursuant to the Fund Management Agreement dated July 26, 2021.

³ <https://crec.com.ph/press-room/external-news/uks-mobilist-invests-in-renewable-energy-ipo-in-the-philippines>

The Fund Management Agreement, which is renewable every five years, defines the relationship between CREIT and CFMI. As Fund Manager, CFMI is responsible for implementing CREIT's investment strategies and managing the latter's assets and liabilities for the benefit of the Company's shareholders. CFMI will manage the assets of CREIT with a focus on generating steady revenues and, if appropriate, increasing the Company's assets over time to enhance returns for shareholders. CFMI will set the strategic direction of CREIT and will make recommendations to the Company's Board on the acquisition, divestment or enhancement of its assets in accordance with its investment strategy. CFMI will be the one to coordinate and carry out the research required for these purposes.

In exchange for its services, CFMI will receive equivalent to 0.5% of CREIT's guaranteed base lease, exclusive of value-added taxes. CFMI will also be entitled to: (a) an acquisition fee of 0.5% of the acquisition price of every acquisition made, exclusive of value-added taxes; and (b) a divestment fee of 0.5% of the sales price for every property divested by it on behalf of CREIT, exclusive of value-added taxes. The total amount of fees paid to CFMI shall not exceed 1% of the Net Asset Value of the properties under its management.

Management

Leonel G. Coronel is the Chairman of CFMI's Board of Directors, as well as an Independent Director of both CFMI and CREIT. Mr. Coronel is a seasoned banker with more than 50 years of experience in the banking industry. He is currently the Vice Chairman of the Philippine National Bank and has held directorship positions in various financial institutions such as DBP Daiwa Securities and RBB Microfinance Foundations. He was also a Director in other companies such as Software Ventures International Corporation, Philippine Business for Social Progress and Bankers Association of the Philippines. Furthermore, he was an Independent Director of Megawide from 2011 to 2020. Mr. Coronel holds a Bachelor of Arts, Major in Economics degree from Ateneo de Manila University.

Christopher A. Nadayag is the President of CFMI. Mr. Nadayag has been engaged in finance and accounting for 15 years. He has been the Treasurer and Deputy Chief Financial Officer (CFO) of Megawide since 2018. He also served as the Assistant Vice President (AVP) for Controllershship of CPI from 2017 to 2018. From 2006 to 2009, he was a Senior Auditor in Sycip Gorres Velayo & Co. Mr. Nadayag also has five years of experience in real estate and property development, serving as a Treasurer, Director and Chairman of the Audit Committee of PH1 World Developers, Inc. (formerly Myspace, Inc.). He concurrently holds directorship positions in other Citicore Group companies including CHII. Mr. Nadayag has a Bachelor of Science in Accounting degree from San Sebastian College.

The directors and executive officers of CFMI have an average of 16 years of experience in the areas of fund management, corporate finance, other relevant finance-related functions, property management and real estate development.

C. Property Manager - CPMI

CPMI, CREIT's Property Manager, was incorporated on August 4, 2021. It is likewise a wholly-owned subsidiary of CREC. Pursuant to the Property Management Agreement dated August 9, 2021 and which is renewable every five years, CPMI will handle the day-to-day property management functions of CREIT's properties. These functions include managing the execution of new leases and renewing or replacing expiring leases. CPMI will also oversee: (a) CREC's operation and maintenance of the Clark Solar Plant; (b) maintenance of the land premises underlying the properties; (c) formulation and implementation of policies and programs in respect of solar plant facility management, maintenance and optimization; (d) securing and administration of routine management services, including security control, fire precautions, communication systems and emergency management; and (e) plant operations maintenance. As Property

Manager, CPMI is tasked with protecting and enhancing the assets of CREIT to deliver the desired revenues.

As stated in the Property Management Agreement, CPMI will receive an annual management fee equivalent to 1.5% of CREIT's guaranteed base lease. The management fee paid to CPMI, however, shall not exceed 1% of the Net Asset Value of the properties being managed.

Management

Atty. Jose M. Layug, Jr. is the Chairman of the Board of Directors of CPMI. He is an Independent Director of both CPMI and CREIT. Atty. Layug has been in the energy sector for more than 10 years, starting in 2010 when he joined the DOE as Undersecretary. He then served as the Chairman of the DOE's National Renewable Energy Board from 2016 to 2018. Atty. Layug has been the President of the Developers of Renewable Energy for Advancement, Inc. since 2019. He has also been a Senior Partner at Puno and Puno Law Offices since 2013 and a Dean at the University of Makati School of Law since 2018. Atty. Layug has a Masters of Law from Cornell University, as well as a Bachelor of Laws and a Bachelor of Science Degree in Business Economics from the University of the Philippines.

Ms. Abigail Joan R. Cosico is the President of CPMI. She is also a Director and Treasurer of CFMI. In addition, she has been the Head of Investor Relations for Megawide and CPI since 2016. Before joining Megawide, Ms. Cosico spent 15 years with the JG Summit Holdings Group, of which 10 years was with Robinsons Land Corporation. She was also with the HSBC Trust Division from 1997 to 1999, gathering two years of experience in fixed income fund management. Ms. Cosico holds a Bachelor of Science in Management Degree from the Ateneo de Manila University. She also has an MBA in Business Management, Major in Finance from the Asian Institute of Management.

Similar to that of CFMI, much of the leadership of CPMI have gained valuable experience in previous roles throughout the Citicore Group and in other companies in the real estate and renewable energy industries. The directors and executive officers of CPMI have an average of 16 years and an accumulated 130 years of experience in commercial real estate operations, leasing and property portfolio management.

D. Appraiser – Cuervo Appraisers, Inc. (CAI)

The property valuer/appraiser is an independent party responsible for the preparation of the valuation report of the REIT's properties. CAI, CREIT's real estate appraiser, was registered with the SEC on July 11, 1980. It has been duly accredited by the SEC on January 5, 2021, with its accreditation valid until January 4, 2026. It has likewise been duly accredited by the PSE on January 5, 2021, with its accreditation valid until January 4, 2026. CAI has been in the appraisal business for the past 41 years. Some of its clients include Security Bank Corporation, Malayan Insurance Co., Inc., Manila Water Company, Inc., Keppel Philippines Marine, Inc., Anchor Properties Corporation, San Miguel Foods, Inc., Ayala Land, Inc., Philippine Veterans Bank, Petron Corporation, Sycip Gorres Velayo & Co. and the National Grid Corporation of the Philippines.

Environmental, Social, and Governance (ESG) Initiatives

CREIT's revenues and investments are derived from solar power plants. Such demonstrates CREIT's commitment to a low-carbon and climate resilient future.

CREIT, being part of the Citicore Group, adopts the Group's Green Financing Framework. The Framework provides guidelines in allocating proceeds from green bond/loan issuances to projects that are expected to contribute to the increased use of renewable energy sources, improve forest conservation, facilitate sustainable water and wastewater management.

In 2023, the Citicore Group pioneered the AgroSolar concept, which integrates the use of land for solar energy production and agricultural or crop production. With this initiative, the Company works with farmers from local communities and provides them with additional income. The Company harvested more than 12,735 kilograms of high value crops, including local napa cabbages (petchay), green and red chilis, and eggplants. The Clark Solar Power Plant, Armenia Property, Dalayap Property, and Bulacan Property currently implement this concept. CREIT intends to roll out the AgroSolar initiative to all its new assets, further extending its reach to communities and maximizing the benefits of its land as a resource.

The proceeds from the initiative are used to fund Citicore Foundation's other programs. The Citicore Foundation has projects ranging from community development, training-to-employment programs, educational assistance and environmental protection and conservation efforts.

The Green Financing Framework eligibility criteria also ensures that CREIT will prioritize renewable energy projects and properties that could contribute to the country's goal of reducing carbon emissions. Based on the Company's estimates, the solar plants operating on CREIT leased properties were able to reduce approximately 231,720 tons of carbon dioxide (CO₂) annually, or an aggregate of 7,000,000 tons of CO₂, for the entire design life of the power plants.

To facilitate sustainable water and wastewater management, the Company launched the EcoShed Program. The program aims to maximize end-of-life, defective, or deformed panels. These panels are combined with other materials to produce beneficial infrastructure, such as waiting sheds for the host communities.

The Group has also implemented other ESG programs including Brigada-Eskwela, Bantay Basa, and Usbong Scholarships. The Group likewise conducts training-to-employment programs to develop the skills and competencies among trainees from local communities.

CREIT received the highest "dark green" rating in a sustainability-linked assessment carried out by Norwegian firm CICERO Shades of Green (CICERO Green).⁴ CREIT is the first Southeast Asian company to be graded as dark green in a company assessment.⁵

ECONOMY AND INDUSTRY

Economy

2024

The country's Gross Domestic Product (GDP) grew by 5.2% in the fourth quarter of 2024 (4Q2024), unchanged from the previous quarter. The expected boost in economic activity in 4Q2024 due to the holiday season was dampened by the impact of destructive storms and other climate-related disruptions. Such brought the full-year 2024 GDP growth to 5.6%, lower than the government's revised full-year target of 6.0%-6.5%. Nonetheless, the Philippines remained one of the fastest-growing economies in the Asia Pacific region, trailing Vietnam (7.5%) and China (5.4%).⁶

The Industry and Services sectors grew by 5.6% and 6.7%, respectively, in 2024. In contrast, Agriculture, Forestry and Fisheries contracted by 1.6%, still attributed to the record-breaking typhoon season – six typhoons struck the country from the end of October until the middle of November.

⁴ CICERO Green is a subsidiary of climate research institute CICERO, which is reportedly Norway's foremost institute for interdisciplinary climate research. "Dark green" is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future.

⁵ <https://mb.com.ph/2022/01/05/citicore-reit-firm-scores-highest-rating-in-sustainability-assessment/>

⁶ <https://www.philstar.com/headlines/2025/01/30/2417970/philippines-ends-2024-56-economic-growth-missing-govt-target>

Household final consumption expenditure (HFCE) expanded by 4.8% in 2024, slower compared with the 5.6% growth recorded in 2023. Government final consumption expenditure (GFCE), on the other hand, grew by 7.2%, notably higher than the marginal 0.6% growth in 2023.

Outlook

In December 2024, the Development Budget Coordination Committee (DBCC) revised the GDP growth target for 2025 to 2028, widening to 6.0%-8.0% from the previous range of 6.5%-7.5% for 2025 and 6.5%-8.0% in 2026 to 2028. Despite the slower economic growth in 2024, the Philippine government kept the 2025 GDP target at 6.0%-8.0%.

In its recently-released World Economic Outlook, the International Monetary Fund (IMF) said that domestic demand, particularly consumption and investment, will drive the country's economic growth for 2025 to 2026. For the Philippines, the IMF retained its economic growth projection of 6.1% for 2025 and forecasted 6.3% for 2026. Consumption growth will be supported by lower food prices and gradual monetary policy easing. Investment growth is also expected to pick up on the back of sustained public investments push, gradually declining borrowing costs, and acceleration in the implementation of public-private partnership (PPP) projects and foreign direct investments (FDI), following recent legislative reforms.⁷

Asean Macroeconomic Research Office (AMRO) and the World Bank's GDP forecasts for 2025 were likewise unchanged at 6.3% and 6.1%, respectively.

Inflation and Interest Rates

Headline inflation rose to 2.9% in December 2024, up from 2.5% in November 2024. The uptick was attributed to price increase of non-food in December, primarily from higher inflation in housing, water, electricity, gas, other fuels, and transport. Nonetheless, the December 2024 headline inflation was still lower than the 3.9% recorded in December 2023. The Philippines' average inflation rate for 2024 was 3.2%, well within the government's target of 2%–4%. Such was also lower compared with the 2023 average annual inflation of 6.0%. In its December 2024 meeting, the DBCC kept its 2%–4% inflation target until 2028.⁸ The IMF projects headline inflation to settle at 2.8% in 2025 and 3% in 2026, both well within the government's target range.⁹

In August 2024, the Monetary Board reduced the policy rate by 25 basis points (bps) to 6.25%, marking the first rate cut since November 2020. The Bangko Sentral ng Pilipinas (BSP) continued to lower interest rates with a 25 bps cut to 6.0% in October, followed by another 25 bps reduction in December. Benchmark Interest rate was 5.75% as of end-2024.

Industry¹⁰

As defined in the National Renewable Energy Program (NREP) 2020-2040, the Philippine government aims to increase the share of renewable energy in power generation to 35% in 2030 and 50% in 2040. To achieve this, the country will need to install another 102 GW of electricity capacity by 2040, including: 27 GW solar, 17 GW wind, 6 GW hydro, 2.5 GW geothermal, and 364 MW biomass.¹¹ To further reach this goal, the government banned the construction of coal-fired power generation facility projects in 2020.

⁷ <https://www.pna.gov.ph/articles/1242115>

⁸ <https://www.rappler.com/business/inflation-rate-philippines-december-2024/>

⁹ <https://www.pna.gov.ph/articles/1242115>

¹⁰ https://www.doe.gov.ph/sites/default/files/pdf/energy_statistics/2021_power_statistics_01_summary.pdf

¹¹ <https://www.philstar.com/business/2022/10/21/2218102/philippines-poised-next-success-story-renewable-energy>

Based on the issued Moratorium on New Coal Power Plants in 2020, the country will no longer accept new proposals for coal-based power projects. The move is part of the country's transition from fuel-based technology utilization to cleaner energy sources to ensure more sustainable growth, moving forward. Existing coal-fired power plants, committed power projects, and indicative power projects with substantial permitting accomplishments, however, were still allowed to expand their facilities. The progression of these projects is expected to contribute to the continued expansion of coal generation in the years ahead, and therefore coal is projected to keep its position as the primary power source until 2031.¹²

As of end-2023, coal remained the dominant power source in the country, accounting for 63% of the total generation mix. Such was an increase from the 60% and 58% shares in 2022 and 2021, respectively. Renewable energy's total contribution, on the other hand was flat at 22%.

Generation and Consumption

Total electricity generation and consumption reached 118,004 GWh by end-2023, a 5.8% increase compared to 111,517 GWh in 2022. The residential segment continued to be the main driver of electricity consumption, accounting for 31% of the total consumption. Such was followed by the industrial and commercial segments, with 25% and 22% shares, respectively.

Peak Demand

The country's total peak demand grew by 4.4% YoY to 17,331 MW in 2023, higher than the peak demand of 16,596 MW in 2022. The Luzon grid continued to account for most of the demand, comprising 72% of total. Visayas and Mindanao had shares of 14% and 13%, respectively. These shares were relatively unchanged compared with the previous year.

Installed and Dependable Capacity¹³

The country's supply base was relatively unchanged in 2023. The total installed capacity was flat at 28,292 MW, with only 34 MW added in the supply base, from 28,258 MW in 2022. The 153 MW additions from renewable energy was partially offset by the 97 MW and 22 MW decline from oil-based and coal, respectively. Of the 153 MW additions in renewable energy, 126 MW was from solar and 54 MW was from hydro. Installed capacities from geothermal was unchanged, while biomass recorded a decline of 26 MW.

While the total installed capacity was relatively unchanged, dependable capacity in 2023 grew by 4.5% from 23,598 MW in 2022 to 24,653 MW. The growth was driven by the 1,200 MW increase in natural gas, from 2,081 MW in 2022 to 3,281 MW in 2023. Dependable capacity from renewable energy also increased to 7,242 MW, from 7,151 MW in 2023. Dependable capacity from coal and oil, on the other hand, declined by 169 MW and 65 MW, respectively. In 2023, dependable capacity from coal was 11,335 MW, while oil-based was at 2,795 MW.

Coal-fired power plants still accounted for the bulk of total installed capacity with a share of 49%, followed by renewable energy sources which contributed 30%. Power supply from renewable energy sources predominantly came from hydropower plants, accounting for 45% of the installed capacity from renewable energy technologies. Geothermal came in second at 23%, followed by solar at 20%.

¹² <https://www.philstar.com/business/2022/04/07/2172922/philippines-ramp-clean-power-coal-remain-king-fitch-unit>

¹³ Installed Capacity refers to the amount of power a facility can generate in ideal conditions. Dependable Capacity, on the other hand, is the actual reliable output that can be expected considering other factors such as maintenance and downtime, load factors, environmental conditions, etc.

Private Sector Initiated Power Projects

As of end-2023, capacities from committed power projects amounted to 15,890 MW, 56% higher compared with the committed power projects as of end-2022. The committed capacity from coal continued to decline in 2023, from 3,685 MW to 2,405 MW. Such accounted for 15% of the total committed capacity, lower than the 36% share as of end-2022. On the other hand, committed capacities from renewable energy jumped from 2,983 MW (29% share) in 2022 to 7,233 MW (46% share) in 2023. This was primarily brought by the increase in committed capacities from solar, which grew from 2,317 MW in 2022 to 5,052 MW in 2023. Committed capacities from natural gas likewise jumped from 3,500 MW in 2022 (34% share) to 6,070 in 2023 (38% share).

Committed capacities from Energy Storage System (ESS), on the other hand, decreased from 2,080 MW in 2022 to 1,984 MW in 2023. Nonetheless, this was a significant improvement from the 49 MW committed capacities since the framework for ESS integration in the electricity supply chain was implemented in 2019.

As of end-November 2024, total committed projects amounted to 17,471 MW. The share of coal further dropped to 10.6%, natural gas recorded a slight decline to 34.7%, while renewable energy further grew to 53.6%.

Capacities from indicative power projects, which pertain to those in the process of securing regulatory permits or closing a financing contract, stood at 69,455 MW as of end-2023. This was 27% higher than the indicative power in 2022. Around 85% of indicative capacities are expected to come from renewable energy sources, an increase from the 80% share in 2022 and 50% in 2019.

As of end-November 2024, indicative power projects amounted to 97,236 MW. Majority or 90.9% of the indicative capacities are still expected to come from renewable energy sources.

Solar Power

The Philippines, due to its location near the equator, receives significant solar irradiance throughout the year.¹⁴ Such makes the country ideal for solar and power collection and generation. The country's high irradiance levels also make solar PV systems an appealing and viable option for solar power generation. On average, the Philippines receives approximately 4.0 kWh/m² of solar radiation per day, making it one of the sunniest regions in the world.¹⁵

The country is expected to build around 35 GW of new capacity from 2024 to 2035, of which around 18 GWac is projected to be utility scale solar. Solar is forecasted to account for approximately 17% of the generation mix in Luzon by 2035.

Mindanao Power Situation and the Mindanao-Visayas Interconnection Project (MVIP)

MVIP, a project initiated by the National Grid Corporation of the Philippines (NGCP), is a ₱51.3 billion project that allows the transmission of electricity generated from power plants located in Mindanao to power grids in Visayas and Luzon and vice versa. This development is seen to unlock socio-economic benefits between Visayas and Mindanao. MVIP has a transfer capacity of 450 MW and features 184 circuit-kilometer (ckm) High-Voltage Direct Current (HVDC) submarine transmission lines linking the power grids of Mindanao and Visayas via the Santander-Dapitan Transmission Line. It has the potential to be expanded, accommodating up to 900MW. MVIP was inaugurated and began full commercial operations

¹⁴ Solar irradiance is the amount of solar radiation received per unit area at the Earth's surface.

¹⁵ https://www.mspectrum.com.ph/potential_philippine_solar_energy_industry_for_business

in January 2024. Other developments in the region include the implementation of the Retail Competition and Open Access (RCOA) and Green Energy Option Program (GEOP) in March 2024.

Mindanao targets to achieve a 50% renewable energy share in its energy mix by 2030. According to Energy Regulatory Commission (ERC) Chairperson Monalisa C. Dimalanta, Mindanao had already surpassed the national target of 35%, with its renewable energy capacity at 37%. Such was a notable improvement from its 28% share in 2019. Jose Raul Sanial, President of the Association of Mindanao Rural Electric Cooperatives, is optimistic that a 50% renewable energy share can be achieved by 2030. Such, however, will still depend on economic growth and investments in the region.

In January 2023, the WESM in Mindanao officially started commercial operations. Initially, only the Luzon and Visayas Grids were integrated into WESM. With the establishment of WESM in Mindanao, approximately 2,000 MW of uncontracted capacities can be sold to the WESM and be dispatched at any given time. The said mechanism is expected to encourage generators to compete and sell their electricity at a lower price, and subsequently boost investments and economic activity in the region.

Green Energy Auction Program (GEAP)

A renewable energy auction is where energy companies bid against each other for contracts to generate energy. The DOE issued a circular on the guidelines governing GEAP to facilitate the selection of eligible renewable energy plants through a competitive process. Under the GEAP guidelines, the ERC will set a Green Energy Auction Reserve Price or “GEAR Price”, which will be the maximum price offer in PHP/kWh.¹⁶

The third round of GEA (GEA-3) is expected to start on February 11, 2025. The DOE will be offering 4,250 MW for pumped-storage hydropower projects, 300 MW for impounding hydropower and 100 MW for geothermal technologies.

FINANCIAL REVIEW

Analyst’s Note: PhilRatings’ calculation for certain financial metrics may differ from that of the Company.

Profitability

2022 vs 2023

CREIT sustained strong revenue growth in 2023. The Company recorded a 30.8% increase in its topline, bringing total revenues to ₱1.8 billion. The increase in revenues for the year was on account of the new parcels of land acquired by the Company from the use of proceeds of the green bond offering in February 2023. These parcels of land were leased out to new projects that are under construction. Direct costs also increased, albeit at a slower rate, by 12.9% to ₱103.0 million, still attributed to the property and fund management fee brought about by the increase in fixed or contractual revenue.

Operating expenses further declined in 2023, recording an 18.9% decrease to ₱6.8 million. The decline was attributed to the one-time expenses incurred by the Company in 2022 in relation to its IPO. GPM and OPM, therefore, inched up to 94.3% and 93.9%, respectively, in 2023.

Finance costs, on the other hand, jumped to ₱309.4 million in 2023, nearly 18x higher than the previous years’ ₱17.6 million. The increase in finance costs was in relation to the coupon payments and the accrual of the Company’s green bond issuance.

Notwithstanding the increased level of finance costs, CREIT’s bottom line grew by 11.6% to ₱1.4 billion in 2023. NPM, however, dropped to 77.8% from 91.1% in 2022. ROAA likewise declined to 18.8%.

¹⁶ https://www.doe.gov.ph/sites/default/files/pdf/renewable_energy/geap2-approved-tor_annex-a17-04-2023-183940.pdf

9M2024

The Company's total revenues amounted to ₱1.4 billion in 9M2024, up by 5.5% from the ₱1.3 billion recorded in the same period in 2023. The modest increase was driven by the parcels of land acquired in 2023 which have full impact on revenue recognition in 2024. Direct costs recorded a marginal increase from ₱77.0 million in 9M2023 to ₱77.6 million in 9M2024. Contrarily, operating expenses decreased from ₱6.9 million to ₱6.2 million. The minimal decrease in operating expenses was on account of the timing of the availed third-party services. The Company's GPM and OPM inched up from 94.1% and 93.6% in 9M2023 to 94.4% and 93.9% in 9M2024, respectively.

Finance costs in 9M2024 amounted to ₱259.2 million, higher than the ₱222.8 million in 9M2023. The increase in finance costs was brought by the higher interest on the Company's green bonds.

In 9M2024, CREIT's net income was relatively unchanged at ₱1.04 billion, a marginal 2.1% increase from ₱1.01 billion in 9M2023. NPM level remained high at 75.3%, albeit slightly lower due to the higher finance costs. NPM in 9M2023 was 77.8%. ROAA was likewise lower at 14.2%, compared with the 18.8% in 9M2023.

CREIT's interest coverage ratio remained more than satisfactory throughout 2022 until 9M2024. Such reached 76.6x in 2022 as the Company was debt free during that year. Interest coverage ratio remained ample, albeit lower, at 5.2x in 9M2024.

Projections

CREIT anticipates sustained growth in its net income going forward, although recorded revenues are seen to be impacted by the adoption of Philippine Financial Reporting Standards (PFRS) 16, which defines the straight-line method for lease revenue recognition. NPM will also remain within historical levels over the projected period.

Cash Flow and Liquidity

2023

While operating income before working capital changes grew to ₱1.8 billion, net cash from operations remained steady at ₱1.3 billion in 2023, primarily due to the higher increase in prepayments and other current assets.

In 2023, the Company also generated additional cash from the issuance of green bonds. Proceeds from the issued bonds were used to purchase parcels of land totaling 512 hectares in Batangas, Pampanga, and Pangasinan. The acquisition of investment properties also remained CREIT's primary investing activity in 2023, with a total expenditure of ₱4.3 billion, 70.2% higher compared with 2022. Aside from the purchase of land, CREIT's cash was used to pay dividends to its shareholders. The Company declared and paid ₱1.3 billion worth of dividends in 2023.

Given the foregoing, cash and cash equivalents expanded to ₱616.9 million as of end-2023. In 2023, prepayments and other current assets increased by 458% to ₱201.5 million, from ₱36.1 million in 2022. This was attributed to the recognition of input vat in relation to the land conversion costs of the newly acquired parcels of land and the increase in creditable withholding tax certificates received from the lessees during lease collection.

Current assets as of end-2023 stood at ₱882.9 million, a 33.8% increase from the previous year. On the other hand, current liabilities grew at a much slower rate of 9.9%, from ₱387.3 million to ₱425.6 million. Current ratio remained more than sufficient, increasing to 2.1x as of end-2023.

9M2024

CREIT continued to generate strong cash flow from its operations in 9M2024. Net cash from operations increased by 27.6%, from ₱988.6 million in 9M2023 to ₱1.3 billion in 9M2024, due to the lower increase in prepayments and other current assets. In 9M2024, CREIT's cash needs were primarily funded by its cash flow from operations and cash reserves. The Company had no substantial investing activity in 9M2024. Moreover, CREIT's financial obligations, primarily dividend and interest payments, were also funded by the Company's internally generated cash.

CREIT ended September 2024 with a cash balance of ₱643.1 million, up by 4.3% from ₱616.7 million as of end-2023. Current assets also expanded by 5.8% to ₱933.9 million, on account of the increased cash level and the increase in prepayments and other assets. Current liabilities, however, increased at a slightly higher rate of 8.0% to ₱459.6 million. As a result, CREIT's current ratio marginally declined, albeit remained more than adequate, to 2.0x as of end-September 2024.

Projections

Cash flow from operations is expected to remain robust over the projected period. Funds will also be augmented by cash from financing activities. Liquidity levels are seen to remain more than ample over the projected period.

Capital Structure

2023

In 2023, CREIT declared total dividends amounting to ₱1.28 billion, such was equivalent to 91.8% of the Company's net income for the year (106% of distributable income¹⁷). Retained earnings increased by 28.1% to ₱525.5 million, from ₱410.3 million as of end-2022. As a result, CREIT's total equity grew further to ₱4.5 billion as of end-2023.

On February 10, 2023, CREIT issued five-year green bonds amounting to ₱4.5 billion, with a coupon rate of 7.05%. As such, total liabilities grew by 593.1% to ₱5.3 billion. The issued bonds were CREIT's sole interest-bearing debt, as of end-2023.

As a result, liabilities to equity ratio jumped to 1.2x, while solvency ratio declined, albeit remained more than adequate, to 1.9x. With the bond issuance in 2023, CREIT's DE ratio stood at 1.0x as of end-2023.

9M2024

CREIT did not incur any additional interest-bearing debt in 9M2024. The Company's total debt, therefore, remained at ₱4.5 billion.

In 9M2024, CREIT declared dividends amounting to ₱641.5 million, representing 106% of the distributable income. Retained earnings stood at ₱568.9 million, 8.3% higher compared with end-2023 level. Total equity remained relatively unchanged at ₱4.5 billion. Similarly, liabilities to equity ratio and DE ratio were unchanged at 1.2x and 1.0x, respectively, as of end-September 2024.

With the investment grade rating (PRS Aa plus) given to the Company, CREIT is allowed to increase its leverage limit from 35% of the deposited property to a maximum of 70%. As of end-September 2024, CREIT's properties were valued at ₱20.8 billion. With total borrowings and deferred payments amounting to ₱5.3 billion, the Company is allowed to have additional borrowings amounting to ₱9.2 billion.

¹⁷ Distributable Income = Net income minus Straight-line rent adjustment

Projections

CREIT's leverage position is seen to remain manageable and supported by the plowback of earnings.

Financial Flexibility

CREIT is a publicly listed company. The Company's shareholders, CREC and SMIC, are likewise listed in the PSE. CREIT, CREC, and SMIC had market capitalizations of ₱20.9 billion, ₱31.7 billion, and ₱971.5 billion respectively, as of January 30, 2025.