PhilRatings
PHILIPPINE RATING SERVICES CORPORATION

CREDIT RATING REPORT

MRT III FUNDING CORPORATION LIMITED

Date: November 13, 2024
Analyst: Joan Grace P. Bual

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

Tel. (632)812 3210
Fax (632)812 3234

MONITORING OF ISSUE CREDIT RATING

Type	Tranche	Face Amount (US$ MM)	Outstanding Balance (US$ MM)*	Expected Maturity	Assigned Rating and Outlook
Asset-Backed Securities (ABS)	3	1,224.13	39.81	February 2025	PRS Aa minus, Stable

*As of October 2024, with the next monthly payment due on November 7, 2024.

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 "minus" further qualifies the 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 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 twelve months.

MRT III Funding Corporation Limited (MRT III) is the issuer of the third tranche of Asset-Backed Notes, with an original principal amount of $1.2 billion. The notes are backed by dividends from Metro Rail Transit Corporation (MRTC), arising from the Equity Rental Payments (ERP) of the Department of Transportation and Communications (DOTC)[1] to MRTC under the build-lease-transfer (BLT) agreement of the Light Rail Transit System, Phase 1 (LRTS Phase 1 or MRT-3) in Metro Manila. Hence, the ERP remittance under the BLT agreement is the direct obligation of the government, which acknowledged that the obligation of the DOTC under the agreement carries the full faith and credit of the Republic of the Philippines (ROP). The revenues generated from the MRT-3 pay for the ERP obligation of the government to MRTC.

Rating Rationale

As of October 29, 2024, the monthly payments to noteholders continue to be made as scheduled, based on PhilRatings' checking and the representation of particular parties.

The monthly ERP remittance expected from the government has faced some irregularities in the history of the term of the Notes. From 2005 to 2007, the issue rating for the Notes underwent a series of downgrades as the then irregular remittance of the ERP by the government raised significant doubts on the timely payment of maturing Note tranches.

[1] The DOTC was split into two agencies in 2016: the Department of Transportation (DOTr) and Department of Informal and Communications Technology (DICT).

Despite the inconsistent ERP remittances, however, the government managed to make full and prompt payment on the Note tranches as these became due. Moreover, since the regular monitoring of the Notes in 2010, there was a noted consistent pattern of ERPs made by the government. These positive developments were major rating considerations in the subsequent issue ratings that were assigned to the Notes.

While there are concerns that ERP remittances may be affected by the weaker than expected fares from the MRT III for this year, PhilRatings believes that it is highly likely that prompt debt servicing of the Notes will continue moving forward. PhilRatings notes the continued prompt servicing of the Notes even during the train system's zero ridership at the height of the COVID-19 pandemic.

PhilRatings also notes that government has identified the development of infrastructure for physical connectivity as one of its priorities. In line with this, the rehabilitation and maintenance of the MRT III train system continues as one of the government's five big ticket railway projects.

UPDATES[1]

1. The DOTr shared that revenues might not be able to cover its financial obligation of P3.4 billion to MRTC during the House Appropriations Committee meeting on August 28, 2024. DOTr Assistant Secretary Aquino said the P3.4 billion consisted of P2.75 billion for equity rental, staffing, and administrative costs.

   In the first eight months of 2024, fare revenues amounted to P1.6 billion, while the projected fare revenue for the remaining four months of the year is around P800 million (for a total of P2.4 billion). There was also an estimated non-rail revenue of P36 million for the rest of 2024. Considering the estimated total revenues in 2024, the government will be short by about P1.0 billion to cover its obligations.

   Assistant Secretary Aquino further shared that the DOTr initially requested a budget of P3.1 billion for MRT-3 but the National Expenditure Program only approved P1.07 billion. The House Appropriations Committee will continue its deliberations on how it will allocate funds to pay for the balance.

   In relation to such, a petition for a rate hike for the MRT-3 was filed in 2023 and is being reviewed by the Rail Regulatory Unit of the DOTr. The last fare adjustment for the MRT-3 was done in 2015. The proposed increase amounts to an additional P2.29 in boarding fare, or a 21-centavo increase per kilometer (km). The evaluation of the filed petition is expected to be finished within the year.

2. The full-year ridership for the MRT-3 in 2023 went up by 31.2% to 129,030,158 passengers, from 98,330,683 passengers in 2022. The average daily ridership also increased by 30.8% at 357,198 passengers in 2023 from 273,141 in 2022. The significant increase was attributed to the enhanced reliability and maintenance program of the train line.

	2020	2021	2022	2023	CAGR
Annual ridership	31,887,174	45,691,914	98,330,683	129,030,158	59.4%
Average daily ridership	122,173	127,276	273,141	357,198	43.0%

The complete rehabilitation of the MRT-3 train cars was completed in February 2023, as the final set of 72 train cars sent for maintenance and repair was received. The project was signed in 2019 under a loan agreement between the Philippine and Japanese government. The rehabilitation of the train line reduced the waiting time to four minutes from the previous interval of 9.5 minutes, and also increased the speed of train cars to 60 kilometers per hour (kph), from 30 kph. This reduced travel time from North Avenue Station to Taft Avenue Station to 45 minutes from 1.25 hours.

The contract for the funding of Phase 2 of the rehabilitation of MRT-3 was signed in May 2023. Following the funding agreement, the DOTr and Sumitomo Corporation (the original designer, builder, and initial maintenance provider of MRT-3) signed a 26 month-extension contract, mainly for the expansion of the capacity of the rail lines. This phase of the project, expected to be completed in July 2025, will equip the tracks for four-car trains (from the existing three-car) vehicles and which in turn, will increase the capacity of the line from 350,000 passengers to more than 500,000 passengers.

3. The newly-appointed General Manager of the MRT-3 Division of the DOTr, Engr. Oscar B. Bongon, was sworn into office on September 10, 2024. DOTr Secretary Jaime Bautista administered the oath taking ceremony of Mr. Bongon and the new general manager for the Philippine National Railways (PNR), Mr. Deovanni Miranda.

   Mr. Bongon was the Director for Operations of the MRT-3 before his appointment as General Manager. He is an electrical engineer by profession, and started working for the railway service in 1997 as part of the core DOTC MRT-3 Project Management Office. He became Chief of the Maintenance Supervisory, Safety and Security division of the MRT-3 in the 2000s and rose through the ranks to become Head of the Transport, Station and Engineering divisions. Mr. Bongon was appointed as Officer-in-Charge (OIC) of the Safety and Security Unit from 2022, and concurrently served as Director for Operations.

   DOTr Assistant Secretary for Railways Jorjette B. Aquino assumed the role of OIC for MRT-3 in March 2023 in her concurrent capacity as Assistant Secretary. She led the ceremonial turnover of the leadership position to Mr. Bongon on September 23, 2024.

4. In her speech at the PhilRailway Tech Conference in June 2024, DOTr Assistant Secretary Aquino claimed that the Philippines is about to enter the “railway renaissance” period. She noted that the significant allocation for railways from the “Build, Better, More” Program of the Marcos government shows the current administration’s commitment to revive the Philippines’ railway network. According to the DOTr, 23 out of the 69 infrastructure projects of the DOTr aims to improve and expand the country’s railways.

   There are five big-ticket railway projects that are currently under construction. These are: North-South Commuter Railway System (NSCR); Metro Manila Subway Project (Phase 1); LRT Line 1 Cavite Extension Project; MRT Line 7; and MRT-3 Rehabilitation and Maintenance. Another five railway projects are in the pre-construction stage while 13 are in the development stage.

   By 2030, the total length of the country’s railways would add up to 1,233.08 km. Such will be significantly longer by 356.4% from the country’s 270.16 km of railways to date. The completion of the mentioned projects will not only improve connectivity and accessibility for the public, but also spur more opportunities for economic growth for country.

5. The DOTr aims to privatize MRT-3 before the BLT contract with MRTC expires on July 20, 2025. The department aims to conduct an open bidding for the operation and maintenance contract of MRT-3 in the first quarter of 2025, hoping to continue the operation of the MRT-3 via PPP. The feasibility study in relation to the solicited PPP contract is being conducted by the Asian Development Bank (ADB), the results of which are expected by the end of the year, at the earliest.

   Some of the major players that showed interest in the concession included San Miguel Corporation (SMC) and Metro Pacific Investments Corporation (MPIC), as well as some Japanese private companies.

6. The construction of the Unified Grand Central Station, or the common station set to connect the MRT-3, LRT Line 1 and the planned MRT 7 and Metro Manila subway lines, is remains ongoing. Situated at the corner of EDSA and North Avenue in Quezon City, the station will be a major transportation hub for commuters. The project broke ground in September 2017 but faced delays due to the COVID-19 pandemic.

   The latest update from the DOTr stated that the common station was 81.4% complete, as of May 31, 2024.

[1] *Sources:* https://www.pna.gov.ph/articles/1233065
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