

Arthaland Corporation's ASEAN Green Bonds worth P3.0 billion Get Very Strong Credit Rating

Philippine Rating Services Corporation (PhilRatings) assigned an Issue Credit Rating of **PRS Aa minus**, with a **Stable Outlook**, for Arthaland Corporation's (ALCO) proposed Fixed-rate ASEAN Green Bonds worth P3.0 billion. This will be the initial issuance in relation to the Company's 3-year Shelf Registration of up to P6.0 billion.

ASEAN Green Bonds adhere to the ASEAN Green Bonds Standards which require proceeds to be used exclusively to fund eligible green projects, including certified green buildings. A regular review on the use of proceeds and quantifiable updates on the funded project's environmental benefits are also required. ALCO's proposed ASEAN Green Bonds marks the first green issuance provided with a credit rating by PhilRatings.

The proceeds from the proposed ASEAN Green Bonds will be used mainly to fund additional equity contribution required for the retention of retail and office units in its existing environmentally sustainable projects and the acquisition of a property for a long-term undertaking. All of the Company's completed and on-going projects are at least dual certified with the Philippine Green Building Council's (PHILGBC) Building for Ecologically Responsive Design Excellence (BERDE), and with the U.S. Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED). One of its office projects, Arthaland Century Pacific Tower (ACPT) in Bonifacio Global City, stands as the only triple-certified green project in the Philippines and the first in the world to achieve the EDGE Zero Carbon Certification under the International Finance Corporation (IFC). All future developments will likewise aim for such certifications.

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. A **plus** or **minus** sign may further qualify a credit rating.

On the other hand, an Outlook is an indication as to the possible direction of any rating change within a one year period and serves as further refinement of 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 twelve months.

The rating and outlook were assigned given the following key considerations: (1) globally highly recognized real estate developer of dual certified (locally and internationally) green projects in the Philippines; (2) sustained industry growth supported by resilient demand and relatively good economic performance; (3) relatively conservative approach on the management of debt and cost estimates coupled with adequate liquidity; (4) relatively trailing asset size and scale of the Company and operating history in relation to other rated real estate companies; and (5) volatility of revenues and net income in the last five years, with signs of sustainable growth moving forward backed by a steady project pipeline in the medium term.

PhilRatings' ratings are based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to ALCO and may change the rating at any time, should circumstances warrant a change. The rating assigned is in relation to the Company's capacity to pay the rated bonds only and is not an opinion on the project's adherence to the ASEAN Green Bonds Standards or environmental impact.

ALCO began operations in 2009 and is the only real estate developer locally to have its entire project portfolio certified green. Environmental sustainability is its core business philosophy and is the foundation of the design of its

projects. The Company aims for all its projects to be at least dual-certified both locally, with the BERDE certification, and internationally, with the LEED certification.

Its first completed office project, Arthaland Century Pacific Tower (ACPT) in Bonifacio Global City (BGC), stands as the only triple-certified green project in the Philippines and the first in the world to achieve the EDGE Zero Carbon Certification under the International Finance Corporation (IFC). Its first completed residential project, Arya Residences, also in BGC, is the first and only residential building in the Philippines to receive a dual certification from BERDE and LEED. Among its pipeline of projects is Sevina Park in Laguna. It is a mixed-use and low-density community and is the first in the Philippines to aim for LEED Neighborhood and LEED Home Certifications.

Competing with relatively bigger and more established players in the market, the Company's projects have been recognized globally for its design, innovation and sustainability. With about 10 years of operations in the industry, the Company has managed to create a distinct brand name within a competitive market.

New supply for the leasing and residential sectors are being offered to the market each year and demand continues to rise in pace with the additional supply. This is evidenced by the continuous launches of new projects within the central business areas in the Metro.

The outlook of the country's economy was relatively positive for 2019. Inflation rate slowed to 0.8%, from 0.9% in September, bringing average inflation to 2.6% for the year. This is well within the Bangko Sentral ng Pilipinas' (BSP) target range of 2-4%. Overseas remittances grew by 7.2% to \$2.87 billion in July from the same period of last year. This posted the fastest growth of remittances in nine months. The Consumer confidence index (CI) rose to 4.6% for the third quarter, from negative 1.3% in the second quarter. Government spending is expected to rise in order to catch up with the slower spending in the first half of the year. Market analysts are positive that the country will hit at least the lower end of the targeted Gross Domestic Product (GDP) growth of 6%. There is also a growing interest from foreign companies in the country's real estate projects which affirm the growing favorable prospects in the country.

ALCO's asset size and scale trailed compared to the other PhilRatings-rated real estate companies in the industry. The Company takes deliberate steps to assess and to focus on the environmental impact of its acquisitions and developments which influence the rate of its expansion.

On the other hand, the Company has adequate liquidity and has historically infused capital to continuously support its planned expansions. There is a growing preference for sustainable development projects which offer their occupants savings in utility bills due to cost-efficient building systems. Over the long-term, it is expected that buyers and/or tenants may prefer "green" projects and ALCO will be well-placed to take advantage of this, having a "first mover" advantage domestically, in relation to this aspect.

The Company likewise has sufficient land bank available for future projects which are strategically located in areas beyond Metro Manila such as Cebu, Laguna and Batangas. Such will be boosted by the government's initiative to stimulate nearby prospective locations and decongest the Metro.

For the first half of 2019, ALCO posted total revenues of P1.08 billion, with a gross profit margin of 46.5%. Total revenues surged to more than five times compared to the same period last year. Such was on the back of the recognized revenues from the sale of new office units in its Cebu Exchange project and sustained lease revenues. The Company registered a current ratio of 3.46x and an EBITDA¹ Interest Coverage Ratio of 6.74x for the period. ALCO maintained conservative leverage levels, with a debt-to-equity ratio of 0.77x and recorded a return on average assets of 7.56%.

¹ The computation of certain financial terms and ratios may be different from what ALCO discloses. For example, PhilRatings' EBITDA calculation excludes gain on changes in fair value and other income.