PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **June 27, 2024**

Arthaland Corporation Maintains its Very Strong Credit Rating

Philippine Rating Services Corporation (PhilRatings) has maintained the Issue Credit Rating of **PRS Aa**, with a **Stable Outlook**, for Arthaland Corporation's (ALCO) outstanding Green Bonds amounting to P6.0 billion.

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 **Stable Outlook**, on the other hand, is assigned when a rating is likely to be maintained or to remain unchanged in the next 12 months.

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.

The rating and Outlook were assigned given the following key considerations: (1) the Company's good reputation and experience in developing premium green certified buildings; (2) its ability to grow and compete in its chosen segment, despite the presence of larger, more established competitors; (3) improved and manageable leverage position; and (4) significant revenue and net income growth.

ALCO is a recognized sustainable developer of premium residential and commercial properties. ALCO has the unique distinction of being the only real estate developer in the country with a 100% certified sustainable residential and commercial portfolio. All of the Company's projects are multi-certified by both local and global organizations in terms of environmental sustainability. These certifications include: the Philippine Green Building Council's (PHILGBC) Building for Ecologically Responsive Design Excellence (BERDE), U.S. Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED), International Finance Corporation's (IFC) Excellence in Design for Greater Efficiencies (EDGE), and the International WELL Building Institute's (IWBI) WELL Building Standard (WELL). The Company is also the first real estate developer in Asia and the first signatory from the Philippines to the Net Zero Carbon Building Commitment of the World Green Building Council (WorldGBC). As a signatory to this program, ALCO commits to decarbonizing its entire portfolio by 2030.

The Company is in the last year of its medium-term goal (2018-2024) where it intends to grow its Gross Floor Area (GFA) to approximately 456,019 sqm. ALCO's completed projects, Arya Residences, Arthaland Century Pacific Tower, Cebu Exchange, and Savya Financial Center, along with the ongoing developments Lucima, Eluria, and the components of Sevina Park (including the remaining towers of Una Apartments awaiting launch) already contributed to ALCO's target GFA by 2024. In 2022, the Cebu Exchange and Savya Financial Center were completed. The North and South Towers of Savya Financial Center were completed in the 1Q2022 and 4Q2022, respectively. The handover of the units in the North Tower was initiated in January 2022 while the South Tower was inaugurated in October 2022. In November 2022, the Company launched Eluria, ALCO's latest luxury residential development in Legazpi, Makati. In 2022, the Company also ventured into the broader mid-scale market through the launch of Una Apartments. This is a component of Sevina Park and has been well-received by the market since its launch in September 2022. Following the success of the first tower, ALCO launched the second tower of Una Apartments in November 2023.

In 2023, the Company's total debt declined to ₱17.1 billion from ₱17.7 billion in 2022. On the other hand, total equity grew to ₱13.1 billion, from ₱12.1 billion in 2022. This led to an improvement in the debt-to-equity (DE) ratio from 1.5x in 2022 to 1.3x, as of end-2023. The Company's leverage position is seen to remain manageable over the projected period, supported by the constant plowback of earnings.

In 2023, total real estate revenues accelerated by 127.2%, from ₱2.9 billion in 2022 to ₱6.6 billion. Moreover, net income reached ₱1.4 billion, up by 59.1% from ₱873.1 million recorded in 2022. The improvement in real estate revenues was largely attributed to the strong sales of Savya Financial Center and Cebu Exchange's office units, Lucima and Eluria's residential units, and Sevina Park's commercial lots. ALCO's gross profit margin (GPM) and operating profit margin (OPM) in 2023, likewise, improved to 40.9% and 20.5%, respectively, while net profit margin (NPM) declined to 20.9% in 2023. The decline in NPM in 2023 was largely attributed to the Company's strategic decision to grow its recurring revenues from leasing operations by retaining approximately 16,000 sqm of office and retail units in Cebu Exchange. This was implemented in two stages, i.e., approximately 10,500 sqm in 2022 and 5,500 sqm in 2023. As a result, the Company recognized a higher gain on change in fair value of investment properties in 2022 compared to 2023.

In the first quarter of 2024 (1Q2024), ALCO's total real estate revenues grew by 17.7% to ₱983.5 million. Net income declined from ₱142.1 million in 1Q2023 to ₱123.2 million in 1Q2024 due to a change in revenue mix between the two periods and higher operating expenses for finished projects including Cebu Exchange and Savya. The projects already lined-up to be launched are expected to contribute to revenue growth over the forecast period.