

Megawide's Proposed Bond Issue of up to ₱4 Billion Receives a Very Strong PRS Aa Rating

Philippine Rating Services Corporation (PhilRatings) has assigned an issue credit rating of **PRS Aa** to Megawide Construction Corporation's (Megawide's) proposed bond issue of ₱3.0 billion, with an oversubscription option of up to ₱1.0 billion. The rating has a **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. A **Stable** Outlook, on the other hand, indicates that the rating is likely to be maintained or to remain unchanged in the next 12 months.

The assigned issue rating takes into consideration Megawide's: (a) solid experience in the construction industry, along with vertically integrated operations, that is seen to complement the government's infrastructure projects through the Public Private Partnership (PPP) and Build, Build, Build (BBB) programs; (b) notable expansion projects in recent years, with the aim of diversifying into less cyclical sources of revenues, albeit with challenged profitability due to the effects of the COVID-19 pandemic; and (c) relatively high debt level on a consolidated basis due to the capital-intensive nature of the project companies' operations, although leverage remains manageable on the Parent level. The assigned rating also took into account the recovering economy amid declining COVID-19 cases and increasing vaccination rate.

The issue credit rating assigned by PhilRatings is based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments in relation to Megawide and may change the rating at any time, should circumstances warrant a change.

Megawide has built a solid reputation as one of the top companies in the Philippine construction and infrastructure sector. Since 2008, Megawide completed over 85 projects, with a total contract value amounting to ₱142.0 billion as of the third quarter of 2021 (3Q2021).

Megawide has an AAAA Contractor's License from the Philippine Contractors Accreditation Board (PCAB) – the highest classification and category for a construction company – which qualifies them to bid for private projects with no limits on contract value. Likewise, Megawide maintains a Large B classification for government registration, allowing it to participate in large-scale infrastructure projects.

Over the last decade, Megawide won four different PPP infrastructure projects across different administrations. This track record offers the Company an edge and familiarity with government processes when it participates in bidding for future projects. As such, Megawide believes it is in a good position to be awarded with big-ticket projects in the infrastructure space, even with a new administration coming in this year.

Consolidated revenues in 3M2022 amounted to ₱4.16 billion, 12% higher than the amount for the same period last year. The construction segment revenue continued to be the major revenue contributor, as it registered an amount of ₱3.79 billion in the period, an 11% increase from 3M2021. Revenues from Megawide's airport segment, together with its airport merchandising segment, grew by more than two times, from ₱115.08 million in 3M2021 to ₱238.93 million in 3M2022. Passenger volume more than doubled from the year-ago level, although such has not yet breached the pre-pandemic level. Landport operations delivered revenues of ₱130.77 million, a 30% decrease from ₱187.02 million in 3M2021, driven by continued lower office occupancy. Net loss in 3M2022 amounted to ₱279.89 million, higher than the net loss incurred in 3M2021, due to tax expenses incurred compared with tax credits in the previous year. Profitability is expected to recover in the succeeding years, as domestic and international traffic at Mactan Cebu International Airport (MCIA) are projected to sustain a strong rebound.

The airport and landport segments, which are project companies, normally have a high gearing ratio due to its capital-intensive nature but are typically under project financing. These project companies are distinct in terms of their liabilities to the Parent Company. On a consolidated basis, debt-to-equity (DE) ratio peaked in 2019, at 2.65x, due to the availment of loans to support working capital expenditures and the construction of the Clark International Airport (CIA). In addition, loans were also availed to fund the construction of the Parañaque Integrated Terminal Exchange (PITx). The Parent Company had a more conservative capital structure, with its DE ratio at 1.59x in 2019. As of end-2021, the consolidated and Parent DE ratios were at 2.58x and 1.23x, respectively. As of the end of 3M2022, the consolidated DE ratio was at 2.65x while parent DE ratio was at 1.24x.

The Company plans to enter new segments to provide a strong, stable, and growing revenue stream in the long-run. The program includes a foray into horizontal infrastructure by participating in the government's various rail infrastructure projects to complement its order book from the private sector. Given the recovering economy, total revenues in the projected period exhibit an upward trend. The construction segment will continue to be Megawide's main driver and enabler. Bulk of the revenues will come from existing contracts from vertical and horizontal developments, as well as major infrastructure

projects. Meanwhile, the airport segment's revenues are expected to significantly grow in 2023, given the expected recovery of the airline industry from revenge travel and tourism.

Ferdinand "Bongbong" Marcos, Jr., the son of the late Philippine president, Ferdinand Marcos has been officially proclaimed as the next Philippine president, reportedly getting more than 31 million votes while independent candidate and the current Vice President, Leni Robredo, accounted for less than half of the front-runner's votes. Marcos has presented himself as a candidate who would continue Duterte's key policies. PhilRatings shall be monitoring election-related developments moving forward and what the policy pronouncements, direction, and programs of the incoming administration will be, and how such may impact the level of economic growth of the Philippines, investments, and key economic indicators like interest rates, exchange rates, among others.