PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **August 03, 2020**

Cebu Landmasters, Inc.'s Issue Credit Rating for its Outstanding P5 Billion Corporate Notes Issued in 2018 Maintained at PRS Aa

Philippine Rating Services Corporation (PhilRatings) has maintained the Issue Credit Rating of **PRS Aa**, with a **Stable Outlook**, for Cebu Landmasters Inc.'s (CLI) outstanding Series A to C Corporate Notes amounting to P5 billion issued in 2018. The proceeds were allocated to strategic land acquisition in Cebu, Dumaguete, Bacolod, Cagayan de Oro (CDO), Davao, Bohol, and Iloilo. Part of the proceeds were also set aside for the development of the 22-hectare Davao Global Township in Matina, Davao.

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.

Furthermore, 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.

The rating and outlook reflect the following key considerations: (1) Sound management and strategy, with a sustained competitive advantage in the Visayas and Mindanao markets as evidenced by its growth over the last few years; (2) Sustained growth in the past years although the pandemic is seen to temper growth momentum in the medium term; (3) Good coverage of interest and current debt, complemented by an adequate capital structure, which are seen to provide a satisfactory buffer for debt servicing during the pandemic; and (4) Threats from a highly competitive market, with peers having access to significant capital and a substantial landbank, counterbalanced by the Company's ability to form strategic joint venture partnerships.

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 CLI and may change the rating and outlook at any time, should circumstances warrant a change.

CLI is a Cebu-based company engaged in the development, sales, leasing, and management of real estate. The Company's portfolio includes: residential condominium units, subdivision houses and lots, townhouses, hotels, office projects, retail spaces and townships. CLI was incorporated and registered with the Securities and Exchange Commission (SEC) in September 2003. In June 2017, CLI became the first homegrown, Cebu-based real estate developer to be publicly listed with the Philippine Stock Exchange (PSE).

In 2019, CLI received the Best Developer award during the annual PropertyGuru Philippines Property Awards. The company also reportedly established market share leadership in the Visayas and Mindanao residential segment, with a 12% share based on the 2019 Real Estate Market Study by Santos Knight Frank. The research covered 10 key cities and included both national and local developers in the VisMin area.

As of end 2019, the Company has completed 28 projects which are a mix of vertical development (57.1%) and horizontal development (42.9%). These developments comprise a total of 7,541 units which were 96.4% sold out, an indication of CLI's strength as a trusted brand in the housing market in VisMin.

Furthermore, the Company has 37 ongoing projects located in Cebu City (13), Davao (7), Mandaue City (7), Bacolod (6), CDO (3) and Bogo, Cebu (1). These projects have a combined total of 11,466 units, with 8,429 units or 73.5% sold.

The Company intends to focus on the Visayas and Mindanao area. Being a homegrown and Cebu-based company provides the following advantages versus Manila-based peers: (1) more intimate knowledge of the Visayas and Mindanao markets; (2) close business relationships with landowners and businessmen in the region; (3) more hands-on control and management of development projects in the area. It faces, however, significant competition from national players with substantial amounts of capital and landbank in Visayas and Mindanao. This is counterbalanced by the Company's ability to form joint venture partnerships. In 2019, CLI formed new strategic alliances, such as the one with AboitizLand, the real estate arm of Aboitiz Equity Ventures. The joint venture company will develop a mid-market, mixed-use, multi-tower condominium project in Mandaue City, Cebu. CLI is also teaming up with prominent Iloilo businessman, Alfonso Tan, Chairman of International Builders Corporation (IBC) for a high-rise multi-tower condominium with retail spaces in Iloilo City's downtown area. Moreover, CLI and Borromeo Brothers, are also launching another joint venture to develop a two-tower residential condominium in Cebu City.

Majority of the Company's revenues are from the sale of real estate which grew at a compound annual growth rate (CAGR) of 47.1% from 2017 to 2019. In 2019, CLI reported total revenues of P8.5 billion, translating to a 26% growth from P6.8 billion in 2018. Net profit increased by 12%, from P2.17 billion in 2018 to P2.44 billion in 2019.

In the period 2017 to 2019, the Company recorded an average interest coverage ratio and debt service coverage ratio of 55.7x and 1.4x, respectively. In the same period, the Company had an average debt to equity ratio of 1.0x. In 2019, the Company recorded an interest coverage ratio and debt service coverage ratio of 71.2x and 1.2x, respectively. It likewise had a debt to equity ratio of 1.2x as of end 2019.

In the first quarter of 2020, total revenues increased by 12.7% year-on-year from P1.9 billion to P2.1 billion. Net profit decreased by 7.6%, from P701.6 million in 1Q2019 to P648.5 million in 1Q2020 due to the slowdown in construction as a result of Enhanced Community Quarantine (ECQ) restrictions.

In the first half of 2020, consolidated reservation sales increased by 39.6% from P5.3 billion to P7.4 billion. The increase was attributable to Casa Mira, CLI's economic housing community, which accounted for 65% of first half sales in 2020.

The Philippines closed 2019 with Gross Domestic Product (GDP) growth of 5.9%, from 6.2% in 2018. GDP growth in 2019 was the slowest in eight years since 4.7% in 2011. This resulted mainly from the delayed implementation of the national budget, slowing down government spending in the first two quarters. With the global spread of COVID-19 in 2020, drastic effects in relation to the world economy are evident. Philippine GDP declined by 0.2% in the first quarter of 2020. Such was the first contraction since the fourth quarter of 1998.