The Pioneer Domestic Credit Rating Agency	**RATING NEWS** **April 24, 2018**

Cebu Landmasters, Inc.'s Maiden Corporate Notes Issue worth P5 billion
Assigned an Issue Credit Rating of PRS Aa

Philippine Rating Services Corporation (PhilRatings) has assigned an Issue Credit Rating of **PRS Aa**, with a **Stable Outlook**, for Cebu Landmasters Inc.'s (CLI) planned corporate notes offering of P5 billion. The proceeds will be used to partially finance its projects, including the Davao Matina Business Park and the Ming-Mori Technobusiness Park in Minglanilla, Cebu, among others.

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 also be included in a rating to further qualify such.

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 twelve months.

The rating and outlook reflect the following key considerations: (1) sound management and strategy, with a competitive advantage in the Visayas and Mindanao markets; (2) positive economic and industry outlook; (3) continuously growing revenues and net income complemented by tax incentives, along with strong margins and returns; (4) good coverage of interest and current debt, complemented by an adequate capital structure; and (5) threats from a highly competitive market, with peers having access to significant capital and a substantial landbank.

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 real estate company, with a portfolio of subdivision house and lots and townhouses, residential condominium units, as well as office projects and retail space. It was established in September 2003 and in June 2017, became the first homegrown, Cebu-based real estate developer to be publicly listed with the Philippine Stock Exchange (PSE). It is reportedly currently the number 1 Cebu-based developer in unit volume.

As of end-December 2017, CLI has completed fifteen (15) projects which are a mix of vertical development or residential and office condominiums (55%) and horizontal development or residential subdivisions/housing (45%). These projects are made up of a total of 4,770 units which are 97% sold out, an indication of CLI's strength as a trusted brand in the local housing market in Cebu.

As of end-December 2017, the company had eleven (11) on-going projects located in Cebu (9), Davao City (1) and Cagayan de Oro (1). These include a hotel and residential and office condominiums, with a total of 5,084 units and with 4,465 units or 88% 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. Likewise, the company enters into joint ventures with partners to acquire prime properties in strategically identified locations. Around 20% of the company's current project portfolio is reportedly from joint ventures.

Due to the demand for its projects, the company adopted an “acquire-to-develop strategy”. This allows the company to turn around projects faster. According to CLI, it takes the company only six months from land purchase to project launch and two to three years from launch to turnover. This strategy enables the company to meet the current demand of the fast-paced and changing lifestyles of the market. It likewise lessens the burden on its financial position while minimizing exposure to possible losses. This is proving to be a profitable strategy for the company with such recording significant returns on assets and equity.

CLI has already begun purchasing land for its 2019 project lineup and has ongoing negotiations in new areas such as General Santos City, Butuan City, Ormoc City and Roxas City.

CLI is currently the property manager of all its developments via Cebu Landmasters Property Management, Inc. (CLPMI), its own property management company. It also intends to be more involved in the construction of its own projects to maintain quality levels.

In 2017, CLI recognized a 66.4% increase in total revenues, on the back of solid growth of real estate sales and rental income which expanded by 66.6% and 17.4%, respectively. Net income for the period jumped by 66.0% to P1.29 billion. Net profit margin stood strong at 33.0%

In 2017, the company recorded an interest coverage ratio and debt service coverage ratio of 83.6% and 1.5x, respectively. It likewise had a debt to equity ratio of 0.7x as of end 2017.

The Philippines’ Gross Domestic Product (GDP) grew by 6.7% in 2017, slightly below the 6.9% growth recorded in 2016. This, however, still placed the Philippines among the fastest-growing economies in Asia, after China's 6.9% and Vietnam's 6.8%. According to the National Economic and Development Authority (NEDA), the target is for Central Visayas to expand by 7.5% to 8% during President Rodrigo Duterte’s administration. As the fastest growing region with a growth rate of 7.5% from 2011 to 2016, Central Visayas bested the CARAGA region (7.4%), Davao (7.4%), Central Luzon (7.2%), and National Capital Region (6.6%).

The real estate sector in Cebu continues to grow with more available spaces in the office, retail and residential markets as the local economy is fuelled by tourism, the Business Process Outsourcing sector, and household spending supported by remittances from overseas Filipinos. Major developments such as the expansion of the Mactan-Cebu International Airport open more opportunities for Cebu to engage in international partnerships and investments, as well as boost foreign and local tourist arrivals.

The Duterte administration has been able to implement the Tax Reform for Acceleration and Inclusion Act, which contains Package 1A of the Comprehensive Tax Reform Program (CTRP). These ensure a steady revenue flow that would help bankroll the government’s public infrastructure program. Moreover, the personal income tax (PIT) cuts under the TRAIN law would increase the take-home pay of Filipinos, therefore boosting consumer spending and further driving economic activity.