

# San Miguel Corporation (SMC PM)

## FUNDAMENTAL VIEW <sup>1</sup>

As of 05 Dec 2023

- SMC's 1H23 credit metrics and EBITDA improved modestly as we had expected from resilient broad demand recovery, lower power input costs, and the suspension of a 670 MW power supply agreement that disallowed cost passthroughs.
- We believe SMC's large diversified operations and dominant market share outweigh its high infrastructure capex.
- We remain concerned about extension/refinancing risk for its \$3.3 bn of SMC GP's perpetual bonds that are first callable in 2024-2026, where parental support could be unsustainable in the medium-to-long term.

## RISKS & CATALYSTS

As of 05 Dec 2023

- SMC's revenues are concentrated in the Philippines (~80%), which poses geographical concentration risk.
- SMC incurs significant capex, particularly in its power/energy and infrastructure businesses. In October 2020, SMC began construction of the mega New Manila International Airport (requires ~PHP 750 bn of capex spread over 5-7 years). This could keep SMC's credit metrics elevated and free cash flows in negative territory.
- As a holding company, SMC is reliant on dividend upstreaming from its operating subsidiaries to service its debt, which can be difficult should the operating subsidiaries face cash flow difficulties. We are particularly concerned about SMC GP's weak financial profile and extension/refinancing uncertainties of its \$3.3 bn perpetuals that are first callable from 2024-2026.
- SMC operates in the businesses of thermal power generation and fuel refining, which may be looked at unfavourably by some ESG-focused investors.

## CREDIT QUALITY SCORE (CQS)<sup>2</sup>

As of 15 Apr 2024

### CURRENT CQS

30

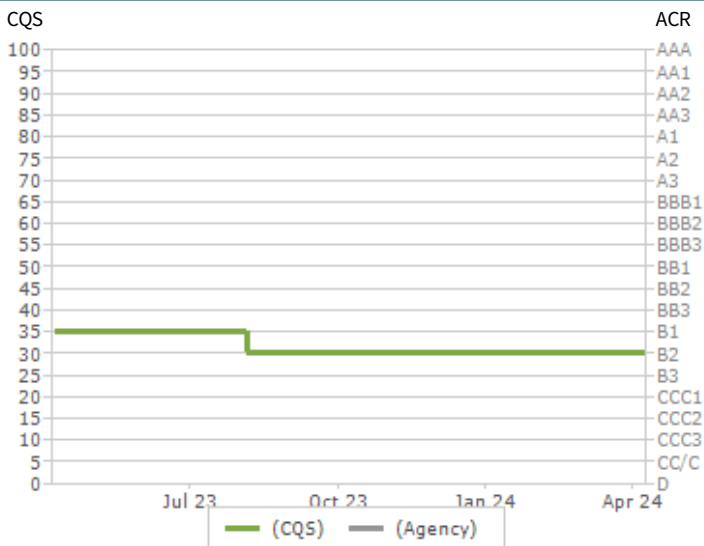
### CQS OUTLOOK <sup>3</sup>

NEGATIVE

STABLE

POSITIVE

### HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)<sup>4</sup> VS CQS



## KEY METRICS

As of 05 Dec 2023

PHP BN	FY20	FY21	FY22	3Q22	3Q23
Debt to Book Cap	65.2%	66.4%	72.3%	70.1%	72.9%
Net Debt to Book Cap	46.7%	51.7%	58.5%	55.6%	61.5%
Debt/Total Equity	187.0%	197.9%	261.3%	234.9%	268.7%
Debt/Total Assets	64.1%	65.7%	69.8%	68.1%	70.0%
Gross Leverage	10.9x	8.1x	9.1x	8.3x	10.3x
Net Leverage	7.8x	6.3x	7.4x	6.6x	8.7x
Interest Coverage	2.1x	3.1x	2.8x	3.3x	1.8x
EBITDA Margin	15.5%	17.6%	12.2%	12.2%	6.7%

## BUSINESS DESCRIPTION

As of 05 Dec 2023

- SMC is a massive conglomerate in the Philippines with business interests across six business segments: Food & Beverage (F&B), fuel refining and retailing, power, packaging, infrastructure, and others.
- Its F&B business is operated through San Miguel Food & Beverage, the largest F&B company in the Philippines with three main divisions: Beer and Non-alcoholic Beverage (including beers and juices), Spirits (gin and Chinese wine), and Food (including packaged foods, animal feeds, poultry and fresh meats).
- SMC's fuel refining and retailing business is operated through Petron Corporation (~68% stake), the largest oil refining and retailing company in the Philippines, and one of the largest in Malaysia. Petron has a total refining capacity of ~268k barrels/day.
- SMC's power business is operated through SMC Global Power Holdings (SMC GP, 100% stake), one of the largest power generating companies in the Philippines. It maintains a diversified portfolio across coal (62%), natural gas (26%), and renewable energy (12%) sources.
- Through its packaging business, it manufactures glass containers, plastic crates, pellets, bottles and caps, aluminium cans, and other types of packaging products.
- It operates its Infrastructure business through San Miguel Holdings Corp (SMHC), in which it holds a 100% stake. It currently operates ~190 km of toll roads in the country, connecting high-traffic, arterial routes in Luzon.

## GLOSSARY

<sup>1</sup> The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

<sup>2</sup> The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

<sup>3</sup> The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

<sup>4</sup> The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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