

San Miguel Corporation (SMC PM)

FUNDAMENTAL VIEW ¹

As of 16 May 2024

- SMC's FY23 credit metrics and EBITDA improved as we had expected from resilient broad demand recovery, lower power and O&G input costs, and good cost control measures.
- We are comfortable with SMC's large diversified operations and dominant market share in key sectors, which could outweigh its high airport and infrastructure capex.
- We remain concerned about non-call risk for SMC GP's c.2026 perps amid SMC GP's firmly negative free cash flows and expectations that parental support could be unsustainable in the medium-to-long term.

RISKS & CATALYSTS

As of 16 May 2024

- 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)²

As of 21 Jun 2024

CURRENT CQS

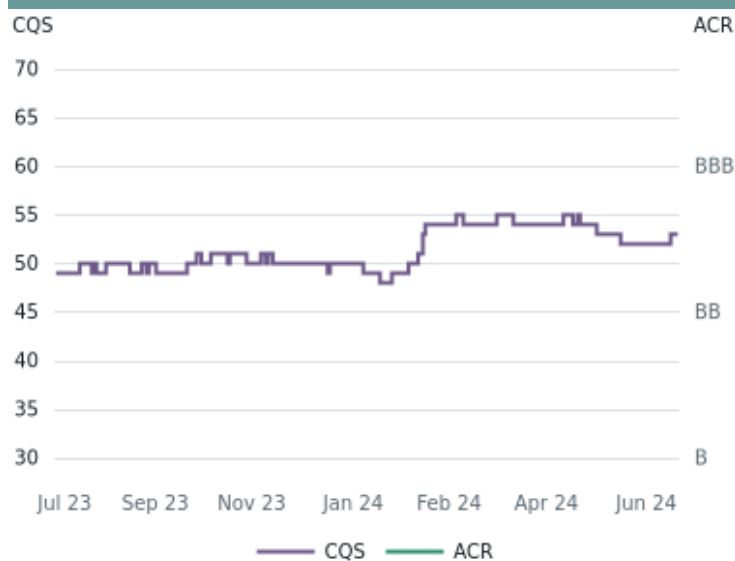
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CQS OUTLOOK ³

NEGATIVE

STABLE

POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS

KEY METRICS

As of 16 May 2024

PHP BN	FY21	FY22	FY23	1Q23	1Q24
Debt to Book Cap	66.4%	72.3%	71.6%	70.9%	71.8%
Net Debt to Book Cap	51.7%	58.5%	60.4%	60.0%	60.4%
Debt/Total Equity	197.9%	261.3%	251.9%	243.9%	254.9%
Debt/Total Assets	65.7%	69.8%	68.1%	68.0%	67.6%
Gross Leverage	8.1x	9.1x	8.4x	8.8x	8.2x
Net Leverage	6.3x	7.4x	7.1x	7.4x	6.9x
Interest Coverage	3.1x	2.8x	2.1x	2.4x	2.1x
EBITDA Margin	17.6%	12.2%	13.8%	12.3%	12.5%

BUSINESS DESCRIPTION

As of 16 May 2024

- 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

¹ 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.

² 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.

³ 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.

⁴ 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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