SLEX SOUTH LUZON TOLLWAY CORPORATION
SMC INFRASTRUCTURE

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14 December 2020

Philippine Dealing & Exchange Corp.
29th Floor, BDO Equitable Tower,
8751 Paseo de Roxas, Makati City

Attention: **Atty. Marie Rose M. Magallen-Lirio**
Head - Issuer Compliance and Disclosure Department

Re: South Luzon Tollway Corporation Php 7.3 Billion Fixed Rate Bonds
SLTC – Credit Rating Report

Gentlemen:

In compliance with the Philippine Dealing & Exchange Corp. ("PDEX") guidelines, please find enclosed copy of our disclosure to Securities and Exchange Commission.

As agreed with you, we shall inform PDEx in case of changes.

Thank you.

Very truly yours,

RAOUL C. ROMULO
Corporate Information Officer

PhilRatings
PHILIPPINE RATING SERVICES CORPORATION
The Pioneer Domestic Credit Rating Agency

RATING NEWS

December 14, 2020

SLTC's Outstanding Bonds Keep Highest Rating

Philippine Rating Services Corporation (PhilRatings) maintained the Issue Credit Rating of **PRS Aaa**, with a **Stable Outlook**, for South Luzon Tollway Corporation's (SLTC) total outstanding Fixed-rate bonds of P4.9 billion. SLTC, which is part of the San Miguel Group, was incorporated primarily to engage in the rehabilitation, construction and expansion of the South Luzon Expressway (SLEX).

Obligations rated **PRS Aaa** are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is **extremely strong**. **PRS Aaa** is the highest rating assigned by PhilRatings.

A **Stable** outlook, on the other hand, indicates that ratings are likely to be maintained or to remain unchanged in the next twelve (12) months.

The issue rating for SLTC's outstanding fixed-rate bonds is primarily supported by expectations that the continuous push of the Duterte government to strengthen infrastructure, improve connectivity between provinces, and decentralize growth amidst the pandemic, will support recovery of demand, going forward; the expansion and consistent enhancement of the Company's expressway and collection systems; and SLTC's healthy liquidity, which is backed by ample cash flows from toll collections despite lower traffic volume.

PhilRatings' ratings are based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments in relation to SLTC and may change the ratings at any time, should circumstances warrant a change.

SLTC was granted the concession of the SLEX, which is considered as a key logistical backbone to the southern corridor of Metro Manila. SLEX is 36.1 kilometers (kms) long, and links major economic centers in Metro Manila to Region IV-A or CALABARZON Region (comprised of Cavite, Laguna, Batangas, Rizal and Quezon).

CALABARZON is one of the biggest contributors to the country's gross domestic product (GDP). The region contributed 16.6% to the GDP in 2019, second only to the National Capital Region (NCR) which contributed 32.2%. Pre-pandemic, the growing economic activity in the provinces which are serviced by SLTC's franchise supported the viability of the SLEX and sustained the increasing trend in the annual average daily traffic (AADT). Amid the pandemic, there is a preference for the region as CALABARZON is one of the most viable destinations for the industrial and logistics sectors. An increased demand in these sectors are seen with the boom in e-commerce.

The Duterte administration has declared that infrastructure will be among its top priorities given its "Build, Build, Build" (BBB) Program. The aim of the program is to increase the share of infrastructure spending to GDP to 7% by 2022. As of 2019, infrastructure spending was 4.7% of the GDP, which grew from an average of 3% during the previous administration. The government clarified that all projects in the BBB program are going to push through amidst the current health crisis, but these will undergo reprioritization. Some of these big projects are the North Luzon Expressway (NLEX) Harbor Link, the NLEX-SLEX Connector, the Cavite-Laguna Expressway, the Metro Manila

Skyway Stage 3, the R-1 Bridge Project, the Tarlac-Pangasinan-La Union Expressway Project and the Subic Freeport Expressway Project. On May 11, 2020, the DPWH allowed the resumption of priority public and private construction projects using a skeleton workforce in areas under enhanced community quarantine (ECQ) and modified ECQ (MECQ). For areas under general community quarantine (GCQ) and modified GCQ (MGCQ), all public and private construction projects are allowed, albeit guided by strict health protocols and standards.

SLTC continues to expand its franchise with the ongoing construction of Toll Road 4 (TR 4), which will extend the SLEX by 66.74 kms. TR 4 extends from Sto. Tomas, Batangas to Lucena City, Quezon Province, and will have nine interchanges added to the throughput. The extension will shorten travel time from Sto. Tomas to Lucena City to about an hour, from the current four hours. Due to the restrictions caused by the pandemic, the pace of work on TR 4 was significantly reduced. The new target date of completion is under review, and will depend on the improvement of the pandemic situation and right-of-way acquisition.

The continued improvement of interconnectivity between provinces will benefit SLTC going forward. The Department of Transportation (DOTr), through the Toll Regulatory Board (TRB), launched the Electronic Tollway Collection (ETC) System Interoperability Project in 2017, which aims to integrate the various toll collection systems of the different toll operators. In addition, the DOTr signed on August 13, 2020 a mandate to implement cashless transactions on toll expressways. This directive aims to curb the transmission of the COVID-19 virus, as well as ease traffic queues in toll plazas. Mandatory implementation of the directive will be on December 1, 2020 (extended from the original implementation date of November 2, 2020). SLTC believes that the implementation of the cashless toll payments will result in a reduction in overall toll collection costs. This, in turn, will support company efforts to conserve cash.

Cash from operations continues to be the main source of funding for SLTC. Cash flow from operations remained healthy at P767.5 million in first half 2020, although lower by 51.2% due to lower income on account of the steep drop in traffic volume. Since the gradual reopening of the economy, a recovery in the annual average daily traffic was observed and is expected to improve as community protocols continue to relax.