PhilRatings PHILIPPINE RATING SERVICES CORPORATION	RATING REPORT
	Maynilad Water Services, Inc.

Date: March 15, 2024
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NEW ISSUE CREDIT RATING

Proposed Issuance		
Amount	**Tenors**	**Assigned Rating and Outlook**
₱12.0 billion, with an Oversubscription Option of up to ₱3.0 billion	5 and 10 years	PRS Aaa Stable Outlook

Use of Proceeds:

To fund the Company's capital expenditures (CAPEX)

Rating Definition

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.

Outlook Definition

An Outlook of Stable means that the assigned issue credit rating is likely to remain unchanged in the next 12 months.

RATIONALE

1. Exclusive right to provide water and wastewater services in its concession area

In May 2021, the Revised Concession Agreement (RCA) was signed between Maynilad Water Services, Inc. (Maynilad; the Company) and Metropolitan Waterworks and Sewerage System (MWSS). The RCA confirmed the extension of the concession term until 2037. Maynilad remained to have the exclusive right to provide water and wastewater services in the West Zone of the Greater Metro Manila area. The Company, therefore, has a monopoly of service and faces no direct competition in its serviced area. PhilRatings notes that the proposed bonds, with a maximum tenor of ten years, will mature before the end of the concession term in 2037.

Additionally, as a provider of water - an essential product, Maynilad enjoys relatively stable demand for its services and is less sensitive to economic cycles. Over the past five years, the Company steadily expanded its customer base with a compound annual growth rate (CAGR) of 2.0%. As of end-2023, the population in the concession area was approximately 10 million. Maynilad could continue to enjoy a stable demand for its services going forward as the population in the West Zone is expected to steadily grow to 11.1 million by 2026 and 11.7 million by 2036.[1]

2. Proven capacity to operate in and navigate the challenges of a highly regulated industry

The regulation of the Concessionaires is lodged with the Metropolitan Waterworks and Sewerage System Regulatory Office (MWSS RO) which was created by virtue of the Concession Agreement (CA). The MWSS RO is mandated to monitor the CA and the concessionaires' performance regarding service obligations (SO). The regulatory body also determines and imposes the appropriate penalty for non-compliance with the SO. Rate adjustments, which are critical to the business, are likewise subject to the recommendation of the MWSS RO and approval of MWSS Board of Trustees (BOT). These need to be taken into consideration in the implementation of projects and tariff adjustments.

In 2021, Maynilad waived the ₱3.4 billion award it won in an arbitration case against the government in relation to the delayed implementation of the relevant tariffs for the rate rebasing period 2013-2017. Likewise, the review of the CA in 2020 resulted in the non-implementation of tariff adjustments from 2020 to 2022. With the approval of the RCA and the legislative franchise, the issues and uncertainties surrounding the CA have already been addressed. This places the Company in a more stable position in the coming years.

Nonetheless, regulatory and political risks remain key considerations in the Company's operating environment. As such, the experience and quality of management play a crucial role in managing such. With the successful renegotiation of the Company's CA with MWSS, Maynilad's management has demonstrated that it is capable of operating in and navigating the challenges of a highly regulated industry and managing the political risks that come with such.

3. Experienced management and strong parent support as a subsidiary of MPIC

Maynilad is 53% owned by Metro Pacific Investments Corporation (MPIC), one of the leading infrastructure holding companies in the country. MPIC has investments that span across various industries, including: water, toll roads, power generation and distribution, light rail, logistics, healthcare services, and storage.

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[1] Population projection from Maynilad's Approved Business Plan for the 6th Rate Rebasing Period (2023-2027)

As a subsidiary of MPIC, Maynilad benefits from MPIC's extensive network, experience, and expertise. For the first nine months of 2023, MPIC showed robust financial performance, with a reported net income amounting to ₱20.6 billion, up by 25.8% from ₱16.4 billion a year earlier.

Maynilad's Chairman, Mr. Manny Pangilinan, also sits at the helm of MPIC as Chairman and President. He has held the chairmanship of both companies since 2006. Mr. Pangilinan also sits on the Board of other established domestic companies. He has been repeatedly recognized locally and internationally for his business achievements and contributions to the country throughout his career. In addition, Mr. Ramoncito S. Fernandez, President and Chief Executive Officer (CEO) of Maynilad since 2016 has also been a director of MPIC since 2009. He led the tollways business of the MVP Group in its expansion projects and upheld strategies and programs on customer service satisfaction, innovation, and a performance-driven culture which promoted the profitability and growth of the organization.

4. Sustained profitability and sufficient debt coverage

Maynilad's operating revenues showed steady growth in the years leading up to the pandemic, with a 6.0% increase in 2018 and an 8.9% increase in 2019. Due to the pandemic, however, the Company recorded a 4.0% dip in revenues in 2020 and 2021. Maynilad managed to bounce back in 2022, recording a 4.2% topline growth as the economy returned to normalcy. In 2023, the Company’s revenue amounted to ₱27.3 billion, up by 19.4% compared to 2022.

Maynilad’s net income dropped from ₱7.4 billion in 2018 to ₱5.9 billion in 2022, a 5.5% CAGR decline over the period. Nonetheless, the Company bounced back in 2023, reaching ₱9.0 billion in net income, a 53.4% increase compared to the ₱5.9 billion recorded in 2022. Maynilad’s average net profit margin (NPM) from 2018 to 2022 was 29.1%. As of end-2023, Maynilad’s NPM was even higher at 33.0%.

Despite its increasing current debt from 2018-2022, Maynilad was able to maintain adequate coverage for its debt servicing. In 2023, Earnings before Interest and Taxes (EBIT) interest coverage ratio and debt service coverage ratio (DSCR) remained sufficient at 5.8x and 2.8x, respectively.

5. Ability to manage liquidity levels, supported by continuous cash collections from customers

As water is a necessity, demand for it is relatively stable even in varying economic conditions. Customers tend to settle obligations in cash in a relatively timely manner. This is expected to support Maynilad’s liquidity position moving forward. The Company has been utilizing its cash from its operating activities to partially finance its regular maintenance and expansion projects. It may also opt to prioritize essential CAPEX for production, if necessary.

BUSINESS REVIEW

Company Background

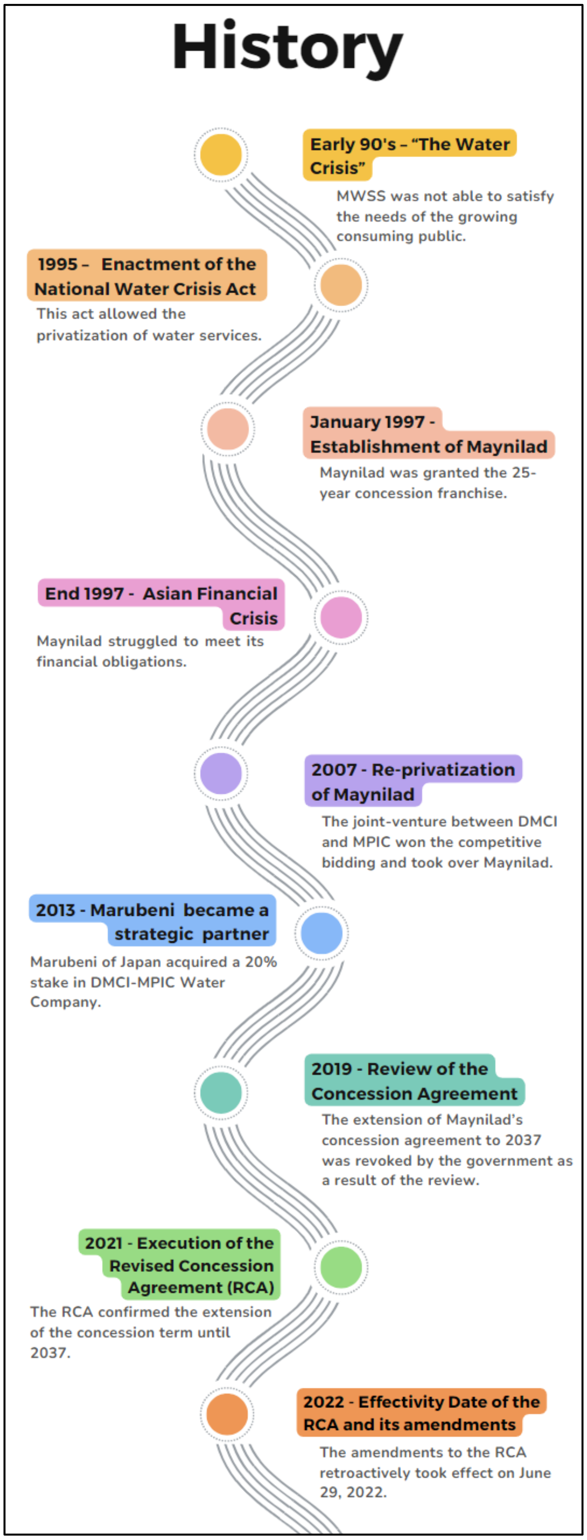
Maynilad is the exclusive provider of clean water and wastewater services in the West Zone of the Greater Metro Manila area. As of end-2023, the West Zone area had a total population of 10 million and covered 540 square kilometers (sq. km.). It encompassed 17 cities and municipalities, namely: Caloocan, Malabon, Navotas, Valenzuela, parts of Quezon City, parts of Manila, parts of Makati, Pasay, Parañaque, Las Piñas, Muntinlupa, Bacoor, Imus, Kawit, Rosario, Noveleta, and Cavite City.[2]

Figure 1. Maynilad Concession Area

[2] https://www.mayniladwater.com.ph/investor-relations/

History

Figure 2. Maynilad's History



Prior to the establishment of Maynilad, MWSS, a government-owned corporation, was mandated to provide water services in Metro Manila. MWSS, however, was not able to satisfy the water needs of the growing consuming public. In the early 90's, MWSS was only able to cover 69% of the entire Metro Manila. The non-revenue water (NRW) then was also reportedly the highest in Asia, and water availability only averaged 16 hours per day. MWSS' poor coverage and inefficient service led to the water crisis experienced by Metro Manila in the early 1990s. Considering such, MWSS was privatized through the National Water Crisis Act of 1995 (RA 8041). As a result of the privatization, the responsibility to operate and improve the waterworks system was passed on to two private concessionaires, one of which was Maynilad.

In 1997, the consortium of Benpres Holdings Corporation (Benpres) and Suez Lyonnaise de Eaux (Suez) won the 25-year franchise to provide water and wastewater services in the West Zone of Metro Manila; hence, the establishment of Maynilad. In August 1997, Maynilad formally assumed control of MWSS' operations in the West Zone of Metro Manila.

Towards the end of 1997, however, Maynilad struggled to meet its service and financial obligations, largely attributed to the impacts of the Asian Financial Crisis and the El Niño phenomenon. By 2005, Benpres and Suez ceded the management of Maynilad and returned the control to MWSS.

The following year, the government re-privatized Maynilad through a competitive bidding. DMCI-MPIC Water Company, a joint venture between MPIC and DMCI Holdings, Inc. (DMCI), won the competitive bidding in 2007 and took over the operations of Maynilad.

In 2013, Marubeni Corporation (Marubeni) of Japan acquired a 20% stake in DMCI-MPIC Water Company and became a strategic partner of the Metro Pacific-DMCI consortium.[3]

[3] https://www.mayniladwater.com.ph/our-company/our-story/

After a review and renegotiation of Maynilad's CA with MWSS in 2019, the RCA was signed on May 18, 2021. On December 10, 2021, the Republic Act No. 11600 – Maynilad's Legislative Franchise, was also signed into law. This grants Maynilad a 25-year franchise to establish, operate, and maintain waterworks system and sewerage and sanitation services in the West Zone service area of Metro Manila until January 2047.

Maynilad's RCA and Legislative franchise are further discussed in the following section.

Concession Agreement

The CA defines the service obligations of the concessionaires. It also sets the concessionaires' service obligation targets, water rate adjustments, dispute resolution, and penalties. By virtue of the CA, the MWSS RO was established to protect the interest of consumers. The MWSS RO reviews, monitors, and enforces rates and service standards; arranges and reports regular independent audits of the performance of the Concessionaires; and monitors the infrastructure assets.[4]

Maynilad has the exclusive concession over Metro Manila's West Service Area for 25 years starting in 1997. During the Arroyo administration in 2009, the expiry of the concession agreement was extended for another 15 years until 2037 from the initial expiration of 2022.

In 2019, however, the water interruption in the southern portion of Maynilad's West Zone prompted then-President, Rodrigo Duterte to order a review of the provisions of MWSS' CA with Maynilad and Manila Water Company, Inc. (Manila Water). The review by the Department of Justice showed that several onerous provisions were unfavorable to the government and the public. Given such, the Philippine government refused to comply with the arbitration ruling which ordered it to pay Maynilad the ₱3.4 billion compensation for losses which stemmed from MWSS' delayed implementation of the relevant tariffs for the rate rebasing period from 2013 to 2017. The government, likewise, revoked the extension of its concession agreement to 2037.[5]

In an effort to cooperate with the government, in 2020, Maynilad decided to not pursue/demand the arbitration rulings. Such a decision was made to settle the dispute and to allow for a proper renegotiation of the RCA.

On May 18, 2021, Maynilad and MWSS signed the RCA which confirmed Maynilad's concession term until July 31, 2037. With the signing of the RCA, Maynilad's status also changed from being an agent and contractor of MWSS to a public utility. A tariff freeze until December 31, 2022 was also implemented as part of the RCA.

Considering that its RCA is until 2037 while its legislative franchise is until 2047, Maynilad formally applied for a 10-year extension of the RCA's term on August 9, 2022, to align with the Company's 25-year legislative franchise.[6] While both the RCA and legislative franchise grant certain rights to Maynilad, these two differ in terms of nature and scope. A legislative franchise is granted to a company seeking to operate as a public utility through legislation enacted by the government.[7] On the other hand, the CA functions as a contract between Maynilad and the government, obliging the former to provide water and sewerage services to the West Zone of Metro Manila according to a detailed set of targets.

[4] https://ro.mwss.gov.ph/transparency-seal/on-governance-matters/structure/
[5] https://www.rappler.com/business/246902-mwss-cancels-manila-water-maynilad-concession-agreement-extension
[6] The legislative franchise was granted on January 2022.
[7] Other industries that require legislative franchises include telecommunications and broadcasting.

Subsequently, on September 14, 2022, Maynilad proposed to the MWSS certain amendments to the RCA. Such amendments include (1) reinstatement of the Foreign Currency Differential Adjustment mechanism; (b) Adjustment in the Consumer Price Index factor from 2/3 to 3/4 of the percentage change in the Consumer Price Index of the Philippines; and (c) exclusion of certain events from what may not be considered as Material Adverse Government Action. The amendments to the RCA were signed by MWSS and Maynilad on May 11, 2023. Such retroactively took effect on June 29, 2022, the date of the effectivity of the RCA.[8]

In December 2023, a public hearing in relation to the Company's application for term extension was conducted. According to Maynilad, the extension is necessary to recoup investments while providing more affordable water services to its customers. The extended RCA will allow Maynilad to have a longer period of cost recovery which will result in lower tariff increases.

Rate Rebasing

Rate Rebasing is the process of adjusting water rates every five years. It determines the level of rates for water and sewerage services that permit the water concessionaires to recover its operating, capital maintenance, and investment expenditures over the life of the concession.

The rate adjustment is subject to the review and recommendation of the MWSS RO and the approval of the MWSS Board of Trustees (BOT).

Given the review of the CA in 2020, the rate adjustments for 2020 and 2021 were not implemented. Similarly, a tariff freeze was also implemented in 2022 as stipulated in the signed RCA. As a result, Maynilad was only able to implement the first tranche of the Fifth Rate Rebasing period (2018-2022). Such was also the first tariff adjustment implemented by the Company since it filed the arbitration case against MWSS in 2013.

In November 2022, the MWSS BOT approved Maynilad's rate rebasing adjustment for the Sixth Rate Rebasing period (2023-2027). The first tranche was implemented in 2023.[9] MWSS also approved Maynilad's ₱7.87 per cubic meter (cu. m.) rate increase for 2024. According to Mr. Patrick Lester Ty, MWSS RO Chief Regulator, the adjustments took into consideration ₱1.40/cu.m. for inflation and ₱6.47/cu.m. for capital spending.[10] Such were the highest tariffs implemented historically.

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[8] https://www.mpic.com.ph/wp-content/uploads/2023/05/MPIC-17C-Maynilad-signing-of-the-Amendments-to-the-Revised-Concession-Agreement-filed-11-May-2023.pdf

[9] https://www.gmanetwork.com/news/money/companies/851753/mwss-approves-water-rate-hikes-for-manila-water-maynilad/story/

[10] https://www.gmanetwork.com/news/money/companies/891200/mwss-approves-water-rate-hike-of-manila-water-maynilad-in-2024/story/

Table 1. Rate Rebasing (2018 - 2027)

Rate Rebasing	Water Tariff per cu.m. No New Water Source	Water Tariff per cu.m. New Water Source	Effective date
Fifth Rate Rebasing	₱0.90	-	October 1, 2018
Fifth Rate Rebasing	₱1.95	-	January 1, 2020
Fifth Rate Rebasing	₱1.95	-	January 1, 2021
Fifth Rate Rebasing	₱0.93	-	January 1, 2022
Total	₱5.73	-	
Sixth Rate Rebasing	₱3.29	₱3.29	January 1, 2023
Sixth Rate Rebasing	₱6.26	₱6.26	January 1, 2024
Sixth Rate Rebasing	₱2.12	₱2.12	January 1, 2025
Sixth Rate Rebasing	₱0.84	1.01*	January 1, 2026
Sixth Rate Rebasing	₱0.80	1.01*	January 1, 2027
Total	₱13.31	₱13.69	

*Rate hike will vary depending on whether the new water source (Kaliwa Dam) is completed

Starting 2025, Maynilad's environmental charge will increase from 20% to 25%, subject to the Company's attainment of the 25% sewerage coverage by the end of 2024. As of end-2023, the account-based sewerage coverage of the Company was 23%.

For 2026 and 2027, Maynilad's rate increase will depend on the completion of the new water source – Kaliwa Dam. The foregoing is a new water source project by the MWSS that is expected to address the water supply deficit. The project is expected to be completed on or before 2028.

<u>Legislative Franchise</u>

On January 22, 2022, Maynilad was granted a 25-year legislative franchise as a public utility to establish, operate, and maintain a waterworks system and sewerage and sanitation services in its concession area.

Other highlights stipulated in RA 11600 include the following:

- The grant of authority to MWSS to extend the RCA for 10 years to coincide with the term of the franchise, if public interest so requires
- Non-recovery of Corporate Income Tax (CIT). The charges for water and wastewater services will no longer be subject to the 12% VAT, but will be subject to Other Percentage Tax ("OPT").
- The completion of Maynilad's water and sewerage projects to attain 100% coverage by 2037
- To publicly list at least 30% of the Company's outstanding capital stock within five years from the grant of the franchise

In an interview with Maynilad President Mr. Ramoncito Fernandez, he stated that the Company started its preparations for its IPO which is expected to be in 2025 or 2026, ahead of the deadline set by the Congress.

The management highlighted that the discussions and renegotiations in previous years have created a more favorable regulatory environment. These events also equipped Maynilad's leadership with experience in navigating such difficult situations.

National Water Resources Act[11]

In December 2023, the proposed House Bill 9663, also known as the National Water Resources Act, was approved in its second reading. The bill is a priority bill cited by President Ferdinand R. Marcos Jr. in his second State of the Nation Address. The bill seeks to create the Department of Water Resources (DWR) and establish the national framework for water resource management. The DWR would be the primary agency responsible for the thorough and unified identification and mapping of all water resources, as well as for planning, policy creation, and management.

The bill also proposes the creation of the Water Regulatory Commission (WRC), an independent, quasi-judicial regulatory body with overall authority to all service providers intending to provide water supply.

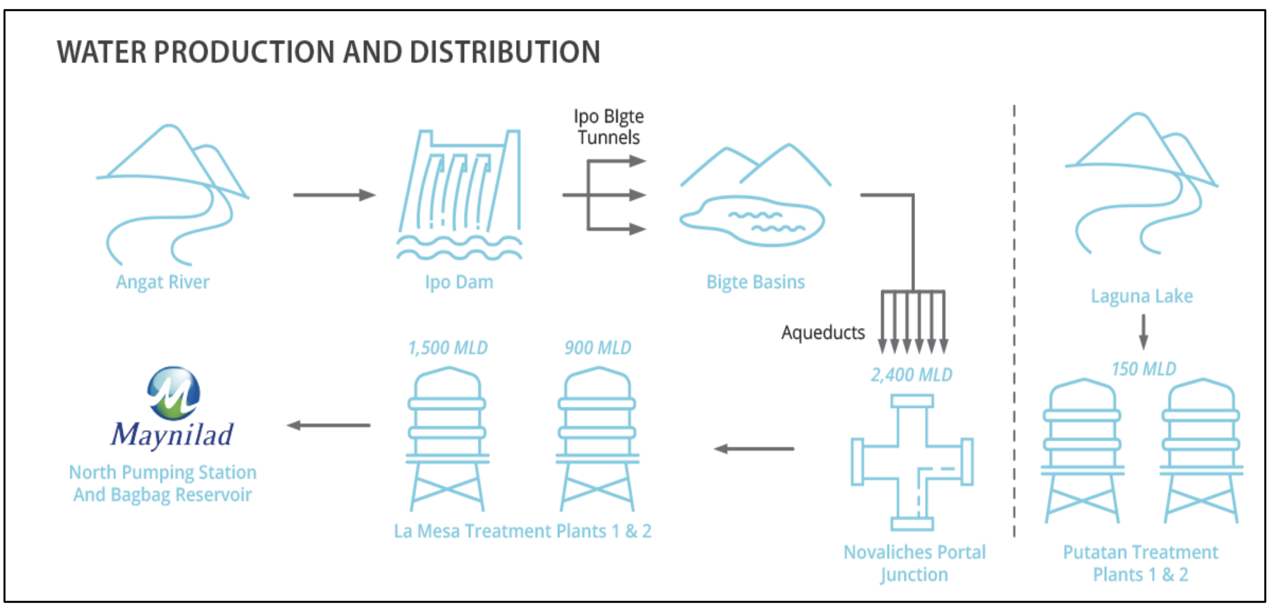
If the bill is passed into law, the MWSS will be an attached agency of the DWR, and its economic and regulatory functions will be transferred to the WRC. All disputes, therefore, arising from the concession agreements will have to be resolved by the courts and no longer through arbitration.

Operations

Water Supply

Maynilad's primary business is to provide piped-in water supply to its customers through its network of facilities and conveyances. About 88% of the Company's raw water is sourced from the Angat and Ipo Dams. In turn, these dams get their water from three rivers, namely: Umiray, Angat, and Ipo. The rest of Maynilad's water supply comes from the Laguna Lake – the largest lake in the country. The extracted raw water from these dams undergoes several treatment processes in the Company's treatment facilities before it passes the standards for potable water.

Figure 3. Water Production and Distribution



[11] https://www.pna.gov.ph/articles/1215008#:~:text=Marcos%20Jr.,and%20the%20Water%20Regulatory%20Commission.

Water Distribution

The Company is currently operating and maintaining five water treatment plants (WTP) with a total design capacity of 2,850 MLD (million liters per day).

1. La Mesa Treatment Plant 1: A standard flocculation-settlement-rapid gravity filter plant[12] designed by Camp, Dresser and McKee (American company).
2. La Mesa Treatment Plant 2: A pulsator-type plant[13] that uses modern vacuum process technology. It was designed by Degrémont (French company recognized as a world specialist in water treatment plants). Both LMTP 1 and 2 and their processes are manually operated.
3. Putatan Treatment Plant 1: Tapping water from Laguna Lake, it is the largest membrane-based water treatment plant[14] in the Philippines. The plant uses large-scale ultrafiltration and reverse osmosis.
4. Putatan Treatment Plant 2: It is Maynilad's second plant to tap raw water from Laguna Lake. It uses an advanced, multi-stage process for treating water.
5. Poblacion Water Treatment Plant in Muntinlupa: This is Maynilad's third WTP to tap Laguna Lake as a water source. The facility is operating partially and has a current capacity of 50 MLD. Once fully operational, it can produce 150 MLD of potable water. [15]

Table 2. Water Treatment Plants

Water Treatment Plant (WTP)	Design Capacity (MLD)	Commissioned Year
La Mesa Water Treatment Plant 1	1500	1982
La Mesa Water Treatment Plant 2	900	1995
Putatan Water Treatment Plant 1	150	2019
Putatan Water Treatment Plant 2	150	2019
Poblacion Water Treatment Plant	150*	2023
Total	2850	

*current capacity is 50 MLD

Aside from the aforementioned plants, the Company also operates and maintains three modular treatment plants (MTP).

In June 2023, the Parañaque NEW WATER Treatment Plant secured an operational permit following its consistent compliance with the Philippine National Standards for Drinking Water (PNSDW). This facility is a membrane-based water treatment plant that converts the treated effluent of the Parañaque Water Reclamation Facility into a drinking water supply. It currently serves two barangays in Parañaque City.

Maynilad has two MTPs in Valenzuela and Anabu. Anabu MTP, however, is operating partially with a current capacity of 5 MLD.

Modular Treatment Plant (MTP)	Design Capacity (MLD)
Paranaque NEW WATER MTP	10
Valenzuela MTP	1
Anabu MTP	16*
Total	27

*current capacity is 5 MLD

[12] Uses a combination of coagulation, flocculation, sedimentation and filtration
[13] Pulsator clarifier is equivalent to the flocculation and sedimentation process of LMTP 1
[14] Employs membrane separation processes such as microfiltration, ultrafiltration, reverse osmosis and nanofiltration
[15] https://www.mayniladwater.com.ph/maynilads-php11-b-poblacion-treatment-plant-nears-completion/

Treated water supply from the treatment plants is distributed by gravity or pumping, or a combination of both. As of December 31, 2023, Maynilad operates and maintains 38 pumping stations, 35 in-line boosters; and has laid approximately 11,468 km of total water pipelines. The Company also has 39 reservoirs with a total holding capacity of over 750 million liters of potable water. Before Maynilad was reprivatized in 2006, the Company only had 7 reservoirs.

Wastewater Services

In addition to providing water services, Maynilad is also mandated to provide wastewater services to the West Zone of the Greater Metro Manila area. Parts of Maynilad's concession area are connected to the Company's sewerage network to facilitate efficient collection and transport of wastewater from end-users to the treatment facilities. Such service is also provided to prevent the pollution of streams and other bodies of water.

To date, Maynilad operates six sewerage systems or catchments with 23 Water Reclamation Facilities (WRF) - 21 Sewage Treatment Plant (STP) and 2 Joint Sewage and Septage Treatment Plants (SSpTP). Maynilad's sewerage systems are located across the catchments in Manila, Quezon City, Caloocan-Malabon-Navotas, Muntinlupa, Pasay, and Parañaque.

Customers in the non-sewered areas, on the other hand, are provided with septic tank cleaning or sanitation services. Maynilad offers programmed desludging and desludging on demand.[16] Such services include the collection and transport of septage from individual septic tanks to Maynilad's septage treatment facilities at regular intervals or once every five years. The Company has three septage treatment facilities in the West Zone located in Dagat-Dagatan, Veterans Village, and Alabang-Zapote. Maynilad also has 93 vacuum truck units used for its desludging operations.

Customers

Maynilad is the largest private water concessionaire in the Philippines in terms of customer base. As of end-2023, Maynilad had 1,532,463 billed water services.

Water and sewer service accounts are classified into four categories, namely, residential, semi-business, commercial, and industrial. Residential refers to the water and sewer services used for domestic and sanitary use of a person or family living in one structure and built only as a domicile. Domestic and sanitary uses include: cooking, washing, bathing, flushing, laundry, and maintaining house facilities, all for the use of the permanent residents, their guests, and domestic helpers (workers are excluded). Semi-business refers to the use of water/sewer services by persons or entities engaged in a small non-domestic activity. Commercial refers to the use of water/sewer services by a private or public institution engaged in non-domestic/economic activities. Industrial refers to the use of water/sewer services by both private and government institutions engaged in the processing of goods from one form to another of higher economic value.

[16] Programmed desludging is a pro-active desludging service in an identified programmed area while desludging-on-demand is a desludging service rendered upon the request of customers.

Figure 4. Customer Classification

Residential

- Domestic and sanitary use of person of family living in one structure used as domicile.
- Residential type can be individual dwelling or multiple dwelling units (vertical or horizontal)

Semi-Business

- Small scale or home-based businesses, premises used for religious activities, and certain government institutions

Commercial

- Banks, shopping malls, hospitals, schools, Restaurants and hotels
- Establishments classified under agriculture, fishery and forestry, wholesale and retail trade, transportation, storage and communication, financing, insurance, real estate and business services, community, social and related service

Industrial

- Establishments classified under mining and quarrying, manufacturing, electricity, gas and water, and construction.

Operating Highlights

Historically, Maynilad derived approximately 82% of its revenue from the supply of water and 17% from its wastewater services. Revenue from water and wastewater services includes: water charges, environmental charges, and sewerage charges. In 2022, Maynilad bounced back after two consecutive years of declining operating revenue. At the onset of the pandemic, in 2020 and 2021, the Company experienced a 4% revenue decrease. It should be noted, however, that such a decline in topline during the pandemic was relatively modest compared to other industries or sectors. In 2022, Maynilad achieved a 4.2% growth in operating revenue as the country began its recovery from the effects of the pandemic.

Table 3. Key Operational Indicators

Operational indicators	2018	2019	2020	2021	2022
Billed Customers	1,407,503	1,453,979	1,484,128	1,501,371	1,522,992
Billed Volume (in MCM)	527	535	536	520	527
Billed Revenue (in millions)	22,024	23,992	22,937	21,950	22,875
End-of-period None-revenue water at DMA (%)	27.1%	25.3%	30.9%	33.0%	32.0%
Average Non-revenue Water at DMA (%)	29.8%	26.4%	26.1%	31.8%	30.0%
Average Non-revenue Water Total (%)	39.5%	39.0%	41.5%	44.9%	43.0%
Water Service Coverage[1]	93.9%	94.2%	94.3%	94.5%	94.7%

[1] Water service coverage = estimated population served with water / the total population in the West Zone. Water Service coverage for 2022 is an estimate from the 2023-2027 ABP

Total billed volume,[17] a critical revenue driver, grew by a minimal rate of 2% in 2019. Such growth, however, was tamed when the pandemic hit in 2020. Billed volume was relatively flat at 536 MCM in 2020. The increase in billed volume in the residential category was due to the mobility restrictions during the pandemic. Such, however, was offset by the closure of establishments in the semi-business, commercial, and industrial categories. In 2021, the total billed volume declined by 3% to 520 MCM, as the growth in residential usage recorded a decline for the period. Other customer groups, likewise, recorded a decline in billed volume. As the economy gradually returned to normalcy, Maynilad's billed volume increased to 527 MCM in 2022 and 538 MCM in 2023.

Maynilad was able to consistently grow its customer base in the past five years, even during the pandemic, from 1,407,503 in 2018 to 1,532,463 in 2023. Of the 1,532,463 billed water services in 2023, 92.2% were residential accounts, 3.9% were commercial, 3.3% were semi-business, and 0.7% were industrial. Although

[17] Billed volume is the amount of treated water that is produced, delivered and sold to customer.

the residential category accounted for more than 90% of the total billed services, its billed volume and billed revenue contribution were lower at 74.2% and 50.6%, respectively. The commercial category, on the other hand, only generated 3.9% of the total billed services but contributed over a quarter or 30.2% of the total revenues for the period. The commercial and industrial customer categories carry higher tariffs than the residential category. This explains the higher revenue contribution of the former despite accounting for a relatively small chunk of the Company's total billed services.

Table 4. 2023 Billed Services, Volume, and Revenue per customer

Customer Category	Billed Services (As of Dec 2023)	Billed Volume (Dec 2023)	Billed Revenues (Dec 2023)
Residential	92.2%	74.2%	50.6%
Commercial	3.9%	13.4%	30.2%
Semi-Business	3.3%	7.4%	7.2%
Industrial	0.7%	5.0%	12.1%

Maynilad uses the district metered approach (DMA) approach in measuring its NRW.[18] NRW refers to the volume of water lost in Maynilad's distribution system due to leakage, illegal connections, and/or metering errors. DMAs are small, isolated areas where the water entering and leaving the system is measured—Maynilad's average NRW at DMA from 2018 to 2022 was 28.8%. Maynilad's NRW at DMA showed an improving trend from 2018 to 2020 before it inched up to 31.8% in 2021. The minimal improvement in NRW in 2020 was attributable to the challenges encountered in executing pipe replacements and leak repairs due to the mobility restrictions during the period. The higher NRW in 2021 was on the back of the slowed implementation of CAPEX projects, also a result of the pandemic restrictions. Another hurdle that the Company is facing in improving its NRW is the replacement of old pipes. Given the inconvenience often caused by the pipe replacements to motorists and pedestrians, Maynilad would need to secure all the necessary permits from homeowners' associations, barangays, city governments, etc., to proceed with the pipe replacement projects. Maynilad's concession area covers approximately 1,800 barangays, making the permit acquisition process very tedious. Nevertheless, the Company is collaborating with the DILG to streamline and fast-track the process of acquiring permits.

Based on the Approved Business Plan 2023-2027, NRW at DMA is expected to reach 20% in 2026.

Subsidiaries

Maynilad has two subsidiaries, namely Philippine Hydro, Inc. (PhilHydro) and Amayi Water Solutions Inc.

Philippine Hydro, Inc. (PhilHydro)

PhilHydro is a wholly-owned subsidiary of Maynilad since 2012. PhilHydro owns and operates four WTPs responsible for the supply of treated water to Legazpi City Water District in Albay; Norzagaray, Santa Maria, and Bocaue Water Districts in Bulacan; and the municipal waterworks of Bambang, Nueva Vizcaya. PhilHydro also operates the water supply and distribution system in Rizal, a municipality in Nueva Ecija. All of PhilHydro's WTPs operate under Public-Private Partnership (PPP) Contracts with the government, either

[18] DMA NRW is the difference between the volume of treated water that enters the DMA and the billed volume. On the other hand, total NRW is the difference between the volume of treated water produced by the plants and the volume of water billed to customers.

through the Local Government Units (LGUs) or Government-Owned and Controlled Corporations (GOCCs), such as Water Districts.

Amayi Water Solutions Inc.

Amayi Water Solutions, Inc., also called Maynilad BOAC, is engaged in the distribution of water in Boac, Marinduque under a 25-year concession agreement. The CA covers financing, rehabilitation, development, expansion, improvement, operation, and maintenance of the water supply system in 41 barangays in Boac.

Maynilad BOAC's CAPEX projects focus on the rehabilitation and expansion of the existing water system in the municipality. The current pipelines are expected to be upgraded to higher-capacity pipes to meet the rising demand in the region. Maynilad BOAC likewise aims to install new pipelines to extend its services to 15 more barangays. Such is expected to increase its service coverage from 24% to 76%.

Maynilad BOAC also intends to increase its water supply through the rehabilitation of two existing deep wells and the construction of eight new deep wells.

Targets and Strategies

As a water concessionaire, Maynilad is obliged to fulfill a set of service obligations (SO) on water, sewerage and sanitation services.

Under the original CA, the general obligation regarding the provision of water services included: water supply and new connections, continuity of supply, the obligation to make connections to a water main, and compliance with drinking water quality standards. Under the RCA, NRW was added as a new SO. While NRW reduction has been a key part of Maynilad's internal scorecard in the past, its inclusion as a new SO in the RCA would mean that the Company could be penalized due to non-compliance.

Maynilad's strategies are driven by the Company's SO targets. Meeting these targets will allow the Company to fulfill the current and future needs of its customers.

Table 5. Service Obligation Targets

Service Obligation Targets	Actual	Target							
	2021	2022	2023	2024	2025	2026	2031	2036	2041	2046
Water Service Coverage	95%	95%	95%	95%	95%	95%	97%	99%	99%	99%
Sewer coverage (account based)	15%	18%	21%	21%	22%	33%	49%	64%	69%	76%
Sanitation coverage (account based)	62%	61%	60%	62%	66%	67%	51%	36%	31%	24%
Total Wastewater coverage	77%	79%	81%	83%	88%	100%	100%	100%	100%	100%

Maynilad's spending plan for the Sixth Rate Rebasing Period amounted to ₱219.5 billion – ₱163 billion for CAPEX (service enhancement programs) and ₱56 billion for cash and non-cash operating expenses. The planned projects include the construction of new water treatment plants, including the Teresa WTP, and wastewater facilities; pipe replacements; rehabilitation of pump stations; and installation of primary lines, among others.

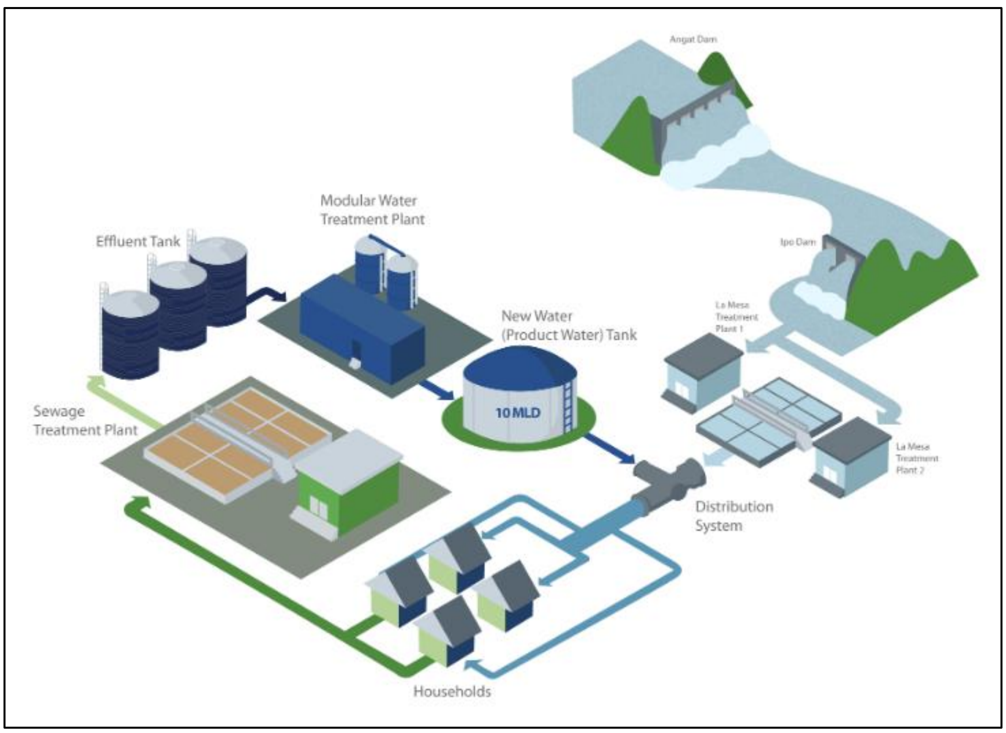
Plans for Water

The Angat Dam, which supplies over 97% of Metro Manila's water, has experienced supply shortfall in the past. In July 2023, the water level dipped below its minimum operating level of 180 meters. To ensure a continuous water supply in the future, new water sources need to be developed.

The MWSS is developing the New Centennial Water Source - Kaliwa Dam Project (Kaliwa Dam Project). This is the initial face of the Integrated Laiban-Kaliwa Dam Project which is expected to have a combined total capacity of 2,400 MLD. The Kaliwa Dam Project will serve as a new water resource that will help reduce the region's dependence on the Angat Dam. It is expected to yield 600 MLD which will be equally allocated between Manila Water and Maynilad. According to MWSS, the Kaliwa Dam could deliver the first drop of water by 2027. Maynilad expects the Teresa WTP, which will receive a 300-MLD raw water allocation from Kaliwa Dam, to be completed by 2H2028.

In June 2022, Maynilad also launched its "New Water" project. This is one of Maynilad's strategies to boost the available supply and develop other sustainable sources of raw water. The New Water project involves recycling used water and converting it into potable water. Once converted, it will be blended with the water supply in the Company's distribution system. Maynilad allotted ₱5.7 billion for the development of five New Water Treatment Plants in Paranaque, Muntinlupa, Valenzuela, and Pasay. These five facilities will have a total combined capacity of 97 MLD. Paranaque New Water Treatment Plant is the first New Water plant completed by Maynilad. The Company intends to expand the capacity of this facility. According to management, however, the details for the Paranaque extension as well as the Muntinlupa NEW WATER facility are still being finalized.

Figure 5. New Water Treatment Process



In December 2023, Maynilad inaugurated the Poblacion Water Treatment Plant in Muntinlupa. The facility is partially operating and produces 50 MLD of potable water. Once fully operational in 1H2024, the Poblacion Water Treatment Plant is expected to produce 150 MLD of potable water. The increased water supply from the ₱11-billion project is anticipated to alleviate the service interruption brought by changes in Laguna Lake's raw water quality, which has been occurring frequently due to climate change.

Other water source developments include the construction of four Modular Water Treatment Plants in Cavite. One of the four MTPs, Anabu, is partially operating with a 5 MLD capacity. These small-scale treatment plants will serve as a dedicated supply source for these underserved areas in Cavite. Such areas do not receive a 24-hour supply of water yet.

Table 6. Maynilad Water Projects

Under Construction			
Water Treatment Plant	Design Capacity (MLD)	Status of completion	Expected/Start of operations
Teresa Water Treatment Plant	300	0%	2H2028
Poblacion Water Treatment Plant	150	88%	Partial Operations
"New Water" Treatment Plant	Design Capacity (MLD)	Status of completion	Expected/Start of operations
Pasay New Water MTP	12	32%	3Q2024
Modular Water Treatment Plant	Design Capacity (MLD)	Status of completion	Expected/Start of operations
Anabu MTP	16	98%	Partial Operations
Julian MTP	3	83%	2H2024
Molino MTP	5	66%	4Q2024
Ligas MTP	18	27%	1Q2025

Maynilad is also doing rehabilitation projects in relation to Angat and Ipo to increase their reliability and provide operational flexibility. Some of the projects are the following:

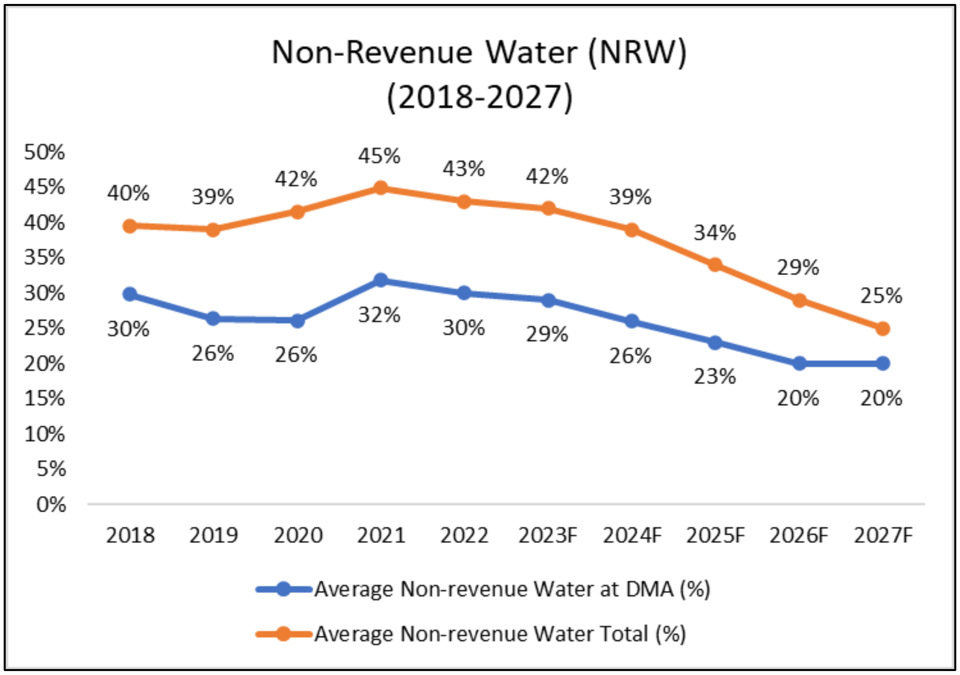
i. Rehabilitation of Bigte-Novaliches Aqueducts (BNAQ) 4 and 5
ii. Protection of exposed aqueducts and rehabilitation of damaged blow-offs
iii. Slope protection along the Ipo access road
iv. Feasibility study for Angat Raw Water Reliability project
v. Design and build contract for Common Purpose Facilities (CPF) forecasting, network communications, and instrumentation project
vi. Additional conveyances such as Tunnel no. 5 and BNAQ no. 7

Regarding its water system, Maynilad intends to put up additional reservoirs in locations with low pressure during peak demand hours to increase supply storage. Reservoirs are used to store water during off-peak demand hours when water pressure is high. They then release the stored water during peak demand periods, while sustaining the required pressure. One of the major reservoir projects of the Company is the Bagbag 3rd cell and Parada (140ML storage capacity).

The Company's current reserve capacity is 7.5 hours. Such is below the standard reserve capacity of 12 hours.

Lastly, Maynilad targets to reduce its total NRW and DMA NRW to 29% and 20%, respectively, by 2026. The 20% DMA NRW is expected to be maintained until the end of the concession. The total NRW, on the other hand, is aimed to reach 20% by 2030 and will be maintained at that rate moving forward.

Figure 6. Historical and Projected Non-Revenue Water



To improve its NRW, Maynilad will focus on the following initiatives:

i. DMA splitting, diagnostic, and leak repair
ii. Meter management
iii. Purchase of leak detection equipment
iv. Selective pipe replacement
v. Primary line assessment and repair

Through the aforementioned projects and initiatives, Maynilad targets to achieve 95.1% water coverage in the West Zone by 2026 and 96.8% coverage by 2031. As of end-2023, the Company reached 94.8% water coverage. Such is in line with the target set in the 2023 ABP.

Plans for Wastewater Services

The general obligations regarding the provision of sewerage services include: supply of sewerage service, compliance with wastewater standards, and septic and sanitation cleaning.

As of end-2023, the account-based sewerage was 23%. Such were higher than the sewerage target set for 2023. Maynilad aims to reach 33% sewer coverage by 2026. To achieve this, Maynilad will implement sewer network projects such as the continued installment of new sewer service connections (NSSC), focusing on areas where the bulk of unsewered accounts are located. Maynilad targets to add 2,000 NSSCs every year. The Company will also improve network reliability through the rehabilitation of existing sewer lines and expand the sewerage system and water reclamation facilities in Valenzuela, Las Pinas, Caloocan-Malabon (CAMANA) and Muntinlupa.

Sanitation services will still be provided to customers not yet served by sewerage services.

Ownership

Maynilad is a subsidiary of Maynilad Water Holding Company, Inc (MWHCI), a joint venture between MPIC, DMCI and Marubeni. As of end-2022, Maynilad is 92.85% owned by MWHCI. MWHCI, on the other hand, is 51.3% owned by MPIC, 27.19% owned by DMCI, and 21.5% owned by MCNK JV Corporation (MCNK, a subsidiary of Marubeni) as of end of the same period. PhilRatings notes that MWHCI's parent, MPIC, also held a direct interest of 5.2% in Maynilad as of end-2022. Given such, MPIC's effective interest in Maynilad was at 52.8% as of end-2022.

MPIC is one of the leading infrastructure holding companies in the Philippines. MPIC's asset portfolio includes investments in water, toll roads, power generation and distribution, light rail, logistics, healthcare services, and storage. As of end-2022, MPIC owned 47.5% of Manila Electric Company ("Meralco"), 99.9% of Metro Pacific Tollways Corporation and 20.0% of Metro Pacific Health Corporation, among other assets.

In 2022, MPIC recorded a 17% increase in revenues, jumping from ₱43.6 billion in 2021 to ₱50.9 billion. Such was driven by the higher contribution from the toll road segment which was a result of improved average daily entries and tariff increases implemented in 2022. MPIC also recorded an increase in share in net earnings of associates and joint ventures from ₱10.3 billion in 2021 to ₱14.2 billion in 2022, primarily on account of MPIC's increased investment in Meralco. On August 3, 2022, MPIC acquired an additional 2% of Meralco's outstanding shares.

MPIC's net income from continuing operations likewise soared to ₱13.1 billion in 2022, a 122% increase from the ₱5.9 billion recorded in 2021. Reported net income, however, increased by only 13% due to the absence of a one-time gain recognized from the sale of Global Business Power Corporation (GBPC) in 2021. In 2021, MPIC's investment in GBPC, held through Beacon PowerGen Holdings Inc. (BPHI) was sold to Meralco's subsidiary, Meralco PowerGen Corporation (MGen).

MPIC's total assets stood at ₱643.8 billion as of end-2022. MPIC also had a strong and positive operating cash flow amounting to ₱20.6 billion.

For the first nine months of 2023 (9M2023), MPIC reported a net income of ₱20.6 billion, up by 25.8% from ₱16.4 billion a year earlier. Such growth was driven by the strong performance of the power generation business, reflecting increased pass-through charges, higher generation revenues and volumes sold, as well as the higher water tariff implemented by Maynilad in 2023.

Delisting of MPIC

On July 6, 2023, Metro Pacific Holdings Inc. (MPHI), GT Capital Holdings, Inc. (GT Cap), Mit-Pacific Infrastructure Holdings Corporation (Mit-Pacific), and MIG Holdings Incorporated (MIG), collectively referred as "the Bidders", announced their intention to acquire approximately 31.7% of MPIC's common shares via a tender offer. Prior to the tender offer, MPIC's major shareholders were MPHI and GT Capital with 46.1% and 17.1% of the total shares, respectively. The Bidders made the tender offer to own at least 95% of MPIC with the intent to voluntarily delist MPIC from the Philippines Stock Exchange (PSE).[19]

On September 21, 2023, a total of 5,464,753,560 or 19.04% of MPIC's shares have been tendered. The aggregate total of the tendered shares, the common shares of MPIC's Board of Directors, as well as the non-public shares, is equivalent to 97.23% of the total listed and outstanding shares. With the completion of the tender offer and with MPIC's public float (2.77%) falling below the required minimum public

[19] https://www.mpic.com.ph/wp-content/uploads/2023/08/MPIC-Delisting-Tender-Offer-Report-2023-08-08.pdf

ownership level of 10%, the exchange ordered the delisting of MPIC's share from the PSE effective on October 9, 2023.

DMCI is an engineering and construction company. It operates in four key construction segments: building, energy, infrastructure, and utilities. Although, DMCI was also heavily impacted by the pandemic, it already recovered and breached its pre-pandemic revenues and net income in 2021. During that year, its revenue grew by 60% while its net income grew more than threefold or by 246%. All its business segments delivered robust growth on account of the stronger-than-expected coal, electricity, and nickel markets, alongside higher construction completion of its projects. In 2022, DMCI's revenues grew by 32% to ₱142.6 billion, beating its record-high topline in 2021. The growth was driven by the elevated coal, power, and nickel average selling prices. DMCI also set a new record-high as its net income surged by 89%, from ₱25.7 billion in 2021 to ₱48.5 billion in 2022.

Marubeni is a major Japanese integrated trading and investment business conglomerate that handles products and provides services in a broad range of businesses across wide-ranging fields. For fiscal year ended March 31, 2023, Marubeni recorded a net profit of ¥552.8 billion (₱206.2 billion), up by 27% from ¥434.9 billion (₱162.3 billion) in fiscal year 2022. The improvement was mainly on account of the 8.0% increase revenue from its Agri Business, Energy, and Food businesses, as well as the gain on the sale of Gavilon's grain business amounting to ¥53 billion (₱19.8 billion). For the six-month period ended September 30, 2023, however, topline dropped by 33% to ¥3.8 billion (₱1.4 billion). Such was due to the decrease in revenues from Food segment resulting from the sale of Gavilon's grain business. Marubeni likewise recorded a decline in its bottomline during the period. Its net profit as of end-September 2023 amounted to ¥256.6 billion (₱95.7 billion), a 20.0% decline from its net income in the same period in 2022.[20]

As of September 2023, Marubeni had a Baa1 and BBB+ with Stable Outlook rating from Moody's and S&P Global, respectively.[21]

Management

Mr. Manuel V. Pangilinan is Maynilad's Chairman since 2007. He has extensive experience in the management and operation in wide range of industries from telecommunication, energy, water, toll roads, rail, hospitals, mining, food, and agriculture. He also serves as the Chairman of the Board of Directors of MPIC, PLDT Inc. (PLDT), Meralco, PXP Energy Corporation (formerly Philex Petroleum Corporation), and Philex Mining Corporation. Mr. Pangilinan also holds the position of President and Commissioner of P.T. Indofood Sukses Makmur (Indofood), the largest food company in Indonesia. Indofood operates under the First Pacific Group which Mr. Pangilinan founded in 1981. He likewise serves as its Managing Director and CEO.

Mr. Pangilinan has been repeatedly recognized locally and internationally for his business accolades and contributions to the country throughout his career. He graduated cum laude from the Ateneo de Manila University with a Bachelor of Arts degree in Economics. He also has a Master of Business Administration (MBA) degree from the Wharton School of the University of Pennsylvania.

Mr. Ramoncito S. Fernandez is the President and CEO of Maynilad since January 2016. Mr. Fernandez has been with the MVP Group since 1994, first under its packaging business, and later under PLDT Inc. and Smart Communications, Inc. Prior to his appointment as Maynilad President and CEO, he served as the President and CEO of Metro Pacific Tollways Corporation and Tollways Management Corporation where

[20] https://ssl4.eir-parts.net/doc/8002/tdnet/2352722/00.pdf
[21] https://cbonds.com/news/2492979/; https://cbonds.com/news/2416093/

he expanded MPIC's toll roads portfolio. He earned a Bachelor of Science degree in Industrial Management Engineering from De La Salle University and Masters in Business Management from the Asian Institute of Management.

Appointed in February 2017, Mr. Ricardo Delos Reyes is Maynilad's Chief Finance Officer (CFO). Before he joined Maynilad, Mr. Delos Reyes worked at IBM Analytics Solutions Lab Services in North America, helping introduce system-enabled enterprise reporting, performance management, data mining/predictive modelling and optimization solutions at various global corporations. He also has 15 years of extensive experience in Finance, having held senior management posts at United Laboratories, Inc. and Johnson and Johnson. Mr. Delos Reyes obtained his Commerce Degree in Finance, Master of Business Administration (MBA) degree and his Juris Doctor (Law) degree from Santa Clara University in California, USA. He is also a member of the California Bar.

Mr. Isidro A. Consunji is Maynilad's Vice Chairman since January 2007. He currently serves as the Chairman and President of DMCI. Mr. Consunji also serves as a member of the Board of Directors of various mining, construction, and power companies, such as Semirara Mining and Power Corp., D.M. Consunji, Inc., Southwest Luzon Power Generation Corp., among others. Mr. Consunji obtained his Bachelor's Degree in Civil Engineering from the University of the Philippines. He earned his Master of Business Economics degree from the University of Asia and the Pacific and Master of Business Management from the Asian Institute of Management. He also took an Advanced Management Program at IESE School in Barcelona, Spain.

Environmental, Social, and Governance

Maynilad's main product, water, is a limited natural resource. As such, the Company continuously develops programs to harness this resource in sustainable, environmentally, and socially sound ways.

The NEW WATER Project is the Company's landmark initiative to provide sustainable solutions and augment the water supply crisis. Maynilad is the first company to produce drinkable reused water in the country and the first to introduce the "direct potable reuse" initiative in Asia.[22] In addition to this, Maynilad also inaugurated the new and expanded Maynilad WATERlab in La Mesa Compound in Quezon City. This facility is earthquake-resistant and houses Maynilad's advanced analytical instruments.

The Company also has environmental management programs aimed at minimizing its environmental impact, as well as conserving and protecting natural resources. Maynilad conducts a tree-planting activity called Plant for Life. This project is the Company's flagship environmental conservation program to restore the watershed in Angat, Ipo, and La Mesa. Plant for Life is now a multisite reforestation program that includes areas along the Manila Bay coast and Laguna Lake. It also supports the MWSS "Annual Million Tree Challenge," which aims to plant 10 million trees by 2030. In 2022, Plant for Life planted its one-millionth tree.

In 2019, Maynilad was ordered to pay ₱921 million for violating Section 8 of the Philippine Clean Water Act of 2004 which mandated concessionaires to connect all existing sewage lines to the available sewerage system within five years from the law's effectivity in 2004. Maynilad, however, filed a Motion for Reconsideration (MFR) asking the Supreme Court (SC) to revoke its ruling. In 2022, the SC modified its ruling and reduced the total fine to ₱202 million which Maynilad settled on February 15, 2023, upon the

[22] Direct potable reuse: Involves the treatment and distribution of water without environmental buffer such as aquifers, lakes, or wetlands.

Final Resolution provided by the SC. In 2021, Maynilad's Tondo Sewage Pumping Plant (TSPP) had one incident of monetary sanction for non-compliance to the Class SB regulations. Such penalty amounted to ₱90 million.

In terms of social impact, Maynilad contributes to the development of the communities it serves by supporting social enterprises; leading water, sanitation, and hygiene (WASH) programs; and providing disaster responses. The Company supports three social enterprises, namely, Green Badge, Kapwa, and Sining Ipo. Kapwa produces handwash, soap, and other sanitation products while Green Badge repurposes old Maynilad uniforms into face masks, tote bags, and plush toys. These programs provide Kapwa and Green Badge members an opportunity to earn extra income ranging from ₱1,500 to ₱4,000. The hygiene and sanitation supplies produced by these enterprises are also being supplied to 14 public school districts in the West Zone area in support of DepEd's Brigada Eskwela. Sining Ipo, on the other hand, is an alternative livelihood program for the Dumagats, the indigenous community in the Ipo watershed. Part of the Sining Ipo initiative is to train the Dumagats in the art of sculpture-making and woodcraft as an alternative livelihood to slash-and-burn farming.

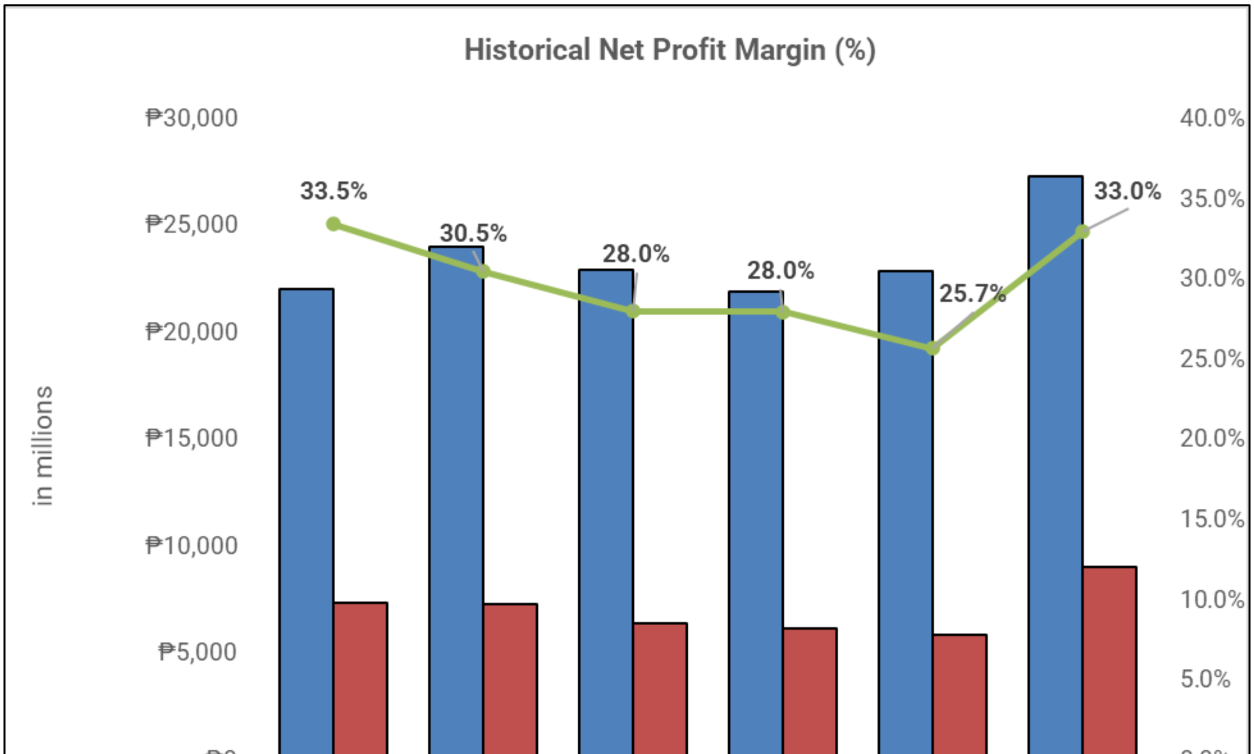
Maynilad also aims to achieve climate neutrality by 2037. The Company's target is to have a 35% renewable energy mix, 50% mix of e-vehicles and fuel vehicles, and a carbon sink of 180,000 tCO2. To improve its energy management system and reduce its reliance on non-renewable energy sources, the Company began utilizing solar panels in its operations in 2021. In 2022, the company introduced its second solar power farm in La Mesa Compound. The new solar farm is expected to reduce the Company's electricity consumption, lower its carbon emissions, and generate cost savings by reducing its reliance on purchased electricity.

The Company also has several governance-related policies in place such as Whistleblowing, Conflict of Interest, Anti-Fraud, Anti-Bribery, and Anti-Corruption to uphold the values of fairness and transparency. Maynilad had zero incidents of corruption as of end-2022.

FINANCIAL REVIEW

Profitability

Figure 7. Historical NPM



	2018	2019	2020	2021	2022	2023
Total Revenues	₱22,024	₱23,992	₱22,937	₱21,950	₱22,875	₱27,323
Net Income	₱7,368	₱7,316	₱6,425	₱6,143	₱5,875	₱9,011
NPM	33.5%	30.5%	28.0%	28.0%	25.7%	33.0%

2018-2022

Relatively flat revenues and a marginal decline in net income. Maynilad's operating revenues showed steady growth in the years leading up to the pandemic, with a 6.0% increase in 2018 and an 8.9% increase in 2019. When the pandemic hit in 2020, Maynilad recorded a relatively marginal decline in operating revenue at 4.4%. In addition to the pandemic-related reasons such as reduced collection efficiency and lower demand from the commercial and industrial segments, the non-implementation of the tariff adjustment in 2020 contributed to the revenue decline. Revenues further dropped in 2021 due to a decrease in billed volume from 536 MCM in 2020 to 520 MCM in 2021, coupled with the non-implementation of tariff adjustments and Consumer Price Index (CPI) adjustments in 2021. Maynilad managed to bounce back in 2022, despite the tariff freeze, with its revenues reaching ₱22.9 billion, a 4.2% improvement from 2021. The topline growth was attributed to the improvement in billed volume and higher effective tariffs as the demand from the commercial and industrial segments recovered. Maynilad's revenue was relatively unchanged in the five-year period with an annual compounded growth rate (CAGR) of 1.0%.

Similarly, Maynilad's non-cash operating expenses[23] over the five-year period remained relatively unchanged at ₱3.0 billion. The only notable movement was recorded in 2020 due to the increase in provision for expected credit losses, from a reversal of ₱2.0 million in 2019 to a provision of ₱551 million. This was driven by the payment extension offered by Maynilad to its consumers during the period, as ordered by the MWSS. The payment extension resulted in a significant growth in the Company's water and wastewater trade receivables, hence the high provision for credit losses. The rise in amortization of service concession assets (SCA) from ₱3.2 billion in 2019 to ₱3.8 billion in 2020 likewise contributed to the higher non-cash operating expense during the period.

Cash operating expenses (opex), on the other hand, grew at a CAGR of 7.9% over the five-year period. Historically, salaries, wages and benefits, utilities, contracted services, and repairs and maintenance comprised the majority of Maynilad's cash opex. A notable jump occurred in 2022, when cash opex rose from ₱6.8 billion to ₱8.8 billion. This was driven by the higher utility cost, cost of purchased water, and tax charges. The higher tax charges can be attributed to the shift in the tax regime under the Legislative Franchise. As a result of the foregoing, operating margin and EBITDA margin were on a constant decline, dropping from 56.2% and 70.6% in 2018 to 48.2% and 57.9%, respectively, in 2022.

Interest expense and other financing charges hovered at around ₱2.0 billion to ₱2.3 billion over the five-year period.

Maynilad managed to record positive net income from 2018 to 2022 despite the pandemic. Such, however, exhibited a continued decline, from ₱7.4 billion in 2018 to ₱5.9 billion in 2022. Similarly, the net profit margin dropped from 33.4% in 2018 to 25.7% in 2022. The Company's ROAE and ROAA have, likewise, shown a declining trend in the past five years.

EBIT Interest Cover and Debt Service Coverage (DSCR) remained more than sufficient from 2018 to 2022, albeit also at a declining trend. The average EBIT Interest Coverage ratio and DSCR over the period were 5.2x and 3.1x, respectively.

2023

Improved performance. In 2023, Maynilad's operating revenue amounted to ₱27.3 billion, a 19.4% increase compared to 2022. The revenue growth was primarily attributed to the new tariff implemented on January 1, 2023.

Non-cash operating expenses jumped by 27.8% from ₱3.0 billion in 2022 to ₱3.9 billion in 2023. The increase was on account of the ₱601 million provision for expected credit losses. Cash operating expenses likewise grew to ₱10.2 billion, from ₱8.8 billion in 2022, driven by the higher contracted services, cost of purchased water, salaries, wages and benefits, and repairs and maintenance.

Maynilad's net income amounted to ₱9.0 billion in 2023, a significant increase of 53.4% from ₱5.9 billion in 2022. As a result, its net profit margin improved to 33.0%. Such is the highest margin reported by the Company since the pandemic in 2020.

The Company's ROAE and ROAA were also higher in 2023 at 18.3% and 7.8%, respectively.

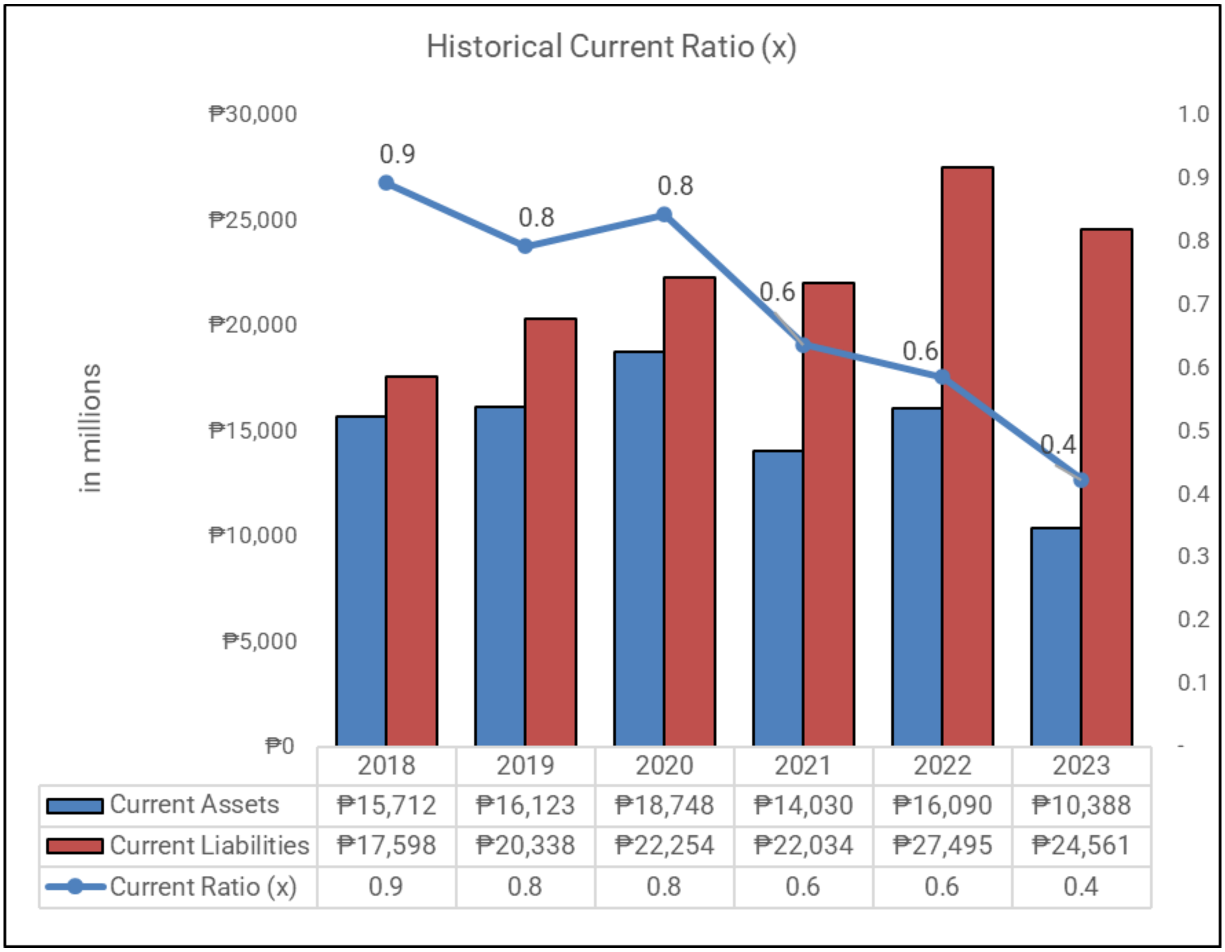
[23] Non-cash operating expenses comprised of the amortization of SCA, depreciation and amortization, and provision for credit losses

Projected Period

Total revenues and net income are expected to increase supported by the steady growth in billed volume and the expected reduction in the Company's NRW in the coming years. Costs are seen to grow in line with the increase in revenues, with margins remaining strong.

Liquidity and Cash flow

Figure 8. Historical Current Ratio (x)



	2018	2019	2020	2021	2022	2023
Current Assets	₱15,712	₱16,123	₱18,748	₱14,030	₱16,090	₱10,388
Current Liabilities	₱17,598	₱20,338	₱22,254	₱22,034	₱27,495	₱24,561
Current Ratio (x)	0.9	0.8	0.8	0.6	0.6	0.4

2018-2022

Positive operating cash flow prior to 2022. Maynilad consistently booked positive operating cash flows from 2018 to 2021. In 2020, Maynilad recorded a significant increase in trade and other receivables, from ₱221.5 million in 2019 to ₱2.7 billion, on account of the moratorium on collections. Nonetheless, the Company managed to book positive operating cashflows during the period due to a lower increase in SCA.[24] Such was a result of delayed implementation of projects due to the pandemic and the uncertainties surrounding the CA. Operating cash flow remained positive in 2021 as collections improved. Conversely,

[24] SCA consist of the concession fee payments and the costs of rehabilitation works incurred. Movements in SCA were historically recorded under cash flows from operating activities.

in 2022, it recorded a negative operating cash flow of ₱753.3 million. In 2022, operating cash flow was negative on the back of a higher increase in SCA from ₱8.2 billion in 2021 to ₱15.3 billion.

The cash flows from investing activities over the period were erratic. Movements in the Company's cash flow from investing activities primarily relied on movement on the mobilization fund.[25]

Aside from cash generated from operations, Maynilad also relied on loans to secure additional cash support. Over the five-year period, Maynilad used the bulk of its cash primarily for the payment of service concession obligations to MWSS, interest-bearing loans, dividends, and interest. In 2020, however, Maynilad's financing activities were strained due to the uncertainty surrounding the CA. The pending CA review led to restricted/reduced access to credit facilities, preventing Maynilad from securing any loans in 2020 and 2021. To temper the impact, Maynilad did not declare cash dividends in 2020. As a result, the Company ended 2020 with a net cash outflow from financing activities of ₱4.7 billion, from ₱1.7 billion in 2019. Such outflow further increased to ₱8.0 billion in 2021, with the declaration of ₱3.0 billion cash dividend despite the relatively unchanged cash generated from operations for the period. In 2022, Maynilad was able to secure a ₱17.5 billion term loan from several local banks. Such was the main source of cash for 2022, given the negative operating cash flow. The proceeds from these loans were used to settle the $114.7 million (approximately ₱6.0 billion) outstanding loans with Metro Manila Wastewater Management Project (MWMP) and fund the Company's CAPEX and its other general corporate requirements. The Company's cash in 2022 was also used to distribute dividends and pay interest. As a result, Maynilad generated a positive cash flow from financing activities amounting to ₱3.1 billion by the end of 2022. Such resulted in a net increase of cash and cash equivalents to ₱10.4 billion as of end-2022, up by 31.0% or ₱2.5 billion compared to 2021.

Total current assets as of end-2022 amounted to ₱16.1 billion. Current assets were relatively unchanged over the period with a CAGR of 0.6%. Conversely, total current liabilities increased to ₱24.2.0 billion from ₱17.6 billion in 2018, recording a CAGR of 11.8%.

As current liabilities grew at a faster rate than the Company's current assets, the current ratio declined to 0.6x in 2022, from 0.9x in 2018. Similarly, the quick ratio also showed a declining trend, dropping from 0.7x in 2018 to 0.4x in 2022. Maynilad's current and quick ratios were consistently below 1.0x from 2018 to 2022.

Except for 2022, Maynilad's cash from operations was significantly more than the Company's short-term debt obligations.

Table 7. Target vs. Actual Commitment Projects

Committed CAPEX	2018	2019	2020	2021	2022E
Target commitment	39,430	20,010	18,920	15,740	6,040
Actual commitment	9,029	48,980	2,650	7,240	29,980

Based on the 2018 ABP, the target commitment for the CAPEX Program from 2018 to 2022 amounted to ₱100.1 billion. The actual commitment for the period was ₱97.9 billion, representing 98% of the target commitment. The actual commitments for 2018, 2020, and 2021 were notably lower than the target commitment for those years due to several reasons: 1) delay in the approval of the 2018 Business Plan, 2) uncertainty regarding tariff adjustments, 3) the CA review, and 4) the impact of the pandemic.

[25] Mobilization fund pertains to advance payments to contractors for services purchased but not yet received.

Conversely, the commitments for 2019 and 2022 exceeded the target committed projects. In 2019, Maynilad initiated the evaluation and pre-construction work for priority two projects as part of its CAPEX acceleration plan. One significant project awarded in 2019 was the Poblacion Water Treatment Plant (WTP). In 2022, the second phase of the project involved the installation of primary distribution lines for the Poblacion WTP.

2023

Substantial capital outlay for expansion projects. Despite the higher earnings, Maynilad continued to book negative operating cash flows in 2023. Net cash outflow from operating activities amounted to ₱5.8 billion, from an outflow of ₱709.9 million in 2022. Such was due to the higher additions to SCA and a decrease in trade and other payables in 2023. Net cash outflow from investing activities amounted to ₱7.1 billion in 2023. This was a significant change from an inflow recorded in 2022 amounting to ₱112.4 million. The foregoing was on account of the movement in other noncurrent assets, in particular, the ₱6.5 billion increase in mobilization fund. Net cash from financing activities increased to ₱7.4 billion in 2023, from ₱3.1 billion in 2022. The growth was mainly attributable to the lower payment of interest-bearing loans during the period, compared to 2022.

Due to the substantial cash outflow from operating and investing activities during the year, Maynilad's cash and cash equivalents sank to ₱4.9 billion as of end-2023, from ₱10.4 billion as of end-2022.

Such decline in cash and cash equivalents resulted in a 35.4% decrease in current assets from ₱16.1 billion as of end-2022 to ₱10.4 billion as of end-2023. On the other hand, current liabilities dropped by 10.7% from ₱27.5 billion as of end-2022 to ₱24.6 billion as of end-2023. Consequently, current ratio slid to 0.4x in 2023 from 0.6x in 2022.

Projected Period

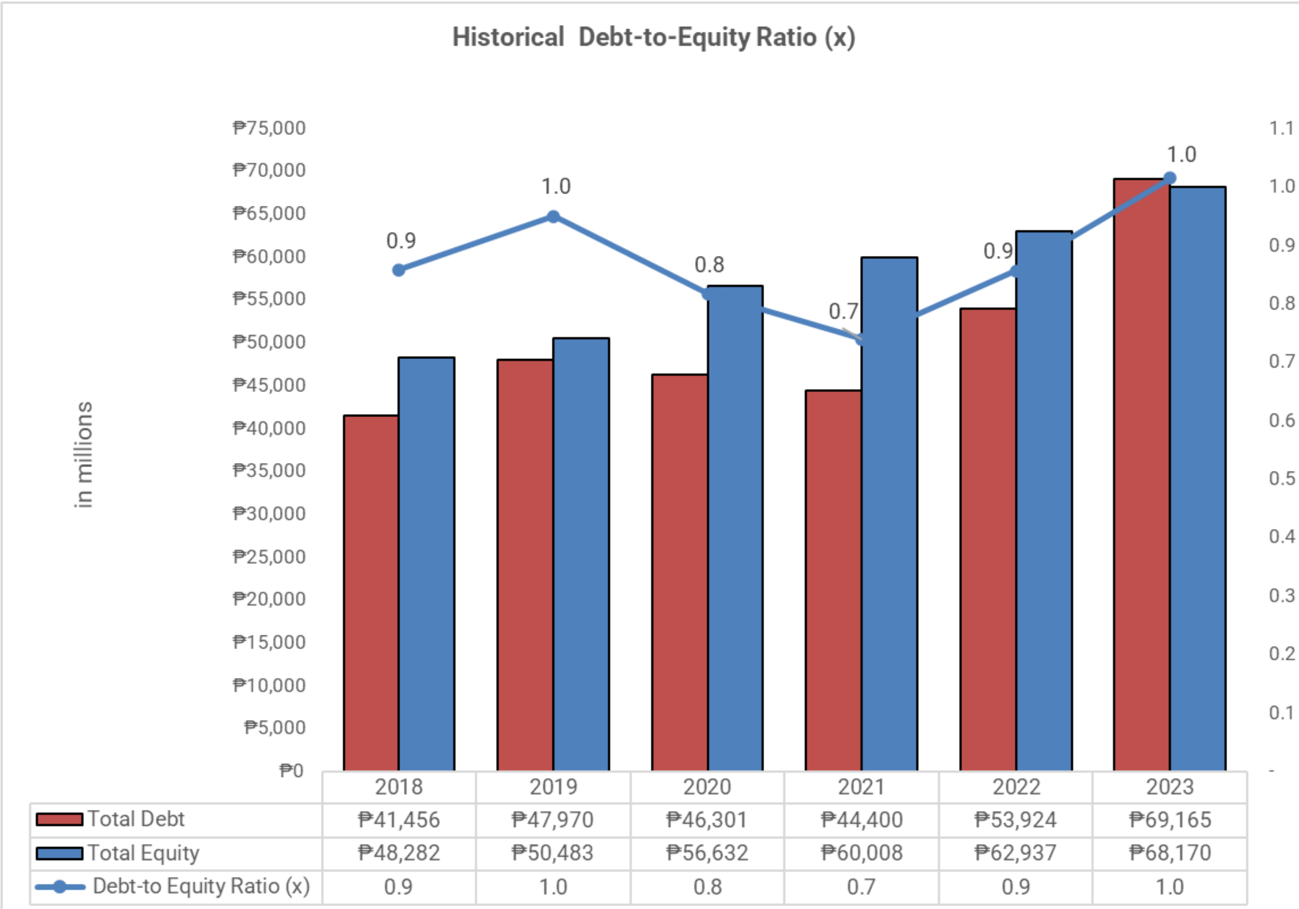
Bulk of Maynilad's internally generated cash will be used to ramp up its CAPEX spending in the medium term.

Maynilad, as a provider of a necessity, is expected to continue providing its service and, in turn, collecting cash from its customers, regardless of the regulatory or economic situation. Moreover, the Company may also opt to prioritize essential CAPEX for production, if necessary.

A significant chunk of the water CAPEX for 2023 - 2027 is allocated to programs for water sources and treatment. Major projects include the construction of the 300-MLD Teresa WTP and Conveyance, the rehabilitation of BNAQ-4 and BNAQ-5, maintenance of CPF, and the construction of a perimeter fence for an aqueduct right-of-way (ROW). Similarly, a substantial portion is allocated to the operations support program. This aims to improve the reliability of the Company's water distribution by increasing its reserve capacity.

Capital Structure

Figure 9. Historical DE Ratio (x)



	2018	2019	2020	2021	2022	2023
Total Debt	₱41,456	₱47,970	₱46,301	₱44,400	₱53,924	₱69,165
Total Equity	₱48,282	₱50,483	₱56,632	₱60,008	₱62,937	₱68,170
Debt-to Equity Ratio (x)	0.9	1.0	0.8	0.7	0.9	1.0

2018-2022

Total debt over the period grew in line with equity growth. In 2018, Maynilad's total debt amounted to ₱41.5 billion. Such increased to ₱47.97 billion in 2019 on account of the ₱5.0 billion loan agreement with BDO Unibank, Inc. and a credit agreement with the JICA amounting to ¥13.1 billion. From 2020 to 2021, Maynilad recorded lower debt as the Company was not able to secure any loans due to the uncertainties surrounding the CA. In 2022, however, the total interest-bearing debt grew by 21.4%, from ₱44.4 billion in 2021 to ₱53.9 billion. This was driven by the additional bank loans obtained to partially fund the Company's CAPEX requirements, refinance existing obligations, and fund other general corporate requirements. The Company's total debt grew by a CAGR of 6.8% from 2018 to 2022.

As of end-2022, 93.3% of the Company's outstanding interest-bearing loans are denominated in peso while the remaining 6.7% are denominated in Japanese yen. The $114.7 million outstanding balance from the $137.5 million loan from the World Bank was settled in August 2022. A negative pledge secures all of the foregoing loans.[26] As of end-2022, Maynilad remained compliant with the debt covenants of its outstanding debts.

Maynilad was able to consistently grow its equity from 2018 to 2022 through the continued retention of earnings. Total equity increased from ₱48.3 billion in 2018 to ₱62.9 billion, recording a CAGR of 6.9%.

The debt-to-equity (DE) ratio remained manageable throughout the period. DE improved from 0.9x in 2018 to 0.7x in 2021, owing to the continued increase in the Company's total equity. The Company's equity in 2022, however, grew at a slower pace than its debt, resulting in an uptick in the DE ratio to 0.9x. Nonetheless, Maynilad's DE ratio and its debt-to-capitalization ratio in 2022 remained manageable at less than 1.0x and 50%, respectively. Such are within the Company's target gearing ratio[27] of 75% and DE of 2.3x.

Maynilad's total assets consistently grew over the period from ₱107.9 billion in 2018 to ₱143.4 billion in 2022, owing to the continued increase in SCA, which historically accounted for more than 80% of the Company's total assets.

2023

Capital structure remained manageable. Total interest-bearing debt grew by ₱15.2 billion or 28.3%, from ₱53.9 billion as of end-2022 to ₱69.2 billion as of end-2023. Such was on account of the Company's ₱10.0 billion drawdown from its term loan facility/agreement with the Bank of the Philippine Islands (BPI). The first and second drawdowns amounting to ₱5.0 billion each were drawn on 2Q2023 and 4Q2023, respectively. In June 2023, Maynilad also made the final drawdown amounting to ¥10.2 billion (₱3.8 billion) from its ¥13.1 billion (₱4.9 billion) facility loan with JICA. Moreover, in December 2023, the Company made a ₱5.0 billion drawdown from its new loan agreement with Land Bank of the Philippines (LBP).

Due to the additional plow back of earnings, total equity also grew in 2023, jumping by 8.3% or ₱5.2 billion, to ₱68.2 billion. The growth in equity, however, was slower compared to the growth in debt. As a result, the DE ratio recorded a slight uptick from 0.9x in 2022 to 1.0x as of end-2023. Moreover, debt-to-capitalization also grew from 46.1% as of end-2022 to 50.4% as of end-2023.

Maynilad's total assets amounted to ₱163.7 billion as of end-2023, a 14.2% increase from the total consolidated assets as of end-2022. The decrease in cash and cash equivalents was offset by the 16.3% or ₱19.7 billion increase in concession assets.

Projected Period

Based on the ABP (2023-2027), the Company will need ₱121 billion to fund its CAPEX from 2023 to 2027.

Aside from the issuance of shares from the planned IPO, Maynilad is seen to rely on a combination of internally generated funds and additional borrowings to partially support its CAPEX over the projected period.

Maynilad is also expected to consistently retain a portion of its earnings throughout the projected period, with its DE ratio remaining within acceptable levels going forward. The Company's debt-to-capitalization

[26] The negative pledge clause ensures that the borrower's assets remain unencumbered and available to satisfy the claims from unsecured creditors in the event of insolvency.

[27] Computed as net debt divided by total capital plus net debt

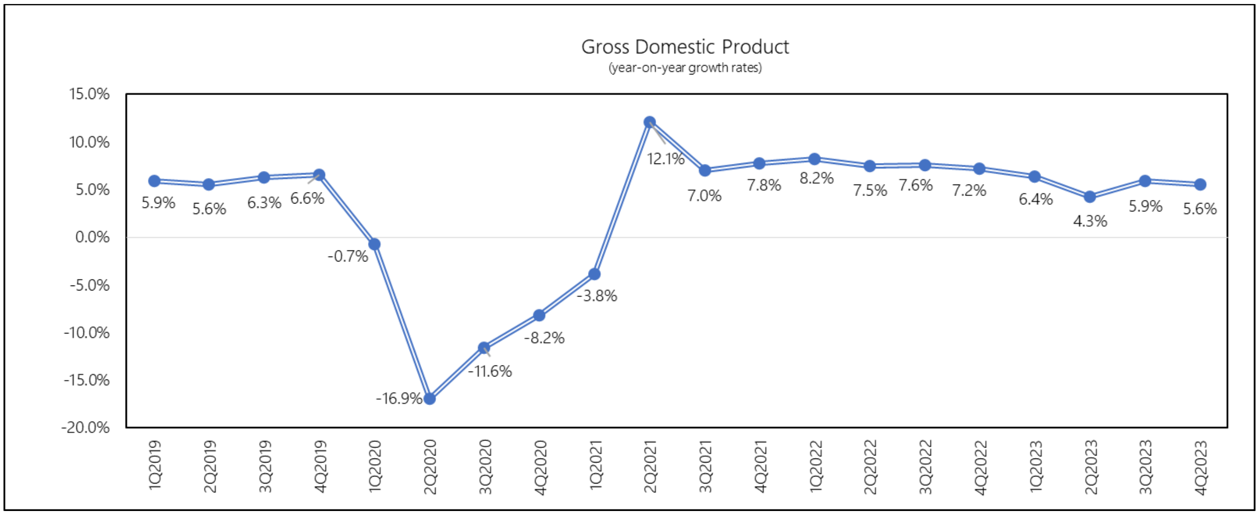
or gearing ratio over the projected period is also expected to be well within Maynilad's target gearing and DE ratio.

Financial Flexibility

As of end-2023, Maynilad had approved short-term loan lines from various local banks.

Economic Review

Figure 10. Historical GDP



2022 [28] [29]

The Philippine economy ended 2022 with the fastest growth recorded since 1976. Full-year 2022 GDP expanded by 7.6%, marginally higher than the government's target of 6.5% to 7.5%. The country also emerged as the third fastest-growing economy in the region in 2022, next to Malaysia's 8.7% and Vietnam's 8.0%.

Among the three major economic sectors, services recorded the highest growth at 9.2%, primarily driven by the growth from wholesale and retail trade; repair of motor vehicles and motorcycles (8.7%). The industry sector, likewise, grew by 6.5% on the back of the strong rebound of the construction and manufacturing industries. The agriculture sector grew by 0.5%. Albeit minimal, this was an improvement from the contraction in 2020 and 2021.

Despite the rising inflation in 2022, Household Final Consumption Expenditure (HFCE) posted growth throughout the year. Such was attributed to the reduced pandemic restrictions, pent-up demand, improved labor market conditions, and the full re-opening of the economy. In 4Q2022, however, HFCE grew slower at 7.0%, compared to the recorded growth of 7.5% in 4Q2021. Nonetheless, full-year household consumption jumped by 8.3%, an improvement from the 4.2% growth in 2021. The strong rebound in hotel and restaurant spending contributed the most to such growth in HFCE.[30]

[28] https://psa.gov.ph/content/gdp-expands-72-percent-fourth-quarter-2022-and-76-percent-full-year-2022
[29] https://www.philstar.com/business/2023/06/14/2273615/moodys-raises-philippines-2023-growth-target
[30] https://www.philstar.com/opinion/2023/03/02/2248578/strong-economy

Government Final Consumption Expenditure (GFCE) also recorded sustained growth in 2022, albeit at a slower pace. GFCE grew by 4.9% in 2022, compared to 7.2% in 2021.

2023

In 2023, the Philippine economy grew by 5.6%, slower compared to the 7.6% growth in 2022 and short of the government's growth target of 6.0% to 7.0%.

Agriculture, forestry, and fishing grew by 1.5%, a significant improvement from the minimal growth in 2022 at 0.5%. The industry and services sectors, on the other hand, recorded slower growth rates compared to 2022, from 9.2% to 7.2% and a 6.5% to 3.6% growth in 2023, respectively.

The top contributors to the 2023 growth are wholesale and retail trade; repair of motor vehicles and motorcycles, financial and insurance activities, and construction which expanded by 5.5%, 8.9%, and 8.8%, respectively.

HFCE expanded by 5.6% in 2023, slower compared to 8.3% in 2022. HFCE growth slowed down for seven consecutive quarters, from a growth rate of 10.0% in 1Q2022 to 5.1% in 3Q2023. Household consumption, however, recorded a slight uptick to 5.3% in 4Q2023 due to robust growth in spending for restaurants and hotels, transport, and recreation. Contrarily, there has been slow growth in food spending due to elevated food prices, despite recent moderation in inflation.

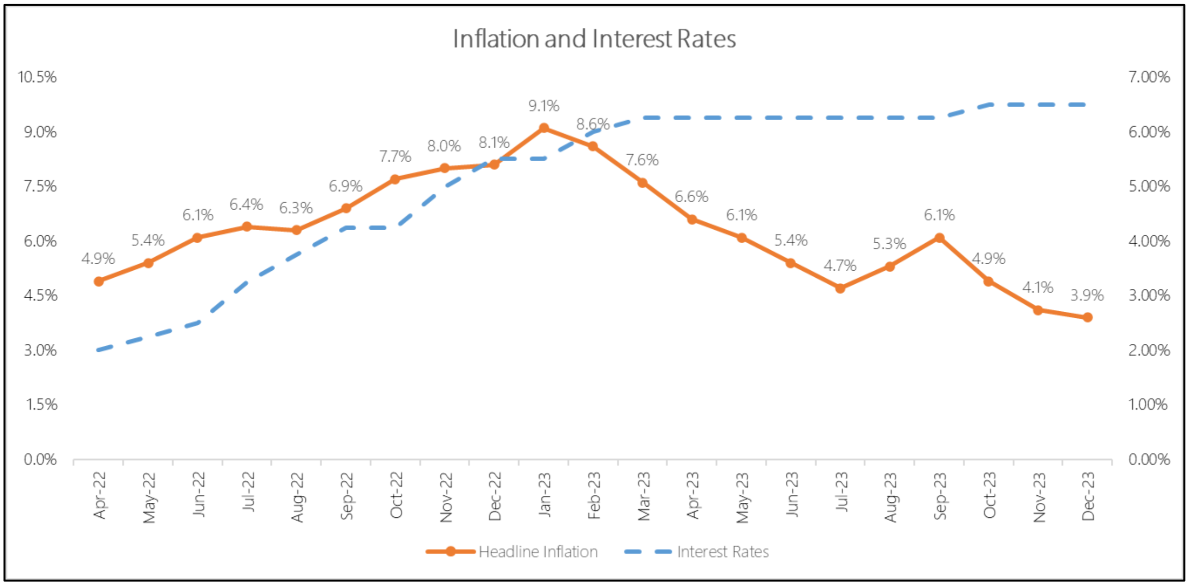
GFCE was relatively flat, recording a 0.4% growth in 2023. This was much lower than the growths recorded in 2022 and in the preceding quarter which were at 4.9% and 6.7%, respectively. Such was attributed to the fiscal consolidation program as well as the absence of election-related spending in 2023.

Nonetheless, the country was Southeast Asia's fastest-growing economy in 2023, surpassing Vietnam and Malaysia which held the top spots in 2021.[31]

[31] https://www.bloomberg.com/news/articles/2024-01-31/philippine-economy-grows-faster-than-expected-5-6-last-quarter

Inflation and Interest Rates [32]

Figure 11. Historical Headline Inflation and Interest Rates



After reaching a new all-time high in January 2023 at 9.1%, headline inflation settled at 3.9% in December 2023. This was the slowest since February 2022. This brought the year-to-date average inflation to 6.0%, slightly higher compared to the 5.8% average inflation in 2022. The 2023 average inflation, likewise, remained beyond the government's 2% to 4% full-year target.

According to National Statistician, Mr. Dennis S. Mapa, the December inflation was primarily influenced by a 1.5% increase in prices for housing, water, electricity, gas, and other fuels, which showed a slower pace compared to the 2.5% recorded in November. The food and non-alcoholic beverages also eased from 5.7% in November to 5.4% in December. Food inflation went down to 5.5% from 5.8%, contrarily, rice inflation accelerated to 19.6% from 15.8% in November.

The government expects the average inflation to settle within the 2.0%-4.0% target range in 2024 and 2025 at 3.7% and 3.2%, respectively. The private sector also sees inflation settling within the target, albeit slightly higher than the government's forecast, at 4.0% in 2024 and 3.5% in 2025.[33]

To mitigate the threats brought about by rising prices, the Bangko Sentral ng Pilipinas (BSP) had aggressively increased the policy rate from 2.25% in May 2022 to 6.25% in March 2023. The BSP maintained the benchmark rate at 6.25% as inflation continued to decelerate in the first half of 2023. Due to the inflation uptick in August and September, however, the Monetary Board decided to take an off-cycle decision to raise the interest by 25 basis points to 6.5% in October 2023. This rate was retained until the end of 2023.

According to Governor Eli Remolona, it might be necessary to keep the monetary policy tight to allow inflation to settle within the target range.[34]

[32] https://www.dof.gov.ph/ph-inflation-further-declines-to-4-1-in-november-2023/
[33] https://www.bsp.gov.ph/SitePages/PriceStability/VisualMPR/MonetaryPolicyReport_November2023.aspx
[34] https://malaya.com.ph/news_business/bsp-no-unnecessary-monetary-tightening/