 PHILIPPINE RATING SERVICES CORPORATION	RATING REPORT
	PETRON CORPORATION

Date: April 25, 2025
Analysts: Aline Lei A. Abon
 Jacob Kyler Nathaniel D. Salgado

5th Floor, ALGO Center
 162 Leviste St., Salcedo Village
 Makati City, Metro Manila
 1203 Philippines

(632)812-3210
 (632)812-3215
 www.philratings.com

NEW ISSUE CREDIT RATING

Amount	Tenor	Assigned Rating and Outlook
Base Offer of ₱25.0 billion, with an Oversubscription Option of up to ₱7.0 billion	5, 7 and/or 10 years	PRS Aaa Stable Outlook

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** is assigned when a rating is likely to be maintained or to remain unchanged in the next 12 months.

Analysts' Note: The proposed bonds will be issued as the second tranche of Petron Corporation's (Petron) existing ₱50.0 billion Shelf Registration, which was rendered effective by the Securities and Exchange Commission (SEC) in September 2021 and granted validity extension up to September 2025.

Use of Proceeds: Net proceeds of the proposed offering will be used for (i) repayment of Series D and Series E bonds due 2025, (ii) repayment of existing debt, (iii) funding of working capital requirements, and (iv) general corporate purposes.

REGULAR MONITORING

Amount of Bond Issue	Issue Date	Maturity Date	Tenor (in years)	Interest Rate	Assigned Rating and Outlook
Series D - ₱6.8 billion	October 19, 2018	October 19, 2025	7	8.06%	PRS Aaa Stable Outlook
Series E - ₱9.0 billion	October 12, 2021	October 12, 2025	4	3.44%	
Series F - ₱9.0 billion	October 12, 2021	October 12, 2027	6	4.34%	
Total – ₱24.8 billion					

OUTSTANDING PRS-RATED ISSUANCES OF RELATED COMPANIES

San Miguel Corporation (SMC) – SMC beneficially owns 71.8% of Petron as of end-March 2025.

Amount of Bond Issue	Issue Date	Maturity Date	Tenor (in years)	Interest Rate	Outstanding Rating and Outlook
Series C - ₱6.0 billion	March 1, 2017	March 1, 2027	10	5.76%	PRS Aaa Stable Outlook
Series G – ₱4.4 billion	March 19, 2018	March 19, 2028	10	7.13%	
Series I – ₱18.8 billion	July 8, 2021	July 8, 2027	6	7.47%	
Series J - ₱17.4 billion	March 4, 2022	March 4, 2027	5	5.27%	
Series K – ₱12.6 billion	March 4, 2022	March 4, 2029	7	5.84%	
Series L – ₱27.1 billion	December 14, 2022	March 14, 2028	5.25	7.45%	
Series M – ₱9.7 billion	December 14, 2022	December 14, 2029	7	7.85%	
Series N – ₱23.2 billion	December 14, 2022	December 14, 2032	10	8.49%	
Series O – ₱13.0 billion	July 3, 2024	January 3, 2031	6.5	7.26%	
Series P – ₱7.0 billion	July 3, 2024	July 3, 2034	10	7.72%	
Total – ₱139.2 billion					

San Miguel Food and Beverage, Inc. (SMFB) - 88.76% owned by SMC as of end-2024.

Amount of Bond Issue	Issue Date	Maturity Date	Tenor (in years)	Interest Rate	Outstanding Rating and Outlook
Series B – ₱7.0 billion	March 10, 2020	March 10, 2027	7	5.25%	PRS Aaa Stable Outlook

SMC SLEX Inc. (SMC SLEX) (formerly South Luzon Tollway Corporation) – As of end-March 2024, SMC SLEX was 80%-owned by SMC SLEX Holdings Company Inc. (formerly MTD Manila Expressways, Inc.), which is a wholly-owned subsidiary of Atlantic Aurum Investments BV (AAIBV). AAIBV, in turn, is 95%-owned by San Miguel Holdings Corporation (SMHC), which is a wholly-owned subsidiary of SMC.

Amount of Bond Issue	Issue Date	Maturity Date	Tenor (in years)	Interest Rate	Outstanding Rating and Outlook
Series C – ₱2.5 billion	May 22, 2015	May 22, 2025	10	6.49%	PRS Aaa Stable Outlook

SMC Tollways Corporation (SMC Tollways) – As of end-June 2024, SMC Tollways was 100% owned by AAIBV.

Amount of Bond Issue	Issue Date	Maturity Date	Tenor (in years)	Interest Rate	Outstanding Rating and Outlook
Series A – ₱10.6 billion	December 5, 2024	March 5, 2030	5.25	6.48%	PRS Aaa Stable Outlook
Series B – ₱5.9 billion	December 5, 2024	December 5, 2031	7	6.70%	
Series C – ₱18.5 billion	December 5, 2024	December 5, 2034	10	6.93%	
Total – ₱35.0 billion					

San Miguel Global Power Holdings Corp. (SMGP) (formerly SMC Global Power Holdings Corp.) – 100% owned by SMC as of end-March 2025.

Amount of Bond Issue	Issue Date	Maturity Date	Tenor (in years)	Interest Rate	Outstanding Rating and Outlook
Series C - ₱4.76 billion	July 11, 2016	July 11, 2026	10	5.18%	PRS Aaa Stable Outlook
Series F – ₱3.61 billion	December 22, 2017	December 22, 2027	10	6.63%	
Series J – ₱6.92 billion	April 24, 2019	April 24, 2026	7	7.60%	
Series K – ₱5.0 billion	July 26, 2022	July 26, 2025	3	5.91%	
Series L – ₱25.0 billion	July 26, 2022	April 26, 2028	5.75	7.11%	
Series M – ₱10.0 billion	July 26, 2022	July 26, 2032	10	8.03%	
Total – ₱55.29 billion					

Bank of Commerce (BankCom) – As of end-2024, BankCom was 31.9%- and 4.9%-owned by San Miguel Properties, Inc. (SMPI) and SMC Equivest Corporation (SMCEC), respectively. SMPI and SMCEC are both wholly-owned subsidiaries of SMC. SMC Retirement Plan, an affiliate of SMC and the registered retirement plan of SMC Group employees, also had a 30.8% stake in BankCom.

Type of Rating	Outstanding Rating and Outlook
Issuer	PRS Aa plus (corp.) Stable Outlook

RATIONALE

Sustained strong retail presence and market leadership in the Philippines and Malaysia

According to data from the Department of Energy (DOE) for the first half of 2024 (1H 2024), Petron remained as the domestic leader among Philippine oil companies with the largest market share of 24.9%. This reflected a slight increase in Petron's market share from 23.2% in 1H 2023. The Company was also the Philippine market leader in the Liquefied Petroleum Gas (LPG) industry with a 24.8% market share in 1H 2024.

With a deregulated oil industry where competition is fierce, Petron's advantage lies in its strong brand name, coupled with its extensive distribution network. As of end-March 2025, the Company had around 1,800 service stations. Its LPG products are sold in more than 2,100 branches and franchise stores, while its lubricant products are available in its car care centers (CCCs) and about 1,700 service stations.

In Malaysia, Petron had a retail market share of more than 21% as of end-2024, having been in the country's oil market for around 13 years. This was slightly more than its market share of 20.3% in end-2022. Petron faces fierce competition from local and multinational oil companies in Malaysia's industrial, aviation, and wholesale market segments. The Company relies on the local production of its Malaysian refinery, namely the Port Dickson Refinery (PDR), and its terminals across the country to remain competitive. Amid a more regulated oil industry, Petron Malaysia has been increasing the number of its service stations, opening its 800th station in December 2024.

Experienced management and synergies with businesses within the San Miguel Group

Petron's two principal common shareholders as of end-March 2025 were SEA Refinery Corporation (SEA Refinery) with 52.7% of Petron's common shares and SMC with 19.1%. SEA Refinery is 100%-owned by SMC, which allows SMC to hold an aggregate 71.8% ownership in Petron. SMC, on the other hand, is one of the largest and most diversified conglomerates in the Philippines, with business interests in beverage, food, packaging, fuel and oil, power, and infrastructure.

Petron is led by Ramon S. Ang as its President and Chief Executive Officer (CEO). He is also the Chairman of Petron's Malaysian companies. In addition, Mr. Ang is currently the Chairman and CEO of SMC, Chairman, CEO and President of SMGP, President of SMC SLEX, Chairman of SMFB, and President of Ginebra San Miguel, Inc. (GSMI). Aside from these, he holds several key positions in other SMC-affiliated businesses.

Petron is seen to strongly benefit from the support of SMC, given the former's shared directors and executive officers with the latter as well as other companies under the SMC Group. In addition, the Company has a highly capable and experienced management team with the technical expertise needed to run the business.

Moving forward, Petron will continue to focus on volume growth, sustainable margins, and operational efficiency improvement. To ensure business sustainability, the Company will continue to implement the following strategies: (1) maximize the production of high-margin refined petroleum products and petrochemicals; (2) ensure reliability and efficiency of refinery operations; (3) maximize volume growth and further increase market share in the downstream oil markets in the Philippines and Malaysia; and (4) improve supply chain reliability and efficiency.

Resilient profitability amid headwinds, supported by sustained sales volume growth

In 2024, Petron recorded revenues of ₱868.0 billion, up by 8.4% from the previous year. Top line expansion was supported by the sustained increase in consolidated sales volume, which went up by 10.2% to 139.9 million barrels. Volume growth was on account of Petron's Philippine operations and Singapore trading subsidiary, the combined sales of which improved by 16% to 92.5 million barrels, attributed to network expansion and strong marketing efforts. Petron Malaysia's performance, on the other hand, was affected by fuel subsidy cuts by the Malaysian government and a maintenance shutdown of PDR in the fourth quarter of 2024 (4Q 2024).

Operating income inched down by 4.9% to ₱29.2 billion, however, as volatility in global oil prices persisted during the year amid geopolitical conflicts, thereby putting pressure on refining margins. Other income (net) ballooned to ₱3.4 billion—driven by the ₱3.5 billion gain on reversal of previously booked lease and asset retirement liabilities, as the Supreme Court (SC) issued a decision in favor of Petron in relation to its dispute with the Philippine National Oil Company (PNOC)—and tempered the decrease in pre-tax income to 0.9%, from ₱13.1 billion in 2023 to ₱13.0 billion in 2024. Net income amounted to ₱8.5 billion, lower by 16.2% from ₱10.1 billion in 2023, dragged down by the 50.9% jump in income tax expense to ₱4.5 billion (given the provision for partial impairment of deferred tax asset).

Operating cash flows continued to be positive, amounting to ₱13.2 billion in 2024 and supporting the higher year-end cash balance of ₱30.4 billion. Current ratio was relatively unchanged at 1.0x as of end-2024, while EBIT interest coverage ratio was 1.6x, remaining more than adequate.

Petron views its results for the year as a testament to its ability to adapt to market conditions and its resilience amid industry challenges. PhilRatings likewise echoes the Company's demonstrated track record of having weathered various dips and peaks over the decades.

Easing inflationary pressures and interest rate cut expectations seen to support Philippine economy growth

The Philippine Gross Domestic Product (GDP) grew by 5.2% in 4Q 2024, lower than the 5.5% growth recorded in the same quarter in 2023. This brought the full-year GDP expansion in 2024 to 5.6%, unchanged when compared to 2023. Growth in 2024 was driven by the following industries: Wholesale and retail trade; repair of motor vehicles and motorcycles, 5.6%; Financial and insurance activities, 9.0%; and Construction, 10.3%. Among major economic sectors, Industry and Services grew by 5.6% and 6.7%, respectively, in 2024. Agriculture, forestry, and fishing (AFF) recorded a full-year decline of 1.6% in the same period.

Household Final Consumption Expenditure (HFCE) recorded a 4.7% year-on-year (YoY) growth in 4Q 2024, with full-year HFCE growing by 4.8% in 2024. The full-year number was lower in comparison to the growth rate recorded in 2023 of 5.6%. On the other hand, Government Final Consumption Expenditure (GFCE) was up by 9.7% in 4Q 2024. Full-year GFCE growth in 2024 settled at 7.2%, considerably higher than 0.6% in 2023.

In March 2025, inflation was recorded at 1.8%, which was nearly the lowest rate in five years (vs. 1.6% in March 2020). This slowdown was driven by the easing prices of food and non-alcoholic beverages and fuel. The inflation rate recorded in March brought average price growth in the first three months of 2025

at 2.2%, well within the government's inflation target of 2.0-4.0%. Core inflation, which excludes volatile food and energy prices, was at 2.2% in March, slightly slower than the 2.4% recorded in February. Rice prices also registered a deflation rate of 7.7% in March, quicker than the 4.4% decline in the previous month. Transport costs likewise dropped by 1.1% in March 2025.

As inflationary pressures have been starting to ease, the Bangko Sentral ng Pilipinas (BSP) has been given more room to cut its rates further. Finance Secretary Ralph Recto, who is also part of BSP's Monetary Board, expects the central bank to cut policy rates by 50 to 75 basis points (bps) in 2025. Such could further spur the economy to grow. This outlook follows the 75 bps worth of rate cuts the central bank made in 2024. Several economic analysts from multinational macroeconomic research firms and multilateral lenders expect the Philippines to grow within the government's 6.0-8.0% target in 2025. Robust consumption and an increase in private investments amid an easing interest rate environment are seen to be the potential growth drivers.

Economic growth is a major factor affecting demand for fuel and oil. Growing economies mean improved demand for energy, especially from the transportation sector.¹ The favorable economic outlook for the Philippines therefore bodes well for Petron's growth in the future.

BUSINESS RISK

Company Profile

Incorporated in the Philippines in 1966, Petron currently serves as the fuel and oil business arm of SMC. It is the largest and the only oil refining and marketing company in the country, with a presence in the oil industry in Malaysia.

Petron is principally engaged in refining crude oil, as well as marketing and distribution of refined petroleum products in the Philippines and Malaysia. Its refineries in the Philippines and Malaysia have a combined capacity of 268,000 barrels per day (bpd). The Company participates in the retail (service stations), industrial, lubricants, and LPG sectors. As of end-March 2025, Petron had around 1,800 service stations in the Philippines. In Malaysia, Petron opened its 800th service station in December 2024. The Company's products are shown in Table 1.

¹ <https://www.eia.gov/energyexplained/oil-and-petroleum-products/prices-and-outlook.php>

Table 1. Petron’s Products

Product Lines and Brands	Philippines	Malaysia
Fuels	Petron Gasul Fiesta Gas Petron Gaas Petron Blaze 100 Euro 6 Petron XCS Petron XTRA Advance Petron Turbo Diesel Petron Diesel Max Petron Aviation Gasoline Petron Jet A-1 Petron Fuel Oil	Petron Blaze 100 Petron Blaze 97 Petron Blaze 95 Petron Turbo Diesel Euro 5 Petron Diesel Max Euro 5 Petron Diesel (Commercial Diesel B7) Petron Gasul Petron Kerosene Petron Jet A-1
Oils, Lubricants, and Greases	Automotive oil and lubricant products Industrial oil and lubricant products Marine oil and lubricant products Greases Asphalts Special products Aftermarket specialties Performance additives and chemicals	Automotive oil and lubricant products Industrial oil and lubricant products Marine oil and lubricant products Greases Special products Aftermarket specialties
Petrochemicals	Xylene Propylene Polypropylene Benzene Toluene	-
Other Refinery Products	Naphtha Molten sulfur and bio-sulphur Petcoke	Low Sulfur Waxy Residue (LSWR) Naphtha
Other Products (from the Palm Methyl Ester (PME) Plant)	-	Petron Crude Glycerine Petron Refined Glycerine

The major markets in the petroleum industry are the reseller (i.e. service stations), industrial, LPG, and lube trades. Petron caters to both the retail and commercial markets, selling its products to bulk off-takers and industrial end-users. Its non-fuel business, on the other hand, involves franchising of major local food joints, its convenience store brand Treats, and leasing of space at some of its service stations to third-party entities for services that provide customers with a one-stop full-service experience.

Operations

Petron owns and operates the only petroleum refinery complex in the Philippines, the Petron Bataan Refinery (PBR), in Limay, Bataan. PBR, which has a rated crude oil distillation capacity of 180,000 bpd, is reportedly capable of supplying approximately 40% of the country’s fuel requirements. The complex underwent the Refinery Master Plan Phase-2 (RMP-2) upgrade, which enabled the Company to convert all fuel oil into a full range of higher-valued petroleum products such as LPG, gasoline, diesel, jet fuel, kerosene, and petrochemicals. In July 2022, the expansion of the Company’s cogeneration power plant was completed, resulting in additional 44 megawatts (MW) capacity.

Aside from this, the Company invested in a new Propylene transfer line in PBR, for a more efficient feeding of propylene from the Refinery to the Polypropylene Plant, expected to be completed this 2025. The planned construction of the coco-methyl ester (CME) Plant is continuously being evaluated, considering market developments on biofuels. Petron also operates a grease plant in Pandacan, Manila, a lube oil blending plant in Tondo, Manila, and a fuel additives blending plant in Subic Bay Freeport. As of end-March 2025, all the Company’s permits and licenses were valid and subsisting.

Petron also opened its 60th CCC in Urdaneta, Pangasinan in December 2024. This is the Company’s largest CCC to date, featuring nine service bays and a comprehensive range of automotive repair and maintenance services. The Company opened six additional CCC outlets in various locations in Luzon, Visayas, and Mindanao in 2024. Petron aims for its CCCs to be the one-stop shop for customers by offering a complete line of technologically advanced and internationally accredited automotive lubricants. The Company also sought to increase its CCCs as an effort to widen its reach nationwide.

In Malaysia, Petron operates a petroleum refinery located in Port Dickson, Negeri Sembilan. It has a crude oil distillation capacity of 88,000 bpd.

In December 2024, the maintenance shutdown of PDR for furnace repairs was completed. The Company disclosed that the cost of repairs was not material and ensured that its supply of petroleum products to service stations and other customers remained ample amid the shutdown.

PDR produces a range of petroleum products intended to meet demand in Malaysia, including but not limited to LPG, gasoline, jet fuel, and diesel. Furthermore, it also operates a Palm Oil Methyl Ester (PME) plant in Lumut, Perak, with a rated capacity of 78,000 metric tons (MT) per year of PME used for biodiesel blend. Other products such as LSWR and Naphtha are being exported by Petron Malaysia to various customers in the Asia-Pacific region under term and spot contracts.

Table 2. Petron’s Operating Highlights (2023-2024)

in Millions PHP (except Sales Volume)	2023	2024	% change
Sales Volume (in million barrels)	126.9	139.9	10.2%
Sales Revenues	801,027	867,966	8.4%
Operating Income	30,713	29,223	(4.9%)
Operating Margin	3.8%	3.4%	

Petron's consolidated revenues reached ₱868.0 billion in 2024, marking an 8.4% increase from the previous year's top line of ₱801.0 billion. The Company attributed this to its continuously growing operations, while improving its efficiency at the same time.

Petron's retail sales recorded an 18% hike, supported by the Company's service station network. Commercial sales similarly were up by 6%, attributed to its presence in the aviation industry.

Consolidated sales volume recorded a 10.2% hike to 139.9 million oil barrels in 2024, spurred by robust demand and the Company's strategic growth initiatives. Petron's domestic operations and its Singaporean trading subsidiary, Petron Singapore Trading Pte. Ltd. (PSTPL), largely contributed to the increased sales volume in 2024, combining for a total of 92.5 million barrels sold (+16% from 2023's sales volume). The Company's full-year sales growth was tempered, however, by the slowdown in Petron's Malaysian operations. Such was driven by the Malaysian government's policy change on fuel subsidies, coupled by the Malaysian refinery's maintenance shutdown in the last quarter of 2024. The Company also noted that the volatility of Dubai crude prices put pressure on refining margins, as prices closed at US\$73 per barrel by end-2024 after peaking at US\$89 a barrel in April 2024.

Given the foregoing, Petron's operating income dipped in 2024 by 4.9% to ₱29.2 billion, from ₱30.7 billion in the previous year. Its operating margin also slightly declined from 3.8% in 2023 to 3.4% in 2024.

Table 3. Sales Revenue Per Geographical Market

in Millions PHP	2023	2024	9M2023	9M2024
Philippines	413,175	438,900	302,344	326,148
Export/International*	387,852	429,066	284,939	331,785
Total	801,027	867,966	587,283	657,933
Share to Total Sales Revenues (%)	2023	2024	9M2023	9M2024
Philippines	51.6%	50.6%	51.5%	49.6%
Export/International*	48.4%	49.4%	48.5%	50.4%
Total	100.0%	100.0%	100.0%	100.0%

* includes South Korea, Taiwan, China, Japan, Singapore, India, and Indonesia

Petron has a well-diversified revenue stream from both domestic and international markets. This can be beneficial for the Company's financial stability, as it can mitigate risks associated with fluctuations in local demand and global market conditions. By tapping into multiple markets, Petron is less vulnerable to shifts in oil prices or political instability in a specific region.

Supply and Production

Crude oil is the main raw material which Petron uses in the production of a wide range of refined petroleum products. For its Philippine operations, Petron purchases all its term and spot crude requirements for domestic operations through PSTPL. The Company sources its crude oil requirements mostly from middle eastern sources including, among others, the Saudi Arabian Oil Company (Saudi Aramco) under term supply contracts. Saudi Aramco contracts have a one-year term, with automatic annual extension thereafter unless either the company or the crude oil supplier decides to terminate the contract, upon at least 60 days' written notice prior to its expiration date. Furthermore, the Company acquires its crude supply from other oil companies through several term and spot contracts. The Company

may also import oil products in instances where domestic demand rises and during the maintenance of PBR.

In Malaysia, Petron supplies its refinery with crude oil and condensate from various sources through term purchase and spot supply contracts. As of end-2024, about 45% of Petron Malaysia's crude and condensate volume was from Exxon Mobil Exploration and Production Malaysia Inc. (EMEPMI). Petron Malaysia has a term supply contract with EMEPMI for Tapis crude oil and Terengganu condensate until March 2026. Tapis oil, which is also considered as "light" crude, is typically sourced from local wells. The availability of Tapis has been depleting, however, which prompted PDR to explore other options to diversify its oil supply. The Company has term and spot arrangements for finished products to supplement the refinery's production and meet the demand in Malaysia. Similar to its domestic operations, Petron has the option to import refined oil products in Malaysia should the demand increases.

The Philippine and Malaysian refinery operations differ, with PBR constructed to focus on handling various types of crude oil from light to heavy crude. The RMP-2 expansion allowed the Bataan refinery to utilize a heavier and sourer alternative type of crude oil. As for PDR in Malaysia, it is configured to process Tapis oil, which is the lighter type of crude. Petron Malaysia diversifies its supply by processing different types of local and regional sweet crude oil through its diesel hydrotreater process unit.

PhilRatings notes that Petron maintains a sufficient inventory that can provide the Company ample time to acquire additional supply and meet the demands of its market.

Crude oil is delivered to both PBR and PDR by Very Large Crude Carriers (VLCCs). Crude oil is then pumped off in storage tanks. The total capacity of crude oil storage tanks in PBR and PDR are approximately 5 million barrels and 1.1 million barrels, respectively. From the storage tanks, crude oil is pumped to process units for distillation, treatment, and conversion to form different petroleum products. PBR has 19 process units, while PDR has four. Different petroleum products are then sent to designated product tanks, except for gasoline and LPG, which undergo product blending. From the product tanks, the finished products are then pumped to pier facilities where vessels are docked for loading. The refined petroleum products are then delivered to the Company's network of terminals and storage depots for distribution.

Distribution

As of end-June 2024, Petron managed the most extensive distribution network for petroleum and other refined oil products in the Philippines with a total of 27 terminals and 12 airport installations across the country. These terminals are fully equipped with the necessary equipment to receive and store the Company's refined oil products. Products are distributed, mainly by sea, to various terminals using a fleet of company-owned and contracted barges and tankers. Tank trucks are used to transport products to service stations and other industrial accounts.

Petron makes its LPG products available through its nationwide network of retail dealerships and outlets, and some in its service stations. The Company also has stand-alone LPG operations in its Luzon terminals. Petron's lubricants and greases, on the other hand, are transported via container vans to bulk plants and terminals outside of Metro Manila. Package vans are then used to deliver the mentioned products to various customers in Metro Manila and Luzon.

As of end-March 2025, Petron had around 1,800 service stations in the Philippines. This total, however, was lower than the Company's total service stations as of April 12, 2023 at 1,902 stations. According to

management, such as due to the closure of its unprofitable and underperforming stations, as well as an effect of the overall industry consolidation. PhilRatings notes, however, that Petron's sales volume have been increasing annually despite the lower number of stations. The Company owned 49% of its service stations, while the balance were owned by its dealers. Of the total company-owned service stations, around 1,700 stations sold the Company's lubricant products. On the other hand, the Company's domestic LPG distribution network included more than 2,100 branches and franchise stores as of end-2024.

Aside from its terminals, Petron had four airport installations in Luzon, including one at the Ninoy Aquino International Airport (NAIA) as of end-June 2024. It also had five airport installations in Visayas and three in Mindanao. These installations store aviation fuels and offer refueling services for various aircrafts.

In Malaysia, the Company distributes its products from the storage tanks of PDR to service stations and other commercial accounts via its tank trucks. Products are also sent to Klang Valley Distribution Terminal (KVDT) through a multi-product pipeline (MPP)². Tank trucks then extract the products for delivery to Petron Malaysia's customers. The Port Dickson terminal is situated beside PDR, while Petron Malaysia's other terminals are strategically placed near major fuel product market areas. PhilRatings positively notes that Petron has been increasing the number of its service stations in Malaysia, as it opened its 800th station in January 2025. It should be considered that establishing a service station in Malaysia is subject to stricter regulations and guidelines when compared to the Philippines.

Petron Malaysia exclusively bottles its LPG products in its PDR and Westport terminals, which are then collected by redistribution centers and retailers. Both terminals also load LPG products in bulk for the Company's industrial customers. The Company contracts third-party bottling facilities to widen the reach of its Gasul products to Perak and Penang in the northern part of Malaysia, Kelantan in the east coast, and Johor in the south.

Petron Malaysia is one of the three major jet fuel suppliers in the Kuala Lumpur International Airport (KLIA), utilizing a jointly owned MPP to transport jet fuel to the airport. Such is pursuant to a throughput agreement with the Kuala Lumpur Aviation Fuelling System Sdn Bhd, the operator of the KLIA's storage and hydrant facility. The MPP is jointly owned by the Company through its 20% ownership in an unincorporated joint venture (JV) between Petronas Dagangan Berhad (PDB) and Shell Malaysia Trading Sdn. Bhd. (Shell Malaysia).

Customers

Petron's retail service stations sell gasoline, diesel, and kerosene to motorists and the public transportation sector. In the Philippines, most of its service stations are strategically located in Luzon, where demand is the strongest.

As of end-June 2024, Petron had around 1,300 customer accounts from the industrial sector in the Philippines. In Malaysia, Petron sells diesel and gasoline to the industrial segment, which includes Malaysian businesses engaged in manufacturing, plantation, transportation, and construction. In 2023 and 1Q 2024, around 59% of Petron Malaysia's industrial sales volume were accounted for by the sales of Research Octane Number (RON) 95 gasoline and diesel to smaller service stations. The Company also sells diesel to power plants on an ad-hoc basis at formulated prices. In addition, Petron Malaysia's wholesale segment includes sales, primarily of diesel, to Company-appointed distributors, which then sell the

² The MPP is a fungible products pipeline for the transportation of gasoline, diesel, and jet fuel.

Company's products to industrial customers. The Company had more than 140 distributors in Malaysia as of end-June 2024. The Company also supplies aviation fuel at key airports in the Philippines and Malaysia to international and domestic carriers.

Petron makes its lubricants, specialties, and petrochemicals available in its CCCs in the Philippines, making its products more visible to its customers that utilize Petron's automotive repair and maintenance services. Apart from Petron's tolling agreement with Innospec, Ltd. (Innospec), of which the agreement stipulates the Company to be Innospec's exclusive toll blender of the latter's fuel additives, Petron is able to tap Innospec's Asian customer base to extend the reach of its lubricant products. In Malaysia, Petron sells its lubricants and specialties to various industry segments including car and motorcycle workshops, transport and fleet operators, manufacturing, and industrial accounts.

The Company also exports various petroleum and petrochemical products to other countries in the Asia-Pacific region (e.g. South Korea, Taiwan, China, Vietnam, Singapore, India, and Indonesia). Exports, which generate dollar inflows for the Company, provide a natural hedge against losses which may arise from fluctuations in the foreign exchange rate.

Pricing Strategy

The main goal of Petron is to balance competitive pricing with full cost recovery. Considering that the Philippine oil industry is a free and competitive market, weekly price adjustments can be made based on international benchmark prices (e.g., Mean of Platts Singapore (MOPS), Brent, etc.) and foreign exchange movements.

In Malaysia, however, pricing is regulated by the government through the Automatic Pricing Mechanism (APM). Through the APM, the Malaysian government manages a float system, wherein it mandates the retail prices for petroleum and diesel on a monthly basis based on the previous month's MOPS. In case of an increase in international crude oil prices, the Malaysian government may subsidize fuel prices, protecting the consumers from any price increase of fuel. If the government-mandated prices are lower than the company's built-up APM cost, Petron Malaysia then receives a subsidy from the Malaysian government. Conversely, if the government-mandated prices are higher than the total APM cost, Petron Malaysia pays duties to the Malaysian government.

On June 10, 2024, the Malaysian government implemented a targeted subsidy on diesel across the Peninsular Malaysia (or Western Malaysia). This mandate increased pump prices for diesel from RM2.20 per liter to RM3.35 per liter. This adjustment aims to reduce the financial burden on the Malaysian government. Subsidies are provided for selected groups and traders that use diesel-powered commercial vehicles. Eligible groups can apply for a monthly cash subsidy of RM200. A decline in the demand for diesel due to the increase in its price is expected and is believed to be only temporary, as the market will be adjusting to the new pricing scheme moving forward. Building on this, the Malaysian government is set to implement targeted subsidies on RON 95 petrol in mid-2025.

Aside from pricing, the Malaysian government also regulates the volume of diesel sales by imposing a quota on the companies that sells diesel at its service stations, as well as on the customer. Diesel sales exceeding the volume permitted under the company's or customer's quotas are not eligible for subsidies. This is to ensure that the subsidized diesel sold at service stations (meant strictly for road transport vehicles) is not illegally sold to industrial or commercial customers at unregulated prices.

Risk Management

Petron employs an enterprise-wide risk management framework for identifying, assessing, and addressing the risk factors that affect or may affect its business. Following a bottom-up approach for its risk management process, each division conducts a regular assessment of its risk profile and formulates action plans for managing identified risks. Petron has likewise established functional teams for oversight and technical assistance.

Any operational disruption caused by accidents, process failure, human error, or any adverse events outside of human control may lead to facility shutdown and unplanned inventory build-up, among others. To manage this risk, Petron has a corporate-wide Health, Safety, and Environment (HSE) program that implements effective maintenance practices at its refineries, multifunctional audits, and safety inspections at the Company's depots, terminals, service stations, and third-party LPG filling plants. Turnarounds are scheduled at PBR every four years. Since there is a cost to restarting refinery operations after a shutdown, it was then more economical for the company to restart refinery operations only after the completion of the scheduled turnaround.

Petron has insurance policies that cover property damage, marine cargo, third-party liability, personal injury, and accidental death and dismemberment, among others. One of the Company's main insurance policies is the Industrial All Risk (IAR) policy, which covers PBR for material damages and machinery breakdown. The Company's Malaysian operations are insured with local Malaysian insurance companies as mandated by the government.

Any change in the relative prices of input crude oil and output refined petroleum products, particularly when mismatched, may produce significant volatility in the Company's profit margins and cash flows. Such may also lead to higher financing expenses. To mitigate this risk, the Company implements commodity hedging for crude and petroleum products. Developed by Petron's Commodity Risk Management Committee, the Company's hedges are intended to protect crude inventories from risks of downward prices and squeezed margins. Petron's hedging policy includes the use of commodity price swaps, time-spreads, and put options, among others. In addition, Petron arranges long-term contracts for some of its fuel and petroleum products, as these provide a partial hedge on future cash flow uncertainty. The committee meets regularly to actively monitor the market and decide on hedging strategies.

Fluctuating foreign exchange rates can also have a significant effect on Petron's operating results, as the Company is exposed to foreign exchange risk arising from its dollar-denominated purchases of crude oil and petroleum products. In addition, foreign exchange risk also arises from the sales and purchases of Petron Malaysia whose transactions are in Malaysian Ringgit, which are then converted into US dollars before being translated to its equivalent in Philippine Peso. Fluctuations in the foreign exchange rate would result in the reevaluation of key assets and liabilities, which might have a negative impact on the Company's bottom line. To mitigate foreign exchange risk, Petron enters hedging transactions and substitutes its dollar-denominated liabilities with peso-based debt. The Company also enters short term forward currency contracts to hedge its currency exposure on crude oil importations.

Other Key Matters

Petron vs. PNOC Dispute

In October 2017, Petron filed a complaint against PNOC for the reconveyance of various landholdings it declared as property dividends to the latter in 1993. These landholdings, which combine for 357 hectares (ha), consist of the refinery lots in Limay, Bataan, 23 bulk plant sites, and 66 service station lots located in different parts of the country. The reconveyance was a result of the government-mandated privatization of the Company in 1993 to deliberately attract investors. The Deeds of Conveyance, however, provided for an automatic renewal of lease agreements between Petron and PNOC for the former's continued long-term use of the conveyed lots for its business operations.

The reason for Petron's complaint can be traced back to April 2016, when Petron initiated the renewal of the lease for its bulk plants and service stations. This was stalled, however, due to Petron and PNOC being unable to find common ground. PNOC claimed that the rental rate increase in the renewal clause was too low and disadvantageous. The Company alleged that PNOC committed a fundamental breach of contract by unilaterally setting aside the renewal clause of the lease agreements. A court mediation took place in 2018, but it was terminated without any agreement between the two oil companies.

The case was taken to a trial court in 2019, wherein the ruling was in favor of Petron, ordering PNOC the return of the properties to Petron. The case then moved to a reconsideration with Petron asking for PNOC to return the leases the Company had been paying since 1993. The trial court denied both motions; subsequently, both parties went up to the Court of Appeals (CA).

A trial court granted Petron's motion in November 2020 for summary judgment and ordered the rescission of the Deeds of Conveyance related to leased premises that the Company conveyed to PNOC in 1993. The court also ordered the reconveyance of the properties to Petron and the payment of ₱143,000 to PNOC with legal interest from 1993. Petron sought partial reconsideration to include an order directing PNOC to return all lease payments it had made, but it was denied. Petron and PNOC then filed notices of appeal. In December 2021, the CA dismissed both appeals and upheld Petron's position that PNOC breached its contractual obligation under the lease agreements. In December 2022, PNOC filed a petition for review on certiorari³ with the SC. The SC denied this petition in a resolution dated July 2023, and further reaffirming its decision in a resolution made on November 25, 2024.

In January 2025, state-run PNOC filed a second motion for reconsideration with the SC after it ruled with finality in favor of Petron in its case regarding its lease agreements.

PhilRatings shall monitor the developments regarding these matters and their possible impact on Petron's risk profile, moving forward.

³ Certiorari is a court process to seek judicial review of a decision of a lower court or government agency.

Volatility of oil prices amid geopolitical tensions and market uncertainties⁴

Geopolitical conflicts, such as the ongoing war between Russia and Ukraine and other conflicts in the Middle East, have been heavily threatening the global oil supply. Sanctions were placed against Russia, one of the world's top exporters of crude oil, as countries looked for other sources of the commodity outside of the country. This prompted oil prices to soar. In addition to this, demand for oil from China, which is the world's top importer of oil, declined in 2024. This was driven by China's slower economic growth, the rise of electric vehicles (EVs), and the adoption of liquefied natural gases (LNGs) on trucking.

Recently, oil supply in the Middle East has been in danger amid the ongoing conflict between the US and the Houthi rebels in the Red Sea. Members of the Organization of the Petroleum Exporting Countries+ (OPEC+) have also issued a new schedule for seven member nations to make further monthly oil output cuts of between 189,000 and 435,000 bpd. The operations and margins of oil companies, which are sensitive to disruptions in the global supply and demand for oil, are highly affected by geopolitical conflicts and market uncertainties.

According to the International Energy Association (IEA), global oil demand will grow by more than 1 million bpd in 2025 despite the downside risks posed by the global trade tensions. Demand for petrochemical feedstocks from China will drive global demand, as demand for refined oil is expected to plateau. Supply from OPEC+ members is expected to remain steady in 2025, while supply from non-OPEC+ members, particularly the United States (USA), will be robust. Given stronger forecasts of supply, the IEA sees an oil surplus of 600,000 bpd in 2025.

Benchmark crude oil prices dropped in February and early March 2025, on account of the macroeconomic uncertainties surrounding the impact of the proposed US tariffs. The US Energy Information Administration (EIA) sees Brent crude oil prices to rise to US\$75/barrel in 3Q 2025, but such would dip again to an average price of US\$68/barrel in 2026.

Cheaper oil prices would be beneficial to global economies, as businesses and consumers will be paying less for energy. For businesses engaged in the oil industry, however, cheaper oil might translate to lower margins. Conversely, higher oil prices would benefit oil companies, but it could possibly slow down consumption and, in turn, economic growth.

Market and Competition

Philippines

Based on data from the DOE, Petron remained as the domestic leader in the oil industry in 1H 2024, accounting for almost a quarter of the market with a 24.9% share. This marked an increase from the Company's market share in 1H 2023 of 23.2%. Trailing Petron are Shell and Chevron, which grabbed the second and third largest market shares in 1H 2024, respectively. The market shares of Shell and Chevron for the period dipped to 13.6% and 4.1%, respectively.

⁴ https://www.khaleejtimes.com/business/energy/opec-issues-new-plan-for-oil-cuts-to-compensate-for-overproduction-2?_refresh=true

<https://www.reuters.com/business/energy/asias-crude-oil-imports-drop-2024-weak-china-weighs-russell-2025-01-06/>

<https://www.iea.org/reports/oil-market-report-march-2025#overview>

<https://www.investopedia.com/ask/answers/040915/how-does-law-supply-and-demand-affect-oil-industry.asp>

Relatively smaller players outside the aforementioned major oil companies still accounted for nearly half of the market in 1H 2024, with a combined share of 49.2%. These players include Unioil Petroleum Philippines (Unioil), Seoail Philippines, Inc. (Seoail), Insular Oil Corporation (IOC), Jetti Petroleum, Inc. (Jetti), and Phoenix Petroleum (Phoenix). End-users who imported directly for their own requirement claimed the remaining 9.2% share for the period; this was higher than their share in 1H 2023 of 5.3%.

Table 4. Market Share of Philippine Oil Companies

Company (%)	1H 2023	1H 2024
Petron	23.2	24.9
Shell	15.6	13.6
Chevron	4.4	4.1
Independent Oil Players	51.6	49.2
Other Independent Oil Players		
Unioil	8.3	8.1
Seoail	7.7	6.2
IOC	6.6	5.7
Jetti	2.5	2.9
Phoenix	1.4	2.2
End-users	5.3	9.1

In the LPG market, Petron also claimed the largest chunk with 25.5% in 1H 2024. This was similarly an improvement from its previous market share of 23.7% in 1H 2023. Liquigaz Philippines Corporation (Liquigaz) retained its spot as the second largest player in the LPG market for the period with a share of 17.9%. This, however, was lower than its share of 19.1% in the same period in the previous year. South Pacific, Inc. (SPI) also kept its position as the third largest player in the LPG market with a 14.6% share. Similar to Liquigaz, SPI's market share declined in 1H 2024 in comparison to its 16.0% share in 1H 2023.

The deregulation of the Philippine oil industry in 1998 resulted in the industry having low barriers to entry. Since then, more than 90 smaller players have entered the market, resulting in keener competition. As the smaller players tend to engage in price wars and aggressive discounting, they attract more customers. In particular, public utility vehicles, logistics, and hauling companies tend to look for gasoline stations that offer the lowest prices. Nevertheless, Petron's advantage lies in its strong brand name and its extensive retail and distribution network, terminals, and airport installations strategically located nationwide.

Malaysia

Petron has been a major industry player in Malaysia in the last 13 years after purchasing international oil giant ExxonMobil's Malaysian downstream oil business in March 2012. In the Malaysian retail service station business, the Company competes with five main participants, namely Petronas, Shell, Caltex, BHPetrol and Five Petroleum. Petron's market share improved to more than 21% as of end-2024, from 20.3% as of end-2022. The Company believes that it is well-equipped to compete in Malaysia's retail segment.

As for the industrial, aviation, and wholesale market segments, Petron faces fierce competition from local and multinational oil segments. The Company relies on the local production of PDR and its terminals across the country to remain competitive.

Ownership and Management

As of March-2025, Petron had two principal common shareholders namely: SEA Refinery with 52.7% of Petron's common shares and SMC with 19.1%. The remaining 28.2% shares were held by others including the public.

SEA Refinery is 100%-owned by SMC, which allows SMC to hold an aggregate 71.8% ownership of Petron. SMC is one of the largest and most diversified conglomerates in the Philippines, with business interests in beverage, food, packaging, fuel and oil, power, and infrastructure.

SMC's sales rose in 2024 by 8.8% to ₱1.6 trillion, which was supported by the strong growth from its power, infrastructure, and food and beverages businesses. Sales from its power arm SMGP recorded a notable 20.9% growth to ₱205.1 billion in 2024, driven by the 45.1% jump in its offtake volumes to 36,564 gigawatt hours (GWh). SMFB's sales increased by 5.5% to ₱400.9 billion, supported by its growing sales volume. SMC Infrastructure's revenues similarly grew by 7.3% to ₱37.5 billion, driven by the increase in average annual daily traffic (AADT) and the continued activity in its existing toll roads.

Despite SMC's strong sales performance in 2024, its earnings were negatively affected by the volatility in global oil prices through SMGP. Such brought down SMC's net income by 18.0% from ₱44.7 billion in 2023 to ₱36.7 billion in 2024. The weaker sales performance of SMC's cement business (-6.2%) also contributed to its lower bottom line. As such, SMC's net income margin declined from 3.1% in 2023 to 2.3% in 2024.

Excluding the effects of foreign exchange adjustments, however, SMC's core net income increased by 22.0% to ₱52.3 billion in 2024.

With an 11.0% increase in its interest-bearing debt to ₱1.6 trillion, SMC's leverage level further increased with D/E ratio of 2.3x as of end-2024. SMC's current ratio, however, remained healthy at 1.2x. Solvency ratio similarly remained sufficient at 1.3x.

Ramon S. Ang is the President and CEO of Petron. He is also the Chairman of Petron's Malaysian companies. In addition, Mr. Ang is currently the Chairman and CEO of SMC, Chairman, CEO and President of SMGP, President of SMC SLEX, Chairman of SMFB, and President of GSMI. Aside from these, he holds several key positions in SMC-affiliated businesses.

Petron has Collective Bargaining Agreements (CBAs) with three labor unions in the Philippines, representing approximately 24% of its domestic workforce. Petron Malaysia, on the other hand, has CBAs with two labor unions. Such represent approximately 23% of its workforce. The Company has not experienced any significant strikes or work stoppages for more than 20 years on account of employee relations.

Petron is seen to strongly benefit from its synergies with SMC and its businesses, given its shared directors and executive officers. In addition, the Company has a highly capable and experienced management team with the technical expertise needed to run the business.

Strategy

Petron will continue to focus on its volume growth, sustainable margins, and improvements in its operational efficiency. To ensure business sustainability, the Company will continue to implement the following strategies: (1) maximize the production of high-margin refined petroleum products and petrochemicals; (2) ensure reliability and efficiency of refinery operations; (3) maximize volume growth and further increase market share in the downstream oil markets in the Philippines and Malaysia; and (4) improve supply chain reliability and efficiency.

In recent years, Petron has made a strategic shift in its production by transitioning from lower-margin fuel oils to higher-margin products. The Company continues to invest in upgrading its production capabilities, focusing on the development of higher-margin petroleum products and petrochemicals. Furthermore, the Philippine and Malaysian refineries undergo scheduled maintenances to ensure operations remain reliable.

To sustain market leadership and stimulate volume growth in the Philippines, Petron eyes to focus more on improving the productivity of its existing network. This strategy will be supported by its marketing campaigns. In Malaysia, the Company plans to continue implementing programs resilient to the adverse changes in the Malaysian oil industry caused by APM adjustments and the implementation of fuel subsidies. Such will also be supported by the Company's marketing initiatives and loyalty programs. New stations will also be added in strategic locations. Petron likewise offers competitive prices to stimulate volume growth. Furthermore, the Company is actively expanding its non-fuel business segment and intensifying training programs for dealers and sales personnel.

Petron engages in research and development (R&D) to enhance its operational efficiency, improve its cost structure, and strengthen its competitiveness. The Company's R&D department conducts various technical research and testing activities to identify possible changes to improve its product line. The R&D department also focuses on developing more eco-friendly product, ensuring the Company remains compliant with the government's laws and regulations concerning the environment (i.e. The Clean Air Act and The Biofuels Act). Petron plans to introduce new products with differentiated and superior qualities, expanding its lubricants distribution network through additional sales channels.

Petron aims to further improve its logistical functions by reducing distribution costs and calibrating its supply chain. The Company also plans to expand its receiving and storage facilities to support any increase in volume. It also looks to optimize and expand its truck fleet.

Environmental, Social, and Governance (ESG) Initiatives

The Company also continues to pursue and build on its more socially responsible initiatives. It actively manages its carbon footprint through different means such as carbon capturing⁵ and the usage of energy-

⁵ Carbon capture and storage (CCS) involves carbon dioxide emissions, transporting it from its source, and then storing it permanently underground in geological formations.

<https://www.petron.com/petron-foundation-inc/>

<https://www.petron.com/news/petron-supports-rehabilitation-of-limay-fish-sanctuary/>

<https://powerphilippines.com/petron-turns-plastic-waste-into-school-chairs-in-support-of-epr-law/>

<https://politiko.com.ph/2024/11/05/from-school-supplies-to-classrooms-angara-inks-education-aid-deal-with-petron/politiko-campus/>

efficient technologies, such as the installation of light-emitting diode (LED) lights, solar panels and rainwater harvesting facilities in service stations and terminals.

Under its Puno ng Buhay Program, Petron reportedly enabled planting around 1.1 million trees since 2000. Among its numerous locations, its 10-hectare mangrove site in Obando, Bulacan maintains the survival rate of 70-80% of the mangrove trees. In addition, Petron participated in the rehabilitation of the Limay Fish Sanctuary, which protects the local fish habitats in Barangay Wawa of Limay, Bataan. The rehabilitation is set to be completed in 2025. The Company also donated 25 school chairs manufactured from its own lubricant containers. It expects to produce more chairs sourced using its own materials given its plastic waste collection efforts.

Petron also provides scholarships to children nationwide through its Tulong Aral ng Petron (TAP) Program, where grade school graduates can be offered scholarships until college if they qualify. For the school year 2023-2024, Petron had 2,433 scholars under the TAP program. In recognition of Petron's efforts, the Department of Education (DepEd) and the Company signed an agreement in 2024 to ensure the continuity of the TAP program. In 2025, the Company was able to extend its program to students in Mindanao.

FINANCIAL RISK

Analysts' Note: PhilRatings' calculation of certain financial metrics may differ from that of Petron.

Table 5. Income Statement Items and Ratios

in millions PHP (except ratios)	2022*	2023*	2024
Sales	857,638	801,027	867,966
Cost of Goods Sold	823,788	754,429	821,753
Gross Profit	33,850	46,598	46,213
Selling & Administrative Expenses	15,853	17,568	18,757
Income from Operations	19,535	30,713	29,223
Interest Expense	13,094	19,095	20,961
Net Income	6,925	10,112	8,471
Gross Margin (%)	3.9	5.8	5.3
Operating Margin (%)	2.3	3.8	3.4
Net Profit Margin (%)	0.8	1.3	1.0
Return on Average Equity (%)	6.2	9.5	8.3
Return on Average Assets (%)	1.6	2.2	1.9

Table 6. Cash Flow Items and Ratios

in millions PHP (except ratios)	2022*	2023*	2024
Net Cash Flows Provided by (Used in) Operating Activities	(21,805)	20,316	13,208
Net Cash Flows Provided by (Used in) Investing Activities	(3,238)	(7,550)	(10,216)
Net Cash Flows Provided by (Used in) Financing Activities	22,794	(21,753)	(1,285)
Cash and Cash Equivalents	37,183	27,519	30,389
Current Ratio (x)	1.1	1.0	1.0
EBIT Interest Coverage Ratio (x)	1.6	1.7	1.6

Table 7. Balance Sheet Items and Ratios

in millions PHP (except ratios)	January 1, 2023*	December 31, 2023*	December 31, 2024
Total Assets	461,417	445,769	468,802
Total Liabilities	347,816	346,109	364,592
Total Debt	244,947	246,806	256,349
Total Equity	113,601	99,660	104,210
Debt to Equity Ratio (x)	2.2	2.5	2.5
Total Debt to Capitalization (%)	68.3	71.2	71.1
Solvency Ratio (x)	1.3	1.3	1.3

**Financial statements were restated as Petron performed a reassessment and consequently changed its accounting policy for LPG cylinders.*

Profitability

2024 vs. 2023

Petron's revenues grew by 8.4% from ₱801.0 billion in 2023 to ₱868.0 billion in 2024. Top line expansion was supported by the sustained increase in consolidated sales volume, which went up by 10.2% to 139.9 million barrels in 2024. Volume growth was on account of Petron's Philippine operations and Singapore trading subsidiary, the combined sales of which improved by 16% to 92.5 million barrels, attributed to network expansion and strong marketing efforts. For Petron Malaysia, however, its performance was affected by policy changes in fuel subsidies and a two-month maintenance shutdown of PDR.

Despite posting higher revenues, operating income inched down by 4.9% from ₱30.7 billion in 2023 to ₱29.2 billion in 2024. Operating margin declined from 3.8% to 3.4%. Volatility in global oil prices persisted during the year, given geopolitical conflicts in the Middle East and weakened demand from China. Dubai crude averaged US\$80 per barrel, with prices peaking at US\$89 in April 2024 before going down to US\$73 by year-end, putting pressure on regional refining margins.

Other income (net) ballooned from ₱119 million in 2023 to ₱3.4 billion in 2024 (driven by the gain on reversal of previously booked lease and asset retirement liabilities, as the SC issued a decision in favor of Petron in relation to its dispute with PNOG), tempering the decrease in pre-tax income to 0.9%, from ₱13.1 billion in 2023 to ₱13.0 billion in 2024. Income tax expense, however, jumped by 50.9% to ₱4.5 billion—as Petron made provision for impairment of deferred tax asset for a portion of its Net Operating Loss Carry Over (NOLCO) and Minimum Corporate Income Tax (MCIT) incurred in 2020 and 2022, respectively, which is due to expire in 2025. Net income therefore amounted to ₱8.5 billion in 2024, down by 16.2% from ₱10.1 billion in 2023. Net profit margin inched down from 1.3% in 2023 to 1.0% in 2024. Petron views its results for the year as a testament to its ability to adapt to market conditions and its resilience amid industry challenges.

Projected Period

Petron anticipates growth in its earnings over the long-term, on the back of sales volume growth and controlled increase in costs and expenses. The Company looks forward to favorable refining margins and positive demand prospects in the Philippines and Malaysia. Its forecasts also take into account the Company's expansion plans and programs that will drive growth in the future.

Cash Flow and Liquidity

2024 vs. 2023

Petron's operating cash flows amounted to ₱13.2 billion in 2024, down by 35.0% from ₱20.3 billion in 2023, driven by lower cash generated from the Company's operations. Net cash used in investing activities jumped by 35.3% to ₱10.2 billion, on the back of the 41.3% hike in the spending for additions to property, plant and equipment. Net cash used in financing activities, in contrast, dipped by 94.1% to ₱1.3 billion due to higher proceeds from availing of loans, bonds and advances. As a result, Petron registered a 10.4% increase in its cash balance, from ₱27.5 billion as of end-2023 to ₱30.4 billion as of end-2024.

Liquidity levels continued to be satisfactory. Current ratio was relatively unchanged at 1.0x as of end-2024. EBIT interest coverage ratio was 1.6x, remaining more than adequate.

Projected Period

Petron is expected to continue to have healthy cash flows going forward, with operating cash particularly seen to generally increase over the long-term. Current ratio and interest coverage ratios will additionally be ample going forward. Petron will be in a good position to settle its ₱15.8 billion maturing Series D and E bonds in 2025, with part of the proceeds from its planned bond issuance allotted for the refinancing of these maturing bonds.

Capital Structure

2024 vs. 2023

Petron's total assets grew by 5.2% from ₱445.8 billion as of end-2023 to ₱468.8 billion as of end-2024. Asset expansion was mainly due to the 17.1% increase in inventories to ₱90.6 billion and the 26.1% growth in other current assets to ₱51.1 billion.

Regarding its leverage levels, the Company's D/E ratio was relatively stable at 2.5x as of end-2024. While total debt went up by 3.9% to ₱256.3 billion, total equity climbed by 4.6% to ₱104.2 billion. Equity growth was driven by the 40.8% jump in additional paid-in capital to ₱57.7 billion (following the issuance of Series 4 preferred shares), partly offset by the almost threefold increase in treasury stock to ₱21.0 billion (due to the redemption of Series 3A preferred shares).

Projected Period

Going forward, Petron intends to gradually improve its D/E ratio. This trend will be supported by a favorable combination of declining debt levels and increasing equity. Equity growth will be supported by the continued plowback of earnings.

Financial Flexibility

As of end-March 2025, Petron had a significant amount of available credit facilities which it could tap should the need to arise. Petron also had a market capitalization of ₱21.2 billion as of April 11, 2025. As a listed company, it can tap the equity market to raise money. SMC is likewise listed and had a market capitalization of ₱188.3 billion as of the same date.

ECONOMY

GDP

The Philippine economy grew by 5.2% in 4Q 2024, lower than the 5.5% growth recorded in the same quarter of the previous year. This brought the full-year GDP expansion in 2024 to 5.6%, which is unchanged when compared to 2023. Growth for the year was driven by the following industries: Wholesale and retail trade; repair of motor vehicles and motorcycles, 5.6%; Financial and insurance activities, 9.0%; and Construction, 10.3%. Among major economic sectors, Industry and Services grew by 5.6% and 6.7% in 2024, respectively. AFF recorded a full-year decline of 1.6% in the same period.

With full-year GDP growth settling at 5.6% in 2024, the Philippines missed its government's revised target of 6.0-6.5% for 2024. National Economic and Development Authority (NEDA) Undersecretary for Policy and Planning Group Rosemarie Edillon attributed such to the extreme weather conditions for the year, geopolitical tensions, and subdued global demand. Among Asian countries, however, the Philippines was among the fastest growing economies in 4Q 2023, behind only Vietnam (7.5%) and China (5.4%), and ahead of Malaysia (4.8%).

HFCE recorded a 4.7% YoY growth in 4Q 2024, supported by the increase in the following: Miscellaneous Goods and Services, 7.7%; Transport, 10.9%; Health, 11.5%; Food and Non-Alcoholic Beverages, 1.3%; and Restaurant and Hotels, 5.3%. For full-year 2024, HFCE grew by 4.8%, slower than the growth rate recorded in 2023 of 5.6%. On the other hand, GFCE was up by 9.7% in 4Q 2024. Full-year GFCE growth in 2024 settled at 7.2%, considerably higher than 0.6% in 2023.

Inflation and Interest Rates⁶

The Philippines recorded an average inflation rate of 3.2% in 2024, well within the government's target of 2.0–4.0%. This was also significantly lower than the full-year inflation of 6.0% in 2023. The Philippine Statistics Authority (PSA) noted tempered inflation for food and non-alcoholic beverages in 2024 led to the inflation rate falling within the target. Rice inflation hitting its lowest since January 2022 also contributed to the lower inflation rate for the year.

In March 2025, inflation was recorded at 1.8%, which was nearly the lowest rate in five years (vs. 1.6% in March 2020). This slowdown was driven by the easing prices of food and non-alcoholic beverages and fuel. The inflation rate recorded in March brought average price growth in the first three months of 2025 at 2.2%, well within the government's inflation target of 2.0-4.0%. Core inflation, which excludes volatile food and energy prices, was at 2.2% in March, slightly slower than the 2.4% recorded in February. Rice prices also registered a deflation rate of 7.7% in March, quicker than the 4.4% decline in the previous month. Transport costs likewise dropped by 1.1% in March 2025.

Following BSP's decision in August 2024 to cut interest rates for the first time in almost four years, the central bank further made policy rate cuts of 25 bps in October and December 2024. This series of rate

⁶ <https://www.philstar.com/business/2025/02/05/2419395/philippine-inflation-stays-29-january-2025>

<https://www.reuters.com/markets/rates-bonds/philippines-held-rates-steady-hedge-against-uncertainty-cenbank-governor-says-2025-02-14/>

cuts brought the benchmark rate to 5.75% by end-2024. In April 2025, the BSP executed its first 25 bps rate cut for the year, bringing the key policy rate to 5.50%.

Foreign Exchange Rate

In November 2024, the Philippine Peso sunk to a two-year low of ₱59 against the US Dollar—first on November 21 and once again on November 26. The last time the Philippine Peso closed at the ₱59-to-a-dollar level was in October 2022. The US dollar continued to strengthen against Asian and most major global currencies on the back of fresh developments following the re-election of President Donald J. Trump. The Philippine Peso ended 2024 at ₱57.845 against the greenback, depreciating by 4.3% from end-2023. Fitch Solutions' unit BMI said that it could breach the ₱60-a-dollar level should President Trump implement protectionist policies that take markets by surprise.

The week-on-week average of the Philippine peso appreciated against the US Dollar to ₱57.33 as of March 18, 2025, from ₱57.55 in the previous week.⁷

Economic Outlook⁸

Moving forward, the BSP expects the Philippine economy to expand within its growth target of 6.0-8.0% in 2025 and 2026. Moody's Ratings (Moody's) sees the Philippines to remain among the fastest growing Asian economies this year. Economic analysts from multilateral lenders World Bank (WB) and Asian Development Bank (ADB), the ASEAN+3 Macroeconomic Research Office (AMRO), and Fitch Solutions unit BMI all similarly see the Philippines achieving its government's growth target for 2025. Robust domestic consumption and private investments are seen to be the key drivers for the country's growth. Downside risks that could hinder economic growth include extreme weather disturbances, natural disasters, and geopolitical tensions. Given the country's consumption-driven economic model, tariff rate adjustments made by US President Donald J. Trump are seen to have a muted impact to the Philippine economy.

Moody's expects inflation to remain within the government's target of 2.0-4.0% in 2025. Economists from Chinabank Research support this, further seeing monthly inflation rates consistently falling within the target. With the recent inflation numbers falling within the government's target, Finance Secretary Ralph Recto, who is also part of BSP's Monetary Board, sees the BSP cutting its policy rates by 50 to 75 bps in 2025.

⁷ <https://doe.gov.ph/oil-monitor>

⁸ <https://www.bworldonline.com/top-stories/2025/02/04/650827/phl-unlikely-to-reach-the-upper-end-of-2025-target/>

<https://www.pna.gov.ph/articles/1243474>

<https://www.pna.gov.ph/index.php/articles/1245881>

<https://business.inquirer.net/505299/inflation-seen-to-stay-on-target-thru-2025>

<https://business.inquirer.net/513886/recto-sees-50-to-75-bp-full-year-bsp-rate-cut>

INDUSTRY⁹

Supply

As of end-June 2024, the reported inventory of crude oil was at 2.82 million liters (ML), while reported finished petroleum products were at 2,683 ML, excluding biofuels. The stock of diesel was at 1,238 ML, which was equivalent to 44 days of supply. The stock of gasoline was at 844 ML (equivalent to 41 days), while the stock of kerosene was at 16 ML (equivalent to 104 days). The stock of LPG was at 253 ML as of end-June 2024, which was equivalent to 27 days.

For the supply crude oil, the country imported 3,316 ML as of end-June 2024. The Middle Eastern region was the Philippines' top source of imported crude oil, as Saudi Arabia, UAE, and Iraq accounted for 96.1% of the country's imported oil. Nearly half (48.8%) of the country's imports were from Saudi Arabia. The remaining 3.9% of the country's imported crude oil came from Colombia.

To ensure that the country has a stable supply of oil, the DOE enforces the Minimum Inventory Requirement (MIR). In 1H 2024, the MIR for refiners stood at in-country stocks equivalent to 30 days of crude and finished products. On the other hand, the MIR for bulk marketers/importers was for an equivalent of 15 days of stock for finished products. LPG importers had an MIR of seven days.

Demand

The Philippines' demand for petroleum products in 1H 2024 increased by 837.6 ML (or +6.1%) to 14,590.1 ML, with such equivalent to an average daily demand of 160.3 ML for the period. Of the petroleum products, gasoline and diesel had a combined demand of 10,069.5 ML in 1H 2024, which accounted for the majority of the country's demand (or 69.0%) for petroleum products. The demand for gasoline and diesel was also robust, as such registered growth rates of 4.6% and 5.1% in 1H 2024, respectively. Jet fuel and LPG likewise saw strong demand for the period with growth rates of 9.2% and 2.3%, respectively. The demand depleted, however, for kerosene (-11.3%) and fuel oil (-7.1%) for the period.

More than half (51.3%) of the demand for petroleum products in 1H 2024 came from the industrial/commercial sector. This was followed by resellers, which sell to retailers for transport, at 34.0%. When combined, these two sectors represent 87.1% of the Philippines' total demand for petroleum products in 1H 2024. The remaining 12.9% share was accounted for by international airlines and vessels (7.9%), independent refillers (4.6%), Philippine government (0.4%), and foreign embassies (0.001%).

In terms of exports of petroleum products, the Philippines saw a 6.0% YoY increase in 1H 2024 to 270.4 ML, from 255.2 ML in 1H 2023. Propylene, mixed xylene, and toluene were the country's most exported petroleum products with shares of 27.7%, 21.6%, and 14.4%, respectively. More than half (52.5%) of the country's petroleum products were exported to China in 1H 2024, followed by Malaysia and India at 17.5% and 14.4%, respectively. Total exports of crude oil similarly increased by 2.7% YoY from 47.9 ML in 1H 2023 to 49.2 ML in the following year, led by the strong demand from South Korea and Thailand.

⁹ https://doe.gov.ph/sites/default/files/pdf/downstream_oil/0455962%20%28OIMB%29%20-%20Request%20for%20Posting%20of%201H%202024%20Supply%20and%20Demand%20Report%20%281%29.pdf
http://www.dosm.gov.my/uploads/release-content/file_20240903101042.pdf

The DOE has set an ambitious goal to achieve energy security and implement power market reforms. By 2040, the country plans to increase production and reserves of local oil, gas, and coal, improve policies for downstream oil industries, and establish a natural gas industry with investment opportunities. The goal is to compensate for the impending depletion of the Malampaya natural gas fields by finding alternative energy sources to maintain economic growth and infrastructure development. Offshore investment and LNG infrastructure development are being encouraged, but there are concerns about low foreign investment due to issues of contract sanctity and lack of incentives. The Philippines risks facing an energy crisis if it cannot address the challenges in offshore exploration and LNG development.

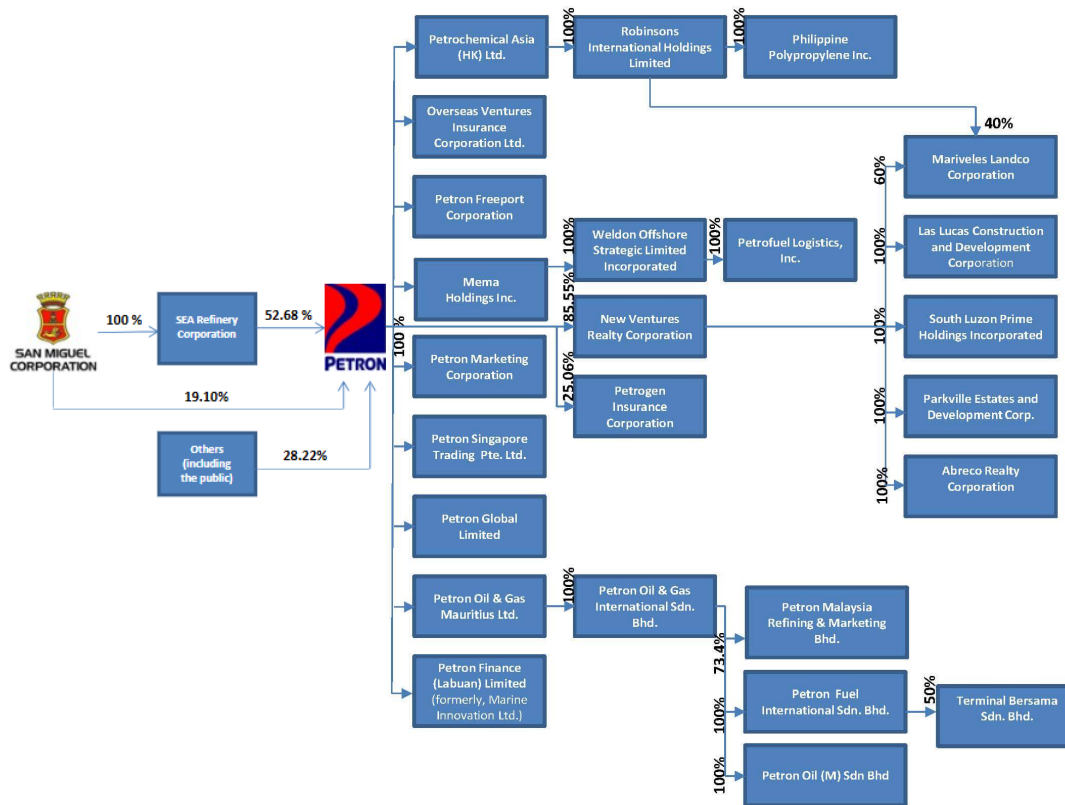
Malaysia

In Malaysia, production of crude oil and condensate registered a slight recovery of 1.3% to 46.1 million barrels in 2Q 2024 after two consecutive quarters of depleting production. The export value of crude oil and condensate, however, declined to RM7.5 billion in 2Q 2024 from RM9.1 billion in the previous quarter. The prices of WTI crude oil per barrel increased in 2Q 2024 by 10.7% quarter-on-quarter (QoQ) to US\$81.7. Brent crude oil prices by the barrel also saw an increase in the same quarter to US\$84.6. Top exporters of Malaysian-sourced crude oil and condensate remained to be Thailand in 2Q 2024, accounting for 29.7% of the country's total exports, followed by Australia and Brunei Darussalam with respective shares of 26.8% and 12.7%. The export value of refined petroleum products similarly shrunk by 11.9% QoQ to RM29.6 billion in 2Q 2024. Singapore remained to be Malaysia's top destination for its refined petroleum product exports for the period, almost grabbing a quarter share (24.2%).

Malaysia's imported crude oil and condensate valued at RM18.6 billion in 2Q 2024 (+18.5% QoQ), with 40.5% are sourced from Saudi Arabia, 22.5% from the UAE, and 9.3% from USA. The import value of refined petroleum products was at RM29.8 billion in 2Q 2024 (-20.5% QoQ). Singapore accounted for the largest share of Malaysia's petroleum imports at 37.5%, which was followed by the Republic of Korea (13.6%) and China (10.6%).

ANNEX

Annex A: Petron's Group Structure



Annex B. Petron's Subsidiaries

Company Name	Business Description	Ownership
Petrochemical Asia (HK) Ltd. (PAHL)	Investment holding	100%
Overseas Ventures Insurance Corporation Ltd. (OVINCOR)	Reinsurance	100%
Petron Freeport Corporation (PFC)	Wholesale or retail sale of fuels, operation of retail outlets, restaurants and convenience stores, and the manufacture of fuel additives	100%
Mema Holdings, Inc.	Hauling and logistics	100%
Petron Marketing Corporation (PMC)	Wholesale or retail sale of fuels, operation of retail outlets, restaurants and convenience stores with pharmaceutical items, and bakeries	100%
Petron Singapore Trading Pte. Ltd. (PSTPL)	Trading	100%
Petron Global Limited (PGL)	Investment holding	100%
Petron Oil & Gas Mauritius Ltd. (POGM)*	Investment holding	100%
Petron Finance (Labuan) Limited (PFL)	Investment holding	100%

*POGM and its subsidiaries, as seen in Annex A, are collectively referred to as "Petron Malaysia".