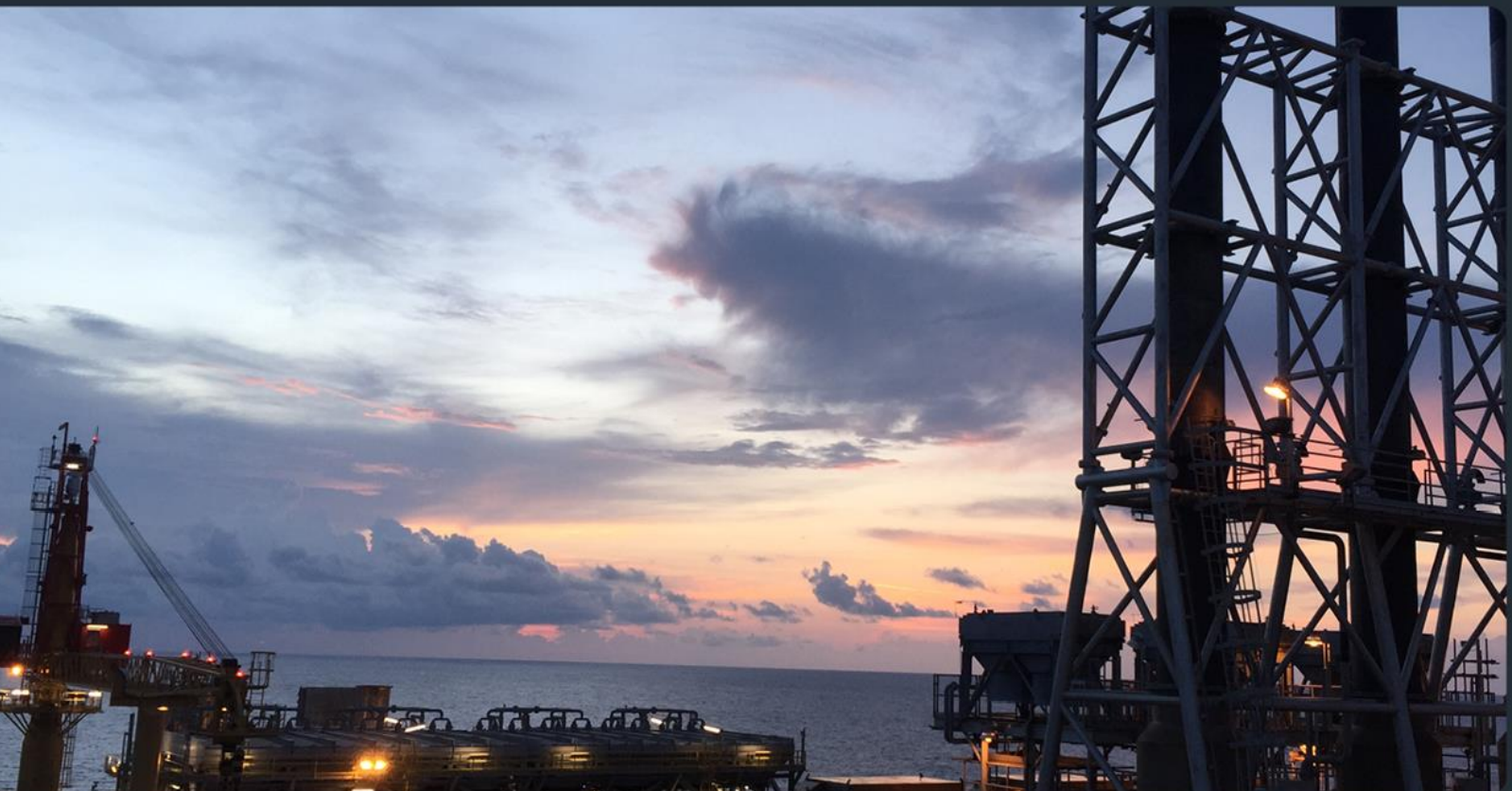




Institute for Energy Economics
and Financial Analysis

San Miguel Global Power: Fossil Fuel-Oriented Growth Strategy Raises Financial Red Flags

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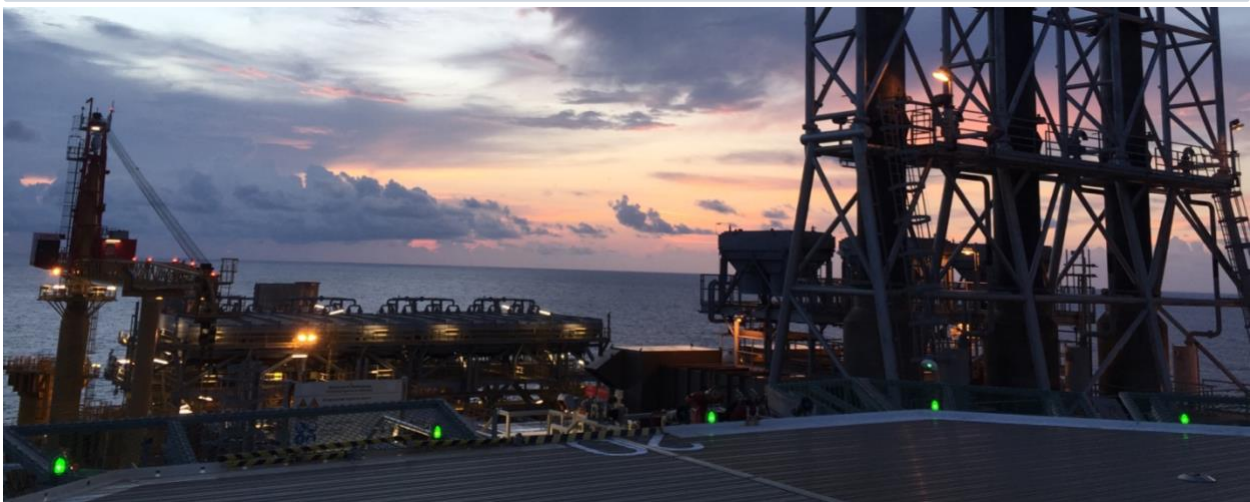
Key Findings

San Miguel Global Power Holdings Corporation (SMGPH) is rapidly expanding coal and natural gas-fired power capacity in the Philippines, despite the clear financial risks caused by its overexposure to volatile fossil fuel prices.

SMGPH's shift from coal to liquefied natural gas (LNG) is likely to exacerbate financial issues, not alleviate them.

The company's near-term liquidity crunch could evolve into a longer-term funding shortfall from 2024 to 2026.

IEEFA believes that an immediate, material pivot to low-cost, domestic renewable energy is the best hedge against exposure to imported fossil fuels and the best way to position the company within the Philippines' rapidly accelerating energy transition.



Executive Summary

San Miguel Global Power Holdings Corporation (SMGPH)—formerly SMC Global Power Holdings Corp.¹—is the largest power producer in the Philippines, with plans to rapidly expand its generation portfolio over the next decade.

However, the Institute for Energy Economics and Financial Analysis (IEEFA) has found that SMGPH's exposure to global fossil fuel prices has weighed negatively on its financial position in recent years, highlighting risks to the company's expansion strategy focused largely on new coal and natural gas-fired power plants.

SMGPH aims to complete 1,900 megawatts (MW) of new coal capacity by 2025 while pursuing large-scale, strip coal mining operations in the Philippines.² IEEFA found that the company still owns more than 60% of total coal capacity under development in the Philippines.³ SMGPH also plans to diversify from coal by building more than 10,000MW of natural gas-fired power plants, making it one of the largest developers of gas-fired power plants in Southeast Asia.

Meanwhile, San Miguel Corporation (SMC), 100% owner of SMGPH and one of the Philippines' largest conglomerates, declared a 2050 net-zero target in June 2023.⁴

SMGPH does not own any operational wind or solar assets, despite a goal set in 2018 to complete 10 gigawatts (GW) of renewables capacity by 2028.⁵ The company aims to complete 800MW of solar and 1,000MW/1,000 megawatt-hour (MWh) of battery storage projects over the next three years. As a result of its ambitious expansion plans, the company's capital expenditures have risen dramatically, funded by increased loans, bonds and issuances of perpetual securities.

“ **The company's development strategy, weighted heavily in favor of fossil fuel projects, raises financial red flags.**

In IEEFA's view, the company's development strategy—weighted heavily in favor of fossil fuel projects—raises financial red flags. Global commodity prices have skyrocketed over the past three years, driven higher by Russia's invasion of Ukraine. In turn, SMGPH's heavy reliance on imported coal has had a negative impact on various financial metrics, including profitability, liquidity, cash flow

¹ The company officially changed its name on March 22, 2023, to San Miguel Global Power Holdings Corporation. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 3.

² *Ibid.*, p. 6.

³ Philippines DOE. [Private Sector Initiated Power Projects](#). June 14, 2023.

⁴ San Miguel Corporation. [2022 Sustainability Report – Ready for Tomorrow](#). June 21, 2023, p. 5.

⁵ BusinessWorld. [SMC to 'invest heavily' in renewable energy](#). July 30, 2018.

coverage and its ability to repay rising debt. Based on these factors, the data indicates the company underperformed its largest domestic peers in the 2022 financial year.

In the first half of FY2023, SMGPH's financials showed improvement due largely to lower commodity prices. However, underlying liquidity issues still point to difficulties covering debt, interest and capital distributions for perpetual securities holders.

Moreover, the company's transition from coal to liquefied natural gas (LNG) is likely to exacerbate financial issues rather than alleviate them. SMGPH began importing LNG in April 2023, and has large LNG-to-power plants under development. However, imported LNG is significantly more expensive and volatile than coal, and global gas markets are undergoing a major geopolitical reshuffle. Higher, less stable fuel costs may increase financial risks to SMGPH, especially if the company cannot fully pass through power generation costs to end users.

Volatility in fossil fuel prices has already resulted in numerous legal disputes involving the company's power offtake contracts. Without new long-term contracts, the company's existing and proposed gas-fired power plants may be exposed to competitive pressures in the country's wholesale power market, where the expansion of low-marginal-cost renewables threatens the utilization of more expensive fossil fuel power plants.

Risks are growing to the company's legacy business model focused on acquisition and construction of baseload, fossil fuel power plants—evidenced by its financial performance in recent years.

SMGPH's investors should tread cautiously. The company's elevated net debt-to-earnings, potential difficulties meeting financial obligations, high non-call risk for its sizable U.S. dollar-denominated perpetual securities, and mounting challenges in securing favorable funding terms due to high fossil fuel exposure create additional risk of devaluation, particularly in the long term. While the backing of parent company SMC offers some comfort, SMC's own elevated debt and business uncertainties will be critical to monitor when assessing financial risks to SMGPH.

The company's strategic options to address financial risks in the near to medium term are limited due to its ongoing fossil fuel expansion. However, IEEFA believes that an immediate, material pivot toward low-cost, domestic renewable energy represents the best hedge against exposure to imported fossil fuels. By reducing fossil fuel expansion plans and expediting renewable energy projects, the company could best position itself within the Philippines' rapidly accelerating energy transition. Without a change in strategy away from dependence on volatile fossil fuels, the company may increasingly find itself locked into financial instability.

Existing Generation Portfolio

San Miguel Global Power Holdings Corporation (SMGPH) is a wholly owned subsidiary of San Miguel Corporation (SMC), one of the largest conglomerates in the Philippines with core businesses in power, food and beverage, infrastructure, fuel and oil, and packaging, among others (Table 1).

Table 1: FY2022 Net Income Results of SMC Core Businesses (Million Pesos)

	FY2022	FY2021	% Change
San Miguel Food and Beverage, Inc.	34,665	31,417	10%
San Miguel Brewery Inc.	21,750	20,449	6%
SMC Infrastructure	14,244	6,788	110%
San Miguel Foods	9,218	7,610	21%
Petron Corp.	6,697	6,136	9%
Ginebra San Miguel Inc.	4,547	4,179	9%
San Miguel Global Power Holdings Corp.	3,134	15,978	-80%
San Miguel Packaging Group	1,648	1,162	42%

Source: San Miguel Corporation, *Analysts' Briefing 2022 Full-Year Results*, March 16, 2023.

Note: San Miguel Foods, San Miguel Brewery, and Ginebra San Miguel are divisions of San Miguel Food and Beverage, Inc.

SMGPH controls 4,719MW of operational power capacity,⁶ making it the largest power generation company in the Philippines by installed capacity.⁷ As of April 2022, the company owned 21% of installed capacity nationally and 28% of the Luzon grid, the largest of three Philippine grids.⁸

SMC announced a 2050 net-zero target at its annual general meeting in June 2023,⁹ though implementation details are sparse. SMGPH's existing generation portfolio is dominated by fossil fuel power plants, which comprise 87% of its total operational capacity. Hydropower accounts for 12%. As of August 2023, the company does not have equity interests in wind or solar assets (Figure 1).¹⁰

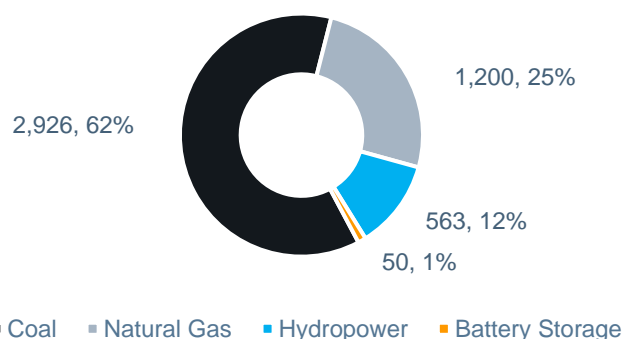
⁶ SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 3.

⁷ Philippines Department of Energy (DOE). [40th Status Report on EPIRA Implementation \(For the Report Period April 2022\)](#). March 27, 2023, p. 51.

⁸ Philippines DOE. [40th Status Report on EPIRA Implementation](#). March 27, 2023, p. 50.

⁹ SMC. [2022 Sustainability Report – Ready for Tomorrow](#). June 21, 2023, p. 5.

¹⁰ All of the company's existing power plants are located in the Philippines.

Figure 1: SMGPH Existing Power Portfolio (MW, % of Portfolio)

Source: IEEFA compilation based on figures provided in SMGPH Annual Report (17-A) – 2022

Fossil Fuel Assets

SMGPH’s main source of revenue has historically come from the sale of electricity from large coal and natural gas facilities. However, the company has faced complications recently regarding various power offtake and fuel supply contracts. For example, SMGPH terminated power supply agreements (PSAs) with the Manila Electric Company (Meralco) for its Sual coal and Ilijan natural gas plants (Table 2), leaving both with large shares of uncontracted capacity.¹¹ These challenges may impact future income generation and foreshadow risks for coal and natural gas expansion projects (see the section entitled, “Heavy reliance on fossil fuels has weighed on SMGPH earnings”).

Table 2: SMGPH Fossil Fuel Portfolio

Fuel Type	Plant Name	Project Company	Plant Type	Grid	Capacity	Acquisition Date	Age
Natural Gas/Diesel	Ilijan	South Premiere Power Corp. (SPPC)	IPP	Luzon	1,200	2010	21
Coal	Sual	Sual Power Inc.	IPPA	Luzon	1,000	2009	24
Coal	Davao (Malita)	Malita Power Inc.	Greenfield	Mindanao	300	--	6
Coal	Limay	Limay Power Inc.	Greenfield	Luzon	600	--	6
Coal	Masinloc	Masinloc Power Partners Co. Ltd.	IPP	Luzon	1,026	2018	25

Source: Company website; SMGPH Annual Report (17-A) – 2022, April 17, 2023; SMGPH Final Prospectus – P 60B Fixed Rate Bonds, July 7, 2022

Note: An Independent Power Producer Administrator (IPPA) administers and manages the electricity output produced by independent power producers (IPPs). An IPPA manages the marketing, price, and volume risks of electricity sales.

¹¹ Business Mirror. [Meralco seeks replacement power for San Miguel’s terminated supply deal](#). August 2, 2023.

SMGPH's wholly owned subsidiary SPPC originally sourced natural gas for its Ilijan combined cycle plant from the Malampaya offshore field, the Philippines' only indigenous gas source. However, a supply contract with Malampaya producers expired in June 2022,^{12,13} causing SPPC to place the Ilijan plant on extended outage through June 2023.¹⁴ Failure to secure new gas sources prior to the expiry of the contract resulted in large income losses from the facility in 2022.¹⁵

The Malampaya field is expected to run dry by 2027.¹⁶ As a result of declining production and the expiry of its gas supply contract, SPPC now plans to run the Ilijan plant on imported liquefied natural gas (LNG). Since the Philippines' first LNG terminal entered operations in April 2023, SMGPH has purchased two LNG cargoes from the spot market at a combined cost of almost US\$90 million.¹⁷ The Ilijan plant has resumed partial operations,¹⁸ though high LNG costs, combined with the lack of an offtake contract with Meralco, may continue to hamper income generation from the facility.

Renewable Energy Assets

SMGPH has not demonstrated a positive track record on green commitments. In 2018, the company said it would invest in 10,000MW of renewable energy by 2028. In 2021, the company said it would complete 10 hybrid solar-plus-storage facilities by 2023.¹⁹ However, the company has had just 563MW of hydropower since 2014,²⁰ and a review indicates that no wind or solar assets have been completed since either target was announced.²¹

Expansion Plans

In addition to existing facilities, SMGPH aims to complete significant new coal, natural gas and battery electric storage system (BESS) capacity, as well as introduce 800MW of solar assets into the company portfolio over the next three years (Figure 2). IEEFA's analysis found that the company owns over 60% of coal projects under development in the Philippines despite a government moratorium on new greenfield coal projects announced in October 2020 (see [Appendix 1](#) for more details).

¹² SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 10.

¹³ Philippine Star. [Malampaya consortium weighs gas sale to SMC's Ilijan power plant](#). December 12, 2022.

¹⁴ Business Mirror. [Ilijan natgas plant reopens, starts power delivery to the grid-DOE](#). June 2, 2023.

¹⁵ Discussed further on page 17.

¹⁶ Reuters. [As gas reserves wane, Philippines faces rising costs in switch to LNG](#). May 24, 2023.

¹⁷ Philippine Statistics Authority. OpenSTAT Database – Monthly CIF Value of Philippine Import by commodity and country of origin, 2023. Accessed on August 30, 2023.

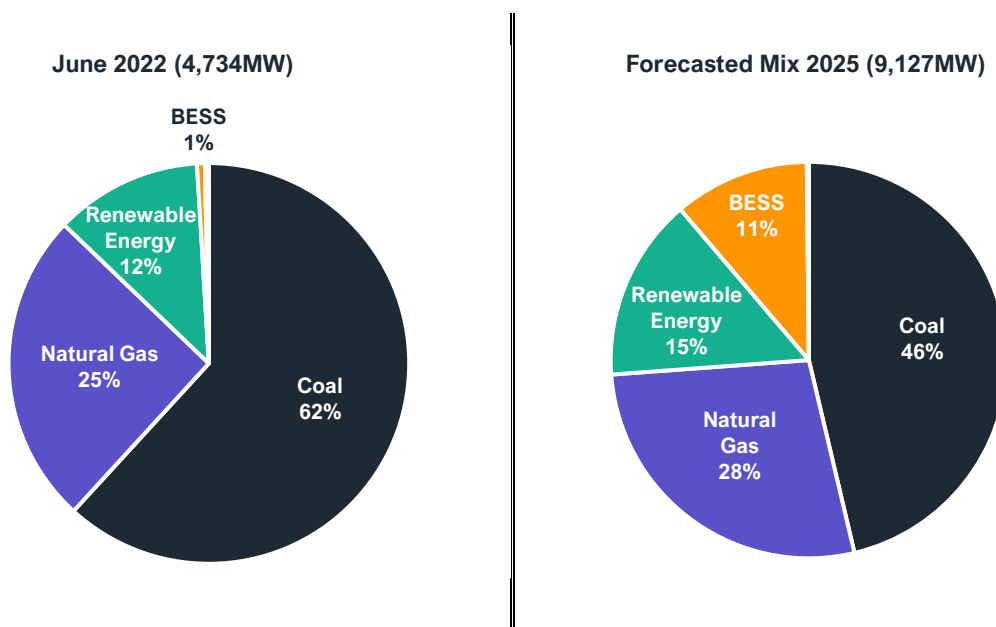
¹⁸ Business Mirror. [DOE vows: No red, yellow alerts till yearend](#). August 18, 2023.

¹⁹ SMC. [SMC ramps up investments in renewable energy technologies, drops clean-coal power projects](#). July 11, 2021.

²⁰ SMGPH administers power produced by the 345MW San Roque Hydropower facility under an IPPA agreement expiring in April 2028. San Miguel also owns a 60% stake in the Angat Hydropower Corporation, owner and operator of a 218MW hydropower facility. SMGPH. [Final Prospectus – P 60B Fixed Rate Bonds](#). July 7, 2022, p. 4, 25-26.

²¹ SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023.

Figure 2: SMGPH Capacity Expansion Through 2025



Source: *Prospectus, July 2022*, p. 98

Note: Coal includes supercritical, circulating fluidized bed (CFB) and pulverized technologies, all of which utilize coal as their primary fuel. Renewable energy includes hydro and solar power.

Coal and Natural Gas Projects

Major projects the company intends to complete through 2025 include:

- Mariveles Greenfield Coal-fired Power Plant:** A 4x150MW coal-fired power plant targeting commercial operations between August 2023 and May 2024.²² Units 1 and 2 of the facility are complete.²³ The company has also committed to adding four more units with 600MW of capacity. Notably, Units 5-8 are not included in Figure 2 above from the company's July 2022 prospectus, despite being listed as "Committed" by the Philippines Department of Energy.²⁴ This suggests that the company's coal expansion plans may be understated.
- Masinloc Expansion:** The addition of two coal-fired power units, each with 350MW capacity, to the existing Masinloc Power Plant.²⁵ In March 2023, SMGPH terminated a PSA with Meralco for the facility's capacity, along with a PSA for the Batangas CCGT facility (below).²⁶ This may affect utilization and revenue generation from the plant, as a large share of its capacity could be

²² Philippines DOE. [Private Sector Initiated Power Projects](#). June 14, 2023.

²³ Units 3 and 4 are 79% and 36% complete, respectively. SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 19.

²⁴ Philippines DOE. [Luzon Committed Power Projects](#). March 31, 2022.

²⁵ The brownfield expansion will reportedly cost an estimated P73 billion (US\$1.3 billion). Power Philippines. [San Miguel expanding Masinloc power plant capacity by 630MW](#). January 4, 2021.

²⁶ Manila Bulletin. [SMC terminates 1,800-MW supply contracts with Meralco](#). March 17, 2023.

subject to competitive pressures in the wholesale electricity spot market (WESM) unless a new PSA is secured.

- **Batangas Combined Cycle Gas Turbine (CCGT):** A 1,313MW LNG-fired power plant, targeting commercial operations in 2024. SMGPH is undertaking the project through its subsidiary, Excellent Energy Resources, Inc. (EERI). The plant is under construction.²⁷ EERI has already committed to Phase 2, which would increase the plant's capacity to 1,750MW.²⁸

EERI won a PSA with Meralco in February 2021 for the project's first phase, but terminated the contract in March 2023.^{29,30} The lack of a long-term offtake contract to secure revenue generation and debt servicing ability presents a major financial risk to the facility, especially considering the high costs of LNG (see the section entitled, "The company's transition from coal to gas could exacerbate financial issues").

Beyond 2025, the company has also planned to build natural gas plants in Leyte (600MW), Negros Occidental (300MW), Zamboanga City (300MW), Cebu (600MW) and Navotas (6,492MW).^{31,32}

Battery Electric Storage Systems (BESS)

SMGPH aims to construct a fleet of new BESS projects throughout the Philippines with a combined 1,000MW/1,000MWh capacity.³³ As of July 2022, the company had completed one project with a capacity of 20MWh out of 32 planned BESS projects.^{34,35} A total of 610MWh of BESS capacity is expected to be substantially completed by the end of 2023.³⁶ Many of these are standalone, utility-scale BESS facilities,^{37,38} which are primarily suited to providing regulating reserves, rather than bulk energy supply and renewable energy firming services. SMGPH aims to provide grid support by

²⁷ Black & Veatch, BVI (Philippines) and First Balfour, Inc. are the EPC contractors. SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 20.

²⁸ Philippines DOE. [Private Sector Initiated Power Projects – Luzon Committed Power Projects](#). March 31, 2023.

²⁹ SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 41.

³⁰ SMGPH intends to rebid the plant's capacity in a future Meralco competitive selection process. Malaya Business Insight. [SMC unit to offer natgas plant capacity to Meralco anew](#). April 24, 2023.

³¹ In December 2021, the Navotas project received permission from the Philippines DOE to conduct a grid impact study. There have been few public updates to the project recently, but SMC has said that the project is "the plan for the next 25 years." SMC. [Philippine Stock Exchange Disclosure](#). December 10, 2021.

³² Power Philippines. [San Miguel building 600MW LNG plant in Cebu](#). April 25, 2022.

³³ According to Philippines DOE figures, the company has committed to building 94% of the total committed BESS capacity in the country. Philippines DOE. [Private Sector Initiated Power Projects](#). March 31, 2023.

³⁴ SMGPH. [Final Prospectus – P 60B Fixed Rate Bonds](#). July 7, 2022, p. 29-32.

³⁵ SMGPH has awarded turnkey EPC contracts for all 1,000MWh of BESS capacity. *Ibid.*, p. 29.

³⁶ SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 19.

³⁷ Enlit Asia 365. [The future of flexibility is battery storage & BESS myths debunked](#). July 27, 2021.

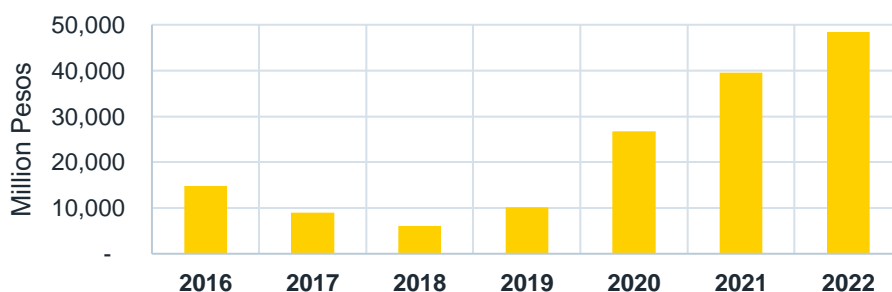
³⁸ Apricum Group. [Five promising energy storage markets you might be missing](#). July 18, 2022.

participating in public auctions for ancillary services, or be contracted for power quality services with commercial and industrial consumers.^{39,40}

Capital Expenditures

As a result of the company's expansion plans, SMGPH is accelerating its capital expenditures on new power generation assets. Annual capex has increased from roughly P6 billion in 2018 to P48.5 billion in 2022 (Figure 3).

Figure 3: SMGPH Annual Capital Expenditures



Source: SMGPH annual reports

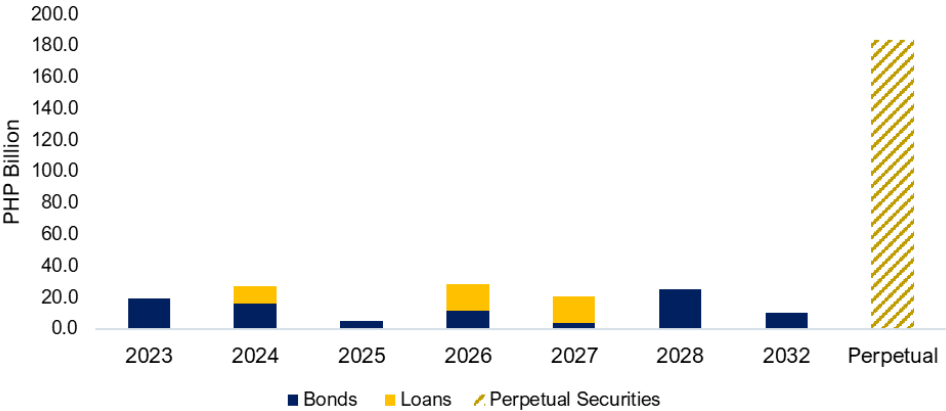
To fund these expansions, SMGPH has turned to loans, bonds and perpetual securities for refinancing, payment of short-term loans, and investments related to power assets.⁴¹ From 2019 to 2021, SMGPH issued P168 billion (US\$3.4 billion) in senior perpetual capital securities. In the first half of 2023, the company issued P65.8 billion (US\$1.2 billion) in redeemable perpetual securities (see [Appendices 2](#) and [3](#) for details on perpetual securities and the use of proceeds of these issuances).

³⁹ SMGPH. [Annual Report \(17-A\) – 2022](#), Management Discussion and Analysis. April 17, 2023, p. 17.

⁴⁰ For example, the initial 20MWh project in Kabankalan has reached a contract with the National Grid Corporation of the Philippines (NGCP) to provide reserve ancillary services to the Visayas and Luzon grids. SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 4.

⁴¹ Perpetual securities include senior perpetual capital securities (SPCS), redeemable perpetual securities (RPS) and undated subordinated capital securities (USCS).

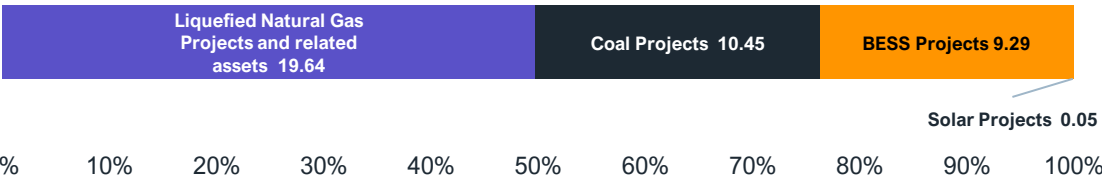
Figure 4: Amount Outstanding by Maturity Profile for SMGPH’s Debt and Perpetual Securities



Source: Bloomberg, June 2023
 Note: The outstanding amount may vary slightly from that stated in the annual report due to exchange rate fluctuations.

In July 2022, the company issued a P40 billion fixed rate bond, the largest and most recent corporate bond issuance to date (see [Appendix 6](#) for corporate bonds by year of issue).⁴² A company press release stated that bond proceeds would help the company “deliver an energy future that’s clean, affordable and reliable.”⁴³ However, the Institute for Energy Economics and Financial Analysis (IEEFA) calculates that 76% of the proceeds went toward funding fossil fuel projects, while just 0.1% went to renewable generation projects (Figure 5).

Figure 5: Expenditures for Proceeds from P40 Billion Fixed-rate Bonds (July 2022, Billion Pesos)



Source: SMGPH Annual Report (17-A) – 2022, Annex C-6, April 17, 2023

Despite public statements regarding the company’s shift to clean energy,⁴⁴ the majority of capital expenditures continues to go to fossil fuel projects. However, the company’s exposure to volatile fossil fuel prices has caused financial issues, particularly over the past few years. These issues are discussed in the following section.

⁴² SMC. [SMC power unit lists P40B bonds](#). July 2022.
⁴³ Ibid.
⁴⁴ BusinessWorld. [SMC to ‘invest heavily’ in renewable energy](#). July 2018.

Financial Risks

Overview of Financial Position

In 2022, SMGPH's consolidated revenues surged to P221.4 billion, a 66% increase from 2021 (Figure 6), driven by higher prices of power sold, higher offtake volumes and the start of the 20MWh Kabankalan 1 BESS facility.⁴⁵

However, the company's cost of goods sold (COGS) rose by 115% to P198 billion, which had a pronounced impact on the bottom line. Higher fuel costs, the company's exposure to higher prices in the WESM, and the derating of the Ilijan power plant all led to a diminished gross margin. Also, foreign exchange losses grew sharply due to the depreciation of the Philippine peso.⁴⁶ As a result, SMGPH's net income fell 80% from P15.9 billion in 2021 to P3.1 billion in 2022.

Figure 6: SMGPH's Consolidated Key Financial Metrics (Billion Pesos)



Source: Bloomberg as at May 2023

The company's financing has grown in tandem with its expansion plans, as well as its declining operating cash flows. SMGPH's total equity grew slightly to P252.3 billion in 2022. Its total debt,

⁴⁵ SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 80 and 82.

⁴⁶ SMC. [SMC 2022 revenues up 60% to P1.5 trillion, top pre-pandemic levels](#). March 2023.

excluding operating lease liabilities, increased by 31% to P293.1 billion, due to increased short-term loan payables, accounts payable, accrued expenses and long-term debt.⁴⁷

The drop in SMGPH's net income had an adverse impact on operating cash flow, which dropped to -P22.9 billion in 2022.⁴⁸ As a result, free cash flow, which subtracts capital expenditures from operating cash flow, fell to -P71.3 billion.

In the first half of 2023, revenue fell compared with the previous year due to the company's termination of PSAs with Meralco.⁴⁹ However, a 22% decline in the cost of goods sold contributed to a rebound in net income to P5.9 billion. Total equity increased dramatically to P316.6 billion, as the company's perpetual securities issuance of P65.8 billion boosted cash flows.⁵⁰

Heavy Reliance on Fossil Fuels Has Weighed on SMGPH Earnings

SMGPH is highly exposed to imported fossil fuel prices, which poses a substantial risk to the company's financial stability.

Typically, fuel costs in the Philippine power market are passed through to consumers, such that IPPs and distribution utilities bear little of the risk associated with volatile import prices. However, not all power purchase agreements (PPAs) fully pass through fuel costs. Historically, SMGPH has passed on increases in coal prices for 70% of its contracted capacity.⁵¹ Only 30-35% of the company's bilateral contracts allow full price pass-through.⁵² Commodity prices that are not passed to consumers are borne by SMGPH, negatively affecting the company's financial health.

Table 3 shows the operating results of SMGPH's key power plants in FY2022. The results show that higher coal and gas costs resulted in large losses among many of the company's largest facilities. Even when net generation of plants increased, inability to pass on higher fuel costs to consumers resulted in an overall decrease in operational income. For example, year-on-year generation from the Sual coal plant increased 36% in 2022, but operating income declined by 52%. Income from the Ilijan gas plant fell dramatically due to higher Malampaya gas costs and a derating of the plant's annual capacity factor by 31% compared with 2021.

By contrast, income from the San Roque facility—a hydropower plant not dependent on fuel imports—increased 55% due to higher domestic power prices, despite a reduction of electricity generation by 40%.

⁴⁷ The increase in long-term debt by P49.2 billion was largely related to the issuance of P40 billion in fixed-rate peso bonds in July 2022. SMGPH. [Annual Report \(17-A\) – 2022](#), Management Discussion and Analysis. April 17, 2023, p. 36.

⁴⁸ SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 136.

⁴⁹ SMGPH. [Q2 Report \(17-Q\) – June 2023](#), Management Discussion and Analysis. August 14, 2023, p. 4.

⁵⁰ SMGPH. [Q2 Report \(17-Q\) – June 2023](#), Management Discussion and Analysis. August 14, 2023, p. 84.

⁵¹ SMGPH. [Preliminary Prospectus May 2022](#). May 30, 2022, p. 47.

⁵² Ibid.

Table 3: Operating Results of Key SMGPH Power Plants, FY2022

	Plant Name					
	Ilijan	Sual	Malita	Limay	Masinloc	San Roque
Fuel Type	Gas	Coal	Coal	Coal	Coal	Hydro
Net Generation (GWh)	2,681	6,374	1,586	4,144	6,086	619
Y/Y % Change	-55%	36%	-14%	-1%	-1%	-40%
Electricity Sold (GWh)	6,128	8,532	1,958	4,356	7,949	918
Y/Y % Change	-16%	8%	0%	-5%	-1%	-16%
Revenue (P million)	29,053	75,817	18,077	14,239	56,606	10,579
Y/Y % Change	-10%	99%	66%	48%	72%	75%
Operating Income (P million)	(13,042)	5,308	6,807	2,329	6,762	5,116
Y/Y % Change	-350%	-52%	41%	-34%	25%	55%
Capacity Factor (2022)	26%	62%	69%	88%	75%	20%
Capacity Factor (2021)	57%	53%	79%	89%	76%	34%

Source: SMGPH Annual Report 2022, p. 12, 84

SMGPH's fuel costs for coal, fuel oil and other consumables in 2022 surged by 193% from 2021.⁵³ As of December 2022, SMGPH's implied cost of generation averaged P7.24 per kilowatt-hour (kWh), whereas its average selling price was P8.08/kWh, up by 14% from 2021 (Table 4). The company's profit margin therefore declined by 45% to P0.84/kWh.

Table 4: SMGPH's Profit Per Unit of Electricity Sold

Metric	2020	2021	2022
Total Revenue (P million)	115,029	133,710	221,389
Total Cost of Power (P million)	69,314	92,161	198,371
Total Volume Sold	26,291	27,221	27,402
Implied Average Selling Price P/kWh	4.38	4.91	8.08
Implied Cost of Generation P/kWh	2.64	3.39	7.24
Profit P/kWh	1.74	1.53	0.84

Source: IEEFA calculations based on SMGPH Annual Report 2022

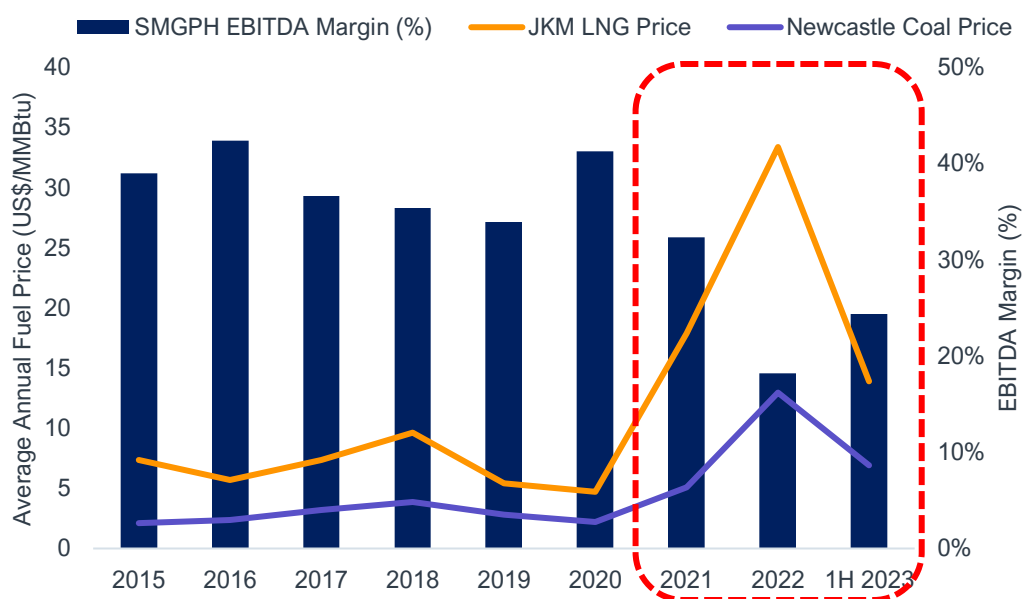
Since 2016, SMGPH's EBITDA margin has fallen slightly, an indication of declining profitability.⁵⁴ Over the past three years, the true impact of volatile fossil fuel prices has become significantly more pronounced due to the extreme volatility in global commodity markets. In 2022, SMGPH posted an

⁵³ SMGPH. *Annual Report (17-A) – 2022*. April 17, 2023, p. 229.

⁵⁴ Financial year 2020 was an exception owing to low fuel prices in the pandemic-triggered economic slowdown.

all-time low EBITDA margin of 18.2% (Figure 7) due to high fuel costs and inability to pass through costs to end users. In the first half of 2023, the EBITDA margin returned to 24.2% on lower commodity prices.

Figure 7: SMGPH's EBITDA Margins vs Volatile Coal and LNG Prices



Source: Bloomberg as at May 2023; Investing.com; IEEFA calculations

Note: EBITDA = earnings before interest, taxes, depreciation and amortization. SMGPH only began importing LNG in 2023. Data on LNG prices is included here to show a historical comparison with coal prices.

In 2022, the company took two notable actions aimed at stopping losses stemming from the fuel cost pass-through terms of its PSAs:

1. In August 2022, SMGPH applied for rate increases in its fixed-price PSAs—which do not allow pass-through of fuel costs—for offtake from the Sual coal-fired and Ilijan gas-fired power plants,⁵⁵ and expressed an intent to terminate both PSAs unless relief was granted.⁵⁶ These actions aimed to alleviate a combined loss of P15 billion from the two facilities in 2022, caused by “skyrocketing global coal prices and unilateral natural gas supply restrictions from Malampaya.”⁵⁷ The Energy Regulatory Commission (ERC) initially denied the rate hike petition, but the Court of Appeals overturned the decision in June 2023.⁵⁸ As of August 2023, however, both the Sual and Ilijan PSAs remain terminated.⁵⁹

⁵⁵ IEEFA. [Contracting debacles underscore long-term LNG risks in the Philippines](#). April 11, 2023.

⁵⁶ Power Philippines. [SMC Global to terminate power supply agreements with MERALCO](#). August 24, 2022.

⁵⁷ BusinessWorld. [SMC power unit says losses hit P15B, seeks rate hike](#). August 2, 2022.

⁵⁸ Inquirer.net. [CA junks ERC ruling denying Meralco, SMC rate hike](#). July 13, 2023.

⁵⁹ BusinessWorld. [Meralco seeks replacement power for San Miguel's terminated supply deal](#). August 2, 2023

2. SMGPH terminated two PSAs with Meralco for offtake from proposed gas and coal-fired power facilities.⁶⁰ Both PSAs were awarded in Meralco's February 2021 competitive selection process. Subsidiary EERI, developer of the Batangas CCGT, offered to provide power for P4.1462/kWh.^{61,62} Subsidiary MPPLC, developer of the Masinloc brownfield expansion, offered a power price of P4.2605/kWh. Critically, fuel costs under the bidding terms would only be fully passed through after year 10 of the contract.⁶³ As of August 2023, both contracts remain terminated, and Meralco intends to hold another competitive selection process to replace them.

The market's fluctuating fossil fuel prices have clearly strained SMGPH's PSAs and put its power assets at a considerable cost disadvantage relative to other energy sources.

The Company's Transition from Coal to Gas Could Exacerbate Financial Issues

A key business strategy for SMGPH is the "diversification of its power portfolio away from traditional coal technologies" toward LNG and other energy sources.⁶⁴ However, turning from coal to LNG does not solve the fundamental issues of exposure to global commodity markets. On the contrary, greater dependence on imported LNG could exacerbate financial problems caused by the company's exposure to global coal prices for several key reasons:

LNG is significantly more expensive than coal on an equivalent per million British thermal unit (MMBtu) basis.⁶⁵ Since January 2021, monthly coal prices have averaged US\$8.39/MMBtu—nearly three times lower than average Japan-Korea Marker (JKM) LNG prices of US\$22.79/MMBtu (Figure 8). LNG prices are also subject to greater seasonal volatility.⁶⁶ Higher prices translate to a higher generation cost for SMGPH and present greater financial risks, especially if generation costs are not fully passed through to end users.

⁶⁰ Manila Bulletin. [SMC terminates 1,800-MW supply contracts with Meralco](#). March 17, 2023.

⁶¹ Power Philippines. [San Miguel bags MERALCO 1,800MW power deals](#). February 19, 2021.

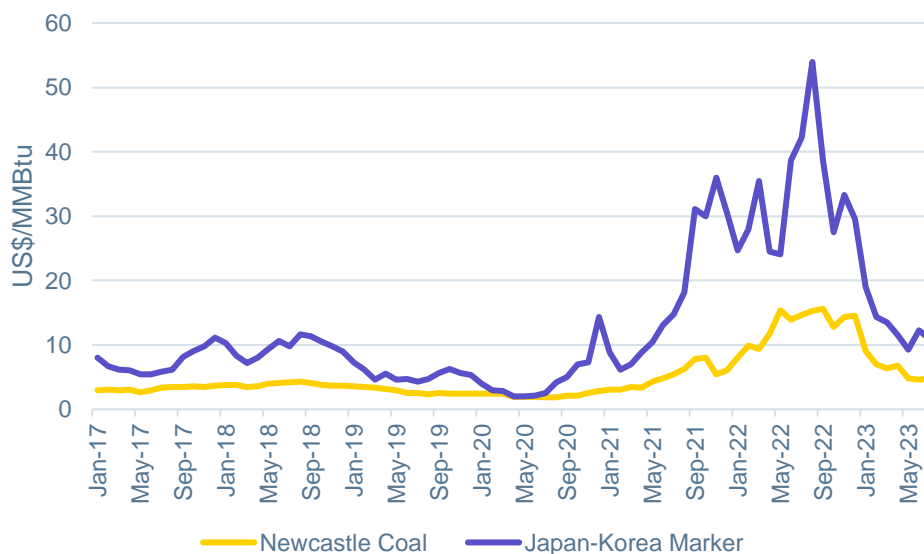
⁶² The bidding victory was called "a turning point for introducing LNG" to the Philippines, since greenfield LNG-to-power projects are rarely financed without revenue assurances that come from long-term offtake contracts. S&P Global. [Philippines' greenfield gas-fired power contract key to its LNG project development: sources](#). March 5, 2021.

⁶³ Meralco. [Invitation to Bid – Contract Capacity of 1,800 MW \(NET\), COD 2024-2025. P. 3](#).

⁶⁴ SMGPH. [Final Prospectus – P 60B Fixed Rate Bonds](#). July 7, 2022, p. 80.

⁶⁵ Coal is typically traded according to its calorific value on a kilocalories per kilogram basis, and its volume is priced in U.S. dollars per metric ton. LNG, meanwhile, is priced according to U.S. dollars per million British thermal unit (MMBtu).

⁶⁶ S&P Global. [Charting relative cost of thermal coal vs LNG in Northeast Asia reveals fresh insights](#). November 18, 2018.

Figure 8: Monthly Average Newcastle Coal Price vs Japan-Korea Marker

Source: IEEFA calculations; Investing.com

LNG prices are expected to remain high compared with historical levels through 2030. While global LNG prices in 2023 have retreated from record levels last year, the International Energy Agency (IEA) notes in its July 2023 gas market update that spot prices in Asia remain 140% above their average levels between 2016 and 2020.⁶⁷ Futures curves for JKM do not show prices falling below US\$10/MMBtu until April 2027.⁶⁸

SMGPH does not have any active long-term LNG supply contracts. Long-term LNG sales and purchase agreements (SPAs) help reduce buyers' exposure to volatile spot markets. Given current tightness in global LNG supply,⁶⁹ it remains to be seen whether the company can secure a long-term LNG supply contract beginning before 2025. If not, the company will remain exposed to volatility in global LNG spot markets. Difficulty procuring affordable cargoes from the international market may result in further shutdowns for the Ilijan plant and for new gas-fired capacity.

None of SMGPH's existing or proposed LNG-to-power plants have PSAs beyond 2024.

Following the termination of PSAs for the proposed Batangas CCGT and Ilijan plant, SMGPH does not have any long-term PSAs that might ensure offtake and/or fuel price pass-through. The Ilijan plant has offered to supply Meralco under an emergency PSA, but only for one year and a small

⁶⁷ IEA. [Global Gas Security Review 2023](#). July 2023, p. 9.

⁶⁸ CME Group. [LNG JAPAN/KOREA MARKER \(PLATTS\) FUTURES – QUOTES](#). Accessed on August 29, 2023.

⁶⁹ Ibid.

share of its capacity.^{70,71} The lack of PSAs is a major financial risk for SMGPH. Unless PSAs are secured, the company's LNG-fired power plants could be entirely exposed to competitive pressures and merchant risk in the WESM. Renewable energy sources such as wind and solar, which are not subject to volatile fuel prices, typically take priority in competitive markets. Exposure to the WESM therefore threatens the utilization rates, cost recovery and profitability of merchant LNG-fired power plants.

Embracing LNG does not unravel the energy trilemma of energy security, affordability and sustainability. The long-term costs and risks associated with LNG could pose substantial financial challenges and volatility for SMGPH.

The Company's Ability to Meet Near-term Financial Obligations Has Deteriorated

As a result of SMGPH's declining profitability, IEEFA's analysis indicates that its ability to cover near-term financial commitments in the form of debt, interest and capital distribution for perpetual securities may have worsened considerably. This points to an overall liquidity crunch, which could translate to a longer-term funding shortfall if not carefully managed.

Debt. SMGPH has strategically tapped into the issuance of bonds and loans to fund its expansion plans, increasing its total debt.⁷² Total equity has also grown, driven largely by the company's issuance of perpetual securities—such as SPCS, RPS and USCS (see [Figure 4](#) and [Appendix 2](#)).^{73,74}

Despite significantly more borrowing through issuances of perpetual securities, the company's gearing ratio (1.16 in 2022) has remained near the historical norm (Figure 9).⁷⁵ This allows SMGPH to potentially incur more debt while remaining within its covenant limit of 3.25 gearing.⁷⁶

⁷⁰ Power Philippines. [SPPC offers to replace 330 MW supply to MERALCO](#). August 2, 2023.

⁷¹ The Ilijan plant also has a PSA with Meralco for 290MW that began in December 2019 and will expire in December 2024. SMGPH. [Preliminary Prospectus May 2022](#). May 30, 2022, p. 51.

⁷² SMGPH. [Annual Report \(17-A\) – 2022](#). Management Discussion and Analysis. April 17, 2023, p. 17-23.

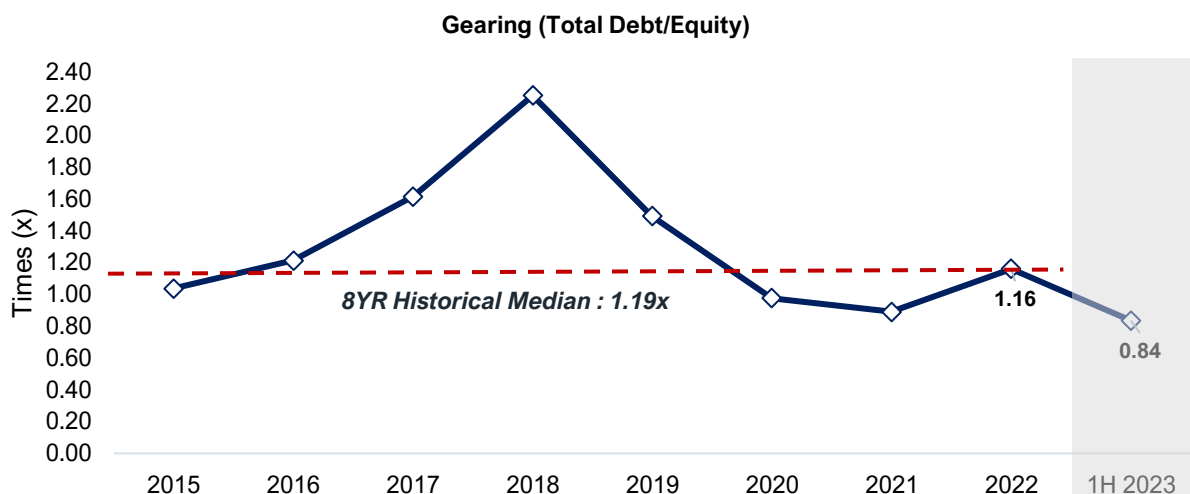
⁷³ SPCS, RPS and USCS will collectively be referred as perpetual securities. SMGPH. [Annual Report \(17-A\) – 2022](#). Notes to the Consolidated Financial Statements. April 17, 2023, p. 40.

⁷⁴ Perpetual securities are often considered equity due to their lack of maturity date and capital distributions in perpetuity.

⁷⁵ A gearing ratio compares some form of owner equity to funds borrowed by the company.

⁷⁶ Philstar. [Fitch unit wary of SMC Global Power's liquidity issues](#). April 2023.

Figure 9: SMGPH is Not Excessively Leveraged



Source: Bloomberg as at May 2023; IEEFA adjustments
 Note: Total debt excludes perpetuals and operating lease.

Below are SMGPH's accounting policies on perpetual securities and key terms for SPCS (emphases added):⁷⁷

- “SPCS, RPS and USCS are **classified as equity** when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or financial liabilities with another person or entity that is potentially unfavorable to the issuer.”
- “The holders of the SPCS have **conferred a right to receive distributions on a semi-annual basis** from their issuance dates at the initial rate of distribution, **subject to the step-up rate**. The Parent Company has **a right to defer this distribution** under **certain conditions**.”
- “The SPCS constitute direct, unconditional, unsecured and unsubordinated obligations of the Parent Company with no fixed redemption date and **are redeemable in whole**, but not in part, at the Parent Company's option on step-up date, or any distribution payment date thereafter or upon the occurrence of certain other events at the **principal amounts of the SPCS plus any accrued, unpaid or deferred distribution**.”

Under these agreements, it is clear that issuing perpetual securities can still entail leverage and default risks, albeit in different ways compared to traditional debt instruments. The capital

⁷⁷ SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 166, 227-228.

distributions and callable obligations linked to these instruments still signify a financial commitment to perpetual securities holders.

What if perpetual securities were accounted as debt? Higher borrowing through perpetual securities, accounted as equity, has masked the overall impact on the company's ability to repay debt. If borrowings through perpetual securities were considered as debt, gearing levels would be significantly higher. As of 2022, considering perpetual securities as debt would result in a gearing ratio of 5.02, exceeding covenant limits (Table 5).

Table 5: SMGPH's Gearing Ratio Could Be Higher If Perpetual Securities Were Counted as Debt

FY2022: Adjusted Metrics (Including SPCS)	Million Pesos
Total Equity (As Reported) (a)	252,316.56
Amount outstanding for SPCs in 2022 (As Reported) (b)	161,767.71
Adjusted Total Equity (Excluding SPCS) (a-b=c)	90,548.85
Total Debt (As Reported – Excluding Operating Lease) (d)	293,152.62
Adjusted Total Debt (Including SPCS) (d+b=e)	454,920.33
Adjusted Gearing (e/c)	5.02x

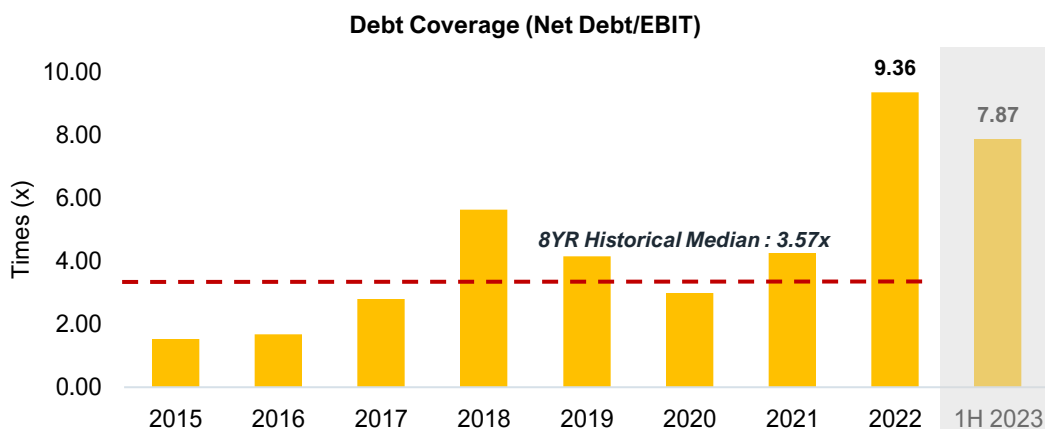
Source: SMGPH Annual Report 2022, p.131 and 228; IEEFA's estimation

Note: The calculation only includes SPCS due to its substantial issuance volume.

Even without considering perpetual securities as debt, the decline in the company's profitability appears to have had an impact on its ability to repay and manage its existing debt burden. The debt coverage ratio doubled to 9.36 in 2022, up from 4.26 in 2021 (Figure 10). This means that the company is taking almost twice as long, from four years to nine years, to service its current debt levels based on current earnings, signaling it may be under financial pressure.

In the first half of 2023, the gearing ratio stood at 0.84. The decrease was attributed to a larger equity base resulting from the issuance of P65.8 billion in perpetual securities, which was intended to service maturing obligations and finance capital expenditures.⁷⁸ Although the company resorted to raising additional capital to meet its maturing financial obligations, its ability to cover debt has remained weak at 7.87.

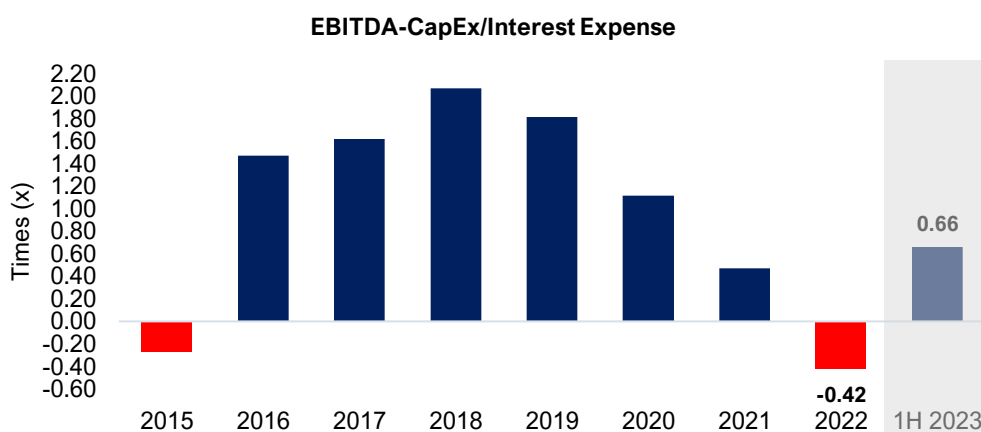
⁷⁸ SMGPH. [Q2 Report \(17-Q\) – June 2023](#). August 14, 2023, p. 84.

Figure 10: SMGPH's Ability to Repay Debt Has Weakened

Source: Bloomberg as at May 2023; IEEFA adjustments

Note: Net debt excludes perpetuals and operating lease. EBIT = earnings before interest and taxes.

Interest. Along with debt coverage, SMGPH's interest coverage ratio recorded a distressing all-time low of -0.42 in 2022 (Figure 11). Lower earnings, coupled with substantial capital expenditures, have reduced the cushion of available funds to cover interest payments. The downward trend observed since 2018 underscores the company's weakening ability to manage both capital expenditures and interest payments.

Figure 11: SMGPH's Ability to Cover Both Capex and Interest Payments Has Declined Since 2018

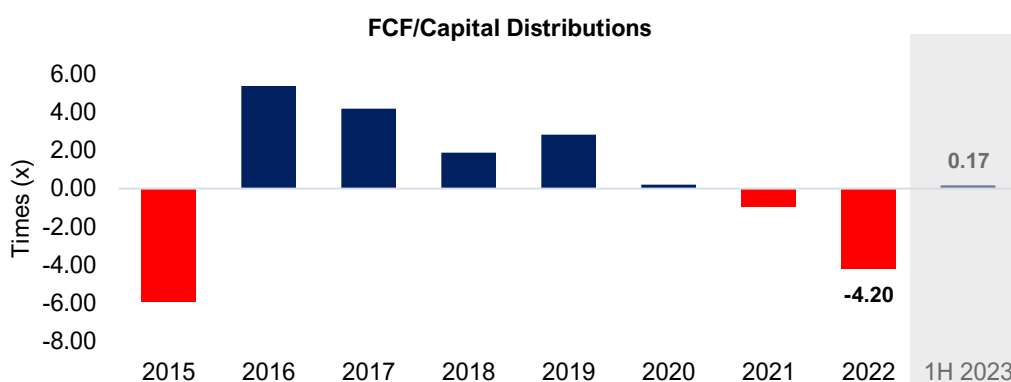
Source: Bloomberg as at May 2023

In the first half of 2023, the company's interest coverage ratio improved to 0.66, despite higher interest rates than the previous year. Given multi-year declines in the company's ability to cover

interest, SMGPH may be considering better refinancing terms. However, this could introduce additional pressure on interest coverage, particularly in the current high-interest-rate environment.⁷⁹

Capital distribution for perpetual securities holders. SMGPH's ability to meet capital distribution for perpetual securities holders has also worsened.⁸⁰ In 2022, the company's free cash flow-to-capital distribution coverage ratio was -4.20, and this improved to only 0.17 during the first half of 2023. This suggests capital distributions could be at risk of being deferred in the near to medium term (Figure 12).

Figure 12: Capital Distributions at Risk of Being Delayed



Source: Bloomberg as at May 2023; IEEFA adjustments

Escalating Liquidity Crunch Comes As No Surprise

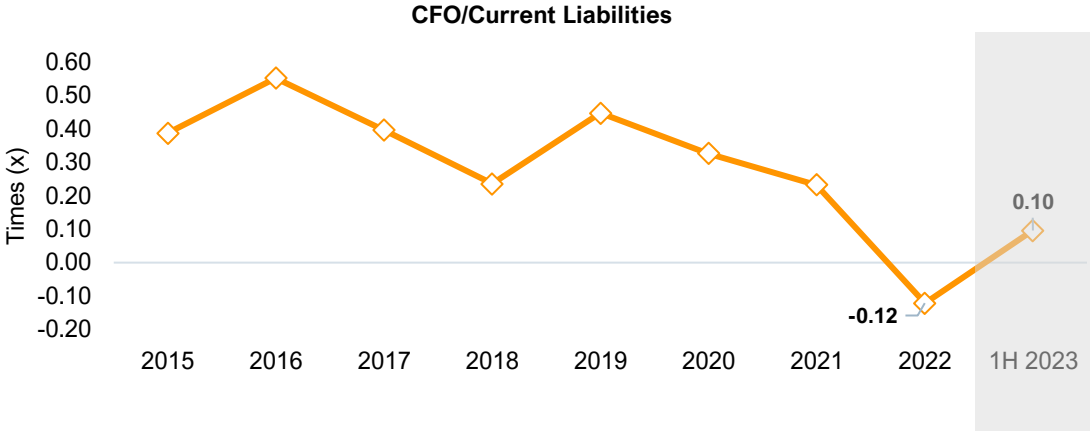
SMGPH's deteriorating capacity to fulfill its debt, interest and capital distributions points to a clear liquidity crunch.

This is evident by the concerning trend in the cash flow from operations (CFO)-to-current liabilities ratio, which has been on a downward trajectory since 2019. In 2022, the CFO-to-current liabilities ratio plummeted to an all-time low of -0.12, indicating insufficient CFO to cover short-term liabilities (Figure 13). The same ratio remained weak in the first half of 2023.

⁷⁹ Bloomberg. [Philippines says companies' global debt may exceed estimates](#). June 2023.

⁸⁰ Capital distribution for perpetual securities is similar to coupon payments for bonds in perpetuity. It is also often referred to as "dividends paid."

Figure 13: Cash Generated from Operations may be Unable to Cover Short-term Liabilities

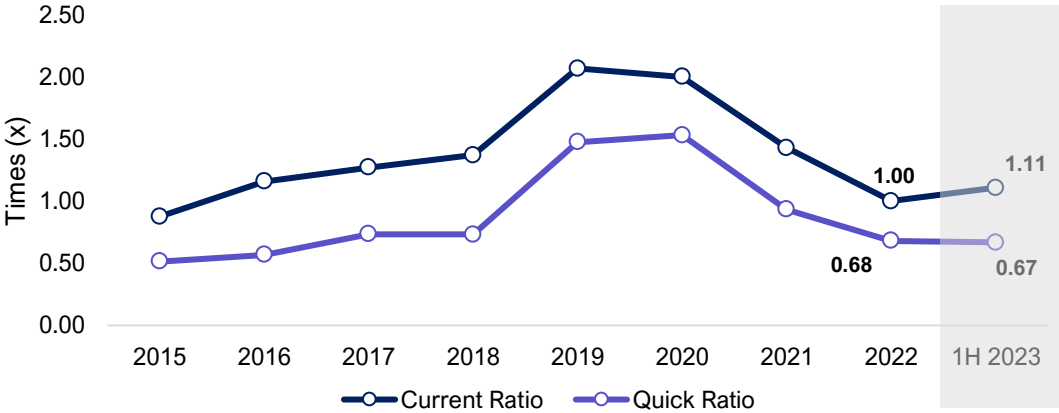


Source: Bloomberg as at May 2023

Beyond operating cash flows, a broader assessment reveals a rising liquidity risk for SMGPH. Its current ratio in 2022 was 1.00, down from 1.43 in 2021, meaning the company has exactly one dollar of current assets for every dollar of current liabilities (Figure 14). In essence, the company holds a relatively tight margin of assets available to cover its immediate financial obligations. Meanwhile, the accounts receivable turnover ratio stood at 3.15, marking its lowest value since 2016 (see Appendix 4).

In a more conservative assessment, the quick ratio excludes inventory and prepaid expenses.⁸¹ The company recorded a quick ratio of 0.68 in 2022, signaling a diminished level of immediate liquidity.

Figure 14: SMGPH Faces Heightened Liquidity Risks



Source: Bloomberg as at May 2023

⁸¹ This exclusion is based on the recognition that these items might not be readily convertible to cash within the near term, unlike cash, accounts receivable, and marketable securities.

Considering the company's current liquidity challenges to meet its financial obligations, it is important to recognize that this limitation could potentially hinder its ability to manage unforeseen challenges in the upcoming periods.

This view aligns with conclusions from Bloomberg Intelligence, which stated that the company may need US\$900 million (P51 billion) by the end of 2023 to meet its financial commitments.⁸² SMGPH's funding constraints also depend on its ability to extend P21 billion worth of short-term loans. There is also a possibility of obtaining local funding due to its connection to parent company SMC.

Could rate hikes help SMGPH's liquidity crisis? The Court of Appeals decision concerning the company's proposal for a rate hike may help it recover P5.2 billion from Meralco,⁸³ although it is likely that this decision will face further legal challenges.⁸⁴

If successful, SMGPH's request for P5.2 billion in tariff recovery may improve the company's profitability for the remainder of the year. However, even if SMGPH is awarded the rate hike, IEEFA anticipates the company's debt repayment capacity will continue to be relatively weak compared with the past eight years (Figure 10). Moreover, the company's financial position would likely remain inadequate to address the callable perpetual securities, amounting to US\$3.4 billion (P193 billion) and due between 2024 and 2026 (Figure 15).

The overriding concern lies in the potential long-term implications of SMGPH's excessive reliance on fossil fuels. The shift from coal to LNG does not effectively resolve the fundamental challenges stemming from susceptibility to the fluctuations of global commodity markets. Failure to address these fundamental issues could lead to challenges and increasing costs for SMGPH when tapping into the debt market for financing.

Near-term Liquidity Crunch Could Evolve Into Longer-term Funding Shortfall Fraught With Financing Obstacles

Challenges fulfilling near-term commitments and declining operating cash flows raise questions about the company's ability to meet longer-term financial obligations while it executes hefty capital expenditure plans and advances SMC's net-zero commitment. And if SMGPH is unable to obtain better financing or refinancing terms, then the worst of its problems is yet to come.

SMGPH's sizable U.S. dollar-denominated perpetual notes, totaling US\$3.4 billion, are callable between 2024 and 2026.⁸⁵ But the company's immediate financial challenges indicate an elevated non-call risk for these perpetual bonds.

⁸² Bloomberg Intelligence. SMC Global Power Credit Research. July 2023.

⁸³ Power Philippines. [SMC Global seeking rate hike after Php15B losses on fuel costs](#). August 2, 2022.

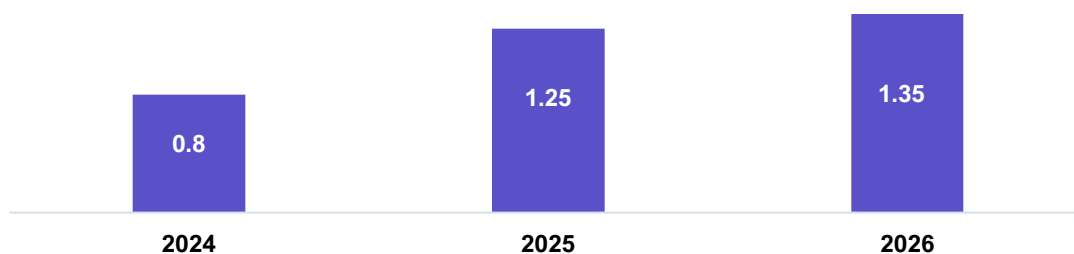
⁸⁴ GMA News Online. [SMC: CA granted San Miguel power units' rate hike petitions](#). July 12, 2023.

⁸⁵ SMGPH. [Annual Report \(17-A\) – 2022](#). Notes to the Consolidated Financial Statements. April 17, 2023, p. 89.

SMGPH's perpetual securities come with a notable feature: a step-up interest mechanism. If the call option on the security is not exercised, the interest rate increases by a certain percentage each year.⁸⁶

As a result, SMGPH could face a double-edged sword. On one hand, the need to redeem perpetual securities demands additional capital or funding. On the other, opting not to exercise the call option subjects the company to additional financial costs, further straining its financial position.

Figure 15: Maturity of Perpetual Securities Points to Heightened Non-call Risk (US\$ Billion)



Source: SMGPH Annual Report 2022

SMGPH managed to access debt markets by issuing P40 billion of fixed-rated bonds in July 2022.⁸⁷ While there is some headroom for the company to issue more debt, given it is not excessively leveraged (Figure 9), its weak financial profile is underplayed for these instruments. This is due to the company's status as an unrated utility on a global scale. Choosing to remain unrated avoids the negative perception linked to a low public rating and allows the company to be subject to less restrictive covenant packages, granting the issuer greater flexibility.⁸⁸

While unrated bonds may present the potential benefit of a higher yield premium in comparison to their rated counterparts, SMGPH's financial risk may not be fully captured in these instruments, exposing bond investors to a heightened possibility of devaluation beyond expectations.

SMGPH's fundamentally weak financial profile, tighter funding market conditions due to high interest rates,⁸⁹ and coal exposure might make financing or refinancing costlier due to stranded asset risk caused by growing global climate policy commitments.⁹⁰ Depreciation of the Philippine peso might also increase refinancing costs for U.S. dollar-denominated debt, exacerbating financial risks.

⁸⁶ BIMB Investment Management Berhad. [Perpetual bonds: The good and the bad](#). April 2022.

⁸⁷ SMC. [SMC power unit lists P40B bonds](#). July 2022.

⁸⁸ Citywire. [Income and unrated bonds: A match made in heaven](#). September 21, 2018.

⁸⁹ Bloomberg. [Philippines says companies' global debt may exceed estimates](#). June 2023.

⁹⁰ BNEF. Power plant financing costs are at highest since at least 2017. July 2023.

Major holders of SMGPH's bond and perpetual securities include entities such as BlackRock and UBS (Table 6), which hold almost half of SMGPH's securities. These groups are affiliated with the Glasgow Financial Alliance for Net Zero (GFANZ),⁹¹ which aims to support net-zero ambitions in the financial sector.

Table 6: Top 10 SMGPH Securities Holders (Bonds and Perpetual Securities)

Firm Name	% of Total Securities Held
BlackRock Inc	38.2
Allianz SE	18.6
UBS	10.43
ATR Kim Eng Asset Management Inc	6.4
Goldman Sachs Group Inc	4.83
JP Morgan Private Investments	4.57
Pictet Funds	2.66
Oversea Chinese Banking Corp Ltd	2.23
BOCHK Asset Management Ltd	2.14
GAM Holding AG	1.71

Source: Bloomberg as at May 2023

IEEFA's research has found that more than 200 globally significant financial institutions have established coal exclusion policies. The coal divestment momentum has intensified over the past two years, despite coal mining and power companies posting record profits amid the energy crisis.⁹²

Given that the coal divestment trend is likely to continue, with financial institutions increasingly recognizing climate risk as a financial risk, SMGPH's ability to access capital at a lower cost may be constrained due to its fossil fuel growth-oriented strategy.

This financing challenge is already unfolding for its parent company, SMC. In April 2023, German asset management firm DWS announced a full divestment from SMC due to concerns related to environmental, social and governance (ESG) factors, among other reasons.⁹³

This decreased demand for SMC's securities is merely the tip of the iceberg. Essentially, the market is signaling that a fossil-focused player like SMC or SMGPH is jeopardizing its ability to secure funding on advantageous terms.

⁹¹ Glasgow Financial Alliance for Net Zero. [Our progress and plan towards a net-zero global economy](#). November 2021, p. 97.

⁹² IEEFA. [200 and counting: Global financial institutions are exiting coal](#). May 2023.

⁹³ Journal Online. [Asset manager divests in fossil gas, communities & advocates demand the same to Japanese financiers](#). June 2023.

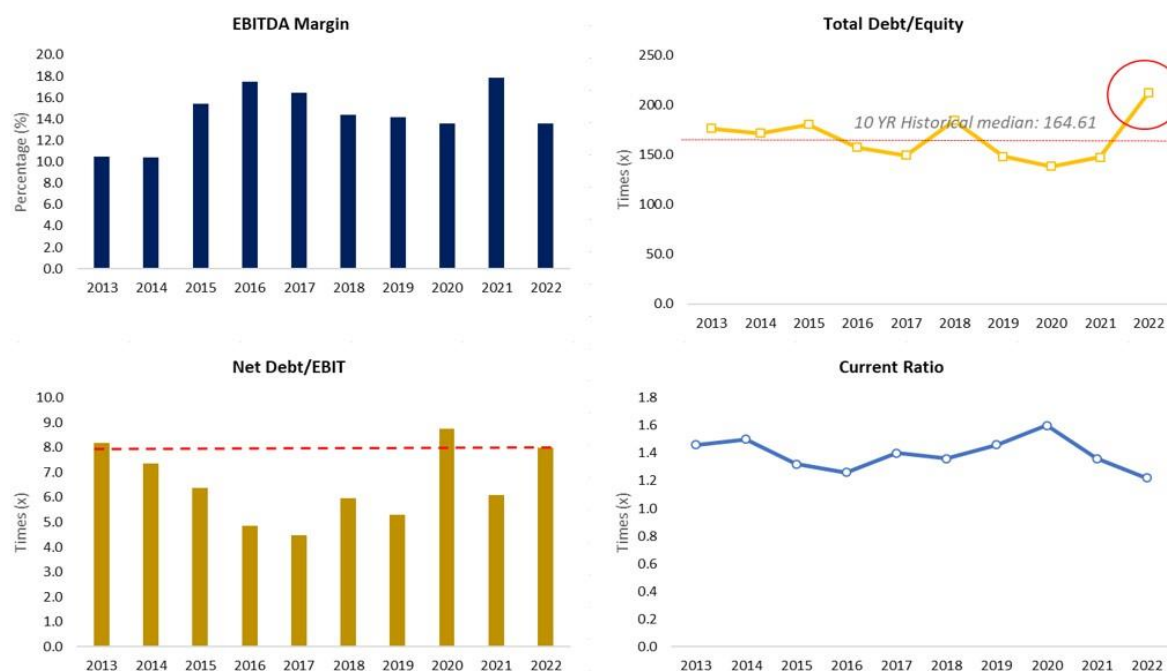
SMGPH May Be Counting on Parental Support Rather Than Improving Its Own Business Fundamentals

Support from parent company SMC might offer a temporary lifeline by alleviating immediate financial pressures on SMGPH. For example, the company has said: “We’re confident that we will be able to manage [SMGPH’s] maturing obligations in 2023 and beyond. If necessary, there will be SMC parent support.”⁹⁴

Therefore, weakening of SMC’s financial metrics could potentially contribute to increased credit risks for SMGPH.

As of 2022, SMC was highly leveraged, recording an all-time-high gearing ratio (total debt to equity) of 212.4. A slight weakening was observed in other key metrics in 2022 (Figure 16). This is attributed to a significant increase in global fuel costs and supply constraints, which had an impact on SMGPH. The net income was also affected by higher interest expenses and marked-to-market foreign exchange losses.⁹⁵ As a result, SMC may struggle to fully cover SMGPH’s US\$3.4 billion in perpetual notes callable between 2024 and 2026.

Figure 16: Snapshot of SMC’s Key Financial Metrics



Source: Bloomberg as at May 2023

⁹⁴ BusinessWorld. [SMC unit's perpetual securities 'volatile' — CreditSights](#). October 28, 2022.

⁹⁵ SMC. [Annual Report – 2022](#). April 17, 2023, p. 19.

SMC apparently expects its businesses to face challenges for the remainder of 2023 due to high inflation, fluctuating oil prices and lower demand for power and food.⁹⁶ SMC stated in June: “If we can at least match the previous year’s performance [2022] then we would be very thankful.”⁹⁷ This suggests uncertainty ahead.

In summary, when considered independently, SMGPH’s underlying circumstances indicate that the company is not financially viable. Any potential improvement of its financial standing hinges on securing further capital injection from its parent company or exploring financing avenues, albeit at a notably higher cost.

Along With Financial Risks, Expansion Plans Could Collide With Regulatory Roadblocks

As SMGPH’s profitability has declined, it appears the company is issuing bonds, loans and perpetual securities to fund its planned capital expenditures through 2025. However, plans to expand the company’s generation portfolio may also hit regulatory roadblocks.

IEEFA believes SMGPH’s new generation capacity may exceed regulatory limits on the share of capacity that individual companies are allowed to own.

Participants in the Philippine power market are not allowed to control more than 25% of installed capacity nationally or 30% of capacity installed on the individual grids of Luzon, Visayas and Mindanao. These limits were designed to encourage competition in the Philippine electricity market and prevent abuses of market power.

As of April 2022, SMGPH controlled more than 28% of the Luzon grid, according to DOE figures.⁹⁸ As of April 2023, the company controlled 26% of the Luzon grid, according to company figures.⁹⁹ An SMGPH prospectus from July 2022 states: “At the current levels, SMC Global Power is within the market share capitalization even with the addition of its greenfield power projects under construction today.”¹⁰⁰

Based on IEEFA’s analysis, however, the company faces a high risk of surpassing market share limitations, even with projects already under construction. IEEFA assessed SMGPH expansion plans through 2025 compared with expansion of non-SMGPH capacity on the Luzon grid.¹⁰¹

⁹⁶ BusinessWorld. [SMC sees challenging year ahead](#). June 14, 2023.

⁹⁷ Ibid.

⁹⁸ Philippines DOE. [40th Status Report on EPIRA Implementation](#). March 27, 2023, p. 50.

⁹⁹ SMGPH. [Annual Report \(17-A\) – 2022](#). April 17, 2023, p. 3.

¹⁰⁰ SMGPH. [Final Prospectus – P 60B Fixed Rate Bonds](#). July 7, 2022, p. 50.

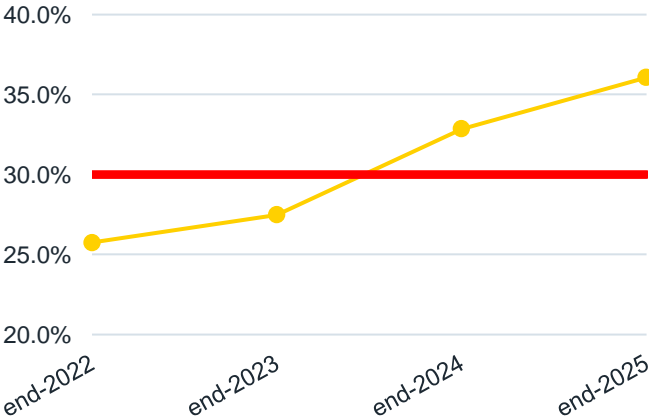
¹⁰¹ Using company reports and the Department of Energy’s Private Sector Initiated Power Projects list.

To calculate SMGPH’s future market share, IEEFA added total annual installed capacity additions on Luzon to the ERC’s 2022 installed capacity for the Luzon grid. Based on these projects, total installed capacity on Luzon could rise from 17,078MW in 2022 to 25,208MW in 2025.

SMGPH’s total capacity on Luzon—based on its own targeted in-service dates for new projects through 2025—could rise from 4,399MW in 2022 to 9,092MW in 2025.

Therefore, SMGPH’s share of the Luzon grid could rise from 25.8% in 2022 to 36.1% by end-2025 (Figure 17). Its market share could surpass regulated limits by end-2024, upon completion of the company’s 1,313MW EERI Batangas CCGT power plant.

Figure 17: Forecast SMGPH Market Share of Luzon Grid



Source: IEEFA analysis based on SMGPH annual reports, ERC Installed Generating Capacity figures and ERC regulatory limits

Any delays in projects not controlled by SMGPH could accelerate the pace at which the company surpasses market share limitations. Conversely, new capacity additions on the Luzon grid—for example, from the government’s Green Energy Auction Program—may give the company a buffer to add more capacity.

IEEFA’s analysis indicates a high risk in SMGPH’s expansion plans on the Luzon grid that the company will need to manage carefully. Exceeding regulatory thresholds could expose SMGPH to punitive measures and legal risks while threatening its capacity to generate additional revenue and improve its financial standing.

Peer Comparison

SMGPH has the largest existing power generation portfolio compared with Aboitiz Power and First Gen, the two other companies with the largest share of installed capacity in the Philippine power

market. SMGPH also has the largest proposed capacities of coal and natural gas-fired power plants of the three companies (Table 7).

Table 7: Comparison of Company Generation Portfolios and Expansion Targets

TableCategory	SMGPH	Aboitiz Power	First Gen
Existing Generation Portfolio (MW)			
Total	4,719	4,452	3,501
<i>Coal</i>	2,926	3,524	-
<i>Natural Gas</i>	1,200	-	2,017
<i>Solar</i>	-	47	12
<i>Wind</i>	-	-	150
<i>Hydropower</i>	563	592	134
<i>Geothermal</i>	-	290	1,188
<i>BESS</i>	50	-	-
Market Share			
National Grid	20.8%	17.7%	14.1%
<i>Luzon</i>	28.1%	18.6%	14.7%
<i>Visayas</i>	-	15.8%	25.7%
<i>Mindanao</i>	7.5%	15.3%	2.4%
Projected Power Mix (MW)			
Target Year	2025	2030	2030
Total Capacity	9,127	9,200	13,000
Fossil Fuel Capacity	6,700	4,600	4,000
Renewable Energy Capacity	1,363	4,600	9,000
% RE	15%	50%	69%
BESS	1,000	73	40
Fossil Fuel Capacity Under Development (MW)			
Coal	1,900	-	-
Natural Gas	10,042	1,610	1,200

Source: Company disclosures, media reports

SMGPH has consistently fallen short across key performance metrics in comparison to Aboitiz Power and First Gen (Table 8). It is worth noting that some of these peer company financial ratios on a standalone basis might not be commendable either. However, SMGPH's exposure to high and volatile prices, combined with the absence of a strategic pivot toward renewable energy sources, has played a role in the gradual erosion of SMGPH's overall financial well-being.

Table 8: Comparison of Key Financial Ratios

Category	SMGPH	Aboitiz Power	First Gen
Key Financial Ratios			
Profitability/Efficiency			
EBITDA Margin	18.40%	21.50%	28.10%
ROE	1.30%	15.30%	8.60%
Capitalization			
Gearing	1.16	1.23	0.54
Net Gearing	1.07	0.88	0.26
Debt and Cash Flow Coverage			
Total Debt/EBIT	10.15	7.41	3.08
EBITDA-Capex/Interest Expense	-0.42	2.14	6.26
Liquidity			
Current Ratio	1.00	1.78	1.63
CFO/Current Liabilities	-0.12	0.38	0.56

Source: Bloomberg as at May 2023; IEEFA adjustments

Note: Cells highlighted in red indicate a weaker ratio standing compared with peers.

What is the Next Move for SMGPH?

While SMGPH's earnings have shown improvement in the first half of 2023, largely attributed to lower commodity prices, in IEEFA's view the company's cash-flow situation remains uncertain, and the ongoing challenge of meeting its financial obligations persists. In the interim, four possible strategies could allow SMGPH to manage its financial challenges:

1. **Reduce fossil fuel expansion plans and deploy more renewable energy.** SMGPH's heavy reliance on fossil fuels has weakened its financial health, and moving from coal to LNG will not solve the fundamental problem of vulnerability to high and volatile commodity prices. On the contrary, greater reliance on LNG may worsen financial issues due to the higher, more volatile pricing of imported LNG.

Instead, a more concerted shift toward renewable energy sources represents a key hedge against the company's exposure to fossil fuel price risk, and could offer a more sustainable, reliable financial strategy. Despite lofty targets, the company has not added any new renewable generation capacity since 2014. Even under the company's own projections, renewable energy is slated to constitute just 15% of the SMGPH generation portfolio by 2025—an increase of 3%. The company's fossil fuel capacity is set to expand significantly faster than its renewables capacity.

Meanwhile, the company's largest peers and relative newcomers in the Philippine power generation sector are capitalizing on the country's accelerating transition to renewables.¹⁰² The government is increasingly recognizing the economic benefits of domestic renewables by pursuing centralized procurement auctions, allowing full foreign ownership of renewable projects,

¹⁰² IEEFA. [Business model innovations drive the Philippines' energy transition](#). August 22, 2023.

and granting preferential dispatch for renewables in the WESM, among other favorable policies. Globally, wind and solar are the cheapest sources of power in countries accounting for 82% of global electricity generation, including the Philippines.¹⁰³ Solar prices have fallen 90% and wind prices have dropped 67% since 2010.¹⁰⁴

SMGPH faces a key risk of falling behind in this rapidly growing segment despite its prominent role in the Philippine power sector. The company's delayed transition toward renewable energy could hinder the company's competitiveness, limit its ability to capitalize on market trends, and impede its overall value creation in a rapidly evolving industry.

- 2. Refinance and/or raise additional capital.** SMGPH can secure more debt without technically violating its existing debt covenants. However, the company may face challenges in accessing capital markets at a reasonable cost given its weak financial profile and increasingly stringent funding market conditions, driven by the high-interest-rate environment and fossil fuel growth-oriented strategy amid a global shift toward a low-carbon economy. Globally, green bond sales and loan issuances in 2023 are on pace to far surpass financing for oil, gas and coal. In the first half of 2023, US\$348 billion was raised for green projects compared with US\$233 billion for fossil fuels.¹⁰⁵

These factors place SMGPH and its parent SMC at a significant disadvantage. Accessing the capital market on favorable terms in the long run will necessitate a strong commitment from SMGPH to actively expand its renewable energy capacity. This strategic shift is crucial for ensuring the company's access to funding, and will improve its financial standing and its alignment with evolving ESG investment standards, climate considerations and market trends.

- 3. Buy or produce fuel requirements domestically.** To reduce exposure to global commodity prices, SMGPH may push forward with plans for domestic resource development. For example, SMGPH subsidiaries have reportedly shown renewed interest in the past two years in advancing long-delayed coal-mining plans in South Cotabato.¹⁰⁶ However, intense public opposition and legal challenges may continue to delay production.

The option to purchase domestic gas rather than imported LNG depends largely on whether producers for the Malampaya gas field—the Philippines' only indigenous source of natural gas—can boost production significantly. The field is expected to run dry by 2027, although efforts are underway to extend its life by drilling new wells. In May 2023, the Philippine President Ferdinand Marcos Jr. agreed to extend the production contract for Malampaya by 15 years.¹⁰⁷ However, SMGPH no longer buys gas from Malampaya after its supply contract with the production

¹⁰³ BNEF. 1H 2023 LCOE Update. June 7, 2023, p. 8.

¹⁰⁴ Ibid., p. 6.

¹⁰⁵ Bloomberg. [Green bonds take big lead over fossil-fuel debt deals](#). July 5, 2023.

¹⁰⁶ Rappler. [Big miners bullish on Mindanao as they see 'friendly' Marcos administration](#). November 16, 2022.

¹⁰⁷ Reuters. [Philippines' Marcos signs 15-year Malampaya gas contract renewal](#). May 15, 2023.

consortium expired.¹⁰⁸ In December 2022, the Malampaya consortium said it would not divert gas supplies to SMGPH subsidiary SPPC since the field was nearing maximum reserve drawdown.¹⁰⁹

- 4. Pass through all fuel costs to end users.** SMGPH applied for a “temporary” rate hike in August 2022 to recover losses from its fixed-price PSAs,¹¹⁰ but the company is likely to continue to push for full pass-through of fuel costs to shore up its financial position and expansion plans. However, requiring automatic pass-through of higher LNG costs could affect the company’s ability to re-sign terminated PSAs.¹¹¹ And although the EERI-led Batangas CCGT project became the first LNG-fired power plant to win a PSA in Meralco’s competitive selection process in 2021, termination of that contract now revives doubts over the competitiveness of LNG in future bidding rounds.

Moreover, full fuel price cost recovery may entail increased legal and regulatory risks as rate decisions and contract terms are challenged in court. Skyrocketing LNG prices have already caused major legal issues even before the Philippines has begun importing significant volumes.¹¹² Legal and regulatory risks for SMGPH could therefore grow as the company pursues plans to rapidly increase LNG dependence. This is especially true as the government looks for ways to bring down power costs. President Marcos Jr. highlighted a goal of lowering energy costs in his 2023 State of the Nation Address,¹¹³ and the DOE has publicly acknowledged that LNG could lead to higher power prices.¹¹⁴ The ERC is also being increasingly pressured to remove fuel price pass-through provisions in PSAs.¹¹⁵ Going forward, SMGPH’s push to fully recover fuel costs might collide with the administration’s goals to bring down power costs.¹¹⁶

Any potential recovery of fuel costs must therefore also be associated with an immediate, material pivot to renewable energy in order to address financial risks, not just temporarily alleviate them.

¹⁰⁸ Power Philippines. [Malampaya consortium ends contract with Ilijan Power Plant](#). June 6, 2022.

¹⁰⁹ BusinessWorld. [Malampaya consortium denies SMC Global Power’s claim on banked gas delivery](#). December 12, 2022.

¹¹⁰ Power Philippines. [SMC Global seeking rate hike after Php15B losses on fuel costs](#). August 2, 2022.

¹¹¹ It remains to be seen whether the Ilijan plant, for example, will be able to reach new long-term PSAs for its full capacity or face merchant risk in the WESM.

¹¹² IEEFA. [Contracting debacles underscore long-term LNG risks in the Philippines](#). April 11, 2023.

¹¹³ Official Gazette. Ferdinand R. Marcos Jr., [Second State of the Nation Address](#). July 24, 2023.

¹¹⁴ Business Inquirer. [Philippines banks on LNG to help avoid power shortage](#). March 14, 2023.

¹¹⁵ Business World. [Think tank seeks removal of automatic pass-through fuel cost from power deals](#). September 3, 2023.

¹¹⁶ For example, after the Court of Appeals (CA) initially overturned the ERC’s denial of SMGPH’s rate hike petition by granting a temporary restraining order on the ERC decision, the Philippine President said: “We hope that the CA will reconsider. And include in their deliberations the extremely deleterious effect this will have on power prices for ordinary Filipinos.” CNN Philippines. [Marcos wants CA to reconsider order on San Miguel rate hike petition](#). November 27, 2022.

Conclusion

SMGPH's overreliance on imported fossil fuels, combined with an inability to fully pass through global commodity prices to end users in the Philippines, has resulted in a downturn of financial metrics. Profitability has steadily declined since 2016, and the financial impacts of higher global commodity prices have become increasingly pronounced.

At the same time, SMGPH is accelerating capital expenditures to expand its generation fleet. Higher borrowings and lower profitability have threatened the company's ability to manage its debt burden, cover short-term obligations, repay interest and handle unforeseen large-scale expenses. Although results from the first half of 2023 showed a slight recovery, the underlying financial issues remain.

Financial results from recent years do not appear to bode well for the company's expansion plans, which are dominated by large coal and natural gas facilities run on imported fuels. These plans threaten to exacerbate the root causes of SMGPH's financial woes. The company's move from coal to LNG poses particular risks, due to the higher costs and volatility associated with LNG.

Such volatility is already causing contractual problems for SMGPH, which has disputed and terminated PSAs for existing and proposed facilities. Without offtake contracts, potential exposure to the WESM will likely pose significantly greater merchant risk to expensive fossil fuel power plants, which may take a backseat to low-marginal-cost renewables.

New large coal and LNG facilities, many of which are located on the Luzon grid, may also push up against regulatory market share limits. Surpassing these limits could expose the company to legal and penalty risks while inhibiting its ability to expand its renewable energy portfolio, reduce exposure to global commodity markets and achieve progress on net-zero goals.

Investors may see a need to proceed with caution considering SMGPH's elevated net debt-to-earnings, high non-call risk for its perpetual bonds and growing challenges in securing favorable funding terms due to its heavy fossil fuel exposure. And while parent company support provides some reassurance, SMC's own high leverage and business challenges are factors to consider when evaluating financial risks for SMGPH.

These risks to the company's ongoing operations and development plans suggest an immediate need to rethink corporate strategy. Unless the company can expand its interests in cleaner, cheaper, more secure forms of renewable power, it may find itself increasingly excluded from the Philippines' energy transition.

Appendix 1: The Philippines' Coal Moratorium

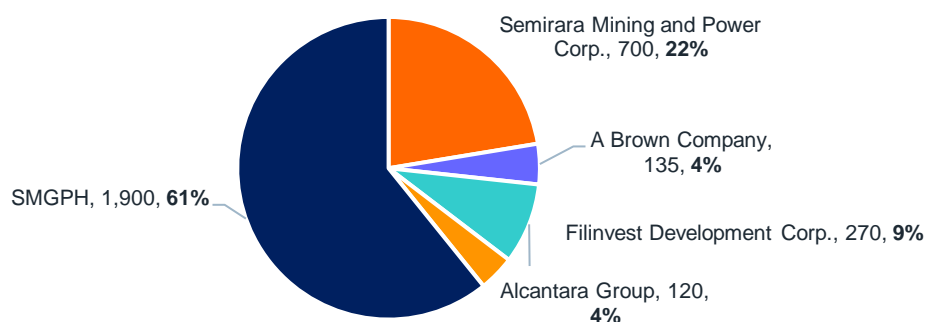
In October 2020, the Philippines Department of Energy announced a moratorium on greenfield coal-fired power plants. The moratorium did not affect:

- Committed power projects, or those that had reached financial close;
- Existing power plants with firm expansion plans and land provision;
- Projects that had reached certain milestones, including (i) the securing of land or lease agreements, and (ii) the securing of local and regional permits.¹¹⁷

Following the moratorium declaration, SMGPH canceled three proposed coal plants with a combined 1,500MW capacity.¹¹⁸ Shortly after, it shelved two more coal plants in Quezon (710MW combined) and one in Davao del Sur (82MW).¹¹⁹ In July 2021, SMC announced the cancellations, saying: “We’re executing on our plans to move away from building new coal facilities, despite new technologies that make them cleaner. It’s a company direction that is in line with all the major sustainability initiatives we have undertaken these past couple of years.”

As of May 31, 2023, SMGPH still owned more than 60% of total coal capacity under development in the Philippines (Figure 18).

Figure 18: Committed and Indicative Proposed Coal Capacity in the Philippines (Company, MW, % Share)



Source: Philippines DOE, *Private Sector Initiated Power Projects*. May 31, 2023

¹¹⁷ Philippines DOE. [Advisory on the Moratorium of Endorsements for Greenfield Coal-fired Power Projects in Line with Improving the Sustainability of the Philippines' Electric Power Industry](#), December 22, 2020.

¹¹⁸ SMC. [SMC ramps up investments in renewable energy technologies, drops clean-coal power projects](#), July 11, 2021.

¹¹⁹ Eco-Business. [San Miguel drops more coal projects, but is feared to shift to fossil gas](#), August 17, 2021.

Appendix 2: Perpetual Securities

Perpetual securities are financial instruments that do not have a fixed maturity date, and pay periodic distributions to their holders. They are considered a type of hybrid security because they have characteristics of both equity and debt.

Perpetual securities allow issuers to borrow money without repayment obligations. The risk to investors is that they will be perpetually exposed to the financial risk of the company. Although perpetual bonds do not have a maturity date, they are expected to be redeemed by the issuer on a specified call date. If issuers do not call, perpetual securities typically bear a higher coupon payment. Issuers with high debt burdens and weak cash flows are typically at higher risk of non-call actions, suggesting the issuer may be experiencing financial distress. Non-calls may negatively impact the issuers' access to capital markets.

For the purpose of IEEFA's analysis, calculations involving total debt and net debt exclude perpetual securities.

IEEFA studied the basic/diluted earnings (or loss) per share to assess how including perpetual securities in the calculation of earnings per share could affect the distribution of earnings among shareholders.

The basic/diluted earnings (or loss) per share experienced a significant decline of 107%, from -P11.73 per share in 2022 to P0.88 in 2021. This loss was due to the impact of foreign exchange losses coupled with financing charges, including interest expenses and distributions to perpetual capital securities.¹²⁰ Excluding the impact of foreign exchange losses, the basic/diluted earnings (or loss) per common share would have been -P6.20.

¹²⁰ SMGPH. [Annual Report \(17-A\) – 2022](#). Notes to the Consolidated Financial Statements. April 17, 2023, p. 99.

Table 9: Basic/Diluted Earnings (or Loss) Per Share (Pesos)

	2020	2021	2022
Net Income (a)	18,840,154.00	16,058,084.00	3,162,545.00
Capital distribution for the year (b)			
USCS holders	1,419,650.00	218,723.00	-
RPS holders	2,011,484.00	2,000,759.00	2,344,642.00
SPSC holders	8,156,397.00	12,737,330.00	15,482,007.00
Net Income (Loss) attributable to common shareholders (a-b)=(c)	7,252,623.00	1,101,272.00	-14,664,104.00
Weighted average number of common shares outstanding (in thousands) (d)	1,250,004.00	1,250,004.00	1,250,004.00
Basic/Diluted Per Share (c/d)	5.80	0.88	-11.73
Excluding Foreign Exchange Loss			
Basic/Diluted Per Share	5.40	1.32	-6.20

Source: SMGPH Annual Report 2022

Appendix 3: Use of Proceeds for Key Perpetual Securities Issuances

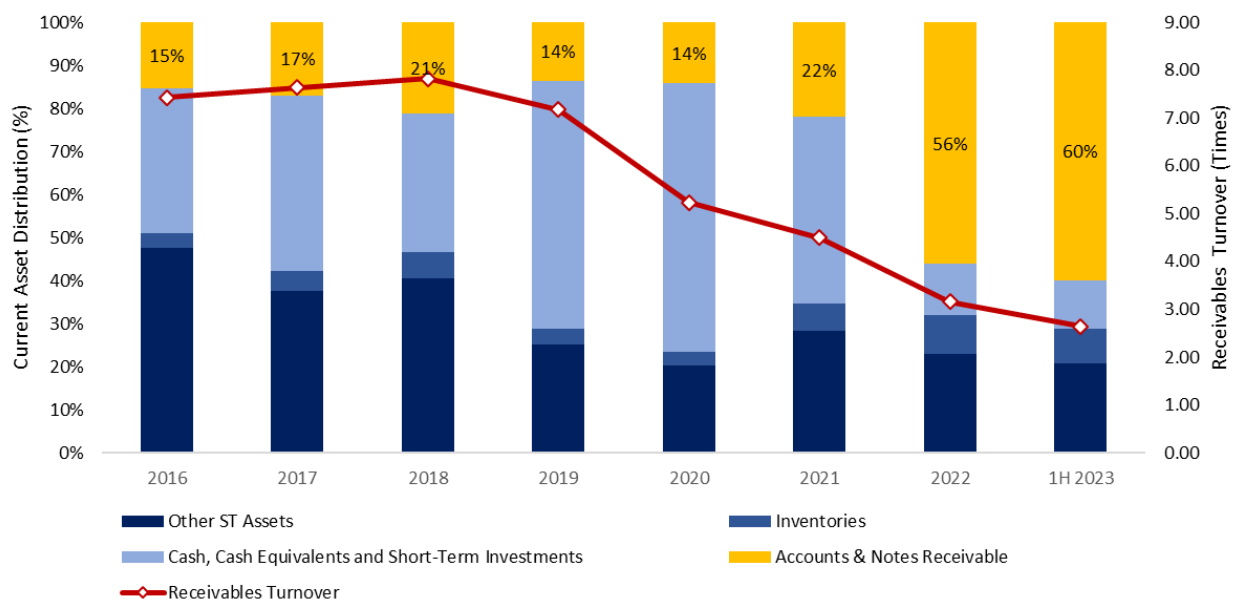
Issue Year	Amount of SPCS Issued (US\$ Billion)	Use of Proceeds
2019	1.3	SPCS: For the redemption of the US\$300 million USCS, repaying debts, supporting capital expenditures, investing in power-related assets, and developing BESS projects.
2020	1.35	SPCS: For development of BESS, investments in LNG facilities and related assets, redemption of existing USCS, refinancing and/or general corporate purposes.
2021	0.75	SPCS: For investments in the 1,313.1MW Batangas Combined Cycle Gas Turbine power plant and related assets or for general corporate purposes.
Total SPCS: US\$3.4 Billion or P168 Billion		
Issue Year	Amount of RPS Issued (Billion Pesos)	Use of Proceeds
1H 2023	65.8	RPS: Proceeds were used for general corporate purposes, including capital expenditures and financing of maturing obligations.

Source: SMGPH Annual Report (17-A) – 2022, April 17, 2023, p. 65 and 227; SMGPH Q2 Report (17-Q) – June 2023, August 14, 2023, p. 84; Manila Bulletin, [SMC Global Power to buy back \\$400-M perpetual securities](#), October 2022

Appendix 4: Current Assets and Receivables Turnover

Almost 60% of current assets were tied up in trade receivables in 2022 (Figure 19). This was notably higher compared with the average trade receivables of about 20% observed from 2015 to 2021.

Figure 18: SMGPH Current Assets Distribution and Receivables Turnover



Source: Bloomberg as at May 2023

The increase in trade and other receivables to P105 billion (2021: P47 billion) primarily stemmed higher trade customer balances from power sales. The sale of various properties and investments during the year also contributed to the rise in receivables.¹²¹

Any delay in trade customer balances means SMGPH's expected cash inflows could be postponed. This could lead to further cash-flow constraints, exposing the company to greater liquidity and credit risks. In 2022, the receivables turnover ratio was 3.15, the lowest since 2016. This low ratio indicates that the company now takes a longer time to collect its outstanding customer payments or receivables.

¹²¹ SMGPH. *Annual Report (17-A) – 2022*. April 17, 2023, p. 103, 112.

Appendix 5: Greenhouse Gas Emissions Profile

SMGPH has two sustainability reports available on its website for 2018 and 2019-2020, which include estimates for Scope 1 and Scope 2 emissions from sources owned by the company (Table 10).¹²² More recent sustainability reports for SMGPH containing emissions data are not available.

Table 9: SMGPH Emissions Profile

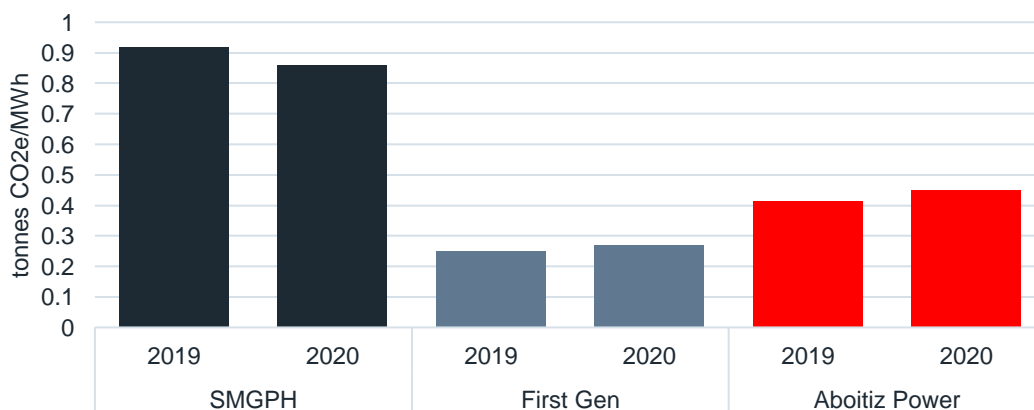
	2019	2020
Direct (Scope 1) (t-CO₂e)	9.72 M	9.17 M
Indirect (Scope 2) (t-CO₂e)	12,717	15,562
Other Indirect (Scope 3) (t-CO₂e)	Not Available	
Emission Intensity	0.92	0.86
IFC Prescribed Limits	>300MW = 0.796-0.970	
Reduction of GHG Emissions	0	0
Emissions of Ozone-depleting Substance	0	0

Source: SMGPH 2019-2020 Sustainability Report, p. 70

Note: t-CO₂e = tonne of carbon dioxide equivalent.

Based on IEEFA's analysis of company reports, SMGPH had the highest emissions intensity—measured in tonnes of greenhouse gas emissions (GHG) per megawatt-hour generated—of the three largest power companies in the Philippines in 2019 and 2020 (Figure 20).

Figure 19: Emissions Intensity (t-CO₂e/MWh) of Major Philippine Power Generation Companies



Source: SMGPH data from 2019-2020 Sustainability Report, p. 69. First Gen data from 2022 Integrated Report, p. 134 and 2019 Integrated Report, p. 33. Aboitiz Power data from the company's Environmental Initiatives website.

¹²² This does not include IPPA assets.

Appendix 6: Key Financial Metrics of SMGPH, Aboitiz Power and First Gen

Category	SMGPH	Aboitiz Power	First Gen
Key Financials (Million Pesos – FY2022)			
Revenue	221,388.79	193,993.59	145,397.46
<i>Y/Y % Change</i>	65.6%	44.3%	23.1%
COGS	198,370.98	69,379.33	104,339.82
<i>Y/Y % Change</i>	115.2%	67.2%	30.5%
Operating Income	28,885.61	29,802.97	29,061.49
<i>Y/Y % Change</i>	-21.6%	5.6%	10.0%
Net Profit	3,162.55	27,535.13	14,251.83
<i>Y/Y % Change</i>	-80.3%	32.1%	1.2%
EBITDA	40,807.31	41,666.64	40,896.47
<i>Y/Y % Change</i>	-15.4%	5.7%	5.8%
EBIT	28,885.61	29,802.97	29,061.49
<i>Y/Y % Change</i>	-21.6%	5.6%	10.0%
Total Current Assets	188,780.59	132,976.39	88,723.63
Total Assets	717,514.73	477,593.88	299,328.33
Total Current Liabilities	188,680.45	74,567.88	54,446.08
Total Liabilities	465,198.17	297,419.11	134,536.86
Total Equity	252,316.56	180,174.77	164,791.47
Total Debt - Excl. Operating Lease	293,152.62	220,854.63	89,483.77
Cash from Operations (CFO)	-22,858.17	28,128.45	30,584.87
Capital Expenditures	-48,487.76	-12,981.06	-13,530.92
Free Cash Flow	-71,345.93	15,147.40	17,053.94
Interest Expense	18,264.12	13,375.39	4,373.47

Source: Bloomberg as at May 2023

Appendix 7: SMGPH Total Bond Issuance by Year

Issue Year	Bond Issuance (Pesos)	% of Total Bond Issuance	Use of Proceeds	Source
2016	15,000,000,000	13%	Refinancing of short-term loan	AR 2016 , p. 147
2017	20,000,000,000	17%	Full payment of short-term loans	AR 2017 , p. 216
2018	15,000,000,000	13%	Refinancing	AR 2018 , p. 242
2019	30,000,000,000	25%	Refinancing and Investments in power-related assets	AR 2019 , p. 238
2022	40,000,000,000	33%	Investments in power-related assets/projects	AR 2022 , p. 285
Total	120,000,000,000	100%		

AR: Annual Report

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