PHOENIX

20 July 2020

Securities & Exchange Commission
Secretariat Building, PICC Complex
Roxas Blvd, Metro Manila

Philippine Stock Exchange
Disclosure Department
6/F PSE Tower, 28th Street corner 5th Avenue,
BGC, Taguig City, Metro Manila

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

Attention: **Hon. Vicente Graciano P. Felizmenio, Jr.**
Director, Market and Securities Regulation Department
Securities & Exchange Commission

Ms. Janet Encarnacion
Head - Disclosure Department
Philippine Stock Exchange

Atty. Marie Rose M. Magallen-Lirio
Head - Issuer Compliance and Disclosure Department (ICDD)

Sir and Mesdames:

We would like to submit the attached Press Release entitled **"Phoenix Petroleum Receives PRS Aa minus (corp.) Rating"**.

Thank you and warm regards.

Very truly yours,

Atty. Socorro Ermac Cabreros
Corporate Secretary

PhilRatings
PHILIPPINE RATING SERVICES CORPORATION
The Pioneer Domestic Credit Rating Agency

RATING NEWS
20 July 2020

Phoenix Petroleum Receives PRS Aa minus (corp.) Rating

Phoenix Petroleum Philippines, Inc. (Phoenix), an independent oil company in the country, was assigned an Issuer Credit Rating of **PRS Aa minus (corp.)**, with a **Stable Outlook**, by Philippine Rating Services Corporation (PhilRatings). The rating was obtained in relation to the company's outstanding three-year commercial papers (CPs) program of up to ₱10.0 billion. With this, Phoenix may issue CPs until 2021. The proceeds will be used to finance the company's working capital requirements.

An Issuer Credit Rating is an opinion on the general and overall creditworthiness of the issuer, evaluating its ability to meet all its financial obligations within a time horizon of one year. A company rated **PRS Aa (corp.)** differs from the highest-rated corporates only to a small degree, and has a strong capacity to meet its financial commitments relative to that of other Philippine corporates. PhilRatings can also include a plus or a minus sign to further qualify its rating.

Furthermore, an Outlook is an indication as to the possible direction of any rating change within a one year period, and serves as a further refinement to the assigned credit rating for the guidance of investors, regulators, and the general public. A **Stable Outlook** is defined as: "The rating is likely to be maintained or to remain unchanged in the next 12 months."

In arriving at the rating, PhilRatings took into account the following rating factors: 1) continuous growth of the company's retail presence and market leadership, particularly among independent oil players; 2) significant growth potential given the entry into other related or complementary business ventures; 3) improving sales volume but which is offset by rising costs, expenses and finance charges; and 4) declining coverage ratios in relation to debt servicing. PhilRatings also took into consideration the increasing economic uncertainty and the immediate adverse impact of the community quarantine attributable to the COVID-19 pandemic on the company's business.

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

Phoenix is a publicly-listed independent oil company in the Philippines which operates two business segments, namely: a) trading and b) terminaling and hauling services. Under trading, Phoenix markets refined petroleum products and lubricants to both retail and commercial/industrial customers. The company's terminaling and hauling services, on the other hand, involve the storage of petroleum products and the transport of fuels to Phoenix's industrial customers. Phoenix also entered the Liquefied Petroleum Gas (LPG) market and non-fuel retail platform, such as operating convenience stores and a digital payment platform.

Phoenix was able to increase its number of retail stations from 530 in 2017 to 655 in 2019. For the past three years, the bulk of the growth was in Luzon.

In 2019, major oil companies (i.e. Petron Corp., Pilipinas Shell Petroleum Corp., and Chevron Philippines) continued to account for the bulk of the market, with a 50.7% share. It is worth noting, however, that over the past years, the aggregate market share of major oil players has been declining. In contrast, the other industry players, together with the end-users, captured 49.3% of the market, of which 43.0% was accounted for by the share of independent players. Phoenix leads the independent oil players, with a 7.1% share in 2019, making it the fourth biggest of oil players in the Philippines in terms of market share. It should be noted that Phoenix's market share consistently increased from 4.7% in 2015.

In an effort to further expand the company's presence in the LPG market, Phoenix LPG Philippines, Inc. (PLPI) signed a Memorandum of Agreement (MOA) with Grainsmart Corporation (Grainsmart) on February 20, 2019 to authorize the latter as an official partner that will market, distribute, and sell Phoenix Super LPG products and equipment. Grainsmart is reportedly one of the leading rice grains retail chain store with over 300 stores in the Philippines. Given such, this partnership is expected to augment the availability and accessibility of Phoenix's super LPG products

Boosting the company's non-fuel retail platform is Philippine Family Mart CVS, Inc.'s (PFM) acquisition of Circle K convenience store in the Philippines in 2019. Circle K is operated by Super 8 Retails Systems, the consumer retail arm of wholesale distributor Suy Sing Corporation. The acquisition will see the conversion of former Circle K sites to FamilyMart stores over the coming months, further expanding the presence of the latter.

For the past three years, the company's revenues have been growing consistently from ₱44.5 billion in 2017 to ₱97.8 billion in 2019, representing a compound annual growth rate (CAGR) of 48.2%. The growth was driven mainly by total volume sold, which increased from 1.8 billion liters in 2017 to 3.3 billion liters in 2019. Costs and expenses, however, recorded a CAGR of 48.1%, from ₱42.6 billion in 2017 to ₱93.2 billion in 2019. Interest expenses likewise posted a faster growth with a CAGR of 87.8%, from ₱804.7 million in 2017 to ₱2.8 billion in 2019. Net profit margin has been declining for the past three years, from 3.4% in 2017 to 1.5% in 2019.

Phoenix registered declining coverage ratios in relation to debt servicing from 2017 to 1Q2020. The company's total debt has been increasing for the past three years, from ₱28.2 billion in 2017 to ₱49.4 billion in 1Q2020, with a CAGR of 20.6%. Current debt, in particular, rose from ₱16.8 billion in 2017 to ₱37.7 billion in 1Q2020, or a CAGR of 31.0%. Given such, the level of finance charges of the company has grown since 2017, exceeding profitability growth rates.

The Philippine economy contracted by 0.2% in the first quarter of 2020. Acting Secretary of the National Economic and Development Authority (NEDA), Mr. Karl Chua, attributed the contraction to the Taal Volcano eruption in January, the local transmission of COVID-19, and the declaration of Enhanced Community Quarantine (ECQ) in mid-March in Luzon, which accounts for 70% of the national output. It should be noted that the first quarter of 2020 only had the first two weeks of the Luzon-wide ECQ.

The COVID-19 outbreak, coupled with community quarantine, is expected to have a significant impact on consumption, travel and tourism, among others. The pandemic has also drastically reduced global oil demand, and as a result, crude oil prices have slumped dramatically. As of report writing date, the pandemic continues to hurt the aviation industry, prompting local airlines to reduce their workforce and to implement pay cuts.

For the first three months of 2020, Phoenix recorded a net loss of ₱214.7 million, from a net profit of ₱414.7 million in the same period last year. Bigger players in the oil industry suffered losses as well. Managing operations and liquidity will be key in reining in or containing the effects of the pandemic over the short- to medium-term for a company like Phoenix.