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LGUGC gets high credit rating

By JAMES A. LOYOLA

LGU Guarantee Corporation (LGUGC), an institution that guarantees LGU debt and development financing in the Philippines, received a PRS Aa plus (corp.) issuer credit rating from Philippine Rating Services Corporation (PhilRatings) after its credit review for the second year.

A PRS Aa plus (corp.)-rated company differs from the highest rated corporations only to a small degree, and has a strong capacity to meet its financial commitments relative to that of other Philippine corporations.

PhilRatings said the rating assigned to LGUGC reflects the strong institutional linkages of the company as well as the experience and track record of key members of the Board and of management.

The rating also takes into consideration LGUGC's maintenance of good asset quality, with no claim on its guarantee since it started operations in 1998; its strong capital cushion;

and ample reserves to cover probable losses.

Also supporting the rating is LGUGC's multiple layers of financial flexibility which enhance its liquidity and its increasing profitability, with guarantee fees and program management fees alone now being able to cover all operating expenses.

However, the rating also took into account the significant competitive challenges LGUGC faces in terms of expanding and developing new markets on a sustained basis as well as the "political risk" when dealing with local government units or government regulatory agencies.

PhilRatings also took note of LGUGC's fairly untested resilience during a period of severe domestic economic stress given the company's relatively short 13-year history.

LGUGC is the first private corporation to go into the guarantee business in the Philippines and was the first to introduce a guarantee mechanism for LGU borrowings in the country.

It is the private sector link in public-private partnerships for local development financing. LGUGC mobilizes the resources of private sector financial institutions for funding local development projects.

The company has been considered an authority in LGU debt and development financing as evidenced by its partnerships and citations with various institutions such as the United States Agency for International Development (USAID) and the Bangko Sentral ng Pilipinas (BSP).

For the first ten months of 2011, LGUGC reported total revenues of P55.68 million and net income of P31.05 million. Operating income was able to cover 156 percent of total expenses and net profit margin was at 56 percent.

The company holds an investment portfolio amounting to P537.76 million and contingent liabilities (inclusive of interest) of P2.40 billion, resulting in a leverage ratio of 4.74x in relation to total equity.

