



# PCCI SECURITIES BROKERS CORPORATION

Trading Participant: Philippine Stock Exchange

Member: Securities & Investor's Protection Fund, Inc.

## COMPANY UPDATE

April 23, 2015

### STA. LUCIA LAND, INC. [SLI]



#### **RECOMMENDATION: BUY**

#### **Sta. Lucia Land, Inc.**

Penthouse, Building III, Sta. Lucia East Grandmall Felix Ave. cor. Marcos Highway Cainta Rizal

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#### **FY 2014 Performance Highlights**

Sta. Lucia Land, Inc. (SLI) for the year ended December 2014 registered P2.30 billion (+73.0%) in revenues. The biggest contributor to sales was the rise in gross rental revenues to P504.34 million which grew by 42.0% from P355.10 million recorded in 2013 due to the management services agreement entered by SLI that allowed them to book gross revenues starting October 2014. Additional revenues came from the opening of IL Centro in Sta. Lucia East Grand Mall. Real estate sales also rose significantly by 80.0% to P1.44 billion attributed mainly to the completed and ongoing projects; Colinas Verdes Residential Estates in Bulacan, Monte Carlo Tower in Rizal, Greenmeadows in Iloilo and Ponte Verde in Davao.

#### **Company Updates**

The company budgeted P2.0 billion in capital expenditures for land acquisition, project development and launches of new projects this year. It plans to build new commercial areas in Davao and Iloilo. Part of its launches is the Green Peak Heights, an exclusive residential enclave in Puerto Princesa. Palawan.

As of end December 2014, SLI has a total of 43 ongoing projects which are mostly focused on subdivisions located outside Metro Manila. As part of its plan to increase its land bank and contain costs, it recently acquired 34.53 hectares of property in Batangas and Iloilo. It also has 16 joint-venture partnerships for a total of 142.33 hectares area in Pasig, Davao, Rizal, Laguna and Batangas. This is in line with its target to add up to 1,000 hectares of land this year to its land bank.

#### **Sector:**

Property

#### **Outstanding Shares :**

8,546,450,000

#### **Market Capitalization:**

6,837,160,000

#### **Complete Financials:**

31 December 2014

#### **FY 2015 Outlook**

Given the 2014 results which were within our estimates, we maintain our estimate that SLI's revenue will climb by another 51.3% to P3.47 billion in 2015. We are however revising our net income estimate to P785.8 million (+43.2%) as we revised our cost and expenses estimate in accordance to the revenue mix. Income from the construction and rental is seen to drive the growth for the year given its newly acquired areas, completion of its new commercial spaces and income from mixed use residential projects. Construction revenue is estimated to contribute significantly due to the estimated house construction from its buyers of the previous years. These will result to an EPS of P0.092/share and BVS of P1.47/share which will translate to a PER of 8.0X – 9.0X and PBV of 0.55X – 0.56X. Both are at a significant discount to the sector and the PSEI's averages. Prospects for the business are robust given the addition of SLI Homes, the continued expansion of its leasing business and sustained growth in real estate sector. We therefore maintain our **BUY** recommendation on SLI.

#### **DIRECTORS & OFFICERS**

##### **Chairman**

Vicente R. Santos

##### **President & Director**

Exequiel D. Robles

##### **Executive Vice President**

David M. Dela Cruz

##### **Treasurer & Director**

Mariza Santos-Tan

##### **Directors**

Antonio D. Robles

Aurora D. Robles

Orestes R. Santos

Santiago Cua

##### **Independent Directors**

Jose Ferdinand R. Guiang

Osmundo C. De Guzman,

Jr.

##### **Corporate Secretary**

Patricia A. O. Bunye

#### **Valuation**

	2011	2012	2013	2014	2015F
<b>Net sales</b>	1,441.54	1,792.75	1,326.91	2,296.32	3,473.87
<b>Net Income</b>	358.81	311.21	300.00	548.75	785.83
<b>EPS</b>	0.032	0.029	0.028	0.064	0.092
<b>PER</b>	21.66X	22.90X	20.87X	12.46X	8.70X
<b>BV/S</b>	1.32	1.38	1.41	1.37	1.47
<b>PBV</b>	0.55X	0.48X	0.41X	0.58X	0.55X

Notes: Amount in Php millions except for Per Share and valuation data.

Sources: SLI, 17A December 2014, September 2014 Quarterly report and presentation materials

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20 years  
of Wealth  
Building

## Financial Condition

For year 2014 SLI had accumulated total assets of P17.84 billion, P11.73 billion of equity and total liabilities of P6.11 billion. Out of the total liabilities, outstanding interest bearing debts amounted to P3.20 billion which translates to 0.28X debt-equity ratio. Out of the assets, investment properties accounted for 26.7% or P4.76 billion. Contracts receivables amounted to P510.2 million, 13.42% lower versus last year.

Profitability wise, the business constantly generates high gross and operating margins through its JV business model as well as the new growth potential with the help of new management and marketing efforts to sustain growth. The company still has low debt levels thus SLI plans to raise up to P6.0 billion worth of debt issuance by 3Q 2015 to fund capex for its new projects. This will raise its debt-equity ratio based on its estimated total interest bearing debt to around 0.73X which is still a comfortable level. It is committed to its planned follow-on offering later this year or in early 2016 nonetheless.

	2014	2013	2012
<b>Revenue Growth</b>	73.1%	-25.98%	24.36%
<b>Net Profit Margin</b>	23.90%	22.61%	17.36%
<b>Operating Margin</b>	57.59%	40.49%	31.43%
<b>Gross Margin</b>	55.17%	48.74%	38.21%
<b>Debt to Equity</b>	0.28	0.22	0.22
<b>Return on Equity</b>	4.68%	2.48%	2.64%

## Peer Comparison

Among the property firms listed in the PSE, Filinvest Land, Inc. (FLI) is SLI's specifically identified comparable. Its other peers considered were Vista Land Life and Lifescapes, Inc. (VLL), Empire East Land Holdings, Inc. (ELI) and 8990 Holdings, Inc. (HOUSE) which has the same price points and currently focusing on horizontal projects.

	2013			2014			2015F	
	PER	PBV	DIVIDEND YIELD	PER	PBV	DIVIDEND YIELD	PER	PBV
<b>SLI</b>	20.87	0.41	-	12.46	0.58	-	8.70	0.55
<b>FLI</b>	8.73	0.70	3.40%	8.05	0.71	3.27%	8.48	0.77
<b>VLL</b>	8.77	0.92	1.96%	10.75	1.19	1.65%	10.42	1.14
<b>HOUSE</b>	14.90	4.93	-	11.87	2.64	0.70%	10.44	4.16
<b>ELI</b>	45.09	0.56	-	44.10	0.53	-	30.04	1.68
<b>PSEi</b>	19.97	3.12	1.98%	23.53	3.17	1.78%	19.73	2.75
<b>Property Sector</b>	30.48	2.56	1.90%	22.67	2.15	1.38%	19.77	2.19

\*2014 and 2015F relative valuation figures were based on the closing prices in April 22, 2015.

Based on the valuation table below, SLI's leading PER is at discount to its local comparables and the PSEi's averages. It is also at a discount if PBV will be the basis. Liquidity and its current market capitalization compared to the other real estate companies could be the factors behind the valuation discount. Its asset size and current profitability where SLI is smaller compared to its peers could also be factors. It also has not distributed dividends since its listing date. However for 2015, we see that the company will move to grow its business exponentially. Surprise 2015 earnings may see it trade around at 8.0X and 0.54X for its PER and PBV respectively given its strategy to expand its retail segment, introduce more residential projects nationwide and engage in the construction of the homes of its lot buyers.

## Recommendation

Overall we believe that the positives could continue to outweigh the possible risk factors for SLI, factoring in the new growth possibilities seen in the company given its 2014 performance as a result of the management's effort to rebuild its brand and the expansion of its commercial and property footprints in emerging cities. The potential growth in the leasing and leisure business will also help expand its recurring income and cash flow for its ongoing projects. Its low debt level also allows the company flexibility in its capital raising effort to fund its capital expenditures to support its growth and increase future earnings. The addition of SLI Homes will also continue to drive higher revenues from its existing buyers. Minimal inventory depreciation is also its advantage compared to its competitors as it focuses more on land sales. Valuation-wise it is cheaper compared to the market and its peers given the current price and earnings surprise potential. Its ROE could also be at least 6.0% this year. We therefore maintain our **BUY** recommendation on SLI, a company that can unlock its growth potential for the next 2 – 5 years.