

Sta. Lucia Land, Inc.

Company Note

A gem in the rough

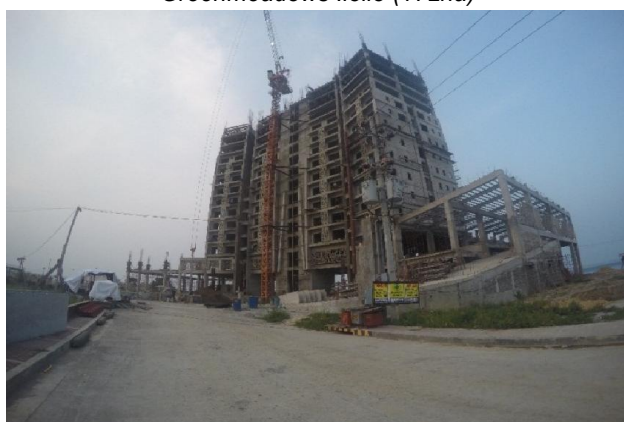
We were invited to visit Sta. Lucia Land’s (SLI) key properties and on-going projects in Iloilo, Davao and Cebu last week (27-30Sep2015). SLI is a real estate company with over 10,000ha of land developed, located in 10 out of the 13 regions of the Philippines.

SLI’s primary focus is the sale of “Lots only” properties which average 120-150sqm and sell for PHP5,000-9,000/sqm. SLI also offers a number of Horizontal projects in Iloilo, Davao and Cebu. Although most of these developments are not located in prime areas, take up is high at 60.0% to 80.0%. We also visited some of SLI’s vertical projects under construction—Arterra Residences in Lapu-Lapu, Cebu and Sotogrande in Davao Riverfront. Construction seems on track to meet the company’s target completion of 4Q16 and 2018, respectively.

Figure 1: Properties in Iloilo, Davao and Cebu



Greenmeadows Iloilo (172ha)



Arterra Residences at Discovery Bay, Lapu-Lapu City Cebu (1ha.)

Snapshot

SLI

Stock Data

Last Price	PHP 0.77
52-wk Range	0.64-1.02
52-wk Ave. Price	PHP 0.77
52-wk Ave. Vol. (mn)	3.79
Shares Out (mn)	8,946
Market Cap (mn)	6,889
Free Float	16.7%

Financial Highlights

	2013A	2014A	9M15
Profit (PHPmn)	300	549	514
EPS	0.03	0.07	0.06
EPS (% YoY)	(3.60)	133	20.00
BVS	1.09	1.12	1.43
ROE (%)	2.48	4.68	4.20

Price Performance

	1-mo	3-mo	6-mo	YTD
SLI	4.1%	5.5%	5.5%	-1.3%
PSEi	-10.9%	-12.8%	-18.7%	-10.7%

Source: PAPA, Technistock



Source: Technistock

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Davao Riverfront Plan (60ha.)



*Ranchos Palos Verdes Golf & Country Club, Davao (164ha)
(golf and residential project)*

Outlook – What's next

SLI expects PhP800.00mn net income in FY2015, a 45.7% YoY growth. This will be driven by sales take-up and construction progress from 40 ongoing projects all over the country, both horizontal and vertical. These projects have total sales value of PhP12.21bn and are targeted for completion by 2015-2017. The company also plans to launch around 10-15 projects at the end of the year.

SLI targets to reach PhP3.00bn net income for the next 5 years with real estate sales contributing 50.0% of total revenues, rental income 30.0% and complementary leisure developments 20.0% versus the current sales mix of 65.0%, 25.0% and 10.0% respectively.

Beefing up presence in the complementary leisure

The 20 complementary leisure segment will be driven by the completion of new condotels. There are currently 3 ongoing condotel projects which are set to be completed by 2015-2017 and 1 upcoming in Quezon City. This could capture the growth in tourism as most of the condotels are located in tourist destinations like Arterra Residences and Sotogrande Davao.

Sta. Lucia Land, Inc. (SLI)**Company Note*****Increase recurring income through retail.***

The company plans to beef up its recurring income through retail expansion. It plans to build 1-2 malls in Iloilo and Davao, possibly adjacent to its properties such as Greenmeadows Iloilo and Ponte Verde Davao. We note, however, that these expansions still appear a long shot as the company has yet to come up with a definite timeline and master plan for the construction of malls. The company is also exploring other options, such as leasing its properties to other mall operators, to expand its recurring income.

Margin improvement

SLI targets to improve and sustain margins at 50.0% in the following years, from 38.0% to 46.0% in the previous years. This will be driven by more project launches in the provinces which offer better profitability, further supported by its expansion in recurring income business.

Increase landbank. The company plans to increase its landbank by buying properties adjacent to its current projects to support its long-term growth prospects. To date, SLI has only 30ha of total landbank while most of its land developments are into 50-50 joint venture.

Funding

SLI is set to raise up to PhP5.00bn through bond offering towards Nov2015 divided into Series A due 2018 and Series B due 2021. Total Net proceeds of PhP5.00bn will be used to refinance its maturing PhP3.30bn debt and partly fund its CapEx, particularly land banking and ongoing projects. The company expects to spend PhP14.94bn in the next 3 years to pursue its expansion plans. It still has sufficient room to lever up as we estimate its debt-to-equity ratio to remain low at 0.39x (post-bond offer).

CAPEX Plan

SLI's 3-Year CapEx Plan (in PhPmn)	
Landbank Acquisitions	2,877
Acceleration of ongoing projects	2,531
Projected development costs	8,869
General Corporate expenses	664
Total	14,941

Risks to our view

Landbanking. SLI's small landbank could limit the company's potential growth for future developments. The company plans to mitigate this by increasing its landbank in the next 5 years. Total projected CapEx for landbanking in the next 3 years amounts to PhP2.87bn, which is 19.2% of total projected CapEx.

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Branding. Given the competitive real estate market, customers tend to prefer the well-known property developers thus limiting potential sales of SLI. SLI plans to increase its brand value by improving marketing strategies and by building communities for their lot owners through its wholly owned subsidiary SL Homes. The company has developed over 2,600 houses in the past 40 years and now targets around 60,000 lot owners to offer the land development and construction or the so called build and sell model.

Valuations

SLI trades at a lower P/E of 5.7x for 2016E compared to its peer average of 6.6x, despite having higher projected earnings growth of 36.9% CAGR from 2014 to 2017 versus peer average of 20.5%. Management expects earnings to be driven by sustained growth in the residential segment, combined with the expansion of its recurring income through retail as discussed above.



Alta Vista, Cebu 400ha gold and residential



Sports facilities inside Sotogrande Davao



Rancho Palos Verdes golf course



Arterra Residences at Discovery Bay, Cebu