

## Company stats:

Price (P)	0.73
52 week high (P)	1.02
52 week low (P)	0.64
Shares out. (m)	8,546.5
Market cap (P m)	6,238.9
ytd change (%)	-8.8
EPS (P)	0.1
PER (x)	7.1
BV/share	1.6
P/BV	0.5

## STA. LUCIA LAND, INC. (SLI)

*Company looking to re-enter the capital markets to raise fresh capital for loan re-financing and fund future expansion; an under-rated and under-valued property stock with promising growth potential. BUY.*

Sta. Lucia Land, Inc. (SLI) is going to raise capital through the sale of up to PhP5.0 billion worth of corporate bonds this year to re-finance some of the company's existing loans, and fund its future expansion including landbanking, vertical construction, and home-building.

### **Company background:**

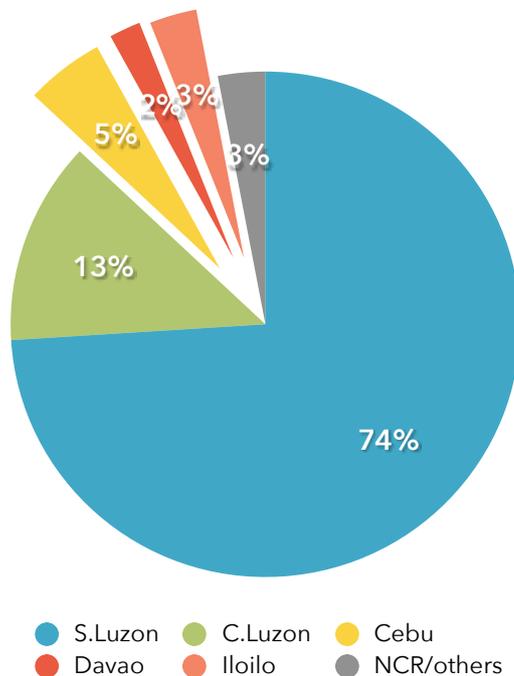
The company is one of the country's leading property developers with more than 40 years experience. From its beginnings as a multi-feature residential subdivision developer in the suburbs east of Metro Manila, SLI has expanded its joint-venture type of real estate development to other key municipalities and cities across the country. Along the way, the company also established itself to become the country's largest golf course developer and operator with fourteen (14) high-end courses in its portfolio. In recent years, the developer has expanded its commercial mall operations in Rizal and also entered into the hotel and leisure business.

### **Investment Considerations:**

- **Massive development footprint** - SLI holds a massive footprint in terms of property developed with over 200 horizontal and vertical projects stretched out across the country. Its projects can be found in 10 out of the country's 13 regions totalling more than 10,000 hectares already developed. While a bulk of SLI's lot sales have been concentrated in its home region of southern Tagalog (Region 4) with 74% of total, it has been accelerating efforts to boost sales in major cities in Visayas and Mindanao. Combined lot sales in Iloilo (Region 6), Cebu (Region 7), and Davao (Region 11) account for only 10% of total, presenting a potential source of spike in sales

growth over the long term. Meanwhile, sales in Central Luzon, SLI's second largest market, make up 13% of total.

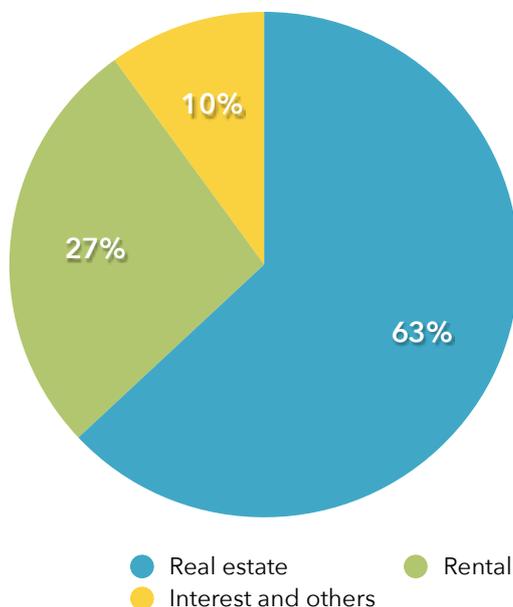
SLI Lot sales by region



- **Profitable joint venture (JV) business model** - SLI has employed the joint venture model for its real estate development business. Under this scheme, the company enters into a JV agreement with the various land owners who, within the terms of the partnership, provide the land for the project while SLI will develop the area (subdivision or residential unit) in preparation for future sale. The JV parties apply different partnership split rates depending on land values and the amount of investment SLI will spend to develop the land/project. The JV business model holds several key advantages. Among them include: (i) the rapid expansion of and immediate exposure to new areas of development; (ii) access to more and significant land held by owners; (iii) risk is shared between developer and land owner; (iv) low development cost, high income margin.
- **Diversified project portfolio** - the company has expanded its offerings from a predominantly horizontal type of projects made up of residential subdivisions and golf courses to vertical residential projects and commercial malls. SLI has increased the number of vertical projects, which account for 23% of total projects

•by type, in cities and towns with high density population and limited land area for development in a bid to tap the strong demand for residential units. In the commercial mall space, Sta. Lucia East Mall, the company's lone shopping mall located in Cainta, Rizal, has been a steady revenue contributor to SLI since it opened in the 1990s. It has a leasable area of 115,492 sq. m. and an occupancy rate of more than 95%. Rental income comprise 27% of the companies revenues. The company is currently expanding its mall business with the opening of the Sta. Lucia East Mall extension last year that added 12,600 sq. m. of net leasable area last year, along with plans to launch commercial malls adjacent to existing residential projects in Iloilo (Greenmeadows) and Davao (Ponte Verde). Recently, SLI has widened its portfolio into housing construction through SLI Homes, a wholly-owned subsidiary that will serve as a contractor for the construction housing units for previous buyers of lots from the company. Through SL Homes, SLI hopes to tap an underserved segment of its real estate business (around half of SLI lot buyers have yet to put up a house on their property) and simultaneously open a new and potentially significant revenue stream for the company.

SLI Revenue mix



**Investment concern:**

- **Low level of land-banking** - the company's thin

land-banking, a result mainly of successfully using the JV business model for expansion, may leave the company with less and limited land area for future development. Owners of undeveloped land may opt for a straight out sale of property to a competing developer instead of a JV deal.

### ***Valuation & recommendation:***

We recommend SLI as a BUY given its (i) profitability, (ii) low debt level, (iii) leading position in horizontal property development, (iv) growth potential, and (v) attractive stock valuation.

SLI has maintained a high profitability level due primarily to its JV business model scheme which has kept acquisition costs low and spread out risks between the partners. Gross margins at the company's real estate operations have been kept near the 50% level as with its mall operations. Operating and net margins are at healthy levels of 36% and 25%, respectively, higher by 10 and 8 basis points from just four years earlier. We expect these margin levels to remain steady in the next two years.

In terms of debt, SLI managed a slim amount of borrowings, made up mostly of short-term debt, to finance its growth with debt at 27% of equity. This, however, is expected to rise to a still manageable 37% following the completion of its planned PhP5.0 debt offering within the year. The refinancing of short-term debt will effectively move the company's debt over to longer-term maturities.

Apart from its core business of selling developed subdivisions, SLI is tapping house construction as a new revenue stream which could potentially accelerate the sale of more lots moving forward. In addition, plans of putting up more commercial spaces and condo/hotel projects could boost the company's recurring rental income stream and likewise elevate its presence in both the retail commercial property and hospitality/tourism sectors.

SLI is trading at a discount. SLI stock is trading at 7x its estimated earnings for 2015, a discount within the subsector of listed property developers with similar scope of operations (residential subdivisions, condominiums, commercial malls, leisure hotels and gold courses) and with values of market capitalization ranging between PhP1.0bn to 45bn. With a subsector PER average of 18x,

SLI's multiple is trading at a comparatively attractive discount relative to its peers. In terms of price to book value per share, SLI's 0.5x is also at a steep discount to the subsector average of 2.7x. By other measures, the company has outperformed the subsector in terms of revenue growth (SLI's 74% vs subsector's 41% average), profitability (operating margin of 32% v subsector's 25% average), and leverage (debt-to-equity of 27% v 59%).

*(graphs, tables and financial statements below)*

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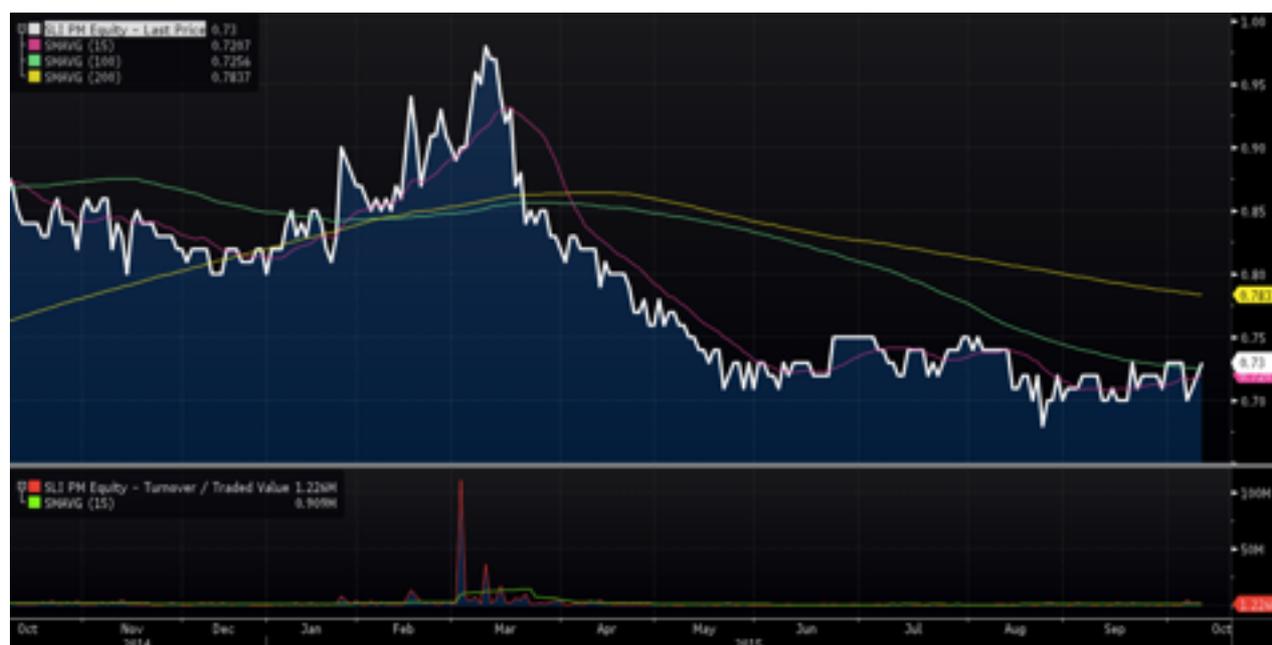
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### Comparative analysis: SLI v peers

STOCK	MKT CAP (P bn)	PER (x)	PBV (x)	EPS growth (%)	ROE (%)
ARTHALAND	1.3	7.1	0.7	(28.0)	10.6
SUNTRUST	2.9	82.1	18.3	44.4	24.4
CITYLAND	3.8	5.8	0.7	(12.5)	11.9
CEBU PROP	5.7	40.1	4.1	6.7	10.4
<b>STA. LUCIA</b>	<b>6.2</b>	<b>7.0</b>	<b>0.5</b>	<b>59.0</b>	<b>5.3</b>
CENTURY PROP	7.3	3.1	0.5	(4.1)	15.9
GLOBAL ESTATE	12.9	14.1	0.6	108.8	4.4
EMPIRE EAST	13.7	21.0	0.6	57.1	2.7
HOUSE	35.5	9.8	2.2	19.2	24.4
FILINVEST	43.2	9.0	0.8	18.7	9.4
VISTA LAND	43.5	7.6	0.8	12.8	11.1
averages		18.8	2.7	25.6	11.9

### SLI Price performance (52 weeks)



**SLI v Property sector v PSEi**



**SLI v property sector peers**



## Balance Sheet (in P m)

	2013	2014	2015E	2016F	2017F
Cash	30	116	1,878	2,356	2,915
Inventories	8,111	7,967	9,929	10,489	10,673
<b>Total current assets</b>	<b>11,408</b>	<b>11,781</b>	<b>15,128</b>	<b>17,266</b>	<b>20,529</b>
Property investments	4,416	4,760	4,166	4,041	3,916
Available for sale financial assets	731	730	814	810	786
<b>Total non-current assets</b>	<b>5,777</b>	<b>6,058</b>	<b>5,760</b>	<b>5,943</b>	<b>6,231</b>
<b>Total assets</b>	<b>17,185</b>	<b>17,838</b>	<b>20,889</b>	<b>23,210</b>	<b>26,760</b>
<b>LIABILITIES &amp; EQUITY</b>					
Accounts payables	1,432	1,694	1,200	1,680	2,352
Loans payable	2,673	3,198	-00	-00	-00
<b>Total current liabilities</b>	<b>4,799</b>	<b>5,665</b>	<b>2,382</b>	<b>3,391</b>	<b>4,904</b>
Total long-term debt	301	441	5,000	5,000	5,000
<b>Total liabilities</b>	<b>5,101</b>	<b>6,106</b>	<b>7,382</b>	<b>8,391</b>	<b>9,904</b>
<b>Equity</b>					
Capital stock	10,796	10,796	10,796	10,796	10,796
Retained earnings	689	1,238	2,111	3,424	5,461
<b>Total</b>	<b>12,084</b>	<b>11,732</b>	<b>13,506</b>	<b>14,819</b>	<b>16,856</b>
<b>Liabilities and Equity</b>	<b>17,185</b>	<b>17,838</b>	<b>20,889</b>	<b>23,210</b>	<b>26,761</b>

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Income Statement (P m)					
	2013	2014	2015E	2016F	2017F
<b>REVENUE</b>					
Real estate sales	801	1,445	2,000	2,800	3,920
Rental income	355	504	850	1,445	2,457
Interest income	89	83	83	0	0
Consolidation of SL Homes	0	0	160	215	270
Others	82	263	385	573	861
	1,327	2,296	3,478	5,033	7,507
<b>COST OF SALES</b>					
Real estate	421	761	940	1,316	1,842
Rental	108	249	434	737	1,253
Others	0	19	0	0	0
	529	1,029	1,374	2,053	3,095
<b>SELLING &amp; ADMINISTRATIVE EXP</b>					
General expenses	261	370	556	805	1,201
Interest expenses	103	113	300	300	300
	364	483	856	1,105	1,501
Income before income tax	435	784	1,248	1,875	2,911
Provision for income tax	135	235	374	562	873
<b>Net Income</b>	<b>300</b>	<b>549</b>	<b>873</b>	<b>1,312</b>	<b>2,038</b>

Financial ratios					
	2013	2014	2015E	2016F	2017F
Gross margin (%)	54%	48%	52%	52%	51%
Real estate margin (%)	48%	47%	53%	53%	53%
Rental margin (%)	70%	51%	49%	49%	49%
Operating margin (%)	32%	28%	32%	33%	33%
EBIT margin (%)	38%	40%	44%	44%	46%
Net income margin (%)	23%	24%	25%	26%	27%
Return on assets	2%	3%	4%	6%	8%
Return on equity	2%	5%	6%	9%	12%
Current ratio	2.4	2.1	6.4	5.1	4.2
Debt to equity	22%	27%	37%	34%	30%
Debt to assets	16%	18%	24%	22%	19%
Book value per share	1.41	1.37	1.58	1.73	1.97
Price to book value	0.52	0.53	0.46	0.42	0.37
Revenue growth (%)	-26%	73%	51%	45%	49%
EPS (P)	0.04	0.06	0.10	0.15	0.24
EPS growth (%)	-4%	83%	59%	50%	55%
PER (x)	20.80	11.37	7.14	4.75	3.06