

BUY

Company Statistics

Company	Sta. Lucia Land, Inc.
Ticker	SLI
Rating	-
Target Price	-
Current Price	1.02
Upside/Downside (%)	-
Shares Outstanding	8,946
Market Cap (Php M)	9,125
Free Float (%)	17
52-Week High (Php)	1.11
52-Week Low (Php)	0.96
YTD Performance (%)	+1

Company Background

SLI through its subsidiaries, develops real estate. The Company's projects include residential condominium units and office buildings development within Metro Manila.

Top Shareholders

Name	%
Sta. Lucia Realty & Dev.	83.3
Robles, Exequiel	Nil
Santos, Vicente	Nil

As of April 2018

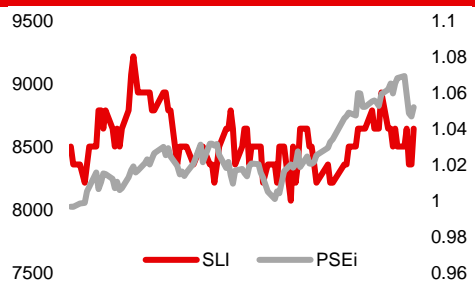
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12-Month Performance vs. PSEi



Initiating Coverage

Sta. Lucia Land, Inc. (SLI)

Compelling valuations cannot be ignored

A big player in the horizontal property play

Sta. Lucia Land (SLI) is one the largest horizontal property developers in the country, with over 90 ongoing projects nationwide. SLI is on the verge of expanding outside Metro Manila, taking advantage of the decentralization of the country's capital. SLI plans to spend Php20B in the next five years to expand in the provincial areas. We initiate our coverage with a 'Buy' rating and a target price of Php1.60/sh. We expect a 20% growth in EPS this year driven by sustained demand for its projects outside Metro Manila.

Infrastructure push | Decentralization of MM

SLI looks to benefit from the administration's 'Build, Build, Build' initiatives, embarking on a Php8T spending spree to beef up its infrastructures across the country. The decentralization of Metro Manila plays a vital role in the developments of properties outside Metro Manila, and is seen to benefit the Company. The administration likewise embarks on several infrastructure projects, which is seen to benefit several projects of SLI: Mega Manila Subway (La Breza & Soto Grande), Pasig Marikina River Channel (Santorini, Vermont Park, Metropoli Residencia, East Bel-Air), MRT-7 (Colinas Verdas Bulacan, Neopolitan Business Park-Regalado), and LRT-2 Extension (Sta. Lucia Mall). SLI expects to beef up its land bank outside Metro Manila, allocating up to Php20B in capex for the next five years, as it plans to develop as much as 2,000+ Ha of property outside the capital.

Attractive balance sheet amid sustaining earnings growth

SLI's current debt-to-equity stood at 0.47x, keeping a well-managed balance sheet. SLI has been growing its EPS for the past five years, growing its net income at a 5-year CAGR of 20% (2011-2016), while maintaining its healthy balance sheet.

Underappreciated valuations

SLI is attractive, currently valued at 0.6x P/B ratio 2018E, compared to the industry average of 1.7x. This likewise reflects on a PER perspective, trading at 10x. We expect a CAGR of 20% 2018-2020.

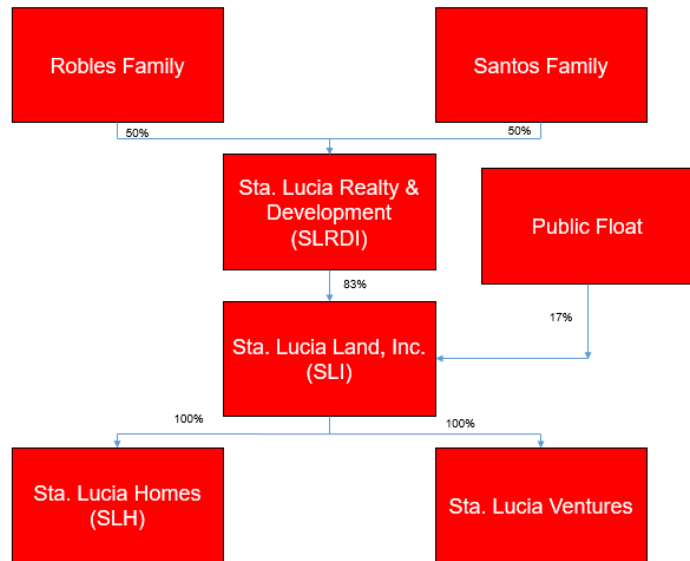
Financial and Valuation Summary

FY Ending 12/31	2016A	2017F	2018E	2019E	2020E
Revenue (Php M)	3,293	3,316	5,000	6,200	7,604
Net Income (Php M)	730	800	1,000	1,450	1,860
EPS (Php)	0.08	0.09	0.11	0.16	0.21
P/E ratio (x)	12.8	11.3	9.3	6.4	4.9
Profit Margin (%)	22.1	25.2	20.6	23.3	24.5
Book value (Php)	1.51	1.60	1.70	1.78	1.90
P/B ratio (x)	0.7	0.6	0.6	0.6	0.5
Div. per share	-	-	-	-	-
Div. yield (%)	-	-	-	-	-
Return on Equity (%)	5.2	5.4	5.8	6.7	7.4

Source: ABCSI Estimates, Bloomberg, Company Data

Company profile

Sta. Lucia Land (SLI) is 83% owned by Sta. Lucia Realty and Development (SLRDI), which is equally owned by the Robles and Santos family. Over the last 45 years, the group has developed 220 projects covering over 10,100 hectares and 14 golf courses all over Philippines.

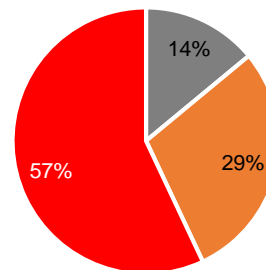


Source: SLI

SLI primarily focuses from sale of developed land lots. In addition, SLI owns a portfolio of retail properties and Condotels, which contribute as recurring income. SLI is currently developing over 40 projects nationwide with an estimated gross value of over PHP24B.

Revenue Contribution

Revenue Contribution



Other Income Leasing Income Real Estate Sales

Source: SLI

SLI mainly operates in Southern Luzon and most of its projects are located outside Metro Manila. SLI continue to lure on the growing OFW market, which accounts for about 65% to 70% of its total sales. SLI’s housing projects price segment ranges between PhP1.5M and PhP5.0M, which is bulk of the housing market segment in the country (29% market share).

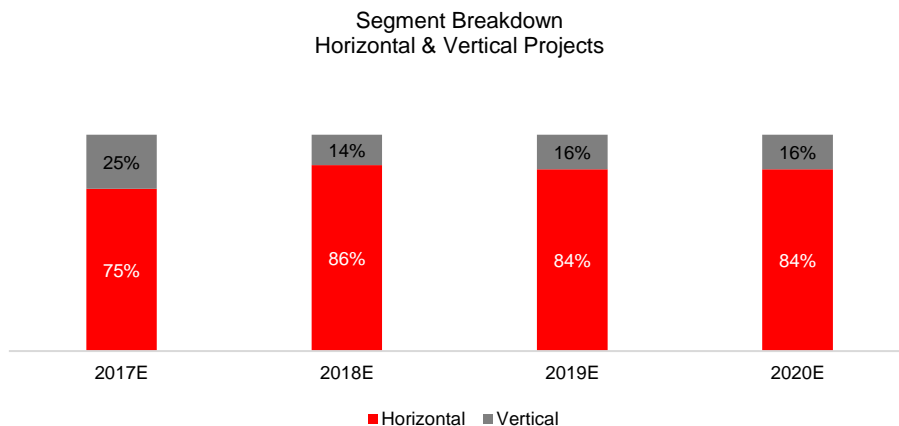
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Staggering sales force

They have 120,000 strong local and international sales force, of which 5 of the 7 major marketing companies work exclusively with SLI.

Banking on its Horizontal Development

Their main business follows an asset-light business model where the company acquires the land by entering Joint Venture (JV) with landowners to develop the land and sell the land plot. Bulk of their projects or about 75% of their sales are horizontal projects. This is expected to move up to 84% by 2020

Segment breakdown


Source: SLI

The Joint Venture model allows SLI to reduce upfront capex and share the risk with landowners. Sale price of the developed lots typically ranges 5 times the development and land acquisition cost combined. As such, horizontal projects are typically 1.5x more profitable than vertical projects.

Horizontal vs. Vertical projects

*Per sqm	Horizontal	Vertical
Land Acquisition Costs	PhP500 to PhP1,000	PhP1,000 to PhP10,000
Raw Materials / Labor Costs	PhP500 to PhP1,000	PhP25,000 to PhP35,000
Selling Price	PhP500 to PhP1,000	PhP65,000 to PhP100,000
Administrative & Marketing Costs	15% of selling price	15% of selling price
Margins	65%	45%

Source: SLI

Recurring income portfolio

SLI owns Sta. Lucia East Grand Mall which serves nearby cities of Marikina, Antipolo, Pasig and Rizal province. The mall currently has 115,492sqm of leasable space, of which 95% is leased by 453 tenants. Additionally, SLI has completed a two-storey wing with GFA of 40,000sqm and GLA of 12,600sqm. It provides 20,000sqm of parking for residential and retail clients. Sta. Lucia Mall acts as a one-stop destination for family and groups of friends. The mall has amenities such as clinics, clothing stores, gyms, playgrounds and food outlets. The mall has been expanded into three interconnected buildings to ensure that all market segments are covered.



Source: SLI

SLI Business Center

SLI is currently constructing the Sta. Lucia Business Center (SLBC) in Pasig City, which is slated to be a 6-storeys BPO/Office and Retail Building. It is connected to LRT 2 expansion and SL Mall. We expect this development to add PHP100-120m per annum to the top line in earliest 2019.

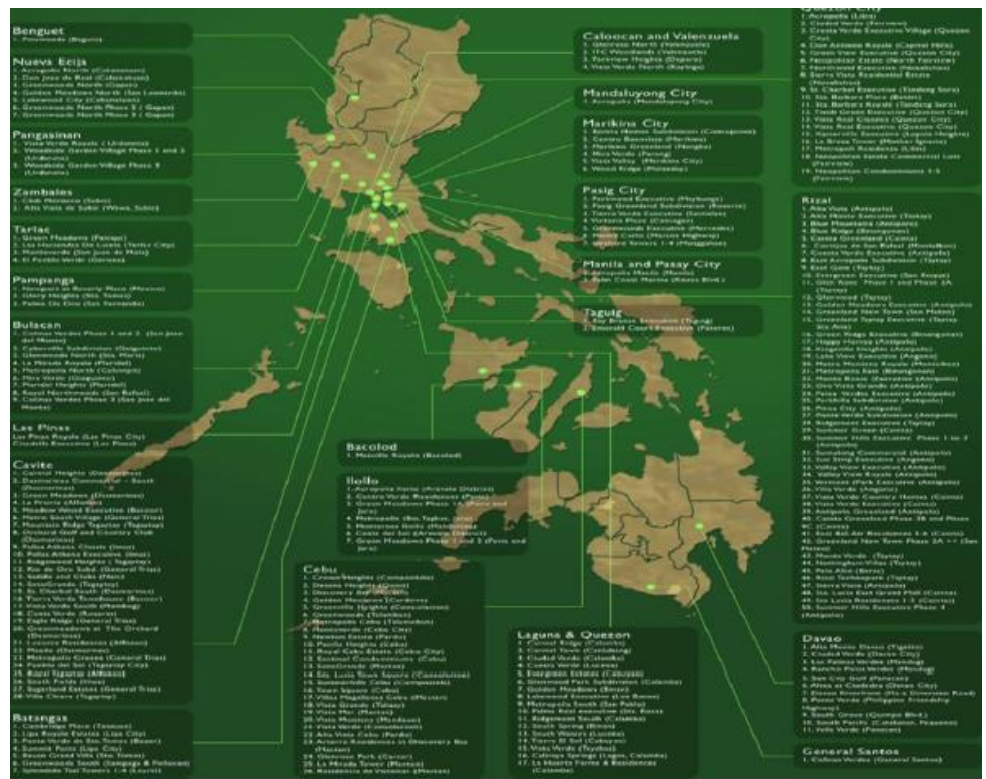


Source: SLI

SLBC	Details
Office Space	3rd to 6th floor GFA: 2,534.35 sqm per floor
Retail Space	Ground & 2nd floor
Parking	2-level basement parking
PEZA	For approval

Future developments

SLI plans to take advantage of its current balance sheet and broaden its capital base to accumulate land bank in Quezon City, Rizal, Laguna, Batangas, Iloilo, and Davao and accelerate land lot development within its budget capex program. The estimated value of the portfolio is PhP24B.



Source: SLI

Green Meadows Iloilo

Green Meadows is Iloilo’s first lake community. Located within the outskirts towns of Pavia and Jaro, Green Meadows is designed around Lake Victoria and it boasts unique features and amenities such as the 5-ha man-made lake, ideal for boating, fishing, kayaking and jet ski. SLI started selling this project in 2011 at approximately PhP3,900/sqm and is valued today at PhP7,500/sqm. The project has been 86% sold.



Source: SLI

Details	
Type	Mega Horizontal Estate
Location	Green Meadows Ave, Jaro, Iloilo City
GFA (sqm)	810,000
Selling Price (est.)	PhP7,500/sqm

Source: SLI

Neopolitan Estate

The Neopolitan Condominium, 9 towers of 9-storey buildings nestled at the center of the Business Park. Soon to rise along Mindanao and Regalado Avenues, Neopolitan Condominium offers residential living option right in the center of a growing, fast-paced and easily accessible suburban location. The first Tower has a clubhouse, showroom, swimming pool & other essential modern amenities. SLI started selling this project in 2011 at ASP PhP68,000/sqm and today, the project has been 41% sold with latest ASP of PhP83,500/sqm.



Source: SLI

Details

Location	Mindanao and Regalado
Selling Price (est.)	PhP83,500/sqm

Source: SLI

Nasacosta Cove Batangas

Nasacosta Resort & Residences is a resort community. The amenities include a swimming pool area and cocktail lounge. The development is designed to be a vacation home with a sea view that offers a more luxurious option to retirees and wealthier individuals. SLI started selling this project in 2016 at selling price of PhP8,500/sqm and today has been 97% sold with latest selling price of PhP12,500/sqm.



Source: SLI

Details

Type	Resort Residence
Location	Nasugbu, Batangas
GFA (sqm)	216,787
Selling Price (est.)	PhP12,500/sqm

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Potential Catalyst

Bullish on the property sector: Low interest rate environment

Unlocking balance sheet potential

As compared to its peers, SLI's balance sheet is under-levered at 0.6x P/B 2018E compared to the industry average of 0.8x. Even so, SLI is able to deliver consistently strong 50% gross margins and 35% EPS growth from FY14-17. The company plans to spend PhP10.8B over the next 4 years to acquire and develop land banks surrounding Metro Manilla. We project SLI to utilize both debt and equity funding to achieve this objective, while maintaining gearing below 1x.

Strategic location enhances current project portfolio value

With PhP9.0tn of government infrastructure rollout (highways and public transportations systems) over the next 5 years cradling SLI's land parcels, we expect a 20% value premium over SLI's current property valuation, which we have not priced-in into our model

Focused on Profitability

SLI specializes on horizontal land development which has traditionally commanded a 20 percentage points higher margin than vertical development (Gross Margins on horizontal and vertical developments are roughly 65% and 45%, respectively) due to lower overhead and higher turnover value. Horizontal development represents 75.3% of real estate sales and we expect this to grow to 84.3% in FY20E.

Visible bottom-line growth over the next 3 years: SLI's capex-driven expansion strategy has been in the works for the past 4 years. By taking on a larger quantum of order books in key growth-centric cities, we expect top-line revenue and EPS to grow by 32% and 23% CAGR, respectively, from FY18-21E. SLI currently trades at 0.7x P/B vs. the industry average of 1.7x.

Understated asset values: SLI has conservatively kept its investment properties and strategic land bank at book value. We estimate that the company currently trades at 50% discount to its end-2018 RNAV based on our conservative model. Note that we have yet to price-in the potential value uplift of projects proximate to ongoing government infrastructure (20% potential uplift) and its investment properties (50% value uplift).

Valuation metrics

EBITDA	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Horizontal	1,981	2,290	1,816	1,363	996	1,095	848	916	501
Vertical	722	774	687	558	519	553	1,377	58	0
Total	2,703	3,064	2,503	1,921	1,515	1,648	2,225	974	501
Book value of SLI Business Center			5,653						
Annual increment rate to selling price			3%						
Discount rate			7.3%						
NAV 2018E			17,526						
NAVPS			1.96						
Disc. to NAV			50%						
Price Target			1.40						

Based on our current assumptions, we think that SLI should be trading at PhP1.40/sh, equivalent to a 40% upside from the current price. We think that SLI is undervalued given the historical growth rates and the prospects moving forward.

Peer Comparison

Industry Comp. - Region				
FY Ending 12/31	Mkt Cap (PhP Mn)	PER (x) 2018E	EV/EBITDA (x) 2018E	Div. Yld (%) 2018E
SMPH	1,046,863	33.3	21.6	0.7
ALI	664,095	23.0	14.9	1.1
MEG	157,973	11.0	10.7	1.1
RLC	106,474	14.4	10.4	1.7
VLL	81,836	8.1	10.4	2.1
FLI	43,650	7.0	10.8	3.4
GERI	14,611	11.1	-	-
Industry Average		14.4	12.8	2.3

Source: Bloomberg