

BUY

TP: PHP 1.74

▲ 46.2%

Sta. Lucia Land

SLI PM

Delivering Steady Results; Unlocking Value

Sta. Lucia Land (SLI) continues to deliver steady set of results with 9M18 revenue and net profit growing by 12.9% and 5.2% YoY, respectively, on the back of stronger Real Estate Sales. We remain positive on SLI's growth story and expect EPS to grow by 20.4% CAGR for FY18-21E. In addition, we upgrade our end-2019E RNAV by 26.8%, supported by independent valuation by Santos Knight Frank. Reiterate BUY with an upgraded TP PHP1.74/shr.

- ➔ **Results largely in line; actual recognition lagged marketing sales:** 9M18 revenue +12.9% YoY to PHP3,064m, gross profit +11.5% YoY to PHP2,023m, net profit +5.2% YoY to PHP737m, driven by stronger Real Estate Sales (9M18 marketing sales grew by 29.1% YoY). 9M18 Net profit margin fell to 24.0% from 25.8% (9M17) due to added interest costs with PHP5.0bn debt (guided since initiation) taken on in 1H18.
- ➔ **Lean balance sheet to ensure the company remains nimble:** As of 3Q18, SLI's balance sheet remains unburdened at 0.8x leverage (0.7x as end-FY17; covenant limit at 1.5x), leaving substantial expansion (~PHP10bn) headroom to finance the est. ~PHP14.1bn GDV worth of project pipeline over the next 5 years.
- ➔ **Expected asset value uplift:** In our initiation, we asserted SLI's property portfolio is well positioned to benefit from the ongoing government infrastructure build-up. We note that our sentiments are largely in line with an independent valuation study by Santos Knight Frank. We revised our end-2019E RNAV up by 26.8% to reflect the asset value uplift and ~PHP5.7bn land bank (at book value) acquired over FY18.
- ➔ **Reiterate BUY; Upgrade TP PHP1.74/shr:** We think SLI is attractively valued at 0.7x P/B vis-à-vis Phils Developers of 1.5x. We have updated our model with refined ASP growth assumptions on pipeline projects and tempered revenue recognition expectations to reflect SLI's conservative accounting treatment. SLI currently trades at 52.0% discount to our updated end-2019E RNAV, applying a discount rate of 8.0%.

Updated Financial Highlights

Y/E 31 Dec (PHP'm)	FY17A	FY18E	FY19E	FY20E	FY21E
Revenue	2,944	4,028	5,583	6,887	7,604
Net profit	818	938	1,341	1,716	1,975
Outstanding shares (M)	8,946	8,946	10,796	10,796	10,796
EPS (PHP)	0.091	0.105	0.124	0.159	0.183
EPS growth (%)		14.7%	18.4%	28.0%	15.1%
NPM (%)	27.8%	23.3%	24.0%	24.9%	26.0%
ROE (%)		6.2%	6.9%	8.1%	8.6%
BV per share	1.60	1.70	1.79	1.95	2.14
P/B (x)	0.7	0.7	0.7	0.6	0.6

Source: Company, SCCM Research; as of 04 Dec 2018; Our model prices in equity raising in FY19E

5 December 2018


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PRICE CLOSE (04 Dec 2018)

PHP 1.19

MARKET CAP

PHP 10.6 bn

USD 203 m

SHARES O/S

8,946 m

FREE FLOAT

17%

3M AVG DAILY VOLUME/VALUE

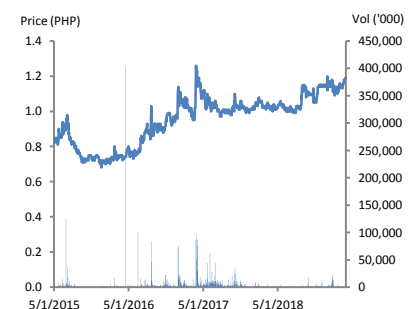
PHP 0.5 m

52 WK HIGH

PHP 1.20

52 WK LOW

PHP 0.99

Target Price PHP 1.74


9M18 Result Review

Robust Real Estate sales growth driven by rigorous marketing effort

- Topline growth still on track:** For 9M18, the company saw revenues and gross profit grow by 12.9% and 11.5% YoY. 9M18 topline growth was mainly driven by Real Estate sales that grew by 24.0% YoY to PHP1.97bn, largely due to more attractive terms offered to customers such as discounts and longer payment terms.
- 9M18 rental income fell 15.3% YoY to PHP676m due to reconsiderations of rental escalation for lease renewals. SLI prioritized on retaining tenants and maintaining high occupancy (95% as of 3Q18) in face of fiercer competition. However, we expect the downward pressure on rentals to become muted with the completion of the LRT 2 extension in 2019, which will improve foot traffic and tenant interest of the mall.
- Ramp-up in interest costs dampen bottom-line growth:** 9M18 interest expense grew by 49.4% YoY as a result of the additional PHP5.0bn facility taken on to partially finance pipeline project development and refinance PHP2.5bn of short-term loans. However, 9M18 net profit still grew by 5.2% YoY despite added interest burden, noting the impact appears more muted than expected (9M18 profit margin of 24.0% vs. 20.6% in our FY17 result note).

In addition, SLI land lots remains very attractive to OFWs who are less affected by the ongoing Peso depreciation

We have moderated rental income step-up assumptions in our model to err on the conservative side

Moving forward, we expect net profit margins to gradually improve in tandem with rising real estate sales being recognized; offsetting the added interest burden

Fig 1 - 9M18 Results Highlights

In PHP'm	9M18	9M17	YoY(%)
Revenue	3,064	2,713	12.9
Gross Profit	2,023	1,815	11.5
Gross Profit Margin	66.0%	66.9%	
Operating Profit	1,423	1,227	15.9
Operating Profit Margin	46.5%	45.2%	
Net Profit	737	701	5.2
Net Profit Margin	24.0%	25.8%	

Source: SCCM Research, Company, *Estimates updated to reflect tempered revenue recognition

- Marketing sales lag actual recognition:** 9M18 saw slower-than-expected revenue recognition, due to conservative accounting treatment. As such, we are adjusting our FY18E estimates to reflect the tempered revenue recognition, while expecting FY18E net profits to still be growing at a respectable 14.7% YoY from FY17. We note the adjustment due to accounting treatment rather than a fundamental slowdown of SLI's core business, given that **9M18 marketing sales grew by 29.1% YoY to PHP4.84bn (exceeding the 15% growth guided for FY18E) from PHP3.75bn in 9M17**. In addition, management has guided for a stronger last quarter in 2018.

SLI recognizes revenues from project sales when the company has collected >=20% of the property value

Fig 2 - 3Q18 Results Highlights

In PHP'm	3Q18	3Q17	YoY (%)	2Q18	QoQ (%)	FY18E*	%FY18E
Revenue	1,101	955	15.4	1,018	8.2	4,028	75.3
Gross Profit	793	651	21.8	627	26.4	2,585	77.4
Gross Profit Margin	72.0%	68.2%		61.6%		64.2%	
Operating Profit	468	400	17.0	477	(2.1)	1,880	75.0
Operating Profit Margin	42.5%	41.9%		46.9%		46.7%	
Net Profit	229	223	2.6	243	(5.8)	938	76.6
Net Profit Margin	20.8%	23.3%		23.9%		23.3%	

Source: SCCM Research, Company, *Estimates updated to reflect tempered revenue recognition expectations

Property/Project Portfolio Update

Prime Land Bank continues to be the key catalyst

- Corroborated by Santos Knight Frank:** In our initiation report dated 01 Mar 2018, we asserted that SLI is well-positioned to benefit from the PHP9.0tn government infrastructure rollout over the next 5 years cradling SLI's development pipeline. Management commissioned an independent study to have an updated understanding of the estimated value of the company's assets with taking the impact of surrounding infrastructural development into consideration.
- Value proposition deepens:** Correspondingly, we have updated our end-2019 RNAV valuation assumptions. Specifically, we have refined our value uplift assumption on every of SLI's 80+ projects in SLI's portfolio. We will be examining SLI's assets by regions and highlighting anchor assets in each of these specific regions.

National Capital Region (NCR)

- Sta. Lucia Mall Complex** is the crown jewel of SLI's asset portfolio. Nestled within the heart of Philippine's capital, the complex houses a 103,250sqm (NLA) mall, a 21,607sqm (GFA) BPO business center (due for launch in 2019) and 5 condominium towers that acts as natural residential catchments to the mall. The site is located at the corner Marcos Highway and Felix Avenue.
- Sta. Lucia East Grand Mall** is the anchor investment property of Sta. Lucia, contributing bulk of rental income, that we kept at book value during our initiation RNAV calculations. Following the near-completion of the LRT 2 extension, that will be connected directly to the mall, we expect a value uplift of ~15% to the current appraised value of PHP6.99bn.

The Santos Knight Frank report dated Nov 2018, concludes that the appraised NAV/shr is PHP3.55 with a FY19E NAV/shr of PHP3.90

The mall is well-located next to Marikina-Infanta Highway, making it a choice destination for the surrounding residential catchment and beyond esp. w/ the completion of the LRT 2 extension

Fig 3 - Flagship Property – Sta. Lucia East Grand Mall



Type: Investment Property

Launch Date: 1991

Location: Cainta, Rizal and Pasig City

GFA: 103,250sqm

Occupancy as at Nov 2018: 95.0%

Source: SCCM Research, Company

- Sta. Lucia Residence 1** is a 21-storey high rise condominium, the first of the 5 residential towers, within the complex with 269 residential units. The site is 0.5km southwest of Marcos Highway and 1.3km southeast of LRT 2 Santolan Station.
- SLI started selling the project in 2011 at ASP PHP80,000/sqm and as of Aug 2018, the project has been 84% sold (100% completed) with the latest ASP of PHP102,500/sqm (~3.6% CAGR in price appreciation). In our updated model, we assume a ~10.0% growth in ASP.

Fig 4 - Vertical Project – Sta. Lucia Residence 1 (Monte Carlo)



Type: Vertical

Launch Date: 2011

Location: Cainta, Rizal and Pasig City

GFA: 1,930sqm

Estimated ASP: PHP86,000-119,000/sqm

Source: SCCM Research, Company

- **Sta. Lucia Residence 2** is a 26-storey high-rise condominium, the second of the 5 residential towers, within the complex with 101 residential units, 97 condotel units and 80 serviced apartment units. The site is 0.5km southwest of Marcos Highway and 1.3km southeast of LRT 2 Santolan Station.
- SLI started selling the project in 2016 at ASP PHP80,000/sqm and as of Aug 2018, the project has been 47% sold (84% completed) with the latest ASP of PHP91,000/sqm (~6.6% CAGR in price appreciation). In our updated model, we assume a ~10.0% growth in ASP.

Fig 5 - Vertical Property – Sta. Lucia Residence 2 (Santorini)



Type: Vertical

Launch Date: 2016

Location: Cainta, Rizal and Pasig City

GFA: 5,575sqm

Estimated ASP: PHP85,000-97,000/sqm

Source: SCCM Research, Company

- **Neopolitan Business Parks** is Sta. Lucia's flagship commercial lots project that will be the site of nine condominium towers where two of it are already erected. It is located near a major mall and site of MRT 7 station.
- Sta. Lucia started selling the project in 1989 as ASP PHP3,100/sqm and as of Aug 2018, the project has been 61% sold (100% Completed) with the latest ASP of PHP45,000/sqm (9.7% CAGR in price appreciation). In our updated model, we assume a 7.0% growth in ASP.

Fig 6 - Flagship Project – Neopolitan Estates



Type: Mega Business Park

Launch Date: 1989

Location: Fairview, Quezon City

GFA: 79,088sqm

Estimated ASP: PHP45,000/sqm

Source: SCCM Research, Company

- **Neopolitan Condominium** is the flagship condominium located within the business park. The site is 3km northwest from Fairview Center Mall and National College of Business and Arts Campus.
- SLI started selling the project in 2012 at ASP PHP80,000/sqm and as of Aug 2018, the project has been 51% sold (100% completed) with the latest ASP of PHP89,500/sqm (~1.9% CAGR in price appreciation). In our updated model, we assume a ~7.0% growth in ASP.

Fig 7 - Vertical Project – Neopolitan Condominium



Type: Vertical

Launch Date: 2012

Location: Fairview, Quezon City

GFA: 103,250sqm

Estimated ASP: PHP80,000-99,000/sqm

Source: SCCM Research, Company

Calabarzon (Region 4A)

- **Palo Alto Executive Village** is a residential community project with a forest reserve within the estate, located along the south side of the Marilaque Highway. It consists of 646 residential lots and 18 commercial lots.
- Sta. Lucia started selling the project in 2001 at ASP PHP2,100/sqm and as of Aug 2018, the project has been 56% sold (100% completed) with the latest ASP of PHP5,300/sqm (~5.6% CAGR in price appreciation). In our updated model, we assume a ~6.3% growth in ASP.

For projects in Calabarzon, we assume a 6.3% growth in ASP, in tandem with the expected growth in value of property in Region 4A

Fig 8 - Horizontal Project – Palo Alto



Type: Horizontal

Launch Date: 2001

Location: Teresa, Rizal

GFA: 781,584sqm

Estimated ASP: PHP5,300/sqm

Source: SCCM Research, Company

- **Catalina Lake Bauan** is a project located along the Cavite-Laguna Expressway. SLI started selling the project in 2017 at ASP PHP5,000/sqm and as of Aug 2018, the project has been 4% sold (5% completed) with the latest ASP of PHP8,850/sqm (~26.9% CAGR in price appreciation). In our updated model, we assume a ~6.3% growth in ASP.

Fig 9 - Horizontal Project – Catalina Lake Bauan



Type: Horizontal

Launch Date: 2017

Location: Bauan, Batangas

GFA: 304,847sqm

Estimated ASP: PHP7,100-10,600/sqm

Source: SCCM Research, Company

- **St. Charbel** is a project located along the Cavite-Laguna Expressway. SLI started selling the project in 2017 at ASP PHP6,000/sqm and as of Aug 2018, the project has been 4% sold (5% completed) with the latest ASP of PHP9,000/sqm (~22.5% CAGR in price appreciation). In our updated model, we assume a ~6.3% growth in ASP.

Fig 10 - Horizontal Project – St. Charbel



Type: Horizontal

Launch Date: 2017

Location: Cavite

GFA: 129,803sqm

Estimated ASP: PHP8,000-10,000/sqm

Source: SCCM Research, Company

Mimaropa (Region 4B)

- **Green Peak Heights Palawan** is located along Puerto Princesa's National Highway offers a 180-degree view of the Honda Bay (35mins away). Surrounding developments include the Puerto Princesa International Airport and Robinsons Mall.
- SLI started selling the project in 2015 at ASP PHP5,000/sqm and as of Aug 2018, the project has been ~94% sold (90% completed) with the latest ASP of PHP7,800/sqm (~16.0% CAGR in price appreciation). In our updated model, we assume a ~10.0% growth in ASP.

For projects in Mimaropa, we assume a 10.0% growth in ASP with the completion of the new airport terminal in Puerto Princesa and the soon to be completed road rehabilitation around the city

Fig 11 - Horizontal Project – Green Peak Heights Palawan



Type: Horizontal

Launch Date: 2015

Location: Puerto Princesa, Palawan

GFA: 4,661sqm

Estimated ASP: PHP7,800/sqm

Source: SCCM Research, Company

Central Luzon (Region 3)

- Lakewood City** is a project situated along the southeast side of Emilio Vergara Highway. The property consists of 280 residential lots and 92 commercial lots. Other developments in the area include the College of Immaculate Conception, Nueva Ecija Doctors Hospital and NE Pacific Mall.
- Sta. Lucia started selling the project in 2000 at ASP PHP3,200/sqm and as of Aug 2018, the project has been ~35% sold (100% completed) with the latest ASP of PHP7,200/sqm (~4.6% CAGR in price appreciation). In our updated model, we assume a ~8.0% growth in ASP.

For projects in Central Luzon, we assume an 8.0% growth in ASP in tandem with the 5-year average of the region

Fig 12 - Horizontal Project – Lakewood City



Type: Horizontal

Launch Date: 2000

Location: Cabanatuan, Nueva Ecija

GFA: 107,084sqm

Estimated ASP: PHP6,400-8,000/sqm

Source: SCCM Research, Company

Ilocos (Region 1)

- Woodside Garden Village** is a project located near to the TPLEX Highway. Sta. Lucia started selling the project in 1999 at ASP PHP2,800/sqm and as of Aug 2018, the project has been ~13% sold (95% completed) with the latest ASP of PHP6,300/sqm (~4.4% CAGR in price appreciation). In our updated model, we assume a ~8.3% growth in ASP.

For projects in Ilocos, we assume an 8.3% growth in ASP in tandem with the 5-year average of the region

Fig 13 - Horizontal Project – Woodside Garden Village



Type: Horizontal

Launch Date: 1999

Location: Urdaneta, Pangasinan

GFA: 25,127sqm

Estimated ASP: PHP6,000-6,600/sqm

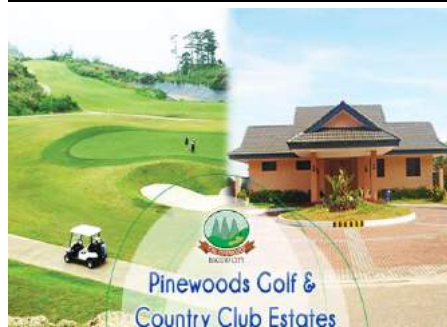
Source: SCCM Research, Company

Cordillera Administrative Region (CAR)

- Pinewoods Golf & Country Estate** is located 1.9km northwest from Marcos Highway and 1km southwest from Asin Road, consisting of 68 residential lots. It is surrounded by tourist attractions in Baguio and developments such as Arisoft game site.
- Sta. Lucia started selling the project in 1997 at ASP PHP8,100/sqm and as of Aug 2018, the project has been ~66% sold (100% completed) with the latest ASP of PHP11,000/sqm (~2.8% CAGR in price appreciation). In our updated model, we assume a ~10.0% growth in ASP.

For projects in CAR, we assume an 10.0% growth in ASP with the completion of the Tarlac-Pangasinan-La Union Expressway (TPLEX)

Fig 14 - Horizontal Project – Pinewoods Golf & Country Club Estates



Type: Horizontal

Launch Date: 1997

Location: Baguio City

GFA: 27,123sqm

Estimated ASP: PHP10,000-12,000/sqm

Source: SCCM Research, Company

Region 7

- **Arterra Residences** consists of 178 condotel units and 108 residential units (at 6th to 20th floor). The site is located at the edge of Mactan Island Cebu where major hotels (such as Coral Point Resort and Shangri-La Mactan) are located and 11.8km away from the new Cebu International Airport.
- SLI started selling the project in 2012 at ASP PHP88,000/sqm and as of Aug 2018, the project has been ~73% sold (100% completed) with the latest ASP of PHP133,500/sqm (~7.2% CAGR in price appreciation). In our updated model, we assume a ~20.0% growth in ASP.

For projects in Region 7, we assume an 20.0% growth in ASP with the completion of the redevelopment of the Mactan Cebu Int'l Airport and the third bridge connecting Mactan Island to Cebu City

Fig 15 - Vertical Project – Arterra Residences



Type: Vertical

Launch Date: 2012

Location: Mactan, Cebu

GFA: 4,929sqm

Estimated ASP: PHP127,000-140,000/sqm

Source: SCCM Research, Company

Region 6

- **La Algeria** consists of 633 residential and 55 commercial lots. It is situated at the northwest corner of Rizal street and Silay-Patag Road and is 7.7km away from Bacolod Airport. It is surrounded by amenities such as Teresita Provincial Hospital, Dona Monserrat High School and Prince Hypermart.
- SLI started selling the project in 2017 at ASP PHP4,600/sqm and as of Aug 2018, the project has been ~31% sold (5% completed) with the latest ASP of PHP9,400/sqm (~43.0% CAGR in price appreciation). In our updated model, we assume a ~8.5% growth in ASP.

For projects in Region 6, we assume an 8.5% growth in ASP in tandem with the 5-year average growth rate in asset prices

Fig 16 - Horizontal Project – La Alegria



Type: Horizontal

Launch Date: 2017

Location: Silay City, Negros Occidental

GFA: 227,775sqm

Estimated ASP: PHP6,300-12,500/sqm

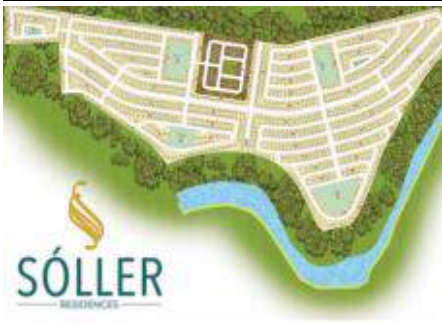
Source: SCCM Research, Company

Davao City – Region 11

- **Soller Mandug** is a new project consisting of 1,554 residential lots and 249 townhouse units. The site is 1.6km west of Mandug Road and 11.3km northwest of Francisco Bangoy International Airport. Some developments surrounding the site also include Marquela Complex (Outlet Mall) and Lapanday Foods Boxplant.
- SLI started selling the project in 2016 at ASP PHP5,500/sqm and as of Aug 2018, the project has been ~31% sold (5% completed) with the latest ASP of PHP6,750/sqm (~10.8% CAGR in price appreciation). In our updated model, we assume a ~10.3% growth in ASP.

For projects in Davao City, we assume an 10.3% growth in ASP in tandem with the 5-year average growth rate in asset prices

Fig 17 - Horizontal Project – Soller Mandug



Type: Horizontal

Launch Date: 2016

Location: Davao City

GFA: 243,680sqm

Estimated ASP: PHP6,500-7,000/sqm

Source: SCCM Research, Company

- **Ponte Verde** is a project located near Davao International Airport. SLI started selling the project in 2013 at ASP PHP8,500/sqm and as of Aug 2018, the project has been ~56% sold (100% completed) with the latest ASP of PHP14,050/sqm (~10.6% CAGR in price appreciation). In our updated model, we assume a ~10.3% growth in ASP.

Fig 18 - Horizontal Project – Ponte Verde



Type: Horizontal

Launch Date: 2013

Location: Davao City

GFA: 155,421sqm

Estimated ASP: PHP11,100-17,000/sqm

Source: SCCM Research, Company

BUY

TP: PHP 1.74

▲ 46.2%

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Company Update

Philippines

Property

Valuation – Maintain BUY; TP PHP1.74

Updated RNAV valuation implies 46.2% upside

- We applied 1) 6.3-20.0% p.a. increment (depending on project location) to ASP on completed percentages of projects, and 2) 8.0% WACC to project cash flows, to arrive at our end-2019 RNAV estimate of PHP2.48 per share. Our RNAV factors the appraised value of Sta. Lucia Grand East Mall and book value of prime land bank inventory (~PHP5.7bn) that the company has acquired over FY18.
- We assigned a 30% discount on the end-2019 RNAV to arrive at our TP of PHP1.74, representing a 46% upside. We think that the discount assigned is fair given that SLI has been trading at ~30% discount to its book value historically.
- We think that SLI is undervalued given that it currently trades at a ~52% discount to our end-2019 RNAV (applying a discount of 8.0%) while offering robust 20.4% CAGR EPS growth from FY18-21E (vs. industry 12.7%).

Our increased WACC (from 7.3% at initiation) reflects the change in the company's capital structure and the risk consideration we assigned given current macro uncertainties and rising i/r environment

Fig 19 - End-2019 RNAV based on current project portfolio

In PHP'm	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Projected EBITDA from Horizontal Projects	1,942	2,138	1,481	1,291	1,336	1,469	1,290
Projected EBITDA from Vertical Projects	468	603	463	398	193	223	184
Combined EBITDA	2,410	2,741	1,945	1,688	1,529	1,692	1,474
Appraised Value of Sta. Lucia Grand East Mall	6,989						
BV of Land Bank	5,725						
Discount Rate Applied	8.0%						
No. of Shares Outstanding ('m)	8,946						
RNAV (End-2019)	22,216						
RNAV per share (PHP)	2.48						
Current Discount to RNAV	52.0%						
Target Price (30% Disc to RNAV)	1.74						
Upside From Target Price	46.2%						

Source: SCCM Research

- **Unlocking balance sheet potential:** Over the past year, the company has been actively acquiring prime land banks to extend order books visibility in the long-term, largely funded by debt, which is only possible thanks to SLI's under-levered balance sheet. We expect developmental potential of acquired land banks to be unlocked in the next few years, extending SLI's value case.
- **More value to be unlocked:** Our current estimates only account for Sta. Lucia Grand East Mall at appraised value which underestimates the estimated future value of PHP8.0bn (will add ~PHP0.11/share to our RNAV estimates) post completion of the LRT 2 extension that is directly connected to the mall. In addition, we also kept SLI's land bank at book value which does not price in the developmental value-add and future land price appreciation. I.e. **our current RNAV estimates are still conservative despite the step up in ASP assumptions.**

As of 3Q18, total leverage only stands at 0.56x and net-debt-to-equity stands at 0.77x implying significant debt headroom for further growth

Santos Knight Frank puts the current appraised value of the mall at PHP6.99bn and projects the future value of the mall at PHP8.04bn

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Company Update

Philippines

Property

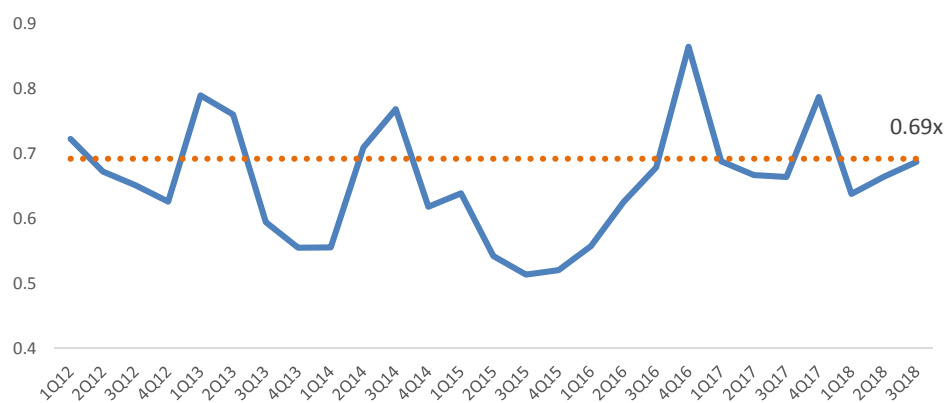
Fig 20 - TP Sensitivity Analysis – Discount to RNAV against Applied WACC

	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%
20%	2.06	2.02	1.99	1.95	1.92	1.89	1.86
25%	1.93	1.90	1.86	1.83	1.80	1.77	1.74
30%	1.80	1.77	1.74	1.71	1.68	1.65	1.63
35%	1.67	1.64	1.61	1.59	1.56	1.54	1.51
40%	1.54	1.52	1.49	1.46	1.44	1.42	1.40

Source: SCCM Research

- **Current P/B provides valuation support:** SLI currently trades at 0.70x P/B (at historical average), which deeply underestimates the true value of the company given that the market is valuing SLI's land banks and investment property at cost. In addition, the company trades at 0.7x, below the industry average of 1.5x, which lends further comfort to our recommendation.

We think that the current valuation of SLI is at substantially limits the idiosyncratic downside risk

Fig 21 - SLI Historical P/B – Average 0.69x

Source: Bloomberg, SCCM Research

- **SLI offers a robust EPS growth profile of 20.4% CAGR from FY18-21E:** SLI currently offers the most tangible growth story (vs. industry offering 12.7% EPS CAGR) and ROE expansion story (ROE grew to 6.3% LTM vs. 5.7% in FY17) and will likely continue to in the next 3 years with the company's renewed access to the debt.

SLI's relatively low ROE is a result of it taking on debt only in the past three years. We expect ROE to improve progressively in tandem with prudent use of leverage

Fig 22 - SLI Comparables

Name	Ticker	Mkt Cap (USD'm)	P/B (x)	ROE (%)	Net Debt/Equity (x)	Net Profit Margin (%)	3Y EPS CAGR (%)
Sta. Lucia land	SLI.PM	203	0.72	6.3	0.77	23.2	20.4
Ayala Land	ALI.PM	11,551	3.58	17.6	0.77	19.0	16.6
Century Property Group	CPG.PM	91	0.29	4.1	0.90	10.8	N.A.
SM Prime Holdings	SMPH.PM	19,058	4.04	12.0	0.56	30.3	14.5
Robinson Land	RLC.PM	2,100	1.23	10.0	0.73	26.1	4.4
Vista Land & Lifescapes	VLL.PM	1,294	0.77	11.8	0.80	26.5	N.A.
Megaworld Corp	MEG.PM	2,958	0.98	9.3	0.37	29.2	12.6
Filinvest	FLI.PM	671	0.56	9.5	0.80	31.3	8.0
Industry Average			1.52	10.1	0.71	24.5	12.7

Source: Bloomberg, SCCM Research; Prices closing as of 04 Dec 2018

BUY

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▲ 46.2%

Sta. Lucia Land

SLI PM

Company Update**Philippines**

Property

Updated Financial Statements

- The updated core assumptions for the P&L are as follows:
 - Our Real Estate sales growth assumption is slightly dampened to reflect the lag between marketing sales and actual collection;
 - Our Model assumes FY19E, FY20E and FY21E Marketing Sale to be PHP4.7bn, PHP6.0bn, PHP6.7bn respectively;
 - Our lease income growth assumption is dampened (from 5% annual step-up to 2% annual step-up) to reflect the reconsideration of rental escalations for renewals, mitigated by the pending opening of LRT 2 extension;
 - We adjusted our net profit margins up given the less-than-expected impact of increased interest costs on bottom-line;
 - Our updated net profit and EPS is expected to grow by 28.2% and 20.4% CAGR from FY18-21E (vs. 29.2% and 21.4% in our initiation estimates).

Our updated model expects ~PHP4.7bn in marketing sales for FY19E which is conservative given that 9M18 marketing sales have already reach PHP4.8bn

Fig 23 - Consolidated P&L

Y/E 31 Dec (PHP'm)	FY17A	FY18E	FY19E	FY20E	FY21E
Operating Revenue					
Real Estate Sales	2,108	3,205	4,605	5,849	6,501
Other Revenue					
Lease Income	442	390	502	515	528
Other Income (Commission & Construction)	394	432	476	523	575
Total Revenue	2,944	4,028	5,583	6,887	7,604
		36.8%	38.6%	23.4%	10.4%
Operating Expenses					
Real Estate COGS	(861)	(1,442)	(2,072)	(2,632)	(2,925)
Gross Profit	2,083	2,585	3,510	4,255	4,679
<i>Gross Profit Margin</i>	70.8%	64.2%	62.9%	61.8%	61.5%
Other Operating Costs					
Overhead & Marketing Costs	(454)	(526)	(915)	(1,258)	(1,534)
Depreciation	(171)	(179)	(190)	(204)	(221)
EBIT	1,459	1,880	2,405	2,792	2,924
<i>EBIT Margin</i>	49.5%	46.7%	43.1%	40.5%	38.4%
Interest Income from Mortgage Payments	160	176	194	213	234
Interest Expense	(488)	(716)	(683)	(554)	(336)
Tax Expense	(313)	(402)	(575)	(735)	(847)
NIAT	818	938	1,341	1,716	1,975
Net Profit Margin	27.8%	23.3%	24.0%	24.9%	26.0%
Net Profit Growth		14.7%	42.9%	28.0%	15.1%

BUY

TP: PHP 1.74

▲ 46.2%

Sta. Lucia Land

SLI PM

Company Update

Philippines

Property

No. of shares	8,946	8,946	10,796	10,796	10,796
EPS	0.091	0.105	0.124	0.159	0.183
EPS Growth		14.7%	18.4%	28.0%	15.1%

Source: Company, SCCM Research

- Our core assumptions for the balance sheet remains unchanged since initiation. We still expect SLI to raise PHP2.775bn through equity issuance in effort to keep gearing manageable below 1.0x.

Fig 24 - Consolidated Balance Sheet

Y/E 31 Dec (PHP'm)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash	626	1,785	3,307	4,089	3,624
Trade Receivables	2,687	3,695	5,446	7,570	9,383
ST Investments	16,028	16,842	17,168	16,854	16,203
Other Current Assets	2,840	2,840	2,840	2,840	2,840
Current Assets	22,181	25,162	28,761	31,352	32,049
PPE	56	63	78	98	116
Long Term AR	1,500	1,500	1,500	1,500	1,500
Investment Properties	5,158	5,164	5,235	5,362	5,513
LT Investments	878	878	878	878	878
Other non-current assets	35	35	35	35	35
Non-Current Assets	7,626	7,640	7,726	7,873	8,042
Total Assets	29,807	32,802	36,487	39,225	40,091
Trade Payables	2,992	4,647	6,606	8,434	9,349
OD & ST Debt	5,475	2,975	1,475	975	1,775
Tax Payable	0	402	575	735	847
Customer Deposits	1,223	1,223	1,223	1,223	1,223
Other ST Liabilities	46	46	46	46	46
Current Liabilities	9,737	9,294	9,925	11,414	13,240
LT Debt	5,040	7,540	6,478	6,011	3,076
Deferred Tax	718	718	718	718	718
Other LT Liabilities	2	2	2	2	2
Non-Current Liabilities	5,760	8,260	7,198	6,731	3,796
Total Liabilities	15,497	17,554	17,123	18,145	17,036
Share Capital + APIC	11,126	11,126	13,901	13,901	13,901
Treasury Stock	(740)	(740)	(740)	(740)	(740)
Others	462	462	462	462	462
Retained Earnings	3,462	4,400	5,741	7,457	9,432
Total Equity	14,310	15,248	19,364	21,080	23,055
Total Liabilities & Equity	29,807	32,802	36,487	39,225	40,091

Source: Company, SCCM research

Appendix

Philippine property market expected to remain resilient into 2019

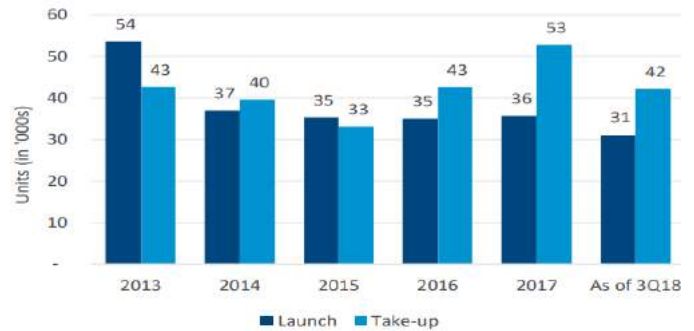
- Philippines residential property market holding up well as of 9M18:** The property market appears resilient with property prices growing ~3-5% QoQ; rents growing by ~1% QoQ; and residential launches take-up remaining strong for 3Q18. Colliers expect continued resilience into 2019 albeit at a more tempered rate. Colliers note that the 150bps hike has not had an immediate impact on the domestic markets as banks are still maintaining competitively low rates.

Fig 25 - Comparative 3BR Residential Capital Values

Location	Q2 2018	Q3 2018	% Change (QoQ)	Q3 2019F	% Change (YoY)F
Fort Bonifacio	118,000-	124,000-	5.0%	127,000-	3.0%
	252,000	264,000		272,000	
Makati CBD	121,000-	125,000-	3.8%	129,000-	2.8%
	301,000	313,000		322,000	
Rockwell Center	199,000-	208,000-	2.9%	215,000-	3.2%
	246,000	250,000		258,000	

Source: Colliers International Philippines Research

Fig 26 - Metro Manilla Launched & Take-up (in thousands)



Source: Colliers International Philippines Research

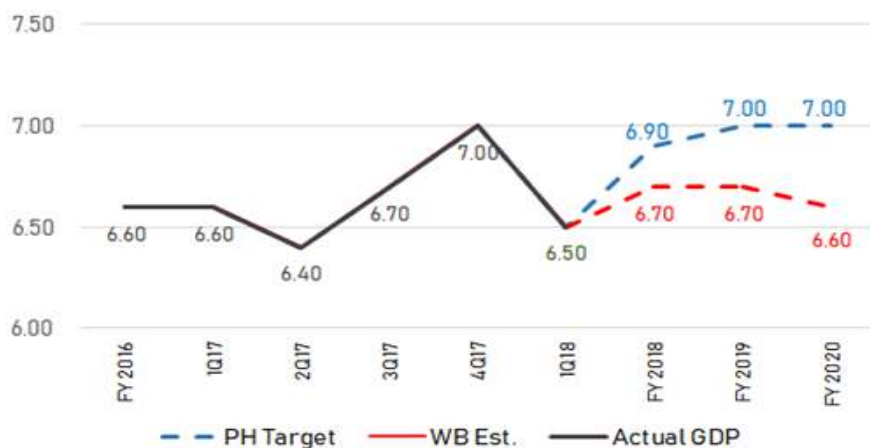
- Government infrastructure expansion in full swing:** For 9M18 Infrastructure and other capital outlays amounted to P571bn, 7.20% higher than budgeted. The figure is also almost +46% YoY versus the P391bn spent on infrastructure spent in 9M17. Some of the infrastructure projects completed during the period include DPWH's road infrastructure projects and other local infrastructure projects under the Bangsamoro Regional Inclusive Development for Growth and Empowerment Program of the Autonomous Region in Muslim Mindanao. **The continued prioritization of infrastructural development will be a long-term boon to domestic developers, particularly players like SLI with strategic land banks.**

Tempered 2019 GDP growth expectations

- 6.5-7.0% GDP growth for 2019 expected:** Given PH's young demographics, steady inflows of OFW & BPO remittances, ramp-up in infrastructure development, the consensus of the street remains cautiously optimistic. However, think-tanks are wary of increasing macro-uncertainty surrounding escalation trade war tensions. The consensus growth expectation is approximately 6.5-7.0% with Moody's expecting 6.0-7.0%, the Development Budget Coordination Committee (DBCC) expecting 6.5-6.9% and World Bank projecting 6.7%.
- Government is stepping-up:** Domestically, the government is seeking to increase household consumption, via rice tariffs, implementation of social mitigating measures under TRAIN law, and policy intervention in education & labor sectors, lending some support to growth expectations. While tempered growth is expected for PH, it is still positioned to be one of the fastest growing economy in the region.

High domestic inflation, weakening Peso are also cited as risk concerns into 2019

Fig 27 - GDP Growth vs. Gov't target, World Bank estimates (in %)



Source: DBCC, World Bank, Regina Capital

Cautiously optimistic on peso outlook

- Sequential inflation appears to be moderating:** With rice prices stabilizing, price momentum moderating across other food categories, power rates falling, oil prices declining and the PHP returning to a recovery trend, inflation rates appear to be peaking in Oct. However, BSP officials continue to emphasize that they will take all further policy action as needed to anchor inflation expectations and reduce risks to the inflation target including those from FX volatility.
- BSP has hiked policy rates by 175bps YTD:** Policymakers noted the sequential hikes were necessary to tame upside risks to inflation outlook. Risks surrounding inflationary pressures and/or PHP volatility could prompt another +25bps to policy rates before 2018 ends. Given that the Peso has seen some form of recover, it could be the market signaling that the impact of trade-war has largely been absorbed and overdone at this point.

BSP's inflation forecast for FY18 was revised up to 5.3% from 5.2% but 2019 inflation was revised down from 4.3% to 3.5%

Fig 28 - Philippines Interest rate vs. Inflation Rate (2009-Sept 2018)



Source: BSP, Regina Capital

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