

# SLI

**Sta. Lucia Land, Inc.**

Sector	Property
Subsector	-

## Company Statistics

<b>Rating</b>	<b>BUY</b>
<b>Target Price (Php)</b>	<b>1.25</b>
Share Price (10-13-2015)	0.74
Upside Potential	+68.91%
Shares Outstanding (M)	8,546.4
Market Cap (Php M)	6,324.3
Free Float	12.80%
52-Week High (Php)	1.02
52-Week Low (Php)	0.64
YTD Performance	-7.5%

## Company Background

Sta. Lucia Land, Inc. (Ticker: SLI) is a real estate company with over 10,000 hectares of land developed and more than 200 projects. The company is primarily engaged in real estate development and sale of residential lots, townhouses, condominiums and condotels.

## Top Shareholders

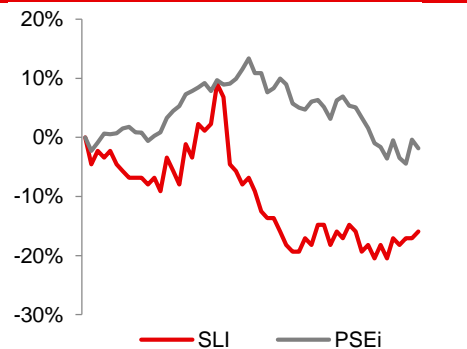
<b>Name</b>	
Sta. Lucia Realty & Development	87.18%
Vicente R. Santos	0.01%
Exequiel D. Robles	0.01%

*As of October 13, 2015*

## Research Analyst

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## 12-Month Performance vs. PSEi



# Undervalued based on NAV

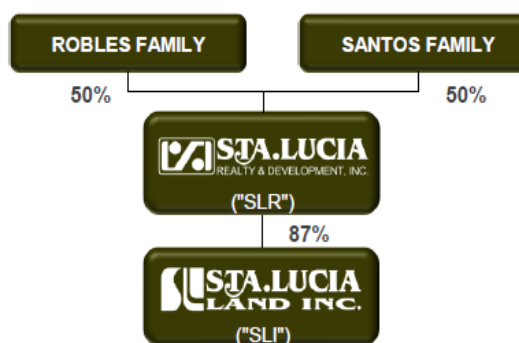
## Company Overview

Sta. Lucia Land, Inc. (SLI) and Sta. Lucia Realty Development, Inc. (SLR) is one of Philippines' largest real estate companies with over 10,000 hectares of land developed and more than 200 development projects. As one of the pioneers in the real estate industry, the group has established a reputable and recognized a brand name nationwide. For over 40 years, the company has been successful in horizontal residential developments, housing construction, marketing and mall operations.

The group began as a subdivisions developer in 1972 under the name Buen-Mar Realty. Now, the company has diversified its projects to include the development and sale of residential lots, townhouses, condominiums and condotels (condominium hotels). For its residential projects, the SLI usually adopts a joint venture business model where the company enters into Joint ventures with land owners for the development of raw land into future project sites.

The shares were first listed in 2007 when it underwent a backdoor listing through Zipporah Realty Holdings, Inc.

## Corporate Structure


*Source: SLI Bond Prospectus*

Sta. Lucia Land, Inc., the listed entity, is 87%-owned by the Santos and Robles families through Sta. Lucia Realty and Development (SLR).

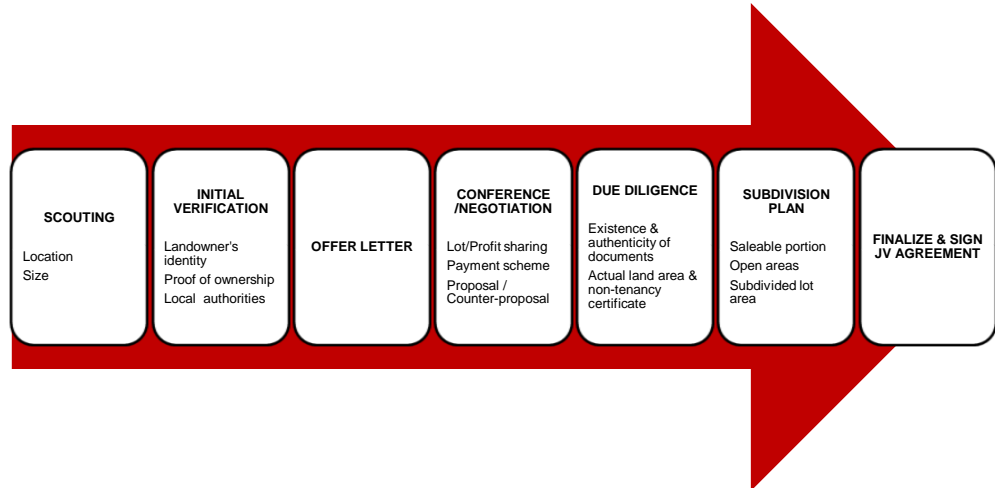
## Financial and Valuation Summary

<b>FY Ending 12/31</b>	<b>2011A</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>
Revenue (in Php M)	1,442	1,793	1,327	2,296
Gross Profit (in Php M)	962	882	798	1,267
Op. Income (in Php M)	533	468	435	784
EBITDA (in Php M)	634	495	447	812
Net Income (in Php M)	359	311	300	549
EPS (in Php)	0.03	0.03	0.03	0.07
Price-to-Earnings (x)	21.8	22.7	20.7	11.4
Price-to-Book (x)	0.69	0.60	0.52	0.58
Return on Equity	3.16%	2.65%	2.47%	4.56%
Return on Assets	2.39%	1.96%	1.76%	3.10%
Dividend Yield	1,442	1,793	1,327	2,296

*Source: ABCSI Estimates, Bloomberg, Company Data*

**Business Summary**
**Sta. Lucia Land, Inc.**

Sta. Lucia Land, Inc. (SLI) is primarily engaged in the sale and development of residential, commercial, and retail properties. The company has continued to expand its horizontal developments which remain to be its core business and begun to diversify into vertical developments, housing construction, marketing services and commercial lot sales and leases. As of 1H15, real estate sales accounts for 62-63% of SLI's total revenues.

**Process Flow**


Source: SLI Bond Prospectus

Under the JV model, SLI is allocated either the developed lots or the proceeds from the sale of the units based on pre-agreed distribution ratio. According to management, SLI's share usually ranges around 50-60% of the developed lots. With regards to land development and marketing costs, various structures are in place. In some agreements, SLI nets the incurred marketing and advertising costs from the gross sales of real estate products sold. Management estimates that raw land values post-development typically increase by 800-1000% from its previous value.

## Operating Segments

SLI operates in the following segments:

1. **Residential Projects** – these projects consists of residential lots and housing units for sale complete with facilities and amenities. For these projects, SLI adopts a Joint Venture (JV) Business Model where the company enters into JV arrangements with land owners for the development of raw land into future project sites. According to management, SLI typically leads the arrangement with a 50-60% share of the total project.
  - a. Horizontal Developments
    - i. Residential Lots
  - b. Vertical Developments
    - i. Townhouses
    - ii. Condominiums
    - iii. Condotels
2. **Commercial Properties** – sales and leases of malls and commercial lots.
3. **Services** – SLI offers services such as housing construction to lot buyers, marketing services, and in-house financing facilities.

## Residential Development



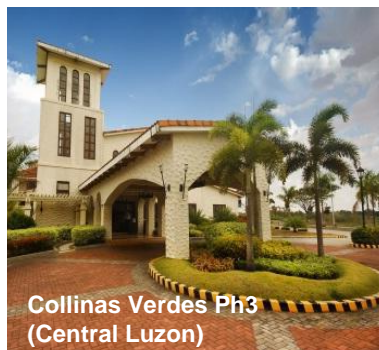
**Arterra (Cebu)**

With over 40 years of operations, SLI has established a reputable and recognized a brand name nationwide. SLI is widely known in the industry for its residential development business. These projects are positioned in prime locations where employment, educational, commercial, and recreational facilities are highly accessible. SLI also situates its projects where majority of its target market are located.

Its main client base is the fast growing middle class in emerging cities outside Metro Manila which include OFWs and SME owners. In terms of geographical breakdown, most of its projects are located in South Luzon (50.03%), followed by Central Luzon (17.54%), NCR (10.35%), Cebu (8.25%), Iloilo (4.86%), CAR (1.98 %), Pangasinan (0.36%), General Santos (0.11%) and Palawan (0.08%).



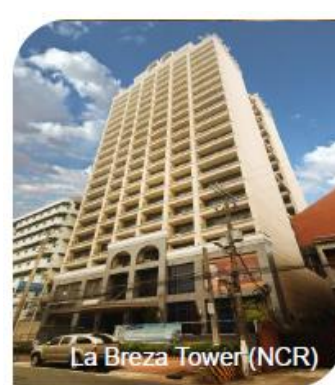
**Bauan Grand Villa (Batangas)**



**Collinas Verdes Ph3 (Central Luzon)**

A bulk of SLI's real estate sales come from SLI's horizontal development projects which consists of lots for sale in gated subdivisions complete with facilities and amenities. With the growing market and favorable economic conditions, the company expects the horizontal residential housing and medium rise housing market to continue to be strong. SLI is currently developing 33 residential subdivisions projects involving 10,939 units. Majority of horizontal residential development are located in South Luzon, while Central Luzon, Cebu, Iloilo and Davao.

While further strengthening its core business, SLI diversified its portfolio and has ventured into vertical projects. The company's vertical development projects include townhouses, condominiums and condotels.



Source: SLI Bond Prospectus

Below are some of the company's completed and on-going residential development projects of the company:

### Completed Horizontal Projects

	Project	Location	Year Started	Year Completed	Area (h.a.)	No. of units available for sale	% Sold
1	Sugarland Estates	Trece Martires, Cavite	2009	2013	15.5	6	98%
2	Villa Chiara	Tagaytay City, Cavite	2008	2010	5.2	2	97%
3	Greenland Antipolo	Antipolo City, Rizal	2008	2010	3.3	0	100%
4	Bauan Grand Villas	Bauan, Batangas	2008	2011	46.7	26	96%
5	Greenmeadows Tarlac	Paniqui, Tarlac	2009	2012	24.7	220	53%
6	Luxurre Residences	Alfonso, Cavite	2010	2012	10.2	6	95%
	<b>TOTAL</b>				<b>105.6</b>	<b>260</b>	

Source: SLI Bond Prospectus

### Completed Vertical Projects

	Project	Location	Year Started	Year Completed	Area (h.a.)	No. of units available for sale	% Sold
1	Splendido Taal Tower 1	Laurel, Batangas	2008	2010	142	28	79%
2	La Breza Tower	Mother Ignacia Street, Quezon City	2008	2011	250	4	98%
3	La Mirada Tower	Lapu-Lapu City, Cebu	2008	2010	152	68	55%
4	East Bel-Air 1	Cainta, Rizal	2010	2014	134	8	82%
	<b>TOTAL</b>				<b>678</b>	<b>136</b>	

Source: SLI Bond Prospectus

**Ongoing Horizontal Projects**

Project	Type (R/C)	Location	Land Area (m <sup>2</sup> )	Saleable Area (m <sup>2</sup> )	No. of Units	Ave. Selling Price / m <sup>2</sup>	% Completed	
1	Altea Davao	R	Davao City, Davao	324,000	210,600	429	4,000	10.00%
2	Colinas Verde Ph.3, 3A, 3B	R	San Jose Del Monte, Bulacan	484,038	290,423	1,084	5,000	71.38%
3	Costa Del Sol Iloilo	R / C	Arevalo, Iloilo City	43,385	25,488	149	5,000	50.76%
4	Almeria Verda Dagupan	R	Dagupan City, Pangasinan	77,000	46,200	385	7,300	10.00%
5	El Pueblo Verde	R / C	Gerona, Tarlac	147,480	69,817	542	5,000	25.00%
6	Glenrose Taytay Ph.2B	R	Taytay, Rizal	24,090	14,143	94	7,000	73.91%
7	Green Peak Heights Ph. 1	R / C	Teresa, Rizal	157,597	97,834	736	4,050	10.00%
8	Green Peak Heights Ph. 2	R / C	Teresa, Rizal	123,348	81,355	617	4,050	10.00%
9	Greenland Cainta Ph. 4C2	R	Taytay, Rizal	5,976	3,791	9	8,100	10.00%
10	Greenland Cainta Ph. 4J1	R	Taytay, Rizal	6,750	5,059	16	6,000	10.00%
11	Greenland Cainta Ph.3B	R	Cainta, Rizal	44,545	29,081	205	8,000	10.00%
12	Greenland Cainta Ph.9C	R	Taytay, Rizal	11,963	7,856	58	8,000	10.00%
13	Greenland Newtown Ph.2B	R	San Mateo, Rizal	34,703	19,098	133	5,000	10.00%
14	Greenland Newtown Ph.2C	R	CALABARZON	29,950	16,974	112	5,000	11.21%
15	Greenmeadows Iloilo Phase 1 and 1A	R/C	Jaro, Iloilo City	810,000	486,000	621	5,000	95.28%
16	Greenmeadows Ph.2 at the Orchard	R	Dasmariñas, Cavite	120,756	78,263	330	5,100	22.42%
17	Greenwoods Executive Ph.2A1	R	Cainta, Rizal	9,007	14,361	75	14,100	65.42%
18	Greenwoods Executive Ph.2K1	R	Cainta, Rizal	21,096	14,361	77	10,600	66.20%
19	Greenwoods Executive Ph.6 Sec.9-10	R	Taytay, Rizal	15,833	10,689	63	10,000	58.78%
20	Greenwoods Executive Ph.9F	R	Taytay, Rizal	10,915	6,489	47	9,300	48.76%
21	Greenwoods North Ph.2	R	Gapan, Nueva Ecija	37,210	23,950	217	5,000	33.66%
22	Greenwoods North Ph.3	R	Gapan, Nueva Ecija	98,849	65,302	418	5,000	10.00%
23	Greenwoods South Ph.6 Hampton Place	R	Dumuclay, Batangas City	71,991	39,418	199	5,000	38.08%
24	La Huerta	R	Calamba, Laguna	499,996	365,768	216	3,472	76.98%
25	Mesilo Residences	R	Dasmariñas, Cavite	305,989	183,451	974	5,300	88.98%
26	Nottingham Villas Subdivision (Comm.)	C	Taytay, Rizal	16,041	4,080	330	10,000	100.00%
27	Green Peak Heights Palawan	R	Puerto Princesa, Palawan	81,000	48,600	324	5,000	10.00%
28	Palo Alto Ph. 2	R	Teresa, Rizal	247,071	168,370	895	3,800	10.00%
29	Ponte Verde Davao	R / C	Davao City, Davao	138,096	82,858	820	5,000	50.00%
30	Soto Grande Ph.2	R	Tagaytay City, Cavite	14,965	9,958	43	7,000	99.66%
31	Soto Grande Ph.3	R	Tagaytay City, Cavite	24,866	14,920	66	7,000	38.79%
32	South Grove Davao	R / C	Davao City, Davao	162,140	88,329	433	13,000	98.00%
33	Summerhills Ph 4	R	Antipolo, Rizal	40,668	26,256	132	5,000	75.31%
34	Valle Verde Davao	R / C	Davao City, Davao	103,600	62,160	509	5,000	50.00%
35	Woodside Garden Ville Ph.2C	R	Urdaneta, Pangasinan	72,767	46,641	347	4,000	28.51%
<b>TOTAL</b>			<b>4,417,681</b>	<b>2,757,943</b>	<b>11,705</b>			

Source: SLI Bond Prospectus

The information contained herein is based on sources which we believe are reliable, but is not guaranteed by us and is not to be considered all inclusive. It is not to be construed as an offer or solicitation of an offer to sell or buy the securities herein mentioned. This firm and its Directors and Officers and/or members of their families may have a position in the securities herein mentioned and may make purchases and/or sales of the securities from time to time in the open-market and otherwise.

### Ongoing Vertical Projects

Project	Location	Land Area (m <sup>2</sup> )	Floor Area (m <sup>2</sup> )	Saleable Area (m <sup>2</sup> )	No. of Units	Ave. Selling Price / m <sup>2</sup>	% Completed	
1	Arterra (20 Storeys)	Lapu-Lapu City, Cebu	6,927	22,102	12,665	270	98,000	10.00%
2	Neopolitan Condominium 1 (9 Storeys)	Fairview, Quezon City	11,572	8,944	6,627	232	77,000	75.00%
3	Splendido Taal Tower 2 (18 Storeys)	Laurel, Batangas	1,311	16,631	9,980	347	95,400	26.89%
4	Sta. Lucia Residenze 1 - Monte Carlo (21 Storeys)	Cainta, Rizal	1,500	17,515	9,654	371	78,000	80.00%
5	Stradella (formerly East Bel-Air 2) 6 Storeys	Cainta, Rizal	918	5,928	4,041	143	68,000	90.00%
<b>TOTAL</b>		<b>22,228</b>	<b>71,120</b>	<b>42,967</b>	<b>1,363</b>		<b>70%</b>	

Source: SLI Bond Prospectus

### Commercial Properties

In 2013, SLI has begun expanding its mall operations and engaging in sale and lease of commercial lots.

Sta. Lucia Mall (SLM) is currently a mall operated by SLI. SLM was established in 1991 and is comprised of three four-story buildings with a Gross Floor Area (GFA) of 180,000m<sup>2</sup> and Gross Leasable Space of 115,492m<sup>2</sup> of which 110,121m<sup>2</sup> (~95%) are being leased to 453 tenants



SLM

Source: SLI Prospectus

The current mall is located at Marcos Highway cor. Felix Ave., Cainta, Rizal and serves the nearby cities of Marikina, Antipolo, Pasig, and the Rizal Province.



In 2014, SLI opened an expansion of the Sta. Lucia Mall, Il Centro, a two-story building with GFA of 50,000m<sup>2</sup> with 12,600m<sup>2</sup> of net leasable space and 20,000m<sup>2</sup> parking for residentail and mall clients. Il Centro currently has a occupancy rate of 60% as of Cotober 2015.



Expansion mall

In total, SLI's mall properties have total gross leasable space of 128,092m<sup>2</sup> with a blended occupancy rate of 91.8%. Moving forward, the company expects its leasing revenues from mall to hit Php1B per annum, roughly double of Php504M it recorded in FY14.

SLI also engages in the sale and lease of commercial lots. The commercial properties of the company are complementary to existing residential projects and are being offered to existing established retail partners. An average commercial space of 300 to 2000m<sup>2</sup> are being allocated in majority of the SLI's projects.

**Sta. Lucia Homes, Inc. (SLHI)**

In 2014, Sta. Lucia Homes, Inc. (SLHI), a wholly owned subsidiary of Sta. Lucia Land, Inc., began operating to provide housing construction services to its lot buyers. SLHI's business model is not to "build-and-sell" but to offer access and assistance in the general construction of houses should lot buyers wish to avail of this service.

**Land Bank**

	Ownership%	Location	Land Area (m <sup>2</sup> )	Effective Stake	Estimated Price per m <sup>2</sup>	Estimated Market Value
Tanauan City, Batangas	100%	Batangas	7,374	7,374	P2,800	P20,647,200
Inusluban & Bulacnin, Lipa, Batangas	100%	Batangas	7,895	7,895	P700	P5,526,500
Inusluban & Bulacnin, Lipa, Batangas	100%	Batangas	9,421	9,421	P700	P6,594,700
Dumoclay, Batangas City	100%	Batangas	32,313	32,313	P1,000	P32,313,000
Bolbok, Batangas City	100%	Batangas	9,316	9,316	P400	P3,726,200
Bolbok, Batangas City	100%	Batangas	3,087	3,087	P400	P1,234,800
Salitran, Dasmariñas Cavite	100%	Cavite	17,346	17,346	P2,500	P43,365,000
Imus, Cavite	100%	Cavite	34,690	34,690	P4,815	P167,032,350
Brgy. Poblacion Oriental, Consolacion, Cebu	100%	Cebu	5,672	5,672	P900	P5,104,800
Communal, Davao City	100%	Davao	10,241	10,241	P300	P3,072,300
Communal, Davao City	100%	Davao	24,578	24,578	P300	P7,373,400
Brgy. Ulango, Calamba, Laguna	100%	Laguna	12,688	12,688	P1,300	P16,494,400
San Pedro, Puerto Princesa	100%	P. Princesa	20,000	20,000	P120	P2,400,000
Brgy. Manggahan, Pasig	100%	Pasig	5,000	5,000	P12,000	P60,000,000
Brgy. Manggahan, Pasig	100%	Pasig	5,156	5,156	P12,000	P61,872,000
Brgy. Santolan, Pasig	100%	Pasig	1,978	1,978	P5,000	P9,887,500
Brgy. Santolan, Pasig	100%	Pasig	1,152	1,152	P5,000	P5,760,000
Brgy. Tatlonghari, Cainta Rizal	100%	Rizal	733	733	P1,000	P733,000
Brgy. Talaba, Cainta Rizal	100%	Rizal	16,519	16,519	P1,500	P24,778,500
San Juan, Taytay, Rizal	100%	Rizal	1,293	1,293	P750	P969,750
San Juan, Taytay, Rizal	100%	Rizal	893	893	P750	P669,750
San Juan, Taytay, Rizal	100%	Rizal	893	893	P750	P669,750
San Juan, Taytay, Rizal	100%	Rizal	893	893	P750	P669,750
San Juan, Taytay, Rizal	100%	Rizal	893	893	P750	P669,750
San Juan, Taytay, Rizal	100%	Rizal	893	893	P750	P669,750
San Juan, Taytay, Rizal	100%	Rizal	893	893	P750	P669,750
San Juan, Taytay, Rizal	100%	Rizal	893	893	P750	P669,750
Apricot St. Brgy. San Andres, Cainta, Rizal	100%	Rizal	1,000	1,000	P1,700	P1,700,000
Mayamot, Antipolo City, Rizal	100%	Rizal	11,260	11,260	P2,000	P22,520,660
Mayamot, Antipolo, Rizal	100%	Rizal	1,000	1,000	P2,000	P2,000,000
Mayamot, Antipolo, Rizal	100%	Rizal	1,180	1,180	P2,000	P2,360,000
San Juan, Taytay, Rizal	100%	Rizal	6,302	6,302	P750	P4,726,500
Brgy. Samput, Paniqui Tarlac	100%	Tarlac	18,178	18,178	P1,000	P18,178,000
<b>TOTAL</b>			<b>270,729</b>			<b>P534,389,060</b>

Source: ABCSI Estimates, SLI Bond Prospectus

SLI has 27.7 hectares of raw land which is small compared to other listed property developers. Near term, this should not have any effects on the SLI's business developments given its business model of entering into JVs with other property owners to develop its land base.

Majority of SLI's raw lands can be found outside of the metro such as Batangas, Laguna, Rizal and Tarlac. This comes as no surprise given SLI's main target market. In our valuation, we used a conservative estimate in valuing SLI's raw land and arrived at an estimated value of Php534M.

### Board of Directors and Key Management Team

Name	Age	Position	Background
Vicente R. Santos	59	Chairman	Mr. Vicente R. Santos is the Chairman of SLI. He is also the EVP of Sta Lucia Realty & Development Inc, RS Maintenance & Services Corp., Sta. Lucia East Cinema Corp., Sta. Lucia Waterworks Corp., Rob-San East Trading Corp., Sta. East Commercial Corp., RS Night Hawk Security & Investigation Agency, Sta. Lucia East Bowling Center, Inc. and Sta Lucia East Department Store, Inc.
Exequiel D. Robles	57	President and Director	Mr. Exequiel D. Robles is the current President and Director of the company. He is also the President and General Manager of Sta. Lucia Realty & Development Inc.
Mariza R. Santos-Tan	56	Treasurer and Director	Ms. Mariza R. Santos-Tan is the Treasurer of SLI and also the Vice President for Sales of Sta. Lucia Realty & Development.
Antonio D. Robles	50	Director	Mr. Robles is a director of the company and serves as the Treasurer of Orchard Marketing Corporation. He is also the owner of Figaro Coffee and Cabalen Franchise.
Aurora D. Robles	48	Assistant Treasurer and Director	Ms. Aurora Robles is the assistant treasurer and director of the company. She is also the Purchasing Manager of Sta. Lucia Realty and Development Inc.
Orestes R. Santos	53	Director	Mr. Orestes R. Santos is a director of the company and he also serves as the Project Manager of Sta. Lucia Realty and Development, Inc. and President of RS Superbatch, Inc.
Santiago Cua	92	Director	Mr. Santiago Cua, Director of the Company also serves as the Chairman and President of ACL Development Corporation, Cualoping Securities, Inc. and Filpak Industries, Inc.
Jose Ferdinand R. Guiang	49	Independent Director	Mr. Jose Guiang is an Independent Director of SLI and president of Pharmazel Incorporated.
Osmundo C. de Guzman, Jr.	59	Independent Director	Mr. Osmundo de Guzman, Jr. is an Independent Director of the company and also the Treasurer of Sunflower Circle Corp.
David M. Dela Cruz, CPA	48	Executive Vice President	Mr. David M. Dela Cruz, is the Executive Vice President and CFO of the company. He served as Vice President and Chief Financial Officer of Atlas Consolidated Mining and Development Corp., SAVP of Corporate Credit Risk Management – BDO and AC&D Corporate Partners.
Atty. Patricia A. O. Bunye	46	Corporate Secretary	Ms. Patricia Bunye is the corporate secretary of the company and also a senior partner of Villaraza Cruz Marcelo & Angangco and past president of the Integrated Bar of the Philippines.

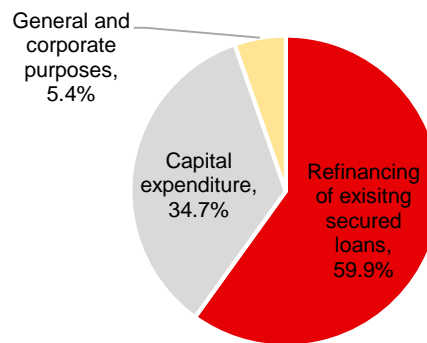
Source: Company Annual Report



### Php5B Bond Offering

SLI is currently preparing a Php5B bond offering to refinance its debt and replenish its cash base. The bond offer has an aggregate principal of Php3B with an oversubscription option of up to Php2B. The offer will have two series: a 3-year fixed rate bonds due 2018 and a 5-year and 3-months fixed-rate bonds due 2021.

#### Bond Proceeds Breakdown



Source: SLI Bond Prospectus

Description	In Php M	In %	Disbursement Date
Refinancing of existing Loans	2,935	59.9%	2015
Capital expenditure	1,700	34.7%	2015-2016
General corporate purposes	262	5.4%	2015-2016
<b>Total</b>	<b>4,897</b>		

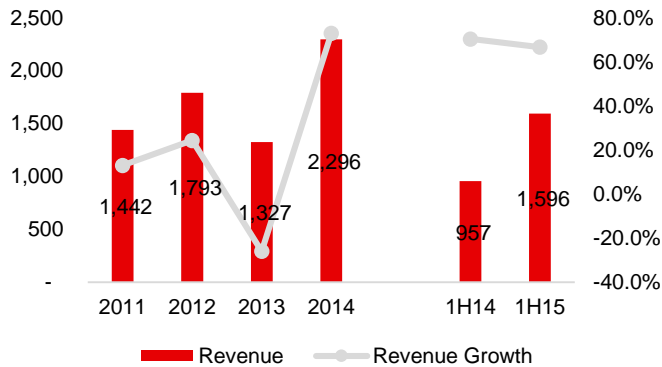
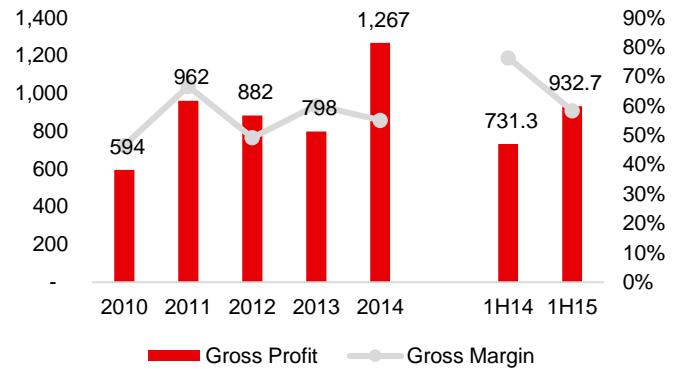
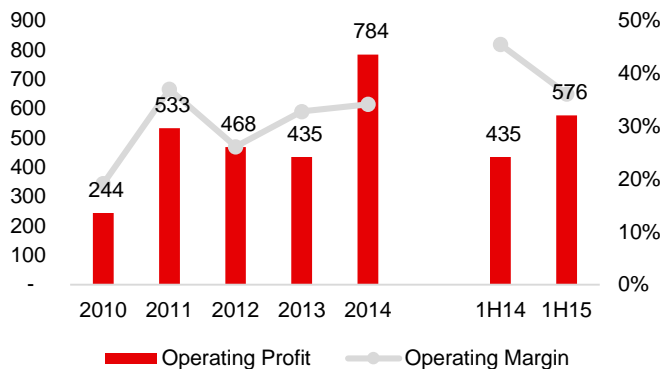
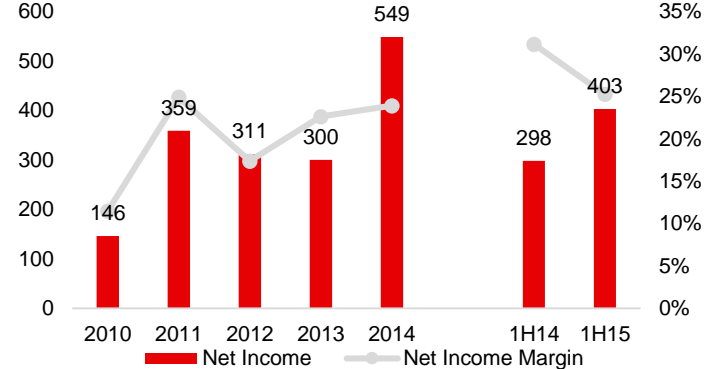
Source: Prospectus

- **Refinancing of existing Loans** – Php2.93B or 59.9% of the bond proceeds (assuming overallotment) will be used to refinance its existing debt obligations. As of June 30, 2015, the outstanding debt amounted to Php3.01B from various banks.
- **Capital expenditure** – Php1.70B or 34.7% of the net proceeds partially fund land acquisitions and project completion. SLI is currently looking into acquiring lands in the following areas per region:

Target Land Bank per City	Region	Land Area (in h.a.)
Quezon City	NCR	40.0
Rizal	4A	18.1
Batangas	4A	98.0
Laguna	4A	10.7
Iloilo	6	33.2
Davao	11	23.0
<b>Total</b>		<b>223.0</b>

Source: SLI Bond Prospectus

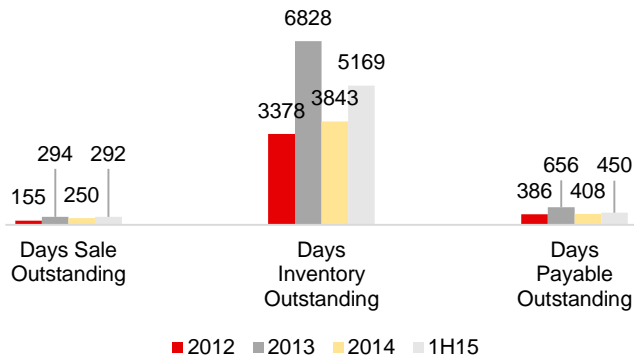
- **General corporate purposes** – Php262M, or the remainder of the net proceeds from the bond offering, will be used for general corporate purposes.

**Financial Analysis**
**Profitability and Efficiency**
**Revenue (in Php M) and Revenue Growth (%)**

*Source: ABCSI Estimates, Company Data*
**Gross Profit (in Php M) and Gross Profit Margin**

*Source: ABCSI Estimates, Company Data*
**Operating Income (in Php M) and Operating Margin**

*Source: ABCSI Estimates, Company Data*
**Net Income (in Php M) and Net Income Margin**

*Source: ABCSI Estimates, Company Data*

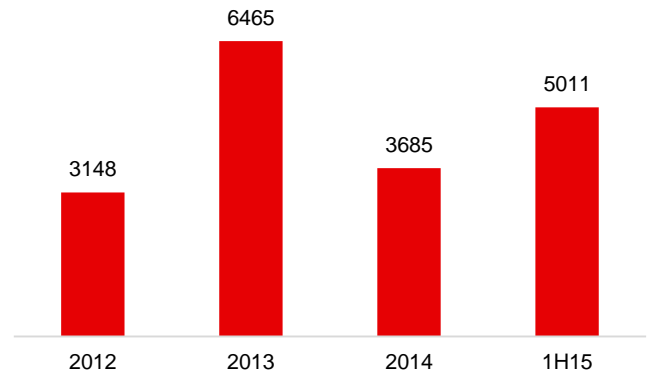
For the first half of 2015, SLI recorded total revenues of Php1.59B, or 66.8% higher as a result of higher real estate sales and rental income. Real estate sales grew by 43% on the back of higher take-up and completion rate from higher-valued vertical residential projects such as Arterra Residences at Mactan, Cebu.

Meanwhile, first half leasing income also improved 27% YoY to Php429M, due to Il Centro which opened in 4Q14. Occupancy rate for SLM is at 95% while Il Centro is at 60% implying that there is still room for internal growth in leasing income. Management said that the opening of Il Centro increased the number of lessees resulting in an improvement in mall revenues. By management estimates, SLI is set to earn Php1B per annum in annual leasing revenues for SLM and Il Centro once occupancy rate stabilizes to ~95% for both malls.

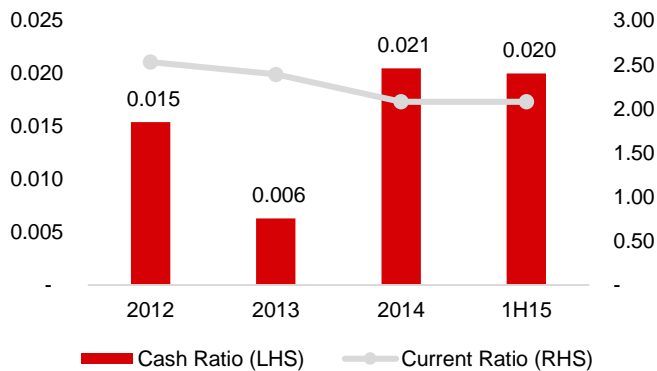
Management also provided an internal guidance of Php800M in net profits this year. We believe this is fairly achievable given that first half income is already at Php403M and the continuous growth in Il Centro's occupancy rate will help push revenues higher.

**Activity, Liquidity and Solvency**
**Activity Ratios (DSO, DIO, DPO)**


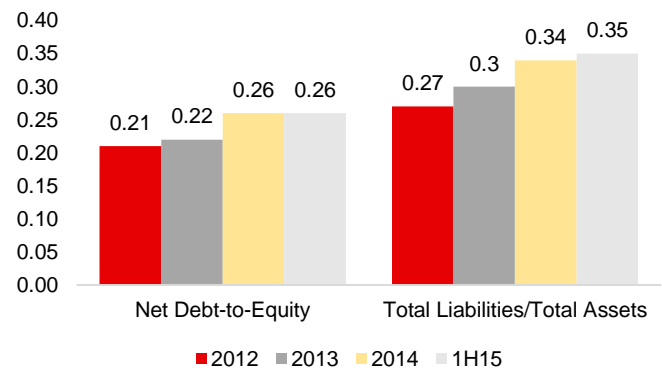
Source: ABCSI Estimates

**Cash Conversion Cycle**


Source: ABCSI Estimates

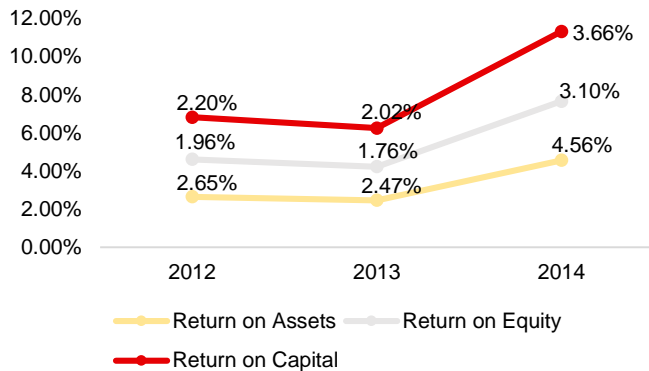
**Liquidity Ratios**


Source: ABCSI Estimates

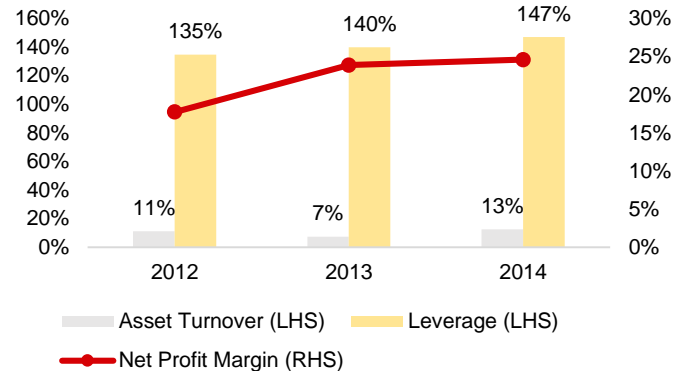
**Solvency Ratios**


Source: ABCSI Estimates

SLI's cash conversion cycle (CCC) is typically higher than peers which comes as no surprise given SLI's business model in recording saleable land as inventories. While SLI's cash ratio is also low at 2.0% as of 1H15, this will improve after the company completes its Php5B bond offering this year.

**Efficiency Ratios**
**Efficiency Ratios**


Source: ABCSI Estimates

**Dupont Analysis (Return on Equity)**


Source: ABCSI Estimates

SLI's return on equity (RoE) improved to 3.66% in 2014 versus 2.02% in 2013. The improvement was a result of an increase in asset turnover to 13% versus 7% in 2013. Prospectively, the increase in leverage via the Php5B bond offer can further improve SLI's RoE assuming the asset turnover and net profit margins stay constant.

**Key Investment Highlights**

We outline our key investment highlights for SLI:

- Revenue from residential development remains intact.** SLI earmarked Php14.9B in capital expenditures for 2015-2017. Roughly 76% of the capex is allocated to project development costs ensuring that near-term growth remains intact. Meanwhile, Php2.9B or 19% of the total capex will be used to fund land acquisitions.
- Growing Target Market.** SLI's target market of growing middle class in emerging cities outside Metro Manila remains strong given the steady growth in OFW remittances.
- Sta. Lucia Homes can potentially be big.** Sta. Lucia Homes, the construction arm of SLI, can instantly create value by tapping more than 60,000 owners of both SLR and SLI in having their homes built. This segment can serve as an additional revenue segment for SLI.
- Balance Sheet is underleveraged.** SLI currently has a debt-to-equity ratio of 0.28 versus the industry average of 0.69. Meanwhile, SLI's net debt-to-equity stood at 0.26 as of 1H15 versus the industry average of 0.52. By increasing its debt, SLI's balance sheet can still be further optimized and improve its return on equity. We view the bond offer as a positive development for SLI allowing it to have a strong cash base for project development.
- Valuations are cheap.** SLI is currently trading at a P/B of 0.52x, below its 3-Yr average P/B of 0.65x. Based on NAV, we arrived at fair value of Php1.25/share implying a huge upside potential for investors. In fact, SLM and Il Centro (excluding debt) is already valued at Php0.72/share alone.

**Valuation****BUY rating with Target Price (TP) of Php1.25/share**

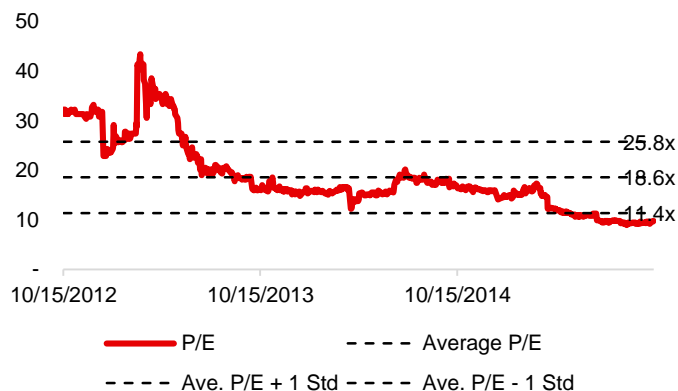
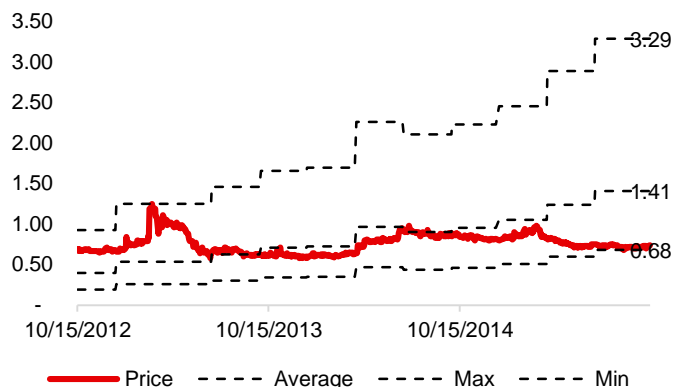
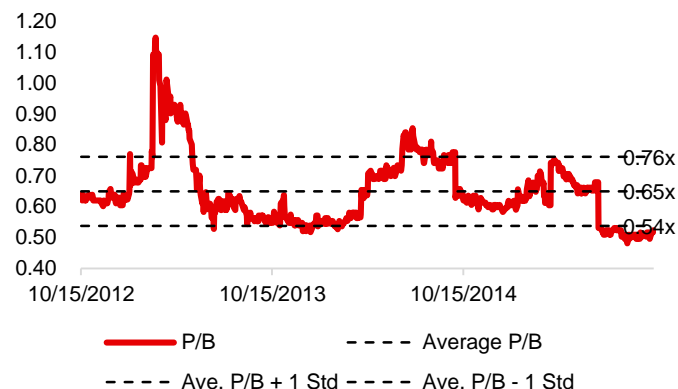
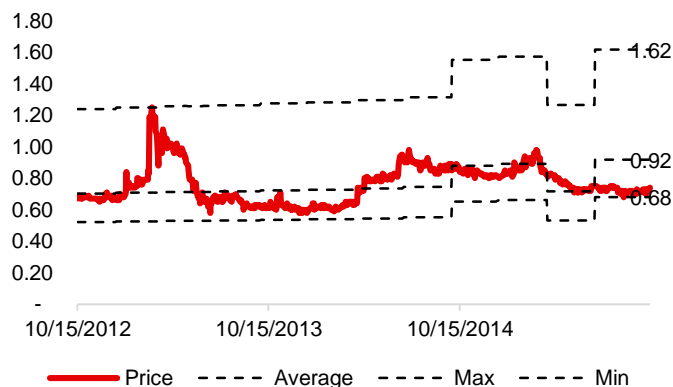
<b>Net Asset Value Method</b>					
	<b>Ownership Stake</b>	<b>Valuation Method</b>	<b>Market Value (Php M)</b>	<b>Market Value / Share</b>	<b>% Weight</b>
Residential Segment	100%	Cost Base	6,610.7	0.78	51.04%
Leasing Segment	100%	Cap. Rate	6,127.5	0.72	47.31%
Construction Segment	100%	DCF	213.6	0.03	1.65%
<b>Total Firm Value</b>			<b>12,952</b>	<b>1.53</b>	
Less: Net Debt			2,352	0.28	
<b>Total Equity Value</b>			<b>10,600</b>	<b>1.25</b>	

*Source: ABCSI Estimates*

**We are issuing a BUY recommendation on SLI shares with a TP of Php1.25/share implying an upside of 68.9% from its current price.**

We used a Net Asset Value (NAV) method in arriving at the fair value of SLI shares. A more conservative book-value approach was used in computing the market value of SLI's residential segment. For its leasing segment, we used a capitalization (cap) rate method and a cap rate of 7% in computing for its fair market value. And for its construction segment, we used a DCF-based method. We believe that most of the assumptions we used are moderate.

At its current price, SLI is trading below its book value of Php1.42/share and is trading at a P/E of 11.38x and FY15 P/E of 7.90x.

**Historical Relative Valuation**
**3-Yr P/E Trading Band (Average +/- Std. Dev.)**

*Source: ABCSI Estimates, Bloomberg*
**3-Yr P/E Trading Band (Max-Min-Average)**

*Source: ABCSI Estimates, Bloomberg*
**3-Yr P/B Trading Band (Average +/- Std. Dev.)**

*Source: ABCSI Estimates, Bloomberg*
**3-Yr P/B Trading Band (Max-Min-Average)**

*Source: ABCSI Estimates, Bloomberg*

**Peer Relative Valuation**

Company Name	Ticker	Current Price (Php)	Market Cap (Php B)	EV (Php B)	P/E (x)				P/B (x)				EV/EBITDA (x)			
					2012A	2013A	2014A	Current	2012A	2013A	2014A	Current	2012A	2013A	2014A	Current
<b>Philippine - Peer</b>																
Sta. Lucia Land, Inc.	SLI PM	0.74	6.3	9.5	22.76	20.71	11.38	9.6	0.60	0.52	0.58	0.52	15.95	16.03	10.63	8.9
Vista Land & Lifescapes, Inc.	VLL PM	5.51	46.3	83.7	9.31	8.77	10.76	8.06	0.94	0.92	1.16	0.83	11.45	10.40	13.78	12.66
8990 Holdings, Inc.	HOUSE PM	6.29	34.7	46.0	6.42	13.44	11.48	9.73	0.19	4.93	2.64	2.20	2.51	17.22	14.89	15.66
Peer Average					12.8	14.3	11.2	9.1	0.6	2.1	1.5	1.2	10.0	14.5	13.1	12.4
Peer Median					9.3	13.4	11.4	9.6	0.6	0.9	1.2	0.8	11.4	16.0	13.8	12.7
<b>Philippine Property Sector</b>																
SM Prime Holdings, Inc.	SMPH PM	21.10	609.4	754.1	28.3	25.1	25.8	22.9	1.9	2.5	2.5	3.1	12.7	16.2	17.1	19.3
Ayala Land, Inc.	ALI PM	36.20	532.0	653.7	38.9	29.5	32.1	33.2	4.6	3.6	4.5	4.3	26.6	18.4	20.3	20.9
Megaworld Corp.	MEG	4.50	145.1	1,81.0	9.86	10.5	6.99	14.1	3.0	3.4	4.4	3.9	12.6	12.3	15.1	14.8
Robinsons Land Co.	RLC PM	28.90	118.3	140.1	18.3	18.9	21.0	22.9	1.7	1.7	1.9	2.1	11.5	11.4	13.0	14.0
Double Dragon Properties Corp.	DD PM	20.00	44.6	60.0			26.5	71.5			7.5	19.4			74.6	89.8
Filinvest Land, Inc.	FLI PM	1.77	42.9	80.8	10.6	8.8	8.1	9.0	0.8	0.7	0.7	0.8	16.5	15.0	13.3	13.8
Shang Properties, Inc.	SHNG PM	3.05	14.5	28.4	8.8	7.7	5.7	5.0	0.7	0.7	0.7	0.6	11.4	8.1	8.9	7.7
Rockwell Land Corp.	ROCK PM	1.56	9.5	20.7	13.3	6.5	6.8	5.7	1.5	0.8	0.8	0.7	14.1	10.0	10.7	11.0
Century Properties Group, Inc.	CPG PM	0.62	7.2	18.2	7.0	6.8	5.1	3.3	1.6	1.1	0.8	0.5	8.8	10.7	10.3	12.1
<b>Sector - High</b>					<b>38.9</b>	<b>29.5</b>	<b>32.1</b>	<b>71.5</b>	<b>4.6</b>	<b>4.9</b>	<b>7.5</b>	<b>19.4</b>	<b>26.6</b>	<b>18.4</b>	<b>74.6</b>	<b>89.8</b>
<b>Sector - Average</b>					<b>15.8</b>	<b>14.3</b>	<b>14.3</b>	<b>17.9</b>	<b>1.6</b>	<b>1.9</b>	<b>2.3</b>	<b>3.3</b>	<b>13.1</b>	<b>13.2</b>	<b>18.6</b>	<b>20.1</b>
<b>Sector - Median</b>					<b>10.6</b>	<b>10.5</b>	<b>11.1</b>	<b>9.7</b>	<b>1.5</b>	<b>1.1</b>	<b>1.5</b>	<b>1.5</b>	<b>12.6</b>	<b>12.3</b>	<b>13.5</b>	<b>13.9</b>
<b>Sector - Low</b>					<b>6.4</b>	<b>6.5</b>	<b>5.1</b>	<b>3.3</b>	<b>0.2</b>	<b>0.5</b>	<b>0.6</b>	<b>0.5</b>	<b>2.5</b>	<b>8.1</b>	<b>8.9</b>	<b>7.7</b>

Source: Bloomberg, ABCSI Estimates, Bloomberg

<b>Financial and Operating Summary</b>			
<b>As of 12/31, in Php M</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>
<b>INCOME STATEMENT</b>			
<b>Revenue</b>	<b>1,792.8</b>	<b>1,326.9</b>	<b>2,296.3</b>
Cost and Expenses	(681.1)	(479.8)	(910.5)
<b>Gross Profit</b>	<b>882.3</b>	<b>798.3</b>	<b>1,267.0</b>
Operating Expense	(414.2)	(363.6)	(483.3)
<b>Operating Income</b>	<b>470.6</b>	<b>439.2</b>	<b>787.3</b>
D&A	(2.5)	(4.5)	(3.6)
<b>EBITDA</b>	<b>494.6</b>	<b>447.4</b>	<b>811.5</b>
Interest Inc. (Exp.)	(29.8)	(13.8)	(29.9)
Other Inc. (Exp.)	5.9	5.5	5.7
<b>Earnings before Tax</b>	<b>468.1</b>	<b>434.7</b>	<b>783.7</b>
Inc. Tax Benefit (Exp.)	(156.9)	(134.7)	(235.0)
<b>Net Income</b>	<b>311.2</b>	<b>300.0</b>	<b>548.7</b>
<b>EPS (in Php)</b>	<b>0.03</b>	<b>0.03</b>	<b>0.07</b>
<b>BALANCE SHEET</b>			
Cash and CE	65.1	30.5	116.1
Trade Receivables	1,043.6	1,043.6	945.0
Real Estate Inventory	7,663.9	8,111.1	7,967.3
Fixed Assets	9.5	23.7	38.6
Intangible Assets	-	-	-
Investment Properties	4,351.6	4,416.4	4,760.3
Associates/Investments	-	-	-
<b>Total Assets</b>			
Interest Bearing Debt	2,550.3	2,673.2	3,198.1
<b>Total Liabilities</b>	<b>4,453.9</b>	<b>5,100.6</b>	<b>6,106.1</b>
Shareholder's Eq.	11,782.2	12,084.4	11,732.3
Minority Interest	-	-	-
<b>Total Equity</b>	<b>11,782.2</b>	<b>12,084.4</b>	<b>11,732.3</b>
Net Debt	2,485.2	2,642.7	3,082.0
<b>CASH FLOW</b>			
CFO	(280.5)	13.7	50.8
Capital Expenditures	(196.8)	(189.9)	(480.8)
Free Cash Flow	(477.3)	(176.2)	(429.9)
CFI	(200.3)	(186.6)	(480.8)
CFF	447.0	138.4	515.6
<b>Net Cash Flow</b>	<b>(33.8)</b>	<b>(34.6)</b>	<b>85.6</b>

Source: ABCSI Estimates, Bloomberg



<b>Financial and Operating Summary</b>			
<b>As of 12/31, in Php M</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>
<b>KEY RATIOS</b>			
Revenue Growth	26.1%	-28.4%	79.1%
Gross Profit Growth	-8.4%	-13.2%	67.3%
Operating Income Growth	-6.3%	-10.0%	82.4%
EBITDA Growth	-22.0%	-9.5%	81.4%
Net Income Growth	-13.3%	-3.6%	82.9%
Gross Profit Margin	47.1%	57.1%	53.4%
EBITDA Margin	28.7%	36.3%	36.8%
Operating Margin	28.6%	35.9%	36.6%
Net Income Margin	17.4%	22.6%	23.9%
Interest Coverage	5.16	4.32	7.13
Debt-to-Equity	0.22	0.22	0.27
Net Debt-to-Equity	0.21	0.22	0.26
Return on Equity	2.65%	2.47%	4.56%
Return on Assets	1.96%	1.76%	3.10%
Return on Invested Capital	2.20%	2.02%	3.66%
P/E	22.76	20.71	11.38
P/B	0.60	0.52	0.58
EV/Sales	5.71	7.58	4.84
EV/EBITDA	15.95	16.03	10.63
<b>DUPONT ANALYSIS</b>			
Asset Turnover	0.11	0.07	0.13
Leverage	1.35	1.40	1.47
Net Profit Margin	17.7%	23.9%	24.6%

Source: ABCSI Estimates, Bloomberg