QUICK TAKE – Sta. Lucia Land Inc. (SLI):

Diversification as Road to Growth

EXECUTIVE SUMMARY

Expanding leasing business to fuel capital need for unlocking land bank value. The company has historically derived its leasing income from its lone leasing investment asset, the Sta. Lucia East Grand Mall. SLI is slowly diversifying this business through its maiden foray into office space leasing, more specifically, with the impending opening of the Sta. Lucia Business Center in Pasig. This should add over 10,000 sq.m. of leasable space for the company, comprised of office and commercial retail space, and is expected to be ready for fit out within 2018. Moreover, the company is also actively looking to expand the leasing segment of the business through leasing out more than 40 hectares of commercial retail space in its existing and ongoing developments and establishing more retail malls in what the company perceives as underserved and underpenetrated markets. In our view, the expansion of its leasing business should provide the company with a healthy and steady source of future cash flows as it further unlocks the potential value of its expansive land bank.

Unlocking balance sheet potential by improving mix between JV and self-developed land. SLI built its legacy and business around the traditional horizontal-format real estate development (gated communities, subdivisions), with the segment still contributing to majority of the company's income over 40 years later. Setting SLI apart from other real estate companies is their sustained use of the joint-venture model (which accounts for about 60% of the company's developments), wherein they forge agreements with property owners to develop their land in exchange for a pre-determined gross profit and cost share agreement, with SLI maintaining a gross profit margin of at least at 50%. This method of business has effectively reduced the cash drag needed to expand its developments, whilst helping the company expand its geographic footprint relatively faster; however, management is of the view that this same JV model may be what is weighing down on the company's perceived value. Moving forward, SLI looks to mitigate this perceived market discount through a rapid development of its own 2,096 hectares of land, prioritizing areas within close proximity of the government's infrastructure projects, with a target of achieving a 50-50 JV-to-sole development mix in the medium-term.

Current valuations appear conservative and warrant a closer look. Based on relative valuation, it appears as if SLI is currently trading at a discount, in the context of its divergence from its historical trading P/E averages and considering that 9M17 YoY EPS growth remains to be robust at 26.4% (vis a vis a five-year CAGR of about 20%). SLI is currently trading at 0.6x and 10.9x forward P/B and P/E, respectively (compared to a five-year average 15.6x P/E). Moving forward, we believe that current valuations warrant a closer inspection, with a possible potential for an upside in terms of fundamental valuations, especially considering that growth prospects of the company (specifically leasing) should start contributing to net income in the near-term.

RATING SUMMARY	
Stock Symbol	SLI
Recommendation	UNRATED
Target Price (Php per share)	N/A
Upside Potential	N/A

RELATIVE PERFORMANCE	Price	% YTD
SLI	1.01	0.0%
PSEi	7,719.47	-9.80%

KEY DATA	
Market Cap (Php Bn)	9.13
Free Float Level (%)	16.7%
3mo Avg Daily Value T/O (Php Mn)	0.40
6mo Avg Daily Value T/O (Php Mn)	0.56

FINANCIAL SUMMARY

in Mn Php	2012a	2013a	2014a	2015a	2016a	9M2016	9M2017	9M YoY Growth	5Y CAGR[b]
Net Revenues	1,792.75	1,326.91	2,296.32	3,104.36	3,292.92	2,374.33	2,795.23	*17.7%*	*18.5%*
% growth		*(26.0)%*	*73.1%*	*35.2%*	*6.1%*		*(15.1)%*		
Gross Profit	882.27	798.32	1,266.98	1,703.73	1,748.90	1,441.73	1,896.57	*31.5%*	*N/A*
% margin	*49.2%*	*60.2%*	*55.2%*	*54.9%*	*53.1%*	*60.7%*	*67.9%*		
EBIT	563.39	537.26	898.72	1,110.13	1,122.04	989.08	1,309.39	*32.4%*	*N/A*
% margin	*31.4%*	*40.5%*	*39.1%*	*35.8%*	*34.1%*	*41.7%*	*46.8%*		
EBITDA	674.03	649.82	1,024.01	1,278.67	1,292.21	1,104.07	1,435.62	*30.0%*	*N/A*
% margin	*37.6%*	*49.0%*	*44.6%*	*41.2%*	*39.2%*	*46.5%*	*51.4%*		
Net Income[1]	311.22	300.00	548.75	676.16	730.37	534.10	700.50	*31.2%*	*21.8%*
% margin	*17.4%*	*22.6%*	*23.9%*	*21.8%*	*22.2%*	*22.5%*	*25.1%*		
Key Valuation Metrics									
Diluted EPS	0.048	0.028	0.073	0.078	0.086	0.060	0.076	*26.4%*	*20.0%*
Actual P/E (x)[2]	13.7	20.7	11.0	10.0	12.7	18.2	13.3		
ROE (%)	*2.7%*	*2.5%*	*4.6%*	*5.5%*	*5.6%*	*4.1%*	*5.1%*		
Earnings Yield (%)	*7.3%*	*4.8%*	*9.1%*	*10.0%*	*7.9%*	*5.5%*	*7.5%*		

Data source: SLI Filings, Analyst Estimates
a: Reported; Adjusted by analyst where necessary for comparability
b: Bloomberg Estimates
[1] Net income attributable to equityholders of the parent company

[2] Denominator used is based on prices as of year end of the respective yearly periods

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Company Overview

COMPANY HISTORY

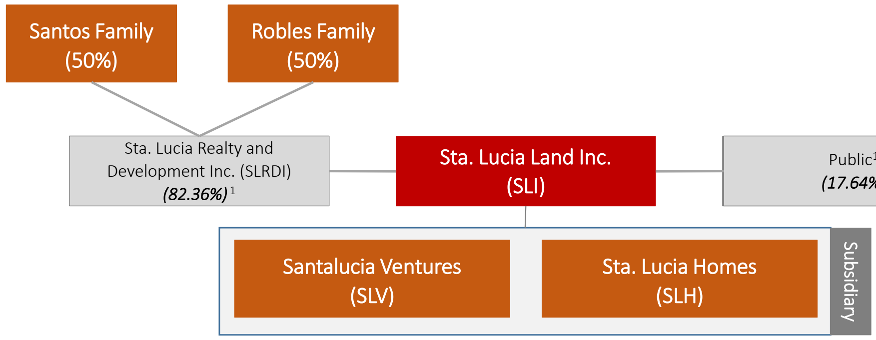
Sta. Lucia Land, Inc. (SLI) is one of the pioneers in the Philippine real estate industry, which traces its origin back to the incorporation of Sta. Lucia Realty and Development Inc. (SLRDI) in 1972 by Atty. Felipe Santos and Exequiel Robles (the current President of SLI). The company has since then built its extensive track record and brand, having developed over 10,000 hectares (ha) of land across the country – most of which are comprised of horizontal residential developments -- which continue to account for majority of the company's projects.

The group first ventured into commercial real estate through the development of the Sta. Lucia Mall in Cainta, Rizal and has since further expanded its product portfolio to include vertical developments, leasing, marketing, housing construction, and leisure developments. The continued expansion and diversification of the business eventually paved the way for the company's formal entry into the local bourse through the reverse takeover of then- dormant listed company, Zipporah Realty Holdings Inc. (ZRHI) in 2007, which was eventually renamed into its current name, Sta. Lucia Land Inc. under the ticker, SLI.

COMPANY OWNERSHIP AND CORPORATE STRUCTURE

The company continues to operate through the partnership between Santos and the Robles families, who remain to be SLI's largest stakeholders through their 50-50 stake in SLRDI, which in turn effectively owns about 83% in SLI. The two founding families continue to leverage their industry knowledge and expertise in driving the business, as they comprise a number of key functions within the core management team.

Figure 1 - Company Ownership Structure



Source: *Company Website and Company Filings*
[1]: As of December 31, 2017

SLI incorporated two wholly-owned subsidiaries in 2013, namely Sta. Lucia Homes Inc. (SLH) and Santalucia Ventures Inc. (SLV). SLH's primary purpose is to complement the existing business of SLI by offering construction and development services for residential lot-owners of its developments. SLH also provides financing services related to construction. SLV's primary purpose, on the other hand, is to market SLI's developments to clients both here and abroad.

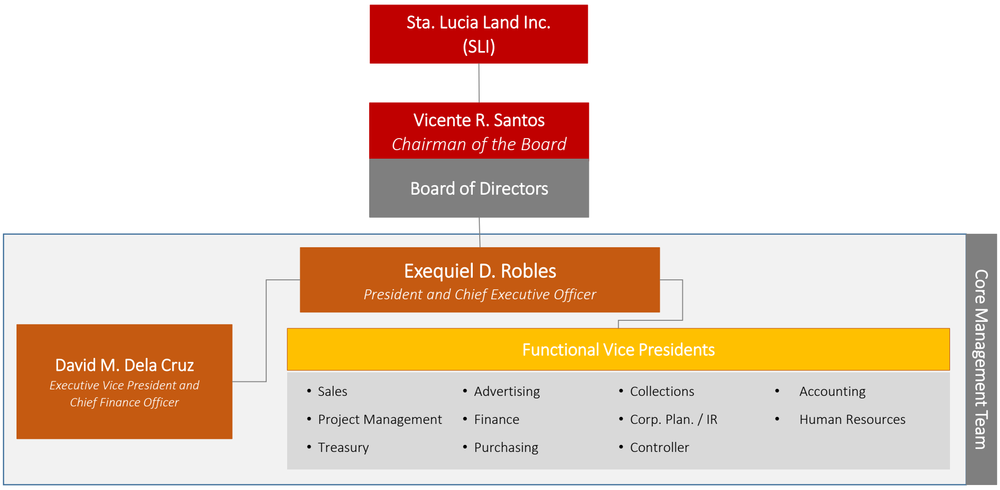
MANAGEMENT TEAM

SLI is helmed by its President and Chief Executive Officer, Exequiel D. Robles, one of the founding partners of SLRDI Robles has over 45 years' experience in real estate development; in 2017, he was one of the nominees for 'Global Filipino Executive of the Year' in the 2017 Asia CEO Awards, alongside a separate nomination for the company's executive leadership team for the same awards.

In December of 2012, David Dela Cruz joined the company as Executive Vice President and Chief Finance Officer, with over 27 years' experience in the field of finance and accounting, having come from Atlas Mining Corporation (PH: AT) as their CFO, BDO Unibank (PH: BDO) as head of their corporate credit risk management division, and Deutsche Morgan Grenfell (Hong Kong) Limited as senior corporate finance executive, among many other positions. He also is a CPA, having finished Top 9 in the board examinations, and has an MBA from De La Salle University.

Please see ***Figure 2*** for the management structure and key management functions for SLI.

Figure 2 - Management Structure



Source: *Company Website and Company Filings*

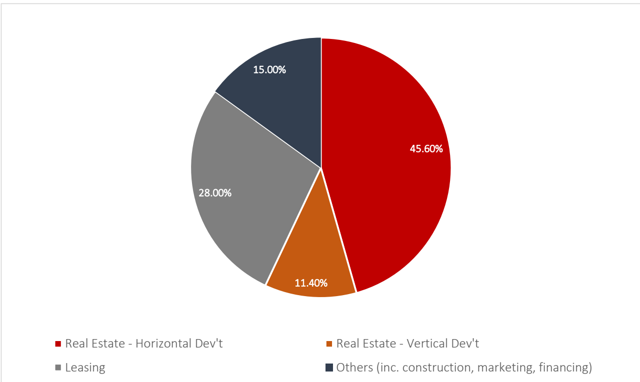
BUSINESS MODEL

Key Business Segments

The company derives its revenue through two main channels: real estate/residential (broken down into horizontal and vertical developments) and investment property (leasing), which currently contributes 57% and 28% of revenues respectively (as of FY2017). The balance of revenues are derived from relatively newer businesses for the firm, which include financing (through its sales-on-installment purchase program), construction (through subsidiary SLH) and real estate sales (through SLV).

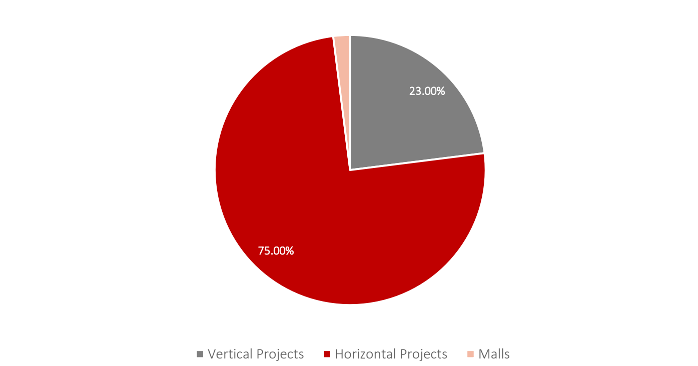
SLI's legacy business focuses on the expansion of its horizontal development (closed-gate communities/subdivisions) project portfolio, which now comprises about three-fourths of its total completed projects. Its sole leasing project (as at end 2017) is Santa Lucia East Grand Mall (SLEGM), which accounts for about 2% of the company's property portfolio. The balance of projects are spread across vertical (condo, condotel) and leisure developments.

Figure 3 – Revenue Breakdown by Segment FY17



Source: *SLI*

Figures 4 – Cumulative Project Portfolio Profile



Source: *SLI*

Horizontal Developments

SLI's horizontal developments segment has accounted for, and continues to comprise bulk of the company's business, accounting for about 75% of total completed projects. These are typically gated-community developments (i.e. subdivisions) with shared spaces (i.e. clubhouse) built in as part of the development, and includes residential estate developments (with a country club and/or golf course).

Land acquisition and development model: In the normal course of business, SLI identifies potential developments by seeking out partnerships with owners of undeveloped land. The company then forms a joint venture with land-owners wherein a pre-determined agreement (typically relating to gross/net profit) is negotiated before the initiation of the project. The terms of the agreement vary depending on each venture, with a gross profit *share* of anywhere from 32% to 80% in favor of SLI's co-venturer (whilst ensuring that SLI's own gross profit *margins* on the project remain at least at 50%), accompanied by a bespoke pre-set cost-sharing agreement.

According to SLI, this "asset-light" model of land acquisition and development helps hasten the development process and diversifies the risk borne from property development. The company has historically preferred this model as it has helped to expand its geographic development footprint faster than having to purchase the land and develop it on its own. This effectively reduces SLI's upfront capex (as it does not need to pay for the land it develops) and costs related to development (as contingent on the cost-sharing agreement negotiated at the inception of the JV), which ultimately reduces the risk on the part of the company.

Sales model: SLI's horizontal development sales process employs a two-phased approach: 1) Lot-only, which is the sale of plots of land to retail buyers, with their respective home developments occurring at their (the buyer's) discretion, and 2) House-constructed, wherein buyers may choose to have SLI's subsidiary, SLH, build their houses through a competitive package. SLH also provides financing services for these construction services, helping improve the affordability of their developments to their clients, which are mostly comprised of OFWs (a more detailed discussion of SLI's target market can be found below). The company is currently working on securing partnerships with local banks to help in the provision of mortgage lending facilities for its clients (as compared to in-house financing), to further reduce the company's exposure to default risk.

Business model refinements moving forward: Although JVs currently comprise about 60% of SLI's developments, the company aims to shift this mix to an eventual 50-50 mix between JVs and wholly-owned developments as it embarks on its growth plan. SLI aims to be able to deliver this through the development of its strategically acquired land bank, to which it has added 871 hectares to over the past three years, bringing its total land portfolio to about 2,096 hectares, with most situated within close proximity to some of the government's key infrastructure projects.

Vertical Developments

Targeting younger clientele through condominium developments. The company has also recently forayed into high-rise developments comprised of condominiums and condotels in select locations. ***Figure 5*** summarizes SLI's completed condominium and condotel projects. The condominium developments, in particular, are primarily intended to capture the demand of younger buyers who prefer compact residences proximate to key urban areas (as opposed to the traditional house-and-lot), according to the company. SLI's condominium developments generate revenue through sales (not leasing).

Figure 5 - SLI's In-progress and Completed Projects (as of 3Q17)

IN PROGRESS PROJECTS	Location	Land Area (sq.m.)	Floor Area (sq.m.)	Saleable Area (sq.m.)	Number of Units	Ave. Selling Price (/sq.m.)	% Completed
Sta. Lucia Business Center	**Pasig City, Metro Manila**	**3,995**	**21,607**	**12,174**	**FOR LEASING**		**20%**
Sotogrande Davao	Davao City, Davao	1,976	13,223	8,849	260	90,500	15%
Sotogrande Ilo Ilo	Jaro, Iloilo City	1,200	5,588	4,334	149	104,000	10%
Sotogrande Katipunan	Katipunan, Quezon City	1,133	18,186	11,189	280	111,000	10%
Sotogrande Ilo Ilo	Jaro, Iloilo City	1,200	5,588	4,334	149	104,000	10%
Sotogrande Neopolitan	Fairview, Quezon City	1,098	9,050	6,165	198	96,500	10%
COMPLETED PROJECTS		**Year Started**	**Year Completed**	**Total Units**	**Unsold Units**	**Aggregate Value (in Php Millions)**	**% Sold**
Artera Cebu	Mactan, Cebu	2008	2010	142	22	65.145	85%
East Bel-Air	Cainta, Rizal	2010	2014	134	7	9.56	95%
La Breza Tower	Mother Ignacia St. Quezon City	2008	2011	250	4	11.952	98%
La Mirada Tower	Lapu-lapu City, Cebu	2008	2010	152	57	180.576	63%
Neopolitan Condo 1	Fairview, Quezon City	2013	2016	232	48	147.84	79%
Splendido Taal 1	Laurel, Batangas	2008	2010	142	22	68.145	85%
Splendido Taal 2	Laurel, Batangas	2013	2017	347	0	0	100%
Sta. Lucia Residenze 1- Monte Carl	Cainta, Rizal	2013	2016	371	4	12.48	99%
Stradella	Cainta, Rizal	2014	2016	143	67	113.9	53%

Condotels operate on sale-and-leaseback model. Supplementing their condominium developments are the 'condotel' developments which provide returns to their investors through a sale and 15-year leaseback agreement. These condotels will provide unit-owners with dividends amounting to 70% of net profits of the total condotel proportioned according to the unit space owned. These developments are geared towards the company's stronghold market, the OFWs, as these provide them with returns on their property investments with little to no oversight on their end. SLI manages these condotels through its unit, the Sta. Lucia Hotel Management Group.

Commercial Leasing Business

SLI currently derives all of its leasing income through its leasable commercial space in the Sta. Lucia East Grand Mall (SLEGM) in Cainta, Rizal, which currently has approximately 128,000 sq.m. in gross leasable space, which includes the newly completed wing. SLEGM currently has an occupancy rate of at least 95%, with more than 450 tenants.

SLEGM has historically been the sole source of the company's leasing income up to end-2017, accounting for about 28% of total revenues. However, the business is working to further expand its leasing business through four ways: 1) having about 40 hectares of commercial space available for lease within its existing and ongoing projects; 2) the company's first venture into office space leasing through the Sta. Lucia Business Center (SLBC), which will interconnect with SLEGM; 3) developing more retail malls and; 4) potential joint ventures on 'mini malls' as part of their residential developments. We discuss SLI's future plans to expand its leasing portfolio under the ***Investment Highlights*** section.

Supplemental Businesses

The company has also recently forayed into construction services for houses within their developments, providing lot owners with competitive packages for construction, extending the business' vertical integration. These services are offered through their wholly-owned subsidiary, SLH. As a complement to this business, the company also provides financing services, aimed to help clients afford construction costs as their clients are mostly made up of spouses of OFWs, which typically find it difficult to secure loans from banks (as they do not file income tax returns, and depend on their spouse's income). Moreover, the company also receives commission income through its marketing services through SLV, which is one of its seven residential marketing partners.

TARGET MARKET

The company's main market are OFWs and their families, as they currently comprise about 67% of sales, followed by Small to Medium Enterprises (SMEs) and middle class employees – with each segment comprising 15% of sales, based on data from the company. SLI is also able to identify the domiciliation of its OFW sales to four key regions, with the Middle East, U.S., Asia and Europe contributing 34%, 31%, 27% and 8% respectively, based on company data. We note that SLI maintains sales offices throughout various locations across the world.

FINANCIAL SUMMARY

	2013A	2014A	2015A	2016A	3Q17A
INCOME STATEMENT (in PHP Millions)					
Net Revenues	1,326.91	2,296.32	3,104.36	3,292.92	2,795.23
Growth	*-25.98%*	*73.06%*	*35.19%*	*6.07%*	
Gross Profit	798.32	1,266.98	1,703.73	1,748.90	1,896.57
Growth	*-9.52%*	*58.71%*	*34.47%*	*2.65%*	
EBIT	537.26	898.72	1,110.13	1,122.04	1,309.39
Growth	*-4.64%*	*67.28%*	*23.52%*	*1.07%*	
EBITDA	649.82	1,024.01	1,278.67	1,292.21	1,435.62
Growth	*-3.59%*	*57.58%*	*24.87%*	*1.06%*	
Net Income	300.00	548.75	676.16	730.37	700.50
Growth	*-3.60%*	*82.91%*	*23.22%*	*8.02%*	
CASH FLOW STATEMENT (in PHP Millions)					
Income (loss) before tax	434.69	783.72	973.45	831.67	991.44
ADJUSTMENTS FOR:					
Interest expense	102.57	115.01	136.68	290.37	379.83
Depreciation and Amorization	112.56	125.28	168.54	170.18	126.23
Retirement Expense	0.41	0.62	0.79	0.85	-
Loss on Disposal of PP&E	-	0.03	-	-	-
Dividend Income	(5.54)	(5.67)	(7.16)	(7.16)	-
Fair value gain (loss) on repossessed	-	-	-	-	-
investory and gain (loss) from forefeited dep.	-	(33.16)	(55.46)	(32.44)	-
Provision for Doubtful Accounts	0.27	-	-	-	-
Interest Income	(88.76)	(83.44)	(125.43)	(139.51)	(81.89)
CHANGES IN WORKING CAPITAL	(441.76)	(710.56)	(1,301.02)	(2,915.24)	(4,099.80)
Interest Paid (inc. Capitalized Borrowing Costs)	(131.10)	(142.68)	(178.79)	(360.43)	(273.56)
Interest Received	54.16	64.49	81.93	75.92	81.89
Income Taxes Paid	(23.83)	(70.30)	(87.86)	(109.23)	(107.81)
OPERATING CASH FLOW	13.66	43.33	(394.33)	(2,195.02)	(2,983.67)
INVESTING CASH FLOW	(186.65)	(473.29)	(246.72)	(579.84)	(48.45)
FINANCING CASH FLOW	138.37	515.57	2,739.98	700.30	3,246.00
NET INCREASE (DECREASE) in CASH	(34.62)	85.61	2,098.93	(2,074.56)	213.88
Beginning Period Cash	65.09	30.46	116.07	2,215.00	140.45
ENDING CASH	30.46	116.07	2,215.00	140.44	354.33

FINANCIAL SUMMARY (Continued)

BALANCE SHEET (in PHP Millions)					
CURRENT ASSETS					
Cash and Cash Equivalents	30.46	116.07	2,215.00	140.45	354.33
Receivables	944.96	2,086.58	2,251.41	2,519.50	2,683.84
Real Estate Inventories	8,111.11	7,967.32	8,855.52	11,952.81	15,401.85
Deposit on Land Rights	1,358.69	-	-	-	-
Other Current Assets	963.08	1,610.74	1,481.41	2,493.45	3,483.22
NON-CURRENT ASSETS					
Non-current Installment Contracts Receivables	589.21	510.15	798.47	934.33	1,373.81
Investment Properties	4,416.43	4,760.31	4,983.80	5,152.85	822.27
Property and Equipment	23.73	38.63	43.16	63.33	5,099.63
AFS Financial Assets	730.56	729.93	722.68	844.16	58.13
Other Non-current Assets	16.80	18.63	19.34	24.43	34.72
TOTAL ASSETS	17,185.00	17,838.00	21,371.00	24,125.00	29,312.00
CURRENT LIABILITIES					
Accounts and Other Payables	1,431.65	1,693.94	1,776.07	2,800.01	3,532.02
Short-term Debt	2,673.16	3,198.05	700.00	2,395.56	5,644.00
Customers' Deposits	673.28	743.82	656.77	908.66	1,217.52
Income Tax Payable	21.33	29.04	32.80	78.91	20.30
NON-CURRENT LIABILITIES					
Long-term Debt	-	-	4,909.76	3,934.92	3,992.60
Pension Liabilities	1.02	1.99	1.98	3.68	757.11
Deferred Tax Liabilities - Net	300.19	439.24	593.69	537.62	3.68
TOTAL LIABILITIES	5,100.63	6,106.08	8,671.08	10,659.34	15,167.23
TOTAL EQUITY	12,084.40	11,732.28	12,699.71	13,465.97	14,144.58
TOTAL LIABILITIES & EQUITY	17,185.00	17,838.00	21,371.00	24,125.00	29,312.00

KEY FINANCIAL RATIOS

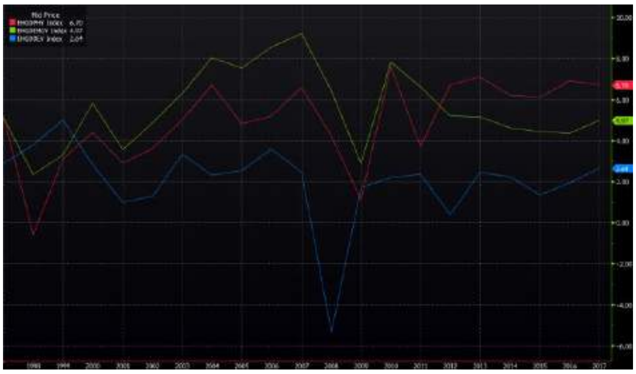
	2012	2013	2014	2015	2016	3Q17
PROFITABILITY						
Returns						
Return on Equity	2.70%	2.51%	4.61%	5.54%	5.58%	6.54%
Return On Assets	2.00%	1.80%	3.13%	3.45%	3.21%	3.37%
ROIC	2.33%	2.06%	3.71%	3.98%	4.37%	4.72%
Margins						
Gross Margin	52.37%	55.03%	49.81%	52.87%	50.93%	67.85%
EBITDA Margin	35.78%	47.26%	45.50%	38.57%	36.41%	51.36%
Operating Margin	29.21%	37.69%	39.39%	32.89%	31.00%	46.84%
Net Income Margin	18.48%	25.52%	26.76%	22.75%	23.21%	25.06%
GROWTH						
Revenue	25.09%	-30.23%	74.49%	44.90%	5.87%	N/A
EBITDA	-4.97%	-7.82%	67.99%	22.81%	-0.05%	N/A
Operating Income	-6.26%	-9.97%	82.40%	20.99%	-0.22%	N/A
Net Income	-13.26%	-3.60%	82.91%	23.22%	8.02%	N/A
SOLVENCY						
Net Debt / EBITDA	4.12	4.76	3.30	2.96	5.40	6.36
EBIT / Interest Expense	5.23	4.38	7.38	7.17	3.38	3.18
ACTIVITY						
A/R Turnover	1.87	1.71	3.65	4.57	4.32	N/A
Days Sales Outstanding	*195.29*	*213.81*	*99.89*	*79.81*	*84.67*	N/A
Inventory Turnover	0.11	0.07	0.13	0.17	0.15	N/A
Days Inventory Outstanding	*3,387.28*	*5,446.40*	*2,850.67*	*2,191.99*	*2,466.24*	N/A
A/P Turnover	2.62	1.22	1.08	2.76	4.04	N/A
Accounts Payable Turnover Days	*139.72*	*299.63*	*338.75*	*132.01*	*90.64*	N/A
Cash Conversion Cycle	3,442.85	5,360.58	2,611.82	2,139.78	2,460.27	N/A
LIQUIDITY						
Cash Ratio	0.02	0.01	0.02	0.70	0.02	0.03
Current Ratio	2.53	2.38	2.08	4.68	2.77	2.11
Quick Ratio	0.24	0.09	0.14	0.89	0.16	0.03

Key Investment Highlights

Capitalizing on the Upbeat Philippine Macroeconomic Outlook

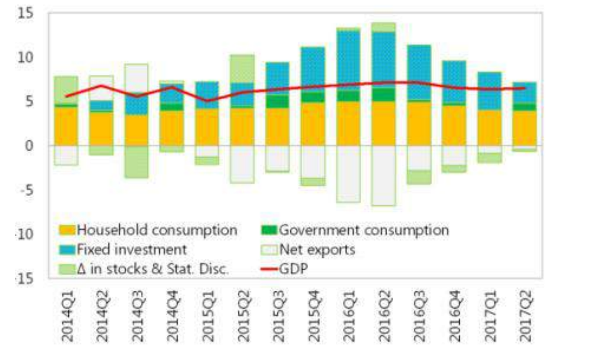
The Philippine economy remains one of the fastest-growing economies in the ASEAN region and the world (please refer to ***Figure 6***). In 2017, the Philippine economy grew 6.7% as compared to the 4.8% growth seen in emerging markets, and 3.8% global growth over the same period. For 2018, the government is targeting GDP growth to be between 7-8%, while the ADB, IMF and World Bank forecasts about 6.7-6.8% growth over the same period. This growth trend is seen to continue medium-term, on the back of robust consumption and the government's ambitious Php 8.6 trillion infrastructure plan.

Figure 6 *– 10-Year Comparative Philippine Growth vis a vis Emerging Markets and Developed Markets Growth*



Source: *Bloomberg*

Figure 7 *– Contributors to Real GDP Growth (Expenditures Side)*

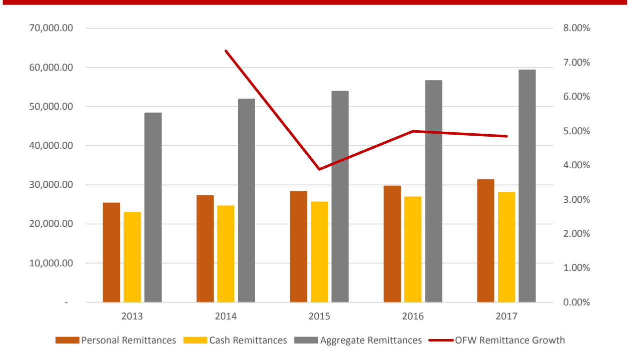


Source: *International Monetary Fund and the National Statistical Coordination Board*

Household consumption remains to be the biggest contributor to economic growth, followed by investments, but with government spending increasingly contributing more to GDP on the back of its infrastructure program.

Moreover, the Philippine economy continues to benefit from the diaspora of Philippine workers throughout the world through remittances, having totaled US$ 28.1 billion (+4.3% YoY) in 2017. These remittances to OFW's domestic families continue to help drive the pace of robust consumption, as its aggregate value compare to about one-tenth of nominal GDP. In our view, this continuing growth should positively affect the company through its two revenues segments: 1) residential, as remittance growth would effectively improve customers' affordability of real estate, and; 2) leasing, as spurred consumption leads to brisk demand for its commercial space. Recall that majority of SLI's customers are comprised of OFWs and their families.

Figure 8 *– OFW Remittance Value and Growth (in US$)*



Source: *Bangko Sentral ng Pilipinas*

Figure 9 *– OFW Remittance as Percent of Philippine GDP*

Source: *World Bank*

Moreover, we believe that the company could also benefit from the newly enacted tax reform law, especially with respect to its vertical developments, which is primarily geared towards attracting middle-income customers. We estimate that disposable income should increase by 8.8%-13.1% for most middle income workers, based on TRAIN bill special report[1].

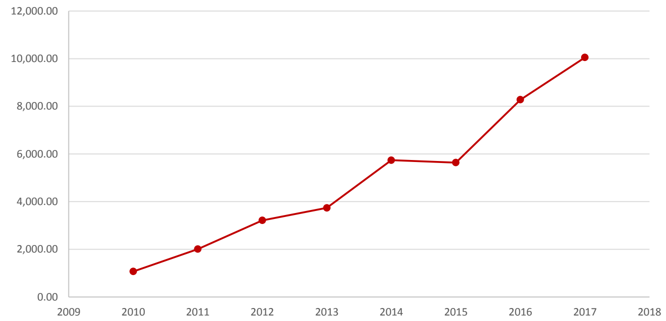
Moving forward, we also see the company benefitting more from the robust IT-BPO sector of the country as it diversifies its business into office space leasing (e.g. Sta. Lucia Business Center). Based on latest available data from the International Labour Organization (ILO)[2], the sector's aggregate value generated is estimated to about US$ 25 billion in 2015, and is expected to rise following the strong continuing pace of foreign direct investments (please refer to ***Figure 10***). The sector also employs about 1.3 million people in 2016, with expectations of further jobs created despite the more modest projections of an annual 9% growth in the sector until 2022[3], according to ILO.

[1] Please refer to our ***Special Report: A synthesis and analysis of the TRAIN bill*** released last December 2017 for full details.
[2] Errighi, L., Khatiwada, S., & Bodwell, C. (2016). Business Process Outsourcing in the Philippines: Challenges for Decent Work. ILO Asia-Pacific Working Paper Series.
[3] Business World (Link: http://bworldonline.com/bpo-sector-sees-slowdown-single-digit-growth-2022/)

Figure 10 – IT-BPO Industry Overview (Philippines and India)

Source: International Labour Organization

Figure 11 – Philippine Foreign Direct Investment (in US$ Millions)



Source: Bangko Sentral ng Pilipinas

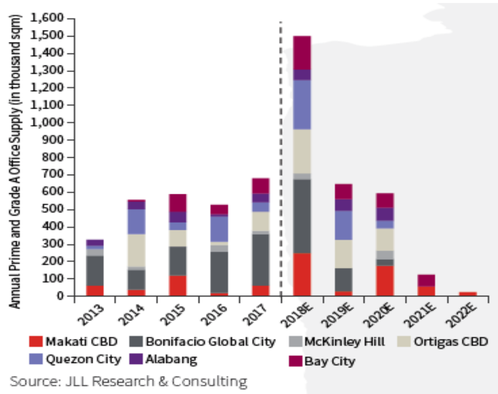
The location of SLI's business center also bodes well for the company, considering that it is located in the eastern part of Metro Manila, straddling the border between Marikina, Pasig and Cainta, Rizal. Considering that the locations of established PEZA-accredited office buildings are typically in Makati, Taguig (Fort Bonifacio), Ortigas and the Bay area, SLBC provides a welcome locational option for IT-BPO companies, in our opinion.

Booming Philippine Property Sector

Moreover, we believe SLI is also in a position to partake in a greater share of the robust Philippine property market. Based on data from the Philippine Statistics Authority and Bangko Sentral ng Pilipinas, the gross value added to the economy by real estate, renting and business activities grew by 7.46% in 2017 with real estate price index growing 3.6% YoY. Across all fronts, the outlook for the domestic property sector remains upbeat:

- **Horizontal residential:** In our view, there looks to be attractive growth potential in horizontal developments, specifically economic and low-cost housing[4]. For instance, the Department of Trade and Industry estimates combined demand for economic and low-cost housing units to reach 3,194,589 through 2030. Following the government's value definition of economic and low-cost housing, this translates to a total value of at least Php1.4 trillion in economic and low-cost housing demand in the next twelve years, and as much as Php9.6 trillion. Moreover, data from property consultant, Jones Lang LaSalle (JLL) and the HLURB shows a slowdown in LTS issuances for economic housing developments as developers increasingly prefer building mid- to high- end condominiums.
- **Vertical residential:** based on data compiled by JLL, the total existing stock for mid- to high-end condominium units grew by about 11% in 2017 to 289,300 units. Despite this growth, property prices remained upbeat with the real estate price index inflating by 3.6% YoY, according to data from the BSP.

Figure 12 – Prime and Grade A Office Stock in Metro Manila by Sub-district (2013-2022E)



- **Commercial leasing:** On the retail leasing end, foreign & local food & beverage and fashion companies continue to drive demand of commercial retail space, according to JLL. Despite an increase of 151,000 sq.m. GFA in 4Q17 in retail space supply, to a cumulative retail area supply estimate of about 8.5 million sq.m. gross floor area (GFA) in Metro Manila as at end 2017[5], the average vacancy rate remained healthy at about 2.7%, which is indicative of robust take-up in commercial retail space, in our view.
- **Office leasing:** In terms of office space, JLL noted that 2018 should see a spike in stock for prime office space across Metro Manila to about 1.5 million sq.m., with most of the added supply coming from Bay city, Ortigas CBD and Quezon City. This spike is attributable to the backlog seen in 2017, as real estate developers' need for skilled construction workers coincided with the need for the same work force as relating to the government's infrastructure projects. Despite this, the market looks to be able to absorb this additional capacity as offshoring and outsourcing (O&O) firms firm up their demand, Philippine offshore gaming operators (POGOs) continue to expand, and other industries partake in the take-up of office spaces.

Cognizant of SLI's expansion plans, we believe that the company should be able to capitalize on this outlook for the horizontal housing market, as well as the sector's over-all growth trajectory. Moreover, its niche locations and the corresponding markets that they service should enable the company to better weather any short-term challenges within the sector. We are also optimistic that the company's drive to expand its portfolio of leasing income-generating assets could provide better earnings visibility and steady cash flow for the firm.

[4] Defined by the government as housing units with selling prices of between Php 450,000 up to Php 3,000,000 (Link: http://industry.gov.ph/industry/housing/)
[5] Jones Lang LaSalle 4Q17 Philippine Property Digest

Government Infrastructure Program Providing Tailwinds

Perhaps proving another tailwind to the sector is the Philippine government's Php 8.4 trillion infrastructure program over the 2016 – 2022 period. This infra push is geared towards unlocking value in provincial locations, with about 75% of the current and pipeline projects domiciled outside of Metro Manila. Most of these projects are to help improve transportation accessibility across various locations in the country, with railways, roads and airports comprising bulk of them.

Figure 13 – Southeast Metro Manila Expressway (C-6)

Source: *Department of Public Works and Highways*

Specific to SLI, we believe it is likely that for these infrastructure projects to further add value to its existing land bank and development locations. For example, SLBC and SLEGM will be effectively connected to the Emerald LRT station currently being built as part of the expansion of the existing Light Rail Transit (LRT-2), enhancing foot traffic for SLEGM and making SLBC an ideal office location for residents within the peripheral communities.

As another example, the Southeast Metro Manila expressway currently under construction will connect the South Luzon Expressway towards Batasang Pambansa in Quezon City, improving accessibility to the locations that are in close proximity to the project. About eight of SLI's projects are within this area, and should effectively enhance land value, not just for SLI but also for prospective clients. In total, more than 40 of SLI's current and pipeline projects are viewed to be beneficiaries of the government's infrastructure program, according to management.

Strong Financial Position

SLI's financial position looks to be supportive of its planned expansion, considering its healthy balance sheet. Its debt-to-equity ratio remains to be at a modest 0.5x, as compared to the industry median of 0.8x, which is indicative of further flexibility of subscribing to more debt in the future, especially in consideration of its liquidity needs for its planned expansion. The company's return on equity also remains attractive, at 6.52% with return to assets at 3.8%.

Furthermore, we also like SLI's profitability, as it grew its income at a 19% five-year CAGR, despite a relatively tamer, but still strong growth in revenues, at 18.5% CAGR. The divergence in growth between revenues and net income may be attributable to the company's strong margins, clocking in at a three-year historical average gross profit margin of 51.2%, operating margin of 34.4%, and net margin of 24.2%.

One key thing to note however is that its interest coverage ratio is currently at a slim 3.4x (compared to the 6.9x industry median), which highlights some risks related to being able to service future debt.

Low-risk, High-return Business Model

Perhaps what provides the company its strong margins would be its relatively low-risk method of business, and a historically conservative management. The 'asset-light' joint-venture model for its horizontal developments effectively reduces the need for a high outright cash outlay, in favor of a gross revenue and cost split agreement with land owners. This model reduces the risks and additional lag time involved with an outright purchase of land and successive development on the part of SLI, which has allowed it to expand its footprint more quickly while yielding high returns (as attested to by its strong margins) with minimal impact on the balance sheet.

Furthermore, the risks related to in-house financing through its sale-on-installment method remain relatively muted considering that the rate of default remained at 3-5% as at end-2017 (according to management), despite sales-on-installment comprising, on average, about 90% of the company's sales. This may be partly because of preferential interest rates that range from 14-16% per annum, following a 20% down payment on a maximum tenor of 10 years. In 2016, management has noted that about 72% of its customers availed of this option, with a tenors of up to five years or less.

Diversified Property Development and Business Portfolio

As discussed in the prior sections, SLI's most sizeable business remains to be their horizontal developments contributing 75% to revenues in FY2017. In our view, this business segment shows great promise on the basis of its expansive and strategically-located land bank, which provides the company a sizeable potential to capitalize on ongoing opportunities (specifically land banking close to sites of ongoing and future infrastructure projects). SLI looks to continue on this strategic land banking strategy through the acquisition of more land in select emerging cities across the Philippines, while embarking on an aggressive plan to develop its existing land portfolio to eventually improve its development sales mix to 50-50 between JV and wholly-owned developments.

Nevertheless, the company remains keen to continue expanding its joint venture model as it also insulates the company from too much risk, and continues to help SLI keep their cash flow fairly flexible considering that they would not need to pay for the land upfront. Moreover, we believe that the company's legacy business remains to be well complemented by its vertical condominium and condotel developments, as they tap into a potentially different markets (e.g. middle-income earners for condos, OFWs who want exposure to rental income for condotels).

Perhaps what provides the best cause for optimism for the company is the expansion of its leasing businesses, which could provide a steady stream of cash flow for the company, in our view. This move also comes at an opportune time, as retail space competition heats up for SLEGM, with the establishment of Ayala Land Inc.'s Feliz mall, adding to the growing list of malls in the area; nevertheless, we foresee SLEGM to maintain its strong leasing revenue due to customers' loyalty to the brand (being the first mall to service the area) and relative ease of access for the public (SLEGM is the crossroads for the upcoming LRT extension, to the rest of Cainta, Marikina and Pasig).

The company aims to augment the existing leasing income derived from SLEGM with its foray into office space leasing. Recall that SLBC is currently undergoing PEZA accreditation, which will make it a prime location for IT-BPO companies to put up shop. Furthermore, the company is also looking to lease its existing 40 ha. of commercial space within its developments (vis-a-vis selling the space), which may prove to be attractive to potential lessees, considering that they would directly service the communities that reside within SLI's developments. SLI is also keen on developing other commercial retail malls and mini malls within its residential projects.

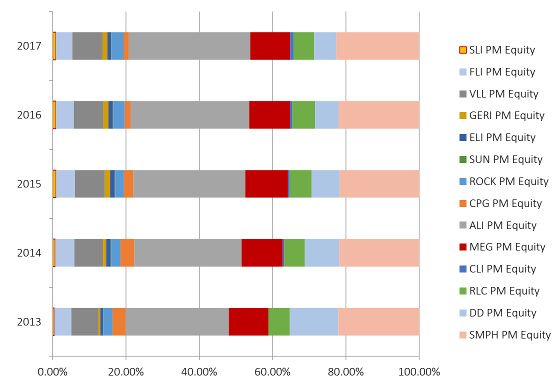
Improving Competitive Position

Based on the aforementioned outlook on the industry and the Philippine economy, it comes as no surprise that there are many real estate developers that are seeking to capitalize on the opportunity. Based on management, SLI views Filinvest Land Inc. (FLI) and Vista Land and Lifescapes (VLL) as their main competitors.

Relative to the broader industry, it may seem like the value generated by SLI's business remains relatively minute and muted by bigger players (comprising about 0.82% of industry revenue based on our competitor set[6], see ***Figure 14***). However, a closer inspection of the five smallest real estate development firms (***Figure 15***) provides a better snapshot of the improving competitive positon of SLI as it continues to steadily generate more value from its business over the course of the past five years.

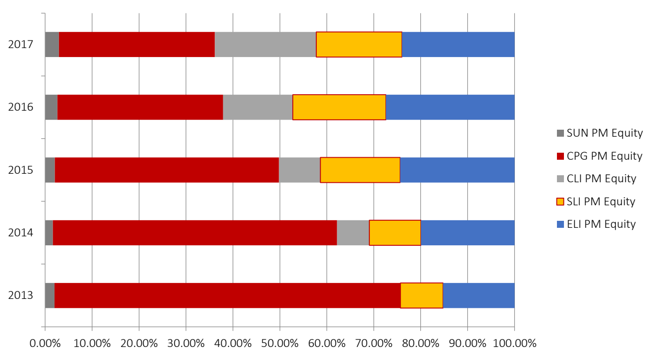
Moving forward, we believe that SLI's expansion plans will provide it with the necessary tools to help keep its improving competitive momentum strong. Moreover, its relatively niche market provides it with the perfect opportunity to penetrate the market and get an increasingly bigger portion of the industry's value, as it seeks to compete with bigger real estate developers, in our view.

Figure 14 – *Contribution to Aggregate Industry Revenue by Selected Listed Real Estate Companies*



Note: *FY17 Figures for SLI based on Bloomberg estimates*
Source: *Bloomberg*

Figure 15 – *Proportion of Revenue between Five Smallest Listed Real Estate Companies (based on Market Cap)*



Note: *FY17 Figures for SLI based on Bloomberg estimates*
Source: *Bloomberg*

Strong Growth Potential, but Outlook Contingent on Raising More Capital, Better Cash Flows

We believe that the current growth plan of SLI's management allows to it partake on a greater portion of the brisk outlook for the Philippine economy. The continuing strong OFW remittance growth and higher disposable income is seen to sustain, if not grow, the demand for SLI's projects.

SLI's growth story moving forward, however, relies heavily on the need for more capital, considering that its cash balances as at 3Q17 was only at Php 354.33 million. We note that the Php 5 billion corporate note facility it secured early this year is still short of its three-year aggregate capital expenditure guidance of Php 15 billion, considering that: 1) half of the borrowing would be used to pay off existing long-term debt amounting to Php 2.5 billion; 2) the company's plans to enter into JV agreements for new developments totaling 1.43 million sq.m. along with a further acquisition of 1.01 million sq.m. land across the country, and; 3) the company's shift to developing more asset-heavy projects (i.e. developing its land bank and developing more office and retail spaces), which requires more cash flow relative to its traditional 'asset-light'-intensive development strategy.

Of equal importance is the company's ability to deliver on its expansion plans and to robustly manage its future cash flows to service debt whilst remaining supportive of its expansion plans, in our view. We believe that a priority shift in favor of a more aggressive development plan over continuing land banking could generate required cash flows for subsequent developments, noting that as of 3Q17, cash balances stood at Php 354.33 million, with net operating cash outflows at Php 2.9 billion on the back of Php 4.0 billion increase in real estate inventories (land banking).

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[6] Comprised of Filinvest Land Corp. (FLI), Vista Land and Lifescapes [VLL], Global Estate Resorts Inc. [GERI], Empire East Land Holdings [ELI], Suntrust Homes Inc. [SUN], Rockwell Land Corp. [ROCK], Century Properties Group [CPG], Ayala Land Inc. [ALI], Megaworld Corp. [MEG], Cebu Landmasters Inc. [CLI], Robinson's Land Corp. [RLC], Double Dragon Properties [DD], and SM Prime Holdings [SMPH]

Valuation Highlights

Price-to-Book and Price-to-Earnings

In terms of price-relative valuations, SLI has lagged the industry in terms of price-to-book, even despite the conservative valuation of its land assets (valued at purchase price). While P/B provides little indication for the company's future earnings potential, it does provide us with a semblance of a floor value on the assumption that the company's net assets can be liquidated at least at cost, which implies that current prices are less than the company's liquidation value.

Perhaps what provides us a better picture of how the market is pricing in its future growth would be its price-to-earnings ratio, which currently places SLI within the industry median. However, a closer examination reveals that at about 10.9x P/E based on forward earnings, SLI is trading well below its historical mean – which currently implies that the mean-reverted price for SLI should be at Php 1.67, representing a 63% upside based on the closing price as of April 23, 2018.

It is important to note however, that a reversion of prices to their historical mean, based on P/E is contingent on continuing strong earnings growth, and the ability of the company to execute its future growth plans (which we have earlier noted to be contingent on its ability to raise capital). On that premise, it appears that current valuations for SLI appear to be unwarranted in the context of an uptick in EPS growth (26.4% based on 9M17 and relative to its five-year CAGR of 19.97%). Given this bullish divergence of EPS growth relative to its historical CAGR, it is at least justifiable that SLI trades near its historical average P/E. Moreover, its future expansion plans and the near-term contribution of SLI's new investment property, SLBC, to its recurring leasing revenue should help provide tailwinds to the company's profitability. In the following discussions we elaborate on other factors that we believe could potentially drive SLI's P/E to revert to its historical mean.

Figure 16 - Price-Relative Valuation

		P/B		P/E		
		T12M	1Y Forward	5Y Ave.	T12M	1Y Forward
SLI PM Equity[1]	Sta. Lucia Land Inc.	0.8x	0.6x	15.6x	10.1x	10.9x
FLI PM Equity	Filinvest Land Inc.	0.7x	0.6x	8.1x	7.2x	6.6x
VLL PM Equity	Vista Land and Lifescapes	1.0x	0.8x	9.6x	9.3x	8.3x
GERI PM Equity	Global-Estate Resorts Inc.	0.6x	N/A	20.2x	9.6x	N/A
ELI PM Equity	Empire East Land Holdings Inc.	0.4x	N/A	31.2x	8.8x	N/A
SUN PM Equity	Suntrust Homes	5.2x	N/A	62.5x	28.8x	N/A
ROCK PM Equity	Rockwell Land Corp.	0.7x	N/A	6.0x	5.8x	N/A
CPG PM Equity	Century Properties Group	0.3x	N/A	6.8x	8.0x	N/A
ALI PM Equity	Ayala Land Inc.	3.7x	3.2x	27.7x	23.9x	21.1x
MEG PM Equity	Megaworld Corp.	1.0x	1.0x	10.7x	11.1x	9.9x
CLI PM Equity	Cebu Landmaster Inc.	1.6x	N/A	0.0x	5.4x	N/A
RLC PM Equity	Robinsons Land Corporation	1.2x	1.1x	19.2x	13.4x	13.5x
DD PM Equity	Double Dragon Properties Corp	17.2x	N/A	0.0x	0.0x	N/A
SMPH PM Equity	SM Prime Holdings	3.7x	3.5x	29.3x	34.7x	30.4x
MEDIAN		1.0x	1.0x	13.2x	9.5x	10.9x

Source: Bloomberg (Data retrieved: April 23, 2018)

[1] : FY17 Figures based on Actual Reported Figures and Bloomberg Estimates Where Applicable

Profitability

As previously discussed, we like SLI's strong margins, which continue to be fairly consistent relative to its three year historical averages. It is also noticeable that its gross margins have improved relative to its historical and the industry median, which looks to be supportive of its expansive employment of the 'asset-light' method of business as an increasingly profitable practice. However, when comparing its operating and net margins to the rest of the industry, as well as its self-identified main competitors, we note that SLI continues to lag behind, which may be indicative of less than-optimal selling, general and administrative (SG&A) expense management.

We also like how SLI continues to provide brisk returns to its equity-holders and well as on its assets, providing a trailing twelve-month ROE and ROA of 6.5% and 3.4% respectively. However, it is important to note that SLI continues to lag behind most of its comparable peers, which we believe corroborates our concerns around the management of SG&A.

Over-all, we believe that improving gross margins should eventually provide a tailwind in the context of our anticipated increase in revenues; however, future profitability, and corresponding returns are contingent on reining in SG&A expended (perhaps, specifically with regard to commission expenses).

Figure 17 - Relative Valuation (Profitability Ratios)

		ROE		ROA		Margins					
						3Y Average			Current		
		T12M	1Y Forward	T12M	1Y Forward	Gross Profit	Operating Profit	Net Profit	Gross Profit	Operating Profit	Net Profit
SLI PM Equity[1]	Sta. Lucia Land Inc.	6.5%	5.8%	3.4%	3.1%	51.2%	34.4%	24.2%	67.0%	31.0%	23.2%
FLI PM Equity	Filinvest Land Inc.	9.3%	9.8%	4.1%	4.6%	49.0%	37.8%	30.2%	50.2%	39.0%	31.3%
VLL PM Equity	Vista Land and Lifescapes	11.2%	11.5%	4.7%	5.3%	57.5%	35.7%	26.5%	60.0%	38.9%	26.5%
GERI PM Equity	Global-Estate Resorts Inc.	6.4%	N/A	3.3%	N/A	61.6%	26.8%	21.4%	66.0%	38.2%	29.1%
ELI PM Equity	Empire East Land Holdings Inc.	2.4%	N/A	1.5%	N/A	38.8%	15.0%	13.2%	N/A	16.5%	13.8%
SUN PM Equity	Suntrust Homes	19.8%	N/A	8.9%	N/A	44.7%	21.5%	11.1%	44.7%	22.7%	11.6%
ROCK PM Equity	Rockwell Land Corp.	13.0%	N/A	4.7%	N/A	35.6%	14.1%	17.7%	31.8%	10.9%	16.5%
CPG PM Equity	Century Properties Group	4.2%	N/A	1.6%	N/A	40.8%	-0.6%	14.0%	45.1%	0.8%	10.8%
ALI PM Equity	Ayala Land Inc.	16.2%	16.6%	4.6%	5.8%	34.7%	28.5%	18.1%	33.9%	28.3%	19.0%
MEG PM Equity	Megaworld Corp.	9.3%	10.0%	4.3%	5.0%	59.5%	38.4%	27.9%	62.5%	40.7%	29.2%
CLI PM Equity	Cebu Landmaster Inc.	40.6%	N/A	15.6%	0.0%	53.6%	39.5%	33.6%	52.0%	39.7%	32.9%
RLC PM Equity	Robinsons Land Corporation	9.2%	8.8%	4.4%	5.1%	53.1%	37.9%	27.5%	52.8%	38.0%	26.1%
DD PM Equity	Double Dragon Properties Corp	27.2%	N/A	2.9%	0.0%	70.3%	32.9%	52.3%	70.1%	72.0%	26.0%
SMPH PM Equity	SM Prime Holdings	11.2%	12.1%	5.5%	6.6%	83.4%	44.3%	33.2%	83.3%	44.7%	30.3%
MEDIAN		10.3%	10.0%	4.4%	5.0%	52.1%	33.7%	25.4%	52.8%	38.1%	26.0%

Source: Bloomberg (Data retrieved: April 23, 2018)

[1] : FY17 Figures based on Actual Reported Figures and Bloomberg Estimates Where Applicable

Gearing

We've also discussed earlier that SLI's capital structure continues to exhibit potential flexibility on the back of its low debt-to-equity ratio. In the context of its peers, SLI remains to be below the industry median in terms of maximizing the use of debt in financing its capital and operating expenditures; this provides leeway for the company to raise more debt as it embarks on its ambitious capital expenditure program; note that the current debt covenants of SLI require that it maintains a 1.5x debt-to-equity ratio, 1.0x current ratio, and 1.25x debt service coverage ratio. However, underscoring the risks related to SLI's future borrowings would be its less-than-average interest coverage ratio, which remains to be at 3.4x.

Growth

Perhaps the most appealing characteristic of SLI is its strong earnings growth, considering that the as of 9M17, EPS and net revenue growth has grown 17.7% and 31.2% respectively, as compared to a five-year compounded annual growth rate (CAGR) of about 18.50% and 19.97% respectively. Its growth trajectory continues to outpace that of its closest competitors, as well as the majority of industry players, which may be seen as justification for the company's sub-optimal liquidity (in deference to growth capex).

Figure 18 - Gearing and Growth Ratios

		Gearing Ratios		5Y CAGR	
		D/E	EBIT/Int. Expense	Revenue Growth	EPS Growth
SLI PM Equity[1]	Sta. Lucia Land Inc.	0.5x	3.4x	18.50%	19.97%
FLI PM Equity	Filinvest Land Inc.	0.9x	6.8x	11.19%	10.44%
VLL PM Equity	Vista Land and Lifescapes	1.1x	4.0x	15.25%	5.62%
GERI PM Equity	Global-Estate Resorts Inc.	0.2x	20.2x	41.85%	30.60%
ELI PM Equity	Empire East Land Holdings Inc.	0.1x	4.1x	29.84%	19.25%
SUN PM Equity	Suntrust Homes	0.0x	16.4x	21.42%	55.19%
ROCK PM Equity	Rockwell Land Corp.	1.1x	5.6x	15.64%	13.53%
CPG PM Equity	Century Properties Group	1.0x	0.1x	-7.26%	-23.93%
ALI PM Equity	Ayala Land Inc.	0.9x	4.9x	19.46%	20.61%
MEG PM Equity	Megaworld Corp.	0.5x	11.5x	11.91%	7.78%
CLI PM Equity	Cebu Landmaster Inc.	0.7x	80.9x	0.00%	0.00%
RLC PM Equity	Robinsons Land Corporation	0.8x	11.0x	10.75%	6.73%
DD PM Equity	Double Dragon Properties Corp	1.5x	7.1x	60.34%	0.00%
SMPH PM Equity	SM Prime Holdings	0.7x	7.4x	9.71%	10.36%
MEDIAN		0.8x	6.9x	15.45%	10.40%

Source: Bloomberg (Data retrieved: April 23, 2018)

[1] : FY17 Figures based on Actual Reported Figures and Bloomberg Estimates Where Applicable

QUICK TAKE ON RELATIVE VALUATIONS

We believe that at current valuations, and considering consensus expectations that SLI may appear to be undervalued, considering that its earnings growth trajectory remains robust with 9M17 YoY EPS growth at 26.4%, outpacing its five-year CAGR. As such, we believe that it is only warranted that the company trade at least near to its historical P/E of 10.1x, if not more, especially in consideration of the company's growth prospects.

Furthermore, Our quick analysis on relative valuations leads us to think that current prices are nearer to the bottom, on the basis of the company's liquidation value (based on P/B), and about 63% from the top (if the company is being priced in the context of earnings growth continuing at its five-year CAGR of 19.97%).

Current risks to the company include: 1) its ability to service and refinance debt (in the context of a rising interest-rate environment) considering its relatively low interest coverage ratio (3.4x) and low liquidity given that its cash balances remain at a tight Php 354 million as of 3Q 2017, and 2) its ability to execute its plan of developing its land bank. However, we believe that these risks may be mitigated fairly easily as: 1) we anticipate a steady stream of cash flow borne from its new leasing assets and robust project pipeline, and 2) considering the company's strong track record of completing its and selling-out its projects.

Conclusion

We believe that SLI's current growth prospects warrant a deeper look into its current valuations, as it primes itself for expanding its business outside its traditional horizontal housing development-heavy business. The company's planned expansion into developing more leasing assets will help underpin the company's current and future liquidity needs for the rest of its planned developments whilst helping to improve earnings visibility for the firm, as well as help stabilize its revenue stream moving forward. That notwithstanding, the company's traditional horizontal developments business should also provide a growing contribution to revenues as it capitalizes on strong domestic consumption, the brisk outlook on the Philippine property sector, and the government's ambitious infrastructure program.

Meanwhile, SLI's strong balance sheet remains supportive of its Php 15 billion expansion capex plan, in that it is able to absorb more debt issuances, whilst remaining within the confines of its debt covenants. Moving forward, we remain optimistic that SLI would be able to leverage its scale to preserve its strong margins throughout its planned expansion, whilst management moves towards further streamlining costs.

In terms of prices, it may be viewed that the market is currently pricing SLI conservatively and may not necessarily reflect its near- to medium-term prospects. On the basis of current one-year forward P/B value of 0.6x and considering how SLI conservatively values its land bank at purchase price, we believe that SLI is currently trading at prices below its justifiable liquidation value, which provides potential investors with a notion that prices may be trading near its floor, more than near its top.

In conclusion, we underscore that SLI's growth trajectory will rely heavily on its ability to raise enough capital to satisfy the monetary requirements of its Php 15 billion capex plan, especially in consideration of its current cash balances.

Other key risks to our outlook for SLI are the following: 1) less-than optimal future cash flows to satisfy existing required interest payments and capital expenditures; 2) rising interest rates could impact borrowing costs, which may lead to less outlays for growth in deference to debt servicing; 3) execution risk in its expansion plans, especially if raised capital is spent more on land banking than existing land developments.

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