

BUY

TP: PHP 2.89

▲ 19.4%

Sta. Lucia Land

SLI PM

Delivering on Growth; Paving the Way for More

Sta. Lucia Land (SLI) continued its strong growth momentum with 1H19 revenue and net profit growing by 83.2% and 104% YoY, respectively, on the back of stronger Real Estate Sales. We remain positive on SLI's long-term growth story particularly in view of an expanded pipeline of 50+ new projects and expect EPS to grow by 15.9% CAGR for FY19-22E. Reiterate BUY with an upgraded TP PHP2.89/shr, 20% discount to our updated end-2020E RNAV.

- ➔ **Robust 1H19 results; outperforming estimates:** 1H19 revenue and net profit grew 83.2% and 104% YoY, respectively, to P3,060m and P884m, coming in at 66.4% and 64.8% of our previous FY19E est., driven by stronger marketing sales (esp. from major projects such as Acropolis Loyala). 1H19 net profit margin improved to 28.9% from 25.9% (in 1H18) due to stronger-than-expected turnover of higher-margin projects.
- ➔ **B/S to remain nimble:** As of 1H19, SLI's B/S remains unburdened at 0.9x leverage (vs. covenant limit at 1.5x) and is slated to ease further with the planned issuance of ~3.0bn new shares to raise ~P6-9bn. This will leave substantial headroom (~P23.1bn) to finance the est. ~P38.8bn GDV worth of project pipeline over the next 5 years.
- ➔ **50+ new projects added to SLI's pipeline:** With its expanded balance sheet, following the P5bn debt issuance in 1H18, SLI has added 50+ new projects since our 3Q18 note dated 05Dec18. As such, we are upgrading our FY19-22E earnings estimates by ~5-34% and revising our end-2020E RNAV up by 82.3% to reflect the absolute expansion of SLI's growth trajectory with a stronger pipeline of projects.
- ➔ **Reiterate BUY; Upgrade TP PHP2.89/shr:** While SLI has rallied (+90% YTD vs. Phils Property index +16% YTD) given its strong growth story, its valuation still remains underwhelming at 1.3x P/B (15.9% EPS CAGR for FY19-22E) vis-à-vis Philippines Developers at 1.9x (14.3% EPS CAGR). SLI currently trades at 33.1% discount to our post-equity issuance, end-2020E RNAV/shr, applying a 8.0% discount rate.

Updated Financial Highlights

| Y/E 31 Dec (PHP'm) | FY18A | FY19E | FY20E | FY21E | FY22E |
|-----------------------------|-------|-------|--------|--------|--------|
| Revenue | 3,170 | 5,686 | 8,832 | 8,922 | 9,112 |
| Net profit | 1,065 | 1,430 | 2,241 | 2,514 | 2,654 |
| W.A. Outstanding Shares (m) | 8,946 | 9,396 | 11,196 | 11,196 | 11,196 |
| EPS (PHP) | 0.119 | 0.152 | 0.200 | 0.225 | 0.237 |
| EPS growth (%) | | 27.8% | 31.5% | 12.2% | 5.6% |
| NPM (%) | 33.6% | 25.1% | 25.4% | 28.2% | 29.1% |
| Net Debt to Equity | 7.4% | 6.5% | 9.3% | 9.4% | 9.1% |
| NAV per share | 1.76 | 1.95 | 2.15 | 2.38 | 2.62 |
| P/B (x) | 1.4 | 1.2 | 1.1 | 1.0 | 0.9 |

Source: SCCM Research; as of 11 Sep 2019; Our model assumes an equity issue of ~3.0bn new shares in 2H19

12 September 2019


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PRICE CLOSE (11 Sep 2019)

PHP 2.42

MARKET CAP

PHP 19.8 bn

USD 380.5 m

SHARES O/S

8,196 m

FREE FLOAT

18.2%

3M AVG DAILY VOLUME/VALUE

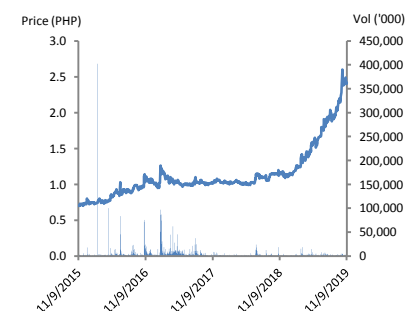
PHP 3.37 m

52 WK HIGH

PHP 2.73

52 WK LOW

PHP 1.07

Target Price **PHP 2.89**


1H19 Result Review

Growth Driven by Robust Real Estate Sales and Attractive Launches

- **Enlarged pipeline of attractive projects:** 1H19 revenues and net profit grew by 83.2% and 104.3% YoY, respectively, largely due to the strong project pipeline as a result of the SLI's widened access to capital and enlarged balance sheet. In addition, successful marketing strategies and strong buyer interests translated to stronger take-up of project launches during 1H19.
- 1H19 rental income fell 6.6% YoY to P416.4m due to re-evaluation of lease rates to be competitive with neighbouring malls and maintaining high occupancy (95% as of 2Q19 vs. 95% in 3Q18). However, we expect the downward pressure on rentals to become ease slightly with the completion of the LRT 2 extension in 2019, which will improve foot traffic and tenant interest of the mall.

Fig 1 - 1H19 Results Highlights

| In PHP'm | 1H19 | 1H18 | YoY Growth |
|-------------------------|-------|-------|------------|
| Revenue | 3,060 | 1,670 | 83.2% |
| Gross Profit | 2,186 | 1,181 | 85.1% |
| Gross Profit Margin | 71.5% | 70.7% | |
| Operating Profit | 1,532 | 863 | 77.5% |
| Operating Profit Margin | 50.1% | 51.7% | |
| Net Profit | 884 | 433 | 104.3% |
| Net Profit Margin | 28.9% | 25.9% | |

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

- **Margins remain robust:** 1H19 operating profit margin dampened slightly to 50.1% (vs. 51.7% in 1H18) largely due to the step-up in marketing efforts which resulted in an 148% YoY increase in commission fees. However, 1H19 core net profit improved YoY to 28.9% (vs. 25.9% in 1H18), on the absence of impairment loss expense that was recognized in 1H18.

Fig 2 - 2Q19 Highlights vs. Old Estimates

| In PHP'm | 2Q19 | 2Q18 | YoY(%) | 1Q19 | QoQ(%) | FY19E | %FY19E |
|-------------------------|-------|-------|--------|-------|--------|-------|--------|
| Revenue | 1,957 | 870 | 124.9 | 1,103 | 77.3 | 4,605 | 66.4 |
| Gross Profit | 1,314 | 579 | 126.9 | 872 | 50.6 | 2,533 | 86.3 |
| Gross Profit Margin | 67.2% | 66.6% | | 79.1% | | | |
| Operating Profit | 855 | 385 | 121.9 | 677 | 26.3 | 2,410 | 63.6 |
| Operating Profit Margin | 43.7% | 44.3% | | 61.4% | | | |
| Net Profit | 545 | 168 | 225.4 | 338 | 61.1 | 1,364 | 64.8 |
| Net Profit Margin | 27.9% | 19.3% | | 30.7% | | 4,605 | |

Source: SCCM Research, Company

- **1H19 strongly outperforms expectations:** 1H19 saw stronger-than-expected than expected growth across the board, with revenue and net profit coming in at 66.4% and 64.8% of our FY19E estimates. As such, we will be upgrading our FY19-22E earnings estimates by ~5-34% to reflect a more robust project take-up of higher-margined projects and an expanded pipeline of 50+ new projects (9 of which will be spotlighted in the section below).

1H19 absolute growth in top-line is the direct consequence of SLI taking on more projects, afforded by an expanded balance sheet

The 83.2% growth in top-line directly offset the 49.7% YoY increase in interest cost that follow the additional P5.0bn of debt taken on in 2H18

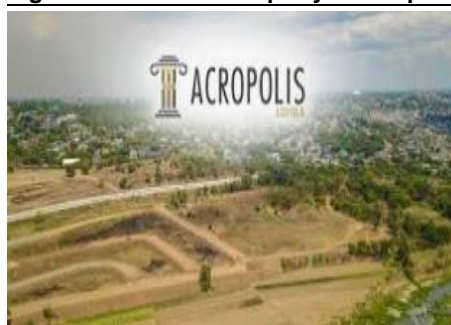
Property/Project Portfolio Update

Expanded Scale; Expanded Balance Sheet; Expanded Pipeline

- Growth story to continue in tandem with project pipeline expansion:** As of 1H19, SLI added 50+ new projects to its pipeline, bringing the total up to 130+ projects and portfolio GDV of P41.2bn (vs. P24.3bn as of 3Q18). Correspondingly, we have updated our end-2020 RNAV valuation assumptions to reflect the expanded project pipeline. We will be highlighting 9 of SLI's new assets below.
- 1) Acropolis Loyala** is a horizontal residential & commercial project that comes fully equipped with a wide range of amenities that is located at the heart of the Katipunan Extension Project. SLI started selling the project in 2019 at ASP of P50,000/sqm and as of 1H19, the project has been 18% sold (50% completed).

The ASP of the commercial portion of the project is ~P100,000/sqm

Fig 3 - Horizontal Property – Acropolis Loyala



Type: Horizontal

Launch Date: 2019

Location: Katipunan, Quezon City

Saleable Area: 199,017sqm

Estimated ASP: P50,000/sqm (Residential)

Source: SCCM Research, Company

- 2) Colinas Verde Bulacan** is a horizontal residential project that comes fully equipped with a wide range of amenities that is located near to the MRT 7 project.
 - Phase 3, 3A, 3B** was launched in 2012 at ASP of P5,500/sqm and as of 1H19, the project has been 90% sold (100% completed) with the latest ASP of P15,120/sqm (~15.5% CAGR in price appreciation);
 - Estate Lots** were launched in 2018 at ASP of P13,440/sqm and as of 1H19, the project has been 18% sold (15% completed) with the latest ASP of P14,000/sqm (~4.2% CAGR in price appreciation).

Fig 4 - Horizontal Project – Colinas Verde Bulacan



Type: Horizontal

Launch Date: 2012 (Phase 3,3A&3B)
2018 (Estate Lots)

Location: San Jose Del Monte, Bulacan

Saleable Area: 149,136sqm (Phase 3,3A,3B)
194,284sqm (Estate Lots)

Est. ASP: P15,120/sqm (Phase 3,3A,3B)
P14,000/sqm (Estate Lots)

Source: SCCM Research, Company

- 3) **Hacienda Verde Iloilo** is a horizontal residential & commercial project that comes fully equipped with a wide range of amenities. SLI started selling the project in 2018 at ASP P10,000/sqm and as of 1H19, the project has been 8% sold (53% completed) with the latest ASP of P11,200/sqm (~11.2% CAGR in price appreciation).

The commercial portion of the project was launched in 2017 and has an ASP of ~P25,000sqm

Fig 5 - Horizontal Property – Hacienda Verde Iloilo



Type: Horizontal

Launch Date: 2018 (Residential Portion)

Location: Iloilo City

Saleable: 259,428sqm

Estimated ASP: P11,200/sqm (Residential)

Source: SCCM Research, Company

- 4) **La Algeria Residential Estate** is a horizontal residential & commercial project that comes fully equipped with a wide range of amenities that is located near to the Bacolod Economic Highway. SLI started selling the project in 2017 at ASP of P4,000/sqm and as of 1H19, the project has been 39% sold (52% completed) with the latest ASP of P10,975/sqm (~65.5% CAGR in price appreciation).

The ASP of the commercial portion of the project is ~P14,560sqm

Fig 6 - Horizontal Project – La Algeria Residential Estate



Type: Horizontal

Launch Date: 2017

Location: Silay City, Negros Occidental

Saleable Area: 232,437qm

Estimated ASP: P10,975/sqm (Residential)

Source: SCCM Research, Company

- 5) **Las Colinas Davao** is a horizontal residential & commercial project that comes with a man-made lake that is located near to the Davao City By-pass and Mindanao Railway. SLI started selling the project in 2018 at ASP of P5,600/sqm and as of 1H19, the project has been 32% sold (33% completed) with the latest ASP of P9,240/sqm (~65% CAGR in price appreciation).

The ASP of the commercial portion of the project is ~P11,760sqm

Fig 7 - Horizontal Project – Las Colinas Davao



Type: Horizontal

Launch Date: 2018

Location: Eden Toril, Davao City

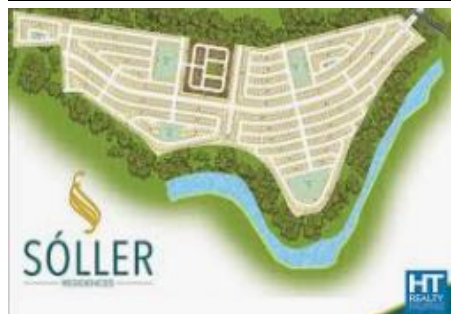
Saleable Area: 511,351sqm

Estimated ASP: P9,240/sqm (Residential)

Source: SCCM Research, Company

- 6) **Soller Davao** is a horizontal residential project that comes fully equipped with a wide range of amenities that is located near to the Davao City By-pass and Mindanao Railway. SLI started selling the project in 2016 at ASP of P5,000/sqm and as of 1H19, the project has been 39% sold (83% completed) with the latest ASP of P8,960/sqm (~21.5% CAGR in price appreciation).

Fig 8 - Horizontal Project – Soller Davao

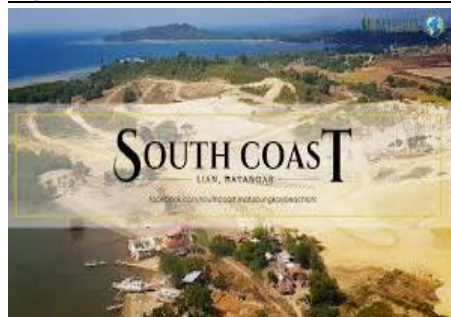


| |
|-------------------------------------|
| Type: Horizontal |
| Launch Date: 2016 |
| Location: Mandug, Davao City |
| Saleable Area: 243,696sqm |
| Estimated ASP: P8,960/sqm |

Source: SCCM Research, Company

- 7) **South Coast** is a horizontal residential project that comes fully equipped with a wide range of amenities. SLI started selling the project in 2019 at ASP of P5,000/sqm and as of 1H19, the project has been 39% sold (12% completed) with the latest ASP of P10,416/sqm (~108% price appreciation).

Fig 9 - Horizontal Project – South Coast



| |
|-----------------------------------|
| Type: Horizontal |
| Launch Date: 2019 |
| Location: Lian, Batangas |
| Saleable Area: 294,127sqm |
| Estimated ASP: P10,416/sqm |

Source: SCCM Research, Company

- 8) **Los Rayos** is a horizontal residential project that comes fully equipped with a wide range of amenities that is located near to the Davao City By-Pass Road and Mindanao Railway. SLI started selling the project in 2018 at ASP of P5,000/sqm and as of 1H19, the project has been 74% sold (52% completed) with the latest ASP of P7,500/sqm (~50% CAGR in price appreciation).

Fig 10 - Horizontal Project – Los Rayos



| |
|--|
| Type: Horizontal |
| Launch Date: 2018 |
| Location: Tagum City, Davao Del Norte |
| Saleable Area: 106,238sqm |
| Estimated ASP: P8,000/sqm |

Source: SCCM Research, Company

- **9) Ponte Verde Davao** is a horizontal residential & commercial project that comes fully equipped with a wide range of amenities that is located near to the Davao City By-pass and Mindanao Railway.
 - **Phase 1:** SLI started selling the project in 2013 at ASP of P5,000/sqm and as of 1H19, the project has been 77% sold (99% completed) with the latest ASP of P17,360/sqm (~23.1% CAGR in price appreciation);
 - **Phase 2** was launched in 2017 at ASP of P10,300/sqm and as of 1H19, the project has been 76% sold (61% completed) with the latest ASP of P16,800/sqm (~27.7% CAGR in price appreciation).

The ASP of the commercial portion of Phase 1 is ~P12,544/sqm

Fig 11 - Horizontal Project – Ponte Verde Davao



Type: Horizontal

Launch Date: 2013 (Phase 1), 2017 (Phase 2)

Location: Panacan, Davao City

Saleable Area: 126,446sqm (Phase 1)
20,334sqm (Phase 2)

Estimated ASP: P17,360/sqm (Phase 1)
P16,800/sqm (Phase 2)

Source: SCCM Research, Company

Valuation – Maintain BUY; Upgraded TP P2.89

Updated RNAV valuation implies 19.4% upside

- **Expanded project pipeline:** In congruence with the company's expanded balance sheet, SLI has added 50+ new projects to its pipeline since our 3Q18 update note dated 05 Dec 18. As such, we updated our RNAV estimates to better reflect SLI's long-term growth potential and cash flow trajectory.
- We applied 1) ~3.8-10.3% p.a. increment to ASP (depending on project location) on completed percentages of projects; 2) 8.0% WACC to project cash flows and 3) number of shares outstanding increasing by ~3.0bn (post end-2019 rights issue) to ~11.2bn. Our RNAV factors the appraised value of Sta. Lucia Grand East Mall and book value of prime land bank inventory (~P6.18bn).
- We assigned a 20% discount on the end-2020 RNAV to arrive at our TP of P2.89, representing a 19.4% upside. We think that the discount assigned is fair given that SLI historically trades at ~20% discount to its book value, based on 3-year average.

As of 1H19, total gearing only stands at 0.59x and leverage (net-debt-to-equity) stands at 0.91x implying significant debt headroom for further growth

Fig 12 - End-2020 RNAV based on current project portfolio (Post Equity Issuance)

| In PHP'm | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E |
|---|---------------|-------|-------|-------|-------|-------|-------|
| Projected EBITDA from Horizontal Projects | 4,233 | 3,600 | 3,078 | 2,737 | 2,678 | 2,887 | 3,055 |
| Projected EBITDA from Vertical Projects | 603 | 1,084 | 1,522 | 1,637 | 1,587 | 1,707 | 1,705 |
| Combined EBITDA | 4,836 | 4,684 | 4,601 | 4,374 | 4,265 | 4,594 | 4,759 |
| Appraised Value of Sta. Lucia Grand East Mall | 6,989 | | | | | | |
| BV of Land Bank | 6,180 | | | | | | |
| Discount Rate Applied | 8.0% | | | | | | |
| No. of Shares Outstanding ('m) | 11,196 | | | | | | |
| RNAV (End-2020) | 40,494 | | | | | | |
| RNAV per share (PHP) | 3.62 | | | | | | |
| Current Discount to RNAV | 33.1% | | | | | | |
| Target Price (20% Disc to RNAV) | 2.89 | | | | | | |
| Upside From Target Price | 19.4% | | | | | | |

Source: SCCM Research

- We note that our valuation assumptions still remain fairly conservative, in view that valuation for Sta. Lucia Grand East Mall is still kept at appraised value which underestimates the estimated future value of ~P8.0bn 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.

Fig 13 - TP Sensitivity Analysis – Discount to RNAV against Applied WACC

| | 6.0% | 7.0% | 8.0% | 9.0% | 10.0% | 11.0% | 12.0% |
|-----|------|------|------|------|-------|-------|-------|
| 10% | 3.42 | 3.31 | 3.20 | 3.10 | 3.00 | 2.92 | 2.83 |
| 15% | 3.23 | 3.12 | 3.02 | 2.93 | 2.84 | 2.75 | 2.67 |
| 20% | 3.04 | 2.94 | 2.84 | 2.75 | 2.67 | 2.59 | 2.52 |
| 25% | 2.85 | 2.76 | 2.67 | 2.58 | 2.50 | 2.43 | 2.36 |
| 30% | 2.66 | 2.57 | 2.49 | 2.41 | 2.34 | 2.27 | 2.20 |

Source: SCCM Research

BUY

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Sta. Lucia Land

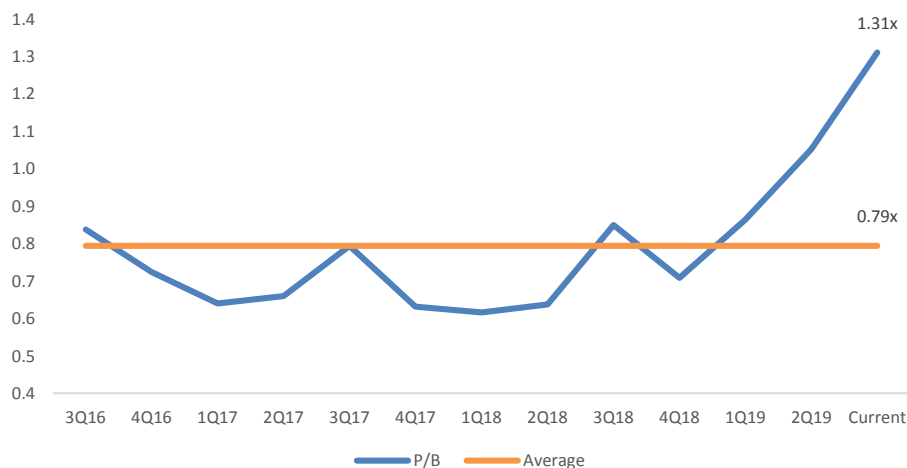
SLI PM

Company Update

Philippines

Property

- **SLI painting a bull flag:** SLI currently trades at 1.3x P/B, due to a combination of strong organic growth on the part of SLI and the general resilience of Philippines property market (Philippines Property Index +16% YTD). Nevertheless, we maintain a conservative estimate, keeping 20% discount to our fair value estimate, congruent with SLI's 3-year trading average.

Fig 14 - SLI Historical P/B – 3 Year Average 0.79x

Source: Bloomberg, SCCM Research

- **SLI offers a robust EPS growth profile of 15.9% CAGR from FY19-22E:** SLI currently offers a more tangible growth story (vs. industry offering 14.3% EPS CAGR trading at 1.9x P/B) and ROE expansion story (ROE grew to 9.6% LTM vs. 7.4% in FY17) and will likely continue to in the next 3 years with the company's expanded access to capital. SLI currently trades at a ~33.1% discount to our end-2020 RNAV (applying a discount of 8.0%).

Fig 15 - SLI Comparables

| Ticker | Name | Market Cap (USD'm) | P/B (x) | ROE (%) | Net Debt/Equity (x) | Net Profit Margin (%) | 3Y EPS CAGR (%) |
|------------------------|-------------------------|--------------------|-------------|-------------|---------------------|-----------------------|-----------------|
| SLI.PM | Sta. Lucia land | 380.4 | 1.31 | 9.6 | 0.87 | 28.6 | 15.9 |
| ALI.PM | Ayala Land | 14,131.0 | 3.71 | 16.5 | 0.72 | 18.7 | 15.2 |
| SMPH.PM | SM Prime Holdings | 19,109.9 | 3.51 | 12.8 | 0.66 | 30.9 | 14.9 |
| RLC.PM | Robinson Land | 2,510.4 | 1.38 | 9.7 | 0.37 | 27.8 | 14.8 |
| VLL.PM | Vista Land & Lifescapes | 1,872.9 | 1.03 | 11.9 | 1.10 | 26.7 | N.A |
| MEG.PM | Megaworld Corp | 3,135.1 | 0.97 | 10.1 | 0.31 | 28.3 | 12.2 |
| FLI.PM | Filinvest | 772.1 | 0.59 | 9.3 | 0.79 | 29.5 | N.A. |
| Blended Average | | | 1.86 | 11.7 | 0.66 | 27.0 | 14.3 |

Source: SCCM Research, Bloomberg, Prices as of 11 Sep 2019

BUY

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▲ 19.4%

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 updated according to SLI's expanded pipeline of 130+ projects;
 - Our model assumes FY20E and FY21E Marketing Sale to be PHP7.8bn and PHP7.8bn respectively;
 - Rental income growth of Sta. Lucia Grand mall is assumed to be 1.0% p.a., in view of intensified competition around the mall, partially mitigated by the pending opening of LRT 2 extension;
 - Rental income contribution from Sta. Lucia Business Centre is assumed start in FY20E and rental income growth is assumed to be 3.0% p.a.;
 - Our model assumes an issuance of ~3.0bn new shares at near the end of FY19E, bringing the total number of shares to ~11.2bn;
 - Our updated net profit and EPS is expected to both grow by 22.9% and 17.0% CAGR, respectively, from FY19-22E.

Our updated model expects ~P4.7bn in revenues for FY19E which is reasonable given that 1H19 marketing sales have already reached P6.9bn

Fig 16 - Consolidated P&L

| Y/E 31 Dec (PHP'm) | FY18A | FY19E | FY20E | FY21E | FY22E |
|--|--------------|--------------|--------------|--------------|--------------|
| Operating Revenue | | | | | |
| Real Estate Sales | 2,428 | 4,716 | 7,806 | 7,836 | 7,961 |
| Other Revenue | | | | | |
| Lease Income | 305 | 490 | 497 | 504 | 511 |
| Other Income (Commission & Others) | 437 | 481 | 529 | 582 | 640 |
| Total Revenue | 3,170 | 5,686 | 8,832 | 8,922 | 9,112 |
| | | 79.4% | 55.3% | 1.0% | 2.1% |
| Operating Expenses | | | | | |
| Real Estate COGS | (959) | (1,886) | (3,123) | (3,135) | (3,184) |
| Gross Profit | 2,211 | 3,800 | 5,709 | 5,787 | 5,927 |
| <i>Gross Profit Margin</i> | <i>69.7%</i> | <i>66.8%</i> | <i>64.6%</i> | <i>64.9%</i> | <i>65.1%</i> |
| Other Operating Costs | | | | | |
| Overhead & Marketing Costs | (542) | (1,109) | (1,901) | (1,850) | (1,823) |
| Depreciation | (128) | (188) | (206) | (227) | (247) |
| EBITDA | 1,669 | 2,691 | 3,808 | 3,937 | 4,105 |
| <i>EBITDA Margin</i> | <i>52.6%</i> | <i>47.3%</i> | <i>43.1%</i> | <i>44.1%</i> | <i>45.0%</i> |
| EBIT | 1,541 | 2,503 | 3,602 | 3,711 | 3,858 |
| <i>EBIT Margin</i> | <i>48.6%</i> | <i>44.0%</i> | <i>40.8%</i> | <i>41.6%</i> | <i>42.3%</i> |
| Dividend Income | 7 | 7 | 7 | 7 | 7 |
| Interest Income from Mortgage Payments | 301 | 316 | 332 | 348 | 366 |
| Interest Expense | (707) | (784) | (740) | (475) | (439) |
| Tax Expense | (77) | (613) | (960) | (1,077) | (1,137) |

BUY

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Sta. Lucia Land

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Company Update

Philippines

Property

| | | | | | |
|-----------------------------|-------|--------|--------|--------|--------|
| NIAT | 1,058 | 1,423 | 2,234 | 2,507 | 2,647 |
| Net Profit Margin | 33.4% | 25.0% | 25.3% | 28.1% | 29.0% |
| Net Profit Growth | | 34.5% | 57.0% | 12.2% | 5.6% |
| Total Shares Outstanding | 8,196 | 11,196 | 11,196 | 11,196 | 11,196 |
| Weighted Shares Outstanding | 8,946 | 9,186 | 11,196 | 11,196 | 11,196 |
| EPS | 0.118 | 0.155 | 0.199 | 0.224 | 0.236 |
| EPS Growth | | 30.9% | 28.8% | 12.2% | 5.6% |

Source: Company, SCCM Research

- Our core assumptions for the balance sheet remains unchanged since initiation. We still expect SLI to issue ~3.0bn new shares as part of its capital management and effort to keep net gearing <1.0x.

Fig 17 - Consolidated Balance Sheet

| YE 31 Dec (PHP'm) | FY18A | FY19E | FY20E | FY21E | FY22E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash | 1,065 | 1,361 | 1,141 | 1,376 | 1,729 |
| Trade Receivables | 1,874 | 4,716 | 7,806 | 7,836 | 7,961 |
| Inventory | 18,304 | 23,304 | 26,304 | 27,804 | 28,304 |
| Other Current Assets | 5,906 | 5,906 | 5,906 | 5,906 | 5,906 |
| Current Assets | 27,148 | 35,286 | 41,156 | 42,921 | 43,899 |
| PPE | 45 | 73 | 112 | 139 | 157 |
| Long Term AR | 495 | 495 | 495 | 495 | 495 |
| Investment Properties | 5,154 | 5,203 | 5,427 | 5,643 | 5,855 |
| LT Investments | 985 | 985 | 985 | 985 | 985 |
| Other non-current assets | 890 | 890 | 890 | 890 | 890 |
| Non-Current Assets | 7,568 | 7,646 | 7,908 | 8,151 | 8,382 |
| Total Assets | 34,716 | 42,932 | 49,064 | 51,073 | 52,281 |
| Trade Payables | 3,991 | 6,764 | 11,257 | 11,270 | 11,464 |
| OD & ST Debt | 3,608 | 2,108 | 1,608 | 2,408 | 1,908 |
| Tax Payable | 20 | 595 | 960 | 1,077 | 1,137 |
| Customer Deposits | 0 | 0 | 0 | 0 | 0 |
| Other ST Liabilities | 2,018 | 2,018 | 2,018 | 2,018 | 2,018 |
| Current Liabilities | 9,636 | 11,485 | 15,843 | 16,773 | 16,527 |
| LT Debt | 9,999 | 8,937 | 8,470 | 7,035 | 5,834 |
| Deferred Tax | 576 | 576 | 576 | 576 | 576 |
| Other LT Liabilities | 51 | 51 | 51 | 51 | 51 |
| Non-Current Liabilities | 10,625 | 9,563 | 9,096 | 7,661 | 6,461 |
| Total Liabilities | 20,262 | 21,048 | 24,939 | 24,434 | 22,988 |
| Share Capital + APIC | 11,126 | 17,126 | 17,126 | 17,126 | 17,126 |
| Treasury Stock | (1,640) | (1,640) | (1,640) | (1,640) | (1,640) |
| Others | 565 | 565 | 565 | 565 | 565 |
| Retained Earnings | 4,402 | 5,832 | 8,073 | 10,587 | 13,241 |
| Total Equity | 14,454 | 21,884 | 24,125 | 26,639 | 29,292 |
| Total Liabilities & Equity | 34,716 | 42,932 | 49,064 | 51,073 | 52,281 |

Source: Company, SCCM research

Appendix

Philippine property market expected to remain resilient into 2019

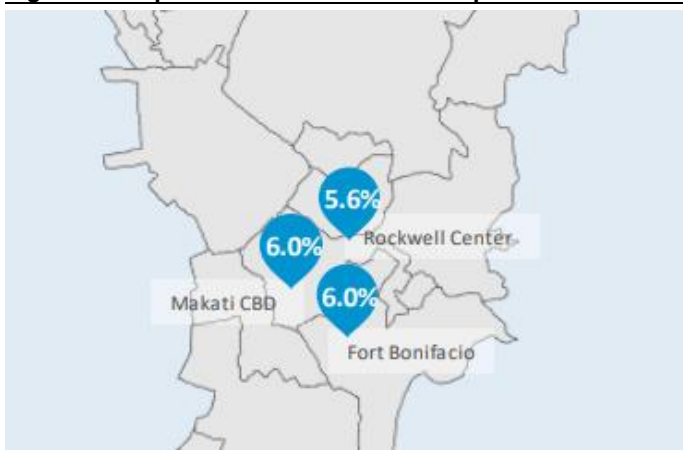
- Strong demand and record prices in 1H19, firm leasing market:** According to Colliers, the Manila market continues to experience capital value growth, where average prices of 3-room bedroom units increased by 3.7%, albeit slower than the 6-7% increase in 4Q18-1Q19 (3Q18: 3% QoQ), likely due to increasing supply. Manila's luxury condos have reached a record-high of ~PHP550kpsm pre-selling price in 1Q19. Leasing remained resilient with flattish rental growth of <1% in 1Q, while vacancy rose marginally by 0.2pp from the previous quarter to 10.6% in 2Q19 due to completion of units.
- Diminishing development opportunities, particularly in prime areas:** Colliers expect strong sales of 45k units, albeit lower than the 2018 peak in 54k units, due to slower launches as land costs climbs and developable land diminishes over time. Demand and supply may turn to non-CBD areas near transport nodes (notably upcoming MRT and LRT stations).
- Trending towards more Joint Venture, upscale-luxury projects:** There is a recent rise of JV luxury projects, supported by high demand and trading at some of the highest prices. According to Colliers, some of the more expensive projects (upscale to luxury) are by JV of PH and foreign firms, with Total Contract Price (TCP) of PHP8-31m. They had been receiving a robust take-up rate of 90% as of 2H19.

Colliers expects Metro Manila's condominium stock to reach 0.150m by 2021 (~+20% vs end-2018, 80% to be from Bay Area and Fort Bonifacio), while 3,700 units were completed in 1Q19, and 2,600 units were completed in 2Q19

Industry trends validate SLI's foresight to focus on developing outside Metro Manilla. As such, we could expect stronger-than-market growth to continue for SLI

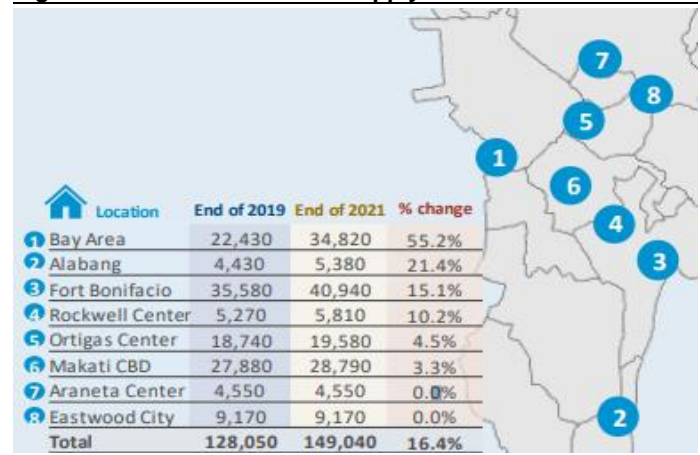
The trend is also congruent with SLI's pursuit of an asset-light business model built upon JV with landowners

Fig 18 - Comparative 3BR Residential Capital Values



Source: Colliers International Philippines Research

Fig 19 - Metro Manilla future supply



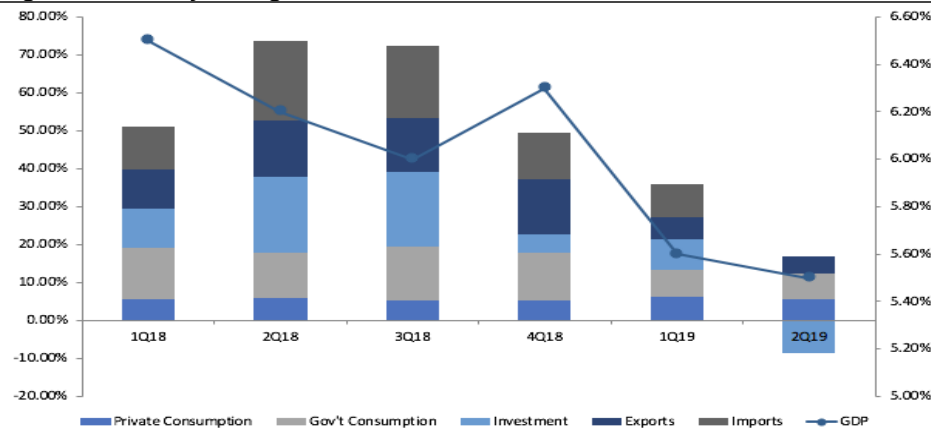
Source: Colliers International Philippines Research

Better GDP growth 2H onwards, potentially further rate cuts ahead

- GDP fell below target in 2Q19, slowest in 4 years, but better 2H ahead:** The PH economy growth came below consensus in 1H, partially dragged by reduction in government spending as well as the delay in the passage of national budget. The tightening conditions last year could have caused some spill-over effects into 1H19. The government spent PHP812.2bn in 2Q19, down 2.3% YoY, with infrastructure and capital outlays totaling PHP133.3bn, 31.9% vs a year ago. Private consumption growth was also tempered with only 0.6pp of contribution. 1Q19 GDP growth was at 5.6%, while 2Q19 GDP growth was at 5.5%, below consensus of 5.9%.

- **However, on the flipside, some pickup is expected by BSP 2H19 onwards** as the government budget is passed and the infrastructure programs gets underway.
- **Significant PHP~1tn allocated to infrastructure spending in 2020 budget:** The 2020 PH budget was submitted and approved in Aug 2019. The proposed P4.1tn national budget is a 9.1 % increase on a YoY basis. In addition, a significant P972.5bn will be allocated to the Build, Build, Build Infrastructure programme.

Fig 20 - Quarterly GDP growth

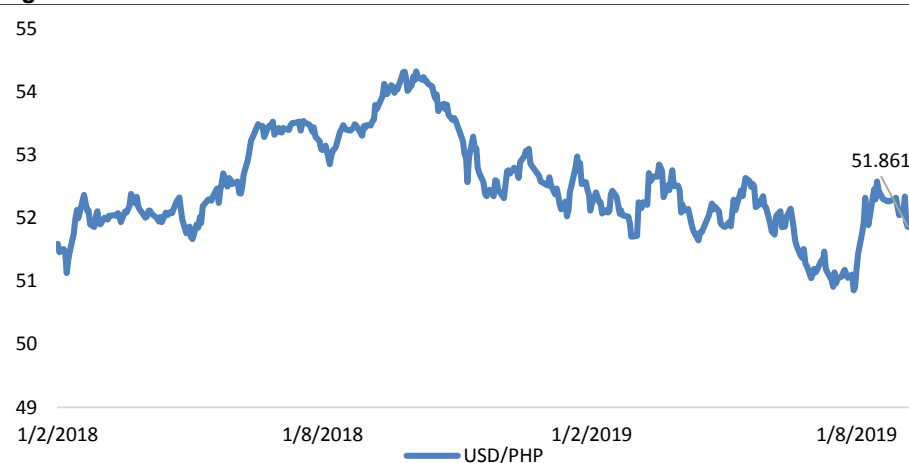


Source: BSP, Regina Capital

- **2nd rate cut in 2019, however inflation forecast was also reduced:** The Monetary Board (MB) cut its RRP for the second time this year by 25bps on 8Aug19 after its first cut in the year in 9May19. The RRP was hence brought to 4.25%, offsetting the +175bps rate hike in 2018. However, MB further reduced the inflation forecast to 2.6% for the year, from the previously downward-revised figure of 2.7%. MB may potentially further slash RRP rates in face of slower economy growth and inflation.
- **Cautiously optimistic on Peso outlook:** With the easing inflation and dovish shift of Fed and BSP on interest rate policies mid-2019, Peso has been strengthening, averaging at ~ 52.21 to \$1 in the first half of the year. However, street consensus remains cautiously optimistic as it is still subject to risks from geo-political issues- the Peso has weakened on the news of a fresh round of US-China tariffs, and recovered on US data of weaker than expected US PMI, and hence higher likelihood of another rate cut, just within the time span of the first few days of Sep 2019.

A few days prior to the 2nd rate cut of 2019, central bank Governor Diokno commented that he sees further cuts of about 50bps by year-end, depending on incoming data such as inflation and GDP growth

Fig 21 - USD/PHP



Source: Bloomberg, SCCM Research

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|----------------|--|
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