



SLI: Real estate sales continue to climb up, leasing arm weaker in 2Q24

Sta. Lucia Land, Inc (SLI) reported robust performance in 2Q24, with its bottom line climbing +17% y/y to P1.04bn. This growth was largely driven by improved real estate sales, which helped offset weaker rental income during the quarter. The company remains committed to its JV model, partnering with landowners to reduce initial capital expenditures on land and alleviate the financial burden of holding undeveloped properties. Over the next five years, SLI aims to secure additional land through joint ventures, particularly in Cavite, Iloilo, and Davao.

Looking ahead, SLI plans to launch 35 residential projects within the next two to three years, capitalizing on anticipated demand fueled by potential interest rate cuts. Their strategy includes boosting recurring income by developing commercial properties alongside residential communities. This rollout will feature a mix of 19 horizontal developments and 16 residential towers nationwide, reflecting SLI's ambition to compete with larger players by diversifying into integrated residential, commercial, and office hubs.

Overall, we are expecting an improvement on SLI's profitability in anticipation of the lowered mortgage rates, thus we are sticking with our BUY call. Our target price of P5.27 per share provides a +79% upside based from the current market price.

Updates, Disclosures & News

- + SLI continues to make waves, with President and CEO Exequiel Robles being named the Philippines' Best Real Estate CEO of the Year during the annual C-Suite Awards. Additionally, Board Chair Vicente Santos and CFO David Dela Cruz were recognized as the country's Best Real Estate Chairman and CFO, respectively, reflecting their exceptional leadership and strategic expertise in the industry.
- + SLI is gearing up to launch 35 residential projects over the next two to three years, betting on a surge in demand driven by expected interest rate cuts.
- + The company recently rolled out El Sitio Nativo in Nasugbu, Batangas, a premium residential development featuring an exclusive community with just 92 lots available.
- + SLI, together with its exclusive marketing arm, Royale Homes Marketing Corp. (RHMC), recently showcased model units in the Madrid Tower, part of the high-end Sta. Lucia Residence condotel and condominium development in Cainta, Rizal.
- + SLI is ramping up its capex to P5.62bn this year, a move aimed at fueling its project pipeline and expanding its land bank.

FAIR VALUE

BUY

P5.27

- Interest rate cut narrative;
Increasing real estate sales;
Undervalued;
- + Higher margins vs the 3-yr averages of the index and the PPROP;
- Weak leasing units;
- Low dividend payout vs property peers;



Sta. Lucia Land, Inc. (SLI)'s portfolio consists of horizontal and vertical properties across the country, as well as a shopping mall in Cainta, Rizal named Sta. Lucia Mall. The Company's clients comprise of families, overseas Filipino workers, foreign investors, retirees, young urban professionals, and newly-married couples, among others.

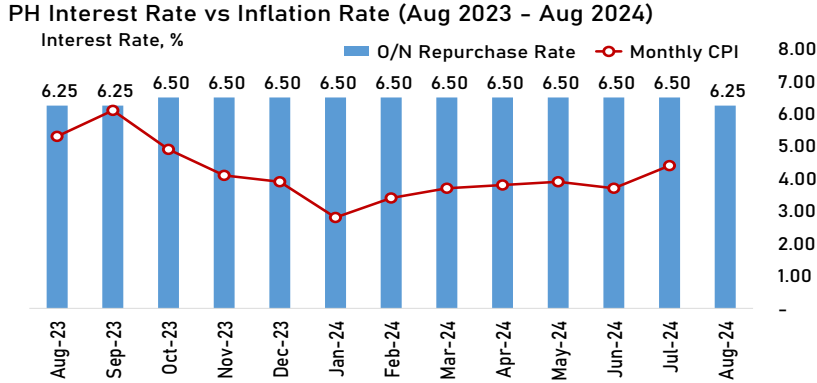
Stock Information

Last Price	P2.95
Performance (YTD)	-13.24%
52-week range	P2.44-P3.50
Beta	0.27
Outstanding Shares	8.30bn
Market Capitalization	P24.47bn
Free Float Level	19.21%
Par Value	P1.00
Sector	Property
Subsector	Property
Major stakeholders	Sta. Lucia Realty & Dev't Corp. 80.77%
Fiscal Year	Dec. 31
Previous Rating	Apr 2018 Buy P1.40
Board of Directors	
Chairman	Vicente R. Santos
Directors	Exequiel D. Robles
	Antonio D. Robles
	Aurora D. Robles
	Mariza Santos-Tan
	Orestes R. Santos
	Simeon S. Cua
Independent Directors	Renato C. Francisco Danilo A. Antonio
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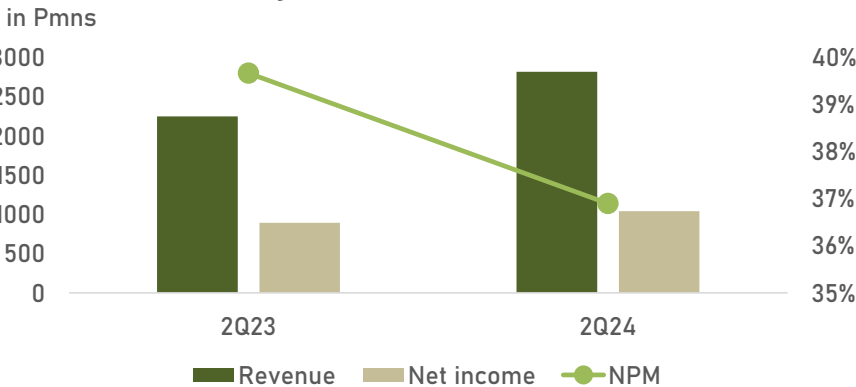
Industry update: Homebuyer’s appetite to return on lower borrowing rates. During the BSP’s Monetary Board meeting last August 15, the benchmark rates were slashed by 25bps for the first time in four years amidst the tempering inflation rate. This reduction would essentially spur homebuyer’s appetite as this would bring down mortgage rates, improving affordability.



SLI, as a real estate developer, is seen to benefit from the decline in policy rates as this would lead o a brighter outlook on the residential market.

Real estate sales cushioned weak performance of leasing biz. SLI managed to deliver strong results during 2Q24. Its bottomline soared by +17% y/y to P1.04bn as the improvement in their real estate sales offset the weak rental income booked for the quarter.

SLI Profitability (2Q23-2Q24)



SLI continues to lean on their joint venture model, partnering with landowners to reduce land capex and minimize the financial strain of holding undeveloped land. Over the next five years, the company plans to secure more land through JVs, with new deals in Cavite, Iloilo, and Davao.

SLI in the years moving forward. SLI intends to launch 35 residential projects over the next two to three years, banking on stronger demand driven by further potential interest rate cuts. The company’s strategy in the coming years is to boost recurring income by developing commercial properties alongside its residential communities.

Of the 35 planned residential projects, the firm plans to roll out a mix of 19 horizontal developments and 16 residential projects across the country over

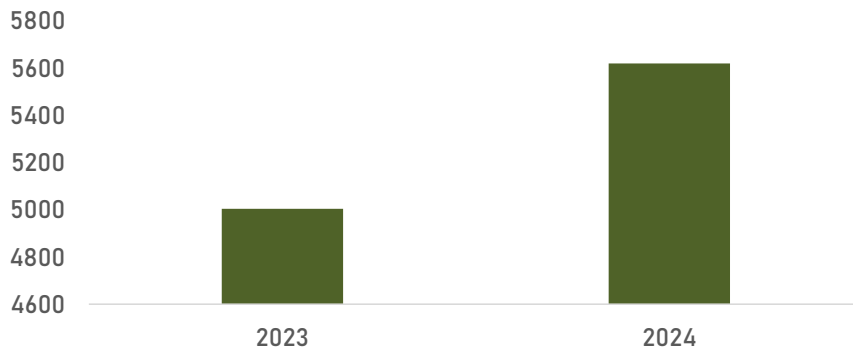


the next few years. They have set their sights to expand beyond purely residential developments to compete with larger players.

CAPEX. SLI is ramping up its capital expenditures to P5.62bn this year, a move aimed at fueling its project pipeline and expanding its land bank. Out of this budget, P4.5bn is earmarked for project development, while P1.12bn will go toward land acquisitions. All of which will be funded through the company’s own capital resources.

SLI Capital Expenditure (2023-2024)

in Pmns

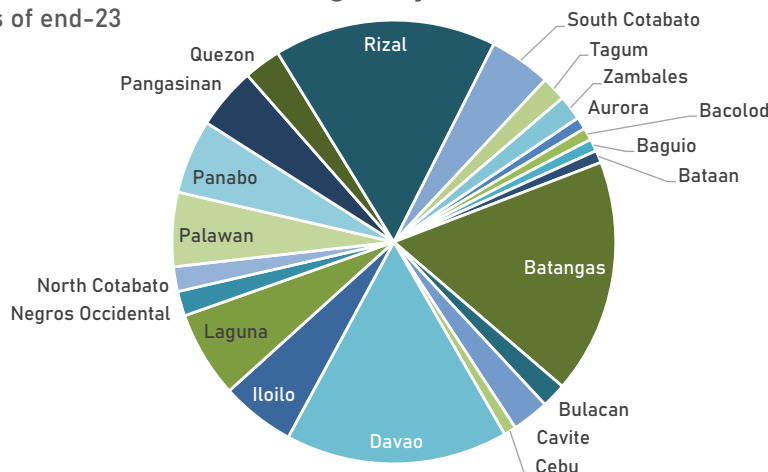


Compared to last year's P5.04bn budget, the increased capex signals SLI’s intent to capitalize on rising real estate demand. The firm is keeping its eyes for strategic land acquisitions in key emerging areas like Laguna, Batangas, Bulacan, Davao, and Cotabato, where it has previously seen success in developing and selling projects.

SLI betting on provincial areas in VisMin. SLI is making bold strides across key regions in the VisMin area. The company has planted its flag in Davao City, recognizing its potential as a prime investment hotspot. SLI current properties in the area includes Sotogrande Davao, Davao Riverfront, and Rancho Palos Verdes.

SLI Areas of On-Going Projects

as of end-23



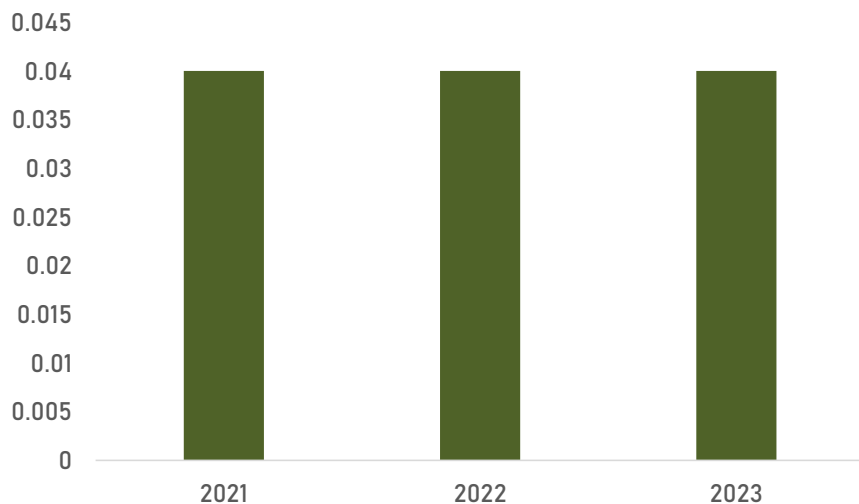
In the Visayas, SLI is betting big on the powerhouse cities of Iloilo and Bacolod. Iloilo has evolved into a booming hub for BPOs, healthcare, and



education, and SLI is capitalizing on this growth with developments like Green Meadows, Sotogrande Iloilo, Nottingham Villas, and Acropolis Iloilo. Further, over in Bacolod, SLI offers projects such as La Alegria and Somerset Greens that are tailored for potential buyers in the area. Bacolod stands out with its business-friendly policies, high rankings in ease of doing business, and a growing BPO sector, alongside a solid agro-industrial base that enhances economic stability.

SLI cash dividends. SLI has not yet made an official announcement regarding its cash dividend declaration for this year. However, it's worth noting that the company has consistently rewarded its shareholders in previous years a cash dividend of P0.40 per share from 2021 to 2023.

SLI Cash Dividends (2021-2023)





Ratios	2021	2022	2023	2024E	2025E
Return on Equity	15.04%	15.93%	15.07%	20.57%	24.46%
Earnings per Share	0.35	0.42	0.46	0.68	0.85
Profit Margin	33.93%	34.75%	33.01%	43.65%	45.47%
Asset Turnover	0.16	0.17	0.18	0.19	0.20
Return on Assets	5.46%	5.98%	6.04%	8.11%	9.13%
Assets to Equity	2.59	2.49	2.33	2.48	2.61
Altman's Z-Score	1.62	1.71	1.80	1.51	1.53
Price to Earnings	8.51	7.04	6.48	4.33	3.46
Price to Book Value	1.28	1.12	0.98	0.89	0.85
Net Book Value per share	2.45	2.81	3.23	3.40	3.57

- As SLI picks up steam, we're expecting its profitability ratios to keep climbing in the coming years. For FY24E, we're looking at an ROE of 20.57% and an EPS of 0.68.
- Given that, P/E ratio could drop, making the stock appealing for investors who are looking for undervalued stocks.
- Profit margins in FY24E and FY25E are forecasted to remain stable and higher than the 3-yr average of the property industry.

Key Financial Data	2025E
in Php millions	
Ave Total Assets	72,719
Ave Total Debt	20,228
Ave Total Equity	28,542
Net Income After Tax*	6,983
Interest Expense	2,300
Asset Income	9,283
Debt/Equity	0.71
Cost of Debt	11.37%

*Does not include Comprehensive Income

**Asset Income = NIAT+ Interest Expense

Limlingan Financial Model(C)

$$ROE = ROA + D/E * (ROA - \text{Cost of Debt})$$

LFM Inputs	2025E
Return on Assets	12.77%
Debt/Equity	0.71
Cost of Debt	11.37%
ROA - CD	1.39%
Return on Equity	13.75%

Case 1: Improve Efficiency 20%

Return on Assets	15.32%
Debt/Equity	0.71
Cost of Debt	11.37%
ROA - CD	3.95%
Return on Equity	18.12%

Case 2: Increase Leverage 20%

Return on Assets	12.77%
Debt/Equity	0.85
Cost of Debt	11.37%
ROA - CD	1.39%
Return on Equity	13.95%

Case 3: Lower Cost of Debt 20%

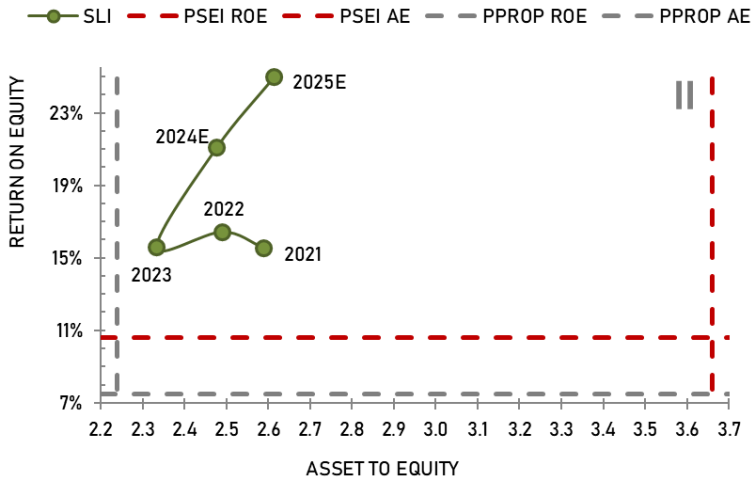
Return on Assets	12.77%
Debt/Equity	0.71
Cost of Debt	9.10%
ROA - CD	3.67%
Return on Equity	15.37%

Highlighted items denote changed inputs

** In this model, $ROA = \frac{\text{Asset Income}}{\text{Ave. Total Assets}}$



ISOQUANT 1: FINANCIAL PERFORMANCE



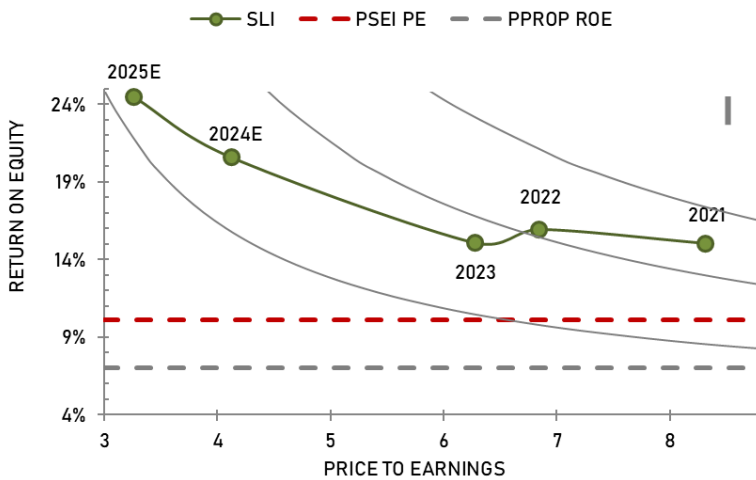
Leverage vs. Profitability

- With the rate cut narrative, SLI could see a boost in homebuyers' demand, leading to an improved ROE.
- Looking at our isoquant, SLI is more leveraged than the PPROP's 3-yr average, albeit lower than the PSEI's.
- The firm's ROE is higher than both the index and the sector's 3-yr averages.
- SLI is situated in the second quadrant of our isoquant, operating in lower returns with lower financial risk

Legend:

- I - Higher Returns, Lower Financial Risk
- II - Lower Returns, Lower Financial Risk
- III - Lower Returns, Higher Financial Risk
- IV - Higher Returns, Higher Financial Risk

ISOQUANT 2: VALUATION ISOQUANTS



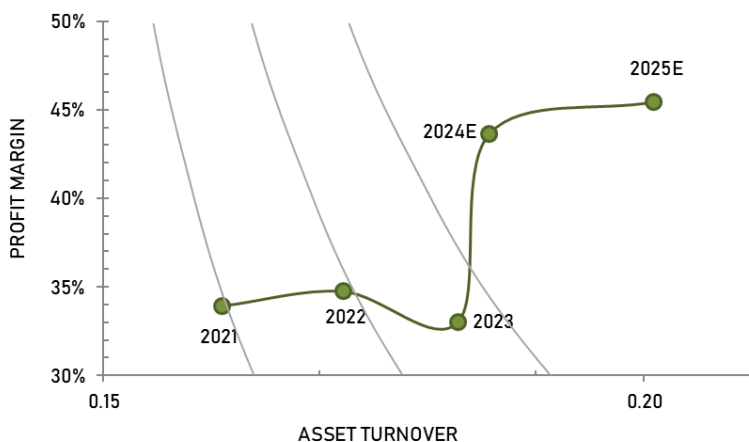
Perception vs. Profitability

- The P/E ratio of SLI is relatively lower compared to the index and the industry's 3-yr averages, making the stock undervalued. P/E ratios of SLI in FY23A and FY24E are 6.5x and 4.3x, respectively.
- The gray isoquant lines are the P/B ratios 1.0x, 2.0x, and 3.0x.

Legend:

- I - Undervalued
- II - Fairly valued
- III - Overpriced
- IV - Fairly valued

ISOQUANT 3: OPERATING ISOQUANT



Efficiency vs. Profitability

- SLI's real estate inventories make up around 73% of its total current assets.
- The firm has higher margins than both the local bourse and the industry based on their 3-yr averages.
- The gray isoquants represent the ROA values 2%, 3%, and 4%.



SLI: Bears still hold the reins



Daily chart as of October 1, 2024

SLI remains caught in a downtrend, trading below its 100-day moving average, which suggests that the bears are still in control for now. However, the MACD lines are showing signs of life, with a positive gap hinting at some buying pressure starting to creep in. Meanwhile, the RSI is in neutral territory, signaling that momentum is cooling off, with neither the bulls nor bears gaining a decisive edge. While there's a glimmer of potential with the MACD, the lack of liquidity means investors may want to hold tight and wait for demand to kick in before jumping in.

Hold

Support: 2.75
Resistance: 3.00



Recommendation Guide

Expected Performance within 1 year

BUY	The stock is a bargain relative to the PSEi or its peers; the stock has significant long-term upside	Projected Gain > 10%
HOLD	Neutral; the company's fundamentals are good, but interested buyers should wait and consider buying other stocks with better upside.	+/- 10%
SELL	Take profits or cut losses; the stock does not have much upside so investors should close their position and look for bargains.	Projected Loss > 10%

Financial Ratios

Return on Equity	Shows how much profit a company generates with the money its shareholders have invested.
Earnings per share	The portion of a company's profits allocated to each outstanding share of common stock.
Profit Margin	Measures how much earnings a company actually keeps after expenses.
Asset Turnover	The amount of sales generated for every peso of assets
Return on Assets	Reflects a company's efficiency at using its assets to generate earnings.
Asset to Equity	Shows the company's financial leverage. It is an indicator of the overall financial stability of a company. An indicator of a firm's financial stability; It calculates the odds that a company will become bankrupt.
Altman's Z-Score	If: $Z > 3.0$, Safe Zone; $1.80 < Z < 3.0$, "Grey" Zone; $Z < 1.80$, Distress Zone (high likelihood of bankruptcy)
Price to Earnings	Reflects how much investors are willing to pay per dollar of earnings.
Price to Book	Reflects how many times book value investors are willing to pay for a share of the company.
Graham Multiplier	P/E Ratio x P/B Ratio; Benjamin Graham prefers companies that have a Graham Multiplier below 22.5
Book Value per share	A per share estimation of the minimum value of a company's equity.
Dividend Yield	Shows how much a company pays out in dividends relative to its share price.

Technical Analysis Term/s

Fibonacci Retracement	Potential retracement of a security's original move in price. It uses horizontal lines to indicate key areas of support or resistance (23.6%, 38.2%, 50%, 61.8% and 100%).
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Limlingan Model: $ROE = ROA + D/E * (ROA - CD)$

<p>Basic Assumptions:</p> <p>ROE = Return on Equity ROA = Return on Assets* D/E = Debt to Equity CD = Cost of Debt</p> <p>If $ROA > CD$, then $ROE > ROA$ If $ROA < CD$, then $ROE < ROA$</p> <p><i>*using Asset Income</i></p>	<p>Can be used to undertake the following financial analyses:</p> <ul style="list-style-type: none"> • Pinpoint areas of weak and strong financial management • Answers 'what if' in terms of the impact of the ROE • Prepare financial plans which start with the ROE targets and end with specific, financial targets such as maintaining operating expenses and leverage • Better assign areas of responsibilities to financial officers • Create 'equity centers' where general managers have both asset and debt management responsibilities 	<p>CEO</p> <p>Maximize ROE for its shareholders</p>
		<p>COO</p> <p>Improve ROE through operational efficiency or ROA</p>
		<p>CFO</p> <p>Improve ROE by maximizing debt (reduce leverage or cost of debt)</p>

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