Real estate sector

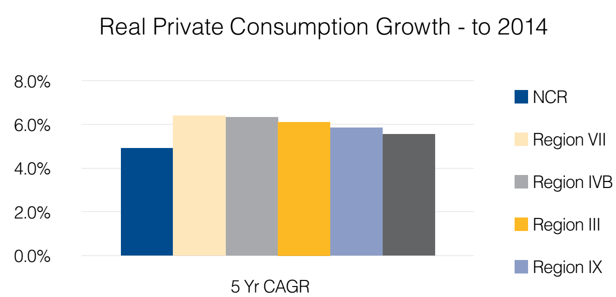
Diversifying aggressively into recurring revenue drivers

By Thomas Earll A Huang

The four property companies, Ayala Land (ALI), SM Prime Holdings (SMPH), Megaworld (MEG), and Robinsons Land Corp. (RLC) within the PSEi (Philippine Stock Exchange index) have all disclosed their capex estimates for 2016 and they all share one similarity – a focus on expanding their exposure to recurring revenue streams. ALI's expected capex for 2016 is Php85B; SMPH estimates that it will spend Php65B; MEG has set aside Php55B; while RLC has budgeted Php17B. We feel that this move makes sense since it reduces a property company's vulnerability to the boom and bust cycle that marked the industry during the 1997 Asian Financial Crisis. Meanwhile, the Makati residential market has already showed signs of potential strain as Colliers has observed vacancy rates rising and expects it to continue to do so because of new supply outstripping demand. The sizeable portion of the more than Php200B capex for this year is expected to be spent on developing malls, offices, and hotels. We believe that this is a rebalancing exercise in light of the more than 15% Compound Annual Growth Rate (CAGR) enjoyed by these companies in the form of residential and other sales over the last few years. We find this concentration on recurring revenue to be prudent given an environment where interest rates are expected to rise and the property sector susceptible to boom and bust cycles.

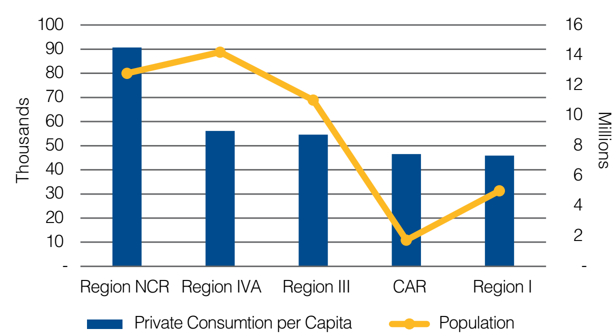
It is interesting to note also that more and more developments are moving away from the National Capital Region (NCR) – the location widely noted as having the highest property and rental/lease rates in the country on average. The aforementioned property companies have looked to the Visayas and Mindanao for opportunities. Iloilo, Bacolod, Mactan, and other locales in the country are increasingly being looked at for development – encouraging, in our opinion, given the strained traffic situation in Metro Manila and the increasing propensity of other regions to spend. Though the NCR is still the region with the highest amount of private consumption, other regions have grown faster over the last few years. Apart from increasing private spending, it is also encouraging to note that Tholons now ranks Cebu City as being in the top 10 of BPO destinations in the world. This strategy is consistent with the national government's thrust to diversify economic activities away from Metro Manila and develop strategic business centers across the country. With more aggressive nationwide infrastructure spending expected by the next administration, productive capacity or output is likely to expand dramatically - generating more job opportunities and creating greater demand for residential, office, and shopping mall offerings.

Where growth opportunities abound



Source: PSA, BDO

Highest private consumption per capita regions



Source: PSO, BDO

More malls for everyone

We expect increasing consumption and purchasing power by more Filipinos as the Philippines is seen to sustain a robust economic growth trajectory of 5%-7%. This growth has attracted more foreign retail operators and brands to open stores in the country (e.g., FamilyMart and Alfamart, along with brands such as Uniqlo and H&M in recent times), and has prompted property developers to expand its mall network to new emerging regional markets or new growth centers such as Cebu, Davao and Iloilo.

SMPH intends to have 75 malls by 2018, with 56 malls already under its banner amounting to more than 7M sqm in retail space. SMPH has, and intends to open malls across the country and even in China. Not to be outdone, RLC expects to have 55 malls by 2020 with 41 currently in operation. For 2016 specifically, RLC plans to open 4 malls across the country and aims to increase its gross leasable area by 10% per year. ALI plans to spend more than Php13B this year strengthening its exposure to shopping malls. MEG develops its malls in tandem with its residential projects, in order to create “townships” and intends to continue to do so this year.

SM City Cebu Mall

Source: SM Corporate Site

Offices abound

With the local BPO industry expected to create 225K new jobs this year (with a translated additional office space needed of about 1.1 milion sqm assuming a 5sqm/employee space ratio), all property developers are eyeing to bring new office space to address this demand. Hence, Colliers has noted that about 1.5 million sqm of new office space is due for delivery within 2016-2017. RLC plans to construct 4 office buildings this year, and some of its malls (notably in the Visayas) have space allotted for this particular industry. SMPH also targets the BPO industry with development names such as “Cyberwest” and “E-com Center”, and developing office space remains to be a focus for this year. ALI has close to Php7B allotted for the development of office space this year and its “Vertis” development also targets the local BPO industry. In line with its township focus, MEG ensures that in most of its developments, a portion is reserved for office space.

MEG’s McKinley West Project Township mock-up

Source: MEG Corporate Site

Go Hotel Iloilo

Source: RLC Corporate Site

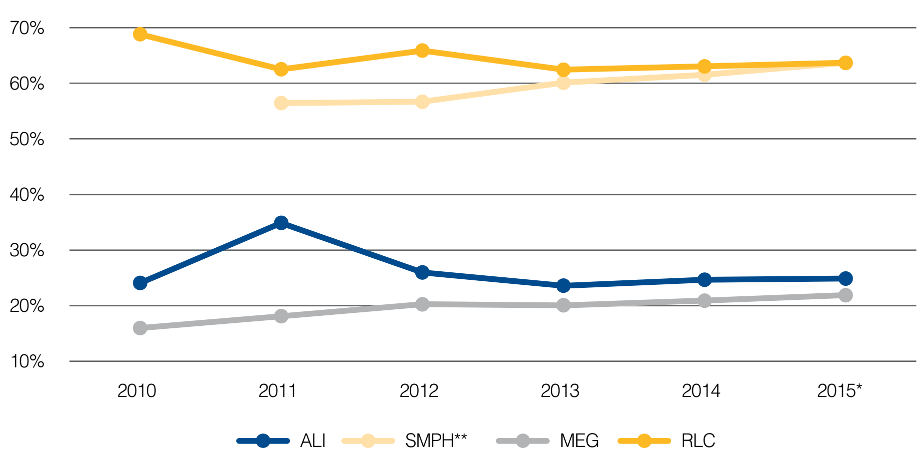
Targeting tourists

Aside from the continuing growth trajectory of the local BPO industry, the Philippine government also has hopes for Philippine tourism to bring in additional revenues for the country. Visitor arrivals in the Philippines reached 4.8M visitors by 2014, with a 5-year CAGR of 9.9%. SMPH addresses the needs of Philippine tourism through its partnership with the Radisson group, "Pico" branded developments, convention centers under the SMX brand, and malls themselves – considered as some of the biggest in the world. For RLC, tourism is tapped through its partnerships with Holiday Inn, Crowne Plaza, its own Summit Hotels, and Go Hotels. RLC also enters into franchising deals for its Go Hotels, which has presence in the Visayas and Mindanao. ALI is concentrating specifically on provincial areas with its "Seda" brand where it intends to offer rooms closer to the USD100 level than at USD200. With MEG's majority acquisition of Global-Estate Resorts, Inc. (GERI), it now intends to leverage on GERI's exposure across Iloilo, Cagayan de Oro, Boracay, and other tourism destinations.

Rental revenue diversification : A few players are ahead of the game but others catching up

Though we had previously mentioned the strong level of growth enjoyed by the other sources of revenue for these companies, recurring revenue streams did not stay flat over the last few years. For the four property companies in question, recurring revenue grew at a CAGR of over 10% for the last five years. Currently, at least 20% of ALI, SMPH, MEG, and RLC's revenues are from recurring sources – with SMPH and RLC at over 50%. The healthy growth in these underlying revenues, underscores the fact that the Philippines does need supporting property infrastructure to address the country's booming BPO, retail and tourism sectors, as the population's incomes prosper along with a developing emerging economy.

Recurring revenue percentage to total



Sources: Company Financial Statements, BDO

Ayala Land, Inc. (ALI)

EQUITY RESEARCH

Company Background

Ayala Land, Inc. (ALI) is the real estate arm of the Ayala Corporation, one of the Philippines' biggest and oldest business conglomerates. With over 8 decades of experience in real estate, ALI is the country's leading, most diversified and fully integrated property developer in the Philippines. ALI is well-known for large-scale, master-planned, mixed-use and sustainable communities that become thriving economic centers in their respective regions.

Following the success of the Makati Central Business District, ALI has created Alabang Business District, Cebu Park District, Bonifacio Global City, NUVALI and other growth centers. These serve as platforms for the Company's full line of real estate products that generate value over time.

With 8,948 hectares of developable land bank, ALI is now present in 55 growth centers across the country, offering a balanced and complementary mix of residential spaces, shipping centers, offices, hotels and resorts, convenience stores and health care facilities.

Share Data

PSEi Code	ALI
Rating	**Neutral**
52-wk range (Php)	27.20-41.40
Current Price (Php)	35.30
Target Price (Php)	38.99
Price Upside (%)	10.5%
Dividend Yield (%)	1.5%
Total Return (%)	12.0%

Review of Share Price Performance

Last March, we gave a neutral rating on ALI with a target price of Php38.50, which offers little upside from its trading price of Php37 then. ALI however, went on to peak at Php41.40 in April 2015, but also traced the PSEi's correction as investor sentiment was affected by the US Federal Reserve signaling the start of rising interest rates. The stock bottomed at Php27.20 last January, and has since rebounded 30% to its current level of Php35.30 as external developments (i.e. China's economic slowdown and financial markets turmoil, along with ECB's negative rates and persistently low oil prices) pose hopes of a delay in the Fed's next rate hike.

ALI vs PSEi

PSEi (Gray); ALI (Green)

Source: Bloomberg

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Equity Valuation

Comparative Valuation	Market Cap (Php Bn)	Price (Php)	2016 P/B (x)	2016 P/E (x)	2016 ROE (%)	Div Yd (%)	Free Float (%)
SMPH	618.02	21.40	2.70	24.57	11.30	1.34	31.37
ALI	**518.76**	**35.30**	**3.41**	**25.30**	**14.50**	**1.35**	**51.92**
MEG	133.47	4.14	1.12	12.78	9.11	1.04	33.67
RLC	113.19	27.65	1.84	17.15	11.04	1.60	38.59
VLL	58.85	4.55	0.67	6.10	11.24	3.10	30.45
FLI	40.98	1.69	0.74	8.12	9.40	3.31	38.79

Sources: Bloomberg; PSE
Note: SMPH – SM Prime Holdings; MEG – Megaworld; RLC – Robinsons Land; VLL – Vista Land; FLI – Filinvest Land

- **ALI turns cautious on new residential launches...** Coming from aggressive new project launches worth Php133B in 2014 and Php120.4B in 2015, ALI disclosed new launches this year will depend on market demand and take-up rates of existing projects. Residential sales take-up growth has slowed 4% to Php105.3B last year (from the 10.7% pace to Php101.7B in 2014). Still, ALI set aside a higher capex budget of Php85B this year (from an actual spend of Php82.2B last year), to follow through on plans of boosting its recurring income portfolio.
- **...as build-up for rental assets continues.** Capex allocation to recurring income assets for 2016 has increased to Php24B from Php20B last year and Php17B in 2014. This is in line with ALI's plan to expand its leasing and hotels business to account for half of its top line by the year 2020 from its present revenue share of 23%. And to do this, the company aims to increase its shopping center GLA (gross leasable area) to 3.6M sqm (from the current 1.4M), hike its office GLA to 1.8M sqm (from the present 715k), and expand its hotel room capacity to 6,000 (from the existing count of 2,324) over the next 5 years.

Financial Results (Php millions):

Revenues by Segment	FY'13	FY'14	% chg	FY'15	% chg
Residential Development	41,398	54,986	32.8	63,694	15.8
Shopping Centers	10,027	10,960	9.3	13,365	21.9
Corporate Business	3,357	4,434	32.1	4,931	11.2
Hotels and Resorts	4,017	5,618	39.9	5,974	6.3
Strategic Landbank Mgt & VisMin	11,553	6,905	-40.2	4,137	-40.1
Others	11,171	12,295	10.1	15,082	22.7
Total Revenues	81,523	95,198	16.8	107,183	12.6
Property Development %	65.0	65.0		63.3	
Commercial Leasing %	16.4	16.2		17.1	
Hotels and Resorts %	4.9	5.9		5.6	
Net Income	11,742	14,803	26.1	17,630	19.1

Source: ALI

Our View and Recommendation:

Short-term (less than 2 years): ALI's growth has moderated for both top line (12.6% from 16.8%) and bottom line (19.1% from 26.1%) for 2015 as the property firm scaled back on new residential launches starting 2014. Nonetheless, the slowing residential segment is expected to be supplemented by stronger rental revenues moving forward. Continuing cost management across product lines also allowed ALI to enhance margins and post higher earnings growth relative to revenues over the past 2 years. As such, market currently values its stock at Php35.30 per share, for a lower premium P/E of 25.3x (from a higher range of 30x-35x over the past 3 years). But considering its commendable ROE of 14%, which is the highest among peers, we believe ALI could support adjusted valuations of 29x P/E and 3.6x P/B for a target price of Php38.99 over the next 12 months. This offers a potential price upside of 10.5%, and will likely track the returns of most firms included in the PSEi. **Neutral***

Medium-term (beyond 2 years): Over time, we expect ALI to sustain an EPS growth of 14% with its continuing focus on large-scale mixed-use estates and diversification outside Metro Manila. Using the same price multiples, we get a target price of Php49.46 by 2018, for a likely annualized return of 12.6%, still at par with the PSEI. Meanwhile, investors will closely watch ALI's predominantly-residential portfolio mix, and how it will pan out amid rising local interest rates and a weakening Peso. Neutral. **Neutral.***

***Neutral** These are stocks whose share prices are going to move in tandem or within the PSEi movement as a benchmark over a 12-month period.

Analyst Attributed Estimates

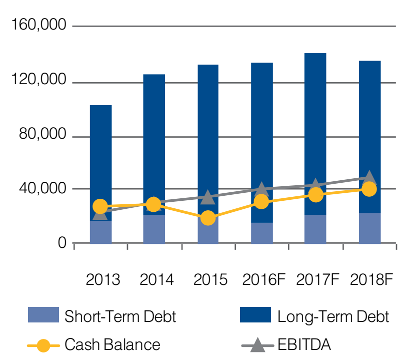
Internal	2016F	2017F	2018F
Attributable Net Income(Php'mn)	19,598	21,802	25,906
ROE %	14.0	14.1	15.2
Div / Sh	0.48	0.54	0.60
Div Yd %	1.4	1.5	1.7
BV / Sh	10.08	11.08	12.30
EPS	1.34	1.50	1.78
P/B (x)	3.50	3.19	2.87
P/E (x)	26.27	23.61	19.87

Source: BDO Private Bank Research

Major Shareholders	% of total
Ayala Corp.	47.19
Aberdeen	9.90
Capital Group Companies	3.27
Schroders Plc	1.80
Vanguard Group	1.34
Blackrock	0.98
State Street Corp	0.56
AXA	0.53
Danske Bank A/S	0.44
T Rowe Price Associates	0.39
Others	33.60
Total	**100.00**

Source: Bloomberg

Debt Capacity Chart (Php millions)



Overall, ALI maintained an investment-grade rating of BBB-, supported by: (1) sustainable EBITDA growth; (2) manageable leverage with D/E ratios between 70%-100%; and (3) extended debt maturity profile. The company's deliberate plan to also build up its revenue streams from recurring income assets (i.e. malls, offices and hotels), will also help cushion a slowing residential sector amid threats of decelerating OFW remittances and rising interest rates. Meanwhile, most of ALI's debt is denominated in the local currency, and carry fixed rates (84% of total as of end 2015), which thus limits its exposure to rising benchmark rates and the likely weakening of the peso over the medium-term.

FIXED INCOME RESEARCH

Financial Highlights (Php millions)

	2013	2014	2015	2016F	2017F	2018F
Cash	27,966	28,677	19,087	31,184	36,563	40,646
Receivables – net	56,269	65,140	65,857	72,442	77,146	88,788
Total Assets	325,474	388,944	442,342	492,364	534,510	583,824
Current Liabilities	101,623	135,446	146,133	151,842	166,430	183,555
Long Term Liabilities	111,753	131,503	146,384	175,625	186,594	198,660
Total Liabilities	213,376	266,949	292,516	327,468	353,024	382,215
Total Equity	112,098	121,995	149,825	164,897	181,486	201,609
Short-term Debt	15,949	21,369	19,294	15,486	21,256	21,836
Long-term Debt	85,953	103,296	111,702	116,760	117,990	111,640
Total Debt	101,902	124,666	130,996	132,246	139,246	133,476
Debt to Equity (%)	90.9	102.2	87.4	80.2	76.7	66.2
Net Debt to Equity (%)	66.0	78.7	74.7	61.3	56.6	46.0
Debt to Assets (%)	31.3	32.1	29.6	26.9	26.1	22.9
Net Interest Expense	646	767	148	4,076	2,725	1,849
EBITDA	23,223	29,882	34,358	40,097	42,726	48,374
EBITDA % Increase	43	29	15	17	7	13
Net Income	11,742	14,803	17,630	19,598	21,802	25,906
ROE %	13.0	14.4	14.7	14.0	14.1	15.2

Source: ALI; F – BDO Private Bank Research

- **Business expansion funded by additional equity, debt…** In view of its hefty capex requirements, ALI raised Php16B from an equity placement last year involving the sale of 484.85 million shares at Php33 apiece. This year, the property firm arranged a Php50B debt securities program providing to tap the capital markets in the next 3 years as the need arises. So far, the first tranche worth Php8B is set for issuance this month.
- **…and increasing cash flows.** Meanwhile, operating cash flows or EBITDA are projected to reach Php42.7B next year from Php40B this year. These cash flows would also help finance ALI's ongoing developments.

Our View and Recommendation:

Operational liquidity remains healthy… As ALI continues to launch more mixed-use estates and diversify into new growth centers, we estimate an EBITDA growth of about 7%-17% in the next 2 years for ALI. As such, EBITDA flows of about Php40B to Php43B are seen to support operational liquidity, with an estimated interest & dividend cover ratios between 3.2x and 3.9x.

…as cumulative earnings support leverage. In the meantime, rising revenues also strengthen and augment the company's equity via retained earnings. As such, we expect ALI to maintain manageable debt-to-equity ratios of 70%-100%, with EBITDA flows projected to exceed Php40 billion this year. The property firm's expanding earnings capacity, also suggests an improving capacity to repay debt as it comes due. Cash flows of Php40 billion for example, can theoretically pay off ALI's net debt of Php112 billion in about 3 years' time.

***BBB (Medium Grade)** Neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such issues lack outstanding investment characteristics and in fact have speculative characteristics as well.

Megaworld Corporation (MEG)

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Company Background

Megaworld Corporation (MEG) is one of the country's leading residential condominium developers and BPO office space providers. The company pioneered the development of mega-communities or integrated townships that locate residences, workplaces and commercial centers in one setting with its flagship project – Eastwood City.

The Company's real estate portfolio includes residential condominiums, townhouses, subdivision lots, office buildings, commercial space and hotel facilities.

In 2014, former affiliates Global-Estate Resorts, Inc. (GERI), Empire East Land Holdings, Inc. (ELI) and Suntrust Properties, Inc. (SPI) were consolidated under Megaworld, bringing the group's current landbank to 4,311 hectares (ha) inclusive of land under joint venture (126 ha) and long-term lease (22 ha). As of end-2015, the company has 20 township developments – 9 in Metro Manila and 11 in various regions across the country.

Total office leasing space is about 687,000 square meters (sqm) and retail space at close to 236,000 sqm. MEG plans to add another 287,500 sqm and 371,000 sqm respectively, by the end of 2016.

Over the next few years, Megaworld aims to keep group reservation sales at more than Php70 B annually, grow rental income to over Php10 B, and have at least 5 hotels in its portfolio.

Share Data

PSEi Code	MEG
Rating	**Outperform**
52-wk range (Php)	3.00 – 5.94
Current Price (Php)	4.14
12-month Target Price (Php)	4.83
Price Yield (%)	16.76
Dividend Yield (%)	0.95
Total Return (%)	17.71

Review of Share Price Performance

With a share price of Php5.45 apiece on March 16, 2015, we gave MEG an UNDERPERFORM rating (Money Talks, March 2015 issue) due to limited upside potential based on our fair value estimate of Php5.55 per share then. MEG reached a high of Php5.94 on Apr 10, 2015 (52-week high) but declined steadily along with the general market due to a complex brew of valuation concerns and uncertainties that kept financial markets volatile. As of March 11, MEG's share price has gone down by 24.0% since our previous write-up, worse than the PSEi's 8.2% comparative decline.

MEG vs PSEi

PSEi (Gray); MEG (Blue)

Source: Bloomberg

EQUITY RESEARCH

Equity Valuation

Comparative Valuation	Market Cap (Php Bn)	Price (Php)	2016 P/B (x)	2016 P/E (x)	2016 ROE (%)	Div Yd (%)	Free Float (%)
SMPH	618.02	21.40	2.70	24.57	11.30	1.34	31.37
ALI	518.76	35.30	3.41	25.30	14.50	1.35	51.92
MEG	**133.47**	**4.14**	**1.12**	**12.78**	**9.11**	**1.04**	**33.67**
RLC	113.19	27.65	1.84	17.15	11.04	1.60	38.59
VLL	58.85	4.55	0.67	6.10	11.24	3.10	30.45
FLI	40.98	1.69	0.74	8.12	9.40	3.31	38.79

*Sources: Bloomberg; * PSE*
Note: SMPH – SM Prime Holdings, Inc.; ALI – Ayala Land, Inc.; RLC – Robinsons Land Corp.; VLL – Vista Land & Lifescapes, Inc.; FLI – Filinvest Land, Inc.

▶ **Interim revenues, profit growths at double digit rates.** Nine-month consolidated recurring revenues of Megaworld reached Php33.53B (+11% y/y). Bulk or 61.1% of which still came from the sale of condominium units and residential lots (+11.5% y/y to Php20.49B from Php18.38B). Meanwhile, higher leasing rates and office space demand (particularly from BPO companies) helped rental income grow at a faster pace (+24% y/y from Php5.20B) to Php6.44B, raising revenue share to 19.2% from 17.2% the previous year. With real estate cost margins further improving to 54.4% (from 58.4% in 2014 and 59.5% in 2013), MEG's interim net income grew at a slightly faster than its topline to Php8.35B (+12.52% y/y net of Php11.62B non-recurring gains from the sale of its shares in Travellers to parent AGI).

Earnings Results: Nine Months 2015

Php M	FY '13	FY '14	Chg (%)	9M'14	9M'15	Chg (%)
Recurring Revenues	35,387	40,975	15.8	30,240	33,527	10.9
Core Net Income	8,174	9,468	15.8	7,419	8,352	12.6
Core Attrib. Net Income	8,116	9,064	11.7	7,167	8,094	12.9
Operating Income Segmentation						
Real Estate	6,096	7,227	18.6	5,558	6,745	21.4
Rental	4,377	5,231	19.5	3,877	4,981	28.5
Hotel Operations	86	188	118.4	124	107	-13.5
Corporate and others	62	65	3.6	279	142	-49.2
Total	**10,621**	**12,710**	**19.7**	**9,837**	**11,974**	**21.7**
Operating Income Mix (%)						
Real Estate	57.4	56.9		56.5	56.3	
Rental	41.2	41.2		39.4	41.6	
Hotel Operations	0.8	1.5		1.3	0.9	
Corporate and others	0.6	0.5		2.8	1.2	
Total	**100.0**	**100.0**		**100.0**	**100.0**	

Sources: MEG; E – Bloomberg consensus estimates

Our View and Recommendation:

Short-term (less than 2 years): MEG continues to trail retail-established peers (ALI, RLC, SMPH) with large 2016 P/E gaps. MEG's discount may be attributed to its lower ROE, as earnings continue to lag accumulating reservation sales. The premium given retail property owners is also justified by their relative stability versus commercial (office) property owners during uncertain economic times. Thus, we have revised our valuation benchmarks to 12.5x P/E and 1.0x P/B, from 16x and 1.2x, respectively. Our revised 12-month fair value estimate for MEG is also lower at Php4.83 per share (from Php5.55 per share). However, with share price significantly down from its 52-week high, potential price yield of 16.8% is better than the 10%-12% expected return for the PSEi. **Outperform.***

Medium-term (beyond 2 years): Assuming that MEG sustains growth in recurring revenue sources, we estimate that MEG can improve its net profit by over 10% annually. This raises MEG's fair valuation to Php5.80 per share by 2018, translating to an annualized total return of 13.7% (inclusive of dividends) – just a tad higher than our 12% expected medium term return for the PSEi. **Neutral****.

***Outperform** These are stocks whose share prices are going to outperform or beat the return of the Philippine Stock Exchange Index over a 12-month period.
****Neutral** These are stocks whose share prices are going to move in tandem or within the PSEi movement as a benchmark over a 12-month period.

FIXED INCOME RESEARCH

Analyst Attributed Estimates

Internal	2015F	2016F	2017F
Attributable Net Inc. (Php'mn)	10,700	12,299	13,952
ROE %	8.14	8.68	9.09
Div / Sh	0.06	0.04	0.04
Div Yd %	1.43	0.92	1.05
EPS	0.33	0.38	0.43
BV / Sh	4.29	4.64	5.03
P/E (x)	12.80	10.85	9.56
P/B (x)	0.99	0.89	0.82

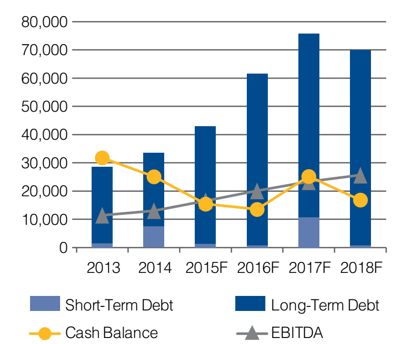
Source: BDO Private Bank Research

Major Shareholders

Major Shareholders	% Stake
Alliance Global Group, Inc.	43.70
Newtown Land Partners, Inc.	17.58
First Centro, Inc.	2.71
Richmonde Hotel Group Int'l Ltd	1.30
Vanguard Group	1.24
Dimensional Fund Advisors LP	1.07
Norges Bank Investment Management	0.79
BlackRock	0.58
Goldman Sachs Group, Inc.	0.48
Royal Bank of Scotland Group	0.46
Others	30.09
TOTAL	**100.00**

Source: Bloomberg

Debt Capacity Chart (Php millions)



Credit rating downgraded from A to BBB+. We have downgraded MEG's credit rating due to its increasing need to incur more debt, raising its D/E ratio over 40% starting this year (from an average of 27% over the past 5 years). Nonetheless, the **BBB+** rating remains investment-grade, underpinned by strong operating cash flows; manageable leverage (estimated D/E ratios under 50%); still comfortable debt maturity profile; reasonable interest and dividend cover; and current liabilities adequately matched by current assets through 2018.

As of end-2014, 92% of MEG's debt had fixed interest rates, therefore not sensitive to interest fluctuations. The company does however, carry currency risk that can affect its net income by +2.1% on the average, as about 60% of its long-term debt is in US dollars.

Financial Highlights (Php millions)

	2013	2014	2015F	2016F	2017F	2018F
Cash	31,751	25,143	15,434	13,585	25,202	16,816
Receivables – net	19,815	23,944	29,785	31,438	34,345	38,461
Total Assets	173,882	221,040	246,048	282,095	316,432	331,241
Current Liabilities	25,897	38,878	35,521	38,569	52,681	45,893
Long Term Liabilities	46,033	53,363	72,267	94,023	101,493	108,645
Total Liabilities	71,929	92,241	107,788	132,591	154,174	154,538
Total Equity	101,953	128,799	138,260	149,504	162,259	176,703
Short-term Debt	1,565	7,626	1,457	833	10,716	833
Long-term Debt	27,062	25,912	41,522	60,688	64,972	69,139
Total Debt	28,627	33,538	42,978	61,522	75,688	69,972
Debt to Equity (%)	28.1	26.0	31.1	41.2	46.6	39.6
Net Debt to Equity (%)	-3.1	6.5	19.9	32.1	31.1	30.1
Debt to Assets (%)	16.5	15.2	17.5	21.8	23.9	21.1
Net Interest Expense	571	684	1,295	2,220	3,106	2,854
EBITDA	11,466	13,093	16,570	20,121	23,357	25,657
EBITDA % Increase	31.3	14.2	26.6	21.4	16.1	9.8

Sources: MEG; F – BDO Private Bank Research

- **Substantial capex, debt maturity lower interim cash balance.** From Php25.143B in end Dec 2015, MEG's cash balance declined by 36.1% to Php16.067B as of end Sep 2015, as the developer settled a Php5B bond maturity and over Php700M in loans as well as covered 2015 capital expenditure (capex), budgeted at Php65B (announced in April 2015). Based on interim statements, net new loans as of Sep 2015 was about Php7.4B, and cash flows from investing activities showed a net outflow of Php11.231B.
- **Scaling down?** Recently, MEG announced a capex budget of Php55B for 2016, Php10B lower than the previous year. In our view, a less aggressive expansion is a welcome development, considering the slew of real estate projects in recent years. In its 4Q 2015 report released in Feb 2016, real estate consultancy firm Colliers International observed that in 2015, 484,092 sqm (square meters) of new office space and 6,209 residential condominium units were completed, and forecasts another 709,675 sqm and 13,519 units, respectively, will be added in 2016 if projects are completed as planned. In Colliers' view, such unprecedented level of new supply will exceed forecasted demand, and it may take time to absorb the extra capacity. Colliers' estimates that this could push overall office vacancy rates from 3.4% in 2015 to 5.6% by end-2016.

Our View and Recommendation:

Expect another round of capital-raising... We estimate that MEG would need to raise (via debt or equity) around Php20B this year to support its planned capex of Php55B and cover about Php2.3B in maturing debt over the next two years.

...justified by a still healthy expansion. Healthy residential sales order book (above Php60 B since 2012) and growing rental income (2016 target of Php11B) will continue to support MEG's ability to service its long-term debt, reflected in stable operating cash flow (EBITDA) levels averaging Php23B through 2018.

***BBB (Medium Grade)** Neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such issues lack outstanding investment characteristics and in fact have speculative characteristics as well.

Robinsons Land Corp. (RLC)

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Company Background

Robinsons Land Corp. (RLC) is one of the country's leading real estate companies engaged in the development and operation of shopping malls and hotels, mixed-use properties, office buildings, residential condominiums, as well as land and residential housing projects in key cities and other urban areas nationwide.

As of end December 2015, RLC operates 41 shopping malls, 11 office buildings located in Metro Manila and Cebu, as well as 14 hotels under 3 brand segments (Crowne Plaza and Holiday Inn both managed by the InterContinental Hotels Group; Summit Circle Cebu and Tagaytay Summit Ridge both under the Summit brand; and a network of 9 Go Hotels). The property firm also holds close to 590 hectares of land back, which can sustain its continuing expansion thrust.

Incorporated on June 4, 1980, RLC serves as the real estate arm of JG Summit Holdings, Inc., one of the Philippine's largest conglomerates with diverse interests in branded consumer foods, agro-industrial and commodity food products, textile, telecommunications, petro-chemicals, air transportation, power and financial services, among others.

Share Data

PSEi Code	RLC
Rating	**Outperform**
52-wk range (Php)	22.80-33.25
Current Price (Php)	27.65
Target Price (Php)	31.77
Price Upside (%)	15.5%
Dividend Yield (%)	1.3%
Total Return (%)	16.8%

Review of Share Price Performance

RLC's share price has fared better than the PSEi since July of last year, with its revenue and income mix tilting more towards its leasing businesses. As such, RLC is seen as a more resilient property player, which can better withstand down-cycles in the developmental side of the real estate business (ex. residential high-rise or condominium projects). However, rental yields or margins may gradually decline as more property players pursue the same tack of constructing new commercial and office establishments across the country, and compete aggressively for tenants. Colliers for example, has noted that about 1.5 million sqm of new office supply are due for delivery between 2016-2017, with office rental rates possibly correcting by 5%-10%.

RLC vs PSEi

PSEi (Gray); RLC (Red)
Source: Bloomberg

EQUITY RESEARCH

Equity Valuation

Comparative Valuation	Market Cap (Php Bn)	Price (Php)	2016 P/B (x)	2016 P/E (x)	2016 ROE (%)	Div Yd (%)	Free Float (%)
SMPH	618.02	21.40	2.70	24.57	11.30	1.34	31.37
ALI	518.76	35.30	3.41	25.30	14.50	1.35	51.92
MEG	133.47	4.14	1.12	12.78	9.11	1.04	33.67
RLC	**113.19**	**27.65**	**1.84**	**17.15**	**11.04**	**1.60**	**38.59**
VLL	58.85	4.55	0.67	6.10	11.24	3.10	30.45
FLI	40.98	1.69	0.74	8.12	9.40	3.31	38.79

*Sources: Bloomberg; *Philippine Stock Exchange (PSE)*
Note: SMPH – SM Prime Holdings; ALI – Ayala Land Inc.; MEG – Megaworld; VLL – Vista Land; FLI – Filinvest Land

- **Cheap relative to large-cap peers...** RLC is trading at 17x P/E and 1.8x P/B based on 2016 consensus estimates, relatively cheap vs. the top 2 players' valuation band of 24-25x P/E and 2.7-3.4x P/B, given comparable ROEs of 11%-14.5%. RLC though, has less leverage (i.e. 2015 D/E of 44% vs. ALI and SMPH 2014 D/Es of 87% and 80% respectively) and provides better dividend yield of 1.6%. RLC also remains as the country's second largest landlord (next to SMPH) with strong rental revenues of Php11.4 billion as of 2015 (from malls and office buildings), accounting for a higher 57.6% share (from 56.6% in 2014) of its top line, as it grew 18% y/y. RLC's rental revenue growth was sustained at 18% for the first quarter of its current fiscal year, increasing further its top line contribution to 58.2%, as its residential segment grew at a slower pace of 4.6%.

- **...impending upside backed by robust leasing portfolio.** RLC maintained strong double-digit income growth during the first quarter of its fiscal year ending September 2016, driven by the solid performances of its recurring income portfolio. The property firm generates most or about 83% of its cash flows or EBITDA from an expanding mall, office and hotel portfolio, and is less affected by the anticipated slowdown in the residential segment.

Financial Results:

Php millions	2014	2015	% chg	1Q'15	1Q'16	% chg
Revenues	17,051	19,733	15.7	4,790	5,388	12.5
Net Income	4,735	5,701	20.4	1,398	1,650	18.0
EBITDA Breakdown						
Malls	5,552	6,204	11.7	1,518	1,674	10.2
Offices	1,477	2,106	42.6	462	634	37.1
Hotels	526	619	17.6	174	198	13.8
Residentials	1,418	1,776	25.3	429	500	16.6
Total EBITDA	8,974	10,705	19.3	2,583	3,005	16.3
EBITDA Margin (%)	52.6	54.3		53.9	55.8	

Source: RLC

Our View and Recommendation:

Short-term (less than 2 years): RLC's continuing thrust in expanding its recurring income base is expected to support its share price advance in the next 12 to 18 months with its ROE also seen to increase to 11%-11.5% (from 10.5% in 2015) as margins improve on better operating efficiencies. As such, we believe RLC may warrant higher price multiples of 20x P/E and 2x P/B for a target price of Php31.77, which translates to an attractive potential price upside of 15.5% or total return of 16.8% inclusive of dividends. **Outperform***.

Medium-term (beyond 2 years):): Prospectively, RLC can sustain an annual EPS growth of 14% as the group adds more malls and office projects to its portfolio. Assuming the same price multiples of 20x P/E and 2x P/B, its share price could reach Php39 by 2018, for an annualized price yield of 12.2%. As such, RLC may track the local stock market's benchmark index. **Neutral****.

***Outperform** These are stocks whose share prices are going to outperform or beat the return of the Philippine Stock Exchange Index over a 12-month period.
****Neutral** These are stocks whose share prices are going to move in tandem or within the PSEi movement as a benchmark over a 12-month period.

Analyst Attributed Estimates

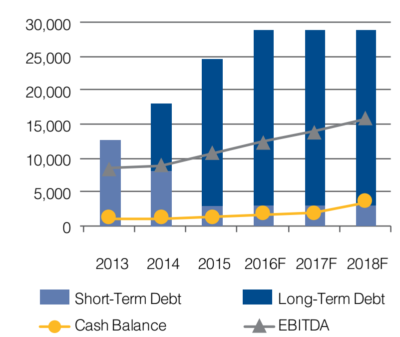
Internal	2016F	2017F	2018F
Attributable Net Income(Php'mn)	1.58	1.81	2.08
ROE %	10.9	11.5	12.0
Div / Sh	0.36	0.36	0.36
Div Yd %	1.3	1.3	1.3
BV / Sh	15.06	16.51	18.23
EPS	1.58	1.81	2.08
P/B (x)	1.84	1.68	1.52
P/E (x)	17.53	15.30	13.30

Source: BDO Private Bank Research

Major Shareholders	% Stake
JG Summit Holdings	60.97
Fidelity Mgt & Research	3.15
Dimensional Fund Advisors	1.57
Vanguard Group	0.83
Blackrock	0.58
Royal Bank of Scotland Grp	0.57
State Street Corp	0.52
Allianz SE	0.34
Fil Limited	0.33
HSBC Holdings Plc	0.33
Others	30.81
TOTAL	**100.00**

Source: Bloomberg

Debt Capacity Chart (Php millions)



Overall, RLC maintained an investment-grade rating of BBB+, supported by: 1) prudent gearing with a debt-to-equity ratio (D/E) staying below 50%; 2) and extended debt maturity profile, with principal payments spread over the next 5 to 10 years; and 3) upbeat earnings outlook as RLC continues to concentrate on more durable property segments of commercial and office leasing developments.

FIXED INCOME RESEARCH

Financial Highlights (Php millions)

	2013	2014	2015	2016F	2017F	2018F
Cash	1,081	1,055	1,193	1,711	1,781	3,447
Receivables – net	2,889	3,984	5,021	5,183	5,368	5,502
Total Assets	74,886	85,370	99,068	110,145	117,133	126,226
Current Liabilities	20,020	16,587	12,960	13,961	14,901	15,986
Long Term Liabilities	5,562	16,213	29,314	34,406	34,528	35,496
Total Liabilities	25,582	32,800	42,274	48,367	49,428	51,482
Total Equity	49,304	52,570	56,795	61,778	67,705	74,745
Short-term Debt	12,678	8,101	3,049	3,049	3,049	3,049
Long-term Debt	0	9,920	21,833	26,000	26,000	26,000
Total Debt	12,678	18,022	24,882	29,049	29,049	29,049
Debt to Equity (%)	25.7	34.3	43.8	47.0	42.9	38.9
Net Debt to Equity (%)	23.5	32.3	41.7	44.3	40.3	34.3
Debt to Assets (%)	16.9	21.1	25.1	26.4	24.8	23.0
Net Interest Expense	-57	19	-108	472	605	585
EBITDA	8,441	8,974	10,705	12,345	13,875	15,823
EBITDA % Increase	15	6	19	15	12	14
Net Income	4,478	4,737	5,700	6,457	7,400	8,514
ROE %	9.4	9.3	10.4	10.9	11.5	12.0

Sources: RLC; F – BDO Private Bank Research

▶ **Increasing and extending debt profile…** RLC ended its fiscal year 2015 with accumulated debt of almost Php25B, after issuing fixed-rate bonds worth Php12B to support its capex program and refinance Php8B of maturing debt. This year, we expect the company to require additional borrowings of Php4Bgiven a higher capex budget of Php17B from Php15B the previous year.

▶ **…supporting recurring income expansion.** RLC's Php17B capex plan for 2016 remains focused on recurring income expansion with Php9.1B allotted for investment capex, and smaller chunks of Php4.3B and Php3.6B for development and land acquisition activities. With more investment assets eventually producing more stable rental income, we expect RLC to be more resilient in case of economic or property downturns that usually impact the developmental residential and leisure segments.

Investment Asset Portfolio	2014	2015	% chg	2017 Target	% chg
Malls GLA (sqm)	1,056,000	1,095,000	+4%	1,395,000	+27
Offices NLA (sqm)	275,000	310,000	+13%	315,000	+2
Hotels # of rooms	1,896	2,174	+15%	2,811	+29

Source: RLC

Our View and Recommendation:

Sustainable double-digit EBITDA growth… Given its aggressive expansion of recurring income assets, we expect RLC's EBITDA flows to grow by 12%-15% in the next 2 years. Estimated annual EBITDA of Php12B to Php14B should adequately support operational liquidity, with an estimated interest & dividend cover of over 6x. In view of the group's sizeable capital spending however, RLC will likely return to the debt capital market this year with an estimated requirement of at least Php4B. Credit will probably be extended as leverage remains conservative with D/E ratios staying within the 40%-50% range.

…upholds good credit standing. The group's prudent capital mix is attributed to the increasing income flows, which augments the company's equity via retained earnings. Growing EBITDA of over Php12B can also theoretically pay off the property firm's net debt in 3 years. Improving margins and profitability as RLC is seen to gradually enhance ROE, further supports the firm's credit position.

***BBB (Medium Grade)** Neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such issues lack outstanding investment characteristics and in fact have speculative characteristics as well.

PH property developers – cognizant of bubble fears

By Roxanne Olanday

Since the Philippines had fallen prey to the Asian financial crisis in 1997, and the world had succumbed to the global financial crisis 10 years later, a buzz word in the real estate sector abounded and continues to linger in the minds of many: bubble. In particular, investors, economists, and policy makers have been concerned with not only a property bubble forming in the Philippines, but of it popping.

Generally speaking, high demand with inadequate supply may drive up prices in a sector. To call the high price situation a bubble, we should see a dramatically rapid rise in prices to over-inflated levels, especially from over-speculation in the market. Low lending rates and an overall subdued interest rate environment may induce demand and prop up the sector. However, as with anything, what goes up must come down. In the case of a property bubble, when we see artificially high property prices, supply levels exceeding demand, together with low use of the many property developments due to speculators or buy-and-sell operators becoming the primary buyers of the property instead of "end-users" or people who utilize the property other than to merely acquire it and put it up for sale again, property prices will then fall and cause the bubble to pop.

Still a housing backlog

In the horizontal housing segment of the Philippines, there's still a deficit in supply to demand. According to the Chamber of Real Estate and Builder's Associations Inc. (CREBA), there is a large housing backlog of approximately 5.5 million units and only an annual supply of about 30% of this. Using data from the 2012 Family Income and Expenditure Survey (FIES), roughly 6.2 million families fall under the middle income segment while 15.2 million are under the socialized housing segment. Assuming 25% of both income segments are looking to purchase a new home, then that makes around 5.35 million families as a servable market to property developers.

To address this, it seems property developers have indeed given more focus to socialized and low cost housing as data from the Housing and Land Use Regulatory Board (HLURB) show licenses from these two segments combined increased by 8%, even as total licenses to sell in 2015 have in fact dropped by over 10% from 2014.

HLURB licenses to sell

Segments	2013	2014	2015
Socialized Housing	49,410	41,663	50,431
Low Cost Housing	59,464	63,398	62,900
Mid-Income Housing	30,585	27,819	29,430
High Rise Residential	78,458	76,413	64,699
Total Units	**217,917**	**209,293**	**187,815**

Source: Housing and Land Use Regulatory Board (HLURB)

Credit situation in check

Aside from providing the much needed supply however, the industry should look at affordability and financing options to support housing purchases. With increasing interest and demand for socialized and low cost housing, one may worry about funding capability of these potential home buyers. To ensure that this market segment can indeed purchase these homes, the government has established the Home Development Mutual Fund (HDMF), more commonly known as the Pag-IBIG Fund. This is a national savings program that offers more affordable shelter financing, in the form of short-term loans and housing programs. All Filipino workers and employees, covered by the Social Security System (SSS) and Government Service Insurance System (GSIS), are required to contribute a monthly sum to the Pag-IBIG fund. Since 2010, some fund characteristics are: doubled benefits of members, despite contributions kept at Php100.00 per month, increased loan cap to Php6 million, and regular housing interest cut to 6.5% from 11.5% as well as enabled minimum wage earners to avail of a housing loan at a low rate of 4.5%. Branches stand at over 70 and members at 15.8 million.

Given that the cost of socialized housing units and low cost housing ranges from around Php450,000 to Php1.2 million, a Pag-IBIG member would have the means to finance a housing unit. As of last year, Pag-IBIG released Php4.9 billion worth of loans equivalent to around 5,653 houses.

In addition, the Bangko Sentral ng Pilipinas (BSP) introduced tighter lending policies and has been closely monitoring the financial sector and its real estate exposure, to prevent over lending and eventually a credit-induced crisis. Earlier this year, initial results of the real estate stress test on banks revealed that the capital adequacy ratio (CAR) of banks would be higher than the 10% requirement set by the central bank and the 8% threshold set under the Bank for International Standards. As of the first half of 2015, the CAR of big banks was at 15.48% on a solo basis and 16.42% on a consolidated basis.

As of November last year, real estate made up 17.5% of banks' total loan portfolio (Php4.91 trillion), still below the 20% cap of the BSP on real estate loans. Meanwhile, gross non-performing loans (NPL) ratio fell to 1.75% from 1.77% in the prior month, maintaining a below-2% ratio since November 2014. At the same time, the BSP noted that the banking sector allotted a loan loss provisioning of above 130% of its gross NPLs, setting aside ample reserves for would-be credit losses.

Furthermore, the BSP is working on releasing a residential real estate price index (RREPI) to better aid its watch on the credit situation of the real estate sector, given the present lack of official data on property prices and affordability indicators.

In summary, there does not seem to be a property bubble, particularly in the horizontal development segment, in the Philippines, per se, as demand continues to outpace supply. And while there is a growth in the low-cost housing and social housing segments, interested parties may find financing support from Pag-IBIG. Moreover, policy measures by the BSP and its close monitoring signal that the industry remains under control.