BUY

Target Price
PHP 1.40/sh.

+	Increasing contribution of retail segment; Includes a total of 2.27mn sq m of residential, commercial & mixed use properties ; 2016 capex at P2bn; Strong cash position from restructured tenant payment; Highly-liquid;
-	Slower take-up for residential segment; Increased competition across all segments: lower brand recall on residential, lower human traffic on malls; Limited price action, low trading volume;

Recommendation

Despite being a pioneer in the gated community concept, the significant increase in competition & gradual saturation of the market turned one-time titan **Sta. Lucia Land (SLI)** into just one of the industry's back runners.

But what SLI lacked in capitalization, it compensated in the sheer number of on-going developments & properties.

SLI was able to cash-in on their first-mover advantage & effectively acquired prime lots in then-underdeveloped areas in Metro Manila at cheaper rates, until bigger names like Vista Land & Lifescapes (VLL) & SM Prime (SMPH) in terms of township developments, and SMPH & Ayala Land (ALI) in terms of mall & commercial spaces followed suit. Against higher capex & bigger roll-outs, SLI was reduced to a secondary player.

In spite of a tough environment, SLI still managed to remain consistent & stable throughout the years, on a historical 25% annual profit growth, and a 26% CAGR since 2012 – a financial feat in the industry that saw a number of smaller firms sunk.

And entering into 2014, SLI made serious actions towards beefing its retail segment, via mall expansion plans & conversion of idle property into leasable commercial areas. A decision that turned SLI into a highly-liquid company with steadier cash flows than from a pure residential counterpart.

Regardless of these upsides, half of their income were still derived from the sale of interest-rate sensitive residential units, while the more stable rental revenue is still not significant enough to eat potential losses on slower sales demand - especially that SLI's biggest clients, the OFW's, are losing traction in the market.

All in all, SLI may have been out of the spotlight for years but the firm is alive & kicking. RCDC cannot at the moment raise impending operational issues that would be detrimental on the long-term prospects of the firm. Therefore, on RCDC's initial coverage, we are calling a BUY recommendation on the stock, with fair valuation estimated at P1.40/share, based on net book valuation. This is a 55% upside potential for the company, granted growth strategies will translate into additional revenue.

Updates, Disclosures & News

-	The comprehensive net income of Sta. Lucia Land (SLI) dropped 34% to P65mn for 1Q16, coming from an 11% cut on its revenue at P792mn. The weaker top line came from significant revenue registered in 2015 on new license to sell (LTS), yet the mall segment posted a +19% in 1Q16 top line on internal restructuring.
-	Expenses for 1Q16 were tempered 8% due to significant decreases in relative cost on real estate sales, but the top line slump still managed to dent margins to 23.9% from previous 25.5%.
+	For the full year 2015, SLI secured a 24% profit improvement to P784mn, on better real estate sales and added contribution of rental income. Top line reached P1.7bn for 2015, 16% higher than last year. The strong bookings and project completion across all real estate segments boosted growth, while rental receipt amounted P480mn.
+	A total of P1.5bn was spent for the 2015 capex, with P179mn allotted for the acquisition of land bank in Luzon, for residential and condominium projects. SLI earmarked P2bn for its 2016 capex, with P500mn on land bank acquisition while the balance on project development.
+	Effective October 2014, SLI directly entered into a lease agreement with mall tenants, while unit Sta. Lucia East Commercial Corp (SLECC) will provide property management & services in exchange of a 7% fee on the gross rental services.

Company Description

STA. LUCIA LAND INC.

Sta. Lucia Land Inc (SLI) has already established a track record in horizontal development, since listing in 1987, and began diversifying into vertical developments, housing construction, and marketing services. SLI also begun expanding its mall operations as a strategy to increase recurring income, as well as convert some of its commercial lots for sale into leasable spaces.

As of December 2015, SLI is 83.28% owned by Sta. Lucia Realty and Development, Inc (SLRDI).

Stock Data

Last Price		PHP0.90
Performance (YTD)		2.27%
52-week range		P0.64 – P1.05
Beta		0.58
Outstanding Shares		10,796.45mn
Market Capitalization		PHP9,716.81mn
Free Float Level		16.69%
Par Value		1.0
Sector		Property
Subsector		Property
Major stakeholders	Sta. Lucia Realty & Dev't Corp.	83.28%
Fiscal Year		31-Dec
Previous Rating	N/A	Initiating Coverage

Board of Directors

Chairman	Vicente R. Santos
Director	Exequiel D. Robles Antonio D. Robles Aurora D. Robles Mariza Santos-Tan
Independent Directors	Jose Ferdinand R. Guiang Osmund C. De Guzman, Jr.

RCDC Research

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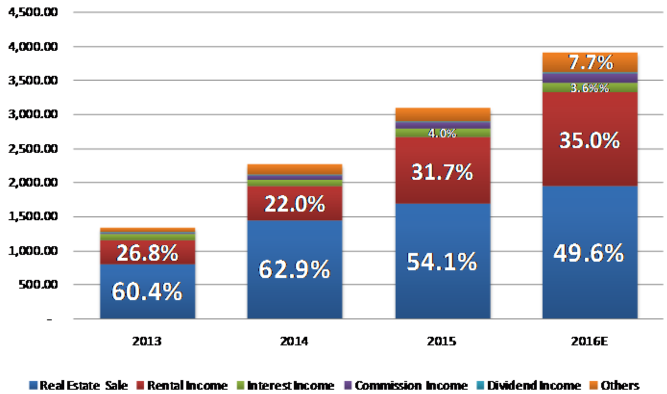
Revenue breakdown

- Sta. Lucia Land (SLI) was one of the pioneers in developing townhouse & gated community subdivisions in the country, explaining the sheer number of simultaneous projects under the company. Land banking at cost was substantially cheaper before, and the company's previous strategy was to acquire huge lots and develop by phases depending on the location's demand.
- The continuous rise in property players in recent years divided market shares and stiffens competition. Plus, the introduction of mix-type developments (e.g. integrated townships) caused public preferences to blur, with a point against SLI on its failure to offer similar products.
- Remaining mostly a gated subdivision developer, SLI became a laggard in comparison to more aggressive companies within the industry.



- However, in terms of performance, SLI still registered positive year-on-year improvements. And in reaction to the changes in the industry, SLI took a more pro-active decision to boost its recurring income base.

Residential segment on high inventory

- Growth in the real estate sales came from both horizontal and vertical (condominium, condotels) projects of SLI in both Metro Manila and outside.
- RE Sales remain the bread & butter of the firm, with as high as 60.4% of the revenue mix in 2012. But despite growing at a 9% CAGR from 2012 to P1.7bn, percentage of RE Sales dropped to 54.1% in 2015 to give way to its strategy to boost retail and commercial segments. On a yearly basis, RE receipt captured a 16% expansion in 2015, even if it is the slowest growing section of the revenue mix.
- For 2016E, RCDC estimates RE Sales percentage in the top line mix to further reduce to 49.6% at P1.9bn. A lower share in contribution does not imply slower growth, as for 2016E forecast at least another 16% growth in the business.
- Further, the board of SLI approved its entry into several JVs that aims to develop 14 new projects on an area of 162,054 sq m.
- The same board acquired rights to 22,212 sq m additional land bank, in areas like Palawan, Laguna, and Cavite.
- As a whole, SLI has a total of 35 on-going projects (including Mesilo Nueva Vida, Greenwoods Phase 2, & Sta. Lucia Residences – Santorini, among others) and 29 new projects in the pipeline (such as Cebu Com Tower 1 & 2, Sta Lucia Residenze Tower 3-5, among others).

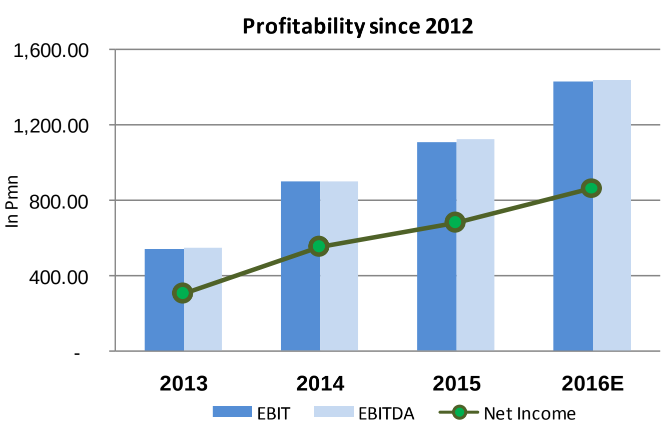
Boosted Recurring Segment

- SLI main business strategy & growth plan is to increase Rental earnings contributions, and expand its leasable, commercial portfolio.
- And one of the most significant decisions in 2014 was to cut the middle man in the transaction between SLI and its mall occupants. The middle man, Sta. Lucia East Comm'l Corp (SLECC), will instead manage the properties.
- The decision boosted cash by +1,808% in 2015, and +281% in the first 2 months of the accord implementation in October 2014. RCDC estimates cash reserves to normalize entering 2016, with organic growth coming from rent adjustments & occupancy rate increase.
- Another decision was to replace classification for 35 remaining commercial lots-for-sale into commercial lots-for-lease, which chains down cash flow into the company for a longer period of time without any material changes in assets.
- Lastly, mall expansion is one of the strategies included in its medium to long-term plans, with particular focus on Sta. Lucia East Malls. SLI has also introduced retail components to newer developments.
- In term of top line contribution, Rental Income from mall tenants have increased significance, from the 26.8% contribution in 2013 to 31.7% in 2015, with P984mn. RCDC expects this to reach as high as 36.0% by 2016E. Rental receipt also registered one of the strongest growth, with a 36% CAGR since 2012 and a 95.2% annual growth.

Other Income sources

- Other sources of income turned significant by the end of 2015, starting with commissions coming from marketing efforts of SLI units. Commissions registered a 128.3% CAGR since 2012 and a 35.5% year-to-year improvement. While Construction and Dividend Income both showed 26% growth, respectively. As per share in the top line, not one of the other sources provided more than 5% of the total mix.

Profitability



- Despite laggard performance in comparison to aggressive growth of peers, SLI still held its own. There have been no extraordinary gains registered between 2013 and 2015 to offset earnings figure. EBIT and EBITDA are surprisingly stable over the course of the period, with 23.5% and 24.3% y-o-y growth, respectively. And this is coupled by the same level with 25.4% and 25.6% CAGR since 2012. Profit, likewise, was kept stable on a 23.2% annual increase and 30% CAGR since 2012. On 2016E, an estimated 28.1% growth seems not far from the picture.

Ratios	2013	2014	2015	2016E	1Q16
Return on Equity	2.5%	4.7%	5.3%	5.5%	5.9%
Earnings per share	0.03	0.06	0.08	0.10	0.08
Profit Margin	22.6%	23.9%	21.8%	22.0%	26.0%
Asset Turnover	0.08	0.13	0.15	0.13	0.13
Return on Assets	1.7%	3.1%	3.2%	2.9%	3.5%
Assets to Equity	1.4	1.5	1.7	1.9	1.7
Altman's Z-Score	1.1	1.5	1.6	0.6	1.4
Price to Earnings	20.9	12.5	10.3	9.4	10.6
Price to Book Value	0.5	0.6	0.5	0.5	0.6
Graham Multiplier	10.8	7.3	5.7	4.9	6.7
Book Value per share	1.12	1.37	1.42	1.76	1.42
Dividend Yield	-	-	-	-	-

- In 2014, 2.2bn shares, covering P900mn advances, were issued back by parent-firm SLDRI to the firm, forming SLI's new treasury shares. This decreased O/S shares for SLI from 10.8bn in 2013 to 8.5bn in 2014.
- The increase in O/S shares from the infusion caused equity returns to almost double within the year (2014), and has been sustained ever since, with 5.5% in 2016E.
- On December 2015, SLI sold 400mn shares, increasing O/S shares to 8.9bn in 2015.
- As of December 2015, SLI is 83.28% owned by SLRDI.
- Stock value-indicators such as P/E, EPS and P/BV either continues to suffer or remains pegged over the last 3 years. Price to Earnings were almost cut half from 20.9x in 2013 to 9.4x by 2016E, as the market still sees no appreciation on the stock.

Sales to Inventories of Diversified Property Firms

Ratios	2011	2012	2013	2014	2015
ALI	1.74	1.34	3.17	2.04	2.09
CPG	2.33	5.53	2.35	1.54	0.96
DD	-	-	-	1.44	0.29
ELI	0.14	0.15	0.15	0.27	0.24
FLI	0.25	0.46	0.44	0.54	0.58
GERI			0.09	0.19	0.38
HOUSE	-	2.87	3.18	3.36	3.00
MEG	2.53	0.93	0.74	0.70	0.48
RLC	0.70	0.48	0.48	0.47	0.42
SMPH	-	-	7.04[1]	3.63	2.93
SLI	**-**	**-**	**-**	**0.18**	**0.21**
VLL	1.08	1.10	1.36	1.41	1.37

[1]SMPH used to be an independent property arm of the SM group, but was folded into SMDC beginning 2014.

- The sheer number of units & sq m of leasable land folded under the company capped Sales-to-Inventory ratio into lower levels, as compared to those with one or two project roll-outs per year.

Key Financial Data in PhP billions	2015
Ave. Total Assets	19,605
Ave. Total Debt	2,973
Ave. Total Equity	12,216
Net Income After Tax[1]	676
Interest Expense	137
Asset Income[2]	813
Debt/Equity Ratio	0.24
Cost of Debt	4.60%

[1] Does not include Comprehensive Income
[2] Asset Income = NIAT + Interest Expensed

Limlingan Financial Model©
ROE = ROA + D/E * (ROA - Cost of Debt)

LFM Inputs	2015
Return on Assets[3]	4.15%
Debt/Equity Ratio	0.24
Cost of Debt	4.60%
ROA - CD	-0.45%
Return on Equity	**4.04%**

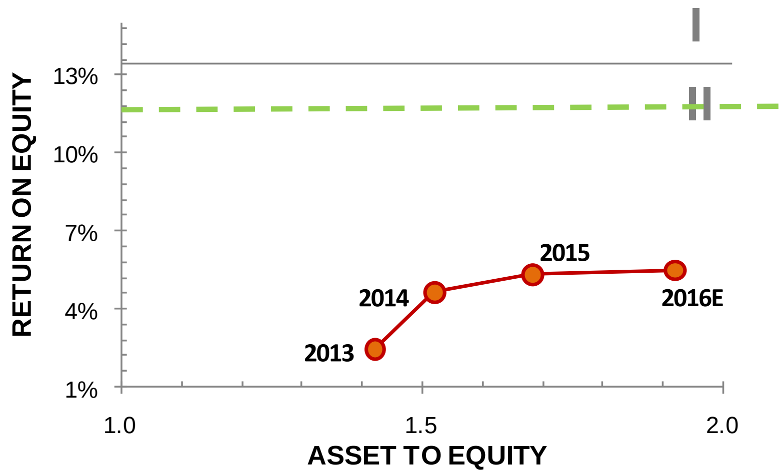
Case 1: Improve Efficiency by 20%	
Return on Assets[3]	4.98%
Debt/Equity Ratio	0.24
Cost of Debt	4.60%
ROA - CD	0.38%
Return on Equity	**5.07%**

Case 2: Increase Leverage by 20%	
Return on Assets[3]	4.15%
Debt/Equity Ratio	0.29
Cost of Debt	4.60
ROA - CD	-0.45%
Return on Equity	**4.01%**

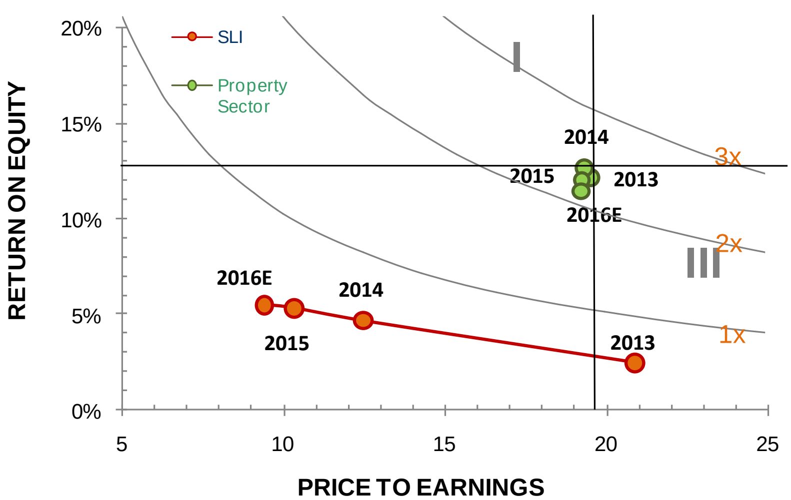
Case 3: Cut Debt Cost by 20%	
Return on Assets[3]	4.15%
Debt/Equity	0.24
Cost of Debt	3.68%
ROA - CD	0.47%
Return on Equity	**4.26%**

Highlighted items denote changed inputs
[3] In this model, ROA is computed as:
ROA = Asset Income / Ave. Total Assets

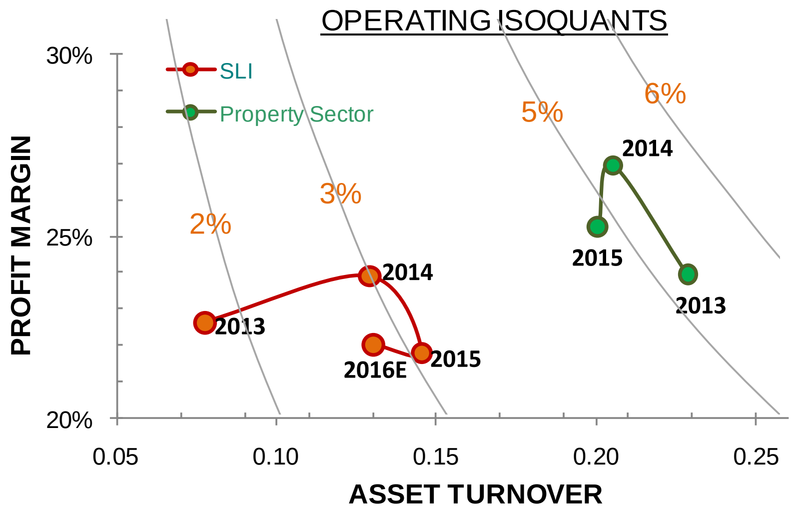
FINANCIAL PERFORMANCE



VALUATION ISOQUANTS



OPERATING ISOQUANTS



Leverage vs. Profitability

- Sta. Lucia Land (SLI) remains a laggard in profitability within the industry, with equity returns trailing behind peers at single-digit levels.
- Leverage for SLI is not far the industry-average, but still placed on the lower end of the spectrum, at about 1.5x to 2.0x A/E.
- The historical low profitability on modest leverage of SLI makes it into a stable – albeit verging on stagnant – firm, with low financial risk, but at the same time, low financial returns.
- The solid gridlines represent the 3-year Asset to Equity and ROE averages of companies in the Exchange, while the dotted lines represent the aggregate property industry. Due to the outlier nature of the firm, quadrants 1 and 2 are the only one shown.

Legend:

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

Perception vs. Profitability

- Consistent with its financial performance, participants have been decreasing valuation for SLI over the years, with decreasing P/E from 20.9x in 2013 to 9.4x by 2016E.
- SLI is also an outlier to the industry, settled at less than its book value, while peers are trading within the range of 2x to 3x respective book values.
- With an unappreciated valuation vis-a-viz low profitability turns SLI into an underperforming stock against the Exchange.
- Isoquant lines (1x, 2x and 3x) represent Price to Book values, while gridlines represent the average P/E and ROE of companies in the PSEi in the last 3 years.

Legend:

I – Undervalued (Bargain)	*IV – Fairly valued*
II – Fairly valued (Underperforming)	*III – Overpriced*

Efficiency vs. Profitability

- SLI was one of the earlier property firms in the country, with reliance to the older version of land development involving homogenized housing units on gated communities, before the idea of township eventually proliferated.
- The recurring income is derived from stand alone projects such as the Sta Lucia mall.
- This translated to a historically stable but low margin of between 20% to 30%. SLI has not entered into an integrated township concept that includes a retail component to the residential segment inside an inclusive property space. This placed a cap on margins as the integrated approach exhibited boosted income for other peers in the industry.
- Asset T/O is still below industry average, at a slower asset return of 3% from the 5% average.

Daily chart as of May 27, 2016

- On a year-to-date perspective, SLI gained momentum above its short-term moving averages that resulted into an uptrend.
- While monthly trend remained flat, consecutive higher low bases suggest enough buying pressure for a price appreciation.
- However, bearish divergence from MACD and RSI raised doubt on whether current trend can be sustained. ADX was overbought for the month of May but given prices barely moved since the strong intra-day trade in 25 and 26 April is indicative of a technical divergence.
- Participants can watch out for the 50-d MA (0.88), as a breach could signal a reversal. Short-term upside is capped at 0.92 but sustained rallies could push prices back to 1.00 to 1.04/share resistance points.
- **Sell on rallies.**

SLI v PSEi v VLL
Source: www.bloomberg.com

Recommendation Guide		Expected Performance in 6-12 months
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.
Altman's Z-Score	An indicator of a firm's financial stability; It calculates the odds that a company will become bankrupt. 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%).

Limlingan Model: ROE = ROA + D/E * (ROA – CD)

Basic Assumptions:

ROE = Return on Equity
ROA = Return on Assets*
D/E = Debt to Equity
CD = Cost of Debt

If ROA > CD, then ROE > ROA
If ROA < CD, then ROE < ROA

**using Asset Income*

Can be used to undertake the following financial analyses:

- 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

CEO
Maximize ROE for its shareholders

COO
Improve ROE through operational efficiency or ROA

CFO
Improve ROE by maximizing debt (reduce leverage or cost of debt)

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