REGINA CAPITAL
Development Corporation
Member: Philippine Stock Exchange

STOCK REPORT
April 2, 2018

Recommendation

SLI is one of the largest horizontal property developers in the country. It has developed over 10,000 hectares of land in 10 out of 13 regions. The company used to sell “lots only” in subdivisions until it incorporated its fully owned subsidiary, Sta. Lucia Homes (SLH), last 2014. SLH, the construction arm of SLI, offers construction services to the 60,000 SLI lot owners who haven’t built houses yet. This opened a promising source of income for the group, which is expected to sustain the double-digit growth of its real estate revenues.

The growing momentum of its residential business will be fueled by the robust remittances amid peso depreciation especially since more than half of SLI’s horizontal residential buyers are OFWs.

Another advantage of SLI would be its amassed land bank. Its raw land costs P2bn, and its inventory available for sale is worth P32bn. Furthermore, the land values of its projects should spike in the mid- to long-run, driven by the completion of nearby infrastructure projects of the government.

SLI also found significant sources of growth. It has expanded its portfolio which now includes malls, condotels, condominiums, golf courses and resorts. And on 4Q18, it is planning to open its first office building beside Sta. Lucia Mall.

Looking at its financials, SLI kept a slightly unlevered business in the past decades which limited growth opportunities. This is shown in their relatively low ROE compared to peers in the industry. Moving forward, SLI is embarking a more aggressive approach as its funds its 5-year pipeline by P15bn capex, sourced from debt and equity markets. This should bear fruition in the coming years; we project ROE to grow from 6.23% in 2017E to 7.64% in 2019E. The additional debt and interest expense will drag down the profit margins but it is expected to remain above 20%.

Overall, we estimate significant improvements in SLI’s profitability which will be supported by a healthy level of leverage. We are maintaining our NAV-based target price of P1.40, presenting 40% upside from the last trading price. We recommend to BUY the stock.

Updates, Disclosures & News

+	Last March 2018, SLI signed a P5bn corporate notes facility which will be used for payment of debts and for financing development costs.
+	SLI allotted P15bn capex in the next 3 to 5 years to convert its properties to saleable developments. This will ensure the future growth of the company.
+	The company allotted P500mn to develop the 67ha La Alegria project in Silay City. It will offer 1,101 residential lots and 83 commercial lots. It is expected to be completed in 2019.
+	The firm recorded P2.8bn revenues in 9M17, 18% higher y/y. It recorded 39% higher interest expense but cost of sales/services decreased by 4%. Net income during the period rose higher to P700mn (+31% y/y).
+	SLI was a finalist in the 2017 Asia CEO Awards under three categories namely Heart for OFWs Company of the Year, Executive Leadership Team of the Year, and Global Filipino Executive of the Year.

BUY **FAIR VALUE P1.40**

\+
- Increasing contribution of retail segment;
- Prime properties outside of MM;
- Strong remittance growth;
- Low P/E and B/V

\-
- Tighter competition in the property sector;
- Limited price action, low trading volume;
- Relatively lower profitability ratios

STA.LUCIA LAND INC.

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.*

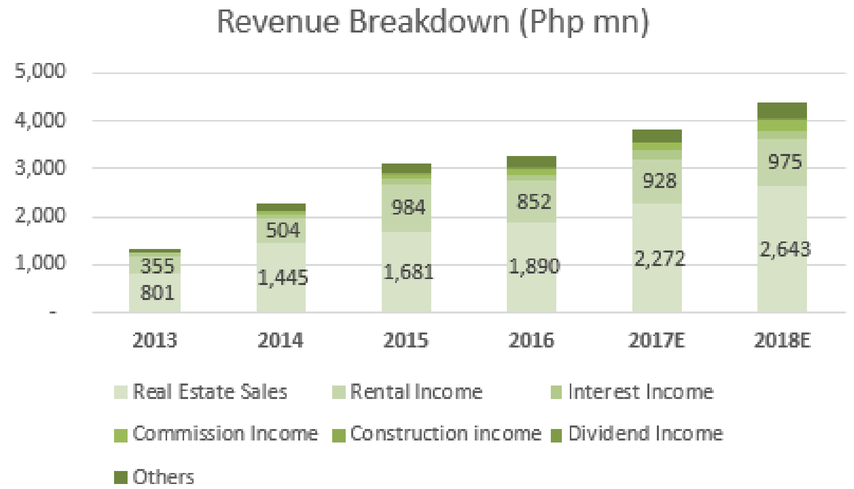
Stock Information

Last Price		P1.00
Performance (YTD)		-0.99%
52-week range		P0.96 – P1.11
Beta		0.63
Outstanding Shares		8.95bn
Market Capitalization		P8.95bn
Free Float Level		16.69%
Par Value		P1.00
Sector		Property
Subsector		Property
Major stakeholders	Sta. Lucia Realty & Dev’t Corp.	83.28%
Fiscal Year		Dec. 31
Previous Rating	Jan 2017	Buy P1.40/sh

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

RCDC Research
Patricia S. Pascual
pspascual@reginacapital.com

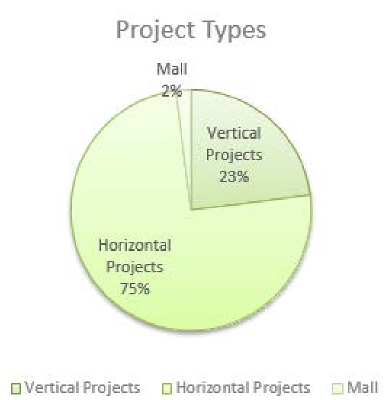
Business Segments



- SLI derives 70% to 75% of its income from its real estate development business while the rest comes from its leasing business. Since it specializes in horizontal development, it plans to maintain this income share moving forward.
- Real estate sales has been consistently recording double-digit growth. It has grown from P801mn in 2013 to P1.89bn in 2016, representing a CAGR of a 33.11%. And in line with their expansion, we forecast real estate sales to grow reach P2.7bn in 2018.
- Similar to other developers, SLI saw the growing opportunity in the leasing business. Hence, the expansion of Sta. Lucia Mall in Rizal which led to the increase in rental revenues from P355mn in 2013 to P852mn in 2016. RCDC estimates that rental income could spike to P1bn in 2019, driven by its office development.
- We believe a property developer with diversified revenue streams is more equipped to withstand the cyclical nature of the property industry.

Real estate projects

- SLI mainly targets OFWs for their residential developments. In fact, around 70% of real estate revenues account for OFW sales. SLI has one of the largest OFW revenues share in the industry; FLI's OFW sales take-up share is 33% while ALI's Overseas Filipino sales share is 9.6% last 2017.
- The company acquires strategic land bank which is sold afterwards as residential lots for sale. So far, it has sold around a total of 120,000 lots nationwide. The buyer has an option to build their own house or tap Sta. Lucia Homes.
- Sta. Lucia Homes, SLI's fully-owned construction subsidiary, constructs houses on previously sold lots in Sta. Lucia subdivisions. It has a market of around 60,000 lots, or half of the total lots sold by the group. Moving forward, this segment will drive the revenues of the firm.
- SLI has entered with more than 100 JV partnerships for most of its horizontal projects. This enables faster expansion in new territories and familiarity with the local market.



- SLI specializes in horizontal residential projects located in key provinces outside Metro Manila. This is advantageous to the firm since horizontal projects have higher margins than vertical projects.
- It expands its market reach through their condominiums and condotels project. Condotel units are sold to buyers and under company's rental program for 15 years in exchange of management fee.

Completed vertical residential projects
Source: Company reports

Recurring base

- Sta. Lucia Mall, three-story buildings, has a GFA of 180,000sqm and has 95% occupancy rate. This mall has been the largest source of SLI's recurring revenues. Its expansion includes another two-story buildings with a GLA of 12,600sqm. One of the two new buildings has already been completed while the remaining one, Sta. Lucia Business Center, is expected to be finished by 4Q18.
- Sta. Lucia Business Center will be the first office venture of the company. It is strategically connected to the upcoming LRT2 extension and Sta. Lucia Mall. Pre-committed retail lease for the project is around 40%.
- Another source of leasing income is the planned development of retail spaces in its residential projects.
- The entrance of SLI in the office leasing business positions the company to the large BPO industry in the country; it also makes SLI a well-diversified property company.

Sta. Lucia Business Center
Source: Company reports

- SLI is the largest developer of golf courses in the country with 14 courses nationwide. It has resorts which are expected to cater to the growing tourism in the country. Some of its resorts are Vista Mar in Cebu, Club Morroco in Subic, Colinas Verdes in Bulacan and Palo Alto in Rizal.

Ongoing projects

- Land available for development in Metro Manila and key provinces are already limited but SLI has already secured its land bank for future developments.
- It has 4.47mn sqm of land available for sale, which is worth around P32bn.
- Aside from this, SLI's land bank are strategically located near government infrastructure projects, making it more attractive to home buyers. Land values in these areas are seen to jump upon completion of the infrastructure projects.

List of on-going projects	
Horizontal Projects	
1 Altea Davao	28 Palo Alto Phase 2, Rizal
2 Costa Del Sol Iloilo	29 Ponte Verde Davao
3 Colinas Phase 3, 3A, 3B	30 Soto Grande Phase 2, Cavite
4 Almeria Verde Dagupan	31 Soto Grande Phase 3, Cavite
5 El Pueblo Verde, Tarlac	32 South Grove Davao
6 Glenrose Phase 2B, Taytay	33 Summerhills Phase, Rizal
7 Green Peak Heights Phase 1, Rizal	34 Valle Verde Davao
8 Green Peak Heights Phase 2, Rizal	35 Woodside Garden Ville Phase 2C, Pangasinan
9 Greenland Cainta Phase 4C2, Rizal	36 Catalina Lake Residences, Batangas
10 Greenland Cainta Phase 4J1, Rizal	37 Nasa Costa Cove, Batangas
11 Greenland Cainta Phase 3B, Rizal	38 Hacienda Verded Iloilo
12 Greenland Cainta Phase 9C, Rizal	39 Vermont Park Phase 4I, Rizal
13 Greenland Newtown Phase 2B, Rizal	40 Golden Meadows Phase 2C, Laguna
14 Greenland Newtown Phase 2C, Rizal	
15 Greenmeadows Phase 1, 1A, Iloilo	***Vertical Projects***
16 Greenmeadows Phase 2 Cavite	1 Arterra
17 Greenwoods Executive Phase 2A1, Rizal	2 Neopolitan Codominium
18 Greenwoods Executive Phase 6, Rizal	3 Splendido Taal Tower 2
19 Greenwoods Executive Phase 2K1, Rizal	4 Sta. Lucia Residence 1 - Monte Carlo
20 Greenwoods Executive Phase 9F, Rizal	5 Stradella
21 Greenwoods North Phase 2, Nueva Ecija	6 Sta. Lucia Business center
22 Greenwoods North Phase 3, Nueva Ecija	7 Sotogrande Katipunan
23 Greenwoods North Phase 6, Batangas	8 Sotogrande Iloilo
24 La Huerta, Laguna	9 Sotogrande Davao
25 Mesilo Residences, Cavite	10 Sotogrande Neopolitam
26 Nottingham Villas, Rizal	11 Sta. Lucia Residenze - Santorini
27 Green Peak Heights, Palawan	

Profitability

- SLI's 3-year CAGR since 2013 stood at 35% and 34% for its revenue and net income, respectively.
- It was able to more than double its topline and bottomline from 2013 to 2016. Revenues grew from P1.3bn in 2013 to P3.3bn in 2016 while net income started at P300mn in 2013 and rose to P730mn in 2016.
- We expect that revenue and net income will grow by 18.07% and 16.29% CAGR from 2017E to 2019E.

Ratios	2015	2016	2017E	2018E	2019E
Return on Equity	5.32%	5.42%	6.23%	6.69%	7.64%
Earnings per Share	0.08	0.08	0.10	0.11	0.14
Profit Margin	21.78%	22.17%	23.35%	22.29%	22.65%
Asset Turnover	0.15	0.14	0.13	0.12	0.13
Return on Assets	3.16%	3.03%	3.00%	2.78%	2.87%
Assets to Equity	1.68	1.79	2.08	2.41	2.66
Altman's Z-Score	1.58	1.54	1.25	0.68	1.10
Price to Earnings	10.32	13.36	10.11	8.96	7.48
Price to Book Value	0.55	0.72	0.63	0.60	0.57
Net Book Value per share	1.42	1.42	1.60	1.68	1.77

- The profitability of the firm has been gradually improving. Our estimates show that it can reach high-single digit in 2019E. The faster rise in ROE is a result of sustained net income growth, and increased leverage of the firm. EPS is seen to grow by 18% CAGR from 2016 to 2019E.
- The hefty margins from the horizontal residential development are reflected in the relatively high profit margin of the firm. However, higher interest expenses will slightly drag the profit margin from 23% in 2017E to 22% in 2018E.
- Asset turnover and ROA will drop in 2018E from the sudden balloon of assets, funded by the P5bn notes facility with various banks.
- Last June 2017, SLI fully redeemed P3bn bonds ahead of maturity after raising notes facility worth P3.1bn. It has an aggressive plan to convert its land bank into saleable developments by raising P15bn in the next 3-5 years through debt and equity markets.
- Earlier this year, it already signed a P5bn notes facility. We assumed that SLI will tap again the debt market in 2019E. Hence, the jump in Assets to Equity from 2.08x in 2017E to 2.66x in 2019E.
- SLI has attractive valuations as it has low P/E and B/V ratio. P/E ratio is seen to decline up to 7.48x in 2019E as the company becomes more profitable while price to book value is expected to remain below 1x.
- SLI has not declared dividends for the last five years.

Sales to Previous Year's Inventory Ratio

	2012	2013	2014	2015	2016
ALI	1.34	1.75	1.28	1.30	1.17
FLI	0.46	0.44	0.54	0.58	0.55
RLC	0.48	0.48	0.47	0.42	0.46
SLI	0.18	0.10	0.18	0.21	0.21
SMPH	24.08	7.04	3.63	2.97	3.11
VLL	1.10	1.36	1.41	1.37	1.09

- Sales to previous year's inventory ratio measures how efficient a firm manages its inventory. This is best used when comparing firms based on their target market or its projects (i.e. condominiums, socialized housing, offices, etc.)
- SLI's real estate inventories represent almost half of its total assets which is significantly higher compared to its peers' percentage of inventory to total assets (vs VLL 14%, FLI 20%). This led to relatively lower sales to previous year's inventories ratio. Nevertheless, it should improve as the firm becomes more aggressive in selling lots and constructing houses.
- Despite its slow moving inventory, SLI's project rollout appears to be generally consistent over time.

Key Financial Data in PhP millions	2017E
Ave Total Assets	33,040
Ave Total Debt	7,339
Ave Total Equity	14,712
Net Income After Tax*	1,008
Interest Expense	653
Asset Income	1,661
Debt/Equity	0.50
Cost of Debt	8.89%

**Does not include Comprehensive Income*

***Asset Income = NIAT+ Interest Expense*

Limlingan Financial Model(C)

ROE = ROA + D/E * (ROA - Cost of Debt)

LFM Inputs	2017E
Return on Assets	5.03%
Debt/Equity	0.50
Cost of Debt	8.89%
ROA - CD	3.86%
Return on Equity	**3.10%**

Case 1: Improve Efficiency 20%

Return on Assets	**6.03%**
Debt/Equity	0.50
Cost of Debt	8.89%
ROA - CD	2.86%
Return on Equity	**4.61%**

Case 2: Increase Leverage 20%

Return on Assets	5.03%
Debt/Equity	**0.60**
Cost of Debt	8.89%
ROA - CD	3.86%
Return on Equity	**2.71%**

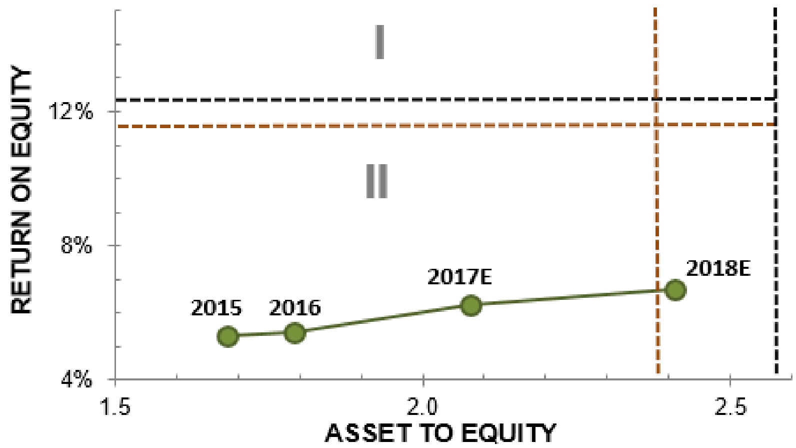
Case 3: Lower Cost of Debt 20%

Return on Assets	5.03%
Debt/Equity	**0.50**
Cost of Debt	7.11%
ROA - CD	2.09%
Return on Equity	**3.99%**

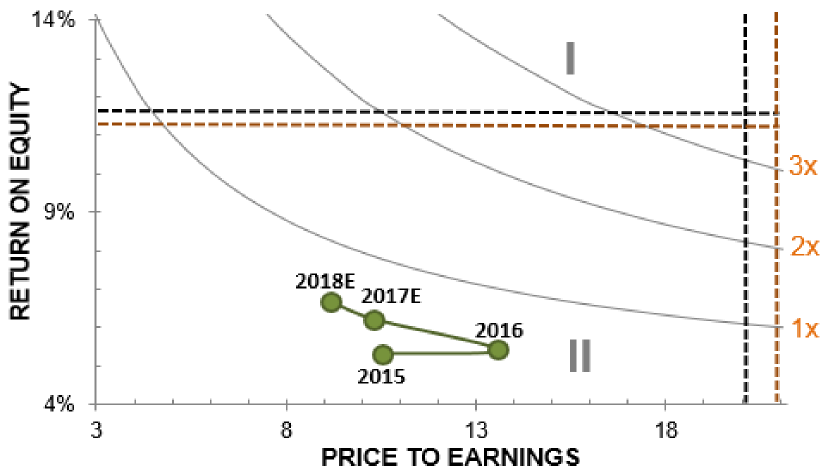
Highlighted items denote changed inputs

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

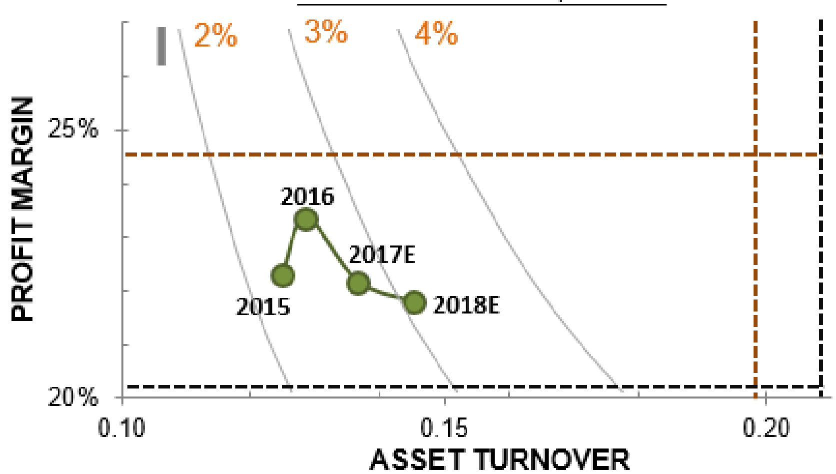
FINANCIAL PERFORMANCE



VALUATION ISOQUANTS



OPERATING ISOQUANTS



Leverage vs. Profitability

- In terms of profitability, SLI is a laggard compared to the PSEi (black dotted line) and the property sector (brown dotted line). SLI's 4-year average ROE stood at 5.4%, lower than the PSEi's 12.35% and the property sector's 11.58%.
- Nonetheless, SLI's ROE largely improved over the years from 2.5% in 2013 to 6.23% in 2017E. We estimate that ROE could reach 7% in the next two years.
- SLI has been leveraging in the past years in order to acquire land banks and develop properties. In fact, it was able to raise P8bn in the past two years. This drove the A/E from 1.42x in 2013 to 2.08x in 2017E, which is still lower than its peers. SLI still has a larger room for leverage, which could help in ramping up its projects.
- SLI has lower returns and lower financial risk compared to the PSEi and the property sector.

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

- Among the stocks in the index and the property sector, SLI has one of the lowest P/E ratio.
- SLI's 4-year average P/E stood at 11.6x, almost half as the property sector's 21.34x P/E.
- Based on our estimates, the pipeline of the developer will grow its net income by double-digits in the next three years. The rising income and higher leverage of the company should push the ROE higher.
- Relative to the index and the property sector, SLI has lower profitability and lower P/E, which makes it a fairly valued stock.
- SLI remains an outlier as it settled less than its book value while its peers are trading around 2x to 3x their book values.
- Isoquant lines (1x, 2x, 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.

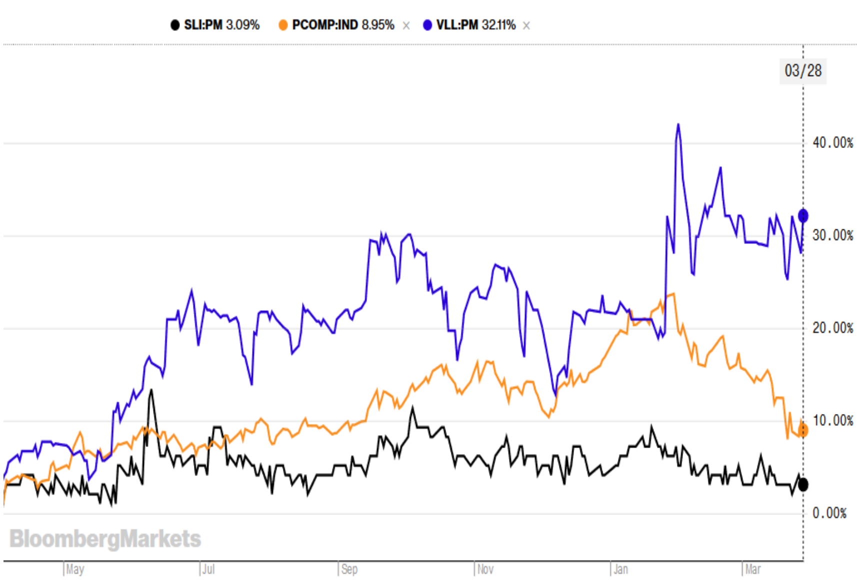
Legend:

I – Undervalued	*IV – Fairly valued*
II – Fairly valued	*III – Overpriced*

Efficiency vs. Profitability

- Real estate inventories represent half of SLI's total assets with the inventory available for sale valued at P32bn. SLI also has a large land bank across the country which is used for horizontal residential developments.
- The previous business model of the company, which is mostly selling of residential lots, generated a lower asset turnover compared to developers selling residential units/houses.
- As the company expands its recurring business and its real estate business, through Sta. Lucia Homes, asset turnover should slightly improve moving forward.
- In terms of margins, SLI is almost on par with the property sector. However, profit margin is seen to decline starting 2017 from higher interest expenses.

SLI finds strong support at 0.95



Source: www.bloomberg.com

Daily chart as of March 28, 2018

SLI's short- and long-term moving averages have converged for almost a year now due to lack of significant price movements. Nevertheless, this created a strong support, which is found at 1.02, for the stock. RSI is just below the mid-level, trading in the selling region. Positive DMI is above negative DMI but both lines are trading in the bearish zone. Meanwhile, MACD is about to have a bullish crossover. We see the stock trading sideways in the near future.

Trade the range

Support: 0.95
Resistance: 1.09

Recommendation Guide

Recommendation	Description	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.
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)

HEAD OFFICE

Suite 806, Tower I, PSE Plaza
Ayala Ave., Ayala Triangle,
Makati City, Metro Manila

Backroom(+63) 2 848 5482 to 84
Fax (+63) 2 848 5482

Trading Floor (+63) 2 891 9413 to 17
Available from 9:30 am to 12:00 pm, and 1:30 to 3:30 pm only.

www.reginacapital.com
rcdc@reginacapital.com

LOCATIONS WITHIN METRO MANILA

PASIG

Unit 1242 Megaplaza Building,
ADB Ave. cor. Garnet St.,
Ortigas Center, Pasig City

(+63) 2 584 0951

Manuel Luis Zialcita, Branch Head
mzialcita@reginacapital.com

GREENHILLS

512-B Tower 2 Lee Gardens
Condominium, Lee St. cor. Shaw
Blvd., Mandaluyong City

(+63) 2 584 0951 and 661 6508

Giok Hon Gotua, Branch Head
ggotua@reginacapital.com

OUTSIDE METRO MANILA

ILOILO

2F B&C Square Bldg., Iznart St.,
Iloilo City

(+63) 33 336 8140

Joseph Kuan Ken, Branch Head
Iloilo@reginacapital.com

CAGAYAN DE ORO

GF Wadhu’s Bldg., JR Borja St.,
Cagayan de Oro City

(+63) 8822 721 617

Romero Geroy, Jr., Branch Head
cdo@reginacapital.com

BAGUIO

Unit 701 Jose De Leon Center,
Session Rd., Baguio City

(+63) 74 446 9338

Rowena Tabanda, Branch Head
baguio@reginacapital.com
