

BUY

TP: PHP 2.89

▲ 19.4%

Sta. Lucia Land

SLI PM

Delivering on Growth; Paving the Way for More

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

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

Updated Financial Highlights

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

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

12 September 2019


REPORT AUTHORS

Cheah Zhuo En
 +65 6671 8117
 zhuoen.cheah@sccmasia.com

PRICE CLOSE (11 Sep 2019)

PHP 2.42

MARKET CAP

PHP 19.8 bn

USD 380.5 m

SHARES O/S

8,196 m

FREE FLOAT

18.2%

3M AVG DAILY VOLUME/VALUE

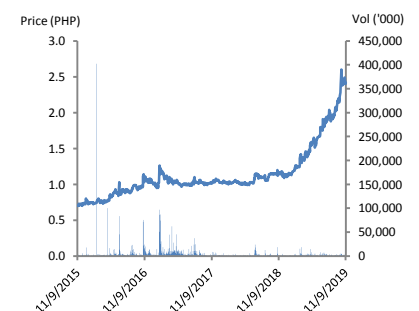
PHP 3.37 m

52 WK HIGH

PHP 2.73

52 WK LOW

PHP 1.07

Target Price **PHP 2.89**


1H19 Result Review

Growth Driven by Robust Real Estate Sales and Attractive Launches

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

Fig 1 - 1H19 Results Highlights

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

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

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

Fig 2 - 2Q19 Highlights vs. Old Estimates

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

Source: SCCM Research, Company

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

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

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

Property/Project Portfolio Update

Expanded Scale; Expanded Balance Sheet; Expanded Pipeline

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

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

Fig 3 - Horizontal Property – Acropolis Loyala



Type: Horizontal

Launch Date: 2019

Location: Katipunan, Quezon City

Saleable Area: 199,017sqm

Estimated ASP: P50,000/sqm (Residential)

Source: SCCM Research, Company

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

Fig 4 - Horizontal Project – Colinas Verde Bulacan



Type: Horizontal

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

Location: San Jose Del Monte, Bulacan

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

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

Source: SCCM Research, Company

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

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

Fig 5 - Horizontal Property – Hacienda Verde Iloilo



Type: Horizontal

Launch Date: 2018 (Residential Portion)

Location: Iloilo City

Saleable: 259,428sqm

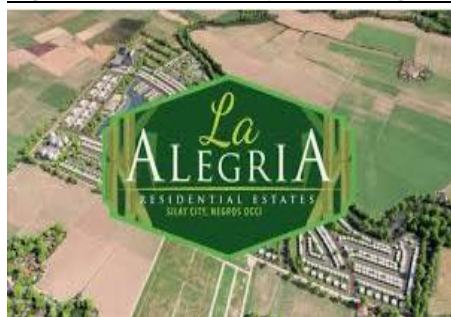
Estimated ASP: P11,200/sqm (Residential)

Source: SCCM Research, Company

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

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

Fig 6 - Horizontal Project – La Algeria Residential Estate



Type: Horizontal

Launch Date: 2017

Location: Silay City, Negros Occidental

Saleable Area: 232,437qm

Estimated ASP: P10,975/sqm (Residential)

Source: SCCM Research, Company

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

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

Fig 7 - Horizontal Project – Las Colinas Davao



Type: Horizontal

Launch Date: 2018

Location: Eden Toril, Davao City

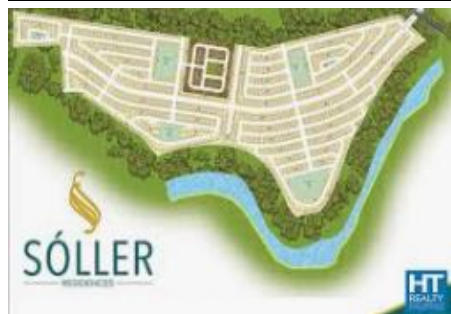
Saleable Area: 511,351sqm

Estimated ASP: P9,240/sqm (Residential)

Source: SCCM Research, Company

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

Fig 8 - Horizontal Project – Soller Davao

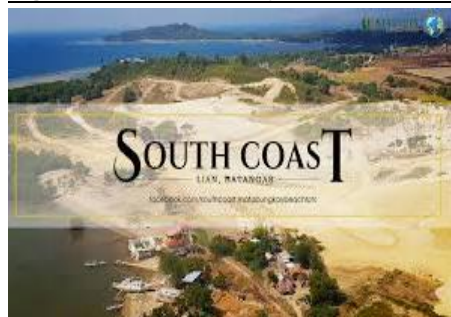


Type: Horizontal
Launch Date: 2016
Location: Mandug, Davao City
Saleable Area: 243,696sqm
Estimated ASP: P8,960/sqm

Source: SCCM Research, Company

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

Fig 9 - Horizontal Project – South Coast



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

Source: SCCM Research, Company

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

Fig 10 - Horizontal Project – Los Rayos



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

Source: SCCM Research, Company

BUY

TP: PHP 2.89

▲ 19.4%

Sta. Lucia Land

SLI PM

Company Update

Philippines

Property

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

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

Fig 11 - Horizontal Project – Ponte Verde Davao



Type: Horizontal

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

Location: Panacan, Davao City

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

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

Source: SCCM Research, Company

Valuation – Maintain BUY; Upgraded TP P2.89

Updated RNAV valuation implies 19.4% upside

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

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

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

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

Source: SCCM Research

- We note that our valuation assumptions still remain fairly conservative, in view that valuation for Sta. Lucia Grand East Mall is still kept at appraised value which underestimates the estimated future value of ~P8.0bn post completion of the LRT 2 extension that is directly connected to the mall. In addition, we also kept SLI's land bank at book value which does not price in the developmental value-add and future land price appreciation.

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

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

Source: SCCM Research

BUY

TP: PHP 2.89

▲ 19.4%

Sta. Lucia Land

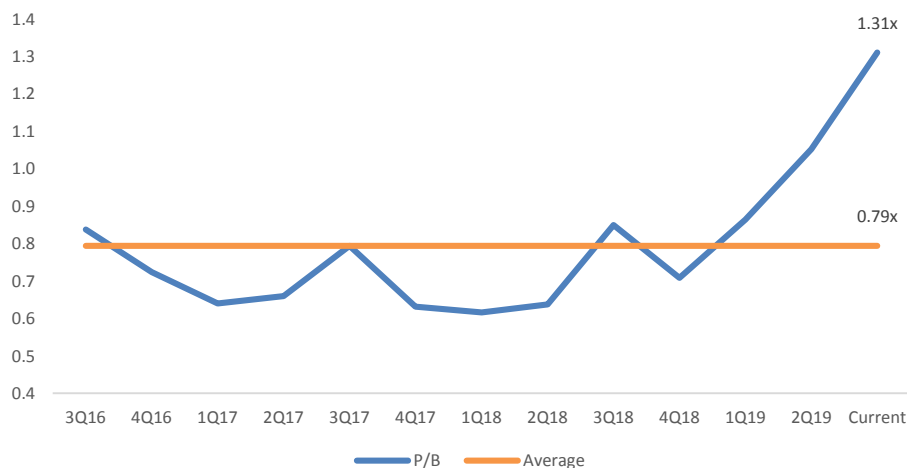
SLI PM

Company Update

Philippines

Property

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

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

Source: Bloomberg, SCCM Research

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

Fig 15 - SLI Comparables

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

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

BUY

TP: PHP 2.89

▲ 19.4%

Sta. Lucia Land

SLI PM

Company Update

Philippines

Property

Updated Financial Statements

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

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

Fig 16 - Consolidated P&L

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

BUY

TP: PHP 2.89

▲ 19.4%

Sta. Lucia Land

SLI PM

Company Update

Philippines

Property

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

Source: Company, SCCM Research

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

Fig 17 - Consolidated Balance Sheet

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

Source: Company, SCCM research

Appendix

Philippine property market expected to remain resilient into 2019

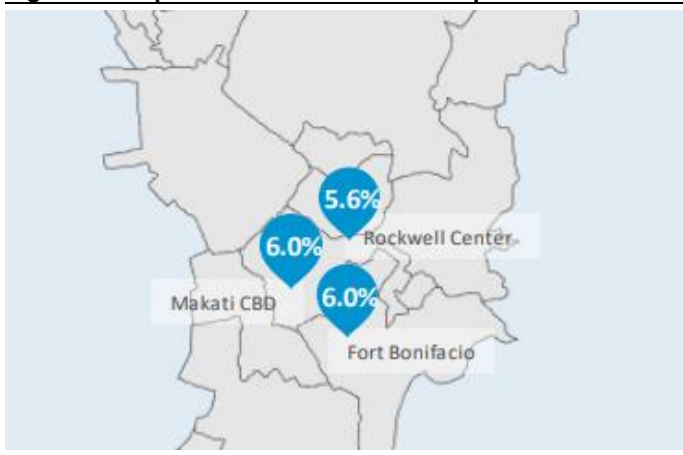
- Strong demand and record prices in 1H19, firm leasing market:** According to Colliers, the Manila market continues to experience capital value growth, where average prices of 3-room bedroom units increased by 3.7%, albeit slower than the 6-7% increase in 4Q18-1Q19 (3Q18: 3% QoQ), likely due to increasing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

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

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

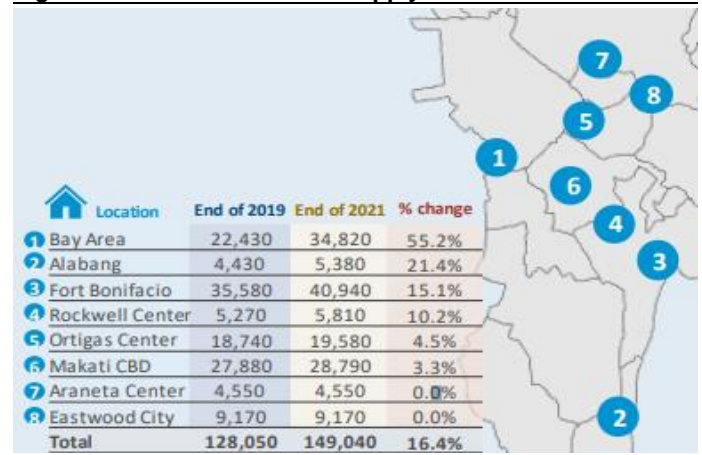
The trend is also congruent with SLI's pursuit of an asset-light business model built upon JV with landowners

Fig 18 - Comparative 3BR Residential Capital Values



Source: Colliers International Philippines Research

Fig 19 - Metro Manilla future supply



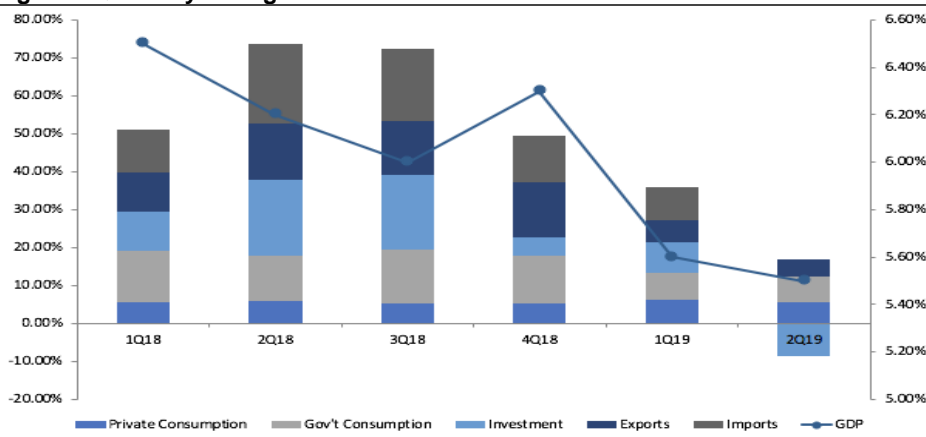
Source: Colliers International Philippines Research

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

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

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

Fig 20 - Quarterly GDP growth



Source: BSP, Regina Capital

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

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

Fig 21 - USD/PHP



Source: Bloomberg, SCCM Research

RESEARCH DISCLAIMER

Important Disclosures

This report was prepared, approved, published and distributed by SooChow CSSD Capital Markets (Asia) Pte. Ltd. (Company Registration number: 201726618K) ("SCCM") which is a company located outside of the United States.

Subject to any applicable laws and regulations at any given time, SCCM, its affiliates or companies or individuals connected with SCCM (together, "Connected Companies") may make investment decisions that are inconsistent with the recommendations or views expressed in this report and may have long or short positions in, may from time to time purchase or sell (as principal or agent) or have a material interest in any of the securities mentioned or related securities or may have or have had a business or financial relationship with, or may provide or have provided investment banking, capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. As a result, recipients of this report should be aware that Connected Companies may have a conflict of interest that could affect the objectivity of this report.

See "Special Disclosures" for certain additional disclosure statements, if applicable.

This report is only for distribution to investment professionals and institutional investors.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Analysts and strategists are paid in part by reference to the profitability of SCCM.

Stock Ratings are defined as follows

Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Expected absolute returns are based on the share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Research Conflict Management Policy

SCCM research has been published in accordance with our conflict management policy, which is available upon request.

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject SCCM to any registration or licensing requirement within such jurisdiction(s). This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to SCCM. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of SCCM. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of SCCM or its affiliates, unless specifically mentioned otherwise.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. SCCM has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. SCCM will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Information and opinions presented in this report were obtained or derived from sources that SCCM believes to be reliable, but SCCM makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. SCCM accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to SCCM. This report is not to be relied upon in substitution for the exercise of independent judgment. SCCM may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected absolute return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by SCCM and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADRs, the values of which are influenced by currency volatility, effectively assume this risk.

This report is distributed in Singapore by SCCM which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations (the "FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to SCCM when providing any financial advisory service to an accredited investor, or "overseas investor" (as defined in regulation 36 of the FAR). Persons in Singapore should contact SCCM in respect of any matters arising from, or in connection with, this publication/communication. If you wish to enter into a transaction, please contact the relevant Connected Company in your home jurisdiction unless governing law provides otherwise. If jurisdictions where the Connected Companies are not registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation which may vary from one jurisdiction to another and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

SCCM and the Connected Companies may do or seek to do business with companies covered in our research report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of research produced by SCCM. Investors should consider our research as only a single factor in making their investment decision.

Any reference to a third party research material or any other report contained in this report represents the respective research organization's or publisher's estimates and views and does not represent the views of SCCM; and SCCM, its officers, employees do not accept any liability or responsibility whatsoever with respect to its accuracy or correctness. This report may provide the addresses of, or contain hyperlinks to websites. Except to the extent to which the report refers to material on SCCM's own website, SCCM takes no responsibility whatsoever for the contents therein. Such addresses or hyperlinks (including addresses or hyperlinks to SCCM's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this report. Accessing such website or following such link through this report or SCCM's website shall be at your own risk.

For U.S. persons only

This research report is a product of SCCM, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is not intended for distribution by SCCM into the U.S.

Special Disclosures (if applicable)

Not Applicable