INITIATING COVERAGE

November 27, 2014

STA. LUCIA LAND, INC. [SLI]

RECOMMENDATION: BUY

Sta. Lucia Land, Inc.
Penthouse, Building III, Sta. Lucia East Grandmall Felix Ave. cor. Marcos Highway Cainta Rizal
Phone: (632) 681-7332
Fax: (632) 7332
Email: mariesgie@yahoo.com
Website: www.stalucialand.com.ph

Sector:
Property

Outstanding Shares :
8,546,450,000

Market Capitalization:
7,093,553,500

Complete Financials:
31 December 2013

DIRECTORS & OFFICERS

Chairman
Vicente R. Santos

President & Director
Exequiel D. Robles

Executive Vice President
David M. Dela Cruz

Treasurer & Director
Mariza Santos-Tan

Directors
Antonio D. Robles
Aurora D. Robles
Orestes R. Santos
Santiago Cua

Independent Directors
Jose Ferdinand R. Guiang
Osmundo C. De Guzman, Jr.

Corporate Secretary
Patricia A. O. Bunye

Company Overview

Sta. Lucia Land, Inc. (SLI) was incorporated in the year 1996 under Zipporah Mining and Industrial Corp. (ZRHI) which is originally engaged in mining operations. It underwent a restructuring program in October 9, 2007 where Sta. Lucia Realty & Development, Inc. (SLRDI) purchased ZRHI's shares and changed its name to Sta. Lucia Land Inc. SLI's land portfolio are mainly located in 10 out of the 13 regions of the country. It also operates Sta. Lucia East Grand Mall.

9-month 2014 Performance Highlights

Sta. Lucia Land, Inc. (SLI) for the 9-month period of 2014, generated P1.46 billion in revenues (+59.0%) of which real estate sales amounted to P1.1 billion, an advance by 94.0% versus P565.84 million in 9M 2013. This was on the back of strong sales-take up from its new projects; Colinas Verdes, Greenmeadows, Ponte Verde, Sta. Lucia Residenzes1 (Monte Carlo), East Bel-Air 1 & 2 and Neopolitan Condominiums. Its rental revenues however slightly declined by 3.9% to P262.70 million due to the ongoing renovations. Given the robust sales and aggressive marketing and sales strategy, net income for the period doubled up to P426.31 million (+120.0%) compared to P201.10 million in September 2013. As of end September 2014, its total reservation sales amounted to P2.06 billion of which P1.21 billion is for horizontal and P866 million is for vertical projects.

As of September 2014, SLI has a total of 124,000 sqms gross leasable area attributed to its new mall expansion (IL Centro) which added 12,000 sqms.

FY 2014 Outlook

For 2014, we estimate SLI's revenue to accelerate by 63.0% or P2.13 billion with real estate sales growing by 12.8% to P1.67 billion attributed to strong take-up on its new projects along with the increase of its rental income to P336.0 million from the increase of its malls leasable area. Given these net profit will amount to P586.42 million (+95.5%). This will translate to an EPS of P0.05/share and BVS of P1.37/share and will trade at a PER of 16.0X – 17.0X and PBV of 0.60X – 0.61X. These are at a discount to the market's averages and seen to be attractive in the future given its large project base which will be mostly completed in 2 years along with its focus on expanding its commercial business which is seen to drive the revenue growth in the near-term. We therefore recommend a **BUY** on SLI.

Valuation

	2011	2012	2013	2014F	2015F
Net sales	1,441.54	1,792.75	1,326.91	2,131.84	3,473.87
Net Income	358.81	311.21	300.00	586.42	1,008.52
EPS	0.032	0.029	0.028	0.051	0.13
PER	21.66X	22.90X	20.87X	16.28	6.52X
BV/S	1.32	1.38	1.41	1.37	1.50
PBV	0.55X	0.48X	0.41X	0.60X	0.55X

Notes: Amount in PhP millions except for Per Share and valuation data.
Sources: SLI, 17A December 2013, September 2014 Quarterly report and presentation materials

Company Brief

SLI is an 87.18% subsidiary of Sta. Lucia Realty & Development, Inc. (SLR) which are owned by the Robles (50.0%) and Santos (50.0%) families. The change in operations was due to the restructuring in June 2007 where SLR acquired ZHRI through a property-share swap and listed SLI via back door listing and changed its name to Sta. Lucia Land, Inc. SLR formally transferred some of SLR's titles to SLI in 2007 - 2008.

Source: SLI Presentation September 2014

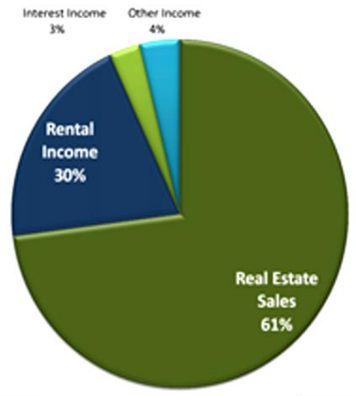
It is one of the pioneers in the real estate business. Parent firm SLR was incorporated in 1972 and the group already completed over 220 projects in the country. SLI has 42 ongoing projects located in Rizal, Bulacan, Cavite, Davao, Tarlac, Cebu, Batangas and Iloilo city. It weathered the Asian financial crisis by adhering to its conservative real estate business model and avoiding being highly leveraged. SLI deliberately chooses the traditional approach of selling lots only for the positives cited on the table below. It also deliberately chose the Asset Light Joint Venture (JV) Business Model that allows rapid expansion. The result is that its footprint is now in 10 regions of the country. The company establishes a JV with the lot owners to develop the property and sell residential lots with the proceeds being split according to each party's contribution to the total project cost.

Horizontal Projects

The horizontal business of SLI is segmented into 2 Phases:

Phase 1 Lots-only development: The residential lots ranges between 80 – 300sqms which are already equipped with sports facilities, utilities and clubhouse with swimming pool that are ready for house construction for its lot buyers. Out of its buyers 67.0% are OFW, 15.0% are Middle class employees and 18.0% are SMEs and others.

Phase 2 House Construction: SLI Homes was incorporated as a wholly owned subsidiary of SLI to be the contractor of SLI for the construction of their lot buyers' homes on a turn-key basis offering services such as licensing and permitting, financing and the construction itself.



Source: SLI Presentation September 2014

	Phase 1 : Lots-only development	***Phase 2 : House construction***
Positives	• Has less risk in customer default, where the lot can be easily acquired in case of default. • Not subjected to depreciation as no houses were built. • Lots appreciate in value over time • Minimal construction cost and works	• Large market potential from its lot buyers of which it already sold 120,000 lots. • Low risk in construction where customers provides construction fees and can be assisted through bank and in-house financing
Customers Benefits	• Buyers can choose from a selection of model units to suit their taste and preferences • Timely construction of their houses • Affordable, saleable and transferable.	

Given the traditional business model and sales growth of SLI's lots, its collection efficiency is at par with the industry's average at around 80% – 90% collection rate. SLI's in-house financing accounts for 90.0% of its total horizontal buyers.

House and lot is the single biggest investment a household will make. In addition to breaking down the payments, the group made it even easier by splitting the product offering into two (2). The table below summarizes the potential number of SLI lot owners that will most likely avail of SLI Homes' services in the near to medium-term.

Sta. Lucia Homes Market Information	***No. of Units***
Estimated No. of Fully-paid lot owners	60,011
Estimated No. of Fully-paid lot owners with no houses	30,006
Current market for Sta. Lucia Homes	30,006

Source: Sta. Lucia Lan,d Inc. report

PCCI SBC – Research Department Telephone: (632) 893-3922 Facsimile: (632)893-4340
2/F PCCI Corporate Center, 118 Alfaro St., Salcedo Village, Makati City, Philippines e-mail: pccisbc_research@pccitrade.com

Vertical and Leisure projects

SLI also developed 4 vertical projects and has 9 existing in the pipe line located mainly in Rizal, Quezon City and Batangas. SLR is also the largest developer of golf courses where 14 were completed with a total of 3,287 hectares. SLI's 4 residential resorts are: Palo Alto (Rizal), Club Morocco (Subic), Colinas Verdes (Bulacan) and Vista Mar (Cebu).

Condotel

It also operates condotels which gives unit owners a title on the unit and a 30 complimentary room nights per year where clients' rental revenues are given through quarterly dividends. The rooms' access are transferable across all Sta. Lucia hotel and condotels. The rental program is initially 15 years. Some of its completed projects are the La Breza (Quezon City), Splendido (Tagaytay), Soto Grande and La Miranda (Cebu). Arterra Residences (Cebu) is set to be completed in 2016.

Malls

SLI also operates Sta. Lucia East Grand Mall and IL Centro which is located in Cainta, Rizal with a total of 120,000 sqm gross leasable area. The mall will be built with 5 towers called Sta. Lucia Residenzes of which Tower 1 is already near completion.

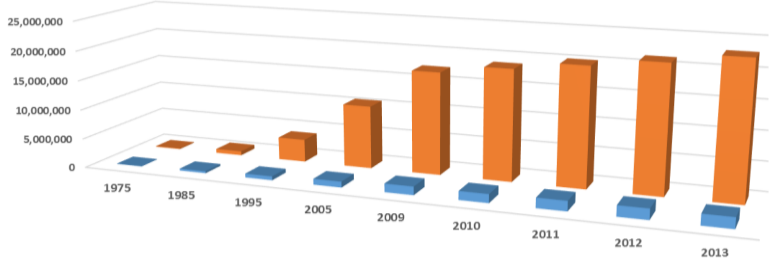
Real Estate Industry

Based on the National Statistical Coordination Board, the estimated housing backlog by 2017 is around 6.3 million. The Subdivision and Housing Developers Association (SHDA) is also helping to reverse the gap wherein it aims to build 1.0 million housing units in 2016 in order to cover the housing backlog of 3.9 million units by 2016. Given the robust launches and project construction, real estate players does not see that the sector having a property bubble as developers can only deliver 200,000 units a year where currently 728,302 units are the initial housing needs in 2014 as per the Housing and Urban Development Coordinating Council (HUDCC) . Added to the demand gap is the construction of new homes destructed by the calamities. Aside from Metro Manila, CBRE reported that properties located in CALABARZON and Central Luzon has a strong monthly-take-up growth in residential properties.

Dec-13		*Incremental housing need*						
REGIONS	**Initial needs (January 1, 2011)**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
PHILIPPINES	1,225,343	688,318	701,396	714,723	728,302	742,140	756,241	**5,556,463**
NCR	292,234	56,087	57,153	58,239	59,346	60,473	61,622	**645,154**
REGION III	101,441	63,151	64,351	65,574	66,820	68,089	69,383	**498,809**
CALABARZON	135,068	82,250	83,813	85,406	87,028	88,682	90,367	**652,614**

Source: Housing and Urban Development Coordinating Council (HUDCC) December 2013

One major market of the real estate industry in the country are the Overseas Filipino Workers wherein it is one of the sector's driver through the growing population of OFWs and their remittances inflows which are mainly invested in real estate as per BSPs report. Since 1975, deployed OFWs have increased by a CAGR of around 10.9%. Over the years as well, OFWs have moved from merely sending back remittances to their respective families to investing for their future, either in the form of entrepreneurship by setting up businesses, savings in various financial assets, and investing in property primarily for their family's use.



	1975	1985	1995	2005	2009	2010	2011	2012	2013
No. of OFW Deployed (in millions)	36,035	327,784	653,574	988,615	1422586	1,470,286	1,687,381	1,802,031	1,836,345
Remittances (USD)	103,000	694,000	3,869,000	10,689,000	17,348,000	18,763,000	20,117,000	21,391,000	22,968,000

Source: National Statistical Coordination Board

PCCI SBC – Research Department Telephone: (632) 893-3922 Facsimile: (632)893-4340
2/F PCCI Corporate Center, 118 Alfaro St., Salcedo Village, Makati City, Philippines e-mail: pccisbc_research@pccitrade.com

SLI's Competitive Strengths and Risks

The firm's strengths include:

- One of the pioneers in the industry with 40 years of experience in the business
- Joint Venture partnership model leads to low developer cost and spread of risk
- Lot- only sales generated high margin growth
- Growth potential on its non-recurring business
- Low leveraged company
- Robust demand in the housing sector
- No dollar denominated debt
- Low inventory and carrying cost

SLI is subject to several risk factors. These are:

- Competitive industry
- Low brand recall over known real estate developers in the area
- Limited land to own
- Limited scope in the retail leasing business
- Economy dependent
- Customer default risk
- Interest and Inflation risk
- Pending cases and regulatory issues that impact on image and perception

Financial Condition

For the period ended September 2014 SLI has an accumulated assets of P17.17 billion, P11.57 billion of equity and total liabilities of P5.60 billion. Out of the total liabilities, outstanding interest bearing debts amounted to P2.78 billion which translates to 0.24X debt-equity ratio. Out of the assets, investment properties accounted for 25.3% or P4.34 billion. Contracts receivables amounted to P1.12 billion, 19.86% higher versus last year.

Profitability wise, the business constantly generates high gross an operating margins through its JV business model along with its strong revenue growth which also generated high net margin. It also has low debt levels.

	3Q 2014	3Q 2013	2013	2012
Revenue Growth	58.96%	-16.77%	-25.98%	24.36%
Net Profit Margin	29.17%	21.87%	22.61%	17.36%
Operating Margin	49.26%	41.93%	40.49%	31.43%
Gross Margin	65.31%	52.95%	48.74%	38.21%
Debt to Equity	0.24	0.22	0.22	0.22
Return on Equity	3.68%	1.67%	2.48%	2.64%

Future Plans and Growth Areas

Moving forward, the company intends to widen its capital base through capital-raising in the capital markets. It will continue to increase and look out for more joint venture partners to increase its land bank in order to lessen cost. As part of its proceeds on its capital raising activities it will focus on rebranding its company in order to catch up with the big players in the country, expand further its projects and improve governance. It will further strengthen its marketing arm globally to target more middle income customers and Overseas Filipino workers through its 6 international marketing channels.

Among its plan is to lease and develop commercial areas around its subdivision projects of which a total of 339,299 sqm are leasable area. The company also intends to do deals with major retailers for their new projects and put up commercial area on their residential projects for the company to help them expand their retail network.

Peer Comparison

Among the property firms listed in the PSE, Filinvest Land, Inc. (FLI) is its specifically identified comparable. Its other peers considered were Vista Land Life and Lifescapes, Inc. (VLL), Empire East Land Holdings, Inc. (ELI) and 8990 Holdings, Inc. (HOUSE) which has the same price points and currently focusing on horizontal projects.

Based on the valuation table below, SLI's trailing and leading PER averages are trading at premium over its local comparables but at a discount if PBV will be the basis. Liquidity and price difference between the real estate companies could be a factor as well as the size and profitability of the company where SLI is smaller compared to its peers. It also has not distributed dividends since its listing date. However for 2015, we see that the company will move to grow its business exponentially and we expect it to trade around 6.0X and 0.55X for it's PER and PBV respectively given its strategy to expand its retail segment, introduce more residential projects nationwide and engage in the construction of the homes of its lot buyers.

PCCI SBC – Research Department Telephone: (632) 893-3922 Facsimile: (632)893-4340
2/F PCCI Corporate Center, 118 Alfaro St., Salcedo Village, Makati City, Philippines e-mail: pccisbc_research@pccitrade.com

	2013		2014F			2015F		
	PER	PBV	DIVIDEND YIELD	PER	PBV	DIVIDEND YIELD	PER	PBV
SLI	20.87	0.41	-	16.28	0.60	-	6.52	0.55
FLI	8.73	0.70	3.40%	8.93	0.71	3.11%	8.05	0.70
VLL	8.77	0.92	1.96%	8.90	0.99	1.88%	8.18	0.91
HOUSE	14.90	4.93	-	19.63	3.05	0.64%	7.47	3.58
ELI	45.09	0.56	-	29.00	1.67	-	24.86	1.68
PSEi	19.97	3.12	1.98%	18.11	2.83	1.93%	16.53	2.61
Property Sector	30.48	2.56	1.90%	21.78	1.79	1.57%	15.43	1.81

**Valuation figures were computed based on the closing prices in November 26, 2014.*

Recommendation

Overall we believe that the positives could continue to outweigh the possible risk factors for SLI, given the profitability of the company factoring its unique business model compared to its major competitors which resulted to notable margin growth and low debt levels. The potential of the housing market the company sees and continued expansion of its commercial business and existing projects are likewise seen to double its earnings in the future. The addition of SLI Homes will also address lot buyers' needs in building their homes as well as investors' concerns of higher revenues that in turn will result into corresponding profits for the company. Furthermore, cognizant of the misimpression and public image perception that its inability to immediately address litigation and regulatory issues create as it goes about its normal course of business, it will move to address these and improve its corporate governance structure. Price-wise it is comparable to its peers moving forward given its sales and growth prospects. The company is also a diversified business engaging in leisure, residential and commercial wherein housing demand and commercial spaces has robust demand. Its lot-only phase model and JV partnerships also provides the company a low-risk advantage. We therefore recommend a **BUY** on SLI, a company that can unlock its growth potential for the next 2 – 4 years with its reintroduction to the capital markets.

PCCI SBC – Research Department Telephone: (632) 893-3922 Facsimile: (632)893-4340
2/F PCCI Corporate Center, 118 Alfaro St., Salcedo Village, Makati City, Philippines e-mail: pccisbc_research@pccitrade.com