

STA. LUCIA LAND, INC. (SLI)

Price (16 Sep 2021): P2.89/share

Rating: LONG-TERM BUY

Target Price: P4.19/share

F. YAP SECURITIES, INC.



OFFER TERMS

Offer Price	P2.38 – P3.29
Offer Shares (mn shs.)	Up to 2,500.0
Over-allotment Shares (mn shares)	Up to 500.0
Net Proceeds (Pmn)	Up to 9,553.09
Institutional Offer (mn. Shs.)	At least 2,000.0
Trading Participants Allotment (mn shs)	500.0
Local Small Investors (mn shs.)	None
Min. Subscription (shs.)	10,000 shares; multiples of 1,000 thereafter
Lead Underwriter	China Bank CapitalCorp.

TENTATIVE TIMETABLE

Start of Offer	TBA
End of Offer Period	TBA
Submission of TP commitment	TBA
Listing date	TBA

SHAREHOLDER STRUCTURE	POST-FOO (%)
Current Shareholders (8,196.5mn shs)	Up to 73.21%
New Investors (Up to 3,000mn shs)	Up to 26.79%
Total (Up to 11,196.5mn shs)	100.00%

COMPANY DESCRIPTION

Sta. Lucia Land, Inc. (SLI) is the flagship property development arm of Sta. Lucia Group of Companies, principally engaged in horizontal and vertical real estate developments. SLI has expanded into mall operations, housing construction & marketing. The Group is controlled by the Robles and Santos families.

DIVIDEND POLICY

Up to 25% of prior fiscal year's net income after tax will be declared as dividends subject to: a.) availability of Unrestricted Retained Earnings, b.) implementation of business plans, c.) contractual obligations, d.) working capital requirements, e.) Board's approval.

NOTE: All FOO terms and details indicated in this report are based on SLI's preliminary prospectus as of July 05, 2021. Changes should be expected once the final prospectus is released.

INVESTMENT HIGHLIGHTS

Competitive Strengths

- The Sta. Lucia Group of Companies is a 50-year player in property development, finishing more than 12k ha. Of land into more than 300 projects; 2,600 housing units; & 3,800 condo units in various locations in the Philippines.
- Efficient use of joint venture models (46% of landbank profile), with equity stake of 40%-85%, depending on project terms & references.
- Expansion in strategic high-growth provincial areas, close to government's infra zones.

Risk Factors

- Conflicts on economic and business interests may arise between the company and its joint venture partners that could affect business operations, expansion plans and financial performance.
- Inherent risk to the property industry including but not limited to: risk of customer default and material cancellations, regulatory risk (environmental laws, DAR regulations, etc.).
- Risk of delays in development plans that might lead to extra costs and lost/delayed revenues.
- Heightened industry competition especially for the provincial side, which might affect demand for the company's product offerings.
- On leasing business, high exposure risk to POGOs that occupy Sta. Lucia Business Center in Cainta, Rizal.

Business Strategy and Expansion Plans

- Sustain its JV model to support expansion efforts. SLI is currently in talks for new accord to secure sites in Cavite, Cebu, Davao City, Bacolod, Baler, Batangas, Iloilo, Laguna, Metro Manila, Palawan, and Rizal.
- Expand recurring income base by developing offices, malls and hotels, as well as strategic partnerships for commercial asset management and development, targeting 8% - 12% revenue share within 3 years assuming at least 90% occupancy.
- Boost brand awareness and strengthen brand equity by tapping brand ambassadors, traditional media and social media platforms. P350mn will be allotted for this marketing strategy over the next 5 years.
- Build master-planned and integrated communities, starting with its Nasa Costa Cove in Nasugbu, Batangas; & Phase 2 of Palo Alto in Teresa, Rizal, and Crown Residence at Harbor Springs Resort in Puerto Princesa, Palawan.
- Continue to explore complimentary ventures and platforms: 1.) set-up affordable housing construction services; 2.) closely monitor regulatory and market developments with respect to REITs.

HISTORICAL FINANCIAL PERFORMANCE

In Php Millions (unless otherwise)	FY2018	FY2019	FY2020	1H2020	1H2021
Revenue	4,032.22	7,810.29	6,853.15	2,773.68	3,953.55
Growth % YoY	9.3%	93.7%	-12.3%		42.5%
Operating Income	1,848.82	3,316.83	3,392.32	1,535.37	2,151.10
Operating Margin	50%	46%	53%	55.4%	54.4%
Net Income to common	1,065.18	1,736.20	1,707.95	743.80	1,438.85
Growth % YoY	30.3%	63.0%	-1.6%		93.5%
Profit margin	29%	24%	27%	26.8%	36.4%
Reported EPS	0.12	0.21	0.21	0.09	0.18
PE (x)	10.5x	11.7x	9.5x	16x	8x
Dividends per Share (in PHP)	-	-	-	-	-
Dividend Yield	-	-	-	-	-

See Page 2 for more discussion on its financial performance and valuation

PROCEEDS UTILIZATION

	Est. Amt. (Pmn)	%Tot	Est. Schedule of Disbursement
Capex for new & on-going projects	Up to 5,574.44	Up to 58.37%	4Q2021-2022
Payment of short-term lines	3,000.00	Up to 31.40%	4Q2021-2022
Strategic Landbanking	500.00	Up to 5.23%	4Q2021-2022
General corporate requirements	Up to 477.65	Up to 5.00%	4Q2021-2022
ESTIMATED NET PROCEEDS	Up to 9,553.09	100%	

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SHARE PRICE



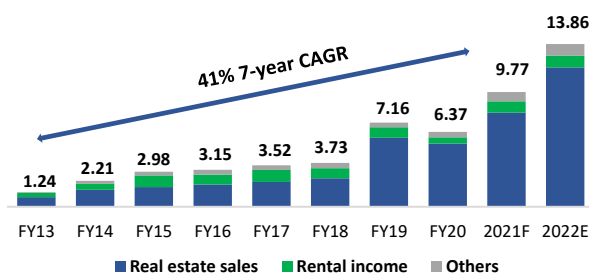
HIGHLIGHTS

- Reverting to growth.** The company is back to its earnings trend in 1H21 (+93.5% to P1.44bn) after a slight decline in full year 2020 results (-2% to P1.71bn). Boosted mainly by residential sales, SLI is poised to continue its 7-year CAGR of 28% (excluding interest income). Real estate sales (+47%) and commercial operations (rental income +6%) improved, while proper controls were made to sustain margins (GPM 70%, operating margin 54%, net margin 36%).
- Robust residential development.** The company continues to maximize its capabilities on its core business in real estate development, which is the company's core revenue contributor ever since (7-year CAGR of 31%) via horizontal (65% of FY2020 revenue) and vertical (20%) offerings. Currently, SLI has 74 ongoing residential & estate projects in 15 provinces nationwide. With its huge landbank (1,371ha directly-owned; 1,160ha attributable to the company from JVs), we expect this trend to continue (up to P9.55bn of FOO net proceeds will be utilized for RE developments).
- Improving recurring revenue sources.** As part of its diversification strategy, the company is investing towards more recurring revenue streams. With the successful launch of its first office leasing project in Oct. 2020 (Sta. Lucia Business Center), plus hotel lines for the last 3 years, SLI is building its 2nd mall in Davao City (Sta. Lucia Davao Mall), slated for completion in 2023. In addition, SLI has over 106 hectares of developed commercial lots which is being offered to major retail and commercial developers either for sale or JV. This will instantly increase the commercial component of the master planned communities without the need to increase Capex as these assets are already booked in SLI's balance sheet. Recurring income share is seen at 8%-12% of topline within 3 years (assumes at least 90% occupancy) from 6% share in 1H21.
- Discount to NAV.** SLI is a LONG-TERM BUY with TP of P4.19, NAV/share of P5.99 (computation includes up to 3bn shares from FOO). Prospective re-rating may be considered depending on its success in marketing more residential projects.

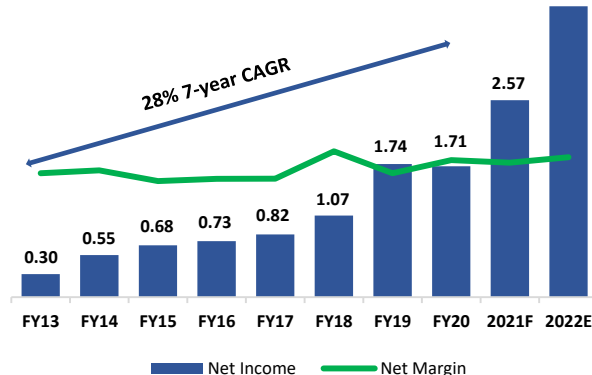
STOCK INFORMATION

Market Capitalization (Pmn)	24,179.53
52-wk High	3.55
52-WK Low	1.81
Free float	18.22%
12-mth Volume Daily Moving Ave. ('000 shs.)	771.52
12-mth Value Daily Moving Ave. (P'000)	1,924.91

REVENUE TREND (Pbn)



NET INCOME TREND (Pbn)



LANDBANK (as of March 2021)

LOCATION	OWNERSHIP	AREA (ha.)
Region 1A	Directly-owned	27
CAR	Directly-owned	3
Region 3	Directly-owned	34
NCR	Directly-owned	42
Region 4A	Directly-owned	619
Region 4B	Directly-owned	93
Region 6	Directly-owned	121
Region 7	Directly-owned	39
Region 9	Directly-owned	29
Region 11	Directly-owned	281
Region 12	Directly-owned	78
Region 13	Directly-owned	7
Undisclosed location	JVs – attributable to SLI	1,160
TOTAL		2,533

Source: SLI Investor presentation

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SLI: BY THE NUMBERS

In Pmn	2018A	2019A	2020A	2021E	2022E
Profitability					
Operating Profit Margin	50%	46%	53%	44%	42%
Net Profit Margin	29%	24%	27%	26%	27%
Liquidity					
NOWC to Assets	0.47	0.46	0.38	0.43	0.43
Current Ratio	2.82	2.65	2.01	2.46	2.22
Quick Ratio	2.28	2.26	1.71	2.20	2.01
Interest-bearing Debt to Equity ratio	0.94	0.93	0.97	0.51	0.39
Asset Turnover	0.12	0.19	0.15	0.18	0.23
Return on Equity	7.4%	10.8%	9.7%	9.0%	11.8%
Earnings per Share	0.12	0.21	0.21	0.29	0.34
Dividends per Share	-	-	-	-	-

HISTORICAL EARNINGS AND OUTLOOK

In Pmn	2018A	2019A	2020A	2021E	2022E
Revenues (including interest income)	4,032.22	7,810.29	6,853.15	10,580.85	14,916.01
Real Estate Sales	2,428.31	5,871.50	5,383.08	8,019.84	11,869.27
Rental Income	858.76	898.29	534.70	967.92	1,004.30
Costs of Sales & Services	1,513.00	3,230.95	2,393.62	5,553.05	7,961.53
Gross Profit (Loss)	2,519.22	4,579.34	4,459.53	5,027.80	6,954.48
Operating Expenses	670.40	1,262.50	1,067.21	721.79	1,068.23
Operating Profit (Loss)	1,848.82	3,316.83	3,392.32	4,306.02	5,886.24
Other Income (Expenses)	706.71	886.02	993.30	1,013.17	865.77
Income before Income Tax	1,142.11	2,430.81	2,399.02	3,292.85	5,020.48
Provision for Income Tax	76.94	694.62	691.08	724.43	1,226.16
Net Income after Tax	1,065.18	1,736.20	1,707.95	2,568.43	3,794.32
NIAT attributable to parent	1,065.18	1,736.20	1,707.95	2,568.43	3,794.32

FINANCIAL SNAPSHOT

In Pmn	2018A	2019A	2020A	2021E	2022E
Cash and Cash Equivalents	1,064.53	903.37	942.82	4,088.14	2,513.01
Receivables	1,874.02	2,368.88	3,494.60	5,693.53	7,183.36
Inventories	18,303.66	21,870.08	24,931.12	32,106.43	37,073.99
Current Assets	27,147.74	31,476.88	36,649.91	50,349.48	56,075.51
Investment Properties	5,154.48	5,597.42	5,712.41	5,628.16	5,545.60
Non-current Assets	7,568.42	8,875.42	9,135.89	9,597.70	9,948.11
TOTAL ASSETS	34,716.16	40,352.30	45,785.80	59,947.18	66,023.62
Current Liabilities	9,636.38	11,861.22	18,263.29	20,450.22	25,247.74
Long-term Debt	9,998.78	10,998.03	8,002.31	8,989.52	6,419.67
Noncurrent Liabilities	10,625.47	12,377.08	9,824.70	11,042.19	8,642.64
Equity	14,454.31	16,114.00	17,697.82	28,454.77	32,133.24
TOTAL LIABILITIES & EQUITY	34,716.16	40,352.30	45,785.80	59,947.18	66,023.62

VALUATION – NET ASSET VALUE

In Pmn	2021F	STOCK	PRICE AS OF 9/13/12	Market Cap	2021E PE	Est. RNAV per share
Beginning Equity	17,698	ALI	33.75	501,671.86	41.6	68.12
Add: Net Income	2,568	CLI	3.10	11,112.54	4.1	8.38
Add: Increment	66,902	CPG	0.47	5,393.81	11.6	1.52
Proceeds from Equity Financing	9,553	DD	10.18	23,959.39	5.8	25.98
Less: Net Debt	31,492	FLI	1.11	26,674.74	4.3	3.76
NET ASSET VALUE	65,229	MEG	2.95	94,953.05	7.0	7.01
Net Asset Value per Share*	5.99	RLC	16.72	86,736.97	12.3	30.19
Target Price	4.19	SLI	2.88	24,179.53	10.4	5.99
		SMPH	33.60	973,230.11	40.4	63.74
		VLL	3.69	46,601.69	6.3	8.90
		MEAN			14.4	

* Outstanding shares used in the computation includes up to 3bn shares from FOO

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