STA. LUCIA LAND, INC. (SLI)
Company Update

Ticker Symbol:	Rating:	Last Traded Price:	Estimated FV/share:	Potential Upside/(Downside):
SLI	BUY	2.85	6.00	110.5%

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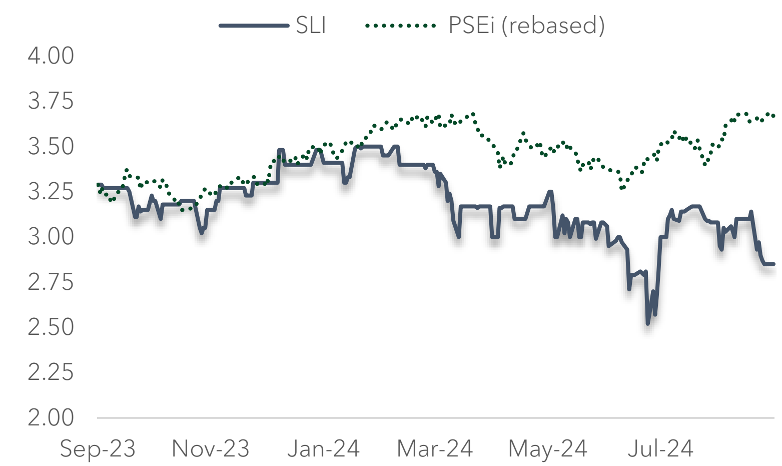
Price Performance



Return (in %)	YTD	1M	3M	12M
SLI	-16.18%	-7.47%	-7.47%	-13.37%
PSEi	7.67%	5.01%	8.34%	11.47%

Stock Data

Sector	Property
Market cap	P23.64-Bn
Shares O/S	8.30-Bn
52-week range	2.44-3.50
6M avg daily value turnover	258,082

Financial Highlights

	FY23A	FY24E	FY25E	FY26E
Financials *(in P-Mn)*				
Revenues	11,265	13,355	16,033	20,210
% growth	*13.98%*	*18.55%*	*20.05%*	*26.05%*
Net income	3,734	4,541	5,467	6,872
% growth	*8.74%*	*21.61%*	*20.41%*	*25.7%*
Per share data				
EPS	0.45	0.55	0.66	0.83
EPS growth (%)	8.74%	21.61%	20.41%	25.69%

Lower rates as the primary driver of demand. The BSP already kicked off the easing cycle with a 25bps cut in August, which we expect to be followed by another 25bps cut in December and by four more 25bps cuts next year. We view the beginning of the BSP's rate cut cycle as a positive for the property sector, as cheaper borrowing costs should have a positive effect on property take-up. SLI, in particular, is well-positioned to capture this demand due to the company's presence in key growth areas outside Metro Manila.

From resiliency to resurgence. The company continued to post noteworthy earnings for the first half, which was up 11.3% YoY at P2.39-Bn on the back of increased real estate sales for the company's new projects. We expect this to improve further moving forward, primarily attributable to expectations of pick-up in resi demand which would be driven by rate cuts. Additionally, the company has 110 ongoing projects in 17 provinces, 50 of which are in CALABARZON which we have previously mentioned as the region that is currently experiencing a significant inflow of demand.

Valuations present an opportunity. We continue to recommend a BUY for SLI with our revised TP of P6.00 on the back of our belief that the stock is grossly undervalued given the numerous growth prospects that we have mentioned above. This is also evident as we look at Collier's most recent property valuation appraisal which resulted in a NAV/sh of P13.57. This translates to a NAV discount of 78.8% based on LTP of P2.85 which is well-below the average comps NAV discount of 56.1%.

Key Prospects

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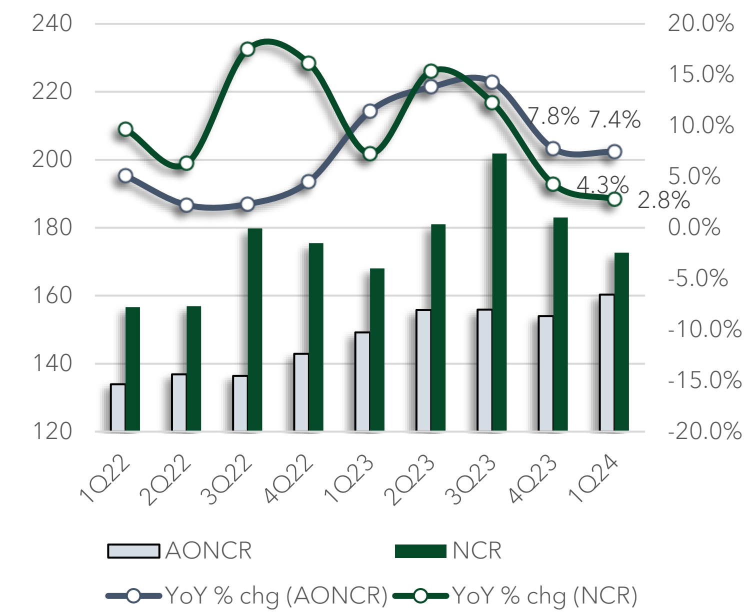
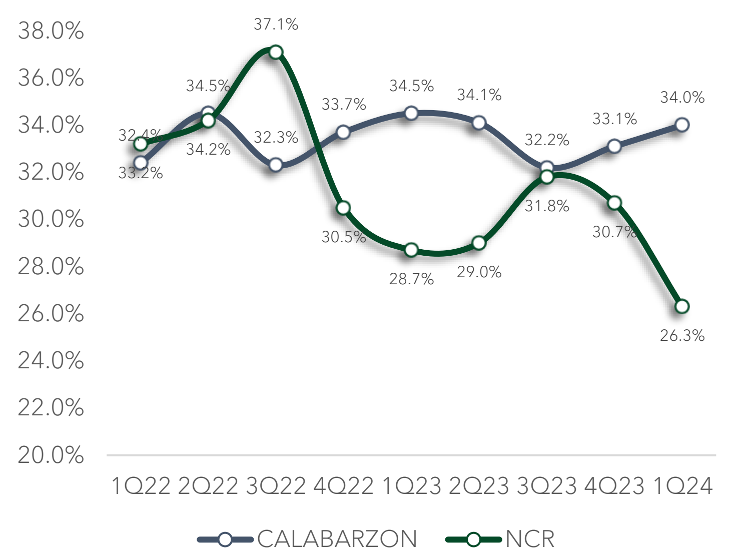
Fringes' increasing attractiveness. The BSP's latest RREPI (Residential Real Estate Price Index) show that real estate values in areas outside NCR (AONCR) appreciated at a faster rate of +7.4% YoY vs +4.3% for NCR. This reflects a continued shift in demand for real estate from NCR to AONCR, which is beneficial for SLI as a majority of their landbank are in areas outside by adjacent to NCR like Bulacan, Rizal, and Laguna. We would also like to note that the average appraised values of New Housing Units within NCR of P132/sqm is still more that double of the P61K for AONCR. We see this substantial gap in valuation as one of the potential reasons as to why the change in appraised values in AONCR recorded growth of 31.8% and 18.9% in 4Q23 and 1Q24, respectively, which is significantly higher than the 5.5% and 7.9% YoY growth rates for NCR during the same periods.

Chart: AONCR vs NCR RREPI



Loans tell the same story. RRELs (Residential Real Estate Loans) granted also show a shift towards the fringes, especially in the CALABARZON region. Beginning 4Q22, we observed that RRELs granted in CALABARZON were consistently higher than NCR, comprising nearly a third of total RRELs. This works in SLI's favor, as 45.5% of its landbank in terms of market value, or 51.5% in terms of Gross Land Area, is located in the CALABARZON region. This shows that SLI has proven its capability of peering into the future to see where significant potential for growth can be found.

Chart: RRELs granted CALABARZON vs NCR



Earnings Discussion and Outlook

From resiliency to resurgence. The company continued to post noteworthy earnings for the first half, which was up 11.3% YoY at P2.39-Bn on the back of increased real estate sales for the company's new projects. We expect this to improve further moving forward, primarily attributable to expectations of pick-up in resi demand which would be driven by rate cuts. Additionally, the company has 110 ongoing projects in 17 provinces, 50 of which are in CALABARZON which we have previously mentioned as the region that is currently experiencing a significant inflow of demand. To further capitalize on this growth, SLI is also looking to expand JV agreements into both new areas and expansions of existing projects, majority of which will again continue to be in CALABARZON, taking up the lion's share of new target JVs at 57%, while the rest would be spread out in several provinces outside NCR.

Resi focus continues to be primary earnings driver. Over the past 10 years, resi has been SLI's main earnings driver and it has only grown both in terms of actual revenues and in % contribution to total, which has steadily risen from 63% in 2014 to 80% in 1H24. This shows that the company is really focusing on its strengths, evidenced as well by its slight outperformance to our 1H24 estimates all the while maintaining a substantially high GPM of 75%. Lastly, management is also gearing towards synergistic opportunities through the integration of resi and commercial offerings to increase both marketability and the value of the developments.

Chart: Segment Revenue trend

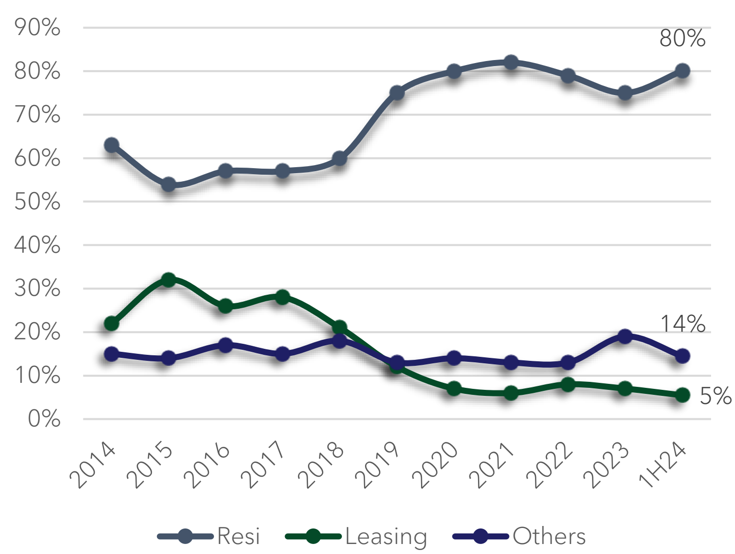


Chart: SLI Earnings and GPM

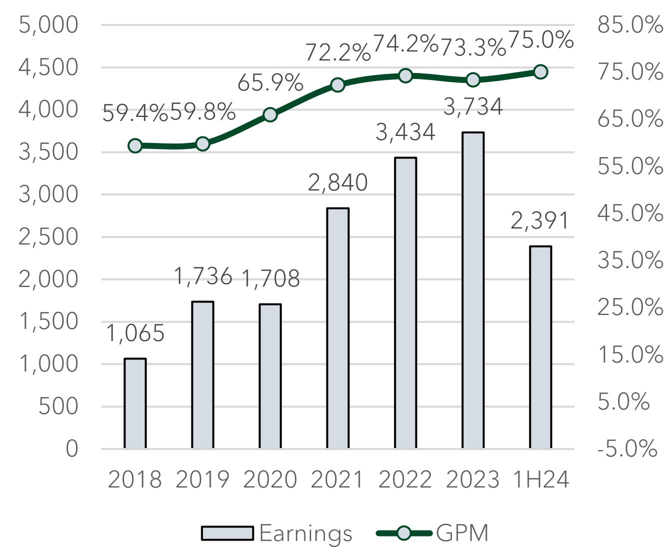


Chart: SLI Earnings Actuals and Forecast

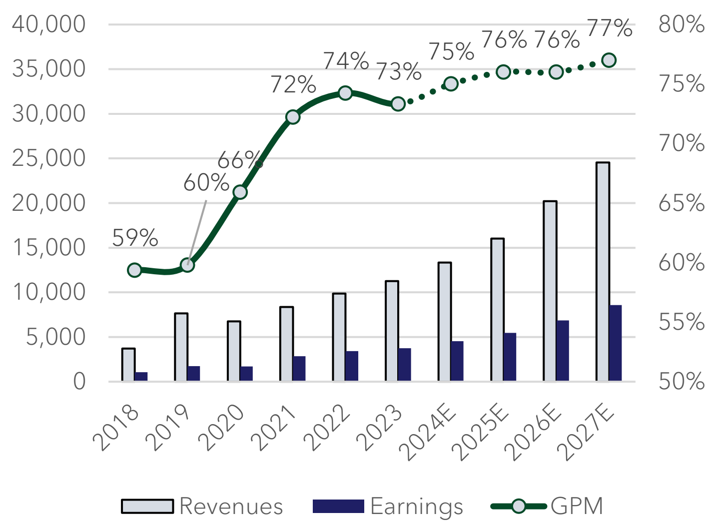
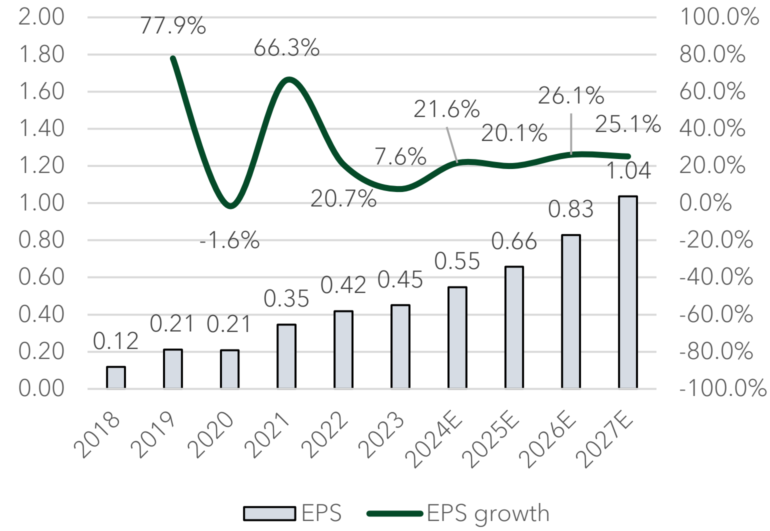


Chart: EPS Trend



Valuations present an opportunity. We continue to recommend a BUY for SLI with our revised TP of P6.00 on the back of our belief that the stock is grossly undervalued given the numerous growth prospects that we have mentioned above. This is also evident as we look at Collier's most recent property valuation appraisal which resulted in a NAV/sh of P13.57. This translates to a NAV discount of 79.0% based on LTP of P2.85. While it is important to note that property stocks usually trade at a discount to NAV, SLI's discount is well below the average NAV discount of 56.1% for comparable companies. This undervaluation underpins our BUY recommendation on SLI, and forms the basis of our TP of P6.00.

Table: SLI Comps

Ticker	NAV/sh	Discount
FLI	3.90	-84.6%
VLL	7.57	-81.9%
MEG	8.55	-78.9%
CLI	8.79	-70.4%
SHNG	9.31	-58.5%
ALI	23.43	37.6%
Avg. (Ex-SLI)		-56.1%
SLI	13.57	-79.0%

Table: APS Valuation

Assumptions	Value	Note
NAV/sh (Colliers)	13.6	Colliers Appraisal
Less: Discount	7.6	Comps avg. NAV discount (56.1%)
TP	**6.00**	

Rating Definition

BUY The stock has a potential upside of at least 5% in the next 12 months based on APS Research fair value estimates, and/or a potential total return of at least 5% in the same period including dividend payments, and/or the potential to outperform the broader market or similar stocks within the same industry sector or segment.

HOLD The stock has a potential upside/downside of not more than +/-5% in the next 12 months based on APS Research fair value estimates, and/or a potential total return/loss of not more than +/-5% in the same period including dividend payments, and/or the potential to only slightly outperform/underperform the broader market or similar stocks within the same industry sector or segment.

SELL The stock has a potential downside of at least 5% in the next 12 months based on APS Research fair value estimates, and/or a potential total loss of at least 5% in the same period including dividend payments, and/or the potential to underperform the broader market or similar stocks within the same industry sector or segment.

Disclaimer

Analyst Certification

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