PCCI SECURITIES BROKERS CORPORATION
Trading Participant: Philippine Stock Exchange
Member: Securities & Investor's Protection Fund, Inc.

COMPANY UPDATE

July 04, 2016

STA. LUCIA LAND INC. (SLI)

STA.LUCIA LAND INC. BUILDING DREAMS

RECOMMENDATION: BUY

Sta. Lucia Land Inc.
Penthouse, Building 3
Sta Lucia East Grand Mall
Marcos Highway
corner Imelda Ave.
Cainta, Rizal
Phone: (02) 681-7332
Fax: (02) 681-7467
Email:
jtpampolina@stalucialand.com.ph
Website:
http://www.stalucialand.com.ph

Sector:
Industrial - Property

Outstanding Shares :
8,946,450,000

Market Capitalization:
8,230,734,000

Complete Financials:
31 March 2016

DIRECTORS & OFFICERS

Chairman
Vicente R. Santos

President & Director
Exequiel D. Robles

Treasurer & Director
Mariza R. Santos-Tan

EVP
David M. Dela Cruz

Non-executive 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

2015 and 1Q 2016 Performance Highlights

For the full year of 2015, Sta. Lucia Inc.'s (SLI) net income increased 23% to P676 million compared to the P549 million in 2014. Gross revenues totaled P3.1 billion, a 35% improvement versus the P2.29 billion posted in 2014. Sales from its real-estate segment generated 1.68 billion, 16% higher than 2014, and rental income surged by 95% to P984 million from P504 million the year before. Rental income's share of revenues increased significantly to 32% from 22% in 2014 as the renovation of the Sta. Lucia East Grand Mall was completed and more leasable space became available as a result of the expansion mall.

A factor that also contributed to higher revenues was strong bookings and project completions across its property division and changes in internal operations. Costs and expenses rose to P1.4 billion while Administrative and selling costs to revenues grew by 51%. Earnings before tax was at P973 million, a 24% rise compared to 2014.

For 1Q 2016, consolidated revenues experienced a decline of 11% to P792 million, mostly due to timing differences as a result of POC Accounting. Mall operations posted a P38 million increase versus 1Q 2015, mainly due to the internal restructuring of mall management. Costs and expenses were at P523 million, 8% lower versus last year. Net income for the period dropped by 17% to P189 million as a result of lower revenues and the slight reduction in margins.

2016 Outlook

SLI has successfully completed its P4 billion retail bond offering in late-December of last year, allowing the company to proceed with its aggressive growth plans for this year that kicked off with the purchase of an aggregate of 220 hectares of land and several new joint ventures within 1H 2016. Real estate sales are projected to be P2.0 billion. Combined with rising rental income, total revenues are seen to experience an increase to around P3.63 billion resulting in a net profit of around P805.00 million. This translates to an EPS of P0.09/share and BVS of P1.51/share. Its 2016 leading PER will be around 10.06X and the leading PBV will be about 0.60X. Both are at a significant discount to the PSEi's and property sector's averages and seen to be attractive given its future growth prospects. With its current expansion and diversification efforts and a steady annual rise to its market share, we therefore maintain our **BUY** recommendation on the firm.

Valuation

	2014	2015	2016F
Revenues	2,296	3,104	3,630
Net Income	549	676	805
EPS	0.061	0.076	0.09
PER	13.04	12.04	10.06
BV/S	1.31	1.42	1.51
PBV	0.61	0.64	0.60

Notes: Amount in PhP millions except for Per Share and valuation data.
Sources: SLI 17A 2015, 17Q March 2016, Technistock Financial Information

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

Company Updates and Impressions

Since 1972, Sta. Lucia Realty (SLR), SLI's parent company, has grown to become one of the largest real-estate developers in the country in regards to total land area developed. Nationwide, it has a long track record of horizontal and vertical residential developments, housing construction, mall operations, various hotels and resorts, and golf course developments.

After 40 years in the real-estate industry, it has established a reputable brand all across the country. It has completed over 200 projects, developed around 10,000 hectares, sold an estimated 120,000 lots, and built 2,600 houses and 13 golf courses.

Sta. Lucia Land Inc., the Group listed vehicle and SLR (The Sta. Lucia Group) has selected emerging localities and prime development locations providing access to employment, educational, commercial, and recreational facilities. The locations of most projects are also where most OFWs originated from. Last year, a major percentage of the number of units sold came from OFWs and their families, 15% came from SME business owners, and 15% came from middle class employees. Its geographic distribution of land development mostly resides in Luzon, contributing 80% to all its projects mostly in the NCR and Cordillera Administrative Region. The rest are in the Visayas and Mindanao regions contributing to around 13% and 6% respectively.

SLI also has 6 different marketing firms working for the Sta. Lucia Group. With a combined local and international sales force of over 120,000, the Group uses their expertise and extensive knowledge of the local demographics to help promote and raise awareness of the company via ads, newspapers, online media, celebrity endorsers, and sporting events..

Our actual site visits to several of the company’s completed and ongoing projects in various parts of the country showed that SLI delivers. The requisite horizontal developments and communities’ common areas are prepared. The model units that will be constructed for the lot owners by its new subsidiary Sta. Lucia Homes have room for flexibility. Fully occupied projects are communities that are conducive to living. The golf courses have always been impressive and world class. The refreshed Sta. Lucia East Grand Mall is competitive with what ALI, SMPH and RLC can offer. Its tourism-related projects are of high quality and are very promising.

SLI’s preference for selling lots primarily pays handsomely as its OFW sales has not been affected by the global economic slowdown and the loss of petrodollars by the Middle East oil producing countries. Separating the lot sales and future home construction makes its affordable for the buyers and in turn does not litter completed projects with vacant homes.

Financial Condition

For the period ended March 2016, SLI had total assets of P21.88 billion, P12.83 billion of equity and total liabilities of P9.05 billion. Out of the total liabilities, outstanding interest-bearing debts amounted to P5.11 billion which translates to a 0.40X debt-equity ratio. Current assets accounted for 70% of its total assets and was greater than its current liabilities of P3.48 billion resulting to a current ratio of 4.39X. The firm’s operating cash flow remains positive, at end-March 2016 it reached P1.10 billion, significantly higher than P142 million the same period last year.

Profitability wise, its 3-year gross margin average is around 59.5%. Its average operating margin is about 46.7%. Average ROE was 4.2%. The similarities seen in 1Q 2016 from 2015 is projected to be sustained moving forward. The steady improvements the last three years is likely to be maintained as SLI sustains its significantly improved net margin and profit level moving forward.

	1Q 2016	2015	2014	2013
Revenue Growth	-11%	16%	+80%	-38%
Net Profit Margin	23.91%	21.78%	23.90%	22.61%
Operating Margin	49.84%	43.49%	44.98%	57.59%
Gross Margin	62.19%	54.88%	55.17%	68.31%
Current Ratio	4.39	4.68	2.08	2.38
Debt-to-Equity	0.40	0.44	0.27	0.22
Return on Equity	1.48%	5.32%	4.68%	2.48%

Sources: SLI 17A December2013 – 2015 and 17Q March 2016

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

Future Plans and Strategy

SLI's 2015 gross revenues and profits exceeded our estimate. Moving forward, the firm's plans to boost revenues will be via new landbank acquisitions and JVs, diversify its portfolio in residential construction, increase in their recurring income, expansion and improvement of their domestic and international marketing channels, and use of new funds to implement their future plans. Sta. Lucia Homes that was established to help lot owners in the construction of their homes by providing access to construction services and contractors since most are not familiar with the housing construction process continues to gain traction. It should be recalled that an internal survey found nearly half of the lots sold remain empty giving SLI an opportunity to take advantage of its backlog by venturing into housing construction in its own property developments.

After its successful P4 billion retail bond offering late last year, SLI has aggressively embarked on its expansion strategies by using part of the proceeds to acquire a total of 220 hectares to date in various locations in the country. In addition to these acquisitions, the firm has sealed several joint venture agreements which is its strength.

Peer Comparison

Since SLI derives more than 50.0% of its revenues from its real estate sales. Coupled with its rental income contribution and target market, its appropriate PSE-listed peers remain to be Vista Land & Lifescapes, Inc. (VLL) and Filinvest Land, Inc. (FLI).

Based on the following valuation table, SLI's trailing 2015 and leading 2016 PERs are higher than VLL and FLI but all are at a discount to the property sector and PSEi's trailing and leading averages. Its trailing and leading PBVs on the other hand are at discount to its peers, and all are also at a discount to the PSEI and property sector's averages. Its low average daily turnover, small market capitalization and low freefloat shares are the likely factors for its low relative valuation figures. It has not paid out cash dividends to its shareholders yet since its public listing but we believe this is coming in the near future as its operating cash flow strengthens further.

	2014			2015			2016F	
	PER	**PBV**	**DIVIDEND YIELD**	**PER**	**PBV**	**DIVIDEND YIELD**	**PER**	**PBV**
SLI	12.46	0.58	-	12.04	0.64	-	10.06	0.60
VLL	10.77	1.16	1.65%	9.76	1.02	2.55%	8.80	0.94
FLI	8.17	0.71	3.27%	9.53	0.86	2.84%	8.31	0.80
PSEi	21.37	2.87	1.88%	22.54	2.62	1.83%	19.00	2.40
Property Sector	20.50	1.88	1.59%	18.63	1.81	1.63%	17.17	1.66

**Valuation figures for 2014 based on the closing prices in December 29, 2014. 2015 and 2016F figures based on recent closing prices.*
Sources: Technistock Financial Terminal, PCCI-SBC PER Tables and estimates.

Recommendation

Overall we believe that the positives and opportunities of the company outweigh the possible risk factors for Sta. Lucia Land Inc. Real estate sales contribute about 50% of the firm's revenues but with the increasing contribution of rental and other sources of recurring income, SLI is taking steps to diversify. Its expansion strategies and increasing presence in other geographic areas will be a big plus should a new form of government emerge in the medium term and will certainly result to a higher market share over time. Its real estate sales can likewise be a proxy of both consumption spending and personal investment as demand for its projects are price sensitive. Its current business model also allows it to explore new opportunities and partnerships for future growth. With the build-up of retained earnings, the firm will be able to reward its shareholders with dividends again in the future. Relative valuation-wise it is, both its leading PER and PBV are at a discount to the PSEi' and property sector's averages. It is also trading at a significant discount to its NAVPS which we estimate at around P2.80 given the market value appreciation of several of its landbank and the Sta. Lucia Mall. We therefore maintain our **BUY** recommendation on SLI, a company with promising growth potential for the next 2 – 5 years and whose volume sales of its main product can also be a proxy of the strength of the country's consumption spending.

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