



Maintain Rating: BUY | PO: 25.00 PHP | Price: 21.25 PHP

Equity | 31 July 2015

Raise PO to P25.00/share; Maintain Buy

SMPH is up 28% _{YTD}, consistent with the outperformance of quality growth stories (See [Global Quant Panorama: Expensive love affair 20 July 2015](#).) across all markets.

Predictability of earnings growth underpins SMPH's premium valuations, in our view. We believe 2Q15 results should be in-line with expectations. We raise our PO to P25/share as we roll forward valuations to 2016E and incorporate the expanding NAV contribution of SMPH's Cebu projects - SM Seaside City Mall and the 26-ha South Road Properties joint development with Ayala Land - which are ramping up this year. Maintain Buy. Management indicated 2Q15 results would be in-line with SMPH guidance of doubling 2013 profits over the 5 years.

Cebu – next wave for growth

We highlight Cebu as one of SMPH's fastest growing markets. It currently has two malls: SM City Cebu and SM City Consolacion. The third, SM Seaside City is set to open in November. At 470,000 sqm in GFA this makes it the third largest mall in SMPH's portfolio. We believe that this can easily make it one of the company's main contributors to rental income. Meanwhile, a consortium of SMPH and Ayala Land recently won a P10bn bid to jointly develop the 26-ha South Road Properties.

Key Potential Catalysts

Most of SMPH's expansion is taking place in underserved provincial cities. 76% of household consumption occurs outside of the capital, while 54% of the country's retail space is situated outside of Metro Manila. Interestingly, all 4 of SMPH's new mall developments for 2015 are in provincial areas. SMPH does not expect to see margins deteriorate even as it expands outside Metro Manila as lower rent and operating costs should be more than enough to offset weaker per capita spends. Assuming the Philippine economy remains healthy, the key concern would be SMPH's ability to execute the expansion strategy.

Estimates (Dec)

(PHP)	2013A	2014A	2015E	2016E	2017E
Net Income (Adjusted - mn)	16,275	18,390	21,095	24,725	28,342
EPS	0.586	0.660	0.730	0.856	0.981
EPS Change (YoY)	0.4%	12.6%	10.7%	17.2%	14.6%
Dividend / Share	0.270	0.190	0.210	0.233	0.273
Free Cash Flow / Share	(0.042)	(1.03)	(1.12)	(1.05)	(0.244)

Valuation (Dec)

	2013A	2014A	2015E	2016E	2017E
P/E	36.26x	32.21x	29.09x	24.82x	21.65x
Dividend Yield	1.27%	0.894%	0.988%	1.09%	1.28%
EV / EBITDA*	23.59x	20.74x	18.00x	15.69x	14.03x
Free Cash Flow Yield*	-0.192%	-4.67%	-5.28%	-4.95%	-1.15%

* For full definitions of *IQmethod*SM measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Key Changes

(PHP)	Previous	Current
Price Obj.	21.50	25.00
2016E EPS	0.84	0.86
2017E EPS	0.97	0.98
2016E EBITDA (m)	44,901.5	45,302.6
2017E EBITDA (m)	50,260.0	50,661.1

Crissa Bondad ^^

Research Analyst
Philippine Equity Partners
+63 2 640 6735
crissa.bondad@pep.com.ph

Tracy Ilagan ^^

Research Analyst
Philippine Equity Partners
+63 2 640 6732
tracy.ilagan@pep.com.ph

Dante R. Tinga, Jr. ^^

Research Analyst
Philippine Equity Partners
+63 2 640 6736
dante.tinga@pep.com.ph

Stock Data

Price	21.25 PHP
Price Objective	25.00 PHP
Date Established	31-Jul-2015
Investment Opinion	B-1-7
52-Week Range	15.08 PHP-21.80 PHP
Mkt Val / Shares Out (mn)	13,480 USD / 28,879.5
Market Value (mn)	613,689 PHP
Average Daily Value (mn)	8.04 USD
Free Float	26.5%
BofAML Ticker / Exchange	SPHXF / PHS
Bloomberg / Reuters	SMPH PM / SMPH PS
ROE (2015E)	10.2%
Net Dbt to Eqty (Dec-2014A)	46.5%

Key Income Statement Data (Dec)	2013A	2014A	2015E	2016E	2017E
(PHP Millions)					
Sales	59,794	66,240	75,512	85,061	95,281
Gross Profit	45,832	51,674	59,804	68,177	77,421
Sell General & Admin Expense	(15,715)	(17,408)	(20,321)	(22,875)	(26,760)
Operating Profit	24,136	27,687	32,483	38,098	43,116
Net Interest & Other Income	(3,425)	(4,012)	(3,837)	(4,276)	(5,397)
Associates	NA	NA	NA	NA	NA
Pretax Income	20,710	23,674	28,647	33,821	37,719
Tax (expense) / Benefit	(3,984)	(4,778)	(7,082)	(8,616)	(8,887)
Net Income (Adjusted)	16,275	18,390	21,095	24,725	28,342
Average Fully Diluted Shares Outstanding	27,772	27,875	28,879	28,879	28,879
Key Cash Flow Statement Data					
Net Income	16,275	18,390	21,095	24,725	28,342
Depreciation & Amortization	5,981	6,580	7,000	7,205	7,545
Change in Working Capital	1,009	(26,697)	(3,900)	(5,900)	(4,900)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	554	8,736	3,400	3,575	3,748
Cash Flow from Operations	23,819	7,009	27,595	29,604	34,735
Capital Expenditure	(24,994)	(35,669)	(60,000)	(60,000)	(41,784)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	(5,721)	5,976	707	742	779
Cash Flow from Investing	(30,715)	(29,693)	(59,293)	(59,258)	(41,005)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(5,021)	(5,587)	(6,065)	(6,715)	(7,870)
Cash Flow from Financing	12,709	30,797	33,799	30,949	6,593
Free Cash Flow	(1,176)	(28,659)	(32,405)	(30,396)	(7,049)
Net Debt	79,171	94,038	134,938	174,642	192,319
Change in Net Debt	49,870	23,832	40,900	39,705	17,677
Key Balance Sheet Data					
Property, Plant & Equipment	194,785	227,325	259,325	291,121	304,359
Other Non-Current Assets	55,113	55,518	76,518	97,518	118,518
Trade Receivables	27,184	30,687	31,087	31,487	31,887
Cash & Equivalents	27,142	35,245	37,345	38,641	38,964
Other Current Assets	31,359	40,064	46,264	54,464	61,664
Total Assets	335,584	388,840	450,540	513,231	555,393
Long-Term Debt	95,676	115,606	153,404	209,802	227,802
Other Non-Current Liabilities	16,804	20,197	20,897	21,597	22,297
Short-Term Debt	10,637	13,677	18,879	3,481	3,481
Other Current Liabilities	46,245	37,122	39,622	42,122	44,622
Total Liabilities	169,362	186,602	232,802	277,002	298,202
Total Equity	166,222	202,238	217,738	236,229	257,191
Total Equity & Liabilities	335,584	388,840	450,540	513,231	555,393
iQ_{method}SM - Bus Performance*					
Return On Capital Employed	7.6%	7.1%	6.6%	6.6%	6.8%
Return On Equity	10.5%	10.2%	10.2%	11.0%	11.6%
Operating Margin	40.4%	41.8%	43.0%	44.8%	45.3%
EBITDA Margin	50.4%	51.7%	52.3%	53.3%	53.2%
iQ_{method}SM - Quality of Earnings*					
Cash Realization Ratio	1.5x	0.4x	1.3x	1.2x	1.2x
Asset Replacement Ratio	4.2x	5.4x	8.6x	8.3x	5.5x
Tax Rate (Reported)	19.2%	20.2%	24.7%	25.5%	23.6%
Net Debt-to-Equity Ratio	47.6%	46.5%	62.0%	73.9%	74.8%
Interest Cover	6.5x	6.8x	7.2x	7.8x	8.1x
Key Metrics					

* For full definitions of *iQ_{method}SM* measures, see page 6.

Company Sector

Real Estate/Property

Company Description

SM Prime Holdings (SMPH) is a diversified property company that derives 57% of revenues from mall rental & office leasing and 32% from real estate sales. It is the country's largest mall operator. SMPH is 51% effectively owned by SM Investments (SM). It was incorporated in January 1994, listed in the Philippine Stock Exchange in July of the same year and has consistently grown since then. In early 2008, it entered the mall business in China and in 2013, its merger with SM Land was completed.

Investment Rationale

SMPH's high-margin mall business can sustain the pace of its roll-out and create more value, in our view, as it expands in Metro Manila and into the provinces. Now that it is also into the real estate development, commercial and hotel businesses, as a result of the merger with SM Land, the longer-term outlook appears more promising. The risk profile has changed, but we expect benefits to outweigh the risks, given SMPH's greater flexibility to undertake large-scale mixed-use developments. Buy.

Stock Data

Price to Book Value 2.9x

Charts

Table 1: NAV

Business	Value	Per share	Mix	Methodology
Malls	565,425	19.6	68.5%	2016 EBITDA, 8% cap rate
Landbank	171,683	5.9	20.8%	Estimated market value of Existing Land bank
Residential	99,810	3.5	12.1%	Estimated market value of existing land bank
Commercial	30,567	1.1	3.7%	2016 Revenue
Hotels and Convention	14,615	0.5	1.8%	Book Value
AFS Investments	29,672	1.0	3.6%	1Q15
Net Debt	(86,302)	(3.0)	-10.5%	1Q15
Total RNAV	825,469	28.6	100.0%	
Less: 12.5% Discount		(3.6)		
Target Price		25.0		

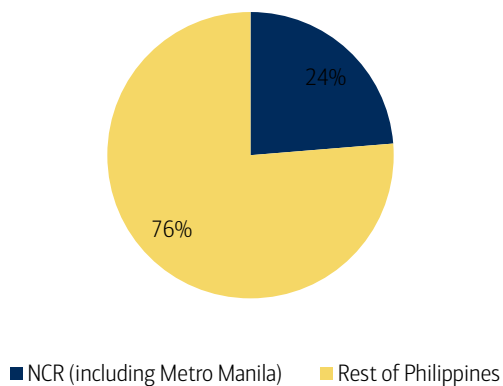
Source: PEP Estimates

Table 2: 2015 Philippine Mall Expansion

A. New Developments		
Opening Date		GFA
May 2015	SM City San Mateo	80,043
1H15	SM City Center Sangandaan	35,319
2H15	SM City Cabanatuan	154,020
2H15	SM Seaside City Cebu	470,000
Subtotal - New Developments		739,382
B. Expansion		
Opening Date		GFA
1H15	SM City Iloilo	37,544
1H15	SM City Lipa	28,212
Subtotal - Expansion of Existing Malls		65,756
Total Additional GFA - 2015		805,138

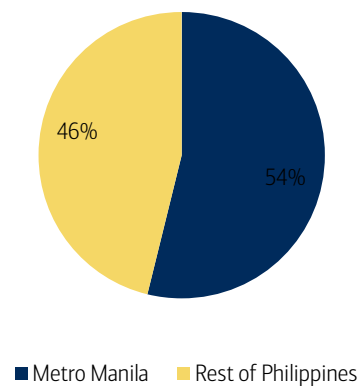
Source: Company Data

Chart 1: Share of household consumption



Source: National Statistics Coordination Board

Chart 2: Share of retail space (2013)



Source: Jones Lang Lasalle

Price objective basis & risk

SM Prime Holdings, Inc. (SPHXF)

Our PHP25.0/sh. PO for SMPH is based on our sum-of-the-parts NAV estimate of Php28.6/sh. with an implied discount of 12.5%. NAV is driven by the mall segment (using a cap rate of 8%) and capital-valued landbank. Capital values are used for landbank, which we discount by 25%, while book values are used for the rest. Risks to our valuation and price objective: slowdown in mall rollout, drop in rental or lease rates, increase in interest rates and margin pressure.

Analyst Certification

I, Crissa Bondad, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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ASEAN - Property Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Alam Sutera Realty TBK PT	XUSTF	ASRI IJ	Donald Chua
	AMATA CORPORATION	AMCXF	AMATA TB	Natchutha Na Pattaloong
	AP (Thailand)	XPPKF	AP TB	Jiraporn Linmaneechote
	Ascendas REIT	ACDSF	AREIT SP	Choon Keong Ong, CFA
	Ayala Land, Inc.	AYAAF	ALI PM	Crissa Bondad
	Bumi Serpong Damai	BSPDF	BSDE IJ	Donald Chua
	CapitaLand Commercial Trust	CMAIF	CCT SP	Donald Chua
	CapitaLand Mall Trust	CPAMF	CT SP	Choon Keong Ong, CFA
	Central Pattana Public Co., Ltd.	XENRF	CPN TB	Jiraporn Linmaneechote
	Fraser Centrepoint Trust	FRZCF	FCT SP	Choon Keong Ong, CFA
	Frasers Centrepoint Limited	XCFFP	FCL SP	Donald Chua
	Land & Houses	LDHXF	LH TB	Jiraporn Linmaneechote
	Land & Houses -F	LDHOF	LH/F TB	Jiraporn Linmaneechote
	LPN Devp Pub Co	LDVPF	LPN TB	Jiraporn Linmaneechote
	Mapletree Commercial Trust	XJTRF	MCT SP	Choon Keong Ong, CFA
	Megaworld Corporation	MGAWF	MEG PM	Crissa Bondad
	Pruksa Real Est	PKARF	PS TB	Jiraporn Linmaneechote
	SM Prime Holdings, Inc.	SPHXF	SMPH PM	Crissa Bondad
	Summarecon Agung TBK PT	PSAHF	SMRA IJ	Donald Chua
	Supalai	XPAYF	SPALI TB	Jiraporn Linmaneechote
	Tesco Lotus Retail Growth Property Fund	XXZLF	TLGF TB	Sirichai Chalokepunrat
	UOL Group	UOLGF	UOL SP	Donald Chua
	WHA	XWMJF	WHA TB	Natchutha Na Pattaloong
NEUTRAL				
	Capitaland	CLLDF	CAPL SP	Donald Chua
	CDL Hospitality Trusts	CDHSF	CDREIT SP	Choon Keong Ong, CFA
	Ciputra Development TBK PT	PTCDF	CTRA IJ	Donald Chua
	Mapletree Industrial Trust	MAPIF	MINT SP	Choon Keong Ong, CFA
	Mapletree Logistics Trust	MAPGF	MLT SP	Choon Keong Ong, CFA
	Quality Houses	QHPSF	QH TB	Jiraporn Linmaneechote
	Robinsons Land Corporation	RBLAF	RLC PM	Crissa Bondad
UNDERPERFORM				
	City Dev -A	CDEVY	CDEVY US	Donald Chua
	City Developments	CDEVF	CIT SP	Donald Chua
	Far East Hospitality Trust	XYDNF	FEHT SP	Choon Keong Ong, CFA
	Keppel REIT	KREVF	KREIT SP	Choon Keong Ong, CFA
	Lippo Karawaci TBK PT	PTLKF	LPKR IJ	Choon Keong Ong, CFA
	Siam City	SAMUF	SCCC TB	Jiraporn Linmaneechote
	Suntec REIT	SURVF	SUN SP	Donald Chua
RSTR				
	Global Logistic Properties	GBTZF	GLP SP	Donald Chua

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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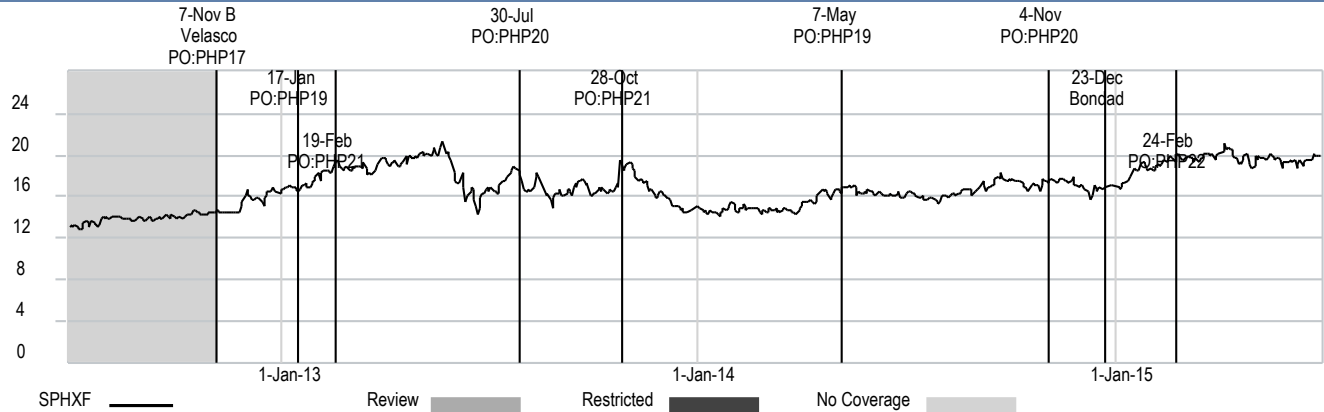
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Disclosures

Important Disclosures

SPHXF Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of June 30, 2015 or such later date as indicated.

Investment Rating Distribution: Real Estate/Property Group (as of 30 Jun 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	77	58.33%	Buy	38	49.35%
Neutral	27	20.45%	Neutral	16	59.26%
Sell	28	21.21%	Sell	11	39.29%

Investment Rating Distribution: Global Group (as of 30 Jun 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1724	52.07%	Buy	1312	76.10%
Neutral	768	23.20%	Neutral	561	73.05%
Sell	819	24.74%	Sell	517	63.13%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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