



PHILIPPINES

SMPH PM Outperform

Price (at 06:22, 12 Aug 2015 GMT) P22.00

Valuation P 33.30
- RNAV

12-month target P 25.00

Upside/Downside % +13.6

12-month TSR % +15.4

Volatility Index Low/Medium

GICS sector Real Estate

Market cap Pm 635,341

Market cap US\$m 13,707

Free float % 25

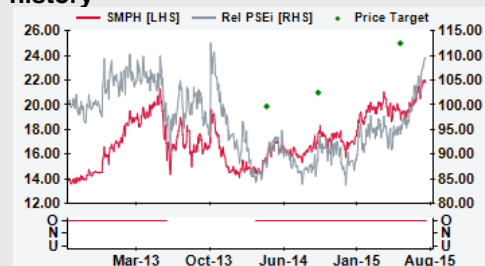
30-day avg turnover US\$m 6.0

Number shares on issue m 28,879

Investment fundamentals

Year end 31 Dec	2014A	2015E	2016E	2017E
Revenue	m 66,240	74,360	83,059	91,239
EBIT	m 27,687	32,347	36,664	40,701
EBIT growth	% 14.7	16.8	13.3	11.0
Reported profit	m 18,390	27,725	24,969	28,795
Adjusted profit	m 19,035	20,315	24,969	28,795
EPS rep	P 0.65	0.96	0.86	1.00
EPS rep growth	% 10.8	47.9	-9.9	15.3
EPS adj	P 0.67	0.70	0.86	1.00
EPS adj growth	% 6.3	4.7	22.9	15.3
PER rep	x 33.9	22.9	25.4	22.1
PER adj	x 32.8	31.3	25.4	22.1
Total DPS	P 0.29	0.31	0.47	0.44
Total DPS growth	% 8.4	7.2	50.8	-5.8
Total div yield	% 1.3	1.4	2.1	2.0
ROA	% 7.6	7.9	8.3	8.5
ROE	% 10.5	9.7	10.9	11.6
EV/EBITDA	x 21.3	18.5	16.2	14.5
Net debt/equity	% 46.5	48.1	52.9	53.2
P/BV	x 3.2	2.9	2.7	2.4

SMPH PM rel PSEi performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2015
(all figures in PHP unless noted)

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12 August 2015

SM Prime Holdings

Going strong

Event

- We reiterate our Outperform rating on SM Prime after the company has reported 1H15 earnings results above our estimates. SMPH's 1H15 earnings reached P11.2bn, up 14% YoY and accounting for 55% of our full year forecast. In addition, SMPH's 2Q15 earnings reached P6bn, up 15% YoY. Earnings growth was driven mainly by its recurring or shopping mall segment, coupled with the improvement in margins. We are also transferring coverage of SMPH to Kervin Sisayan.

Impact

- Strong residential sales take-up.** SM Prime's residential development saw strong take-up with reservation sales growing 28%, reaching P19bn by 1H15. This is already above our P40bn full-year reservation sales forecast, as 2H is seasonally stronger. Last year, 1H14 accounted for only 41% of full-year reservation sales. Note that 2Q15 sales take-up was P9.3bn, flattish from 1Q15. Management also added that inventory levels are improving and continues to see strong demand for units priced below P3m.
- Recurring income growth maintains momentum.** SMPH's main revenue driver, its shopping malls, remains robust, pushing recurring revenues higher 10% YoY and 6% QoQ. SSSG of their malls was also consistent at 7%, driven by the food segment. We expect recurring revenues to continue to expand in 2016E with SMPH's plan to open 4 new malls with 345k sqm in GFA. This is on top of the SM Seaside Mall in Cebu which has a GFA of 460k sqm and is scheduled to open later this year. Concerns of foot traffic on this "MOA in the South" would be addressed by placing a bus terminal inside SM Seaside.
- Reclamation – a game changer.** Aside from our positive outlook on SMPH's residential and recurring businesses, we are also optimistic on SMPH's plans to reclaim new land in Pasay, Paranaque and Cordova Cebu. The property company has already received local government approval for reclaiming 2,160ha of land but is still waiting for national approval. If successful, this would give a significant boost to RNAV. For the Pasay-Paranaque reclamation project alone, the cost to reclaim is around P34k/sqm while land price in the bay area has already reached P180k/sqm according to JLL. Note that all these reclamation projects are not included in our RNAV estimate.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: P25.00 based on a RNAV methodology.
- Catalyst: Execution on residential and retail expansion plans; opening of SM Seaside Mall later this year and development of South Road Properties.

Action and recommendation

- We reiterate our Outperform rating on SMPH with a TP of P25/sh. We continue to like SM Prime for its growing recurring income base, supplemented by strong residential take-up. In addition, our quant model currently holds a reasonably positive view on SM Prime Holdings.

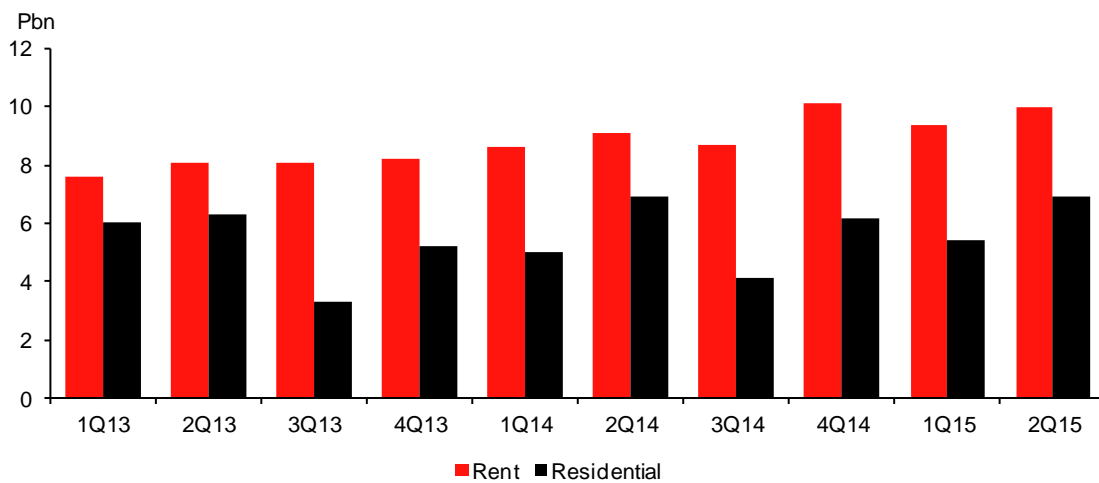
SMPH Earnings Highlights

Fig 1 SMPH's 1H15 Earnings Summary

Pbn	1H14	1H15	% Change	2Q14	1Q15	2Q15	% QoQ	% PoP
Revenues	33.3	35.9	8%	18	16.7	19.2	15%	7%
Earnings	9.8	11.2	14%	5.2	5.2	6	15%	15%
Revenue Breakdown								
Recurring	17.7	19.4	10%	9.1	9.4	10	6%	9%
Residential	11.9	12.3	3%	6.9	5.4	6.9	28%	0%
Cinema	2.4	2.4	2%	1.3	1.0	1.4	40%	9%
Reservation Sales	14.7	18.8	28%	7.6	9.5	9.3	-2%	22%

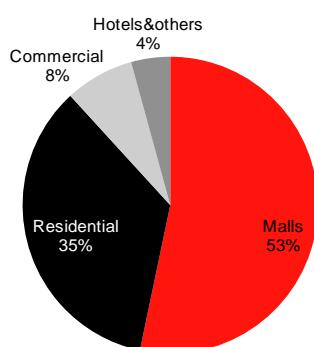
Source: Company data, Macquarie Research, August 2015

Fig 2 Sustained recurring revenue growth



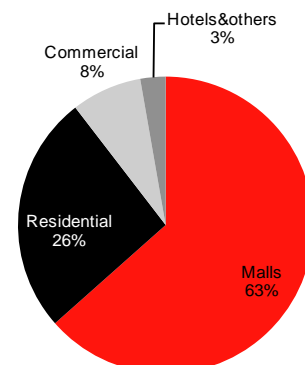
Source: Company data, Macquarie Research, August 2015

Fig 3 Revenue breakdown (2016E)



Source: Company data, Macquarie Research, August 2015

Fig 4 Estimated Earnings breakdown (2016E)

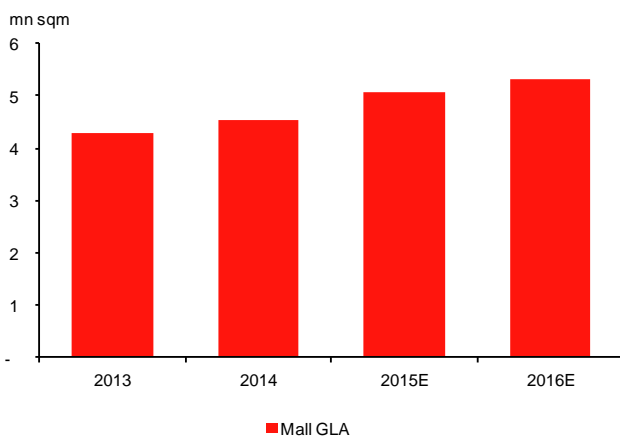


Source: Company data, Macquarie Research, August 2015

Growing recurring income with more malls and offices in the pipeline

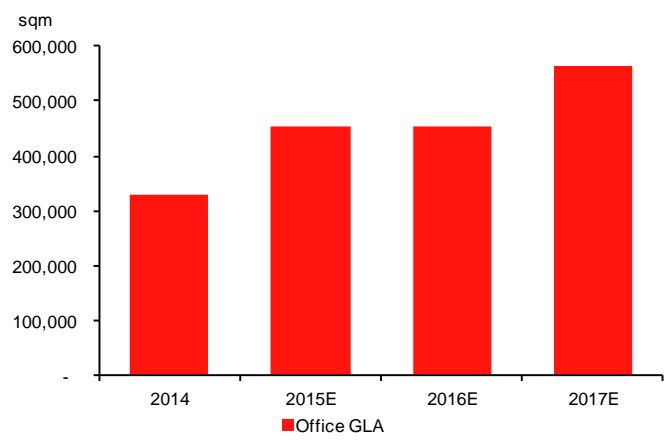
- ⇒ SM Prime plans to open 4 new malls with a total of 345k GFA in 2016. This is on top of SM Seaside in Cebu which has 460km in GFA. SMPH will address foot traffic concerns on this, given it has won the bid (together with Ayala Land) to acquire the 26ha adjacent lot. According to ALI, the 26ha lot from their side will mostly be residential and support retail so as not to compete with SM Seaside. In addition, the Cebu City Council has endorsed a bus terminal station at SM Seaside that will traverse through South Road Properties to North Reclamation Area - where SM Cebu is located.
- ⇒ In addition, SMPH plans to increase its office GLA by around 70% by 2017 to 565k sqm. The property company has already completed the FiveE-comCenter office building last 1H15. On the other hand, it launched the ThreeE-comCenter and plans to complete the office building by 2017.

Fig 5 Growing shopping mall GLA



Source: Company data, Macquarie Research, August 2015

Fig 6 Office segment GLA also growing

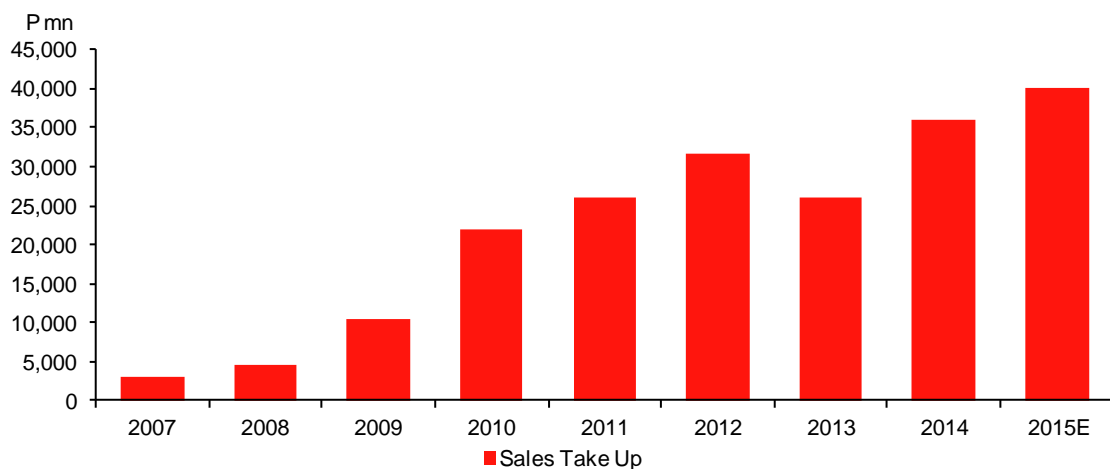


Source: Company data, Macquarie Research, August 2015

Sales take-up momentum to sustain residential revenue growth

- ⇒ We expect SM Prime's residential revenues to continue to grow on the back of higher expected take-up sales.

Fig 7 Sales Take Up



Source: Company data, Macquarie Research, August 2015

Reclamation a game changer

- ⇒ SM Prime has already acquired local government approval to reclaim 660ha of land in Paranaque-Pasay or Bay Area. According to management, the net land attributable to SM Prime will be around 330k sqm after giving almost half to the government. If approved by national authorities, we believe this would boost SMPH's RNAV as the net cost to reclaim land in the Bay area is around P34k/sqm when land prices in the area are already at P150-180k/sqm, according to JLL. This potentially reclaimed area will also enhance the value of nearby establishments such as Mall of Asia and SM's BPO offices.
- ⇒ For the potential reclamation of Cordova Cebu, SMPH will be able to acquire a net usable area of 735ha.

Fig 8 Reclamation projects under national approval

Location	Size (ha)	Est Cost (Pm)
Pasay	360	64,800
Paranaque	300	50,190
Cordova Cebu	1500	138,000

Source: Company data, Macquarie Research, August 2015

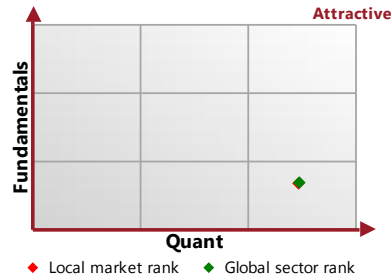
Macquarie Quant View

The quant model currently holds a reasonably positive view on SM Prime Holdings. The strongest style exposure is Price Momentum, indicating this stock has had strong medium to long term returns which often persist into the future. The weakest style exposure is Valuations, indicating this stock is over-priced in the market relative to its peers.

158/896

Global rank in Real Estate

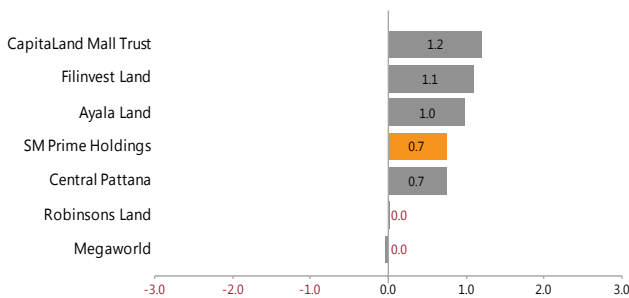
% of BUY recommendations 62% (8/13)
Number of Price Target downgrades 0
Number of Price Target upgrades 2



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model. Two rankings: Local market (Philippines) and Global sector (Real Estate)

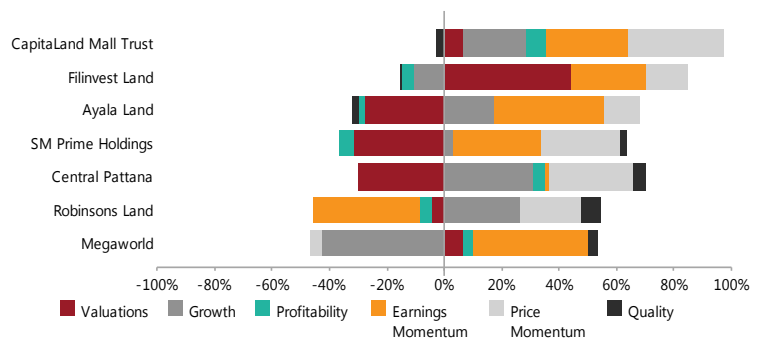
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



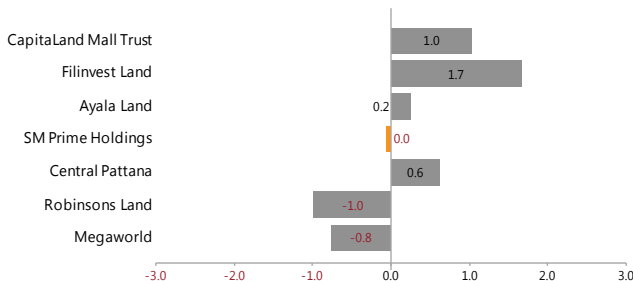
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



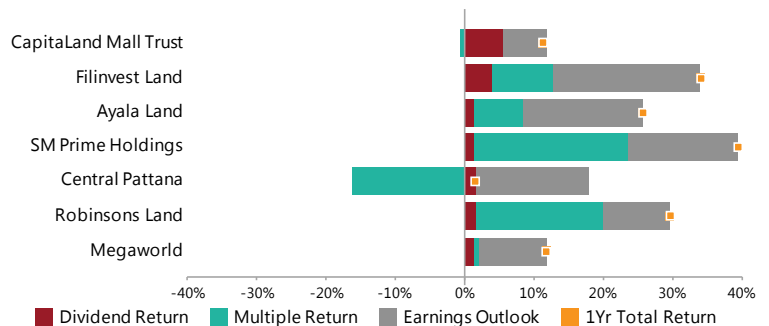
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



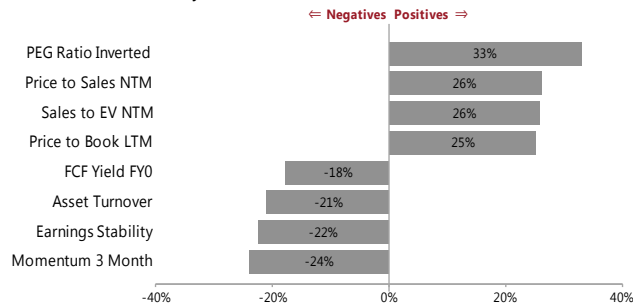
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



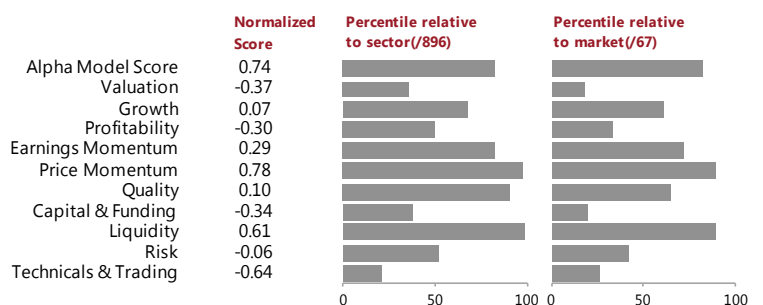
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

SM Prime Holdings (SMPH PM, Outperform, Target Price: P25.00)

Interim Results					Profit & Loss						
	2H/14A	1H/15E	2H/15E	1H/16E		2014A	2015E	2016E	2017E		
Net Property Income	m	21,198	21,901	23,727	24,256	Net Property Income	m	40,766	45,628	50,534	55,323
Development Income	m	11,519	12,117	13,126	13,870	Development Income	m	22,152	25,243	28,896	32,178
Other Revenue	m	1,728	1,675	1,814	1,742	Other Revenue	m	3,323	3,489	3,628	3,737
Total Revenue	m	34,445	35,693	38,667	39,868	Total Revenue	m	66,240	74,360	83,059	91,239
Management Fees	m	0	0	0	0	Management Fees	m	0	0	0	0
Other Expenses	m	-6,374	-6,664	-7,219	-7,559	Other Expenses	m	-12,257	-13,884	-15,748	-17,698
EBITDA	m	17,818	18,950	20,530	21,661	EBITDA	m	34,266	39,480	45,126	50,271
Dep & Amortisation	m	3,421	3,424	3,709	4,062	Dep & Amortisation	m	6,580	7,133	8,463	9,570
EBIT	m	14,397	15,527	16,821	17,599	EBIT	m	27,687	32,347	36,664	40,701
Net Interest Income	m	-1,751	-2,097	-2,272	-2,254	Net Interest Income	m	-3,368	-4,370	-4,696	-3,905
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	-645	7,410	0	0	Exceptionals	m	-645	7,410	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	12,001	20,840	14,548	15,345	Pre-Tax Profit	m	23,674	35,388	31,968	36,796
Tax Expense	m	-2,484	-3,428	-3,714	-3,097	Tax Expense	m	-4,778	-7,142	-6,451	-7,426
Net Profit	m	9,517	17,412	10,835	12,248	Net Profit	m	18,896	28,246	25,517	29,370
Minority Interests	m	-263	-250	-271	-263	Minority Interests	m	-506	-521	-547	-575
Reported Earnings	m	9,253	17,161	10,564	11,985	Reported Earnings	m	18,390	27,725	24,969	28,795
Adjusted Earnings	m	9,898	9,751	10,564	11,985	Adjusted Earnings	m	19,035	20,315	24,969	28,795
EPS (rep)		0.32	0.59	0.37	0.42	EPS (rep)		0.65	0.96	0.86	1.00
EPS (adj)		0.34	0.34	0.37	0.42	EPS (adj)		0.67	0.70	0.86	1.00
EPS Growth yoy (adj)	%	4.3	2.6	6.7	22.9	EPS Growth (adj)	%	6.3	4.7	22.9	15.3
						PE (rep)	x	33.9	22.9	25.4	22.1
						PE (adj)	x	32.8	31.3	25.4	22.1
EBITDA Margins	%	51.7	53.1	53.1	54.3	Total DPS		0.29	0.31	0.47	0.44
EBIT Margins	%	41.8	43.5	43.5	44.1	Total Div Yield	%	1.3	1.4	2.1	2.0
Earnings Split	%	52.0	48.0	52.0	48.0	Basic Shares Outstanding	m	28,879	28,879	28,879	28,879
Revenue Growth	%	10.8	12.3	12.3	11.7	Diluted Shares Outstanding	m	28,326	28,879	28,879	28,879
EBIT Growth	%	14.7	16.8	16.8	13.3						
Profit & Loss Ratios					Cashflow Analysis						
	2014A	2015E	2016E	2017E		2014A	2015E	2016E	2017E		
Revenue Growth	%	10.8	12.3	11.7	9.8	EBITDA	m	35,038	52,374	47,313	54,457
EBITDA Growth	%	13.8	15.2	14.3	11.4	Tax Paid	m	-7,244	-10,570	-9,548	-10,990
EBIT Growth	%	14.7	16.8	13.3	11.0	Chg in Working Capital	m	-17,351	10,111	-2,564	27,245
EBITDA Margins	%	51.7	53.1	54.3	55.1	Net Interest Paid	m	-69	-73	-77	-81
EBIT Margins	%	41.8	43.5	44.1	44.6	Other	m	0	0	0	0
Net Profit Margins	%	28.7	27.3	30.1	31.6	Operating Cashflow	m	10,374	51,843	35,124	70,632
Payout Ratio	%	43.2	44.2	54.2	44.3	Acquisitions	m	0	0	0	0
EV/EBITDA	x	21.3	18.5	16.2	14.5	Capex	m	0	0	0	0
EV/EBIT	x	26.3	22.5	19.9	17.9	Asset Sales	m	1,542	-340	1,361	1,473
						Other	m	7,927	924	-112	-576
Balance Sheet Ratios					Investing Cashflow	m	9,469	584	1,249	897	
ROE	%	10.5	9.7	10.9	11.6	Dividend (Ordinary)	m	-8,268	-8,982	-13,541	-12,749
ROA	%	7.6	7.9	8.3	8.5	Equity Raised	m	26,116	0	0	0
ROIC	%	9.0	8.7	8.8	8.8	Debt Movements	m	33,856	13,609	10,999	3,532
Net Debt/Equity	%	46.5	48.1	52.9	53.2	Other	m	-6,123	-8,930	-8,854	-10,792
Interest Cover	x	8.2	7.4	7.8	10.4	Financing Cashflow	m	45,579	-4,303	-11,395	-20,009
Price/Book	x	3.2	2.9	2.7	2.4	Net Chg in Cash/Debt	m	65,408	48,110	24,964	51,506
Book Value per Share		6.9	7.7	8.2	9.0	Free Cashflow	m	10,374	51,843	35,124	70,632
					Balance Sheet						
		2014A	2015E	2016E	2017E		2014A	2015E	2016E	2017E	
Cash	m	35,245	38,752	24,239	24,556	Cash	m	35,245	38,752	24,239	24,556
Receivables	m	30,687	35,158	37,956	40,237	Receivables	m	30,687	35,158	37,956	40,237
Inventories	m	27,150	29,246	27,992	32,697	Inventories	m	27,150	29,246	27,992	32,697
Investments	m	225,067	266,401	301,484	338,495	Investments	m	225,067	266,401	301,484	338,495
Fixed Assets	m	2,258	2,360	2,419	2,479	Fixed Assets	m	2,258	2,360	2,419	2,479
Intangibles	m	0	0	0	0	Intangibles	m	0	0	0	0
Other Assets	m	68,432	58,989	60,401	61,776	Other Assets	m	68,432	58,989	60,401	61,776
Total Assets	m	388,840	430,906	454,492	500,240	Total Assets	m	388,840	430,906	454,492	500,240
Payables	m	50,801	52,904	54,400	66,839	Payables	m	50,801	52,904	54,400	66,839
Short Term Debt	m	13,677	31,426	13,020	47,277	Short Term Debt	m	13,677	31,426	13,020	47,277
Long Term Debt	m	115,606	115,410	138,914	117,009	Long Term Debt	m	115,606	115,410	138,914	117,009
Provisions	m	6,518	6,578	6,919	6,572	Provisions	m	6,518	6,578	6,919	6,572
Other Liabilities	m	0	0	0	0	Other Liabilities	m	0	0	0	0
Total Liabilities	m	186,602	206,318	213,252	237,697	Total Liabilities	m	186,602	206,318	213,252	237,697
Shareholders' Funds	m	199,088	221,437	238,089	259,393	Shareholders' Funds	m	199,088	221,437	238,089	259,393
Minority Interests	m	3,151	3,151	3,151	3,151	Minority Interests	m	3,151	3,151	3,151	3,151
Total S/H Equity	m	202,238	224,588	241,239	262,544	Total S/H Equity	m	202,238	224,588	241,239	262,544
Total Liab & S/H Funds	m	388,840	430,906	454,492	500,240	Total Liab & S/H Funds	m	388,840	430,906	454,492	500,240

All figures in PHP unless noted.

Source: Company data, Macquarie Research, August 2015

Important disclosures:

Recommendation definitions**Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2015

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	46.23%	58.36%	47.27%	44.20%	60.65%	43.01%	(for US coverage by MCUSA, 9.68% of stocks followed are investment banking clients)
Neutral	37.67%	25.65%	29.09%	49.29%	34.19%	40.93%	(for US coverage by MCUSA, 5.53% of stocks followed are investment banking clients)
Underperform	16.10%	15.99%	23.64%	6.52%	5.16%	16.06%	(for US coverage by MCUSA, 1.38% of stocks followed are investment banking clients)

SMPH PM vs PSEi, & rec history

(all figures in PHP currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2015

12-month target price methodology

SMPH PM: P25.00 based on a RNAV methodology

Company-specific disclosures:

SMPH PM: MACQUARIE CAPITAL SECURITIES LIMITED or one of its affiliates managed or co-managed a public offering of securities of SM Prime Holdings Inc in the past 24 months, for which it received compensation.

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
27-May-2015	SMPH PM	Outperform	P25.00
18-Sep-2014	SMPH PM	Outperform	P21.00
14-Apr-2014	SMPH PM	Outperform	P19.88

Target price risk disclosures:

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