

Date
26 November 2015

Company
Xurpas

First Look Corporate
9M15 Earnings +10%;
Notable earnings-accretive acquisition

Stock X

Price 16.20

52wk Range 5.95 - 17.46

Rating HOLD / Long-Term Buy

Issued Shares 1,720mn

Market Cap P28,001mn

Free Float 19.80%

PSEi N/A
MSCI N/A

We maintain a **HOLD / Long-Term Buy** rating for X for the enterprising investor desiring a position in the high growth dynamic IT industry. *Note that broker/underwriter coverage on the company values the stock at a NAV price of P32.72/sh.*

9M15 Core Net Income grew 17% to P172.18mn while Net Income rose 10% to 162.38mn from one-time charges primarily from professional and legal fees charges in its organisational build-up. Revenues surged 84% to P508.65mn from new revenue streams. However, margins, albeit robust, were lower YoY and YTD from acquisitions.

- 9M15 Net income grew 10% to ₱162.38mn despite booking higher income tax provisions due to expiration of its income tax holiday in July 2014. Full income tax imposed (30%) resulted to a 156% increase to P76.68mn in taxes paid. Net income margin remains strong at 32%, but lower from 53% (9M14) and 49% end-2014.
- Core Net Income increased 17% to P173.18mn, excluding one-time charges (P15.42mn) primarily from professional and legal fees, and organizational build-up of parent company and subsidiaries.
- Revenues increased 84% to P508.65mn from new revenue segments as a result of acquisitions YTD - BPO of Yondu and Other Services - flex benefits revenues of Storm. Non-operating revenue also increased by 3,401% to include half a month of the financial results of Yondu Inc.
- Mobile consumer services accounted for bulk or 75% of total, growing 66% to P379mn.
- Gross Profit increased 74% to P333.93mn while maintaining strong gross profit margin levels at 66% but lower from 70% (9M14) and 71% (end-2014).
- Operating income up by 35% to ₱239.06mn despite non-recurring expenses from aggressive acquisitions and investments. Operating margin strong at 47% but lower from 64% (9M15) and 61% (end-2014)

Notable investment is the earnings-accretive acquisition of GLO subsidiary, Yondu, a leading content developer and provider of mobile value-added services and IT services, which posted bigger revenues (P854mn) and net income (P251mn) in 2014. Impact of full contribution to be felt next year. A mutually-beneficial partnership to “transform Yondu into a regional arm” for digital content distribution and other technology-driven services. X has made 8 investments since its P1.24bn IPO in December last year (see page 2 for list).

“We want to create [a sustainable] infrastructure that will create exponential growth.”

“We continue to lay the groundwork for our long-term vision to be the leading e-commerce company for emerging markets.”

The company continues to grow and innovate product and service offerings through acquisitions supported by IPO funds raised while maintaining regional expansion aspirations.

Revenues (Php '000)	9M15	% to Total	9M14	YoY % Change
Mobile Consumer Services	379,036	75%	227,657	66%
Mobile Enterprise Services	55,973	11%	48,037	17%
Business Process Outsourcing	19,704	4%	0	
Other Services	39,720	8%	0	
Interest Income	8,581	2%	326	2532%
Other Income	5,635	1%	80	6944%
	508,649	100%	276,100	84%

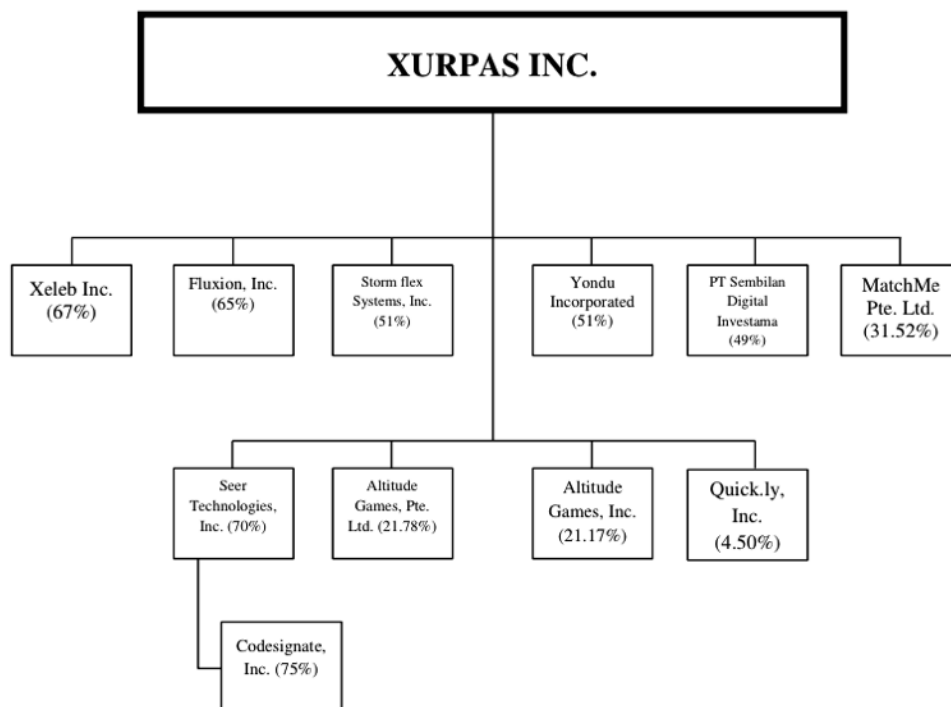
3Q15 Key Strategic Investments and Initiatives

- In July, launched Xeleb Inc., the country's first celebrity-based mobile game company
- In September, acquired 51% of Yondu Inc., a wholly-owned subsidiary of Globe Telecom Inc. (GLO)
- Subsidiary Storm Benefits entered into an agreement with Bank of the Philippine Islands (BPI) to launch a benefits platform for their 15,000 employees.
- Enterprise subsidiary Seer also closed a major contract with listed company Energy Development Corporation (EDC)

X has made 8 investments since its P1.24bn IPO in December last year.

1. 21.7% interest in Altitude Games PTE Ltd., a Singaporean mobile game developer and publisher (\$740K).
2. 51% interest in local human resource consultancy firm Storm Flex Systems, Inc. (P190.89mn)
3. Minority interest in Quick.ly, Inc., an American start-up technology firm (\$1mn)
4. 49% stake in PT Sembilan Digital Investama, an IT firm that owns mobile content company Ninelives, (\$245K), entering Indonesia
5. 31.42% of Singapore-based multiplayer games platform MatchMe Pte. Ltd. (\$1.4mn)
6. 70% of software design company Seer Technologies, Inc. (P18mn)
7. 51% stake in mobile phone content developer Yondu, Inc., a wholly-owned subsidiary of Globe Telecom Inc. (P900mn)
8. Purchased \$500,000 in convertible promissory notes to be issued by Singapore-based technology solutions provider Insights Pte Ltd.

The company maintains regional expansion plans, identifying the Indonesia, Bangladesh and Thailand markets. X has ventured into Indonesia via PT Semblan Digital Investama. It also ventured outside Asia when it bought into American start-up quick.ly (now quickly.co)





Technical Tip

Current 16.20
Support 16 (psychological), 14.25
Resistance 17.46 (all-time high)

- The stock has exhibited strong uptrend since August. Since the low of 8.50 then, it has risen 91.5%. Currently, the stock is pausing from the high of 17.46 (-6.7% at current price).
- For the enterprising investor keen on initiating or adding to position, it would be more prudent to accumulate on dips, employing a pyramid-buy strategy and maintain a long-term investment horizon.
- The stock is up 310% from IPO price of 3.97/sh. The stock's unprecedented rise since its IPO in Dec last year is a combination of its historical exponential growth, unique position in the industry and among listed companies in the stock exchange, as well as its small public float of 19.80% of its 1.7bn issued and outstanding shares.

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