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DA MARKET SECURITIES

Date
1 December 2015

Company
Ayala Land Inc.

First Look Corporate
9M15 Earnings In-Line;
Maintain Buy

Stock ALI

Price 33.85
52wk Range 32.40- 41.40

Rating BUY
Target 43.20, 30x P/E
Upside 28%

Issued Shares 14,695mn

Market Cap P497,447mn

Free Float 51.91%

PSEi 8.28%, 2/30
MSCI 9.61%, 1/45

We maintain a BUY - Core Holding for ALI with a Target Price of 43.20/ sh, 30x 2015 P/E, with an upside of 28%.

9M15 Earnings grew 19% to P12.8bn, in-Line with forecasts, as it accounts for 73% of FY15F P17.4bn (+19% YoY). Forecasts moving forward adjusted in recognition of slowing RE sales but offset with a growing leasing portfolio.

We reiterate ALI as a Core Holding as the company aims to triple leasable space from 2013 levels from shopping malls, office space and hotel and resorts and increase leasing portfolio contribution to 50% by 2020 from average of about 40% and P40bn in Net Income.

See page 2 for Technical Analysis.

Earnings in-line: 9M15 Earnings grew 19% to P12.8bn

- 9M15 Net Income +19% to P12.83bn, in-line with expectation, accounting for 73% of FY15 forecast of P17.54bn (+19% YoY).
- Real Estate Revenues +10% to P70.21bn from stable performance of property development, commercial leasing and services businesses.
- Ratio of GAE to Revenues improved to 6.2% from 6.% while EBIT margin was higher at 30% from 28%
- Revenues from Property Development +9% to P46.9bn from sustained bookings and higher completion.
- Revenues from Commercial Leasing +12% to P17.2bn from increasing contribution of new shopping malls and offices; higher occupancy and average rental rate for malls (94% and +2%) and offices (93% and BPO +5% to P696/sq.m.); higher REVPAR of hotels +4% to P3,927/night and resorts +12% to P7,387/night.
- Revenues from Property Management +48% to P30.54bn due to increase in managed properties from completed projects. Revenues from Construction +49% to P29.63bn due to the increase in order book of projects. Blended EBITDA margins improved to 13% from 10%.
- Equity in net earnings of associates and JVs registered a loss of P145mn due to the lower net earnings of Fort Bonifacio Development Corporation from lower inventory of commercial lots and startup costs of new businesses.
- ALI has so far spent P60.3bn in capex; plans P90bn in 2016 and continue aggressive expansion, with particular focus on recurring income portfolio (malls, offices, hotels)

	Actual		Forecast		
	2013	**2014**	**2015**	**2016**	**2017**
Sales	76.34	89.03	107.08	125.17	139.07
	53%	*17%*	*20%*	*17%*	*11%*
EBITDA	23.16	28.75	34.27	40.44	46.55
	46%	*24%*	*19%*	*18%*	*15%*
EBIT	19.26	23.76	29.66	35.23	41.04
	46%	23%	25%	19%	16%
Net Income	11.74	14.8	17.43	20.69	23.96
	30%	*26%*	*18%*	*19%*	*16%*
EPS	0.84	1.05	1.19	1.4	1.62
	25%	*25%*	*13%*	*18%*	*16%*
BVPS	6.86	7.44	9.19	10.09	11.06
PBV		4.55	3.68	3.35	3.06
ROA%	4.05	4.14	4.5	4.83	5.4
ROE%	13.23	14.54	14.32	14.64	15.33

20-20 Vision	**2013**	**2020**	**CAGR**
NIAT (P bn)	11.7	40	19.20%
Shopping Center (GLA mn)	1.2	3.6	17%
Office (mn)	0.6	1.8	17%
Rooms (thousands)	2	6	17%

Property Development +9% to P46.9bn

- **Revenues from Residential for sale +10% to P40bn sustained bookings and project completion.** ALP +6% to P15.7bn, Alveo +43% to P10.1bn from higher contribution from subdivision and condominium projects. Avida (+12% to P10.2bn) and Amaia (+16% to P2.8bn) also posted double-digit growth while Bella Vita more than tripled revenues to P272mn from P76mn. Residential sales reached a total of P82.9bn up 4% or an average monthly sales take-up of P9.22bn. Residential Gross Profit Margin (GPM) of horizontal projects improved to 43% from 42% from higher margin projects while vertical developments maintained GPM at 35%.
- **Revenues from Office for sale +57% to P4.03bn from higher completion of Alveo projects.** GPM declined to 38% from 40% from the sale of lower margin projects.
- **Revenues from the sale of commercial and industrial lots -35% to P2.84bn due to higher lot sales in Nuvali and Arca South in 2014.** GPM declined to 49% from 53% from lower contribution of higher margin lots in Altaraza San Jose Del Monte Bulacan and in Nuvali Santa Rosa Laguna.

Commercial Leasing +12% to P17.21bn

- **Revenues from Shopping Centers +12% to P9.24bn** from increasing contributions of Fairview Terraces and UP Town Centre and higher occupancy (average 94%) and average rental rates (+2% to P1,153/sq.m.) of existing malls. Same store sales grew 2% year on year while same mall rental growth increased by 9% year-on-year. EBITDA margin improved to 69% from 63%. Total GLA 1.4mn sq.m.
- **Revenues from office leasing +18% to P3.7bn** from new offices and higher occupancy (average 93%) and average rental rates of existing offices (BPO +5% to P696/sq.m.). EBITDA margin improved to 89% from 85% Total GLA 637,000 sq.m.
- **Revenues from hotels and resorts +7% to P4.3bn** from improved revenue per available room (REVPAR) performance of internationally branded hotels (1,294 rooms), Seda hotels (153 rooms), and El Nido Resorts (213 rooms). REVPAR of hotels +4% to P3,927/night and resorts +12% to P7,387/night. Average occupancy rate of hotels registered at 74% while resorts registered at 58%. EBITDA margin was maintained at 28%. The company has 2,324 rooms in its hotels and resorts portfolio.

Launched residential and leasing projects worth P97.9bn YTD

- Launched 3 estates namely Cloverleaf in Quezon City, Capitol Central in Bacolod City, and the 700-hectare Vermosa in Cavite.
- Opened shopping centers Solenad 3 at Nuvali and Circuit Lane at Circuit Makati, second Wellworth department store and first supermarket, Merkado, at UP Town Center in Quezon City.
- Alveo ventured into office development and announced the development of Financial Tower, a prime office along Ayala Avenue
- AyalaLand Hotels and Resorts Corporation (AHRC), recently opened a 152-room Seda hotel in Iloilo City.

Recent Developments (August)

- Won bidding for Integrated Transport System Project – South Terminal (ITS South Project) which is right next to ARCA South, a 35-year concession agreement to build and operate, including commercial leasing facilities within the 5.57ha property. Construction set to begin by May 2016 and Completion set for October 2017.
- Agreed to subscribe to 2.5 million common shares or 51.6% interest in Prime Orion Philippines Inc. (POPI), upon completing due diligence (extended until Dec 17). POPI operates the highly commercial Tutuban complex in Manila.

Technicals

Current	33.85
Support	32.40 (formidable), 30.70
Resistance	34.50, 35.70, 36.80 (pivotal to break downtrend), 37.50, 38.30, 41.40 (all-time high)
Target	43.20, +28% upside

- Since the all-time high was hit in May, stock has corrected 22% to current price 33.85. The stock has mostly consolidated between 32.40 and 36.80 range as seen in the 1YR chart. Notably on the 5YR chart, the stock remains within strong uptrend at 32.40 formidable support.
- Investor may opt to buy on dips toward 32.40 support or lower in event of exaggerations in the event of market weakness.