

**Date**

18 December 2015

Company

SM Investments Corp.

First Look Corporate9M15 Earnings Below Forecast;
Maintain HOLD**Stock SM****Price** 850**52wk Range** 766.50 - 974.00**Rating** HOLD**Target** 930, 21x P/E**Upside** 9%**Issued Shares** 803mn**Market Cap** P730,668mn**Free Float** 46.17%**PSEi** 9.51%, 1/30**MSCI** 4.63%, 9/42

We maintain a **HOLD** rating for **SM** and **Target Price** of **P930/sh**, **21x 2015P/E**, with an **upside of 9%**. **9M15 Earnings** grew **7%** to **P19.4bn** driven by **SM Retail**, but fell below forecast, similar to listed units **BDO**, **SMPH**. Cash Dividend **P12.40/share** (or **1.46%** yield, est. ex-date **May 15, 2015**. See page 2 for Technical Analysis.

Below Forecast: 9M15 Net Income +7% to P19.4bn, accounting 65% of FY15 forecast

- 9M15 Net Income grew 7% to P19.4bn. Excluding extraordinary items, below expectations, accounting for only accounting 65% of FY15 Forecast.
- Core Net Income grew 12% driven by growth in retail (+21%) and property recurring income (+15%). Banks (BDO, CHIB) accounted for 40% of SM's consolidated earnings, property (formerly listed SMDC) 39% and retail (SM Retail) 21%.
- Consolidated revenues grew 7% to PHP206.2 billion

SM Retail sales grew 6.5% to P145.3bn while Net Income rose 21% to P4.6bn. Food retail (*SM Markets*) added 20 new stores nationwide, most of which are standalone Savemore stores. SM Markets now follows a multi-format growth strategy to address lack of organised retail and recently invested in Alfamart, a minimart business based in Indonesia forged partnership with WalterMart and Citymalls to boost provincial growth. SM Markets also seeks to further growth through acquisitions, with its latest one - the 3-store Cherry Foodarama. **SM Store** will continue to grow as anchor store in SM Malls, targeting expansion in the provincial areas. At end-September 2015, SM Retail had a total of 294 stores, comprising 51 THE SM STORES, 41 SM Supermarkets, 43 SM Hypermarkets, 130 Savemore stores and 29 WalterMart stores. Total gross selling area of all 51 SM STOREs stood at 682,997 sqm.

BDO (TP 120, BUY) 9M15 earnings grew 5.3% to P17.6bn but trailed forecast, accounting for 71.6% of FY15 forecast. Loans grew 19% to P1.2 trillion, Deposits by 12% to P1.6 trillion as the bank integrated One Network Bank (ONB), the largest rural bank in Mindanao, in the 3Q adding over 20bn to loans and deposits. Net Interest Income grew slower (+12% to P21.8bn) from margin compression while Non-Interest Income grew 9% to P23.8bn as fee-based service income contributed P13.9bn (+8%) while trading and foreign exchange contributed P6.3bn (+4%).

SMPH (TP 22.25, HOLD) 9M15 Earnings surged 70% to P22.9bn due to one-time trading gains in the 1Q while Core Net Income grew 15% P15.5bn. Results missed estimates on flat residential segment (+4% to P16.6bn), offsetting stable performance of Retail and Commercial Rental (+11% to P29.4bn). Recall: Long-term growth prospects turn more positive with its 5-year Roadmap (2013-2018) which aims to double Net Income to P32.5bn by 2018, allotting ~Php200bn in the next 3 years backed by 143.8ha of land bank.

	2013	2014	2015	2016	2017
Sales	253.50	275.70	285.25	314.81	348.29
		9%	3%	10%	11%
EBIT	36.66	38.32	53.75	60.79	69.32
		5%	40%	13%	14%
EBITDA	46.17	49.23	70.30	79.81	88.72
		7%	43%	14%	11%
Net Income	27.40	28.40	30.05	34.61	38.95
		4%	6%	15%	13%
EPS	34.9	35.67	37.81	43.33	49.05
		2%	6%	15%	13%
BVPS	275.58	322.73	349.38	381.9	422.62
PBV			2.43	2.23	2.01126
ROA%	4.59	4.22	5.72	6.16	7.19
ROE%	13.47	11.92	11.12	11.83	12.07



Technicals

Current 850
 Support 810
 Resistance 874, 925
 Target 930, +9% upside

- The stock has been on a downtrend since hitting the high of 974 in early April and is currently down 12.7% from that high.
- RSI-14 day bouncing off oversold at 41 as the stock retested near 800, the last low hit in late August. Meanwhile MAC/D has slightly eased but continues to indicate a bearish crossover.
- A tradable range between 800-820/874. A trader will need to establish stops. Meanwhile a convincing break at 874 means a challenge to the downtrend.
- Note however that the fundamental BUY trigger price is 808 for a minimum 15% upside.

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