

**Date**

2 December 2015

Company

SM Prime Holdings

First Look Corporate

9M15 Earnings higher but misses estimates; Maintain HOLD

Stock SMPH**Price** 22.30**52wk Range** 15.72-23.20**Rating** HOLD**Target** 22.25, 25x P/E**Downside** -0.22%**Issued Shares** 28,879mn**Market Cap** P644,004mn**Free Float** 30.92%**PSEi** 6.25%, 4/30**MSCI** 6.29%, 3/45

We maintain SMPH as a HOLD with Target Price of 22.25/sh, 25x 2016F P/E, providing 0.22% downside.

9M15 Earnings grew 70% on trading gains while Core Income increased 15%, however missing estimates on flat residential segment (+4% to P16.6bn), offsetting stable performance of Retail and Commercial Rental (+11% to P29.4bn).

Long-term prospects turn more positive with the company's 5-year Roadmap (2013-2018) aiming to double Net Income to P32.5bn by 2018, allotting ~Php200bn in the next 3 years. With 143.8ha of land bank, the company seeks to enhance long-term value through integrated master planning. See page 2.

See page 3 for Technical Analysis

Core Net Income +15% to P15.5bn, accounting for 68% of FY forecast

- 9M15 Core Net Income increased 15% to P15.5bn. Recurring Income for the 3Q likewise grew 15% to P4.2bn.
- 9M15 Net Income surged 70% to P22.9bn including P7.4bn trading gains of marketable securities booked 1Q.

9M15 Revenues rose 9% to P52.2bn (from 8% in 1H). Revenues in the 3Q rose 19% to P16.2bn, faster than the 8% growth in the 1H.

- **Retail and Commercial Rental Revenues contributed 56% of total, grew 11% to P29.4bn** from new malls and the expansion of existing malls in 2013 and 2014 and the launching of FiveE-comCenter (GFA 130,000 sq.m., 97% leased out). Same-store rental growth was maintained since 2012 at 7%.
- **Real Estate Sales contributed 32% of total, grew 4% to P16.6bn** from increase in sales take-up and higher construction accomplishment of SMDC projects launched in 2010 to 2013. SMDC alone grew net income by 23% to PHP3.8bn. Consolidated Costs of real estate slightly decreased 1% to P9bn from improving cost efficiencies, tighter monitoring and control of construction costs resulting to Gross Profit Margin improvement to 46% from 43%. Net Income Margin likewise improved to 22% from 20%. Reservation Sales rose 19% to 10,927 units while value grew 22% to P28.4bn.
- **Cinema and event ticket sales contributed 6.5% of total, grew 4% to P3.4bn.**
- **Other revenues from rides, bowling, ice skating, merchandise sales and snack bars and hotel F&B grew 30% to P2.8bn.**

	Actual		Forecast		
	2013	2014	2015	2016	2017
Sales	56.44	62.92	74.18	84.03	93.50
		11%	18%	13%	11%
EBIT	24.14	27.69	32.10	36.98	41.56
		15%	16%	15%	12%
EBITDA	30.12	34.27	39.44	45.47	51.19
		14%	15%	15%	13%
Net Income	16.27	18.39	22.81	25.19	28.50
		13%	24%	10%	13%
EPS	0.85	0.66	0.78	0.88	0.98
		-22%	18%	13%	11%
BVPS	5.87	6.89	7.44	8.07	8.83
PBV		3.50	3.24	2.99	3.14
ROA%	5.25	5.08	5.81	5.71	5.96
ROE%	10.47	10.15	11.14	11.14	11.46

FY15 - FY16

- Expects to end the year with 55 malls in the Philippines, 6 malls in China adding/expanding by 719,000 sqm. GFA to total 8.3mn sq.m. SM recently opened SM Seaside Cebu which it describes as an important growth corridor.
- Commercial properties has 5 office buildings with an est. GFA of 318,000 sq.m. Three E-Com Center is currently under construction and scheduled for opening in 2018.
- Currently has 27 residential projects and will launch 12,000 - 15,000 units the year.
- Hotels and Convention Centers set to open Radisson Clark in Pampanga this year while Conrad Manila is expected to open by 1H16.

Recall: 5-Year Roadmap on Track: Double Income by 2018

- SMPH continues aggressive expansion efforts underway a 5-year roadmap aiming to double income from P16.27bn in 2013 to ~P32.5bn by 2018, allotting ~Php200bn in the next 3 years as it commits to maintaining a healthy gearing ratio with debt-to-equity at 0.43:1 and net debt-to-equity at 0.35:1.
- With 143.8ha of land bank, the company seeks to enhance long-term value through integrated master planning.
 - SMPH Intends to unlock value in existing properties by developing non-retail components in at least 10 identified projects in prime areas, boosting foot traffic and increasing margins. In particular Mall of Asia (MOA) has 23ha out of 60ha remaining for future development.
 - Furthermore, the company also intends to increase acquisition of large-scale strategic landbank and replicate lifestyle project cities, following the success of MOA, already identifying 4 cities nationwide - Clark, North Edsa, Cebu City, Lanang.

	2013	2018	Change
Malls			
GFA (m sqm)	7	10.96	57%
malls	53	85	60%
Philippines	48	74	54%
China	5	11	120%
Primary Homes			
Launched Units	63,892	139,628	119%
Launched Projects	21	41	95%
Units Sold	47,618		
Leisure Homes			
Launched Units	2,035	2,500	23%
Launched Projects	12	16	33%
Offices			
GFA (sqm)	0.15	0.46	207%
Projects	3	7	133%
Hotels			
Rooms	4	10	150%
Projects	1,015	2,187	115%



Technicals

Current 22.30
 Support 21.50, 20.30, 19.45, 19
 Resistance 23.20 (all-time high)
 Target 22.25, -0.22% downside

- Since 2Q 2013 has been within a wide consolidation range between 15-23.20 (see 5-year chart). More recently, since hitting a low nearby 18 in late August, has trended upwards with 22-23 proving as formidable resistances.
- Current price provides slight downside to target. Buy price trigger is 19.34, nearer idea supports at 19.45 and 19.

REFERENCES SMPH, PSE, Bloomberg, Reuters, DA Market Securities, Inc. **DISCLAIMER** This report is provided for informational purposes only and is not intended to solicit buying and selling of securities or to participate in any particular trading strategy. DA Market Securities, Inc. (DMSI) makes reasonable effort to use reliable, comprehensive information, but makes no representation or warranties as to the accuracy, completeness, or timeliness of the data provided. DMSI shall not have liability for any damages of any kind relating to such data. This report may not be reproduced or published for any purpose. DA market officers, directors and employees, including persons involved in the preparation or issuance of this report, may have investments in securities or derivatives of securities of the companies mentioned in this report.