

Date

17 February 2016

First Look Corporate**Company**

Security Bank Corp.

FY15 Earnings Above Est.; BTMU
Acquisition - Value Catalyst;
Maintain Buy

Stock SECB**Price** 141.90**52wk Range** 119.50 - 180.00**Rating** BUY**Target Price** 183, 1.85x P/BV**Upside** 29%**Issued Shares** 602 mn**Market Cap** P85.54 bn**Free Float** 73.41%**PSEi** N/A**MSCI** 2.56%, 14/45

Maintain BUY for SECB, TP 183/sh, 1.85x P/BV as reported FY15 Earnings rise above estimate and as the bank outperforms industry rates. Furthermore, we view BTMU's 20% acquisition/capital infusion as a value catalyst for 2020 targets.

Net Income 7% to P7.7bn, Core Revenues +15% to P15.6bn

- Net Income increased 7% to record P7.7 billion (vs. est. P7.4 billion), inclusive of a P2 billion gain from sale of held-to-collect (HTC) securities. The bank posted industry best ROE at 15.25%, NPL at 0.14% and NPL Reserve Cover at 205%, highest in the industry.
- Core revenues, comprising net interest income, fee-based income and trading gains attributable to customer flows grew 15% to P15.6 billion.
- Loans grew 24% (vs. industry 13.7%) to P240 billion, as Corporate/Commercial loans increased 21% and Consumer loans (home/auto/credit card) increased 67%. Deposits grew 17% (vs. industry +8%) to P290 billion.
- Net Interest Income rose 11% (vs. industry +8.5%) to P12.4 billion despite slightly slight Net Interest Margin contraction to 3.3% (from 3.4% in 9M15).
- Non-interest Income jumped 16% to P6.5 billion including a P2 billion gain on sale of Held-to-collect (HTC) securities (but lower than P3 billion the previous year).
- Operating expenses rose 20% due to investments to expand retail banking. Cost-to-income ratio was kept low at 50%.

Value Catalyst: 20% Acquisition by Bank of Tokyo Mitsubishi UFJ's (BTMU)

- In mid-January, SECB announced plans of acquisition by BTMU of 20% stake valued at P36.9 billion (\$773 million) involving 150.7 million newly issued common shares at P245/sh (~2.8x PBV) and 200 million preferred shares at 0.10/sh.
- The forthcoming capital infusion reinforces bank capitalization, introduce global best practices/know-how and expand markets through BTMU's relationships - with Japanese and global companies.
- Moreover, accelerate the bank's expansion plans into creating the high-margin retail banking as a strong third pillar, accounting for 25-30% bottomline contribution. The bank aims to become the 4th or 5th biggest bank by 2020 with 500 branch network from the current 262.

	Actual		Forecast	
	2014	2015	2016	2017
Sales	16.57	18.41	19.79	
		11%	7%	-100%
Operating Profit	7.88	8.03	8.55	10.14
		2%	6%	19%
Net Income	7.16	7.41	7.74	8.93
		3%	4%	15%
EPS	11.94	12.28	12.74	14.84
		3%	4%	16%
BVPS	77.67	88.25	98.8	111.27
PBV	1.83	1.61	1.44	1.28
ROA%	1.92	1.75	1.57	1.6
ROE%	16.36	14.87	13.48	13.93



Technicals

Current	141.90
Support	133
Resistance	146, 156, 165, 180
Target	183
Upside	29%

- See 5YR chart, the stock maintains strong uptrend channel, holding above 150-day MA support. While RSI-14 is neutral at 50, MAC/D shows room for upside relative to historical performance.
- See 1YR chart, the stock has been registering higher lows since August and is challenging the downtrend by basing between 133 - 148 range. *Note similarity to a move in September 2013 to March 2014 in the 5YR chart.*

REFERENCES SECB, 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.