



Date
17 February 2015

Company
Universal Robina Corp.

First Look Corporate
1Q16 Earnings In-Line;
Lower TP, Core Holding

Stock URC

Price 191.80
52wk Range 170 - 234

Rating HOLD - Core Holding
Target Price 218.00, 28x P/E
Upside 12%

Issued Shares 2.18 bn
Market Cap P423 bn
Free Float 43.52%

PSEi 5.96% (5/30)
MSCI 6.60% (5/45)

Downgrade URC to a HOLD and lower TP to 218/sh (+12%) from 223/sh as we adjust estimates to reflect expectations of muted local sales growth, impact on margin of increased competition and increased input prices towards end year. Maintain Core Holding as we remain optimistic due to continued expansion supported by higher capex spending +45%). Buy Price Trigger 190 (+15% to TP).

Note: Dividend (Regular and Special) of 3.15/sh or 1.62% yield, ex-date February 23, payable March 28.

Earnings In-Line, Lower TP 218/sh, HOLD

- 1Q16 Net Income grew 47% to P4.8 billion. However, excluding Forex gains of 914 million, Income would have grown 13% to P3.88 billion primarily due to slowdown in domestic business.
- Sales trailed estimates, growing by 11%; Meanwhile, EBIT grew faster by 16% to P5.1bn and Gross Margins increased 72 bps on lower input prices.
- BCF Philippines (Sales +6% to P15.7 billion, EBIT +12% to P3.1 billion, EBIT Margin +115 bps) challenged by intense competition in coffee (price pt. lowered to maintain market share) and downtrading and shifting in other segments but mitigated with lower costs and better OPEX management.
- BCF International grew faster (Sales 19% to P9 billion, EBIT +51% to P1.2 billion, EBIT Margin +287 bps) as Vietnam (+11%) and Indonesia (+15%) led sales, offsetting Thailand (-2%), New Zealand (-8%), despite forex volatility.
- Non-BCF sales driven by Sugar boosted by Renewables (Sales +2% to P2.3bn, EBIT -15% to P300 million) despite lower milling income and Feeds boosted by lower inputs and better volumes despite Farms (Sales +33% to P2.7 billion, EBIT +13% to P900 million).

P9.5bn capex (+45% YoY) to fuel forward growth

- URC set a 9.5bn capex (+45% YoY) to install additional facilities and capacities for BCF, launch new products/brands across snackfoods and beverages, develop new markets (Myanmar, Laos, Cambodia), scale up brand building and distribution for JVs with Calbee and Danone. It has also begun to roll-out of Griffin's in SEA started with the launch of 14 stock keeping units (SKU) in Singapore, then HK (March), Philippines (July) and Thailand, Myanmar and Indonesia (August).

Loan Payment to reduce currency risk and strengthen balance sheet

- URC plans to repay loan of NZD322 million (~P10 billion) to URC Oceania, equivalent to 42% of foreign denominated loan, thereby translating debt-service costs to savings (~P450 million) and improve Debt-to-Equity to 0.24x from 0.38x.

	Actual		Forecast	
	2015	2016	2017	2018
Sales	109.05	121.96	133.43	146.86
		12%	9%	10%
EBITDA	22.08	25.23	28.31	30.46
		14%	12%	8%
EBIT	17.37	19.26	21.71	24.48
		11%	13%	13%
Net Income	12.38	14.60	16.86	19.59
		18%	15%	16%
EPS	5.68	6.70	7.63	8.80
		18%	14%	15%
BVPS	29.92	31.04	34.96	41.77
PBV	6.49	6.25	5.55	4.65
ROA%	13.13	13.81	14.88	15.13
ROE%	20.43	22.71	23.52	22.28



Technicals

Current 191.80
Support 170
Resistance 196, 204, 210, 220, 234 (all-time high)
Target Price 218.00
Upside 12%

- Stock remains resilient having held above 170 support and has also remained within uptrend channel. Higher RSI despite lower low at 170 showed positive divergence.
- While MAC/D in the 1YR chart has risen significantly from lows in December, MAC/D in the 5YR chart points to further upside within a longer-term perspective.
- More bullish indicators to watch out for is crossing of short-term moving averages over longer-term moving averages as well as breaking of near-term resistances to challenge the downtrend.

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