

**Date**

10 March 2016

**Company**

SM Investments Corp.

**First Look Corporate**

FY15 Earnings Meets Estimates;  
Value Accretive Retail Merger  
Maintain HOLD

**Stock SM****Price** 920**52wk Range** 728.00 - 974.00**Rating** HOLD**Target** 930, 22x P/E**Upside** 1%**Issued Shares** 803mn**Market Cap** P738.81bn**Free Float** 46.17%**PSEi** 10.80%, 1/30**MSCI** 4.71%, 8/45

We maintain a HOLD rating for SM and Target Price of P930/sh, 22x 2016P/E, with an upside of 1%. FY15 Core Earnings meets estimates (+13% to P27.9bn). Merger of SM Retail with other retail companies seen as value accretive. Estimate Dividend Yield is 1.15% (ex-date May).

**Meets Estimate: FY15 Core Net Income +13% to P27.9bn, Consolidated Net Income flat at P28.4bn**

- Core Net Income +13% to P27.9bn driven by SM Retail (+17%), SMPH (+13.6%) which accounted for 22% and 38% respectively of Consolidated earnings. Banks Net Income grew 10% and accounted for 40% of Consolidated Earnings.
- Consolidated Net Income flat at 28.4 billion despite Consolidated Revenue growth of 7% to P295.59bn due to a higher one-time gain.
- See details per business unit in page 2.

**Value Accretive: SM Retail merger with other retail companies**

- Post-merger SM expects ownership dilution to 77.3% of enlarged SM Retail Inc., in line with its efforts to simplify corporate structure.
- The merger, via asset-swap, is value accretive, combining 1,927 outlets and 2.4 million sq.m. of gross floor area (GFA) across a diverse portfolio of staple and discretionary goods categories - food, household appliances, DIY, furniture, apparel, footwear, pharmaceuticals/cosmetics and specialty retailing stores.
- While SM Retail is composed of the SM department stores, hypermarkets and supermarkets, majority take in Alfamart (local), Forever21, Crate & Barrel and other specialty and apparel retailers in addition to a minority stake in Uniqlo. The other retail companies include Ace Hardware, SM Appliance Center, Homeworld, Our Home, Toy Kingdom, Watsons, Kultura, Baby Company, Sports Station and several other specialty stores which operate 1,374 outlets delivered total revenues of PHP 53 billion in 2015.

	Actual		Forecast		
	2014	2015	2016	2017	2018
<b>Sales</b>	262.75	281.14	328.75	362.49	392.89
		7%	17%	10%	8%
<b>EBITDA</b>	49.50	53.53	72.93	89.04	80.57
		8%	36%	22%	-10%
<b>EBIT</b>	38.59	42.17	61.86	76.37	67.77
		9%	47%	23%	-11%
<b>Net Income</b>	28.40	28.4	34.01	39	45.36
		0%	20%	15%	16%
<b>EPS</b>	35.67	35.42	42.68	49.05	56.74
		-1%	20%	15%	16%
<b>BVPS</b>	321.13	354.16	381.27	423.37	465.52
<b>PBV</b>		2.57	2.39	2.15	1.95
<b>ROA%</b>	4.22	3.84	6.11	7.17	6.29
<b>ROE%</b>	11.92	10.51	11.6	12.03	12.7

## Business Units

**SM Retail** Sales +7% to P211.4bn as Net Income +17% to P6.8bn. SM Markets added 31 new stores, mostly standalone Savemore stores while SM Store opened 3 stores. In total, SM Retail ended the year with 310 stores - 53 SM stores, 45 supermarkets, 44 hypermarkets, 136 Savemore stores and 32 Waltermart stores.

**Banks - BDO** Net Interest Income +11% to P57bn, Net income +10% to record P25bn, Gross customer loans +17% to P1.3 trillion as total deposits +12% to P1.7 trillion. This Includes acquired ONB, with 98 active branches, expanding its regional presence. **CHIB** Net Interest Income +7% to P15.1 billion, Net Income +10% to P5.6bn.

**Property** - Recurring Net Income +14% to P20.9bn while total Net Income +54% to P28.3bn which includes P7.4bn gain on marketable securities booked in 1Q15. Consolidated Revenues rose 8% to PHP71.5 billion as Rental Revenues increased by 12% to PHP40.7 billion. Reservation sales grew 12% to 14,390 units. The Housing Group's Net Income increased 8% to PHP5.1 billion. **SMPH** ended the year with 56 malls, 7.3m sq.m. total retail space; including China, 8.3mn sq.m. The housing group has 27 residential projects - 25 in Metro Manila and 2 in Tagaytay. To launch this year 11,000 - 14,000 units in Quezon City, Bicutan and Sucat in Paranaque, Las Piñas and Pasay at the Mall of Asia Complex. To launch new mixed-use developments in Bulacan, Pampanga and Cavite. **Commercial Properties Group** has five office buildings with ~ Gross Floor Area (GFA) of 318,000 sqm. while ThreeE-Com and FourE-Com Centers are scheduled for completion in 2017 and 2019, respectively. For **Hotels and Convention Centers**, the 347-room Conrad Hotel Manila is expected to open in 2H16.



**Technicals**

Current 920  
 Support 880, 850, 830, 790, 730  
 Resistance 974  
 Target 930, +1% upside

- The stock exited downtrend which began last April 2015 after breaking 880 resistance.
- Short-term indicators are at overbought while it near our Target Price. Should it attempt higher levels, 974 all-time high would be formidable resistance.
- Should market present buy on dip opportunity, watch supports. Note that recent low that must hold is 728 while the fundamental BUY trigger price is 808 for a minimum 15% upside.

**REFERENCES** SM, 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.