

**Date**

21 June 2015

Company

Megaworld Corp.

First Look Corporate1Q16 Earnings On-Track;
Maintain TP**Stock MEG****Price** 4.40**52wk Range** 3.00 - 5.15**Rating** BUY**Target** 6.40, 18x P/E**Upside** 45%**Issued Shares** 32,239mn**Market Cap** P141,853mn**Free Float** 33.67%**PSEi** 1.49%, 20/30**MSCI** 1.66%, 20/43

We maintain MEG as a BUY with Target Price of 6.40/sh, 18x 2015P/E, with an upside of 25%. 1Q16 Net Income +12% to P2.63 billion, on track for FY16F. Note: Cash Dividend P0.05/share, Ex-Date June 24, Friday.

On-Track:

1Q16 Net Income +12.13% to P2.63 billion, accounting for 23% of FY16F on record rental revenues

- Revenues +11.8% to P2.63 billion as Residential Sales +9.9% to P6.86 billion (above industry growth of 8.8%), Rental Revenues +15.2% to a record of P2.29 billion. 1Q Rental Revenues account for 20% of target P11 billion for the year.
- Gross Profit continued to improve 2.2% pts to 43.7% with mix favoring higher-margin resort units i.e. Boracay Newcoast and Alabang West (9.9% increase in real estate sales)
- Efficient cost management also contributed to earnings as costs and expenses only grew by 8.7% to PhP8.83bn, contributing a 20bps expansion in Net Income Margin from 26.8% to 27.0% at PhP2.54bn.
- As of 1Q, MEG already leased out 50% of its leasing pipeline due 2016 and 30-40% of deliveries due 2017. Management is looking to lock-in favorable rates going into 2017 when bulk of supply arrives.

Sustaining Property Sales and Increasing Recurring Income:

- **21 Townships**
 - **1000ha landbank for development**
 - **P180 billion capex for the next 10 years**
- MEG currently has 21 integrated urban township developments covering 3,061ha, of which 12 are in provinces (2,087 ha) and 9 are in Manila (254ha). MEG notes that maturity usually takes 10-15 years depending on size and components of township.
 - MEG aims to sustain strong property sales and increase recurring through space expansion and rate escalation amid an enlarged land bank - 4,128ha, of which ~1,000ha have yet to be developed.
 - MEG may finance P180-billion 10-year capital expenditure for township projects outside capital through internally generated funds. MEG also cited a healthy balance sheet - net-to-debt equity ratio of 20% leaving room for fresh borrowings.

	Actual		Forecast		
	2014	2015	2016	2017	2018
Sales	34.07	38.47	46.01	49.30	53.22
		13%	20%	7%	8%
EBIT	10.54	14.72	16.93	19.02	21
		40%	15%	12%	10%
EBITDA	11.84	16.07	18.22	20.6	23.41
		36%	13%	13%	14%
Net Income	9.5	10.39	11.71	13.13	14.75
		9%	13%	12%	12%
EPS	0.30	0.32	0.36	0.41	0.45
		7%	13%	14%	10%
BVPS	3.44	3.62	3.95	4.31	4.70
PBV		1.22	53.65	64.61	64.61
ROA%	10.75	4.32	4.96	5.03	5.3
ROE%	20.95	8.98	9.42	9.68	9.71



Technicals

Current 4.40
 Support 4.12, 3.70, 3.00
 Resistance 4.48, 4.83, 5 (psychological), 5.26, 5.94 (all-time high)
 Target 6.40, +33% upside

- Current price indicates a BUY with 45% upside.
- The stock showed significant troughs at 3 and 3.50, rallying about 55% from the January low to recent high at 4.65.
- Amid current market rally, the stock can attempt recent high. Moreover, if it breaks out of this level, may extend to next resistances at 4.83 or 5.00. An investor may opt to trade the specified range or opt to profit-take on current rally.
- Longer-term investors may wait for better conditions such as a dip alongside eased indicators - MAC/D and RSI.

REFERENCES MEG, 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.