FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

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The Bellwether

Fortnightly on Market Action and Outlook

STOCK WATCH

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▶ CHASING THE GAMING DREAM

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Chasing the Gaming Dream

Biggest

Gaming outfit Resorts World, a 50-50 joint venture between Genting of Malaysia and Manila's Alliance Global Inc. (AGI) at the Travellers International Hotel Group (to be IPOed but postponed) is at this point the largest and will be the largest of the four licensees (casinos) in the Entertainment City (EC) three years from now. See Table 1 on page 2.

The expansion plan reflects the bullishness of the industry despite a looming breach of the corporate income tax exemption underpinning the $1bn project investment (each) of the four licensees in EC. Topline is taxed at 25% for mass market and 15% for the VIP markets of casinos. Bureau of Internal Revenue (BIR) now wants the income tax complied with to which Philippine Amusement and Gaming Corporation (PAGCOR) has promised to shield the casino operators by partly absorbing the tax burden through a 10% haircut from what it receives from the former.

Also, the inclusion of gaming under the Anti-Money Laundering legislation's covered transaction worth Php500k against which the licensees has lobbied hard last year is now increasingly possible. In Macau, covered transaction is worth HKD2.7mn while in the US it is $10k. The Financial Action Task Force (FATF) is demanding inclusion/compliance of/by the Philippine gaming industry.

Resorts World has 33 hectares in Entertainment City (reportedly still directly owned by parent AGI and yet to be injected to the licensee Travellers Hotel Group), and eyes a phase 1 gaming expansion in that area, an investment worth $1bn (the required for a gaming license) for an integrated resort type of development showcasing a hotel of 800 rooms. This project adds to its existing 1,000 room hotel in Resorts World Paranaque City and another 1,000 rooms in the pipeline, also in Paranaque. The EC expansion will have gaming space of 12k sqm for about 300 casino tables, 1,200 slot machines and a non-gaming

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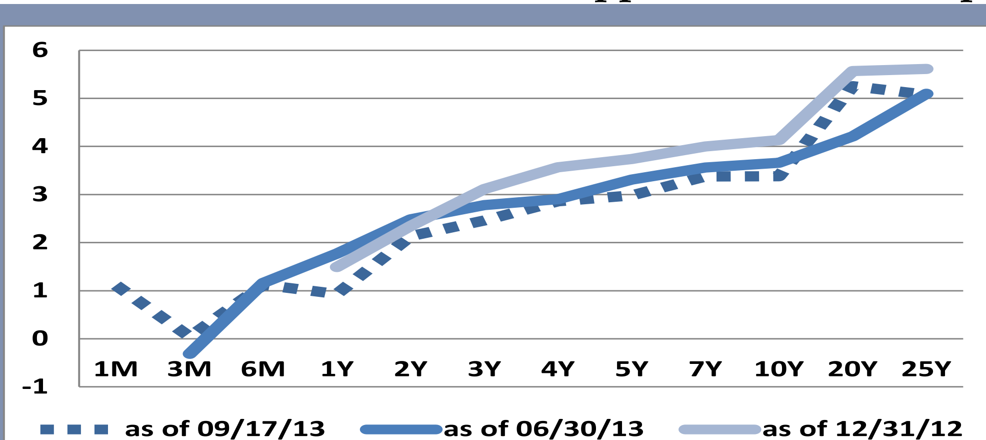
Yield Curve Dropped on U.S. Fed Taper Delay



Yields are expected to drop dramatically and prices to rally as the markets celebrate the US Fed taper delay on still weak US growth prospects. We expect the 10-year debt papers to hover around 3% as the U.S. 10-year Treasury note dropped from 2.9% to 2.6% in reaction to the Fed tapering delay. Inflation (2.1% last August) and SDAs will reinforce the drop in the yield curve. Meanwhile, Yields on government debt papers went up by 9.17 basis points (bps) week-on-week as market players stayed defensive while waiting for the U.S. Fed meeting last September 17 to 18. Treasury bills (T-bill) were mixed as the 91- and 182-day T-bill went up by 51.04 bps to 1.2500% and 45.00 bps to 1.6250%, respectively, while the 364-day T-bill declined

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GSM PM CLOSE September 17, 2013
3.01yr 2.75% (0.15 bps up) Dealt @ 2.55% for Php100Mn
4.72yr 3.175% (0.175 bps up) Dealt @ 2.85% to 3.15% for Php5.471Bn
8.23yr 3.60% unchanged
8.38yr 3.60% unchanged
9.26yr 3.75% unchanged
10yr 3.50% (0.06 bps up) Dealt @ 3.42% to 3.35% for Php236Mn
17.88yr 4.80% (0.025 bps up) Dealt @ 4.75% for Php128Mn

GSM PM CLOSE September 17, 2013
22.30yr 5.75% unchanged

RTB Trades September 17, 2013
25yr 5.175% (0.05 bps up) Dealt @ 5.25% to 5.00% for Php91Mn

Note: GSM is Government Securities Market; yr is years to go; bps is basis points

(Chasing the Gaming Dream... continued from page 1)

component comprised of a high-end commercial strip and a theater.

Resorts World is not new, being the first privately-owned gaming resort that opened in 2009 and with a little over 20k sqm of gaming space, which it is doubling to 40k sqm in two years in its base in Paranaque City near NAIA Terminal 3. It will have approximately 60k sqm of gaming space by 2016 and casino foot traffic will be three times the current 30k each weekend or 90k (consolidated) assuming the Phil gaming industry grows at the PAGCOR-projected healthy pace of 30%. The comparable number of attendees at Solaire is 12k on a weekday and 16k on a weekend.

Benchmark Metrics

Resorts World has also set the benchmark casino operating performance metrics which Solaire is yet to match. We believe Solaire is operating close to its targets in terms of the list below, but whose levels Resorts World operations has reached already and is trying to beat.

• Mass market's drop/win per table per day of $3,000. (Drop/win is revenue per table).

• Slot machine's $350-win per day.

• A monthly roll/turnover of HKD80mn per table or $10.6mn for its VIP table.

Thus from the VIP market with 35% EBITDA margin, Solaire's $10.6mn monthly per month for its 95 tables yields a potential EBITDA of Php4.3bn a year. From its mass market with a 50% EBITDA margin, the potential operating cash generation of its 200 tables is Php4.7bn. There is another Php3.4bn cash from the slot machines. All in all, if Solaire hits its target metrics by next year, we expect Php12.4bn EBITDA for 2014, excluding the expansion.

We estimate Resorts World EBITDA to reach $350mn (Php15bn) this year and $425mn (Php18.275bn) next year, higher than newly opened Bloomberry Resorts World's consensus 2013 EBITDA estimate of $130mn (Php5.5bn) and double in 2014 of Php11.0bn, excluding expansion. Solaire has just opened and is also smaller than Resorts World with 18k sqm of gaming space (12k sqm for mass market) and 6k sqm for VIP) than Resorts World. Solaire sits on 9 hectares and has idle land of 7 more hectares for expansion in EC.

Overcapacity?

Philippine gaming has just picked up steam. One casino licensee opened last March, Bloomberry's Solaire, at PAGCOR City, Pasay. Two more are opening in 2H2014, same location. One is Solaire's $450mn 300-room hotel expansion. The other is Melco Crown-Belle Corporation's 800-room hotel-casino. Two more are opening in 2015: Tiger Resorts/ Universal Leisure and the expansion by AGI's Bayshore Resorts World, also in PAGCOR City/ Entertainment City. Philippine gaming is 4% of Macau's $33bn while recent figures from a The Asian Wall St. Journal survey raises this to 5% valued at $1.8bn gross gaming revenues (GGR), the smallest in Asia.

Yet another issue this early is overcapacity. The worry is that poor Philippine infrastructure (congested airports, heavy road traffic, floods) will undermine the casinos' VIP experience to below global standards, especially those of competing Macau and Singapore and cut the stream of gambling tourists.

Casinos cater to two markets, the VIP (premium market/high rollers mostly from Macau and Singapore) and the low-end local mass market. Both Solaire and Resorts World in Paranaque has a 50%-50% sharing to topline/gross gaming revenues (GGR) of both markets. The mass market is two-fold, slots and premium mass market. For Solaire, the topline split between these two is 40%-60%. Ten percent of the premium mass market accounts for 80% of the latter's topline.

Solaire Eyes More of the Foreign VIP Market

The mass market with its high loss rate carries a wider EBITDA of 50% versus 30% for VIP (foreign and local), yet the emphasis of Solaire and Resorts World vary. Solaire is hiking its VIP market to 60% with the 300-room hotel expansion. It is adding 75 VIP tables on top of its 295 gaming tables, 95 of which are VIP. It has six seats per table, which is smaller than Resorts World's 8 seats per table. Resorts World is maintaining its current mix of 50%:50%.

Bloomberry

We like Bloomberry for being a pure play in gaming, free of the heavy non-gaming property/real estate exposure. We like the no non-sense management style of its owner Enrique Razon, whose entrepreneurial savvy was well-tested at International Container Terminal Services Inc. Bloomberry is a first mover in EC, ramping-up the scale and volume of the foreign VIP market and even winning over PAGCOR's own VIP market. That led to the closure of Heritage Hotel's VIP casino operations.▲

Table 1. Existing and Planned Integrated Resorts and Casinos in the Philippines

Licensee	Travellers International Hotel	Bloomberry Resorts	Melco Crown (Philippines)/ Belle Corp.	Tiger Resorts Leisure and Entertainment
Integrated Resort	Resorts World Manila	Solaire Resorts and Casino	Belle Grande Manila Bay	Manila Bay Resorts
Total				
Hotel Rooms	2,365	800	967	2,050
Tables	571	360	242	500
Slots	3,557	1,400	1,451	3,000

Source: Company Filings

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SM PRIME

SM Prime Holdings, Inc. (SMPH)

Positioning SMPH for the Next Stage of Growth

SMPH Stock Data	
Price (Php)	17.16
Market Cap (Php Bn)	298.13
Outstanding shares (Bn)	17.37
PE 2013E (X)	24.91
Price to Book (X)	4.11

Source: Bloomberg (as of September 17, 2013 intraday)

SMDC and HP File for Voluntary Delisting

Following the completion of SM Land's (SML) tender offer for SM Development Corp. (SMDC) and Highlands Prime Inc. (HP), the SM group is now moving for a delisting of both property companies at the Philippine Stock Exchange. This is in line with the company's goal of consolidating its property companies under SM Prime Holdings (SMPH) by end of the year.

Last August, SML acquired 2.24bn shares of HP, equivalent to 99.8% stake in the company, and 3.13bn shares in SMDC, an equivalent of 33.72% of the company. As a result, SML now owns 98.9% of SMDC and 99.85% of HPI. This will bring down the public float of HP to 0.15% and of SMDC to 1.1%, which is below the minimum float requirement of 10%.

The next step would be the merger between SML and SMPH, with the latter as the surviving entity. SMPH will also acquire other companies under the parent SM Investments (SM), including SM Hotels, the Mall of Asia Complex and Pico de Loro. Henry Sy Jr. will chair the enlarged SMPH, while younger brother Hans Sy will remain as president. Prior to the restructuring, the SM group has a direct and indirect stake of 69.5% in SMPH; post-restructuring, this will increase to 79%.

Using the closing price of P16.50/share as of September 12 and a 28bn pro forma share count, this will bring SMPH's capitalization to $10.3b, matching that of Singapore's CapitaLand ($10.3bn) and surpassing that of Ayala Land ($8.6bn). This will make SMPH more appealing to foreign investors who are limited to investing in large cap names.

Pursue a Multi-Pronged Long Term Growth Strategy

The new SMPH will pursue a multi-pronged long-term strategy that will allow it to optimize the value of existing properties, developments and current landbank through an integrated real estate platform while retaining flexibility to allocate capital among the different segments efficiently. Using the 2012 pro-forma figures, the transformed SMPH will have 60% of its revenue from recurring income, while 40% will come from residential developments versus 100% recurring income pre-consolidation.

One possible synergy we see would be the development of condominiums, office buildings, or hotels adjacent to existing malls. For instance, if SMPH decides to build towers in some of its 47 existing malls in the Philippines, this could generate several billions of income in the years to come. Another possible synergy is in the Chinese market wherein SMPH currently has 5 existing malls. SMPH can act as a beachhead for SMDC and the other infused real estate subsidiaries of the enlarged entity - making it easier for the other subsidiaries to enter the Chinese market.

Strengthen the Balance Sheet

The new SMPH intends to maintain prudent debt levels and a sufficient equity buffer with a target net debt-to-equity ratio of no more than 0.5x. Based from the pro-forma 2012 financial statements, the new SMPH will have a net debt to equity ratio of 0.403x, an improvement from stand-alone SMPH gearing ratio of 0.578x. Similarly, the current ratio will also improve from 1.34x to 1.44x. However, it remains to be seen how the new SMPH will address the debt service coverage ratio of the consolidated entity as it deteriorates from 3.61x to 0.44x, a breach of SMPH's existing loan covenant that it should not drop below 1.10x. The company plans to maintain a relatively long and well spread out debt maturity profile and continue to diversify its sources of funding. The company is expected to approximately double its existing asset base from Php148.1bn as of December 31, 2012 to Php284.1bn on a pro-forma basis.

Cash flow is expected to strengthen under the new SMPH, with EBITDA increasing by 33% from Php20.7bn to Php27.5bn on a pro-forma basis as of December 2012. The company believes it will be able to achieve better financial economies of scale, allowing it to lower its borrowing costs and cost of capital due to its larger size, liquidity and asset diversification.

Strong First Half Earnings

SMPH registered earnings of Php5.64bn for 1H13, up 15% year-over-year (yoy). Revenues hit Php16.55bn, up 14% yoy, boosted by the opening of new malls in 2011 and 2012, coupled with same store sales growth (sssg) of 7%. EBITDA for the first half was at Php11.09bn, for a 14% growth yoy while EBITDA margin stood at 67%.

Healthy consumer spending was reflected in SMPH's 7% sssg in the first half of the year, matching that of Puregolds. The uptrend reflects improved tenant quality with the entry of international brands like Uniqlo, Forever 21 and Payless Shoes, running on long-term leases and paying rent that is triple of what the previous tenants were paying.

In terms of gross revenues, the five malls in China contributed Php1.39bn or 8% of total revenues. Gross revenues of the five malls in China increased 9% in 2013 compared with 2012 largely due to improved mall productivity and lease renewals for the first three malls opened namely SM Xiamen, SM Jinjiang, and SM Chengdu. Average occupancy rate for the first three malls is at 93%.

Continued on page 4

SM PRIME

(SM Prime... continued from page 3)

Moving Forward

SMPH has several mall developments in its pipeline which includes 2 Philippine malls (GFA of 215k sqm) and 2 China malls (GFA of 694k sqm) planned to be completed in 2H2013 and 2015, respectively. By the end of this year, SM Prime will have 48 malls in the Philippines and five in China with an estimated combined GFA of 6.9mn sqm. By 2015, the company seeks to increase the Philippines GFA by 1.3mn sqm to 7.2mn sqm, and the China GFA by 0.7mn GFA to 1.5mn GFA.

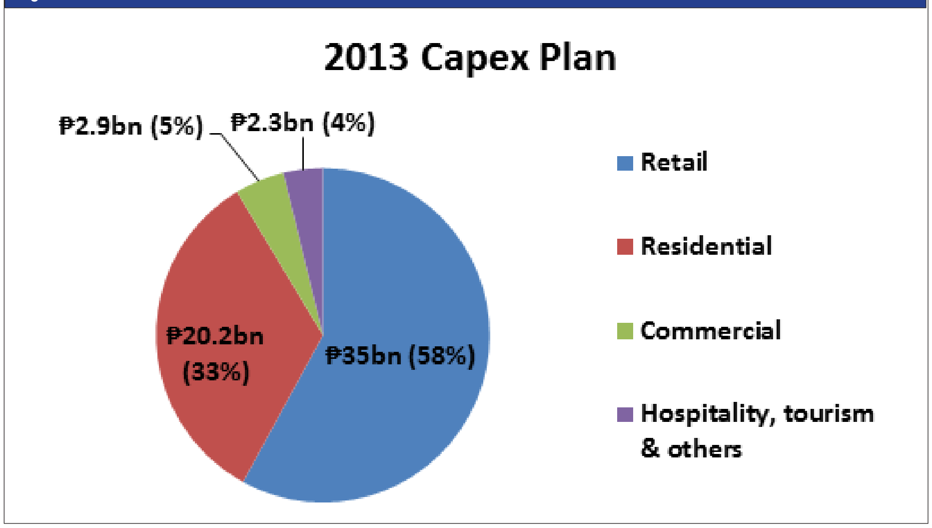
SM Retail, an affiliate of SMPH, plans to open 2 SM department stores, 2 SM supermarkets, 16 SaveMore stores and 7 SM hypermarkets by the end of 2013. SMPH will act as the primary provider of SM Retail's real estate needs.

The new SMPH plans to spend Php35bn on shopping malls, Php20.2bn on residential structures, Php2.9bn on commercial structures, and Php2.3 on hospitality, tourism and others, bringing its total capex plan for 2013 to Php60.4bn, 76% higher than its capex in 2012.

Valuation

Based from the 2012 pro-forma financial statements, our initial estimates suggest that the property consolidation will cause a 4% EPS dilution from Php0.606/share to Php0.584/ share. Consequently, using the Php16.50/share closing price last September 12, the new SMPH will have a higher 2012 PE ratio of 27.22x from 28.25x. However, there will be a drop in the 2012 PB ratio from 1.94x to 1.62x. ROE, on the other hand, will decrease from 15% to 11%.▲

Figure 1.



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UNIVERSAL ROBINA CORPORATION

Universal Robina Corporation (URC)
Ripe for the Picking

URC Stock Data	
Price (Php)	126.60
Market Cap (Php Bn)	276.18
Outstanding shares (Bn)	2.18
PE 2013E (X)	30.16
Price to Book (X)	5.59

Source: Bloomberg (as of September 17, 2013 intraday)

Strong Domestic Operations

URC's revenues rose 13% to Php60.1bn from Php53.1bn during the first 9 months of FY2013 on the back of the domestic operations of its Branded Consumer Foods Group (BCFG), which contributed 51% of total revenues. Consolidated net income amounted to Php8.5bn – up 39% from Php6.1bn – driven by BCFG's volume growth and higher margins.

BCFG Philippines' revenues jumped 22% to Php30.9bn from Php25.2bn, steered by its beverages. Great Taste White's market share has grown rapidly to 21% from just 15% at the end of FY2012, and has surpassed C2 as the company's top product in terms of volumes and revenues. C2 remains strong with an 82% market share, rising steadily by 1% per quarter since FY2012, and its volumes rose 33% year-on-year.

BCFG International's revenues were flattish, rising by 6%. As a whole, BCFG revenues increased by 14% and contributed 79% of URC's total revenues. EBIT soared to Php4.0bn, 43% higher than 2012 EBIT of Php2.8bn.

Other Operations Remain Solid

While the most significant segment by far is BCFG, URC's other segments – the Commodity Foods Group (CFG) and the Agro-Industrial Group (AIG) – remained profitable and continued to improve.

CFG revenues rose 17% from Php5.9bn to Php6.9bn. The segment is comprised of flour and sugar; flour sales fell by 6% due to lower volumes and higher wheat prices, but were offset by sugar sales, which increased by 42%. Sugar contributes 57% of the top-line, while flour contributes 43%. EBIT also rose by 17%, amounting to Php2.4bn from Php2.1bn, signifying a minimal 1% decrease in EBIT margin.

AIG revenues stayed flat with a 2% growth rate (Php5.5bn to Php5.6bn), but EBIT soared to Php0.6bn, twice the previous year's amount of Php0.3bn. This is attributed to higher selling prices for hogs, as well as lower input costs.

CFG contributes 11% of URC's total revenues, while AIG contributes 9%.

Moving Forward

By the end of FY2013, URC expects its revenues to have grown by 11-16% (Php79-82.6bn from Php71.2bn), and its EBIT by 26-28% (Php9.8-10bn from Php7.8bn). The company continues to put full focus on its Branded Foods segment. They expect their local operations to maintain growth as their top products constantly increase their market shares, and new products are introduced. Both domestic and international operations will benefit from the installation of new factories, which will increase capacities.

Despite lesser efforts on CFG and AIG, URC remains positive on all segments. CFG will continue to benefit from the positive outlook on commodity prices, while AIG's growth will be aided by lower input costs.

Peer Comparison

In 2014E, URC will post the slowest EPS growth among industry peers, signifying the stabilization of its operations after an expected 27% surge in 2013E. URC will have the second-highest P/E ratio behind Jollibee with a value of 27.8x vs 33.4x. Its ROE, however, remains favorable as it trails closely behind Jollibee.▲

Table 1. Industry Comps

	2014E				
	Price	EPS	EPS Growth	P/E	ROE
URC	133.50	4.81	13.86%	27.77	19.88%
JFC	164.00	4.90	15.91%	33.44	20.81%
PGOLD	41.85	1.78	26.05%	23.57	14.97%

Source: Bloomberg, FMIC-IAG Research Estimates

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Table 1. URC's P&L Forecast

	2011A	2012A	2013E	2014E	2015E
Revenues	67,168	71,202	80,102	84,507	89,578
Cost of Goods Sold	(50,645)	(52,731)	(59,322)	(62,585)	(66,340)
Gross Profit	16,522	18,471	20,780	21,923	23,238
Selling and Distribution Costs	(7,681)	(8,697)	(9,160)	(9,664)	(10,244)
General and Administrative Costs	(1,953)	(1,974)	(2,220)	(2,343)	(2,483)
Operating Income	6,889	7,801	9,400	9,917	10,512
Non-operating Income (expenses)	(255)	2,633	2,403	2,535	2,687
Foreign Exchange Losses	(37)	(634)	(379)	(400)	(424)
Share in Profit of a Joint Venture	25	31	33	35	37
Finance Costs	(1,001)	(683)	(741)	(310)	300
Pre-tax Profit	5,621	9,147	10,716	11,777	13,113
Provision for Income Tax	(614)	(989)	(1,165)	(1,280)	(1,425)
Net Income	5,008	8,158	9,551	10,497	11,687

Source: Company Filings, FMIC-IAG Research Estimates

(Yield Curve... continued from page 1)

by 25.00 bps to 1.7500%. The belly was also mixed: the five-year debt papers rose by 58.54 bps to 3.0000%, followed by the seven-year debt papers which climbed by 12.50 bps to 3.5000%; while the three- and four-year debt papers declined by 10.00 bps to 2.5000% and 25.00 bps to 3.0000%, respectively. For the long end of the curve, the 10-year debt papers dropped by 5.36 bps to 3.4307%, the 25-year debt papers slightly fell by 0.83 bps to 5.1373% and the 20-year debt papers was stagnant with a yield of 4.0000% from the previous week.

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