

Philequity Corner (08/15/05)
By Ignacio B. Gimenez

THE MIND OF A TAIPAN

Henry Sy, the founder and chairman of the SM Group of companies, not only withstands political and economic crises but also prospers afterwards. Time and again, his ability to see the long-term view and his readiness to seize opportunities during trying times have often boggled the ordinary mind.

Just a week after its purchase of a 25 percent stake in Equitable-PCI Bank, the SM Group continued its spending spree by buying an additional 4.6 percent stake in San Miguel Corp. – putting its total holdings in the food and beverage giant to 11 percent. That’s a cool P20 billion worth of acquisitions in a span of one week.

SM Investment Corp. (SMIC) acquired 143 million San Miguel Corp. class “A” shares at P63 per share for a total amount of P9 billion.

San Miguel Corp. is South East Asia’s largest publicly listed food, beverage and packaging company with over 26,000 employees in more than 100 facilities throughout the region. It has manufacturing operations in the Philippines, Hong Kong, China, Indonesia, Vietnam, Thailand, Malaysia and Australia.

OPTIMISM AMIDST CRISIS

Henry Sy traces his roots from Jinjiang, China. At the age of 12, he left for the Philippines to join his father, a proprietor of a small sari-sari store in Manila. After World War II, he started the shoe business – selling and importing American shoes. His frequent travels abroad where he learned new trends and concepts in merchandising prompted him to open the first Shoemart in 1958, patterned after shoe stores in the US. He expanded to apparel and accessories leading to the opening of the first SM department store in Quiapo just after the declaration of Martial law.

More than luck, pure guts, and hard work, it was Henry Sy’s vision and timing which set him apart from the rest. When everybody’s store was still in Carriedo, he was the first to move out and put bigger stores, first in Makati, then in Cubao and afterwards in Harrison Plaza. In the 1980’s, when the country was beset with political and economic problems, and when businessmen were holding back on investments, Henry Sy went against the tide and bought huge tracts of land in Metro Manila at bargain prices. This proved to be his biggest move which would eventually raise him into taipan status.

He then built the first shopping complex, SM City in North Edsa in 1983 following Ninoy Aquino’s assassination. Back then, everybody thought the idea was crazy because of the sheer size of the mall and its far location in a largely undeveloped part of Metro Manila. SM City, however, proved to be a big success attracting not only those residing in Metro Manila but also those residing in nearby provinces in the North. For the first time, it provided Filipino families a one-stop shopping and entertainment complex – everything under one roof.

The series of coups from 1987 to 1989 left Henry Sy unfazed as he started building SM Centerpoint in Sta. Mesa and SM Megamall in Ortigas. Even after the 1997 crisis, the taipan likewise went against conventional wisdom by fast-tracking mall expansion and building 2 to 3 new malls every year since then.

| List of SM Malls | Opening Date | Land Size | Gross Floor Area |
|---------------------------|---------------------|------------------|-------------------------|
| SM City North Edsa | November-85 | 16.1 hectares | 275,419 sqm |
| SM City Sta. Mesa | September-90 | 3.0 hectares | 133,327 sqm |
| SM Megamall | June-91 | 10.5 hectares | 331,679 sqm |
| SM City Cebu | November-93 | 13.8 hectares | 161,562 sqm |
| SM City Southmall | April-95 | 20.0 hectares | 205,120 sqm |
| SM City Bacoor | July-97 | 8.8 hectares | 116,892 sqm |
| SM Fairview | October-97 | 20.0 hectares | 130,600 sqm |
| SM City Iloilo | June-99 | 17.5 hectares | 101,735 sqm |
| SM City Manila | April-00 | 2.5 hectares | 166,554 sqm |
| SM City Pampanga | November-00 | 31.6 hectares | 110,650 sqm |
| SM Supercenter Sucat | July-01 | 6.5 hectares | 66,150 sqm |
| SM City Davao | November-01 | 13.2 hectares | 75,440 sqm |
| SM City Bicutan | November-02 | 1.8 hectares | 112,737 sqm |
| SM City Cagayan de Oro | November-02 | 5.2 hectares | 56,288 sqm |
| SM City Lucena | October-03 | 8.0 hectares | 72,057 sqm |
| SM City Marilao | November-03 | 20.3 hectares | 88,654 sqm |
| SM City Baguio | November-03 | 8.0 hectares | 105,331 sqm |
| SM City Dasmariñas | May-04 | 12.7 hectares | 79,792 sqm |
| SM City Batangas | November-04 | 8.5 hectares | 70,819 sqm |
| SM City San Lazaro | July-05 | 4.0 hectares | 179,000 sqm |
| SM Supercenter Valenzuela | November-05 | 2.4 hectares | 61,460 sqm |
| SM Supercenter Molino | November-05 | 4.8 hectares | 48,248 sqm |
| SM Mall of Asia | December-05 | 19.5 hectares | 450,000 sqm |
| TOTAL | | | 3,199,514 sqm |

This year, despite the political scandals, fiscal problems and poor credit ratings, SMIC was able to conduct a successful IPO and make two major investment acquisitions. The Mall of Asia, which is considered the biggest mall yet with gross floor area of 450,000 square meters, is slated to open later this year – bringing the total number of malls to 24 and the total gross floor to nearly 3.2 million square meters. If it's any indication, SM's aggressive expansion despite the current political crisis only suggests that the country will continue to move forward and that behind all the political noise, the economy is going to get better. This is a testament to Henry Sy's unwavering optimism and his belief in the country's resiliency despite being faced with one crisis after another.

BEYOND THE RETAIL BUSINESS

SMIC is currently engaged in four core businesses. Aside from owning shopping malls (SM Prime Hldgs.) and operating the retail business (SM Department Stores), the group is also involved in banking (Banco de Oro, China Bank), and the leisure & property businesses (Highlands Prime, SM Development Corp).

SMIC registered a net income of P5.4 billion (+31.1% yoy) for the year ended March 31, 2005. Consolidated revenues amounted to P49.9 billion (+18.4% yoy) for the same period. The group's retail business contributed 75% of SMIC's revenues and 22% of net income. Shopping malls

cornered 19% of revenues and 54% of net income. Meanwhile, financial services accounted for 5% of revenues and 18% of net income.

LOOKING AT THE BIGGER PICTURE

With all the political noise and peace & order concerns hounding the country, people have scaled back business expansions and have been distracted by the political theatrics happening in Congress. Taipans like Henry Sy, however, have a way of looking at the bigger picture, unlike the “hot money” from hedge funds which gets out at the slightest indication of risk. Looking back at the history of the SM Group, most of their major investments were made during times of crises. They were unfazed by the façade of political noise which did not stop them from continuing their vision.

We should have more businessmen like Henry Sy whose unwavering belief in the resiliency of the Philippines allowed him to continue his vision, unfazed by the façade of political noise. His optimism, patience and readiness to act on opportunities are traits that have allowed him and his businesses to survive and come out even stronger after every crisis.

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