

Philequity Corner (02 November 2009)

By: Valentino Sy

We've Got it All

No other taipan has made a significant impact on me as Henry Sy. While his success was an open book to everyone, I was truly lucky to have witnessed his humble beginnings in Carriedo when it was still a bustling business area in the 1950s. Our families knew each other as we were neighbors. We had the same business along the same street. In fact, Henry Sy and my father came from the same province in China and I even have a brother named Henry as well. I grew up seeing his small business which today has become an empire. In a lot of ways, he has inspired me.

Perhaps, Henry Sy's got it all already. He's got it all for us consumers, at least. He is the largest in retail malls, department stores, theaters, and supermarts; the biggest among banks; and maybe will be the most prominent developer and hotelier in five or ten years' time. And yet, the country's richest man (according to Forbes) is not about to stop growing. Through his children, he will continue his legacy of dreaming big and becoming #1 in all their fields of business.

Passing on his Values to the Next Generation

Henry Sy's climb to the top as the country's richest man was not easy. His success was built upon a confluence of so many positive values. Name it and he has it: vision, perseverance, patience, dedication, tenacity, frugality, and the determination to be #1. But what is most admirable is his ability to pass on these values to the next generation.

The basic ingredients that were vital to the success of the SM empire has been passed on to the children of Henry Sy. This is a truly remarkable achievement. His children are managing all the different businesses with the same fervor and dedication that Henry Sy has demonstrated. He has instilled in his children the values that will propel the businesses to greater heights.

Retail King

SM's shopping mall empire now totals 35. The extent of the malls' reach to consumers is so immense that about 2.5 million shoppers – roughly 2.6% of the Philippine population – visit Henry Sy's malls on a daily basis.

The shopping malls house the food and non-food retail merchandise of SM, which have provided the group with stable cash flows over the years. By the end of the year, the SM group plans to have 36 Department Stores, 27 Supermarkets, 24 SaveMore branches, 19 Hypermarkets, and 12 Makro outlets. This further solidifies SM's foothold in the consumer retail market.

While continuously growing its presence domestically, SM is already looking at China as its next priority market. Currently, there are three SM malls located in the Land of the Sleeping Giant. Hopefully, SM could duplicate its success in the Philippines in China.

The No.1 Bank and still Growing

What started as a small savings bank named Acme Savings Bank grew and transformed to be the biggest bank in the country we now know as Banco de Oro (or BDO). Through a series of bank acquisitions – the biggest thus far was the purchase of Equitable-PCIBank – BDO emerged as the victor in becoming the biggest bank. It's now No.1 in assets, loans, deposit, and remittance.

BDO used to be in the lower ranks but it found ways to grow to be the bank that it is today. Like the malls, it had a strategy set forth even from the beginning. And while BDO is atop of the rankings, the bank is, in fact, still on the lookout for more acquisitions.

Even the silent China Bank is becoming proactive in terms of growth. It acquired Manila Bank and later renamed it into China Bank Savings in order to penetrate the lucrative consumer loans market.

BANK RANKINGS (as of end June 30, 2009)

BANK	ASSETS	LOANS	DEPOSITS	CAPITAL
Banco de Oro	789,985	481,710	627,070	60,736
Metrobank	777,197	338,384	555,511	70,951
Bank of P.I.	719,047	310,641	566,018	65,568
Phil National Bank	273,609	100,588	200,744	30,778
RCBC	257,631	150,049	187,700	28,119
UnionBank	218,139	79,357	173,551	28,893
China Bank	213,227	100,255	175,862	28,581
Security Bank	140,019	66,414	104,812	14,060

Top Property Developer of the Future?

Although a relatively newcomer to the industry, SM's residential property arm, SM Development Corp (SMDC) is making headways in the property scene. It has successfully launched six condominium projects. The projects' proximity to SM malls, as a come on for prospective buyers, was an instant success. Management intends to launch six more condominiums next year and is currently in the process of land banking for future product launches. Expect earnings growth to be above peer average over the next few years.

If the long-term goal is also to be the top property developer, SMDC might put up residential projects on most, if not all, SM malls nationwide. The scale of investment would propel SMDC to unprecedented heights and it's not unlikely that they would be the biggest in real estate development. It is something that investors should look out for.

SM Group interested in utilities

As of today, Henry Sy has made a bid for the Lopez family's remaining 13.4 percent stake in Meralco. His eldest son Henry Sy, Jr. confirmed this last Friday when the SM Group offered to buy the Lopezes' remaining shares in Meralco for 300 pesos.

Henry Sy is an astute investor. He has always been keen on finding profitable opportunities, even outside the realm of his core businesses. As a case in point, he previously invested in Ayala Corp., acquiring a board seat. This prompted Ayala Corp. to change their by-laws, reducing the number of directors from nine to seven. He made an investment in San Miguel Corp. in 2002 and sat on its board until 2006. He previously had a board seat in ABS-CBN and briefly sat as director. He also has investments in Jollibee, Belle Corp. and other listed issues. Recently, he bought majority control in National University. He also holds several board seats in Far Eastern University.

Therefore, it is not surprising that Henry Sy is now interested in utilities. Maybe, he sees it an opportunity to be once more allied with Ramon Ang. Perhaps, he wants to be the third party in Meralco who holds the swing vote.

Riding with the #1

The companies under the SM umbrella have impeccable track records. They have the perfect consumer business model and the group is very effective in realizing these so-called SYnergies.

In our view, SM stocks must be a part of every investor's portfolio. They are defensive in nature and yet churn respectable rates of growth. They are the biggest and most dominant. Investors should ride with the best as their companies' journey and realize their vision to be at the top across all business segments.

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