ROBINSONS LAND CORP (RLC)

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Company Snapshot

Current Price (P)	19.40
Price Target (P)	21.04
Shares O/S (million)	4,093.83
Market Cap (P million)	79,830
52-week High (P)	19.94
Low (P)	11.28
12-mo Avg. Value T/O (P'm)	59.93
Shareholders	
JG Summit	61%
Free float	39%

Price Performance

	1m	6m	12m
RLC	2.2%	5.0%	29.5%
PSEi	6.1%	8.4%	61.7%

WEALTH SECURITIES

Opportunity Knocks

- **Recurring income segments drive growth…** RLC has been conservative in its strategies particularly in the residential segment as it scales down on new projects and developments. However, we see the leasing segments, particularly the commercial segment, leading revenue growth for RLC. Therefore, our model forecasts a 10% to 15% revenue growth rate for the commercial, office and hotel segment while we forecast revenue to be flat for the residential segment. Our price target of P21.04 reflects this trend.

- **… which may or may not include Okada.** We did not factor into our model the possible Okada deal for a full scale tourism development, which includes malls, condominiums, hotels and even a casino. This may well be the next catalyst for all four segments of the business, and even the next leg up for the stock.

Financial & Valuation Highlights

in P'million	2010A	2011A	2012E	2013E	2014E
Revenues	12,034	13,602	15,300	17,387	19,205
EBITDA	6,411	7,144	8,354	9,944	11,301
EBITDA margin, %	53	52	55	57	58
Net profit	3,524	3,899	4,403	4,654	4,827
EPS (P)	1.19	1.14	1.28	1.36	1.41
ROE, %	12.7%	10.0%	10.5%	10.3%	9.9%
P/E (x)	16.3	17.0	15.2	14.3	13.8
P/B (x)	1.5	1.2	1.1	1.0	1.0
EV/EBITDA (x)	10.9	10.6	10.8	11.2	11.5
Dividend yield, %	2.1	2.1	1.9	1.8	1.8

Source: Wealth Securities estimate, company data
A = Actual calendar/fiscal year results; **C** = Bloomberg consensus; **I** = Annualized interim results; **E** = Wealth Securities estimates

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- **RLC to be buoyed by strong remittances and a fast-growing BPO sector.** RLC's commercial division, which manages 32 malls, has been increasing revenue contribution to about 50% of consolidated revenue (39% in 2009) or P7.5-billion out of the estimated consolidated revenue of P15.2-billion by fourth quarter of 2012 (RLC's fiscal quarter ends every September). There are two growth drivers for RLC - remittances from Overseas Filipino Workers (OFW) and the growth from the Business Process Outsourcing (BPO) industry. OFW remittances have been growing at 7% YoY since 2007 and recent figures from BSP showed that remittances in July 2012 alone came in at $2-billion, pushing the seven-month aggregate amount to $13.28 billion. This 5.4% annual increase is higher than the BSP's 5% target for 2012. Remittances translate to consumer spending and mall operators are the ones that will benefit the most. RLC's mall revenue as a percentage of remittances is about 0.5%-0.7% and we expect this relationship to hold for many years.

- **RLC vs. SMPH.** On a comparative basis RLC's revenue take on remittance is much lower than SM Prime Holdings' (SMPH) take on remittance with RLC's share of 0.7% compared to SMPH's 2.9% in the similar period. This is due to the fact that RLC's malls are on average 2.5 times smaller in terms of GLA when compared to SMPH's (RLC's GLA of 27,000 sqm/mall vs. SMPH's 74,000 sqm/mall). Although SMPH's malls have more drawing power than those of RLC, we do not see any reduction in RLC's mall revenue because majority of its malls (26 of them) are located in the provinces - the next avenue for growth.

RLC and SMPH's mall revenue as a % of OFW remittances (in millions, PHP)

	2007	2008	2009	2010	2011
Remittances from OFW	666,841	730,578	826,413	846,393	871,329
RLC's mall revenue	3,538	3,697	4,210	5,739	6,226
RLC's Rev as a % of remittances	**0.5%**	**0.5%**	**0.5%**	**0.7%**	**0.7%**
SMPH's revenue	15,488	17,014	19,460	22,304	24,851
SMPH's Rev as a % of remittances	**2.3%**	**2.3%**	**2.4%**	**2.6%**	**2.9%**

Source: BSP, RLC and SMPH's annual report

- **BPOs are primary lessors of office space.** The BPO industry is the second biggest contributor to GDP after remittances at $9 billion. In addition, revenues from BPO are expected to grow by 25% per year and demand for office space this year will be 680,000 sqm versus 430,000 sqm in 2010. According to figures from the BPO Association, revenues from the BPO industry are expected to exceed $20 billion by 2016. Already at a 99% occupancy rate, 78% of RLC's tenants are from the BPO industry. RLC currently has 193,000 sqm of net leasable space with on-going construction of 2 new buildings in the Ortigas area slated to be completed by mid-2013 that will add 80,000 sqm of net leasable area. Based on RLC's landbank and future plans to put up office projects our projected increase in net leasable area from 2013 to 2016 is 15% or 415,000 sqm.

Revenues from BPO and RLC's office NLA and revenue projection (in B, PHP)

	2008	2009	2010	2011	2016E
Revenue	6.1	7.1	8.9	11	20-25
% of GDP	3.7%	4.4%	4.7%	5.4%	7%-10%
Net Leasable Area (sqm)				193,000	415,000
Office Revenue		1,111	1,182	1,351	3,127

Source: BPO Association, Wealth Securities estimate

- **Lack of segmentation in the vertical segment tempers growth.** Revenue growth in the mall segment (3-year CAGR of 14%) offsets the weakness in the company's residential segment, which has the lowest growth rate among the four business segments (3-year CAGR of 1%). According to Colliers International, there were over 46,000 condominium units in stock at the end of 2011 with an estimated annual addition of 5,500 units pointing to a growth in inventory of 30% by 2014. The demand side shows mixed results with premium units (3-BR) showing strong demand due to limited supply. On the other hand, studio and one-bedroom units have been exhibiting high vacancy rates of around 11% when compared to premium units vacancies of 5%. Out of the four residential segments, Robinsons Residences contributes 49% to consolidated residential revenue. Projects located in prime areas, like the Magnolia Residences, have shown strong demand with high take-up for the first two towers out of the 4-tower complex. But poor product segmentation and stiff competition has weakened RLC's position in this market despite its aggressive pricing strategies (no down payment, no lump sum payment terms). In addition, there appears to be margin compression in the residential segment with net income margins dropping from 31% in 2009 to 21% in 2011.

- **Proper utilization of land is key.** Fortunately, RLC has enough land for future projects in all segments of its business. However, the location of these properties together with a value-enhancing marketing strategy will be key to whether RLC will be able to compete with its peers. RLC's strategy with Magnolia is also an effective and profitable template to follow elsewhere in the country.

- **Tourism to boost hotel revenues.** By the end of 2011 the Philippines had 3.9 million tourists contributing $10 billion in revenue or 3.3% of GDP. The government is forecasting tourist arrivals to increase by 12%-16% per annum to 8.2 million tourists by 2016 which translates to a contribution of about $24 billion. RLC has three hotel segments with Crowne Plaza contributing about 49% of consolidated hotel revenue. We see promising opportunities with the value hotel chain Go Hotels which provides a cheap, no-frills accommodation to budget-conscious travelers and businessmen. Go Hotels boasts of high occupancy rates, which are currently at 75%. Currently, Go Hotels has five locations and room rates are as low as $38/night, including internet access and a safe – essentials for every traveler. Revenue growth for the past 3 years ending 2011 is about 5%, and RLC expects to add 2-3 Go Hotels per year.

- **Healthy balance sheet with low leverage.** Based on 2011 and the projected 2012 balance sheet, RLC has a healthy cash position of P9-billion and P8.2-billion respectively. Its debt-to-equity ratio has also been trending downward from 0.59 in 2009 to 0.38 in 2011. While RLC's ROE has been tracking lower in the past 2 years from 13% in 2009 to 10% in 2011, a closer look at the ROE reveals that lower debt exposure is the culprit. RLC chose a conservative strategy with its borrowings by decreasing its debt levels (even though debt covenants caps debt/equity at 0.5), which translated to a very high EBITDA/interest expense ratio of 26.15. While this is too conservative in the current interest rate environment, this conservative capital structure gives room for RLC to leverage up when the Okada deal is finalized. Both 2012 balance sheet and cash flow accruals are at 4.5% – close to the 5% threshold signifying average earnings quality and less probability of earnings manipulation.

- **RLC needs to be cautiously aggressive.** We think that value can be created by leveraging off its residential together with its malls and offices to create a Robinsons community which will attract buyers and tenants to its properties. We continue to see leasing as the company's main earnings driver.

- **RLC trading at a discount against peers.** Relative valuation of RLC versus SMPH and ALI reveal that RLC is trading at a discount based on 2012 P/E. Although RLC's ROE is the lowest among its peers, this is due to RLC's lower leverage while ROA was comparable than ALI's since RLC has a lower asset base. EBITDA margins are average and should be better if not for the drag from its residential segment but revenue growth was impressive at 19.6%. On a dividend yield basis, RLC offers the highest yield among its competitors.

Relative Valuation (TTM)

	Market Cap	EBITDA margin	Revenue Growth	Net margin	ROA	ROE	P/E	Div yield
RLC	79,994	51.6%	19.6%	31.4%	6.7%	10.0%	17.2	1.9%
SMPH	229,333	68.6%	13.4%	33.7%	7.4%	14.8%	25.0	1.7%
ALI	267,286	29.9%	16.4%	17.3%	5.1%	12.1%	38.3	0.9%
Average	**192,204**	**50.0%**	**16.5%**	**27.5%**	**6.4%**	**12.3%**	**26.8**	**1.5%**

Source: Bloomberg

- **A HOLD, for now.** The NAV-based target price includes a DCF value for company's recurring income segments. The 5-year DCF used a WACC of 10% and a terminal value growth rate of 2% which resulted in a value of P14.57/share. A discount factor of 20% was applied to the company's landbank which, along with its other assets, are valued at P6.47/share. Again, the possible Okada deal was not included in deriving the target price. Thus, there may be significantly more upside to our target price of PhP 21.04/share once a proper disclosure is made by the company. Until then, we recommend that investors hold on to their shares of RLC.

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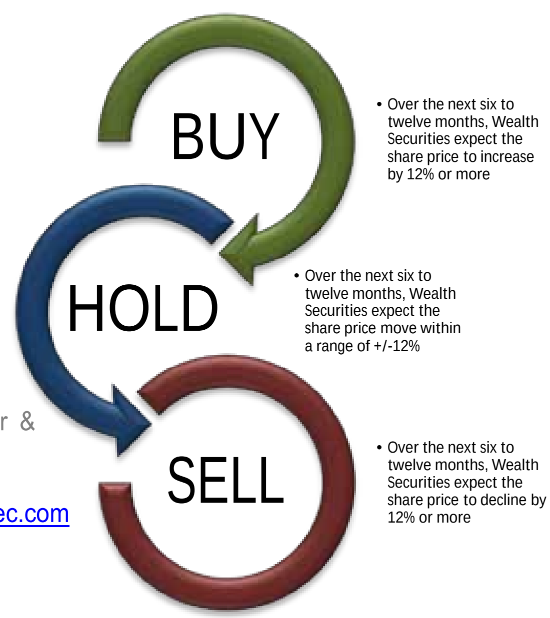

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