Maybank Securities

Philippines Conglomerates

Year ahead 2024: Oleophobic

NEUTRAL [Unchanged]

Industrials

Philippines

Stocks least vulnerable to oil likely to outperform

Despite oil prices falling below 2022 averages, the average 2024 futures prices have climbed 18% to USD84/bbl since May 2023. This, plus the domestic rice shortage crisis, will put pressure on domestic inflation, which could stoke PHP:USD volatility and delay policy rate cuts. While the 4Q holiday-induced spending and related OFWR influx should partially offset these headwinds, the risk-off market sentiment will likely favour conglomerates with relevant exposure to (i) essentials consumption themes, and (ii) banks. Our Top Picks in the sector are SM and GTCAP.

FY24 minimally impacted; JGS most vulnerable

Although oil/fuel, commodity-based raw materials and inflation sensitive people costs account for c.60% of the sector's cost base, we estimate that the consolidated earnings of the conglomerates under our coverage will decline by only c.4% if: (i) oil prices increase by USD10/bbl (from our USD84/bbl forecast); (ii) 2024E inflation rises to 3.9% from our 3.5% forecast; and (iii) our 100bps rate cuts are pushed out to 4Q24 from 3Q24. JGS shows the most vulnerability given that c.80% of its cost is fuel-linked while SM is most resilient.

Stock performance is partly a function of liquidity

We recommend positioning in conglomerates that exhibit both earnings growth and liquidity. The challenging market liquidity and the risk-off sentiment in the Philippines limits the size of the market's potential investor pool. This limits the ability of Philippine stocks to reflect their fundamental value. The size of the stock's potential investor pool is, in part, a function of its ADTO. Stocks with higher ADTOs tend to outperform less liquid peers. Among the conglomerates under our coverage, SM is the most liquid, with an ADTO of USD6.3m YTD.

Top Picks: SM and GTCAP

SM's predominantly essential consumption-based exposure with large earnings contributions from BDO and CHIB and its under-leveraged balance sheet keep it resilient to oil-driven pressures. GTCAP also shows some defensiveness against oil-driven inflationary pressures due to its substantial earnings contribution from MBT and the buffers created by the recovering profit margins of TMP and Fedland. Both have decent ADTOs of USD6.3m and USD1.8m, respectively, but there could be higher upside risk for SM should it be re-instated to the FTSE Global Index in Feb 2024.

Analyst

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Acronyms used:
ADTO - average daily turnover

Stocks mentioned:
Banco de Oro (BDO PM, CP: PHP139, BUY, TP: PHP167)
Cebu Air (CEB PM, CP: PHP34, BUY, TP: PHP55)
Chinabank (CHIB PM, CP: PHP31, Not rated)
Metrobank (MBT PM, CP: PHP52, BUY, TP: PHP70)

Other companies mentioned:
Federal Land (Fedland, Unlisted)
JGS Olefins (Unlisted)
Toyota Motors Philippines (TMP; Unlisted)

Relevant reports:
PH Conglomerates | Unwelcome uptrend
Sep 2023: Headline accelerates further, driven by higher food inflation
Policy rate unchanged at 6.25%

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 23E	P/E (x) 24E	P/B (x) 23E	P/B (x) 24E	Div yld (%) 23E	Div yld (%) 24E
SM Investments	SM PM	17,389	Buy	821.00	1,290.00	58	12.8	11.3	1.8	1.5	0.8	0.8
Ayala Corp	AC PM	6,703	Buy	615.50	990.00	62	10.0	8.5	1.0	0.9	1.1	1.1
JG Summit	JGS PM	4,836	Buy	38.40	58.00	52	14.5	14.1	0.9	0.8	1.0	1.0
Metro Pacific	MPI PM	2,614	Buy	5.18	6.80	34	7.6	7.0	0.7	0.6	2.4	2.4
DMCI Holdings	DMC PM	2,521	Buy	10.80	12.10	19	4.7	5.3	1.2	1.0	6.7	6.5
GT Capital	GTCAP PM	2,125	Buy	561.50	1,020.00	83	5.0	4.2	0.5	0.5	1.0	1.0

1. Defensive sector exposures

In the past month, Maybank's Economics team has:

- raised its FY23 headline CPI forecasts twice to 6.0% (from 5.5%), then to 6.3%, to reflect the re-acceleration in the cost of food and non-alcoholic beverages; and

- trimmed its FY24E interest rate cut expectation to 5.25% (-100bps), from 4.25% (-200bsp) to factor in slower US Fed rate cut assumptions of -100bps from -200bps previously.

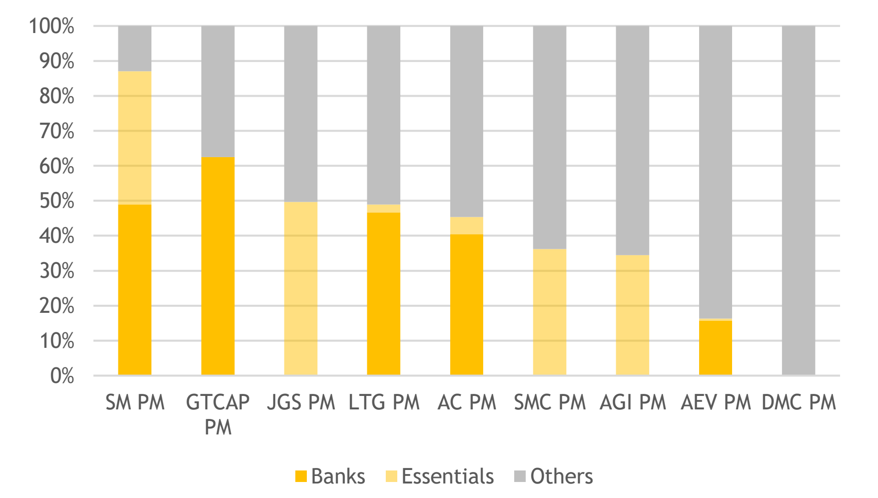
Fig 1: Key macroeconomic indicators for the Philippines

	FY19	FY20	FY21A	FY22A	FY23E	FY24E
Real GDP (%)	6.1	(9.5)	5.7	7.6	5.2	6.5
Private Consumption (%)	5.9	(8.0)	4.2	8.3	5.6	7.0
Government Consumption (%)	9.1	10.5	7.2	4.9	4.1	6.1
Gross Fixed Capital Formation (%)	3.9	(27.3)	9.8	9.7	7.0	10.3
Exports of Goods & Services (%)	2.6	(16.1)	8.0	10.9	2.7	8.1
Imports of Goods & Services (%)	2.3	(21.6)	12.8	13.9	4.0	10.3
Current Account Balance (% of GDP)	(0.8)	3.3	(1.4)	(4.6)	(3.8)	(3.5)
Fiscal Balance (% of GDP)	(3.4)	(7.6)	(8.6)	(7.3)	(6.0)	(5.5)
Inflation Rate (%, period average)	2.4	2.4	3.9	5.8	6.3	3.5
Unemployment Rate (%, period average)	5.1	10.4	7.8	5.4	4.5	4.8
Exchange Rate (per USD, end-period)	50.7	48.0	51.0	55.7	56.0	52.5
Benchmark Interest Rate (% p.a., end-period)	4.00	2.00	2.00	5.50	6.25	5.25

Source: Maybank IBG Research

While our revised outlook for FY23 inflation and FY24 rates cuts should not materially affect our earnings forecasts and outlook for the conglomerate sector, those with higher exposure to essentials consumption themes will likely be better insulated against inflation-driven shifts in domestic spending and those with significant earnings contributions from banks, which are beneficiaries of high interest rate environments, should see less earnings volatility over the medium term.

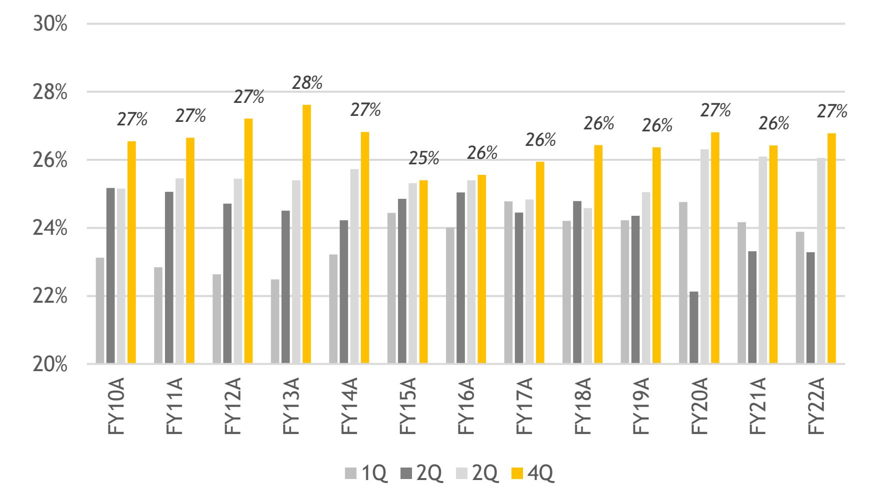
Fig 2: Exposure to banks and essential consumption



Among the stocks under coverage, we expect SM and GTCAP to be most resilient to inflation, as 87%/63% of their FY22 earnings were from the consumer and/or the banking sectors

Source: Maybank IBG Research
Notes:
Essentials include retail, mall and non-alcoholic FMCG operations.
FY22 earnings are used for this analysis, except for JGS, where we used 1H23.

Fig 3: Seasonality of OFWR



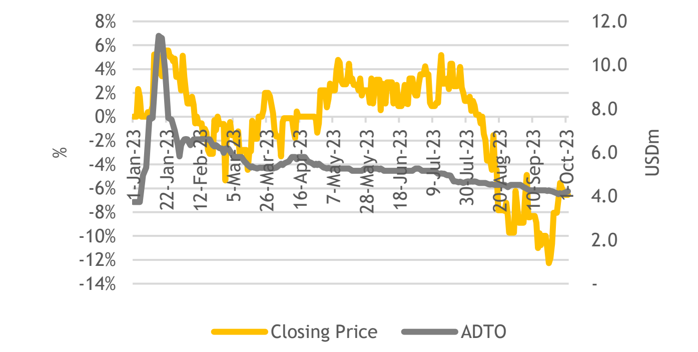
Source: Bangko Sentral ng Pilipinas

OFWR influx in 4Q could partially offset PHP:USD volatility.

2. ADTO upside matrix

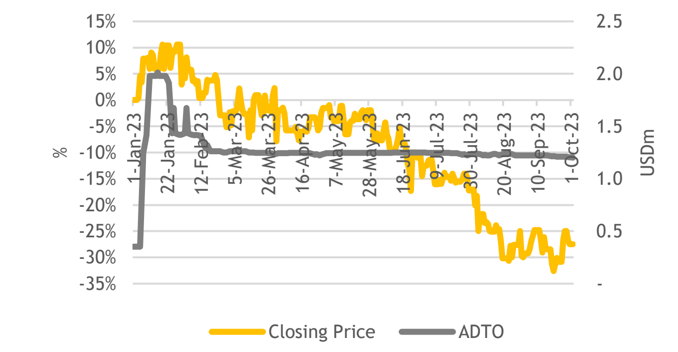
With risk-off sentiment and challenging liquidity further deterring investors from entering the market, we believe there is a higher probability for realizing the upside potential of more liquid conglomerates.

Fig 4: SM - share price performance vs ADTO



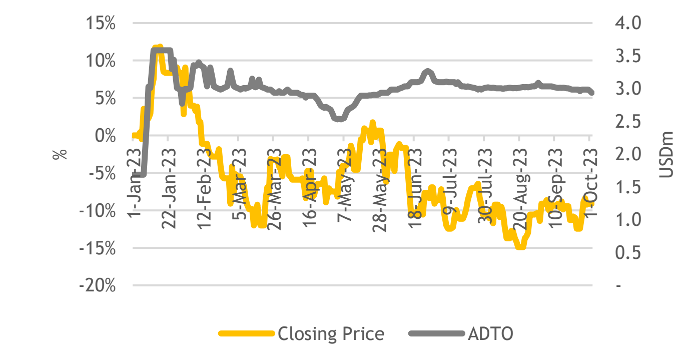
Source: Maybank IBG Research, Bloomberg

Fig 5: JGS - share price performance vs ADTO



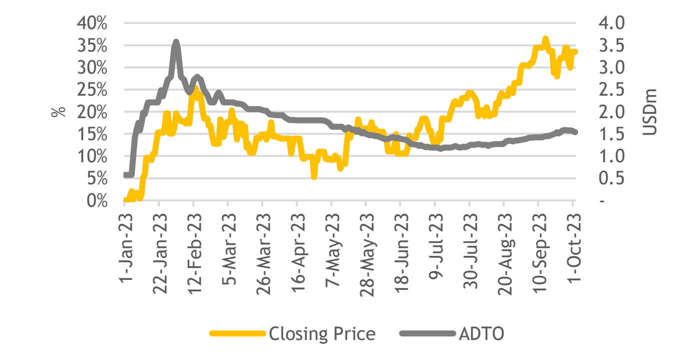
Source: Maybank IBG Research, Bloomberg

Fig 6: AC - share price performance vs ADTO



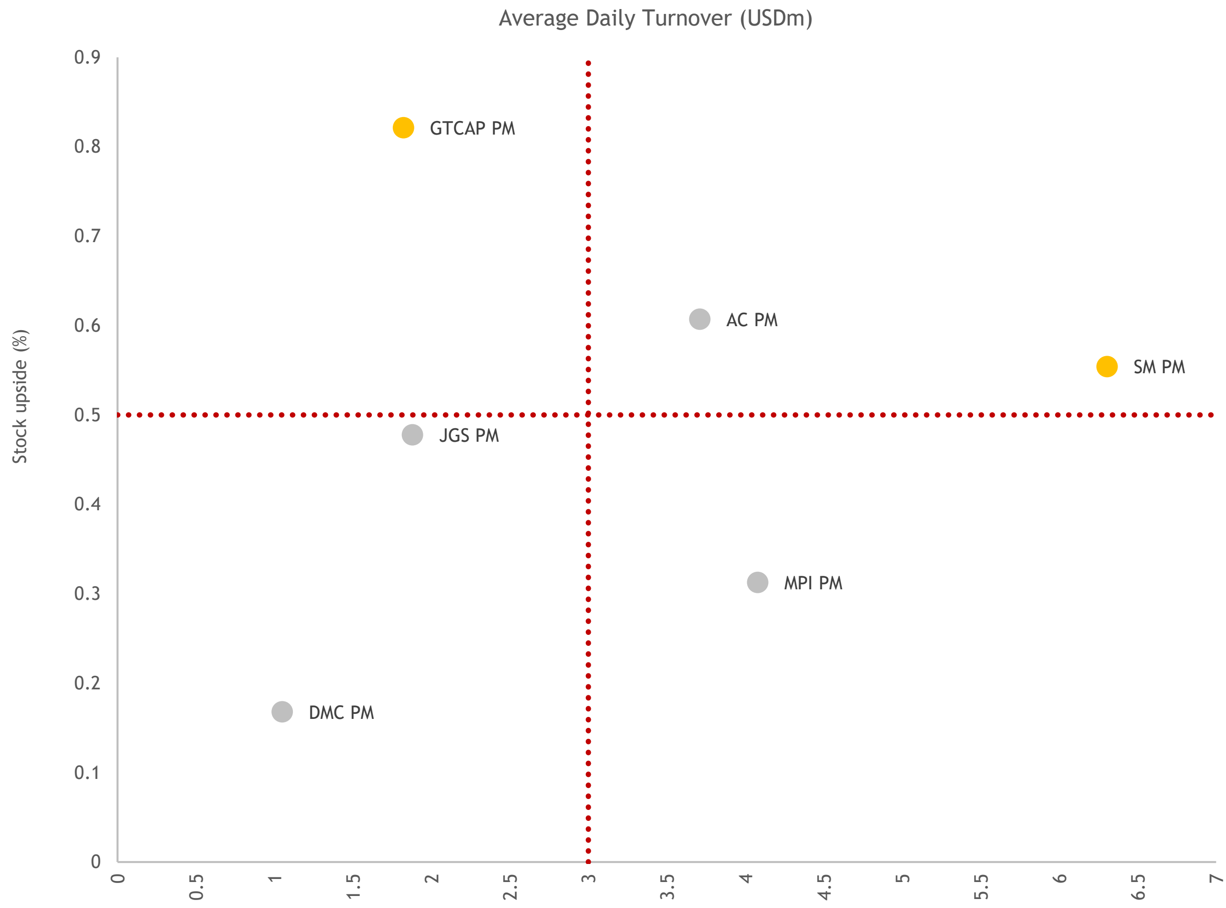
Source: Maybank IBG Research, Bloomberg

Fig 7: GTCAP - share price performance vs ADTO



Source: Maybank IBG Research, Bloomberg

Fig 8: Liquidity and upside screen



Source: Maybank IBG Research

3. Top Picks: SM and GTCAP

Among the conglomerates that we cover, SM and GTCAP's FY24 earnings are least impacted by oil-price hikes, and its related effects on inflation, PHP:USD and policy rates.

Fig 9: FY24E earnings sensitivity to oil prices and inflation

	BASE CASE	Scenario 1: Oil prices rise by USD10/bbl to USD94/bbl in FY24E		Scenario 2: +Impact of .40% increase to inflation	
	PHPm	*PHPm*	*% change*	*PHPm*	*% change*
JGS	20,446	17,972	-12.1%	17,583	-14.0%
DMC	27,296	26,025	-4.7%	25,945	-4.9%
AC	44,726	44,211	-1.2%	43,447	-2.9%
GTCAP	28,813	28,186	-2.2%	27,997	-2.8%
SM	88,255	87,910	-0.4%	87,354	-1.0%

Source: Maybank IBG Research

JGS is the most vulnerable to oil/fuel price fluctuations due to CEB and JGS Olefins.

SM is the most resilient due to its cost+ pricing structure of SM Retail, its predominantly essential consumption-focused strategy and the natural hedge provided by its banks, BDO and CHIB.

GTCAP is the second most resilient as recovering profit margins at TMP and Fedland provide cost-hike buffers and earnings contribution from MBT act as a natural hedge. Also, historically, auto sales are impacted by fluctuations in oil prices.

October 11, 2023

Maybank Securities

Industrials

Philippines

Ayala Corp (AC PM)

Deeply discounted

BUY

Share Price	PHP 615.50
12m Price Target	PHP 990.00 (+62%)
Previous Price Target	*PHP 990.00*

Maintain BUY but pay attention to subsidiaries

Although the stock is trading at deep discounts to historical levels, we see no urgency to position in AC as we expect near-term stock catalysts, such as the protracted policy rate cuts, earnings growth and the public debut of *Gcash*, can be played directly via BPI, ALI, ACEN and GLO, respectively. Our FY23/24 earnings forecasts and PHP990 TP are unchanged. We maintain BUY on the back of AC's cheap valuations. ***We transfer coverage of AC to Alexa Carvajal***.

FY24E earnings growth drivers

Factoring in prospective policy interest rate cuts in the latter part of FY24 for BPI and the completion of GLO's tower sales in FY23, we expect AC's consolidated FY24A earnings growth to decelerate to 18% YoY from 39% YoY in FY23E. The uplift should be driven by the continuous recovery of ALI's residential segment and the commercial operations of ACEN's new power plants, which are on track to achieving its 30GW target by YE30.

Unlisted subsidiaries are still earnings drags

While the opening of the cancer hospital by 2H23 and the ongoing onboarding of logistics clients are positive developments for AC Health and AC Logistics, we expect both to reach profitability only after they hit scale in 2-3 years' time. We believe there is no urgency to position in AC, despite its discounted valuation, as near-term stock catalysts are likely to be at the BPI, ALI, GLO and ACEN levels, which are directly accessible in the stock market.

Maintain BUY but subsidiaries have better catalysts

AC trades a 33% discount to its RNAV, which is wider than its 5-year average discount of 25%. The wider discount reflects AC's declining ADTO, the earnings drags from AC Health and AC Logistics and the negative sentiment toward the group due to the uneven distribution of its recent property dividend (Apr 2022). Our BUY call is premised on AC's cheap valuation relative to its earnings growth but we remain cognizant that parent-level catalysts are limited. BPI and GLO are our Top Picks in their respective banking and telco sectors.

FYE Dec (PHP m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	225,591	263,820	291,590	321,982	356,703
EBITDA	36,247	34,297	50,729	67,315	82,610
Core net profit	27,774	27,398	38,017	44,726	55,093
Core FDEPS (PHP)	44.54	44.18	61.31	72.13	88.84
Core FDEPS growth(%)	63.1	(0.8)	38.8	17.6	23.2
Net DPS (PHP)	6.89	29.76	6.93	6.93	6.93
Core FD P/E (x)	18.7	15.7	10.0	8.5	6.9
P/BV (x)	1.4	1.2	1.0	0.9	0.8
Net dividend yield (%)	0.8	4.3	1.1	1.1	1.1
ROAE (%)	8.9	8.4	11.0	11.7	12.9
ROAA (%)	2.0	1.9	2.5	2.9	3.4
EV/EBITDA (x)	31.3	33.9	20.8	16.1	13.3
Net gearing (%) (incl perps)	68.6	80.4	64.1	60.7	54.9
Consensus net profit	-	-	36,895	41,632	55,093
MIBG vs. Consensus (%)	-	-	3.0	7.4	0.0

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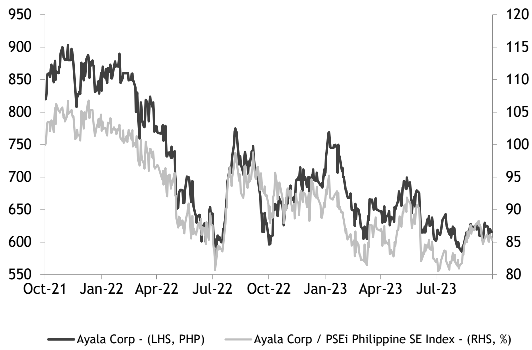
Company Description

Ayala Corp is the holding company of the Ayala family and it has stakes in Ayala Land, BPI, Globe Telecoms and AC Energy.

Statistics	
52w high/low (PHP)	769.00/585.00
3m avg turnover (USDm)	3.3
Free float (%)	51.9
Issued shares (m)	619
Market capitalisation	PHP381.2B
	USD6.7B
Major shareholders:	
Mermac Inc	47.3%
Mitsubishi Corporation	6.0%
SM Group	1.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	2	1
Relative to index (%)	(2)	4	(6)

Source: FactSet

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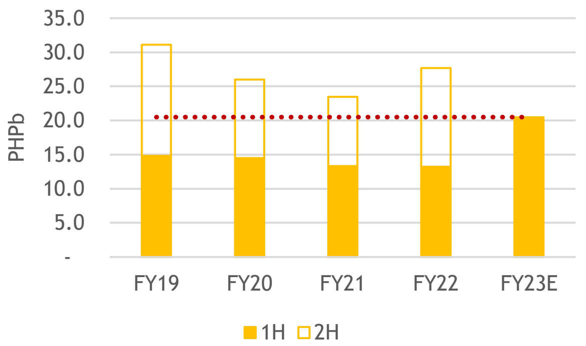
Tear Sheet Insert

Value Proposition

- Ayala Corp's portfolio of industry-makers has been propelling NAV growth. Ayala Land is a premier property developer, with 11,000+ ha of landbank nationwide. BPI is the third largest bank in terms of asset size. Globe Telecoms is the market leader in post-paid mobile service and ACEN Renewables is the fastest growing renewable energy platform in South East Asia.
- In 2010, Ayala Corp ventured into infrastructure and power. While its foray into infrastructure was muted by the limited projects under the government's PPP programme, power had grown to be the fourth leg in Ayala Corp's NAV-growth story, replacing Manila Water (which the group is in the process of divesting out of) and outpacing Ayala Land and BPI.

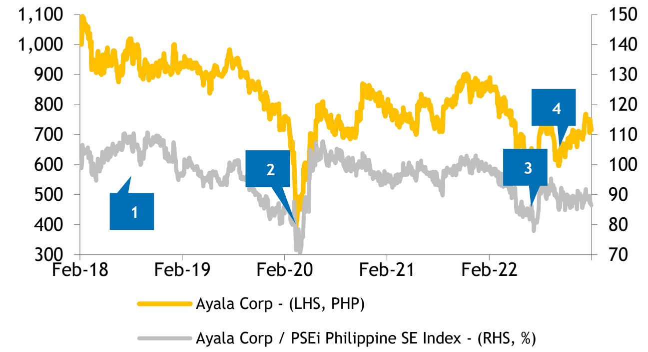
Net income after taxes



Source: Company

Price Drivers

Historical share price trend



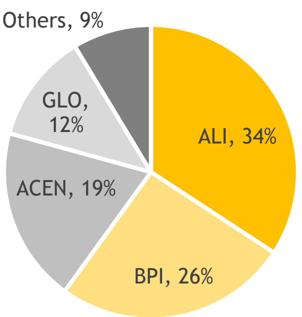
Source: Company, Maybank IBG Research

1. Stock is down due to some year-end profit taking as the stock was up 53% at its peak during the year.
2. Ayala Corp was sold down as foreign investors exited the market on news of the lockdown.
3. Market sold down after the country exhibited vulnerability to high oil prices and the inflationary environment threatened post-pandemic domestic consumption recovery.
4. Temporary stock price weakness after Fernando Zobel de Ayala takes a permanent medical leave

Financial Metrics

- Growth in the power business has been complementing the cyclical property and banking divisions such that consolidated 6-year EPS CAGR remains at 17.5%.
- Past the pandemic-induced weakness in FY20, the group is poised for a strong recovery mainly from the normalization of BPI's provisions expense, resumption of Ayala Land's construction projects and the commercial operation of the power business's international investments.
- As the group's property, power and telco divisions remain in investment mode, dividend distributions are likely to be flat. Nevertheless, upside to the stock is largely driven by NAV growth, which remains on track.

12-month forward AV composition



Source: Maybank IBG Research

Swing Factors

Upside

- Expansions in the group's unlisted healthcare (AC Health) and logistics (AC Logistics) segments.
- Accelerated value realization of Ayala Corp's portfolio investments, which include stakes in Manila Water, AC Industrials, AC Infra, AC Ventures, iPeople.

Downside

- Headwinds in Ayala Land, which remains the largest contributor to Ayala Corp's NAV.
- Failure to raise USD1.0b from the value realization of its portfolio investments by FY23.
- AC Health and AC Logistics falling short of its PHP1.0b net income target by FY25.

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Risk Rating & Score[1]	36.5 (High risk)
Score Momentum[2]	-5.4
Last Updated	14 Sep 2023
Controversy Score[3] (Updated: 31 Jul 2023)	2

Business Model & Industry Issues

- AC's ESG programme is aligned with the United Nations Sustainable Development Goals and is focused on five themes: (i) climate change and biodiversity; (ii) resource efficiency and waste management; (iii) workplace experience and future of work; (iv) customer experience and protection; and (iv) equitable business practices.
- Nevertheless, Sustainalytics downgraded its rating from 13.0 (Aug 2021) to 41.9, citing its weak ESG risk management given the lack of clear initiatives to reduce emissions linked to wider TCF reporting and absolute GHG reduction targets (or even just initiatives to close the emissions gap between current performance and targeted emissions reductions), lagging behind best practice.
- In 2022, AC's uneven distribution of its property dividend of ACEN shares, which negatively impacted minority shareholders of ACEN shares, raised corporate governance concerns on the company. In 2021, AC declared property dividends of 3 ACEN shares for every 1 share of AC held. The unguided document collection and distribution process resulted to Mermac Inc, AC's parent, receiving its ACEN property dividends ahead of minority shareholders. Mermac Inc, to comply with its own bylaws, then immediately disposed of the ACEN shares, causing ahead of other minority shareholders receiving theirs and causing an overhang on ACEN shareholders, to the detriment of ACEN shareholders.
- AC has been a huge contributor to the country's COVID-19 response. The group voluntarily offered financial relief to its mall tenants ahead of any regulations and also strengthened its health and online medical platform to help raise testing rates in the country. Internally, it had immediately enacted its business continuity plan, enabling the majority of its employees to work from home and provided adequate financial, administrative and medical support to those who needed to report to work.

Material E issues

- As a group, AC has committed to be net-zero by FY50.
- ALI implements passive cooling and sustainable architecture design to reduce the carbon footprint of its projects. In 2022, it sourced 77% of its electricity from RE and reduced its direct emissions by 16%.
- BPI established the Green Finance Framework to help fund projects with positive environmental impact.
- GLO offers paperless billing, has achieved carbon neutrality in its offices and uses Green Network Solutions to raise the energy efficiency of its cell sites.
- ACEN targets to accumulate at least 20GW of renewable energy assets by FY30, implements ADB- and IFC-standard site checks and programmes to preserve biodiversity in its sites. It is the first Philippine company to issue a green bond.
- In 2022, ACEN completed the sale of its 270MW coal plant, SLTEC, via an energy transition mechanism. ACEN still has some legacy diesel assets but these are ancillary plants, which run on an as-need basis.

Material S issues

- The group has a wellness programme for its employees, and clear anti-discrimination policy. And in this pandemic, it has adopted flexible work-from-home arrangements for the majority of its employees, while also providing financial, administrative and health support for those who need to report to work.
- When acquiring land for property development or power plants, the Ayala group ensures IPs or religious grounds are well respected. ALI also partners with local governments to raise the productivity of idle land, create jobs and municipality revenue.
- The Ayala group implements CSR programmes at all of its sites to create jobs, build schools or provide healthcare access. ALI, ACEN and AC Health (Unlisted) support local communities by integrating them into its supply chain.
- The Ayala group was the subject of former President Duterte's anti-oligarchy rhetoric. In Mar 2019, MWC was in the middle of a water shortage crisis due to the dry spell. Even as MWC was able to reallocate resources for distribution within its area scope, the government deferred the scheduled rate hikes and reopened MWC's concession agreement to review "onerous" provisions. This was resolved only in 1H21. Similarly, in the Jul 2020 state of the nation address, Duterte threatened to revoke GLO's franchise (which didn't expire until 2030) if it did not improve service by Dec 20. Both MWC and GLO meet (and exceed) the agreed service levels and fully comply with the terms of the franchise and concession, especially in terms of the tariff collection.

Key G metrics and issues

- There are 7 members on AC's board of directors (BOD), 3 of whom are independent. None of the board members have worked for AC's auditing firm in the 3 years prior to appointment.
- As of Oct 2022, there is only one (1) woman on the BOD. However, in the revised corporate governance manual, AC commits to having at least 2 (or 30%, whichever is lower) women on the BOD by FY25. Nevertheless, the female-to-male ratio across AC's 58,278 employees is 1:1.34.
- Only Jaime Augusto Zobel de Ayala, who serves as Chairman, and Fernando Zobel de Ayala, who recently rejoined AC as director, are family members are on the BOD. While it is a family-owned conglomerate, family members on the BOD are kept to a maximum of two. To earn a position at any of the subsidiaries within the group, younger Zobel de Ayala family members must obtain an MBA and work their way up as they will start at an entry-level position.
- In Sep 2021, then president and CEO, Fernando Zobel de Ayala resigned from all his posts in the Ayala group due to medical reasons. He was replaced by Cezar Consing, its first non-family member President/CEO. On Oct 2023, Fernando Zobel de Ayala rejoins the board of AC, replacing Merceditas Nolledo but Cezar Consing continues to serve as the group's President/CEO.
- Only non-executive directors and independent directors receive remuneration that is fixed: PHP3.0m in retainer fee pa, PHP0.2m per board meeting attended and PHP0.1m per committee meeting attended.
- Sycip Gorres Velayo and Co., the local partner of Ernst & Young, is the auditor of AC.
- There are minimal RPTs across the Ayala group even as there are synergies to be had across BPI, ALI and ACEN. This is largely attributable to the fact that each of the subsidiaries are run by non-family member professionals and are evaluated on a stand-alone basis.
- AC puts a portion of its investments as preferred shares, mostly to ensure it maintains majority of the subsidiary-level voting rights. These preferred shares are small relative to the common shares base and have low coupon rates such that preferred share coupons minimally impact minority common shareholders.
- The group utilizes various channels to engage with minority shareholders for disseminating information and it provides minority shareholders with a channel to raise concerns. Minority shareholders can also nominate candidates for the board through digital channels.

[1] *Risk Rating & Score* - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2] *Score Momentum* - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3] *Controversy Score* - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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Quantitative Parameters (Score: 56)						
	Particulars	Unit	2020	2021	2022	SM (2022)
E	Scope 1 GHG emissions	m tCO2e	7.81	4.85	1.3	0.41
	Scope 2 GHG emissions	m tCO2e	0.39	0.35	0.2	1.36
	Total	**m tCO2e**	**8.20**	**5.20**	**1.6**	**1.77**
	Scope 3 GHG emissions	m tCO2e	0.07	0.10	2.6	0.7
	Total	**m tCO2e**	**8.26**	**5.30**	**4.2**	**2.42**
	Total GHG intensity/equity capital	tCO2e/PHPm	17.84	9.36	7.08	NA
	Green energy share of capacity	%	23%	27%	34%	25%
	Electricity intensity/equity capital	MWh/PHPm	4.0	3.7	17.3	NA
	Water intensity	Cu m/PHPm	1,980.3	1,628.8	NA	NA
	Waste generated	K tonnes	66.8	59.9	65.7	177.6
	% of recycled material used	%	*NA*	*NA*	*NA*	NA
	% of debt from green instruments	%	*NA*	*NA*	*NA*	NA
S	% of women in workforce	%	56.8%	56.7%	57.0%	62%
	% of women in management roles	%	26.0%	5.0%	3.0%	57%
	Average training hours	Hours	68.9	40.3	51.65	17
	Lost time injury frequency (LTIF) rate	number	*NA*	*NA*	NA	0
G	MD/CEO salary as % of reported net profit	%	2.1%	1.3%	1.0%	NA
	Board salary as % of reported net profit	%	3.8%	2.5%	1.9%	.01%
	Independent directors on the Board	%	14.0%	14.0%	43%	38%
	Female directors on the Board	%	14.0%	14.0%	14%	25%

Qualitative Parameters (Score: 83)

a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?

Yes, AC has a Sustainability Committee.

b) is the senior management salary linked to fulfilling ESG targets?

No.

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

Yes, AC is following TCFD reporting standards. AC and its subsidiary, IMI, are signatories.

d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

Only partially through outsourced transportation and transport of coal; AC is still refining the parameters through the accounting and validation process of the climate ambition project. The company is conducting scope 3 screening across subsidiaries in preparation for setting science based targets

e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

Our business units have already started carbon reduction initiatives even before the climate ambition project. ALI is offsetting the scope 1 and 2 emissions if its commercial properties by 2022. BPI has committed to not financing greenfield coal-fired power plants as well as reduce its exposure to coal plants to half by 2026 and zero by 2032. GLO is a participant to the Race to Zero and signatory to the Science Based Targets Initiative, the first Philippine company to do so. It has likewise shifted to buying renewable energy for its headquarters and six facilities since 2019. ACEN, which is in the process of divesting its thermal plants, is on track to meet its commitment to achieve 5GW of RE by 2025.

f) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Yes. AC is looking at interventions such as nature based solutions and reducing over-all operational emissions, in line with global best practice.

Target (Score: 67)		
Particulars	**Target**	**Achieved**
Define Scope 1/2/3 reduction targets	By YE23	75%
GHG reduction	By YE30	75%
Net zero GHG	By YE50	50%

Impact

NA

Overall Score: 65

AC aligns its business strategy with the Paris Agreement's goal of limiting global warming to 1.5°C compared to pre-industrial levels. As such, AC commits to set targets aligned with science that cover the following: Scope 1, Scope 2, and all relevant Scope 3.

ESG score	Weights	Scores	Final Score
Quantitative	50%	56	28
Qualitative	25%	83	21
Target	25%	69	17
Total			**65**

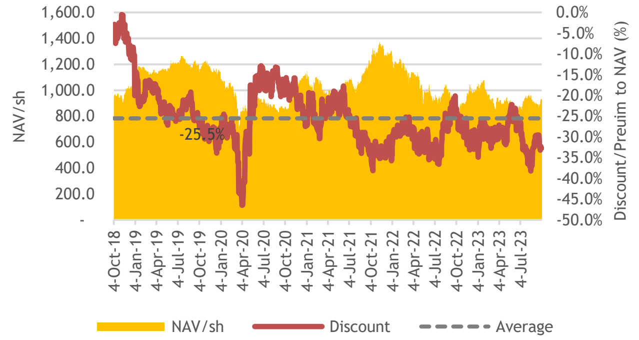
As per our ESG assessment, AC has committed to a framework, tangible mid/long-term targets and has good reporting procedures but is still in the process of concretising its internal policies related to achieving its targets. AC's overall ESG score is above-average, at 65 (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring). It belongs to the 68th percentile among the Philippine stocks under coverage, with its subsidiaries ALI, BPI, ACEN and GLO belonging to the 81st to 95th percentile.

Fig 1: Target price computation

			RNAV		Forward NAV			
Segment	Stake %	Shares (m)	CP (PHP/sh)	Attrib. value (PHPm)	Valuation method	TP (PHP/sh)	Attrib. value (PHPm)	% of NAV
Ayala Land (ALI PM)	49.5%	15,107	28.6	213,498	SOTP	45.0	336,512	41.0%
Bank of the Philippine Islands (BPI PM)	48.6%	4,507	108.8	238,320	PBV	123.00	269,424	32.8%
Globe Telecoms (GLO PM)	30.9%	133	1,805.00	74,296	DCF	2,452.00	100,928	12.3%
ACEN Corp (ACEN PM)	57.8%	38,240	5.4	119,011	SOTP	8.00	176,640	21.5%
Others				71,452			74,508	9.1%
Asset Value				**716,578**			**958,011**	**116.7%**
Net Debt				-149,300			-137,230	-16.7%
Net asset value				**567,278**			**820,781**	**100.0%**
NAV/sh (PHP/sh)				**916**			**1,325**	
Discount				-33%			25%	
TP (PHP)							990	

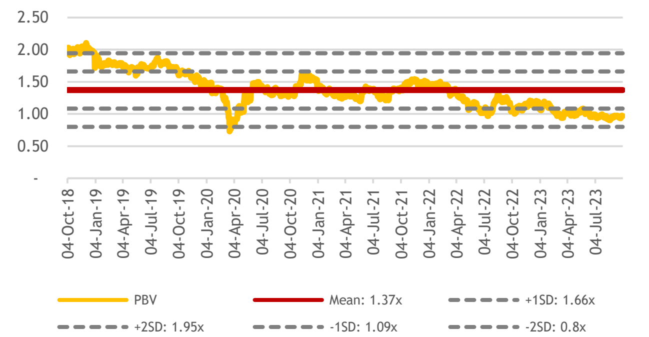
Source: Maybank IBG Research

Fig 2: Discount to NAV



Source: Maybank IBG Research

Fig 3: PBV band



Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	17.9	16.3	10.0	8.5	6.9
Core P/E (x)	18.6	15.7	10.0	8.5	6.9
Core FD P/E (x)	18.7	15.7	10.0	8.5	6.9
P/BV (x)	1.4	1.2	1.0	0.9	0.8
P/NTA (x)	1.5	1.3	1.1	1.0	0.9
Net dividend yield (%)	0.8	4.3	1.1	1.1	1.1
FCF yield (%)	nm	nm	36.2	12.6	18.1
EV/EBITDA (x)	31.3	33.9	20.8	16.1	13.3
EV/EBIT (x)	58.4	62.4	29.7	21.7	17.4
INCOME STATEMENT (PHP m)					
Revenue	225,591.0	263,820.0	291,590.4	321,981.7	356,703.2
EBITDA	36,247.0	34,297.0	50,728.5	67,314.8	82,609.6
Depreciation	(16,852.0)	(15,672.0)	(15,291.0)	(17,356.0)	(19,254.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	19,395.0	18,625.0	35,437.5	49,958.8	63,355.6
Net interest income /(exp)	(8,749.3)	(7,578.4)	(18,871.7)	(17,886.5)	(18,022.6)
Associates & JV	23,456.0	36,129.0	43,291.4	40,323.1	46,307.9
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	6,845.8	4,912.3	2,715.6	4,327.6	4,327.6
Pretax profit	40,947.6	52,087.8	62,573.0	76,723.1	95,968.5
Income tax	(6,575.5)	(7,919.8)	(9,514.0)	(11,665.5)	(14,591.7)
Minorities	(8,261.7)	(18,476.0)	(15,042.3)	(20,332.0)	(26,284.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	27,774.2	27,398.0	38,016.7	44,725.6	55,092.5
Core net profit	27,774.2	27,398.0	38,016.7	44,725.6	55,092.5
Preferred Dividends	(1,259.8)	(1,259.8)	(1,259.8)	(1,259.8)	(1,259.8)
Distributable Income	26,514.4	26,138.2	36,756.9	43,465.8	53,832.8
BALANCE SHEET (PHP m)					
Cash & Short Term Investments	90,483.9	73,847.3	97,764.9	103,438.2	111,421.8
Accounts receivable	60,792.2	62,282.5	65,335.1	91,354.2	119,886.2
Inventory	166,406.8	201,517.1	165,496.8	190,804.7	215,545.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	96,682.9	114,113.6	118,822.6	121,466.6	122,212.6
Intangible assets	22,128.0	43,536.4	43,536.4	43,536.4	43,536.4
Investment in Associates & JVs	294,063.0	328,120.3	328,120.3	321,835.3	321,835.3
Other assets	618,429.1	655,127.9	685,066.9	715,005.9	744,944.9
Total assets	**1,348,985.9**	**1,478,545.1**	**1,504,142.9**	**1,587,441.2**	**1,679,382.5**
ST interest bearing debt	66,205.8	68,023.6	48,972.9	119,513.6	60,945.8
Accounts payable	123,704.6	158,110.1	189,241.7	201,505.8	218,464.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	412,310.8	484,464.2	457,636.1	404,894.0	470,264.0
Other liabilities	181,452.0	172,648.0	170,283.0	167,919.0	165,554.0
Total Liabilities	**783,673.2**	**883,246.1**	**866,134.1**	**893,832.1**	**915,227.8**
Shareholders Equity	362,731.7	367,062.5	399,528.8	438,704.0	488,246.2
Minority Interest	202,581.1	228,236.5	238,480.0	254,905.1	275,908.5
Total shareholder equity	**565,312.8**	**595,299.0**	**638,008.8**	**693,609.1**	**764,154.7**
Total liabilities and equity	**1,348,985.9**	**1,478,545.1**	**1,504,142.9**	**1,587,441.2**	**1,679,382.5**
CASH FLOW (PHP m)					
Pretax profit	40,947.6	52,087.8	62,573.0	76,723.1	95,968.5
Depreciation & amortisation	16,852.0	15,672.0	15,291.0	17,356.0	19,254.0
Adj net interest (income)/exp	(15,550.3)	(14,273.4)	(25,566.6)	(24,581.4)	(24,717.6)
Change in working capital	(17,006.7)	(14,923.0)	64,099.4	(39,063.0)	(36,314.4)
Cash taxes paid	(6,052.8)	(4,555.9)	(9,514.0)	(11,665.5)	(14,591.7)
Other operating cash flow	(1,877.4)	(2,063.8)	0.0	0.0	0.0
Cash flow from operations	8,190.0	28,651.5	158,015.9	67,932.0	89,034.0
Capex	(18,997.0)	(33,102.6)	(20,000.0)	(20,000.0)	(20,000.0)
Free cash flow	(10,807.0)	(4,451.1)	138,015.9	47,932.0	69,034.0
Dividends paid	(7,501.9)	(21,056.6)	(10,349.1)	(9,457.3)	(10,831.2)
Equity raised / (purchased)	(5,179.0)	5,950.2	0.0	0.0	0.0
Change in Debt	36,762.3	73,971.3	(45,878.9)	17,798.7	6,802.1
Other invest/financing cash flow	(11,444.5)	(71,050.4)	(57,870.3)	(50,600.1)	(57,021.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1,830.0	(16,636.6)	23,917.5	5,673.3	7,983.6

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	16.5	16.9	10.5	10.4	10.8
EBITDA growth	(2.0)	(5.4)	47.9	32.7	22.7
EBIT growth	13.3	(4.0)	90.3	41.0	26.8
Pretax growth	18.7	27.2	20.1	22.6	25.1
Reported net profit growth	62.0	(1.4)	38.8	17.6	23.2
Core net profit growth	62.0	(1.4)	38.8	17.6	23.2
Profitability ratios (%)					
EBITDA margin	16.1	13.0	17.4	20.9	23.2
EBIT margin	8.6	7.1	12.2	15.5	17.8
Pretax profit margin	18.2	19.7	21.5	23.8	26.9
Payout ratio	15.4	67.3	11.3	9.6	7.8
DuPont analysis					
Net profit margin (%)	12.3	10.4	13.0	13.9	15.4
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	3.7	4.0	3.8	3.6	3.4
ROAE (%)	8.9	8.4	11.0	11.7	12.9
ROAA (%)	2.0	1.9	2.5	2.9	3.4
Liquidity & Efficiency					
Cash conversion cycle	187.5	157.5	94.4	61.9	97.3
Days receivable outstanding	118.1	84.0	78.8	87.6	106.6
Days inventory outstanding	334.4	314.1	292.3	265.3	278.6
Days payables outstanding	265.0	240.6	276.6	290.9	287.9
Dividend cover (x)	6.5	1.5	8.9	10.4	12.8
Current ratio (x)	1.9	1.8	1.7	1.5	1.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.7	1.7	1.8	1.8
Net gearing (%) (incl perps)	68.6	80.4	64.1	60.7	54.9
Net gearing (%) (excl. perps)	68.6	80.4	64.1	60.7	54.9
Net interest cover (x)	2.2	2.5	1.9	2.8	3.5
Debt/EBITDA (x)	13.2	16.1	10.0	7.8	6.4
Capex/revenue (%)	8.4	12.5	6.9	6.2	5.6
Net debt/ (net cash)	388,032.6	478,640.5	408,844.1	420,969.5	419,788.0

Source: Company; Maybank IBG Research

Industrials

Philippines

GT Capital (GTCAP PM)

Bright future

BUY

Share Price	PHP 561.50
12m Price Target	PHP 1,020.00 (+83%)
Previous Price Target	*PHP 1,020.00*

Outperformance momentum intact; maintain BUY

The market has finally begun to appreciate GTCAP's consistent earnings performance in the past few quarters, with its share price climbing 34% YTD vs the PSEI's -4%. With TMP's YTD auto sales outperforming guidance and GTCAP's potentially higher stake in MPI proving to be accretive, GTCAP is one of our Top Picks in the conglomerate sector. Our FY23/24 earnings forecast and PHP1,020 TP are unchanged and we maintain BUY. ***We transfer coverage of GTCAP to Rachelleen Rodriguez***.

FY24E earnings growth driver

Factoring in the prospective policy rate cut in the latter part of FY24 for MBT and the absence of one-off sale of landbank by Fedland and GTCAP to the Nomura-Fedland JV, Federal Land NRE Global Inc (FNG, Unlisted), we expect GTCAP's consolidated FY24 earnings growth to decelerate to 19% YoY from 67% YoY in FY23E. Bulk of the earnings uplift will be driven by TMP, which we expect to deliver unit sales growth of 8% YoY and sustained GPM of 13%, and a higher stake in MPI.

TMP and MBT are oil price-resistant

The inflation pressure from higher crude oil prices erodes the prospect of policy rate cuts. This is net positive for MBT as it is able to maintain high interest charges for a longer period of time. Despite the absence of fuel subsidies, fuel price trends have little impact on auto demand, which is driven more by necessity due to the country's predominantly service-centred economy and its poor public transportation.

Current levels offer TMP for free

GTCAP is trading at a 57% discount to its RNAV; current levels appear to only be pricing in MBT, essentially offering TMP for free. Given GTCAP's positive earnings momentum, the tangible growth prospects of both its auto and property divisions and its bigger stake in MPI, we reiterate our BUY rating.

FYE Dec (PHP m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	156,581	217,307	275,346	290,403	313,246
EBITDA	6,466	4,812	24,411	21,587	23,124
Core net profit	10,983	14,560	24,300	28,813	31,101
Core EPS (PHP)	51.02	67.63	112.88	133.84	144.47
Core EPS growth (%)	67.8	32.6	66.9	18.6	7.9
Net DPS (PHP)	5.74	5.74	5.74	5.74	5.74
Core P/E (x)	10.6	6.4	5.0	4.2	3.9
P/BV (x)	0.6	0.5	0.5	0.5	0.4
Net dividend yield (%)	1.1	1.3	1.0	1.0	1.0
ROAA (%)	2.8	3.6	5.7	6.5	6.5
EV/EBITDA (x)	37.4	46.5	9.4	10.7	9.9
Net gearing (%) (incl perps)	55.9	55.7	37.2	31.0	24.5
Consensus net profit	-	-	24,194	25,258	29,388
MIBG vs. Consensus (%)	-	-	0.4	14.1	5.8

Company Description

GT Capital is a holding company, which holds the Ty family's stake in banking, auto and property in the Philippines

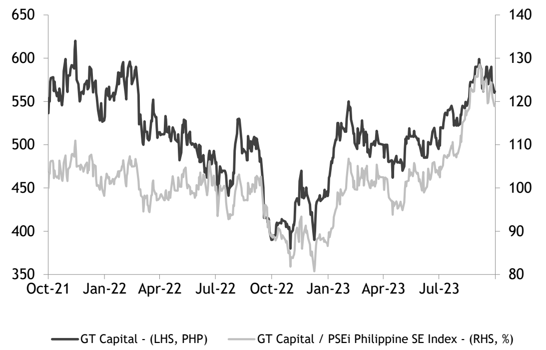
Statistics

52w high/low (PHP)	599.00/380.00
3m avg turnover (USDm)	1.9
Free float (%)	43.9
Issued shares (m)	215
Market capitalisation	PHP120.9B
	USD2.1B

Major shareholders:

TY FAMILY	55.9%
The Vanguard Group, Inc.	1.4%
Swedbank Robur Fonder AB	1.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	13	44
Relative to index (%)	(5)	16	34

Source: FactSet

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Tear Sheet Insert

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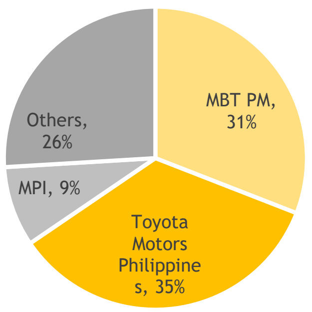
Value Proposition

- GTCAP is the holding company of the Ty family's stakes in Metrobank (MBT PM; the second-largest bank in the Philippines, in terms of asset size), Toyota Motors Philippines (TMP - the leading car brand in the Philippines), Metro Pacific (MPI PM) and Federal Land.
- TMP is not listed, making GTCAP the only listed stock with direct and meaningful exposure to the country's auto sector. MBT and TMP historically account for c.80% of GTCAP's consolidated earnings and c.70% of its NAV.

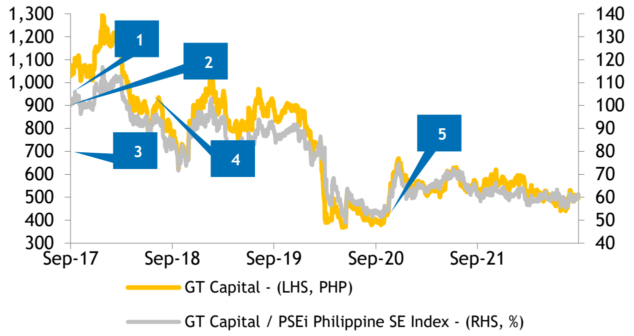
GTCAP's NAV composition



Source: Maybank IBG Research

Price Drivers

Historical share price trend



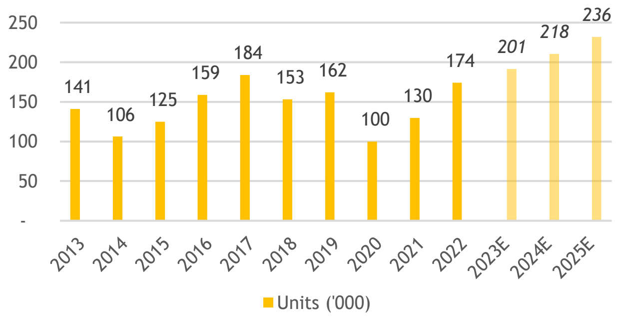
Source: Company, Maybank IBG Research

5. Apr 2012: GTCAP IPO'd at PHP455 per share.
6. Aug 2015: GTCAP announced plans to acquire a 51% stake in mass housing developer, ProFriends, which it later divested in 2019.
7. May 2016: GTCAP executes a property-for-share swap of its stake in Global Business Power for 3.6b shares of MPI.
8. Mar 2018: TMP's *Vios* qualifies for the CARS incentive programme.
9. Mar 2020: Philippines was put under lockdown, which impacted GTCAP's mobility-exposed sectors, such as TMP and MPI.

Financial Metrics

- We expect GTCAP to post FY22-25E earnings CAGR of 20%, which should enable its consolidated earnings to revert to pre-pandemic levels by YE23E.
- Earnings will be driven by MBT and TMP, which together should account for c.80% of consolidated earnings.
- The stabilisation of the PHP and policy rates in 2H23, which should promote car sales and healthy margins for cash-based TMP, should reduce third party financing requirements and reduce gearing levels to 42-47% in FY23-25E.

Toyota Motors Philippines sales forecasts



Source: Company

Swing Factors

Upside

- Extension of the government's Comprehensive Automotive Resurgence Strategy CARS programme.
- Auto sales outperformance from TMP (relative to its own targets).
- Higher-than-expected growth in GTCAP's used-cars business.
- One-off gains from lot sales to FNG.

Downside

- Accelerated NPL formation at Toyota Financial Services, GTCAP's non-bank auto financing subsidiary.
- Impact of supply chain disruptions on the completely knocked down (CKD) parts of *Vios* and *Innova*, TMP's bestselling units.

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Risk Rating & Score[1]	13.9 (Low Risk)
Score Momentum[2]	-0.4
Last Updated	28 Feb 2023
Controversy Score[3] (Updated: 18 Mar 2023)	1 (Low)

Business Model & Industry Issues

- In 2018, GTCAP released its inaugural sustainability report, which was prepared in accordance with the Global Reporting Initiative Standards (GRI), highlighting its six core sustainability principles: (1) conscious operations; (2) value creation; (3) market leadership; (4) sustainable leadership; (5) organic growth; and (6) strategic partnership. These translate to 10 UN Sustainable Development Goals (SDGs): No Poverty (1); Good Health and Well Being (2); Quality Education (3); Gender Equality (4); Affordable and Clean Energy (5); Decent Work and Economic Growth (6); Reduced Inequalities (7); Responsible Consumption and Production (8); Climate Action (9); and Peace, Justice and Strong Institutions (10).
- At the conglomerate level, GTCAP is most exposed to governance risk due to: (i) related-party transactions arising from its highly synergistic portfolio; and (ii) the high level of family participation on the board. The group is aggressively professionalising and these governance risk exposures are partially mitigated by the presence of independently-chaired RPT and audit committees.

  GTCAP's business ethics and corporate governance initiatives are aligned with the global sustainability initiatives of its partner, Toyota Corp, and is at par with its peers, which shows in its Sustainalytics risk rating of 13.9 (Low Risk). GTCAP's commitment to sustainability initiatives is further highlighted by its improving momentum score of -0.5.

Material E issues

- GTCAP actively monitors its energy and water consumption metrics and has active targets to decrease overall consumption. In 2022, the group consumed 49,947,434 MWh of electricity.
- Despite the resumption of economic activity for majority of 2022, GTCAP's consolidated Scope 1 emissions came in lower, at 1,394,403 tons CO2E, from 1,641,770 tons CO2E, with MPI recording the biggest improvement.

Material S issues

- GTCAP has 38,272 employees, 43% female, of which 26% were in junior management roles, 1% were in middle management roles and 2% were in senior management roles.
- The average training hours per employee was 20 or a total of 365,796 hours in 2022. Notably, employees at the parent enjoyed the most training hours, at an average of 40 per employee, while the employees of TMP and MBT had the least, at 5 and 10 hours per employee, respectively.

Key G metrics and issues

- In 2022, GTCAP's board of directors (BOD) had 11 members and three advisers, four of who are family members (including Mary Vy Ty, who is advisor to the BOD) and four are independent directors.
- Including Mary Vy Ty, there are two women on the BOD (including advisers).
- The three Ty family members (related to the founder, George Ty) on the BOD are: Arthur Vy Ty (son), Alfred Vy Ty (son) and Mary Vy Ty (wife). Arthur and Alfred are Chairman and Vice-Chair, respectively. No limit has been formally set as to the number of family members that can be present on the board or in the executive team.
- This high level of family participation is mitigated by the presence of the RPT, corporate governance, board risk oversight and audit committees, all of which have independent directors.
- Sycip Gorres Velayo and Co., the local partner of Ernst & Young, is the auditor of GTCAP.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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	Quantitative Parameters (Score: 41)					
	Particulars	**Unit**	**2020**	**2021**	**2022**	**SM (2022)**
E	Scope 1 GHG emissions	m tCO2e	Not tracked	1.6	1.4	0.41
	Scope 2 GHG emissions	m tCO2e	Not tracked	0.4	0.4	1.36
	Total	**m tCO2e**		**2.1**	**1.8**	**1.77**
	Scope 3 GHG emissions	m tCO2e	Not tracked	5.4	6.2	0.7
	Total	**m tCO2e**		**7.5**	**8.0**	**2.42**
	Total GHG intensity	tCO2e/PHPm Eco Val	NA	42.8	383	0.21
	Green energy share of capacity	%	Not tracked	Not tracked	0.0%	25%
	Energy intensity	GJ/PHPm	NA	NA	1,631,286	NA
	Water recycled as % of capacity	%	Not tracked	Not tracked	Not tracked	37%
	% of recycled material used	%	Not tracked	Not tracked	Not tracked	NA
	% of debt from green instruments	%	0	0	0	0
S	% of women in workforce	%	53.5%	52.9%	43%	57.0%
	% of women in management roles	%	53%	47%	29%	3.0%
	Average training hours	hours	NA	NA	20	51.65
	Lost time injury frequency (LTIF) rate	number	Not tracked	Not tracked	Not tracked	NA
G	MD/CEO salary as % of reported net profit	%	0.4%	0.3%	0.4%	1.0%
	Board salary as % of reported net profit	%	0.9%	0.6%	0.8%	1.9%
	Independent directors on the Board	%	36%	36%	36%	43%
	Female directors on the Board	%	9%	9%	9%	14%

Qualitative Parameters (Score: 33)

a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?

No ESG policy yet and no separate ESG committee.

b) is the senior management salary linked to fulfilling ESG targets?

Yes - in FY21, sustainability KPIs were introduced in top management performance appraisals.

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

Not yet but this is part of GTCAP's 5Y (2021-25) ESG plan. Currently, only Metro Pacific Inc (MPI PM) is a TCFD supporter.

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

Through equity-share approach, the identified major driver of GTCAP's Scope 3 is from "use of sold products" from distribution utilities.

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

1. GTCAP owns 51% of TMP, which aims to use 100% RE and reach zero carbon dioxide emissions at its manufacturing plant by 2025.

2. GTCAP owns 37.15% of MBT, which have energy efficiency programs such as installation of motor systems in their lighting systems, upgrades of lighting fixtures to LED, and controlled operations of their air-conditioning units.

3. GTCAP owns 25.3% of AXA Philippines (AXA). In a bid to achieve plastic neutrality by 2023, AXA inked a partnership with Plastic Credit Exchange (PCEx), a nonprofit organization that recycles and co-processes plastic wastes. Through the Aling Tindera waste-to-cash program, AXA aims to empower women sari-sari store owners to collect plastics from within their communities, providing them an extra source of income and an opportunity to protect their environment. The plastics will then be collected by PCEx for recycling and proper disposal. To reach its target of removing 100 tons of plastic, AXA is adopting select communities (which must have high plastic wastage) for the program and is setting up plastic waste collection points around the metro.

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

GTCAP is in the process of standardization of its emissions measurement.

Target (Score: 25)

Particulars	**Target**	**Achieved**
GHG reduction	By YE30	Not disclosed
TMP aims to use 100% RE	By YE35	Not disclosed
TMP aims to reach zero dioxide emissions at its manufacturing plant	By YE35	Not disclosed

Impact

Overall Score: 35

As per our ESG matrix, GT Capital (GTCAP PM) has an overall score of 35.

ESG score	Weights	Scores	Final Score
Quantitative	50%	41	21
Qualitative	25%	33	8
Target	25%	25	6
Total			**35**

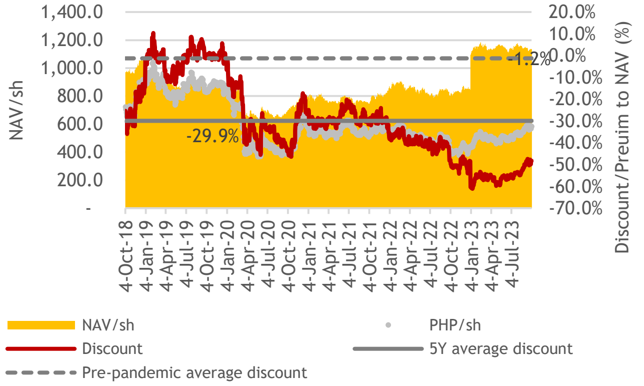
As per our ESG assessment, although GTCAP has committed resources to forward their Sustainability agenda, it still needs to concretize tangible mid/long-term targets, internal processes and measurement metrics. For now, GTCAP's overall ESG score falls below the average, at 35 (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring), but has strong upward trajectory given its initiatives started in 2022.

Fig 1: Target price computation

Segment	Stake %	Shares (m)	CP (PHP/sh)	RNAV Attrib. value (PHPm)	Valuation method	TP (PHP/sh)	Forward NAV Attrib. value (PHPm)	% of NAV
Metrobank (MBT PM)	4,497	37.2%	*51.7*	*86,380*	PBV	70.0	116,955	36%
Toyota Motors Phils		51.0%		*129,990*	DCF		130,810	41%
MPI PM	28,695	17.1%	*5.3*	*26,006*	SOTP	6.6	32,385	10%
Others		0.0%		*98,158*			98,158	31%
Asset Value				*340,534*			378,308	118%
Net debt				*-60,000*			-56,947	-18%
Net asset value				*280,534*			321,362	100%
NAV per share				*1,303*			*1,493*	
Conglo discount				*-57%*			-30%	
Target price							1,020	

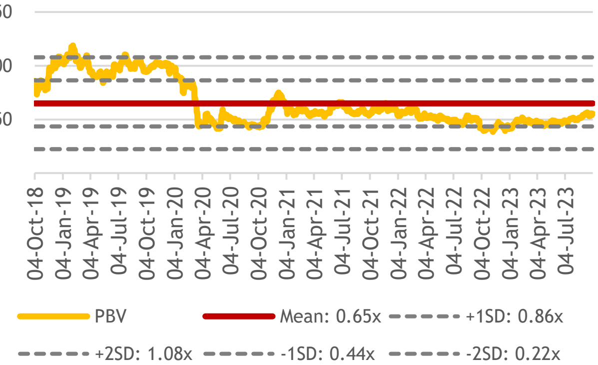
Source: Maybank IBG Research

Fig 2: Discount to NAV



Source: Maybank IBG Research

Fig 3: PBV band



Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	10.9	5.7	4.4	4.2	3.9
Core P/E (x)	10.6	6.4	5.0	4.2	3.9
P/BV (x)	0.6	0.5	0.5	0.5	0.4
P/NTA (x)	0.6	0.5	0.5	0.5	0.4
Net dividend yield (%)	1.1	1.3	1.0	1.0	1.0
FCF yield (%)	nm	23.7	21.8	14.1	13.9
EV/EBITDA (x)	37.4	46.5	9.4	10.7	9.9
EV/EBIT (x)	56.5	83.0	10.2	11.9	11.0
INCOME STATEMENT (PHP m)					
Revenue	156,581.0	217,307.0	275,345.6	290,403.4	313,245.8
EBITDA	6,466.0	4,812.0	24,411.0	21,586.9	23,124.1
Depreciation	(2,188.0)	(2,117.0)	(1,939.0)	(2,189.0)	(2,439.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	4,278.0	2,695.0	22,472.0	19,397.9	20,685.1
Net interest income /(exp)	(4,371.0)	(6,481.0)	(6,690.2)	(5,971.0)	(5,611.2)
Associates & JV	11,065.0	16,455.0	20,904.5	24,228.9	25,918.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	5,098.0	10,882.0	6,782.1	6,782.1	6,782.1
Pretax profit	16,070.0	23,551.0	43,468.3	44,437.8	47,774.0
Income tax	(1,821.0)	(1,820.0)	(7,265.8)	(6,293.2)	(6,661.9)
Minorities	(3,266.0)	(3,371.0)	(8,702.1)	(9,331.3)	(10,010.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	10,983.0	18,360.0	27,500.4	28,813.4	31,101.3
Core net profit	10,983.0	14,560.0	24,300.4	28,813.4	31,101.3
Distributable Income	10,983.0	18,360.0	27,500.4	28,813.4	31,101.3
BALANCE SHEET (PHP m)					
Cash & Short Term Investments	17,404.0	24,005.0	27,976.7	30,178.2	29,022.6
Accounts receivable	15,852.0	14,135.0	7,077.9	14,926.7	15,831.5
Inventory	78,817.0	69,399.0	65,701.1	64,011.8	65,943.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	186,187.0	200,238.0	208,258.8	234,216.4	257,399.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	3,766.0	6,250.0	16,258.1	9,145.9	9,435.8
Other assets	95,768.0	103,129.0	106,190.0	109,001.0	111,562.0
Total assets	**397,794.0**	**417,156.0**	**431,462.5**	**461,480.0**	**489,195.3**
ST interest bearing debt	9,127.0	20,681.0	13,439.1	13,130.8	11,950.6
Accounts payable	34,203.0	36,948.0	43,674.9	42,725.7	44,436.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	122,832.0	122,025.0	105,626.0	103,294.4	94,369.4
Other liabilities	26,553.0	24,488.0	23,880.0	23,716.0	23,088.0
Total Liabilities	**192,715.0**	**204,142.0**	**186,620.0**	**182,866.8**	**173,844.0**
Shareholders Equity	194,044.0	201,742.0	228,007.4	255,585.8	285,452.1
Minority Interest	11,035.0	11,272.0	16,835.1	23,027.4	29,899.1
Total shareholder equity	**205,079.0**	**213,014.0**	**244,842.6**	**278,613.2**	**315,351.2**
Total liabilities and equity	**397,794.0**	**417,156.0**	**431,462.5**	**461,480.0**	**489,195.3**
CASH FLOW (PHP m)					
Pretax profit	16,070.0	23,551.0	43,468.3	44,437.8	47,774.0
Depreciation & amortisation	2,188.0	2,117.0	1,939.0	2,189.0	2,439.0
Adj net interest (income)/exp	(6,270.0)	(7,144.0)	(7,355.0)	(6,635.9)	(6,276.0)
Change in working capital	56.0	7,154.0	(6,518.8)	(5,340.6)	(9,788.5)
Cash taxes paid	(2,125.0)	(1,497.0)	(7,265.8)	(6,293.2)	(6,661.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(1,237.0)	19,099.0	27,523.1	17,701.2	16,950.0
Capex	(1,118.0)	3,084.0	(1,122.0)	(622.0)	(122.0)
Free cash flow	(2,355.0)	22,183.0	26,401.1	17,079.2	16,828.0
Dividends paid	(2,990.0)	(4,374.0)	(4,374.0)	(4,374.0)	(4,374.0)
Equity raised / (purchased)	1,635.0	(9,422.0)	0.0	0.0	0.0
Change in Debt	(2,126.0)	9,082.0	(24,248.9)	(2,804.0)	(10,733.1)
Other invest/financing cash flow	6,126.0	(10,868.0)	6,193.5	(7,699.7)	(2,876.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	290.0	6,601.0	3,971.7	2,201.5	(1,155.6)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	28.8	38.8	26.7	5.5	7.9
EBITDA growth	1.9	(25.6)	407.3	(11.6)	7.1
EBIT growth	11.7	(37.0)	733.8	(13.7)	6.6
Pretax growth	55.7	46.6	84.6	2.2	7.5
Reported net profit growth	67.8	67.2	49.8	4.8	7.9
Core net profit growth	67.8	32.6	66.9	18.6	7.9
Profitability ratios (%)					
EBITDA margin	4.1	2.2	8.9	7.4	7.4
EBIT margin	2.7	1.2	8.2	6.7	6.6
Pretax profit margin	10.3	10.8	15.8	15.3	15.3
Payout ratio	11.2	6.7	4.5	4.3	4.0
DuPont analysis					
Net profit margin (%)	7.0	8.4	10.0	9.9	9.9
Revenue/Assets (x)	0.4	0.5	0.6	0.6	0.6
Assets/Equity (x)	2.1	2.1	1.9	1.8	1.7
ROAE (%)	na	na	na	na	na
ROAA (%)	2.8	3.6	5.7	6.5	6.5
Liquidity & Efficiency					
Cash conversion cycle	155.7	95.1	55.6	44.6	46.0
Days receivable outstanding	39.9	24.8	13.9	13.6	17.7
Days inventory outstanding	199.1	135.2	103.4	92.7	86.1
Days payables outstanding	83.2	64.9	61.7	61.7	57.7
Dividend cover (x)	8.9	14.9	22.3	23.3	25.2
Current ratio (x)	2.4	1.9	1.9	2.0	2.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.0	2.3	2.5	2.8
Net gearing (%) (incl perps)	55.9	55.7	37.2	31.0	24.5
Net gearing (%) (excl. perps)	55.9	55.7	37.2	31.0	24.5
Net interest cover (x)	1.0	0.4	3.4	3.2	3.7
Debt/EBITDA (x)	nm	nm	4.9	5.4	4.6
Capex/revenue (%)	0.7	nm	0.4	0.2	0.0
Net debt/ (net cash)	114,555.0	118,701.0	91,088.4	86,247.0	77,297.4

Source: Company; Maybank IBG Research

Maybank Securities

Industrials

Philippines

JG Summit Holdings (JGS PM)

Building earnings momentum

BUY

Share Price	PHP 38.40
12m Price Target	PHP 58.00 (+52%)
Previous Price Target	*PHP 58.00*

Earnings growth could be overshadowed by sentiment

While JGS is undervalued, rising oil prices could dampen sentiment on the stock despite its sustainable earnings performance. We believe URC, MER and TEL offer more defensive plays to this group as they not only have manageable exposure to oil and fuel, but MER and TEL offer FY24 dividend yields of 6% and 9%, respectively. Our FY23/24 earnings forecast and PHP58 TP are unchanged and we maintain BUY. ***We transfer coverage of JGS to Daphne Sze.***

FY24E earnings growth driver

The expected gross loss from JGS Olefins, the lower dividend income from BPI post the Robinsons Bank asset swap, the normalized dividend income from TEL and the lower earnings expectations for MER post the 5th rate rebasing exercise are offset by sustained growth at URC and the continued recovery of JGS. JGS' FY24E consolidated earnings should be flat at PHP20.4b vs FY23E's PHP19.9b.

Most vulnerable to oil price uptrend

Fuel and oil account for c.16% of JGS's consolidated cost base, while oil-sensitive raw materials and people costs account for another c.46%. Although we expect crude oil prices to be lower in FY23/24 vs FY22 averages, futures prices in FY24 continue to climb and could potentially squeeze JGS's margins. Based on our estimates, for every USD10/bbl increase in oil prices, JGS' FY24 earnings could decline by 14%, assuming zero hedging.

No urgency

JGS is trading at a 32% discount to its real-time NAV, which is wider than its 5-year average of 14%, reinforcing our BUY call. Nevertheless, crude oil prices averaging beyond USD80/bbl could work against the stock's upside. Given the average futures prices of crude oil as of Oct 2023, we recommend building a meaningful position in JGS only in 2H24.

FYE Dec (PHP m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	218,727	288,550	318,017	347,700	365,160
EBITDA	14,114	19,426	45,931	51,017	64,232
Core net profit	5,108	(2,549)	19,900	20,446	27,580
Core EPS (PHP)	0.68	(0.34)	2.65	2.72	3.67
Core EPS growth (%)	nm	nm	nm	2.7	34.9
Net DPS (PHP)	0.38	0.40	0.40	0.40	0.40
Core P/E (x)	78.0	nm	14.5	14.1	10.5
P/BV (x)	1.2	1.2	0.9	0.8	0.8
Net dividend yield (%)	0.7	0.8	1.0	1.0	1.0
ROAE (%)	1.6	0.2	6.1	5.9	7.5
ROAA (%)	0.5	(0.2)	1.8	1.8	2.3
EV/EBITDA (x)	57.0	32.5	13.4	12.5	10.0
Net gearing (%) (incl perps)	66.9	33.9	44.7	42.5	37.6
Consensus net profit	-	-	19,900	20,446	27,580
MIBG vs. Consensus (%)	-	-	0.0	0.0	0.0

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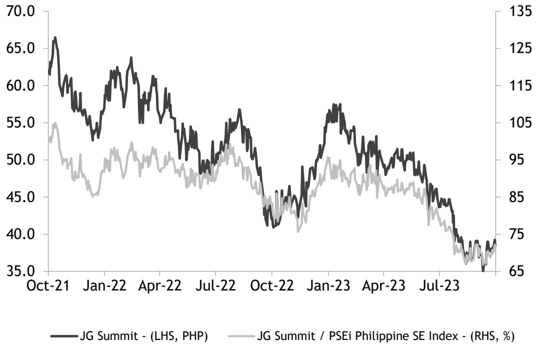
Company Description

JG Summit is a holding company, which engages in the manufacture and distribution of agro-industrial products, real estate and management services.

Statistics

52w high/low (PHP)	57.50/35.05
3m avg turnover (USDm)	1.1
Free float (%)	39.9
Issued shares (m)	7,163
Market capitalisation	PHP275.1B
	USD4.8B
Major shareholders:	
Gokongwei family	56.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(12)	(9)
Relative to index (%)	(2)	(10)	(15)

Source: FactSet

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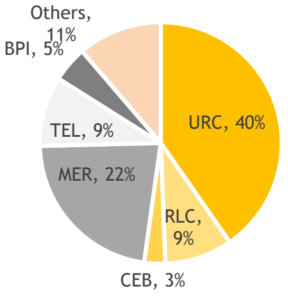
Tear Sheet Insert

Value Proposition

- JGS is the holding company of the Gokongwei family's stakes in URC (the largest snackfood company in the Philippines), RLC, CEB (the country's leading low-cost carrier), TEL (oldest telco), MER (largest power distribution company in the country) and UIC.
- This is the only Philippine conglomerate with sizeable ASEAN exposure via URC, CEB and UIC.
- About 90% of JGS's NAV is listed and are directly accessible.

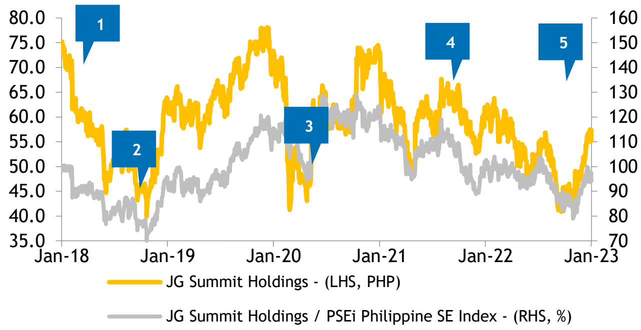
JGS's NAV composition



Source: Maybank IBG Research

Price Drivers

Historical share price trend



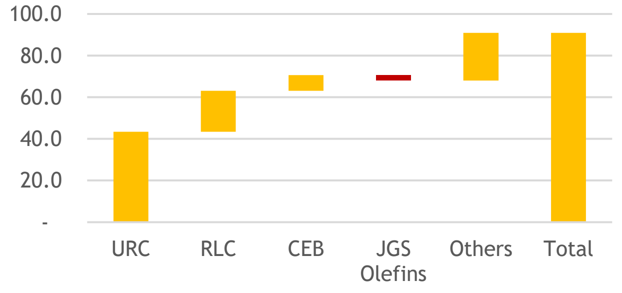
Source: Company, Maybank IBG Research

10. Feb 2018: JGS, in a consortium with Ayala Corp, Alliance Global, Filinvest Development Corp and Metro Pacific, submitted a proposal to redevelop the NAIA airport.
11. Inflation in the Philippines averaged at 6.7% in 2018, exposing URC and CEB to margin pressures.
12. Lockdown in Mar 2020 due to the pandemic, halting domestic and international travel.
13. Partial reopening measures allowed domestic travel, increasing CEB's domestic routes.
14. Sep 2022: JGS and RRHI announced that they have signed an agreement to swap their stake at Robinsons Bank for 6% of BPI common shares.

Financial Metrics

- Much of JGS' positive earnings trajectory in 1Q23 is attributable to the earlier-than-expected recovery of CEB, which benefited from improving domestic and international mobility and the downtrend in oil prices starting 4Q22. We expect CEB to return to profit by YE23 as it further expands its international routes.
- The imposition of safeguard duties on polyethylene imports should improve prospects for JGS Olefins but given its lack of pricing power, we expect it to continue to incur gross losses in FY23/24.
- Anticipated losses from JGS Olefins will keep the group's net gearing level high. Nevertheless, JGS's debt-servicing coverage ratio should remain manageable at above 1.0x.

JGS's consolidated gross profit breakdown (FY23E)



Source: Maybank IBG Research

Swing Factors

Upside

- Cash-positive M&A or divestments.

Downside

- Weak PHP, rising raw material costs (including jet fuel).
- Increased mobility restrictions on domestic and international air travel.
- The market undervaluing JGS's subsidiaries.

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Risk Rating & Score[1]	47.6 (Severe Risk)
Score Momentum[2]	-0.6
Last Updated	1 Aug 2023
Controversy Score[3] (Updated: 13 Apr 2023)	1 (Low)

Business Model & Industry Issues

- In 2019, JGS released its inaugural sustainability report, which was the product of the collaboration of its subsidiaries' CEOs, highlighting its five core sustainability principles: (1) climate action; (2) shared success across JGS' different stakeholders; (3) resource efficiency and circularity; (4) employee engagement and development; and (5) innovative and accessible products and services that will improve Filipinos' quality of life. By 2020, the group's sustainability report followed the template prescribed by the local Securities and Exchange Commission but its contents remained consistent with the original principles identified in 2019.
- At the conglomerate level, JGS is most exposed to governance risk due to: (i) related-party transactions (RPT) arising from its highly synergistic portfolio; and (ii) the high level of family participation on the board. The group is aggressively professionalising and these governance risk exposures are partially mitigated by the presence of independently-chaired RTP and audit committees.
- JGS' business ethics and corporate governance initiatives are at par with its peers but it garnered a low Sustainalytics risk rating of 48.2 (Severe) mainly due to subsidiary-level exposures to carbon, product governance, resource use and emissions, effluents and waste risks, which the group has been actively addressing since 2019. JGS' increasingly committed stance on sustainability is showing more concretely on its score momentum of -3.3.

Material E issues

- JGS actively monitors its energy and water consumption metrics and has active targets to increase utilization from renewable energy sources or decrease overall consumption. In 2022, the group consumed 29,658,971 GJ of electricity, 6% of which were from renewable sources.
- Similarly jet fuel consumption (by CEB) is lower at 15,700,919 GJ, still lower than 2019's 19,664,479.90 GJ.
- The group consumed 18,956,215 cubic metres of water in 2022, of which 1,084,659 cubic metres were recycled. URC has active programmes (under its LEAN initiative) to reduce water consumption and the group is also exploring incorporating other technologies, such as rainwater harvesting, water catchment, and impounding, into its other operations.
- Less than 1% of the group's material inputs are renewable materials but URC was able to recycle 3% of total materials used.

Material S issues

- JGS has 23,122 employees, only 40% of which are female.
- The average training hours per employee was 17 or a total of 391,377 hours in 2022.
- 11% of employees are covered by a collective bargaining agreement, most of which are workers in the factories of URC and the properties of RLC.

Key G metrics and issues

- In 2022, JGS's board of directors (BOD) had nine members, five of who are family members and four independent directors.
- There is one woman on the BOD, Robina Gokongwei Pe, who is the daughter of the late John Gokongwei.
- The five Gokongwei family members (related to the founder, John Gokongwei) on the BOD are: James Go (brother), Lance Gokongwei (son), Robina Gokongwei Pe (daughter), Patrick Henry Go (nephew) and Johnson Robert Go (nephew). There is also another family member on the executive team: Lisa Gokongwei Cheng (daughter). No limit has been formally set as to the number of family members that can be present on the board or in the executive team.
- This high level of family participation is mitigated by the presence of the RPT, corporate governance, board risk oversight and audit committees, all of which have independent directors.
- In 2022, the CEO and the four most highly compensated executive directors received PHP90.9m, and accounted for less than 1% of consolidated revenue.
- Sycip Gorres Velayo and Co., the local partner of Ernst & Young, is the auditor of JGS.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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	Quantitative Parameters (Score: 60)					
	Particulars	**Unit**	**2020**	**2021**	**2022**	**SM (2022)**
E	Scope 1 GHG emissions	m tCO2e	1.35	1.48	2.1	0.41
	Scope 2 GHG emissions	m tCO2e	0.31	0.29	0.4	1.36
	Total	**m tCO2e**	**1.66**	**1.77**	**2.5**	**1.77**
	Scope 3 GHG emissions	m tCO2e	NA	NA	0.1	0.65
	Total	**m tCO2e**	**1.66**	**1.77**	**2.5**	**2.42**
	GHG intensity (Scope 1+2)	CO2e/PHPm	7.43	7.64	8.3	0.21
	Green energy share of capacity	%	3%	39%	6%	25%
	Water recycled as % of capacity	%	2.7%	5.6%	14.3%	37%
	Electricity intensity/equity capital	GJ/PHPm	77.2	78.2	94.4	*N/A*
	% of recycled material used	%	6.2%	6.0%	3.0%	*N/A*
	% of debt from green instruments	%	0	0	0%	0
	NOx (excluding N20)	Tons	470.8	464.7	1,439	*N/A*
	Sox	Tons	125.4	216.8	419	*N/A*
	SPM/Particulate matter (PM10)	Tons	26.7	28.6	365.7	*N/A*
S	% of women in workforce	%	40%	40%	41%	62%
	% of women in management roles	%	26.0%	NA	NA	57%
	Average training hours	hours	18.8	20.9	16.93	17
	Lost time injury frequency (LTIF) rate	number	27	55	341	0
G	MD/CEO salary as % of reported net profit	%	31.8%	1.3%	1.4%	NA
	Board salary as % of reported net profit	%	77.9%	3.9%	2.5%	.01%
	Independent directors on the Board	%	30%	44.4%	44%	38%
	Female directors on the Board	%	20%	11.1%	11%	25%

Qualitative Parameters (Score: 33)

a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?

Yes, there is an ESG policy in place and yes there is a Corporate Governance and Sustainability Committee.

b) Is the senior management salary linked to fulfilling ESG targets?

No.

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

No, JGS has begun to integrate sustainability risk into its Integrated Risk Management (ERM), which should serve as the foundation for the adoption of TCFC reporting.

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

JGS is still in the process of structuring Scope 3 tracking.

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

In RLC, the company replaced 6 Chillers in 4 malls in 2021 leading to energy savings, roll out of digital platform in banking operations has led to 13.5MT paper saving, recyclable material usage in carrier bags and reprocessing material for jerry cans. Project Jaguar has led to reduction in energy use ratio by 6% in 2021 vs 2018. Recycling of water has helped improve water usage ratio by 49% in 2021 vs 2018

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Targets are still under development but they are not closed off to the idea.

Target (Score: 0)

Particulars	**Target**	**Achieved**
Define climate action targets	By YE22	Not disclosed
Define Scope 1/2/3 reduction targets	By YE30	Not disclosed
Net zero GHG	By YE50	Not disclosed

Impact

NA

Overall Score: 38

As per our ESG matrix, JG Summit (JGS PM) has an overall score of 38.

ESG score	Weights	Scores	Final Score
Quantitative	50%	60	30
Qualitative	25%	33	8
Target	25%	0	0
Total			**38**

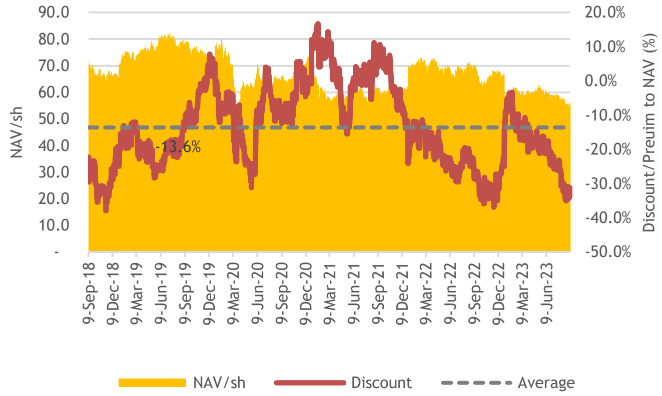
As per our ESG assessment, JGS' Sustainability journey is at its early stages although we recognise various ESG initiatives at the subsidiary level (URC and CEB, in particular). JGS further needs to define tangible mid/long-term targets, measurement metrics and reporting procedures. JGS' overall ESG score falls below average, at 39 (average ESG rating = 50), but it shows strong upward trajectory over the short-term.

Fig 1: Target price computation

				RNAV			Forward NAV	
Segment	**Stake** %	**Shares** (m)	**CP** (PHP/sh)	**Attrib. value** (PHPm)	**Valn method**	**TP** (PHP/sh)	**Attrib. value** (PHPm)	**% of NAV**
Universal Robina Corp (URC PM)	55.3%	2,204	118.9	144,796	DCF	170	207,026	40%
Robinsons Land (RLC PM)	61.0%	5,194	15.2	48,070	MV		48,070	9%
Cebu Air (CEB PM)	67.8%	610	34	14,050	DCF	55	22,728	4%
Meralco (MER PM)	26.4%	1,127	368.0	109,356	DCF	387	115,002	22%
PLDT (TEL PM)	11.2%	216	1,176	28,533	DCF	1,978	47,992	9%
Bank of the Philippine Islands (BPI PM)	3.9%	4,919	112	21,431	PBV	128	24,492	5%
Others				93,625			93,625	18%
Asset Value				459,862			558,937	107%
Net Debt				-50,400			-35,795	-7%
NAV				409,462			523,142	100%
NAV/sh				57			73	
Discount				-32%			-20%	
TP							58.0	

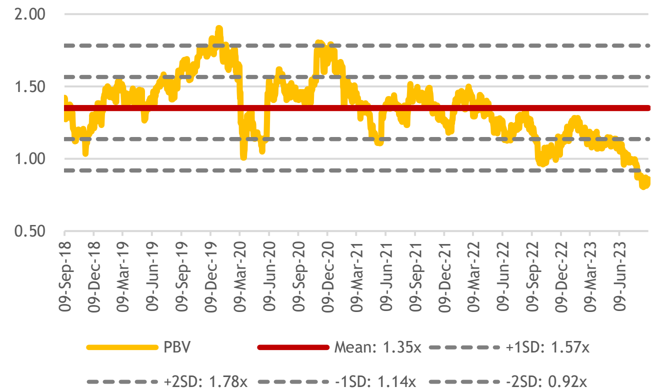
Source: Maybank IBG Research

Fig 2: Discount to NAV



Source: Maybank IBG Research

Fig 3: PBV band



Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	89.9	nm	14.5	14.1	10.5
Core P/E (x)	78.0	nm	14.5	14.1	10.5
P/BV (x)	1.2	1.2	0.9	0.8	0.8
P/NTA (x)	0.4	0.4	0.3	0.2	0.2
Net dividend yield (%)	0.7	0.8	1.0	1.0	1.0
FCF yield (%)	10.7	nm	1.2	7.5	11.7
EV/EBITDA (x)	57.0	32.5	13.4	12.5	10.0
EV/EBIT (x)	nm	nm	20.1	18.6	13.9
INCOME STATEMENT (PHP m)					
Revenue	218,727.2	288,549.8	318,017.3	347,700.2	365,159.9
EBITDA	14,113.7	19,426.3	45,930.7	51,016.5	64,231.6
Depreciation	(14,523.3)	(14,520.8)	(15,260.7)	(16,892.3)	(17,793.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(409.6)	4,905.5	30,670.0	34,124.2	46,437.9
Net interest income /(exp)	(8,016.5)	(9,427.6)	(10,375.9)	(10,884.2)	(10,361.9)
Associates & JV	11,696.4	14,921.5	17,095.0	16,463.0	15,495.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	7,697.3	392.3	0.0	0.0	0.0
Pretax profit	10,967.6	10,791.7	37,389.0	39,703.0	51,571.4
Income tax	(362.4)	(2,750.3)	(3,207.6)	(3,505.1)	(6,539.4)
Minorities	(5,497.1)	(7,390.8)	(14,281.1)	(15,751.6)	(17,451.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	5,108.2	650.6	19,900.3	20,446.2	27,580.4
Core net profit	5,108.2	(2,549.4)	19,900.3	20,446.2	27,580.4
Preferred Dividends	(15.2)	(15.2)	(15.2)	(15.2)	(15.2)
Distributable Income	5,093.0	(2,564.6)	19,885.1	20,431.0	27,565.2
BALANCE SHEET (PHP m)					
Cash & Short Term Investments	82,890.1	79,071.7	85,638.9	93,131.4	94,258.6
Accounts receivable	72,223.7	41,427.3	44,441.3	48,902.2	51,033.7
Inventory	81,611.9	92,052.1	121,368.3	134,957.9	144,733.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	146,034.1	143,294.9	146,476.3	149,688.8	152,595.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	75,487.5	6,594.2	6,594.2	6,594.2	6,594.2
Other assets	565,287.4	710,761.5	741,161.5	748,611.5	756,061.5
Total assets	**1,023,534.7**	**1,073,201.8**	**1,145,680.6**	**1,181,886.1**	**1,205,276.8**
ST interest bearing debt	179,069.0	70,279.4	73,568.8	78,042.7	80,263.7
Accounts payable	65,995.6	91,917.5	61,627.1	76,784.6	81,283.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	200,830.5	153,779.9	217,092.0	224,001.1	214,800.0
Other liabilities	134,009.0	329,860.0	334,872.0	311,365.0	295,231.0
Total Liabilities	**579,903.7**	**645,837.1**	**687,160.2**	**690,193.6**	**671,578.0**
Shareholders Equity	335,308.9	319,932.0	336,807.9	354,229.8	378,785.8
Minority Interest	108,322.1	107,432.7	121,712.4	137,462.7	154,913.0
Total shareholder equity	**443,631.0**	**427,364.7**	**458,520.4**	**491,692.5**	**533,698.8**
Total liabilities and equity	**1,023,534.7**	**1,073,201.8**	**1,145,680.6**	**1,181,886.1**	**1,205,276.8**
CASH FLOW (PHP m)					
Pretax profit	10,967.6	10,791.7	37,389.0	39,703.0	51,571.4
Depreciation & amortisation	14,523.3	14,520.8	15,260.7	16,892.3	17,793.7
Adj net interest (income)/exp	23,825.3	22,638.9	24,260.5	26,253.2	26,551.0
Change in working capital	19,394.7	(44,760.9)	(29,040.9)	(13,576.6)	(9,686.2)
Cash taxes paid	(561.8)	(2,460.4)	(3,207.6)	(3,505.1)	(6,539.4)
Other operating cash flow	(3,323.1)	(85.0)	0.0	0.0	0.0
Cash flow from operations	62,814.9	(2,424.4)	41,994.3	62,520.6	76,329.3
Capex	(19,966.8)	(33,717.4)	(38,645.3)	(40,811.3)	(42,532.8)
Free cash flow	42,848.2	(36,141.8)	3,349.0	21,709.3	33,796.5
Dividends paid	(7,293.6)	(3,025.7)	(3,025.7)	(3,025.7)	(3,025.7)
Equity raised / (purchased)	32,209.3	(21,281.9)	0.0	0.0	0.0
Change in Debt	(30,432.2)	29,830.0	38,033.8	(1,440.6)	(20,836.5)
Other invest/financing cash flow	(35,932.7)	26,801.1	(31,789.8)	(9,750.5)	(8,807.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1,398.9	(3,818.4)	6,567.2	7,492.5	1,127.2

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.2	31.9	10.2	9.3	5.0
EBITDA growth	(14.5)	37.6	136.4	11.1	25.9
EBIT growth	nm	nm	525.2	11.3	36.1
Pretax growth	236.3	(1.6)	246.5	6.2	29.9
Reported net profit growth	nm	(87.3)	2,958.7	2.7	34.9
Core net profit growth	nm	nm	nm	2.7	34.9
Profitability ratios (%)					
EBITDA margin	6.5	6.7	14.4	14.7	17.6
EBIT margin	nm	1.7	9.6	9.8	12.7
Pretax profit margin	5.0	3.7	11.8	11.4	14.1
Payout ratio	56.2	nm	15.2	14.8	11.0
DuPont analysis					
Net profit margin (%)	2.3	0.2	6.3	5.9	7.6
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.3
Assets/Equity (x)	3.1	3.4	3.4	3.3	3.2
ROAE (%)	1.6	0.2	6.1	5.9	7.5
ROAA (%)	0.5	(0.2)	1.8	1.8	2.3
Liquidity & Efficiency					
Cash conversion cycle	166.7	83.1	94.7	130.9	133.3
Days receivable outstanding	115.7	70.9	48.6	48.3	49.3
Days inventory outstanding	170.8	134.4	164.4	179.5	193.3
Days payables outstanding	119.8	122.2	118.3	96.9	109.2
Dividend cover (x)	1.8	0.2	6.6	6.8	9.1
Current ratio (x)	1.0	1.0	1.2	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.7	1.7	1.7	1.8
Net gearing (%) (incl perps)	66.9	33.9	44.7	42.5	37.6
Net gearing (%) (excl. perps)	66.9	33.9	44.7	42.5	37.6
Net interest cover (x)	na	0.5	3.0	3.1	4.5
Debt/EBITDA (x)	nm	11.5	6.3	5.9	4.6
Capex/revenue (%)	9.1	11.7	12.2	11.7	11.6
Net debt/ (net cash)	297,009.4	144,987.6	205,021.9	208,912.4	200,805.1

Source: Company; Maybank IBG Research

October 11, 2023

Maybank Securities

Industrials

Philippines

SM Investments (SM PM)

Big and defensive

BUY

Share Price	PHP 821.00
12m Price Target	PHP 1,290.00 (+58%)
Previous Price Target	*PHP 1,290.00*

SM is our Top Pick in the sector; reiterate BUY

As the biggest retailer, mall operator and bank, SM offers the best exposure to the Philippines' domestic consumption story. SM's predominantly essential consumption-based exposure, the cost+ pricing model of its retail segment, the sizeable earnings contribution from BDO and CHIB (beneficiaries in a high interest rate environment) and its under-leveraged balance sheet keep it resilient to oil-driven inflation and the related PHP:USD and interest rate pressures. Our FY23/24 earnings forecasts and PHP1,290 TP are unchanged and we maintain BUY. ***We transfer coverage of SM to Daphne Sze***.

FY24 earnings growth driver

Factoring in the impact of the prospective policy rate cuts in the latter part of FY24 for BDO and CHIB, we expect SM's consolidated earnings growth to decelerate to 14% YoY from 25% YoY in FY23E. Bulk of the earnings uplift will be driven by SM Retail and SM Prime, which we expect to benefit from sustained store/mall expansions and remain insulated from the impact of inflation.

Consumption catch basin

We estimate that the combined revenues of SM Retail and the total trade that coursed through SMPH accounted for 10% of the nation's household consumption in 1H23, within the historical, 9-10% average. Despite the inflation-driven headwinds, Maybank forecasts domestic consumption to grow by 7% in FY24E, reinforcing our SM Retail- and SMPH-led earnings forecasts for SM.

Holiday winner

Currently trading at a 23% discount to its RNAV, the stock is undervalued (FY18-23 average: 13% discount), reinforcing our BUY call. Aside from being the biggest beneficiary of the upcoming holiday-induced spending in 4Q, SM is among the most liquid stocks in the market, attracting a wider pool of investors. Finally, its potential re-inclusion in the FTSE Global Index in 1Q24 should also provide a flow-driven catalyst to the stock.

FYE Dec (PHP m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	380,003	479,246	544,578	582,224	622,594
EBITDA	46,364	64,783	91,984	100,939	108,917
Core net profit	40,412	61,654	77,427	88,255	98,153
Core EPS (PHP)	33.55	50.88	63.89	72.83	80.99
Core EPS growth (%)	69.2	51.6	25.6	14.0	11.2
Net DPS (PHP)	4.25	6.21	6.25	6.25	6.25
Core P/E (x)	28.1	17.7	12.8	11.3	10.1
P/BV (x)	2.5	2.2	1.8	1.5	1.3
Net dividend yield (%)	0.5	0.7	0.8	0.8	0.8
ROAE (%)	9.4	13.1	14.6	14.5	14.2
ROAA (%)	3.1	4.3	5.2	5.7	6.1
EV/EBITDA (x)	36.6	26.0	16.5	14.5	13.1
Net gearing (%) (incl perps)	61.4	57.7	39.3	25.7	15.4
Consensus net profit	-	-	74,100	84,727	95,993
MIBG vs. Consensus (%)	-	-	4.5	4.2	2.3

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Company Description

SM Investments is a holding company, which holds the Sy family's stake in retail, banking and property in the Philippines.

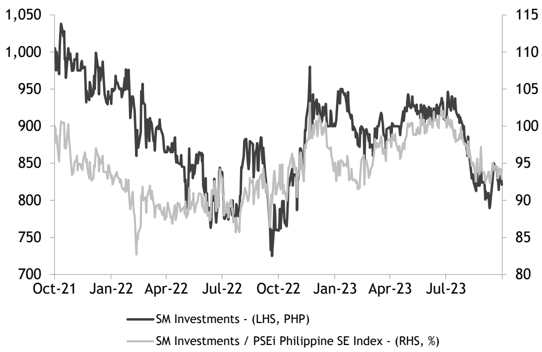
Statistics

52w high/low (PHP)	980.00/759.00
3m avg turnover (USDm)	9.6
Free float (%)	47.5
Issued shares (m)	1,205
Market capitalisation	PHP989.0B
	USD17.4B

Major shareholders:

Sy family	50.2%
PCD NOMINEE (NON-FILIPINO)	34.4%
PCD NOMINEE (FILIPINO)	13.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(10)	8
Relative to index (%)	(1)	(8)	1

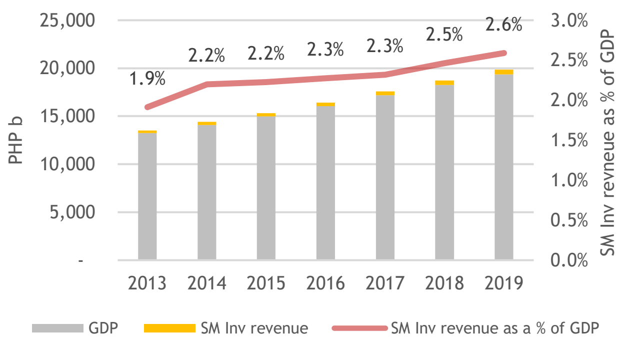
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- SM Inv. is the holding company of the country's largest bank, retailer and mall operator, making it the best proxy for Philippine consumption.
- It operates a highly synergistic portfolio with each subsidiary working as a multiplier for each other. SM Retail stores have an exclusive expansion platform through SM malls. SM malls need SM Retail stores and BDO/CHIB bank branches to generate foot traffic and the trade ecosystem created between the stores and the malls become a ready market for the banks.
- SM Inv. has a consumer-focused portfolio, which limits its exposure to regulatory/political risk.

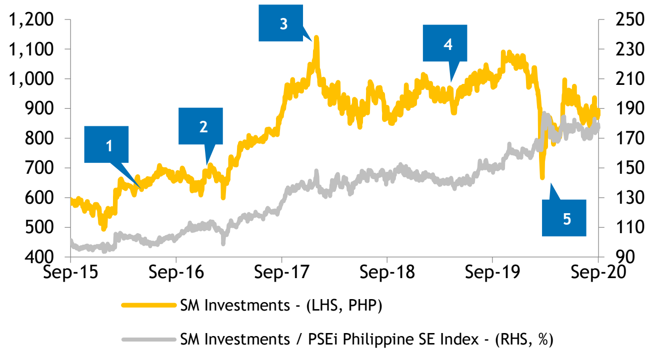
SM Inv's revenue as a % of the PHP GDP



Source: Company, Philippine Statistics Authority

Price Drivers

Historical share price trend



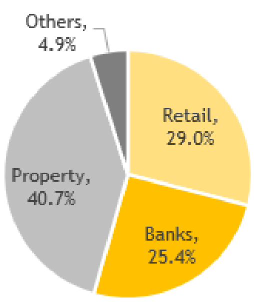
Source: Company, Maybank IBG Research

1. SM Inv announces merger of Sy-held retail businesses under SM Inv's SM Retail.
2. SM Inv acquires a minority stake in 2GO.
3. SM Inv announces potential acquisition of a stake in Goldilocks.
4. Henry Sy Sr, founder of SM Inv, passes away.
5. Metro Manila, along with the rest of the Philippines, was put under Enhanced Community Quarantine barring retail stores and malls to operating.

Financial Metrics

- SM Inv.'s earnings growth is highly correlated to domestic consumption in the Philippines. The consumption indicators bottomed out in 2Q20 and while still below pre-lockdown levels, employment and OFW remittances figures have shown some improvement, making our FY23/24E earnings growth forecasts of 25% and 16% YoY realisable.
- We expect FY23E growth to be driven by 15% YoY increase in the topline, EBIT margin recovery for SM Retail, sustained mall expansions for SM Prime and NIM expansion of BDO.

12-month forward NAV composition



Source: Company

Swing Factors

Upside

- Higher-than-expected employment, OFWR and consumption figures provide an automatic boost to SM Inv's stock performance given the high correlation of its revenue generation to domestic consumption.
- Any news of potential acquisitions by unlisted SM Retail, especially as the challenging economic condition drives more consolidation in the retail space.
- Positive developments on the COVID-19 vaccination front.

Downside

- Stricter mobility restrictions would be negative for SM Retail and SM Prime.
- If the rebound in employment and OFWR fails to hold up in the coming quarters, the recovery in domestic consumption could falter.
- Revisions in the current stimulus bills, compelling banks and property lessors to grant longer grace periods for debt or rent collection will depress sentiment for BDO, CHIB and SM Prime.

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Risk Rating & Score[1]	13.3 (low)
Score Momentum[2]	-
Last Updated	6 Dec 2023
Controversy Score[3] (Updated: 14 Mar 2023)	1

Business Model & Industry Issues

- SM's ESG programme is based on the Ten Principles of the United Nations Global Compact and it's focused on: (i) inclusive economic development; and (ii) energy, water consumption and waste management efficiency.
- With SM directly employing 140,029 Filipinos and indirectly providing jobs for those working in its retail suppliers, mall tenants and MSME partners, which account for 68% of SMPH's mall tenants, SM is most exposed to social issues. In 2016, SM was dragged into a contractualization issue. SM has not had contractual employees.
- In 2012, SM was in the spotlight due to a tree-cutting, balling and relocating incident in a mall expansion in Baguio. Despite being fully compliant with regulations, SM still initiated a redesign of the expansion plan to incorporate green spaces, which it also implements in its newer malls.
- The synergistic model of SM necessitates increased monitoring of its related-party transactions. There have been no red flags on this front and it helps that SMPH, BDO and CHIB, as publicly listed entities, are also held accountable for transparency and fairness at their end.
- SM has been awarded Industry Top Rated, Regional Top Rated by Sustainalytics in 2022.

Material E issues

- SMPH utilizes RE (c.50% of total consumption in malls) and implements water conservation measures through sewage plants, reusing water in cooling towers, toilet flushing and grounds keeping. In 2022, SMPH reused a 42.5m cubic meters of water, from 28.2m in 2021.
- In 2012, residents of Baguio filed a petition against SM Inv when SMPH cut, balled and relocated 60 pine trees for its mall expansion. A TRO was issued but was reversed as SMPH was fully compliant with all the permits. Nevertheless, SM initiated a re-design and incorporated more green areas within the development.
- Environmental groups are opposing SMPH's proposed 360-hectare reclamation project along Manila Bay, which they believe could further damage the ecosystem in Manila Bay. SMPH is fully compliant with all environmental and regulatory permit requirements in relation to this reclamation.
- SM has a 35.0% stake in AT, an open-pit copper and nickel mining company. SM's stake in AT was a result of the latter's inability to service a debt it incurred from BDO. The accommodation was extended mainly because AT is owned by the Ramos family, which is the same family that owns a long-term anchor tenant of SMPH. Nevertheless, despite its token stake, AT is made to comply with SM's ESG standards. In 2022, 63.0% of the water consumed by AT was reused.
- Through BDO, the group has funded 58 RE projects with 2,252MW of capacity.

Material S issues

- SM extends support to the communities it locates in malls in by building public school buildings (342 schools) and health centres (317 health centres), and awarding scholarships.
- SM Retail and SMPH prioritizes business with local MSMEs. At SMPH, 68% of tenants are MSMEs. The in-house SM Store brand alone employs 1,500 MSMEs and SM malls have enrolled 1,627 of its SME tenants into the free disaster risk reduction and management programme. BDO's "Cash Agad" programme, also offers a platform to enable the unbanked MSMEs to perform banking transactions through the BDO platform.
- In 2016, the SM was put in a spot when then President Duterte pushed to make contractualization illegal. SM clarified that none of its subsidiaries employ contractual workers and only 1-3% of its employee base are seasonal workers, which are workers employed around peak months (2Q/4Q). Even when the contractualization bill was vetoed, SM Inv still doesn't hire contractual workers.
- SM Inv is one of the biggest contributors to the Philippines' COVID-19 efforts. It provided rental reprieve to its tenants during the height of the lockdown. When the lockdowns eased and some SM stores, SM malls and BDO and CHIB branches were allowed to operate, SM provided free testing, PPEs and transportation for its employees impacted by the limited operations of public transport. SM, through SM Foundation, also donated a vast amount of relief packs to various communities and sectors (public transportation drivers), as well as ventilators and PPEs to hospitals and frontline workers nationwide.

Key G metrics and issues

- There are 8 members on SM's board of directors (BOD), three of which are independent directors and none of the current BOD members have worked in SM's auditing firm in the three years prior to their appointment.
- Women are well represented at SM. There are 2 women on the BOD, 1 of which is Teresita T Sy, who holds the highest position on the BOD among the Sy siblings. Across the conglomerate, women account for 62% of the total workforce and outnumber male employees in senior management positions by 3:2.
- Jose T Sio, a non-family member, has held the chairmanship since 2017. Along with Teresita, there are 2 other Sy family members that sit on the BOD (Henry Jr and Harley) while the remaining Sy siblings (Elizabeth, Hans and Herbert) serve as advisers to the BOD.
- Only non-executive directors and independent directors receive remuneration, which is fixed: PHP100,000 for each BOD meeting and PHP20,000 per diem per BOD committee meeting attended.
- No limits have been set as to the number of Sy family members that can sit on the BOD. Nevertheless, the Related Party Transaction, Risk Management, Corporate Governance and Audit committees are deliberately chaired and run by non-Sy family members to ensure real checks-and-balances.
- Sycip Gorres Velayo and Co, the local partner of Ernst & Young, is the auditor of SM Inv and has been their auditor since publicly listing in 2005.

[1]*Risk Rating & Score* - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]*Score Momentum* - indicates changes to the company's score since the last update – a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]*Controversy Score* - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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	Quantitative Parameters (Score: 71)					
	Particulars	Unit	2020	2021	2022	AC (2021)
E	Scope 1 GHG emissions	m tCO2e	0.38	0.29	0.41	1.3
	Scope 2 GHG emissions	m tCO2e	1.41	1.36	1.36	0.2
	Total	**m tCO2e**	**1.79**	**1.65**	**1.77**	**1.6**
	Scope 3 GHG emissions	m tCO2e	0.32	0.44	0.7	2.6
	Total	**m tCO2e**	**2.10**	**2.09**	**2.42**	**4.2**
	GHG intensity (Scope 1)	kgCO2e/MWh	0.22	0.18	0.21	NA
	Green energy share of capacity	%	23%	23%	25%	34%
	Energy intensity	GJ/PHPm	NA	NA	NA	17.3
	Water recycled as % of capacity	%	81%	81%	37%	NA
	Waste generated	k tonnes	113.2	186.3	177.6	65.7
	% of debt from green instruments	%	0	0	0	NA
S	% of women in workforce	%	65%	63%	62%	57.0%
	% of women in management roles	%	58%	58%	57%	3.0%
	Average training hours	hours	12	17	17	51.65
	Lost time injury frequency (LTIF) rate	number	0	0	0	NA
G	MD/CEO salary as % of reported net profit	%	0.4%	0.3%	NA	1.0%
	Board salary as % of reported net profit	%	1.9%	1.1%	.01%	1.9%
	Independent directors on the Board	%	38%	38%	38%	43%
	Female directors on the Board	%	25%	25%	25%	14%

Qualitative Parameters (Score: 83)

a) is there an ESG policy in place and is there a standalone ESG committee or is it part of a risk committee?

Yes, SM has a Sustainability Steering Committee that reports to the Executive Committee of SM.

b) is the senior management salary linked to fulfilling ESG targets?

No.

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

Yes, SM, SMPH and NEO (unlisted subsidiary) are TCFD supporters. There is the newly-formed Climate Change Steering Committee (composed of representatives from Risk, Finance, Audit, Sustainability and the Executive Committee) which will provide oversight to climate-related initiatives and strategies of the SM Group. This includes directly or indirectly measuring and managing SM's GHG footprint and climate impact; leading in the transition to renewables to power select facilities; directly investing in environmental projects; and implementing energy efficiency initiatives that can result in company cost-savings.

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

Scope 3 data is incomplete but we have visibility over tenant's electricity use and third-party fuel consumption.

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

1. Investments in solar panels and energy efficient LED lightings, powering 11 malls.

2. SMPH committed to increase the use of RE to 50% across all of its business segments.

3. Use of water catchment basins across 20 SM malls to catch and store almost 80m litres of water every time it rains; recycling 8.7 million cubic meters of water through the sewage treatment plants

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

No.

Target (Score: 50)		
Particulars	**Target**	**Achieved**
Define Scope 1/2/3 reduction targets	By YE23	NA
Raise RE usage	50%	NA
Net zero GHG	By YE50	50%

Impact

NA

Overall Score: 68

As per our ESG matrix, SM Investments (SM PM) has an overall score of 68.

ESG score	Weights	Scores	Final Score
Quantitative	50%	71	35
Qualitative	25%	83	21
Target	25%	50	13
Total			**68**

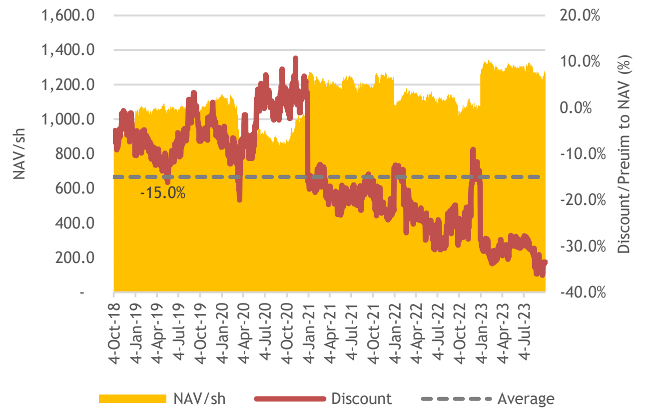
As per our ESG assessment, SM has committed to a framework, tangible mid/long-term targets and has good reporting procedures. SM's consistent implementation over the long term of its Sustainability policies will be the true litmus test of its commitment. SM scored the best out of all the stocks under our coverage, at 68 (average ESG rating = 50).

Fig 1: Target price computation

			RNAV			Forward NAV		
Segment	Stake %	Shares (m)	CP (PHP/sh)	Attrib. value (PHPm)	Valn method	TP (PHP/sh)	Attrib. value (PHPm)	% of NAV
SM Retail	77.0%		696,891	536,606	DCF	662,265	509,944	32%
SM Prime (SMPH PM)	50.0%	28,879	31.0	447,628	SOTP	43.0	620,903	39%
Banco de Oro (BDO PM)	45.0%	5,262	139.3	329,848	PBV	167.0	395,439	25%
China Bank (CHIB PM)	23.0%	2,686	30.5	18,844	MV		18,844	1%
Others	26.0%	9,763		77,874	MV		104,500	7%
Asset Value				**1,410,800**			**1,649,631**	**105%**
Net debt				-94,500			-75,566	-5%
Net asset value				**1,316,300**			**1,574,065**	**100%**
NAV per share				*1,086*			*1,290*	
Conglo discount				-23%			0%	
Target price							**1,290**	

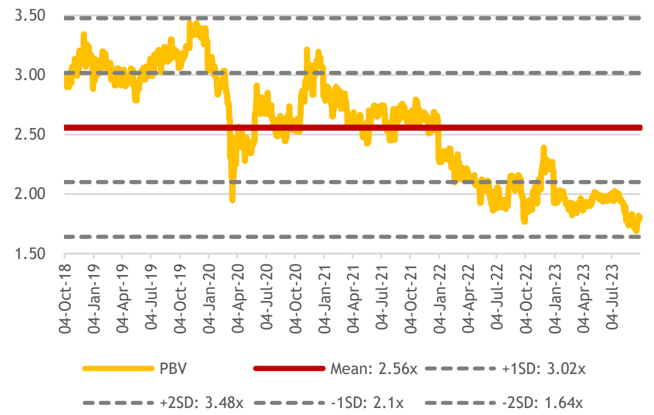
Source: Maybank IBG Research

Fig 2: Discount to NAV



Source: Maybank IBG Research

Fig 3: PBV band



Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	29.5	16.9	12.8	11.3	10.1
Core P/E (x)	28.1	17.7	12.8	11.3	10.1
P/BV (x)	2.5	2.2	1.8	1.5	1.3
P/NTA (x)	2.8	2.4	1.9	1.6	1.4
Net dividend yield (%)	0.5	0.7	0.8	0.8	0.8
FCF yield (%)	2.6	8.0	15.7	12.9	12.1
EV/EBITDA (x)	36.6	26.0	16.5	14.5	13.1
EV/EBIT (x)	63.8	39.1	22.5	19.7	17.7
INCOME STATEMENT (PHP m)					
Revenue	380,003.0	479,245.9	544,577.5	582,224.4	622,594.4
EBITDA	46,363.7	64,783.4	91,983.5	100,938.7	108,916.9
Depreciation	(19,799.6)	(21,741.0)	(24,210.1)	(26,277.0)	(28,388.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	26,564.1	43,042.4	67,773.4	74,661.7	80,528.2
Net interest income /(exp)	(16,935.4)	(18,504.7)	(19,111.0)	(16,084.3)	(12,961.9)
Associates & JV	27,355.5	37,003.1	42,910.9	45,513.2	46,675.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	26,666.0	37,599.4	32,133.7	35,371.1	38,932.2
Pretax profit	63,650.3	99,140.2	123,707.0	139,461.8	153,174.3
Income tax	(7,224.5)	(14,248.2)	(17,778.9)	(20,043.1)	(22,013.8)
Minorities	(14,231.8)	(22,691.7)	(28,501.3)	(31,163.7)	(33,007.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	40,411.9	61,653.7	77,426.9	88,255.0	98,153.5
Core net profit	40,411.9	61,653.7	77,426.9	88,255.0	98,153.5
BALANCE SHEET (PHP m)					
Cash & Short Term Investments	89,352.6	106,561.1	116,654.4	122,628.6	131,632.5
Accounts receivable	75,513.6	83,611.8	82,610.5	88,811.7	99,111.9
Inventory	86,767.2	106,368.0	106,393.2	114,055.7	126,651.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	45,411.5	47,881.0	47,453.7	46,218.5	44,171.2
Intangible assets	40,759.9	40,277.3	40,277.3	40,277.3	40,277.3
Investment in Associates & JVs	305,072.0	328,271.5	328,271.5	328,271.5	328,271.5
Other assets	719,930.1	768,913.8	796,369.8	825,517.4	863,169.0
Total assets	**1,362,807.0**	**1,481,884.6**	**1,518,030.5**	**1,565,780.9**	**1,633,284.8**
ST interest bearing debt	90,873.7	107,858.7	122,677.8	108,555.5	43,523.6
Accounts payable	112,468.3	129,573.6	139,771.3	147,384.5	156,076.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	381,618.9	397,849.7	302,474.5	243,327.1	243,327.1
Other liabilities	154,238.0	154,413.0	167,836.0	174,672.0	180,203.0
Total Liabilities	**739,198.8**	**789,694.6**	**732,759.7**	**673,938.9**	**623,129.7**
Shareholders Equity	447,604.6	496,888.9	566,741.8	647,422.7	738,002.1
Minority Interest	176,003.6	195,301.1	218,529.0	244,419.3	272,152.9
Total shareholder equity	**623,608.2**	**692,190.0**	**785,270.8**	**891,842.0**	**1,010,155.1**
Total liabilities and equity	**1,362,807.0**	**1,481,884.6**	**1,518,030.5**	**1,565,780.9**	**1,633,284.8**
CASH FLOW (PHP m)					
Pretax profit	63,650.3	99,140.2	123,707.0	139,461.8	153,174.3
Depreciation & amortisation	19,799.6	21,741.0	24,210.1	26,277.0	28,388.8
Adj net interest (income)/exp	16,935.4	18,504.7	19,111.0	16,084.3	12,961.9
Change in working capital	(31,180.1)	(13,599.7)	30,875.6	(8,029.9)	(24,997.0)
Cash taxes paid	(8,393.6)	(15,585.7)	(18,370.3)	(20,484.6)	(22,517.9)
Other operating cash flow	3,157.0	1,122.1	0.0	0.0	0.0
Cash flow from operations	63,968.5	111,322.5	179,533.4	153,308.5	147,010.0
Capex	(34,954.5)	(24,210.5)	(23,782.9)	(25,041.8)	(26,341.4)
Free cash flow	29,014.0	87,112.0	155,750.6	128,266.7	120,668.6
Dividends paid	(9,653.5)	(12,714.4)	(12,847.4)	(12,847.4)	(12,847.4)
Equity raised / (purchased)	4,551.6	(2,962.5)	0.0	0.0	0.0
Change in Debt	50,050.4	33,215.8	(80,556.1)	(73,269.8)	(65,031.9)
Other invest/financing cash flow	(63,270.5)	(87,442.6)	(52,253.8)	(36,175.2)	(33,785.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	10,692.1	17,208.4	10,093.3	5,974.2	9,003.9

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	3.1	26.1	13.6	6.9	6.9
EBITDA growth	(6.3)	39.7	42.0	9.7	7.9
EBIT growth	(12.9)	62.0	57.5	10.2	7.9
Pretax growth	51.5	55.8	24.8	12.7	9.8
Reported net profit growth	69.2	52.6	25.6	14.0	11.2
Core net profit growth	69.2	52.6	25.6	14.0	11.2
Profitability ratios (%)					
EBITDA margin	12.2	13.5	16.9	17.3	17.5
EBIT margin	7.0	9.0	12.4	12.8	12.9
Pretax profit margin	16.7	20.7	22.7	24.0	24.6
Payout ratio	12.7	12.2	9.8	8.6	7.7
DuPont analysis					
Net profit margin (%)	10.6	12.9	14.2	15.2	15.8
Revenue/Assets (x)	0.3	0.3	0.4	0.4	0.4
Assets/Equity (x)	3.0	3.0	2.7	2.4	2.2
ROAE (%)	9.4	13.1	14.6	14.5	14.2
ROAA (%)	3.1	4.3	5.2	5.7	6.1
Liquidity & Efficiency					
Cash conversion cycle	26.8	33.7	27.5	22.8	27.9
Days receivable outstanding	64.5	59.8	54.9	53.0	54.3
Days inventory outstanding	103.9	103.0	103.0	99.8	101.5
Days payables outstanding	141.6	129.1	130.4	130.0	127.9
Dividend cover (x)	7.9	8.2	10.2	11.7	13.0
Current ratio (x)	1.2	1.2	1.2	1.2	1.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.9	2.1	2.3	2.6
Net gearing (%) (incl perps)	61.4	57.7	39.3	25.7	15.4
Net gearing (%) (excl. perps)	61.4	57.7	39.3	25.7	15.4
Net interest cover (x)	1.6	2.3	3.5	4.6	6.2
Debt/EBITDA (x)	10.2	7.8	4.6	3.5	2.6
Capex/revenue (%)	9.2	5.1	4.4	4.3	4.2
Net debt/ (net cash)	383,140.0	399,147.4	308,498.0	229,254.0	155,218.2

Source: Company; Maybank IBG Research

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