

**TICKER: SM**
**RATING: HOLD**
**TARGET: 811.33**
**MARKET DATA**

SECTOR	HOLDING FIRM
PRICE	Php875.00
SHARES OUTSTANDING	1,204,582,867
MARKET CAP	Php1.054T
FREE FLOAT	44.30%
2017 PE	32.01x
2018E PE	27.27x
2017 EPS	27.3318
2018E EPS	32.0876
DIV YIELD	0.94%
52-WK HIGH	1,142.00
52-WK LOW	782.00

**PERFORMANCE**

	SM	PSEI
1 MO	(0.79%)	(5.88%)
3 MO	(4.58%)	(9.85%)
6 MO	(10.71%)	(15.72%)
1 YR	11.18%	(8.44%)

**COMPANY REPORT**  
**SM INVESTMENTS CORPORATION**
**SM'S NET INCOME JUMPS BY 10% IN 1Q18**

SM's net income attributable to its parent rose by 10.07% YoY to Php8.47 billion in the first quarter of 2018. The said rise in net income was on the back of double digit revenue growth across its business segments. Retail operations under SM Retail, Inc. which consist of food and non-food arms saw a 10% uptick in revenues to Php67.40 billion. Meanwhile, SM Prime saw a topline growth of 14.88% to Php24.66 billion in the quarter on the back on an 11.83% rise in leasing revenues to Php13.50 billion and a 23.62% surge in real estate sales to Php7.38 billion. BDO Unibank, on the other hand, reported a marginal growth in net income to only Php5.89 billion despite a 10.85% rise in top line to Php33.08 billion. This was a result of a Php1 billion mark to market loss stemming from the revaluation of the investment portfolio of BDO Life and the restructuring and expansion costs associated with One Network Bank.

**SM RETAIL POSTS 1 13.87% NET INCOME GROWTH IN 1Q18**

SM retail saw its net income attributable to its parent rise by 13.87% to Php2.59 billion in 1Q18 from Php2.50 billion in the same quarter in 2017. The said rise in net income was on the back of a 10% total sales growth to Php67.40 billion. The increase is attributable to the opening of 1 SM Supermarket, 5 Savemore stores and 7 specialty stores and an 8% and 9% same store sales growth for its department store and specialty store segments. In 2018, SM Retail plans to open a total of 4 SM Stores, 4 SM Supermarkets, 18 Savemore stores, 2 SM Hypermarkets and 89 specialty stores.

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### **SM PRIME'S NET INCOME RISES BY 15.20% IN 1Q18**

SM Prime's net income attributable to its parent rose by 15.20% YoY to Php7.60 billion from Php6.60 billion in the same period in 2017. The said jump in its bottom line was on the back of robust growth from its rental and real estate segment. For one, SMPH's leasing revenues rose by 11.83% to Php13.50 billion on higher same-store rental growth and contribution of its newly opened malls. Furthermore, the company's real estate sales accelerated by 23.62% YoY to Php7.38 billion due to higher construction accomplishments of the projects that it launched in the last 3 years. Meanwhile, its cinema and event ticket sales dropped by 9.21% to Php1.12 billion as a result of less-than-stellar international blockbuster movies shown in 2018 compared to 2017. For the rest of 2018, SMPH plans to open 4 new malls in the country. By the end of the year, SM prime will have 79 malls (72 in the Philippines and 7 in China) with a combined GLA of 9.6 million sqm. It also targets to launch 12,000 to 15,000 residential condo units by year end.

### **BDO UNIBANK POSTS FLAT EARNINGS IN 1Q18**

BDO's net income attributable to its parent rose marginally by 0.79% to Php5.89 billion in 1Q18 compared to Php5.83 billion in the same quarter in 2017. While its core lending business continued to post a robust growth as seen in the 20.21% rise in its net interest income to Php6.07 billion, this was more than offset by a 4.3% decline in its non-interest income. BDO's other operating income fell as a result of a 263% slip in trading gains to -Php1.01 billion. Trading gains were in the red for the quarter on the back of a mark to market revaluation of the investment portfolio of BDO Life (which were actually unrealized) and the ongoing restructuring and expansion costs associated with One Network Bank. Excluding these one-off costs, BDO's net income would have actually risen by 16%.

### **SM'S 1Q18 NET EARNINGS LAG CONSENSUS**

SM's net income attributable to its parent of Php8.46 billion in 1Q18 was behind consensus forecast as it only accounted for 21.90% of its full year earnings estimate. On an annualized basis, the company is only on track to reach a net profit of Php33.86 billion for the entire year. For 2018, consensus expects SM's net earnings to actually rise by 17.40% to Php38.65 billion.

**VALUATION:** We are reducing our fair value estimate from Php913.24 to Php811.33 to take into account its lower-than-expected earnings in 1Q18 and the increase in discount rate. The said target price of Php811.33 was based on a sum-of-parts valuation method. At its current price of Php875.00, the stock is already trading at a 7.85% premium over its estimated target price of Php811.33.

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	3 MONTHS ENDED MARCH 31		
	2017	2018	% CHANGE
<b>Revenue</b>			
<b>Merchandise sales</b>	61,323,945	67,395,205	9.90%
<b>Real estate sales</b>	5,972,731	7,433,677	24.46%
<b>Rent</b>	10,043,920	11,408,361	13.58%
<b>Equity in net earnings of associates and JVs</b>	3,492,216	3,848,607	10.21%
<b>Cinema ticket sales, amusement and others</b>	1,692,618	1,593,588	-5.85%
<b>Dividend, management fees and others</b>	<u>2,828,045</u>	<u>3,362,063</u>	18.88%
	85,353,475	95,041,501	11.35%
<b>Cost and expenses</b>			
<b>Cost of merchandise sales</b>	45,470,156	49,617,284	9.12%
<b>Cost of real estate sales</b>	3,142,101	3,783,514	20.41%
<b>Selling, general and administrative expenses</b>	<u>19,873,412</u>	<u>22,215,845</u>	11.79%
	68,485,669	75,616,643	10.41%
<b>Other income (charges)</b>			
<b>Interest expense</b>	-3,426,825	-3,803,569	10.99%
<b>Interest income</b>	1,032,105	898,538	-12.94%
<b>Gain on fair value changes on derivatives - net</b>	16,526	-166,701	-1108.72%
<b>Foreign exchange gain and others</b>	<u>557,888</u>	<u>532,446</u>	-4.56%
	<u>-1,820,306</u>	<u>-2,539,286</u>	39.50%
<b>Income before income tax</b>	15,047,500	16,885,572	12.22%
<b>Provision for (benefit from) income tax</b>			
<b>Current</b>	2,989,253	3,445,385	15.26%
<b>Deferred</b>	<u>68,801</u>	<u>-6,605</u>	-109.60%
	<u>3,058,054</u>	<u>3,438,780</u>	12.45%
<b>Net income</b>	11,989,446	13,446,792	12.16%
<b>Attributable to:</b>			
<b>Owners of the parent</b>	<b>7,694,306</b>	<b>8,468,814</b>	<b>10.07%</b>
<b>Non-controlling interests</b>	<u>4,295,140</u>	<u>4,977,978</u>	15.90%
	11,989,446	13,446,792	12.16%

In PHP thousands

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