

San Miguel Corporation

FRI 31 AUG 2018

## A cheaper way to own FB?

### Shares of FB and SMC jump on news of FB secondary offer

On August 23, San Miguel Food and Beverage, Inc. (FB) filed a preliminary prospectus with the SEC for the secondary offer and sale of up to 887 million common shares, with an over-allotment option of 133.05 million common shares. Shares of FB jumped as the indicative price of FB shares in the follow-on offering was set at Php140/sh, well above its high of Php70/sh in July.

Aside from FB, SMC's share price also surged as SMC owns 95.6% of FB's outstanding shares. Moreover, upon completion of FB's secondary offer, SMC could potentially raise up to Php124Bil after it sells as much a 15% of its stake in FB, assuming full exercise of the Over-allotment Option. The public offer period is tentatively set on October 23-29, 2018.

### Rich valuations of FB

Although the indicative price of FB in the follow-on offering is set at Php140/sh, it is uncertain whether FB shares can be sold at the said price. In fact, even at FB's current market price of Php94/sh, FB is already trading at 26x 2018E P/E. This is a premium compared to the 24x average 2018E P/E of its regional peers. Moreover, consensus' FV estimate of FB is only Php86.2/sh, 8.5% lower than its current price and 38.4% below the indicative offer price of Php140/sh.

### SMC: A cheaper way to own FB?

For those who would like to capitalize on the strong performance of FB, buying SMC might be a cheaper way to own FB.

When FB broke out from Php70/sh, SMC was trading at around Php140/sh. Given that SMC owns 95.6% of FB, the Php24/sh increase in FB's share price from Php70/sh to Php94/sh resulted to a Php42/sh increase in SMC's net asset value or NAV from Php140/sh to Php182/sh. This already factors in a 25% holding company discount for SMC. However, SMC is currently trading at only Php169/sh, a discount to the estimated NAV. We have also provided a scenario analysis assuming different price levels for FB and the corresponding increases in SMC's NAV.

**N/A**

TICKER: SMC

**N/A**

**ADRIAN ALEXANDER YU**  
RESEARCH ANALYST  
adrian.yu@colfinancial.com

The caveat though is that based consensus fair value estimate of FB which is Php86/sh, the increase in SMC's NAV would only be Php28.5/sh from Php140/sh to Php168.5/sh. This would imply that SMC is already fairly valued at its current price.

#### Exhibit 1: SMC Valuation

	FB: Php70/sh	FB: Php86/sh	FB: Php94/sh	FB: Php100/sh	FB: Php140/sh
FB Market Cap (in Bil Php)	413.65	508.19	555.47	590.92	827.29
Revaluation Gain for SMC (in Bil Php)	-	90.39	135.58	169.48	395.45
Revaluation Gain for SMC (in Php/sh)	-	38.00	57.00	71.25	166.26
After applying 25% holding company discount	-	28.50	42.75	53.44	124.69
<b>Target price of SMC (in Php/sh)</b>	-	<b>168.50</b>	<b>182.75</b>	<b>193.44</b>	<b>264.69</b>

**IMPORTANT RATING DEFINITIONS****BUY**

Stocks that have a BUY rating have attractive fundamentals and valuations based on our analysis. We expect the share price to outperform the market in the next six to 12 months.

**HOLD**

Stocks that have a HOLD rating have either 1) attractive fundamentals but expensive valuations 2) attractive valuations but near-term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely in line or underperform in the market in the next six to twelve months.

**SELL**

We dislike both the valuations and fundamentals of stocks with a SELL rating. We expect the share price to underperform in the next six to 12 months.

**IMPORTANT DISCLAIMER**

Securities recommended, offered or sold by COL Financial Group, Inc. are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources we believe to be reliable, we do not guarantee its accuracy and said information may be incomplete or condensed. All opinions and estimates constitute the judgment of COL's Equity Research Department as of the date of the report and are subject to change without prior notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. COL Financial and/or its employees not involved in the preparation of this report may have investments in securities or derivatives of the companies mentioned in this report and may trade them in ways different from those discussed in this report.

**COL RESEARCH TEAM****APRIL LYNN TAN, CFA**

VP & HEAD OF RESEARCH  
april.tan@colfinancial.com

**CHARLES WILLIAM ANG, CFA**

DEPUTY HEAD OF RESEARCH  
charles.ang@colfinancial.com

**ANDY DELA CRUZ**

SENIOR RESEARCH ANALYST  
andy.delacruz@colfinancial.com

**JUSTIN RICHMOND CHENG**

RESEARCH ANALYST  
justin.cheng@colfinancial.com

**GEORGE CHING**

SENIOR RESEARCH MANAGER  
george.ching@colfinancial.com

**JOHN MARTIN LUCIANO**

SENIOR RESEARCH ANALYST  
john.luciano@colfinancial.com

**ADRIAN ALEXANDER YU**

RESEARCH ANALYST  
adrian.yu@colfinancial.com

**RICHARD LAÑEDA, CFA**

SENIOR RESEARCH MANAGER  
richard.laneda@colfinancial.com

**FRANCES ROLFA NICOLAS**

RESEARCH ANALYST  
rolfa.nicolas@colfinancial.com

**COL FINANCIAL GROUP, INC.**

2402-D EAST TOWER, PHILIPPINE STOCK EXCHANGE CENTRE,  
EXCHANGE ROAD, ORTIGAS CENTER, PASIG CITY  
PHILIPPINES 1605  
TEL NO. +632 636-5411  
FAX NO. +632 635-4632  
WEBSITE: [www.colfinancial.com](http://www.colfinancial.com)