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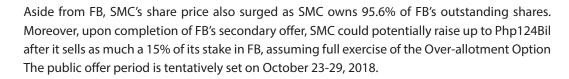
San Miguel Corporation

A cheaper way to own FB?

FRI 31 AUG 2018

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

On August 23, San Miguel Food and Beverage, Inc. (FB) filled 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.





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.

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
Target price of SMC (in Php/sh)	-	168.50	182.75	193.44	264.69

COL Financial Group, Inc.



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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 to12 months.

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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 and y. 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

FAX NO. +032 033-4032

 $\label{eq:www.colfinancial.com} WEBSITE: \textbf{www.colfinancial.com}$