

MON 30 OCT 2017

ALI, SSI, PNx:

ALI and SSI to sell stake in FamilyMart to PNx

PNx to acquire 100% of Family Mart

SIAL CVS Retailers, Inc., FamilyMart Co., Ltd., and ITOCHU Corporation have entered into a memorandum of agreement (MOA) to sell 100% of their outstanding shares of Philippine FamilyMart CVS, Inc. (PFM) TO PNx. SIAL CVS Retailers is a 50/50 JV between ALI and SSI, which currently has a 60% stake in PFM. Meanwhile, Japanese companies FamilyMart Co and ITOCHU Corp own 37.6% and 2.4% of PFM, respectively. PFM operates convenience stores in the Philippines under the "FamilyMart" brand, and they currently have 67 convenience stores nationwide.

To benefit SSI's earnings; no material impact on ALI

As of 1H17, PFM's losses stood at Php145Mil. The divestment of FamilyMart would have no material impact to ALI given the size of its profits, which amount to Php11.5Bil in the first half alone. Meanwhile, this would benefit SSI's bottom line numbers considering that the joint venture has been a drag to SSI's profits. For the first half of 2017, SSI booked Php37Mil in JV losses. This represents 13.5% of SSI's net income (Php275Mil) for the period. Note that losses are still expected to continue for PFM going forward as FamilyMart needs around 400 stores to breakeven on the net income level.

Meanwhile, PNx disclosed that the potential acquisition of PFM complements its retail fuel business, which currently has 518 retail stations nationwide. This marks the company's entry into the fast-growing industry of convenience stores. No details regarding the purchase price of the acquisition were given.

Maintaining BUY rating on ALI

We are maintaining our BUY rating on ALI with a FV estimate of Php53.07/sh. We remain positive on the short and long term outlook of ALI. They continue to deliver solid earnings growth and expansion of its leasing portfolio is on track to reach their 2020 target. Over the long term we believe ALI is positioned to benefit from the infrastructure projects planned by the government given its strategically located landbank. ALI is also most complete property company in terms of product offering and geographical exposure. This diversification puts the company in a good position to capitalize on the numerous growth areas available and at the same time make the company's operations more sustainable over the long term.

Meanwhile, consensus has a SELL rating on SSI with a FV estimate of Php3.48/sh. There is no consensus rating on PNx.

BUY
AYALA LAND INC.
PHP53.07

N/A
SSI HOLDINGS, INC.
N/A

N/A
PHOENIX PETROLEUM PHILIPPINES
N/A

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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 to 12 months.

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