

Filinvest Land Inc. (FLI)

October 06, 2006

Getting Back on the Radar Screen

Recommendation: BUY on weakness

Market Stats.	
Price (Php)	1.70
Iss. Shares(Mn)	9,938.00
Mkt Cap (Phpmn)	16,894.60
Major shareholder	FDC - 44%
52-week high	1.70
52-week low	0.99
NAV/ share(P)	2.65

Filinvest Land Inc. : Forecasts and valuation	2005	2006e	*2007e	*2008e
Net Profit (Pmn)	665	739	1,645	1,878
EPS (Php)	0.07	0.07	0.10	0.11
EPS Growth (%)	12%	11%	33%	14%
PER (x)	20	23	17	15

*post swap

Investment Highlights:

Filinvest Land Inc. recently underwent a major facelift that will allow the company to fully benefit from the local property sector's upswing in the next couple of years.

Estimated gross income from rental properties acquired are expected to grow from P1.0 bn in 2005, to P1.65 bn per annum starting 2007, resulting in earnings accretion for FLI.

The swap should bring FLI back to foreign investors' radar screens given the upcoming stability in revenues, which should enhance company ROE and cashflow in the long term. Current price translates to a 2007 PER of 17x, a discount to industry PER of 20x.

Short- term risk is the stock's 25% surge in the past 2 weeks, which makes it prone to profit-taking near term. BUY on any weakness. 6-month target price is P1.98. (J. Erwin Balita)

Major facelift. Filinvest Land Inc. recently underwent a major facelift that will allow the company to fully benefit from the local property sector's upswing in the next couple of years. Management recently approved the acquisition of interests in 3 major properties in Metro Manila from its parent Filinvest Devt. Corp., and investee, Filinvest Alabang Inc., valued at P12.3 bn. The acquisition was effectively financed through a mix of 80% equity and 20% debt.

Costs. FLI will pay for the assets acquired by issuing shares totaling 5.642 bn, converting FLI bonds worth P1.036 bn to shares at par (additional 1.03 bn shares) and acquiring debt worth P2.5 bn from the vendor, FDC. In essence, FLI' shares will balloon to 16.616 bn from 9.938 bn after the property swap, in exchange for quality assets that produce solid recurring gross cashflow from office and mall lease. The company remains bullish on these markets and sees them growing in the coming years driven by high demand from the BPO industry. Estimated gross income from these rental properties are expected to grow from P1.0 bn in 2005, to P1.65 bn per annum starting 2007.

Benefits. The deal would positively impact FLI in several ways: (1) The company would be able to stabilize its revenue base given the stream of recurring rental income from the new assets. Overall, the 3 new assets would contribute P1.369 bn in gross revenues and P764 mn in cashflows starting 2007. This would help FLI's strained cashflow (operating CF P116 mn in 1H06), which has been a turnoff for investors given the long-term ingestion of receivables. (2) Post-acquisition, the swap will diversify its revenue base, which is currently dominated by realized sales and interest

Properties Acquired by FLI	Area	Valuation	Revenues '07 (in Pmn)	Net Inc.'07 (in Pmn)
Festival Supermall Bldg.	200,000sqm	P7.2 bn	923.1	344.7
Northgate Cyberzone (existing)	106,340sqm	P2.2 bn	511.8	160.2
Northgate Cyberzone (future)	368,838sqm	P1.1 bn		
PBCOM Tower	60,900 sqm	P1.8 bn	217.8	92.5
Total	736,078 sqm	P12.3 bn	1,653	597

income from its property development projects. FLI estimates that recurring income from the 3 properties would account for 45% of net revenues looking ahead, protecting it from the cyclicality of property sales. (3) This will allow FLI to participate in the potential upswing in other allied property sub-sectors such as the BPO office market, Business Park Development, and a recovery in the retail property market. This wasn't possible before as most of FLI's land assets were earmarked and suited mainly for residential developments.

Undue punishment for FDC. FDC's underperformance the last 2 weeks should be a good BUYing window for patient investors. The swap initially looks negative for FDC as it gives up its cash generating assets, resulting in a shift in investor interest from FLI to FDC. This was highlighted by FDC's 18% decline in value the last 2 weeks coinciding with FLI's more than 20% gain. Note however that FDC's direct and indirect stake in FLI increases with the deal from 51.74% to 65% that will allow it to benefit from FLI's improved fortunes as well.

While share liquidity obviously remains tilted in favor of FLI, value hunters should also consider that long term net benefits from the swap, accrues to FDC as well (lower debt on a parent level, higher attributable income and potentially higher NAV contribution from FLI). FDC currently trades at a 58% discount to its end June '06 BV of P6.57/ share.

Earnings accretion seen come 2007. While we estimate that the issuance would result in a slight earnings dilution in the short-term year, FLI expects the asset swap to be earnings accretive effective 2007 given the positive outlook on the mall and BPO market. By 2007, they estimate that the new properties would add P764 mn in cashflows next year, raising FLI's effective EPS to P0.099, up 12% from P0.089 pre-acquisition. The deal is also expected to result in a 15% accretion to 2008 EPS from P0.098 (pre-acquisition) to P0.113 (post-swap).

Comparative industry table

Issue	Price	Mkt Cap(Pmn)	P/E	
			2006e	2007e
ALI	14.25	153,366	36.9	31.6
MEG	1.94	28,603	17.4	14.5
FLI	1.70	28,247	21.3	17.2
RLC	14.00	40,026	20.0	18.8
SMPH	8.70	86,358	16.1	14.1
		Wtd. PE	26.7	20.1

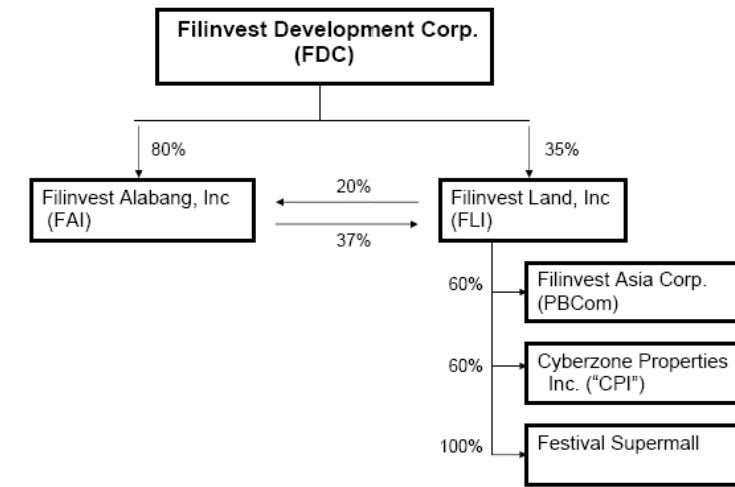
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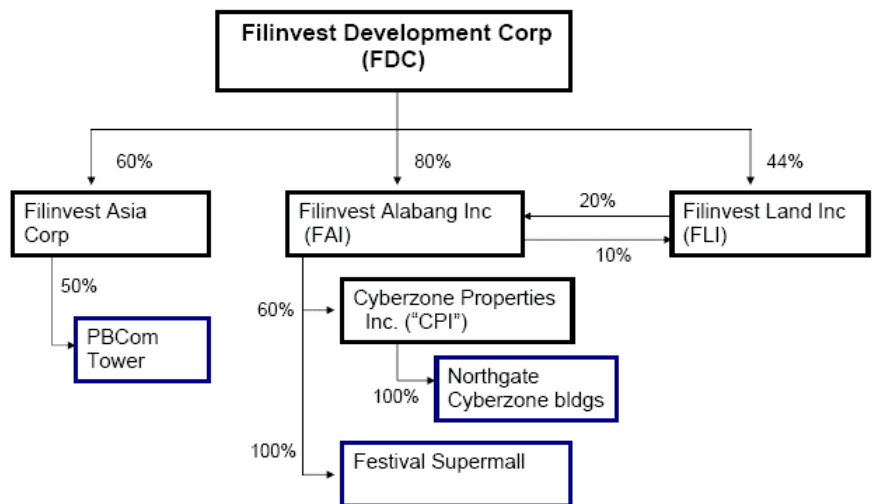
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Source: ABCSI estimates, closing prices as of October 5, 2006

POST-TRANSACTION OWNERSHIP STRUCTURE



PRE-TRANSACTION OWNERSHIP STRUCTURE



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Valuation/ recommendation. The swap should bring FLI back to foreign investors' radar screens given the upcoming stability in revenues, which should enhance company ROE and cashflow in the long term. Current price translates to a 2007 PER of 17x, a discount to industry PER of 20x. Our 6-month target price is P1.98 (+16%) or a 25% discount to street NAV estimates of P2.65/ share. The discount is accounted for by the company's low ROE (5%) relative to its peers of 8% to 11%. Long-term returns however are expected to improve as higher margin lease revenues, (expected to contribute 45% of net revenues annually) account for higher contributions beyond 2008. **Short- term risk is the stock's 25% surge in the past 2 weeks, which makes it prone to profit-taking near term. BUY on any weakness.**