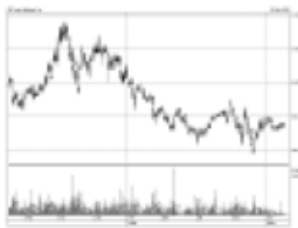


SM Prime Holdings (SMPH)

HOLD

Price (Feb. 20)	7.50
Target Price	0.50
52 Week High	0.40
52 Week Low	5.80
Shares O/S (M)	13,329
Freefloat (M)	3,732
Market Cap (B)	90.07
Daily Turnover (M)	3,743
Dividend Yield	3.46%



	SMPH	PROP	PSEI
2008	-26.83%	-57.58%	-48.29%
YTD	0.00%	-7.61%	0.46%

Beyond Borders

SM Prime Holdings or SMPH is the retail operations arm of the SM group. Its core business is in the development and operation of commercial centers. The stream of revenues mainly comes from the rent of shopping center spaces and foodcourt, amusement income, and cinema ticket sales. Its continuous expansion fuels growth for the company as it builds and establishes commercial centers in the country and around Asia.

INVESTMENT HIGHLIGHTS

- SM Prime operates the largest shopping center chain in the Philippines, with some of its malls recognized as among the biggest in the world. It opened several malls last 2008 - SM City Rosales, Marikina, and Baliwag and has expanded the existing ones - SM City North Edsa and Megamall.
- Its tenants serve every consumer type and cover several home, office, and leisure needs. As such, the company is able to achieve a stable client base and generate healthy amounts of revenue every year.
- Consumer patronage is expected in a business that is centered on retail and entertainment. This assures a strong stream of returns to the company in the future.
- Expansion plans are ongoing despite the current economic and business conditions. SMPH expects to have a wider market reach by establishing presence in cities and provinces.
- SMPH will remain as one of the prime jewels of the SM Group. Its historical net income growth and healthy returns to equity boasts of its stability and profitability. Close to half of their earnings are given regularly as dividends.
- Adverse market conditions may create a steep valuation for the company and current share price may not be a fair reflection of its true value. Though its P/E may seem significantly higher than its peers, its rapid and steady growth while giving back good returns to its shareholders make it a worthwhile longterm investment.

Maria Arlysa E. Narciso
Equities Analyst
898-7584

AB Capital Securities Inc.
8th Floor, Phinma Plaza
39 Plaza Drive, Rockwell Center,
Makati City, Philippines
Tel: 898-7555
Fax: 898-7595, 898-7597

email: abcsi@abcapital.com.ph
website: www.abcapitalonline.com

SM Prime Holdings (SMPH)**HOLD****Seizing Opportunities**

UNWAVERING. The pinch of the global crisis has made its way to the local sectors and industries. While some managed to thrive, numerous companies have started to feel the lingering effects of the crisis. Consumer spending became more conservative as layoffs intensified. This phenomenon, which could pose a threat to certain businesses, seems to have less impact on SM Prime. Its interests in commercial and entertainment businesses will constantly be sources of growth for the company. SMPH also proved true and unwavering in its expansion goals as it built two department stores along with three other SM City malls last year. A firm ground and a clear path has been laid out for the company even amid a difficult business environment.

SETTING WIDER HORIZONS. SM Prime was able to capitalize on the needs of the people by housing various shops that provide all consumer necessities in its malls. Its shopping centers are located near its target community, aiming to bring comfort and leisure closer to home. The plans the company came up with, from its partnership with tenants to location targets form the backbone of its success. As it targets areas outside the Philippines, the three SM malls it built in China is already starting to deliver revenues for the company. Its ongoing expansion will continue to be another revenue driver for the firm.

ENTERTAINMENT HUB. The company has been innovating to deliver quality services and entertainment to the people. Its malls boast of top-quality cinemas and ice skating and bowling amenities. The return on these entertainment facilities are recognized right after customer's payment, thereby making revenue recognition easier.

Risks

WINDOW SHOPPING. SMPH may be affected by the global crisis as consumers become more conservative in their spending patterns. Consumers may resort to window shopping instead of their usual spending behavior in the past years. This may affect its tenants' total sales. Since tenants' rental fees are determined through a percentage of their income or through a fixed monthly rent basis, SMPH's total revenue from the former may squeeze. Though its growth would not turn negative, a slow to fair increase may still be expected as new malls start to deliver revenues. Its broad consumer base and wide target market may create a buffer against a sharp decline.

SLOWDOWN. As bad market conditions persist, SMPH's share value may be affected. The pull of the bear market may not reflect the firm's true share value. However, looking into the company's current market performance shows resiliency compared to the volatility of the market. This may be a signal of firmness and strength for the rest of the year.

In-depth Analysis

FAIR. SM Prime is constantly growing as it builds more commercial centers in the Philippines and in some parts of Asia. Its growth and expansion is rapid compared to other companies in the same business field. However, SMPH is trading at a much higher P/E of 14.43x, compared to its peer companies. This may be unattractive for some. But a look into its historical earnings and performance shows a stable income and steady return over the years, thereby making it a worthwhile investment.

At Current Prices

	SMPH	SHNG	RLC	ALI
P/E	14.43	4.06	9.66	12.48
P/B	2.00	0.23	0.52	1.34

SM Prime Holdings (SMPH)
HOLD

	2005	2006	2007	2008	2009F
Revenue	12,093,142,001	14,332,094,490	16,197,161,759	19,546,871,087	21,124,806,169
Net Income	5,249,720,527	5,749,905,449	6,295,807,499	6,733,286,699	7,973,904,369
NI Growth		9.57%	9.65%	7.32%	8.19%
EPS	0.4	0.44	0.48	0.480	0.520
EPS Growth		9.48%	9.57%	-0.13%	8.19%
P/E	15.76	18.59	21.31	15.61	14.43
Bookvalue/share	3.29	3.59	3.20	3.45	3.75
P/B	1.93	2.40	3.20	2.18	2.00
Dividend Yield	3.69%	2.91%	2.63%	3.20%	3.46%
ROE	16.13%	16.12%	15.80%	14.63%	15.95%

- SMPH's Net Income has grown positively and rapidly in the past years, even outperforming other similar companies. Though it experienced a slow down in the past year, its acquisition and expansion plans will continue to provide and drive growth. Rent, which is the largest revenue contributor, and the income from its cinemas and other amusement facilities will remain strong and are expected to deliver high future returns to the company.
- Operating expenses were also maintained at approximately 40% of total revenues historically, assuring company efficiency in cost management. Though its Net Profit Margins dipped slightly last year, this was only due to a mild spike in expenses as it built new malls. Net profit margins will still be sustained at around 55% yearly and will continue to do so over the next years as it constantly keeps a healthy proportion of expenses to revenues.
- The rapid growth and high income generated by SM Prime has allowed it to pay dividends to its shareholders regularly. Nearly half of the company's earnings are paid out as dividends every year earning a high yield that is roughly 3.46%.

FAVORABLE OUTLOOK. There is a bright future for SM Prime due to its strength in its client base and market strategy. Its Net Income may grow up to 8.2% this year and will deliver strong results in the future years. Future EPS figures will still be healthy and increasing with growth coming from the new malls. Current EPS estimate of 0.52 gives a P/E of 14.43x at a price of P7.50 per share (February 20). Though this may be above industry and market average, its performance historically and currently shows that SMPH is a growing company that gives back good returns. SM Prime would have a total of 36 shopping centers in the Philippines by the end of this year as it expands one and opens four new malls.

Historically, SMPH's P/E is higher than other companies in the industry. An average of its historical P/E ratios show that at a P/E of 18.07x, the target price for SMPH would be at P9.50 per share. This high P/E figure already reflects the high dividend payout ratio of the company, which is close to 50%. It is also reflective of its rapid growth per year and its average yearly ROE of almost 16%. The strong performance and positive figures exemplified by the company are truly inviting. But the current market condition is undeniably a factor that would affect the firm's valuation. Looking at the bigger picture, SMPH is definitely seen as a longterm investment. It is recommended to hold on to the shares for now yet still be assured of a fair return in the near future.