

## Construction Edge

Megawide Construction Corporation (PSE: MWIDE) is engaged primarily in high rise construction with the use of the most modern methods such as Meva formworks and precast walls. It is also looking at participating in the government's IPP and mass housing projects. Having advanced technology and knowledge capability, Megawide reduces labor costs. It also cuts down construction time leading to faster deliveries. Currently, the company is planning to construct a precast plant that will increase and improve production for its ongoing projects. This will also significantly allow the company to cover its contract deliverable on any future projects. Seventy percent of its order book is from SM Development Corp. (SMDC) while its casino project for Belle Corp. (BEL) is expected to be completed by this year. Megawide has an order backlog of more than 15B and is seeking additional contracts worth P5B to P6B this year.

### RISKS and OUTLOOK

- **Peak of high rise seen soon:** About 70% of MWIDE's contracts are high rise residential projects while the remaining are traditional office spaces and entertainment complex. The current condition of the local property industry favors commercial purposes. There is a sustained demand for office or commercial spaces and an oversupply in residential spaces. Areas with the highest concentration of residential high rise condominiums are in Makati and Ortigas. Recent statistics show a slight increase in vacancy rates from 8% to 9% in these two areas. Although locations of Megawide's biggest client are spread strategically across Metro Manila, we may eventually reach a point wherein the residential high rise market is fully saturated.
- **Exploring office space opportunities:** Office building projects take up a small portion of MWIDE's order book. The need for office space is still growing especially with the BPO industry driving the demand. This expanding industry, coupled with its increasing labor, will translate to a larger demand in terms of office space in the next few years. While Ortigas and Makati have no other supply space to offer and rental rates inch higher,

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the opportunities are seen in locations such as Fort Bonifacio and Quezon City. With the growing BPO demand, MWIDE has the chance to take advantage of the corresponding office space boom.

Megawide's projects are mostly repeat orders, providing a steady stream of new projects for the company. However, there is a risk of overdependence on one major client. Our projections are based on the expected growth rate of its major client and our own forecast of contracts that MWIDE will receive in the next three years. These contracts are to be delivered within two to three years.

### Projected Earnings

<i>in millions</i>	2007	2008	2009	2010F	2011F	2012F
<b>Revenues</b>	241	1,029	1,970	4,151	7,900	8,500
<b>Gross Profit</b>	37	81	202	637	1,232	1,301
<b>Margin</b>	15.35%	7.87%	10.25%	15.34%	15.60%	15.30%
<b>Net Income</b>	9	13	72	330	602	665
<b>Margin</b>	3.73%	1.26%	3.65%	7.95%	7.62%	7.83%

<b>Discount Factor</b>	0.9
<b>Present Value</b>	599

### Per Share ratio

	2010F	2011F	2012F
<b>EPS</b>	0.38	0.7	0.78
<b>BVS</b>	1.38	1.7	1.78
<b>PE</b>		12.18	11.03
<b>PB</b>		5.03	4.82

This year is expected to be another record year for the company with forecast revenue of close to P8B. Net income for full year projection is P602M translating to an EPS of 0.7. Its 15B backlog is expected to drive revenues for both 2011 and 2012. Our forecast revenue for 2012 is P8.5B and a net income of P665M (EPS = 0.77). Net profit margin will grow from 7% to 8% until 2013.

Megawide needs to sustain and acquire more contracts to arrive at a bigger jump in 2013 figures. Also, it must explore other sources of revenue. The demand for high rise condominiums at a market targeted by its biggest client may soon be saturated.

Using a WACC of 11%, we derived an intrinsic value of P9.33 for Megawide's shares or 9% over its current price of P8.56 (March 30). At this target price, the stock's PE is 13.27x given an EPS of 0.7.