

Philequity Corner (November 8, 2010)

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Henry Sy and Ayala

This Sunday, boxing icon Manny Pacquiao will again face another tough opponent in the name of Antonio Margarito. Pacquiao is set to clash with the much bigger and taller foe – *ala* David versus Goliath. In this fight, Pacquiao will try to capture his 8th division title, the WBC Super Welterweight crown.

Tale of the Tape

	Margarito	Pacquiao
Nationality	Mexican	Filipino
Age	32	31
Height	5' 11"	5' 6"
Weight	160 lbs	147 lbs
Reach	73"	67"
Stance	Orthodox	Southpaw

SM Investment and Ayala Corp

In the corporate scene, the Sys and the Zobel de Ayalas are two of the most dominant names. Their families rank among the richest in the country and their respective holding companies are among the biggest in the stock market. Before Henry Sy became the country's richest man, he was a David to the Ayala's Goliath when he put up a branch of Shoemart in the budding district of Makati.

Now, Henry Sy, with his SM Investments, is the largest conglomerate in the country with P355 billion in market cap. It has overtaken the Zobel de Ayalas' Ayala Corporation (the country's oldest conglomerate) by a wide margin, especially considering that SM Investments only went public in 2005 with a market cap of P152.8 billion.

In boxing, the Tale of the Tape shows how fighters are matched up. Shown above is the Tale of the Tape between Pacquiao and Margarito. We now show you the Tale of the Tape between Henry Sy and Ayala.

Tale of the Tape

	Sy	Ayala
Forbes Ranking	# 1	# 4
Holding firm	SM Investments	Ayala Corporation
Market Cap	P355 billion	P200 billion
YTD increase	+78.5%	+35.8%
Business interests	Banking, Retail, Mall operations, BPO, Property and Leisure developments	Banking, Telecoms, BPO, Property dev't & Mall operations, and Water distribution

BDO and BPI

When it comes to market cap size in the banking segment, Ayala's BPI is much larger than SM's BDO. However, in terms of operational stats such as asset size, deposits, and loans, BDO is the No.1 bank in the country.

Both BDO and BPI are open to acquisitions. BDO with its 720 branches is looking to expand further as it catches up to the more than 800 branches of BPI. BPI, on the other hand, is on the lookout for a bank that will complement its profile. In a past article, we said that a BPI-PNB merger will bring BPI back to a solid #1 with assets of more than a trillion pesos. For more details, refer to our series of past **PhilStar** articles on bank acquisitions: *Size Matters* (2 Aug 2010), *Ripe for the Picking* (30 August 2010), and *Acquirers or Targets* (6 September 2010).

Tale of the Tape

	Banco de Oro	Bank of the Phil Islands
Market Cap	P163 billion	P217 billion
YTD increase	+61.0%	+30.3%
Asset size	P873 billion	P772 billion
Loan portfolio	P523 billion	P352 billion
Deposit base	P693 billion	P632 billion
No. of branches	720	809

The Sy family has majority control of China Bank. If we include China Bank's numbers, the SM-owned banks have a combined asset size that exceeds the one trillion peso mark. Also, if we add the 261 branches of China Bank, the total network count of the two banks will be 981 branches.

Ayala Land and SM Prime / SMDC

In the property and mall retail segments, the market cap of Ayala Land and the combined sizes of SMDC and SM Prime are almost equal, with the former having a slight edge. Both sides have gained more than 50% in value since the start of the year.

In the shopping center segment, SM Prime is undoubtedly the biggest landlord with 40 malls nationwide equivalent to more than 4.5 million square meters in floor area. With its size, no wonder average foot traffic across SM malls reaches 2.5 million per day.

In the real estate front, SMDC has become a threat to all property developers. Though a relatively newcomer, the company managed to be the top seller based on the number of units sold. Its unique business model caught everyone by surprise. Current leader Ayala Land, known for upscale projects, saw the opportunity in this market and is now fighting back by launching value-for-money projects through its Amaia brand.

	Tale of the Tape	
	SM Prime Holdings + SM Development	Ayala Land
Market Cap	P225 billion	P227 billion
Units launched '10	> 10,000	> 11,600
Mall floor area	> 4.5m sq.m. (Phils only)	> 2.0m sq.m.

Retail King

Foreign investors have been gobbling up shares of SM Investments not only because of its size and its profitability. It is also a way of gaining exposure into the unlisted retail units folded under the SM umbrella. The robust performance of SM's retail business unit is one of the reasons why SM Investments has captured foreign investors' appetite for consumption-related stocks.

Under the SM retail group, several lucrative retail businesses are unlisted. These are SM Department Store, SM Supermarket, SM Hypermarket, Save More. Retail shops like Ace Hardware, SM Appliance Center, Watsons, Toy Kingdom, Our Home, Sports Central, Kultura, Surplus Shop, and Forever 21 are likewise included in the retail arm. They serve as anchor tenants to SM malls.

Under the Radar Businesses

Large dedicated mutual funds are not able to buy the other listed units of SM because of market cap limitations. Certain size cut-offs are applied that constrain them from buying into small cap stocks regardless of their promising growth outlook. In the same manner that these funds bought SM because of the investment appeal of the unlisted retail companies, buying into SM Investments is their way of getting into the companies that fly under the radar.

SM group owns majority of upscale leisure developer and upcoming casino operator Belle Corporation. Through Belle, SM also owns Pacific On-Line, the licensee for the Lotto Vis-Min operations. Pacific On-Line wholly owns Lucky Circle which operates the Lotto outlets for all SM malls. In addition, Belle is the biggest shareholder of APC Group which will venture into geothermal power.

Offense and Defense

To win a fight in boxing, a boxer not only needs offense but also defense. Under the tutelage of coach Freddie Roach, Pacquiao has evolved from a pure offensive threat to a well-rounded boxer.

Both SM Investments and Ayala Corporation are must-own companies in the Philippine stock market. While both companies have positive prospects, SM Investments is the choice for consumer focus. Its solid presence in the mid-market segment, which is the main driver of consumption of this economy, was the key to the SM Investments' outperformance. On the other hand, Ayala Corporation is preferred for its defensive qualities. Its diversification strategy and conservative approach to business make it a choice in an uncertain and volatile environment. Its investments in Globe Telecom and Manila Water make for a defensive portfolio.

At Philequity, we are invested in SM Investments, Ayala Corporation, and their listed subsidiaries. We believe that all these companies are fundamentally attractive and should be owned by investors wanting to gain exposure in the Philippines. A balanced portfolio should provide both offense and defense.

For comments and inquiries, you can email us at info@philequity.net. You can also view our archived articles at www.philequity.net or www.wealthsec.com.