

8990 Holdings, Inc. (\$HOUSE)**Undisputed leader in affordable housing market****High growth in underserved market**

\$HOUSE is the largest affordable housing developer in the country today. For 2018, the company is poised to deliver 8,300 units. Since its inception in 2002, \$HOUSE has delivered over 60,000 units, making it not only the largest but also the fastest growing home builder in the country.

Based on the Philippine Housing Industry Roadmap presented by Subdivision and Housing Developers, Association Inc. (SHDA) and University of Asia and the Pacific (UAP), total housing backlog is expected to reach 6.5million units by end of 2020 and will grow to 12.5m units by 2030. \$HOUSE is positioned well to take advantage of this opportunity.

Sequential numbers point to faster growth in the next 5 years

1H18 earnings for \$HOUSE rose 96.0% to P2.4bn on the back of a 98.0% increase in gross sales to P6.0bn. Total unit sales doubled to 4,159.0. But what is more compelling is that the average unit sales in the past four quarters is almost 50.0% above the preceding four quarters. Using this sales trend, \$HOUSE can easily generate 20.0% unit sales growth annually in the next five years as the company monetizes its 532 hectares of landbank with a projected sales value of P156.0bn.

(Pm)	2015A	2016A	2017A	2018E	2019E	2020E
Revenue	9,279.00	9,272.00	10,181.00	11,916.67	13,733.24	17,624.3
EBITDA	3,419.00	3,432.00	4,029.00	4,831.67	5,558.29	7,114.7
EBIT	4,113.00	4,023.00	4,437.00	5,112.25	5,891.56	7,560.83
Net Profit	3,724.00	3,574.00	4,138.00	4,647.50	5,355.96	6,873.49
Equity	17,340.00	19,263.00	26,701.00	31,348.50	36,704.46	43,577.95
EPS (P)	0.67	0.65	0.75	0.84	0.97	1.25
Growth (%)	12.5	-4.0	15.8	12.3	15.2	28.3
PE (x)	11.1	11.5	10.0	8.9	7.7	6.0
EV/ EBITDA (x)	20.1	20.1	17.1	14.2	12.4	9.7
P/BV (x)	2.38	2.14	1.54	1.31	1.12	0.95
Margins (%)						
EBITDA	36.8	37.0	39.6	40.5	40.5	40.4
EBIT	44.3	43.4	43.6	42.9	42.9	42.9
Net Margins	40.1	38.5	40.6	39.0	39.0	39.0

BUY

Share Price **P7.47**
Target Price **P11.30 (+51.0%)**

\$HOUSE is the Philippines' largest home builder.

52-week Range **P4.86– P7.94**
Market Capitalization **P41,219.5 (US\$761.0m)**
Free Float **33.0%**
Ave. Daily Volume ('000) **800**

Relative Performance (%)

	1 Year	Ytd.
\$HOUSE	39.0	16.7
\$PSEi	(11.5)	(14.6)

Sales Contact:
Jose Fernando Victor Gaité (jofer)
Head Equities Trader

jmgaité@philstocks.ph
Direct lines: +632-588-1955 / +632-588-1940
Mobile : +63-917-626-4942



Key landbank in growth areas

\$HOUSE' landbank in Luzon is strategically located near the growth corridors of Clark and Subic while its land bank in Metro Manila is situated along the existing and soon-to-be built lines of the Metro Manila Transit System. In the Visayas, its Cebu landbank is located near the third Cebu Mactan bridge.

Mastering the affordability game = 94.0% collection efficiency

\$HOUSE is able to let a buyer move in for as little as 2.0% down-payment and 1.0% monthly amortization based on total contract price. It has an extensive buyer education campaign that emphasizes home ownership as a store of wealth and the cumulative value of paying amortization instead of shelling out money for rent.

While it may seem counter-intuitive, affordability actually creates better repayment habits as the buyer will less likely default on something he can afford to pay. This is the reason \$HOUSE continues to maintain its collection efficiency at above 90.0%.

High margin, fast turnover, quick payback

\$HOUSE is able to generate high margins on its sales because it uses pre-cast technology to build its units. Typically, a unit is delivered to its buyers in as short as 8 days thereby reducing total unit turnover cost.

\$HOUSE average gross profits and net margins are at 60.0% and 40.0% respectively. No other developer can match its superior margins. This also translates to better cash payback. Typically, \$HOUSE unloads its Contract to Sell (CTS) receivables after 36 months of seasoning. Through them, \$HOUSE would have gotten back its cost and is effectively turning over the profit portion of the sale to the financial institutions.

CTS take-outs = virtuous cycle

\$HOUSE has created a virtuous cycle in housing finance by providing financial institutions with high yield contract to sell (CTS) products to augment their loan portfolios amidst the declining interest rate environment. \$HOUSE CTS typically yields between 9.5 – 10.5%. On the average, banks' average yield on loans is around 5.0 – 5.5%. Thus, by adding CTS to their portfolios, banks get to enhance their overall yield at the same time cross sell their other services to the homebuyers.

Moving forward, banks will likely allocate more funds to CTS purchases using property developers as conduits to grow this market and diversify their asset base.

In 1Q18, \$HOUSE offloaded P2.8bn worth of CTS (on a non-recourse basis) to Dearborn Resources and Holdings, Inc. (DRHI) in a groundbreaking sale. \$HOUSE targets to sell P10.0bn worth of CTS annually and maintain its receivables portfolio at around P20.0bn.

Moreover, \$HOUSE is able to address a social need by providing affordable housing to the market especially to the millennials. This translates to all stakeholders having sufficient return on their capital.

55.0% upside to P11.30

Our price target of P11.30 is based on 9.0x PE to 12/20 earnings. This valuation assumes that \$HOUSE merely trades at its average PE band. This target simply captures its growth prospects in the next two years and excludes any potential for re-rating when the market discounts its CTS funding risks. If that happens, a re-rating to 12.0x PE or P15.00 is possible given its dominance in the affordable housing sector.

Housing needs to reach 12,500,000 units by 2030

Long term structural change in the country's demographics suggests sustained demand for housing until 2030. Based on latest available figures, housing need is expected to reach 12.5m units by 2030

Total Housing Needs

Backlog as of 2012	1,373,981
Incremental Needs	
2013 - 2015	1,749,408
2016 - 2020	3,012,050
2021 - 2025	3,120,032
2026 - 2030	3,199,162
	11,080,652
Total	12,454,633

Source: HUDCC, SHDA, UA&P

\$HOUSE derives almost 80% of its sales from the affordable housing segment of the market. Based on latest surveys, the total backlog stands at 462,000 units and is expected to grow to 1.1m units by 2030.

Affordable Housing Market

Backlog as of 2012	462,160.0
Incremental Needs to 2030	605,000.0
Total	1,067,160.0

Source: HUDCC, SHDA, UA&P

At current delivery rate of 8,000 to 10,000 units per year, \$HOUSE is able to address only 5.0% of the total backlog. Thus, even if \$HOUSE doubles its delivery rate, it will only satisfy 10.0% or a fraction of the total market. This even excludes incremental demand moving forward.

CTS take-outs = virtuous cycle

\$HOUSE has become an important intermediary for banks to tap into the fast growing affordable housing market. The ability of \$HOUSE to find an exit mechanism for its CTS receivables has created a virtuous cycle in housing finance. On one hand, it addresses a basic social need through a unique funding mechanism that offers affordable payment terms. On the other hand, it gives banks access to high yield, quality receivables to augment their income amidst the declining yield environment.

For 2018, \$HOUSE has to date offloaded P4.8bn worth of CTS, a 74.0% increase year on year.

Cash Flow

(Pm)	1H18	2Q18	1Q18	1H17
HDMF Take Out	2,009.0	1,183.0	826.0	2,275.0
CTS Purchase	2,831.0	-	2,831.0	507.00
Total	4,840.0	1,183.0	3,657.0	2,782.0
Gr. (%) YoY	74.0			

Unit Sales/Rev./CTS

	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Unit Sales	2,277.0	1,480.0	1,119.0	1,097.0	2,215.0	2,917.0	1,786.0	2,373.0
Ave. 4 Qts.				1,493.3				2,322.8
Total Rev. (P '000)	2,401.0	2,226.0	1,594.0	1,447.0	3,088.0	3,958.0	2,503.0	3,500.0
Ave. / Unit (Pm)	1.05	1.50	1.42	1.32	1.39	1.36	1.40	1.47

(Pm)

CTS Rcv'l	21,760.0	22,757.0	21,975.0	21,146.0	21,109.0	23,046.0	21,647.0	23,544.0
Income on CTS	368.0	338.0	393.0	372.0	333.0	308.0	342.0	340.0

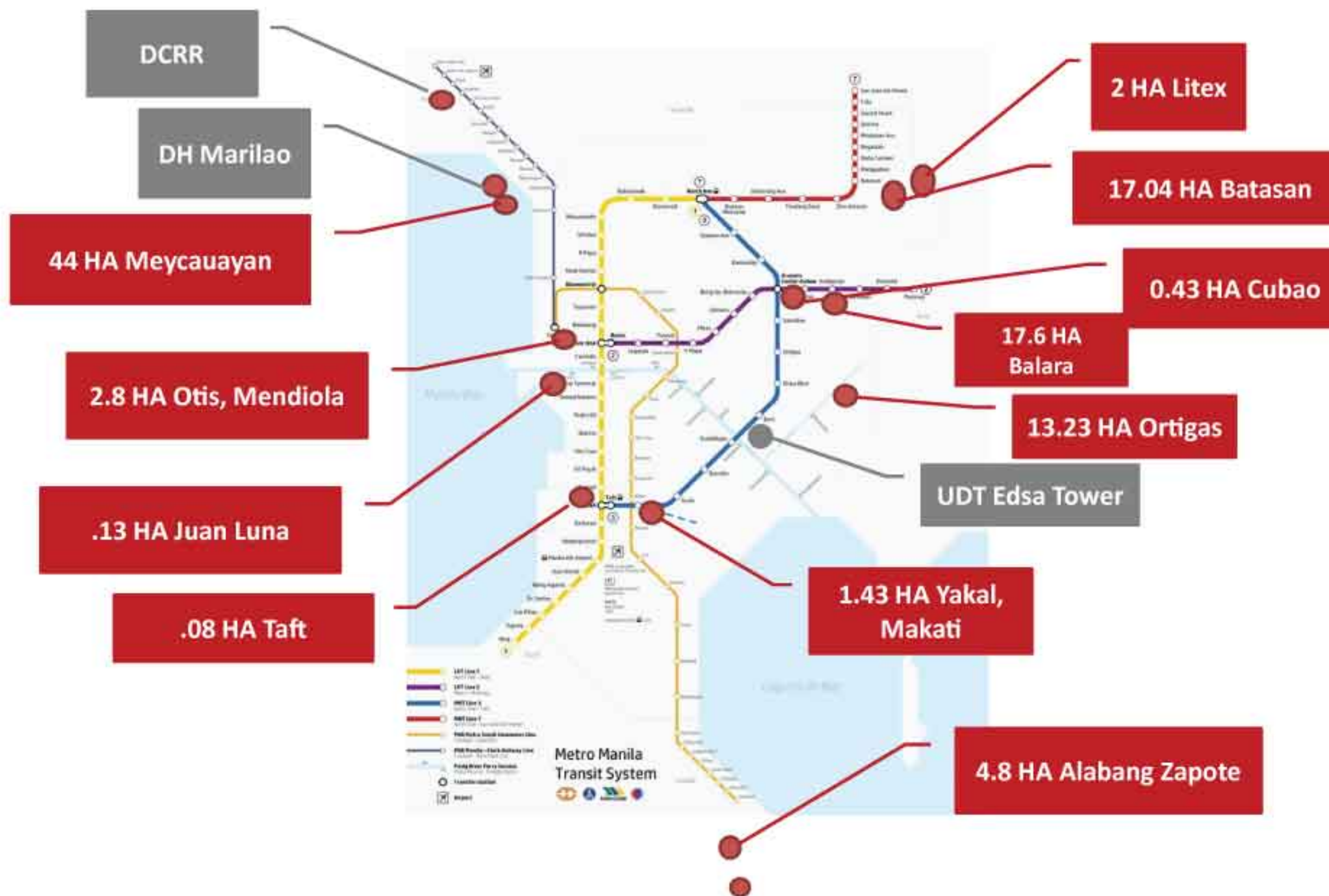
Strategic landbank

\$HOUSE has 561.0 ha of landbank with a projected sales value of P156.0bn. This should support its sales deliveries in the next 10 years based on a 12,000 unit annual sales target. These properties are located in key growth areas or strategically located along mass transit lines.

North Luzon Land Bank



Greater Manila Land Bank



One of the strengths of \$HOUSE is in identifying strategic land-bank which others overlook. A case in point is its Tondo project. The company acquired the 8.6 hectares Vitas property, an abandoned Procter and Gamble factory, for P1.6bn and turned it into a jewel. The project dubbed as Urban Deca Homes Tondo will have a sales potential of P20.0bn based on the projected deliveries of 13,000 units. It will also house Deca Mall which has a projected leasable space of 14,000 sqm at P1,000 per sqm.

DecaTondo



Straight forward business model

\$HOUSE has a simple and straight forward business model of delivering affordable housing units inaffordable payment terms to the market. Based on its current delivery rate of 8,000 units per year, \$HOUSE can potentially scale this up to 12,000 by 2018.

Further, its CTS receivables are actually a cash machine that yields around 8.5% per annum. Interest income on CTS receivables is expected to range between P1.2 to P1.5bn giving it a steady source of recurring income.

Assumptions

	2014A	2015A	(%)	2016A	(%)	2017A	(%)	2018E	(%)	2019E	(%)	2020E	(%)
Houses sold	7,150.0	8,077.0	13.0	8,046.0	-0.4	7,348.0	-8.7	8,200.0	11.6	9,000.0	9.8	11,000.0	22.2
Ave. Selling Price (P'000)	1,053.1	1,142.7	8.5	1,199.8	5.0	1,384.05	15.4	1,453.3	5.0	1,525.92	5.0	1,602.21	5.0
Total Revenue (Pm)	7,530.0	9,229.3	22.6	9,109.0	-1.3	10,170.0	11.6	11,916.7	17.2	13,733.2	15.2	17,624.3	28.3
(Pm)													
Gross Income	4,527.0	5,101.4		5,000.0		5,658.0		6,196.7		7,141.3		9,164.6	
Operating Income	2,982.0	3,381.0		3,958.0		4,415.0		4,766.7		5,493.3		7,049.7	
Net Income	3,307.0	3,722.0		3,575.0		4,140.0		4,647.5		5,356.0		6,873.5	
(%)													
Gross Profit	60.1	55.3		54.9		55.6		52.0		52.0		52.0	
Operating	39.6	36.6		43.5		43.4		40.0		40.0		40.0	
NIAT	43.9	40.3		39.2		40.7		39.0		39.0		39.0	
(Pm)													
CTS Receivables	13,477.0	18,764.0	39.2	20,425.0	8.9	20,640.0	1.1	20,000.0	-3.1				
Ave.	11,475.0	16,120.5	40.5	19,594.5	21.6	20,117.3	2.7	19,689.9	-2.1				
Income from CTS	1,014.0	1,204.0	18.7	1,439.00	19.5	1,468.56	2.1	1,496.43	1.9				
(%) Yield	8.84	7.47		7.34		7.30		7.60					

Share price performance

Share price of \$HOUSE has rallied by as much as 65.0% after bottoming out at P4.86 in 10/17.

