

OFFER STATS:

Price	3.99
Offer shares (m)	920
over allotment option (m)	92
Offer size (P m)	3,671
Shares out. (m)	2,509
Post IPO shares (m)	3,429
Market cap (P m)	13,682

OWNERSHIP:

Vicsal Devt Corp	98.06%
Valueshop Stores	1.94%

MANAGEMENT:

Frank Gaisano	CEO, Pres.
Aljim Jamandre	CFO
Vincent Tomaneng	CLO
Luz Bitang	VP
Jonathan Moreno	Strategy

OFFICE:

Vicsal Bldg.,
Mandaue City,
Cebu

Market! Market!
Bonifacio Global
City, Taguig

Metro Retail Stores Group

Gaisano family owned retailer to sell 26% of shares to fund store expansion. A Visayas region retail play with growth focused on Luzon; IPO to trade at 32x PER, long-term prospects positive. SUBSCRIBE.

Details of the offer:

Metro Retail Stores Group, Inc. is offering to investors 905,375,000 common shares, representing 26.4% of total shares outstanding post-IPO, at PhP3.99 per share. The IPO will raise PhP3.61 billion for capital expenditures including the establishment of new stores, a consolidated logistics and distribution center in Cebu province, and working capital.

Company background:

Metro Retail Stores Group is a major retail store operator in the country. Since opening its first store in 1982, the company has expanded to become a market leader in the Visayas region. The company runs a three format retail operation: supermarkets, department stores, and hypermarkets (a combination of department store and supermarket). As of June 2015, Metro Retail has a total of 45 stores operating across the country with 26 located in the Visayas, 10 stores in Luzon and nine in Metro Manila. The stores have a combined selling space of 197,873 square meters, making Metro Retail the country's third largest supermarket operator, third biggest department store, and fourth hypermarkets operator in terms of retail sales value.

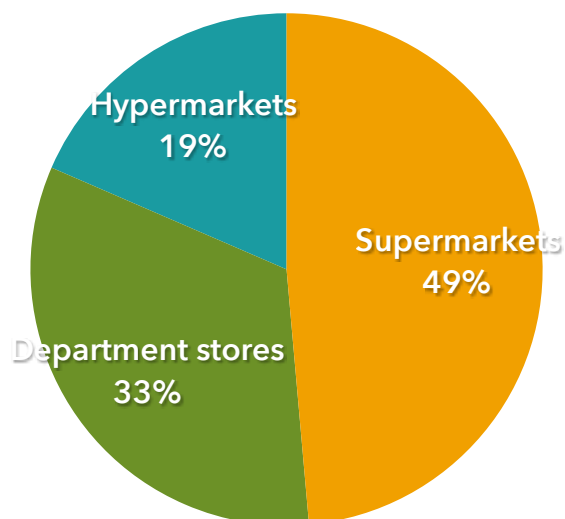
Metro Retail operates under the following retail formats and brands:

- *Supermarkets* - "Metro Supermarket" and "Metro Fresh N Easy" offers food and non-food products to lower and middle-income consumers. It currently has 24 supermarkets in operation generating up to PhP13.96

billion in revenues last year, or 49.2% of the company's net sales.

- *Department stores* - "Metro Department Store" sells local and international branded products and a selection of private-label merchandise for its target market. The company operates 10 department stores and made PhP9.83bn in revenues last year, or 34.7% of the company's total sales.
- *Hypermarkets* - "Super Metro" is a combination of a supermarket and department store. It offers grocery products and general merchandise, items that are also usually sold at Metro's supermarkets and department stores. The hypermarket segment is the company's smallest revenue contributor with PhP4.57bn in sales last year, or 16.1% of total, but it is the fastest growing.

Metro Sales mix by segment, 1H15



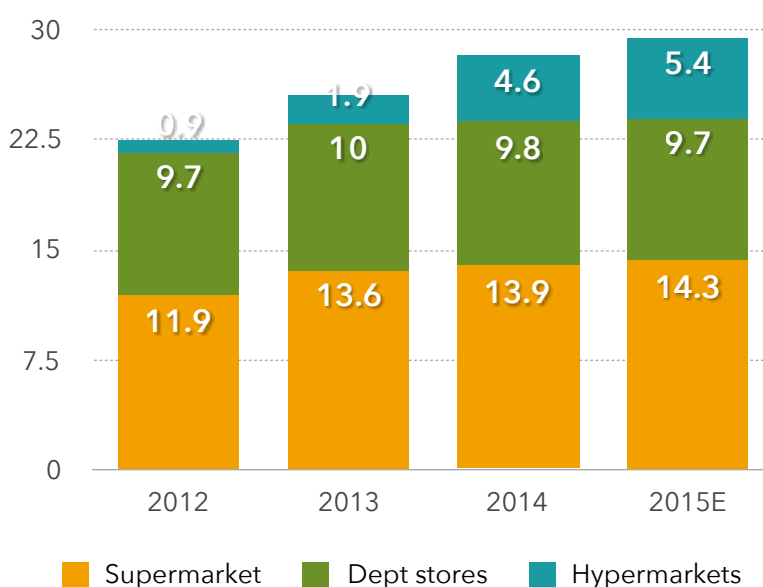
Investment Considerations:

Leading position in Visayas region...

As a Cebu province-based company, Metro Retail has captured a significant slice of the retail market in the Visayas region. According to Euromonitor, a foreign consultancy, Metro Retail is the largest department store and hypermarket operator, and the second biggest supermarket operator in the Visayas region in terms of retail sales last year coming from its network of 26 outlets.

This puts the company in a solid position to maintain and even capture a significant market share in the fast growing regions in the Visayas. With a nominal average GDP growth of 8.9% between 2010 to 2013 and a population of 21.0m, the Visayas region is projected to see supermarket, department store and hypermarket industry growth rates of 8.2%, 9.8% and 20.5%, respectively from 2015 to 2019, according to the Euromonitor. This is faster than the 8.6%, 7.3%, and 10.8% growth rates of the same industry sectors for the whole country within the same period covered.

Metro Sales growth by segment (in P bn)



Multi-format model complementing local market knowledge...

The company’s multi-format business model which has proven popular among its target customers, due partly to scale and brand recognition, has combined well with the group’s long and extensive history and understanding of the region’s local retail market and the industry as a whole. This has allowed Metro to launch an expansion campaign that tripled its store network from 16 in 2010 to 45 as of 1H15.

Outright sales provides control over sales; asset light model gives expansion flexibility...

Metro has applied an outright sales method whereby

it sources and then sells the merchandise directly at their stores. This has given the company greater control of the product sold in terms of assortment, quality and pricing. It also provides higher income margins as opposed to the concession type of selling where profit margins from goods sold are distributed between the retailer and concessionaire. In addition, the company's current asset-light business model allows it to allocate funds in order to improve operations or use them to take advantage of opportunities including the flexibility to expand its store network. This has also kept the company's debt to low and manageable levels.

Investment Concern:

Competition from retailers.

Metro Retail faces intense competition from other domestic retailers, including Robinsons Supermarket, Robinsons Department Store, SM Department Store, SM Supermarket, Puregold, Rustan's and Mercury Drug which operate stores in Central Visayas and Luzon. The company also competes with other retail stores that are owned and operated by members of the broader Gaisano family. Like Metro, these firms are expanding operations to heavily populated cities and municipalities which could cause competition to stiffen further and negatively affect sales and margins moving forward. Meanwhile, the possible entry of foreign-based retailers as a result of the Retail Trade Liberalization Act may tighten industry competition even more over the long term.

Analysis and Valuation:

As a major retailer, MRSGI has respectable comparative numbers in terms of operations relative to its market-listed peers, namely Robinsons Retail Holdings (RRHI), Puregold Price Club (PGOLD), Cosco Capital (COSCO), Philippine Seven (SEVN), and SSI Group (SSI). Inventory turnover, an industry measure of sales efficiency, is right along and not far from the peer average of 7.4x per year for MRSGI's multiple of 7.0x.

In terms of profitability however, MRSGI's EBITDA margin of 4.0% is below the peer average of 11.2% as has its single digit return on equity of 5.0% versus the sector average of 16.2%. (see Table 1)

Table 1: Metro Retail operations vs listed peers

Stock	Return on equity (%)	EBITDA margin (%)	Price/sales (x)	Inventory turnover (x)
RRHI	10.3	7.2	1.21	7.6
PGOLD	14.2	8.6	1.1	6.7
COSCO	10.2	10.5	0.5	6.7
SEVN	29.3	10.6	2.12	14.8
SSI Group	17.2	19.2	0.8	1
average	16.2	11.2	1.1	7.4
Metro Retail	5.0	4.0	0.5	7.0

MRSGL's light-asset model and low debt levels give it a better-than-average debt to equity position as compared to its peers. However in terms of diluted per share valuation, the company's 2016 PER of 32x is almost 10 points above the sector average while its price to book value of 1.6x makes it a discount due to the capital injection Metro will be getting from the share offer. (see Table 2)

Table 2: Metro Retail valuation vs listed peers

Stock	Mkt cap (P bn)	PER (x)	Price to book (x)	Debt to equity (%)
RRHI	103.1	23.5	2.6	0.3
PGOLD	97.2	18.6	3.1	14.1
COSCO	56.5	11.7	1.5	28.4
SEVN	40.1	47.3	11.8	23
SSI Group	16.7	11.2	3.7	61.1
average		22.5	4.5	25.4
Metro Retail	13.7	31.6	1.6	11.0

We believe MRSGL is a direct Visayas retail play. While profitability is not a strength, its efficient operations, low debt level, extensive retail experience and expanding retail industry may provide the company flexibility for future growth. Expensive offer price could be a drag but long-term prospects are encouraging. **SUBSCRIBE.**

Philstocks Financial, Inc.

**G/F Unit EC-05B East Tower
Philippine Stock Exchange
Center, Exchange Road,
Ortigas Center, Pasig City
1605**

T: 588 1931

M: 0998 971 0707

Income statement:

Metro Retail Stores Group (in P m)						
	2012	2013	2014	2015E	2016F	2017F
Revenues						
Net sales	22,550	25,468	28,357	29,453	34,450	38,350
Rental	71	74	89	135	158	175
Interest and other income	39	39	96	59	69	77
Total revenues	22,661	25,581	28,542	29,647	34,677	38,602
Cost and expenses						
Cost of sales	18,002	19,966	22,337	23,511	27,500	30,613
General and administrative	3,599	4,472	4,931	5,244	6,133	6,828
Selling and marketing	219	243	339	254	298	331
Finance costs	13	24	40	19	18	13
Total cost and expenses	21,832	24,706	27,647	29,029	33,949	37,786
Income before income tax	829	876	895	619	728	817
Provision for income tax	248	262	266	186	218	245
Net income	581	613	629	433	509	572

Balance Sheet:

Metro Retail Stores Group (in P m)						
	2012	2013	2014	2015E	2016F	2017F
ASSETS						
Current assets						
Cash	876	1,031	1,626	5,251	4,129	3,461
Receivables	792	862	869	903	1,056	1,176
Merchandise inventories	2,242	3,190	3,168	3,534	4,134	4,602
Total current assets	4,449	5,764	6,288	10,337	10,078	10,084
Non current assets						
Property and equipment	939	1,270	1,351	1,993	3,163	3,889
Total non current assets	1,157	1,612	1,796	2,455	3,704	4,491
Total assets	5,606	7,376	8,084	12,792	13,782	14,575
LIABILITIES AND EQUITY						
Current liabilities						
Trade and other payables	3,035	2,968	3,356	2,798	3,273	3,643
Loans payable	-	1,200	1,100	950	900	672
Total current liabilities	3,035	4,168	4,456	3,748	4,173	4,315
Non current liabilities						
Total non current liabilities	561	583	642	651	707	786
Total liabilities	3,595	4,751	5,097	4,399	4,879	5,101
Equity						
Capital stock	49	49	2,524	3,429	3,429	3,429
Additional paid-in capital	-	-	-	2,471	2,471	2,471
Retained earnings	817	1,430	467	2,492	3,002	3,574
Total equity	2,011	2,625	2,987	8,393	8,903	9,474
Total liabilities and equity	5,606	7,376	8,084	12,792	13,782	14,575

Financial ratios:

	2012	2013	2014	2015E	2016F	2017F
Revenue growth %	-	13%	11%	4%	17%	11%
EBITDA (P m)	1,013	1,152	1,279	1,085	1,328	1,587
EBITDA margin %	4%	5%	4%	4%	4%	4%
Net income (P m)	581	613	629	433	509	572
Net margin %	3%	2%	2%	1%	1%	1%
EPS (P)	0.17	0.18	0.18	0.13	0.15	0.17
EPS growth (%)	-	6%	3%	-31%	18%	12%
PE ratio (x)	23.54	22.30	21.76	31.60	26.86	23.93
Book value per share (P)	0.59	0.77	0.87	2.45	2.60	2.76
Price to book value (x)	6.80	5.21	4.58	1.63	1.54	1.44
Sales per share (P)	6.58	7.43	8.27	8.59	10.05	11.18
Price to sales (x)	0.61	0.54	0.48	0.46	0.40	0.36
Return on Equity (%)	29%	23%	21%	5%	6%	6%
Return on Assets (%)	10%	8%	8%	3%	4%	4%
Current ratio (%)	147%	138%	141%	276%	242%	234%
Debt to equity (%)	-	46%	37%	11%	10%	7%
Inventory turnover	8	6	7	7	7	7
Day sales inventory	45	58	52	55	55	55