FRIDAY, 25 APRIL 2014

Field Notes

Double Dragon Properties Group:
A blueprint for success

In this photo (from left to right): COL Financial Group, Inc. President & CEO Conrado Bate; Double Dragon Properties Corporation Chairman & CEO Edgar Sia II; COL Financial Group, Inc. VP & Head of Research April Lynn Tan, CFA; COL Financial Analysts Richard Lañeda, CFA and Meredith Hazel Cua

We met with Edgar "Injap" Sia II recently to talk about his plans and vision for DoubleDragon. The talk focused more on CityMalls, which will change the landscape of community malls in the medium term. We believe they have the right partners and solid plans in place to make CityMalls a success. However, to successfully execute its plans, DD would need a huge amount of capital in the medium term.

- **Reshaping the community malls segment.** DoubleDragon envisions its CityMall brand to be the first community malls chain that will cater to an underserved sector of retail market. DoubleDragon will change the game of community malls by having scale, efficient management, and strong partners like JFC and SM. This will give it a huge advantage over its competitors.

- **Attending to an underserved market.** DoubleDragon's target of having 100 CityMalls by 2020 may seem aggressive but if we look at the demand, it is achievable. Based mainly on the expansion plans of leading supermarket chain operators like SM (Savemore), Puregold, Robinsons, and Wellcome, the industry will need around 70-100 sites each year over the next three years, totalling 210-300 malls in three years. The plan of CityMalls is just a third of the total demand and so this leads us to believe that the company will not have a problem in leasing out its spaces.

FORECAST SUMMARY (PHPMIL)

Year to Dec. 31 (Php Mil)	2011	2012	2013
Revenues	**119**	**608**	**662**
% change y/y		*410%*	*9%*
EBIT	**6**	**132**	**180**
% change y/y		*2023%*	*36%*
EBIT Margin (%)	*5.2%*	*21.6%*	*27.1%*
Net Profit	**4**	**92**	**122**
% change y/y	*-*	*1996%*	*32%*
NPM (%)	*3.7*	*15.2*	*18.4*
EPS (in Php)	**0.00**	**0.04**	**0.05**
% change y/y		*1996%*	*32%*
RELATIVE VALUE			
P/E(X)	2,199.33	104.93	79.28
P/BV(X)	343.16	20.48	15.73
ROE (%)	-	36.8%	23.0%
Dividend Yield (%)	0.00	0.00	0.08%

Source: DD

SHARE DATA

Rating	**N/A**
Ticker	DD
Fair Value (Php)	N/A
Current Price	4.33
Upside (%)	N/A

ABSOLUTE PERFORMANCE

	1M	3M	YTD
DD	N/A	N/A	N/A
PSEi	6.19	8.67	14.24

MARKET DATA

Market Cap	9,654.73Mil
Outstanding Shares	2,229.73Mil
52 Wk Range	2.00 - 4.62
3Mo Ave Daily T/O	N/A

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Reshaping the community malls segment

DoubleDragon envisions its CityMall brand to be the first community malls chain that will cater to an underserved sector of retail market. Currently, there are more than 100 community malls around the Philippines but most of them have different owners and operators. Also, most are owned by local small families especially in the province. As such, expansions of these types of community malls are slow and management of the malls are inefficient. DoubleDragon will change the game of community malls by having scale, efficient management, and strong partners like JFC and SM. This will make CityMall the first community malls chain, and its brand, management, and partners will give it a huge advantage over its competitors.

Attending to an underserved market

DoubleDragon's target of having 100 CityMalls by 2020 may seem aggressive but if we look at the demand, it is achievable. Based mainly on the expansion plans of leading supermarket chain operators like SM (Savemore), Puregold, Robinsons, and Wellcome, the industry will need around 70-100 sites each year over the next three years, totalling 210-300 malls in three years. The plan of CityMalls is just a third of the total demand and so this leads us to believe that the company will not have a problem in leasing out its spaces. CityMalls will also give retailers a better partner for expansion given its more organized management and expansion capabilities as compared to less organized local community mall builders. CityMall's focus on the Visayas and Mindanao regions is also perfect timing for retailers as they begin to expand their footprint outside Luzon.

JFC and SM partnerships to help ensure CityMalls success

Given that DD is co-owned by Honeystar Holdings headed by Mr. Tony Tan Caktiong, the chairman of Jollibee Foods Corporation, a strong partnership between JFC and DD is expected. To add to this, DD's subsidiary, CityMall Commercial Centers Inc. (CMCCI) which will launch 100 CityMalls, is 34% owned by SMIC, the operator of the biggest department store and supermarket chain in the Philippines. These partnerships would give DD the necessary support for its CityMalls. Each CityMall will carry all six of JFC brands as its anchor tenants in the food court. On the other hand, the supermarket area and other retail spaces will not be exclusive to the SM Group. However, the group's renowned and diversified brands will be given first choice, and will help attract more customers to the area. With the backing of both brands, CityMalls will have the needed tenants to attract consumers and make every CityMall a success.

CityMalls concept and layout to maximize profitability

Based on Injap's experience with Mang Inasal, he noted several weaknesses of the community malls in the provincial area. First, strip malls usually have spaces for more than three full stores, but only around one to two are able to thrive given high operating costs and competition. These result to lesser variability in food choices, decreasing the attractiveness of the area. Second, there was direct access to the supermarket which lessens foot traffic by at least 40% since patrons are not able to visibly see the other stores as they come and go from the supermarket entrance.

CityMalls took note of these weaknesses and found ways to resolve them. To address the problem regarding lesser food choices and profitability of tenants, there will be no full stores in the malls. Instead, each mall will have a food court having six anchor tenants from the JFC brand. The popularity of these brands will help increase foot traffic in the area. In addition, tenants will have lower operating costs given the smaller leased space. Second, there will be no direct access to the supermarket. Instead, there will be two entrances, both of which will lead customers through the different food and retail stores before reaching the supermarket.

Exhibit 1: CityMalls Floor Layout

Source: DoubleDragon

Huge capital requirements for expansion

For 2014 and 2015, DD plans to open five and 20 CityMalls respectively. Based on the company's estimate of Php275 Mil cost per mall, the company would need Php6.88 Bil over two years to execute its short term plans. If we aggressively assume that each mall will yield 15% and that the five malls in 2014 and the 20 malls in 2015 all operate at the start of each year, CityMall Commercial Centers, Inc. or CMCCI will still need Php5.64 Bil in capital, which translates to Php3.61 Bil for DD as it owns 64% of CMCCI. DD could use debt to fund its capex but we believe it will put a lot of strain on its balance sheet. We estimate that DD's equity will increase to Php1.72 Bil this year after its IPO therefore this means that needed capital for its expansion is more than double its equity base. We believe for DD to successfully execute its plans, it would need to increase its equity base in the medium term.

Investment Rating Definitions

BUY	HOLD	SELL
Stocks that have a **BUY** rating have attractive fundamentals and valuations, based on our analysis. We expect the share price to outperform the market in the next six to twelve months.	Stocks that have a **HOLD** rating have either 1.) attractive fundamentals but expensive valuations; 2.) attractive valuations but near term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely inline or underperform the market in the next six to twelve months.	We dislike both the valuations and fundamentals of stocks with a **SELL** rating. We expect the share price to underperform in the next six to twelve months.

Important Disclaimers

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