8990 Holdings, Inc. ($HOUSE)

Creating a virtuous cycle in affordable housing market

High growth in underserved market

$HOUSE is the largest affordable housing developer in the country today. For 2016, the company is poised to deliver 10,000 units compared to 8,077 in 2015 and 7,150 in 2014. Since inception, $HOUSE has delivered 47,595 units making it not only the largest but also the fastest growing homebuilder 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 million units by end of 2016 and will grow to 12.5m units by 2030.

Mastering the affordability game = 96.0% collection efficiency

$HOUSE is able to let a buyer move in for as little as 2.0% downpayment 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 value of paying amortization instead of shelling out money for rent.

While it is counterintuitive, 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 95.0%

(Pm)	2014 A	2015A	2016E	2017E	2018E
Revenue	7,657.30	9,279.00	11,997.98	15,117.45	18,518.88
EBITDA	3,018.00	3,419.00	4,605.23	5,653.46	7,009.58
EBIT	3,612.70	4,134.00	5,279.11	6,651.68	7,537.18
Net Profit	3,309.00	3,724.00	4,799.19	6,046.98	6,851.98
Equity	14,890.00	17,340.00	22,139.19	28,186.17	35,038.15
EPS(P)	0.600	0.675	0.870	1.096	1.242
Growth(%)		12.5	28.9	26.0	13.3
PE(x)	13.5	12.0	9.3	7.4	6.5
EV/EBITDA(x)	19.7	17.4	12.9	10.5	8.5
P/BV(x)	3.00	2.57	2.02	1.58	1.27
Margins(%)					
EBITDA	39.4	36.8	38.4	37.4	37.9
EBIT	47.2	44.6	44.0	44.0	40.7
Net Margins	43.2	40.1	40.0	40.0	37.0

BUY

Share Price	**P8.09**
Target Price	**P10.50 (+30.0%)**

$HOUSE is the Philippines' largest home builder.

52-week Range	**P5.98 – P8.50**
Market Capitalization	**P44,641.0 (US$949.0m)**
Free Float	**33.0%**
Ave. Daily Volume ('000)	**800**

Relative Performance (%)

	1 Year	Ytd.
$HOUSE	15.7	13.7
$PSEi	5.0	14.6

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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 56.0% 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 takeouts = virtuous cycle

$HOUSE has created a virtuous cycle in housing finance by providing banks with high yield 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 4.0 – 4.5%. 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 home-buyers.

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

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.

34.0% upside to P10.50

Our price target of P10.50 is based on 9.0x PE to 12/17 earnings. This valuation assumes that $HOUSE merely trades at the high end of its PE band. This target simply captures its growth prospects for 2017 and excludes any potential for re-rating when the market discounts its CTS funding risks. If that happens, a re-rating to 15.0x PE or P15.0 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 Need

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 standsat 462,000 units and is expected to grow to 1.1m units by 2030.

Affordable Housing Market

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

Source: HUDCC, SHDA, UA&P

At current delivery rate of 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% of the available market. This excludes incremental demand moving forward.

CTS takeouts= 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 by coming up with a unique funding mechanism to offer 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.

To date, $HOUSE has P15.0bn worth of commitments from various financial institutions to takeout its CTS receivables

Funding Facilities

(Pm)		
China Bank	5,000.0	Securitization
Banco de Oro	5,000.0	Sale of CTS
BPI Family	1,000.0	Sale of CTS
HDMF	4,000.0	Migration of CTS
Total	15,000.0	

Source: 8990 Holdings, Inc.

Straight forward business model

$HOUSE has a simple and straight forward business model of delivering affordable housing units at affordable payment terms to the market. Based on its current delivery rate of 10,000 units per year, $HOUSE can potentially scale this up to 14,000 by 2018. Its current projects can support up to 74,000 units giving it steady pipeline till 2022.

On the other hand its CTS receivables are actually a cash machine that yields around 9.0% 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	(%)	2016E	(%)	2017E	(%)	2018E	(%)
Houses sold	7,150.0	8,077.0	13.0	10,000.0	23.8	12,000.0	20.0	14,000.0	16.7
Ave. Selling Price (P'000)	1,053.1	1,142.7	8.5	1,199.8	5.0	1,259.8	5.0	1,322.8	5.0
Total Revenue (Pm)	7,530.0	9,229.3	22.6	11,998.0	30.0	15,117.4	26.0	18,518.9	22.5
(Pm)									
Gross Income	4,527.0	5,101.4		7,198.8		8,919.3		10,555.8	
Operating Income	2,982.0	3,381.0		4,559.2		5,593.5		6,944.6	
Net Income	3,307.0	3,722.0		4,799.2		6,047.0		6,852.0	
(%)									
Gross Profit	60.1	55.3		60.0		59.0		57.0	
Operating	39.6	36.6		38.0		37.0		37.5	
NIAT	43.9	40.3		40.0		40.0		37.0	
(Pm)									
CTS Receivables	13,477.0	17,565.0		19,000.0					
Ave.	11,475.0	15,521.0	30.3	18,282.5	8.2	15,000.0	-21.1	15,000.0	-
Income from CTS	1,014.0	1,346.0	35.3	1,554.01	17.8	16,641.3	-9.0	15,000.0	-9.9
(%) Yield	8.84	8.67	32.7	8.50	15.5	1,414.51	-9.0	1,275.00	-9.9

Source: Philstocks

Share price performance

Share price of $HOUSE traded between P5.98 and P8.50. It has rallied by as much as 37.5% since bottoming out last January. Key is to take out P8.50 and the stock should rally back to our P10.50 price target.

Source: Bloomberg