

GT Capital Holdings, Inc.

TUE 19 MAY 2020

Core earnings drop 15% in 1Q, below estimates

1Q income underperforms estimates. GTCAP reported Php2.84Bil in core profits during the first quarter, down 15% y/y on lower core earnings contribution from MBT (-9%), Toyota Motor Philippines (-16%), and MPI (-6%). This ended below COL and consensus estimates at 22.8% and 23.1% of full-year forecasts, respectively. MBT (higher-than-expected provisions) and TMP (lower-than-expected revenues) both ended below our estimates while Federal Land and MPI ended in line. In terms of net profits, 1Q20 fell 26% to Php2.54Bil. The difference between the core and net income reflects GTCAP's Php0.3Bil share in MER's provisioning in the carrying value of the latter's investment in Pacific Light Power.

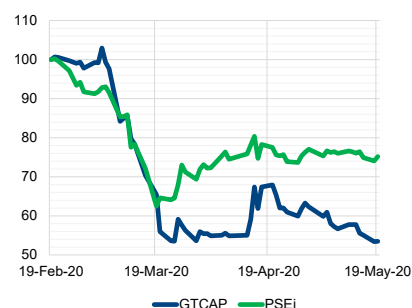
Toyota sales volume drop 21% in 1Q20. Toyota Motor Philippines reported Php1.4Bil in earnings for 1Q20, down 20% y/y. The decline was largely due to weaker sales volume, with wholesale and retail volumes contracting by 21% and 23%, respectively. This led to a 15% drop in revenues during the quarter. Unsurprisingly, the company attributed the decline due to the Taal volcano eruption in January and the ECQ implemented starting mid-March. Nevertheless, the magnitude was higher than anticipated, with 1Q revenues reaching just 22% of our full-year forecast. Note that we are expecting even weaker sales in 2Q as the ECQ extends into (at least) the end of May.

Maintaining BUY rating. We currently a BUY rating on GTCAP with an FV estimate of Php680/sh. At its current price of Php388, it is trading at 7.0X (the temporarily depressed) 2020E earnings and 4.9X 2021E earnings. These are way below its historical average of 15.2X. Current discount to NAV is also at its highest historically at 48%. While the negative sentiment would most likely keep prices depressed in the short term, we believe that these challenges are transitory and that fundamentals remain attractive over the long term.

BUY

TICKER: GTCAP
FAIR VALUE: 680.00
CURRENT PRICE: 388.80
UPSIDE: 74.90

SHARE PRICE MOVEMENT



ABSOLUTE PERFORMANCE

	1M	3M	YTD
GTCAP	-20.65	-46.52	-54.10
PSEi	-3.93	-24.80	-28.83

MARKET DATA

Market Cap	83,702.65Mil
Outstanding Shares	215.28Mil
52 Wk Range	290.00 - 972.00
3Mo Ave Daily T/O	88.75Mil

FORECAST SUMMARY

Year to December 31 (Php Mil)	2016	2017	2018	2019	2020E	2021E
Revenue	202,124	239,811	205,831	222,940	176,272	231,521
% change y/y	44.4	18.6	-14.2	8.3	-20.9	31.3
Equity in Net Income of Associates	6,366	8,699	11,513	14,578	12,923	15,143
% change y/y	13.4	36.6	32.3	26.6	-11.4	17.2
EBIT	25,523	29,169	26,191	32,808	23,085	32,427
% change y/y	11.4	14.3	-10.2	25.3	-29.6	40.5
Net Income	14,634	14,182	13,156	20,309	12,613	17,828
% change y/y	20.8	-3.1	-7.2	54.4	-37.9	41.3
EPS (in Php)	58.66	65.02	58.37	85.65	55.85	80.08
% change y/y	-5.7	10.8	-10.2	46.7	-34.8	43.4

RELATIVE VALUE

P/E(X)	6.61	5.97	6.65	4.53	6.95	4.85
P/BV(X)	0.54	0.47	0.46	0.44	0.42	0.38
ROAE(%)	10.54	9.01	7.39	10.93	6.46	8.46
Dividend Yield (%)	1.55	1.29	0.77	0.77	0.77	0.90

*Source: COL estimates

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1Q income underperforms estimates

GTCAP reported Php2.84Bil in core profits during the first quarter, down 15% y/y on lower core earnings contribution from MBT (-9%), Toyota Motor Philippines (-16%), and MPI (-6%). This ended below COL and consensus estimates at 22.8% and 23.1% of full-year forecasts, respectively. MBT (higher-than-expected provisions) and TMP (lower-than-expected revenues) both ended below our estimates while Federal Land and MPI ended in line. In terms of net profits, 1Q20 fell 26% to Php2.54Bil. The difference between the core and net income reflects GTCAP's Php0.3Bil share in MER's provisioning in the carrying value of the latter's investment in Pacific Light Power.

Exhibit 1: Results Summary

Company	Net Income Contribution				Notes
	1Q19	1Q20	% Change	% COL	
Metrobank	2,455	2,274	-7.4	23.2	Provisions +110% to Php5B; Net int inc +18%
Toyota Motor Phil	909	730	-19.7	24.1	Sales down 15%, slight drop in margins
Federal Land	190	375	97.5	45.1	Real estate sales +35%; reservation sales +86%
Metro Pacific Investment:	569	533	-6.3	23.9	Maynilad, toll roads, healthcare down; Power up
GT Capital core income	3,350	2,840	-15.2	22.8	23.1% of consensus
GT Capital net income	3,423	2,544	-25.7		

source: GTCAP, COL estimates

Toyota sales volume drop 21% in 1Q20

Toyota Motor Philippines reported Php1.4Bil in earnings for 1Q20, down 20% y/y. The decline was largely due to weaker sales volume, with wholesale and retail volumes contracting by 21% and 23%, respectively. This led to a 15% drop in revenues during the quarter. Unsurprisingly, the company attributed the decline due to the Taal volcano eruption in January and the ECQ implemented starting mid-March. Nevertheless, the magnitude was higher than anticipated, with 1Q revenues reaching just 22% of our full-year forecast. Note that we are expecting even weaker sales in 2Q as the ECQ extends into (at least) the end of May.

Net margin in 1Q20 dropped ~30bps to 5% despite a slight improvement in gross profit margin (from 9.3% to 9.4%). This was due to lower revenues, hurting the company's scale efficiencies.

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MBT earnings trail estimates on higher provisions

MBT reported that net income in the first quarter fell 9.3% y/y to Php6.1Bil, dragged by higher provisions (+109.8% y/y) and lower miscellaneous income (-20.3% y/y). This ended below both COL and consensus estimates, accounting for 23.2% and 23.1% of full-year forecasts, respectively. The underperformance vs our forecast was mainly caused by higher-than-expected provisions as well as weaker than expected fees and miscellaneous income. Meanwhile, net interest income expanded by 18.3% y/y, driven by both higher volume (+5.5%) and margins (+28bps to 3.6%). The first quarter results translate to an annualized ROE of 7.6%

Federal Land recovers from low base the previous year

Federal Land's net income almost doubled from Php190Mil in 1Q19 to Php375Mil in 1Q20 as it recovered from its weak 1Q19 performance. Recall that Federal Land's profits dropped 23%y/y in 1Q19 amidst lower revenues as well as lower margins. For the latest quarter, results were much better, with real estate sales rising 35% y/y due to faster completion; reservation sales increasing 86% y/y; and lease revenues growing 40% y/y. Nevertheless, we believe that profits starting 2Q20 should significantly slow down amidst the ECQ. The first quarter results account for 45% of our full-year forecast.

MPI's core profits end in line with estimates

MPI's 1Q20 core net income declined 6.3% to Php3.4Bil, in line with forecasts, representing 23.9% of COL forecast and 23.3% of consensus forecast. Overall earnings contribution of subsidiaries declined 5% to Php4.7Bil, brought about by a decline in earnings from Maynilad, toll roads and healthcare, offset by higher earnings contribution from the power subsidiaries. Maynilad and Healthcare group's earnings trailed estimates, while toll roads and power subsidiaries earnings beat estimates.

Maintaining BUY rating

We currently a BUY rating on GTCAP with an FV estimate of Php680/sh. At its current price of Php388, it is trading at 7.0X (the temporarily depressed) 2020E earnings and 4.9X 2021E earnings. These are way below its historical average of 15.2X. Current discount to NAV is also at its highest historically at 48%. While the negative sentiment would most likely keep prices depressed in the short term, we believe that these challenges are transitory and that fundamentals remain attractive over the long term.

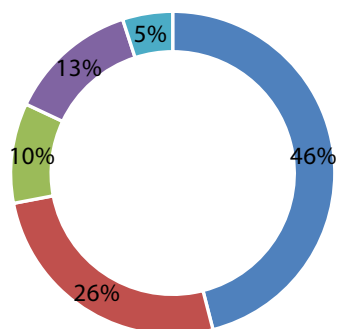
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GT Capital Holdings, Inc. (GTCAP)

COMPANY BACKGROUND

GTCAP is the primary vehicle for the holding and management of the diversified business interest of the Ty family. It holds interest in banking through Metrobank (MBT) - the country's second largest bank in terms of assets, loans, and branches - and automotive assembly and distribution through Toyota Motor Phil - the leading automotive company in the Philippines. In addition, it also has a stake in property development (Federal Land), infrastructure and utilities (MPI), and insurance (AXA).

INCOME BREAKDOWN



■ Banking ■ Auto ■ Property ■ Infra ■ Insurance

INCOME STATEMENT (PHPMIL)

	2016	2017	2018	2019E	2020E	2021E
Revenues	202,124	239,811	205,831	222,940	176,272	231,521
% Growth	44.4%	18.6%	-14.2%	8.3%	-20.9%	31.3%
EBITDA	28,240	31,090	28,287	35,225	25,743	35,352
% Growth	7.3%	10.1%	-9.0%	24.5%	-26.9%	37.3%
Operating Profit	25,523	29,169	26,191	32,808	23,085	32,427
% Growth	11.4%	14.3%	-10.2%	25.3%	-29.6%	40.5%
Interest Expense	(3326.0)	(3394.0)	(5401.0)	(6453.0)	(4293.0)	(4393.0)
Other Income/Expense	1,711	1,607	2,124	2,529	-	-
Pretax Income	22,197	25,775	20,790	26,355	18,792	28,034
Tax Expense	(4586)	(4524)	(3886)	(5057)	(3179)	(5226)
Net Income	14,634	14,182	13,156	20,309	12,613	17,828
% Growth	20.8%	-3.1%	-7.2%	54.4%	-37.9%	41.3%
EPS	58.35	70.30	64.21	91.60	55.85	80.08
% Growth	-6.2%	20.5%	-8.7%	42.7%	-39.0%	43.4%

BALANCE SHEET (IN PHPMIL)

	2016	2017	2018	2019E	2020E	2021E
Cash & Equivalents	23,836	22,432	17,599	16,831	13,308	17,479
Trade Receivables	22,798	24,374	15,153	13,382	10,581	13,897
Inventories	52,060	56,594	77,469	72,189	57,078	74,967
Other Current Assets	7,072	10,583	18,785	15,720	12,429	16,325
PPE and Inv Properties	104,195	136,563	177,377	191,218	211,857	234,735
Other Non-Current Assets	55,485	57,145	53,367	48,314	51,152	54,208
Total Assets	265,446	307,691	359,750	357,654	356,405	411,612
Accounts Payable	21,177	25,983	25,411	25,234	19,952	26,205
ST Debts	8,278	8,500	14,314	21,763	19,065	22,259
Other Current Liabilities	5,629	8,307	12,612	8,584	6,878	8,898
LT Debts	78,323	78,898	113,262	102,189	98,099	122,286
Other Non-Current Liabilities	10,801	12,312	11,864	10,564	11,166	11,815
Total Liabilities	124,208	134,000	177,463	168,334	155,160	191,463
Total Equity	141,238	173,691	182,287	189,320	201,245	220,149
Total Liabilities & Equity	265,446	307,691	359,750	357,654	356,405	411,612
BVPS	724.92	830.94	846.73	879.39	934.79	1,022.60

KEY RATIOS (IN PHPMIL)

	2016	2017	2018	2019E	2020E	2021E
EBITDA Margin (%)	14.0%	13.0%	13.7%	15.8%	14.6%	15.3%
OPM (%)	12.6%	12.2%	12.7%	14.7%	13.1%	14.0%
NPM (%)	7.2%	5.9%	6.4%	9.1%	7.2%	7.7%
Times Interest Earned (X)	7.67	8.59	4.85	5.08	5.38	7.38
Current Ratio (X)	3.01	2.66	2.46	2.13	2.04	2.14
Net D/E Ratio (X)	0.48	0.41	0.69	0.58	0.53	0.60
Days Receivable	41.2	37.1	26.9	21.9	21.9	21.9
Days Inventory	116.3	104.7	167.8	149.6	143.9	143.7
Days Payable	47.13	46.97	48.98	53.92	56.17	45.93
Asset T/O (%)	0.71	0.84	0.62	0.62	0.49	0.60
ROAE (%)	10.5%	9.0%	7.4%	10.9%	6.5%	8.5%

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INVESTMENT THESIS:
Well positioned to capitalize on favorable economic outlook

GTCAP is well positioned to capitalize on the country's positive economic outlook. With its large interests in cyclical industries such as banking, automotive, property, and insurance, GTCAP is expected to benefit from the continued rise in per capita GDP. Its stake in MPI also allows the company to participate in the government's aggressive infrastructure program.

TMP continues to lead the motorization phase

TMP remains the dominant automotive company in the Philippines, consistently posting the highest sales figures in the industry since 2002. Given its market leading position, it stands to benefit from the continued motorization of the country. Based on the experiences of other neighboring country, the Philippines is said to be undergoing a motorization phase as GDP per capita continues to move past the USD2,500 level (first breached in 2012).

MBT to benefit from the growing demand for loans

Metrobank is expected to be one of the major beneficiaries of growing demand for loans given its position as the second largest bank in terms of assets, loans, and branches. Aside from the advantage brought about by its size, Metrobank has a strong balance sheet, with an NPL ratio of only 0.9% and and NPL cover of 113%. Its CET 1 ratio is also high at 15.3% as of June 2018, above the the BSP's minimum requirement of 11%.

MAJOR CORPORATE DEVELOPMENTS (5-YEARS)

GTCAP exchanges 51% stake in Pro-Friends for Php20Bil worth of land	05/10/2019
GTCAP increases stake in MBT from 26.5% to 36.1%; Issues 18.3Mil primary common shares to Grand Titan for Php21.7Bil.	04/18/2017
Grand Titan sells 5.2Mil secondary shares for Php8.1Bil.	08/11/2016
GTCAP increases stake in Pro-Friends from 22.7% to 51.0%; Purchase price at Php8.8Bil.	06/30/2016
GTCAP sells its 51.3% direct stake in Global Business Power to Beacon; Buys 15.6% stake in MPI for Php22.0Bil.	05/27/2016
GTCAP sells 100% direct stake in Charter Ping An to Phil AXA Life Insurance Corp.	04/04/2016
GTCAP acquires 22.7% stake in Pro-Friends for Php7.2Bil, with option to increase stake to 51% within 3 years.	08/20/2015
Grand Titan sells 8.7Mil secondary shares for Php9.8Bil.	02/04/2015
GTCAP increases stake in Charter Ping An from 66.7% to 100%; Purchase price at Php712Mil.	01/28/2014

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Valuation Methodology

NAV COMPUTATION					
	Value (PhpMil)	Value (Php/Sh)	% of GAV	% of NAV	Valuation Methodology
Metrobank	105,260	489	42.1%	65.2%	P/BV
Metro Pacific Investments	31,311	145	12.5%	19.4%	NAV
Toyota Motor Philippines	62,613	291	25.1%	38.8%	DCF
Federal Land	19,150	89	7.7%	11.9%	
Land	20,000	93	8.0%	12.4%	NAV
Others	11,566	54	4.6%	7.2%	
	249,899	1,161	100.0%	154.7%	
Less: Net Debt+Preferreds	-88,400	-411	-35.4%	-54.7%	
Equity Value	161,499	750	64.6%	100.0%	
Less: Holding Company Discount of MBT and MPI					
FV Estimate	147,842	680			

source: COL estimates

RELATIVE VALUATION				
	P/E		EPS Growth	
	2019E	2020E	2019E	2020E
AC	12.1	10.8	8.4%	11.5%
AEV	10.3	9.0	-6.1%	14.6%
AGI	3.3	3.0	19.6%	11.5%
COSCO	6.6	5.7	0.0%	15.8%
DMC	4.3	3.9	-12.8%	10.5%
JGS	12.7	10.0	30.4%	27.2%
LTG	3.9	3.7	24.0%	7.0%
MPI	5.3	4.8	13.3%	9.8%
SM	22.7	20.7	14.7%	9.6%
SMC	12.5	12.7	16.2%	-2.0%
GTCAP	4.5	7.0	44.1%	-34.8%
Average ex-GTCAP	9.4	8.4	10.8%	11.6%
Median ex-GTCAP	8.5	7.4	14.0%	11.0%

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IMPORTANT RATING DEFINITIONS**BUY**

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 12 months.

HOLD

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 in line or underperform in the market in the next six to twelve months.

SELL

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 12 months.

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