



GNAM Investment Competition

Asian Institute of Management (AIM)
Metro Retail Stores Group, Inc. (MRSGI)

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AIM

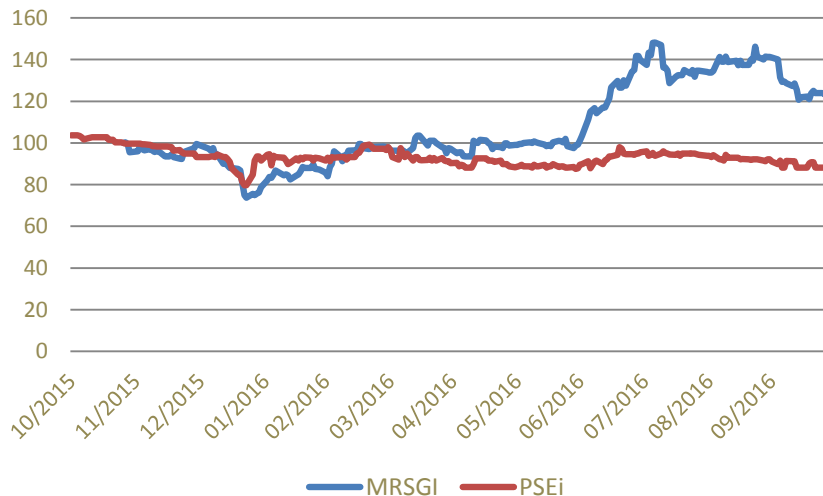


Company Profile

Sector	Services
Subsector	Retail (Hypermarkets & Department Stores)
Exchange Index	PSEi
Market Capitalization	Php 16.26 billion



Historical Stock Price for MRSGI



- **Metro Retail Stores Group, Inc. (MRSGI)** is a retail company which was incorporated in 2003 and went public only in 2015.
- Opened its first store in 1982.
- Market leader in the Visayas region.
- Actively seeking growth and expansion projects.

Business Overview
& Analysis

Industry
Overview

Competitor
Analysis

Valuation

Risk Factors

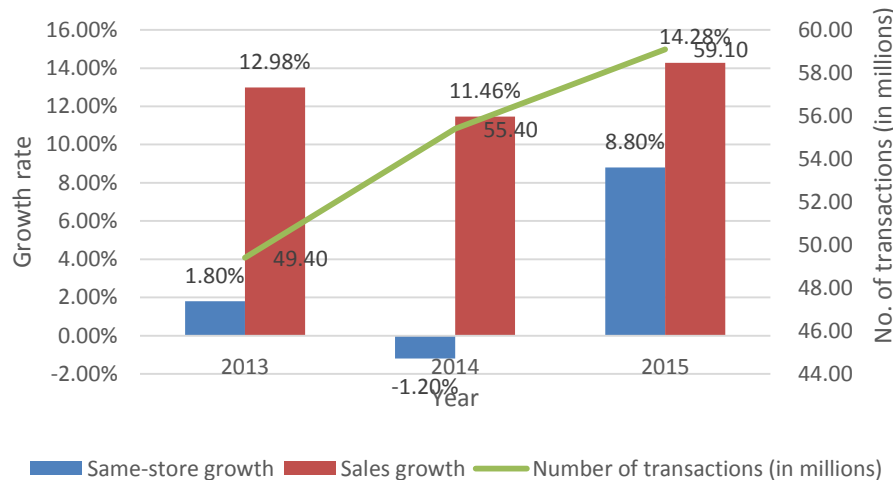
Conclusion

Company Profile

	2012	2013	2014	2015
Current ratio	1.47x	1.38x	1.41x	2.12x
Inventory turnover	NA	7.38x	7.06x	7.54x
Fixed assets turnover	NA	23.14x	21.74x	21.72x
Debt to equity ratio	13.71%	56.99%	46.82%	19.42%
Earnings per share	0.23	0.24	0.25	0.22
Price earnings ratio	NA	NA	NA	17.99x
Return on assets	10.37%	8.32%	7.78%	6.50%
Return on equity	28.90%	23.37%	21.06%	11.77%

- A retail company with a total of 49 stores from Jan-Jun 2016.
- Focused on the underserved areas.
- Products are positioned as value for money.
- The company's Net Income grew by 23.99% with contributions from 2015 net sales of 14.28% and same-store sales of 8.80%.
- Earmarked Php 10.00 billion over the next 5 years to double its footprint and modernize its logistics.

Sales Performance Indicators

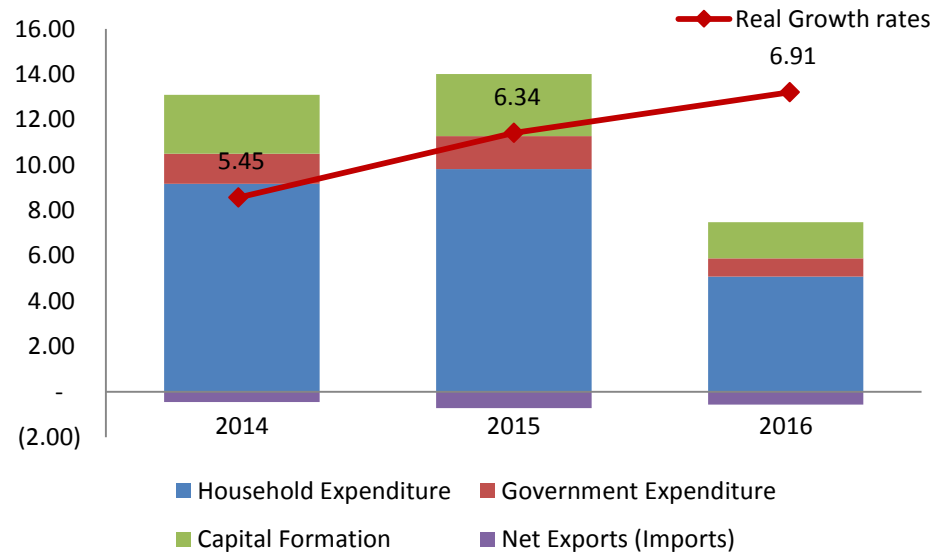




Expected Industry Growth

- Positive Outlook due to the establishment of the ASEAN Economic Community which aims to create a single market with little to no barriers in the movement of goods, labor and investments.
- Recent growth supported by strong Philippine macro-economic fundamentals such as GDP growth of **6.91%**.
- Household spending as a main growth driver which grew at **5.13%**.
- Rising middle class boosting retail sales of **2.78%** y-o-y.

GDP and growth rates



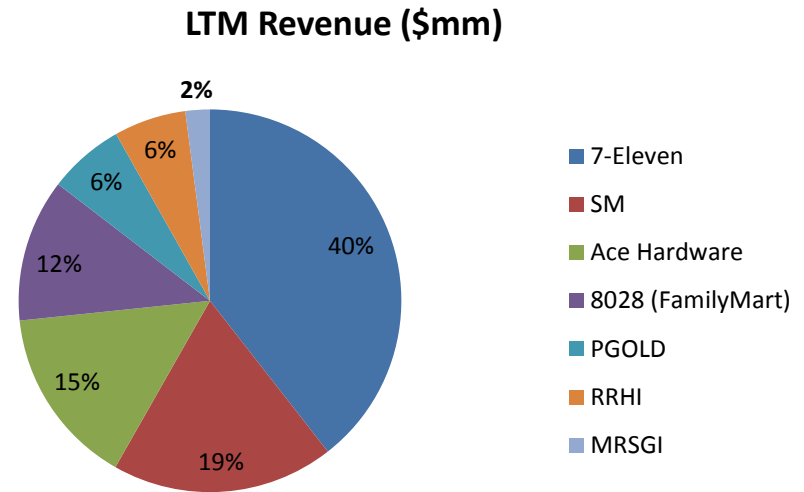
NOTE: 2016 figures only from Q1-Q2.





Retail Industry Players

- Competes with various players due to their presence in the ff:
 - Supermarkets
 - Department Stores
 - Hypermarkets
- Direct Competitors: SM, RRHI and PGOLD.
- Market leader remains to be SM.
- 7-Eleven leader in the Convenience Store segment.
- Others have established presence in most locations.



Valuation

	2016	2017	2018	2019	2020
DCF of assets: Optimistic <i>(In millions of Php)</i>					
EBIT	1,222	1,383	1,565	1,759	1,986
Add depreciation	482	579	689	813	953
Less taxes	(359)	(407)	(460)	(517)	(584)
Operating cash flows	1,344	1,556	1,795	2,055	2,355
Less capital expenditures	(688)	(779)	(881)	(990)	(1,118)
Less change in NWC	(58)	(273)	(308)	(327)	(384)
Free cash flows	599	504	606	738	853
Terminal value (TV)	-	-	-	-	27,458
Free cash flows with TV	599	504	606	738	28,311
DCF value of assets	546	419	460	511	17,899

	2016	2017	2018	2019	2020
DCF of assets: Pessimistic <i>(In millions of Php)</i>					
EBIT	1,222	1,383	1,565	1,759	1,976
Add depreciation	482	579	689	813	953
Less taxes	(359)	(407)	(460)	(517)	(581)
Operating cash flows	1,344	1,556	1,795	2,055	2,349
Less capital expenditures	(688)	(779)	(881)	(990)	(1,118)
Less change in NWC	(58)	(273)	(308)	(327)	(368)
Free cash flows	599	504	606	738	863
Terminal value (TV)	-	-	-	-	15,432
Free cash flows with TV	599	504	606	738	16,295
DCF value of assets	546	419	460	511	10,302

	Optimistic	Pessimistic
Total enterprise value	19,836	12,239
Less book value of debt, net of excess ca	(2,812)	(2,812)
Equity value	22,648	15,051
Divide by number of shares	3,429	3,429
Share price per DCF analysis	6.60	4.39
Current share price	4.74	4.74
Upside (Downside)	1.86	(0.35)
% Upside (Downside)	39.33%	-7.41%

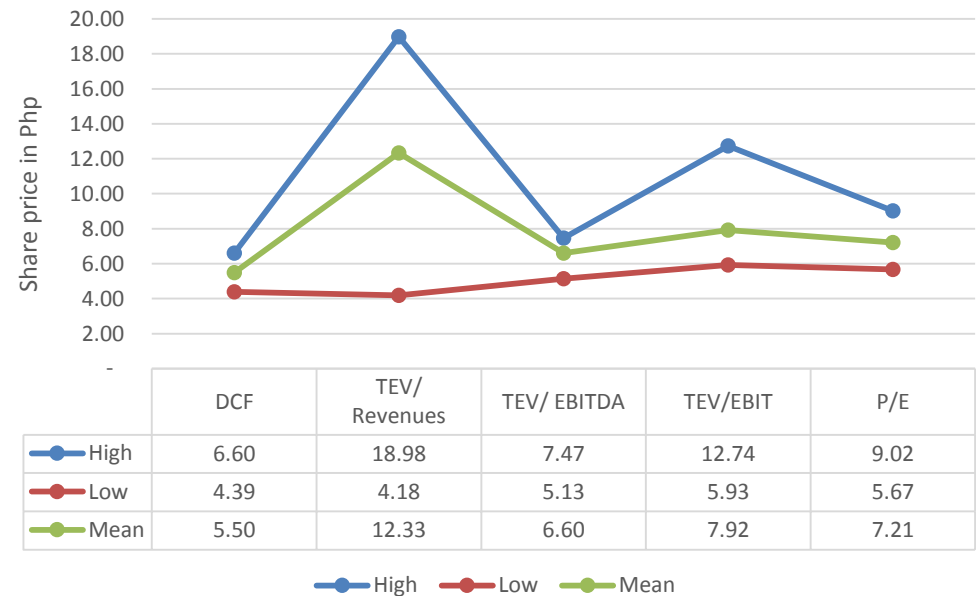
- DCF Assumptions:
 - Optimistic and Pessimistic revenue CAGR of 12.91% and 12.77%
 - Optimistic Terminal value based on forecasted 2020 GDP of 6.30%
 - Pessimistic Terminal value based on forecasted inflation rate of 3.80%
 - WACC of 9.60% based on CAPM
 - Stable Margins of 20.65%
 - Capex rate of 1.91% and depreciation of 12.52%



Valuation

- Valuation: **Php 6.91** or **45.86% upside** based on the average share price generated from the range of possible values considering the S&P Capital IQ mean estimate.
- Comparables (MRSGL vs. industry average) resulted in the highest share price of **Php 18.98** using the TEV/Revenue multiple.

Range of Share Prices for MRSGL

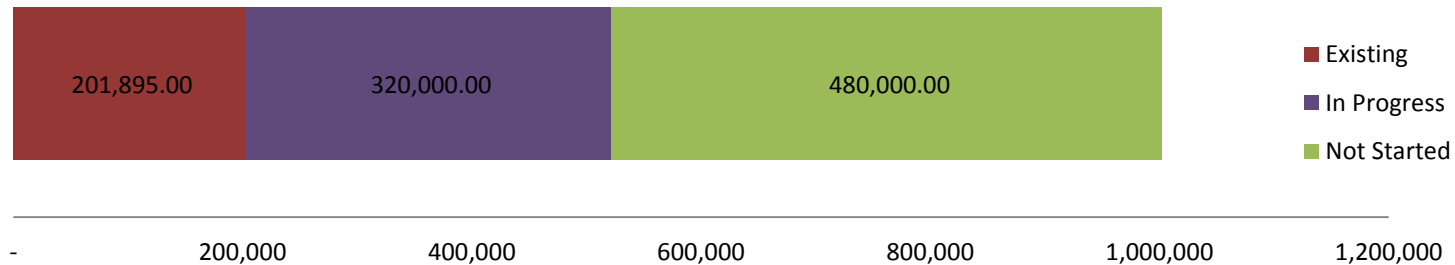




Risks

- Increased competition from other retail companies
 - Other competitors have well-established brands and locations
- Supplier relationships and scalability is important in their plan of opening stores
- Rapid expansion with 800,000 additional sqm of floor area
- Difficulty in implementing growth strategy
 - KSF in the industry is selection of new store locations

Net Selling Space





Conclusion

- Philippines as an emerging economy with **6.91%** GDP growth rate and increasing household consumption fueling the growth of the retail industry.
- We recommend a **BUY** on **MRSGI** as we estimate a target price of **Php 6.91** with a **45.86% upside**.
- Stock is undervalued due to some uncertainties in the Philippine economy.

