

Ali case analysis

Business



EXECUTIVE SUMMARY Ayala Land Inc. is a leading real estate company offering properties for both residential and commercial customers. The company reported strong financial results based on their declarations in the past 5 years. In this case, the group took the point of view of a minority investor who would like to determine if he should sell, hold or buy more shares. The case was analyzed using three screens which consider both internal and external factors to the company: financial ratio analysis, industry news/trends and technical analysis of the share price.

Based on these screens, the group concluded that this is a good time to BUY Ayala Land shares. 1. POINT OF VIEW Point of view of a minority investor 2.

CASE CONTEXT Ayala Land, Inc. (“ ALI”) is the largest and most diversified real estate company in the Philippines. Its main business includes residential development, shopping centers, offices and strategic landbank management.

Other businesses include construction, property management, waterworks operations, and hotels. In 2010, the residential development accounted for the bulk of its recurring revenues at 62%, while shopping centers and office accounted for 13% and 7% respectively. [1] As a result of ALI’s profitable operation in 2010, it achieved a net income of Php5. 5 billion which is 35% higher than in 2009. ALI also raised the dividend payout ratio from 16% to 30% and increased total cash dividends paid to Php1. 2 billion, from Php780 million in 2009.

Ayala Land Inc. is the leader when it comes to real estate development.

Compared to other developers, Ayala Land Inc. has the most diverse projects

to date; from High-end to Low-end, vertical and horizontal residential developments, commercial, office leasing and retail service. 3.

PROBLEM Should I buy, hold or sell ALI shares at PhP17.98/share[2]? 4.

FRAMEWORK The group used three screens to assess potential of ALI shares namely, Financial Ratios, Industry News which affect ALI and Technical Analysis of ALI's share price. The group conducted ratio analysis based on ALI's published financial statement for from 2006 to 9M 2011. The ratios analyzed sufficiently covers the critical ratios that measure ALI's profitability, operating efficiency, and leverage. To financial ratio analysis, the group also looked at trends and news in the real estate industry which could affect the position of ALI in near-term and the long-term, including how it is perceived to fair versus its competitors in the succeeding years.

The group also conducted a technical analysis of the share's performance in the market against key metrics such as MACD and RSI. 5. ANALYSIS 5. 1

Financial Ratios of ALI from 2006 to 9M 2011 [pic] *Source: ayalaland. om. ph ALI has a strong capability to settle short term obligation with their current ratio being consistently higher than 1.

Furthermore, about 30% of their current asset is in Cash and another 30% is Accounts Receivable from their installment sales, the latter being tested for impairment on a regular basis. Albeit, it is worth noting that Megaworld has a higher current ratio at 2.69: 1 in 2010. In terms of leverage, the share of debt to total funding has been steady at less than 50%, except in 2011 when the firm borrowed P10Bn through issuance of notes to fund their aggressive expansion. The firm's ROA and ROE has been stable and positive in the past

5 yrs, albeit showed a dip in 2009 earnings driven by a slowdown in the macroeconomy. ROE of ALI is higher than Megaworld driven by more robust revenue growth of the former.

Overall, we can surmise that ALI is in liquid position, with prudent borrowing policies and debt/equity structure and stable return on investment. 5. 2 Key Trends and Industry News Property stocks did not perform well in 2011 due to the issue of oversupply[3]. Real Estate Consultants like CBRE, Jones Lang Lasalle-Leechiu and the sales performance of top developers Ayala Land, Inc. and SM Development Corp. in 2011 says otherwise.

SM Development Corp. increased its sales on the 4Q of 2011 by 21. 7% compared to 3Q. [4] Ayala Land Inc. reported a 59% sale of their Meriden Alveo project during the opening weekend.

The “ demand-supply dynamics” in the real estate industry vary in so many ways. Aside from the usual factors, they may also differ on the type of market, project, location and kind of development. In fact, data from HUDCC shows that supply of residential units in Metro Manila per year is short by 57, 000units. 5] Thus, a 29% increase in units last year. According to property experts, the following factors will contribute to the increase in demand for property sector in 2012, defying the oversupply issue:

- Country’s promising economic status.
- The growing inflow of OFW remittances.

- Low bank interest rates. This means low monthly amortizations that are favorable to property buyers.
- Increasing in size of middle class market. This is the target market of most developers today. With the pre-selling

scheme, residential units become affordable to the middle working class. Investment on real estate properties.

A lot of investors are exploring on rental investments that gives a higher yield of 6% rate compared to the highest investment rate available, SDA at 4.5%. • Increasing growth of BPO industry • Increase in consumer spending that result in more commercial developments like malls. • Infrastructure projects such as new roads and highways. These projects open the doors to provincial area land improvements.

- Professionalization of real estate industry (from DTI to PRC). This will ignite interest on the industry. Improving urbanization of the Philippines – shifting from horizontal residential development to vertical. Ayala Land Inc. grabs every opportunity they see in the market. For this year: • They are planning on taking advantage on the promotion of tourism of our government by a possible airport investment and their El Nido resort project • use their newly acquired properties in Makati and Quezon City • Php60 billion partnership project with Evergreen Holdings, Inc of the Campos (Unilab) in Bonifacio Global City Against competition, although Megaworld is leading the office-leasing department, they are still less aggressive than ALI with only Php45 billion worth of developments planned for the next 20 years.

SMDC, one of the leading residential developers will only start on exploring the BPO industry opportunity this year. Ayala Land Inc. has started and established all of these which make them the trendsetter and leader in real estate industry. 5. 3 Technical Analysis of ALI Shares [pic]Based on the

technical analysis, ALI is a good BUY opportunity due to recent breakout from resistance of Php 17. 00.

Moreover, the general sentiment in the market at the start of the year is positive so it is expected that the general movement of the market is in the upward direction. However, caution must be exercised on entry because the stock has risen too fast too soon which may signal possible reversal in the short-term. MACD signal is above +. 40 which shows that the stock is in overbought condition. Decreasing volume and RSI falling from high of 70 signals reversal of upward trend.

Moreover, the NAV of ALI as of Jan 17 is P24. 50 per share, higher than the market price of P17. 28, signifying that the stock is selling at a discount. 6.

DECISION Given the result of the analyses of ALI's financial ratios, industry news and performance of its shares in the market, the group's decision is a BUY.

However, the investor should keep an eye on development in other areas or factors which could affect the performance of real estate business such as macroeconomic condition, OFW remittance, bank interest rates, etc.

----- [1] [www. citiseconline. com](http://www.citiseconline.com) [2] 20 January 2012 Closing Price; From [http://www. pse. com](http://www.pse.com).

[ph/stockMarket/companyInfo. html? id= 180&security= 293&tab= 0;](http://www.pse.com/ph/stockMarket/companyInfo.html?id=180&security=293&tab=0)

Accessed 26 January 2012. [3] Property Sector Review: Too early to be bearish. Citiseconilne. January 19, 2012 [4] SM Development Corp: Maintaining its aggressiveness.

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Citiseconline Field Notes. January 19, 2012 [5] Property Sector Review: Too early to be bearish. Citiseconilne. January 19, 2012