

Philippine Consumer and Retail Sector

Consumer Survey – Spotting Consumption Trends

- **Gauging consumer sentiment from the ground** — Personal consumption expenditure is a key driver of the Philippine economy, accounting for 70% of the country's GDP. Through a survey, we try to gauge consumer sentiment as well as spending trends and patterns of the Filipino consumer in the next six months. Our survey, conducted from 7-21 Sept 12, covered 520 consumers across multiple cities in the Greater Manila area.
- **Stable to positive outlook on income; neutral on spending** — Consumers generally had stable to positive expectations on income for the next six months. Overall, they did not expect significant changes in their spending patterns, but appeared hesitant on certain discretionary and big-ticket items.
- **Grocery spending patterns and trends** — We asked consumers about their patterns and preferences in grocery spending. Key takeaways are: 1) Expenditure on grocery items is expected to be largely stable; 2) Consumers remain conscious of prices, a key determinant for their expenses; and 3) Most consumers buy from supermarkets, with Puregold supermarkets/hypermarkets strong among the low-income households and SM among middle-income consumers.
- **Top pick: Puregold Price Club** — PGOLD is the fastest growing grocery retailer among Asian peers (EPS CAGR of 20% in 2011-14E vs. peers' 14%), driven by store network expansion and stable same-store sales growth. Its focused market positioning (targets low-income households, re-sellers) gives it a competitive edge. It is trading at a PEG of 1.1x, below regional and Philippine peer averages of 2.0x and 1.7x.
- **Sell on URC and JFC on rich valuations** — URC and JFC are trading at PEGs of 1.5x and 2.1x, below the regional peer average of ≤ 1 . We think significant upside from current levels may be difficult to justify given headwinds in their international businesses (which could dampen potential positive impact of May 2013 elections), risk of easing in discretionary spending and potential margin constraints.
- **Conglomerates (SM and AGI) offer a play on domestic consumption** — 55% and 42% of SM's and AGI's NAVs are exposed to domestic consumption. SM and AGI are trading at PEGs of only 0.7x.

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Company	Ticker	Rating		Target Price		2012E EPS	
		Old	New	Old	New	Old	New
Alliance Global	AGI.PS	1	1	P14.60	P14.60	P1.07	P1.07
Jollibee Foods	JFC.PS	3	3	P85.00	P85.00	P3.26	P3.26
Puregold	PGOLD.PS	1	1	P38.00	P38.00	P1.07	P1.07
SM Inv	SM.PS	1	1	P785.00	P915.00	P38.83	P36.81
Universal Robina	URC.PS	3	3	P58.00	P58.00	P3.27	P3.27

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Contents

Summary and Investment Case	3
What the Filipino Consumer Says	5
Stable Income Expectations	5
Subdued spending trends	8
Grocery Spending Patterns and Trends	14
Philippines Macro Outlook	22
Company Pages	26
Puregold Price Club (PGOLD.PS)	27
Universal Robina (URC.PS)	29
Jollibee Foods Corp (JFC.PS)	31
SM Investments Corp (SM.PS)	33
Alliance Global Group (AGI.PS)	36
Appendix	39
Comparable Valuations	40
Commodity Price Forecasts	44
Appendix A-1	49

Summary and Investment Case

Personal Consumption Expenditure (PCE) is a key driver of the Philippine economy, accounting for 70% of the country's GDP. Citi economist Jun Trinidad projects domestic consumption to remain resilient (growing at 5-6%), underpinned by OFW remittances, low inflation expectations and job creation.

Citi consumer survey to gauge income and expenditure expectations...

In this report, we attempt to get a sense on consumer sentiment and spending trends and patterns of the Filipino in the next six months through a consumer survey we conducted on 7-21 September 2012. Based on the results, we found out that consumers have a **neutral to positive outlook on income expectations in the next six months**. Consumers, however, **have a largely neutral outlook on overall spending**, but are more hesitant to spend on certain discretionary items.

...and trends and preferences in grocery retailing

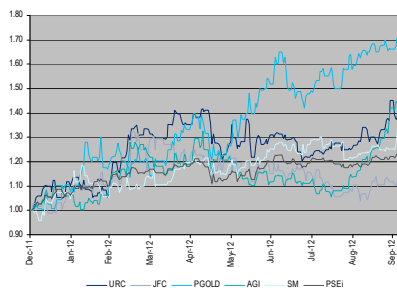
We also asked consumers about trends and preferences in grocery purchases to get a better understanding of the grocery retailing landscape. We highlight three key takeaways from the results:

- **Fairly stable spending on grocery items in the next six months**, with a noticeably higher % of respondents among the low to middle-income segments indicating plans of increasing grocery spend.
- Consumers are **largely sensitive to prices**, identifying price as a key consideration in choosing where to shop and what to buy. Consumers also value proximity to homes for where they shop for grocery items, underscoring the importance of retailers setting up shop near residential communities.
- **Consumers generally shop in supermarkets**, but there is a reliance on small neighborhood stores (traditional re-sellers or *sari-sari* stores) among low-income households. **Puregold Price Club** is popular among the low-income households while **SM Retail** of SM Investments is strong among middle-income consumers.

Re-rating of domestic consumption plays

While valuations of most consumer plays have run up YTD on prospects of resilient domestic consumption... Direct consumer plays (PGOLD, Universal Robina and Jollibee Foods) are now trading at an average 2013E PE of 22x (implying a PEG of 1.6) vs the Philippine market's 15x. These stocks are trading 1-1.5 SD above historical PE mean.

Figure 1. Relative Price Performance of Selected Consumer/Consumer Related Stocks



Source: Citi Research

...we think there could still be further upside to PGOLD (Top pick). Despite its share price run up since its IPO in October 2011, PGOLD is still attractively valued as it trades at a PEG of 1.1x vs regional peer average of 2.0x and Philippine consumer peer average of 1.7x.

- It is the fastest-growing grocery retailer among Asian peers (EPS CAGR of 20% in 2011-14E) driven by steady same-store sales growth (SSSG) and expanding store network.
- Its focused market positioning (caters primarily to low-income households and neighborhood stores) not only gives it a competitive advantage over peers, but also enables PGOLD to ride cycles in consumption trends (can directly benefit from strong domestic consumption, can capture consumers who trade down during a consumption downturn).

- We think a re-rating closer to its Philippine peers could be warranted on: 1) Fairly stable business of grocery retailing vs more discretionary nature of Universal Robina (URC) and Jollibee Foods (JFC) businesses, 2) It is a pure domestic consumption play whereas URC's and JFC's growth and profitability can be dragged by its overseas businesses, and 3) Scarce play on domestic retail

URC and JFC – Fully valued, in our view. We have Sells on URC and JFC on our view that current valuations reflect healthy growth prospects domestically. We think upside to current levels may be difficult to justify on the back of headwinds in overseas businesses, possible easing in discretionary spending and potential risk to margins.

SM Investments (SM) and Alliance Global (AGI) – Indirect way to play domestic consumption theme. Conglomerates SM and AGI could also be a way to play the domestic consumption story in the Philippines.

- 55% of SM's NAV is accounted for by its mall operations (SM Prime – SMPH.PS) and retail arm (SM Retail). It is trading at a 2013E PE of 17x (vs direct Philippine consumer average of 22x) and at a 12% discount to NAV. SM is trading at a PEG of 0.7x.
- 42% of AGI's NAV is accounted for by its liquor (Emperador Distillers) and fast food (Golden Arches, master franchisee of McDonald's in the Philippines) businesses. Stock is trading at a 2013E PE of 12x vs direct Philippine consumer average of 22x. AGI is trading at a PEG of 0.7x.

Figure 2. Comparable Valuations

RIC		Rating	Mcap	Price	Target	ETR	PE (X)		EPS Growth (%)		PBV (x)		ROE (%)		Yield (%)		EV/EBITDA (x)		EPS CAGR	PEG*
			(US\$m)	(Local)	(Local)	(%)	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2011-14E	
Consumer stocks																				
PGOLD	PGOLD.PS	Buy	1,972	29.65	38.00	28.8	21.9	17.9	27.1	22.0	2.6	2.3	12.6	13.7	0.3	0.5	12.4	9.8	20.1	1.1
URC	URC.PS	Sell	3,566	68.00	58.00	(13.1)	18.7	16.5	11.2	13.4	2.6	2.4	14.4	15.1	2.3	2.7	11.3	10.1	12.4	1.5
JFC	JFC.PS	Sell	2,586	103.10	85.00	(16.5)	27.4	23.3	15.5	17.8	4.4	3.9	17.0	17.8	1.2	1.4	12.7	10.8	12.7	2.2
Wtd ave							22.2	19.0	16.4	16.9	3.2	2.8	14.8	15.6	1.5	1.7	12.0	10.3	14.4	1.6
Conglomerate with exposure on domestic consumption																				
AGI	AGI.PS	Buy	3,605	14.78	14.60	1.2	12.2	10.7	13.4	13.5	1.4	1.2	13.0	12.4	2.4	2.7	5.8	5.0	17.5	0.7
SM	SM.PS	Buy	11,932	805.50	915.00	15.0	17.2	13.7	20.9	24.8	2.5	2.1	15.3	16.6	1.4	1.7	10.5	9.1	26.1	0.7
Wtd ave							16.0	13.0	19.2	22.1	2.2	1.9	14.7	15.7	1.6	2.0	9.4	8.2	24.1	0.7

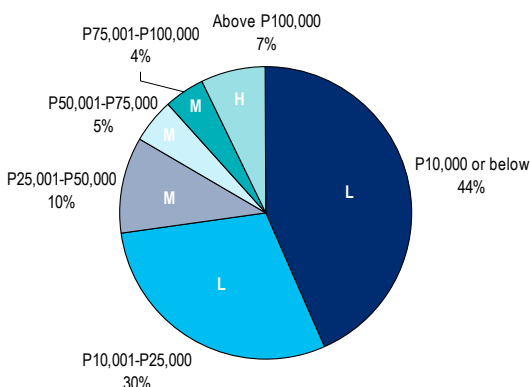
Source: Citi Research; Note: *PEG is based on 2013E PE over 2011-14E EPS growth

What the Filipino Consumer Says

We conducted a Philippine consumer survey with 520 respondents across multiple cities in the Greater Manila¹ area during the period 7-21 September 2012 mainly to determine: 1) income and expenditure expectations in the next six months and 2) household grocery spending trends and preferences.

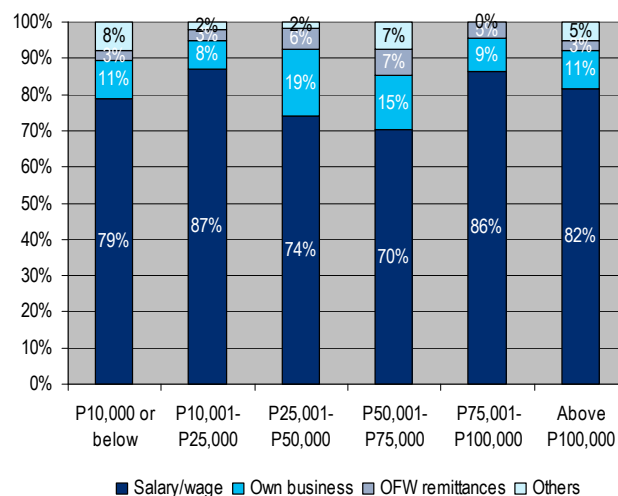
- 73% of survey respondents fall under our classification of low-income segment, with monthly household income of P25,000 or below (US\$595 or below); 20% belong to the middle-income segment, with monthly income of P25,000-100,000 (US\$595-2,380); 7% fall under the high-income segment, with monthly income of over P100,000 (above US\$2,380)
- Majority of survey respondents (81%) are salary or wage earners. 11% have their own businesses, 3% are largely supported by Overseas Filipino Workers (OFW) remittances and 5% earn their income through other means.

Figure 3. Breakdown of Survey Respondents By Monthly Income



Source: Citi Research; Note: L = Low-income, M = Middle-income, H = High-income

Figure 4. Primary Source of Income of Survey Respondents



Source: Citi Research

Stable Income Expectations

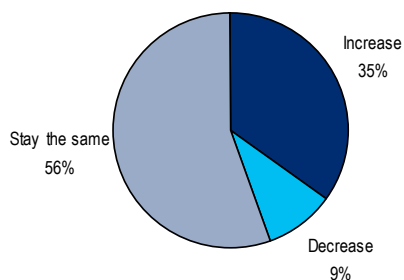
Stable to positive expectations on income levels

Survey respondents generally expect household income to be relatively stable in the next six months.

- 56% of overall survey respondents expect household income to be unchanged while 35% see income levels trending up. Middle-income households appear the most positive on income expectations.

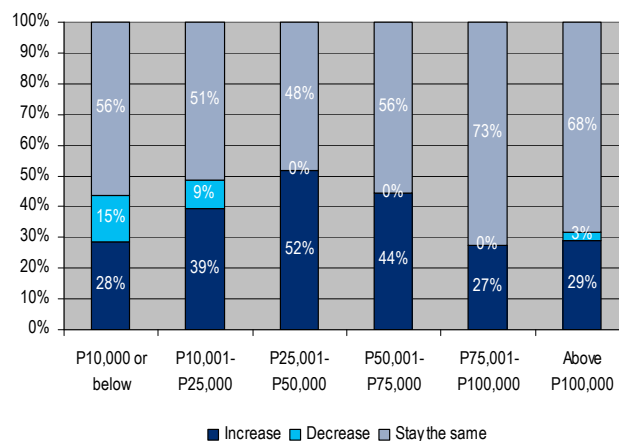
¹ Includes Metro Manila and neighboring provinces of Laguna, Cavite, Rizal, Bulacan, Pampanga and Batangas

Figure 5. Majority of respondents expect income levels to at least stay unchanged in the next six months



Source: Citi Research

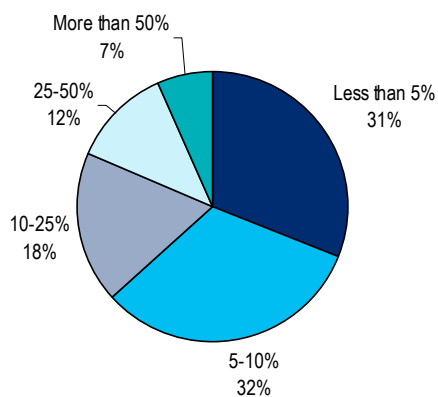
Figure 6. Middle-income households are the most optimistic on their income expectations in the next six months



Source: Citi Research

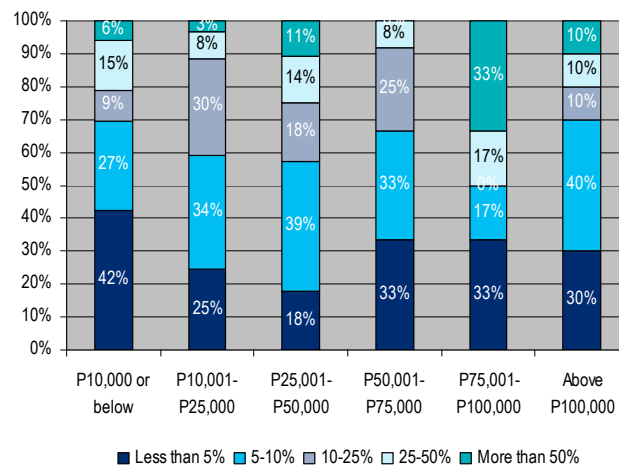
- We estimate the net increase in salary expectations in the next six months is around 4.2%, which is higher than Citi economist Jun Trinidad's forecast average inflation rate of 3.5% in 2013E.

Figure 7. 63% of those who expect incomes to rise anticipate an increase of 10% or less



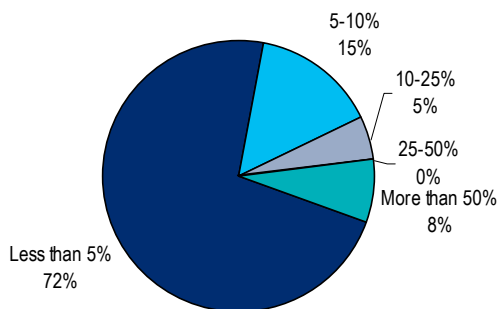
Source: Citi Research

Figure 8. Magnitude of Expected Increase in Household Income (by Income Segment)



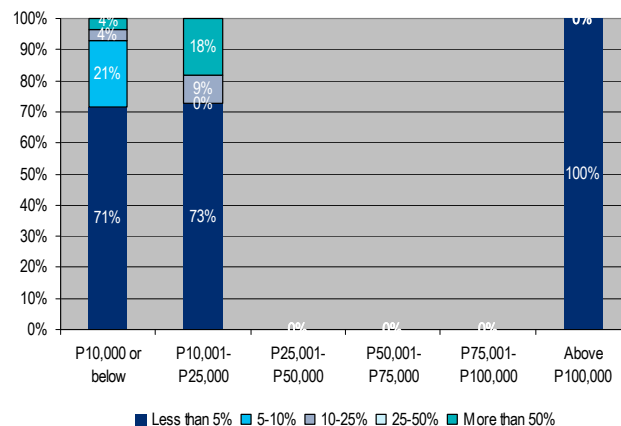
Source: Citi Research

Figure 9. % 72% of those who expect incomes to fall anticipate a decrease of less than 5%



Source: Citi Research

Figure 10. Magnitude of Expected Decrease in Household Income (by Income Segment)

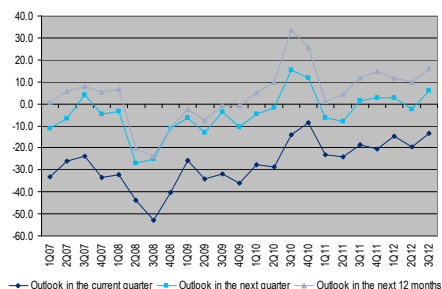


Source: Citi Research

This is consistent with the results of the latest consumer survey conducted by the Bangko Sentral ng Pilipinas (BSP, central bank). The BSP's 3Q12 Consumer Expectations survey² showed that consumers are more positive about income expectations amid expectations of increased employment opportunities and stable prices.

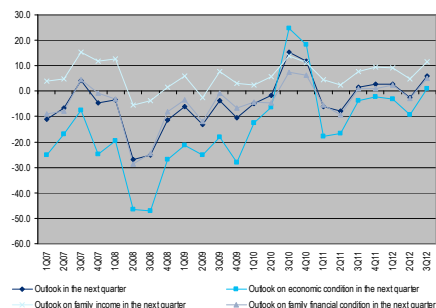
- Confidence index (CI) edged higher to -13.3% in 3Q12 (vs -19.5% in 2Q12) reminiscent of upbeat confidence in 2H10 when the domestic economy grew 6.7% YoY.
- Over the next three and 12 months, CI also went up to 6.0% and 16.2%, respectively in 3Q12 (vs -2.4% and 10.0%).
- Positive consumer sentiment was recorded both within Metro Manila (National Capital Region or NCR) and outside Metro Manila.

Figure 11. Philippines: CI



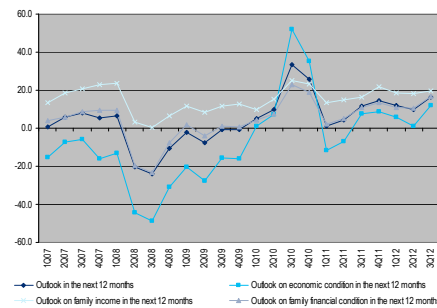
Source: BSP

Figure 12. Philippines: CI – Next Quarter



Source: BSP

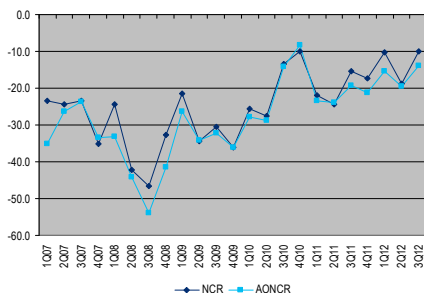
Figure 13. Philippines: CI – Next 12 Months



Source: BSP

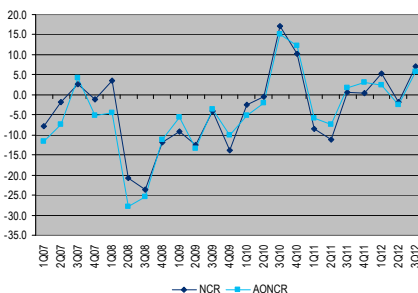
² Quarterly survey of 5,000 households in the Philippines

Figure 14. NCR vs AONCR: CI – Current Quarter



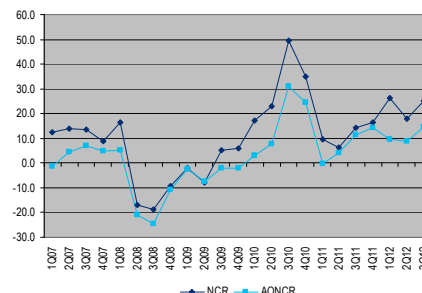
Source: BSP; AONCR = Areas Outside NCR

Figure 15. NCR vs AONCR: CI – Next Quarter



Source: BSP; AONCR = Areas Outside NCR

Figure 16. NCR vs AONCR: CI – Next 12 Months



Source: BSP; AONCR = Areas Outside NCR

- Note, though, that the BSP's survey was conducted on 2-13 July 2012 prior to the natural calamity (typhoons, flooding) that occurred in August and before more reports of less upbeat macro readings in the Euro Area, US and China.

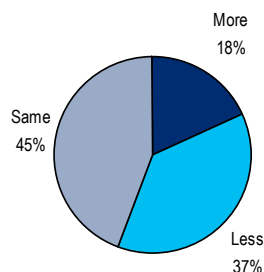
Subdued spending trends

**Stable spending on certain necessities
but cautious on discretionary items**

Our consumer survey signals mixed spending trends over the next six months, but we note fairly stable spending plans on certain basic necessities and a largely negative outlook on certain discretionary item spending.

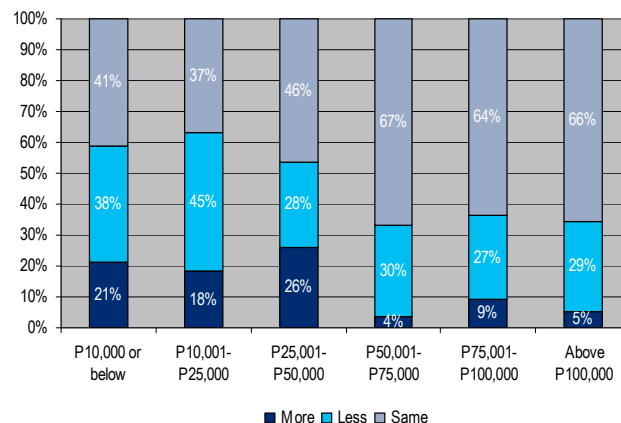
- Groceries = neutral to positive.** 63% of survey respondents plan to spend the same or more on grocery items in the next six months. Notable is the higher % of respondents among the low to middle-income segments who indicated plans of increasing grocery spend.

Figure 17. Breakdown of Respondents Based on Planned Grocery Spending in the Next Six Months



Source: Citi Research

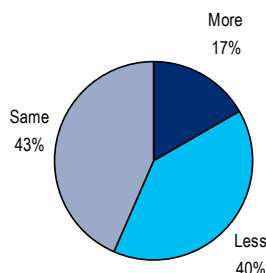
Figure 18. Breakdown of Respondents Based on Planned Grocery Spending in the Next Six Months – By Income Segment



Source: Citi Research

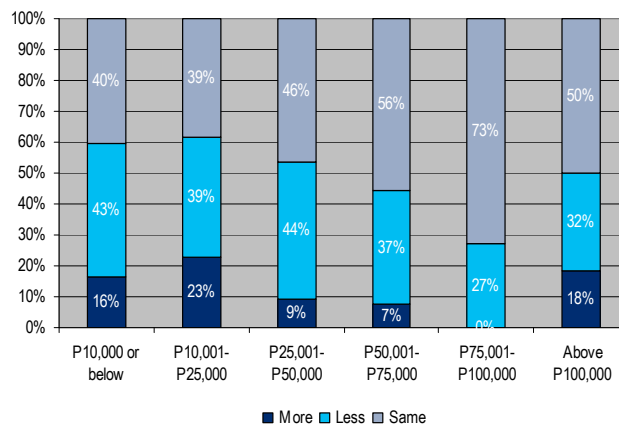
- Clothing = neutral to positive.** 60% of survey respondents plan to maintain or increase spending on clothing in the next six months, although this is largely skewed towards the middle to high-income households.

Figure 19. Breakdown of Respondents Based on Planned Spending on Clothing in the Next Six Months



Source: Citi Research

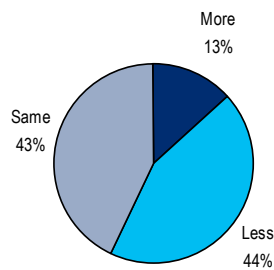
Figure 20. Breakdown of Respondents Based on Planned Spending on Clothing in the Next Six Months – By Income Segment



Source: Citi Research

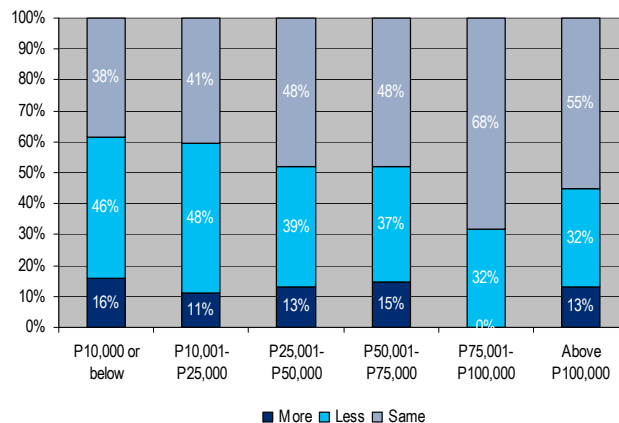
- **Eating out = neutral.** Those who plan to spend the same or more on 'eating out' in the next six months (56%) outweigh those who plan to hold back. However, there is a high % of low-income consumers who plan to spend less on 'eating out'.

Figure 21. Breakdown of Respondents Based on Planned Spending on 'Eating Out' in the Next Six Months



Source: Citi Research

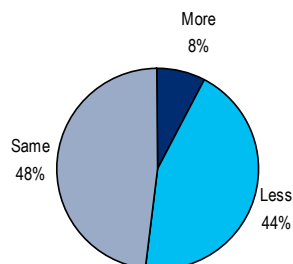
Figure 22. Breakdown of Respondents Based on Planned Spending on 'Eating Out' in the Next Six Months – By Income Segment



Source: Citi Research

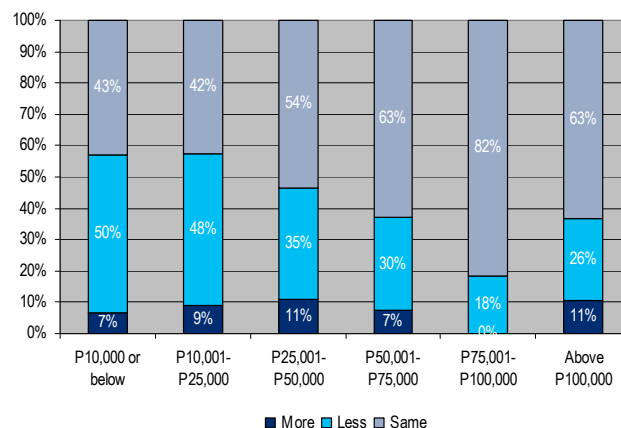
- **Mobile services = neutral.** 56% of survey respondents plan to spend the same or more on mobile services. There is, however, a substantial % of low-income consumers who indicated plans of spending less in the next six months.

Figure 23. Breakdown of Respondents Based on Planned Spending on Mobile Services in the Next Six Months



Source: Citi Research

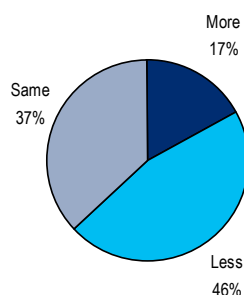
Figure 24. Breakdown of Respondents Based on Planned Spending on Mobile Services in the Next Six Months – By Income Segment



Source: Citi Research

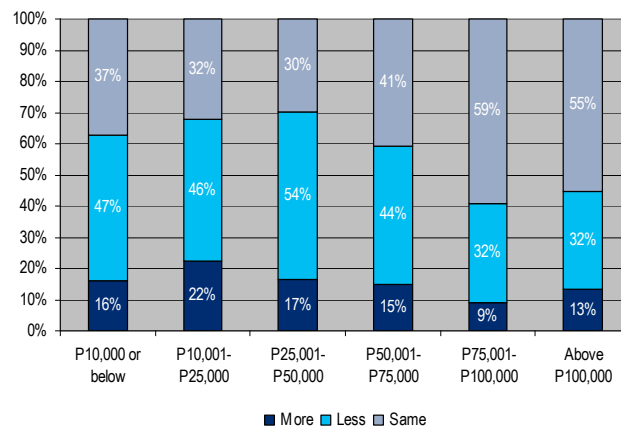
- **Electronics, furniture, appliances = neutral.** 55% of survey respondents plan to spend the same or more on electronics, furniture or appliances. The more favorable spending outlook, however, is mostly skewed towards to high-income segments of the market.

Figure 25. Breakdown of Respondents Based on Planned Spending on Electronics/Furniture/Appliances in the Next Six Months



Source: Citi Research

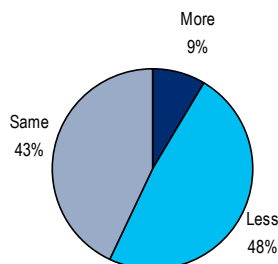
Figure 26. Breakdown of Respondents Based on Planned Spending on Electronics/Furniture/Appliances in the Next Six Months – By Income Segment



Source: Citi Research

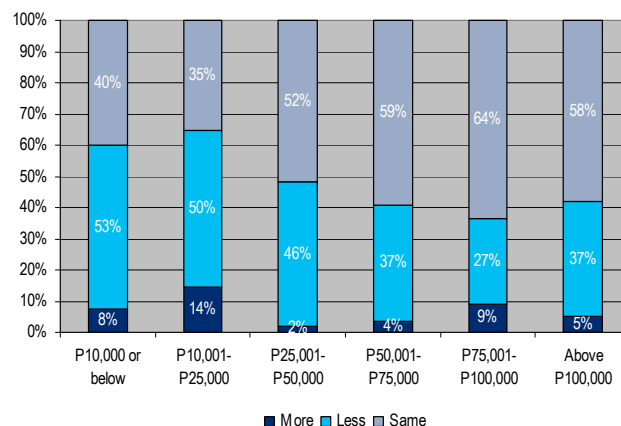
- **Non-alcoholic beverages = neutral.** 52% of survey respondents plan to spend the same or more on non-alcoholic beverages in the next six months. Low-income consumers are, however, less sanguine on non-alcoholic beverage spending.

Figure 27. Breakdown of Respondents Based on Planned Spending on Non-Alcoholic Beverages in the Next Six Months



Source: Citi Research

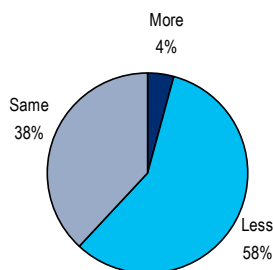
Figure 28. Breakdown of Respondents Based on Planned Spending on Non-Alcoholic Beverages in the Next Six Months – By Income Segment



Source: Citi Research

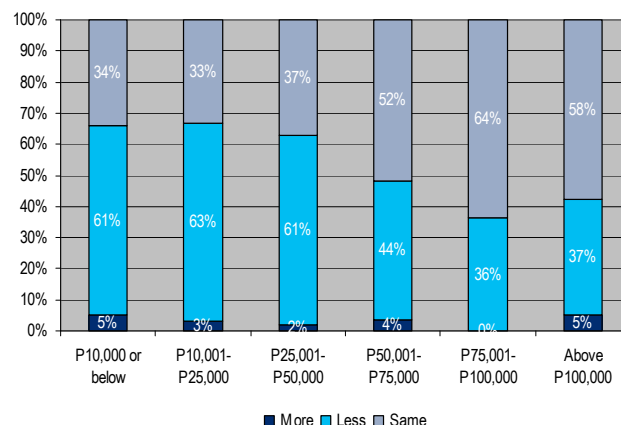
- **Alcoholic beverage = negative.** 58% of survey respondents plan to decrease spending on alcoholic beverages in the next six months, with low income consumers seemingly more negative on this expenditure.

Figure 29. Breakdown of Respondents Based on Planned Spending on Alcoholic Beverages in the Next Six Months



Source: Citi Research

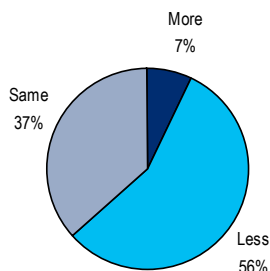
Figure 30. Breakdown of Respondents Based on Planned Spending on Alcoholic Beverages in the Next Six Months – By Income Segment



Source: Citi Research

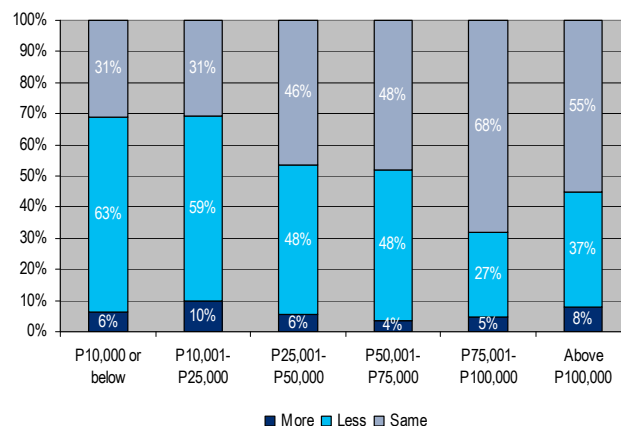
- **Snack foods = negative.** 56% of survey respondents plan to spend less on snack food items in the next six months with greater pessimism among low-income households.

Figure 31. Breakdown of Respondents Based on Planned Spending on Snack Foods in the Next Six Months



Source: Citi Research

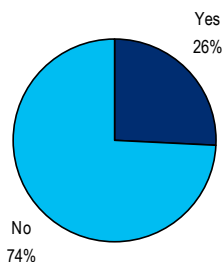
Figure 32. Breakdown of Respondents Based on Planned Spending on Snack Foods in the Next Six Months – By Income Segment



Source: Citi Research

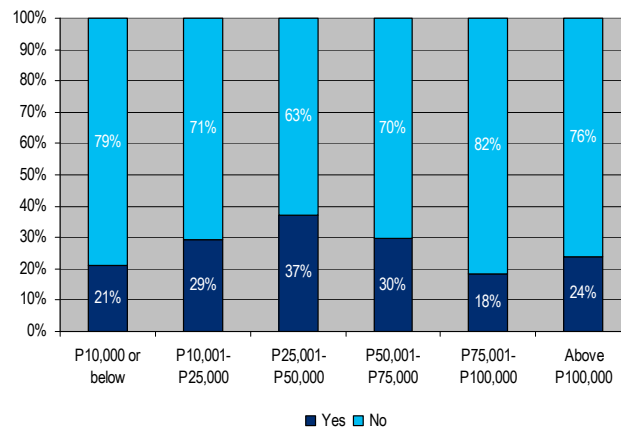
- **Cell phone units = negative.** 74% of survey respondents have no plans to buying a new cell phone in the next six months.

Figure 33. Breakdown of Respondents Based on Plans to Buy a New Cell Phone in the Next Six Months



Source: Citi Research

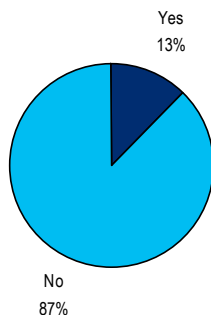
Figure 34. Breakdown of Respondents Based on Plans to Buy a New Cell Phone in the Next Six Months – By Income Segment



Source: Citi Research

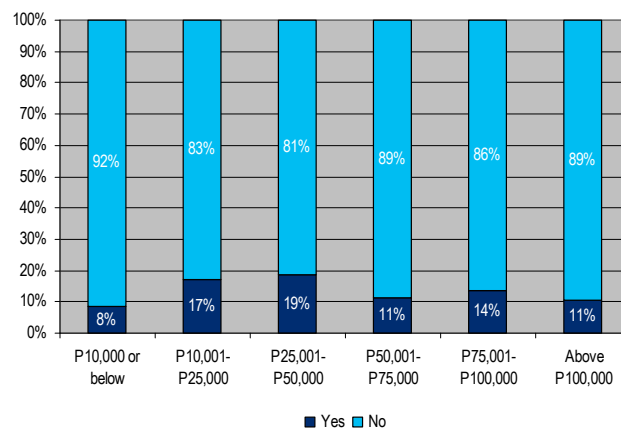
- **Big-ticket purchases = negative.** 87% of survey respondents do not plan to buy a new car in the next six months. 84% of survey respondents also do not plan to buy real estate (house and lot or condominium unit) in the next six months.

Figure 35. Breakdown of Respondents Based on Plans to Buy a New Car in the Next Six Months



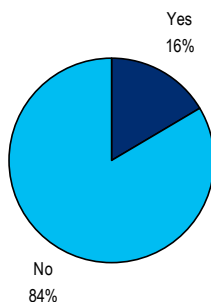
Source: Citi Research

Figure 36. Breakdown of Respondents Based on Plans to Buy a New Car in the Next Six Months – By Income Segment



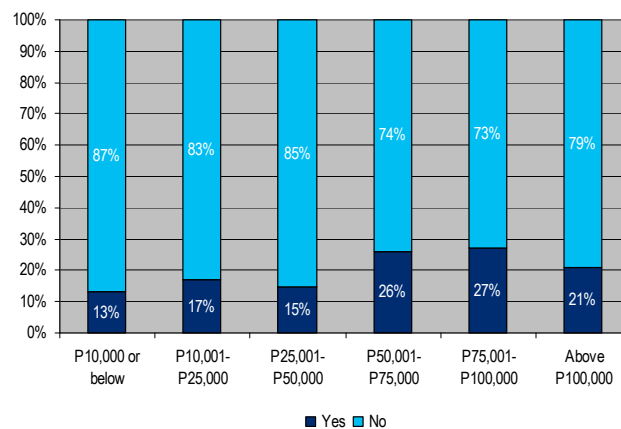
Source: Citi Research

Figure 37. Breakdown of Respondents Based on Plans to Buy Real Estate (House and Lot / Condominium Unit) in the Next Six Months



Source: Citi Research

Figure 38. Breakdown of Respondents Based on Plans to Buy Real Estate (House and Lot / Condominium Unit) in the Next Six Months – By Income Segment



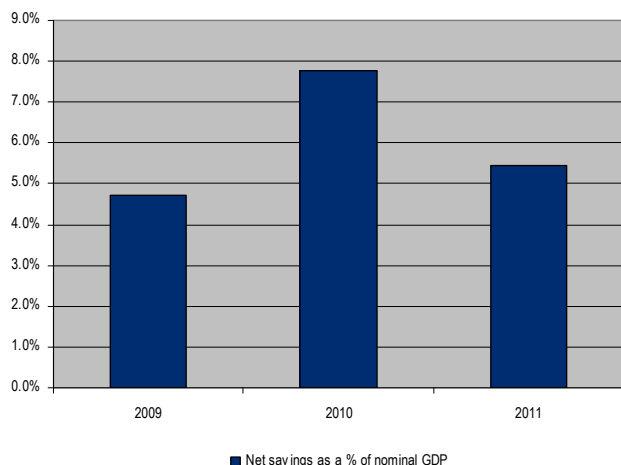
Source: Citi Research

We think the overall cautious outlook on discretionary spending expenditures could be due to the increased propensity or tendency of consumers to allocate more of their income to savings.

- Based on data from the National Statistical Coordination Board (NSCB), net savings as a % of nominal GDP rose from 4.7% in 2009 to 5.5% in 2011.
- Our survey results also reveal that 60% of respondents save 10% or below of their monthly income.
 - Those belonging to the low-income groups (which account for 73% of our survey respondents) generally allocate 0-10% of their monthly income to savings.

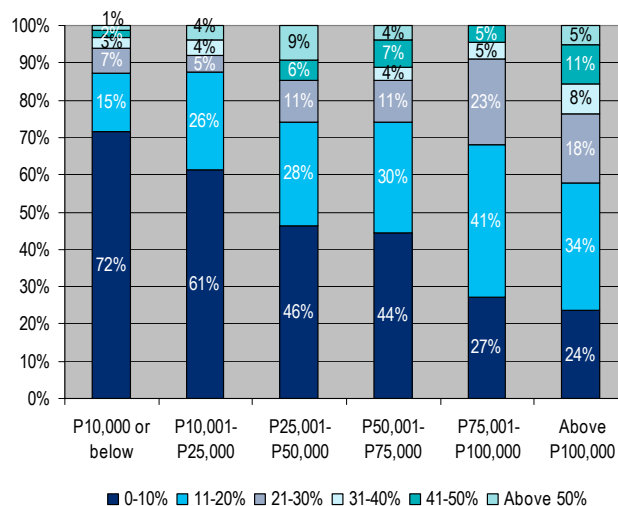
- Middle to high-income groups, meanwhile, have a much higher savings rate of 30% or below of their monthly income.

Figure 39. Philippines: Net Savings as a % of Nominal GDP



Source: NSCB

Figure 40. % of Monthly Income That Goes to Savings



Source: Citi Research

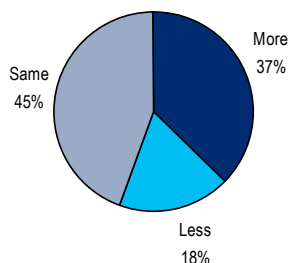
Grocery Spending Patterns and Trends

We also asked consumers on their patterns and preferences on grocery spending. Key takeaways from the survey results are as follows:

■ Fairly stable spending on grocery items.

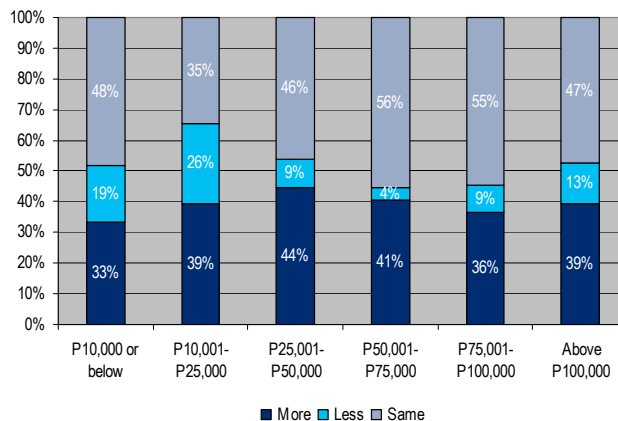
- In the past six months, 82% of survey respondents either spent more or the same on grocery spending.

Figure 41. Breakdown of Respondents Based on Grocery Spending in the Past Six Months



Source: Citi Research

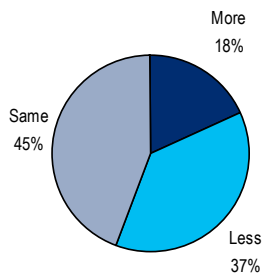
Figure 42. Breakdown of Respondents Based on Grocery Spending in the Past Six Months – By Income Segment



Source: Citi Research

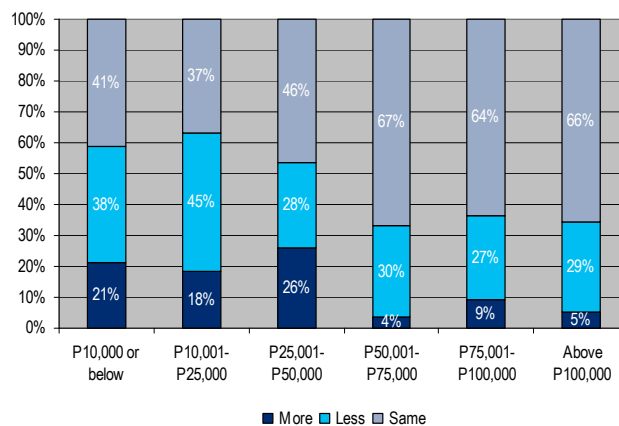
- In the next six months, 63% of survey respondents plan to spend the same or more on grocery items in the next six months. Notable is the higher % of respondents among the low to middle-income segments who indicated plans of increasing grocery spend.

Figure 43. Breakdown of Respondents Based on Planned Grocery Spending in the Next Six Months



Source: Citi Research

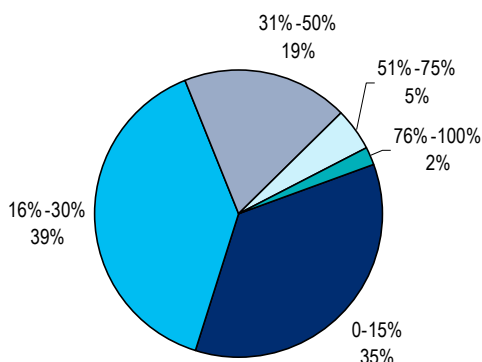
Figure 44. Breakdown of Respondents Based on Planned Grocery Spending in the Next Six Months – By Income Segment



Source: Citi Research

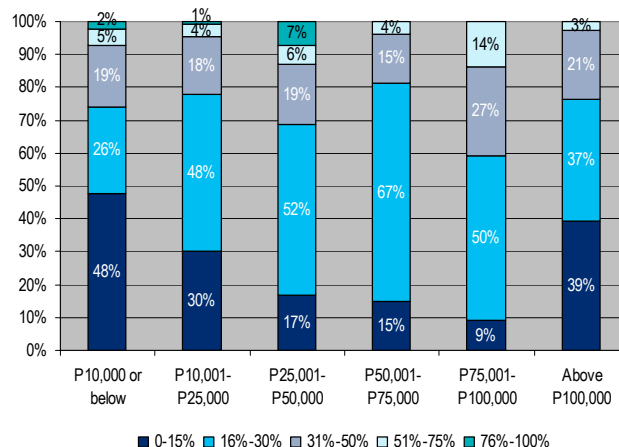
- A significant portion of household budget is allocated for grocery item purchases.
 - Grocery purchases account for around 30% or less of the household's monthly income.

Figure 45. Breakdown of Respondents Based on Income Allocation on Grocery Purchases



Source: Citi Research

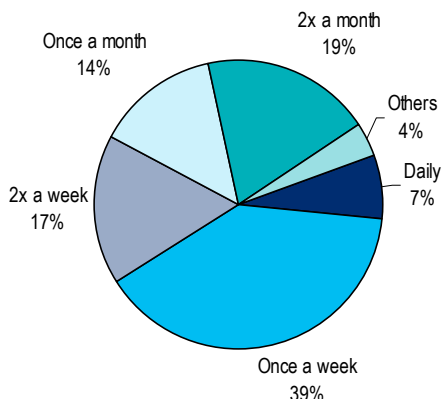
Figure 46. Breakdown of Respondents Based on Income Allocation on Grocery Purchases (By Income Segment)



Source: Citi Research

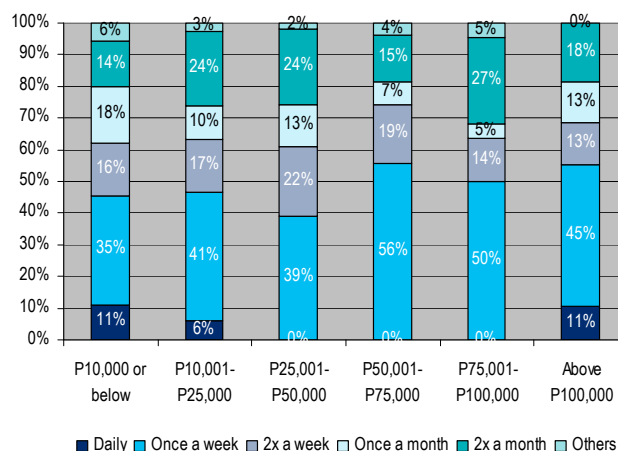
- 56% of survey respondents purchase groceries once or twice a week. About 7% of households also buy on a daily basis, most of which belong to the low-income segments of the market whose primary source of income likely come from daily wages.

Figure 47. Breakdown of Respondents Based on Frequency of Grocery Shopping



Source: Citi Research

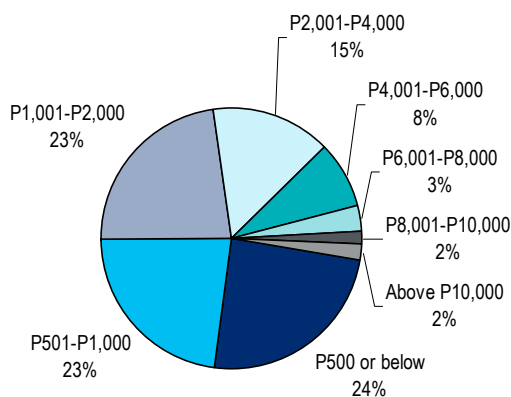
Figure 48. Breakdown of Respondents Based on Frequency of Grocery Shopping (By Income Segment)



Source: Citi Research

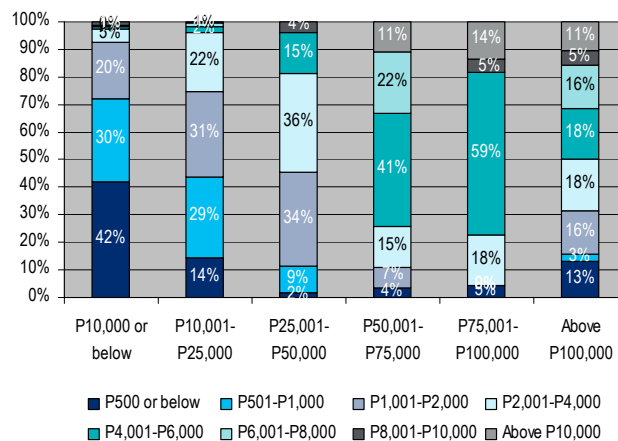
- On average, consumers spend P2,000 (~US\$48) or below per shopping trip. As expected, low-income households, especially those who buy on a daily basis, spend much less per shopping trip.

Figure 49. Breakdown of Respondents Based on Average Spend per Shopping Trip



Source: Citi Research

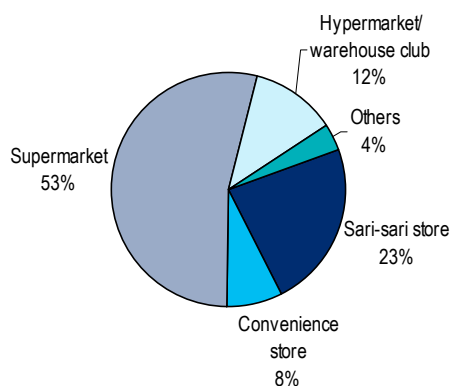
Figure 50. Breakdown of Respondents Based on Average Spend per Shopping Trip (By Income Segment)



Source: Citi Research

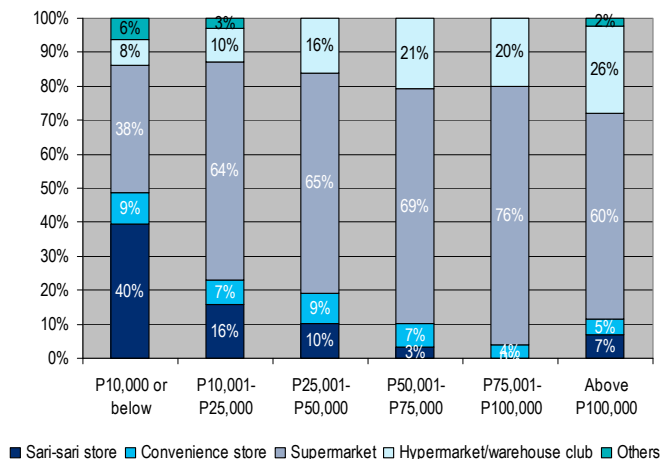
- **Consumers generally shop in supermarkets; reliance on *sari-sari* stores among low-income consumers.** Majority of consumers across all income groups go to the supermarket to purchase grocery items. There is still a considerable portion, especially among the lowest income bracket (ie monthly income of P10,000 or below) that relies on traditional small neighborhood stores commonly referred to *sari-sari* stores.

Figure 51. Breakdown of Respondents Based on Where They Buy Grocery Items From



Source: Citi Research

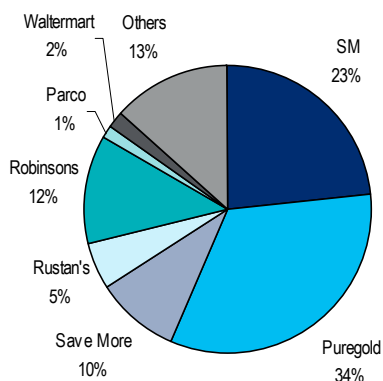
Figure 52. Breakdown of Respondents Based on Where They Buy Grocery Items From – By Income Segment



Source: Citi Research

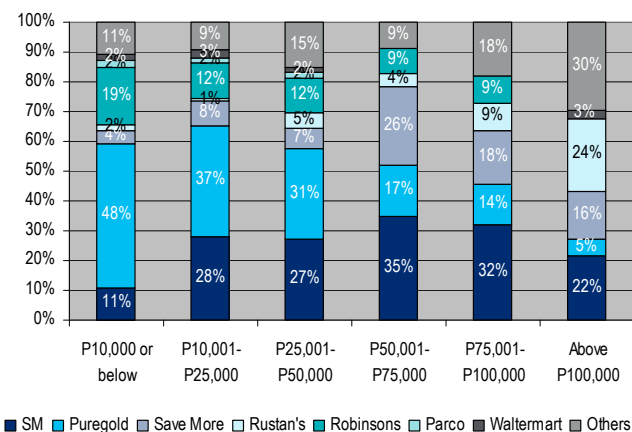
- **SM and Puregold are the most popular** among supermarket and hypermarket chains, with SM (SM and Save More) dominant among middle-income households and Puregold among low-income consumers. Rustan's, including its hypermarket chain Shopwise, are also frequented by mid- to high-income consumers. Membership club, S&R (owned by Puregold Price Club), is particularly strong among high-end households.

Figure 53. Breakdown of Respondents Based on Supermarket Chains Frequented



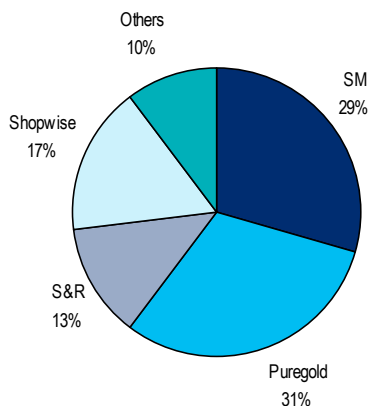
Source: Citi Research

Figure 54. Breakdown of Respondents Based on Supermarket Chains Frequented – By Income Segment



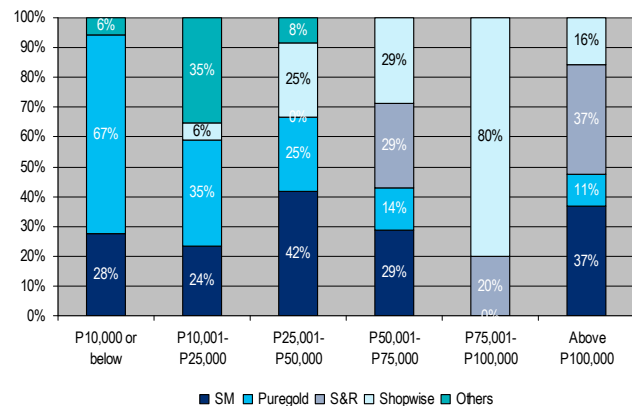
Source: Citi Research

Figure 55. Breakdown of Respondents Based on Hypermarket / Warehouse Club Chains Frequented



Source: Citi Research

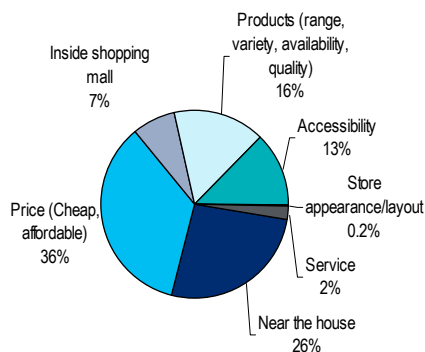
Figure 56. Breakdown of Respondents Based on Hypermarket / Warehouse Club Chains Frequented – By Income Segment



Source: Citi Research

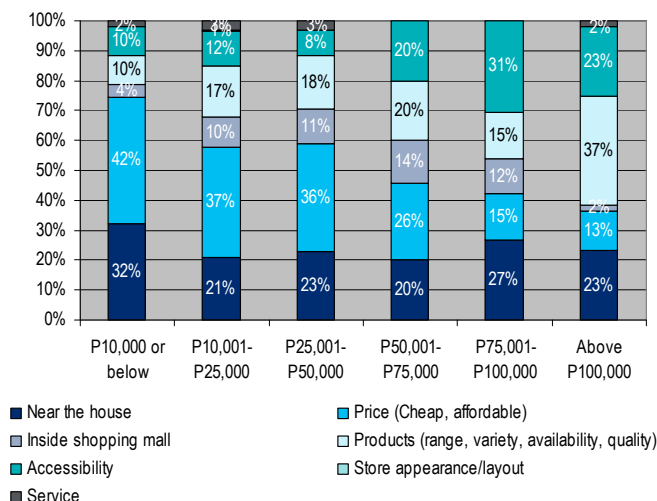
- **Price and proximity to their homes** are the most important factors in choosing where they buy groceries from. This underscores the importance for grocery retailers to locate stores in or near residential communities and prevalence of *sari-sari* stores, particularly in residential communities.

Figure 57. Breakdown of Respondents Based Key Considerations in Choosing Where to Buy Grocery Items



Source: Citi Research

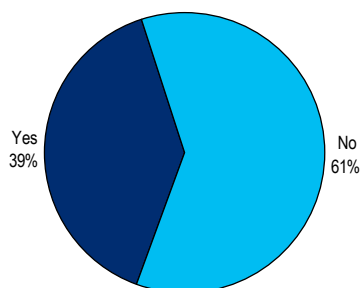
Figure 58. Breakdown of Respondents Based Key Considerations in Choosing Where to Buy Grocery Items – By Income Segment



Source: Citi Research

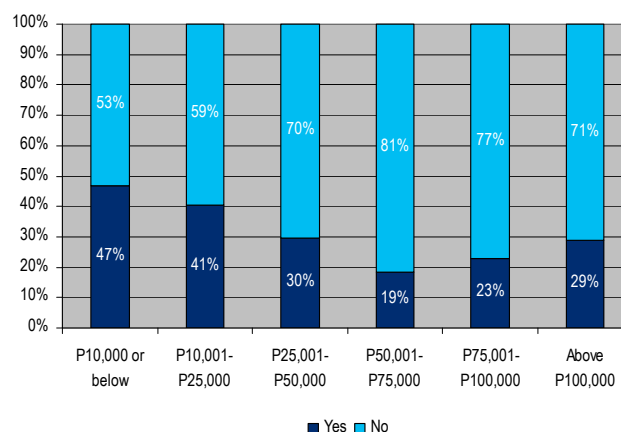
- **Loyalty on where consumers shop is evident**, with majority of survey respondents not often changing where they shop. Notable, though, is that among the income brackets, the low-income group is the one that most often changes where they buy grocery items from. This could indicate weaker brand loyalty in this market, thus, stressing the need for retailers to address and cater to their specific needs and preferences (ie low price, proximity to homes) to establish consistent and strong patronage.

Figure 59. Breakdown of Respondents Based on If They Often Change Where They Buy Groceries From



Source: Citi Research

Figure 60. Breakdown of Respondents Based on If They Often Change Where They Buy Groceries From – By Income Segment

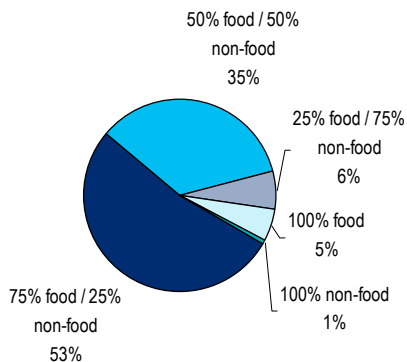


Source: Citi Research

- **Grocery purchases largely consist of food items**, with consumers valuing **price** and **quality** when making these purchases.

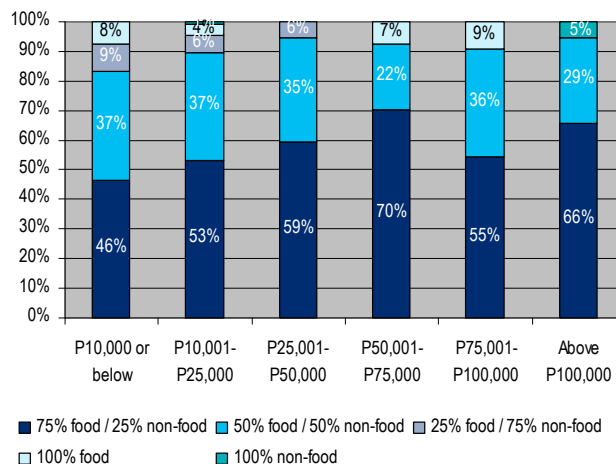
- At least 50% of groceries purchased consist of food items.

Figure 61. Breakdown of Respondents Based on Breakdown of Grocery Item Purchases



Source: Citi Research

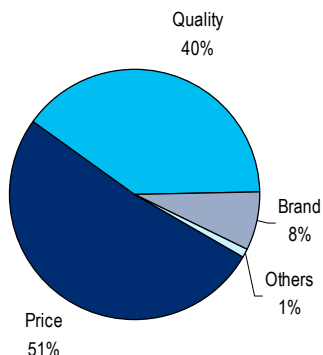
Figure 62. Breakdown of Respondents Based on Breakdown of Grocery Item Purchases – By Income Segment



Source: Citi Research

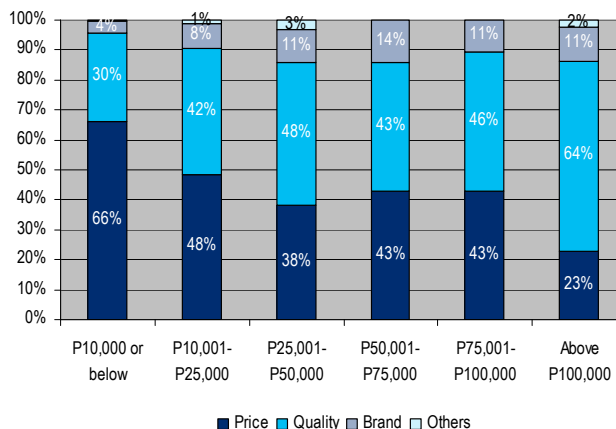
- Price is the key determinant for low-end consumers in buying products while middle and high-income consumers prioritize quality.

Figure 63. Breakdown of Respondents Based on Considerations When Buying Grocery Items



Source: Citi Research

Figure 64. Breakdown of Respondents Based on Considerations When Buying Grocery Items – By Income Segment

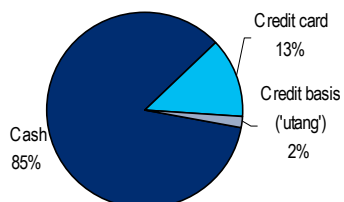


Source: Citi Research

- **Cash-basis purchases.** Items are largely paid for in cash, especially among the low to middle-income segment.

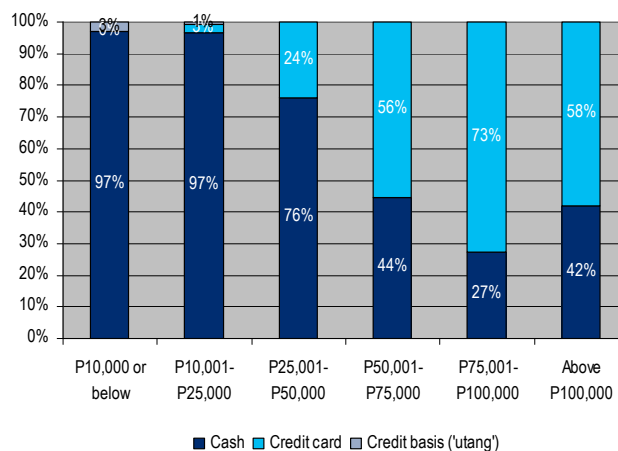
- There is a small portion of those who pay on a credit basis (*utang*), which is a common practice among *sari-sari* store buyers (*sari-sari* stores extend credit to loyal customers). As can be expected, there is a greater proportion of credit card purchases among affluent households.

Figure 65. Breakdown of Respondents Based on Usual Mode of Payment for Grocery Purchases



Source: Citi Research

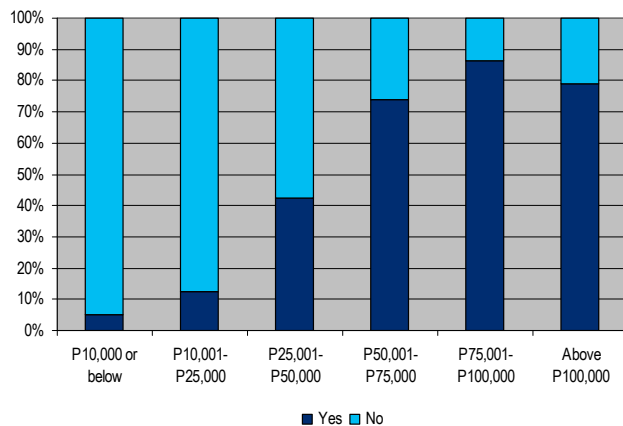
Figure 66. Breakdown of Respondents Based on Usual Mode of Payment for Grocery Purchases – By Income Segment



Source: Citi Research

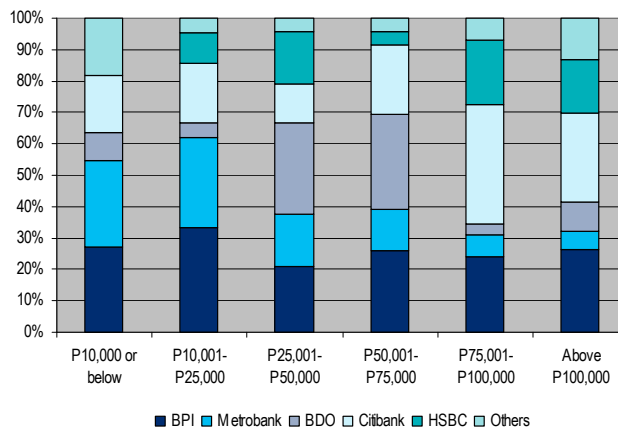
- Credit card ownership among survey respondents is only at 23% (expectedly skewed towards the middle to high-income segments of the market). The most widely used credit cards by our respondents are those issued by Bank of the Philippine Islands and Citibank.

Figure 67. % of Respondents Who Own and Do Not Own a Credit Card



Source: Citi Research

Figure 68. BPI and Citibank-Issued Credit Cards Predominantly Used



Source: Citi Research

Philippines Macro Outlook

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- **Summary view** – Anticipating slower 2H12 growth of 4%-4.5% that implies a break from upbeat 1H growth of 6.1% for FY12 GDP growth of 5%. External downside risks alongside upbeat non-oil imports will underpin the momentum break. Expecting a rate cut of 25bp in 4Q12 to mitigate strong peso on QE3 pressures.
- **Things to watch** – Core inflation easing in 4Q12 on lower electricity tariff rates and normalization of food prices. Persistent Grexit risk and weak intra-Asian demand. Another 25bp rate cut either in Oct or Nov. Upbeat primary fiscal expenditures to support demand and infra repairs from recent natural calamities.
- **Strategy** – In a QE3 environment, strong peso will still be the risk asset trade. However BSP in a position to intervene and slow down rapid peso appreciation. Peso strength may compel another 25bp rate cut alongside moves to deter offshore flows exploiting arb opportunities onshore.

Expecting a break from upbeat 1H momentum of 6.1%yoy

1H12 GDP grew 6.1%yoy but with 2Q growth at 5.9%yoy. We see 2H growth slow to within 4-4.5%yoy for FY12 growth of 5%. Despite the anticipated break from upbeat macro momentum, 2012F growth remains in line with potential growth. Downside risks to 2H prospects may emanate from 1) lackluster external demand with fading tech exports having fallen back deep into negative territory (-25.6%yoy in July); 2) intra-Asian demand led by lethargic China that's likely to weigh down on exports; 3) imports ex-oil, ex-electronics outpacing exports on firm domestic demand that would reduce net trade's contribution to GDP; 4) dip in 3Q12 business sentiment that will track sluggish global trading environment and cause private expansion plans to shift to low gear; and, 6) economic drag from recent calamities and adverse weather shocks. Among these factors, we expect the net imports to post 5.1% of 2H GDP and eclipse the net exports contribution to 1H GDP of 4.2%.

Fiscal spending alongside accommodative monetary and credit conditions will be in place to cushion domestic demand although we expect only consumption will probably remain in the growth range of 5%-6%. Other than resilient OFW remittances, low inflation expectations combined with job creation from fiscal spending support will probably sustain consumption-driven growth. Other than conditional cash transfers, maintenance and operations (up by 25%yoy in the FY12 budget) and infrastructure program (rise by nearly 20%yoy in the FY12 budget) supported public construction. GDP breakdown indicated public construction grew 36.4%yoy in 4Q11, 62.2%yoy in 1Q12 and 45.7%yoy in 2Q12. Total fiscal expenditures contributed 13.5% of 1H GDP compared to 12.2% a year ago. Upbeat public construction in tandem with private construction enabled the creation of 185,000 construction jobs in 1Q12 that was likely sustained in 2Q12 and thus elevated consumer sentiment and consumption. Primary fiscal expenditures in 1H12 grew 14.4%yoy with the July estimate up 20.6%yoy. **Fiscal lift to growth could have been more had the expenditure shortfall (actual less program) been compressed which in 1H12 amounted to Php84bn or 1.7% of GDP.**

From an upwardly revised growth of 11.2%yoy in June (+12.5%MoM SA), manufacturing gains narrowed to 4.7%yoy (-2%MoM SA) to start the 3Q12. Breakdown of manufacturing indicated concentration risk with 8 industries led by footwear & wearing apparel (78.7%yoy) and furniture & fixtures (151%yoy) posting hefty 2-digit gains with the rest of the 20 industries either flattish or reporting 2-digit losses. While the update suggests muted downside, we have yet to see the full impact of external downside risk on manufacturing this quarter.

Inflation expectations in 3Q12 narrowed to 7.5%

According to BSP's household survey, consumer sentiment improved to -13.3% in 3Q12 (vs -19.5% in 2Q12 as pessimists outnumber optimists) reminiscent of upbeat confidence in 2H10 when the domestic economy grew 6.7%yoy. Over the next 3 to 12 months, consumer sentiment also edged up and sustained a net positive rating. Most respondents were upbeat over economic conditions and family incomes. From a high of 60.2% among those surveyed in 2Q12, respondents who expect a tight job situation fell to 46.8% in the 3Q12 survey. The consumer expectations survey however was conducted on July 2-13 (5,604 households) prior to the natural calamity that occurred in August and before more reports of less upbeat macro readings in the Euro area, US and China. Pres. Aquino's fiscal spending agenda ranging from conditional cash transfers to increased public construction supported the improvement in sentiment particularly in the lower income households. We believe that lower inflation expectations in the latest survey down to 7.5% from 8.8% in the 2Q12 survey contributed more to the upbeat consumer sentiment. For the lower income households populated by 'daily wage earners', benign inflation risk enables these families to maximize the purchasing power out of their low to modest family incomes. With inflation expectations easing to the mid single digit rate, it may be sufficient for upbeat sentiment among the low income groups to translate into actual spending.

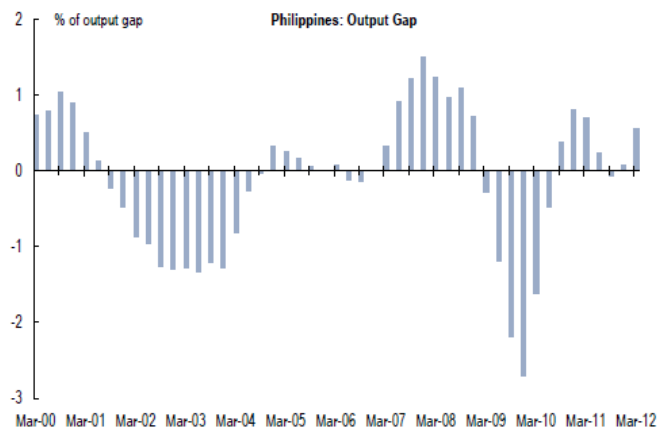
Revised lower our FY12 current account surplus

Consistent with downside risk to exports, we revised lower our export growth forecast in 2H12 to less than 4%yoy from roughly 9%yoy in 1H. With imports ex-oil and ex-electronics firming up on favorable domestic demand, we expect the trade deficit to widen to US\$18.2bn this year from a trade gap of US\$16.4bn in FY11. OFW remittances are expected to grow by 4%-5% this year (5.3%yoy in 1H12) coupled with modest surpluses in the services and primary income accounts ought to sustain the current account surplus position at US\$6.5bn this year or about 2.3% of GDP (vs last year's surplus equivalent to 3.4% of FY11 GDP).

QE3 pressure on policy rates

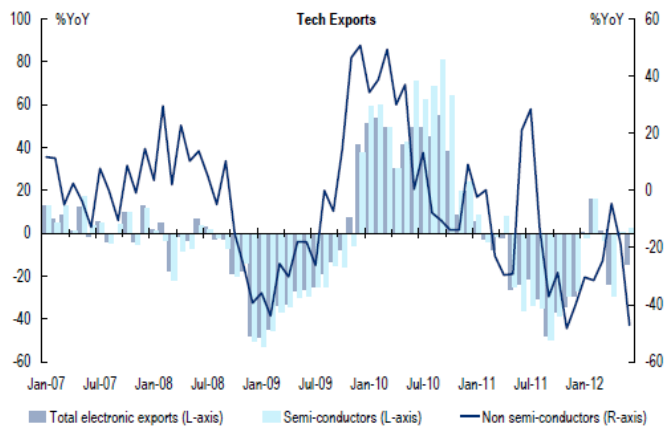
In a QE3 environment, we remain near-term bullish on the peso as 41.50 over the next 3 months. The long end of the bond curve will lag the peso and stock market gains. Market appetite for the long end will remain sour since government's funding plans ie new retail Treasury bond issuance of Php60bn in Oct, are not in sync with muted fiscal slippage risk this year. We expect strong BSP intervention as the peso probes the 41 range in Oct-Nov at a time when the end-year remittance season begins coupled with rising QE3-driven flows and stronger risk on sentiment. BSP's lower forward book down to US\$4bn or less (peak of US\$22bn) will enable spot market intervention. Longer tenors in BSP's forward book implies less presence ('rolling over' maturing swaps) in the onshore swap market resulting in yields below the policy rate that implies pressure on the spot rate. BSP tightened rules and interpretation on the NDF and SDA to discouraged offshore flows. The lower rate trajectory currently at 3.75% contributed to further reduction of intervention costs. We maintain our view of one last 25bp rate cut in 4Q12 on the back of correction of core inflation in 4Q12 starting with lower electricity tariff rates this month, the need to complement fiscal spending to cushion global downside risk that can surprise in 4Q12 and averting likelihood of a strong peso in a QE3 environment. A strong peso can undermine consumption by way of less pesos earned for every dollar of remittances – a risk that MB may respond to by trimming interest rates further.

Figure 69. Positive output gap in 1H12 following 6.1% growth



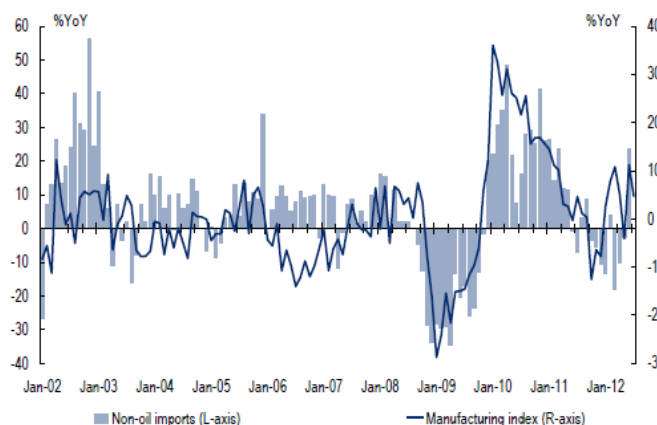
Source: CEIC Data Company Ltd., and Citi Research

Figure 70. Tech exports back to negative territory in July



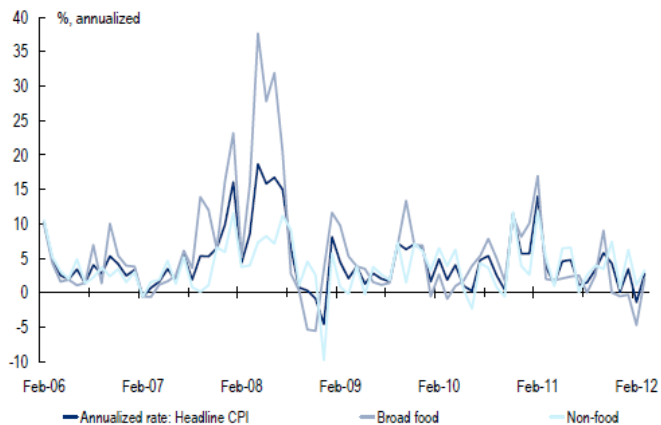
Source: CEIC Data Company Ltd., and Citi Research

Figure 71. Non-oil imports more correlated with mfg after FY09 crisis



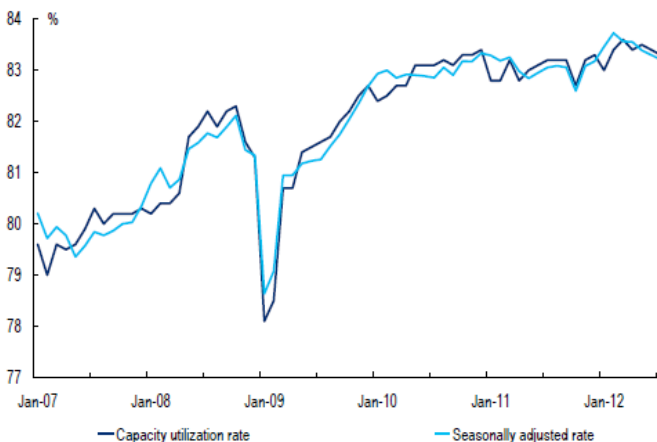
Source: CEIC Data Company Ltd., and Citi Research

Figure 72. Faster pace of inflation on food and electricity prices



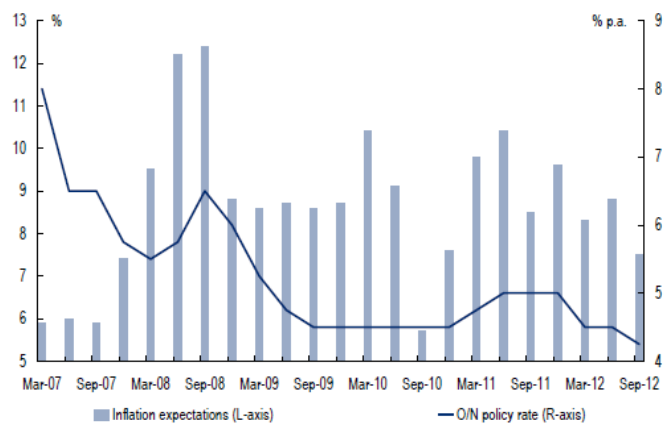
Source: CEIC Data Company Ltd., and Citi Research

Figure 73. Mfg capacity utilization rate edging down in July



Source: CEIC Data Company Ltd., and Citi Research

Figure 74. 3Q12 inflation expectations eased, support policy rate easing



Source: CEIC Data Company Ltd., and Citi Research

Figure 75. Philippines Economic Indicators

	2005	2006	2007	2008	2009	2010	2011	2012F	2013F
Summary Data									
Nominal GDP, US\$ bn	103.3	122.3	150.1	173.0	168.3	199.2	224.7	244.8	267.6
Nominal GDP, local currency bn	5,678	6,271	6,893	7,721	8,026	9,003	9,736	10,480	11,436
GDP per capita, US\$	1,221	1,418	1,694	1,914	1,825	2,113	2,343	2,503	2,681
Population, mn	84.6	86.3	88.6	90.4	92.2	94.3	95.9	97.8	99.8
Unemployment, % of labour force	8.8	8.0	7.3	7.4	7.5	7.3	7.0	7.0	6.8
Economic Activity									
Real GDP, % yoy	4.8	5.2	6.6	4.2	1.1	7.6	3.9	5.0	5.3
Real investment growth % yoy	3.0	-15.1	-0.5	23.4	-8.7	31.6	8.1	-7.4	9.2
Real consumption growth % yoy	4.2	4.9	4.9	3.3	3.3	3.4	5.6	6.4	5.2
private consumption growth % yoy	4.4	4.2	4.6	3.7	2.3	3.4	6.3	5.7	5.5
Real export growth, % yoy	5.0	12.6	6.7	-2.7	-7.8	21.0	-4.2	5.7	4.8
Real import growth, % yoy	3.3	3.5	1.7	1.6	-8.1	22.5	0.2	2.2	5.9
Prices, Money & Credit									
CPI, % yoy	6.7	4.4	3.8	7.7	4.5	3.6	4.2	3.1	3.8
CPI, % avg	7.7	6.3	3.0	8.2	4.2	3.8	4.8	3.1	3.5
Nominal wages, % yoy	9.5	8.7	3.8	6.2	0.0	5.0	6.0	5.0	6.5
Credit extension to private sector, % yoy	-2.2	7.4	4.8	17.5	10.0	10.0	12.1	9.0	11.3
Policy interest rate, % eop	7.50	7.50	5.25	5.50	4.00	4.00	4.50	3.50	3.50
1 month Philippine Reference rate, % eop	7.74	6.40	6.00	5.20	4.11	0.75	1.68	0.75	2.50
Long term yield, % eop	9.57	5.25	5.50	6.53	6.25	4.78	4.21	3.95	4.50
lc/US\$, eop	53.03	49.05	41.23	47.47	46.50	43.65	43.84	41.71	42.04
lc/US\$, avg	55.04	51.28	46.05	44.48	47.56	45.06	43.29	42.00	42.46
Balance of Payments, US\$ bn									
Current account	2.0	5.3	7.1	3.6	9.4	8.9	7.1	6.5	6.3
% of GDP	1.9	4.4	4.7	2.1	5.6	4.5	3.1	2.6	2.4
Trade balance	-7.8	-9.0	-10.4	-14.4	-9.7	-12.3	-16.5	-18.2	-19.8
Exports	40.3	32.4	34.1	35.2	29.8	37.6	38.6	41.3	45.4
Imports	48.0	41.4	44.4	49.5	39.4	49.9	55.1	59.5	65.1
Service balance	-1.3	2.4	4.2	2.6	2.9	4.1	4.6	5.1	5.6
Income balance	-0.3	11.9	13.3	15.4	16.1	17.2	18.9	19.6	20.5
FDI, net	1.7	2.8	-0.6	1.3	1.6	1.2	1.0	1.5	2.0
International reserves (ex-gold)	15.8	19.9	30.1	33.1	38.6	55.1	66.7	72.5	82.1
Total Amortisations	4.9	4.8	4.1	4.1	4.3	7.8	8.0	8.5	8.0
Public Finances, % of GDP									
Consolidated government balance	-2.6	-1.0	-0.2	-0.9	-3.7	-3.5	-2.0	-2.4	-2.1
Consolidated gov primary balance	2.7	3.9	2.6	-0.2	-0.3	-0.2	0.8	0.5	0.9
Public debt	71.4	63.9	55.9	54.7	54.8	52.4	50.0	49.1	48.5
of which Domestic	39.8	35.7	33.1	31.3	30.8	30.2	29.0	30.0	31.0
Foreign Assets & Liabilities, US\$ bn									
External debt	54.4	53.9	55.5	54.3	54.9	60.0	61.7	63.5	65.0
Private	17.7	16.5	17.5	13.7	11.6	13.0	14.2	15.2	16.5
Public	36.7	37.4	38.0	40.6	43.2	47.0	47.5	48.3	48.5
External debt / GDP	52.7	44.1	37.0	31.4	32.6	30.1	27.5	25.9	24.3
External debt / XGS	121.5	101.8	93.6	93.7	112.8	93.9	103.7	99.9	93.0
Short-term debt	6.4	5.0	7.1	7.0	4.0	6.3	7.0	8.0	10.5
Short-term debt/International Reserves (%)	40.5	25.2	23.6	21.2	10.4	11.4	10.5	11.0	12.8
Quarterly Economic Indicators									
	2011 Q4	2012 Q1	2012 Q2	2012 Q3F	2012 Q4F	2013 Q1F	2013 Q2F	2013 Q3F	2013 Q4F
GDP, % yoy	4.0	6.3	5.9	4.7	3.3	5.0	5.5	5.3	5.4
CPI, % yoy	4.2	2.7	2.8	4.0	3.7	3.3	3.4	3.6	3.8
Policy interest rate, % eop	4.50	4.00	4.00	3.75	3.50	3.50	3.50	3.50	3.50
1 month Philippine Reference rate, % eop	1.68	3.13	3.28	0.00	0.75	1.00	1.50	2.00	2.50
Long term yield, % eop	4.21	4.48	4.70	4.25	3.95	4.00	4.25	4.50	4.50
lc vs USD, eop	43.84	42.93	41.93	41.23	41.71	42.41	42.92	42.48	42.04

Source: CEIC Data Company Limited, IFS, Moody's and Citi Research Estimates

*Note: Public debt is central government debt and external debt is based on the residency of the holder of the debt (not by currency denomination)

Company Pages

Company Focus

■ Company Update

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Buy	1
Price (05 Oct 12)	P29.85
Target price	P38.00
Expected share price return	27.3%
Expected dividend yield	0.3%
Expected total return	27.6%
Market Cap	P82,577M
	US\$1,993M

Price Performance

(RIC: PGOLD.PS, BB: PGOLD PM)



Puregold Price Club (PGOLD.PS) High Growth in Store

■ **High growth, yet attractively valued** – PGOLD is our top pick in the Philippine consumer space. PGOLD, whose net profit surged three-fold in 2011, is the fastest growing grocery retailer among Asian peers (EPS CAGR of 20% in 2011-14E vs peers' 14%), driven by steady same-store sales growth and an expanding store network. Our TP of P38 is set at a PEG of 1.4x, which is below regional and Philippine consumer averages of 2.0x and 1.7x.

■ **Focused expansion strategy** – PGOLD is hinging its expansion strategy on its two key markets: 1) the low-income segment (70% of the population) and 2) resellers or traditional neighborhood stores (78% of grocery retail sales). Based on a survey that we conducted in Sep 2012, PGOLD's low-price format makes it the most popular grocery retailer among low-income households. In modern grocery retail, we estimate PGOLD increased its market share from 7.4% in 2009 to 8.3% in 2011. We think that its market positioning not only gives it a competitive advantage over its peers, but also provides PGOLD the ability to ride cycles in consumption trends – 1) it directly benefits from strong domestic consumption on upbeat sentiment and 2) it can capture consumers who are trading down during a downturn in consumption.

■ **Favorable macro and industry backdrop** – Citi forecasts 5-6% growth in spending on personal consumption in the Philippines in 12-13E, underpinned by stable OFW remittances, low inflation and job creation. Euromonitor expects 10% sales CAGR for Philippine *modern* grocery retail in 2011-16 (vs 7% for *traditional* grocery retail), driven by continued expansion and growing residential communities. For PGOLD, a rising store count (28% CAGR) which includes the acquisition of two new chains in 2012, and average SSSG of 5% will deliver a sales CAGR of 34% over 11-14E, on our model.

■ **Key catalysts** – 1) Value-accretive acquisitions, which could accelerate PGOLD's expansion program and diversify its geographical presence; and 2) stronger-than-expected domestic consumption trends.

■ **Downside risks** – 1) Slowdown in domestic consumer spending; 2) increased competition in grocery retailing; 3) value-depleting M&A; and 4) execution missteps in network expansion.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(PM)	(P)	(%)	(x)	(x)	(%)	(%)
2010A	527	0.42	311.9	71.6	21.1	32.0	0.0
2011A	1,525	0.95	128.8	31.3	6.4	26.9	0.0
2012E	2,609	1.07	11.8	28.0	3.0	14.0	0.7
2013E	3,748	1.35	27.1	22.0	2.6	12.6	0.3
2014E	4,572	1.65	22.0	18.1	2.3	13.7	0.5

Source: Powered by dataCentral

PGOLD.PS: Fiscal year end 31-Dec						Price: P29.85; TP: P38.00; Market Cap: P82,577m; Recomm: Buy					
Profit & Loss (Pm)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	29,108	38,988	57,560	77,655	93,737	PE (x)	71.6	31.3	28.0	22.0	18.1
Cost of sales	-25,577	-33,453	-49,171	-66,200	-79,879	PB (x)	21.1	6.4	3.0	2.6	2.3
Gross profit	3,531	5,535	8,389	11,455	13,858	EV/EBITDA (x)	66.3	30.6	17.9	12.4	9.9
Gross Margin (%)	12.1	14.2	14.6	14.8	14.8	FCF yield (%)	11.6	-2.1	2.3	2.8	4.1
EBITDA (Adj)	1,284	2,673	4,475	6,307	7,653	Dividend yield (%)	0	0	0.7	0.3	0.5
EBITDA Margin (Adj) (%)	4.4	6.9	7.8	8.1	8.2	Payout ratio (%)	0	0	19	7	8
Depreciation	-299	-457	-767	-992	-1,195	ROE (%)	30.9	27.2	14.0	12.6	13.7
Amortisation	0	0	0	0	0	Cashflow (Pm)					
EBIT (Adj)	985	2,216	3,708	5,315	6,458	EBITDA	1,284	2,673	4,475	6,307	7,653
EBIT Margin (Adj) (%)	3.4	5.7	6.4	6.8	6.9	Working capital	5,397	-844	782	230	17
Net interest	-218	-40	14	34	69	Other	-192	-471	-1,099	-1,567	-1,886
Associates	0	0	0	0	0	Operating cashflow					
Non-op/Except	-24	29	3	5	5	Capex	-2,113	-2,338	-2,474	-2,621	-2,404
Pre-tax profit	743	2,205	3,726	5,354	6,531	Net acq/disposals	0	0	-760	0	0
Tax	-233	-660	-1,117	-1,606	-1,959	Other	-76	-2,529	-15,752	0	0
Extraord./Min.Int./Pref.div.	0	0	0	0	0	Investing cashflow					
Reported net profit	510	1,545	2,609	3,748	4,572	Dividends paid	0	0	-489	-261	-375
Net Margin (%)	1.8	4.0	4.5	4.8	4.9	Financing cashflow					
Core NPAT	527	1,525	2,609	3,748	4,572	Net change in cash	667	117	2,096	2,089	3,005
Per share data						Free cashflow to s/holders					
Reported EPS (P)	0.40	0.97	1.07	1.35	1.65	4,376	-980	1,684	2,350	3,380	
Core EPS (P)	0.42	0.95	1.07	1.35	1.65						
DPS (P)	0	0	0.20	0.09	0.14						
CFPS (P)	5.13	0.85	1.70	1.80	2.09						
FCFPS (P)	3.46	-0.61	0.69	0.85	1.22						
BVPS (P)	1.41	4.66	10.09	11.35	12.87						
Wtd avg ord shares (m)	1,266	1,600	2,447	2,766	2,766						
Wtd avg diluted shares (m)	1,266	1,600	2,447	2,766	2,766						
Growth rates											
Sales revenue (%)	20.7	33.9	47.6	34.9	20.7						
EBIT (Adj) (%)	115.1	124.9	67.4	43.3	21.5						
Core NPAT (%)	342.6	189.2	71.0	43.6	22.0						
Core EPS (%)	311.9	128.8	11.8	27.1	22.0						
Balance Sheet (Pm)											
Cash & cash equiv.	1,862	1,979	4,076	6,164	9,169						
Accounts receivables	242	410	610	744	883						
Inventory	2,934	4,523	6,315	8,009	9,689						
Net fixed & other tangibles	4,708	9,231	27,458	29,086	30,296						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	378	536	609	609	609						
Total assets	10,124	16,680	39,068	44,613	50,647						
Accounts payable	5,007	6,235	8,786	10,564	12,326						
Short-term debt	2,092	0	937	937	937						
Long-term debt	0	0	0	0	0						
Provisions & other liab	977	1,133	1,435	1,715	1,790						
Total liabilities	8,076	7,368	11,158	13,216	15,053						
Shareholders' equity	2,048	9,312	27,909	31,396	35,594						
Minority interests	0	0	0	0	0						
Total equity	2,048	9,312	27,909	31,396	35,594						
Net debt	231	-1,979	-3,139	-5,227	-8,232						
Net debt to equity (%)	11.3	-21.3	-11.2	-16.6	-23.1						

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click [here](#).

Company Focus

■ Company Update

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Sell	3
Price (05 Oct 12)	P72.15
Target price	P58.00
Expected share price return	-19.6%
Expected dividend yield	2.0%
Expected total return	-17.6%
Market Cap	P157,395M
	US\$3,798M

Price Performance

(RIC: URC.PS, BB: URC PM)



Universal Robina (URC.PS) Prospects Appear Priced In

- **Share price run up reflects healthy domestic prospects** – URC's share price has risen 63% in the past year, outperforming the PSEi by 22%. It now trades at +1.6SD above historical PE average. Its FY13 PE of 19x also implies a PEG of 1.5 on 13% 2011-14E EPS CAGR (vs regional F&B average of PEG of 1.0 on 2011-14E EPS CAGR of 23%). Weakness overseas and rising costs could also be risks to earnings.
- **Impact from national elections may not be significant** – Despite operating in a relatively mature snack foods industry, we expect domestic BCFG sales to grow at a healthy clip of 12% in FY12E and FY13E (mainly volume-driven) on the back of continued product innovations. While the national elections in May 2013 could provide a boost for URC's beverage business, we think impact on most of the snack categories may not be that significant. During the last 2 election years (FY07 and FY10), domestic BCFG sales went up 12.6% and 3.5%, respectively.
- **Slowdown overseas dragged 9M FY12 performance** – Thailand sales (accounts for one-third of overseas sales) fell 5% YoY in 9M FY12, which company attributes to weak discretionary spending due to floods and competition. While Vietnam sales (40% of overseas sales) grew mid-teens, this was not enough to offset the weakness in Thailand. Malaysia sales (12% of overseas) also slowed to mid-single digit as new products were not that successful. We expect overseas sales growth to slow to 8% in FY12E and 13% in FY13E (vs 31% in FY11).
- **Margin expansion could be constrained** – We think significant margin enhancement could be limited in FY13E on higher costs of certain commodities, particularly wheat (accounts for 5% of raw materials), whose prices are up over 20% YTD. Initiatives to spur volumes overseas (ie Thailand) – engaging in more aggressive A&P and increasing the weight of its biscuits products while keeping ASP unchanged – could also put pressure on margins.
- **What could make us turn positive?** – 1) significant recovery and acceleration of URC's sales and profitability overseas (stronger-than-expected sales in Thailand and Malaysia; turnaround of China and Indonesia operations, which are currently still loss-making, 2) stronger-than-expected acceleration in URC's domestic operations, 3) margin enhancement and 4) value-accretive acquisitions.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
30 Sep	(PM)	(P)	(%)	(x)	(x)	(%)	(%)
2010A	6,588	3.16	70.9	22.8	3.6	17.1	1.3
2011A	5,997	2.91	-8.0	24.8	3.6	14.7	2.6
2012E	6,852	3.27	12.6	22.0	3.0	14.7	1.5
2013E	7,943	3.64	11.2	19.8	2.7	14.4	2.2
2014E	9,006	4.13	13.4	17.5	2.5	15.1	2.5

Source: Powered by dataCentral

URC.PS: Fiscal year end 30-Sep						Price: P72.15; TP: P58.00; Market Cap: P157,395m; Recomm: Sell					
Profit & Loss (Pm)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	57,720	67,168	72,369	80,918	87,686	PE (x)	22.8	24.8	22.0	19.8	17.5
Cost of sales	-41,113	-50,645	-53,824	-60,135	-64,941	PB (x)	3.6	3.6	3.0	2.7	2.5
Gross profit	16,607	16,522	18,546	20,783	22,745	EV/EBITDA (x)	14.7	16.3	14.2	12.1	10.8
Gross Margin (%)	28.8	24.6	25.6	25.7	25.9	FCF yield (%)	3.4	3.0	3.0	3.5	4.6
EBITDA (Adj)	10,472	9,370	10,532	11,825	13,021	Dividend yield (%)	1.3	2.6	1.5	2.2	2.5
EBITDA Margin (Adj) (%)	18.1	14.0	14.6	14.6	14.8	Payout ratio (%)	30	65	34	43	44
Depreciation	-2,791	-2,480	-2,693	-2,883	-3,073	ROE (%)	20.3	11.3	14.7	14.4	15.1
Amortisation	-3	-2	-2	-2	-2	Cashflow (Pm)	2010	2011	2012E	2013E	2014E
EBIT (Adj)	7,678	6,889	7,837	8,941	9,947	EBITDA	10,472	9,370	10,532	11,825	13,021
EBIT Margin (Adj) (%)	13.3	10.3	10.8	11.0	11.3	Working capital	-1,627	-727	-797	-1,448	-1,103
Net interest	188	190	322	598	887	Other	-83	347	-986	-998	-941
Associates	26	25	25	25	25	Operating cashflow	8,762	8,991	8,749	9,379	10,977
Non-op/Except	1,027	-1,483	0	0	0	Capex	-3,583	-4,559	-4,251	-3,800	-3,800
Pre-tax profit	8,919	5,621	8,185	9,564	10,859	Net acq/disposals	0	0	0	0	0
Tax	-781	-614	-894	-1,621	-1,853	Other	-261	-732	-5,319	0	0
Extraord./Min.Int./Pref.div.	-321	-371	-440	0	0	Investing cashflow	-3,843	-5,292	-9,570	-3,800	-3,800
Reported net profit	7,817	4,636	6,852	7,943	9,006	Dividends paid	-1,946	-3,917	-2,318	-3,426	-3,971
Net Margin (%)	13.5	6.9	9.5	9.8	10.3	Financing cashflow	-3,516	-3,611	-958	-3,444	-6,956
Core NPAT	6,588	5,997	6,852	7,943	9,006	Net change in cash	1,402	88	-1,779	2,135	221
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	5,179	4,431	4,498	5,579	7,177
Reported EPS (P)	3.75	2.25	3.27	3.64	4.13						
Core EPS (P)	3.16	2.91	3.27	3.64	4.13						
DPS (P)	0.93	1.90	1.11	1.57	1.82						
CFPS (P)	4.20	4.36	4.18	4.30	5.03						
FCFPS (P)	2.48	2.15	2.15	2.56	3.29						
BVPS (P)	19.77	19.77	24.17	26.24	28.55						
Wtd avg ord shares (m)	2,084	2,063	2,093	2,182	2,182						
Wtd avg diluted shares (m)	2,084	2,063	2,093	2,182	2,182						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	14.4	16.4	7.7	11.8	8.4						
EBIT (Adj) (%)	65.1	-10.3	13.8	14.1	11.2						
Core NPAT (%)	65.7	-9.0	14.2	15.9	13.4						
Core EPS (%)	70.9	-8.0	12.6	11.2	13.4						
Balance Sheet (Pm)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	14,482	15,199	11,979	14,114	14,334						
Accounts receivables	6,551	7,420	7,877	8,628	9,222						
Inventory	7,889	9,725	10,335	11,547	12,470						
Net fixed & other tangibles	25,312	26,423	27,982	28,899	29,626						
Goodwill & intangibles	1,641	1,464	1,462	1,461	1,459						
Financial & other assets	9,492	8,143	15,588	15,986	16,269						
Total assets	65,367	68,374	75,222	80,634	83,381						
Accounts payable	6,200	6,936	7,371	8,235	8,893						
Short-term debt	5,119	13,955	5,768	8,734	5,750						
Long-term debt	11,219	3,002	5,110	2,126	2,126						
Provisions & other liab	990	2,454	2,533	2,582	2,621						
Total liabilities	23,529	26,347	20,782	21,677	19,390						
Shareholders' equity	40,944	40,761	52,735	57,252	62,286						
Minority interests	894	1,265	1,705	1,705	1,705						
Total equity	41,838	42,027	54,440	58,957	63,991						
Net debt	1,856	1,759	-1,101	-3,254	-6,459						
Net debt to equity (%)	4.4	4.2	-2.0	-5.5	-10.1						

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Company Focus

■ Company Update

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Sell	3
Price (05 Oct 12)	P104.20
Target price	P85.00
Expected share price return	-18.4%
Expected dividend yield	1.2%
Expected total return	-17.3%
Market Cap	P108,713M
	US\$2,623M

Price Performance

(RIC: JFC.PS, BB: JFC PM)



Jollibee Foods Corp (JFC.PS) Steep Valuations Difficult to Justify

- **Fully valued; Sell rating** – While JFC is a beneficiary of resilient domestic consumption, we think its 17% earnings 2012E-15E CAGR and dominant market position (64% market share) are already priced in. Stock is trading at 27x 2013E PE (higher than Philippine consumer average and regional restaurant comparable average of 20x), implying a PEG of 2.1.
- **Chicken cost could trend higher** – Cost of feeds could increase on the back of the rise in corn prices (up 15% YTD). This could, thus, push up prices of chicken, which accounts for about 20% of JFC's total raw materials. JFC expects impact to be felt starting December 2012. Based on our sensitivity analysis, we estimate that for every 1% jump in the cost of chicken, our 2013E earnings estimate drops by 1.5% (assuming cost increases are not passed on to consumers).
- **Reduction in ASP** – To spur volume growth, JFC has been lowering selling prices. It reduced ASP and pushed value meals at the *Chowking* and *Greenwich* stores last year. This year, it lowered ASP at the flagship *Jollibee* brand (by 2.5-3.0%). This move could suggest pricing power may be waning, which raises the risk that it may not be able to fully pass on input cost increases later on or that price increases may be done gradually, thus, margin recovery could take time.
- **Still loss-making in China** – JFC's China business is still unprofitable, largely due to high overhead (salary, rent) expenses and economies of scale have yet to be achieved. SSSG of *Yonghe King* (accounts for 15% of JFC's sales in 2012E) has also been flattish (vs high single-digit historically and high single-digit of domestic operations). According to JFC, the industry was affected by issues over product quality and freshness of other fast food operators' products in China.
- **Positive impact of May 2013 elections may not be broad-based** – While the run up to the May 2013 elections could spur food spending, we think impact on JFC will not be broad-based. Its *Mang Inasal* chain (3% of total sales) could benefit the most given its low price point (average check of US\$1.9). Its *Jollibee*, *Chowking*, and *Greenwich* chains are pricier (average check of US\$3.3, US\$3.7 and US\$4.9) and there remain cheaper alternatives during election season (ie informal food vendors). According to JFC, the company did not see a spike in sales during the last May 2010 elections (SSSG of 5%). We assume a 10% SSSG for *Mang Inasal* and an average of 5% for *Jollibee*, *Greenwich* and *Chowking* in 2013E.
- **Key upside risks** – 1) Stronger-than-expected domestic sales, 2) faster-than-expected store network expansion, and 3) sharp recovery in SSSG in China.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(PM)	(P)	(%)	(x)	(x)	(%)	(%)
2010A	3,198	3.08	19.2	33.9	6.3	19.1	2.2
2011A	3,232	3.10	0.6	33.7	5.5	17.6	1.0
2012E	3,402	3.26	5.3	32.0	5.0	16.5	1.0
2013E	3,929	3.76	15.5	27.7	4.4	17.0	1.2
2014E	4,629	4.43	17.8	23.5	3.9	17.8	1.4

Source: Powered by dataCentral

JFC.PS: Fiscal year end 31-Dec						Price: P104.20; TP: P85.00; Market Cap: P108,713m; Recomm: Sell					
Profit & Loss (Pm)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	53,372	62,555	71,260	81,729	91,379	PE (x)	33.9	33.7	32.0	27.7	23.5
Cost of sales	-43,255	-51,403	-59,037	-67,757	-75,670	PB (x)	6.3	5.5	5.0	4.4	3.9
Gross profit	10,117	11,152	12,223	13,972	15,709	EV/EBITDA (x)	18.5	16.8	15.6	12.9	10.9
Gross Margin (%)	19.0	17.8	17.2	17.1	17.2	FCF yield (%)	2.7	2.0	2.0	3.0	4.4
EBITDA (Adj)	5,577	6,304	6,929	8,339	9,600	Dividend yield (%)	2.2	1.0	1.0	1.2	1.4
EBITDA Margin (Adj) (%)	10.4	10.1	9.7	10.2	10.5	Payout ratio (%)	73	35	33	33	33
Depreciation	-1,978	-2,402	-2,873	-3,409	-3,843	ROE (%)	19.1	17.6	16.5	17.0	17.8
Amortisation	0	0	0	0	0	Cashflow (Pm)	2010	2011	2012E	2013E	2014E
EBIT (Adj)	3,599	3,902	4,056	4,930	5,757	EBITDA	5,577	6,304	6,929	8,339	9,600
EBIT Margin (Adj) (%)	6.7	6.2	5.7	6.0	6.3	Working capital	-164	-452	-55	-83	-81
Net interest	-30	-112	-32	-80	31	Other	91	29	-418	-767	-1,018
Associates	-2	0	0	0	0	Operating cashflow	5,504	5,881	6,456	7,489	8,501
Non-op/Except	619	567	426	426	426	Capex	-2,553	-3,700	-4,255	-4,265	-3,748
Pre-tax profit	4,186	4,358	4,449	5,275	6,214	Net acq/disposals	-2,715	-816	-1,384	-93	0
Tax	-973	-1,104	-1,023	-1,319	-1,553	Other	144	-2,819	0	0	0
Extraord./Min.Int./Pref.div.	-15	-22	-23	-27	-32	Investing cashflow	-5,124	-7,335	-5,640	-4,359	-3,748
Reported net profit	3,198	3,232	3,402	3,929	4,629	Dividends paid	-2,557	-1,197	-1,123	-1,297	-1,527
Net Margin (%)	6.0	5.2	4.8	4.8	5.1	Financing cashflow	-1,182	-60	-1,561	-4,021	-4,332
Core NPAT	3,198	3,232	3,402	3,929	4,629	Net change in cash	-807	-1,515	-745	-891	421
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	2,951	2,180	2,201	3,223	4,753
Reported EPS (P)	3.08	3.10	3.26	3.76	4.43						
Core EPS (P)	3.08	3.10	3.26	3.76	4.43						
DPS (P)	2.25	1.07	1.09	1.26	1.48						
CFPS (P)	5.30	5.63	6.18	7.17	8.14						
FCFPS (P)	2.84	2.09	2.11	3.09	4.55						
BVPS (P)	16.51	18.79	20.98	23.52	26.50						
Wtd avg ord shares (m)	1,026	1,030	1,030	1,030	1,030						
Wtd avg diluted shares (m)	1,039	1,044	1,044	1,044	1,044						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	11.3	17.2	13.9	14.7	11.8						
EBIT (Adj) (%)	9.0	8.4	3.9	21.5	16.8						
Core NPAT (%)	20.0	1.1	5.3	15.5	17.8						
Core EPS (%)	19.2	0.6	5.3	15.5	17.8						
Balance Sheet (Pm)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	8,170	6,655	5,910	5,019	5,439						
Accounts receivables	2,099	2,389	2,721	3,121	3,489						
Inventory	2,134	2,860	3,285	3,770	4,210						
Net fixed & other tangibles	11,207	16,169	18,936	19,886	19,790						
Goodwill & intangibles	7,991	8,584	8,584	8,584	8,584						
Financial & other assets	2,144	2,251	2,251	2,251	2,251						
Total assets	33,746	38,908	41,687	42,630	43,765						
Accounts payable	3,602	4,728	5,430	6,232	6,960						
Short-term debt	4,183	1,677	1,027	2,518	0						
Long-term debt	52	3,943	4,367	357	149						
Provisions & other liab	8,228	8,338	8,338	8,338	8,338						
Total liabilities	16,065	18,686	19,161	17,445	15,447						
Shareholders' equity	17,120	19,519	21,798	24,431	27,532						
Minority interests	562	704	727	754	786						
Total equity	17,681	20,222	22,525	25,185	28,318						
Net debt	-3,936	-1,035	-516	-2,143	-5,290						
Net debt to equity (%)	-22.3	-5.1	-2.3	-8.5	-18.7						

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click [here](#).

Company Focus

- **Company Update**
- **Target Price Change**
- **Estimate Change**

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Buy	1
Price (05 Oct 12)	P805.00
Target price	P915.00
from P785.00	
Expected share price return	13.7%
Expected dividend yield	1.4%
Expected total return	15.0%
Market Cap	P494,169M US\$11,925M

Price Performance (RIC: SM.PS, BB: SM PM)



SM Investments Corp (SM.PS) Cheaper Access to Consumer Retail

- **Core holding investment play** – SM continues to be focused on expanding the market reach and leveraging on the synergies of its portfolio of defensives (SM Retail, SM Prime Holdings) and cyclicals (Banco de Oro and property assets). SMPH and SM Retail account of 55% of SM's gross NAV. With listed consumer and retail stocks trading at an average 2013E P/E of 22x, SM offers, in our view, a less expensive route to the key macro theme of domestic consumption.
- **Price target raised to P915** – We have raised our NAV to factor in the following changes: (1) new PT for BDO (P73.50 from P64.95) to reflect higher profit forecasts; (2) Higher PT for SM Prime (P15.50 from P13.40) on rollover to 2013E; (3) valuation of retail assets at 1.4 PEG ratio, in line with Puregold; and higher estimated parent net debt of P50bn from P36bn. Our price target of P915 is the average of our NAV estimates based on fair and market values of listed assets. To reflect lower SSSG forecasts for the retail segment and adjusted estimates for SM Prime we cut our SM estimates.
- **1H profits on track** – Reported profits grew by 13.8% in 2Q12, leading to a 1H12 income of P10.9bn, 13% higher YoY. Property segment continued to outperform while food retail fell short of expectations. SM Prime (SMPH.PS; P13.98; 2) and Banco de Oro (BDO.PS; P65.95; 1) are largely on track with forecasts.
- **Largest modern retailer with superior returns** – SM Retail covers the full spectrum of retail formats with 183 stores (43 Department stores, 107 supermarkets and 33 hypermarkets), making it the largest modern retailer in the Philippines. Retail, which accounts for 34% of gross NAV is the group's cash generator. In terms of profitability, retail assets offer superior returns with ROE of 38%-51% for food retail segment and 48% for department stores. The high ROE is attributed to the high 24-50% ratio of consignors.
- **Rising competition in food retailing** – Competitive pressures in the food retailing space, mainly in Metro Manila, is however clipping SSSG, which slightly declined by 0.8% for supermarkets and 0.5% for hypermarkets in 1H12. Provincial stores (which account for 54% of total sales are still posting 4.5% SSG.
- **Key catalysts/risks** – *Catalysts:* New property acquisitions and revaluation of property asset on improved infrastructure. *Risks:* Strong competitive pressures in the retail and banking sectors could trim margins, and execution risks in mall expansion in China and long term tourism projects.

Statistical Abstract				
FYE	Net Profit	EPS	P/E	D. Yld
31 Dec	(PM)	(P)	(x)	(%)
2009A	14,823	23.14	34.8	0.9
2010A	15,479	25.33	31.8	1.0
2011A	17,947	29.22	27.5	1.1
2012E	22,950	36.81	21.9	1.3
2013E	27,452	44.04	18.3	1.4
2014E	33,590	53.88	14.9	1.6

Source: Powered by dataCentral

Earnings Revision				
FYE	Net Profit	EPS	%	DPS
31 Dec	(PM)	(P)	chg	(P)
2012E	22,950	36.81	-5.2	10.25
Prev	23,855	38.83		10.25
2013E	27,452	44.04	-6.2	11.08
Prev	28,849	46.96		11.52
2014E	33,590	53.88	-8.0	13.26
Prev	35,992	58.59		13.93

Source: Powered by dataCentral

SM.PS: Fiscal year end 31-Dec						Price: P805.00; TP: P915.00; Market Cap: P494,169m; Recomm: Buy					
Profit & Loss (Pm)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	170,805	193,456	220,521	263,526	301,041	PE (x)	31.8	27.5	21.9	18.3	14.9
Cost of sales	-109,496	-122,482	-141,216	-169,715	-193,673	PB (x)	3.5	3.1	2.7	2.4	2.1
Gross profit	61,310	70,974	79,305	93,812	107,367	EV/EBITDA (x)	13.4	11.7	10.2	8.7	7.5
Gross Margin (%)	35.9	36.7	36.0	35.6	35.7	FCF yield (%)	-2.6	-2.4	-1.2	0.6	3.1
EBITDA (Adj)	37,878	44,170	51,558	60,411	69,385	Dividend yield (%)	1.0	1.1	1.3	1.4	1.6
EBITDA Margin (Adj) (%)	22.2	22.8	23.4	22.9	23.0	Payout ratio (%)	31	31	28	25	25
Depreciation	-6,624	-7,193	-8,243	-9,157	-10,110	ROE (%)	13.8	14.2	13.4	14.0	14.9
Amortisation	0	0	0	0	0	Cashflow (Pm)					
EBIT (Adj)	31,254	36,977	43,315	51,254	59,276	EBITDA	32,437	37,754	43,722	50,889	57,888
EBIT Margin (Adj) (%)	18.3	19.1	19.6	19.4	19.7	Working capital	-16,240	-13,700	-4,151	-2,366	-641
Net interest	-3,936	-4,561	-4,342	-4,892	-3,282	Other	-8,954	-9,849	-10,398	-12,036	-11,903
Associates	5,441	6,415	7,836	9,522	11,497	Operating cashflow	7,243	14,206	29,173	36,488	45,344
Non-op/Except	2,961	3,277	0	0	0	Capex	-19,830	-25,932	-35,340	-33,272	-29,985
Pre-tax profit	30,279	35,693	38,973	46,362	55,994	Net acq/disposals	8,504	780	0	0	0
Tax	-5,401	-5,495	-6,243	-7,363	-8,877	Other	-4,860	-4,895	-23,377	5,309	6,082
Extraord./Min.Int./Pref.div.	-6,438	-8,973	-9,780	-11,547	-13,527	Investing cashflow	-16,186	-30,046	-58,718	-27,963	-23,903
Reported net profit	18,440	21,225	22,950	27,452	33,590	Dividends paid	-6,224	-7,762	-6,306	-6,885	-8,235
Net Margin (%)	10.8	11.0	10.4	10.4	11.2	Financing cashflow	32,421	4,720	9,842	2,571	-5,052
Core NPAT	15,479	17,947	22,950	27,452	33,590	Net change in cash	23,414	-10,911	-19,702	11,096	16,389
Per share data						Free cashflow to s/holders	-12,587	-11,726	-6,167	3,216	15,359
Reported EPS (P)	30.17	34.56	36.81	44.04	53.88						
Core EPS (P)	25.33	29.22	36.81	44.04	53.88						
DPS (P)	7.88	9.04	10.25	11.08	13.26						
CFPS (P)	11.85	23.13	46.80	58.53	72.74						
FCFPS (P)	-20.59	-19.09	-9.89	5.16	24.64						
BVPS (P)	231.65	257.56	295.98	336.98	386.88						
Wtd avg ord shares (k)	611,022	612,038	615,197	621,264	621,264						
Wtd avg diluted shares (k)	611,218	614,170	623,396	623,396	623,396						
Growth rates											
Sales revenue (%)	11.4	13.3	14.0	19.5	14.2						
EBIT (Adj) (%)	13.7	18.3	17.1	18.3	15.7						
Core NPAT (%)	4.4	15.9	27.9	na	22.4						
Core EPS (%)	9.4	15.4	26.0	19.6	22.4						
Balance Sheet (Pm)											
Cash & cash equiv.	69,846	58,869	39,167	50,263	66,652						
Accounts receivables	9,827	11,765	12,259	14,372	15,734						
Inventory	10,486	13,436	14,508	18,027	20,234						
Net fixed & other tangibles	183,716	209,514	244,611	273,726	298,602						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	133,510	155,477	192,682	205,860	220,717						
Total assets	407,384	449,062	503,227	562,249	621,939						
Accounts payable	39,039	44,750	51,595	62,007	70,760						
Short-term debt	22,176	33,669	34,431	79,287	110,048						
Long-term debt	128,601	128,464	138,288	104,655	79,057						
Provisions & other liab	19,751	19,892	21,437	23,575	26,799						
Total liabilities	209,566	226,775	245,750	269,523	286,664						
Shareholders' equity	141,543	157,666	183,883	209,352	240,354						
Minority interests	56,274	64,621	73,594	83,374	94,921						
Total equity	197,817	222,287	257,477	292,726	335,276						
Net debt	80,931	103,263	133,551	133,678	122,452						
Net debt to equity (%)	40.9	46.5	51.9	45.7	36.5						

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click [here](#).

Figure 76. Fair Value NAV for SM Investments

	Outstanding Shares (Pm)	Price	Market Cap/Valuation (Pm)	SM Stake	Attributable Value (Pm)	Value (P/sh)	% of Gross NAV	Methodology
Listed holdings								
SM Prime	17,373.7	15.50	269,292	49%	132,222	212.83	21%	Citi price target – DCF-based equity valuation assuming WACC of 8.3% and long term growth rate of 3%.
Banco de Oro	3,580.9	73.50	263,195	46%	121,333	195.30	19%	
SM Development	8,428.4	6.06	51,076	44%	22,320	35.93	4%	Citi price target based on a target P/BV of 1.8x, which is derived from modified Gordon Growth model in which key assumptions include COE of 11%, 12.6% ROE and 30% dividend payout.
China Bank	1,297.900	53.40	69,308	21%	14,277	22.98	2%	
Highlands Prime	2,246.2	1.90	4,268	27%	1,144	1.84	0%	Market value
Belle Corp (BEL.PS; P5.15; 1)	10,559.4	5.18	54,698	26%	14,331	23.07	2%	Market value
Atlas Cons. Mining	2,072.2	17.20	35,641	28%	10,122	16.29	2%	Market value
Ayala Corp		545.00	0	2%	-	-	0%	Blended NAV estimate based on average of fair value estimate and market value of listed holdings
Sub-total			657,138		315,749	508.24	50%	
Unlisted								
SM Retail								
1. SM Department stores			50,290	85%	42,746	68.81	7%	1.4x PEG ratio on 2013E earnings in line with our valuation of Phil listed companies
2. SM Supermarket			140,252	100%	140,252	225.75	22%	
3. SM Hypermarkets			30,826	100%	30,826	49.62	5%	
sub-total			221,367		213,824	344.18	34%	
Property Holdings								
1. MOA complex(60-ha)			33,582	100%	33,582	54.05	5%	Based on appraised valuation
2. Hamilo Coast (5,700 ha)			27,812	94%	26,143	42.08	4%	Based on appraised valuation of lots
3. Hotels			7,077	100%	7,077	11.39	1%	
4. Other land holdings			32,276	100%	32,276	51.95	5%	Based on appraised and market valuation
5. Other BPO offices			1,818	67%	1,216	1.96	0%	
sub-total			102,565		100,294	161.44	16%	
Value of unlisted holdings			323,932		314,118	505.61	50%	
Gross NAV			981,070		629,867	1,013.85	100%	
Add: Est Parent cash holdings					100,530	161.82		Parent cash, marketable securities and long-term time deposits. Company data as of 1Q12 adjusted to include proceeds from rights offer
Less: Est Parent debt					(150,908)	(242.90)		2H12 parent debt plus P15bn retail bond
sub-total					(50,378)	(81.09)		As of July 2012 - parent net debt is P61.45bn, adjusted to inc. follow-on offer proceeds
Total based on fair value					579,489	933		
Total based on market value*						896		
Average Fair Value						915		

Source: Citi Research estimates *Market value of listed companies in our coverage

Company Focus

■ Company Update

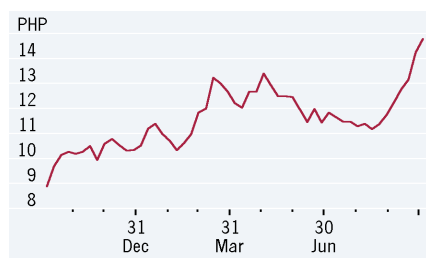
Ricardo P Puig

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Buy	1
Price (05 Oct 12)	P14.82
Target price	P14.60
Expected share price return	-1.5%
Expected dividend yield	2.4%
Expected total return	0.9%
Market Cap	P149,778M
	US\$3,614M

Price Performance

(RIC: AGI.PS, BB: AGI PM)



Alliance Global Group (AGI.PS) Emerging Consumer Play

- **An attractive consumer play** – Given hefty valuations of Philippine consumer firms, we believe AGI offers an attractive alternative consumer play. Its alcoholic beverage arm Emperador Distillers (EDI) and McDonald's master franchisee Golden Arches now account for a combined 42% of our gross asset value and 41% of 2013E earnings estimates. Meanwhile, half of the Travellers (26% of GAV) gaming businesses are driven by the mass market. AGI also trades at a 21% discount to estimated NAV and at 11x 2013E PE (vs 22x average of other Philippine consumer names).
- **EDI's interim results topped expectations** – 1H12 earnings of P2.3bn already exceeded our original FY12 target of P2.1bn on strong volume growth and better margins. We earlier raised our earnings estimates by 99% in 2012E and 85% in 2013E to take into account the 1H12 results, which we believe can be sustained due to new product launches, capacity expansion and election-related spending next year. See [Alliance Global Group \(AGI.PS\) - Emerging Attractive Consumer Play; Raising TP](#) for more details.
- **Impact of higher liquor tax may be muted** – If the Senate passes a similar sin tax rate as the House of Representatives version, EDI estimates the additional tax burden to be about P3-4/bottle, which translates to a 6% price hike that could be easily passed on to consumers. We also believe that election spending next year can offset the impact of any volume suppression that may arise from the price hike.
- **Key risks** – Include a higher taxation on liquor and gaming, and tighter competition in the property and gaming operations. **Catalysts** include step up gaming visitations potential contributions from the tourism estate business, election-related spending.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(PM)	(P)	(%)	(x)	(x)	(%)	(%)
2010A	6,909	0.71	44.4	20.9	2.5	12.6	0.4
2011A	8,494	0.85	19.6	17.4	2.1	12.9	2.4
2012E	11,008	1.07	26.1	13.8	1.7	13.7	2.4
2013E	12,481	1.22	13.4	12.2	1.5	13.0	2.4
2014E	14,160	1.38	13.5	10.7	1.2	12.4	2.7

Source: Powered by dataCentral

AGI.PS: Fiscal year end 31-Dec						Price: P14.82; TP: P14.60; Market Cap: P149,778m; Recomm: Buy					
Profit & Loss (Pm)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	37,817	53,650	97,156	112,161	123,927	PE (x)	20.9	17.4	13.8	12.2	10.7
Cost of sales	-25,023	-35,966	-52,163	-59,930	-66,203	PB (x)	2.5	2.1	1.7	1.5	1.2
Gross profit	12,794	17,684	44,993	52,231	57,724	EV/EBITDA (x)	15.6	12.2	6.9	5.8	5.0
Gross Margin (%)	33.8	33.0	46.3	46.6	46.6	FCF yield (%)	-5.2	0.0	-13.4	2.1	-0.4
EBITDA (Adj)	8,638	11,556	22,221	27,733	31,745	Dividend yield (%)	0.4	2.4	2.4	2.4	2.7
EBITDA Margin (Adj) (%)	22.8	21.5	22.9	24.7	25.6	Payout ratio (%)	8	42	34	29	29
Depreciation	-1,006	-2,011	-2,766	-3,336	-3,869	ROE (%)	12.6	17.6	13.7	13.0	12.4
Amortisation	-101	-101	-101	-101	-101	Cashflow (Pm)	2010	2011	2012E	2013E	2014E
EBIT (Adj)	7,531	9,444	19,354	24,296	27,775	EBITDA	8,638	11,556	22,221	27,733	31,745
EBIT Margin (Adj) (%)	19.9	17.6	19.9	21.7	22.4	Working capital	-12,527	-5,766	-7,277	-339	-3,761
Net interest	2,816	2,980	1,997	441	219	Other	618	-61	-3,229	-4,222	-5,035
Associates	1,734	2,540	395	490	539	Operating cashflow	-3,272	5,729	11,715	23,172	22,949
Non-op/Except	0	0	0	0	0	Capex	-4,244	-5,777	-32,037	-20,030	-23,524
Pre-tax profit	12,081	14,965	21,746	25,226	28,533	Net acq/disposals	2,976	67	200	-362	-71
Tax	-2,585	-3,353	-3,834	-4,532	-5,245	Other	1,799	-3,929	13,002	13,433	14,434
Extraord./Min.Int./Pref.div.	-2,588	-4	-6,904	-8,214	-9,128	Investing cashflow	532	-9,639	-18,834	-6,959	-9,162
Reported net profit	6,909	11,608	11,008	12,481	14,160	Dividends paid	-575	-3,629	-3,721	-3,582	-4,139
Net Margin (%)	18.3	21.6	11.3	11.1	11.4	Financing cashflow	18,861	3,566	-10,905	-10,915	-11,080
Core NPAT	6,909	8,494	11,008	12,481	14,160	Net change in cash	16,119	1,881	-18,024	5,298	2,707
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	-7,516	-48	-20,321	3,143	-575
Reported EPS (P)	0.71	1.16	1.07	1.22	1.38						
Core EPS (P)	0.71	0.85	1.07	1.22	1.38						
DPS (P)	0.06	0.36	0.36	0.35	0.40						
CFPS (P)	-0.34	0.57	1.14	2.26	2.23						
FCFPS (P)	-0.77	0.00	-1.98	0.31	-0.06						
BVPS (P)	5.99	7.16	8.54	10.20	12.07						
Wtd avg ord shares (m)	9,720	9,995	10,270	10,270	10,270						
Wtd avg diluted shares (m)	9,720	9,995	10,270	10,270	10,270						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	15.6	41.9	81.1	15.4	10.5						
EBIT (Adj) (%)	14.2	25.4	104.9	25.5	14.3						
Core NPAT (%)	44.0	22.9	29.6	13.4	13.5						
Core EPS (%)	44.4	19.6	26.1	13.4	13.5						
Balance Sheet (Pm)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	47,264	49,148	31,124	36,422	39,129						
Accounts receivables	17,533	25,492	25,078	27,951	30,385						
Inventory	8,124	28,953	32,040	30,649	32,918						
Net fixed & other tangibles	21,939	28,878	51,672	65,765	84,199						
Goodwill & intangibles	11,290	11,257	10,956	11,217	11,187						
Financial & other assets	58,089	76,804	86,097	91,168	95,636						
Total assets	164,241	220,532	236,967	263,171	293,453						
Accounts payable	12,373	17,093	18,627	21,480	24,085						
Short-term debt	5,003	2,907	2,567	2,167	6,867						
Long-term debt	35,152	41,117	39,352	37,352	30,753						
Provisions & other liab	20,000	33,410	29,322	29,746	31,045						
Total liabilities	72,527	94,527	89,867	90,745	92,751						
Shareholders' equity	58,247	73,481	87,672	104,784	123,933						
Minority interests	33,466	52,522	59,427	67,640	76,768						
Total equity	91,714	126,003	147,098	172,424	200,701						
Net debt	-7,110	-5,124	10,794	3,098	-1,509						
Net debt to equity (%)	-7.8	-4.1	7.3	1.8	-0.8						

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click [here](#).

Figure 77. NAV of AGI

Based on mark to market values

	Valuation (Pm)	AGI % stake	AGI share (Pm)	Basis	P/sh
Megaworld	58,498	59.0%	34,514	Listed market value	3.36
Golden Arches	22,083	49.0%	10,821	9.4x 2013E EV/EBITDA regional average	1.05
Travellers	97,557	40.0%	39,023	9x 2013E EV/EBITDA	3.80
Potential contribution of 2nd casino site	28,073	40.0%	11,229	5.8x 2017E EV/EBITDA	1.09
Emperador	74,592	100.0%	74,592	10.6x 2013E EV/EBITDA regional average	7.26
GERI	16,123	59.9%	9,658	Listed market value	0.94
			179,836		17.51
Parent net cash (debt)			(20,483)	Citi Research estimates as at end-2013	(1.99)
			159,353		15.52

Based on fair value estimates

	Valuation (Pm)	AGI % stake	AGI share (Pm)	Basis	P/sh
Megaworld	87,688	59.0%	51,736	DCF, WACC of 10.8%	5.04
Golden Arches	21,710	49.0%	10,638	DCF, WACC of 12.9%	1.04
Travellers (including 2nd casino site)	125,630	40.0%	50,252	9x RWM 2013E EV/EBITDA + 5.8x Bayshore 2017E EV/EBITDA	4.89
Emperador	70,854	100.0%	70,854	DCF, WACC of 10.8%	6.90
GERI	51,261	59.9%	30,706	Citi Research estimated mkt value of raw land	2.99
			214,185		20.86
Parent net cash (debt)			(20,483)	Citi Research estimates as at end-2012	(1.99)
			193,702		18.86

Blended NAV (P/sh)

Less 15% discount	Equal weight	17.19
Target price	Historical regional average NAV discount	(2.58)
		14.60

Source: Citi Research, Company data, Bloomberg

Appendix

Comparable Valuations

Figure 78. Valuations of Retail Companies

Company	RIC	Rating	Mcap (US\$m)	Price (Local)	Target (Local)	ETR (%)	PE (X)		EPS Growth (%)		PBV (x)		ROE (%)		Yield (%)		EV/EBITDA (x)	
							2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E
Hypermarkets & Supercenters																		
Puregold Price Club	PGOLD.PS	Buy	1,972	29.65	38.00	28.8	21.9	17.9	27.1	22.0	2.6	2.3	12.6	13.7	0.3	0.5	12.4	9.8
BIGC	BIGC.BK	Sell	5,327	198.00	100.00	-47.7	23.3	19.4	20.4	20.2	4.8	4.3	21.9	23.5	2.1	2.6	12.5	10.4
SIAM MAKRO	MAKR.BK	Sell	3,131	400.00	209.00	-45.7	30.0	26.2	22.9	14.3	8.6	8.0	29.8	31.6	2.5	2.9	17.2	15.0
Sun Art Retail Group Limited	6808.HK	Neutral	12,216	9.93	9.70	-1.4	27.5	24.5	17.6	12.3	4.1	3.7	15.7	15.8	1.1	1.2	10.9	9.5
Aeon	8267.T	Neutral	8,624	880.00	1,020.00	18.5	10.0	11.5	1.3	-13.3	0.8	0.7	7.5	6.5	2.7	2.7	5.3	5.3
Carrefour	CARR.PA	Neutral	14,928	16.31	15.00	-3.7	12.0	11.3	-3.8	6.1	1.4	1.3	13.8	13.8	4.2	4.4	4.1	3.7
Costco Wholesale Corp	COST.O	Neutral	43,070	99.62	98.00	-0.6	21.7	18.5	18.2	17.4	2.9	2.5	14.6	15.2	1.2	1.3	9.4	7.9
Wal-Mart Stores Inc	WMT.N	Buy	249,419	74.20	82.00	12.5	14.8	13.1	11.4	13.0	3.3	3.0	23.0	23.7	2.1	2.3	8.0	7.4
Market Cap Weighted Average							16.2	14.3	11.9	12.7	3.2	2.9	20.9	21.4	2.1	2.3	8.3	7.5
Food Retail																		
CP ALL	CPALL.BK	Sell	11,278	38.50	23.00	-38.3	30.8	27.0	25.7	13.9	13.6	12.1	46.8	47.4	2.4	2.8	18.6	16.2
President Chain Store	2912.TW	Buy	5,496	155.00	171.00	13.7	20.6	19.2	9.9	7.3	6.4	5.9	32.6	31.9	3.9	4.2	13.8	12.8
Dairy Farm	DAIR.SI	Neutral	15,126	11.20	N/A	N/A	26.2	24.2	9.1	8.4	10.7	8.9	45.0	40.3	2.1	2.3	16.6	15.2
Lawson	2651.T	Neutral	7,495	5,890.00	N/A	N/A	17.5	15.9	35.3	9.9	2.6	2.4	15.4	15.8	3.2	3.3	4.8	4.4
Seven & i Holdings	3382.T	Buy	26,697	2,372.00	3,240.00	39.2	13.9	11.7	16.3	18.5	1.1	1.1	8.3	9.3	2.7	2.9	4.2	3.7
FamilyMart	8028.T	Neutral	4,638	3,835.00	N/A	N/A	15.8	14.1	39.1	12.1	1.6	1.5	10.2	10.7	2.4	2.5	3.4	3.2
Casino Guichard Perachon	CASP.PA	Buy	10,168	69.93	78.00	15.9	11.4	10.0	10.6	14.3	1.0	1.0	9.2	10.2	4.8	5.5	3.7	3.5
Tesco	TSCO.L	Sell	41,452	3.21	2.45	-19.0	10.6	10.8	-7.9	-2.2	1.3	1.3	15.3	14.0	4.2	4.2	5.3	5.4
Whole Foods Market Inc	WFM.O	Neutral	18,131	98.18	102.00	4.4	34.5	29.3	13.4	17.7	4.3	3.8	13.4	14.1	0.6	0.6	12.8	10.6
Woolworths Ltd	WOW.AX	Neutral	36,881	29.25	27.80	-0.6	15.3	14.8	7.0	3.2	4.0	3.6	27.6	25.9	4.7	4.9	8.7	8.1
Market Cap Weighted Average							17.9	16.3	9.3	8.1	3.9	3.5	21.2	20.5	3.4	3.5	8.5	7.8
Department Stores																		
Robinson Department Store Public Co	ROBI.BK	Sell	2,354	65.00	39.00	-38.7	26.6	24.6	17.2	8.1	5.9	5.1	24.0	22.4	1.5	1.6	16.7	15.1
Hyundai Green Food	005440.KS	Buy	1,571	17,900.00	21,000.00	17.6	15.5	13.4	15.4	15.6	1.3	1.2	8.8	9.3	0.3	0.3	7.8	6.0
Hyundai Department Store	069960.KS	SellH	3,006	143,000.00	127,000.00	-10.8	9.0	8.3	5.7	8.5	0.9	0.8	10.7	10.4	0.4	0.4	5.1	4.6
Lifestyle International Holdings	1212.HK	Buy	3,455	16.10	21.40	35.7	13.5	12.3	8.3	10.5	2.6	2.3	20.1	19.8	3.0	3.3	8.1	7.1
Intime Department Store	1833.HK	Buy	2,257	8.75	10.50	22.9	11.0	11.3	25.2	-2.5	1.7	1.6	16.9	15.0	3.7	3.6	7.1	7.3
Far Eastern Department Store	2903.TW	Buy	1,469	31.45	39.42	28.7	13.5	12.2	11.2	10.2	1.4	1.3	10.8	11.3	4.0	4.6	14.1	12.0
Golden Eagle	3308.HK	Neutral	3,763	15.10	18.00	20.8	15.4	12.3	21.8	25.3	3.6	3.0	26.0	27.1	2.0	2.5	9.9	8.1
Parkson	3368.HK	Neutral	2,367	6.53	7.00	10.6	11.7	10.6	13.6	10.5	2.2	1.9	19.5	19.3	3.9	4.3	6.6	5.7
Parkson Holdings Bhd	PRKN.KL	Buy	1,682	4.70	5.60	22.6	13.1	10.2	7.3	28.4	1.8	1.6	14.1	16.8	4.0	4.7	3.6	2.8
J. Front Retailing	3086.T	Buy	2,855	424.00	520.00	24.5	16.5	13.6	-27.7	20.9	0.7	0.6	4.0	4.7	1.7	1.7	7.3	6.6
Isetan Mitsukoshi Holdings	3099.T	Buy	4,010	798.00	1,030.00	30.3	9.9	13.6	-45.8	-27.2	0.6	0.6	6.8	4.7	1.3	1.3	7.9	7.2
Takashimaya	8233.T	Buy	2,190	521.00	830.00	61.2	12.0	10.2	31.4	17.5	0.5	0.5	4.7	5.3	1.9	1.9	5.1	5.1
Pantaloon	PART.BO	Sell	919	212.15	160.00	-24.3	77.8	50.8	41.1	53.1	1.6	1.5	2.0	3.0	0.3	0.5	9.1	8.2
Market Cap Weighted Average							15.6	13.8	4.8	10.1	2.0	1.7	13.9	13.8	2.1	2.3	8.2	7.3
Home Improvement Retail																		
Home Product Center Public Co	HMPR.BK	Neutral	2,736	14.30	14.00	-0.1	15.1	13.0	37.1	15.8	5.8	4.8	43.6	40.5	3.0	3.9	10.9	9.2
Home Depot Inc	HD.N	Buy	93,115	61.77	62.00	2.1	20.8	18.3	19.9	13.7	5.1	4.7	24.7	26.2	1.6	1.6	11.1	10.5
JD Group Ltd	JDGJ.J	Buy	1,224	46.96	51.00	13.5	9.2	8.0	26.1	14.5	1.1	1.0	12.1	12.5	5.5	6.3	6.0	4.9
Kingfisher PLC	KGF.L	Buy	10,247	2.69	3.30	26.0	11.8	10.7	-6.1	10.7	1.0	1.0	9.2	9.7	3.7	4.2	5.7	5.1
Lowe's Cos Inc	LOW.N	Neutral	35,015	30.70	29.00	-3.8	18.5	15.7	-0.3	17.8	2.3	2.0	12.0	13.3	1.8	1.8	8.2	7.8
Market Cap Weighted Average							19.4	16.9	13.4	14.5	4.1	3.8	20.7	22.0	1.9	1.9	10.0	9.4

Source: Citi Research, Bloomberg IBES for non-rated (NR) stocks; As of 4 October 2012

Figure 79. Valuations of Agri & Food Production / F&B Companies

				Price	Mkt-Cap	P/E (x)	EPS Growth		EV/EBITDA		P/B (x)		ROE		Yield		
Company	RIC	Rating	Ccy	04-Oct	US\$M	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Philippine consumer stocks																	
Puregold Price Club	PGOLD.PS	Buy	PHP	29.65	1,972	21.9	17.9	27%	22%	12.4	9.8	2.6	2.3	13%	14%	0%	0%
Universal Robina Corp	URC.PS	Sell	PHP	68.00	3,566	18.7	16.5	11%	13%	11.3	10.1	2.6	2.4	14%	15%	2%	3%
Jollibee Foods Corp	JFC.PS	Sell	PHP	103.10	2,586	27.4	23.3	15%	18%	12.7	10.8	4.4	3.9	17%	18%	1%	1%
Weighted average						12.0	10.6	7%	9%	7.3	6.5	1.7	1.5	9%	10%	1%	2%
Regional peers																	
Agri & Food Production																	
China Agri	0606.HK	Buy	HKD	4.46	2,323	9.1	8.1	-4%	14%	11.2	10.3	0.8	0.7	8%	9%	3%	3%
China Modern Dairy	1117.HK	Buy	HKD	1.99	1,232	16.2	11.4	21%	42%	14.8	11.7	1.4	1.3	9%	12%	0%	0%
Fufeng	0546.HK	NR	HKD	2.69	604	4.3	3.7	27%	16%	n/a	n/a	0.9	0.7	20%	21%	6%	7%
Food & Beverages																	
Ajisen	0538.HK	NR	HKD	5.08	703	23.4	17.3	55%	35%	n/a	n/a	1.7	1.5	8%	10%	N/A	N/A
Charoen Pokphand Foods Th	CPF.BK	NR	THB	35.75	9,027	13.0	11.2	56%	16%	n/a	n/a	2.4	2.2	19%	20%	N/A	N/A
Charoen Pokphand Indonesia	CPIN.JK	Neutral	IDR	3100.00	5,303	13.7	13.1	17%	5%	10.6	9.9	4.5	3.6	37%	30%	2%	2%
China Food	0506.HK	NR	HKD	8.45	3,045	20.7	16.8	23%	23%	n/a	n/a	2.9	2.6	15%	16%	2%	2%
China Lifestyle Food and Bev	1262.HK	Buy	HKD	2.42	351	7.2	6.4	17%	12%	4.1	3.6	1.1	1.0	17%	16%	3%	3%
China Resources Ent	0291.HK	Buy	HKD	25.75	7,971	24.4	19.6	26%	24%	7.3	5.9	1.6	1.5	6%	8%	2%	2%
China Yurun	1068.HK	Sell	HKD	5.52	1,297	8.0	5.8	896%	38%	4.5	3.6	0.6	0.5	7%	9%	0%	0%
Dynasty Wines	0828.HK	NR	HKD	1.27	204	21.9	15.9	35%	38%	n/a	n/a	0.8	0.7	2%	4%	1%	1%
Huabao	0336.HK	Neutral	HKD	4.28	1,736	7.3	6.5	6%	12%	5.2	4.4	1.8	1.5	27%	26%	4%	5%
Huiyuan Juice	1886.HK	NR	HKD	2.34	446	23.7	22.1	-15%	7%	n/a	n/a	0.5	0.5	1%	2%	N/A	N/A
Indofood S.M.	INDF.JK	Buy	IDR	5750.00	5,267	13.7	n/a	6%	n/a	6.6	n/a	2.2	n/a	17%	n/a	3%	n/a
Mengniu Dairy	2319.HK	Buy	HKD	23.10	5,266	18.7	13.9	30%	34%	7.7	5.7	2.6	2.2	16%	19%	1%	2%
Nongshim	004370.KS	NR	KRW	262000.00	1,431	11.8	10.2	23%	16%	n/a	n/a	1.0	0.9	9%	9%	N/A	N/A
Olam	OLAM.SI	Buy	SGD	2.00	3,966	13.3	11.5	17%	16%	9.3	8.8	1.3	1.2	12%	13%	2%	2%
QL Resources	QRES.KL	NR	MYR	3.15	857	19.0	13.9	5%	36%	n/a	n/a	2.6	2.3	18%	18%	N/A	N/A
Real Nutriceutical	2010.HK	NR	HKD	2.46	356	3.2	2.9	14%	10%	n/a	n/a	n/a	n/a	19%	17%	N/A	N/A
Shenguan Hldgs	0829.HK	Buy	HKD	4.22	1,809	11.7	9.5	26%	23%	7.9	6.2	3.8	3.1	37%	36%	3%	4%
Tingyi	0322.HK	Neutral	HKD	23.50	16,948	29.0	22.7	23%	28%	12.6	10.1	6.1	5.3	22%	25%	2%	3%
Tsingtao Brewery	0168.HK	Neutral	HKD	44.25	7,709	21.0	15.6	20%	34%	10.9	8.4	3.6	3.0	18%	21%	1%	1%
Uni President	1216.TW	Buy	TWD	51.10	8,475	19.0	n/a	10%	n/a	46.6	n/a	2.8	n/a	15%	n/a	3%	n/a
Vitasoy	0345.HK	NR	HKD	6.96	920	21.2	18.1	20%	17%	n/a	n/a	4.4	4.0	21%	23%	3%	3%
Want Want China	0151.HK	Buy	HKD	9.96	16,989	24.9	20.6	24%	21%	17.1	14.1	9.3	7.9	40%	41%	2%	3%
Weighted average						19.9	14.3	34%	20%	9.3	0.0	4.2	3.3	22%	20%	2%	2%

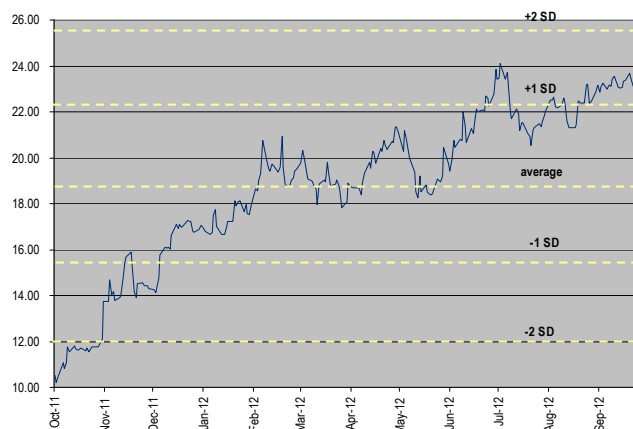
Source: Citi Research, Bloomberg IBES for non-rated (NR) stocks; As of 4 October 2012

Figure 80. Valuation of Restaurant/Fast Food Operators

Company	RIC	Rating	Price Ccy	26-Sep	Mkt-Cap US\$m	P/E (x) FY13E	P/E (x) FY14E	EPS Growth FY13E	EPS Growth FY14E	P/B (x) FY13E	P/B (x) FY14E	ROE FY13E	ROE FY14E	Yield FY13E	Yield FY14E
Consumer/Consumer-related stocks in the Philippines															
Jollibee Foods Corp	JFC.PS	Sell	PHP	103.10	2,586	27.4	23.3	15%	18%	4.4	3.8	17%	18%	1%	1%
Universal Robina Corp	URC.PS	Sell	PHP	68.00	3,566	18.7	16.5	11%	13%	2.4	2.3	14%	15%	2%	3%
SM Prime Holdings	SMPH.PS	Neutral	PHP	14.00	5,847	20.9	16.6	11%	26%	3.2	2.9	16%	18%	2%	2%
Puregold Price Club	PGOLD.PS	Buy	PHP	29.65	1,972	21.9	17.9	27%	22%	2.6	2.3	13%	14%	0%	0%
Weighted average						21.7	18.0	14%	21%	3.2	2.9	15%	17%	2%	2%
Restaurant comparables															
China/Hong Kong															
Ajisen China Hldgs	0538.HK	NR	HKD	5.08	703	23.4	17.3	55%	35%	1.7	1.5	8%	10%	2%	3%
Café de Coral	0341.HK	NR	HKD	22.10	1,629	20.9	20.9	12%	13%	3.8	3.6	16%	17%	3%	4%
Beijing Xiangqing Co - A	2306.CN	NR	CNY	9.31	589	15.8	23.5	28%	-33%	2.7	2.6	14%	18%	2%	2%
Malaysia															
KFC Hldgs Malaysia	KFC.KL	NR	MYR	3.82	991	17.3	14.8	16%	16%	2.5	-	13%	14%	2%	2%
QSR Brands Bhd	QSR.KL	NR	MYR	6.52	646	14.2	11.4	11%	24%	1.7	1.5	13%	14%	2%	2%
Thailand															
Oishi Group Plc	OISHI.BK	NR	THB	223.00	1,368	26.9	19.7	31%	41%	9.5	7.6	37%	42%	2%	3%
Weighted average						21.5	19.2	24%	20%	4.4	3.4	19%	22%	2%	3%

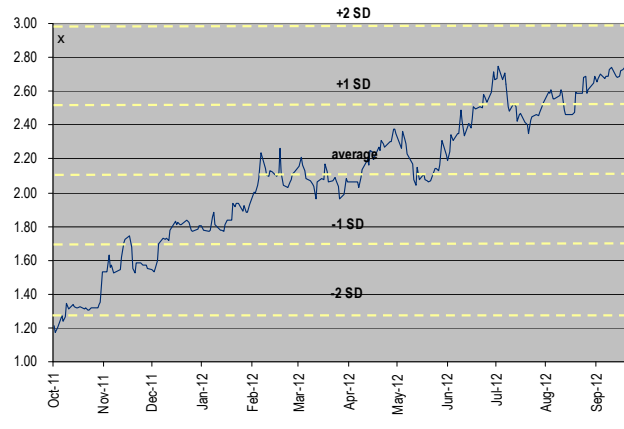
Source: Citi Research, Bloomberg IBES for non-rated (NR) stocks; As of 4 October 2012

Figure 81. PGOLD – Historical PE Band Chart



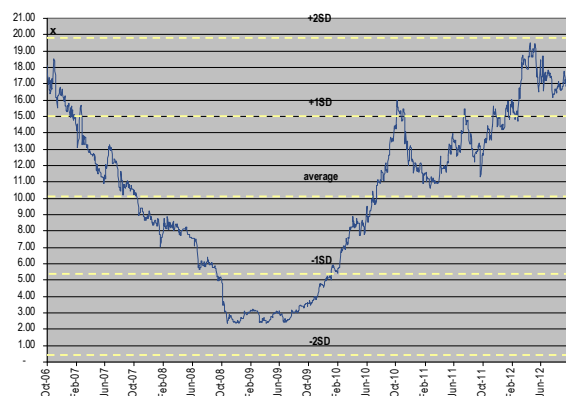
Source: Citi Research; Note: IPO in October 2011

Figure 82. PGOLD – Historical PB Band Chart



Source: Citi Research; Note: IPO in October 2011

Figure 83. URC – Historical PE Band Chart



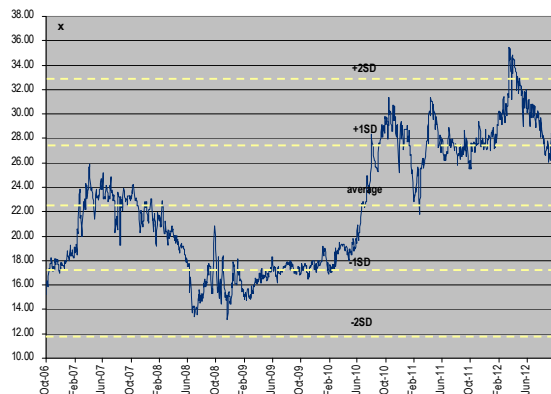
Source: Citi Research

Figure 84. URC – Historical PB Band Chart



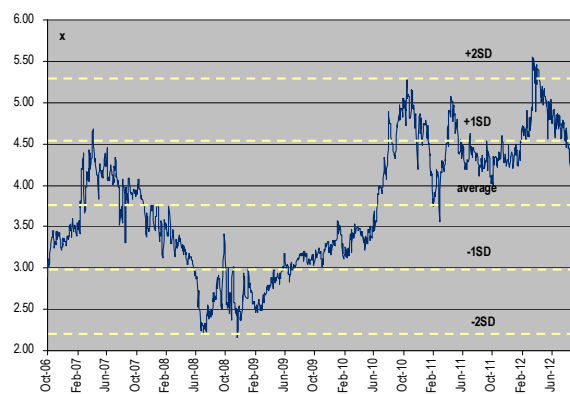
Source: Citi Research

Figure 85. JFC – Historical PE Band Chart



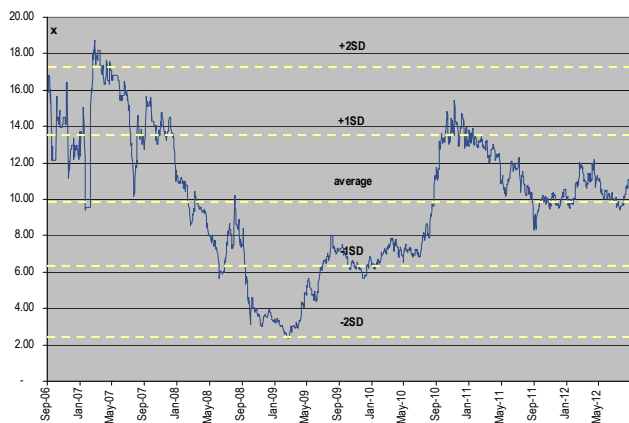
Source: Citi Research

Figure 86. JFC – Historical PB Band Chart



Source: Citi Research

Figure 87. AGI – Historical PE Band Chart



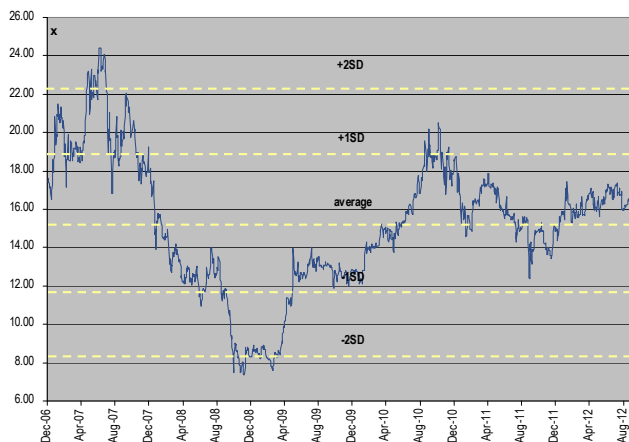
Source: Citi Research

Figure 88. AGI – Historical PB Band Chart



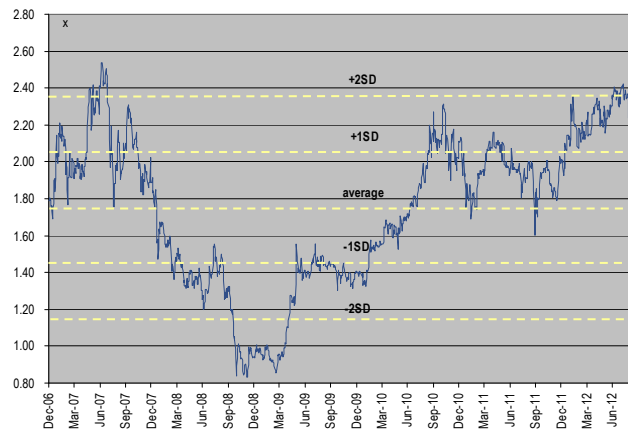
Source: Citi Research

Figure 89. SM – Historical PE Band Chart



Source: Citi Research

Figure 90. SM – Historical PB Band Chart



Source: Citi Research

Commodity Price Forecasts

Figure 91. Commodity Price Forecasts*

		Point Prices												
		0-3M	6-12M	5Y Cyclical	Q1 2012	Q2 2012	Q3 2012E	Q4 2012E	2012E	Q1 2013E	Q2 2013E	Q3 2013E	Q4 2013E	2013E
Energy														
NYMEX WTI	USD/bbl	90.0	80.0	81.0	103.0	93.3	100.0	80.0	94.0	85.0	85.0	85.0	85.0	85.0
ICE Brent	USD/bbl	105.0	100.0	85.0	118.4	108.8	120.0	105.0	113.0	105.0	95.0	100.0	95.0	99.0
Henry Hub Natural Gas	USD/MMBtu	2.8	3.4	N/A	2.5	2.3	2.8	2.7	2.6	3.2	3.3	3.4	3.5	3.4
Base Metals														
LME Aluminum	USD/MT	2,050	2,075	2,200	2,216	2,019	1,950	2,050	2,060	2,100	2,050	2,100	2,150	2,100
LME Copper	USD/MT	8,000	7,900	6,200	8,314	7,833	7,720	8,000	7,965	8,160	8,000	7,800	7,900	7,965
LME Lead	USD/MT	2,150	2,025	2,200	2,118	1,987	1,980	2,150	2,060	2,150	2,050	2,000	2,150	2,090
LME Nickel	USD/MT	20,000	21,740	20,000	19,721	17,228	16,500	20,000	18,360	21,050	22,475	21,000	22,550	21,770
LME Tin	USD/MT	22,000	23,250	18,600	22,986	20,619	19,450	22,000	21,265	22,500	23,000	23,500	22,000	22,750
LME Zinc	USD/MT	1,950	2,040	2,100	2,040	1,933	1,900	1,950	1,955	1,975	2,000	2,080	2,100	2,040
Precious Metals														
COMEX Gold	USD/T. oz	1,770	1,770	1,050	1,691	1,613	1,650	1,770	1,680.0	1,790	1,750	1,735	1,720	1,749
Silver	USD/T. oz	33	32	16.5	32.6	29.6	31.1	33.0	31.6	32.5	31.5	30.0	30.0	31.0
Platinum	USD/T. oz	1,650	1,675	1,775	1,604	1,505	1,468	1,650	1,557.0	1,650.0	1,650.0	1,700.0	1,700.0	1,675.0
Palladium	USD/T. oz	680	744	700	683	630	603	680	649.0	700.0	725.0	750.0	800.0	744.0
Bulk Commodities														
Hard Coking Coal (benchmark Asia)	USD/MT	170	205	200	235	215	225	170	211	190	200	210	210	203
Thermal Coal Asia (NEWC)	USD/MT	98	105	105	113	88	94	98	98	105	105	105	105	105
Iron Ore Spot (TSI)	USD/MT	105	122	81	142	139	113	105	125	115	122	122	120	120
Agriculture														
CBOT Corn	USD/bu	850	788	N/A	641	618	790	850	725	800	775	665	620	715
CBOT Wheat	USD/bu	925	953	N/A	643	641	870	925	770	975	930	850	850	900
CBOT Soybeans	USD/bu	1,875	1,645	N/A	1,272	1,426	1,690	1,810	1,550	1,700	1,590	1,430	1,400	1,530
CBOT Rice	USD/cwt	15.0	15.1	N/A	14.31	14.82	15.00	15.10	14.81	15.15	15.20	15.25	15.00	15.15
NYB-ICE Cotton	USD/lb	67	78	N/A	93	81	75	71	80	N/A	N/A	N/A	N/A	85
Sugar#11	USD/lb	23	24	N/A	24.5	21.2	21.0	22.0	22.2	N/A	N/A	N/A	N/A	23.0
ICE Coffee	USD/lb	180	185	N/A	205	171	175	180	186	N/A	N/A	N/A	N/A	190
ICE Cocoa	USD/MT	2,800	2,600	N/A	2,308	2,221	2,450	2,700	2,420	N/A	N/A	N/A	N/A	2,500

Source: Citi Research – Commodity Easing: 4Q12 Commodity Update, Edward Morse dated September 2012; Note: *subject to revisions

Puregold Price Club

Company description

Puregold Price Club is the second-largest modern food retailer in the Philippines. The company operates four retail formats: hypermarkets (*Puregold Price Club*), supermarkets (*Puregold Jr*), discounter stores (*Puregold Extra*) and a membership shopping club (*S&R*). It also owns and operates *Parco* supermarkets. Its operations largely cater to low-income retail customers and re-sellers (*sari-sari stores*). Its S&R stores, meanwhile, target mid- to high-income markets. Around 75% of the company is held by the Co family.

Investment strategy

We have a Buy rating on PGOLD, which is our top pick in the Philippine consumer space. PGOLD is the fastest-growing grocery retailer among Asian peers (EPS CAGR of 20% in 11-14E, vs. peers' 14%), driven by steady same-store sales growth and an expanding store network. The company is well-entrenched in its targeted markets (low-income retailers, small neighborhood retailers), which gives it a competitive advantage vs locals peers and allows it to ride cycles in consumption trends. Key catalysts that could drive the share price higher include value-accretive acquisitions, which could accelerate PGOLD's expansion program and diversify its geographical presence, and stronger-than-expected domestic consumption trends.

Valuation

Our target price for PGOLD of P38.00 is based on a PEG approach, which we think is best suited to valuing high-growth grocery retailers. We apply a PEG of 1.4x on a recurring EPS CAGR (2011-14E) of 20%. Our target PEG is set at a 30% discount to the regional peer average of 2.0x (on 11-14E EPS CAGR of 14%) due to PGOLD's shorter track record and trading history. Our TP translates to a 2013E PE of 28x, which is slightly higher than the regional peer average of 27x but which we see as undemanding relative to PGOLD's growth profile.

Risks

Downside risks that could prevent the stock from reaching our target price include: 1) A slowdown in consumer spending and consumption in the Philippines, 2) Increased competition in grocery retailing, 3) Execution mis-steps in the company's network expansion, both organically and via acquisitions, 4) Acquisitions that may not prove to be value-enhancing, and 5) Negative publicity and media speculation that could adversely affect PGOLD's corporate image and be an overhang on the stock.

Universal Robina

Company description

Universal Robina Corporation (URC) is one of the largest branded food manufacturing companies in the Philippines. It also has a growing presence in other Asian markets, particularly Vietnam, Thailand, Indonesia, Malaysia and China. Apart from the branded foods business, URC is involved in commodities (sugar milling and refining, flour milling) and agro-industrial production (hog and poultry farming, feeds manufacturing). URC is 64%-owned by JG Summit Holdings.

Investment strategy

We have a Sell rating on URC following significant share price performance in the past year, which we think already prices in healthy growth prospects domestically. Stock is trading at a 1.4 SD above historical PE mean and implies a PEG of 1.6. We think there could be risk to earnings on slowing topline growth overseas and that margin expansion could be constrained from higher input costs and A&P.

Valuation

We value URC at P58.00, which is based on a DCF methodology that employs a WACC of 11% and a long-term growth rate of 3%. Our WACC assumes a cost of equity of 12.6% (a risk free rate of 5.8%, based on the three-month average of the 10-year government bond yield, equity risk premium of 5.0% and beta of 1.3x), a post-tax cost of debt of 5.9% and a D:E of 20:80. Our target price implies a PEG of 1.5.

Risks

Key upside risks that could mean the URC shares trading above our target price include sustained acceleration and turnaround of loss-making businesses overseas, stronger-than-expected performance of the domestic business, significant improvement in margins, and value-accretive acquisitions.

Jollibee Foods Corp

Company description

Jollibee Foods Corp (JFC) is in the business of developing, operating and franchising quick service restaurants with over 1,900 outlets in the Philippines and over 395 outlets overseas. Local brands include the flagship 'Jollibee' chain (chicken/hamburger), 'Chowking' (oriental), 'Greenwich' (pizza/pasta), 'Red Ribbon' (bakeshop) and 'Mang Inasal' (chicken). It has also acquired brands overseas, which include 'Yonghe King' and 'Hongzhuangyuan' in China.

Investment strategy

We have a Sell rating on Jollibee Foods Corp (JFC). While we believe in the company's ability to maintain its brand dominance in the Philippines, execute its growth strategy and benefit from resilient domestic consumption, we think these may already be in the price. The stock is trading at 1.5SD above its historical PE and PB averages, and is trading at a significant premium to Philippine and regional peers.

Valuation

We value JFC at P85.00, which is based on a DCF methodology that employs a WACC of 10.0% and long-term growth assumption of 3.0%. Our WACC assumes a cost of equity of 10.8% (risk-free rate of 5.8%, equity risk premium of 5.0% and beta of 1.0x), a post-tax cost of debt of 5.3% and a D/E of 0.15x. Our target price implies a PEG of 1.5.

Risks

Key upside risks that could prevent the stock from achieving our target price include 1) stronger-than-expected volume growth in the domestic and overseas markets; 2) faster-than-expected rollout of branches; 3) better-than-expected improvement in margins; and 4) value-accretive acquisitions.

SM Investments Corp

Company description

SM Investments (SM) is the holding company of the SM Group of companies, with interests in retail, malls, banking, and property development. Its listed holdings include SM Prime (mall operator, 49%-owned), Banco de Oro (biggest Philippine bank, 46%-owned) and Chinabank (20% stake). Listed property units are SM Development Corp (44%-owned) and Highlands Prime (24%). Other investments include Ayala Corp (2%), Belle (26%) and Atlas Mining (18%). Unlisted holdings in retail and property development (which includes long-term tourism development, Costa del Hamilo) account for close to half of SM's estimated NAV. The Sy family is the majority shareholder, which has over 50 years of experience in retailing.

Investment strategy

We rate SM shares Buy. Being a proxy for the Philippine economy with exposure to cyclical (banking and property) and defensive (retail and mall operations) sectors, SM should be a core holding, in our view. We believe SM offers better value than its listed peers in the group. Its unlisted retail assets continue to provide high quality, recurrent and growing cash earnings for the group while foraying into property development in the tourism, commercial and residential sectors, providing upside potential to earnings.

Valuation

Our target price is on par with our NAV estimate of P915 for SM, derived by assigning equal weights to our sum-of-the-parts valuations based on current market valuations and fair-value estimates for the group's holdings. We value SM's listed holdings (51% of gross NAV) and its unlisted retail and property assets. The retail assets are valued on par with the P/Es of comparable listed retailers, while the unlisted property holdings are based on appraised and market valuations. SM shares have historically traded on par with NAV.

Risks

Downside risks to our estimates and price target include: (1) Vulnerability of retail and SM Prime to potential weakness in consumer discretionary spending; (2) Exposure of BDO to dilution from recapitalisation plans, potential NPL risks, trading income volatilities and further NIM pressures; (3) Downturn in the property market, which could expose the real estate business to slowing demand and rising credit risk; and 4) Execution risks to China expansion of SMPH and the tourism ventures with long gestation periods.

Alliance Global Group

Company description

Alliance Global Group started out as a glass-container manufacturer in 1994 and has since expanded its operations to become one of the country's most diversified holding companies. AGI has interests in real estate development, food and beverage manufacturing, quick-service restaurants operations and, integrated tourism development including gaming activities. Its property arm, Megaworld Corp, is engaged in township development, a key player in high-rise residential property development and leads in the business process outsourcing office leasing business. Wholly-owned Emperador Distillers is a market leader in the brandy business while 49%-owned Golden Arches is the master franchisee for McDonald's in the Philippines. AGI also has an effective 46% stake in Travellers International Hotel Group, a JV with Genting Hong Kong, which operates the integrated leisure and entertainment complex Resorts World Manila. AGI also has a 60% stake in Fil-Estate Land (renamed Global-Estate Resorts Inc - GERI.PS) which will be its vehicle for tourism-related project development outside Metro Manila.

Investment strategy

We have a Buy rating on AGI with a target price of P14.60. Our positive view is based on the strong growth prospects for its beverage, gaming and leisure businesses which now have traction and should enjoy first-mover advantages over the other three private gaming licensees. Earnings should also be driven by steady contribution by its food and real estate businesses which, in turn, are fueled by successful product launches, network expansion and resilient consumer spending. Not included in our earnings forecasts are potential contributions from the tourism-related projects undertaken through GERI and the second integrated gaming facility.

Valuation

We compute AGI's net asset value at P17.20 by assigning equal weights on the equity values derived through sum-of-the-parts (P15.50) and DCF (P18.90) methodologies. Under our SOTP valuation, we value Travellers at 9x 2013E EV/EBITDA (similar to Macau currently and inline with what we apply to other gaming projects in the Philippines). AGI's stakes in Megaworld and GERI are marked to market while its food and beverage assets are valued at the average 2013E EV/EBITDA for comparable companies in the region. Under our DCF methodology, we took AGI's corresponding stake in our DCF valuations for the various assets except GERI for which we value the land bank based on the initial selling price for the lots in *Boracay Newcoast*, and comparable land valuations for the other land assets. Our P14.60 price target factors in an NAV discount of 15%, in keeping with the historical discount for Philippine conglomerates.

Risks

The key risks that could impede the stock from reaching our target price are possible changes in taxation for both the gaming and the liquor businesses. PAGCOR, the state gaming agency, is appealing a Supreme Court decision which affirmed the loss of its corporate tax exemption, which could also apply to all its gaming licensees. Congress is now also working on a law that could lead to higher taxes on liquor and cigarettes. Meanwhile, MEG's prospective earnings may take a hit from any rise in residential unit cancellations. Travellers will also face increased competition once the other new private gaming licensees commence operations. While a separate public listing for Travellers would unlock its value and benefit AGI, this could on the other hand weaken share price support for AGI from investors who would prefer a direct exposure to the listed Travellers.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

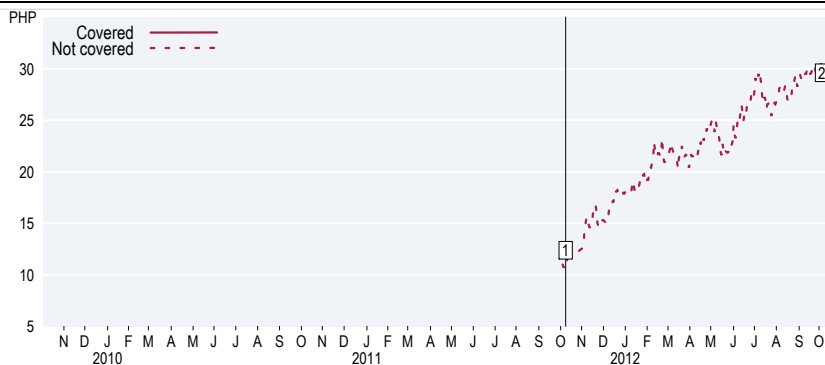
Puregold Price Club (PGOLD.PS)

Ratings and Target Price History

Fundamental Research

Analyst: Karisa G Magpayo

Covered since October 4 2012



	Date	Rating	Target Price	Closing Price
[1]	8-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
[2]	4-Oct-12	*1	*38.00	29.65

Rating/target price changes above reflect Eastern Standard Time

Puregold Price Club (PGOLD.PS)

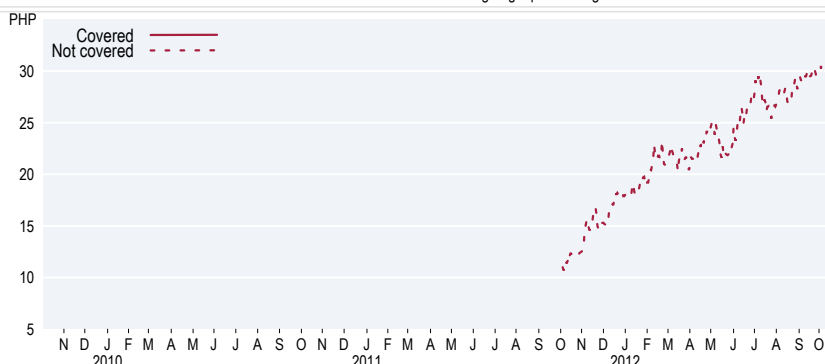
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Karisa G Magpayo

Covered since October 4 2012



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

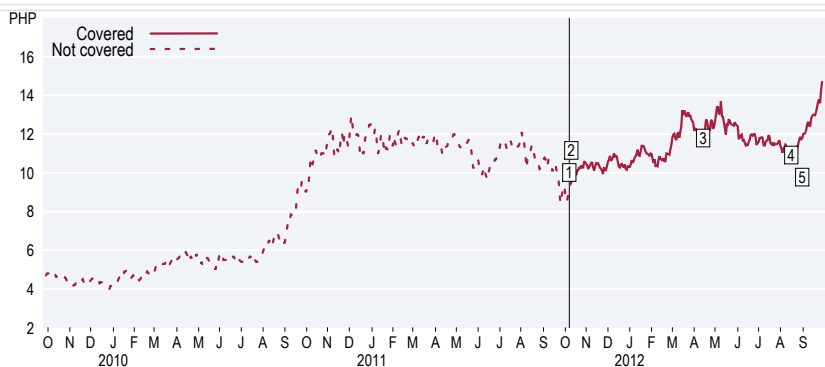
Alliance Global Group (AGI.PS)

Ratings and Target Price History

Fundamental Research

Analyst: Ricardo P Puig

Covered since October 11 2011



	Date	Rating	Target Price	Closing Price
[1]	7-Oct-11	Stock rating system changed		
[2]	11-Oct-11	*1	*12.00	9.50

* Indicates change

	Date	Rating	Target Price	Closing Price
[3]	13-Apr-12	1	*14.00	12.12
[4]	16-Aug-12	1	*13.60	11.18

	Date	Rating	Target Price	Closing Price
[5]	31-Aug-12	1	*14.60	11.78

Rating/target price changes above reflect Eastern Standard Time

Alliance Global Group (AGI.PS)

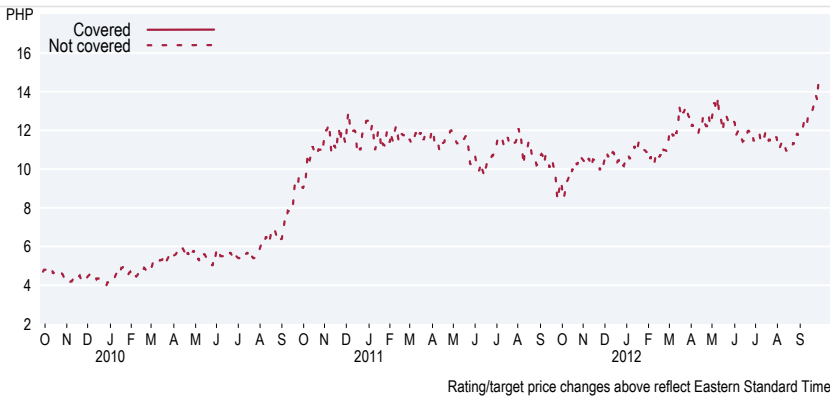
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Ricardo P Puig

Covered since October 11 2011



* Indicates change

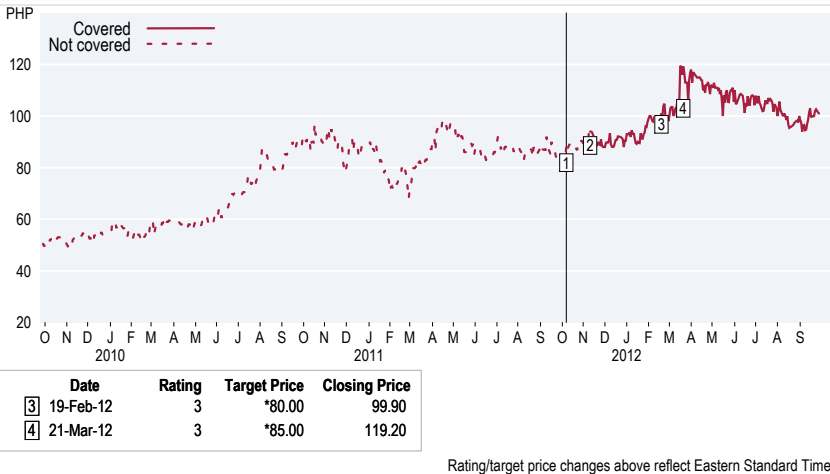
Jollibee Foods Corp (JFC.PS)

Ratings and Target Price History

Fundamental Research

Analyst: Karisa G Magpayo

Covered since November 10 2011



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	10-Nov-11	*3	*75.00	94.00

* Indicates change

	Date	Rating	Target Price	Closing Price
3	19-Feb-12	3	*80.00	99.90
4	21-Mar-12	3	*85.00	119.20

Rating/target price changes above reflect Eastern Standard Time

Jollibee Foods Corp (JFC.PS)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Karisa G Magpayo

Covered since November 10 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

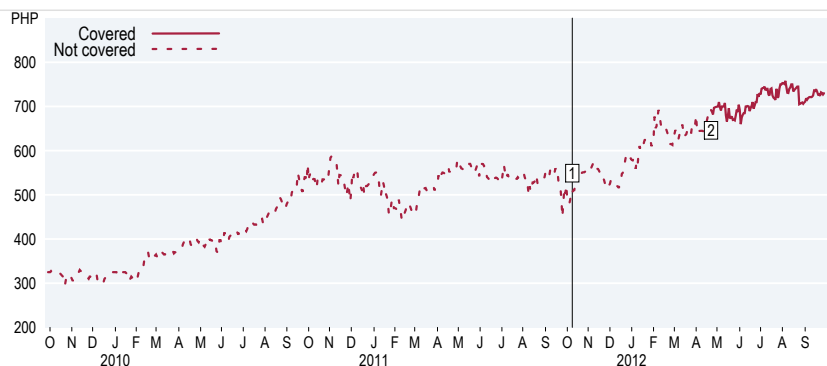
SM Investments Corp (SM.PS)

Ratings and Target Price History

Fundamental Research

Analyst: Minda A. Olonan

Covered since April 22 2012



	Date	Rating	Target Price	Closing Price
[1]	8-Oct-11			
	Stock rating system changed			

	Date	Rating	Target Price	Closing Price
[2]	22-Apr-12	*1	*785.00	680.50

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

SM Investments Corp (SM.PS)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Minda A. Olonan

Covered since April 22 2012



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

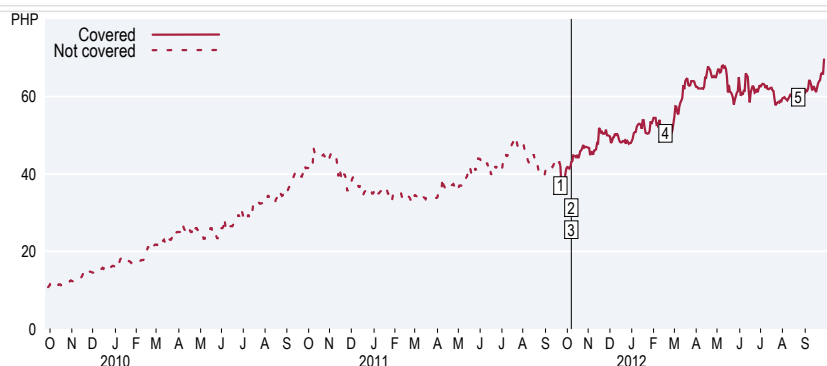
Universal Robina (URC.PS)

Ratings and Target Price History

Fundamental Research

Analyst: Karisa G Magpayo

Covered since September 22 2011



	Date	Rating	Target Price	Closing Price
[1]	22-Sep-11	*1L	*50.00	42.00
[2]	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
[3]	7-Oct-11	*1	50.00	43.10
[4]	17-Feb-12	1	*58.00	50.90

	Date	Rating	Target Price	Closing Price
[5]	23-Aug-12	*3	58.00	61.20

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Universal Robina (URC.PS)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Karisa G Magpayo

Covered since September 22 2011



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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Home Depot Inc

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Lowe's Companies Inc

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Banco de Oro, BigC Supercenter Public Company, Bank of Philippine Islands, Carrefour, Casino Guichard Perachon, China Banking Corp, Costco Wholesale Corp, CP ALL, Charoen Pokphand Foods, Charoen Pokphand Indonesia, Dairy Farm, Home Depot Inc, Indofood Sukses Makmur, Jollibee Foods Corp, KFC Holdings (Malaysia) Bhd, Siam Makro Public Company Limited, McDonald's Corp, Megaworld Corp, Olam International, Pantaloon, Parkson Holdings Bhd, QL Resources Bhd, QSR Brands Bhd, SM Investments Corp, SM Development Corp, Sm Prime Holdings, Tesco, Universal Robina, Wal-Mart Stores Inc, Woolworths Ltd.

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Data current as of 5 Oct 2012

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	51%	38%	11%	7%	85%	7%
% of companies in each rating category that are investment banking clients	50%	47%	45%	59%	47%	50%

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