

DoubleDragon Properties Corp. (DD)

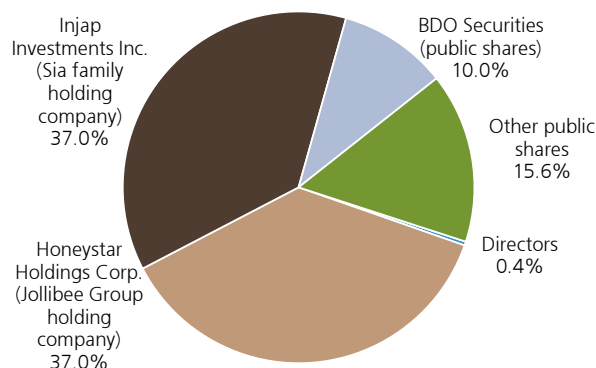
Targeting underserved markets, Community Malls

- We recently met with DoubleDragon co-chairman Edgar "Injap" Sia II, to get an update on the company. DD is an upcoming property developer, looking to differentiate its offering with a simple goal: With ongoing shift to modern trade, DD wants to aggressively roll out over 100 community malls all over the provinces. In the interim, it will rely on residential projects to buoy income until the sustainable recurring income base builds up.
- The malls will come under the brand CityMalls, which is a JV between DD and SM Group. DD itself is backed by the partnership of two major pillars in food retailing: Injap Sia, and Jollibee's chairman, Tony Tan Caktiong. SM Group comes in as a partner at the CityMall level. The tri-partnership provides strong backing in branded food (with Jollibee food chain) and the SM brands across retail units. Combined, the brands offer strong barriers to entry for competitors to match.
- Among the advantages of CityMall: (a) familiarity of DD co-chairmen in areas where the bigger players are not in, largely due to the strong track record of both Jollibee and Mang Inasal in the provinces. (b) Partnership with SM offers steady stream of brands and product offerings that will be unique to CityMall. This will include Banco de Oro, SM Supermarket, Watsons, Ace Hardware, and other SM-affiliated brands. A typical mall will have about 2/3 of its tenants in-house (ie JFC + SM). (c) Strong financial backing and access to funding by the partners.
- DD is set to build a portfolio of 90% recurring income base, of which 70% will be from the provincial areas, and 30% to be from Metro Manila office projects. The five year target is to build a total NLA of 1m sqms, broken down into 700k sqms community malls, 300k sqms of office space. For the malls, the standard footprint is to construct 100 malls of 7000sqms each.
- **VALUATION:** Near term earnings will be derived from one-off residential projects which DD bought from other developers, to tide them through whilst it is on ramp-up stage for the malls and office side. For 2015, the company is set to start deriving earnings from 5 malls. Because of the phenomenal share price performance, DD is trading at over 70x trailing PE to 2015E. Market has clearly priced in the execution and projected earnings growth of the company.

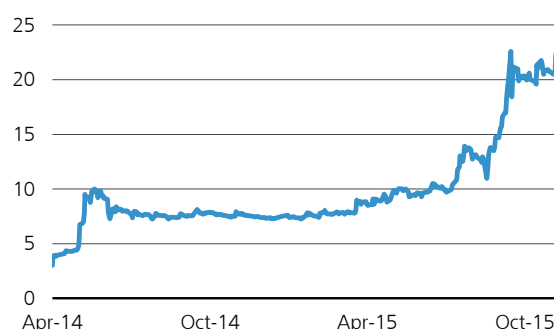
The company at a glance:

Last Traded Price	23.00	Outstanding Shares (mn)	2,230	Foreign Ownership Limit	40%
52-Week High	25.90	Consensus P/E (YE16)	NA	Free Float Level	25.6%
52-Week Low	7.20	Consensus EPS growth (YE16)	NA	Ave Daily T/O	778
Market Cap (USDmn)	1087			(6 month, US\$ '000)	

Shareholder Structure



Share Price since IPO



Source: Philippine Stock Exchange (PSE), Bloomberg. Figures updated as of 20 November 2015, non-ratio figures in PHP otherwise specified

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Company background & market position

- DoubleDragon Properties Corp (DD) is a young but fast-growing real estate company, headed by the founders of two different well-known QSR brands. The company is a 50-50 joint venture between Honeystar Holdings Corp (of Jollibee's Tony Tan Caktiong) and Injap Investments Inc. (of Mang Inasal's Edgar Injap Sia II). Having only begun operations in 2010, the company has gained traction in provincial retail space as well as Metro Manila office space.
- As a relative newcomer to the industry, DD understands that it has one distinct disadvantage: It has no landbank to speak of in the widely-contested Metro Manila catchment area. Thus, it bought out half-completed residential buildings in order to generate near-term earnings momentum. It also signed a JV with an existing landowner in the Bay Area, a 4.8 hectare prime commercial block, DD Meridian Park. Plans are to build 4 BPO Towers and a retail component, with full completion slated for 2020. The project will have 280,000 sqms of net leasable space.
- To differentiate itself from the other developers, DD has focused on a different format altogether: community malls, where the size is much smaller at lot sizes of ~1 hectare, and net leasable space of just 7000 sqms. CityMall Commercial Centers Inc. (CMCCI) was formed to specifically grow its footprint in less commercial underpenetrated areas where demographics are more suited to smaller retail complexes. Because of the smaller sizes, the target is to locate these in city centres where there is high accessibility to the locality. In 17 February 2014, SM Group signed up as a 34% partner in CityMall.
- CityMall targets to build out a portfolio of 700,000 sqms of community malls, spread out over 100 CityMalls, the bulk of which are planned for development in the Vis-Min region. Given the proprietors' reputation in the provincial areas, Injap Sia believes they can easily navigate ahead of competition. It also builds a model of being the first to enter, whilst other developers are focused elsewhere. Moreover, the backing of its partners (Jollibee with the food brands, SM with the non-food brands) will create high barrier to entry. The formula also is such that 10% of the NLA will be allocated to food (solely to JFC brands), and 90% to non-food. Of the average 7000 sqms, 2/3 will be allocated to the SM + JFC brands, and 1/3 to non-affiliated brands.
- In Metro Manila, it will build a presence in office space. DD Meridian Park is targeted to be an office and retail complex, with 130,000 sqms of space leased by 2018, building up to 280,000 sqms by 2020. The expected rental revenues are at P800/month or P9.6bn by completion. Complementing DD Meridian Park is Jollibee Tower, newly announced office building which will be the future headquarters of the JFC Group of Companies. It also ventured into a relatively smaller-sized Dragon8 Mall, located in Divisoria, Manila. This is likely to be the only mall in its portfolio within Metro Manila.
- LANDBANK: Since the IPO in April 2014, the landbank has grown exponentially. As of October, 2015, it has a landbank of 50 hectares, spread across the different projects. Of this, 44 hectares are meant for the CityMall concept. DD Meridian Park is another 4.8 hectares and the balance across the standalone. The target is to secure more sites in the coming years to ensure a rollout of a target 100 malls by 2020. In terms of leasable space, current landbank ensures roughly 61 hectares of leasable space.

Landbanking progress as of end-October 2015 (in sqm):

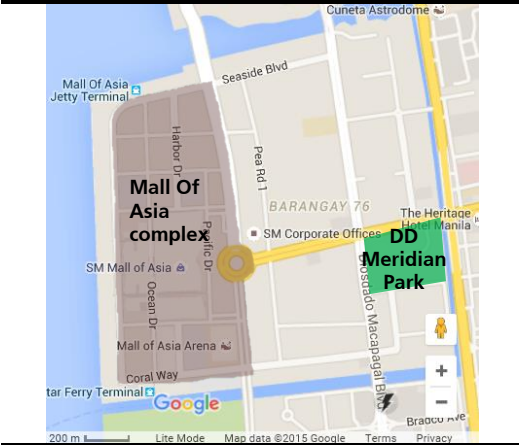
Area	Project	Land acquired	Leasable area
Provinces	37 CityMall sites	441,568	262,507
	DD Meridian Park	47,474	280,000
	Jollibee Tower	NA	47,909
Metro Manila	Dragon8 Mall	5,972	9,758
	Skysuites Tower	2,812	4,763
	Other devt's	NA	1,632
TOTAL		497,826	606,569

Source: Company data

Latest developments

- DD Meridian Park initiated construction last 4Q14, with Phase 1 set for completion in 2018. This also includes DoubleDragon Plaza, a 4-tower BPO commercial complex which will offer 9.02ha leasable GFA and an arcaded ground floor with retail space and a drive-thru. This will be the company's first venture into the BPO space. Construction is still on-going and upon completion in 2020, DD expects Meridian Park to house 28ha GFA.
- Last August, the company signed a deal with Jollibee Foods Corp. (JFC) to build a 40-storey commercial-corporate tower in the Ortigas Central Business District. The completed building will hold 5.6ha office space, 4.8ha of which will be owned by DD in accordance with their 85-15 split in floor space between DD and JFC. Additionally, 40% of DD floor space is allocated for lease to JFC operations. Completion is slated for 2018.
- DD dabbled in an opportunistic venture in Divisoria, Manila: Dragon8 Mall is targeted towards the lower-income value market. It opened last June with 3 retail floors with a total of 9,758sqm leasable area, as well as another 3 floors of parking. The ground floor has a supermarket and the second floor has specialty products. 3/F has D8 textile centre – modern textile hub. 4-6/F will be allotted for parking. Lease rates here are lower at ~P800/sqms, but caters to high-traffic wholesale shoppers. At the NLA, this should generate recurring income of roughly P100m a year once fully leased.
- The Skysuites tower, is a partially completed project DoubleDragon acquired from RCBC last year after foreclosure in 2010. The project is composed of two 38-storey towers connected by a parking and commercial podium. One tower is set for 977 residential units whilst the other is intended to hold 4,673 sqm of leasable office and retail space. This is likely to be one of two residential towers that DD will complete, opting instead to focus on the recurring business of rental.
- DoubleDragon's most recent undertaking in the residential segment, the W.H. Taft residences, expected to open by yearend. The 533-unit student apartment development is in close proximity to four universities, and as of end-October, is 77% sold. Other residential projects include DD Happy Homes, which are concentrated in the Vis-Min region.
- CAPEX FOR CITYMALL: CityMall earmarked P24bn for landbanking across the Philippines. Of the targeted 100 mall sites, DD has secured 37 sites already. Once the sites are secured, it would take about 7-8 months for construction for a single storey CityMall, and another 3-4 months for tenant fitout. Typically, a mall would take about 12-14 months to build and lease/open.
- CITYMALL OPENING: CityMall opened its first mall in Roxas City Capiz in March 2015. Subsequently, four more malls were opened: Consolacion Cebu (May), Imus, Cavite (August), Tetuan, Zamboanga (September) and Jaro, Iloilo (October). As of end-October, each of the five malls has signed leases

Location of Meridian Park



Source: Company data, Google Maps

Confirmed CityMall locations



Source: Company data,

Crowd at the opening of the 5th CityMall in Jaro, Iloilo



Source: BusinessWorld newspaper

ranging between 89-99%. For these five malls, DD has spent P900m for completion. By 2016, the company expects to have at least 25 malls fully operational.

- The Philippine Bureau of Internal Revenue has recently tightened their earnings-reporting regulations, requiring businesses to issue receipts with proper tax identification. This gives smaller mom-and-pop stores and family-run shops no alternative but to comply, causing the pricing gap between them and large supermarkets to narrow to as low as 1-2%, the company estimates. As such, community malls may soon replace mom-and-pop and standalone stores in areas where these stores thrived due to absence of larger retail names.
- FUNDING: Since the listing in April 2014, where it raised P1.16bn, it went on to tap further funding from the domestic capital market, worth P13.9bn in corporate notes (P7.4bn in October 2014, P5.0bn in May this year and P1.5bn last July). The listing and subsequent ramp-up of projects opened up access to funding for DD. For 2016, it is looking to raise P10bn in a preferred share issuance, taking advantage of the low interest rate environment. The company expects to continue raising capex funding through long-term notes/bonds, projecting up to P20.5bn (US\$456mn) of raised debt for 2015-2020.
- DoubleDragon last July paid out their first cash dividend which amounted to P111.18mn, 20% of the previous year's net income. The effective payout was P0.05 per share, bringing dividend yield to 0.4% on the day of payment.

Strategic initiatives

- DoubleDragon focuses largely on establishing a strong recurring income base from rentals, with the goal to transition their business model towards having recurring revenue at 90% of sales by 2020. This would give them a defensive advantage vs competitors in the same space, as it targets a top-5 spot in listed Philippine property companies. It currently focuses on mixed-development spaces in Metro Manila and on CityMall in the provinces. CityMalls have a strategic pricing plan for rentals to ensure healthy recurring income:

CityMall rental and tenancy plans

Tenant type	Rental escalation	Rental rate*	Lease term
Anchor tenants	5% every other year	Fixed rent + P105/sqm/mo. CUSA	15 yrs
Regular tenants	5-10% per annum	Fixed rent + P150/sqm/mo. CUSA	3-5 yrs
Food tenants	5-10% per annum	Rental: 8% of gross sales CUSA: 4% of gross sales	3-5 yrs

Source: Company data; Note: *CUSA = common use service area

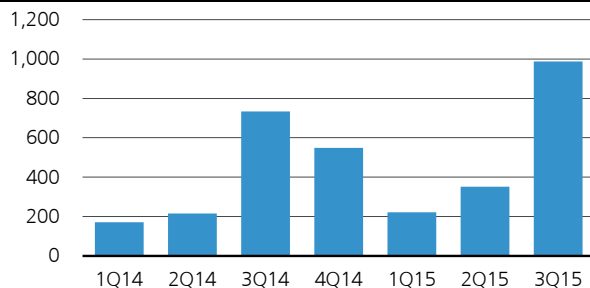
- Through CityMall, the company makes a double play at large household names SM and Jollibee, capitalising on their strong brand presence and wide consumer base. CityMall itself also capitalises on the long-standing on-the-ground experience both co-chairmen of DoubleDragon have in the consumer sector, which differentiates them from other mall developers. The CityMall footprint, meanwhile, offers SM an avenue to continue growing its retail footprint away from the parent company initiatives. The company stresses the importance of no duplication within their tenant mix, especially given the limited number of units available for rent. CityMall is expected to catalyse DD's growth and help catapult it higher in the rankings of listed property companies.
- Outside capitalising on Jollibee and SM brands, CityMall is also a move to create barriers into the community mall segment, by targeting underserved provincial areas. It chooses such sites to: i) have a first-mover advantage in ii) areas where there is less operational baggage from costs, but also iii) where they are familiar with the provincial landscape; iv) vs competitors, who have scarce presence in surrounding prime city centre areas. This strategically aggressive and accelerated pipeline separates DoubleDragon from its competitors, because its model is hard to replicate.
- Using CityMalls also utilises the growing shift of retailers from traditional to modern formats, offering select specialty stores in addition to its anchor hardware, appliance and supermarket stores among others. DD reinforces that CityMall is a replacement to traditional retail tapping its existing demand.

Performance and Capex / Funding

DoubleDragon has shown robust growth in earnings, mostly attributed to new ventures outside residential developments in Visayas since 2013. Starting 3Q15, the company has started reporting revenues from the commencement of operations of several malls. Outside of this, DD started seeing revenue contribution from the percentage of completion of its W.H. Taft Residences and Sky Suites Tower project.

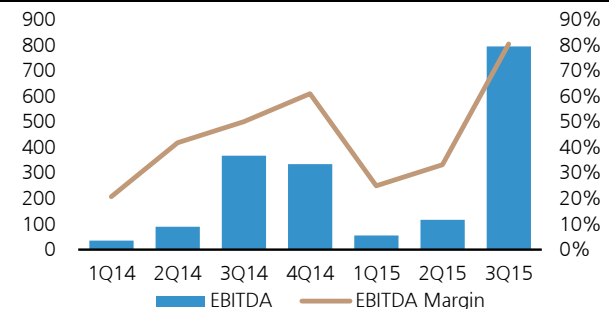
Due to the restructuring of DD's business model towards recurring income, the profitability and margin outlook will shift in the near term. In 3Q15, DD started operations in a number of CityMalls and the Dragon8 mall, which reflected itself in the earnings. DD reported profits of P590m which included the unrealised gains in change of face value of investment properties valued at P624m. This pertains to revenues from the commencement of operations of the malls. Without the shift to recurring income, revenues would have contracted 34% YoY in 3Q15 to P487m, with 9M15 revenues down 3% to P1.1bn. EBITDA rose sharply to P1bn in 9M15, whilst net income jumped to P714m.

Real estate sales including sale of mall units (Pmn)



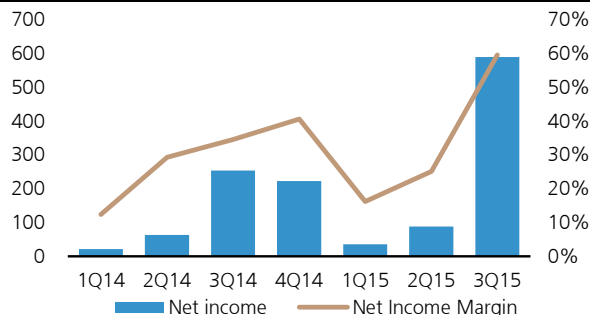
Source: Company data

EBITDA (Pmn) and EBITDA margin



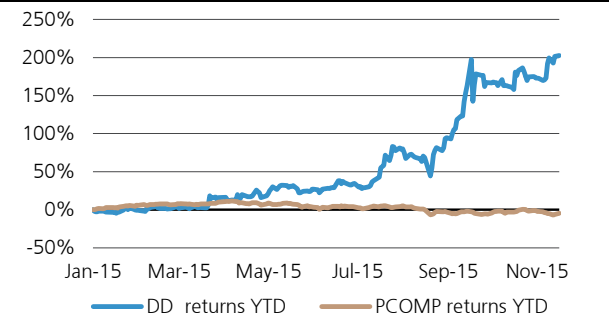
Source: Company data

Net income (Pmn) and Net income margin



Source: Company data

DD vs PCOMP price growth YTD



Source: Bloomberg, as of 20 November 2015

Following the IPO and listing early last year, the company geared up its funding requirements in order to start execution of the community mall platform. It was able to raise debt of P13.9bn (USD300m), in debt (all in pesos). Capex estimated at the CityMalls level is P32.8bn, with another P14.6bn expected on the office buildings (DD Meridian Park and Jollibee Tower)—putting full capex at P47.37bn (USD1bn) until 2020. The debt raised so far has largely been converted into hard assets with landbanking at full speed, bringing D/E ratio to 1.6x as of 1H15.

To fund the remaining balance of the capex, DD is set to raise funding from a combination of an upcoming preferred share issuance of P5bn with upside option of P5bn, and further debt of P10.5bn. With the current level of liquidity, DD will be able to raise funding in 7- and 8-year notes with fixed interest rates ranging from 5.9% to 6.2%.

From a cash level of P4.3bn in 1H15, cash dwindled to P1.5bn as of 3Q15, as DD spent heavily on landbank. Investment properties ballooned to P17.4bn during the same period (from P14.2bn as of 1H15 and P10.5bn as of end-2014). Real estate inventory increased to P2.9bn, from P2.5bn as of end-2014, as the company starts completing residential and mall units for sale.

Key risks

- **COMPETITION:** Whilst DD boasts of having first mover advantage, its level of aggressiveness is matched by equally intense moves by the competition. DD's advantage of working with the country's top retailer, ie SM Group, ensures that one of the players is out of the picture. However, Robinsons Retail and Puregold are also building out similar formats, as is Vista Land. All three players have their own retail arm and property development arm. DD, meanwhile, has no retail arm.
- Rental rates can fluctuate with demand and supply conditions. The current rents are estimated to carry an initial yield on cost of 12%, assuming that rates are stabilized over a 3-4 month period. This will however, be at risk if the landscape begins to get overbuilt with malls.
- DD has already started landbanking today, thus will carry the properties in their books. The key is to execute and turnaround quickly for the build-up. The risks to the downside is should construction costs rise, or demand for mall space slows. In the near term, we do not see that happening as the shift from traditional retail to modern retail persists, especially in the countryside.
- DD has built risk into its balance sheet with higher than usual level of debt: Whilst gearing is manageable at 1.61x, it now is one of the highest in the industry. The debt covenants have a maximum debt-equity ratio of 2.33x, which offers some room, but the level alone is quite high without the upcoming debt drawdowns. DD has current undrawn line of some P3.7bn which it may draw upon. On the positive side, long-term debt is currently manageable with 7-yr notes priced at between 6-6.2%.
- DD's office portfolio, which is targeted to be 30% of revenues, remains a widely contested market. The risks are mitigated somehow for the Jollibee Tower project, as JFC is expected to occupy a number of the floors. Ortigas itself is not a go-to choice of site among prime office space users, being an alternative to the more popular Makati and Bonifacio Global City. Meanwhile, its DD Meridian Park is targeted to cater to BPO. DD is not known to have a track record in the BPO space, thus providing risk in execution. Moreover, DD's chairman built his expertise really outside of Metro Manila. We think the competition within the Metro Manila space is intense.
- Risks to rental yields flattening or declining. We think that yields will start peaking this year, especially in the office segment. With much office space expected in the next 2-3 years in Metro Manila, the risk of an oversupply is imminent. Thus, rents may start declining from 2016 onwards. DD's office space will be coming onstream at the height of the potential oversupply.

Historical Financial Data

(P m)	3M14	H114	9M14	FY14	3M15	H115	9M15
Income statement							
Real estate sales	171	386	985	1,073	183	497	803
Sale of leasehold rights	0	0	136	140	39	76	134
Total sales and services revenue	173	391	1,128	1,711	233	612	1,723
Cost of real estate sales	113	186	482	573	103	273	401
Cost of sale of leasehold rights	0	0	14	201	6	8	19
Selling and marketing expenses	9	24	44	71	17	36	49
General and administrative expenses	16	57	97	38	51	112	174
Total cost of sales and services	142	267	642	906	181	434	689
Income before tax	30	123	486	804	51	177	1,034
Income tax expense	9	39	148	243	15	53	321
Net income	21	84	338	561	36	124	714
Cash flow							
Profit before tax	30	123	486	804	52	177	1,034
Depreciation and amortisation	1	2	4	5	1	3	5
Operating cash flows before working capital changes	36	124	491	360	51	174	446
Cash generated from operations	(203)	14	(623)	(953)	130	(129)	(1,756)
Income taxes paid	0	0	0	(58)	0	0	0
Net cash from operating activities	(199)	15	(624)	(1,060)	151	(227)	(2,347)
Acquisition of property and equipment	(0)	(2)	(2)	(14)	(1)	12	(33)
Net cash from (used in) investing activities	(3)	(767)	(1,348)	(4,426)	(1,362)	(3,671)	(5,333)
Net cash from (used in) financing activities	150	1,556	2,272	9,190	505	4,431	5,368
Net increase in cash and cash equivalents	(52)	804	300	3,704	(706)	533	(2,312)
Cash and cash equivalents (at beginning of period)	113	113	113	113	3,817	3,817	3,817
Cash and cash equivalents (at end of period)	62	917	413	3,817	3,111	4,350	1,506
Balance Sheet							
Cash and cash equivalents	62	917	413	3,817	3,111	4,350	1,506
Accounts receivable	342	491	695	732	694	1,553	1,389
Inventories	805	1,029	1,726	2,243	2,219	2,405	2,683
Mall stall units for sale	0	0	0	205	205	197	186
Total non-current assets	489	1,252	1,778	11,053	12,414	14,820	18,132
Total assets	1,847	3,918	4,971	18,475	19,503	24,286	24,933
Accounts payable & other current liabilities	110	652	310	840	1,458	2,117	993
Short-term notes payable	300	450	1,150	649	1,099	1,949	2,949
Customer deposits	36	46	461	231	243	309	348
Due to related parties	37	36	0	281	184	133	40
Total current liabilities	492	1,237	2,062	2,013	3,000	4,568	4,395
Total non-current liabilities	718	790	765	8,632	8,637	11,763	11,921
Total liabilities	1,210	2,027	2,827	10,645	11,636	16,331	16,316
Capital Stock	165	223	223	223	223	223	223
Additional paid-in capital	319	1,362	1,362	1,358	1,358	1,358	1,358
Retained earnings	142	186	432	662	698	785	1,259
Total stockholders' equity	636	1,891	2,144	7,830	7,866	7,954	8,617
Total liabilities and stockholders' equity	1,847	3,918	4,971	18,475	19,503	24,286	24,933
Earnings (P)							
Cumulative EPS	0.02	0.04	0.11	0.28	0.02	0.06	0.32

Source: Company data,