

SM Investments Corporation

Sector: Retail, Banking and Real Estate **Country:** Philippines **Bond:** SMPM 5.375 29

Sub Sector: Diversified Conglomerate **Indicative YTM (as of 01-13-2025):** 5.469%

Fundamental View

- We continue to be optimistic about the growth of SM Investments Corporation (SMIC) given its net income growth of 9% year-on-year (YoY) in Q3 2024. Credit quality remains strong given its net debt to equity ratio of 53.84% along with its dominant market position in multiple sectors.

Business Description

- SM Investments is a leading Philippine conglomerate that is invested in market-leading businesses in retail, banking, and property. It also invests in ventures that can capture high growth opportunities in the emerging Philippine economy.
- It has a stake of about 77.3% in SM Retail, 45.3% in BDO Unibank, 49.7% in SM Prime Holdings, and 22.5% in Chinabank. SM is considered the market leader in Philippine retailing given that it has the largest footprint of 3.3 million square meters (sq m) of gross selling area. BDO and Chinabank are considered the top 1 and 5 biggest banks, respectively, in terms of total assets.

Risk & Catalysts

- 65% of SM Investments' revenues come from its retail segment. Any slowdown in consumer spending in the Philippines might negatively affect its earnings.
- There is a potential for growth in areas outside the National Capital Region (NCR) given that it is targeting to open up new malls outside Metro Manila. By 2028, it plans to have 14 new malls, most of which would be built outside NCR.
- Given the recent Reserve Requirement Ratio (RRR) cut and rate cuts by the Bangko Sentral ng Pilipinas (BSP), BDO is expected to expand its net interest margin, which would be credit-positive for SMIC.

Key Metrics

	FY2021	FY2022	FY2023
Debt to Capital	44.80%	43.87%	41.02%
Net Debt to Capital	40.05%	38.08%	35.91%
Debt/Total Equity	81.17%	78.17%	69.54%
Debt/Total Assets	37.14%	36.57%	33.86%
Gross Leverage	6.93x	5.13x	4.40x
Net Leverage	5.70x	4.04x	3.55x
Interest Coverage	3.82x	4.89x	5.06x
EBITDA Margin	18.02%	20.38%	21.34%

Sources: Bloomberg, SM Investments

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