

Belle Corp. , BEL [PSE]

First Metro Rating

 Last Price
 5.01

 Industry
 Real Estate and Gaming

 Sector
 Property

A Bigger Gaming Footprint

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 Analyst

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Stock Data

Price (Php)	5.01
Market Cap (Php bn)	32.987
Outstanding Shares (bn)	6.350
Book Value/Share (Php)	0.96
Price/Book (X)	5.21

Fundamental Indicators

in mn Php	FY10E	FY11E	FY12E
Sales	1,566	2,417	4,647
Net Profits	501	1,148	2,553
EPS Php	0.07	0.13	0.29
PER (x)	65.71	38.30	17.27

Source: Bloomberg Consensus Estimates

Deeper Into Gaming. Belle Corp. sees its 2010 expected net profits of PHP500m rising three-fold in 2012 to PHP1.5bn and it's all due to casino operations, Belle's vice chair Willy Ocier disclosed to us in a company visit last Feb. 4. The year 2012 marks Belle's opening of two-thirds of what its management described as a Las Vegas-style hotel casino, possibly the country's largest (8 floors, ceiling height of 7.8 meters) with a maximum 17,000 sq.m. of gaming ground floor space and initially 150 tables out of targeted 200 tables by 2013. Recall that Belle, mainly an upscale property developer, also operates an on-line lottery gaming equipment designer and manager, listed Pacific Online Systems Corp. (LOTO), seen to make PHP300m earnings in 2010.

..At the Price of Dilution. Table 1. below shows Belle's share in casino earnings of PHP1.1bn driving its consolidated 2012 bottomline of PHP1.58bn. Diluted PE rises to 29x. Consensus PE is 17x based on pre-share swap outstanding shares of 6.3bn. Recall that the SM Group now controls 64% of Belle after it sold its gaming outfit Premium Liesure and Amusement Inc. (PLAI), the holder of the casino license, to Belle in exchange for the latter's 2.7bn unissued shares. That transaction resulted in a 40% dilution of all existing Belle owners including GSIS and Mr. Ocier and brought up Belle's outstanding shares to 9bn.

Hiring Expertise in Gaming. We expect the casino revenues to be three-fourths of Belle's overall topline and casino earnings to account for 70% of consolidated bottom-line, respectively, in 2012. Our casino topline forecast of PHP4.5bn represents monthly gross wins of PHP500m taxed at 25% based on the guidance provided by casino operator Liesure and Resorts World Corp. (LR), the entity mandated by Belle to operate, manage the casino and build up the volume

of gaming bets from among foreign players. Belle hires LR's expertise over ten-years and potentially over the 25-yr. lifespan of the casino license awarded to PLAI in 2008. Belle will earn annual rentals of PHP400m for leasing 22,000 sq.m of combined hotel and gaming space to LR. Belle will also keep 60% or PHP1.5bn of the 2012 casino ebitda which we estimate to be PHP2.4bn, while LR is paid the balance of 40%.

Credit Backing of the SM Group

BDO will inject a net PHP3.3bn and PHP800m (partly drawn already) debt funding for the three-phase project of Belle's integrated resort comprised of the casino, condotel and two 300-room hotels. Integrated project cost is PHP20bn, in the first two years from grant of license, representing 40% of the \$1bn investment required by the regulator, Pagcor. LR, itself, is borrowing Php1.8bn from BDO, among others, which are two-thirds of its total \$60m investment share (Php2.7bn) requirement for casino capex, mainly equipment, and working capital.

Growing Industry. Belle's benchmarking its casino business with Resorts World's hefty Php20bn gross revenues (\$450m) in its first year. Belle tagged Resorts World's achievement as a reflection of the strong growth of local gaming revenues from a base of PHP27bn or \$600m in 2009, based on Pagcor estimates.

Duopoly in the Next Two Years. A joint venture between Alliance Global Inc. and hotel and liesure group Genting Malaysia, Resorts World's 15,000 sq.m of gaming floor area is so far the country's largest casino adjacent to Pagcor City, a 36-ha. reclaimed property in Pasay City, where four more licensed operators will open casinos in the next five years: Razon group's Bloombury; Belle, Pagcor itself and Japan-based Aruze. Belle's casino and Resorts World will be a duopoly in Pagcor City for the next 3 years based on Belle's view.

P & L Estimates	2007	2008	2009	9mo09	9mo2010	2010 E	2011E	2012E		
in mn PHP								Property	Casino	Consolidated
Net Revenues	622	1,379	1,403	1,221	1,126	1,308	1,334	1,361	4,500	5,861
EBIT	258	501	552	510	514	556	567	578	2,100	2,678
Net income	332	206	386	381	426	500	510	520	1,063	1,583
EBITDA	275	524	549	411	302	582	594	607	1,458	2,065

Source: Company Data, Guidance, Bloomberg and FMIC-IG Estimates

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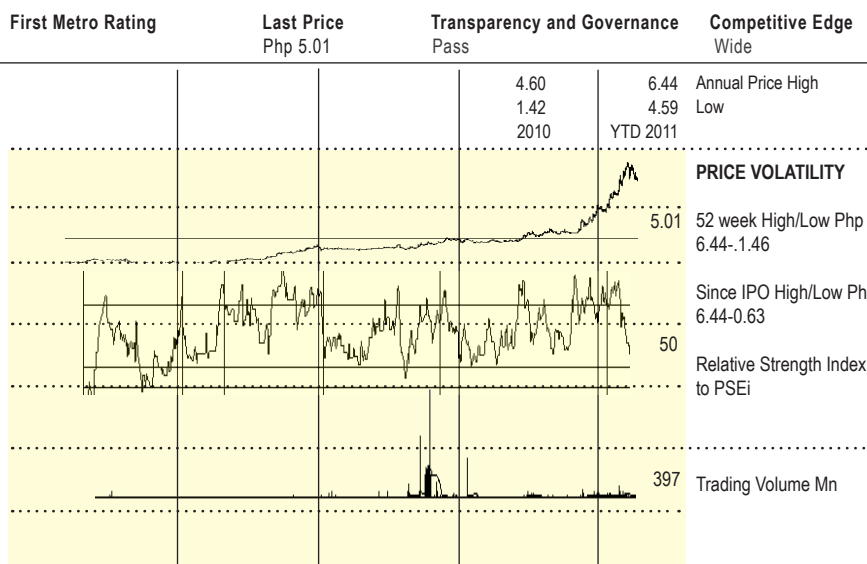
FY2009 Sales Php bn
Php1.4

Mkt Cap Php bn
Php 32.9

Industry
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Sector
Property

Belle Corp. (BEL) was originally incorporated as Belle Mining and Oil Exploration, Inc. as a mining and oil exploration company. In 1989, the Company together with AIA Capital Corporation, a regional investment and advisory of the American International Group, formed a joint venture company called the Tagaytay Highlands Corporation (THC). THC started the development of a golf courses community in Tagaytay City. Thereafter, the Company was primarily involved in the property development business. BEL's second core business is comprised of its investment in companies engaged in gaming and gaming related activities. In August 1994, Belle's name was changed to Belle Corporation to underscore the shift in its principal activity. BEL formally entered the gaming business in March 1994 by acquiring an initial 15% shareholding interest in Pacific Online Systems Corporation.



Growth Rates	2009	2008	2007
Revenue %	3.99	101.66	15.19
Operating Income %	4.89	96.91	22.49
Earnings/share %	148	(53.36)	312.31
Dividends/Shr. %	0	0.	0
Book Value/Share %	8.3	3.59	8.08
Stock Total Return %	102.82	(40.83)	7.14
+/- Market	43.13	(46.29)	23.76

Profitability Analysis	Current	5 Yr Average	Ind.	Mkt.
Return on Equity %	8.51	6.95	9.35	18.71
Return on Assets %	4.15	2.85	4.67	4.64
Operating Margin	39.00	37.58	28.92	20.86
Gross Margin %	61.27	60.67	49.2	62.82
Net Margin %	54.93	29.38	32.20	16.82

Financial Position	9mo10	Dec.-09
	Php Mn	Php Mn
Cash & Cash Equivalents	42.3	86.4
Receivables	1,147.9	1,138.2
Other Current Assets	2,745.5	2,956.5
Net fixed assets	2,918.7	2,481.5
Total Assets	10,140.5	9,973.4
Other Long-Term Assets	224.5	2,672.0
Total Long-term Assets	5,611.6	5,160.3
Current Liabilities	3,104.8	3,187.7
Long-Term Borrowing	965.8	1,018.7
Total Liabilities	4,070.6	4,273.5
Total Equity	6,069.9	5,699.9

Valuation Analysis	Current	Ind.	Mkt.
Price /T12M EPS	17.27	24.02	12.81
EV/EBITDA	n.a	14.41	10.21
Price/Cash Flow	44.27	34.79	7.42
Dividend Yield %	0.	15.36	6.94
Price/Book	5.21	2.15	2.27

	FY2007	FY2008	FY2009	FY2010	Current	STOCK PERFORMANCE
Total Return %	7.14	(40.83)	102.82	219.44	12.61	
+/- Market %	23.76	(46.29)	63.33	43.13	(7.6)	
Dividend Yield %	0	0	0	0	0	
Market Cap Php Mn	7,466	4,509	9,145	31,818	32,897	

	FY2006	FY2007	FY2008	FY2009	9mo10	FINANCIALS
Revenue Php Mn	581	669	1,349	1,403	937	
Operating Income Php Mn	205	252	495	519	366	
Net Income Php Mn	152	332	206	385	333	
Earnings per Share	0.01	0.05	0.03	0.06	0.05	
Dividends Php Mn	0	0	0	0	0	
Shares Mn	6,111	6,119	6,221	6,350	6,350	
Book Value per Share	0.62	0.66	0.69	0.74	0.80	
Assets Php Mn	9,434	9,418	9,912	9,973	10,141	
Total Equity Php Mn	4,724	5,098	5,336	5,966	6,069	
Free Cash Flow Php Mn					-102.1	

	FY2006	FY2007	FY2008	FY2009	9mo10	PROFITABILITY
Return on Assets %	0.91	3.52	1.58	3.88	4.40	
Return on Equity %	2.33	8.37	3.57	8.44	7.60	
Profit Margin %	-75.18	88.99	-69.22	80.26	35.00	
Operating Margin %	35.36	37.60	36.72	37.04	38.99	

	FY2006	FY2007	FY2008	FY2009	9mo10	FINANCIAL HEALTH
EBIT/Int. Exp.	0.84	1.16	2.40	2.51	2.08	
EBITDA/Total Int. Exp.	0.93	1.27	2.53	2.65	n.a.	
Net Debt-to-EBITDA	11.09	9.98	5.03	5.29	n.a.	

	FY2007	FY2008	FY2009	9mo10	Current	VALUATION
Price/12M EPS	3.93	23.26	23.45	23.45	17.27	
Price/12M Sales/share	4.49	5.54	1.95	1.95	25.3	
Price/Book	1.13	1.76	1.25	1.25	6.42	

Quarterly Results					
Revenue Php Mn	Dec. 09	Mar10	Jun10	Sept10	
Most Recent Period	345	337	323	276	
Prior Year Period	468	260	355	430	
Revenue Growth %	Dec. 09	Mar10	Jun10	Sept10	
Most Recent Period	26.19	29.59	-9.08	-35.67	
Prior Year Period	143.76	1.85	12.15	39.29	

Global Peers by Market Cap					
Name	Mkt. Cap US\$m	Trailing 12M Rev \$mn	ROE	P/E	
Huanku Dev't Corp.	858.00	284.0	32.62	9.37	
Huan Yuan Prop. Corp.	933.20	261.18	22.22	16.18	
Wuhan Langold Red Square	838.01	81.15	16.82	30.6	
Saudi Real Estate Co.	758.36	115.2	5.78	15.89	

Earnings Per Share Php					
	Dec09	Mar10	Jun10	Sept10	
Most Recent Period	0.01	0.02	0.01	0.02	
Prior Year Period	0.01	0.01	0.02	0.02	

Top Common Stockholders			
Name	In bn Shares	% to Total OS Capital Stock	
Sy Group	5.76	64%	
Willy Ocier	0.99	11%	
Others	2.25	25%	
Total (fully diluted upon issue of 2.7bn Belle shares to accommodate share swap with SM arising from the purchase of Premium Liesure by Belle Corp.)			
	9.00	100.00%	