

## **Investment Value for Property Sector Members of the Philippine Stock Exchange using Ratios and Forecasted Financial Performance**

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### **ABSTRACT**

*This study has been conducted to determine which among the selected companies in the property sector listed in the Philippine Stock Exchange is the best to have an investment by determining their financial profile and by forecasting their future growth for the year 2021. The companies were chosen by the data available and necessary in computing the relevant ratios that will satisfy the objectives of the study. Based on the results, this study shows that for the next four years, Belle Corporation (BEL) is the best company to invest according to their forecasted upside prices for the year 2021.*

*Keywords: Property Sector, Forecasted prices, Financial ratios, Philippine Stock Exchange*

### **INTRODUCTION**

State of the real estate industry in the Philippines changed excellently over the years because of the rising demand for commercial and residential properties. Buying property in the Philippines is a bet on economic and demographic trends. The Philippines, being the second most populous country in Southeast Asia, is emerging as the fastest growing economy according to the World Bank (Balisacan, 2016). It is not easy to estimate the return on investment in real estate. But investors still have a strong preference for the real estate sector since they want to see their assets growing in value. In this paper, the researchers conducted an analysis of the financial data of selected Property Sector companies in the Philippines. This paper aims to examine the financial information of the company to predict the growth of selected companies and determine which company is a good investment. This study aims to describe and interpret the financial ratios of selected companies of the property sector of the PSE at the end of the fiscal year 2016, particularly the Price-Earnings Ratio, Price-Book, Debt-Equity, Return on Equity Ratio, Price to Cash Flow Ratio, and Dividend Yield. More specifically, this study also aims to determine the financial stability of each company, whether which company has performed well for the past 5 years. Using the financial ratios, the paper aims to predict the performance of the selected companies in the property sector of the PSE, and to determine which company would be a good investment.

### **METHODOLOGY**

This study used a descriptive method in the gathering of data and used the data gathered in order to predict the future prices. From the current population of 270 listed companies in the Philippine Stock Exchange (PSE), there are currently 17 listed companies under the Property Sector of the PSE. For the purpose of this study, the researchers used 8 companies to be the subject of this study included under the Property Sector of the PSEi. This study utilized the audited balance sheet and income statement of the selected companies above. These are publicly-available data from the PSE. For computing and analyzing the financial ratios, the data is based on secondary data that are taken from the audited financial statements of the selected listed companies under the property sector; such as income statement and statement of financial position. Most of these data were published in the website of the companies, and uploaded in the PSE edge.

## RESULTS AND DISCUSSION

Results exhibited in Table 1 shows the ranking of the 8 companies under the property sector for each of the financial ratios. It also depicts the overall ranking of the companies who performed well for the year 2017. For the price/earnings ratio and average return on equity, Double Dragon Properties Corporation ranked first for the both financial ratios and Filinvest Land Inc., ranked last also for the both ratios. Double Dragon Properties Corp is also the best company when it regards to price/earnings to growth ratio while Ayala Land Inc. was not an ideal company when it comes to the price earnings to growth ratio. For the average debt to equity ratio, Ayala Land Inc. has the highest debt to equity ratio while Robinsons Land Corporation has the lowest debt to equity ratio. Filinvest Land Inc. also performed the best when it comes to both price to book ratio and price to cash flow ratio. Overall, Double Dragon Properties Corporation performed the best during the year 2017, while Filinvest Land Inc., is the 2nd best performing company for the year 2017 and Belle Corporation is the 3rd best performing company.

Table 1. Summary of rankings for each financial ratios

Company (Ticker Code)	PE Ratio	Average ROE	Price/Earnings to Growth Ratio	Average Debt/Equi ty Ratio	Price to Book Ratio	Price to Cash Flow Ratio	Overall
DD	1st	1st	1st	2nd	8th	-	1st
FLI	8th	7th	2nd	4th	1st	1st	2nd
BEL	5th	3rd	3rd	6th	4th	2nd	3rd
VLL	7th	5th	4th	3rd	2nd	3rd	4th
ALI	3rd	2nd	8th	1st	6th	4th	5th
SMPH	2nd	4th	5th	5th	7th	5th	6th
MEG	6th	8th	7th	7th	3rd	6th	7th
RLC	4th	6th	6th	8th	5th	7th	8th

Table 2 shows the forecasted sales, net income, and book value of the 8 companies under the property sector of the Philippine Stock Exchange. The researchers forecasted the different companies' sales, net income, and book value, and their price ratios namely price-sales ratio, price-earnings ratio and price to book value ratio.

Table 2. Forecasts for the year 2021

Company (Ticker Code)	Sales(in thousands)	Net income(in thousands)	Book Value(in thousands)	Price Earnings Ratio	Price to Sales Ratio	Price to Book Ratio
ALI	192,906.00	32,617.77	230,447.30	62.85	61.79	55.97
SMPH	99,751.30	32,330.42	342,640.20	18.86	18.62	21.56
MEG	59,164.80	21,966.85	196,363.10	6.38	5.97	6.12
VLL	46,337.00	12,204.97	115,976.20	5.75	5.74	5.67
RLC	33,001.40	9,417.78	79,508.50	43.69	44	34.88
FLI	27,441.50	8,211.65	75,556.10	2.93	2.96	2.26
BEL	11,235.21	9,221.53	34,489.40	14.35	20.1	5.97
DD	3,803.50	2,360.38	33,210.49	45.49	34.33	70.51

Based on the data presented, Ayala Land Inc. has the highest forecasted sales, net income, and book value for the year 2021 among the 8 companies listed under the property sector, while Double Dragon Properties Corp has the lowest forecasted sales, net income, and book value for the year 2021. For the forecasted price ratios for the year 2021 of the 8 companies, Ayala Land Inc. stood out among the listed companies. It has the highest price earnings ratio, price to sales ratio, and price to book ratio for the year 2021, while Filinvest Land Inc., has the lowest forecasted ratios for the year 2021.

Table 3. Percentage of Increase (Upside)

Company (Ticker Code)	Forecasted Average Price	Price Today	Upside	Rank
ALI	13.48	3.68	54.13%	1
SMPH	70.51	31.60	30.68%	2
MEG	34.88	19.42	21.56%	3
VLL	60.20	41.60	13.11%	4
RLC	6.12	4.60	9.99%	5
FLI	5.57	6.65	-5.20%	6
BEL	21.25	34.30	-14.75%	7
DD	2.25	9.20	-37.41%	8

The results show the percentage of the projected return and the upside of the stocks base on their average forecasted price compared to the current stock price. Upside is the forecasted peso amount or increase in percentage in an investment's price. A high upside means it has a greater value than the currently reflected in the stock price. The researchers compared the computed average forecasted price for the year 2021 for the price today. The forecasted average price will be the basis of whether the company can be a good investment for today. If the forecasted average price increases compared to the stock price today, investors may put an investment for that company since it will yield a high return in the upcoming years. On the other hand, a decrease in the forecasted average price compared to the stock price today, may yield a low return. Based on Table 3, Belle Corporation has an upside of 54.13%; Ayala Land Inc. has an upside of 13.11%; Double Dragon Properties Corporation has an upside of 30.68%; Filinvest Land Inc. has an upside of -37.41%; and Vistaland & Lifescapes with an upside of -5.20%. Megaworld Corporation, Robinson's Land Corporation, and SM Prime Holdings Inc. has an upside of 9.99%, 21.56% and -14.75% respectively. The company that has the highest upside is the Belle Corporation with a 54.13% upside while Filinvest Land Inc. has the lowest upside with -37.41%.

## CONCLUSION

Based from the results, the researchers conclude that the Double Dragon Properties Corp. is the best performing company under the property sector of the PSEi during the year 2017. In the projected prices of the companies, most of them are led by the Ayala Land Inc., except in the projected price to book ratio, which was led by Double Dragon Properties Corporation. Though Ayala Land Inc. led most of the ratios, Belle Corporation has the highest upside, which means it is the best ideal company to invest in present times. However, the other companies like Ayala Land Inc., Double Dragon Properties Corporation, Robinson's Land Corporation, and Megaworld Corporation can be a good investment too. But the remaining companies, Filinvest Land Corporation, Vista Land & Lifescapes Inc and SM Prime Holdings, Inc. has a negative upside which means that these companies will more or less go lower in their values in the years to come because they are overpriced now and also because of their net income. These forecasts are based on the current trend of the market and the current price level.

## Recommendation

The researchers recommend the future researchers to include in their study other factors that can affect the forecasting of the future financial performances of the companies. The researchers also recommend to use other forms of forecasting and to analyze better the companies used in this study. Lastly, the future researchers are suggested to make an improved study on all the companies under the property sector in the PSE. Comparing the percentage of upside of the companies to the yield of the treasury bonds of 5% since it is a risk-free rate, and the inflation rate of 2%-3%, most of upside of the companies are greater than these rates. For the investors, the researchers recommend to invest in the company Belle Corporation since it has the highest upside among the companies. The researchers also recommend that the companies Ayala Land Inc., Double Dragon Properties Corporation, Megaworld Corporation and Robinson's Land Corporation can be a grounds for investment.

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