

Megaworld Corp.

Bloomberg: MEG PM / Reuters: MEG.PS

MEG: too cheap to ignore

- Megaworld Corp. (MEG) was down 7.9% last year, ending at around 1.0x trailing P/BV and -1sd below average forward P/BV.
- We are of the view that the negative sentiment on MEG is priced in already. Office demand is expected to continue picking up driven by both the POGO and BPO sectors.
- For those with a shorter horizon, we suggest buying MEG once it breaks out of the P4.80 resistance level.

What Happened:

Megaworld Corp. (MEG) was down 7.9% last year, ending at around 1.0x trailing P/BV and -1sd below average forward P/BV. Besides the general weak market environment, MEG was weighed down by the recent crackdown on illegal gaming operators, delay in PEZA approvals, and uncertainties brought about by the government's proposed TRABAHO bill on rationalizing fiscal incentives that the Business Process Outsourcing (BPO) sector currently enjoys.

Our View:

We believe that the current price of MEG is already trading below its peers. MEG is trading at 9.0x forward P/E vs. comparative peers' average of 14.3x 2019F P/E. We expect growth in the office segment to continue to be robust amid strong demand from Philippine Offshore Gaming Offices (POGOs) and a potential pick-up in demand from the BPO sector. Furthermore, the approval of the TRABAHO bill may be delayed until after election season, which will give room for corporate lobbyists to urge policymakers against the removal of current incentives.

Recommendation:

For those with a longer investment horizon, we have a BUY recommendation for MEG with target price of P6.00. Valuations, which are trading at a discount, suggest that MEG is good to pick up at current levels. Looking into its price chart, however, we suggest buying once it breaks out of the P4.80 (R1) resistance level. Setting next resistance level at the P5.00 psychological resistance.

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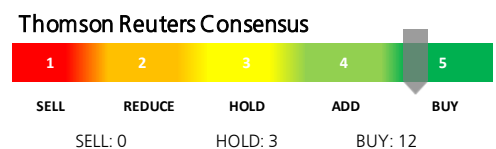
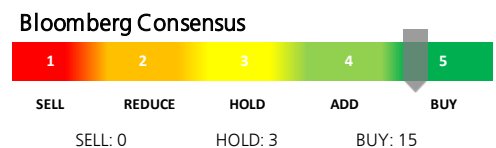
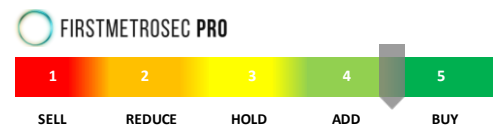
BUY

Last Traded Price (02 Jan 19)	4.80
Mkt. Cap (P bn)	151.53
FMSBC Target Price	6.00
Upside	25.00%

MEG vs. PSEi year-to-date performance



Consensus Corner



Technical Corner



Analysis: After rebounding from its lows, MEG is now consolidating above its moving averages. Its 50-day MA broke above the 100-day and 200-day MA, forming a double golden cross which indicate a continuation of its rebound or uptrend.

Trading Plan: We suggest buying once it breaks out of the P4.80 (R1) resistance level. Support is at P4.50 (S1).

Peer Table

	EPS FY17	NI Margin FY17	P/E T12	P/BV T12	ROE FY17	ROE 3Y CAGR
ALI	1.71	20.21%	22.81	3.46	16.09%	3.75%
DD	0.45	180.42%	34.64	2.24	12.02%	-32.59%
FLI	0.23	32.12%	5.58	0.52	9.29%	0.95%
GERI	0.13	26.14%	7.29	0.47	6.44%	18.94%
HOUSE	0.75	40.65%	8.70	1.55	18.01%	-16.28%
MEG	0.40	26.40%	10.79	0.96	9.67%	-22.71%
RLC	1.39	26.13%	12.51	1.15	9.16%	-0.60%
SMPH	0.96	30.93%	33.07	3.84	11.24%	3.47%
VLL	0.69	32.84%	6.78	0.76	11.20%	0.04%
Average	0.72	46.20%	15.80	1.66	11.46%	-5.00%

Forward P/B bands



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