

August 2019

Valens Misrepresentation Highlights August – Ayala Corporation (AC:PHL) and SM Investment Corporation (SM:PHL)

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Valens Research App

Valens has launched a new app.

The Valens Research app enables investors to use our cleaned up financial analytics, which shows over 130 adjustments made to 35 categories of the As-Reported Financials of over 8,000 companies... providing investors and researchers with more accurate numbers that tell the story for the companies you are analyzing and investing in. Subscribers to the database have access to both our Valens Research Performance & Valuation Prime cleaned up cash flow analytics platform, and our Valens Credit iCDS and Credit Cash Flow Prime debt analytics platform as part of the new app.

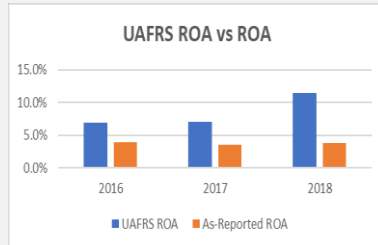
To read more about the new app and to sign up for access, [click here](#).

Ayala Corporation (AC:PHL)

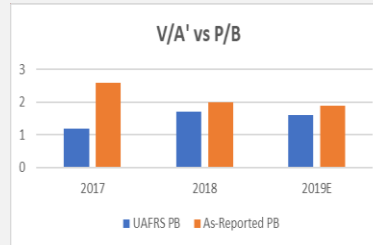
Stock Price: PHP 930.00

Market Cap: PHP 583bn

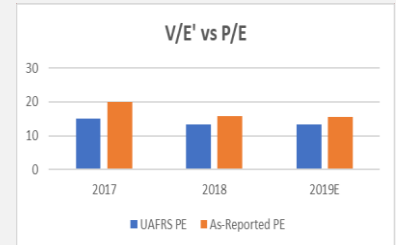
*Data as of: 8/8/2019



UAFRS 2018: 11.5%
As-Reported 2018: 3.8%



UAFRS 2019E: 1.6x
As-Reported 2019E: 1.9x



UAFRS 2019E: 13.4x
As-Reported 2019E: 15.5x

Under as-reported financials, Ayala Corporation has ROA of 3.8%, which is below the global average cost of capital of 6%. However, UAFRS metrics show that Ayala Corporation has an Adjusted ROA of 11.5%. The company does in fact have higher quality earnings than as-reported financials suggest.

As-reported financial statements show that the company is trading at slightly higher valuations than it should be. Ayala is currently trading at a P/B of 1.9x and P/E of 15.5x, when it should be trading closer to 1.6x on an Adjusted P/B (V/A') basis and 13.4x on an Adjusted P/E (V/E') basis.

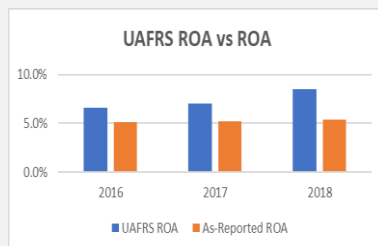
As-reported metrics clearly fail to accurately represent Ayala's performance and valuation due improper treatment of interest and minority interest expense under PFRS.

SM Investment Corporation (SM:PHL)

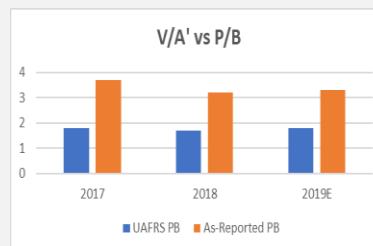
Stock Price: PHP 981.00

Market Cap: PHP 1,185bn

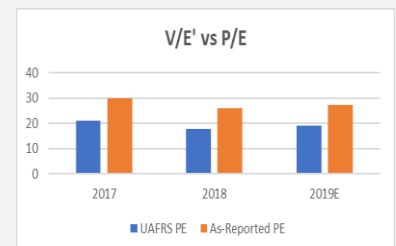
*Data as of: 8/8/2019



UAFRS 2018: 8.5%
As-Reported 2018: 5.4%



UAFRS 2019E: 1.8x
As-Reported 2019E: 3.3x



UAFRS 2019E: 19.0x
As-Reported 2019E: 27.4x

Under as-reported financials, SM Investments has ROA of 5.4%, which is around the global average cost of capital of 6%. However, UAFRS metrics show that SM has an Adjusted ROA of 8.5%. The company does in fact have higher quality earnings than as-reported financials suggest.

As-reported financial statements show that the company is trading at higher valuations than it should be. SM is currently trading at a P/B of 3.3x and P/E of 27.4x, when it should be trading closer to 1.8x on an Adjusted P/B (V/A') basis and 19.0x on an Adjusted P/E (V/E') basis.

As-reported metrics clearly fail to accurately represent SM's performance and valuation due improper treatment of interest and minority interest expense under PFRS.

To learn about the real performance and valuation metrics that drive Ayala's and SM's stock price, [click here](#).

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