

THURSDAY, 03 APRIL 2014

**Company Update**
**Puregold Price Club, Inc:  
A cut above the rest**

We are upgrading our recommendation on PGOLD to BUY after raising our FV estimate to Php55/sh due to our improved outlook on PGOLD's growth capabilities. PGOLD has been growing faster than expected and prospects continue to be bright for the company, especially as it focuses on expanding outside Metro Manila which is more underpenetrated and competition is less intense. As such, we are increasing our projections on the number of store openings and same store sales growth. Revenues will be further boosted by the full-year contribution of the two S&R stores completed in 2013. At PGOLD's current price of Php46.45/sh, potential for capital appreciation remains significant at 18.41%.

- More store openings than expected.** We are raising our projection on the number of store openings in light of PGOLD's faster-than-expected store rollout and positive growth prospects. PGOLD has been growing faster than expected with 40 new stores opened in 2013, significantly higher than the 25 store openings we expected. This is on top of the 24 stores added through the acquisitions of Company E and San Roque Supermarket. PGOLD is also set to meet its target of opening 25 stores this year. It has already opened 10 stores during the first quarter while the remaining 15 locations have already been secured.
- Geographic expansion will ease same store sales.** We are also adjusting our forecast on same store sales growth (SSSG) to an average of 1% annually, up from our previous estimate of -1%. Moving forward, PGOLD should report healthier figures as it focuses its expansion in areas outside Metro Manila which are less saturated and where competition is less intense. By expanding in these areas, management believes that it will be able to address the issue of cannibalization between its stores. According to PGOLD, it already registered SSSG in the mid-single digits during the first quarter and it expects positive SSSG for the remainder of 2014, an improvement from the flattish figure registered in 2013.

After factoring in faster store expansion and higher same store sales growth, we now expect revenues to grow by 23.8% in 2014 and 12.7% in 2015, higher than our previous forecast of 11.6% and 9.8%.

**Exhibit 2: Summary in changes of forecast**

in PhpMil	2014E			2015E		
	Old	New	% Change	Old	New	% Change
Revenue	85,182	90,622	6.39	93,515	102,101	9.18
Gross Profit	14,992	15,949	6.39	16,646	18,174	9.18
Operating Incom	6,657	6,887	3.46	7,495	7,964	6.26
Net Income	4,735	4,884	3.14	5,371	5,676	5.67

source: COL estimates

**FORECAST SUMMARY (PHPMIL)**

Year to Decemer 31 (Php Mil)	2011	2012	2013	2014E	2015E
<b>Net Sales</b>	<b>38,988</b>	<b>57,467</b>	<b>73,180</b>	<b>90,622</b>	<b>102,101</b>
% change y/y	33.9	47.4	27.3	23.8	12.7
<b>Gross Profit</b>	<b>5,535</b>	<b>9,239</b>	<b>12,733</b>	<b>15,949</b>	<b>18,174</b>
% change y/y	56.7	66.9	37.8	25.3	13.9
Gross Margin (%)	14.2	16.1	17.4	17.6	17.8
<b>Operating Income</b>	<b>2,216</b>	<b>3,846</b>	<b>5,454</b>	<b>6,887</b>	<b>7,964</b>
% change y/y	124.9	73.6	41.8	26.3	15.6
Operating Margin (%)	5.7	6.7	7.5	7.6	7.8
<b>Net Income</b>	<b>1,545</b>	<b>2,718</b>	<b>3,959</b>	<b>4,884</b>	<b>5,676</b>
% change y/y	202.7	75.9	45.7	23.4	16.2
Net Profit Margin (%)	4.0	4.7	5.4	5.4	5.6

**RELATIVE VALUE**

P/E (X)	46.6	40.5	31.4	25.5	21.9
P/BV (X)	9.7	4.5	4.1	3.6	3.2
ROE (%)	27.2	14.8	13.6	15.0	15.3
Dividend Yield (%)	0.0	0.3	0.7	0.6	0.8

Source: PGOLD, COL estimates

**SHARE DATA**

Rating	<b>BUY</b>
Ticker	PGOLD
Fair Value (Php)	55.00
Current Price	46.45
Upside (%)	18.41

**SHARE PRICE MOVEMENT**

**ABSOLUTE PERFORMANCE**

	1M	3M	YTD
PGOLD	1.53	18.49	22.56
PSEI	2.66	10.59	11.68

**MARKET DATA**

Market Cap	128,499.58Mil
Outstanding Shares	2,766.41Mil
52 Wk Range	32.22 - 47.38
3Mo Ave Daily T/O	100.59Mil

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## More store openings than expected

We are raising our projection on the number of store openings in light of PGOLD's faster-than-expected store rollout and positive growth prospects. PGOLD has been growing faster than expected with 40 new stores opened in 2013, significantly higher than the 25 store openings we expected. This is on top of the 24 stores added through the acquisitions of Company E and San Roque Supermarket. PGOLD is also set to meet its target of opening 25 stores this year. It has already opened 10 stores during the first quarter while the remaining 15 locations have already been secured.

Going forward, management remains confident that it will be able to open 25 stores annually. According to management, there is no absence of potential store locations. Additionally, the majority of prospects for new locations come from third party lease proposals, a testament to the greater recognition of the Puregold brand. Moreover, unlike its competitors which target higher income segments, Puregold's location is not restricted to malls. In the long run, management estimates that PGOLD can establish a presence in 500 cities and first-class municipalities. At present, it is only located in 102 areas. We believe that PGOLD's target is achievable given that the growth prospects of the retail sector remains very attractive. The industry remains underpenetrated with the majority of sales still being contributed by traditional formats such as sari-sari stores. This is especially true in rural areas where major retail chains have little presence.

In light of the said information, we increased our forecast on the number of store openings to 25 stores per year up to 2017 before we scaled down our estimates to 15 stores in 2018. In our previous forecast, we assumed that PGOLD would already start scaling back on its store openings in 2014. Our revised forecast implies a 54% increase in store count in the next five years, considerably higher than the 35% increase implied by our original forecast. Despite the significant increase in our projections, we believe our assumptions remain conservative as PGOLD has consistently surpassed its own guidance in the past. Additionally, our forecast does not take into account any stores that will be added through mergers and acquisitions. Recall that during the past two years, PGOLD was able to complete three acquisitions (not including S&R) which immediately expanded its store count by 43.

### Exhibit 1: Projected new store openings

	2013	2014E	2015E	2016E	2017E	2018E
New forecast	40	25	25	25	25	15
Old forecast	25	23	21	10	10	10

Source: COL estimates

## Geographic expansion will ease same store sales

We are also adjusting our forecast on same store sales growth (SSSG) to an average of 1% annually, up from our previous estimate of -1%. Admittedly, same store sales numbers have been weak as the proximity of some PGOLD stores have led to cannibalization between stores. Same store sales were particularly weak in 3Q13 when the rainy season led to fewer operating days.

Moving forward, PGOLD should report healthier figures as it focuses its expansion in areas outside Metro Manila which are less saturated and where competition is less intense. By expanding in these areas, management believes that it will be able to address the issue of cannibalization between its stores. According to PGOLD, it already registered SSSG in the mid-single digits during the first quarter and it expects positive SSSG for the remainder of 2014, an improvement from the flattish figure registered in 2013.

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source: COL estimates

**S&R continues to grow unchallenged**

Revenues in 2014 should be further boosted by the full-year contribution of the two S&R stores completed in 2013. Note that net sales from S&R grew by 30% in 1H13 even with only minimal contribution from the new stores. This was largely driven by a very impressive 20% growth in memberships to 300,000 in 2013. Furthermore, PGOLD plans to build one S&R in 2015 and 2016 each. We believe S&R's growth is secure given the lack of competition and the constant influx of new members. According to management, new entrants are discouraged by the limited number of remaining locations for a shopping warehouse. Also, customers who are already members of S&R are less likely to switch to another brand.

**Upgrading to BUY on improved growth outlook**

We are upgrading our recommendation on PGOLD to a BUY after raising our FV estimate to Php55/sh from Php41/sh due to our improved outlook on PGOLD's growth capabilities. Our FV estimate implies 31X 14E P/E for PGOLD. Although this is in line with the 32X average 14E P/E for consumer stocks that we cover, we believe that the multiple is justified given PGOLD's faster growth relative to other consumer stocks notwithstanding the defensive nature of its business. Moreover, growth prospects are more attractive given the underpenetrated nature of the retail sector and the company's plan to concentrate on areas outside of Metro Manila. We forecast PGOLD's EPS to grow by 23% in 14E against the sector average of 13%. Moreover, we forecast EPS to increase by a CAGR of 18% from 2014 to 2016. At PGOLD's current price of Php46.45/sh, potential for price appreciation remains significant at 18.41%.

## Investment Rating Definitions

BUY	HOLD	SELL
<p>Stocks that have a <b>BUY</b> rating have attractive fundamentals and valuations, based on our analysis. We expect the share price to outperform the market in the next six to twelve months.</p>	<p>Stocks that have a <b>HOLD</b> rating have either 1.) attractive fundamentals but expensive valuations; 2.) attractive valuations but near term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely inline or underperform the market in the next six to twelve months.</p>	<p>We dislike both the valuations and fundamentals of stocks with a <b>SELL</b> rating. We expect the share price to underperform in the next six to twelve months.</p>

## Important Disclaimers

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