Filinvest Land Inc. (FLI)

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Public Offering

Terms of the Offer:

Offer price:	P1.605/ share
Primary:	3.7 bn
Secondary:	2.5 bn
Primary Proceeds:	P5.9 bn
Offer Period:	Jan.26-30 '07
Target Listing Date	Feb.6 '07
BK Value/ sh	P1.82(pre-offer)

Investment Highlights:

FLI is one of the Philippines' leading real estate developers, having developed over 1,800 hectares of property equivalent to more than 100,000 residential units.

The follow on offering (considered a re-IPO) will substantially increase the stock's free float (from 13% to to 31%) and diversify its shareholder base.

With FLI's new investment properties, (see FLI study Oct. 6, 2006) the company's revenue stream should provide a steady recurring revenue source of close to P1.7 bn per annum beginning 2007. This protects the company from the cyclical nature of the property market and assures low risk in dividend payout.

Valuationwise, we are forecasting a minimum upside of 16% from its offer price this year to P1.86 based on a 26x 2007 PER multiple (industry average). This also translates to an industry wide 20% discount to estimated NAV/ share of P2.30. SUBSCRIBE.

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Use of Proceeds. FLI estimates that its net proceeds from the primary offering will be approximately P5.9 billion. FLI intends to use the majority of its net proceeds from the offer to finance, in part, its planned capital expenditures for fiscal 2007. Further details of the its planned capital expenditures for fiscal 2007, which is budgeted at P5.014 bn broken down as follows:

Proceeds Breakdown	Amount in Pmn
Land purchases, advances to JVs	200
Land Development	1466
Building Construction	960
Housing Unit Construction	1523
Condo-hotel project	600
Timberland Sports and Nature Club	165
Upgrade/refurbishment of inv. properties	100
Total	5,014

Company Background. FLI is one of the Philippines' leading real estate developers, providing a wide range of real estate products to customers from diverse income segments. Its projects include integrated residential township developments and stand-alone residential subdivisions which offer lots and/or housing units to customers in the low-cost segment (which includes socialized and affordable subdivision developments) and in the middle-income and the high end markets. FLI has developed "themed" housing and land development projects, such as entrepreneurial communities, and has developed the Filinvest Technology Park- Calamba in Laguna province south of Manila, which is a PEZA-registered special economic zone that offers industrial-size lots and ready-built factories to domestic and foreign enterprises engaged in light to medium non-polluting industries. FLI also has leisure projects, such as residential farm estates and private membership club developments.

Filinvest Land Inc. Ownership

Shareholder	Pre-Offer	Post-offer
Filinvest Devt. Corp.	80%	63%
GIC	7%	6%
Public	13%	31%

Historically, FLI's business has been focused on the development and sale of affordable and middle-market residential lots and housing units to the lower and middle-income market sector. Its subdivision lots are typically priced from below P120,000 to above P1,200,000, while its housing units (which include the lot on which the house is built) are typically priced from below P300,000 to above P4,000,000. In recent years, FLI has also begun developing residential projects with a leisure component, such as farm estates and developments anchored by sports and resort clubs located relatively close to Metro Manila. FLI also recently diversified into investment properties through the acquisition of three strategic assets, which include the Festival Supermall, FAC and CPI.

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As of September 30, 2006 FLI had 60 developments under construction in 20 cities and municipalities located throughout the Philippines. FLI also has an extensive land bank available for future development. As of September 30, 2006, FLI's land bank consisted of approximately 2,993.3 hectares of raw land, of which approximately 1,984.0 hectares were acquired directly by FLI (with 1,644.0 hectares titled in the name of FLI) and approximately 309.3 hectares were available for future development pursuant to joint venture agreements with land owners .

INVESTMENT CONSIDERATIONS

Management experience. While Filinvest Land Inc. began commercial operations only in August 1993, the Gotianun family has a solid real estate track record dating back to 1967. This means management has 40 years of property expertise as they have experienced and thrived through the upswings and downturns of the Philippine property market. Experience came in handy especially during the Asian crisis back in 1997 when several fly-by-night property firms closed shop due to their relative inexperience.

Sufficient landbank for 10 years. Filinvest Land has one of the largest landbanks among property developers, having approximately 2,293.3 hectares of raw land for the development of its various projects, inclusive of 309.3 hectares of land under joint venture agreements. Management believes this is sufficient to sustain 5 to 10 years of development and sales.

Landbank focused in high growth region. While 99% of its landbank is outside Metro Manila, close to 1,798 hectares is in the fastest growing area of Southern Tagalog. This area offers the strongest potential market for residential housing with annual demand (based on 1996 to 2005 data) of close to 13,216 of socialized units; 52,414 units of low cost units; 9,931 mid-income units; and, 523 high-end residential units. This comprises almost 25% of the country's average annual demand of close to 300,000 units per annum.

9-month operating results. Prior to the company's consolidation of its 3 major assets from Filinvest Devt. Corp., the company posted a net income of P622 mn in the first 9 months of 2006, a 29% improvement from last year's P482 mn. The company also reported net sales of P2.01 bn in the first 9 months of 2006, a 14% improvement from 2005's comparable P1.769 bn. Note however that earnings were helped by a non-recurring item for the period. Net of a non-recurring sale of P217 mn (stemming from the sale of 58 hectares of land in Timberland Heighths to FAPI), sales improvement wouldv'e been capped close to only 5%.

On a pro-forma consolidated basis (inclusive of the company's new assets), FLI would've posted earnings before tax of P856.6 mn, a 12% improvement from the P756 mn in earnings before tax prior to the asset swap with FDC. The company expects however that the net effect of the transaction would be earnings accretive to the company after this year, given bright prospects of the property market.*(see Oct. 6, 2006 FLI report)*

PROPERTY COMPANIES: Comparable Valuations	Price (Php)	Outs. Shares (in Mn)	Mkt Capzn (in Mn)	PER 2006 (Php)	PER 2007 (Php)	NAV per share	P/NAV (x)
ALI	16.25	10,763	174,899	45.9	37.6	19.00	0.86
CHI	3.40	1,920	6,528	46.3	38.6	na	na
CPV	1.76	940	1,654	46.0	41.4	na	na
FLI	1.60	24,470	39,152	51.5	24.5	2.30	0.70
RLC	15.75	2,859	45,029	28.1	21.1	20.00	0.79
ELI	0.72	7,994	5,756	48.0	41.7	na	na
MEG	2.50	20,642	51,605	27.1	17.9	3.00	0.83
			324,623				
AVERAGE				38.8	28.0		0.79

Inexperience in leasing a concern? While the group has a vast experience in the residential development sector, the company is only in its initial salvo in the office leasing and condotel business (upcoming). This leaves FLI with less experience relative to its peers (ALI, RLC, MEG) who have established themselves of having a solid business model with a substantial recurring stream of income complementing their property sales revenues.

Constant payout. Management however remains confident in terms of earnings delivery as highlighted by their formal commitment to establish a payout of 20% of previous year's earnings (currently the standard for listed Philippine property companies). After the offer, the company will constantly be under the microscope to deliver the goods from its recently acquired investment properties (worth P12.3 bn) and produce returns from its sudden splurge in capex (historical capex of P700 mn to increase threefold) driven by the follow-on offering.

Interest rates at all time low. Treasury bill rates continued to drop to all time lows, confirming the environment-friendly scenario for the property market. Bellwether T-bill yields fell further by 62 basis points from last week to 3.171 percent from the previous rate of 3.795 percent.

OFW remittances still pouring in. Expect residential demand to remain robust given the continued strength of OFW remittances this year. According to the BSP, Overseas Filipino workers (OFWs) remitted US$1.14 billion in November 2006, a 28% rise from last year This brings the YTD remittances to US$11.44 billion, which is on track to exceed the whole year projected level of US$12.3 billion.

Valuations at a discount. The offer price has been pegged at P1.605 inclusive of incidental costs from the secondary offering. This price (PER of 24x) still translates to a fair upside of 16% based on the property sector's current weighted average PER multiple of 28x. FLI issue would also still have enough headroom towards our target price of P1.86 applying the 20% industry-wide discount basing on FLI's Net Asset Value (post-offering) estimate of P2.30/ share.