

# Can **Philippine's** **largest Telco company** **Globe** deliver on its **high growth** **prospects?**



**Valuation Master Class**





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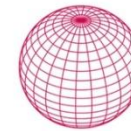
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Ajarn  
Andrew



# Can Philippine's largest Telco company Globe deliver on its high growth prospects?



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## Globe

**Sector: Comm. Serv.**



*Philippines' largest mobile network operator with a total mobile subscriber base of 78m, equaling around 52% market share*

### My value estimate:

**PHP3,472**

(Upside 11%)

**BUY**



### 3 things to know about this company

- ★ Home broadband expansion offers solid top-line driver
- ★ New entrant Dito challenges previous Filipino duopoly
- ★ Investment in mobile payments could pay off big

### Key statistics

Analyst consensus (12)

**PHP3,158**

(Upside 1%)

**HOLD**

PE ratio

**17x**

Dividend yield

**3.3%**

# Revenue breakdown 2021



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**Mobile 62%**



**Home broadband 18%**



**Non-service revenues  
10%**



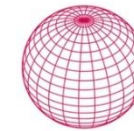
**Corporate data 8%**



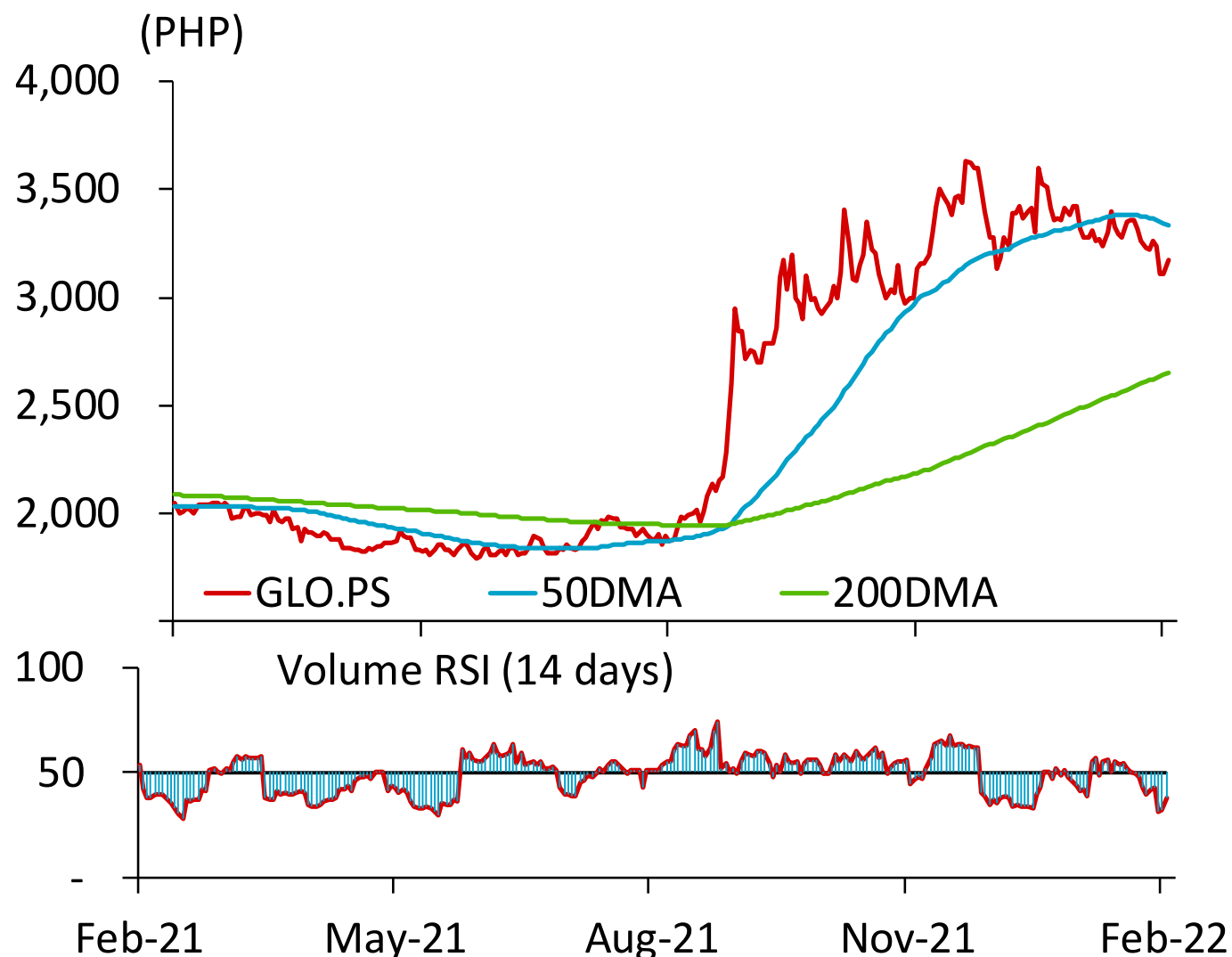
**Fixed line voice 2%**



# Share price rally could come to an end based on technical signals

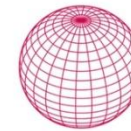


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- ★ In August 2021, Globe saw a massive 50%+ share price increase
  - The increase is mainly attributable to positive news about its latest fintech investment “Mynt”
  - The 50 DMA stayed well above the 200 DMA but it seems like that it is about to fall
- ★ Volume RSI has been weak recently; hence, does not provide any support

# 1 Home broadband expansion offers solid top-line driver



Sales

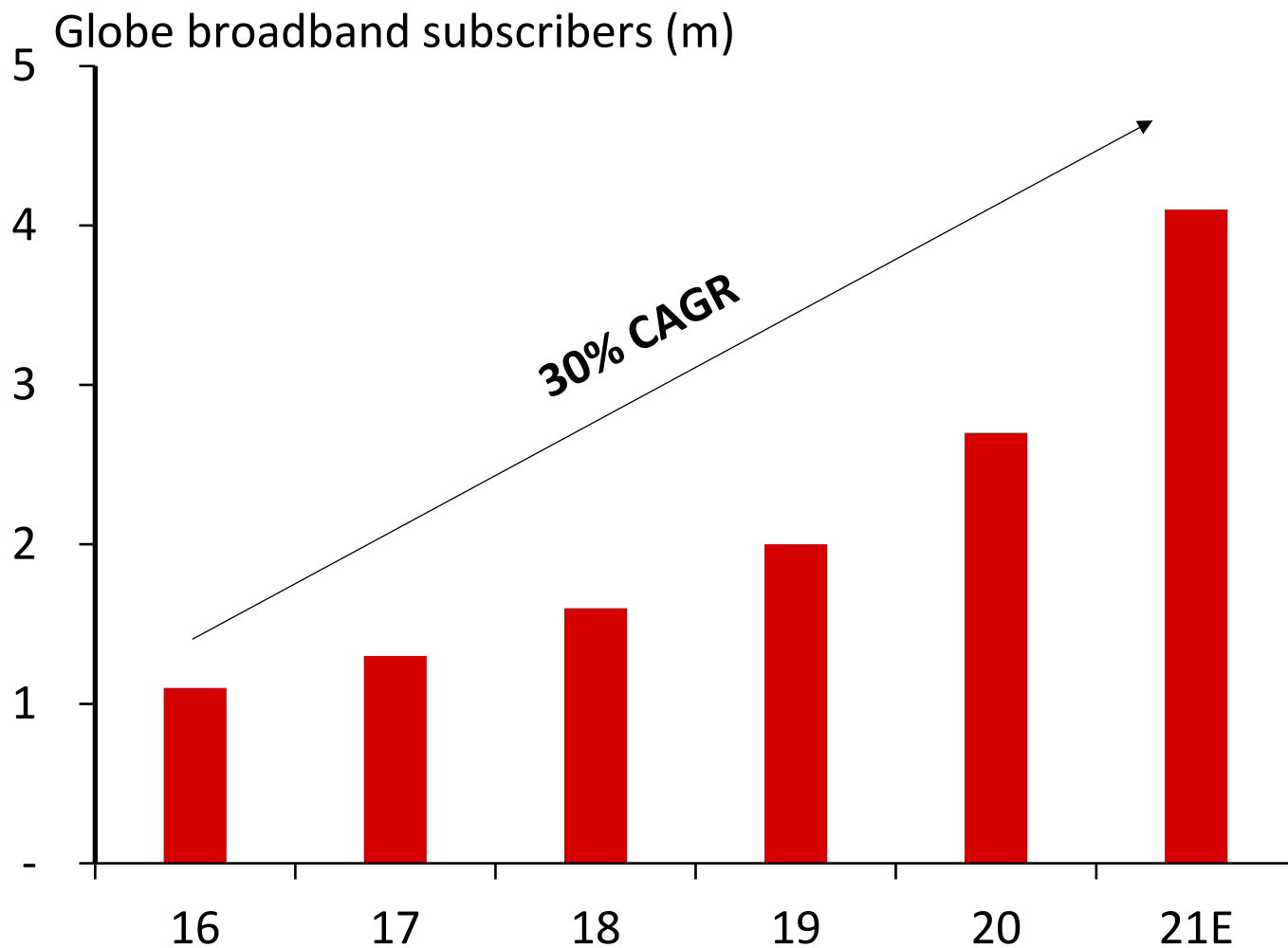
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- ★ In 9M21, Glove recognized 3.7m broadband subscribers, which is an 85% increase compared to 2019
- ★ The rapid increase was attributable to its accelerated rollout of fiber
  - In 2021, it reached 1.4m additional households with its fiber network
  - Currently, revenue from broadband makes up 20% of its service revenue



# Heavy investments required to stay ahead of competition



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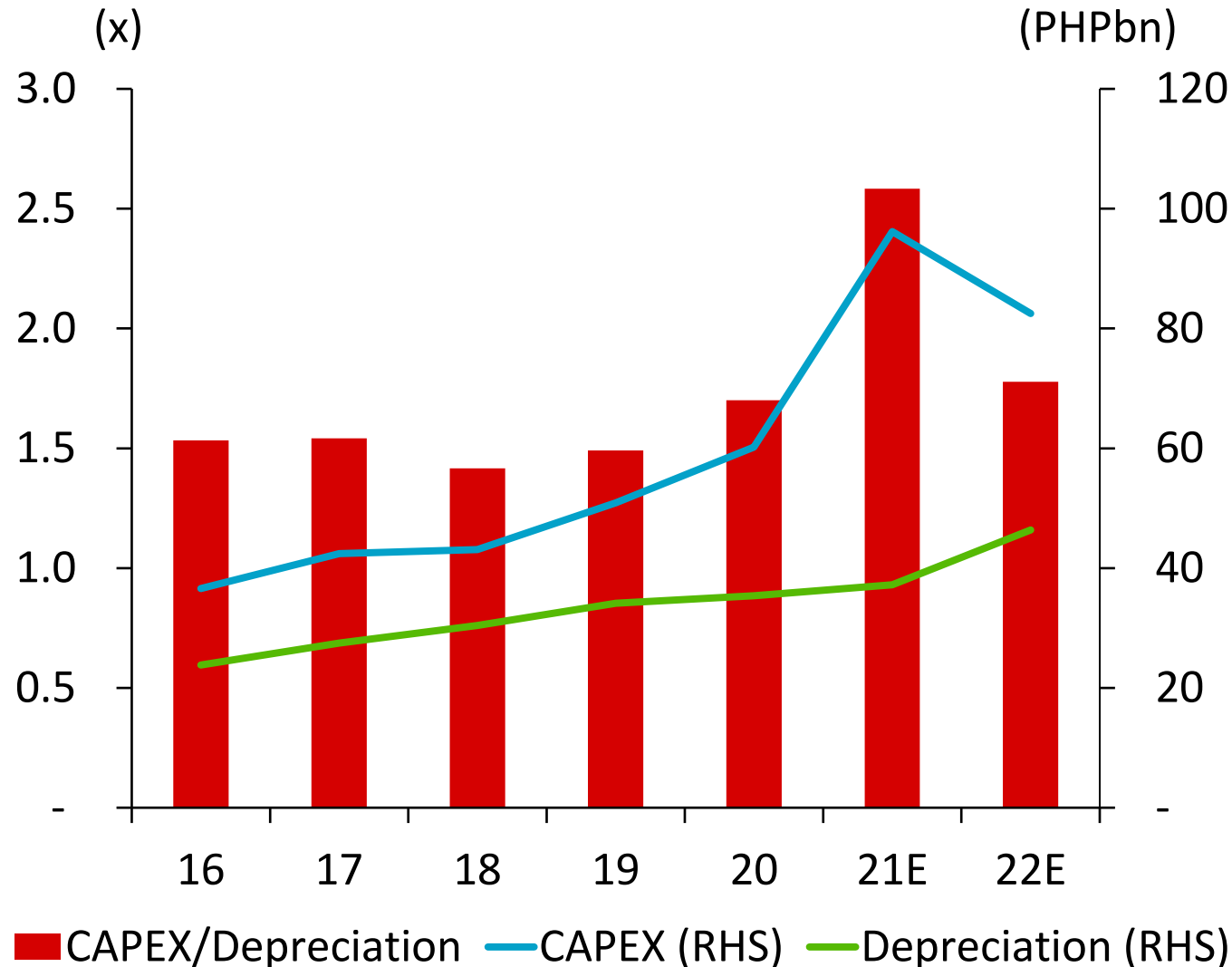
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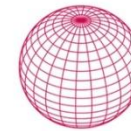
Risks



★ As disposable income rises in the Philippines, I expect households to have both a fixed broadband connection at home as well as mobile connections for family members

- Therefore, mobile operators must extend their network coverage
- Accelerating expansion is necessary to avoid losing market share

## 2 New entrant Dito challenges previous Filipino duopoly



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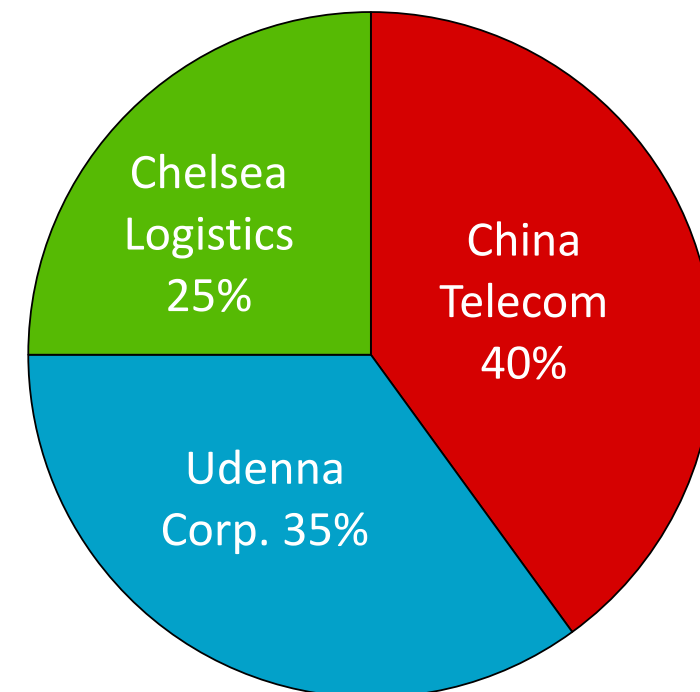
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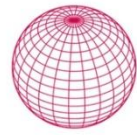
- ★ In March 2021, the China-backed company Dito started its commercial operations
  - Throughout the past year, it already acquired 5.3m subscribers
  - Annual CAPEX of more than PHP50bn to expand network coverage fast
- ★ For 2022, Dito targets to double its subscriber base to 12m, which means it could steal subscribers from Globe

### Dito consortium





# High mobile penetration means intensified competition



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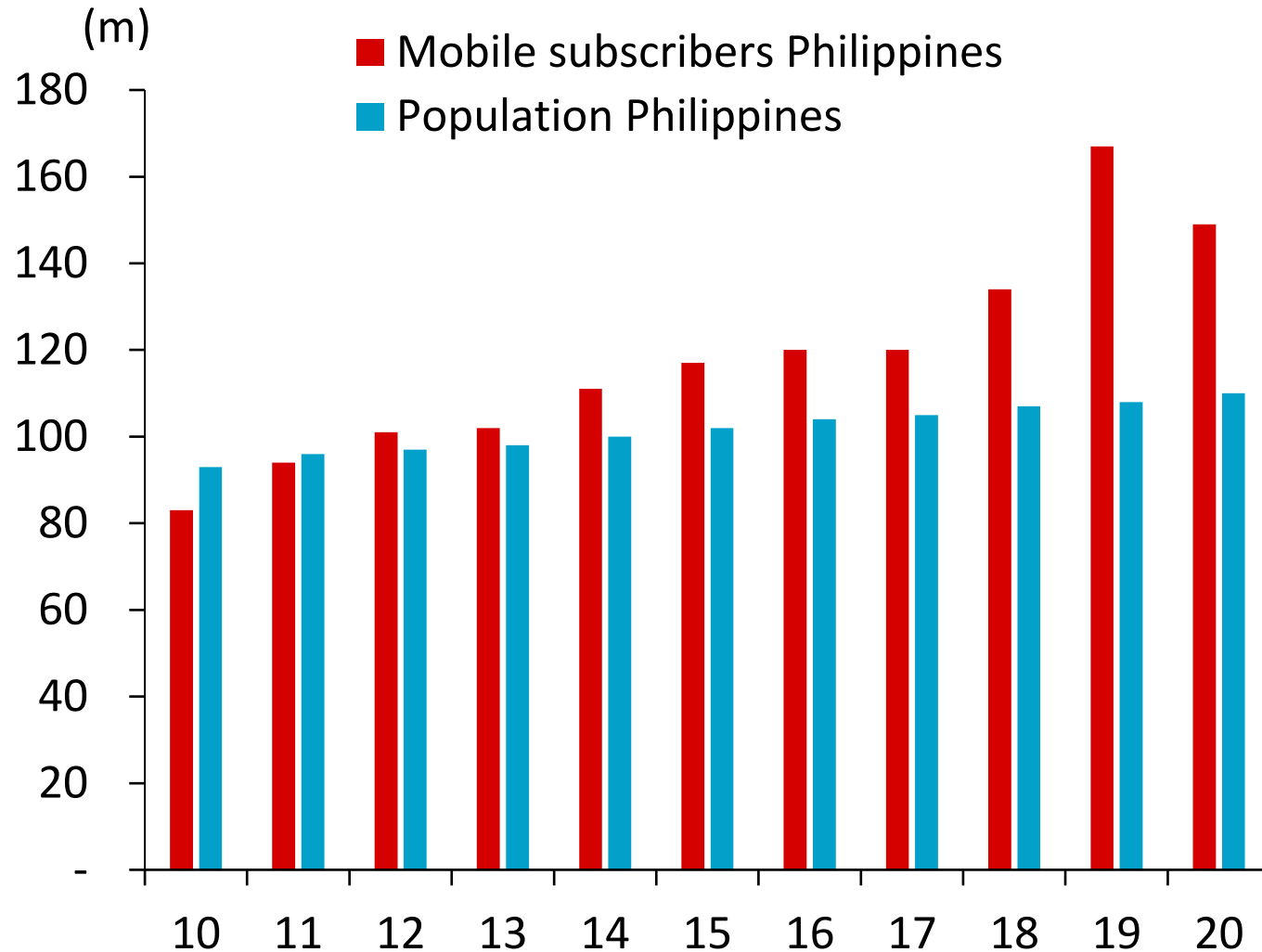
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- ★ With around 150%, mobile penetration is already high, and I don't see that number rising much further
- ★ This means that mobile operators need to sell more to current subscribers or win over subscribers from competitors in order to realize further growth
  - **The entrant of Dito makes the market more competitive**

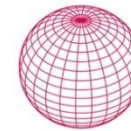
# What are the ways to grow revenue?

- Revenue growth is a key success factor of any business
- Simply put, revenue equals price times quantity
- Therefore, to increase revenue a company must either sell more of its products or increase the price of its products, or some combination of both
- One way to increase quantity is to bring new products to the market, this is what cell phone companies did when they rolled-out fiber optics networks



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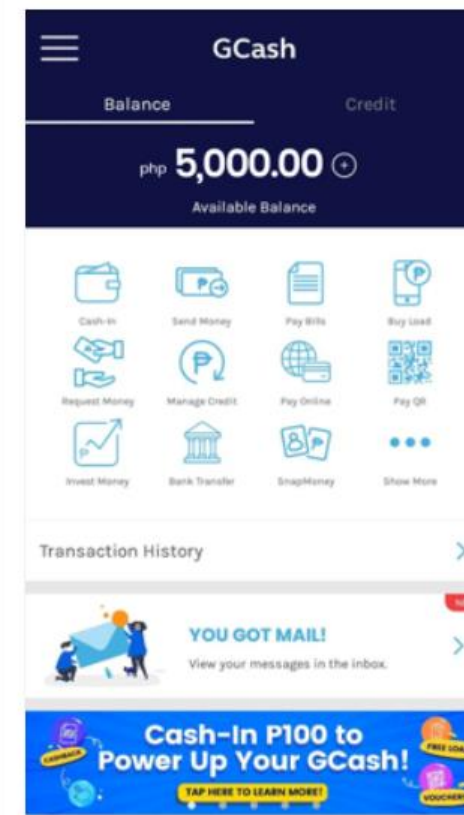
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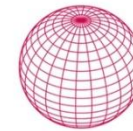
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- ★ **Globe bought a 40% stake in Mynt, a fintech firm engaged in mobile payments, and microloans**
  - **Mynt operates with GCash the largest e-wallet in the Philippines**
- ★ **GCash's user base and number of merchants is growing exponentially**
  - **In 3Q21, it recorded 51m users, up 10x compared to 2019**
  - **As a comparison, the aggregate of all e-wallet competitors is only 41m**





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Risks

- ★ In 2019 and 2020, Globe recognized more than PHP4bn equity loss from its investment in Mynt
  - However, in 2Q21, Mynt started to record a profit, and this could grow exponentially
- ★ With a current valuation of PHP\$100bn, Mynt is considered Philippine's largest unicorn that could be ready for IPO in 2022
  - I expect the investment in Mynt to be a key long-term profit driver



*Ranked in Credit Suisse's  
Southeast Asia 35 Unicorns list*





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By Valuation Master Class Student

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By Andrew Stotz

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What Does It Mean to Be Financially World Class?



### Liabilities To Assets Ratio

What Is Liabilities To Assets Ratio?



### Growth Year Over Year

What Is Growth Year Over Year?

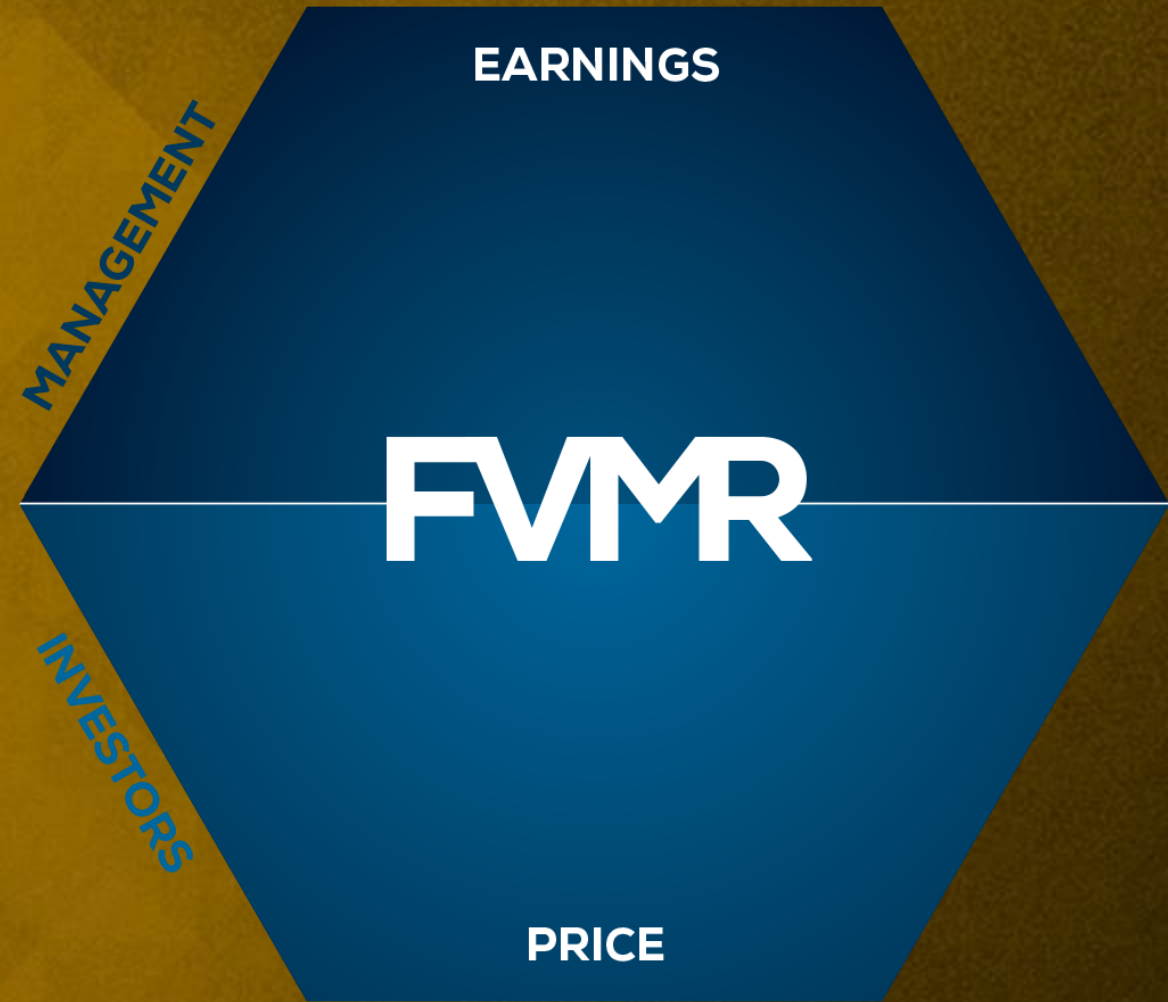
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Case Study reports for free.

*\*It's usually up within 24h.*



# FVMR Scorecard

- ★ Measures a stock's attractiveness relative to all other companies
- ★ Attractiveness is based on four elements
  - Fundamentals, Valuation, Momentum, and Risk
- ★ Scale from 1 (Best) to 10 (Worst)





# Strong fundamentals ride momentum



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### Fundamentals



(%)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Operating profit margin	18.7	22.1	24.5	24.0	23.6
Recurring net margin	9.8	11.6	12.9	13.3	16.0
Asset turnover	51.3	52.4	55.2	49.8	43.8
Return on assets	5.0	6.1	7.1	6.6	7.0
Recurring return on equity	20.4	25.1	27.9	26.1	32.0

### Valuation



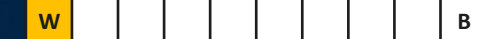
(x)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Price-to-sales	1.6	1.7	1.6	1.6	2.6
Price-to-earnings	16.3	14.8	12.0	11.8	16.5
Price-to-book	3.2	3.5	3.2	3.0	5.5
PE-to-EPS growth (PEG)	nm	0.5	0.5	nm	0.4
EV/EBIT	13.8	12.0	10.2	11.1	16.1

### Momentum



(%)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Revenue growth	7.2	11.7	10.2	(3.7)	2.3
Recurring EPS growth	(16.0)	31.3	22.6	(0.7)	38.3
Operating profit margin chg. (bps)	(239)	340	240	(44)	101
	6mth	3mth	1mth	3wk	1wk
Price change	78.3	21.4	3.8	(4.4)	(3.5)

### Risk

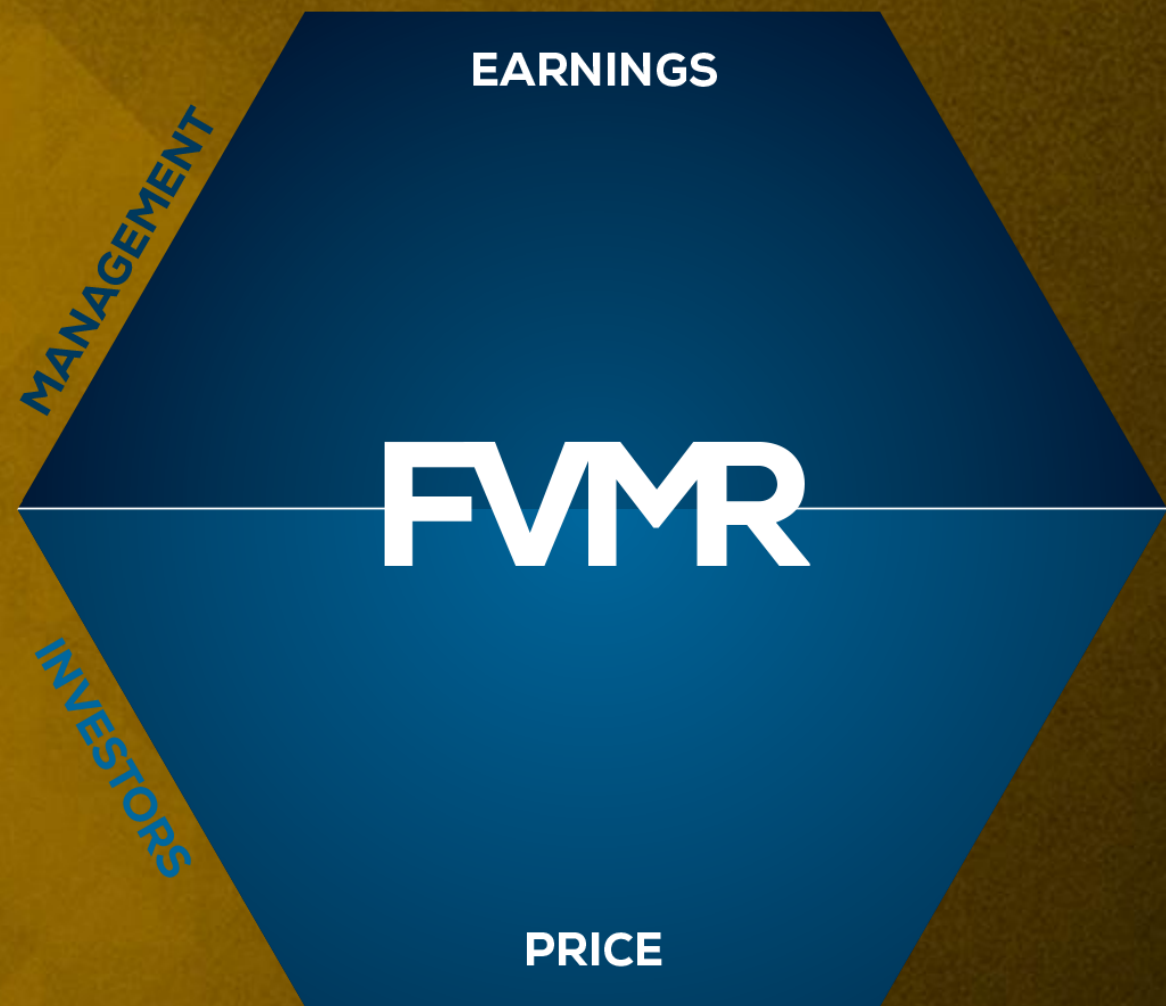


(x)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Current ratio	0.7	0.9	0.7	0.8	0.5
Net debt-to-equity (%)	183.6	173.5	164.2	183.9	245.0
Times-interest-earned	4.6	4.9	5.5	5.3	5.2
	5yr	3yr	1yr	6mth	3mth
Beta	0.5	0.4	0.9	1.5	1.3

Note: Benchmarking against 120 non-financial companies in Philippines.

Recently, I created a short  
online course explaining my  
FVMR investing approach

I usually sell it  
for \$97 but for  
a limited time  
I am offering  
it for FREE





# Consensus don't see upside after recent share price rally



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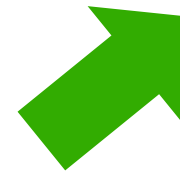
Risks

## Analyst consensus valuation

Recommendation	Oct-21	Nov-21	Dec-21	Current
Strong buy	2	1	1	1
Buy	1	1	2	2
Hold	8	7	5	5
Sell	1	3	4	4
Strong sell	-	-	-	-
Average score	2.7	3.0	3.0	3.0

Price target	Oct-21	Nov-21	Dec-21	Current
Median	2,750	2,918	3,018	3,158
Mean	2,699	2,840	3,091	3,167

12  
analysts



Upside: 1%

## Analyst consensus 3-year forecast

(%)	18	19	20	21E	22E	23E
Revenue growth	2.5	10.2	(3.7)	4.7	5.0	4.1
Gross margin	63.5	65.6	66.9	na	na	na
EBIT margin	23.3	25.3	23.7	22.4	21.1	20.7
Net margin	12.3	13.4	11.6	13.9	12.4	12.3

- ★ The majority analysts stay with a HOLD, while 4 analysts issued a SELL
- ★ Consensus expects solid single-digit revenue growth for the future
  - Also, margins are expected to stay stable



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(YE Dec, PHP m)	2019A	2020A	2021E	2022E
Revenue	166,660	160,520	167,743	176,130
Cost of goods & services	(57,389)	(53,105)	(57,536)	(61,646)
<b>Gross profit</b>	<b>109,271</b>	<b>107,415</b>	<b>110,207</b>	<b>114,485</b>
SG&A	(67,812)	(70,481)	(72,800)	(76,793)
Other operating (exp)/inc	668	1,107	89	93
<b>EBIT</b>	<b>42,127</b>	<b>38,041</b>	<b>37,495</b>	<b>37,785</b>
Interest expense (net)	(5,709)	(5,858)	(6,943)	(9,533)
Other non-operating inc/(exp)	2,028	3,430	(1,372)	343
<b>Earnings before taxes (EBT)</b>	<b>38,446</b>	<b>35,613</b>	<b>29,181</b>	<b>28,595</b>
Income tax	(10,544)	(8,517)	(7,295)	(7,149)
<b>Earnings after taxes (EAT)</b>	<b>27,902</b>	<b>27,097</b>	<b>21,885</b>	<b>21,446</b>
Equity income/Minority interest	(2,569)	(2,412)	991	1,006
<b>Earnings from cont. operations</b>	<b>25,333</b>	<b>24,684</b>	<b>22,876</b>	<b>22,452</b>
Forex/Exceptionals before tax	(3,064)	(6,106)	-	-
<b>Net profit</b>	<b>22,269</b>	<b>18,578</b>	<b>22,876</b>	<b>22,452</b>

- ★ After recording more than PHP4bn in losses from its investment in Mynt, it is likely to record a profit in 2021
  - Over time, it could evolve to a serious profit contributor





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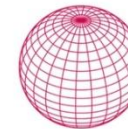
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(YE Dec, PHP m)	2019A	2020A	2021E	2022E
Cash & short-term investments	8,298	19,508	11,742	12,329
Accounts receivable	31,771	27,102	25,627	26,909
Inventories	4,714	5,989	4,954	5,308
Other current assets	16,957	11,499	14,761	15,852
<b>Total current assets</b>	<b>61,739</b>	<b>64,098</b>	<b>57,085</b>	<b>60,398</b>
Long-term investments	34,474	35,706	36,164	39,025
<b>Net fixed assets</b>	<b>186,229</b>	<b>194,593</b>	<b>251,126</b>	<b>284,941</b>
Intangible assets	12,654	13,902	16,120	18,176
Goodwill	2,899	3,151	3,355	3,574
Other long-term assets	6,295	28,329	36,828	38,670
<b>Total assets</b>	<b>304,291</b>	<b>339,780</b>	<b>400,678</b>	<b>444,783</b>

- ★ Heavy CAPEX required to expand network coverage and stay ahead of competitors



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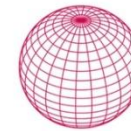
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(YE Dec, PHP m)	2019A	2020A	2021E	2022E
Overdrafts & short-term loans	13,902	9,521	13,238	19,534
Accounts payable	45,776	46,543	63,929	65,070
Other current liabilities	24,899	24,211	23,484	24,658
<b>Total current liabilities</b>	<b>84,577</b>	<b>80,275</b>	<b>100,651</b>	<b>109,262</b>
Long-term debt	125,625	159,796	202,672	229,020
Other long-term liabilities	12,842	16,904	17,327	18,193
<b>Total liabilities</b>	<b>223,044</b>	<b>256,975</b>	<b>320,650</b>	<b>356,475</b>
<b>Minority interest</b>	<b>135</b>	<b>237</b>	<b>318</b>	<b>397</b>
Paid-up capital - Common shares	43,917	44,312	44,312	44,312
Paid-up capital - Preferred shares	1,793	1,793	1,793	1,793
Retained earnings	37,170	40,682	47,826	56,027
Revaluation/Forex/Others	(1,767)	(4,220)	(14,220)	(14,220)
<b>Total equity</b>	<b>81,112</b>	<b>82,567</b>	<b>79,710</b>	<b>87,912</b>
<b>Total liab &amp; shareholders' equity</b>	<b>304,291</b>	<b>339,780</b>	<b>400,678</b>	<b>444,783</b>

- ★ Issuance of long-term debt necessary to fund expansion
  - Operating cash flows are not sufficient to fund growth internally yet





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(YE Dec)	2019A	2020A	2021E	2022E
<b>General growth (YoY, %)</b>				
Revenue	10.2	(3.7)	4.5	5.0
Assets	1.6	11.7	17.9	11.0
Gross profit	13.8	(1.7)	2.6	3.9
Operating profit	19.7	(9.7)	(1.4)	0.8
Attributable profit	19.5	(16.6)	23.1	(1.9)
EPS	19.3	(16.7)	25.4	0.1
Recurring EPS	22.4	(6.5)	1.6	0.0
<b>Du Pont analysis (%)</b>				
Net profit margin	13.4	11.6	13.6	12.7
Revenue per PHP100 of assets	55.2	49.8	45.3	41.7
Assets/equity (x)	4.0	4.0	4.7	5.2
Return on equity	29.6	23.2	28.8	27.4
<b>Others (%)</b>				
Effective tax rate	29.8	28.9	25.0	25.0
Dividend payout ratio	51.1	65.1	68.6	62.7

- ★ Dividend payout is high which means it could continue to deliver a solid dividend yield of 3%+



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(YE Dec)	2019A	2020A	2021E	2022E
<b>Internal liquidity (x)</b>				
Current ratio	0.7	0.8	0.6	0.6
Quick, or acid test ratio	0.7	0.7	0.5	0.5
<b>Working cap. mgmt (Days)</b>				
Inventory conversion period	30	36	34	30
Receivables collection period	68	66	57	54
Days from raw mat to coll	98	102	91	84
Payables deferral period	288	313	346	377
Cash conversion cycle	(191)	(211)	(255)	(293)
<b>Profitability ratios (%)</b>				
Gross profit margin	65.6	66.9	65.7	65.0
EBIT margin	25.3	23.7	22.4	21.5
EBIT return on avg assets	14.0	11.8	10.1	8.9
Return on average assets	7.4	5.8	6.2	5.3
<b>Financial risk (x)</b>				
Liabilities-to-assets (%)	73.3	75.6	80.0	80.1
Debt-to-equity	1.8	2.1	2.8	2.9
Net debt-to-equity	1.7	1.9	2.6	2.7
Times-interest-earned	12.3	12.1	10.6	8.7
Effective interest rate (%)	4.3	3.9	3.7	4.2

- ★ Leverage significantly increased over time
  - Based on its debt covenants, it can not go beyond a debt-to-equity ratio of 3.1x

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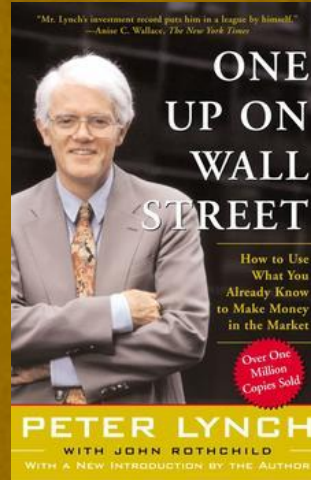


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# A. Stotz Investment Research Stock Picking Checklist

Inspired by

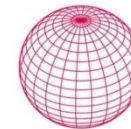
Peter Lynch's book



- ★ Ten baggers are stocks that go up 10x
- ★ We did extensive research on ten baggers and found...
- ★ 9 factors that drive long-term share price performance



# Long-term share price performance potential



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## A. Stotz Investment Research Stock Picking Checklist

Potential

Comment

Good / Moderate / Weak

**1. Management** – Management has a proven commitment to growth

Good

Management focus on increasing coverage and win over subscribers; pat 5-year revenue CAGR was 6%

**2. Growth** – Product and industry can support a decade of 10%+ annual growth

Moderate

Mobile penetration is high, but broadband and fintech investment could unlock growth

**3. Sustainable** – Competitive strategy creates sustainably high gross margin

Moderate

Market is with 3 players concentrated; however, new entrant Dito could start a price war

**4. Quality** – Good earnings quality, non-core items are small or non-existent

Good

Low fluctuations; net profit has been consistently positive

**5. Efficiency** – In the long run sales grow faster than assets

Weak

Heavy fixed investments required to grow; asset turnover is with 50% very low

**6. Tight** – Relatively low cash conversion cycle, negative is best

Good

Cash conversion is negative

**7. Cash flow** – Operating cash flow is consistently positive

Moderate

Consistent operating cash flows, but were not always sufficient to cover high investing outflows

**8. Capacity** – Company has access to capital to fund growth

Weak

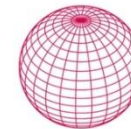
Leverage significantly increased and is close to reach its debt covenants

**9. Inexpensive** – Valuation is reasonable, avoid very expensive stocks

Moderate

Trades in line on 21E PE and high on PB compared to Philippine Telecoms, but higher ROE





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(YE Dec, PHP m)	2019A	2020A	2021E	2022E
EBIT	42,127	38,041	37,495	37,785
Est tax rate (%)	30	29	25	25
<b>NOPAT</b>	<b>29,574</b>	<b>27,061</b>	<b>28,121</b>	<b>28,339</b>
Add: Depre & amort	34,144	35,412	37,233	46,391
Less: CAPEX	(50,874)	(60,176)	(86,859)	(72,094)
Chg in A/R	(861)	4,669	1,474	(1,281)
Chg in inventory	141	(1,275)	1,034	(354)
Chg in oth curr assets	(2,424)	5,458	(3,262)	(1,090)
Chg in A/P	(429)	767	17,385	1,142
Chg in oth curr liabs	2,397	(688)	(727)	1,174
<b>Less: Chg in working cap</b>	<b>(1,176)</b>	<b>8,931</b>	<b>15,905</b>	<b>(410)</b>
Less: Chg in invest cap				
<b>Free cash flow to firm</b>	<b>11,667</b>	<b>11,228</b>	<b>(5,599)</b>	<b>2,226</b>

- ★ FCFF in 2021 is likely to end up negative due to an increase in CAPEX
  - However, it should be able to deliver positive FCFF again from 2022 onward



Sales

Story

FVMR

Value

WCB

Risks

Forecast assumptions			
	3-year average	Consensus	My assumptions
Revenue growth (CAGR)		4.6	4.8
Gross margin		na	65.2
EBIT margin		21.4	21.8
Net margin		12.9	13.0

My valuation method			
Market: Philippines			
Market risk-free rate		5.0	
Market equity risk premium		8.0	
Market return		13.0	
Company beta (x)		0.8	
COE		11.0	
WACC		7.7	
Terminal growth rate		2.0	

Valuation Method:  
FCFF

- ★ Similar to consensus, I expect stable revenue growth over the next few years
  - I am a bit more optimistic on margins as I expect the third competitor Dito will not be able to scale fast enough
- ★ Over the long run, I assume Globe to grow in line with population growth, which is around 2%



Sales

Story

FVMR

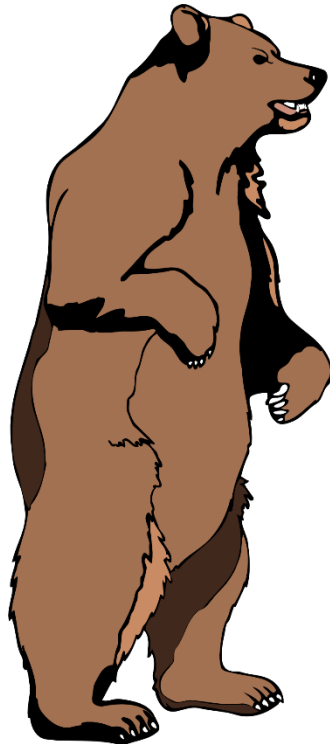
WCB

Ratios

Value

Risks

**Bear**  
**PHP3,273**  
(Upside 5%)



**Base**  
**PHP3,472**  
(Upside 11%)



**Bull**  
**PHP3,671**  
(Upside 18%)





# World Class Benchmarking Scorecard

- ★ We identify a company's competitive position relative to global peers
- ★ We use a composite rank of profitability and growth, called "Profitable Growth"
- ★ Scale from 1 (Best) to 10 (Worst)



# Consistent profitability and above average growth



Sales

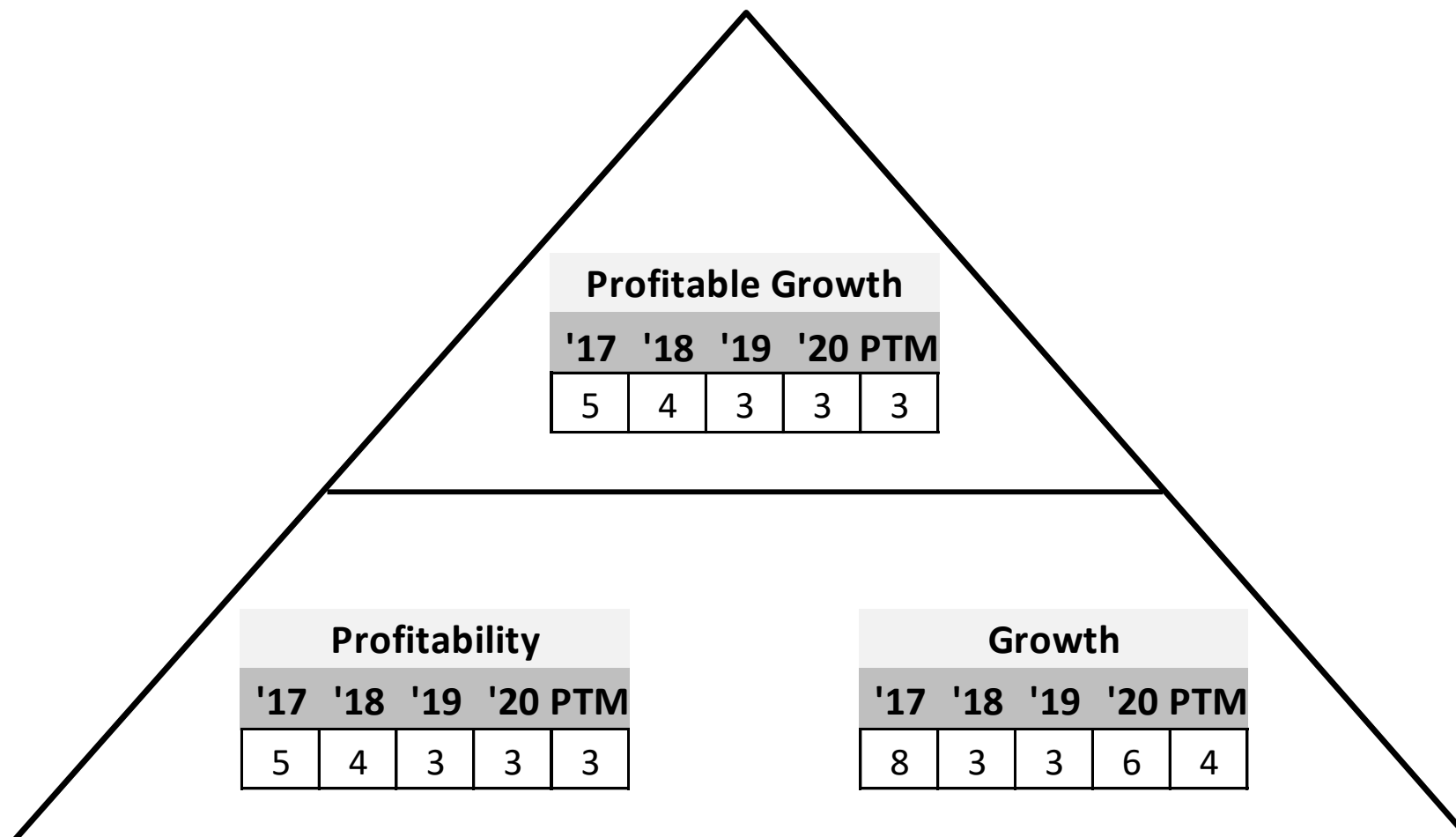
Story

FVMR

Value

WCB

Risks



Benchmarked against 270 large Comm. Serv. companies worldwide.



Sales

Story

FVMR

Value

WCB

Risks

- ★ Less-than-expected return on CAPEX in a capital-intensive industry
- ★ Overestimation of profit contribution from Mynt investment
- ★ Failure to keep up with technological changes



# CONCLUSION

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- The company recognized the potential of broadband to provide solid growth opportunities
- With a potential IPO of its fintech investment Mynt, share price could see another surge
- High ROE could justify slightly expensive valuation



**Can Philippine's  
largest Telco  
company Globe  
deliver on its high  
growth prospects?**

