Philequity Corner
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Manilwa Water Corp – Shining example of a successful privatization (03/21/05)

Manila Water Corp. (MWC) debuted on the Philippine Stock Exchange last Friday and closed at P6.90 or 6.2% higher than its IPO price of P6.50. MWC gained as much as 17%, registering an intraday high of P7.60, but the strong opening was met by profit-taking as the day was marked by broad-based correction in the market with the PHISIX declining by 2.4%. A number of reasons triggered the market decline:

1) the delay of the much-awaited VAT bill;
2) the decline in global equity prices due to the record-rise in crude oil prices;
3) and threat of possible terrorist attacks following the failed prison escape by suspected terrorists over the weekend.

Going back to MWC, the closing price of P6.50 translates to a PE multiple of 7.3x for 2005 and an EV/EBITDA of 5.8x. We continue to maintain our positive outlook for this stock despite the initial profit-taking, which was mainly market-driven.

The following are the reasons why we like this stock:

1) Valuations are attractive (Both to regional peers and to intrinsic value)

The table below shows a comparative valuation summary of MWC relative to its peers in the region. Note that MWC is undervalued in almost all key categories namely PER (discount of 54% from regional average) and EV/EBITDA (57.7% discount). It also has attractive PEG (P/E to Growth) ratio of 0.24.

Relative Valuation on Regional Water Companies
(Share Prices as of March 18, 2005)

Stock	Country	Market Cap (US$ mil)	PER (x)		EV/EBITDA	EPS Growth (%)	PEG (x)
			2004	2005	2005	2005F	2005F
Regional Water Utilities							
Puncak Niagara	Malaysia	$ 386.00	24.20	12.75	8.90	79.00%	0.16
Ranhill Utilities	Malaysia	$ 256.00	10.50	9.60	9.80	5.50%	1.75
Eastern Water	Thailand	$ 95.00	11.21	10.66	8.75	8.55%	0.55
Regional Avg			**15.30**	**11.00**	**9.15**		
Manila Water Corp	**Philippines**	**$ 283.25**	**8.90**	**7.30**	**6.00**	**28.90%**	**0.24**

2) Demand

There was a strong reception in the IPO road show of MWC which some say indicates an over subscription of 15x to 18x. While it still remains to be seen whether this will translate to actual market buying, the oversubscription is indicative of investor sentiment to the stock's valuation and growth prospects.

3) Efficiency and Possible Upward Earnings revisions

Management has been successful in improving operating efficiency of the company as it has spent significant amount (over P5 billion the last three years) in terms of capital expenditures alone. This can be seen in the fact that MWC was able to decrease its receivables and Non Revenue Water (lost revenues due to leakage and pilferage) by 16 basis points from when it received its concession in 1997. In fact, its current NRW levels (47% for full year 2004 and 43% as of December 2004) is already three years ahead of schedule in terms of its commitment targets to the government.

These improvements would effectively result in improvement in margins and possible upward earnings revisions going forward.

Hence, we believe that MWC is a stock that has fundamental value and has significant growth prospects and is not just worth for a "quick buck" contrary to what many believe.