

Fil-Hispano Holdings : A Direct Play In the High Growth “Sunrise” Industry----Business Outsourcing

Fil-Hispano Holdings Inc (FH) is currently the only direct play on the Philippine outsourcing industry which is expected to grow to as much as US\$10 billion in six years.

A recent study by the IDC estimates that global outsourcing is expected to grow to US\$200 billion industry by 2010. Assuming the Philippines captures its target market share of about 5% (as estimated by the DTI), it would translate to more than a 20 fold increase in revenues from US\$500 million last year. A recent BNP Paribas study estimates that by 2010, outsourcing will contribute 6.5% of GDP or equivalent to the current impact of telecommunications and transport sectors combined.

Estimates by the DTI is confirmed by a report done by the Data Monitor (an independent research firm) which estimated that the Philippines is projected to have the highest call center growth rate among its Asian neighbors at 25.5% CAGR over the next six years. The same study estimates a total of 1,227 call centers in the Philippines by 2008 from only 641 in 2004.

We believe that FH is well positioned to take advantage of this tremendous growth in the outsourcing business as it is currently ranked among the top five call center operators in the country with an estimated market share of about 9%. The company estimates that it will have 2,700 seats by the end of the first half of 2005. This will be in three locations: 1) five floors of Citibank Centre in Makati, 2) two floors of Allied Bank Building (also in Makati), and 3) in the Light and Industry Science Park in Cabuyao, Laguna.

The company also has a well diversified client base with 80% of its business in 2004 coming mainly from American companies that include, a TV shopping network, a telecom company and a financial services company. FH also services a leading telecom firm in the Philippines which contributes 20% of its revenue base.

The client pipeline is also packed as FH recently got another 700-seat contract from a US-based direct broadcast provider. They are currently in negotiations with six new clients which can bring in another 960 seats (increase of 48% from year end 2004 capacity of 2,000 seats) by the end of the year. These potential clients are all based in the US engaged in diverse businesses like transport, appliance manufacturing, financial services, internet and computers. They are also in talks with potential domestic clients as well as some acquisitions (small to medium sized call centers) which would be synergistic to their current core business.

In terms of valuation, FH is trading at 16.7x 2005F PER and 11.97x 2006F PER as of its last Friday's closing. While this may appear to be on the high side relative to other stocks in the local market, we believe that FH's high PE can be justified by its strong growth prospects. Its PEG (PE to growth) ratio for 2005F and 2006F are at 0.10x and 0.28x, respectively, which is among the lowest in the local market.

In the table attached below, we have included a comparative valuation of FH to its regional and global peers. FH is currently trading at a discount to almost all valuation metrics. From a PER standpoint alone, FH is trading at a 16.4x and 11.7x for 2005F and 2006F, respectively. These valuations are below its regional peers, which are averaging above 30x PER '05 and 23x PER '06. PEG metrics also show a steep discount for FH as other companies are trading at 0.33x to 2.97x versus 0.20x for FH for 2006.

Comparative Valuation of Listed Call Center Companies

Company	Country Listed	Market Cap (US\$m)	Price to Earnings		EPS Growth		PE to Growth	
			2005F	2006F	2005F	2006F	2005F	2006F
Convergys	U.S.	\$ 2,100.0	15.30	13.70	24.5%	12.1%	0.62	1.13
People Support	U.S.	\$ 157.6	22.10	15.07	-11.9%	40.9%	(1.86)	0.37
Sykes Enterprises	U.S.	\$ 257.1	37.50	28.50	13.8%	9.6%	2.72	2.97
Teletch Holdings	U.S.	\$ 969.9	27.90	18.00	38.5%	55.1%	0.72	0.33
West Corp.	U.S.	\$ 2,200.0	18.50	16.50	23.2%	11.9%	0.80	1.39
Infosys Tech	U.S.	\$ 20,070.0	49.30	37.00	45.5%	33.1%	1.08	1.12
Wipro Ltd	U.S.	\$ 14,382.0	41.40	32.00	58.0%	31.0%	0.71	1.03
Tata Consultancy Services	India	\$ 15,660.7	26.70	21.00	44.4%	29.3%	0.60	0.72
Average			29.84	22.72	29.5%	27.9%	0.68	1.13
FH Holdings	Philippines	\$ 104.3	16.38	11.73	166.0%	41.0%	0.10	0.28

Overall, we like the prospects of FH and we label it not just a GARP play but an E-GARP play (Extreme Growth at Reasonable Prices). This is a stock which you can keep for the long haul given that the Philippine outsourcing is still at its nascent stage.

The current domestic outsourcing industry could be comparable to that of the domestic cellular industry in the mid 1990s and as such has a potential of translating into significant share price gains for FH.

Investor Education Corner – What are Key Reversal Days?

The bloodbath in the market reached a climax last Wednesday when the PHISIX overcame an intraday loss of 41 points and finish the day higher by 19 points. The PHISIX registered an intraday low of 1890.78 that day - the lowest so far for the PHISIX in two months. At that point, the chart signaled a **key reversal low** which signals a possible bottom (see following chart). In technical analysis, a key reversal low occurs after a downtrend after meeting the ff. conditions:

- 1) The Opening Price must be below the previous day's Closing Price.
- 2) The day must make a new Low, and
- 3) The Closing Price must be above the previous day's Highest Price.



Key reversal days are easy to identify and execute due to the clear rules associated with the pattern and the ease of entry. In the case of the PHISIX, the key reversal low last Wednesday indicates a “buy” on the opening on Thursday.

On a stand-alone basis, however, key reversals are short-term trading patterns only. Other patterns, such as momentum divergences (to be discussed next week), should be used in tandem with Key Reversals for confirmation.

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