

Philequity Corner (March 9, 2009)
By Valentino Sy

A White Knight Emerges in Meralco

In medieval times and in folklore, white knights are knights loyal to the king. They slay dragons, rescue maidens and protect the king's crown jewels. Black knights, meanwhile, are those considered hostile to the throne. They are former knights who have been stripped-off their heraldic standards and who have renounced their allegiance to the king.

In the corporate world, however, a "white knight" refers to a saviour that comes in to save a company from the clutches of an unwelcome intruder (black knight).

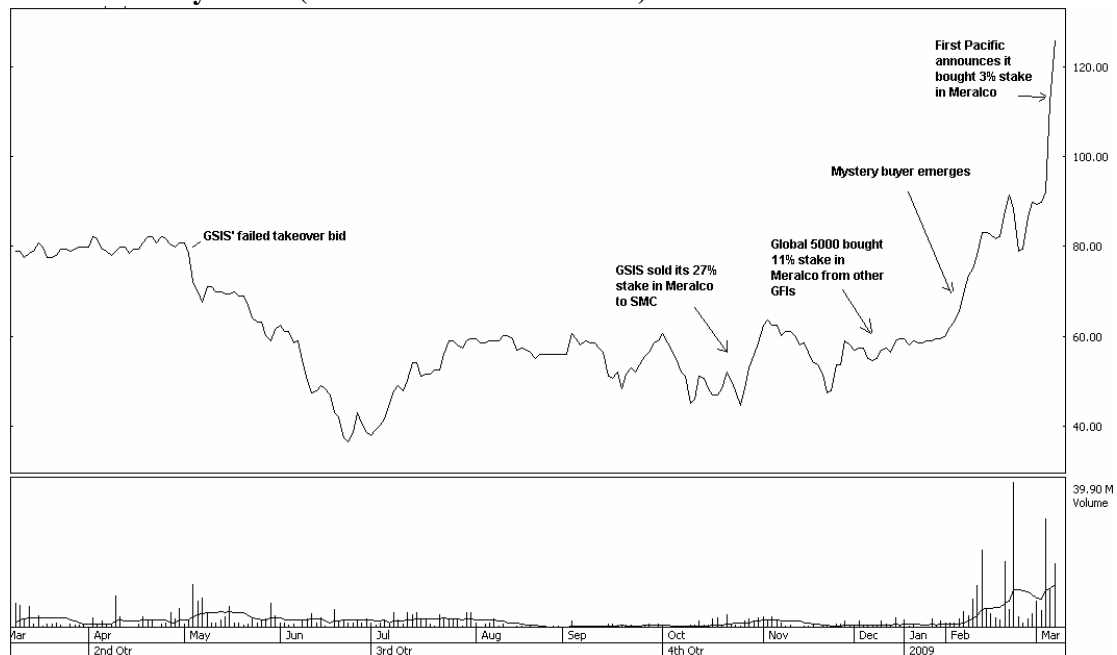
The Battle for Meralco

Generally, hostile takeover battles lead to proxy fights where the two opposing camps try to get as much votes in time for the next annual meeting. This is done by buying as much stock from the board and by seeking support from the other shareholders. This is clearly what happened to Meralco which has been a target for a takeover since last year.

A failed takeover last year sent its shares plunging to below Php40 per share. But a renewed takeover bid this year, sent its share price surging back to a record close of Php126 last Friday.

In Meralco's case, the white knight appears to be Manny V. Pangilinan (MVP as he is fondly called) who represents the interests of First Pacific.

Meralco's Daily Chart (March 2008 – March 2009)



Source: Technistock

The crown jewel of the Lopez empire

Meralco is considered the crown jewel of the Lopez empire. The company is the largest distributor of electrical power in the Philippines. It is the sole electric power distributor in Metro Manila and holds the power distribution franchise for some 25 cities and 86 municipalities covering 9,337 square kilometres. In 2008 alone, it sold 26.2 billion kilowatt hours of electricity to 4.5 million customers.

Don Eugenio Lopez, Sr., acquired Meralco in 1962. However, in 1972 (under Martial Law), the company was stripped away from the Lopezes as the country's power generation, transmission were forcibly nationalized. During that time, Don Eugenio Lopez Sr.'s son, Eugenio Lopez, Jr. (better known as Geny) was arrested and held captive by the government in order to force the father to give up his holdings in the company.

In 1986, President Corazon Aquino handed back Meralco to Lopez family after the People Power Revolution.

The saga continues

Since 2007, we have written about Meralco and its potential as a possible takeover target. In fact, we said that:

*“If there is one business group whose interests are closely intertwined with the country's economic and political fate, it is that of the Lopezes... Ironically, their economic and political profile has rendered the group vulnerable to powers-that-be.” – Philequity Corner (see *Resurgence of the Lopez Empire* in the February 12, 2007 issue of **The Philippine Star**).*

The colourful history Meralco did not end in 1986 when President Aquino handed the company back to the Lopezes.

- In the late 1990s to early 2000s, a string of unfavourable court rulings caused a financial hemorrhage for Meralco.
- In 2006, Meralco received a favourable ruling from the Supreme Court granting its rate hike petition in connection with a mandatory tariff unbundling. This enabled the company to recover some P20 billion (gross of taxes) to its book value and restored Meralco back to a stronger financial shape.
- In 2007, First Philippine Holdings Corp. (FPH) agreed to buy the 40 percent stake held by Spain's Union Fenosa in First Philippine Union Fenosa, Inc. This move was aimed to secure the Lopez family's interests in Meralco.
- In January 2008, the national government sold its 9.9 percent stake in Meralco to GSIS. GSIS continued to accumulate shares in the market prior to last year's annual meeting in a losing takeover bid.
- In October 2008, GSIS sold its the 27 percent stake in Meralco to SMC on a three-year instalment at Php90 per share each.
- In December 2008, Global 5000 (an SMC ally) bought an 11 percent stake in Meralco held by other government financial institutions.
- At end-2008, SMC appeared to have an upper hand since it held 38 percent of Meralco's shares compared to the Lopez Group's 33.4 percent.
- During the past couple of months, price action has shown that a large accumulation has been happening in market as the share price zoomed from 60 from the start of the year to 126 as of last Friday which coincided with the cut-off date for the determination of proxies.
- The Lopez group appeared to have found a white knight in First Pacific of Hong Kong which disclosed last week that it bought 37 million shares or 3 percent of Meralco for Php91.50. MVP, First Pacific's Managing Director and CEO, neither confirmed nor denied that his firm has bought additional Meralco shares in the market. But based on our computations, First Pacific may have bought another 10 to 12 percent in the market from various brokers.

Will MVP remain a white knight or will he eventually be king?

The question now is: whether First Pacific will just remain a saviour of Meralco and a partner of the Lopezes or will it eventually acquire the Lopez family's stake?

Remember, that only a few years back, First Pacific already tried to get into Meralco by bidding for Union Fenosa's stake. However, the Lopezes First Philippine Holdings won over First Pacific by virtue of its right of first refusal. Later on, First Pacific also expressed interest in GSIS' stake in Meralco but SMC beat them to the punch.

MVP has always liked monopolies or oligopolies. Meralco certainly fits into his criteria. But moreover, Meralco brings along a lot of synergies to First Pacific's PLDT. Meralco has a significant fiber optic cable network in Metro Manila.

In addition, it is to PLDT's interest that Meralco remains with the Lopezes (if not eventually sold to First Pacific). PLDT's lines ride on Meralco's network of cables and posts, so a possible SMC takeover is a big threat to the telco giant. Moreover, SMC has already hinted to plans that it may offer broadband services to Meralco customers using the power utility's cable lines, which would give PLDT an unwanted competition.

MVP Grand slam

MVP won the grand slam in basketball. The teams he supported (San Beda for the NCAA, Ateneo for the UAAP and Talk and Text for the PBA) all won their respective championships. Will he score another grand slam, but this time in the corporate world? Recently, he has acquired water utilities (Maynilad), infrastructure (First Philippine Infrastructure, Inc.) and health services (Makati Med, Cardinal Santos and Davao Doctors Hospital) under his belt.

Will the power distribution business (Meralco) be the next acquisition to complete the grand slam?

Manny! Manny! Manny!

Cheers of "Manny! Manny! Manny!" are heard when Manny Pacquiao fights. Traders in the PSE, meanwhile, clap and cheer whenever Meralco shares go up. Will they now cheer "Manny! Manny! Manny!" when Meralco shares rise in the PSE trading floor?

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