

## Philequity Corner (March 16, 2009)

By Valentino Sy

### Checkmate!

The battle for control of Meralco was like a classic chess game played to perfection. Just like the board game dubbed as the “King’s Game”, this corporate match had displayed touches of brilliance in terms of strategy and tactics.

On one side was the SMC/GFIs group who played the aggressor all throughout. And on the other side was the Lopez/PLDT group who was mostly on the defensive but was able to launch a successful counter-attack late in the game. In the end, it entailed a “sacrifice” by the Lopez family (who sold 20 percent of their Meralco holdings to PLDT) to thwart a hostile takeover bid from the SMC/GFIs group.

### The Opening Moves

In Chess, the Opening is the group of initial moves aimed to strategically gain control of the board and develop the pieces for possible attacks at the opponent. During this stage - in the battle for control of Meralco - SMC gained the strategic upper hand.

They bought GSIS’ 27.01 percent stake in Meralco back in October 2008. Then, they fortified that position in December 2008 by acquiring the voting rights of SSS and DBP which is equivalent to 7 percent of Meralco’s outstanding shares. Included in the deal was the acquisition of voting rights to Landbank’s 3.8 percent stake. It turned out however, that Landbank’s shareholdings were allegedly sold in public auction to a certain Josefina Lubrica. The said shares have now become a legal issue.

But even without the votes coming from contested Landbank stake, the SMC/GFIs group now controlled 34.01 percent of Meralco, a slight advantage to the Lopez Group’s 33.39 percent.

<b>BEFORE MVP's ENTRY</b>	<b>% Stake in Meralco</b>	<b>Remarks</b>
<b>Lopez Group</b>	<b>33.39%</b>	
First Philippine Union Fenosa	22.71%	100% owned by FPHC
First Philippine Holdings Corp.	10.68%	
<b>Meralco Pension</b>	<b>2.18%</b>	
<b>SMC/GFIs</b>	<b>34.01%</b>	
SMC	27.01%	acquired from GSIS
SSS	6.00%	voting rights acquired by SMC
DBP	1.00%	voting rights acquired by SMC
<b>Landbank</b>	<b>3.80%</b>	contested shares
<b>Public</b>	<b>25.80%</b>	

Note that another key vote comes from Meralco’s pension fund which holds 2.18 percent interest in company. But whatever that vote maybe, it will surely be contested by the losing side.

### **The Middlegame: White knight to the rescue**

The middlegame is where things got to be more interesting as both sides attacked, defended and counter-attacked. We estimate that SMC/GFIs group acquired an additional 3 percent of Meralco in the secondary market but this will eventually still fall short. It turned out that a “white knight” will tilt the game in favour of the Lopezes (see our article titled *A White Knight Emerges in Meralco* in last week’s issue of The Philippine Star).

In our article last week, we said that the “white knight” is MVP. Initially, Hong Kong’s First Pacific (where MVP is both Managing Director and CEO) acquired 3 percent of Meralco at 91.50 per share. While it was not disclosed who the seller was, our guess is that it was Meralco’s pension fund who sold its original 2.18 percent stake plus an additional .82 percent stake it appeared to have gotten from the secondary market.

Tactically, selling the pension fund’s stake to the PLDT group is crucial for the Lopezes as this ensures that the pension fund’s vote will not go to the SMC/GFIs group.

In addition to the 3 percent stake bought by First Pacific, we also mentioned that MVP may have bought another 10 to 12 percent of Meralco in the market, which turned out to be correct. Last Monday, PLDT disclosed that newly-formed PLDT Beneficial Trust Fund (BTF) had accumulated 10.17 percent of Meralco in the market. From the period of February 3 up to March 6, BTF had acquired 113.3 million Meralco shares at an average price of P90.52 per share.

### **The Endgame: White knight is crowned King**

In our article last week, we asked the question: “*Will the MVP remain a white knight or will he eventually be King?*” By Friday, our question was answered. It was disclosed that PLDT’s subsidiary Piltel will acquire 20 percent of Meralco from the Lopezes for a cash consideration of P20.07 billion or P90 per share.

Thus, the final tally shows that the PLDT group will end up owning 33.17 percent of Meralco. The Lopez family will be left with 13.39 percent. When combined, the PLDT and Lopez stakes amount to 46.56 percent of Meralco, more than enough to secure control of the company.

Meanwhile, the SMC/GFIs group bid for control fell short. In the end, they can only come up with around 40 percent of Meralco (which includes the 5 to 6 percent which we estimate they bought on the board).

Unless the SMC/GFIs group spring a surprise by gaining a majority of the proxies, it looks like MVP will be crowned the new king in Meralco.

<b>AFTER MVP's ENTRY</b>	<b>% Stake in Meralco</b>	<b>Remarks</b>
<b>PLDT Group</b>	<b>33.17%</b>	
Piltel	20.00%	acquired from Lopez Group
PLDT Beneficial Trust Fund (BTF)	10.17%	acquired from market (disclosed)
First Pacific	3.00%	acquired from Meralco Pension
<b>Lopez Group</b>	<b>13.39%</b>	
<b>PLDT + Lopez Groups</b>	<b>46.56%</b>	
<b>SMC/GFIs</b>	<b>40.01%</b>	
SMC	27.01%	acquired from GSIS
SSS	6.00%	voting rights acquired by SMC
DBP	1.00%	voting rights acquired by SMC
Acquired from market	6.00%	
<b>Landbank</b>	<b>3.80%</b>	contested shares
<b>Public</b>	<b>13.39%</b>	

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