

Philequity Corner (July 13, 2009)
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Turf Wars

In the Philippine Basketball Association (or PBA), San Miguel and Talk N' Text are the major players. Danding Cojuangco / Ramon Ang are at the helm of San Miguel while Manny Pangilinan (or MVP) is the head honcho of Talk N' Text. Combined, they are the owners of five of the ten teams in the country's premier basketball league. San Miguel group owns Ginebra, Purefoods, and, of course, their flagship club, San Miguel. Talk N' Text is owned by PLDT where MVP is the chairman, while Burger King is identified with the group of MVP.

Even in the collegiate level, these executives are known to support their respective alma maters. Manny Pangilinan is the No.1 supporter of the Ateneo Blue Eagles. Danding Cojuangco used to be the major patron of the De La Salle Green Archers. Very few know that Ramon Ang is an alumnus of the FEU Tamaraws.

And now, the Danding/Ramon Ang/San Miguel versus MVP/PLDT/Metro Pacific rivalry has spilled over to the corporate boardroom.

Changing the Corporate Landscape

San Miguel shook the market and altered the corporate landscape when it changed its strategic thrust and focused more on non-food businesses. First, it sold its Australian food and beer businesses and thereafter sold its beverage businesses to The Coca Cola Company. It likewise spun-off its local beer unit by conducting an IPO for San Miguel Brewery and then sold 49% to Japan's Kirin Holdings.

Armed with excess liquidity, it bought strategic stakes in major utilities like Petron and Meralco. Currently, San Miguel is bidding for government infrastructure projects such as power generation assets, an express toll road, and a water dam facility.

Meanwhile, MVP has diversified into water by taking control of Maynilad Water, toll road management through the purchase of North Luzon Expressway, and mining via a share purchase in Philex Mining. It also sprung a deal with the Lopezes to take control of Meralco.

Listed Companies Associated with MVP and Cojuangco / RSA	
Manny Pangilinan	Danding Cojuangco / Ramon Ang
Phil. Long Distance Telephone Co.	San Miguel Corporation
Metro Pacific Investments Corp.	San Miguel Brewery, Inc.
Pilipino Telephone Corp.	Petron Corporation
Philex Mining Corp.	Ginebra San Miguel, Inc.
Metro Pacific Tollways Corp.	Liberty Telecoms Holdings, Inc.
Prime Media Holdings, Inc.	San Miguel Purefoods Co., Inc.
	San Miguel Properties, Inc.
Manila Electric Co.	

Encroachment

Last week, San Miguel Corp formally concluded its entry into the telecom business with the buy-in at Liberty Telecom, encroaching into the territory long held by PLDT. For this venture, SMC has teamed up with QTel, a Qatar-based regional telecom provider.

A few months ago, just when San Miguel Corp was about to deliver the *coup de grace* to the Lopezes in Meralco, MVP emerged as a white knight and prevented a hostile takeover. MVP thereby ended up as a spoiler, snatching the prize catch just before the hunter (SMC) was going for the kill.

Subsequently in their PLDT Annual Shareholders Meeting, MVP explained why they invested in Meralco. He stressed the importance of Meralco's infrastructure in their network expansion plans. For PLDT, it was not only an offensive push but also a strategic defensive move against San Miguel's foray into the telecom business.

The Professional versus the Street Smart

Manny Pangilinan has always been known as the ultimate professional. He started his career with Bancom Development Corp and has since steadily climbed the corporate ladder. He is well-organized, very methodical, and very professional with his business dealings. His corporate moves overall fit his strategic vision. Equally important is his adherence to proper corporate protocol and transparency to stakeholders. No wonder PLDT is highly regarded for corporate governance.

Meanwhile, Ramon Ang (or RSA as he is commonly referred to) portrays an outwardly appearance of a happy-go-lucky guy. He jokes around and usually throws funny antics. However, a Philequity board member described him as a very intelligent and astute businessman with a photographic memory. He is always ten steps ahead in his moves against competition. He's very bold, thinks fast, and reacts even faster. He is one of the smartest persons in the country. If ever there is one person that depicts street smart, it is Ramon Ang.

Control of Meralco

Perhaps the most anticipated battle is the control of Meralco. We have highlighted this in two of our past articles: A white knight emerges in Meralco (March 9, 2009) and Checkmate! (March 16, 2009).

While most brokerage houses had recommended a SELL rating on Meralco due to the astronomical rise of its share price (up 201 percent since the start of 2009), we are maintaining our BUY or, at the very least, HOLD strategy. We simply believe that the battle for control will exert upward pressure on the share price and the limited free float circulating in the market should be a boon for the stock. A tender offer is a probable finale for this continuing saga.

Who is buying Meralco shares?

Meralco's share price continues to defy gravity because of the recent purchases. Is MVP trying to push his stake (along with the Lopezes) to 50.1% to gain majority? Or is RSA buying more shares to offset the early advantage of the PLDT-Lopez tandem? Is there a risk arbitrageur gobbling up the free float in the market with the intention of selling the shares to the highest bidder? Are fund managers sympathetic to MVP or RSA buying Meralco shares?

The proxy war is supposedly long over. The next stockholders' meeting is on May 2010, which is ten months away. So why is the share price of Meralco going up further? From the table below, it looks like a rematch is in the offing for the control of Meralco. First one to reach 50.1% wins the trophy.

	% Stake in Meralco		% Stake in Meralco
PLDT Group		SMC Group	
Piltel	20.00%	SMC	27.01%
PLDT Beneficial Trust Fund (BTF)	10.17%	Acquired from market (estimated)	7.00%
First Pacific	3.00%		34.01%
	33.17%		
Lopez Group (via First Holdings)	13.39%	Global 5000	9.00%
PLDT + Lopez Group	46.56%	SMC + Global 5000	43.01%
		Public free float	10.43%
		or number of shares (in million)	119.42

Turf war reaches PSE

The battleground for the corporate landscape has reached the PSE. In a recent report, San Miguel, through its retirement fund, bought a 10 percent stake in the Philippine Stock Exchange for P893.9 million or P292.2 per share, which may possibly enable them to take hold of a board seat. Taken together with the personal holdings of RSA, San Miguel may be able to elect another board member.

Manny Pangilinan's PLDT, on the other hand, already owns a seat in the PSE through its retirement fund, as well.

A voice in the PSE is vital in any corporate battle, as the institution can serve as the final arbiter for any unresolved corporate matter. It is essential that they maintain representation in the boardroom of a very influential institution like the PSE.

Holding up the market

While the stock market is in a correction / consolidation phase, the PSEi has held up quite strongly early this quarter relative to its peers in the region. Thanks to MVP and RSA, the steady price performance of the companies they manage have kept the market afloat.

Country	Ticker	1H09	July-to-date
Philippines	PSEi	23.46%	2.02%
Thailand	SET	24.82%	-2.59%
Indonesia	JCI	49.53%	2.82%
Malaysia	KLSE	20.22%	-0.89%
HongKong	HSI	22.18%	-3.20%
Singapore	STI	27.51%	-1.09%

The battle continues

The UAAP Season 72 has just begun. See the UAAP basketball games. Watch the Ateneo versus De La Salle games. But more importantly, look out for the corporate battles at the Philippine Stock Exchange. Like in basketball, the battle for dominance will be tough and physical. Search for stocks that are linked to MVP and Danding / RSA. Not only are they hot these days, they may also provide the extra bounce to your portfolio.

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