

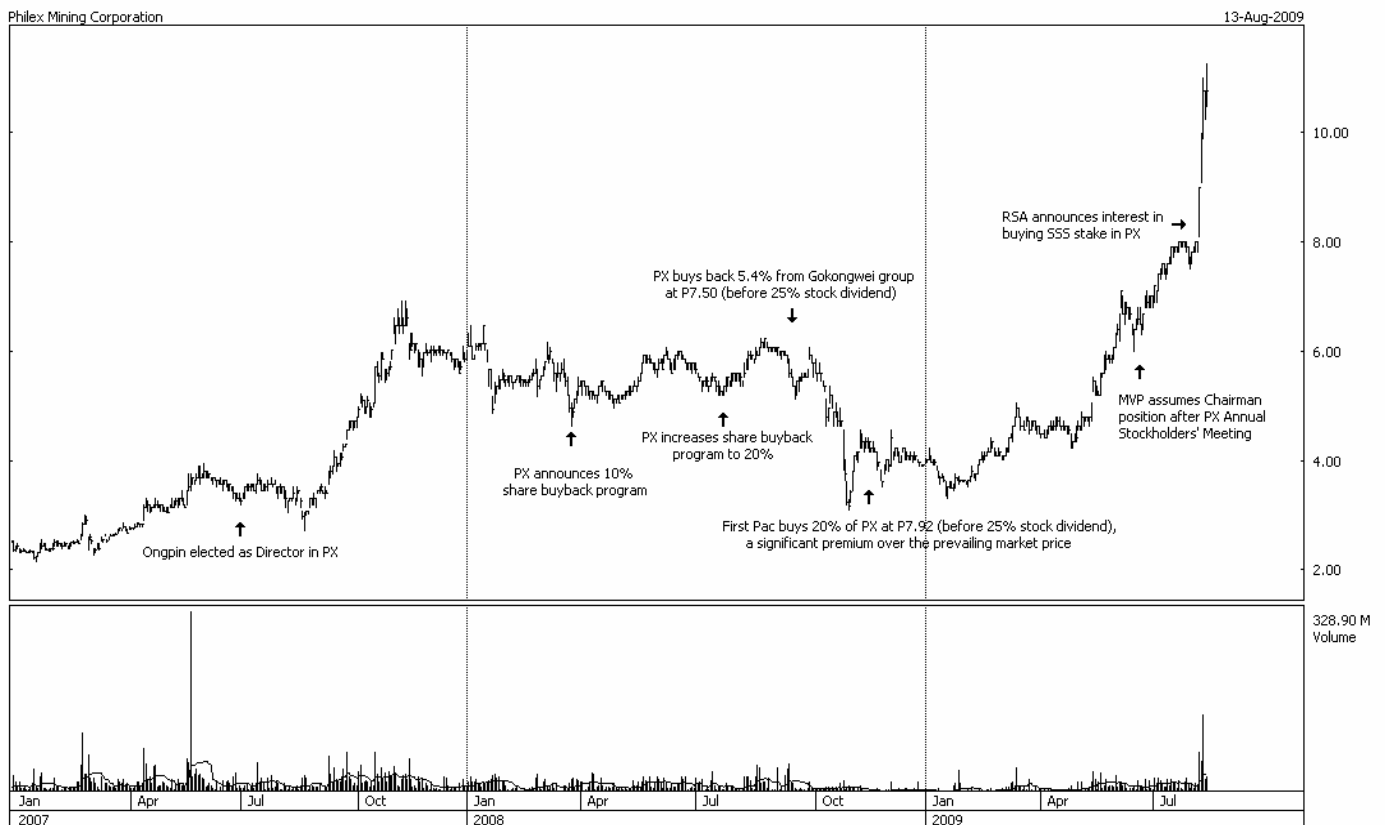
Philequity Corner (August 17, 2009)

By: Valentino Sy

Return Bout

What seemed to be an exchange of cordial and diplomatic gestures between MVP and RSA at the onset has become an illusion. The battleground shifted from the corporate boardroom to the stock market. At Meralco's last Annual Stockholders' Meeting, Ramon Ang (RSA) raised the hand of Manny Pangilinan (MVP) in a show of support and call for unity. But behind the prying eyes of the media, the tug-of-war for control of Meralco continued. [Please refer to our past articles: *White Knight* (09 March 2009), *Checkmate!* (16 March 2009), *Turf Wars* (13 July 2009), and *Beneficiaries of Turf Wars* (27 July 2009).]

Last week, we gave a preview of another brewing corporate battle between MVP and RSA. Their latest turf war: Philex Mining. Reports of a possible entry by RSA pushed the share price of Philex. Philex appears to be the next Meralco, surging by 40.6% over the past week and has now – like Meralco – reached a new record high (adjusted for stock dividends).



Philex's Luster

Philex is the only profitable listed gold and copper mining company with enough size to attract foreign institutional investors. Its market capitalization at US\$1.0 billion is far greater than all of the listed mining entities combined. It has an operational mine site which provides a steady stream of cash flows, and a potentially attractive new mine site which may add a good 15 to 20 years of mine life to Philex.

Outside of mining, gold is not only a commodity asset but also in itself a form of currency. It is also a natural hedge against inflation. And since the outlook for the price of gold is positive, share prices of gold mining companies tend to mirror this favorable prognosis.

Apart from gold and copper, Philex has interests in oil exploration entities with projects not only in the Philippines but also in the US, Peru, and Vietnam. Its 51% subsidiary, Philex Petroleum, is the umbrella company engaged in the petroleum projects. In addition, Philex has coal activities making it an alternative energy player as well.

Fragmented

Unlike Meralco's very limited free float, Philex's ownership base is very dispersed with the biggest shareholders – the Social Security System and First Pacific – each owning only 21% of the company.

Shareholders of Philex	
Social Security System	21.05%
First Pacific	21.03%
Ongpin Group	9.12%
Public Float	48.80%

Source: PSE

Given the large public float and diverse ownership, it would be easy for a third group to accumulate in the market and ally themselves with the SSS and the Ongpin group. This can ultimately challenge the hold of MVP in Philex. For all we know, the third party has started buying which explains the sharp rise in the stock price of Philex. It is not far-fetched that funds that are sympathetic to First Pacific may have bought in the open market also.

In any case, MVP can altogether drop his bid in the mining sector and sell his stake to generate a windfall profit. Philex is not as strategic to First Pacific as Meralco is to PLDT. At Philex's current level, First Pacific is already making a return of over 60% in less than 12 months.

Convergence Strategy

MVP's convergence strategy in the telecom business may be relived in the mining sector. A recent disclosure affirming MVP group's ongoing due diligence on both Manila Mining and Lepanto Consolidated has sent their respective share prices to fresh highs. It should be noted that one of Manila Mining's property is next to Philex's Boyongan site. Lepanto, meanwhile, owns 20% of Manila Mining. Owning both Philex and Manila Mining will create a scale that may be acceptable to First Pacific's standards. Anglo American, which previously had joint venture exploration agreements with both Philex and Manila Mining for the same area, had abandoned the plan claiming unsatisfactory results.

Archrivals

Ateneo is the defending champion in the UAAP. Its main supporter, MVP, is the reigning victor in both Meralco and Philex. FEU, on the other hand, is Ateneo's strongest contender. And being the Tamaraw that he is, RSA is portraying the role of the challenger and spoiler. RSA continues to hound MVP in Meralco and Philex. Just like in a play, RSA and MVP are the protagonists. MVP is the king eagle while RSA has become his chief nemesis. RSA is all over the court, ready to pounce on MVP at every opportunity.

Like we said in past articles, their respective companies have very similar priority targets. From food to telecom to infrastructure and electricity distribution and now mining, First Pacific's business interests highly resemble those of San Miguel Corp's diversification efforts. With a possible turf war in Philex, the stakeholders in the Philippine Stock Exchange will again be the winners.

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