

Philequity Corner (December 14, 2009)
By Valentino Sy

Philex Mining Corp.: The Unfolding Saga

For this year, we've written numerous articles on the Meralco takeover battle. [Please refer to our past articles: *Turf Wars* (13 July 2009), *Beneficiaries of Turf Wars* (27 July 2009), *Return Return Bout* (August 17, 2009) and *All In* (November 16, 2009).] While attention was focused in Meralco, we did mention that another corporate battle was brewing in Philex.

We were proven correct last week when First Pacific affiliate, Two Rivers Pacific Holdings Corporation, acquired 452 million Philex shares or 9.24 percent from the Ongpin Group at Php21 per share. The deal, worth a total of Php 9.5 billion, is the latest in Philex's unfolding saga.

Simultaneously, the First Pacific Group disclosed that it had accumulated an additional 11.44 percent stake during the period November 28, 2008 to November 29, 2009. This is on top of the original 20.06 percent or 778 million treasury shares bought by wholly-owned subsidiary, Asia Link B.V., at Php7.92 per share on November 28, 2008.

With this recent acquisition, the First Pacific Group gains control of 40.7 percent of Philex's total outstanding shares.

No tender offer

While the recent purchase pushed First Pacific Group's ownership above the 35 percent threshold, we believe that no tender offer will be triggered. This is because the Share Purchase Agreement for the 9.24 percent interest was signed December 2, 2009, which means that more than one year has already lapsed from the group's initial acquisition of 20.06 percent stake.

According to the Securities Regulation Code, a mandatory tender offer is triggered when a person or a party acquires 35 percent of a company within a period of one year, which is not the case in Philex.

First Pacific strengthens hold on Philex

As of December 2008, Philex's ownership was very dispersed with SSS and First Pacific each owning only 21 percent of the company.

Shareholders of Philex as of December 2008	%
Social Security System	21.05
First Pacific Group	21.03
Ongpin Group	9.12
Public Float	48.80

Source: PSE

With First Pacific's recent acquisition plus the shares they have accumulated during the past year, the free-float has become smaller. First Pacific now owns 40.7 percent while the public holds 37.36 percent.

Shareholders of Philex as of December 2009	%
First Pacific Group	40.70
Social Security System	23.00
Public Float	36.30

Source: PSE

Timeline

The timeline below lists the dates relevant to the major changes in shareholder composition of Philex starting in 2007 with the acquisition of Ongpin Group's initial 5 percent interest. It also notes the share buy-back and extended share-buy back programs which eventually paved the entry of Manny Pangilinan's First Pacific Group.

30-Jun-07	Roberto V. Ongpin acquired a 5 percent interest in Philex and was elected as Director.
Mar-08	Philex Board approved a 10 percent share buy-back program.
Jul-08	Philex acquired the remaining stake of Manuel Zamora.
5-Aug-08	Philex extends share buyback by another 10 percent.
10-Sep-08	Philex acquired under its extended share buyback program, 209,595,065 shares (equivalent to 5.4 percent stake) from the Gokongwei Group at Php7.50 per share.
28-Nov-08	Asia Link B.V., a wholly-owned subsidiary of First Pacific, acquired the 778,620,792 treasury shares of Philex at Php7.92 per share, representing 20.06 percent of the company.
Jun-09	Manny V. Pangilinan (MVP) assumes Chairmanship after the Philex annual stockholders meeting.
Aug-09	Ramon S. Ang, president of San Miguel Corp., announces interest in buying SSS stake in Philex.
2-Dec-09	First Pacific affiliate, Two Rivers Pacific Holdings Corp., acquires 9.2 percent of Philex from the Ongpin Group, Development Bank of the Philippines (DBP) and Walter Brown.
Dec. 2, 2009	First Pacific disclosed that it has accumulated Philex shares equivalent to an 11.44 percent stake during the period November 28, 2008 to November 28, 2009. This brings the total shareholding of First Pacific Group to 40.7 percent.
Dec. 8, 2009	Messrs. Roberto V. Ongpin (Director and Vice Chairman), Rey David of DBP (Director) and Walter W. Brown (Director and CEO) resign from the Philex's Board. Manny Pangilinan, Chairman of Philex, was elected concurrent CEO.

Return of 145x since 2001

Philex Mining Corp. has gone a long way from 2001 when it had a market capitalization of only Php 540 million and traded as low as Php 0.11 per share (adjusted for dividends). A one thousand peso (Php1,000) investment in Philex in 2001 is now worth one hundred forty five thousand pesos (Php145,000) as of last Friday's close of Php16 per share. This is a big bonanza for long-time Philex shareholders.

At the price of Php21 per share during the block sale last week, Philex's market capitalization reached a record high of 102.9 billion or 190 times the market cap it had back in 2001.

Is the current price justifiable?

While we continue to be bullish on Philex in the long-run, several issues might pose a concern in the short-term. For one, at the current price of Php16 per share, Philex is trading 23x PER 2010 which is a bit pricey. In comparison, Freeport McMoran which is one of the world's top copper and gold mining company, trades at only 11x PER 2010.

In addition, Philex's production has been going down this year. For the first nine months of 2009, gold output was down 10 percent, while copper production declined 16 percent. In the 3rd quarter of 2009 alone, both gold and copper production decreased by 12 percent.

MVP, genius or lucky?

Maybe Php16 per share seems to be pricey, more so the Php21 per share paid by First Pacific Group last week. But remember that First Pacific bought its first 20.06 percent interest in Philex at Php7.92 per share. At time of the purchase, it was also considered expensive. In

fact, Philex's share price fell by more than 40 percent after the transaction. But since then, the gold price has risen 36.2 percent and copper has increased by 89.9 percent.

First Pacific's initial cost (adjusted for the 25 percent dividend) is down to Php6.33 per share, which at the current price implies a return on investment (ROI) of 252 percent.

Is MVP a genius or just lucky? Did he foresee gold at \$1,200 per oz. and copper at \$3 per lb.? With his recent purchase of Philex shares at Php21 per share, is he foreseeing gold to reach \$2,000 per oz. and copper back at \$5 per lb. this time around? Or was he mainly forced by circumstances to purchase at such a steep price?

Insatiable appetite of MVP: Is MA or LC next?

After Philex, MVP is rumoured to be eyeing Manila Mining (MA) or Lepanto Consolidated (LC). With MVP firmly at the helm of Philex, Investors are speculating that it would be easier now for the company to have a joint venture with MA or LC. A takeover of MA or LC can also be achieved with less difficulty.

It should be noted that Philex's most promising prospect, the Boyongan site, is right next to Manila Mining's property. Lepanto, meanwhile, owns 20 percent of Manila Mining. News reports have indicated that the First Pacific Group has just completed a due diligence on Lepanto last month. Although there are no announcements on what the two groups intend to do next, the most logical step is to have a joint undertaking. Economic feasibility is better achieved with bigger size and larger mine tonnage.

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