

Philequity Corner (June 21, 2010)

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Investing in Conglomerates

With the new president coming in, it may be a good time to assess ones investment portfolio. Noynoy Aquino will come in with a fresh perspective and a new plan for the country. His economic team is slowly being assembled. For investors, now is the time to review your stocks and align it to promising sectors. Underperforming stocks should be pruned to shift to more vibrant issues and diversification might be considered to minimize risk exposure. One strategy is to buy into holding companies.

In this article, we shall review the holding companies owned by some of the most prominent names in the business circle. We shall highlight the price performance of their stocks, their market capitalizations, their projected net incomes, and assess their fundamental drivers.

Listed Holding Company	PSE Code	Market Capitalization (P million)	Projected Net Income (P million)	Implied FY10 P/E (X)	Year-to-Date Performance (%)
SM Investments	SM	250,519	17,274	14.5	26.2%
San Miguel Corporation	SMC/B	166,254	11,961	13.9	6.6%
Ayala Corporation	AC	159,364	8,814	18.1	8.3%
Abotiz Equity Ventures	AEV	115,959	8,776	13.2	133.3%
JG Summit Holdings	JGS	112,154	3,800	29.5	150.0%
Metro Pacific Investments	MPI	56,360	3,928	14.3	7.7%
Alliance Global Group	AGI	54,430	5,360	10.2	34.9%
DMCI Holdings	DMC	45,807	4,790	9.6	77.8%
First Philippine Holdings	FPH	33,096	6,128	5.4	15.6%
SECTOR		993,943	70,831	14.0	51.2%

Henry Sy: #1 in All Businesses

The SM brand is without a doubt a dominant franchise. It is a household name. SM Investment's 25% return in less than six months is impressive at the least for a large cap conglomerate. They are #1 in retail, banking, mall operations, and now property development. SMDC is now the leader in terms of number of units sold. The business model worked well with its target market and the SYnergies it realizes with BDO (e.g., consumer lending, CTS financing) and SM Prime (e.g., foot traffic, procurement savings) are worthy of note. No wonder SMDC is the best performer among the SM stocks.

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SM Investments	SM	250,519	17,274	14.5	26.2%
SM Prime	SMPH	139,958	7,685	18.2	7.1%
BDO	BDO	106,459	7,012	15.2	16.7%
China Bank	CHIB	44,610	3,956	11.3	23.6%
SM Development	SMDC	38,474	2,413	15.9	77.2%
Belle Corp	BEL	11,940	400	29.9	30.6%
GROUP		591,960	38,740	15.3	30.2%

San Miguel: Evolving

“Evolving” is perhaps the one word that perfectly describes San Miguel Corp. From the businesses it manages to its share ownership structure, SMC is morphing into a new entity highly different from what investors have been accustomed to for decades. It spun off the beer business to San Miguel Brewery. It bought into Meralco but was unsuccessful to gain control. It also recently made a tender offer to Petron shareholders and perhaps may do the same to Ginebra San Miguel. Through Liberty Telecoms, it is also entering the mature but lucrative telecoms sector. In infrastructure, it signed several deals, from constructing airports, to building toll roads, to mining coal, and generating power. While its makeover is a work-in-progress, we believe San Miguel is worth looking into for the long haul.

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San Miguel Corp	SMC/B	166,254	11,961	13.9	5.8%
San Miguel Brewery	SMB	166,254	10,596	15.7	5.7%
Petron Corp	PCOR	62,813	4,964	12.7	26.4%
San Miguel Pure Foods	PF	42,373	2,596	16.3	445.5%
Ginebra	GSMI	8,983	701	12.8	47.1%
Liberty Telecoms	LIB	5,304	(557)	n/a	51.9%
GROUP		451,981	30,261	14.9	97.1%

MVP: Infra Focus

Meralco and Philex Mining were the darling of the stock market in 2009, thanks in large part to Manny Pangilinan (MVP) and his penchant for acquisition (see articles *Beneficiaries of Turf Wars* and *Return Bout* in 27 July 2009 and 17 August 2009 issues of **The Philippine Star**). MPI, the infrastructure holding company, is beefing up its portfolio in the infrastructure sector. MPI’s tollroad unit owns NLEX and recently bagged SCTEX. It will probably end up owning SLEX and Skyway, too. Meralco will soon be re-entering power generation akin to Aboitiz Power’s business model. Though not folded under MPI, PLDT and Philex Mining are the biggest in telecom and mining sectors.

Listed Companies	PSE Code	Market Capitalization (P million)	Projected Net Income (P million)	Implied FY10 P/E (X)	Year-to-Date Performance (%)
PLDT	TEL	451,116	42,294	10.7	-7.8%
Meralco	MER	210,800	13,141	16.0	-8.8%
Philex Mining	PX	61,444	3,204	19.2	-21.9%
Metro Pacific Investments	MPI	56,360	3,928	14.3	7.7%
Metro Pacific Tollways	TOL	44,807	582	77.0	5.9%
GROUP		824,527	63,149	13.1	-7.7%

Ayala Group: Conservativeness Taking Toll

Ayala Corp is one of the most diversified listed conglomerates, with interests in banking property, telecom, and water services. As a group of companies known for commanding premium, AC has an unblemished track record for instituting conservatism across all

fronts. Competition's relative aggressiveness, however, has exerted upward pressure on its businesses. In the property segment, SMDC has claimed leadership as we highlighted above. As for the telecom business, Sun Cellular's nascent rise is at the expense of Globe Telecom. And in the banking space, BDO has outgrown BPI. All these may have contributed to AC's lackluster performance since the start of the year.

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Ayala Land Inc	ALI	175,001	4,627	37.8	20.0%
Ayala Corporation	AC	159,364	8,814	18.1	8.3%
Bank of P.I.	BPI	144,492	9,735	14.8	-7.3%
Globe Telecom	GLO	112,496	11,879	9.5	-7.1%
Manila Water Corp.	MWC	33,094	3,273	10.1	4.8%
GROUP		624,447	38,328	16.3	3.7%

Aboitiz Clan: Power Driven

The biggest gainer in the government's privatization of generation assets, Aboitiz Power has acquired a total of nine power plants. AP's portfolio of power assets has an attributable capacity in excess of 2,000MW, a far cry from the 500MW level it had when the company debuted in the stock market in 2007. AP's profits is expected to reach between P15 billion and P20 billion. This is at least double its 2009 level. With AP's exponential growth, it is only natural for AEV to reflect the same unprecedented rise. Now, AEV is the latest addition to the league of conglomerates with market cap of at least P100 billion.

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Aboitiz Power	AP	141,653	14,791	9.6	123.8%
Aboitiz Equity Ventures	AEV	115,959	8,776	13.2	133.3%
UnionBank	UBP	25,978	3,659	7.1	9.5%
Aboitiz Transport	ATS	2,838	546	5.2	-1.7%
City Savings Bank	CSB	2,037	8	254.6	3.7%
GROUP		288,465	27,780	10.4	53.7%

Gokongwei Group: Winner Across-the-Board

The Gokongwei companies are the biggest winners since the start of the year. The passage of the REITs law last December was a catalyst for Robinsons Land's share price early this year. In addition, the recently concluded elections and the warmer summer months were a boost to consumer companies, particularly to Universal Robina, the leader in iced tea and snacks businesses. Also, Sun Cellular's value proposition gained more traction recently as subscriber base topped 14 million. This lifted Digitel's share price to fresh highs. Lastly, its Cebu Pacific has now overtaken Philippine Airlines in terms of the number of passengers. The confluence of these scenarios made JG Summit the biggest gainer among holding companies.

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JG Summit	JGS	112,154	8,546	13.1	150.0%
Universal Robina	URC	56,935	5,057	11.3	69.2%
Robinsons Land	RLC	39,643	3,611	11.0	11.5%
Digital Telecoms	DGTL	10,934	960	11.4	24.6%
GROUP		219,666	18,174	12.1	63.9%

Lopez Family: Cashing In

Perhaps the greatest winner in the concluded ownership tug-of-war in Meralco was the Lopez group. What they lost in business, they gained handsomely in cash. They let go of their 26.7% holdings in Meralco at P300, making huge windfall profits that eventually revitalized the Lopez group's stocks. The group's core focus now is to build the energy asset portfolio of EDC and First Gen, both under the holding company First Philippine Holdings. FPH remains a minority holder of Meralco with 6.6% tagged along with the MVP group.

Listed Companies	PSE Code	Market Capitalization (P million)	Projected Net Income (P million)	Implied FY10 P/E (X)	Year-to-Date Performance (%)
EDC	EDC	88,125	8,725	10.1	0.0%
First Gen	FGEN	34,466	4,271	8.1	5.7%
First Holdings	FPH	33,096	6,128	5.4	15.6%
ABS-CBN	ABS	28,065	1,891	14.8	26.3%
Benpres Holdings	BPC	16,723	180	92.9	4.3%
GROUP		200,475	21,195	9.5	10.4%

Know your Holdings

Buffet always says that investors must know what they are holding. At times of volatility, it is best to know the drivers of your portfolio. In buying a holding company, know its catalyst. For instance, if you know that power will be a driver given the diminishing supply of power, go to AEV. If you feel consumer will be resilient, invest in SM or JGS. And if you feel that the incoming government will still push for more infrastructure projects, then one can load up on MPI and SMC.

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