

## Philequity Corner (July 5, 2010)

By: Valentino Sy

### Time to Get Defensive

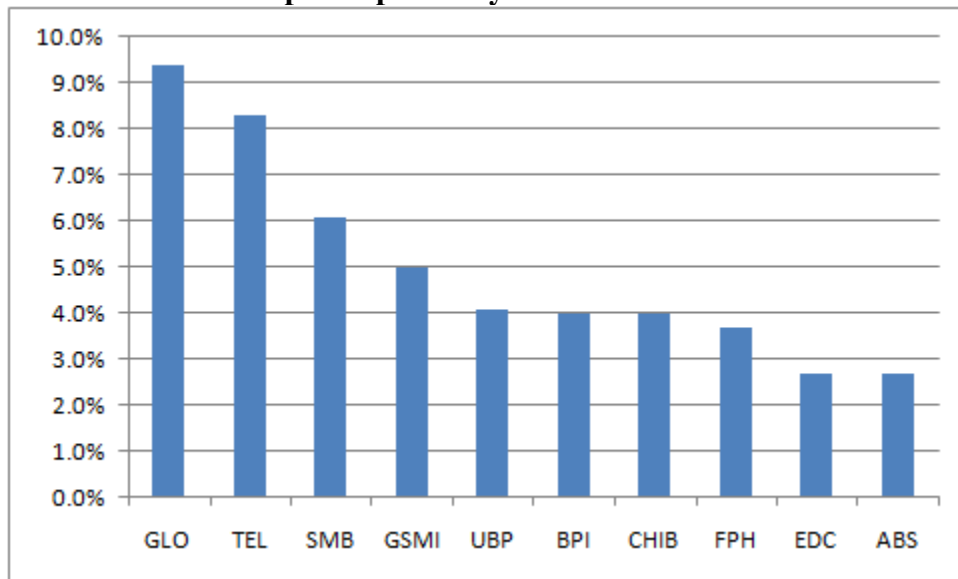
Sentiment in the global scene is becoming more cautious. Confidence in the stock markets worldwide is slowly eroding. The technical picture in the US points to a major breakdown. The Philippines, though one of the best performing markets in world, is not insulated from the general negativity.

What triggered the pessimism is the perception of a global slowdown. In the latest G20 meeting, emphasis was given to managing budget deficits rather than providing stimulus packages to fuel growth. It signaled a non-expansionary stance to the stock markets across the globe and fears of a double dip recession arose. Investors are starting to adopt a defensive strategy by cutting risk exposure.

### Go for Dividend Yields

In adopting a defensive approach, shifting to stocks with attractive dividend yields should be a priority as it minimizes the downside risk. Among the listed stocks in the PSE, telecom stocks offer the best dividend yields.

**Top Companies by Dividend Yields**



As PLDT and Globe comprise a substantial weight in the PSE Index, the attractiveness in their dividend yields could be one of the reasons for the market to sustain outperformance. Telecoms were a drag during the market's upturn. They may provide some cushion as the market slides.

## Diversification Limits Risk

Another way to limit risk is through diversification. Investing in holding companies offer instant diversification since conglomerates spread their risks as they own multiple companies. Their business units tend to counter balance at varying times.

We received comments on our compilation of performance metrics about holding companies listed in the PSE (see *Investing in Conglomerates*, 21 June 2010 article of the **Philippine Star**). Whereas we used net income and market cap then, we are now using 2009 revenues and EBITDA to present a more holistic view. Their consistency is a must at times of market pessimism. We are also including other valuation metrics such as the P/NAV and P/Book. Lastly, we are looking at their respective dividend yields.

Listed Holding Company	PSE Code	Revenue (P million)	EBITDA (P million)	P/NAV (X)	P/B (X)	Yield (%)
San Miguel Corporation	SMC/B	174,213	32,324	0.6	1.1	2.0%
SM Investments	SM	160,053	30,500	0.8	2.0	1.9%
JG Summit Holdings	JGS	107,955	22,647	0.8	1.3	0.3%
Ayala Corporation	AC	76,294	7,718	0.7	1.5	1.3%
First Philippine Holdings	FPH	58,873	13,166	0.5	0.7	3.7%
Abotiz Equity Ventures	AEV	46,230	10,201	0.9	1.8	2.5%
Alliance Global Group	AGI	38,843	2,987	0.8	1.0	1.1%
DMCI Holdings	DMC	29,711	5,535	0.5	1.8	1.5%
Metro Pacific Investments	MPI	16,107	7,467	0.7	1.0	n/a

### MVP: Numero Uno

Looking at the table above, you may notice that MPI is the lowest ranking conglomerate in terms of revenues. This is, however, misleading. Manny Pangilinan's (MVP) investments are split between First Pacific and MPI. Meralco is No.1 in terms of revenues but it is not consolidated under MPI. Meanwhile, PLDT is No.1 in terms of EBITDA but it is owned by First Pacific, MVP's HK-based investment arm. If we tally MVP's investments, the revenues would total more than P350 billion – ahead of everybody else. In these uncertain times, investors may revert to PLDT because of its strong cash flows (i.e., P92 billion in EBITDA which is the biggest in the Philippines) and attractive dividend yield (i.e., yield of 8.3%).

Listed Companies	PSE Code	Revenue (P million)	EBITDA (P million)	P/B (X)	Yield (%)
PLDT	TEL	147,993	92,000	4.2	8.3%
Meralco	MER	184,872	15,879	3.1	2.1%
Philex Mining	PX	9,055	3,102	3.0	0.3%
Metro Pacific Investments	MPI	16,107	7,467	1.0	n/a
Metro Pacific Tollways	TOL	5,809	1,135	8.0	1.0%

### Henry Sy: Consistency is the Best Policy

SM Investments is the largest in terms of market cap but what makes it truly stand out is its consistency. Be it revenue, EBITDA, or net income, SM has delivered to its shareholders consistent growth over the years. Its accomplishment is anchored on its work ethic and passion to be the best. They are known to work hard consistently, and

they are renowned to work even harder at turbulent times. Investors place great confidence in SM whether bull or bear.

Listed Companies	PSE Code	Revenue (P million)	EBITDA (P million)	P/B (X)	Yield (%)
SM Investments	SM	160,053	30,500	2.0	1.9%
SM Prime	SMPH	20,498	14,022	2.5	2.5%
BDO	BDO	48,881	n/a	1.5	1.5%
China Bank	CHIB	13,410	n/a	1.2	4.0%
SM Development	SMDC	5,350	1,756	2.2	0.9%
Belle Corp	BEL	1,403	549	2.4	n/a

### San Miguel: Sleeping Giant

We listed SMC as second to SM Investments in terms of market capitalization. But looking at the revenues, SMC appears to trump all conglomerates after adding Petron to the fold. Moving forward, the telecom, infrastructure, and power generation subsidiaries should contribute substantially, dispersing the revenue mix. San Miguel, however, is not in most investors' radar screens since there are not many shares circulating in the market. Interestingly though, its thinly traded and under-appreciated subsidiaries like San Miguel Brewery and GSMI are generating quite attractive dividend yields.

Listed Companies	PSE Code	Revenue (P million)	EBITDA (P million)	P/B (X)	Yield (%)
San Miguel Corp	SMC/B	160,053	30,500	2.0	1.9%
San Miguel Brewery	SMB	51,009	17,869	8.8	6.1%
Petron Corp	PCOR	176,531	12,783	1.5	1.2%
San Miguel Pure Foods	PF	75,043	6,337	3.3	n/a
Ginebra	GSMI	19,548	1,812	1.0	5.0%
Liberty Telecoms	LIB	n/a	n/a	n/a	n/a

### Ayala Family: Best in Dividend Yields

As we have highlighted before, the Ayala Corp is one of the most diversified listed conglomerates. Together, the Ayala group has the best paying companies in terms of cash dividends. With an average of 3.6% dividend yield, they topped other groups on the list. Moving forward, the average should improve as Ayala Land aims to gradually increase its dividend payout to 50%. This is a step towards creating further value to shareholders.

Listed Companies	PSE Code	Revenue (P million)	EBITDA (P million)	P/B (X)	Yield (%)
Ayala Corporation	AC	76,294	7,718	1.5	1.3%
Globe Telecom	GLO	63,862	37,228	2.4	9.4%
Bank of P.I.	BPI	35,231	n/a	2.1	4.0%
Ayala Land Inc	ALI	28,074	6,701	3.1	0.8%
Manila Water Corp.	MWC	9,532	6,802	1.8	2.7%

### Aboitiz Group: Power Clan

The Aboitizes are at the right place at the right time. They were able to get the most out of the government's asset privatization program at a time when there was an imbalance

on the demand and supply of power. Longer-term, this bodes well for Aboitiz Power, the family's energy company. Revenues and EBITDA should be fairly consistent considering that its acquisitions have secured energy supply contracts.

*Erratum:* Citystate Savings Bank, as we have mistakenly included on the list, is not part of the Aboitiz Group. They instead own City Savings Bank which is not listed in the PSE.

Listed Companies	PSE Code	Revenue (P million)	EBITDA (P million)	P/B (X)	Yield (%)
Aboitiz Equity Ventures	AEV	46,230	10,201	1.8	2.5%
Aboitiz Power	AP	23,174	6,869	2.8	1.6%
UnionBank	UBP	11,915	n/a	0.9	4.1%
Aboitiz Transport	ATS	11,824	1,530	0.6	n/a

### Gokongwei Group: *Juan* billion Company

JG Summit is one of the few conglomerates raking in P100 billion in revenues. Its recent successes in Sun Cellular and Cebu Pacific have significantly contributed to top line growth. Their value propositions have helped shape Filipinos consumer spending. Sun Cellular initiated unlimited texting which competitors eventually emulated. Cebu Pacific introduced the *Piso* fares which then spurred travel among every *Juan*. All these contributed to JGS's entry to the circle of listed companies whose market cap is at least P100 billion. As it is now more visible to foreign investors' radar, every *John* can buy.

Listed Companies	PSE Code	Revenue (P million)	EBITDA (P million)	P/B (X)	Yield (%)
JG Summit	JGS	107,955	22,647	1.3	0.3%
Universal Robina	URC	50,453	7,147	1.6	3.2%
Robinsons Land	RLC	10,496	5,780	1.3	3.1%
Digital Telecoms	DGTL	14,020	4,942	7.0	n/a

### Lopez Family: Trading at a Discount

Collectively, the Lopez stocks are trading at a discount versus other groups on this list. First Holdings is the only holding company trading below its book value. It is also trading at huge discount to its Net Asset Value (NAV) by as much as 50%. Investors should realize that FPH and its group have grown healthier, sans Meralco. Debts are repaid although some obligations remain, particularly at Benpres' level. As a group, it is leaning towards a more focused entity through expansion in power generation. Over time, the discount should narrow as investors appreciate the value in Lopez issues.

Listed Companies	PSE Code	Revenue (P million)	EBITDA (P million)	P/B (X)	Yield (%)
First Holdings	FPH	58,873	13,166	0.7	3.7%
First Gen	FGEN	48,266	12,852	0.8	0.0%
EDC	EDC	22,067	10,937	2.4	2.7%
ABS-CBN	ABS	24,849	5,706	1.3	2.7%
Benpres Holdings	BPC	24,849	5,707	0.7	n/a

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