

Bg Philequity Corner (December 27, 2010)
By Valentino Sy

Christmas Ham, Queso de bola and San Miguel Beer

To most Filipinos, Christmas is the highlight of the year. It is the time for Christmas celebrations, office parties and get-togethers with families and friends. It is the time for Noche Buena during Christmas Eve. Of course, Christmas would be incomplete without the traditional glazed ham and queso de bola served on the Noche Buena table. And also buckets of beers, wine and other drinks to make the party complete.

And when you talk about celebrations, no brand is more identified with the “Filipino Christmas” than San Miguel Corporation (SMC). SMC holds in its portfolio some of the most prominent brands associated with the Filipino Christmas. Among them is Purefoods Fiesta Ham (aka “the star of the Noche Buena”) and Magnolia Queso de Bola – which have become traditional gifts that one receives or gives away during Christmas. And what better way to celebrate the season with your family and closest friends than over bottles of San Miguel Beer. “Iba (na) ang may pinagsamahan.”

SMC & subsidiaries outperform the market

The anticipation of stronger sales for SMC and its subsidiaries this holiday season is one reason cited why their stock prices are going up. With the domestic economy fully recovered from the 2008 global crisis and now expanding at its fastest pace in decades, investors are expecting that consumers will be buying more hams, queso de bolas, beer and other SMC products this Christmas.

But it is more than that. Another reason for the stock’s outperformance is SMC’s transition from being just a food and beverage giant towards a fully diversified conglomerate with investments in high growth sectors like power generation and distribution, oil refinery and retail, mining, telecommunications and infrastructure. Ironically, the stock price of SMC and its subsidiaries started going up after SMC was removed from the PSE Index.

Back with a vengeance

On October 27, 2010, the Philippine Stock Exchange (PSE) dropped SMC from the PSE Index. The PSE cited that SMC’s free float level has fallen to 8.1 percent, which is below the minimum requirement of 10 percent.

Because of the rebuff, SMC came back with a vengeance. Since it was excluded from the PSE Index, SMC’s stock price has outperformed the benchmark with a 66.1 percent gain (from the period October 27 to December 23, 2010) compared to a 2.8 percent loss for the PSE index.

In less than two months, SMC and its subsidiaries had a fantastic run-up. The average increase for all the companies was 107.1 percent (see table below).

Price Performance (October 27, 2010 to December 23, 2010)

		Price as of		%Chg
		27-Oct	23-Dec	
SMC and subsidiaries				
San Miguel Brewery, Inc.	SMB	9.84	29.45	199.3%
San Miguel Pure Foods Co.,	IPF	320	780	143.8%
Petron Corp.	PCOR	7.3	15.58	113.4%
San Miguel Corp.	SMC	88.2	146.5	66.1%
Ginebra San Miguel, Inc.	GSMI	28.55	32.3	13.1%
		Average		107.1%
PSE Index	PSEi	4,285.07	4,166.04	-2.8%

Source: Bloomberg

Php1 trillion Market Cap

In less than two months, SMC and its satellite companies had a staggering increase in market value. Total market cap is now Php 1.07 trillion compared to before just Php 485 billion before the PSE snub. The aggregate market cap expanded by Php592 billion, or equivalent to 122.1 percent increase.

Market Capitalization of SMC and Subsidiaries

SMC and subsidiaries	Market Capitalization (in Php billions)		% Chg
	27-Oct	23-Dec	
San Miguel Brewery, Inc.	151.64	453.84	199.3%
San Miguel Pure Foods Co., Inc.	53.33	130.00	143.8%
Petron Corp.	68.43	146.05	113.4%
San Miguel Corp.	203.60	338.18	66.1%
Ginebra San Miguel, Inc.	8.01	9.07	13.1%
Total	485.02	1,077.13	122.1%

Source: Bloomberg

No analyst coverage

Most analysts dropped coverage of SMC after it spun off its beer business into San Miguel Brewery in 2009. Prior to that, SMC also sold its international consumer brands such as National Foods, J. Boag, Del Monte and Coca Cola. Consequently, many were perplexed and were skeptical of the company's diversification moves. Most could not decipher what SMC's CEO Ramon Ang (popularly known as "RSA") really intended to do. Like we said in a past article, "*no one knows for sure what RSA's next move will be because he is always ten steps ahead* (see Turf Wars in the July 13, 2009)."

In addition, mutual funds are also underweight SMC or have no position at all especially after it was removed from the index.

PSE orders SMC and subsidiaries to broaden public float

Following SMC's removal from the index, the PSE ordered SMC, its subsidiaries San Miguel Brewery, Petron Corp., San Miguel Pure Foods Co. Inc. and San Miguel Properties to comply

with the 10 percent minimum public float. SMC, SMB, Petron and Pure Foods all promised to comply with PSE rules to widen their investor base by conducting secondary share offerings through private placement or issuance of new shares to interested investors.

Capital raising plans in 1Q11

RSA has recently indicated that SMC and its subsidiaries may commence capital raising by the first quarter of 2011. SMC for its part is planning sell one billion common shares in the secondary market. At the current market price, the proposed share sale would amount to Php 146.5 billion.

Meanwhile, San Miguel Pure Foods has announced plans to raise Php 50 billion by issuing preferred shares and bonds.

“Now that there’s appetite in the market, we can easily place that out in the next few months to comply [with the PSE requirements],” RSA said in a briefing earlier this month. “We will do them all at the same time.”

The Streetsmart having the last laugh

After making a tender offer and buying back most of the free float of SMC, SMB and Petron, the conglomerate is now preparing to offer the shares in those companies at almost double their acquisition prices. Last June, Petron successfully bought back most of the remaining public float at Php 6.85 per share during a tender offer. Also, SMC and Kirin made a tender offer and bought back most of the shares of the public early this year. Meanwhile in 2009, most of the public sold their common shares back to SMC at Php 75 per share while others opted to convert their common shares into non-voting preferred shares.

Total market cap of SMC and its subsidiaries is now Php1 trillion. SMC’s market value is now Php 338 billion. San Miguel Brewery’s market cap is now Php453.8 billion. San Miguel Pure Foods’ capitalization is now Php 130 billion. Petron is now valued at Php146 billion, while Ginebra San Miguel is now valued at Php9 billion.

After all the criticism, disapproval and doubts over RSA’s grand plan for SMC, it appears that RSA, the Streetsmart, is having the last laugh.

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