

Philequity Corner (April 4, 2011)

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Pacman Strikes Again

Pacman is at it again, scoring yet another big win against a fierce competitor. In a cunningly quick move, a recognized fighter has fallen again. With the win, Pacman is adding another record to his string of accomplishments.

Wait. We're not talking here about Manny Pacquiao and the likely outcome of his fight against Sugar Shane Mosley next month. We're talking about another Pacman. More specifically, Manny "Pacman" Pangilinan, and his recent acquisition of Digitel and its game-changing brand Sun Cellular.

Another Billion Dollar Deal

In another billion dollar deal, PLDT struck a deal with JG Summit to acquire Digitel. The all-share deal is valued at P74.1 billion. Digitel will become a subsidiary of PLDT while JG Summit will get 12.8% of PLDT. The Gokongweis will also have a representation in PLDT's Board of Directors.

Telecom Stocks Cheer

PLDT's share price rose sharply following the deal announcement. In spite of the potential ownership dilution to PLDT as a result of the new shares that will be issued to Digitel shareholders, investors welcomed the acquisition with glee.

The optimism did not stop at PLDT. Globe, too, rose significantly as its valuations aligned with PLDT. Investors might be anticipating less market share erosion from Globe as Sun Cellular becomes part of the Smart family. Cut-throat pricing competition might also ease as the telecom sector reverts to a virtual duopoly.

Similarly in the US, AT&T bought T-Mobile for US\$39 billion to create the largest telecom company. After initially falling, the share price of AT&T reached a new 2-year high while Verizon soared to a 3-year high.

Topping Globe's Worldly Campaign

If competition has this catch phrase to offer: "Sa Globe, abot mo ang Mundo". Well, PLDT can now pride itself with a more catchy marketing ad: "Sa PLDT, inabot namin pati ang Sun!" Perhaps Globe should go back to the drawing boards to revisit their ad campaign.

Mang Inasal of the Telecom World

The Digitel acquisition can be likened to the Mang Inasal buyout. Just like Digitel's Sun Cellular, Mang Inasal was a game changer in the fast-food world. Mang Inasal introduced new concepts to the market -- chicken inasal and unlimited rice. Market reception was overwhelmingly positive that it ate into Jollibee's market share. Jollibee retaliated by introducing its own barbecue meals, but Mang Inasal's growing popularity was simply catching fire. In the end, Jollibee had to take out the fire and buy out competition. But the buyout came at a very steep price. PLDT did just the same with Digitel, as Sun Cellular's scorching presence needed to be extinguished.

Short-term Pain, Long-term Gain

There is one thing in common about Manny Pangilinan's growing list of acquisitions. He buys out his target at a price that makes the seller happy. This is one of the reasons why he gets the deal done fairly quickly and in the process becomes allies with his targeted companies. And this is also probably why stock market pundits always cheer when he carries out his buying spree.

Conversely, some market analysts question the hefty premiums paid by Manny Pangilinan. They don't see the strategic fit and the synergistic gains that these moves create few years down the road. But as we noted in our past article *Mano-a-Mano* (10 January 2011 issue of the **PhilStar**), Pangilinan's moves are not executed haphazardly. These are well-thought out strategies that will be accretive over the long haul. The seemingly steep price he pays today results in future windfalls.

Manny is in the Money

Meralco and Philex Mining are examples Pangilinan's storied acquisitions where he paid a steep price to gain active control. Given valuation issues, some market analysts have negative views about these two companies. But very few notice that despite the high acquisition costs and their respective share prices reaching jaw-dropping levels (i.e., Meralco peaked at Php300.00 while Philex reached Php21.00), Pangilinan's average cost is lower than the levels where these companies are trading at today.

By our estimates, we compute that Pangilinan's cost in Philex Mining was in the neighborhood of P11.00 and P11.50. In Meralco, although the count is still in progress, we believe that it is well below the current share price of P265.00. In spite of the premium he paid, Manny is still in the money.

Creating Champions

Manny Pangilinan created basketball champions in teams like Ateneo Blue Eagles, San Beda Red Lions, and Talk N' Text. By getting veteran coaches, recruiting key players, and instilling the winning attitude, the right mix guided these teams to become multi-year champions.

In the corporate world, Manny Pangilinan instituted the best corporate practices, hired seasoned management officials, formed strategic alliances, and put in adequate capital to create champion companies such as PLDT, Meralco, and Philex Mining.

Gokongwei Wins

Much of the attention had been focused on PLDT and its moves going forward with Digitel in the fold. There is little talk about the Gokongweis. They are in fact the big winners in this transaction, as they liquefied their P34.1 billion advances and P29.8 billion convertible bonds. By the next quarter, they will be sitting at the board of the largest telecom company, being paid handsome dividends annually. If they opt to cash in and eventually sell their PLDT shares, they can move on and deploy these funds to more lucrative sectors in order to generate greater returns. They got the best of both worlds.

Is Manila Mining Next?

Manny Pangilinan said that the negotiation with Felipe Yap of Manila Mining is advancing. The terms of the commercial agreement are being finalized. This should be another megabuck deal considering the scale and synergy their combined properties will create. Philex Mining intends to integrate its Boyongan property to Manila Mining's Bayugo asset. As for the timing, investors may expect another done deal from Manny "Pacman" Pangilinan fairly soon. Will investors again cheer *Manny! Manny! Manny!* like the way Filipinos cheer *Manny! Manny! Manny!* in Manny Pacquiao's fights?

Is MVP the MVP?

In sports, there is always the Most Valuable Player or the MVP. In the corporate world, is Manny V. Pangilinan the MVP? With his successful string of acquisitions – Maynilad, Meralco, Philex Mining, NLEx, SCTEX, Makati Medical Center, TV5, and Digitel, among others – he is, so far, living up to his monicker. There is, however, another CEO who is living up to that same MVP status. We're featuring him, in fact, in a subsequent article. His initials, however, are not MVP. It's RSA.

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