

## **Philequity Corner (April 18, 2011)**

By: Valentino Sy

### **RSA: Heaven Sent**

Last week, San Miguel held a briefing for its upcoming share offering. During the Q&A portion, a stockholder congratulated SMC Pres. and COO Ramon Ang (aka RSA) for transforming the company to what it is today. To her, RSA must have been heaven sent to SMC shareholders.

### **The Taipan from Tondo**

The richest business taipans we know of started out with practically nothing in their pockets. RSA, known to many as the car mechanic from Tondo, also started from humble beginnings. He may not have an MBA, but his strategic planning and bold ideas even top the thinking of an Ivy Leaguer. Like we said in our past article (*Turf Wars* 13 July 2009 issue of the **PhilStar**), RSA is a very intelligent and astute businessman. He is always ten steps ahead in his moves against competition. He is very bold, thinks fast, and reacts even faster.

RSA is also a cool head honcho. His happy-go-lucky and down-to-earth attitude has endeared him to business reporters and journalists. While typical corporate heads shy away from the media, stingy in disclosing corporate details, RSA likes spending time with them – sharing his vision and plans for San Miguel.

### **Drive to the Top**

This Tondo mechanic boasts a collection of the best and fastest cars. No wonder his Petron Blaze 100 Octane concept came up instinctively. His passion for the fast lane perhaps influenced his bold corporate moves. With the food and beer divisions at mature stages, RSA has sought to bring excitement in order to rejuvenate the century old beer company and reclaim its old glory. No other San Miguel CEO has made such a huge impact to the company than RSA. His drive to propel San Miguel to greater heights is already bearing fruits.

### **A Different San Miguel**

San Miguel is truly fast evolving. From its core businesses beer, liquor, and food, SMC diversified and ventured into uncharted territories. From a buyout of Petron and a number of telecom companies, to a purchase of a strategic stake in Meralco, to acquisitions of IPPA contracts and concessions in the infrastructure scene (i.e., Caticlan airport, TPLEX, and MRT-7), San Miguel's presence is now multi-dimensional.

In five years, San Miguel will be entirely different. Its traditional businesses are expected to account for just a fifth of total revenues. Under RSA's staunch leadership, San Miguel expects to bring its top line to one trillion pesos by 2016. In perspective, its pro-forma 2010 sales figure is a mere Php475 billion. This is one RSA guarantee investors would like to see.

## **Record Capital Raising**

SMC is embarking on an US\$850 million capital raising exercise. While the size has been reduced, this is still one of the largest fund raising campaigns of a Philippine corporate. Proceeds of the capital raised will be channelled for the expansion of existing and development of the new businesses acquired. Its success should set the tone for the other units of San Miguel to seek funding. San Miguel Brewery, PureFoods, SMC Properties, and GSMI are all looking at raising capital by expanding their respective ownership base. Any one could be next in the offering pipeline.

## **SMCnergy**

Synergy is what drives cost efficiency. Billions of pesos can be saved and additional revenues can be generated from synergies. In San Miguel's case, it stands to reap these rewards as it leverages on the strengths of its various units. Here are some of the few synergies accretive to San Miguel:

**Oil refinery and distribution.** Petron's huge gas station network can be tapped by the food group for distribution of San Miguel products. Kiosk banking can also be introduced by Bank of Commerce in some strategic gas stations. Collectively, Petron services all the fuel requirements of the companies under the SMC umbrella – from their fleet accounts to the fuel privileges of all key officers of the group.

**Power generation.** San Miguel's plan to enter into coal mining should be positive to its power generation unit. It can supply coal to the Sual plant for blending while Petron supplies diesel to the Limay plant. These generation plants, along with the Ilijan and San Roque plants, supply generating capacities to Meralco. In addition, they can also connect directly and power the bottling plants and factories of San Miguel.

**Property and Banking.** The Ortigas headquarters house the key offices of SMC's business units. Productivity improves as all these companies are conveniently situated in one office compound. Bank of Commerce, meanwhile, becomes the default bank of the group, getting access to group-wide corporate accounts and servicing the payroll accounts and loan requirements of all employees. Housing plans can also be provided by San Miguel Properties.

**Telecoms.** Similar to the default banker and fuel provider, the telecom division will be the preferred telecommunications source of the San Miguel group once established. Its 4G license will outdate the platform of existing players. A new *sun* will rise in the telecom industry, it's *San Miguel*.

**Infrastructure.** San Miguel is pump priming northern Luzon with its investments in MRT-7 (San Jose Del Monte, Bulacan) and TPLEX (Tarlac, Pangasinan, La Union expressway). Plans to develop the Terminal II of DMIA in Pampanga and to build an agro-industrial hub in Hacienda Luisita in Tarlac should also add value and create synergies for the San Miguel group over the long haul.

**Beer, liquor, and food.** Oktoberfest will be filled with much more excitement as the SMC family gets much bigger. Discounted PureFoods products and overflowing beer and gin will greet San Miguel employees every Christmas. Celebrating the holidays is more fun the San Miguel way.

### **SMC's Success = RP's Progress**

SMC accounted for 2.3% of the country's GDP in 2009. But that was when SMC was predominantly a consumer company. Since the new ventures are much larger in scale with growth rates rising much faster than the traditional businesses, we think that SMC could easily account for 6% to 7% of GDP in a few years' time. All these because of RSA.

As a significant contributor to the growth of the economy, whether as a tax payer to the government, as an employer to thousands of people, or a provider of goods and services to Filipino consumers, SMC's role in economic development is increasingly important. The success of San Miguel also means the country's progress.

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