

**Philequity Corner (May 16, 2011)**  
**By Valentino Sy**

### **Pacquiao Stocks**

In our article last Monday (*Does Size Matter?*, May 9, 2011), we talked about the top ranked listed companies in the Philippines based on market capitalization, revenues and net income. Some companies were not included in the list since we also included trading and free float as criteria. However, we received a letter from Mr. Lance Gokongwei, President and CEO of Cebu Pacific (CEB), who cited that we may have overlooked CEB. We are publishing his letter in its entirety.

#### **A letter from an esteemed reader**

*Hi Valentino,*

*First of all, I would like to say that I regularly enjoy reading your column in the Star "Philequity Corner". Your straightforward style of writing, and your fundamentals based analysis always makes a lot of sense to me, and you do so while keeping a global perspective of the markets. I can say that I always learn something new after reading your column.*

*I especially enjoyed today's article on "Does Size Matter". I would like to put in a word for Cebu Pacific which may have inadvertently missed out from your list of top 30 listed companies in the Philippines by market cap, revenues and profits – perhaps because we were only listed in 2010. For the record, CEB's market cap, 2010 revenues and 2010 net profits were about P 54 billion, P 29.2 billion and P 6.9 billion respectively.*

*I hope you can add CEB the next time you update the list of top 30 listed firms.*

*More power to you, and keep up the good work.*

*Best regards,*

*Lance Gokongwei  
Cebu Pacific*

#### **PSE index inclusion, a matter of time**

When we screened for companies using Bloomberg, it filtered out CEB because it did not have 12 months of earnings as a listed company. It was listed only last October 26, 2010. Based on May 6 closing prices, CEB would have ranked 26<sup>th</sup> on our list in terms of market capitalization. It would also be ranked 26<sup>th</sup> on sales of PhP 29 billion. With net income of PhP 6.9 billion, it would be the 21<sup>st</sup> biggest on our list. In addition, we would like to note that since CEB had been listed less than a year, it is not a part of the PSEi index or the MSCI Philippines index. However, we anticipate that it will eventually be included in the PSEi index and other major indices once it has a longer track record as a listed company.

#### **Cebu Pac is a Pacquiao stock**

While every up and coming boxer may want to be Manny Pacquiao, it is not an easy task. The qualities of Pacquiao are extremely hard to come by and the training required is extremely rigorous. Suffice to say, not just anyone can be the next Pacquiao. The same holds true for companies. In our previous article, we mentioned that investors should look out for Pacquiao companies. A Pacquiao stock is a

Filipino-owned company that started small. It must have excelled in its industry and eventually became number one. It must have beaten much larger multinational companies, the same way that Pacquiao overcame former world champions. In addition, it must have the potential to become internationally recognized. One of the companies that fits into the Pacquiao mold is CEB.

### **Rough Start**

CEB's ascent to where it is now was a very choppy one. Lance himself did not want anything to do with the airline business. It is, therefore, with much reluctance that he followed the wishes of his father to manage an airline. Crisis came in 1998, when its reputation took a hit after an accident. Since then though, through Lance's leadership, CEB has recovered and maintained a sterling safety record.

### **Flying High**

The CEB we know now is a far cry from its humble beginnings. Established in 1996, CEB flew a mere 360,000 passengers in its first year of operations. By November last year, it flew its 50 millionth passenger and, just this April, it became the first local airline to fly 1 million passengers in a month.

### **Challenger to Champion**

In an interview, Lance recalled that at some point, he realized that a lot of things had to be changed. In 2004, he embarked on a plan to upgrade CEB's fleet from aging DC-9's to more fuel efficient Airbuses. Now, CEB has one of the most modern fleets in the country, with planes having an average age of about 3.5 years. Operational efficiency was likewise revamped, reducing turnaround times and more than doubling fleet utilization. Eventually, CEB dislodged PAL as the premiere flag carrier. After overcoming the once unbeatable PAL, Lance set his sights on grander dreams.

### **Why stop at flyweight?**

Just like Pacquiao who eventually won 8 titles across different weight divisions, Lance was not content with just leading the number one airline in the country. Together with his father, John, and his uncle, James, URC became the number one food snacks company by market share through Jack & Jill. Looking ahead to a world without borders, Lance expanded steadily outside the country and has since established a strong foothold in nearby ASEAN countries, such as Thailand, Vietnam and Indonesia, where it is a major player in the food snacks industry. Moreover, URC is also the largest player in the ready-to-drink tea segment which the company itself pioneered through the introduction of C2, the first locally manufactured green tea-based beverage in handy PET bottles. Along with his cousin, Frederick Go, they have led RLC to become one of the top players in the property market.

### **The Anointed One**

As his father's only son, Lance has been anointed to take over JGS, the holding company of the family's many businesses. Just like his father, John Gokongwei, and his uncle, James Go, Lance has proven himself to be a very intelligent and insightful businessman. We have always considered the Gokongweis to be the most intelligent businessmen in the country. How many heirs to an empire can claim that they not only led the business to become the best in its class, but also create new ones and emerge on top? Just like Freddie Roach, the coach of Pacquiao, Lance was able to steer the once unknown and struggling

CEB to become the country's dominant flag carrier. Along with JGS, RLC and URC, this Pacquiao company is a testament to the talent of the torchbearer of the Gokongwei family.

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