

## **Philequity Corner (May 23, 2011)**

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### **Follow the Money (*Manny*) Trail**

Sportswriter and fellow Philstar columnist Qunito Henson, in his article, “*Following in Manny’s Footsteps*”, made a list of up and coming Filipino boxers. He named several fighters who could one day be multiple division title holders like Manny. As a world-class athlete and a boxing icon, Manny Pacquiao truly serves an inspiration and an influence not only to aspiring boxers but also to all Filipinos. Boxing and Pacquiao are so popular in the country that everyone wants to get in the ring and follow Manny’s trail.

In the local stock market, investors follow a different kind of Manny trail. This is the trail the leads to, of course, more money – thanks to a CEO named Manny. In this article, we speak of the MVP – Manny V. Pangilinan – and his trail of investments. Among his numerous acquisitions and buy-ins, PLDT, Meralco, Philex Mining, Digitel, and more recently, Lepanto Mining and Manila Mining, are the ones listed in the Philippine Stock Exchange. His investment batting average is very high that investors cheer in glee whenever he carries out his acquisitions – much like the chants we hear during Manny Pacquiao’s fights.

### **PLDT: The Investment that Started the Trail**

PLDT was Manny Pangilinan’s first acquisition and, by far, the most important one. This was carried out with the full support of First Pacific. From a bureaucratic monopoly, it was turned around to become one of the most efficient companies in the country. PLDT was Manny Pangilinan’s crown jewel, and it would be protected at all costs. In fact, the acquisitions of Meralco, TV5, and Digitel were meant to protect, enhance, and preserve PLDT’s dominance in the industry. And since the company declares most of its earnings as cash dividends, it is a source of cash for First Pacific that is eventually deployed for acquisitions. The money (Manny) trail started with PLDT.

### **Meralco: The Defensive Acquisition**

What started as a tactical defensive move ended up as a core business for Manny Pangilinan. As we all know, he was the white knight of the Lopezes who eventually emerged as the king of Meralco (Please refer to *Checkmate!* 16 March 2009 and *A White Knight emerges...* 9 March 2009 issues of the **PhilStar**). As an investment, we previously said that “*Meralco is a defensive move [for PLDT] against upcoming competition. It is also an investment that fits very well with Metro Pacific Investments*” [i.e., infrastructure theme]. Moving forward, the plan for Meralco is to re-enter the power generation business thereby creating synergies as both generator of power and distributor of electricity. Despite paying a premium for the strategic stake of the Lopezes, MVP’s cost is still low compared to current market price.

## Philex: Entry Point to Mining

Manny Pangilinan saw a golden opportunity in Philex Mining, as the company was a prime takeover candidate. At that time, gold first hit the \$1,000/oz threshold in 2008, so, in hindsight, the acquisition made complete sense even if he bought out the significant block holders – GSIS (6%), DBP (1%), and Ongpin & Brown (10%) – at a significant premium. The sequence of events is highlighted at the chart below. We said in our previous article *Return Bout* (17 August 2009 issue) that “*Philex’s ownership base is very dispersed... It would be easy for a third group to accumulate in the market...*”. In any case, Pangilinan’s cost is very low compared to where the price is presently trading.

### Philex Historical Price Chart



Moving forward, the plan for Philex is to be a world-class mining company. It is now becoming a reality with the recently concluded deal with Manila Mining. The Silangan project looks more promising given the deal. Philex likewise purchased a minority stake in Lepanto Mining. Lepanto Mining’s Far Southeast project, incidentally, is a subject of a buy-in of another reputable mining company, Gold Fields of South Africa.

## Digitel: Beating the Heat of the Sun

The Digitel acquisition was another defensive acquisition for Manny Pangilinan. In our previous article, we discussed why Manny Pangilinan pulled the trigger to acquire Digitel. PLDT needed to halt Sun Cellular’s increasing market share. Its purchase of Digitel is akin to Jollibee’s acquisition of Mang Inasal.

## Lepanto: Next in the Pipeline?

Lepanto Mining could potentially be another takeover candidate for Manny Pangilinan down the road. Just recently, Philex bought a 5% stake in Lepanto Mining at a price of Php0.66 per share. The investment gives Philex an indirect stake in the very promising Far Southeast project. Since then, the share price soared and almost touched (i.e., LCB) the one peso mark. During the course of the uptrend, we noticed heavy buying from foreign brokers allied with MVP. Trading value of Lepanto shares increased such that the company has been one of the most actively traded stocks in the

past weeks, sometimes trading even heavier than market stalwarts PLDT and San Miguel Corp. Is this MVP further accumulating the stock or is it local institutional funds strongly buying Lepanto shares?

### **Manila Mining: Not Far Behind**

Philex also lately sealed a joint venture partnership with Manila Mining with respect to the latter's Kalayaan project. Initially, Philex bought a 5% stake in the project, whose 280-hectare property is adjacent to its own Silangan project. Their agreement calls for an increased stake some time in the future (subject to certain milestones), such that Philex will own 60% of the project in the end.

While Manila Mining has a bigger property (i.e., >2,000 hectares balance) contiguous to the 280-hectare subject of the JV agreement, it is not far-fetched that MVP could be interested too in the rest of the property especially if the drilling results reveal high grades of ore. If these would be the case, then Manila Mining is also not far behind in the Manny trail.

### **Knockout Out-performance**

At Philequity, we follow not only Manny Pacquiao's fights, but also Manny Pangilinan's investment trail. This is one of the reasons why we have consistently outperformed the PSE.

For that knockout stock out-performance, one can follow the money (Manny) trail. There may be volatilities in the short-term that some investors may find them risky, but over the long-run and as the fruits of these acquisitions are realized, the money (Manny) trail outperforms the broader market.

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