

Philequity Corner (June 6, 2011)
By Valentino Sy

The Big Boys

In a previous article (*Does Size Matter?*, 9 May 2011), we ranked listed companies in the index by various metrics. As expected, we had companies from different sectors filling up the list. For this article though, we will focus on the largest listed conglomerates (the “Big Boys”). Not only are these holding companies a representation of the Philippine economy, they are also the biggest listed companies in the Philippine stock exchange. There are, however, a number of conglomerates as well as subsidiaries of the companies enumerated below that are not listed. Since investors cannot participate in these, we will limit our discussion only to listed companies.

Jacks of all Trades

A conglomerate is a holding company that owns a significant stake in a number of subsidiaries which conduct business through distinct corporate vehicles. Thus, a conglomerate can have exposure to different sectors without affecting its own operations. For instance, FPH is exposed to both energy and media. While the businesses are generally unrelated, the choice of subsidiaries is usually part of an overall strategy to create synergy and increase efficiency yet still have a singular corporate structure. Owning both a bank and a property company is one example of a symbiotic relationship in a well-managed conglomerate.

Ranking the Big Boys

Below, we ranked the various conglomerates (the “Big Boys”) by market capitalization as of June 3, 2011, sales and net income (Table 1). In addition, a breakdown of the top 5 holding companies’ listed subsidiaries will be provided (Tables 2-6). All data is expressed in PhP millions while sales and net income are figures as of end-2010.

Table 1 – Largest Listed Conglomerates Ranked by Market Capitalization

Ticker	Name	Market cap	Sales	Net income
SM	SM Investments Corp	348,830	165,067	18,440
SMC	San Miguel Corp.	276,753	246,109	20,091
AEV	Aboitiz Equity Ventures Inc	225,845	72,017	21,865
AC	Ayala Corp	188,850	82,080	11,161
JGS	JG Summit Holdings Inc	176,727	118,969	16,322
DMC	DMCI Holdings Inc	111,000	43,484	7,867
AGI	Alliance Global Group Inc	103,725	36,883	6,909
MPI	Metro Pacific Investments Corp.	69,152	27,496	2,871
FDC	Filinvest Development Corp.	37,454	21,919	3,563
FPH	First Philippine Holdings Corp.	36,296	61,508	24,850*

* FPH 2010 net income includes sale of Meralco stake

Source: Bloomberg, Wealth Securities research

SYmbiosis

While it is difficult to make different businesses work together, Henry Sy has managed not only to create a symbiotic relationship between his businesses, but also retain the top position in his chosen sectors

(see *We've Got It All*, 2 November 2009). By being the number one in shopping malls, department stores, supermarkets and theater operations, Henry Sy was able to use this position as a springboard for BDO's growth (see *Mind of a Taipan*, 15 August 2005). Using this as leverage, he was able to make BDO the largest bank by assets in 2010. In addition, Henry Sy was able to take advantage of the SM brand and its high name recall by launching SMDC real estate projects.

Table 2 – SM Investments and its listed subsidiaries

Ticker	Name	Market cap	Sales	Net income
SM	SM Investments Corp	348,830	165,067	18,440
SMPH	SM Prime Holdings Inc.	165,119	23,716	7,856
BDO	Banco de Oro Unibank	153,187	67,771	8,825
SMDC	SM Development Corporation	66,248	9,183	3,022
BEL	Belle Corporation	47,789	1,263	466
CHIB	China Banking Corporation	44,942	17,900	5,003
HP	Highlands Prime, Inc.	4,942	427	8

Source: Bloomberg, Wealth Securities research

The Transformer

Established in 1890, San Miguel was Southeast Asia's first brewery which, within the span of a generation, created a formidable brand name in the beer business. Since then it has diversified to produce a wide range of other foods and beverages. In recent years, however, President and COO Ramon Ang realized that SMC had to invest in faster growing sectors in order to maintain a high return of equity (see *RSA: Heaven Sent*, 18 April 2011). While still maintaining the beer business, RSA transformed the company by investing in property, oil, coal, power generation/distribution and in various infrastructure businesses (see *The street smart's response*, 20 July, 2009).

Table 3 – San Miguel Corporation and its listed subsidiaries

Ticker	Name	Market cap	Sales	Net income
SMB	San Miguel Brewery	477,725	67,575	11,768
SMC	San Miguel Corp.	276,753	246,109	20,091
PF	San Miguel Pure Foods	166,584	79,270	3,846
PCOR	Petron Corp.	125,814	229,094	7,894
SMP	San Miguel Properties	74,234	628	706
GSMI	Ginebra San Miguel	7,860	22,688	914
LIB	Liberty Telecoms Holdings	5,110	219	(1,147)

Source: Bloomberg, Wealth Securities research

Money and Power

Men crave two things – money and power. Fortunately for the Aboitiz group, they have both, albeit in a different sense. From its humble IPO price of PhP 5.80/share, AP is now trading at more than 5 times that amount. After winning bid after bid for hydroelectric power plants, brokers have been touting AP as the stock to buy for exposure to the power sector. Along with UBP's 186 branches, the Aboitizes have in excess what everyone else has in short supply.

Table 4 – Aboitiz Equity Ventures and its listed subsidiaries

Ticker	Name	Market cap	Sales	Net income
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AEV	Aboitiz Equity Ventures Inc	225,845	72,017	21,865
AP	Aboitiz Power	217,815	59,551	25,041
UBP	Union Bank of the Philippines	38,582	16,930	5,353
ATS	Aboitiz Transport System Corp.	3,938	11,611	(809)

Source: Bloomberg, Wealth Securities research

Safe and sound, slow but sure

The Ayala group is one of the more conservatively managed companies. It has chosen to be conservative in running BPI, GLO and ALI. As a result, Ayala has managed to maintain the prestige attached to its real estate developments with ALI's brand being synonymous with quality. This prestige is likewise attached to the other companies under AC. During unsettling times, investors flock back to the defensive and traditionally managed Ayala companies, such as BPI, which is a symbol of stability. Because of good corporate governance and consistently high ROEs for all Ayala companies, their respective stocks have continued to trade at a premium to the market.

Table 5 – Ayala Corporation and its listed subsidiaries

Ticker	Name	Market cap	Sales	Net income
BPI	Bank of the Philippine Islands	205,202	55,525	11,312
ALI	Ayala Land	202,644	35,408	5,458
AC	Ayala Corp	188,850	82,080	11,161
GLO	Globe Telecom	115,143	65,548	9,745
MWC	Manila Water Company	36,789	11,013	3,979

Source: Bloomberg, Wealth Securities research

Mixed bag of winners

An airline, snack manufacturer, real estate developer and telecom company all rolled into one – that's JGS. In a previous article (*Pacquiao Stocks*, 16 May 2011), we talked about the Gokongweis web of companies and how they have managed to be the top contenders in their respective sectors. CEB is the number one domestic airline, while URC is the the top food snacks company in the country. DGTL, by virtue of its unlimited call and text packages, was even able to snag a very profitable deal with MVP-controlled PLDT. All these are a testament to the great intellect of the Gokongweis.

Table 6 – JG Summit Holdings and its listed subsidiaries

Ticker	Name	Market cap	Sales	Net income
JGS	JG Summit Holdings Inc	176,727	118,969	16,322
URC	Universal Robina Corp.	88,232	57,720	7,817
CEB	Cebu Air Inc.	52,505	29,089	6,922
RLC	Robinsons Land Corp.	51,419	10,595	3,593
DGTL	Digital Telecom Philippines	9,853	16,544	527
OPM	Oriental Petroleum	3,080	773	149

Source: Bloomberg, Wealth Securities research

Size is not enough

Goliath thought size was all he needed to defeat David, but history has taught us otherwise. Just because a conglomerate is the biggest does not mean it is the best. For instance, prior to the trading halt and its subsequent price drop, SMC was the largest conglomerate by market capitalization, unseating

even the SM group. However, various issues, such as its high leverage, have taken a toll on its stock. There are other parameters to look at when picking a conglomerate, for instance, P/E multiples, cash flows, enterprise value, management, EBITDA and, most importantly, net asset value. With these in mind, an investor will be able to pick the conglomerate stocks that will eventually outperform the market.

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