

## Philequity Corner (October 31, 2011)

By: Valentino Sy

### The Smart Conquered the Sun

It is indeed better late than never. After several months of delay, the biggest buyout in Philippine corporate history finally materialized. Last week, the National Telecommunications Commission approved PLDT's acquisition of Digitel with the telecom giant taking over Digitel in a mega-blockbuster deal worth P69.2 billion. Inclusive of the tender offer to minority shareholders of Digitel, the purchase value is P74.1 billion.

This landmark transaction involved the swap of new PLDT shares against the shares and liabilities of Digitel held by JG Summit. Initially, JG Summit will own 12.9% of PLDT but part of the agreement was that it will sell 10.4 million shares to First Pacific Co. of Hong Kong and NTT Docomo of Japan for P2,500 a share. At the end, JG Summit will own 8.1% of PLDT and gain a seat on its board of directors.

### Synergies for PLDT

Smart will fold in Sun Cellular's 15 million subscribers into its near 50 million subscriber count, thus giving it a commanding 69% share of the mobile phone market. With the deal, PLDT will now market four brands under its umbrella: Smart, Talk N' Text, Red Mobile, and Sun.

Synergies can be attained over the long haul as operations are rationalized and optimized. As costs are brought down and debts are managed, the value proposition branding becomes more effective and margin enhancing. This should be good for the Smart group as its subscriber base is largely prepaid-driven.

### The Biggest Winner

In our previous article *Pacman strikes again* (04 April 2011 issue of the **PhilStar**), we argued that the Gokongweis are the big winners in this transaction. Not only have they disposed of a ton of liabilities, but also have become more liquid in the process. As it now becomes one of the biggest shareholders in PLDT, JG Summit gains more representation in the PSE. From the table below, note that more than 90% of its assets are publicly listed. With PLDT in its fold, we expect more analysts to initiate coverage and put a buy rating on JG Summit.

### JGS Summit NAV estimate

	Stake	Market Value	JGS's claim	NAV %
<b>Listed investments</b>				
PLDT	12.9%	514,697	67,433	27%
Universal Robina	61.4%	97,290	59,687	24%
Robinsons Land	60.0%	34,066	20,443	8%
Cebu Pacific	69.6%	47,189	32,843	13%
United Industrial*	35.9%	128,743	46,193	19%
			<b>226,599</b>	<b>91%</b>
Non-listed investments			21,158	9%
<b>Enterprise value</b>			<b>247,757</b>	<b>100%</b>
Less: Parent net debt / (cash) estimate			11,705	
<b>Equity value</b>			<b>236,052</b>	
Shares outstanding			6,740	
<b>Value per share</b>			<b>35.02</b>	
Prem / (disc) to current price			-26.8%	

Source: Wealth Securities estimates

Note: United Industrial is listed in the Singapore Exchange

### **3 Options for Digitel Minority**

Digitel minority shareholders welcomed the acquisition, as the share price surged and neared the P1.60 share swap price. A tender offer to the minority will be announced soon. Digitel shareholders would have three options following this deal: (1) sell the shares at the tender offer price of P1.60 per share; (2) convert Digitel shares into PLDT shares at a swap ratio of 1,559 Digitel shares for every new PLDT common share; or (3) hold on to the Digitel shares on expectation that it will rise in value because of the synergies between Smart and Sun. Digitel, as part of the agreement, will continue to operate separately.

### **Catalyst for the Stock Market**

M&A is always good for the stock market. It gives more excitement to a bullish market. It becomes an impetus, especially if the transaction is relatively large and significant. Following the announcement of the Digitel acquisition, other MVP stocks and Gokongwei companies -- though directly unrelated to the transaction -- reacted positively. And since the MVP and Gokongwei counters total 29.5% of the PSE Index, their boost provided a welcome lift.

### **Country will benefit**

JG Summit will now have more liquidity to pursue a capital intensive endeavor like the petrochemicals business. This is a venture every newly industrialized nation like our country needs. And since the Gokongweis already have presence in this area, it will have a larger capital to make a difference. We need more entrepreneurs like the Gokongweis.

### **A 4-Peat in the works for MVP?**

With this deal over and done with, MVP can now focus his attention on his next target. As to what company, it will be anybody's guess. Much like the 4-peat of his alma mater Ateneo Blue Eagles, the market seems to be agog about his possible 4-peat in the stock market. After Meralco, Philex Mining, and Digitel, who's next for MVP? Lepanto or Manila Mining, perhaps?

### **Belated Gift to Big John**

Big John celebrated his 85th birthday last August, but probably his best birthday gift arrived only last week. Now, through JG Summit, Big John will have bigger plans and bolder goals to achieve, especially with so much capital and liquidity at his disposal. His indefatigable entrepreneurial spirit will liven up once more.

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### **Retesting the High**

In our past articles, we have maintained that the macro economic headwinds especially in Europe have been causing the correction in our market despite the country's strong fundamentals. We argued that our economy is much healthier and we do not face the structural issues encountered by the developed markets. Because we remained bullish despite the uncertainties, we have been advocating a buy on dips strategy in the Philippine stock market.

In view of our belief that a roadmap to a resolution to the European crisis is at hand, we stated two weeks ago that: "**We had been buying equities in the past few weeks and would probably buy more if the stock market corrects**". (See *A Rollercoaster Ride*, 17 October 2011 issue of the **PhilStar**). Now that there appears to be more clarity with respect to Europe and global stock markets have been rallying as a result, our own PSE Index is now poised to re-test the all-time high of 4,563.

*For further stock market research and to view our previous articles, please visit our online trading platform [www.wealthsec.com](http://www.wealthsec.com) or call 634-5038. Our archived articles can also be viewed at [www.philequity.net](http://www.philequity.net).*