



THE WEALTH VAULT

A Product of Wealth Securities, Inc.

BANCO DE ORO UNIBANK, INC. (BDO)

9M2011 EARNINGS UPDATE

4 November 2011

Company Update

Company Snapshot

Price (P)	54.80
Price Target (P)	66.00
Shares O/S (million)	2,607
Market Cap (P million)	142,888
52-week High (P)	64.5
Low (P)	45.80
12-mo Avg. Value T/O (P'm)	119,037
2011E BVPS (P)	33.17
2011E P/BV	1.65x
2011E ROE	11.5%
Upside potential, %	20.4%

Financial Highlights

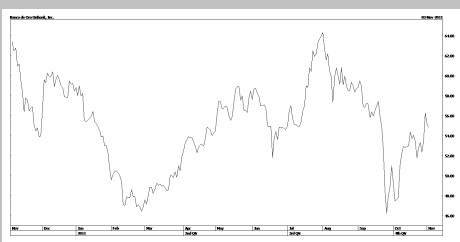
in P'million	2010A	2011E	2012E
Net Int. Income	34,158	40,858	46,941
Other Income	17,841	15,919	17,418
Net Revenues	51,999	56,777	64,360
PPOP	17,210	18,887	23,684
Net income	8,881	10,421	13,079
PBV (x)	1.8	1.7	1.5
PE (x)	17.5	14.2	11.3

A = Actual calendar/fiscal year results; C = Bloomberg consensus; I = Annualized interim results; E = Wealth Securities estimates

Price Performance

	1m	6m	12m
BDO	11.3%	-2.3%	-13.6%
PSEi	8.9%	-2.5%	-3.9%

1-Year Price Chart



Source: Technistock

Corporate Announcement

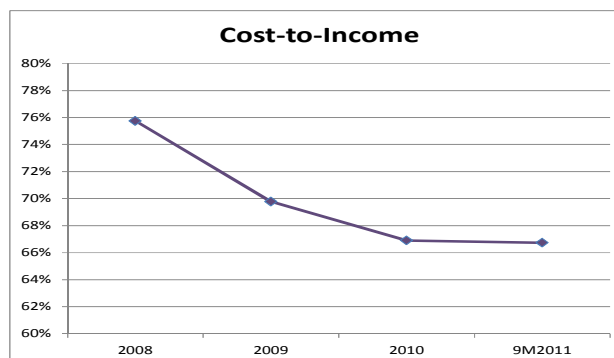
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Growth Momentum

- **Strong Earnings Growth.** BDO reported that its 9M2011 Net Income amounted to P7.6B (+19% YOY). This is in-line with our 2011 Net Income estimate. The bank managed to grow its Gross Loans by 24% YOY to P620.8B, outpacing the industry's 19% YOY growth. This resulted to a Return to Common Equity of 11.8%.
- **Non-Interest Income Compensates for Margin Squeeze.** Despite the stellar loan growth shown by BDO this year, Net Interest Income grew by a modest ~1.4% YOY to P25.7B, suggesting continued pressure on margins. This, however, was compensated a 16% YOY growth in Non-Interest Income, which increased to P15.7B. Non-Interest Income was buoyed by a 17% growth in Fee Income and 16% growth in Trading and FX Gains.
- **Controlled Opex Growth.** The bank continued to show progress in containing the growth of its Operating Expenses, as they only grew by 5% YOY to P27.0B. This resulted to a Cost-to-Income Ratio of 66%, which is an improvement from the bank's 3-year average of 71% (see chart below).



Sources: Company data, Wealth Securities estimates

- **Stronger Capital Base from Tier 2 Issuance.** BDO raised P8.5B in Tier 2 this year, which was further supplemented by P6.5B of additional Tier 2 raised in October 2011. This provides BDO with increased regulatory capital, as its end-September 2011 Capital Adequacy Ratio (CAR) improved to 15%. Due to the recent focus of the bank in raising Tier 2 Capital, we anticipate that it will have to work on improving its Tier 1 Ratio over the next few years.
- **BUY maintained.** Given the healthy asset and earnings growth, as well as tempered growth of Operating Expenses, we maintain our BUY rating on BDO with a target of P66.00. This implies a 20% upside from the stock's current price.

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