



# THE WEALTH VAULT

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## PHIL. LONG DISTANCE TEL. CO. (TEL)

### 9M2011 EARNINGS UPDATE

8 November 2011

### Company Update

#### Company Snapshot

|                            |          |
|----------------------------|----------|
| Price (P)                  | 2,360.00 |
| Shares O/S (million)       | 214      |
| Market Cap (P million)     | 506,068  |
| 52-week High (P)           | 2,676.00 |
| Low (P)                    | 1,990.00 |
| 12-mo Avg. Value T/O (P'm) | 312.442  |
| 2011E PE (x)               | 13.1     |

#### Financial Highlights

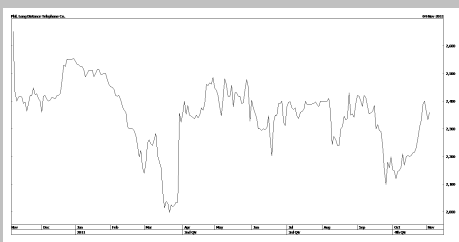
| in P'million | 2008A   | 2009A   | 2010A   |
|--------------|---------|---------|---------|
| Revenues     | 145,582 | 147,993 | 144,459 |
| Expenses     | 85,786  | 90,111  | 88,903  |
| EBITDA       | 87,741  | 86,194  | 83,717  |
| Net Income   | 35,298  | 40,095  | 40,259  |
| Core income  | 38,079  | 41,138  | 42,028  |

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

#### Price Performance

|      | 1m    | 6m    | 12m    |
|------|-------|-------|--------|
| TEL  | 8.9%  | -2.5% | -12.4% |
| PSEi | 10.3% | -0.6% | -2.9%  |

#### 1-Year Price Chart



Source: Technistock

#### Corporate Announcement

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### Short-term Pains

- **Earnings Slowdown.** PLDT's 9M2011 Service Revenues declined to P103.2B, or 3.3% YOY. This, along with a decline in the company's EBITDA Margin to 59% (from 60% last year), caused the 4.5% YOY drop in TEL's 9M2011 Net Income to P30.6B.

Note, however, that on a per quarter basis, PLDT's 3Q2011 Net Income declined by a faster clip, dropping by as much as 10.8% vs. the same period last year. This drop was mainly because of intensifying competitive pressures. In response, PLDT has boosted its Selling and Promotions Expense, which was up 16.6% YOY for 9M2011 and up 52.0% YOY for 3Q2011. This has resulted to an increase in PLDT's consolidated subscriber base by 55,000 or ~13.0% for 3Q2011 alone.

Considering these, PLDT revised its guidance for FY2011 Net Income to P38.6B, which is 4% lower compared to its FY2010 Net Income.

|                        | 9M2011 | 9M2010 | % Change | 3Q2011 | 3Q2010 | % Change |
|------------------------|--------|--------|----------|--------|--------|----------|
| Service Revenues       | 103.2  | 106.7  | -3.3%    | 33.6   | 34.6   | -2.8%    |
| Net Income             | 30.6   | 32.1   | -4.5%    | 9.3    | 10.4   | -10.8%   |
| Selling and Promotions | 4.5    | 3.9    | 16.6%    | 1.8    | 1.2    | 52.0%    |

Amounts in billion pesos  
Source: Company data

- **Old vs. New.** The decline in Service Revenues was driven by the 4.7% decline in 9M2011 Cellular Service Revenues to P61.2B. Though newer revenue streams such as broadband (+1.2% YOY) are showing promise, it has only contributed P4.8B in Service Revenues for 9M2011.
- **Digital vs. Dilution.** PLDT has not yet provided guidance regarding the financial impact of the Digitel acquisition, as the former is still conducting its due diligence on the latter. The transaction is expected to bring some easing in the competitive pressures on margins over the medium to long-term. Further, PLDT is exploring potential synergies and capex savings that may be brought about by optimal use of PLDT and Digitel's combined infrastructure. Lastly, the acquisition will result in bigger market share, as PLDT - via Smart, will command 69% of the mobile phone market's subscriber base.

These benefits will be weighed against the dilutive effect of the 27.7m new PLDT shares issued to JG Summit Holdings in exchange for the 51.55% ownership of Digitel. This is equal to 12.9% of PLDT's expanded capital stock.

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