



WEALTH SECURITIES

Backed by a research group of analysts with over 25 years of experience in equity securities

Consistently ranked among the top 20 brokerages in the Philippines since opening in 1986

Recipient of the Euro Money Award for Excellence as the "Best Domestic Securities House in the Philippines"



THE WEALTH VAULT

A Product of Wealth Securities, Inc.

MONDAY, 02 January 2012

Index	Value	Change	% Chg	
PSEi	4,371.96	35.33	0.8147	↑
All Shares	3,045.04	35.52	1.1803	↑
Financials	968.91	5.63	0.5845	↑
Industrial	7,074.65	41.95	0.5965	↑
Holding Firms	3,503.61	48.90	1.4155	↑
Property	1,481.25	1.16	0.0784	↑
Services	1,616.32	16.72	1.0453	↑
Mining & Oil	23,504.75	192.32	0.8116	↓

WORLD INDICES

Dow Jones	12,217.60	-69.48
FTSE 100	5,572.28	+5.51
NIKKEI 225	8,455.35	+56.46

TRADING SNAPSHOT

Index Movers	Points
PLDT	↑ 9.37
San Miguel Corp.	↓ 4.81
SM Investments Corp.	↑ 4.67
Universal Robina Corp.	↑ 3.35
Metrobank	↓ 3.05

Index Out-performers	Up
Globe Telecom	4.91%
JG Summit Holdings	4.14%
Jollibee Foods Corp.	2.78%
First Gen Corp.	2.24%
Metro Pacific Investments	2.23%

Index Under-performers	Down
Philex Mining	2.11%
Robinsons Land Corp.	1.05%
Manila Water Company	0.82%
Ayala Land Inc.	0.66%
San Miguel Corp.	0.60%

CALENDAR

Jan 06	Dec `11 Rediscount Rate
Jan 06	Dec `11 GIR, NIR
Jan 10	Nov `11 KB Loans
Dec 10	Oct `11 FDI



PSEi Index

30 Dec 2011:	4,371.96 + 35.33
Value T/O, net	Php 2,779 million
52-week High	4,563.65
Low	3,705.18
Foreign Buying:	Php 2,087 million
Foreign Selling:	Php 1,116 million



HEADLINES

US stocks end lower on last trading day for 2011

➤ US stocks ended lower on the last trading day for 2011 (Dec 30). All three major indices ended red with the Dow losing 0.57%; the S&P, 0.43%; and the Nasdaq, 0.33%. The S&P closed just 0.04 point, or 0.003%, below its open for the year at 1257.64. This is the closest the S&P had closed unchanged for a year since 1947. The Dow on the other hand is up 5.5% for the year, while the Nasdaq is down 1.8%. Bank of America, losing 59% of its value, was the worst Dow performer for the year, while McDonalds was the best performer. McDonalds ended the year with a gain of 31%. For the S&P, utilities was the best performing sector, ending 2011 with a 16% gain. Stocks continued to trade quietly last Friday with only 4.07B shares traded in the NYSE, Nasdaq, and Amex. In corporate news, Sears fell 2% during Friday's trading after Fitch Ratings downgraded the company to "junk" status. Ford fell 0.1% despite reporting that sales topped 2M this year for the first time since 2007.

S&P raises outlook for BDO and Metrobank

➤ S&P raised the ratings of BDO and Metrobank earlier this week to BB from BB- while the outlook on both banks was raised from "stable" to "positive" to align them with those of sovereigns. S&P upgraded the Philippine's ratings to BB last November 2010, just two notches below investment grade. S&P however released a Dec. 30 statement saying that they are withdrawing the new ratings due to "low level of market interest."

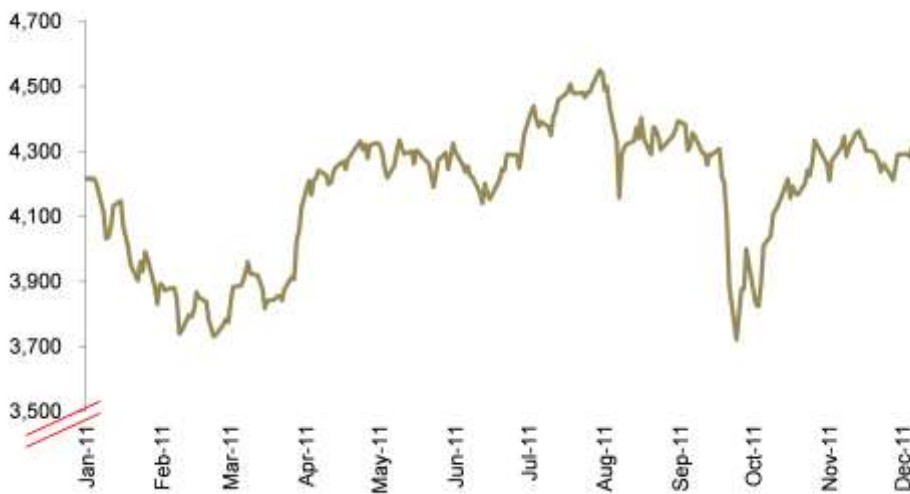
Alliance Global plans new Resorts World complex

- In an interview with reporters last week, AGI Chief Financial Officer Kingson Sian said that the company is planning to begin work on a second integrated tourism estate this year. The new complex will be constructed on the 40-hectare estate in the state-run Philippine Amusement and Gaming Corp.'s Bagong Nayong Pilipino Entertainment City. AGI had earlier allotted US\$1.1B for the project which will be developed in partnership with Genting Hong Kong, Ltd.

Meralco to spent P11B for the construction of substations for 2012

- In an interview with the BusinessWorld, Meralco Chief Operating Officer, Oscar S. Reyes said that the company is spending P11B in 2012 for the construction of substations to ensure a robust distribution system.

Foreign Buying-Selling : 12-month period



Source: Technistock

CURRENCIES

US, Dollar	43.9280
Japan, Yen	0.5638
UK, Pound	67.8819
Hong Kong, Dollar	5.6513
EU, Euro	56.8428
Bahrain, Dinar	116.5199
Saudi Arabia, Rial	11.7141
China, Yuan	6.9493

COMMODITIES

NYMEX Crude Futures	99.36	↓ 1.95%
NY Gold Spot (\$/t oz.)	1,562.00	↓ 1.95%
Silver Comex (\$/t oz.)	27.02	↓ 5.76%
London Copper Spot	7,446.75	↓ 2.42%





Energy Development Corp. (EDC)

Reinitiate Coverage with a Buy

Company Snapshot

Price (P)	6.29
Price Target (P)	8.00
Shares O/S (million)	18,750
Market Cap (P million)	117,938
52-week High (P)	7.06
Low (P)	5.22
12-mo Avg. Value T/O (P'm)	168.14
Shareholders	
First Gen Corp.	47.0%
Free float	45.0%



Price Performance

	1m	6m	12m
EDC	+5.0%	-3.5%	+8.6%
PSEi	+3.8%	+2.9%	+4.1%

Moving Forward

- **Over the hump.** EDC has made huge strides in the past years. From addressing its balance sheet risk profile to rehabilitating its power plant acquisitions, EDC has shown its ability to transition and address problems at hand. We believe that this year is the start of big things for EDC. From profits to prospects, we expect EDC to be an out-performer relative to its domestic peers.
- **Strong catalyst.** We expect EDC's earnings to make a reversal this year following the clean-up phase. Net profit should dramatically rise to P8.85 billion from the P2.1 billion estimate of last year. Moving forward, we expect EDC to carry on its double-digit earnings momentum towards 2015. In terms of valuation, our three-step approach in estimating EDC's fair value yields a target price of P8.00 – an upside of 27%. EDC's international expansion should be enhancing to its domestic recovery story. BUY EDC.

Forecasts and ratios

in P'million	2009A	2010A	2011E	2012E	2013E
Revenues	20,417	24,902	26,677	32,688	34,543
EBITDA	8,311	9,899	9,400	18,245	19,899
Net Income	3,312	4,116	2,083	8,854	9,862
EPS (P)	0.18	0.22	0.11	0.47	0.53
EPS Growth	+152%	+24.3%	-49.4%	+325.1%	11.4%
ROE	11.8%	13.8%	6.9%	26.1%	23.7%
P/E (x)	35.8	28.8	57.0	13.3	12.0
P/B (x)	4.1	3.9	4.0	3.1	2.6
EV/EBITDA (x)	18.6	15.9	16.5	8.9	8.2
Dividend yield	2.0%	1.9%	2.5%	1.7%	2.3%

Source: Wealth Securities estimate, company data

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

Bernard C. Aviñante

T: 634.5038 local 8164

E: bernardavinante@wealthsec.com



- **2010-2011: Rehabilitation Phase.** The past couple of years were downtime for EDC. Financially, its balance sheet was untenable given a huge exposure to a rising JPY. EDC's acquisitions underwent rehabilitation, with BacMan mothballed. At the tail end of this phase was a P5 billion impairment charge for the 49MW Northern Negros power plant.
- **All the mess behind.** All these are behind EDC now. FX volatility risk is relatively mitigated given that peso loans now account for >60% of its outstanding debt, not to mention that >85% of the loans carry fixed interest rates. Its recent bond raising of P12 billion was given the highest credit rating of Aaa. With respect to the Northern Negros plant shut down, the impairment charge will be reversed once the plant is relocated to the Nasulo geothermal project
- **2012: Recovery Period.** BacMan is finally expected to operate a full 12 months this year. Of the 130MW post-rehab rated capacity, EDC initially contracted 60MW with Batangas II Electric Cooperative for a one year period. At the contracted price of P4.70/kWh, this supply agreement should contribute more than P2 billion in revenues to EDC. For the balance, management expects a good part of the capacity to be signed after the final testing and grid synching are completed.

Deliverables on Geothermal Acquisitions

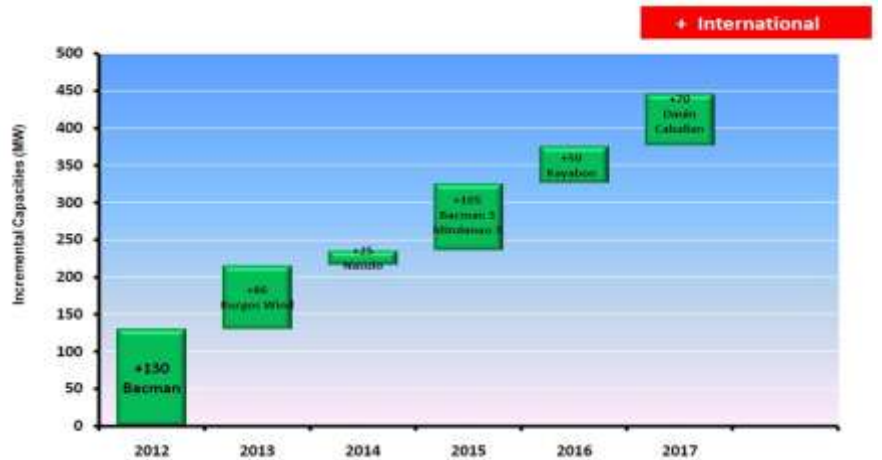
	Palinpinon	Tongonan	BacMan
Capacity Re-Rating			
Pre-Rehab	130.0 MW	60.0 MW	150.0 MW
Post-Rehab	192.5 MW	112.5 MW	130.0 MW
Increase Dispatch			
NPC Average	76.1%	54.5%	5.4%
Target 2012	85%	85%	85%
Re-Price Output			
Steam Sales	1.65 / kWh	1.87 kWh	1.81 kWh
Electricity Price	4.70 / kWh	4.70 / kWh	4.70 / kWh

Source: Company

- **Supply contracts renewed.** The legacy contracts under Palinpinon and Tongonan had been fully replaced and re-priced at fair prices (from P3.60/kWh to P4.85/kWh). Held under Green Core Geothermal, we expect these two plants to sustainably contribute some P10.5 billion in annual revenues on 2.3 billion kWh sales. At present, only 54MW (18%) of the 305MW remains un-contracted but these will be channelled to WESM and/or ancillary services.
- **2013 & Beyond: Growth projects here...** EDC has growth programs – both domestic and international. The 86MW Burgos Wind project is its first greenfield project outside of its core geothermal business. The company projects to finish the project by 2013, depending on the release of feed in tariff by the ERC. It will likewise pursue six greenfield expansion projects, all within its existing concession areas. These projects total 466MW in incremental capacity.

- **... and abroad.** International projects, meanwhile, are long-term value drivers as developing greenfield geothermal projects take five to seven years to complete. EDC's deal with Hot Rock Ltd. of Australia provides the opportunity for the company to pursue four geothermal concessions in Chile and Peru. Their agreement calls for a 70%-30% arrangement in favor of EDC. Within the 1H, management will be providing more information with respect to the results of their initial surface exploration activities.

Domestic Growth Project Pipeline



Source: Company

- **Compelling upside.** We valued EDC based on three metrics: (1) Replacement value, (2) Discounted cash flows, and (3) EV/EBITDA. We believe these methods best capture EDC's fair value. Replacement value takes a snapshot of the market value of building a geothermal facility, which in our assessment presently runs at ~US\$3m per MW. Our DCF approach, meanwhile, captures the long-term cash flow outlook on a per plant basis. This fits EDC's preference of locking in clients over the long haul. Lastly, we compared EDC against its peer power generators using the EV/EBITDA multiple. We then ascribed weights to arrive at an P8.00 per share fair value estimate for EDC. This suggests a 27% upside from present levels. We re-initiate coverage on EDC with a BUY.

Valuation Method

	Target	Weight	'12 TP
Replacement cost	8.13	40%	3.25
DCF	8.45	30%	2.54
10x EV/EBITDA	7.35	30%	2.21
	100%		Php8.00

EDC versus Peer Power Companies

Company	Market Cap	EV/EBITDA	PER	P/BV	PEG ratio
Meralco	278,661	11.8x	7.9x	4.7x	2.3x
Aboitiz Power	220,022	7.0x	11.1x	3.0x	(0.8)x
EDC	117,938	8.9x	13.3x	3.1x	0.04x
Semirara	78,874	6.5x	10.1x	4.0x	0.7x
First Gen	49,161	5.6x	8.7x	1.0x	0.5x

Source: Bloomberg, Wealth Securities estimates

Please Read!

The information and opinions in this report were prepared by Wealth Securities, Inc. The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. Wealth Securities makes no representation as to the accuracy or completeness of such information.

Wealth Securities may engage in securities transactions, on a proprietary basis or otherwise, in a manner inconsistent with the view taken in this research report. In addition, others within Wealth Securities, including traders and sales staff, may take a view that is inconsistent with that taken in this research report.

Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Wealth Securities and are subject to change without notice. Wealth Securities has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Prices and availability of financial instruments are subject to change without notice. This report is provided for informational purposes only. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Target prices are inherently imprecise and a product of the analyst judgment.

RATINGS DEFINITION



Jerome Gonzalez
Research Head
T: 634.5038 local 8127
jerome@philequity.net

Nikki Sy
Media & Transport
T: 634.5038 local 8150
nikkisy@wealthsec.com

Bernard Aviñante
Conglomerates & Power
T: 634.5038 local 8121
bernardavinante@wealthsec.com

ND Fernandez
Banking & Telcos
T: 634.5038 local 8152
ndfernandez@wealthsec.com

Miguel Agarao
Mining & Property
T: 634.5038 local 8164
miguelagarao@wealthsec.com

Kevin Cua
Food & Beverage
T: 634.5038 local 8165
kevin.cua@wealthsec.com



Wealth Securities, Inc.
2103 East Tower, PSE Center,
Exchange Road, Ortigas Center,
Pasig City 1600
Telephone: 02.634.5038
Facsimile: 02 634 5043

www.wealthsec.net