



## WEALTH SECURITIES

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## THE WEALTH VAULT

A Product of Wealth Securities, Inc.

TUESDAY, 24 January 2012

Index	Value	Change	% Chg	
PSEI	4,747.90	47.53	1.0112	↑
All Shares	3,193.15	24.09	0.7602	↑
Financials	1,053.54	10.66	1.0222	↑
Industrial	7,306.05	24.89	0.3418	↑
Holding Firms	3,775.01	30.67	0.8191	↑
Property	1,695.90	38.47	2.3211	↑
Services	1,785.92	8.20	0.4613	↑
Mining & Oil	25,744.83	322.46	1.2684	↑

WORLD INDICES

Dow Jones	12,708.80	-11.66
FTSE 100	5,782.56	+54.01
NIKKEI 225	8,765.90	-0.46

TRADING SNAPSHOT

Index Movers	Points
Ayala Corp.	↑ 7.94
Ayala Land Inc.	↑ 7.85
PLDT	↑ 4.95
SM Prime Holdings	↑ 4.70
Jollibee Food Corp.	↑ 4.19

Index Out-performers	Up
Robinsons Land Corp.	5.14%
Jollibee Foods Corp.	4.25%
Ayala Corp.	4.06%
Philex Mining	3.59%
Ayala Land Inc.	2.74%

Index Under-performers	Down
Universal Robina Corp.	2.50%
Cebu Air Inc.	2.33%
Meralco	0.95%
Globe Telecom	0.72%
JG Summit Holdings	0.17%

CALENDAR

Jan 19	Dec'11 BOP Position, GIR, and NIR
Jan 19	Monetary Stance Press Release
Jan 25	FGEN ASM
Jan 31	Dec'11 Template on Inter'l Res., Foreign Exch. Liquidity



PSEi Index

19 Jan 2011:	4,747.90	+ 47.53
Value T/O, net	Php	4,699 million
52-week High	4,747.90	
Low	3,705.18	
Foreign Buying:	Php	2,815 million
Foreign Selling:	Php	2,966 million



HEADLINES

US stocks end flat as investors look forward to bellwether earnings

➤ US stocks ended little changed in yesterday's (Jan 23) trading as investors await earnings from companies which are traditionally considered as bellwethers to the economy. The Dow and the Nasdaq both ended with a slight loss of 0.09% each; while the S&P managed to end 0.05% higher. Bellwethers such as Apple, are slated to report earnings later as the euro zone crisis continue to remain in the background. Verizon Communications, Travelers Companies, Inc., McDonald's Corp., Dupont, and Johnson & Johnson, are expected to post earnings later. In company news, Texas Instruments jumped 2.5% after announcing higher than expected fourth quarter revenues. Research In Motion fell 8.5% after announcing that its co-chief executives had resigned. Chesapeake Energy Corp. gained 6.3% after announcing that it will cut production and dry gas drilling in response to falling natural gas prices.

San Miguel, Citra starts SLEx upgrade work

➤ In a statement, Indonesia-based Citra group said that the company, together with San Miguel Corp. had started adding enhancements to the South Luzon Expressway. Automated toll collection services had reportedly been added while construction of more parking spaces along the highway had already been scheduled to be started soon. New lay-bys or parking bays, as well as reflectors will also be installed along the highway.

San Miguel Corp. declares cash dividends

➤ San Miguel Corp. disclosed that its Board had approved the declaration of P0.35 per share cash dividends payable to shareholders on record as of February 6, 2012 on February 20, 2012 Ex- date for the said cash dividends is on February 1, 2012.

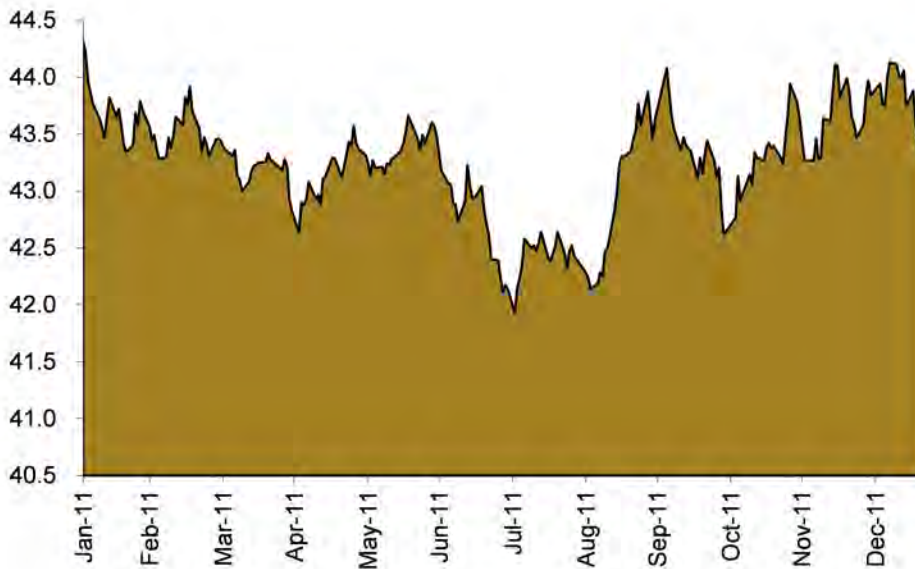
## Belle Corp. on track to open US\$750M Manila Bay complex

- Belle Corp. Vice Chairman Willy Ocier reportedly said that the company is on track to launch its US\$750M gaming complex in the Manila Bay reclamation project early next year. The company had recently completed the construction of its six hotel towers – a requirement by the PAGCOR before Belle Corp. can open its casino facilities. The six hotel towers would offer 828 hotel rooms, above the 800 room requirement set by the PAGCOR. Ocier also said that all funding for the project are already in place.

## Ayala Land optimistic for 2012

- In a chance interview with the BusinessMirror, Ayala Land president, Antonio Aquino reportedly said that the company had likely sustained strong profits on the fourth quarter of last year as the company sets an optimistic outlook for 2012. The company had reported a 33% rise in net income for the first nine months of 2011, while revenues likewise jumped 17%.

### Php versus US\$ : 1-Year Price Chart



Source: Philippine Dealing and Exchange Corp.

## CURRENCIES

US, Dollar	43.3390
Japan, Yen	0.5618
UK, Pound	67.1191
Hong Kong, Dollar	5.5845
EU, Euro	56.1803
Bahrain, Dinar	114.9941
Saudi Arabia, Rial	11.5561
China, Yuan	6.8610

As of 1/20/2011

## COMMODITIES

NYMEX		
Crude	100.39	↓ 0.20%
Futures		
NY Gold		
Spot (\$/t oz.)	1,653.90	↓ 0.18%
Silver Comex		
(\$/t oz.)	30.58	↑ 0.23%
London		
Copper Spot	8,355.00	↑ 1.56%

As of 1/19/2011



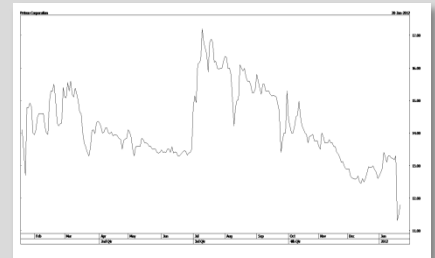


# Petron Corporation (PCOR)

## Reinitiate Coverage with a LT Buy

### Company Snapshot

Price (P)	11.80
Price Target (P)	16.00
Shares O/S (million)	9,375
Market Cap (P million)	110,625
52-week High (P)	17.40
Low (P)	11.20
6-mo Avg. Value T/O (P'm)	22.9
Shareholders	
SEA Refinery	50.1%
Free float	14.9%



### Price Performance

	1m	6m	12m
PCOR	-7.7%	-23.8%	+19.0%
PSEi	+9.3%	-3.7%	+12.5%

## Blazing Prospects

- **Take over then turn it around.** San Miguel Corp. incurred serious pain when it took over Petron on a year of severe uncertainty. In 2008, Petron bled heavily, losing billions as oil prices see-sawed radically. Towards yearend, SMC paid \$10 million for an option to buy Petron. Two years after, SMC bought the company and PCOR has shown a reversal of its bottom line. Recently, the PCERP undertook a private placement offering 695.3 million shares thus increasing free float to 14.9%. This should unlock the value in the company as its earnings is poised for rapid expansion. From the time SMC took over operations, we envisage PCOR posting a 2009-13 earnings CAGR of 40%.
- **Strong buy.** Valuation-wise, our 5-year DCF-based model puts a P16.00 price target on PCOR, suggesting a huge 36% upside. Cross-checking with relative metrics like PER and P/BV, PCOR trades at 11.6x and 2.3x respectively at the fair value estimate. Strong earnings driven by margin expansion with greater contribution from its high-value products, propel the share price to our expected target. With market cap at P111 billion, we likewise expect PCOR to enter the PSE Index on improved liquidity thus allowing it to be in the radar screens of foreign institutions. The recent placement at P11.00 could be seen as a strong support for PCOR. From thereon, we expect PCOR to blaze to our target price. BUY PCOR.

### Financial and Valuation Highlights

in P'million	2009A	2010A	2011A	2012E	2013E
Revenues	176,531	229,094	286,368	329,323	378,721
EBITDA	12,788	16,051	24,055	28,322	35,221
Net Inc to com	4,240	6,941	10,216	12,879	16,279
EPS (P)	0.45	0.74	1.09	1.37	1.74
EPS Growth	n/a	+63.7%	+47.2%	+26.1%	+26.4%
ROE	12.1%	17.2%	21.2%	22.0%	22.7%
EBITDA margin	7.2%	7.0%	8.4%	8.6%	9.3%
P/E (x)	26.1	15.9	10.8	8.6	6.8
P/B (x)	3.0	2.5	2.1	1.7	1.4
EV/EBITDA (x)	13.5	12.3	9.0	8.0	6.7

Source: Wealth Securities estimate, company data

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

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- **The SMC takeover.** One of San Miguel's early acquisition was Petron. The diversifying conglomerate took over the company at a time when crude oil prices were behaving erratically. As Petron was incurring heavy losses, SMC grabbed the opportunity and paid a 2-year option worth US\$10 million in December 2008. The conglomerate ran the oil refiner as a private enterprise. The following year, Petron reversed its losses. Come 2010, SMC paid the balance and completed the takeover.
- **Price leader no more.** As a former government-owned enterprise, Petron instituted price leadership even with the existence of a law deregulating its industry. This pro-consumer approach, though popular, yielded unattractive margins. But as an entity now under SMC, the new Petron is more profit-driven and less government-influenced. As a result, although sales volume has contracted as a whole, Petron churns higher margins. The table below highlights the stark contrast under the two sets of management.
- **Produce more whites.** Petron embarked on an aggressive bid to upgrade the refinery complex in Limay, Bataan. The move is geared towards greater efficiency through the reduction of black products during the cracking process in favor of high-margin white products such as aviation fuel, LPG, and gasoline. A 70-MW cogen facility will be set in place to reduce power consumption within the refinery complex. With a 180k bbl per day capacity, a conversion capacity of 19k bbl per day is targeted to increase production of propylene, benzene, toluene, and mixed xylene. These products are intended for exports and account for under 12% of sales volume.

#### Petron: Then and Now

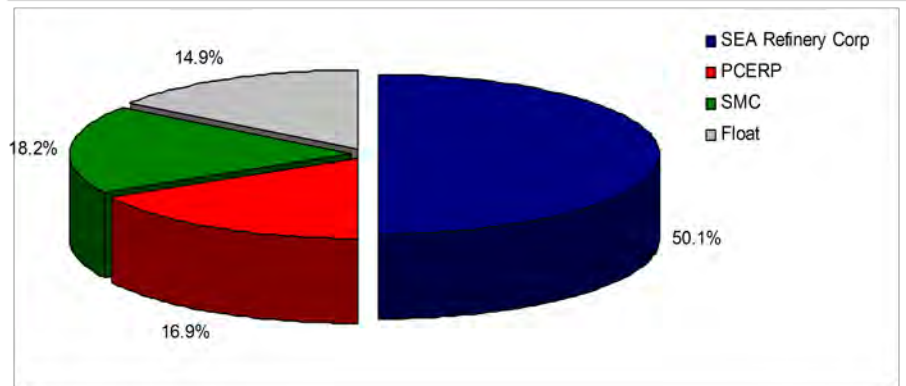
	Saudi Aramco + PNOC	San Miguel Corp.
Year	2007	9M 2001 annualized
Service stations	>1,250	>1,700
Market share	36.1%	~38%
Oil price peak	>\$90/bbl	>100/bbl
Revenues	P211 billion	P269 billion
Net profit	P6.38 billion	P9.18 billion
Sales volume	9.35 billion liters	8.19 billion liters
Gross profit margin	7.2%	9.1%
GP per liter	P1.60	P3.00
EBITDA margin	5.9%	7.5%
Net margin	3.0%	3.4%
Gross debt	P46.6 billion	P78.8 billion
Debt to EBITDA	3.7x	3.7x

Source: Company, Wealth Securities estimates

- **Synergies with infrastructure.** SMC's drive to pursue infrastructure-themed projects and acquisitions would be beneficial for Petron. For instance, SMC's entry into the power generation business allows Petron to be the default back-up fuel supplier. Also, the plan to rehabilitate Philippine Airlines would mean increased fuel sales for Petron. In addition, investment in express tollways shall open doors for gas station expansion. And lastly, the approval to invest in the ExxonMobil Malaysia's downstream business shall broaden the market base of Petron.

- **Higher public participation.** Last week, Petron offered secondary shares via a private placement. The Petron Corporation Employees' Retirement Plan (PCERP) sold 695.3 million common shares at P11.00 per share. The offering addressed the company's limited free float, a critical issue affecting its low value turnover. Post-offer, Petron's public ownership improved to 14.9% from 7.5%. Moving forward, this will give foreign investors greater access and participation in the company.

#### Ownership Structure Post-Offer @ P11.00



Source: Company

- **PSEi candidate.** Petron is a sleeping heavyweight stock with a market cap of P111 billion. With the recent share placement, its trading activity should improve thus satisfying the three mandatory requirements for PSEi inclusion. Assuming its value turnover is sustained in the coming months, we think Petron is a likely entrant in the PSE Index by the September re-composition period. This should be a strong catalyst for the stock as investors begin to recognize and re-rate the company.
- **Compelling upside.** We value PCOR based on a 5-year DCF basis, which puts a P16.00 price target on PCOR. Cross-checking with relative metrics like PER and EV/EBITDA, PCOR trades at 11.6x and 9.0x respectively at the fair value estimate. Strong earnings driven by margin expansion with greater contribution from its high-value products, propel the share price to our expected target. The recent placement at P11.00 could be seen as a strong support for PCOR. From thereon, we expect PCOR to blaze to our target price of P16.00. BUY PCOR.

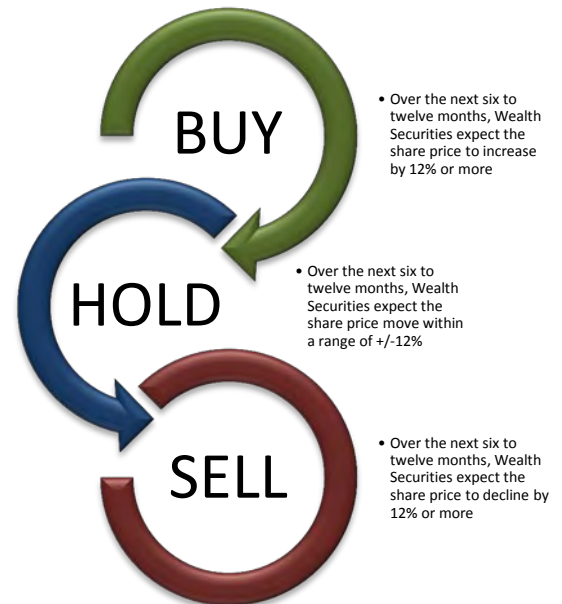
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## RATINGS DEFINITION



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