

Philequity Corner (February 13, 2012)

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A Stock Market 4-Peat?

Is MVP is on for a 4-peat? After his mega-blockbuster deal with Digitel last October (see *The Smart Conquered the Sun*, 31 October 2011 issue of the **PhilStar**), rumors surfaced that Manny V. Pangilinan was on the prowl once again in search of another prey. This time the rumored target was GMA Network, which as a result, recently reached a new 52-week high of P10.20. Although GMA-7 already said that the network is not for sale, market pundits are simply buying the stock on dips. Could this be another glitzy deal waiting to happen?

GMA-7 Price Chart



Source: Technistock

Undisputed #3

Many were baffled with the market buzz considering TV5 is already in MVP's yard. TV5 has in fact made significant strides in improving ratings as it lured (and continues to attract) more talents from channels 2 and 7. Given this scenario, one would think that the strategy would be to grow the network ground up and elevate TV5 to par with ABS-CBN and GMA. But it seems that improving TV5 may not be enough for MVP. In his 2011 Ad Congress speech, MVP said, "[TV5] is the undisputed #3. The thought of being stuck in third place has made me extremely paranoid." His passion to always be at the top may have rekindled his desire to acquire the country's leading network.

Kapatid + Kapuso = Dominance

TV5 is incurring losses and would continue to do so as it bolsters program line up. It might take time before ratings fully catch up with competition. The broadcast industry, in our view, is in a mature stage and therefore growth expectation is not high. Consolidation of industry participants may be needed to attain the desired level of growth. Hence, acquiring GMA-7 makes sense from a market share standpoint. The combination of channels 5 and 7 will cement viewership lead against ABS-CBN. It will also be a springboard for international

operations. Much like in the telecom business, the broadcast industry will revert to a virtual duopoly if the deal pushes through. So, is it a Deal or No Deal?

Convergence in Media

If GMA-7 falls prey, MVP will have under his belt an array of complementing assets in tri-media. In TV, apart from the likely stranglehold in audience share in free TV channels, it has Cignal Digital TV which has a growing share in the cable business. In radio, it will also have significant presence in both FM and AM frequencies. And in print, MVP has stakes in BusinessWorld, Inquirer and here at **PhilStar**. All these should have synergistic benefits to parent, PLDT.

Another Felipe

Our director, Felipe Yap of Lepanto Consolidated and Manila Mining, has been said to be a tough negotiator. He is obstinate and stubborn. This was the reason why it took some time before MVP finally convinced Felipe to allow the former's entry in one of Manila Mining's assets. With GMA-7, MVP is yet again dealing with another tough Felipe. The network's Chairman and CEO, Felipe Gozon, a lawyer, is likewise tough at negotiations. He won't easily give up the institution he has chaired and served since 1974.

US Parallel

In the US, content is vital for media companies mainly due to recent advances in technology. Video streaming thru mobile devices like iPad and iPhone not only allows greater access but likewise expands potential market base. One example is Comcast Corp.'s acquisition of NBC Universal. Comcast is the largest cable company in America while NBC Universal is an entertainment juggernaut. The transaction was a game-changer as it raised the bar in the entertainment industry. NBC Universal gave Comcast a plethora of new content that enabled it to become the leader in the production and distribution of multiplatform media. The same can be said about Apple's search for content in preparation for the launch of Apple TV. In perspective, this could also be in the mind of MVP which is why he's interested in the Kapuso network.

PAL on the Block too

Talks again of MVP offering to buy Philippine Airlines likewise came out last week. Some quarters put his price tag on PAL at US\$500 million. The deal appears palatable to MVP since a PAL acquisition reinforces his infrastructure foray. However, unlike in GMA-7, MVP has someone to contend with. Perennial rival Ramon S. Ang of San Miguel Corp. was reported to have an initial upper hand and has put on the table a more acceptable offer. PAL's share price has climbed significantly since the start of the year on rumors of a potential takeover from either of these two contenders. The market is eager to see who'll win the country's flag carrier.

4-Peat in the Stock Market?

The Ateneo Blue Eagles reached a 4-peat during the last UAAP season. In the PBA, Talk N' Text nearly snared a Grand Slam. In our *The Smart Conquered the Sun* article, we noted that "*The market seems to be agog about [MVP's] possible 4-peat in the stock market. After Meralco, Philex Mining, and Digtel, who's next for MVP?*" Could it be GMA-7 or PAL? Or could it be another mining company? As share prices of GMA-7 and PAL continue to trade at elevated levels, the market seems to be anticipating another trophy for MVP.

M&A as Catalyst

As we have said in past articles, M&A is always good for the stock market. It adds gusto especially in a bullish market treading to new all-time highs. We expect the market's rally to be sustained as economic fundamentals remain sound and prospects appear vibrant.

Corrections are bound to happen, but our advice to our clients at Philequity is to stay the course.

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