

Philequity Corner (04/23/2012)
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Investing in IPOs

The stock market has been very bullish in 2012 as we saw our PSE Index break the 5,000 mark and establish new all-time highs. This is a continuation of the strong upward movement which started in March 2009. Unfortunately, a lot of people missed this bull run. One way to invest in the soaring stock market is thru Initial Public Offerings (IPOs). An IPO is the first sale of shares of stock of a private company or its controlling shareholder to the public. IPOs can be attractive even for new or smaller investors, as IPOs provide them a chance to buy a reputable company at a price where most institutional and experienced investors are entering.

IPOs, especially during bull markets, can generate a lot of excitement within the investing public. There always seems to be anticipation and curiosity as to how the new company will fare in the stock market. This is more pronounced if the companies doing the IPOs have exciting growth stories and strong business models. In this article, we discuss the GTCAP and EW IPOs and explain what made both offerings very attractive.

A Tale of 2 IPOs

Last Friday, April 20, 2012, GT Capital Holdings (GTCAP) made its debut in the stock market. The offering stirred a lot of excitement as GTCAP is the holding company for the banking and non-banking assets of the Ty family. GTCAP, at its IPO price of P455, was deemed relatively cheap compared to other local conglomerates considering its earnings profile and the businesses that it owned. As such, GTCAP was up 8.1% last Friday, with total value traded worth P3.3B, or 39.3% of total value traded for that day.

In a few weeks, EastWest Bank (EW) will also make its much-awaited stock market debut. As early as June last year, we wrote about EW and how it has started to build an impressive track record of growth and profitability (*A Pacquiao Bank*, June 27, 2011). EW has also built a strong presence in consumer lending and has embarked on an aggressive branch expansion program. These are some of the reasons why there is strong demand for EW shares at its IPO price of P18.50.

A Bankable Conglo

It would be interesting to note that the country's biggest conglomerates own the biggest local banks: SM Investments owns BDO and Chinabank, Ayala Corp. owns BPI while Aboitiz Equity Ventures owns Unionbank. There seems to be a certain prestige that is accorded to conglomerates who own big banks. GTCAP's IPO was thrust into the spotlight since GTCAP owns 25.1% of Metrobank, the 2nd largest local bank in terms of assets and the biggest in terms of capital. Despite its significant stake of Metrobank, GTCAP's IPO equated to ~13.0x 2012E Price to Earnings (PE), which is among the lowest for local conglomerates.

Engines of Growth

Other than Metrobank, GTCAP owns an impressive portfolio of non-listed businesses. GTCAP will eventually have full ownership of Federal Land, a fast-growing real estate company. It also has a beneficial stake of 51.5% in Global Business Power, the leading IPP in the Visayas area. Aside from these, GTCAP has beneficial stakes of 28.5% in Toyota Motor Philippines, which is the leading vehicle brand in the country and 32.2% in Philippine AXA Life Insurance, the 3rd largest life insurance provider in the country. Considering all these, it appears that GTCAP has built a portfolio of well-positioned businesses that will strongly benefit from the sustained economic growth of our country.

David Among Goliaths

In our article about EW, we mentioned that the bank has managed to grow at a fast rate while maintaining above-industry profitability. Notwithstanding its explosive asset growth over the past few years, EW will be the smallest among listed local banks. Despite the size handicap, EW posted a 2011 ROE of 17.0%, which is the 2nd highest among listed local banks.

A Winning Strategy

EW's remarkable story of growth and profitability is the result of a clearly-defined business model. On one hand, it has established a strong presence in consumer lending, which provide relatively higher loan yields. EW is ranked 6th among local banks in both Credit Cards and Auto Loans. Through these, EW has built a strong portfolio of Consumer Loans, which accounted for 53.9% of Gross Loans as of YE2011.

On the other hand, EW has embarked on an aggressive branch expansion program, which aims to triple the bank's branches from 122 as of YE2011 to 367 as of YE2014. By YE2014, EW plans to have 165 branches in restricted areas, the 5th largest among listed local banks. EW will leverage on its added branches in restricted areas to raise more low-cost deposits and continue delivering relatively low cost of funds.

EW's two-pronged strategy of generating higher yields via consumer lending and maintaining low cost of funds has allowed EW to deliver the highest Balance Sheet Spread among listed local banks. EW's higher margins have so far translated into strong bottomline figures and relatively high ROE.

A Future Champion

We like EW for delivering above-industry growth and profitability. Since its turnaround, which started sometime in 2006-2007, EW has grown its assets, loans and deposits faster than most of its peers. Moreover, despite its fairly recent turnaround, EW has started to deliver ROE and Balance Sheet Spread that are among the industry's best. Despite these, EW will be offered at 1.19x 2012E Price to Book Value (P/BV), the 2nd lowest among listed local banks.

Listed Local Banks - 2012E P/BV									
	BDO	BPI	MBT	SECB	CHIB	RCB	PNB	UBP	EW
Price as of 4/21/12	68.70	75.50	90.50	146.10	527.00	43.20	74.70	103.60	18.50
2012E P/BV	1.76	2.69	1.78	1.95	1.37	1.25	1.12	1.58	1.19

Source: Wealth Securities estimates

Considering this, we think EW's valuation at the IPO price is quite attractive. We foresee that EW will eventually close this valuation gap with its peers, as it continues to execute its winning strategy while delivering impressive asset and earnings growth.

IPO Fever

Because of the bullish sentiment of the stock market and the attractive valuation of GTCAP and EW, both of their IPOs have been heavily oversubscribed. Similar to GTCAP, around 70% of EW's IPO will go to foreign institutional investors, while the rest will go to local trading participants or stock brokers. There is heavy demand for EW shares among local stock brokers who allocate their shares to their existing clients. Fortunately, the PSE had the foresight to institute the Local Small Investors Program (LSIP). New investors may participate in EW's IPO via the LSIP, which will give them the chance to buy a maximum of 1,300 shares of EW at P18.50 per share. Investors who are interested in EW's IPO may contact their respective stock brokers to assist them on how to register for the LSIP.

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