



## WEALTH SECURITIES

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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, 07 May 2012

Index	Value	Change	% Chg	
PSEI	5,297.55	2.86	0.054	↓
All Shares	3,500.66	4.96	0.1415	↓
Financials	1,303.72	7.92	0.6038	↓
Industrial	7,950.08	5.03	0.0633	↑
Holding Firms	4,621.14	27.77	0.5973	↓
Property	1,968.68	11.77	0.6015	↑
Services	1,733.02	10.81	0.6277	↑
Mining & Oil	26,475.37	509.07	1.8865	↓

WORLD INDICES

Dow Jones	13,038.27	-1.27%
FTSE 100	5,655.06	-1.93%
NIKKEI 225	9,380.25	+0.31%

TRADING SNAPSHOT

Index Movers	Points
ICTSI	+9.87
Bank of the Philippine Islands	-8.18
SM Investments Corp.	-7.60
Aboitiz Equity Ventures	+5.52
Ayala Corp.	-4.60
<b>Index Out-performers</b>	
	Up
ICTSI	5.71%
Robinsons Land Corp.	3.17%
Manila Water Company	2.20%
Aboitiz Equity Ventures	1.70%
Megaworld Corp.	1.40%
<b>Index Under-performers</b>	
	Down
Bank of the Philippine Islands	2.47%
Philex Mining Corp.	2.15%
Ayala Corp.	1.86%
SM Investments Corp.	1.69%
Jollibee Foods Corp.	1.68%

CALENDAR

Apr 30	Mar '12 Template on Int'l Reserves
May 04	Q1 '12 CPI, Inflation Report
May 07	Apr '12 GIR
May 09	GLO '12 Results Briefing



PSEi Index

04 May 2012:	5,297.55	- 2.86
Value T/O, net	Php 5,834 million	
52-week High	5,300.52	
Low	3,715.01	
Foreign Buying:	Php 4,255 million	
Foreign Selling:	Php 3,465 million	



HEADLINES

US stocks fall as employers reduce hiring for 3<sup>rd</sup> straight month

➤ US stocks suffered a selloff last Friday (May 04) as a slowdown in hiring in April raised concerns on the sustainability of an economic recovery. All three major indices closed red with the Dow declining 1.27%; the S&P, 1.61%; and the Nasdaq, 2.25%. The US Labor Department reported that employers only added 115,000 jobs in April, well below the forecast of 170,000. Looming elections in France and Germany also put investors on the defensive. Energy stocks were among the worst performers with the S&P energy index declining 2.2%. US oil price fell 4% to below US\$100 for the first time since February. Chevron Corp. declined 2.1% while Exxon Mobil Corp. fell 1.3%. In other company news, LinkedIn Corp share prices rose 7.2% after posting higher than expected profits and revenues. Estée Lauder Cos, Inc. fell 5.3% after announcing a weaker than expected profit forecast. Dole Food Co. meanwhile jumped 7.7% after announcing that it may spin off some of its units.

China Bank posts 27% net income growth for 1Q`12; declares cash and stock dividends

➤ In a press release, China Bank announced that its consolidated net income for the first quarter of the year increased 27% to P1.1B. The increase in earnings translated to an ROE of 11.02% and an ROA of 1.64%. China Bank said that the quarter was boosted by strong growth in loans and fee-based income although growth in deposits was only modest. Customer loans portfolio increased by 34% YoY to P154B, while fee-based income improved by 166%.

➤ In line with results, China Bank announced the declaration of P12 cash dividends and 10% stock dividends per share. The cash dividends represent 27.90% of the 2011 net income of P5.075B

### Calata Corp. sets IPO price at P7.50

- Calata Corp.'s underwriter said that the company set the final price of its IPO at P7.50, the maximum of its planned range. This will give Calata's IPO a market value of P270M. Calata is set to debut on the PSE on May 23.

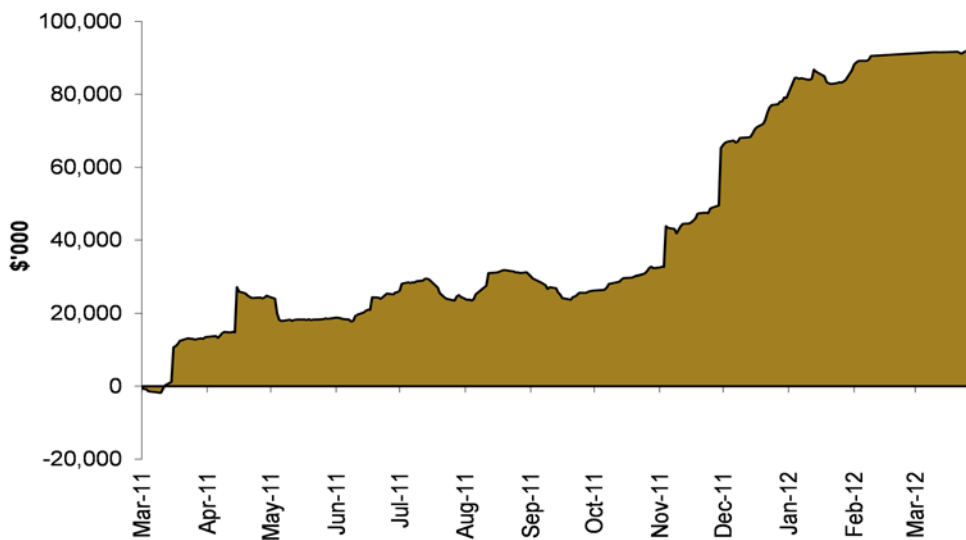
### Lopez Holdings declares P0.10 cash dividends

- Lopez Holdings announced that its Board approved the declaration of P0.10 cash dividends per share payable to shareholders on record as of May 21, 2012 on or before June 15, 2012. Ex-date for the said cash dividends is on May 16, 2012.

### FLI hikes 1Q`12 net income by 21%

- See separate WealthSec. report.

### Foreign Buying-Selling : 12-month period



Source: PSE

### CURRENCIES

US, Dollar	42.2090
Japan, Yen	0.5263
UK, Pound	68.2899
Hong Kong, Dollar	5.4405
EU, Euro	55.5091
Bahrain, Dinar	111.9662
Saudi Arabia, Rial	11.2551
China, Yuan	6.6945

As of 5/07/2012

### COMMODITIES

NYMEX		
Crude	98.49	-3.95%
Futures		
%NY Gold		
Spot (\$/t oz.)	1,643.40	-0.58%
Silver Comex		
(\$/t oz.)	30.34	+0.86%
London		
Copper Spot	8,253.50	-0.37%

As of 05/07/2012



# Filinvest Land, Inc. (FLI)

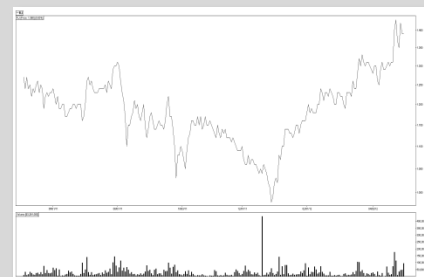
Not Rated

## Company Snapshot

Price (P)	1.39
Price Target (P)	N/A
Shares O/S (million)	24,250
Market Cap (P million)	33,707
52-week High (P)	1.44
Low (P)	0.98
12-mo Avg. Value T/O (P'm)	39.3
Shareholders	
Filinvest Dev't Corp.	53.0%
Free float	39.0%

## Price Performance

	1m	6m	12m
FLI	+6.9%	+24.1%	+8.6%
PSEi	+5.1%	+24.0%	+23.3%



## FLI 2012 Financial Highlights

- **Results are in-line.** As expected, FLI's 1Q12 net income was up 21% to Php 748 million on the back of a 41% increase in revenues. Of the Php 2.7 billion revenue, 74% came from real estate sales and 15% came from rental services. As for net income, real estate sales account for 6% of it while 31% is from leasing. See the financial highlights on the right side.
- **Real estate and rental topline healthy...** Core real estate development revenues were up 50%, while rental revenues were up 24% for office buildings and 7% for mall rental revenues. Real estate sales growth is primarily attributable to the jump in the contribution of mid-rise buildings (MRBs) & high-rise buildings (HRBs). Occupancy rates at 98% (higher than the past quarter's 96%) along with higher rental rates served to boost rental revenues. FLI currently has 168,207 square meters of office GLA.
- **... but margins are a concern.** Like most real estate developers, FLI experienced significant margin contraction. From 49% gross margin, 1Q12 gross margin was down about 500 basis points to 44%. Although FLI may be negatively impacted by an impending glut for vertical residences, its sizeable exposure to MRBs should partially offset this since these take a shorter time to construct and sell versus HRBs.
- **Project launches for 2012 amount to Php 14.5 billion.** Although no projects were launched in 1Q12, FLI plans to launch 12,100 units worth Php 14.5 billion. By value, 60% of this will come from MRBs and HRBs while socialized and affordable housing will comprise 28%. Middle and high-end units account for the remainder.

### 1Q12 Financial Highlights

Php millions	1Q12	1Q11	YoY change
Real estate sales	2,035	1,357	50%
Rental services	410	359	14%
Interest income	151	121	25%
Other income	137	96	43%
Forex gain	1	-	N/A
<b>Total revenues</b>	<b>2,734</b>	<b>1,933</b>	<b>41%</b>
Cost of real estate sales	1,133	693	63%
Cost of rental services	110	100	10%
G & A	267	203	32%
Selling & marketing	159	135	18%
Financing charges	127	65	95%
<b>Total expenses</b>	<b>1,796</b>	<b>1,196</b>	<b>50%</b>
<b>Operating income</b>	<b>938</b>	<b>737</b>	<b>27%</b>
Equity in net earnings	27	20	35%
<b>Earnings before tax</b>	<b>966</b>	<b>757</b>	<b>28%</b>
Income tax	218	138	58%
<b>Net income</b>	<b>748</b>	<b>620</b>	<b>21%</b>

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# EastWest Bank (EW)

Initiating Coverage

## Company Snapshot

Price (P)	18.50
Price Target (P)	24.80
Shares O/S (million)	1,128
Market Cap (P million)	20,876
52-week High (P)	-
Low (P)	-
12-mo Avg. Value T/O (P'm)	-
Shareholders	
Filinvest Dev't Corp.	75.0%
Free Float	25.0%

## Price Performance

	1m	6m	12m
EW	-	-	-
PSEi	+5.1%	+24.0%	+23.4%



## Pound-for-Pound

- **An Exciting IPO.** EW will finally make its stock market debut on today, May 7, 2012. Though EW will be the smallest among the listed local banks, we believe that EW can measure up with the biggest and best local banks when it comes to profitability. Further, we think that EW's remarkable growth story will be attractive for investors, especially for those who invest with a longer time horizon in mind.
- **Compelling Valuation: BUY EW.** At its IPO price, EW is valued at 1.19x 2012E P/BV, the 2nd lowest among the listed local banks. We believe that this is a very attractive valuation considering EW's growth trajectory and above-industry profitability. We initiate coverage of EW with BUY and a target price of P24.80. At our target price, EW would be valued at 1.6x 2012E P/BV, a 20% discount to our target multiple for MBT and SECB.

Listed Local Banks - 2012E P/BV									
	BDO	BPI	MBT	SECB	CHIB	RCB	PNB	UBP	EW
2012E BVPS	38.98	28.06	50.80	74.99	385.30	34.47	66.90	65.50	15.52
Price -5/4/12	67.00	73.10	92.00	154.00	528.00	44.55	77.40	105.50	18.50
2012E P/BV	1.72	2.61	1.81	2.05	1.37	1.29	1.16	1.61	1.19

Sources: Technistock, Company data, Wealth Securities estimates

- **A David Among Goliaths.** Over the past few years, EW has grown quite aggressively. In fact, in the last 5 years, EW has more than tripled its assets, loans, deposits and equity for Compounded Annual Growth Rates (CAGR) in excess of 25%.

## Financial and Valuation Highlights

Amounts in P'million	2009A	2010A	2011A	2012E	2013E
Net Revenues	5,451	7,394	7,304	8,950	11,920
Operating Expenses	3,544	4,063	4,459	5,500	7,200
PPOP	1,907	3,332	2,845	3,450	4,720
Net Income	622	1,811	1,732	1,700	2,380
ROE	10.8%	19.8%	17.0%	11.8%	12.7%
ROA	1.0%	2.3%	2.0%	1.5%	1.7%
EPS	1.21	2.63	2.52	1.61	2.11
BVPS	11.84	14.20	16.33	15.52	17.63
PE	-	-	-	11.50	8.77
P/BV	-	-	-	1.19	1.05

Sources: Company data, Wealth Securities estimates

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

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EastWest Bank - Balance Sheet Highlights - 2006 to 2011							
	2006	2007	2008	2009	2010	2011	CAGR
Assets	30.3	38.1	49.1	75.0	83.8	96.0	25.9%
Loans	15.1	17.9	21.9	33.1	40.3	48.1	26.0%
Deposits	25.2	31.3	39.3	59.8	66.5	76.7	24.9%
Equity	2.9	4.1	4.0	8.1	9.8	11.2	31.3%

Amounts in billion pesos

Source: Company data

EW's growth soundly outpaced the growth of the local banking sector (Local and Universal Commercial Banks), which posted 5-year CAGRs of 9 to 10% only.

Local Universal and Commercial Banks - 2006 to 2011							
	2006	2007	2008	2009	2010	2011	CAGR
Assets	4,289.3	4,488.3	5,035.0	5,483.5	6,131.8	6,544.0	8.8%
Loans	2,093.8	2,203.7	2,519.6	2,746.0	2,825.5	3,252.4	9.2%
Deposits	3,071.1	3,185.5	3,702.9	4,126.3	4,513.3	4,756.0	9.1%
Equity	492.4	523.2	521.0	599.1	711.5	817.2	10.7%

Amounts in billion pesos

Source: Bangko Sentral ng Pilipinas

Notwithstanding EW's impressive growth in the last 5 years, it will still be the smallest among the listed local banks.

YE2011 Assets of Listed Local Banks									
	BDO	BPI	MBT	SECB	CHIB	RCB	PNB	UBP	EW
YE2011 Assets	1,097.3	842.6	958.4	215.3	262.3	345.0	316.3	270.2	96.0

Amounts in billion pesos

Source: Company data

- **Measuring-up.** EW's turnaround started in early 2007 when it hired a new president and beefed-up its management team with new talent. Despite its fairly recent turnaround, EW has shown that it can hang with the biggest and the best local banks. In 2010 and 2011, EW delivered the 2nd highest ROE among listed local banks.

Listed Local Banks - FY2010 and FY2011 ROE									
	BDO	BPI	MBT	SECB	CHIB	RCB	PNB	UBP	EW
FY2010 ROE	11.3%	15.6%	10.3%	34.6%	15.4%	14.0%	8.4%	15.5%	19.8%
FY2011 ROE	11.4%	15.2%	11.8%	24.6%	13.7%	14.1%	10.7%	16.7%	17.0%

Source: Company data

- **A Winning Strategy.** EW's impressive results are driven by the execution of a clearly-defined business model. In the past few years, EW has strengthened its presence in consumer lending, a sector with a high-barrier to entry but provides higher loan yields. Through acquisitions and various growth initiatives, EW has built strong Credit Card and Auto Loan portfolios that are both ranked 6th in their respective industries. Compared to other local banks, EW's consumer loans account for a bigger portion of its loan portfolio.

EW's YE2011 Loan Portfolio Breakdown		
	Amount	%
Consumer Lending		
Mortgage Loans	3,792	7.3%
Auto Loans	8,757	16.9%
Credit Cards	13,192	25.5%
Other Consumer Loans	2,112	4.1%
Total Consumer Lending	27,852	53.9%
Corporate Lending	19,509	37.7%
Small Business Lending	4,321	8.4%
Total Gross Loans	51,681	100.0%

Source: Company data

Aside from its focus on consumer loans, EW has embarked on an aggressive branch expansion program. EW looks to triple its YE2011 branch network of 122 to 367 by YE2014. In 1Q2012, EW has already opened 22 branches, in-line with its goal of opening 100 branches in FY2012.

EW's Branch Expansion Program			
	RA	NRA	Total
YE2011	60	62	122
1Q2012	73	71	144
YE2012	113	109	222
YE2013	143	149	292
YE2014	165	202	367

Sources: Company data, Wealth Securities estimates

The additional branches will make it more convenient for EW's customers to transact with the bank. Further, a bigger branch network will increase EW's brand equity. Moreover, EW's branch expansion program will allow it to have 165 branches in Restricted Areas (RA) by YE2014. Among local banks, EW will have the 5th most branches in RAs by YE2014. Businesses and customers are more concentrated in RAs, which is why EW's new RA branches will allow it to better compete with its bigger peers in getting new customers and in expanding its banking business. Aside from these, EW will leverage on its new RA branches so that it can raise more low-cost deposits and continue delivering low cost of funds.

EW's twin strategy of generating higher yields via consumer lending and maintaining low cost of funds has allowed the bank to deliver the highest Balance Sheet Spread among listed local banks. The bank's high Balance Sheet Spread is one of the primary reasons why it has managed to deliver profitability figures that are among the industry's best.

Balance Sheet Spread of Listed Local Banks									
	BDO	BPI	MBT	SECB	CHIB	RCB	PNB	UBP	EW
BS Spread	3.2%	3.2%	3.2%	3.9%	3.3%	3.2%	2.3%	2.7%	5.5%

Sources: Company data, Wealth Securities estimates

- **A Future Champion.** Moving forward, we think that EW will continue displaying above-average growth and profitability. Though we expect strong growth on the bank's Recurring Income in FY2012, the P2.0B in Trading and FX Gains that EW delivered in FY2011 might be hard to top. Considering this, we forecast Net Income to be relatively flat at P1.7B for FY2012E as Net Interest Income and Fee Income compensate for relatively muted Trading Income this year. We expect EW to resume its earnings growth trajectory in FY2013E with P2.4B in Net Income.

With the additional equity from FDC's capital infusions and the IPO, we expect EW's ROE to come in at 11.8% and 12.7% in FY2012E and FY2013E. We expect EW's ROE to stabilize within the 13% to 15% range once it attains better scale and leverage.

- **Risks to Consider.** Despite the rosy outlook for EW, there are some risks that one should consider. The aggressive branch expansion program may cause delays in branch construction and openings. Further, EW's HR might encounter problems in hiring competent branch personnel to staff the numerous branches that EW is planning to open. Lastly, EW's trading liquidity might decrease to uncomfortably low levels in the weeks or months following its IPO. Note that EW's free float only amounts to P5.2B, with the majority of the float held by foreign institutional investors.

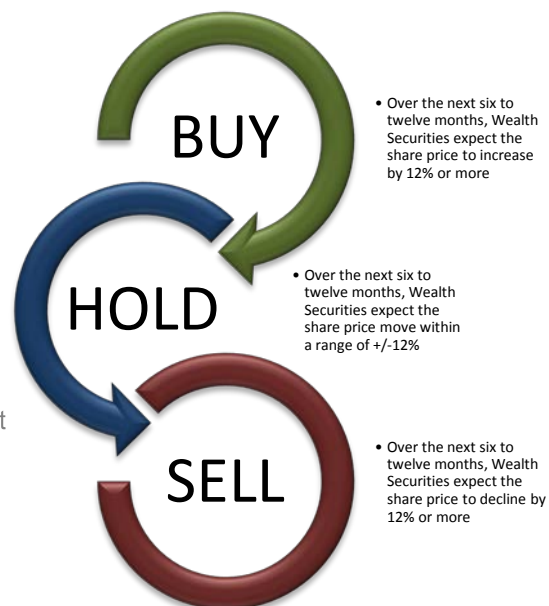
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## RATINGS DEFINITION



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