



WEALTH SECURITIES

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THE WEALTH VAULT

A Product of Wealth Securities, Inc.

WEDNESDAY, 18 JULY 2012

Index	Value	Change	% Chg
PSEi	5,285.12	-12.87	0.24 ▼
All Shares	3,495.66	-9.54	0.27 ▼
Financials	1,314.34	1.75	0.13 ▲
Industrial	7,930.71	0.64	0.01 ▲
Holding Firms	4,488.83	-17.76	0.39 ▼
Services	1,793.73	-13.25	0.73 ▼
Mining and Oil	23,715.35	-283.19	1.18 ▼
Property	1,934.68	1.62	0.08 ▲

JULY

18

2012

WORLD INDICES

Dow Jones	12,805.54	+0.62%
FTSE 100	2,250.75	-0.05%
NIKKEI 225	8,787.35	+0.37%

TRADING SNAPSHOT

Index Movers	Points
PLDT	-8.91
Banco De Oro	+3.09
Ayala Corp.	-2.87
DMCI Holdings Inc.	-1.37
Bank of the Philippine Islands	-1.32
Index Out-performers	
	Up
Robinsons Land Corp.	1.44%
Banco De Oro	1.27%
Semirara Mining Corp.	0.87%
SM Development Corp.	0.49%
First Gen Corp.	0.44%
Index Under-performers	
	Down
Philex Mining Corp.	1.08%
Robinsons Land Corp.	0.55%
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CALENDAR

Jul 02	PEC ASM
Jul 03	FOOD ASM
Jul 11	GTCAP ASM
Jul 12	SGP, MB, ABA, IMP ASM



PSEi Index

17 Jul 2012:	5,285.12 - 12.87
Value T/O, net	Php 2,926 million
52-week High	5,403.16
Low	3,715.01
Foreign Buying:	Php 2,594 million
Foreign Selling:	Php 2,755 million



HEADLINES

US stocks gain on good earnings from Goldman, Coke

Ø US stocks advanced yesterday (Jul 17) after Goldman Sachs and Coca Cola reported earnings that beat analysts' expectations. All three major indices ended green with the Dow rising 0.62%; the S&P, 0.74%; and the Nasdaq, 0.45%. Stocks opened lower early in the session after Fed Chairman Ben Bernanke did not provide specifics on stimulus plans in his testimony before a senate committee. Stocks rose eventually however after Goldman Sachs (+0.3%) and Coca Cola (+1.6%) reported earnings that beat expectations. Some 72% of companies that reported earnings had beaten expectations so far.

Ayala Corporation gears up as it eyes US\$1B of investments in infra and power projects

Ø Ayala Corporation, one of the largest business groups in the country, completed today the placement of 15,000,000 common shares held in its treasury. The shares were priced at Php430 per share, a 6% discount to its closing market price of Php458. This raised cash proceeds of Php6.45 billion for Ayala which it intends to use to fund several sizable projects it is eyeing in the infrastructure and power sectors.

Manila Water (MWC) sets 5-year wastewater development program

Ø Manila Water has submitted to Metropolitan Waterworks and Sewerage System (MWSS) its new business plan for water treatment facilities for the Pasig, Marikina and San Juan Rivers. The plan is to intercept and treat domestic water waste before it hits these rivers. If the proposal is approved, Manila Water will increase its tariff rates by January.

SMIC Expects Double Digit Net Income Growth in 2Q12

Ø SMIC confirmed reports that according to Mr. Jose Sio, Executive vice president and CFO of SM Investments Corporation, the holding firm is likely to book double digit growth rates in its 2Q12 net income despite the strong performance of its 1Q12 due to the robust performance of its core businesses.

ELI will invest P45 Bil and signs joint venture agreement with Okada Group

Ø Empire East Land has signed a joint venture agreement with Okada Group, Tiger Resorts Leisure and Entertainment and Eagle 1 Landholdings Inc. to take the lead with a majority stake in the high-end residential resort condominium project in Entertainment City Manila. The project is estimated to cost P45 Bil constructing at least 25 upscale residential towers and the company will allocate an initial P10 Bil for the project's first phase.

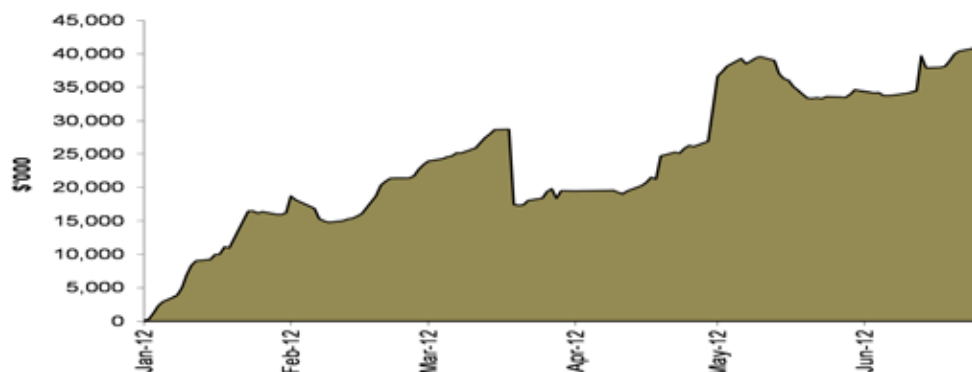
Details of Philweb's Treasury's acquisition of 27% ePLDT's stake

Ø In relation to the acquisition of 27% of ePLDT's stake, Philweb's treasury shares increased from 93,457,944 to 93,584,582. Shares were a special block sale at P10.70. After the transaction, Philweb's outstanding shares results into 1,420,409,170.

Gaisano and others buy into Apex Mining

Ø Yesterday, Apex Mining disclosed that it will issue 30 million shares with P1 par value per share to Viscal Development Corp. Viscal owns and operates a chain of supermarkets and department stores known as Metro Gaisano. Recently, Monte Oro Resources and Energy Inc raised its stake in Apex to 12 percent. Other companies, Mindanao Gold Ltd and Mapula Creek Gold Corp, intend to convert a portion of its receivables from Apex to equity at P4.40 per share. Apex is expanding its ore processing facility under a 3 year business plan. In the first quarter, Apex recorded a net income of P50 million due to higher gold prices and streamlining of operations

Foreign Buying-Selling : YTD



Source: PSE

Dividends Calendar

CODE	STOCK	CASH	SPLITS	RIGHTS	EX-DIVIDEND	RECORD	PAYABLE	ANNOUNCED
ACPA		11.1			26-Jul-2012	31-Jul-2012	25-Aug-2012	09-Dec-2011
IPD		0.06			24-Jul-2012	27-Jul-2012	09-Aug-2012	29-Jun-2012
MFIN	1.06%				23-Jul-2012	26-Jul-2012	20-Aug-2012	28-Jun-2012
MFIN		0.0106189			23-Jul-2012	26-Jul-2012	20-Aug-2012	28-Jun-2012
MWIDE		0.13			17-Jul-2012	20-Jul-2012	15-Aug-2012	26-Jun-2012
JGS		0.16			13-Jul-2012	18-Jul-2012	13-Aug-2012	28-Jun-2012
CEB		1			13-Jul-2012	18-Jul-2012	13-Aug-2012	28-Jun-2012
COAT		0.12			13-Jul-2012	18-Jul-2012	13-Aug-2012	18-Jun-2012
I		0.1995			09-Jul-2012	12-Jul-2012	07-Aug-2012	06-Jul-2012
RFM				1 Philow n share for every 77 RFM shares held - prop. div.	06-Jul-2012	11-Jul-2012	TBA	27-Jun-2012

Source: Technistock

CURRENCIES

US, Dollar	41.8930
Japan, Yen	0.5315
UK, Pound	65.5207
Hong Kong, Dollar	5.4010
EU, Euro	51.4278
Bahrain, Dinar	111.1368
Saudi Arabia, Rial	11.1712
China, Yuan	6.5676

As of 7/17/2012

COMMODITIES

NYMEX		
Crude	87.10	+1.18%
Futures		
%NY Gold	1,592.80	+1.70%
Spot (\$/t oz.)		
Silver Comex	27.30	+0.52%
(\$/t oz.)		
London	7,709.00	+1.79%
Copper Spot		

As of 07/13/2012





Ayala Land, Inc. (ALI)

Upgrading to Buy

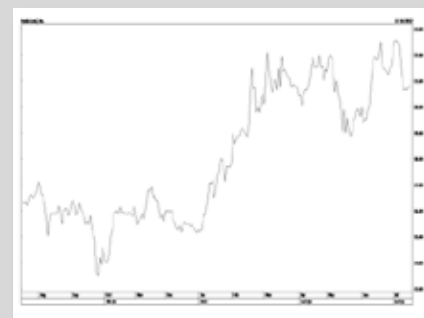
WEDNESDAY, 18 JULY 2012

Company Snapshot

Price (P)	20.80
Price Target (P)	26.15
Post-placement Shares O/S (million)	13,750
Market Cap (P million)	271,856
52-week High (P)	22.85
Low (P)	13.36
12-mo Avg. Value T/O (P'm)	158.7
Shareholders	
Ayala Corporation	50%
Free float	49%

Price Performance

	1m	6m	12m
ALI	-5.0%	+23.8%	+28.4%
PSEi	+7.2%	+13.8%	+18.5%



Aggressive Transformation Justifies the Premium

- ∅ **Deserving of an upgrade because of outstanding execution and significant growth prospects.** Careful monitoring of ALI's projects leads to only one conclusion – the company has been able to sustain high sales growth without sacrificing margins. Recent news has also shown that ALI has transformed into an aggressive property developer. While only time will tell whether these prospects will bear fruit, it is clear that ALI is much leaner and meaner than it was before. This level of aggression coupled with careful planning will eventually be reflected in the company's financial statements. It is in this light that we are upgrading ALI to a BUY with a target price of PHP 26.15/share.
- ∅ **Joint venture with Ortigas & Co. and Vertis North not yet factored into forecast.** Since income from these investments will take years to materialize, these are not yet included in forecasts until end-2013. This may provide significant upside for ALI's stock price in the future. Even the income from the successful one-day sale of The Suites (see previous report on ALI, *Sold in One Day*, 28 June 2012) is not yet included.

Financial and Valuation Highlights

in P'million	2009A	2010A	2011A	2012E	2013E
Revenues	27,738	35,408	44,206	51,901	57,233
Operating profit	5,670	7,419	10,710	13,977	16,239
Core net profit	3,979	5,398	7,140	8,785	10,227
EPS (P)	0.31	0.41	0.55	0.66	0.74
EPS Growth (%)	-16.2	35.7	30.7	19.6	13.5
ROE (%)	8.1	10.1	11.8	13.5	14.2
P/E (x)	37.3	39.9	35.0	31.7	28.0
P/B (x)	2.9	3.9	3.8	3.9	3.4
Gross margin (%)	31.4	29.5	31.7	33.4	34.5
Dividend yield	0.5	0.6	0.8	0.9	1.0

Source: Wealth Securities estimate, company data

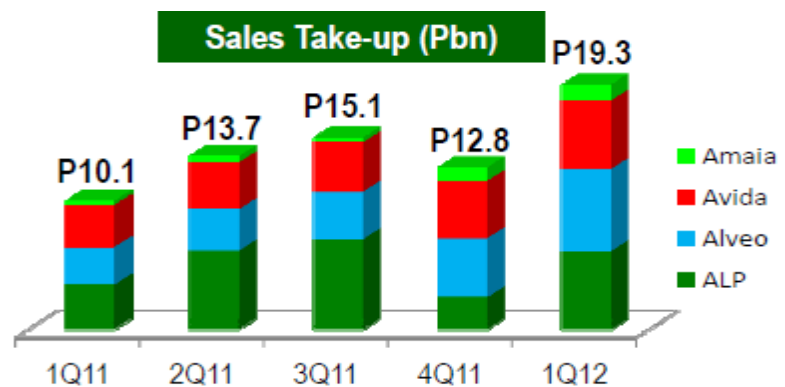
A = Actual calendar/fiscal year results; C = Bloomberg consensus; I = Annualized interim results; E = Wealth Securities estimates

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- Ø **Rolling over forecasts to 2013.** Now that we are past the middle of the year, it is best to look forward to 2013. The stock market has already fully discounted performance for 2012 and the target price of PHP 19.80/share. ALI is about 5% above our original target and we think buying interest at prices above this level will be driven by future developments in 2013 and beyond.
- Ø **Vertical revenues lead the way.** ALI's sales take-up has been moving mostly in an upward trajectory and 1Q12 sales take-up was especially strong. Average monthly sales take-up during that period stood at PHP 6.4 billion, 49% higher than 2011's average monthly sales take-up. Few property companies can boast of this, especially since there is anecdotal evidence of ALI stealing market share in the Fort Bonifacio area.



Source: Ayala Land

- Ø **ALP and Alveo will still constitute bulk of real estate income.** While Amaia and Avida are gaining traction in their respective segments, Ayala Land Premier and Alveo are still expected to provide most of ALI's real estate income.
- Ø **Vertical margins remain solid amid a glut in the affordable segment.** Gross margins have also been solid at about 30%. Other property developers have started experiencing margin compression as a result of their aggressive foray into lower margin residential segments. While demand seems to be holding up, the burst in supply of units will continue to weigh down on pricing for these condominiums.
- Ø **Hotels and leasing portfolio provide strong recurring income.** ALI's hotel segment will be launching Kukun in Alabang and QC in 3Q12 and 1Q13, respectively. Holiday Inn will also be operational in Makati by 2Q13, giving ALI more than 1,000 operational hotel rooms by the end of 1H13. The office and shopping center leasing segments also provide significant recurring income. Note also that margins for these 2 segments have also remained exceptionally high, at 60% and 80% for shopping centers and office, respectively.
- Ø **Significant NAV accretion from NUVALI and The Fort.** Large scale developments in NUVALI as well as the rapid growth of Fort Bonifacio as a business district have served to boost land prices in these areas. This accounted for a large portion of the increase in our NAV estimate.

- Ø **ALI invades Greenhills...** While the details have yet to be ironed out, it is clear that ALI drew first blood in the tug o' war for OCLP Holdings' extensive landbank. Although the SM group was negotiating for the purchase of a significant stake OCLP Holdings, members of the Ortigas family opted to buy HSBC's 34% share instead. With a PhP 15 billion joint venture agreement in the works, this might just be the beginning of ALI's entry into the Ortigas group. However, anything can happen before the lock-up period expires. That said, ALI still has the upperhand versus the SM group. Note that 2 weeks ago, ALI's management expressed their confidence in sealing a deal with the Ortigas group.

- Ø **... and begins the creation of QC central business district.** Over the next 10 to 15 years, the company will be investing PhP 65 billion in a new, large scale and mixed used urban development right beside its existing TriNoMA. The 29 hectare property will eventually have about 45 skyscrapers. With a high concentration of government offices in QC, this area may be an attractive location for support agencies and business. The government-owned National Housing Authority (NHA) contributed the property in exchange for a 28% share in the partnership. ALI will have the remaining 72%. Bagged in 2009, it took some years to get the project moving because a big community of informal settlers had to be relocated first. The initial phase of development will cost about PhP 12 billion and will cover an area of about 7 hectares. See below an artist's rendition of Vertis North once the development is complete.



Source: Ayala Land

- Ø **Long term plays not yet factored into forecasts.** Since both Vertis North and the joint venture with the Ortigas group are still more than a year away from generating income, these are not yet factored into the forecasts. NAV accretion from Vertis is also not included in the NAV calculation.

- Ø **Issuance of preferred shares allows foreign funds to increase ownership.** With ALI's issuance of voting preferred shares which are now outstanding, foreign funds may once again buy ALI's shares. The issuance effectively lowers ALI's foreign ownership to a little above 20%. This will be a significant catalyst for the stock since pent-up foreign demand for the stock will now be released.
- Ø **PhP 13.6 billion placement to provide ammunition for acquisition.** Last week, Ayala Corporation sold 680 million shares of ALI to foreign institutions at PhP 20/share, a 5% discount to the July 10 closing price, reducing its ownership 50.43%. Ayala Corporation then reinvested this into ALI, giving it more ammunition for future acquisitions and land development, such as the joint venture with the Ortigas group.
- Ø **EPS dilutive but for a good cause.** Since ALI's shares outstanding ballooned to 13.75 billion shares, our EPS forecasts were diluted by about 5%. However, note that the amount raised is equal to about 36% of 2012 capital expenditures. Although ALI's stock price fell close to the placement price, it has since rebounded as investors who were not able to participate in the placement began buying shares during the correction. Thus, PhP 20/share could well become a strong support for ALI's stock price.
- Ø **5-10-15 target – bull's eye.** We expect net income to exceed PhP 10 billion next year, 1 year ahead of schedule. However, ROE will amount to about 14% in 2013. We expect this to hit 15% by 2014.
- Ø **Premium is justified, target price upgraded to PhP 26.15/share.** Using the new share base of 13.75 billion, we upgrade our target price to PhP 26.15/share, giving investors 25.7% upside from the previous close. ALI currently trades at a 35% discount to our NAV estimate of PhP 31.84/share. At our new target price, ALI would be trading at about 35x 2013 P/E. Given all the catalysts mentioned earlier and the company's excellent execution, we recommend that investors BUY ALI.

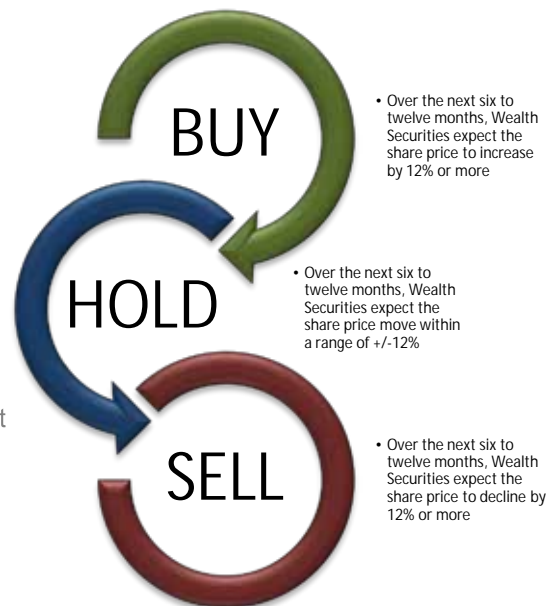
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