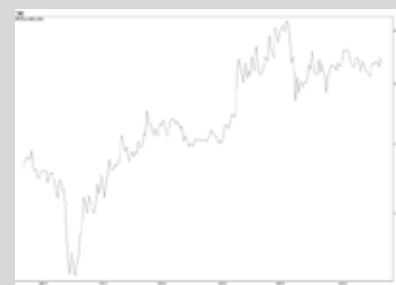


Metro Pacific Investments Corp. (MPI)

Maintain Buy

Company Snapshot

Price (P)	4.19
Price Target (P)	4.76
Shares O/S (million)	24,593
Market Cap (P million)	103,043
52-week High (P)	4.25
Low (P)	4.17
12-mo Avg. Value T/O (P'm)	123.5
Shareholders	
Metro Pacific Holdings	55%
Free float	45%



Price Performance

	1m	6m	12m
MPI	-0.7%	+19.0%	+30.1%
PSEi	-0.1%	+10.2%	+26.5%

Moderation in 2Q

Ø **2Q results slightly lower.** MPI sustained the trajectory of its earnings growth, ending 1H12 with P3.44 billion (up 76% YoY). Core income growth was more subdued posting a 30% clip. The overall earnings picture, however, lags consensus figures and our own P7.2 billion estimate for the year. Early 3Q indications suggest some softening, mainly as a result of the recent torrential rains. This could point to a lower full year earnings results, but could hit management's modest guidance of P6.8 billion.

MPI's 1H12 Results Breakdown

	1H12 (P'bn)	YoY chg	Comments
Revenue	13,617	+29%	Lifted by Asian Hospital acquisition
EBIT	5,688	+31%	Slower GAEX growth improved margins
Pre-tax profit	5,565	+60%	Strong equity earnings from Meralco
Net income	3,444	+76%	But core income higher by 30% YoY

Source: Company, Wealth Securities

Financial & Valuation Highlights

in P'million	2010A	2011A	2012E	2013E	2014E
Revenues	18,564	22,070	25,453	28,487	31,442
EBITDA	11,600	15,164	17,668	20,286	23,134
Net profit	2,871	5,059	7,207	8,641	10,709
EPS (P)	0.17	0.21	0.29	0.35	0.44
EPS Growth	+70.9%	+19.4%	+41.3%	+19.9%	+23.9%
EBITDA margin	62.5%	68.7%	69.4%	71.2%	73.6%
ROE	5.44%	7.91%	9.45%	10.56%	12.09%
BV/share	2.44	3.00	3.20	3.45	3.76
P/B (x)	1.7	1.4	1.3	1.2	1.1
PER (x)	24.1	20.2	14.3	11.9	9.6

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 **Softer volumes.** Operating subs did perform well in 1H, but we noticed that volume growth decelerated in 2Q, particularly in Maynilad and Meralco. The tollways and hospital divisions, however, picked up the slack. Higher vehicle entries (i.e. in Class 3) were noted in MPTC and the full period contribution of Asian Hospital boosted profitability of the hospital.

Core Profits of MPI's Business Units

Amounts in P'm	1H12	YoY chg	Outlook
Meralco	9,023	+15%	3Q could be challenged given torrential rains
Maynilad	3,335	+13%	Possible delay in Rate Rebasing Process
MPTC	810	+12%	Awaiting approval on SCTEX turnover
Hospitals	307	+24%	300 beds or 2 more hospital acquisitions

Source: Company

- Ø **Dual listing.** MPI recently introduced American Depositary Receipts (i.e., MPCFY) under the Level 1 program. Unlike PLDT's ADRs – listed under PHI.US – MPI's listing would simply be over-the-counter. Up to 100 million shares (or 4%) will be made available to US investors. The move is in line with the company's thrust to broaden ownership base and make it more visible to foreign institutions.
- Ø **Testing the waters?** Given the large capex requirement of the group, the ADR listing could be a litmus test for potential capital raising in the future. Most conglomerates under our coverage have in one way or another raised debt and/or equity as part of their expansion plans. Considering an accommodative 0.06x parent net D:E, there is ample room to raise capital on both sides of the balance sheet without causing undue strain.
- Ø **Maintain BUY.** We continue to rate MPI a BUY with a revised TP of P4.76 based on a 23% discount to NAV, which is 2 standard deviations away from its historical mean discount. Key short-to-medium term drivers to unlocking value to MPI are: (1) Marubeni buy-in to Maynilad, the proceeds of which would result again in a parent net cash position, (2) SCTEX awarding which is on its third renegotiation with BCDA, (3) favorable PPP bid results on the Connector Road and the LRT 1 South Extension project, (4) positive reception on its ADR listing, and (5) sustained high earnings growth.

Sum-of-Parts Valuation

	Stake	Valuation	MPI's claim	NAV %
Listed Investments				
Meralco via Beacon Electric	22.7%	341,481	77,434	50%
Metro Pacific Tollways	99.9%	32,610	32,561	21%
			109,995	71%
Non-Listed Investments				
Water services	57.0%	75,300	42,921	28%
Healthcare unit	37.6%	7,044	2,647	2%
			45,568	29%
Enterprise value			155,563	
Less: Parent net debt / (cash)			3,670	
Net Asset Value			151,893	
Shares outstanding			24,593	
Value per share			6.18	
Premium / (discount) to market			(32.2%)	

Source: Company, Bloomberg, Wealth Securities estimates

Discount to NAV

Source: Company, Bloomberg, Wealth Securities estimates

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