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## WEALTH SECURITIES

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Consistently ranked among the top 20 brokerages in the Philippines since opening in 1986

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.

THURSDAY, 16 August 2012

Index	Value	Change	% Chg
PSEi	5,266.66	0.72	0.01▲
All Shares	3,488.98	2.4	0.07▲
Financials	1,316.63	4.96	0.38▲
Industrial	7,922.05	33.58	0.43▲
Holding Firms	4,426.62	-0.08	0.00▼
Services	1,769.87	-0.84	0.05▼
Mining and Oil	21,428.34	-6.09	0.03▼
Property	2,030.07	-4.24	0.21▼

AUGUST

16

2012

### WORLD INDICES

<b>Dow Jones</b>	13,164.78	-0.06%
<b>FTSE 100</b>	5,833.04	-0.54%
<b>NIKKEI 225</b>	8,973.70	+0.55%

### TRADING SNAPSHOT

Index Movers	Points
Ayala Corp.	-4.35
PLDT.	+3.33
Universal Robina Corp.	+3.20
Metrobank	+2.30
ICTSI	-1.95

Index Out-performers	Up
Universal Robina Corp.	2.66%
Jollibee Foods Corp.	1.42%
Alliance Global Inc.	1.28%
Metrobank	0.90%
Metro Pacific Investments Corp.	0.47%

Index Under-performers	Down
Ayala Corp.	1.85%
Megaworld	1.74%
Globe Telecom	1.71%
ICTSI	1.13%
Banco De Oro	0.73%

### CALENDAR

<b>Aug 04</b>	V ASM
<b>Aug 07</b>	Jul'12 CPI, Inflation Rate
<b>Aug 10</b>	ACE ASM
<b>Aug 10</b>	JTE SSM



### PSEi Index

15 Aug 2012:	5,266.66 + 0.72
Value T/O, net	Php 2,662 million
52-week High	5,403.16
Low	3,715.01
Foreign Buying:	Php 1,944 million
Foreign Selling:	Php 2,156 million



## HEADLINES

### US stocks end with slight gains

Ø US stocks ended just slightly higher yesterday (Aug 15) as investors weigh the latest mixed earnings reports. The Dow ended with a 0.06% loss while the S&P and the Nasdaq gained 0.11% and 0.46% respectively. Stocks had been rallying lately although on a snail's pace. Consumer discretionary stocks and financials led yesterday's gains with Bank of America and American Express rising 1.16% and 1.03% respectively. Cisco Systems also gained ahead of its quarterly earnings report. Utilities and Energy stocks meanwhile weighed on the market with Deere declining 6.28% after missing analysts' estimates. Staples also fell 14.60% after the company said that it will lower its outlook following weaker than expected quarterly results.

### OFW remittances still in-line with BSP full year target.

Ø OFW remittances for the month of June came in at \$1.8B (+4.2% YOY). This brings 1H2012 remittances to \$10.1B (+5.1% YOY). BSP's target for the year is a 5% YOY growth. 1H2012 remittances from land-based and sea-based OFWs were \$7.8B (+2.8% YOY) and \$2.3B (+13.6% YOY) respectively. The following countries are the leading sources of OFW remittances: US (43% of total), Canada (10%), Saudi Arabia (8%), Japan (5%), UK (5%), Singapore (4%) and United Arab Emirates (4%).

### Energy Development Corp (EDC) 1H2012 net income reverses last year's loss

Ø EDC's 1H2012 net income attributable to shareholders of the parent company came in at P4.6B reversing a net loss of P2.3B for the same period last year. Electricity sales from its subsidiaries, First Gen Hydro Power Corp and Green Corp, totaled P15B (+32% YOY).

## GTCAP 1H2012 Core Net Income Increases 51% to P2.6 B

Ø GTCAP disclosed that its 1H2012 Core Net Income increased to P2.6B (+51% YOY). On the other hand, 1H2012 Reported Net Income, which includes a non-recurring one-time gain from Federal Land, increased to P4.0B (+136% YOY). GTCAP's strong results were driven by the strong performance of its subsidiaries. Federal Land registered 1H2012 Core Net Income of P201.0M (+48% YOY) and 1H2012 Reported Net income of P1.7B (+770% YOY). Global Business Power increased its 1H2012 Net Income to P1.3B (+134% YOY), while Toyota Motor realized P1.5B in 1H2012 Net Income (+35% YOY). GTCAP also benefited from the strong performance of MBT, which booked P7.4B in Net Income (+21% YOY) for 1H2012.

## VLL reports 25% increase in net income for 1H'12

Ø VLL reported that its 1H2012 Net Income reached P2.19B (+25% YOY). Revenues reached P8.1B (+22% YOY) while sales remained strong at P20.0B (+47% YOY). The company also said that it expects sales to reach a record of P40.0B while Capital Expenditures are expected to reach P15.2B for FY2012.

## First Gen reports 1H2012 net income attributable to parent of US\$92.8 M

Ø First Gen Corporation's 1H2012 net income attributable to parent rose to US\$92.8 M on the back of US\$776.7 M (+21% YOY) in consolidated revenues. This was a turnaround from the US\$16 M attributable net loss it registered for the same period in 2011 due to solid earnings contributions from operations. First Gen affiliate, Energy Development Corporation ("EDC"), contributed US\$40.3 M. EDC's Green Core Geothermal Inc., the owner of the 305 MW Palinpinon-Tongonan geothermal power plants, enjoyed the benefits of the price adjustments of its power supply contracts. This was combined with the strong performance of First Gen Hydro Power Corporation's ("FG Hydro") 132 MW Pantabangan-Masiway hydroelectric power plants as it generated higher sales of electricity from ancillary services and power sales. Total contributions of FG Hydro (40% -FGEN, 60% -EDC) to the Company was US\$34.5 M. The "First Gas Plants" or the Santa Rita and San Lorenzo natural gas-fired power plants contributed US\$47.9 M.

## URC takes full control of overseas business unit

Ø In a disclosure to the PSE on Wednesday, URC said its board approved the purchase of the 23-percent stake in URCl from International Horizons Investment Ltd., a private firm likewise controlled by the Gokongwei family for P7.2B. The transaction is expected to be completed by mid-September.

## URC 9M2012 Net Income Increased 24%

Ø URC's 1H2012 net income reached P6.1 B (+24% YOY) largely due to higher operating income, higher net finance revenues and significant increases in bonds and equity holdings. URC reported a 4.9% rise in sales to P53.05 B for its 9M2012 (fiscal year beginning Oct 2011 and ending September 2012) largely due to buoyant demand for the Branded Consumer Foods business growing 11.1% YOY, even if the sugar businesses declined both in volume and price. Operating income for 9M2012 was at P5.8 B, 6% higher YOY due to relatively lower prices of key inputs.

## CURRENCIES

US, Dollar	41.9400
Japan, Yen	0.5328
UK, Pound	65.7745
Hong Kong, Dollar	5.4071
EU, Euro	51.6952
Bahrain, Dinar	111.2762
Saudi Arabia, Rial	11.1840
China, Yuan	6.5958

As of 8/15/2012

## COMMODITIES

NYMEX		
Crude	93.43	+0.75%
Futures		
%NY Gold	1,598.70	-0.62%
Spot (\$/t oz.)		
Silver Comex	27.79	-0.18%
(\$/t oz.)		
London	7,404.25	+0.28%
Copper Spot		

As of 08/14/2012





# Security Bank (SECB)

Buy

## Company Snapshot

Price (P)	151.00
Price Target (P)	175.80
Shares O/S (million)	502
Market Cap (P million)	75.856
52-week High (P)	155.20
Low (P)	70.00
12-mo Avg. Value T/O (P'm)	116.718
Shareholders	
Frederick Dy	9.7%
Free float	61.1%

## Price Performance

	<b>1m</b>	<b>6m</b>	<b>12m</b>
SECB	+9.4%	+21.8%	+58.9%
PSEi	+1.0%	+10.4%	+21.6%



## Still Undisputed

- Ø **Gunning for a 6-peat.** SECB reported that its 1H2012 Net Income reached P5.0B, 107% higher year-on-year. This translated to ROE of 31%. Given this, SECB's 1H2012 results are well ahead of analyst estimates. Moreover, it seems that the bank is on-track to deliver the highest ROE in the sector for the 6<sup>th</sup> straight year.
- Ø **Trading Gains for the Homerun.** The bank's 1H2012 Net Income was driven by a 14% YOY increase in Net Interest Income to P4.0B and a 243% YOY increase in Non-Interest Income to P4.2B. This was driven by P3.4B in Trading Income for 1H2012. The bank's Trading Income was fueled by one-time gains of P3.3B, which came from the sale of Investments at Amortized Cost. On the other hand, Operating Expenses increased by 40% YOY to P2.9B, mainly due to higher GRT (Gross Receipts Tax), the consolidation of the expenses of Security Bank Savings (formerly Premiere Development Bank) and expenses related to branch openings.

In the table below, we summarize how SECB's 1H2012 results fared vs. our FY2012 estimates.

	1H2012A	FY2012E	% of FY2012E
Net Interest Income	4.05	9.49	43%
Non-Interest Income	4.25	4.25	100%
Trading Income	3.36	0.80	420%
Operating Expenses	2.90	5.52	52%
Provisions for Losses	0.05	0.00	
Net Income	5.05	6.99	72%

Amounts in billions

Sources: Company data, Wealth Securities estimates

## Financial and Valuation Highlights

in P'million	2009A	2010A	2011A	2012E	2013E
Net Revenues	7,899	12,850	11,659	13,745	15,121
Opex	3,911	4,710	4,306	5,522	5,873
PPOP	3,988	8,140	7,354	8,224	9,248
Net Income	3,062	7,161	6,784	6,990	7,861
ROE	19.1%	32.5%	23.9%	20.2%	19.0%
ROA	2.2%	4.6%	3.6%	2.8%	2.7%
EPS	6.82	14.25	14.91	13.87	15.62
BVPS	35.40	48.96	60.58	73.30	87.97
PE	22.14	10.59	10.12	10.88	9.67
P/BV	4.27	3.08	2.49	2.06	1.72

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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- Ø **Asset Quality Maintained.** SECB also reported that its NPL Ratio remained low at 1.1% while its NPL Cover remained high at 219%. Note that SECB's asset quality metrics rank among the best in the industry.
- Ø **Loans Grew, Margins Pressured.** SECB disclosed that its loan portfolio grew to P110.3B (+29% YOY). This, in turn, drove the bank's asset base expansion of 11% YOY to P235.2B. However, year-on-year Growth in Net Interest Income slowed from 22% YOY in 1Q2012 to just 7% YOY in 2Q2012. This was the result of lower Interest Income from Financial Investments, as the bank disposed some of its Investments in Securities in order to realize Trading Gains.

	1Q2012	YOY Growth	2Q2012	YOY Growth
Net Interest Income	2.00	22.3%	2.04	7.1%
Non-Interest Income	0.33	-26.5%	3.92	398.2%
Trading Income	(0.00)	-101.6%	3.36	731.2%
Operating Expenses	1.15	17.8%	1.75	57.8%
Provisions for Losses	-	-	0.05	-
Net Income	1.09	8.1%	3.95	176.5%

*Amounts in billions*

*Sources: Company data, Wealth Securities estimates*

- Ø **Stellar Quarter, Stellar Year.** SECB has the habit of providing spectacular earnings surprises in specific quarters. This happened when the bank delivered P3.8B in Net Income for 4Q2010 and P2.8B in Net Income for 4Q2011. The bank's stellar performance in the said quarters allowed it to deliver ROE of 33% for FY2010 and 25% for FY2011.

We think that the bank's outstanding performance in 2Q2012 will probably lead to a very strong clip for FY2012. Assuming that the bank can deliver relatively modest 2H2012 Net Income of P2.4B, we estimate that the bank will end up with FY2012 Net Income of P7.4B, which will then translate to ROE of 22%.

- Ø **Maintaining BUY, Upgrading TP.** We like SECB as it continues to be the industry leader in terms of profitability and asset quality. We see encouraging signs of growth, as the bank grew its loan portfolio by 29% YOY. We think that the bank has adequate room to grow, considering that it is one of the better-capitalized local banks with a leverage multiple of only 6.7x. With this, we maintain our BUY rating on SECB with an upgraded TP of P175.80. Our TP translates to 2.0x 2013E P/BV.

## Will Ghosts Come To Spook Investors This August?

*(A Study on the Hungry Ghost Festival's Impact on Philippine Equity Markets)*

**Ghost Month and Lunar Effect:** This year, the Chinese Ghost Month begins on the 17<sup>th</sup> of August and ends on the 15<sup>th</sup> of September. Chinese folklore narrate that on the first day of the Ghost Month, the Gates of Hell open to release spirits into the world of the living. The spirits are deemed dangerous due to their ability to possess the living and cause madness. Coincidentally, a full moon rises in the middle of the Ghost Month. According to myths, a full moon brings about depression and pessimism, not to mention werewolves. Superstitious ones may thus be reluctant to carry out activities of great importance (e.g. getting married, investing in the stock market, et cetera).

**For the non-superstitious folk,** a simple reason for a possible lull in the stock market is the theory that foreign fund managers go on vacation in August – the hottest month of the year in Western countries.

**If an investor avoided the Ghost month by selling one day prior and entering one day afterwards, every year for the past 25 years (1987 to 2011),** he would have avoided 15 declines in the index (i.e. the PSEi declined 15 out of 25 or 60% of the time) saving himself an average decline of 3.0%. Similarly, if an investor avoided the month of August for the past 25 years, he would have avoided 17 declines in the index, dodging an average monthly decline of 3.7%.

Lunar Month	Number of Declines (Out of 25 Years)	Number of Declines as a Percentage of Total Sample	Average Monthly Return (%)
1st	14	56	0.5
2nd	9	36	1.9
3rd	7	28	2.4
4th	7	28	1.6
5th	11	44	0.5
6th	13	52	0.1
<b>7th (Ghost Month)</b>	<b>15</b>	<b>60</b>	<b>-3.0</b>
8th	14	56	0.3
9th	11	44	-0.3
10th	10	40	3.0
11th	6	24	3.9
12th	12	48	3.4





Month	Number of Declines (Out of 25 Years)	Number of Declines as a Percentage of Total Sample	Average Monthly Return (%)
January	9	36	2.9
February	14	56	1.5
March	14	56	-0.4
April	9	36	2.2
May	7	28	2.0
June	10	40	2.7
July	11	44	1.9
<b>August</b>	<b>17</b>	<b>68</b>	<b>-3.7</b>
<b>September</b>	<b>13</b>	<b>52</b>	<b>-1.9</b>
October	10	40	1.2
November	11	44	1.4
December	6	24	4.4

**Lull in Trading Activity?** To verify whether there is indeed a drop in value turnover during the Ghost month as well as a typical August month versus other months, we checked the average value turnover per year for 1987-2011, and describe a 25% drop in average value turnover as a lull. The results do not support the bias of thinning volumes. In fact, it is only true 40% of the time for both lunar and Gregorian calendars. Furthermore to refute the bias, the Ghost Month and August display even more activity with higher than average value turnover versus other months 36% of the time.

Lunar Month	No. of times value turnover was higher than full year's	Frequency (X percent of the time)	No. of times value turnover was significantly lower than full year's	Frequency (X percent of the time)
1st	7	28	10	40
2nd	11	44	11	44
3rd	8	32	9	36
4th	13	52	9	36
5th	11	44	6	24
6th	8	32	8	32
<b>7th (Ghost Month)</b>	<b>9</b>	<b>36</b>	<b>10</b>	<b>40</b>
8th	15	60	6	24
9th	12	48	6	24
10th	18	72	4	16
11th	13	52	6	24
12th	15	60	7	28



Month	No. of times value turnover was higher than full year's	Frequency (X percent of the time)	No. of times value turnover was significantly lower than full year's	Frequency (X percent of the time)
January	11	44	10	40
February	9	36	8	32
March	10	40	12	48
April	9	36	9	36
May	15	60	7	28
June	10	40	7	28
July	11	44	8	32
<b>August</b>	<b>9</b>	<b>36</b>	<b>10</b>	<b>40</b>
<b>September</b>	<b>13</b>	<b>52</b>	<b>4</b>	<b>16</b>
October	18	72	4	16
November	15	60	6	24
December	18	72	4	16

**Ghost Busters** Based on the data shown above, the month of August presents a seasonally high probability (68% chance) of getting stocks cheaper by at least 3.7%. It is worth to highlight as well that the month of December and January provide positive returns with an average gain of 4.4% and 2.9% respectively. This has been true 76% and 64% of the time respectively, for the past 25 years.

#### Recognition of Sampling Errors

- 1) **Limited Data** - 25 years may not be an extensive range to base decisions upon.
- 2) **Causality is Questionable** - The negative bias for the month of August is exacerbated by outlier years. Years 1997, 1998, 1990 and 1987 have considerable 20% monthly drops during August, which can be attributable to various political risks, technological developments or other external risks that rationalize the sell-off, rather than a simple Ghost Month superstition.

Also, we recognize that the theory of a selloff during the August and September is not real if we isolate our data exclusively to extensive bull market years in the Philippines. In fact, taking a cross section on the Ghost month strategy across China, Singapore, Hong Kong, United States and the Philippines suggest a total random nature and non-existence of any significant relationship between a decline in stock market returns and the Ghost month.

#### Probability of Negative Monthly Returns on 7<sup>th</sup> Lunar Month (i.e. Chinese Ghost Month)

	MOM Return	Negative August
Philippines (1987-2011)	2.53%	56%
Hongkong (1987-2011)	0.91%	56%
China (1991-2011)	-2.73%	52%
Singapore (2000-2011)	1.46%	42%
US (1962-2011)	-0.25%	42%





**Conclusions** Although historical data cannot guarantee future stock returns, we urge investors to bust the ghosts and be brave buying their favorite companies on any pullback during this “Aughost” month.

Listed below are a few stocks in select sectors which we believe exhibit great fundamentals and strong earnings growth profile for the next two to three years:

### **Banking Sector**

#### **Metrobank and Security Bank**

The banking sector benefits from the recent BSP rate cut, which should encourage faster loan growth (interest rates are seen to stay at 3.75% for the rest of the year). Both Metrobank and Security Bank displayed excellent loan growth for 1H2012 – 16% and 29% YOY, respectively. Moreover, recipients of OFW remittances continue to spend on housing, which buoys the mortgage loan growth of banks. Aside from this, the two banks are relatively underleveraged and well-capitalized. This means that they have more than enough room to grow if there will be more demand for loans, specifically for the financing of PPP projects.

### **Consumer Sector**

#### **Puregold and SM Prime Holdings**

The retail sector inevitably benefits from the increasing purchasing power of the average Filipino (an effect of growing OFW remittances and BPO revenues). Puregold is a pure play on retail that caters to high, middle and low-income brackets. Its store expansion plan is expected to propel 2013E earnings by at least 20% YOY.

SM Prime Holdings, being the dominant mall operator and highly linked with the spending habits of most Filipino families in the Philippines is expanding its current network of 48 malls with an addition of 18 more malls (Philippines and China) over the next 3 years fuelling a sustainable 15% rise in income until 2015. Both companies are direct beneficiaries of an overall increase in domestic household spending which is at least 74% of the Philippine economy's GDP.

### **Property Sector**

#### **Ayala Land and Vista Land**

While other high-rise property firms experience margin compression, Ayala Land actually increased its 1H2012 net income margin to 17% from 16% last year while increasing its 1H2012 net income (P4.33 B) by 28% YOY. The premium investors pay for Ayala Land is justified due to the company's transparent and aggressive development plans (e.g. hotel segment expansion and Vertis North mixed used urban hub).

Vista Land's unique approach of horizontal property development makes the company immune to a possible glut in condominiums. Moreover, its strategy of countrywide expansion (versus concentrating on Metro Manila) further protects the company from increasing competition. 1Q2012 net income of P1.06 B was up 22% YOY.

### **Conglomerates Sector**

#### **Ayala Corporation and GT Capital Holdings**

Ayala Corporation is an indirect way to participate in our top pick in the property sector, Ayala Land, because Ayala contributes at least 47% of our estimated NAV. Other businesses continue to perform strongly with Bank of the Philippine Islands, growing 17% YOY and an ROE at 21%. Manila Water posted strong topline growth with a timely tariff hike implementation and strong volume growth. Except for the telecom unit, Globe, which was dragged by higher depreciation costs, most of Ayala Corporation's core units warrant a target price upgrade. The company's recent overnight secondary share placement also allows the company to invest more on its infrastructure investments. Note that the company has won the Daang Hari, the first PPP project by the government, and is slated to win more biddings.

GT Capital Holdings is an indirect way to participate in our top pick in the banking sector, Metrobank. Not only does Metrobank contribute at least 50% of the NAV in GT Cap, its other core businesses Federal Land, Global Business Power, Toyota Motors Philippines, Axa Life have outpaced industry estimates in both income and topline growth. 1H2012 core net income has risen 51% YOY to P2.6 B, with consolidated revenues increasing to P10 B, +188% YOY.



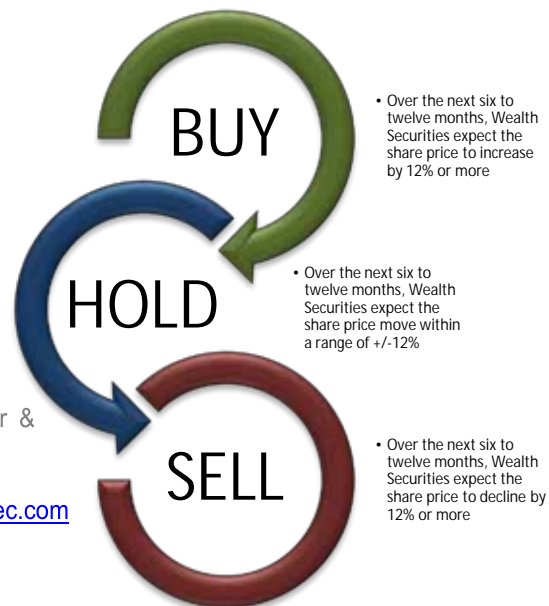
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