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THE WEALTH VAULT

A Product of Wealth Securities, Inc.

FRIDAY, 17 August 2012

Index	Value	Change	% Chg
PSEi	5,219.51	-47.15	0.90 ▼
All Shares	3,464.57	-24.41	0.70 ▼
Financials	1,305.05	-11.58	0.88 ▼
Industrial	7,868.51	-53.54	0.68 ▼
Holding Firms	4,391.48	-35.14	0.79 ▼
Services	1,760.82	-9.05	0.51 ▼
Mining and Oil	21,342.12	-86.22	0.40 ▼
Property	2,001.34	-28.73	1.42 ▼

AUGUST

17

2012

WORLD INDICES

Dow Jones	13,250.11	+0.65%
FTSE 100	5,834.51	+0.03%
NIKKEI 225	9,092.76	+1.88%

TRADING SNAPSHOT

Index Movers	Points
SM Investments Corp.	-10.03
Ayala Land Inc.	-9.11
Metrobank	-6.91
ICTSI	-4.88
Jollibee Foods Corp.	-3.36
Index Out-performers	
	Up
First Gen Corp.	1.61%
Alliance Global Inc.	1.08%
JG Summit Inc.	0.45%
DMCI Holdings Inc.	0.34%
Robinsons Land Corp.	0.21%
Index Under-performers	
	Down
Jollibee Foods Corp.	3.15%
ICTSI	2.86%
Metrobank	2.69%
Meralco	2.40%
Ayala Land Inc.	2.39%

CALENDAR

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



PSEi Index

16 Aug 2012:	5,219.51 - 47.15
Value T/O, net	Php 2,437 million
52-week High	5,403.16
Low	3,715.01
Foreign Buying:	Php 1,748 million
Foreign Selling:	Php 2,126 million



HEADLINES

US stocks gain as comments from Merkel spur bullish sentiments

Ø US stocks gained yesterday (August 16) as comments from Merkel and strong earnings from Cisco pushed stocks higher. All three major indices gained with the Dow rising 0.65%; the S&P, 0.71%; and the Nasdaq 1.04%. German Chancellor Angela Merkel commented during a recent trip to Canada that the country is committed to maintaining the euro. Strong earnings from Cisco also lifted stocks. Cisco shares rose 9.6% after reporting better than expected first quarter results late Wednesday. Other blue chip tech stocks also rose with Microsoft rising 1.92%; Intel 1.22%; IBM, 1.23%; and Hewlett-Packard, 1.19%. Facebook however fell 6.27% after shares early investors became available for trade yesterday since the IPO. In economic news, new claims for jobless benefits rose edged higher although the gauge for a longer trend fell to a four year low. Housing starts on the other hand unexpectedly fell 1.1% last month.

Alliance Global Inc (AGI) 1H2012 net income up 22%

Ø AGI reported 1H2012 core net income of P8.4B (+33% YOY). Net income including a non-recurring gain from the acquisition of Global Estate Resorts Inc totaled P11.5B. Net income attributable to shareholders of the parent company reached P5.7B (+22% YOY). Revenues for the period were P51B (+69% YOY) mainly driven by the consolidation of Travellers International Hotel Group Inc's revenues. Revenues contributed by Megaworld amounted to P15.4B (+12% YOY). Costs related to this segment totaled P11.7B (+10.9% YOY), which resulted to Megaworld's net income of P3.7B (+15% YOY). Megaworld comprised 42% of AGI's net income and 30% of its revenues.

Cebu Air 1H2012 net income down 29%

Ø Cebu Air Inc reported 1H2012 net income of P1.7B (-29% YOY) despite revenues increasing to P15.7B (+12.9% YOY). The decrease in net profit margin was a result to increasing oil prices in the global market. Flying operations expenses amounted to P10.5B (+28% YOY). Passenger volume for the period was 6.9M (+17.2% YOY). The increase in passenger volume was offset by a decrease in average fare. Average fare for the period was P2,257 (-3.7% YOY).

RLC hikes net income by 10%

Ø Gokongwe's Robinsons Land saw an increase in their net income by almost 10% from a year ago. This was due to the revenue in all its products such as its commercial centers, residential division, office building division and hotel division which increased by 12%, 6%, 8% & 12%, respectively. They were able to achieve this at the back of the operating expenses which increased by 10.05%.

Megawide, BF Corp. bag PPP classroom projects

Ø Megawide Corp. and a company owned by former Metro Manila Development Authority (MMDA) chairman Bayani Fernando won the bidding to contract 9,301 public classrooms for the Department of Education (DepEd). The DepEd announced the winning bids for 3 packages under the Public Private Partnership (PPP) for School Infrastructure Project (PSIP), which is a build-lease contract for the design, construction and maintenance of 9,301 classrooms. Fernando's BF Corp. – Riverbanks Development Corp. submitted the lowest bid to construct 2,157 classrooms in Region 1. The government will pay annual lease of P344.59 million or a total of P3.4 billion for 10 years. Megawide-Citrone Investment Holdings, Inc. won the right to construct 2,885 classrooms in Region III and 4,259 classrooms in Region IV-A. The government will make annual lease payments of P522.98 million for Region III and P760.49 million for Region IV-A classrooms.

CURRENCIES

US, Dollar	42.1340
Japan, Yen	0.5343
UK, Pound	66.0914
Hong Kong, Dollar	5.4316
EU, Euro	51.7743
Bahrain, Dinar	111.7672
Saudi Arabia, Rial	11.1840
China, Yuan	6.6222

As of 8/16/2012

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



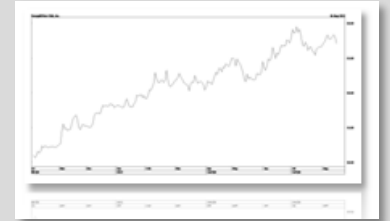


Puregold Price Club. (PGOLD)

Maintain Buy TP: Php31.25

Company Snapshot

Price (P)	27.10
Price Target (P)	31.25
Shares O/S (million)	2,766
Market Cap (P million)	74,959
52-week High (P)	30.15
Low (P)	17.78
12-mo Avg. Value T/O (P'm)	104.42
Shareholders	
Majority	77%
Free float	23%



Price Performance

	1m	6m	12m
PGOLD	-0.55%	24.31%	N/A
PSEi	-1.48%	9.50%	19.37%

Faster execution comes at a price

- Ø **Sales Beat Estimates, However Operating Expenses Also Up** Puregold Price Club's 1H2012 Sales rose 34.4% to P23.3 B, faster than our estimated P19.8 B as new store openings in 2011 contributed at least 68% to the total increase in net sales growth. As of 1H2012, the company has a total of 109 Puregold stores including 66 hypermarkets, 32 hypermarkets and 11 discounters. 9 stores were opened in the 1H2012. Also, note that the company acquired 6 S&R and 19 Parco supermarkets, contributing 15.1% of the total increase in sales. Note that the S&R and Parco contributed only a month of sales, as the full impact of the acquisition will only be included in the 3Q. Net income rose to P1.033 B, largely in line with our estimate of P986 M as the 47% increase in operating expenses offset the higher sales. The hiring of more manpower and larger selling expenses attributable to new store openings affected net margins. 1H2012 net margin fell to 4.44%, lower by 53 bps to our estimate of 4.97%.

1H2012 Financial Performance

<i>in P'million</i>	1H2012	1H2011	% Change YOY	1H2012 Est	% Beat
Net Sales	23,275	17,316	34.40%	19,838	17.33%
Gross Profit	3684	2645	39.30%	2,899	27.08%
Operating Expenses	2924	1992	46.79%	2,281	28.19%
Net Income	1033	782	32.10%	986	4.77%
Gross Margin	15.83%	15.27%	0.55%	14.61%	1.21%
Opex Margin	12.56%	11.50%	-0.40%	11.50%	1.06%
Net Margin	4.44%	4.52%	-0.08%	4.97%	-0.53%

Source: Wealth Securities, Company data

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- Ø **Faster than Expected Roll out Profile Spurs Higher Sales Growth** Puregold Price Club's roll out profile has usually been 25-75, with the bulk of the store openings being completed in the latter half. Any significant change in this roll out structure will help increase sales growth in Puregold. With respect to Puregold's 1H2012 numbers, actual sales largely beat forecasts primarily as a result of an increase in completion rate. 1H2012 had a 36% completion rate, significantly above 2010's 27% and 2011's 21% completion rate. This faster ramp up largely explains the jump in 1H2012 sales however this came at a price with selling expenses rising 51% YOY. This may be due to the company hiring more man power work hours to assist in its growth. In comparison, 1Q2012's sales increased by 30% with a proportionate increase of only 40% in selling expenses. Nevertheless, net margins remained at a healthy clip of 4.44%.

Roll out Profile of PGOLD												
	2010				2011				2012			
	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
Current Store Count												
Hypermarkets	35	36	38	44	44	46	48	61	62	66		
Supermarkets	8	10	12	16	18	18	20	28	28	32		
Discounters	0	0	1	2	5	6	9	11	11	11		
Total Stores	43	46	51	62	67	70	77	100	101	109		
Additions	2010				2011				2012			
	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
Hypermarkets	2	1	2	6	0	2	2	13	1	4		
Supermarkets	1	2	2	4	2	0	2	8	0	4		
Discounters	0	0	1	1	3	1	3	2	0	0		
Total Stores	3	3	5	11	5	3	7	23	1	8		
1H vs 2H (% Completion of Additions)	27%		73%		21%		79%		36%		64%	
1Year Total Additions	22				38				25			

- Ø **S&R to Deliver Possible Surprises in 3Q** With relatively higher net sales growth at 23%, average net ticket growth of 10% and traffic growth of 12%, we will track S&R's contribution in our FY2012 forecast. Note that P1.03 B only accounts for 31.4% of our FY2012 estimate of P3.3 B, as S&R Shopping Club as well as Parco's financial impact will be seen in the next quarter's results.

Key Performance Indicators						
	Puregold		S&R		Parco	
	2012	2011	2012	2011	2012	2011
Like for Like net sales growth	4%	8%	23%	115%	-7%	3%
Like for like avg net ticket growth	5%	5%	10%	84%	-2%	5%
Like for like traffic growth	-1%	3%	12%	16%	-5%	-3%

- Ø **Maintain Buy with TP: Php31.25** PGOLD at Php27.10 is trading at 19.9X our FY2013 P/E and 22.7X FY2012 P/E. As we noted from our previous reports (*See: Pure Retail Play, Mar. 15, 2012 & Value Accretive Acquisition, Mar 29, 2012*), we believe that PGOLD will benefit from resilient domestic consumer spending brought about by the growing BPO sector as well as the influx of OFW remittances. Although, the pure retail play has become a premium-priced retail play, we still remain bullish with the company's growth plans until 2015 and the strong ability of management to execute these expansions with controlled costs.
- Ø Our forecasted target price of Php31.25 is based on 23X FY2013 P/E of 1.36 per share, as we believe that PGOLD deserves to trade at least at par with regional peers' average P/E of 23X, considering its strong revenue growth trajectories and parallel margins. Maintain Buy.

Financial and Valuation Highlights

in P'million	2009A	2010A	2011A	2012E	2013E
Net Sales	24,112	29,108	38,988	66,127	78,782
Gross Profit	2,219	3,531	5,535	9,662	11,453
EBITDA	755	1,264	2,673	5,550	6,626
Net Income	131	510	1,545	3,286	3,769
EPS (P)	0.11	0.4	0.97	1.19	1.36
EPS Growth	0.00%	263.60%	142.50%	22.5%	14.7%
Gross Margin	9.20%	12.10%	14.20%	14.61%	14.54%
EBITDA Margin	3.13%	4.34%	6.86%	8.39%	8.41%
Net Margin	0.54%	1.75%	3.96%	4.97%	4.78%
P/E (x)	246.36	67.75	27.94	22.78	19.92

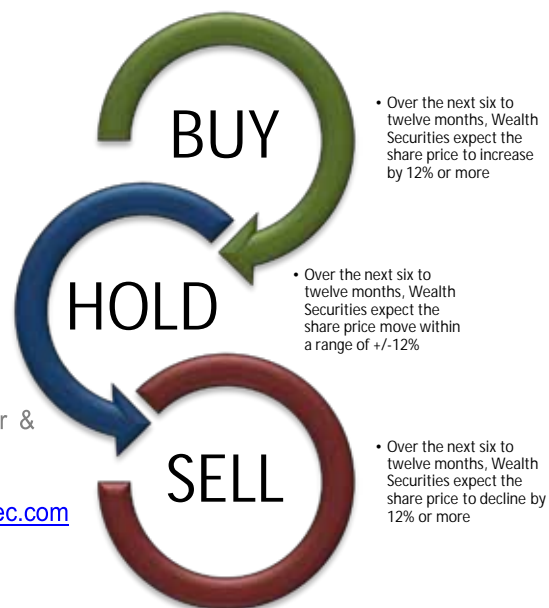
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