



# EEI Corporation (EEI)

Assuming coverage with a Buy

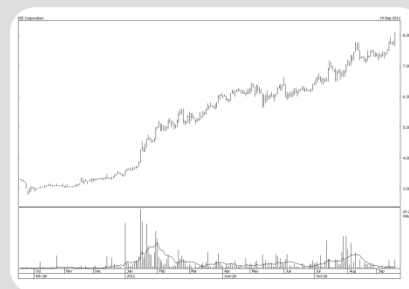
September 21, 2012, Friday

## Company Snapshot

Price (P)	8.03
Price Target (P)	9.45
Shares O/S (million)	1,036
Market Cap (P million)	7,566
52-week High (P)	8.10
Low (P)	2.8
12-mo Avg. Value T/O (P'm)	11.69
Shareholders	
House of Investments	44.33%
Free float	44.66%

## Price Performance

	1m	6m	12m
EEI	12.3%	41.6%	145.0%
PSEi	1.2%	5.5%	25.2%



## Pumped, Primed and Ready

Ø Year to date, EEI's share price has rallied 133%. However, EEI's current price of P8.03 per share has not fully priced in the currently favorable environment for the construction and services industries. At its current levels, the stock still provides an upside of 17.7%. Full year 2012 and 2013 earnings per share are estimated to be P0.85 (+19% YOY) and P1.05 (+23% YOY). Buy.

### Ø Warranting a 9x forward PE

Currently, the stock is trading at 9.4x 2012 PE and at a mere 7.7x 2013 PE. Going forward, the stock merits to trade at a reasonable 9x 2013 PE based on:

ü Industry peers' PE ratios: Given that the Philippine economy is less stable than Malaysia's and that EEI has a small market cap, EEI merits to trade on the lower end in terms of PE.

ü The numerous catalysts for the construction industry

ü Growing recurring income from the services sector

ü Effective risk and cost management

ü The possibility of weak earnings from Saudi Arabia

## Financial and Valuation Highlights

In P'million	2009A	2010A	2011A	2012E	2013E	2014E
ROE	19%	19%	18%	20%	21%	18%
Net Sales	6,267	6,887	8,775	13,617	15,826	15,782
EBITDA	1,119	1,012	1,268	1,590	1,884	1,909
Net Margin	8%	9%	8%	6%	7%	7%
EPS (P)	0.54	0.63	0.71	0.85	1.05	1.07
EPS Growth	11%	17%	13%	19%	23%	2%
PE (x)	14.9	12.74	11.3	9.4	7.7	7.5
PB (x)	2.6	2.2	1.9	1.8	1.5	1.3
EV/EBITDA (x)	8.2	8	7.2	6.1	4.8	4.1

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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**Main contributors to earnings:** Construction jobs, supplying manpower and equity in earnings from Al Rushaid Construction Company Ltd (mostly petrochemical projects)

#### Backlog (Unworked Portions) as of July 2012

Backlog from Domestic Projects	PHP 17.27 B
Backlog from Overseas Projects	USD 232.32 M
Total Backlog*	PHP 27.03 B

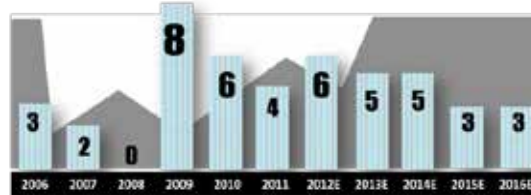
\*(USDPHP 42)

#### Expected New Contracts for 2013 and 2014

New Domestic Contracts	PHP 10.5 B	PHP 11.03B
New Overseas Contracts	PHP6B	PHP 6.3 B
Total	PHP 16 B	PHP 17.33 B

Source: Wealth Securities

#### High Rise Building contracts won by EEI



Source: EEI, Wealth Securities

#### Ø Knocking on EEI's door

The Company has been present in each part of the construction spectrum. Its competencies range from buildings and infrastructure to steel fabrication and power plants. The Company's long list of accomplished projects has made it a default candidate as bidder and contractor. EEI is continually invited by the government and by private companies to bid for projects.

#### Ø Property + Infrastructure + Saudi Arabia = A long upward cycle

The property sector boom is currently in the middle of its high growth phase. Growth in high rise buildings is seen to taper off in about 2 years. However, the slowdown in buildings will be cushioned by an upturn in infrastructure. The basis for this is the Aquino administration's political will to boost the economy through increased public spending. Assuming a smooth transition from property to infrastructure, high growth is expected this year till 2016.

Furthermore, economic recovery in the Kingdom of Saudi Arabia (KSA) will help drive growth even higher. There is no reason for petrochemical projects in KSA to slowdown due to the irrefutable necessity of oil. Immediate growth, however, will ultimately come from the Philippines and other Southeast Asian countries while growth from KSA will take time. This actually lengthens the upward cycle for earnings even more.

Saudi Arabia GDP Growth			
2008	2009	2010	2011
4.23%	0.095%	4.642%	6.775%

Source: IMF

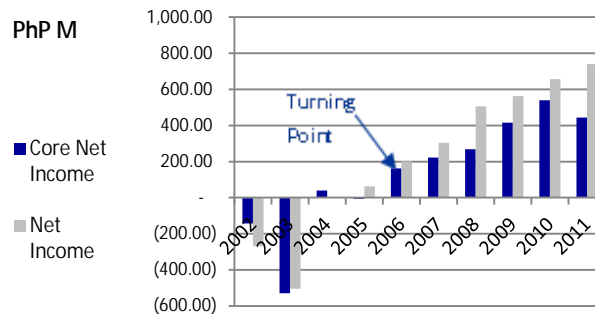
World imports for mineral fuels, oils and distillation products totaled **USD 3.129 trillion** in 2011

Source: International Trade Center

Ø **2006: EEI's turning point**

President and CEO Roberto Castillo assumed his position in 2006. Since then there have been clear signs of improvement in the company's earnings. In 2011, EEI hit the P1 billion mark in Earnings Before Taxes for the first time in over 10 years.

**Net Income**

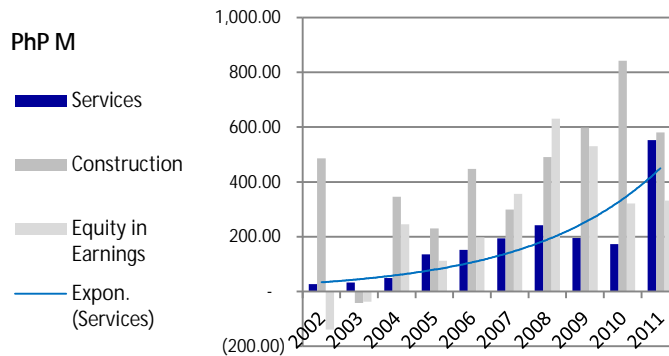


Ø **Strengthening services address cyclicity**

Service contracts, by nature, have higher margins than construction contracts. Moreover, foreign countries pay higher for manpower. Hence, supplying services overseas is doubly profitable for EEI. Moreover, history has revealed that manpower is a precious commodity as seen through strong BPO revenues and OFW remittances. The demand for services both locally and abroad is seen to remain stable or even increase despite global economic crises. EEI, through its subsidiary Gulf Asia International Corp (GAIC), is ready to meet this demand.

Gross Margins					
	2008A	2009A	2010A	2011A	1H2012A
Construction contracts	9%	15%	16%	10%	10%
Services	8%	10%	12%	23%	22%
Merchandise sales	16%	6%	33%	31%	31%
Real estate sales	22%	27%	26%	25%	19%

**Gross Profits**



Gross Profits (P'million)						
	2008A	2009A	2010A	2011A	2012E	2013E
Construction	490	598	842	580	1,006	1,109
Services	241	194	172	553	671	906
Equity in Earnings	631	5300	321	332	293	306

Ø **Excellent Risk and Cost Management: Evident and Rewarded**

In such a capital intensive business, it is extremely easy to overspend. However, EEI will be able to keep its margins within 8% to 10% for domestic construction contracts and 10% to 12% for overseas projects. This can be achieved through extensive cost management:

One common and important provision in construction contracts is that the client purchases direct materials. This protects EEI from upward fluctuations of cement and rebar prices. This also benefits clients with good reputations because they actually get better prices for materials than EEI.

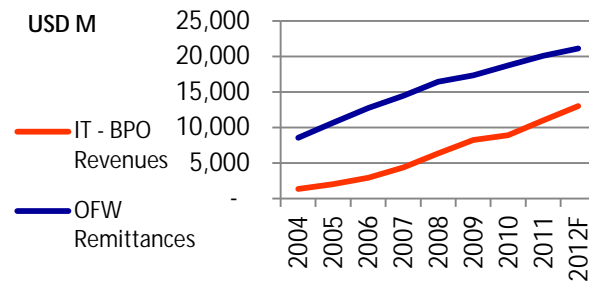
In addition, contracts include allowances for wage increases as well as additional expenses that are likely to occur over the construction period.

Finally, the Company's president along with other officers conscientiously create and implement policies to minimize waste whether in the form of electric consumption, paper usage or even in the form of delay. This effort began a year ago and has shown results this year. Despite power rate hikes, EEI has spent the same amount for electricity as last year. As their top line increases, the next years will continue to highlight their ability to contain their costs.

Ø **PPP projects: A big bonus**

EEI is looking into (no-brainer) road projects under the PPP program. (The Company has the NAIA Skyway and portions of the SCTEx under their belt). The company has many credit facilities available in order to undertake PPP projects but, will need funding from their parent company, House of Investments, for big ticket PPP projects. It is worthy to point out, however, that EEI will always have infrastructure work as it is not uncommon for companies to submit unsolicited proposals outside the PPP program. What the PPP program does is accelerate infrastructure and encourage more participation from the private sector.

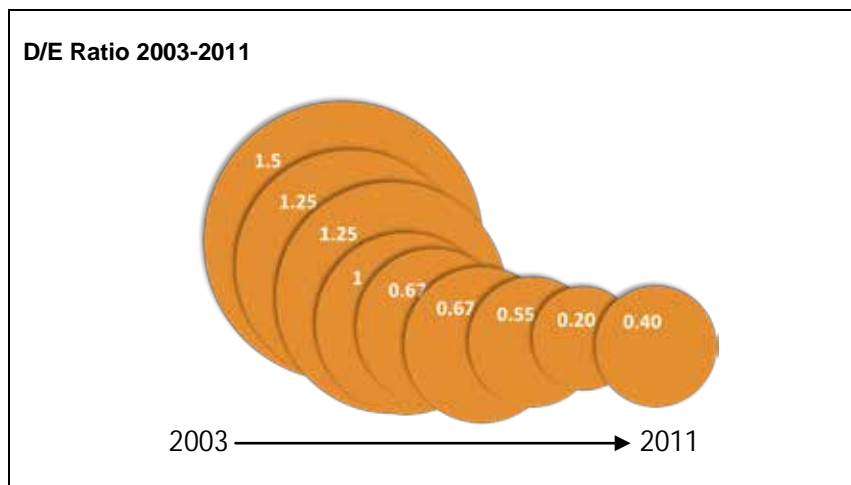
**BPO Revenues and OFW Remittances**



Source: BSP

NEDA Approved PPP Projects		
Project Name	Status	Cost (PhP B)
LRT Line 1 Extension (DOTC)	Bid Process	60
	Ongoing	(50% subsidized)
NAIA Expressway Phase II (DPWH)	NEDA Approved	16
Bicol International Airport (DOTC)	NEDA Approved	5
New Bohol (Panglao) Airport (DOTC)	NEDA Approved	7.5

Source: www.ppp.gov.ph



Industry Peers			
Company	Consensus 2013E PE	Market Cap (USD M)	PB (x)
WCT:MK	9	675	0.69
GAM:MK	11.8	2,247	1.7
IJM:MK	13.2	2,268	1.3
EEl:PM	9	184	1.70

Source: Maybank, JP Morgan, Kenanga Research, Bloomberg

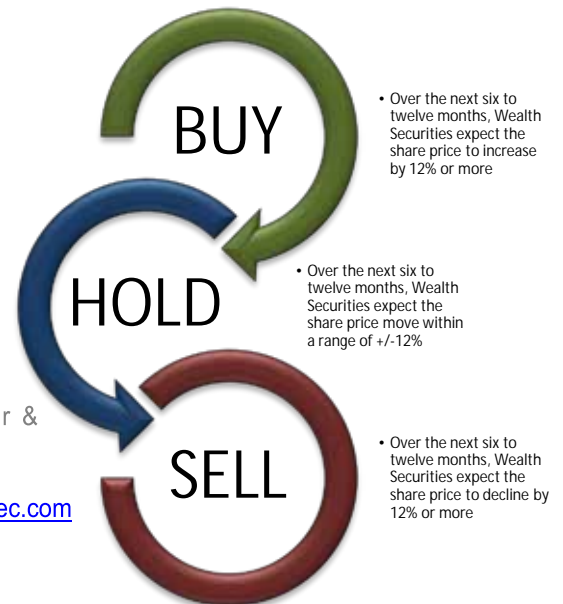
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