First Phil Holdings Corp. (FPH)

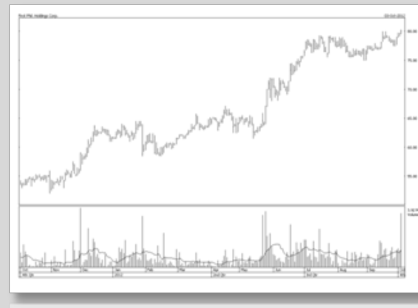
Maintain Buy

THURSDAY, 4 OCTOBER 2012

WEALTH SECURITIES

Company Snapshot

Price (P)	80.00
Price Target (P)	101.00
Shares O/S (million)	549
Market Cap (P million)	43,680
52-week High (P)	80.25
Low (P)	52.10
12-mo Avg. Value T/O (P'm)	45.22
Shareholders	
Lopez, Inc.	46.4%
Free float	43.0%



Price Performance

	1m	6m	12m
FPH	+3.9%	+23.2%	+48.7%
PSEi	+3.0%	+6.3%	+39.1%

At a high and still a bargain

- **Outperforming, but still cheap.** We think FPH is one of the cheaper holding companies that could continue to outperform the PSEi as the outlook on its power units improves over the next 6 to 12 months. Year-to-date, FPH already gained 30% in value versus the Index's 23%. Although the stock reached a 52-week high yesterday, FPH was still trading at 44% of its NAV. We believe that FPH is one of those names that trade cheaply for a reason. However, we also think that there are key drivers that will serve as catalysts. These are:

  a) **EDC.** Bringing BacMan to commercial operations will dispel reputational issues and execution risks. It is estimated to commercially operate in early 2013.

  b) **FGEN.** Higher free cashflows arising from the consolidation of natural gas plants will yield increased buffer for debt servicing and possible restoration of cash dividend declaration (to common).

  c) **ROCK.** As one of the few successful upscale property developers, Rockwell may be able to command better pricing once it offers more shares to the public.

  d) **Cash.** FPH is in a unique position to add value given its net cash position (i.e. P4.4 billion). Increased dividend payout, continuation of share buybacks, or deployment. perhaps through PPP are some of the tools at its disposal.

Financial and Valuation Highlights

in P'million	2010A	2011A	2012E	2013E	2014E
Revenues	61,490	69,753	72,853	76,770	79,583
EBIT	7,901	8,829	9,908	11,285	11,937
Core profit	1,290	2,075	3,554	5,728	6,410
EPS (P)	2.18	3.69	6.26	10.09	10.80
EPS Growth	670%	69.3%	69.6%	61.3%	7.0%
ROE	1.62%	2.95%	5.35%	8.59%	8.64%
EBIT margin	12.8%	12.7%	13.6%	14.7%	15.0%
P/E (x)	36.7	21.7	12.8	7.9	7.4
P/B (x)	0.8	0.8	0.8	0.7	0.7
Dividend yield	1.3%	2.5%	2.5%	2.5%	2.5%

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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EDC 2013 Sensitivities for BacMan

EDC	Zero BM	9M13 BM	FY13 BM
EPS	0.43	0.49	0.51
PER	14.7x	12.9x	12.4x
Target	**6.30**	**7.50**	**7.55**

Impact of EDC Sensitivities to FGEN

FGEN	Zero BM	9M13 BM	FY13 BM
EPS, P	2.17	2.24	2.27
PER	9.2x	8.9x	8.8x
Target	**18.75**	**21.40**	**21.55**

- **EDC: *Must* deliver BacMan.** The delay in the rehabilitation and delivery of BacMan caused major disappointments and brought about management credibility issues. Its share price languished and has under-performed the PSEi by 22% YTD as a direct result. This time, management is confident that it will be ready for commercial operations by January 2013. The technical issues with respect to the generator (rotors) and turbine (blades) would be addressed while commissioning and reliability runs are expected to be completed before yearend. Most of the blades ordered are already on hand and are undergoing installation. In addition, one of the two rotors is at the quality testing stage (in UK) and will be in time for shipment.

- **Slowly picking up pace.** Unless a black swan comes about, we think EDC may be over the hump at least as far expectations are concerned. Its share price has slowly started to inch up, suggesting investors are cautiously anticipating a timely execution. Our base case 2Q13 commercial operations of BacMan warrant a 19% upside for EDC. This should be positive for FPH's valuation.

- **FGEN: NatGas consolidation to shore profits.** We expect profits to rise to $158 million this year as a result of the consolidation of 1,500MW natgas plants. For next year, we expect FGEN to post earnings of $176 million (up 12%). Higher profits would be driven by the incremental profits coming from the BacMan operations. Balance sheet appears less strained with the recent preferred issuance. Net DE is at 0.3x with interest cover at 3.9x. We think the company appears to be less constrained and would be able to restore dividend payments to common holders.

- **ROCK: Solid foundation.** Rockwell Land now accounts for 23% of FPH's enterprise value (EV). The property dividend of Rockwell paved the way for its consolidation into the books of FPH. The parent now owns 87% of ROCK. An eventual share offering (following the Listing by Introduction) should further help unlock its value. Land banking outside and within the Rockwell Center (+3.6-has. on its 15.5-has township) should strengthen its position in the luxury segment.

- **Power intensive**. Seven of the ten conglos in our coverage are engaged in or are in the process of investing in the power sector, and yet their valuations are nowhere close to where FPH is trading at (except for SMC). Including its minute but strategic stake in Meralco, FPH's exposure in the power sector is 76% of its EV. With near identical contribution from power, FPH's closest peer – AEV – trades at its NAV. We believe that an improvement in the outlook starting at the EDC level will cascade to FPH, resulting in a lower NAV discount factor.

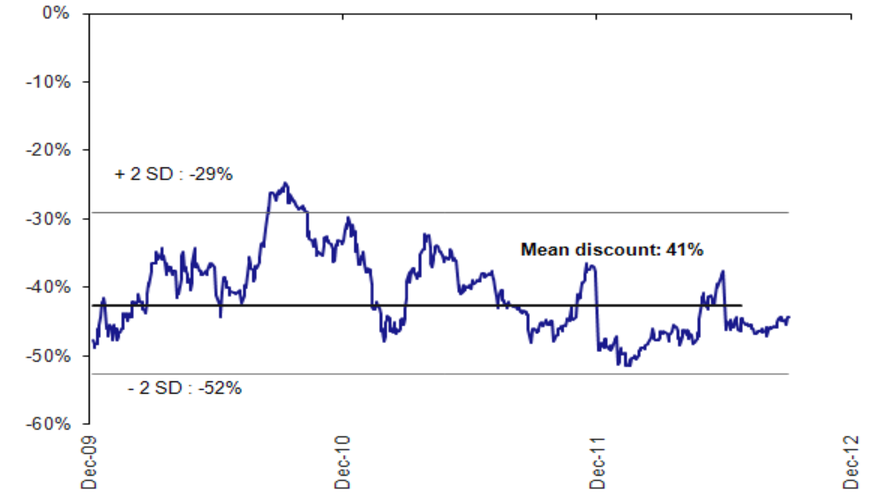
Power Generation Assets of Conglomerates

Holding Company	Attributable Capacity	Weight of Power to EV	(Disc) / Prem to NAV
Aboitiz Equity Ventures	2,065MW	77%	(1%)
Ayala Corporation	500MW*	2%**	(24%)
San Miguel Corporation	2,839MW	35%	(49%)
DMCI Holdings	420MW	36%	4%
Metro Pacific Investments	600MW*	50%	(32%)
GT Capital Holdings	480MW	14%	(17%)
First Philippine Holdings	3,892MW^	73%	(44%)

Source: Companies, Wealth Securities estimates
*Note: *Attributable capacity refers to its planned investment in the power sector.*
***Cost of investment in power.*
^First Gen and EDC combined.

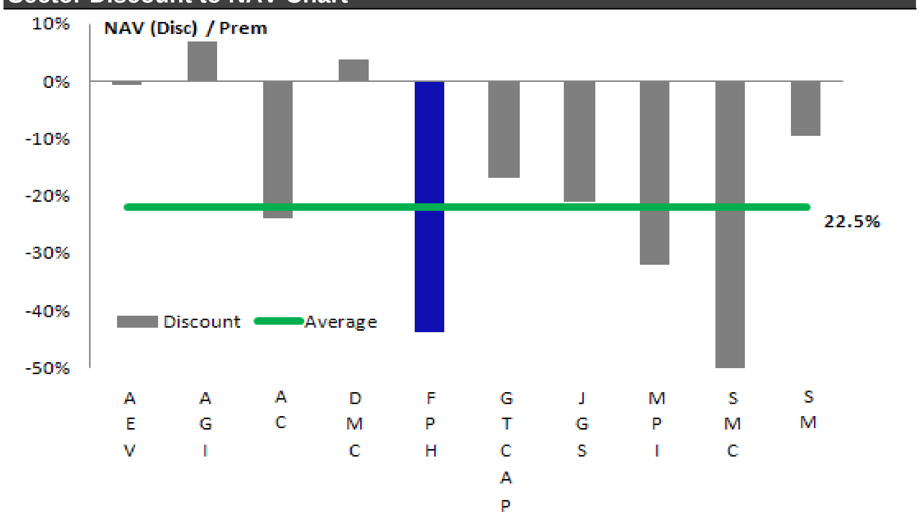
- **Target upgraded.** Considering the abovementioned catalysts, we believe FPH can trade at a 29% discount to NAV. This is 2 standard deviations above its historical NAV discount of 41%. At this level, the stock would be at our conservative fair value estimate of P101.00 (+26.5% upside). Note that: (1) our basket of holding companies is presently trading at an average NAV discount of 22.5%; (2) our NAV estimate is based on market prices of the listed companies and not on target prices; and (3) FPH would only be trading at 10.0x PER and 0.9x PBV (2013 forecasts) at the upgraded target. BUY maintained.

Discount to NAV Chart: FPH



Source: Company, Bloomberg, Wealth Securities estimates

Sector Discount to NAV Chart



Source: Companies, Bloomberg, Wealth Securities estimates

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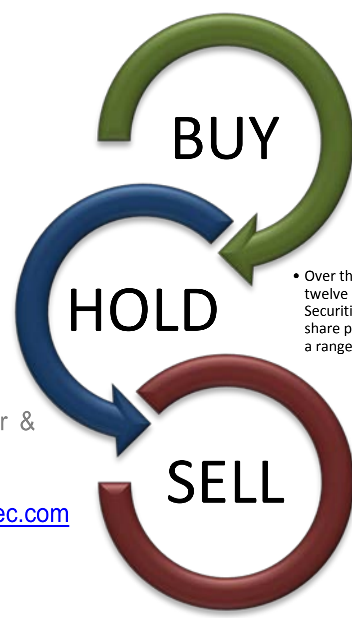
RATINGS DEFINITION



- BUY: Over the next six to twelve months, Wealth Securities expect the share price to increase by 12% or more
- HOLD: Over the next six to twelve months, Wealth Securities expect the share price move within a range of +/-12%
- SELL: Over the next six to twelve months, Wealth Securities expect the share price to decline by 12% or more

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