



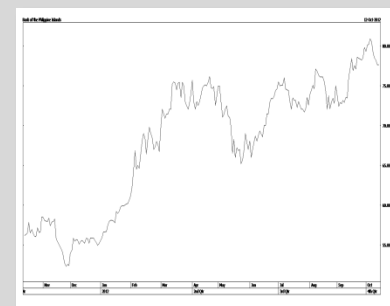
Bank of the Philippine Islands (BPI)

Hold

MONDAY, 15 OCTOBER 2012

Company Snapshot

Price (P)	77.60
Price Target (P)	83.30
Shares O/S (million)	3,556
Market Cap (P million)	275.973
52-week High (P)	81.00
Low (P)	52.00
12-mo Avg. Value T/O (P'm)	168.066
Shareholders	
Ayala Corporation	44.0%
Free float	33.3%



Price Performance

	1m	6m	12m
BPI	+5.7%	+6.4%	+38.1%
PSEi	+3.1%	+6.4%	+30.3%

A Peculiar Exchange

- **A Significant Change of Hands.** Last Friday, October 12, 2012, Ayala Corporation (AC) acquired the 10.4% stake of DBS Bank Ltd. (DBS) in BPI for P25.6B. Based on the details disclosed, AC acquired the stake for an effective price of ~P69.30 per BPI share. The acquisition price is equivalent to 2.16x 2013E P/BV and is at a 12.0% discount compared to BPI's current price. After the change of hands, AC's effective stake in BPI increased to 44.0% while the stake of DBS in BPI decreased to 9.9%. The move will also decrease foreign ownership of BPI from 34.6% to 25.9%
- **A Surprise Detour.** AC previously disclosed that it is looking to invest up to \$1.0B over the next 5 years in infrastructure and power projects. This was supposed to be supported by the P6.5B placement of AC's treasury shares and a series of bond offerings worth P20.0B. AC's move to increase its stake in BPI therefore comes as a surprise, considering that AC disclosed that it only had ~P23.0B in cash as of end-1H2012.
- **Overhangs Loom.** Considering AC's plan to venture into capex-heavy businesses, we think that there might be concerns about AC's cash position after it increases its stake in BPI. It is probable that AC will need to raise more cash in the future if it plans to participate in infrastructure and power projects. Given this, we think that there is a possibility that AC might later be forced into selling a portion of its increased stake in BPI, thereby creating an overhang for BPI's stock price. Aside from this, DBS might look to sell a portion of its remaining 9.9% stake in BPI, creating another possible overhang for BPI's stock.

Financial and Valuation Highlights

in P'million	2009A	2010A	2011A	2012E	2013E
Net Revenues	34,750	39,567	44,495	45,645	53,270
Opex	21,892	23,506	26,320	22,851	25,733
PPOP	12,858	16,061	18,175	22,794	27,537
Net Income	8,665	11,479	12,800	15,595	19,153
ROE	13.2%	15.3%	15.1%	16.3%	17.7%
ROA	1.2%	1.4%	1.5%	1.8%	1.9%
EPS	2.62	3.18	3.61	4.30	5.28
BVPS	20.57	22.78	25.07	27.76	32.03
PE	29.59	24.40	21.52	18.06	14.70
P/BV	3.77	3.41	3.10	2.80	2.42

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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- **Premium Bank at a Premium Price.** BPI's stock price performed strongly in the last few months and established an all-time high of P81.00 last October 5, 2012. As a result of the stock's strong performance, BPI is already trading at a lofty valuation of 2.42x 2013E P/BV.

Listed Local Banks - P/BV									
	BDO	BPI	MBT	SECB	CHIB	RCB	PNB	UBP	EW
Prices as of 10/12/12	64.50	77.60	90.85	162.40	53.70	45.90	73.95	106.50	22.85
2012E PE	16.20	18.06	15.77	11.70	12.10	12.68	24.66	10.03	14.19
2013E PE	15.05	14.70	14.06	10.40	11.03	11.31	21.30	9.09	11.00
2012E P/BV	1.68	2.80	1.77	2.22	1.67	1.44	0.94	1.48	1.47
2013E P/BV	1.54	2.42	1.60	1.85	1.49	1.31	0.90	1.29	1.30

Sources: Technistock, Wealth Securities estimates

Though the bank has so far delivered solid bottomline figures for 2012, we think that BPI has moved well-ahead of its peers in terms of valuation. Considering this, we have a HOLD rating on BPI with a target price of P83.30. Our target price translates to 2.60x 2013E P/BV.

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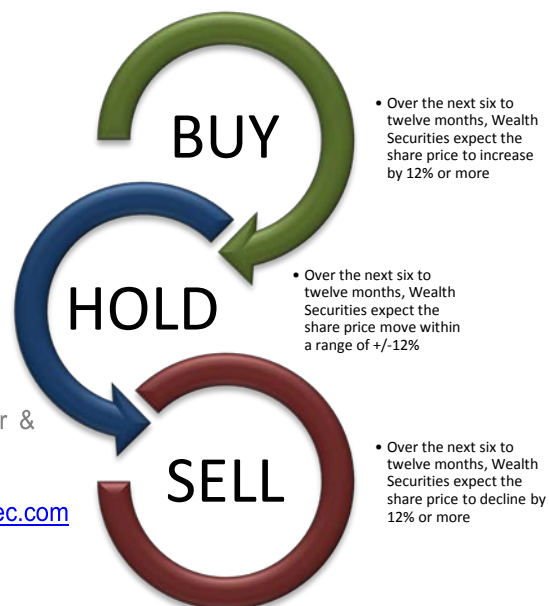
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