



Phil. Long Distance Tel. Co. (TEL)

Buy

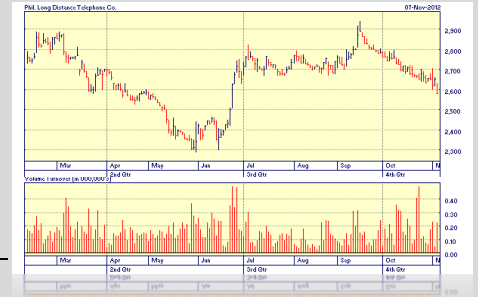
THURSDAY, 8 NOVEMBER 2012

Company Snapshot

Price (P)	2,582
Price Target (P)	3,000
Shares O/S (million)	216.056
Market Cap (P million)	557,856
52-week High (P)	2,940
Low (P)	2,290
12-mo Avg. Value T/O (P'm)	377.047
Shareholders	
First Pacific Group	26.0%
Free float	50.0%

Price Performance

	1m	6m	12m
TEL	-6.2%	+1.2%	+9.4%
PSEi	+0.0%	+4.0%	+27.3%



Weighing the Risks

- **A Slow Turn.** TEL's 9M2012 results are broadly in-line with market expectations. Moreover, it seems that the company is on-track to deliver its FY2012E Net Income guidance of P37.0B. Aside from this, TEL's 9M2012 results show that the EBITDA and EBITDA Margins of the Wireless segment, PLDT's largest business segment, appear to be bottoming-out. However, it appears that it may take some time, probably a few more quarters, before we see a notable rebound in the Wireless business, even as the Fixed Line and BPO segments have shown relatively strong results
- **Foreign Ownership Scare.** TEL continues to be haunted by the Supreme Court ruling on foreign ownership limits. The Supreme Court ruled that foreign ownership for each class of shares should not exceed 40%. This has caused serious concern among investors as ~58% of the company's common shares are held by foreigners.
- **A Risky Opportunity.** The decline in TEL's stock price in the past 1 ½ months may present a buying opportunity to some investors. At current prices, the stock may offer a 16% upside while giving investors a 7% dividend yield. However, before taking the plunge, investors must be wary of the risk that the foreign ownership issue poses to TEL. If the ruling is ratified in its present form, there is a strong possibility that we might see continued foreign selling or at best, muted foreign buying on TEL.

Financial & Valuation Highlights

in P'million	2010A	2011A	2012E	2013E	2014E
Revenues	158,387	156,603	173,134	184,936	187,124
EBITDA	83,717	79,959	79,705	86,488	89,379
NIBT	53,685	42,677	49,147	54,991	58,345
Net Income	40,259	31,637	36,369	40,418	42,592
EBITDA Margin	54.0%	52.0%	46.0%	46.8%	47.8%
ROE	41.0%	25.3%	23.7%	26.0%	27.3%
DPS	219.0	222.0	168.0	187.0	197.0
EPS	212.9	163.1	168.3	187.1	197.1
Dividend Yield	8.0%	8.5%	8.6%	6.4%	7.2%
PE (x)	12.27	12.13	15.83	15.72	13.80

Sources: Company Data, Wealth Securities

A = Actual calendar/fiscal year results; C = Bloomberg consensus; I = Annualized interim results; E = Wealth Securities estimates

ND Fernandez

T: 634.5038 local 8158

E: nd.fernandez@wealthsec.com

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RATINGS DEFINITION



Jerome Gonzalez
Research Head
T: 634.5038 local 8127
jerome@wealthsec.com

Miguel Agarao
Mining & Property
T: 634.5038 local 8164
miguel.agarao@wealthsec.com

ND Fernandez
Banking, Telcos & Transport
T: 634.5038 local 8152
ndfernandez@wealthsec.com

Bernard Aviñante
Conglomerates, Power & Gaming
T: 634.5038 local 8121
bernardavinante@wealthsec.com

Nikki Yu
Consumer
T: 634.5038 local 8150
nikki.yu@wealthsec.com

Sarah Uy
Construction
T: 634.5038 local 8160
sarah.uy@wealthsec.com



Wealth Securities, Inc.
2103 East Tower, PSE Center,
Exchange Road, Ortigas Center,
Pasig City 1600
Telephone: 02.634.5038
Facsimile: 02.634.5043

www.wealthsec.com