



EastWest Bank(EW)

Buy

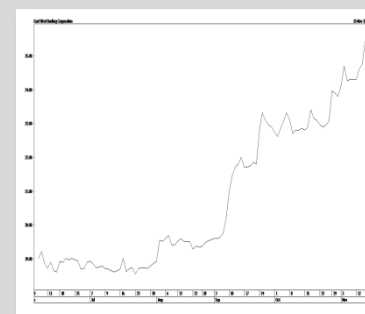
FRIDAY, 16 NOVEMBER 2012

Company Snapshot

Price (P)	25.45
Price Target (P)	28.10
Shares O/S (million)	1,128.410
Market Cap (P million)	28,718
52-week High (P)	25.80
Low (P)	18.50
12-mo Avg. Value T/O (P'm)	36.414
Shareholders	
FilinvestDev't Corp.	75.0%
Free Float	25.0%

Price Performance

	1m	6m	12m
EW	+11.6%	+37.3%	-
PSEi	+0.6%	+8.8%	+24.1%



High Caliber

- **Bullseye.**EW disclosed that its 9M2012 Net Income reached P1.4B, 9.9% higher YOY. This was driven by a 9.9% YOY increase in Net Interest Income, which grew to P4.3B for 9M2012, and an 84.6% YOY increase in Non-Interest Income, which grew to P2.9B for 9M2012.

Aside from this, loans grew at an impressive rate of 36.4% YOY to P61.0B. However, assets and deposits grew at a more tempered manner – assets expanded to P94.5B, up 9.7% YOY, while deposits grew to P69.3B, up 4.4% YOY. Moreover, the bank disclosed that it already had a total of 217 branches, with 107 branches in restricted areas.

Considering these, the bank is on target to deliver FY2012E Net Income of P1.7B and 222 total branches by YE2012. However, the bank is lagging our YE2012 estimates for assets and deposits.

- **A Tactical Shift.**It seems that the slower than expected growth in EW's assets and deposits is a result of a decisive shift in the bank's tactics. On the asset side, the bank chose to forego liquid assets that have relatively low yields. On the liabilities side, the bank purposely reduced high-cost deposits and instead grew its low-cost deposits (up 22% YOY). Though the bank's leverage multiple dipped to 5.8x in 3Q2012, its Balance Sheet Spread increased to 5.9% for 9M2012 vs. 5.5% for the same period last year. All in all, we think that the bank has done an excellent job of sustaining loan growth and preserving its margins at a time when most local banks have a hard time delivering either.

Financial and Valuation Highlights

Amounts in P'million	2010A	2011A	2012E	2013E	2014E
Net Revenues	7,394	7,304	9,130	11,762	14,241
Opex	4,063	4,459	5,501	6,855	7,952
PPOP	3,332	2,845	3,630	4,907	6,289
Net Income	1,811	1,732	1,701	2,315	3,282
ROE	20.2%	16.5%	11.8%	12.4%	15.3%
ROA	2.3%	1.9%	1.5%	1.6%	1.8%
EPS	-	-	1.6	2.1	2.9
BVPS	-	-	15.5	17.6	20.5
PE	-	-	15.8	12.4	8.7
P/BV	-	-	1.64	1.45	1.24

Sources: Company data, Wealth Securities estimates

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

ND Fernandez

T: 634.5038 local 8152

E: nd.fernandez@wealthsec.com



- **Loading Up.** The impressive growth in the bank's Net Interest Income and higher than expected Trading Gains (+298.4% YOY to P1.4B for 9M2012) were tempered by substantial increases in Operating Expenses (+46.6% YOY to P4.5B for 9M2012) and Provisions for Losses (+127.9% YOY to P1.2B for 9M2012). The increase in Operating Expenses was a result of the opening of 95 new branches and the hiring of 758 new employees in 9M2012, in-line with the bank's aggressive branch expansion program. The increase in Provisions for Losses, on the other hand, was a result of the normalization of the bank's provisioning level (2011 provisioning was lower than normal) and the growth of the bank's loan portfolio. Though these are expected to drag the bank's earnings in the short-term, we see these as necessary steps that will allow the bank to build economies of scale and establish adequate buffers that will support its aggressive loan growth.
- **Unexpected Bonus.** Yesterday, MSCI announced that it will include EW in its MSCI Global Small Cap Index. Taken by itself, the MSCI inclusion may not necessarily be an important development for EW. However, this may put the bank in the radar of more foreign funds as the bank still has relatively low foreign ownership (18.7% as of 3Q2012) compared to most of the well-covered listed local banks which already have high foreign ownership.
- **BUY EW; Upgrading TP.** We continue to like EW because of its clear strategy and promising growth trajectory. We believe that EW will continue delivering strong growth even as most listed local banks are dealing with slowing loan growth and margin contraction. We expect EW's earnings to grow by 27.4% and 41.8% for 2013 and 2014, respectively. Considering these, we upgrade our TP for EW to P28.10, equivalent to 1.6x 2013E P/BV.

Please Read!

The information and opinions in this report were prepared by Wealth Securities, Inc. The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. Wealth Securities makes no representation as to the accuracy or completeness of such information.

Wealth Securities may engage in securities transactions, on a proprietary basis or otherwise, in a manner inconsistent with the view taken in this research report. In addition, others within Wealth Securities, including traders and sales staff, may take a view that is inconsistent with that taken in this research report.

Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Wealth Securities and are subject to change without notice. Wealth Securities has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Prices and availability of financial instruments are subject to change without notice. This report is provided for informational purposes only. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Target prices are inherently imprecise and a product of the analyst judgment.

RATINGS DEFINITION



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

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

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

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

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