Conglomerates Sector

Overweight

MONDAY, 19 NOVEMBER 2012

Company Snapshot

	AEV	AGI	AC	DMC	FPH	GT CAP	JGS	MPI	SMC	SM
Price	48.70	15.08	449.80	53.00	91.80	568.00	34.00	4.30	108.60	819.00
Price Target	55.00	17.30	511.00	54.60	112.00	634.00	39.80	4.76	118.50	888.00

Price Performance

	1m	6m	12m	YTD
AEV	+0.4%	-1.6%	+19.1%	+21.3%
AGI	+0.7%	+25.9%	+43.9%	+45.8%
AC	+7.8%	+10.0%	+52.4%	+44.6%
DMC	-6.0%	-10.2%	+40.6%	+28.3%
FPH	+13.8%	+46.4%	+66.2%	+49.3%
GTCAP	+2.5%	+20.9%	n/a	+24.8%
JGS	+0.6%	+8.1%	+34.7%	+35.2%
MPI	+3.9%	+11.7%	+29.1%	+17.5%
SMC	-1.3%	-3.5%	-13.0%	-7.0%
SM	+3.7%	+20.7%	+47.7%	+40.6%
PSEi	**+0.7%**	**+11.8%**	**+25.3%**	**+24.4%**

WEALTH SECURITIES

Hungry for more growth

- **Strong performance.** Profits remained generally strong for the Conglomerates sector, growing by an average of +31% YoY for the 9M12 and +29% YoY during the quarter. Topline was also growing at a healthy pace, as the economy showed resilience amid global uncertainties. Worth noting was the strong showing of consumer-oriented businesses. **SMC** led the profit growth in the sector with the improvement of the Food division. Its Beer group moderately picked up but Liquor segment continued to be weak as Emperador (brandy) of **AGI** grabbed market share from both Ginebra (gin) and Tanduay (rhum). These indications are consistent with the performance of the food divisions and retail groups of **SM** and **JGS**. Both have continuously expanded leasing spaces with respective mall count reaching 46 and 32, to date. All told, we see this sector to be consistently healthy heading to the holidays and on to 1H13 as election-related spending picks up.

- **More in store for next year.** With momentum at their side and as the macro picture appears fundamentally favorable, we expect these holding companies to accelerate capex spending which currently is already at peak levels. Bias would be tilted towards the consumer segment given the strength of remittance inflows, outsourcing, and direct investments.

9M12 Earnings Summary

in P'million	Market Cap	Profit 9M12	YoY Growth	Profit 3Q12	YoY Growth
SM Investments	509,058	16,135	14%	5,228	16%
Aboitiz Equity	268,921	18,023	12%	5,228	7%
Ayala Corp.	266,965	8,670	19%	2,591	10%
San Miguel Corp.	257,103	19,248	61%	5,125	347%
JG Summit	229,160	10,759	36%	3,287	72%
Alliance Global	154,872	9,004	33%	3,269	62%
DMCI Holdings	140,715	7,904	12%	2,128	21%
Metro Pacific	105,748	4,989	45%	1,545	4%
GT Capital	89,744	3,930	53%	1,330	57%
First Phil Holdings	50,123	3,704	454%	846	(19%)

Source: Bloomberg, Company data, Wealth Securities estimates
Note: Profit refers to Reported Net Profit to equity holders less one-off items related to asset sale and/or acquisition.

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- **...and in infrastructure.** Of primary importance next year would be the bidding and awarding of key PPP projects particularly in the light rail, tollroad, and airport terminal space. A number of companies has already formed alliances in preparation for the bids. **AEV** and **AC** partnered for the re-development of the Mactan Int'l Airport. **AC**, meanwhile, tied up with **MPI** for the light rail projects. **MPI**, in turn, might team up with **JGS** in the airport terminals given the latter's familiarity via Cebu Pacific. Recall also that previously **MPI** tried to enter via a bid in Philippine Airlines but eventually lost to **SMC**. These two, however, might end up together in the NLEx-SLEx connector project. In all, forging strategic tie-ups among competing companies not only increases the probability of winning but also maximizes the use of balance sheet.

- **Can they still lever?** Looking at their respective financials, sector parent net D:E is at a healthy level despite several fund raisings. At an average of 0.07x, we believe that the sector has ample legroom for balance sheet expansion. A favorable interest rate environment and a robust equity market could accommodate such plans. Equity capital raising, however, has a short-term dampening effect on the share price. Among the 10 holding companies, **SM** appears to be the most aggressive with a ratio of 0.30x while **SMC** unexpectedly has the lowest level ending the quarter with a net cash position. **AC**, on the other hand, is in the process of raising some P19 billion in debt, thus raising the ratio to 0.22x. **AEV** and **GTCAP** have likewise indicated plans to lever up.

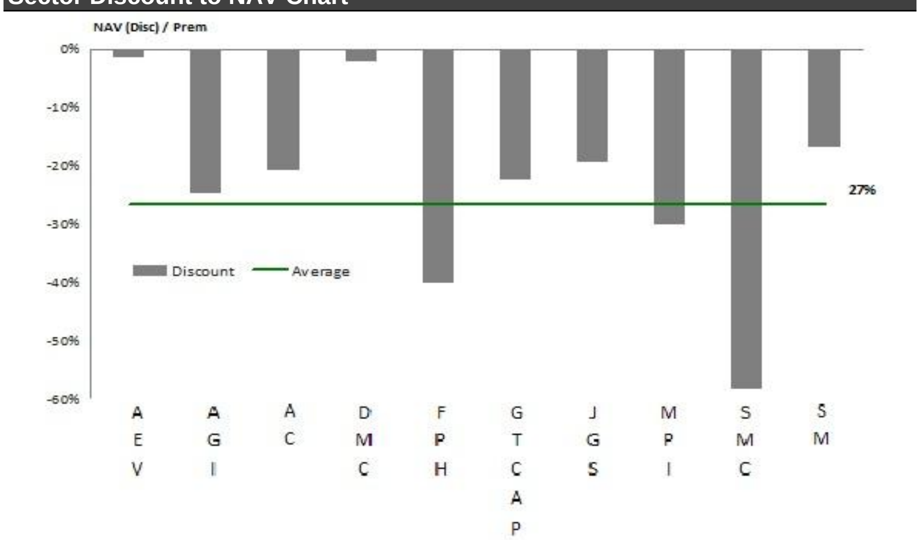
Parent Net D:E Levels

AEV	AGI	AC	DMC	FPH	GTCAP	JGS	MPI	SMC	SM
0.04x	0.03x	0.12x	(0.07x)	(0.04x)	0.14x	0.16x	0.04x	(0.07x)	0.30x

Source: Company data, Wealth Securities estimates

- **27% average discount.** Discount to NAV of the 10 conglomerates we cover averages 27%. On the upper end of the spectrum, **AEV** and **DMC** are trading at near zero discount to NAV levels. On the other end, **SMC** and **FPH** are trading at deep discounts. While these four companies have differing NAV discounts, they all have the Power sector as their common denominator. Holding companies focusing on Consumer are poised to trade better. Overweight the sector.

Sector Discount to NAV Chart



Source: Companies, Bloomberg, Wealth Securities estimates

Sector Focus	% of Ent. Value
Consumer & Retail	55%

- **SM Investments: TP = Php888.00.** Fresh from a series of capital raising, SM appears to be locked and loaded for next year's expansion, both on new openings and existing malls. We expect SM to profit P29.5 billion in FY13, supported by strong revenue growth anchored on higher consumer spending. As the company most exposed to the consumer and retail space, we think the stock should be a staple in every investor's portfolio. Our upgraded target price is premised on a 10% discount to our NAV estimate of P986.50/share.

Sector Focus	% of Ent. Value
Power	74%

- **Aboitiz Equity Ventures: TP = Php55.00.** We expect AEV to diversify its portfolio and depend less on AP as the primary driver of its value. AEV is patiently accumulating UBP shares. Consolidating the bank would be beneficial in broadening its earnings profile. The company will also integrate Aboitiz Land in its books by 1Q13. This is a strategic step in preparation for its bid in the Mactan airport. In terms of valuation, we prefer to look at AEV based on P/B given its very attractive ROE (i.e. >25%). With the highest dividend yield, we believe 3.0x P/B is a justifiable multiple.

Sector Focus	% of Ent. Value
Property	44%

- **Ayala Corporation: TP = Php511.00.** While property takes up 44% of AC's value, its shift to power and infrastructure is gradually taking shape. In the power sector, it has ventured into 5 projects: 2 in coal, 1 solar, 1 wind, and 1 hydro. AC expects to run its first plant by 2014. In the infrastructure space, its Daang-Hari project has yet to take-off due to delays in the design phase. Partnerships are also in place for the upcoming bids next year. Overall, our valuation on AC remains anchored on its listed investments as these comprise 95% of its value. Our updated target is premised on a 10% NAV target discount.

Sector Focus	% of Ent. Value
Power & Oil Refinery	49%

- **San Miguel Corp: TP = Php118.50.** SMC's share price has gone below its P110 offer price, and is largely discounted. Recovery in 9M results, particularly by the consumer division, has been ignored. The upcoming offering of San Miguel Pure Foods should be a catalyst, in our view, given our preference on consumer plays. Unlike others which are susceptible to additional share offering, SMC is not likely to place shares. With more than P100 billion in parent cash, it is well prepared for more investments. Our adjusted target is based on a discount to our NAV estimate of P242.

Sector Focus	% of Ent. Value
F&B	32%

- **JG Summit: TP = Php39.80.** We like the consumer play in URC as it comprises a third of the company's EV. And to a large extent, CEB's value-for-money proposition is due to consumers' strong appetite for travel. Robust outlook in the tourism sector augurs well for the company. An entry in the gaming segment, a bid in the PPP space, and the contribution of its heavy investments in petrochemicals should be catalysts for this under-owned conglomerate. Our valuation on JGS is argued on our NAV estimate of P44.25.

Sector Focus	% of Ent. Value
F&B	54%

- **Alliance Global: TP = Php17.30.** We acknowledge AGI's successful shift from a gaming conduit to a consumer play. Emperador's emergence as a prominent liquor brand – splitting the pie into 3 with Tanduay and Ginebra equally – was impressive. Its 9M12 results already beat FY12 recurring earnings; we see consensus upgrading profit outlook. Combined with the aggressive push of GADC to open ~48-50 new McDonald's stores, AGI's consumer exposure reaches 54%. We upgrade our forecasts in FY13 to P16 billion (EPS=P1.56). We likewise upgrade our NAV to P20. By ascribing a 13.5% discount, we arrive at a P17.30 fair value estimate.

Sector Focus	% of Ent. Value
Power	35%

- **DMCI Holdings: TP = Php54.60.** Similar to AEV, we valued DMC based on a target P/B multiple as the stock trades near its NAV. It is also providing ROEs above 20%. Marubeni's entry in Maynilad should further boost its cash pile, but proceeds could be channeled to higher yielding investments in infrastructure and mining. Short-term setbacks are presently experienced at the Semirara level as lower coal prices and reduced generating capacities marred profit growth. Duplicating its prior DPS of P1.20 could be a challenge.

Sector Focus	% of Ent. Value
Power	50%

- **Metro Pacific Investments: TP = Php4.76.** MPI is the best proxy for infrastructure development. It has positioned itself in practically every front – from tollroads to airport terminal and power plant to light rails. In terms of profits, it has consistently delivered given the predictability of cash flows. The upcoming elections, however, may put on hold some of its tariff adjustments. Nevertheless, a win in any of the upcoming PPP bids (which is not covered by the election ban) should offset any expected share price weakness. We maintain our target of P4.76, which is 2 standard deviations from its mean NAV discount of 37%.

Sector Focus	% of Ent. Value
Banking	52%

- **GT Capital: TP = Php634.00.** GTCAP's transformation to a full-blown holding company remains a work-in-progress. The sale of Metrobank's 30% stake in Toyota (valued at 10x PER) is part of that framework. It bolsters its consumer platform with the auto business soon to be consolidated. Meanwhile, plans of expanding its power generating capacity outside of the Visayas grid are underway as Global Business Power approaches grid limits. A 300MW plan is being considered. This would underpin its plan to conduct an IPO next year. We upgrade our target from P580 as we hike our fair value estimate for MBT. The inclusion of GTCAP in the MSCI was a positive catalyst as foreign institutions load up shares of the company.

Sector Focus	% of Ent. Value
Power	78%

- **First Philippine Holdings: TP = Php112.00.** As the top performer in the sector with 49.3% return year-to-date, FPH remains largely under-owned and still one of the bargain holding companies trading at 40% discount to NAV. Our upgraded FGEN target to P24.75 (11x '13 PER) reinforces our positive outlook on the company. By factoring in the sector average NAV discount of 27%, we see further gains next year. In terms of PER, it is merely duplicating our target multiple for FGEN. The company is in a net cash position of P2.9 billion.

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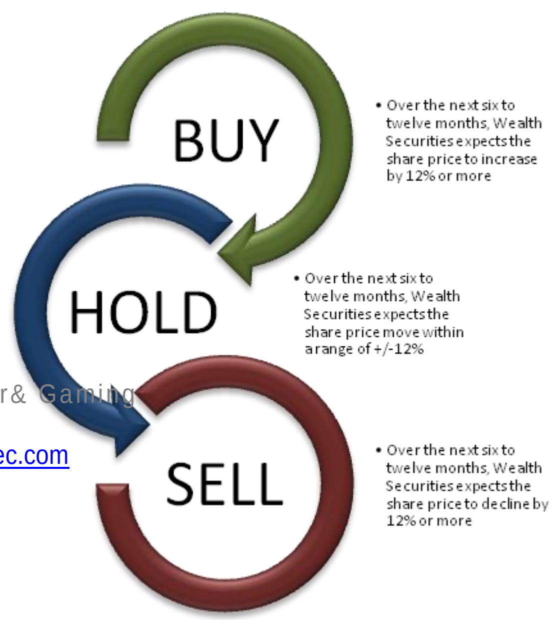
RATINGS DEFINITION



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