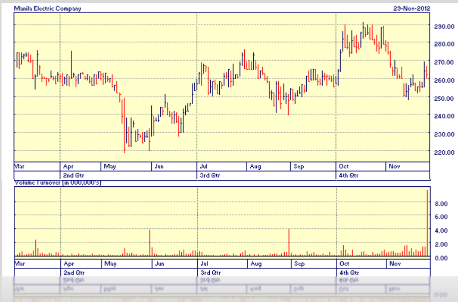
Manila Electric Company (MER)

Long Term Buy

MONDAY, 3 DECEMBER 2012

Company Snapshot

Price (P)	262.00
Price Target (P)	303.00
Shares O/S (million)	1,127
Market Cap (P million)	284,680
52-week High (P)	291.20
Low (P)	218.80
12-mo Avg. Value T/O (P'm)	105.90
Shareholders	
Metro Pacific	22.7%
Free float	13.3%



Price Performance

	1m	6m	12m
MER	-8.1%	+4.1%	+9.2%
PSEi	+4.5%	+16.0%	+29.9%

WEALTH SECURITIES

Going strong

- **October sales sustained.** Sustained electricity sales volume growth could be expected for the 4Q with October sales pointing to higher than 7% clip. Recall that for the January-September reporting period, Meralco posted a robust 7.6% YoY growth driven by a broad industrial segment. This is consistent with the economy's strong GDP growth of 6.5% over the same period.

- **Conservative outlook.** Management is aiming to close the year with a 7.0% YoY growth. We think that this is rather conservative since, (1) this would only translate into a growth rate of +4.3% in 4Q; and (2) the prior year (i.e., 4Q11) was a low base period with 7.59 million gwh which showed a -3.6% decline.

- **Another good year ahead.** Next year's growth expectations may point to a conservative targeting, in our view. Again, management might highlight a robust 2012 as a reason for a tempered volume growth outlook. Higher temperature brought about by an extended El Niño according to PAG-ASA coupled with a slight boost from the upcoming mid-term elections could push energy sales to grow between 4.0% to 5.5% in 2013.

- **Economic barometer.** As the economy is projected to grow at a healthy pace, we think MER is poised for better growth moving forward. The price weakness experienced the past month (down 8%) was driven solely by its removal from the MSCI. We take this as an opportunity to accumulate MER.

Financial and Valuation Highlights

in P'million	2010A	2011A	2012E	2013E	2014E
Dist. Revenues	43,931	48,606	53,000	54,287	56,446
EBITDA	18,232	24,602	25,429	27,133	29,516
Core net profit	12,155	14,887	16,154	17,632	19,638
EPS (P)	8.59	11.74	14.33	15.65	17.42
EPS Growth	+61.3%	+36.6%	22.1%	9.1%	11.4%
ROE	17.2%	21.6%	24.9%	26.2%	27.8%
P/E (x)	30.5	22.3	18.3	16.7	15.0
P/B (x)	5.0	4.6	4.5	4.3	4.1
EV/EBITDA (x)	15.1	11.2	10.8	10.2	9.3
Dividend yield	1.2%	2.1%	2.5%	2.7%	3.0%

Source: Company, Wealth Securities estimate
A = Actual calendar/fiscal year results; **C** = Bloomberg consensus; **I** = Annualized interim results; **E** = Wealth Securities estimates

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RATINGS DEFINITION

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