



Philequity Corner (July 1, 2019)

By Wilson Sy

Taipans buy back their own companies

Last week, we witnessed two of the country's biggest taipans buy back their own companies through block sales. The Gotianun family's Filinvest Development Corp (FDC) bought back shares in its property subsidiary, Filinvest Land, Inc (FLI). Shortly after, SM Investments Corp (SM), together with other strategic foreign investors, acquired a big block of BDO Unibank (BDO) shares. It is a rare instance for two major conglomerates to buy back their own companies through large block sales within just a few days. The gutsy moves initiated by the Gotianun and Sy families are market-changing developments that took out big sellers in FLI and BDO, thereby lifting a key overhang for both stocks.

A vote of confidence

The conviction of SM and FDC in buying back their own companies is a strong vote of confidence in the long-term growth prospects of BDO and FLI. Based on a deep knowledge of their companies, the Sy and Gotianun families have decided that adding to ownership stakes in their key businesses and taking-out major sellers is the best way to deploy SM and FDC's available cash.

A chip off the old block

The legacy of the taipans was clearly manifested in SM and FDC even after the passing of their respective patriarchs, Henry Sy, Sr. and Andrew Gotianun, Sr. The Sy children – namely Tessie, Elizabeth, Big Boy, Hans, Herbert, and Harley – have taken up leadership roles in various companies such as SM, BDO, SM Prime Holdings (SMPH), China Banking Corp (CHIB), and Belle Corp (BEL). Meanwhile, the Gotianun siblings – Joji and Atan – are responsible for managing FDC, FLI, EastWest Bank (EW), and their power businesses. In taking-out the remaining substantial blocks held by Khazanah and Invesco, the Sy and Gotianun children have exhibited the same boldness, decisiveness, long-term vision, and confidence in their respective companies which were distinguishing traits of Tatang and Andrew, Sr.

Taking-out an overhang

In the FLI block sale, FDC took out the stake of Invesco Hong Kong Ltd (Invesco), a long-time investor in FLI. Invesco had been heavily selling its position in the past four years, thus creating an overhang for FLI which dampened share price momentum, notwithstanding the company's solid fundamentals. However, last week's block sale which was initiated by FDC marked Invesco's full exit in FLI. FDC bought back Invesco's remaining 5.2% stake in FLI at P1.75/sh and a total transaction value of P2.2b. This raised FDC's ownership in its property subsidiary to 64.8% and also took out a significant overhang for FLI. The Gotianun family believes that FLI is still deeply undervalued, and acquiring a major block in FLI will be earnings accretive for FDC.

Khazanah's clean-up

SM, together with other foreign investors, absorbed the remaining BDO shares of Khazanah Nasional Bersad (Khazanah), the sovereign wealth fund of Malaysia. Khazanah's disposal of its BDO holdings was not due to any deterioration in the bank's fundamentals and growth story. Instead, the sale was part of a wider clean-up which entailed the disposal of Khazanah's non-strategic holdings. This clean-up was

triggered by the 1MDB corruption scandal in Malaysia. Moreover, the sale was reportedly done to raise cash in order to pare down Malaysia's growing debt stock. The placement equated to 1.9% of BDO's outstanding shares and was transacted at P136.80/sh. The demand for BDO shares was strong. The placement was 5x oversubscribed and was gobbled up in less than an hour. SM acquired P5.1b out of the P11.4b transaction, thereby increasing its direct stake in BDO by 0.9% to 40.9%.

Proxies for the Philippine growth story

Both BDO and FLI are well-positioned to capitalize on our country's continued economic expansion and can therefore be considered as viable proxies for the Philippine growth story. BDO is a dominant player in almost all areas of banking. It is number one in terms of assets, loans, deposits, revenues, and net income. Meanwhile, FLI has impressively grown its residential, office, and retail leasing businesses. FLI's major presence in the New Clark City and FDC's participation in the new Clark International Airport should be key catalysts for the company even as it continues to expand its current businesses. Our affiliate, Wealth Securities, Inc, released research reports regarding the block sales of BDO and FLI shares last week.

Buybacks of taipans to boost market sentiment

In one of our older articles, we discussed how an overnight placement can be a negative event for a company. Substantial share placements can sap liquidity and investor demand for a stock, thereby causing market sentiment to turn sour (*An avalanche of overnight secondary placements*, July 23, 2012). However, the opposite happened in the case of FLI and BDO last week. The take-out of Invesco and Khazanah which are big sellers and key block holders should lift a key overhang for both stocks. More importantly, the decisiveness and boldness exhibited by the taipan families in buying back their own companies is a resounding vote of confidence in FLI and BDO's growth prospects. The recent buybacks reflect the conviction that the Gotianun and Sy families have in the long-term trajectory of our stock market and the continued growth of the Philippine economy.

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