



▶PX TO MAKE LAST SHIPMENT AFTER PADCAL'S SHUTDOWN \$2MN WORTH; FAST-TRACKS TAILINGS DAM LEAK REPAIR



▶AGI'S IS CHEAP, PE OF 12.6X ON PROJECTED MINIMUM 20% EARNINGS GROWTH IN 2013 TO PHP12.2BN (COMMON)



▶LT GROUP (CONVERTED FROM TDY) EYES PREMIUM ON 3BN OVERSEAS SHARE EQUITY PLACE-MENT

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FIRST METRO INVESTMENT CORPORATION

he Bellwether

Fortnightly on Market Action and Outlook

Lepanto Corporation's (LC) Far Southeast Gold Find Positively Surprises

Shares Rise. LC's shares shot up last Sept 14, 2012 to Php1.35/share (after languishing below Php1.20 in 2Q2012 and 3Q2012) on a disclosure its gold find resource in the Far Southeast Project nears the target 53m oz. in gold equivalent at 43.1m oz. That's gold and copper content measured in gold equivalent, but not yet confirmed by a competent person under the Philippine Mineral Reporting Code.

Gold and Copper Price Rally on US Fed's QE3. Also, the LC share price run-up was amid global gold spot prices hitting a 7-month high of \$1,780/oz. due to the Fed's announcement of a 3rd round of quantitative easing. Higher gold and copper prices helped lower the cut off-grade for the exploration results. Previous gold price assumption in the resource determination was \$600/oz. versus the current price assumption of \$1,650/oz. Au and \$8,000/ton of copper ore.

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Market Stats

For the week ending September 28, 2012

Top Gainers			Top Losers		
Stock	Price	% w-o-w change	Stock	Price	% w-o-w change
AGI	14.70	9.70%	JGS	32.50	-4.27%
URC	69.60	8.84%	PX	14.28	-3.64%
BDO	64.90	6.57%	MER	255.00	-2.37%
FGEN	19.98	5.05%	AC	426.20	-1.80%
RLC	19.04	4.73%	TEL	2,784.00	-0.93%

PSEI	Value	% w-o-w Change
Closing	5,346.10	1.02%
High	5,346.10	-0.41%
Low	5,276.84	-0.15%
Value T/O (in mn Php)	23,027.88	-9.50%
Foreign Buying (mn USD)	(0.44)	-102.31%

Interest Rates Still Down by Year-end



Treasury bill rates dropped across the board at the auction last Monday (October 1, 2012) due to reduced offering. The offering dropped to Php90bn, 15% lower than actual 3Q12 borrowings, also cutting to just 11 the auctions from thirteen in 3Q12. This signals government does not need cash. Week-on-week, the yields went down by an average of 7 basis points (bps) as the short end fell between 10-30 bps. The 91-day T-bill rate slid 3.3 basis points (bps) to 0.712% while six month papers fell 39.5 bps to 1.05% and 1-year securities tumbled 55.60 bps to 1.35%. Meanwhile, the long end of the curve remained relatively flat, moving between 1-3 bps. We expect Php90-100bn in 25-year RTB issuance on October 9, 2012 and to fetch in the range of 6%-6.125% due to pent up demand.

GSM PM CLOSE September 28, 2012
1.40yr 3.00% unchanged
4yr 4.25% (0.025 bps up) Dealt @ 4.20% to 4.245% for Php600Mn
4.83yr 4.35% (0.05 bps up)
9.22yr 4.725% unchanged
9.37yr 4.69% (0.03 bps down) Dealt @ 4.665% for Php100Mn
18.9yr 5.69% unchanged Dealt @ 5.685% to 5.67% for Php2.521Bn

GSM PM CLOSE September 28, 2012
23.3yr 5.875% (0.025 bps down)
25yr 5.90% (0.025 bps down) Dealt @ 5.775% for Php144Bn

RTB Tranche September 28, 2012
15: 14.5yr 5.40% unchanged Dealt @ 5.235% to 5.35% for Php48Mn
19.5yr 5.725% (0.025 bps down) Dealt @ 5.755% to 5.70% for Php722Mn

Note: GSM is Government Securities Market

Eyes Premium on 3bn Overseas Share Equity Placement

15% Profit Growth in 2013 to Php9.2bn from this year's Php8bn. LT Group Inc.'s 2012 profit guidance stands at Php8bn, above our estimate of Php7.5bn. First half 2012 earnings were Php3.6bn. Based on company guidance, they're looking at 15% net profit growth to Php9.2bn or an EPS of Php0.80. Such growth will come from the company's strong consumer orientation, synergistic benefits of its bank merger and a turnaround in the aviation business.

Share Placement at Premium to Conglomerates' PE. According to company guidance, the 3bn share placement abroad will be at a premium to RP conglomerates average PE of 13x (2013). At 13x PE, the implied price is only Php10.40/share, but at 15x, the price improves to Php12/share. Both are based on 11.9bn outstanding shares post-placement and the EPS profit guidance of Php0.80. The extent of the overseas share placement is not final yet, it may range 2bn-3bn. On the other hand, our NAV estimate is also Php12/share. We assumed 11.9bn outstanding shares post-placement on maximum 3bn shares to be offered abroad. LT Group Inc. closed in this afternoon trading (Sept. 21, 2012) at Php11.96/share. Please see table 1 and 2.

High PE for LT Group. At today's market cap of Php142bn (based on Php12/share and post placement share outstanding shares of 11.9bn) and 2013 profit guidance of Php9.2bn or EPS of Php0.80, LT Group is expensive with a PE of 15.5x, at par with PSEi's 15x PE (the latter also based on 2013 earnings). It is even more expensive at this year's earnings of Php8bn, which translates to a PE of 17.9x.

Highlights of the Presentation. The tobacco business owns a 94% share of the market with largest distribution of 691k outlet network nationwide through the 2010 merger of Fortune Tobacco and Philip Morris International Market (PMFTC). The Philippine cigarette market is growing by 100bn sticks a year notwithstanding heavier sin taxes. PMFTC brands saturate the country's low to mid-markets through popular brands Hope, More, Jackpot, Champion and will benefit from a trading up by consumers into high-end brands such as Marlboro and Philip Morris as per capita income improves.

Tanduay Rum - with a 99% share of the Philippine rum market and 19m cases of yearly sales volume, it has the fourth largest liquor sales volume in the world, but 2nd in terms of rum sales volume to Bacardi's 20m. There is a Ph250mn savings to be realized from the closure of its Quiapo plant, operating in a prime location in Manila and will create value for Eaton Properties Inc. once it is absorbed by it.

Asia Brewery sees Php1bn in earnings this year, after making Php573mn in 1H2012. That's a big improvement from the Php137mn posted in 2010 when sugar prices, a key ingredient, were at an all time high. Revenues have grown 11% on CAGR from 2010 to this year. Sales in 1H2012 reached Php6.9bn.

PNB's balance sheet clean up will see Php20bn worth of bad assets (ROPA and NPL) reverse a 5% negative carry, yielding Php850mn - Php1bn worth of profits to the bank (to be booked next year) and a Php5bn

Stock Data	
Price (Php)	12.02
Market Cap (Php Bn)	47.86
Fully Diluted Outstanding shares (Bn)	11.90
PE 2013E (X)	15.5
Price to Book (X)	5.29

Source: FMIC-IAG Research

Php6bn ROPA sale to Eaton. Potential margin on that sale accruing to the bank is 25%.

Profit turnaround in PAL will be sustained through a cost restructuring by way of eliminating costly aircraft operating leases and acquiring a fleet of the more expensive 777s (10% costlier) and 330s, replacing the 747s, but with a 40% enhancement in capacity. PAL posted earnings of Php473mn in fiscal 1Q2012 versus net loss (based on company guidance) worth a staggering Php8bn in the entire fiscal yr 2011. When queried how was it possible that in so short a time PAL had gone back to black, the company vaguely traced it to the consolidation of PAL Holdings to LT Group Inc. through the 51%-owned joint venture vehicles with San Miguel Equity Investments Inc. called Trustmark Holdings Corp. and Zuma Holdings and Mgt. Corp., whose parents Bona Sorte Holdings and Cosmic Holdings Corp. were both acquired by LT Group Inc. Trustmark and Zuma Holdings and Mgt. Corp. own 99% of PAL Holdings and Air Philippines, respectively.

Table 1. PE Analysis

LT Group Inc.	2012	2013
in bn, bn Php, except per shr		
Assumptions		
Earnings (Co. Guidance)	8.0	9.2
Existing Shares	8.9	8.9
Add: Max Share Placement	3.0	3.0
Total Shrs- Post Placement	11.9	11.9
Market cap at Php12/shr.	142.8	142.8
PE (x)	17.9	15.5
EPS/shr	0.7	0.8
RP Conglo Peer Ave. PE	15.1	13.5
Implied Price at Conglo Ave. PE	10.1	10.4

Source: IAG-Research Estimate

Table 2.

Conglo	2012 PE	2013 PE
AGI	8.77	10.76
AC	21.4	19.27
JG Summit	20.18	11.73
AEV	10.46	12.33
DMCI Holdings	11.44	10.92
SM	16.8	16.39
MPI	16.27	12.97
GT Cap	n.a	13.29
Ave.	15.05	13.46

Source: Bloomberg

Table 2. Net Asset Value (NAV) Estimate

LTGroup Inc.	Ownership	Valuation in mn Php	Attributable Value in mn Php	Valuation Approach
Asia Brewery Inc.	90.00%	3,762	3,386	book value
Fortune Tobacco Corp.	83.00%	38,000	31,540	book value
Eton Properties Phils Inc.	98.10%	5,338	5,237	market cap
Philippine Airlines Inc.	49.84%	61,366	30,585	market cap + Php20bn capital infusion
Tanduay	98.00%	16,724	16,390	3.9bn shrs at offering price of Php4.20
PNB Merged Bank	60.00%	99,000	59,400	merged kb book Php90/shr, LTG guidance
Net debt			(2,706)	
Total equity value			143,831	
Shares			11,981	
NAV/shr. Php			12.00	

Source: IAG-Research Estimate

(LC's Far Southeast Gold... continued from page 1)

Even without an Financial or Technical Assistance Agreement (FTAA).

According to company guidance, FSE's resource finding development strengthens the case of the FSE project partner Gold Fields to make a positive decision to invest in the actual mine development even without an FTAA. That's taking a 60% stake in actual mine development cost from the current 40%. Gold Fields' decision is expected to happen late next year after the completion of the ongoing pre-feasibility study and an FTAA is secured. With the kind of find that LC has underneath, it is unlikely that Gold Fields will waver. Gold Fields has spent 40% of the \$550mn FSE project value and another Php1.5bn last year on exploration cost. It is solely funding the ongoing exploration cost, total estimate undisclosed except for Php3,000/km of drilling.

More Positive Surprise. The LC disclosure described the deposit as open which means the extent of the exploration has not seen the bounds of the ore body (top, bottom, all sides), also suggesting the actual size

of the gold copper find could be way above the initial expectation. LC's FTAA is reportedly moving and it is doing all things necessary to get the consent of indigenous people and once things get more settled, the bankable feasibility study will begin. That will be the basis for the 60:40 project equity sharing between Gold Fields and LC, respectively.

MPSA Conversion to FTAA. LC is converting its existing MPSA into an FTAA to enable a foreign gold miner (with the tech expertise for deep onshore mining) like Gold Fields to have FSE project control, i.e. increase the latter's stake to 60% from the current 40%. LC expects to get an automatic renewal of its existing 25-yr MPSA (upon request six months before expiry) even if the implementing rules and regulations (IRR) of the executive order (EO) 79 was silent on the "automaticity" of the renewal process. Observers noted that it is the law that takes precedence over the EO and the law (Mining Act of 1995) states that the MPSA renewal shall be upon the same terms and conditions of the original contract and upon agreement of the parties concerned.

Stock Data	
Price (Php) A/B share	1.15/1.20
Market Cap (Php Bn)	50.75
Outstanding shares (Bn)	43.38
PE 2012E (X)	-
Price to Book (X) A/B share	6.05/6.32
Source: Bloomberg	

Higher Priority. Whether Malacanang puts a higher priority on the Tampakan copper gold project in South Cotabato, Mindanao and FSE in Mankayan, province of Benguet, being the two largest foreign-led mining projects in the country remains to be seen. Tampakan is an undeveloped copper and gold mine with an estimated project cost of \$5.7bn whose FTAA operator is Sagittarius Mines Inc., owned in part by the UK-based Swiss multinational mining giant Xstrata PLC (merging with Swiss mining giant Glencore).



Philex Mining Corporation (PX)

PX to Make Last Shipment After Padcal's Shutdown \$2mn Worth; Fast-Tracks Tailings Dam Leak Repair

Last Shipment. Losing Php100mn-Php200mn a month on Padcal mine's shutdown since last August, PX is making a last shipment this month. That will be worth \$2mn (or Php86mn) using remaining gold and copper concentrates which followed another shipment worth the same last August. PX's lone operating gold and copper mine Padcal was shut down after a tailings dam leak whose proximate cause was the series of storms and heavy rainfall in Northern Luzon last July. The Padcal mine is in Padcal, Benguet.

Repair Underway. PX is fast-tracking the repair of the structure involving the leakage using internal manpower, cash resources and foreign and local mining consultants. The undertaking is being made urgent by rising gold prices, seen to top \$2,000/oz. on the US Fed's third round of monetary easing. While already doing the repair, PX is yet to determine the cost of the dam rehabilitation and may tap internal cash sources to cover portion of the costs to be incurred.

2012 Financial Targets Thrown Off. Early in the year, PX was already seen to make profits considerably less than the record high 2012 earnings worth Php5.7bn on lower metal output due to falling gold grade of the aging Padcal mine whose mine life expires in 2020. There was also the factor of sluggish gold prices, at least in 2Q2012 prior to this month's run-up to Php1,780/oz. The Padcal mine shutdown has thrown off analysts' financial projections with consensus earnings estimates dropping to Php3.7bn this year and to as low as Php2.4bn next year for equivalent PE multiples of 21x and 32x, respectively. It remains undisclosed how much PX will make this year because there is no tentative date as to how soon or late the repair will be completed, the extent of the damage, and when will the permit to resume Padcal operations be applied for and granted by the government.

1H2012 Output Was In Line with Target. PX earlier planned to ship 119k oz. of gold and 37m lbs. of copper concentrates and as of 1H2012, its production output was just in line with the targets. PX production

output in 1H2012 was 58.8k ounces of gold and 18.3m lbs. of copper at realized prices of \$1,618/oz. and \$4.05/lb., respectively. PX made Php2bn in 1H2012, down 37.5% from year ago's Php3.22bn.

Back to Monthly Output of 10k oz. of Gold and 3.3m lbs. of Copper. If Padcal runs again, PX should be able to book revenues on the month that production starts, then it ships the following month. Resuming Padcal's operation is just a matter of running the mills again. That should enable PX to be back to the regular monthly output of 10k oz. of gold and 3.3m lbs. of copper.

Fine of Php1bn. PX has not been notified of any fines government may impose on it, arising from the dam leakage. It was reported earlier government may impose a fine of up to Php1bn due to environmental damage and it may also require higher mine redevelopment standards. The company's position is that there is no fault with them as this happened due to force majeure.

Suspension of Padcal's Exploration. PX has also suspended the exploration being undertaken in the deeper part of Padcal, intended to boost the current 80m tons of mineral resource announced last June, 2011. That was behind the extension of the Padcal mine life to 2020 from 2017, the third time the mine life was extended due to rising gold and copper prices that enabled a lower cut-off grade.

MPSA Application for Silangan's Bayugo Mine. The exploration of Silangan and Kalayaan is ongoing. On the issue whether the dam leakage incident will imperil PX's plan to apply for an MPSA for the Bayugo area of Silangan, the company is mum but there is an existing MPSA for the other half of Silangan -- Boyongan--and that commercialization will proceed as planned by 2016-2017.

Stock Data	
Price (Php)	14.20
Market Cap (Php Bn)	70.05
Outstanding shares (Bn)	4.93
PE 2013E (X)	42.26
Price to Book (X)	2.76
<i>Source: Bloomberg</i>	

PSEi Moved Higher as Market Sentiment was Lifted

In the week ending September 28, 2012, the Philippine bourse moved higher as market sentiment was lifted by hopes for more Chinese stimuli, Spain's detailed 2013 budget plan, and quarter-end window-dressing. The PSE index gained 54.04 points (+1.02%) to end the week at 5,346.10. Foreigners were net sellers by Php23Mn. In developed markets, US equities failed to end the week in the green, closing the week on a sour note with the Dow losing 1.05%, the S&P dipping 1.33%, and the Nasdaq slipping by 2%.

Moving forward this week, attention will still be focused on developments abroad. Foreign news flows due out this week include US ISM manufacturing purchasing managers index, construction spending, FOMC meeting results, factory orders, jobless claims, unemployment rate, and consumer credit. Elsewhere, Euro-Zone PMI data is also expected within the week. Investors will also watch out for monetary policy meetings results from the ECB, Bank of England, and Bank of Japan. On the local side, September inflation data will be out on Friday. Consensus estimate for September CPI year-on-year (YoY) is at 3.8%; prior month was at 3.8%.



Alliance Global Group Inc. (AGI)

AGI's is Cheap, PE of 12.6x on Projected Minimum 20% Earnings Growth in 2013 to Php12.2bn (common)

AGI's PE drops to 12.6x on minimum core earnings (to common) of Php12.2bn (AGI's profit guidance) for 2013 from current 13x PE based on 2012's profit guidance of Php10.2bn earnings. AGI made Php8.5bn in 2011 (to common) and Php5.3bn in 1H2012, up 22% versus year ago.

AGI's capex budget is Php25bn next year, historically half of which will be funded by presales. That capex excludes the \$550mn Travellers' Bayshore casino expansion project in Pagcor City. Cash position is Php60bn; dividends is 3% of average share price the previous year or Php0.32/share.

AGI's subs and affiliates will make the following earnings in 2012 amid a strong consumer environment. 2013 is an election year, there is low inflation and interest rates. AGI's own product offerings are wide, property and casino, the latter backed by the global footprint of Genting, its foreign partner and behind Travellers'.

Megaworld Corporation (MEG), Php7bn earnings in 2012FY, given Php3.7bn in 1H2012. MEG will have total of 7 hotels in next five years, it could be the largest in the country. Rental income of MEG is Php5bn or

a quarter of its 2011 Php20bn revenues thru Business Process Outsourcing (BPO) offices and retail spaces. MEG is the country's biggest real estate developer -- 500k sqm offering -- and largest BPO office space, total 200k sqm.

Emperador, Php4bn 2012FY, given Php2.3bn in 1H2012. Emperador is now the country's largest liquor manufacturer with 33m cases yearly versus industry's 66m or half of RP's capacity. That output was given a boost by the acquisition of Diagio's bottling plant south of Manila.

Golden Arches (McDonalds), Php500mn, given Php250mn in 1H2012; and Php1bn, in 2013FY. Expansion is fastest this year (in its 30-year history in the Philippines) with 45 branch outlets to be put up this year to 380 outlet network nationwide by year end.

GERI, Php250mn in 2012 FY, given Php220mn last year and Php1bn in the next three years. Growth is backed by its huge 3,000 hectare landbank for horizontal development in tourist estate projects outside of Metro Manila, Boracay and Nasugbu. GERI's landbank is even larger than MEG's 230 hectares, mostly in the cities and intended for high-rise developments.

Stock Data	
Price (Php)	14.96
Market Cap (Php Bn)	153.64
Outstanding shares (Bn)	10.27
PE 2013E(X)	12.6
Price to Book (X)	2.03
<i>Source: FMIC-IAG Research</i>	

Travellers' Resorts World Manila, minimum of Php3.2bn FY2012 and maximum of Php4bn, given Php1.8bn 1H2012. Based on company guidance, a minimum of Php8bn in 2015 Travellers' earnings, post-casino expansion given the doubling up of casino space. Casino expansion via Travellers' 2nd 500-room hotel and casino project Resorts World Bayshore City Manila will double the EBITDA of the Resorts World Manila and earnings. Resorts World Manila had an gross revenues of Php20bn in its 2nd year of operation. It's now on its third year of operation. The Bayshore Casino's foreign and local revenue mix will be 60%:40% as all casinos in Asia are foreign-led in terms of market served.

COAL ASIA HOLDINGS

IPO Watch

Coal Asia: A Play on Coal and Oil

IPO at Premium to Peers. Coal Asia's Php1.00/share IPO price is at a premium versus peer non-operating coal mines in Australia. That was on the basis of Coal Asia's market capitalization to resource (the latter in tons) of Php32mn/ton above the Australian peer average of Php12mn/ton. The company used a market cap of Php4bn spread over a base of 123m tons of "potential" resource, the latter is not PMRC certified.

Php15mn earnings Expected in 2012 . But Coal Asia described itself as extremely cheap with a mar-

ket cap of Php4bn and 2014 income of Php500mn, yielding 8x PE. That PE, however, is yet to hold on sustainable earnings that will kick in only by 2014 as commercial shipments of 600k tons will begin in that year, after the coal mining infrastructures under the coal mining subsidiary Titan Mining Corp. are completed. This infrastructure capital expenditures will be funded by the Php800mn proceeds of the IPO. Coal Asia's earnings this year are seen at a Php15mn with minimal shipment from its Zamboanga coal mine which is yet unable to contract long-term.

Transaction Summary	
Issuer	Coal Asia Holdings Incorporated (COAL)
Offer Structure	• 800mn Common Shares
Use of Proceeds	Further exploration work, mine development and working capital
Offer Price	Php1.00/share
<i>Source: Company Guidance</i>	

(Follow-on Watch: Coal Asia...continued from page 1)

Not Comparable to Semirara. Relative to Semirara's Php542mn/ton market cap to resource, Coal Asia is cheap but the profitable track record of a reliable long-term coal supplier like Semirara argues against the point of comparability of the two companies.

Shipment at 232.5k tons in 2014. Coal Asia's coal mining operating subsidiary Titan Mining has coal operating contracts with the government and located in Zamboanga and Davao, the latter has the larger contract area of slightly 7k has. Total Philippine Mineral Reporting Code (PMRC) certified reserves are 8m tons of coal and with a heating value of slightly higher than

Semirara at 10k BTU/lb. At a long-term average coal price of \$80/ton and all-in cost of \$30/ton, the company estimates a net profit per ton of \$50. The total value of the reserves amount to Php27.5bn and at a yearly tonnage/shipment of 600k tons, mine life is 13.3 years. We estimate only 232.5k tons will be shipped by the company in 2014 if the target earnings are pegged at Php500mn, using a \$50/ton net profit.

Execution is Key Risk. The company is yet to make a record in long-term coal supply contracting. The regulatory environment is not too stable for mining and is just evolving although the company clarified they're not involved in mineral mining but in coal fuel which should make the outlook more positive for them.

Oil Play. The plan of Coal Asia to acquire a vehicle called Colossal Petrol Corp. which will acquire 100% of VenturOil, an oil exploration company with 20% interest in Service Contract 6 (22% of Bonita and 12% of Cadlao), is imbuing Coal Asia with a speculative play in the Philippine Petroleum industry, now a bullish sector given the strong demand for energy fuel, e.g. natural gas and oil. SC 6 has a previous record of 11k barrels of daily oil production, potential gross cashflow of \$315mn. SC's potential oil output is double the current output of Galoc 1 operated by the Galoc Petroleum Co. which is owned by Otto Energy of Australia. The issue is highly speculative.

