▶JGS' AIRLINE BUSINESS SEES MARKET SHARE EXPANDING

▶PHILWEB TESTS RP'S ONLINE GAMING SATURATION

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The Bellwether

Fortnightly on Market Action and Outlook

Oriental Petroleum (OPM) may Double Earnings on Galoc 2's Commercialization in 2014

Doubling of Daily Output in 2014. Galoc phase 2 will start commercial production in 2014 on estimated incremental reserves of 7.5m barrels (bbls). The abovementioned reserve estimate is preliminary pending more conclusive exploration results. These reserves will be on top of Galoc 1's remaining 6m bbls underneath, yet to be extracted until 2015 at the rate of 2m bbls per year.

A likely 5k barrels of oil per day (bpd) of output is seen from Galoc 2, riding the structurally high global petroleum prices. In effect, Galoc's output doubles to at least 10k bpd in 2014, but a higher 12k bpd is being touted by 33% Service Contract (SC) 14 Galoc owner Australia-based and ASX-listed Otto Energy. Otto Energy with the rest of Galoc's consortium members (in table 2 on page 5) is spearheading a $188mn Galoc 2 expansion program in which 2 wells will be drilled prior to commercialization in 2014.

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Market Stats

For the week ending October 12, 2012

Top Gainers			Top Losers		
Stock	Price	% w-o-w change	Stock	Price	% w-o-w change
PX	15.34	8.95%	AC	425.00	-4.49%
AGI	15.00	3.45%	SM	770.00	-4.35%
ICT	72.80	2.54%	RLC	18.68	-4.01%
SMPH	14.30	2.29%	BPI	77.60	-3.72%
SMDC	6.14	1.15%	EDC	6.11	-3.48%

PSEi	Value	% w-o-w Change
Closing	5,369.72	-1.29%
High	5,449.57	-0.64%
Low	5,353.47	0.91%
Value T/O (in mn Php)	27,887.37	-10.61%
Foreign Activity (mn USD)	-327.01	-1,060.18%

After RTBs, Rates to Come Off

A lot of interest in the 25-year RTB issuance was seen with bids expected to top Php200bn, pushing up 15 bps the long-end of the peso yield curve (25 years) to 5.83% as of Oct. 17, 2012 over a month's time. That's in contrast with the short-end that's sharply down; 91-day bills were lower -57 bps on news T-bill auctions will be scrapped. The slight pressure on the long-end is likely to ease once the strong appetite for the RTBs is fully accommodated with the close of the offering today (October 18, 2012). Also helping to ease the long-end is talk of a possible interest rate cut by the BSP made credible by easing inflation pressures and monetary loosening in the region led by Australia and Korea.

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GSM PM CLOSE October 15, 2012
1.29yr 3.00% unchanged Dealt @ 1.975% for Php800Mn
3.90yr 4.225% unchanged
4.73yr 4.35% unchanged
9.12yr 4.725% (0.075 bps down)
9.28yr 4.72% (0.08 bps down)
18.78yr 5.65% (0.005 bps up) Dealt @ 5.66% to 5.64% for Php1.825Bn

GSM PM CLOSE October 15, 2012
23.19yr 5.875% (0.025 bps up) Dealt @ 5.85% for Php50Mn
24.86yr 5.95% unchanged

RTB Trades October 15, 2012
15: 14.39yr 5.325% (0.025 bps down) Dealt @ 5.40% to 5.285% for Php18Mn
19.40yr 5.725% (0.025 bps down) Dealt @ 5.75% to 5.72% for Php1.001Bn

Note: GSM is Government Securities Market

JG Summit Holdings, Inc.

To Profit from 2013 Election Year

Stock Data	
Price (Php)	33.80
Market Cap (Php Bn)	229.75
Outstanding shares (Bn)	6.78
PE 2013E (X)	2.90
Price to Book (X)	1.48

Source: Bloomberg

GDP Led. 2012 and 2013 earnings growth for URC are likely to be GDP-led plus inflation, which we estimate to be 8-9%. That suggests to us the 9-month earnings (for fiscal year ending September 30, 2012), up 4.6% to Php5.1bn, are seen to gain speed in 4Q ending September and further into election year 2013. Note that the abovementioned income level excludes the one-offs, a large part of which is related to increased market values of bonds and equity holdings. Growth drivers are strong sales value (volume and firm prices) complemented by lower input costs favoring the branded consumer food group, which comprised 76% (Php41bn) of the entire URC's sales of goods and services for the period. Inputs range from wheat, soybean meal, flour, sugar, powdered potatoes, all going into snack foods and beverages.

Market Share to Grow Amid Tough Climate. Cebu Pacific will likely grow its market share to near the 50% mark from the current 45.4% even with stiff competition. We estimate weak results this year, which in 1H2012 already showed a drop of 29% to Php1.736bn. High cost of operations which grew 28% and outstripped revenue growth of 18%, was behind the reduced profits. Fuel expenses, a quarter of total of which is hedged and the rest recoverable in part through fuel surcharges and fare hikes, rose 26%. That's the single biggest operating cost of the airline business, representing 86% of total flying operating cost and half of total operating expenses. The optimism over market share growth is due to the continuing high industry load factor of above 80%, one of the highest globally and Cebu Air happens to be the most competitive in terms of its operating scale -- enhanced further by a larger fleet of 38 from previous 33 planes-- pricing and cost structure. Tourism is strong in the country, likely to reach 4.5m by yearend from the 1H2012 record of 3.5m arrivals.

More of Retail and Leasing, Less of Developmental Portfolio. Robinson Land, on the other hand, will likely replicate its 1H2012 10% earnings growth in the entire year, on its continuing retail and leasing thrust through yearly additions of 3 - 4 malls inspired by robust same store sales. The thrust is now more geared toward the rental portfolio -- office space, hotels and malls --than on the riskier developmental side of the business, high rise residential condominiums. It continues to grow its landbank, but not as aggressively as before (2011) when bulk of the Php13bn capex or Php10bn went into landbanking. It was earlier disclosed that, a lower Php6bn of the Php13bn capex will be for landbanking this year.

Low PE Reflects Downside of Airline Arm. JG Summit has no profit guidance for this year and next, but we estimate Php18bn earnings for this year, gauging from the individual company earnings outflows in the table below. That's a 16% earnings growth versus the 2010 earnings (to common) worth Php15bn. 2011 was an unusual year given JGS' divestment of its telecom arm Digitel to PLDT where the holding firm reaped Php13bn worth of gains, leaving earnings to common of Php8.5bn.

JG Summit Earnings Estimate

Per bus. segment in bn Php	1H2012A	yoy growth	2012E
urc	5.1	4.60%	10.20
rlc	2.2	10%	4.20
ceb	1.9	-28%	3.80
robinson bank	0.24	68%	0.49
petrochem	-0.055	-22.8	-0.11
Equitized income + others	3.987	-	-
Total	13.38		18.58
To Equityholders	7.49		18.58
EPS /Php			2.73
PE			11.69

Source: FMIC-IAG Research Estimates

Local Equities Seen to Continue Emulating Bourses Abroad

In the week ending October 12, 2012, the bears top the headlines amid growing global economic gloom. The series of slashed growth forecasts by credit rating agencies (i.e. WB and IMF) soured investor's risk appetite. Despite the bullish outlook on the Philippine economy, the bourse did not escape the global pessimistic mood. The PSE index dropped 70.12 points (1.29%) to finish the week at 5,369.72. Foreigners were net sellers by P13.6B. In developed markets, US equities were hammered down, with the S&P suffering its biggest weekly drop in June. For the week, the Dow slumped 2.07%, the S&P dipped 2.21%, and the Nasdaq tumbled 2.94%.

Moving forward this week, local equities are seen to continue emulating bourses abroad. Also, expect the bourse to move sideways ahead of China's 3Q GDP figures. Foreign news flows due out this week include US retail sales, Empire State Manufacturing Survey, CPI, housing starts, existing home sales, Philadelphia Fed Survey. Elsewhere, China Industrial production and retail sales are also expected within the week.

(Oriental Petroleum...continued from page 1)

At the minimum, we estimate OPM's 7.75% stake in Galoc to yield $16mn net profits in 2014 or Php688mn. OPM made $8mn in 2011, a lower $1.6mn in 1H2012 from $4.6mn in 2011 (same period) due to the shutdown of Galoc. OPM expects $4.5mn-$5mn net profits in the entire 2012 or Php215mn on the high side. OPM's books are in USD and Galoc is the lone money-making venture so far. See OPM's service contracts (SCs) in table 1, with updates.

High Oil Prices. Such OPM's profit scenario assumes structurally high oil prices, i.e. a repeat of 2011's oil price of $114/bbls in 2014, (Galoc is Dubai-based in terms of pricing) and oil output of 10k bpd at the minimum. Galoc delivered 2.1m ba. in the entire 2011. Then it was shut down in late 2011, starting November up to early April 2012 for the rehabilitation of its mooring equipment and Floating Storage and Off-loading (FSO) facility. Global economic recovery will underpin high oil prices, propelled by monetary easing in the US, Europe and Asian regions and market reforms in emerging market economic powerhouses India and China.

Output Ramp-up. The estimated output by 2014 of 10k bbls will be a ramp up of Galoc 2 to the 5k-5.7k bbls from zero. Add that volume to Galoc 1's slightly lower than 2.1m bbls output in 2014 given its natural depletion. We predict 2013 will be the lowest point of production for Galoc 1 since the 2.6m bbls peak output in 2010. Output will be higher than this year's likely 1.49m bpd but lower than the 2.1m bbls output recorded in 2011.

Pro-rata Capex Sharing. In that $188mn expansion capex, OPMC and the rest of the consortium members will contribute based on their interest. Galoc is the lone commercially producing oil field in the country.

A Fairly Robust Cost Buffer. OPM has a fairly robust cost buffer against petrol price volatility. Based on historical financials, we estimate a third of the oil price is OPM's net profit margin while at the consortium level, it is even larger at half the price per bbl. See table 2 on page 5 how gross revenues are configured for capex/operating cost recovery by the project proponents and economic benefit sharing with the government. The bulk of topline goes back to the project proponent which is a key incentive while only 11.22% of gross revenues is subject to sharing with the government. See note on Table 2 below stating that net proceeds of 11.22% of gross revenues from the project is to be split between government and the contract operator Galoc Production Co. on 60%:40% basis, respectively.

Stock Data	
Price (Php)	0.02
Market Cap (Php Bn)	4.08
Outstanding shares (Bn)	120.00
PE 2013E (X)	-
Price to Book (X)	1.52

Source: Bloomberg

Table 1. OPM Service Contracts	Location	Expiration Date	OPMC Share %	Updates
SC 6B Bonita	NW Palawan	Feb. 28, 2024	14.0625	*ongoing exploration*
SC 14A Nido	NW Palawan	Dec. 17, 2025	42.941	
SC 14B Matinloc	NW Palawan	Dec. 17, 2025	17.703	*sold Cadlao but continues to get royalties*
SC 14B1 N. Matinloc	NW Palawan	Dec. 17, 2025	27.772	*west linapacan is costly in terms of project cost so divested, water intrusion key problem*
SC 14C West Linapacan	NW Palawan	Dec. 17, 2025	7.752	*interest used to be 30%, but later on sold to*
SC 14C Galoc	NW Palawan	Dec. 17, 2025	7.785	*VenturOil*
SC 14D	NW Palawan	Dec. 17, 2025	20.829	

Source: FMIC-IAG Research Estimates

Table 2. Project Gross Revenues Go to the FF:	
Cost Recovery	70%
Filipino Participation Incentive Allowance	7.50%
Production Allowance	11.28%
Net proceeds	11.22%

Note: Net proceeds of 11.22% to be split between gov't 60% and 40% contract operator Galoc Production Co.

Source: FMIC-IAG Research Estimates

Table. 3 SC 14C Galoc	
Consortium Members	Interest %
Otto Energy	33.04
Galoc Production Company	26.84
Nido Petroleum	22.88
OPM	7.75
The Philodrill	7.21
Forum Energy	2.28

Source: FMIC-IAG Research Estimates

Philweb Corporation

Tests RP's Online Gaming Saturation

Profitable Online Gaming Network Expansion. With its 267 cafes, 15 of which are owned, Philweb Corporation (Philweb) is testing the limits of internet gaming cafe profitability. Its internet gaming cafes continue to grow and has taken on a regional thrust in East Timor and Cambodia. This is complemented by a low-key but best-selling gaming venture called scratch and win cards. Philweb had a business model that worked, with a 4-year profit run of 48% CAGR from 08's Php292mn to 2011's Php915mn.

Offshore Gaming will be Half of Revenues. It is likely that the offshore expansion could be a substantial part of the total revenue pie from a fifth today. The local cafe network is growing 30% yearly at topline level. E-gaming terminals are nationwide, from Laoag City to General Santos, and will boost the current revenue growth. Gross winnings are so huge, Philweb gave Philippine Amusement and Gaming Corporation (Pagcor) a substantial contribution last year.

We estimate Philweb's profits to easily surpass the Php1bn mark this year, after making Php482mn (to parent equity holders) in 1H2012 on topline of Php692mn. 1H2012 earnings were 24% above the previous year, same period. BIR taxes the so-called total winnings of the cafes at 5%, which is defined as gross bets less payouts. After further deducting the software license fees, the resulting gross winnings are shared by the cafe operator 28% and Pagcor, then net revenues which go to Philweb's books as internet application service fee.

Wide Margins Are Helped by Equitized Earnings. Operating margin was 60% which got a further boost from equitized earnings from 33%-owned Acentic, a German provider of online room entertainment in several hotels in Europe. Part of the expansion is via Acentic for online gaming access by the captive hotel rooms clientele of Acentic. This venture will be a growth driver, in UK and in Germany. Earnings from ISM Communications Corporation (ISM), another affiliate that owns PBCom, the unibank, also form part of equitized income of the company, which last year contributed two tranches of Php260m worth of gains on sale of its 77% telecom investments in Eastern Telecoms, sold to San Miguel Equity Securities and Vega Telecom.

Strong Balance Sheet: Zero Interest Bearing Debt, Hefty Cash and Retained Earnings. Philweb's net profit margin (all purely from internet gaming) was at a higher 69% in 1H2012. It had zero interest expenses given zero interest bearing debt on the balance sheet . Cash has grown to Php1bn, up 22% yoy, while retained earnings were Php1.6bn. Dividend yield was 1.8% last year.

Highly Logistics Service-Oriented. The business model essentially makes available, in cafes or in what was described as "neighborhood gaming bars" in the cities and suburbs, online casino games such as blackjack, baccarat, slot machines, video poker and others, all using a computer terminal mounted on a craps table to achieve the look and feel of a casino. All that a player needs is walk into a cafe, company-owned and or franchised, use cash to buy a minimum Php500 worth of card to do slot machines and others.

Stock Data	
Price (Php)	17.02
Market Cap (Php Bn)	24.18
Outstanding shares (Bn)	1.42
PE 2013E (X)	1.10
Price to Book (X)	7.34

Source: Bloomberg

Promoting Cafe Profitability. Slot machines happen to be the most played, most profitable in the gaming menu and is thus being promoted by Philweb to improve cafe profitability. The smallest cafe comprised 12 terminals for a minimum capital outlay of Php2.5m. Its largest cafe operator so far is located in Star Mall Mandaluyong with 150 terminals.

Pagcor is the House and Philweb Delivers. The house on which the winnings are charged is Pagcor and not the cafe owner and part of Philweb's role aside from providing the internet applications, connections is the delivery of winnings in an hour's time. The cafes operate 24 hours a day. Philweb's technology know-how is its key barrier fending off entrants to this lucrative business.

Share buyback from PLDT is EPS Accretive. PE at this year's earnings is 25x, trailing 12 months is 20, which are justified by Philweb's high growth profit prospects. The firm is buying back Php4bn worth of Philweb shares unloaded by PLDT at Php10.70/share, estimated to be almost 30% EPS accretive as shares will drop from the current 1.4bn to 1.1bn or a higher EPS of Php0.90 from Php0.70/share.

Profit Outlook. Assuming earnings of Php1.1bn this year, our estimated earnings next year of Php1.4bn would represent a growth of 27%. 2013 EPS is Php1.27/share suggesting a market cap of Php18.7bn on post share buy-back that will cut outstanding shares to an estimated 1.1bn shares from currently 1.4bn outstanding.

Table 1. Philweb Corp. 2013 P & L Estimate

350,000	Php revenues per café per month
12	months in a year
4,200,000	Php revenues
267	x no of cafes
1,121,400,000	Php PEGs total revenues
1,457,820,000	Php revenues on 30% annual growth
2,332,512,000	Php revenues double the network size
60%	operating margin
1,399,507,200	earnings (with income tax holiday)

Source: FMIC-IAG Research Estimates

Nihao and Dizon Mines Fold in Assets under ASX-Listed JV Company

Pooling of Mining Assets. Angping Group-controlled Nihao Mineral International Resources Inc. (Nihao) and Dizon Copper Silver Mines Inc. (Dizon) are infusing their mining assets (40% of Masbate 13 Philippines Inc. - Nihao's gold mine claim in Masbate province) and a gold tailings dam (for Dizon) in an Australian (Australia Securities Exchanges-ASX) listed shell company to be eventually known as Noah Mines Ltd., currently named Welcome Stranger Mining Ltd. Welcome Stranger trading has long been suspended in ASX and last traded at A$0.18/share in 07, but will resume trading this month (October 2012). It will be renamed Noah Mines Ltd.

Joint Venture (JV) Ownership Structure. Through Noah, the group of Nihao and Dizon effectively partners with Canada-based Capital Gold which is pooling its own six mines (mostly gold mines in Australia) with those of the Angping mining claims for an ownership configuration in the joint venture company Noah as follows:

- Nihao, 20%
- Dizon, 35%
- Capital Gold, 31%
- Original owners of Welcome Strangers/Noah, 4%
- New investors - coming in via issuance of 25m new shares or 10% ownership, yet to be undertaken

Fundraising at the ASX-listed JV Level. The backdoor listing creates the JV company for the Dizon's tailings dam project, which will raise funds to add to the estimated cost ($50mn-$70mn) of the latter's development in San Marcelino, Zambales province. Contained gold in that dam is estimated at 1m oz. while Php200mn earnings is seen in its first year of operation, 2014. Capital Gold formed a “Tailings Dam Newco” where the Angping mine claims and those of Capital Gold were pooled prior to their absorption by the JV company.

Better Deal. The structure of the deal not only gave Dizon a higher 35% stake in the JV from the original target of 20% (but for a lower 1.5% royalty on net smelter return versus original target of 2.0%-2.5%), but also gave Nihao a participation, 20% stake in the JV. Nihao got both cash and shares of the JV company in exchange for 40% of its economic interest in Masbate 13 Philippines Inc.

Php350mn Gain on Sale for Nihao's Divestment in Masbate 13 Philippines Inc. Nihao will realize Php350mn worth of gain on sale of assets, resulting in a likely Php500mn earnings in 2012. Masbate 13 is a 9,000 hectare gold mining claim owned by Oregalore Inc., the latter is 80% owned by Nihao. Dizon, on the other hand, will be spared the Php250mn penalties due to the government (for a mine spillage during Benguet Corp.'s contract mining operation in the nineties) which will be borne by Capital Gold and paid a dam maintenance fee of $1.5mn, in exchange for Capital Gold's 31% ownership of the JV company. Also, Dizon gets a free-carry on mine development cost to be shouldered by Capital Gold.

Not Subject to MPSA Moratorium. There does not seem to be any real impediment to the gold tailings dam project except for the environmental clean-up application by Dizon (yet to be granted by the government) but which is not subject to the MPSA issuance moratorium under executive order (EO) 79. Mines and Geosciences Bureau Director Leo Jasareno told us earlier in an interview at the UP NIGS Mining Seminar that government has started looking into the developmental aspect of Dizon's gold tailings dam project.

鎳豪 NiHAO MINERAL RESOURCES INTERNATIONAL, INC.

Stock Data	
Price (Php)	6.98
Market Cap (Php Bn)	6.37
Outstanding shares (Mn)	913.00
PE (X)	-
Price to Book (X)	4.81

Source: Bloomberg

Stock Data	
Price (Php)	20.05
Market Cap (Php Bn)	1.56
Outstanding shares (Mn)	78.00
PE (X)	-
Price to Book (X)	62.65

Source: Bloomberg

(After RTBs… continued from page 1)

Inflation does not seem to be a worry for now as reflected in the sharp fall in the T-bill rates; the 91-day fell to a record low of 0.7%, reinforced by lack of future supply. Inflation expectations are also being mitigated by the downtrend in headline numbers, 3.6% CPI growth last month and lower than the year’s peak of 3.8%. Recall that the auctions for Php7.5bn worth of treasury bills and Php9bn worth of seven-year bonds scheduled for the next two weeks (after Oct. 15, 2012) were cancelled by the Bureau of Treasury (BTr) to allow for a smooth and orderly settlement of the twenty-five-year RTB which is being offered from October 9-22. This cancellation would mean a reduction in supply of sovereign debt papers from Php90bn to Php64.5bn in the fourth quarter. We retain the view interest rates are bound lower toward yearend.