



he Bellwether

Fortnightly on Market Action and Outlook

STOCK WATCH



► PGOLD DRIVES
ALCORN'S TRANSITION
TO COSCO CAPITAL



MPI TURNS CAPEX-
► HEAVY ANEW WITH PPP
BAG, BALANCE SHEET
ACCOMMODATIVE, 2012
EARNINGS UP 28%



► FLI SEEKS MORE DEBT
FOR PROJECT FUNDING
TO MAX OUT ROE ABOVE
10%

Puregold Price Club Inc. (PGOLD) drives Alcorn's transition to Cosco Capital

Retail is Major Leg of the Holding firm Cosco Capital

Puregold (PGOLD) will be Alcorn Gold Resource Corp.'s (APM) major earnings driver as the latter restructures into a holding company called Cosco Capital which is pending SEC approval. The retail outfit of businessman Lucio Co (PGOLD) comprised half of Mr. Co's recent asset injection of Php75bn into Cosco. In exchange, Mr. Co gets Cosco shares, 4.9bn in all at Php15/share, entitling him to a 94% interest

in the holding co. (from the current 66%) after which a secondary offer will ensue next year to raise public float to the compliant level, say 10%, our assumption. PGOLD will be a major leg (one out of four business legs) of Cosco. The other three would be liquor distributorship Premier Wine and Spirits and property development-oriented Ellimac Prime Holdings Inc. Lastly, there's what will be grown more aggressively: the oil storage facility in Subic Bay Freeport called Pure Petroleum Corp. that's fully leased out.

Continued on page 2

Demand shifted to the belly

Peso Yield Curve



Demand shifted from the long term debt papers to the belly and the 10-year Treasury bond (T-bond) after the 7-year T-bond's Php76.4bn maturities last March 3, 2013 and as market attention focused on the BSP rate setting come March 14, 2013. The bet was that the BSP will hold policy rates, despite rising inflation (3.4% in February) to push more money into the markets, boost consumption and investments. Expect traders to lock-in gains or churn this week before the policy rate setting. If the BSP cuts special deposit accounts between 50 to 100 basis points (bps), yields are anticipated to rally further, absorbing money from the BSP facility which grew 2.37% to Php1.855 trillion. Yields fell by an average of 42.52 basis points

Continued on page 5

GSM PM CLOSE March 8, 2013

0.91yr 1.00% unchanged
3.52yr 2.75% (0.05 bps down) Dealt @ 2.75% to 2.70% for Php2.046Bn
5yr 2.80% (0.075 bps down) Dealt @ 2.7525 for Php1.250Bn
8.74yr 3.175% (0.025 bps up) Dealt @ 3.04% to 3.125% for Php427Mn
8.89yr 3.20% (0.05 bps down) Dealt @ 3.07% for Php15Mn
18.39yr 4.515% (0.0325 bps up) Dealt @ 4.485% to 4.50% for Php2.198Bn

Note: GSM is Government Securities Market

GSM PM CLOSE March 8, 2013

22.81yr 4.75% (0.03 bps up) Dealt @ 4.70% to 4.73% for Php2.912Bn
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RTB Trades March 8, 2013

25yr 4.73% (0.02 bps up) Dealt @ 4.70% to 4.725% for Php12.485Bn



(Pepsi... continued from page 1)

PGOLD Stock Data	
Price (Php)	39.60
Market Cap (Php Bn)	109.55
Outstanding shares (Bn)	2.77
PE (X)	31
Price to Book (X)	8.50

Source: Bloomberg

APM Stock Data	
Price (Php)	0.165
Market Cap (Php Bn)	21.04
Outstanding shares (Bn)	127.5
PE (X)	-
Price to Book (X)	16.5

Source: Bloomberg

Mining and Oil Assets Spin-Off

On the other hand, the mining and oil assets will be spun off. Recall that Alcorn became a holding company in 2010 and was bought by businessman Lucio Co in the nineties. It had small but several participations in various oil service contracts off the coast of Palawan such as West Linapacan, oil-producing North Matinloc, and others that need to be further developed: Bonita, North Block, East Visayan basin, Retained Area Block, and Octon Block. It also has a Mineral Production Sharing Agreement (MPSA) involving a gold and copper mine project in Leyte, two exploration permits for gold and copper projects in Albay and Iloilo, respectively. It has an MPSA application for a gold project in Agusan province and two exploration permit applications for two nickel projects in Rizal and Aborlan, Palawan, respectively.

PGOLD Valuation is Key to APM/ Cosco

We think the differential in the valuation of PGOLD (market cap approach Php57bn versus APM's own Php37.5bn for half of PGOLD injected into APM) will be the

catalyst of APM's share price. PGOLD is growing organically and through acquisitions; has a current market share of 20% in the Philippines organized retail industry. Combined, PGOLD and SM Retail Inc. (excluding SM's department stores) make up two thirds (40%) of the so-called 60% share of the country's organized retail as opposed to the informal "sari-sari stores," with a share of 40%.

Growth Potentials Justify Premium

PGOLD's huge potentials give us reason to use the market cap approach and impute a Php19.43bn premium (for now) on the Php75bn asset injection into APM and current Php21bn market cap of APM. Please see table 4 on page 3. Post asset injection and prior to the secondary offer exercise, we calculate APM near term share price upside to be 14% to Php0.1854 target price or Php18.54/share par value increase to Php1.00/share to common. APM has reached a high of Php0.177/share last Feb. 28, 2013. See table 4 on page 3.

PGOLD Earnings Rise on Acquisitions and Organic Growth

Meanwhile, PGOLD made Php2.7bn

in earnings, 76% better than the 2011 figure, largely bolstered by the expanded 156 store network by end-2012 from the previous year's 100. The expansion (details in tables 1 and 2) was beefed up by the S & R Membership Club (six stores); Parco's acquisition (19 stores), and construction of six more PGOLD stores on top of its 25 store guidance for 2012 for a total of 31 actually constructed. This year opened with another PGOLD acquisition, that of the 15-store chain called Company E under store names Eunilane and Grocer E. geared for the C & D markets located in Metro Manila, Rizal. Company E's total 8,041 sqm retail area is the smallest compared to PGOLD's 260k sqm; 25k sqm of S&R and Parco's 21k sqm. The Company E store chain's profitability is weak with about Php1mn net profits expected for 2012; net income margin at the lowest of 0.4% versus other PGOLD's store chain. PGOLD's guidance for this year is a net income margin of 4.7% on expected Php75bn topline (representing revenue growth of 30% year-on-year) yielding net profits of Php3.53bn or EPS growth of 31%. PE is high, 28x based on consensus Php3.8bn 2013 earnings and much higher (based on guidance) at 31x. ▲

Table 1. Network and Profitability

Company	Store Network 2012	Store Expansion 2013	Store Area in 000	Gross Profit Margin (%) 2012	Net Margin (%)
PGOLD	131	25	260	51	4
S&R	6	1	25	39	12
Parco	19		21	21	1.7
Company E (Eunilane & Grocer E)		15	8	7	0.4
Actual end of 2012	156		314		
Target (end of period)	125	197			
Same store sales (%) target	4%	2%			
Same store sales (%) actual	2%				

Source: Company Data



(Pepsi... continued from page 1)

Table 2. Expansion program details						
2013 Expansion Store Format	Additional Stores/Format	Store Space sqm in 000	Sales/Sqm. Php000	Location	No. of Stores	
Hyper	13	20.00	220	Metro Manila	3	
Super	11	35.00	270	Mindanao	4	
Extra	1	6.50	200	Luzon	18	
Total	25	61.50			25	

Source: Company Data

Table 3. APM Php75bn asset injection exercise with 4.9bn share issuance to Lucio Co at Php15/share	Pre-asset injection		Post asset injection		Post secondary offering	
	Interest	bn shares	Interest	bn shares	Interest	bn shares
L. Co.	67%	84.92	94%	5.841	90%	5.841
Public	33%	42.46	6%	0.373	10%	0.649
Total	100%	127.50	100%	6.213	100%	6.489

Source: Company Data

Table 4. APM price upside calculation	Change in par value (common)	
	Php0.01par	Php1.00
1) APM market cap (bn Php except share price)	20.78	20.78
Price (March 4, 2013)	0.163	16.3
Shares outstanding bn	127.5	1.275
2) Add asset injection		75.00
3) Differential in PGOLD Valuation		19.43
PGOLD's value is 50% of injection (APM guidance)		37.50
51% of PGOLD is valued at market cap**		56.93
Equity Value Cosco Cap. (1+2)		95.783
Equity Value Adjusted for PGOLD (1+2+3)		115.21
Implied price of Cosco, pre-secondary offer	0.1854	18.54
Upside to target price		13.76%
Implied price of Cosco, fully diluted (6.5bn shares)	0.1775	17.75
Upside to target price		8.92%

Source: Company Data

(Yield curve... continued from page 1)

(bps) last Friday versus a month ago. The belly led the plunge as the 7-year T-bond went down by 70.94 bps to 2.8202%. This was followed by the 5-year debt papers which slid 67.91 bps to 2.7774% and the 3-year debt papers down by 67.85 bps to

2.4500%. The long term debt papers fell, with 10-year debt papers down by 52.39 bps to 3.2250%. The 20-year T-bond slipped 32.50 bps to 4.6500% and the 25-year T-bond dropped 28.73 bps to 4.7184%. The short-end of the curve also descended as the

182-day Treasury (bill) and the 364-day T-bill tumbled by 23.00 bps to 0.2850% and 36.00 bps to 0.6750%, respectively. However, the 91-day Treasury bill yielded went up 6.50 bps to 0.1900%.

Metro Pacific Investments Corp. (MPI)

turns capex-heavy anew with PPP bag, balance sheet accomodative, 2012 earnings up 28%

MPI Stock Data	
Price (Php)	5.28
Market Cap (Php Bn)	137.11
Outstanding shares (Bn)	25.97
PE 2013E (X)	17.22
Price to Book (X)	1.67

Source: Bloomberg

2012 Full Year Earnings Robustly Up 28%

Metro Pacific Investments (MPI) made 2012 core earnings of Php6.5bn, up 28% versus year ago's Php5.1bn. Dividends also went up 33% to Php0.02/share. Earnings drivers were the water and electricity distribution utilities, the former on continuing billed volume growth of 6%, lower non-revenue water (NRW) of 43% on average for 2012 and the latter (electricity unit) due to MPI's increased ownership of Meralco from 22% to 24.2% and 7% growth in electricity sales. Contributions from Meralco and Maynilad to MPI's bottomline were higher 15% and 29%, respectively, year-on-year. Maynilad made Php6.8bn earnings, up 13% while Meralco's core earnings rose 9% to Php16.2bn. Core net income of the toll road rose 6% to PHP1.6bn while the hospitals rose 29% to Php722mn.

PPP Projects to Make MPI Capex-Heavy but Balance Sheet is Accommodative

MPI will benefit from Public-Private

Partnership (PPP) project initiatives whose return rates would range 12% to 20% with payback averaging 3 years. These PPP projects count among others the LRT1 Extension, Mactan Airport, Naia Expressway, Cavite, and Calamba-Laguna expressway. MPI's net gearing ratio stood at 15% versus net cash position at end of 2011. MPI management eyes PPP project initiatives' funding structure at 30% equity, 70% debt. MPI raised Php6.1bn in cash last January with 5% dilution to existing shareholders due to equity issuance intended to increase firepower not only in PPP projects but also to expand water projects.

Open Access to Benefit Meralco

Meralco will benefit from open access to begin 2H2013, with clients of Meralco to be tapped for its electricity retail supply program. Meralco will charge an expected 1% margin on its net generation cost as it resells the electricity it buys to the so-called "contestable" Meralco clients with 1MW or higher electricity consumption, comprising a third of its total energy sales. These are existing clients captive under the distribution franchise but will be released from "captive" due to the EPIRA provision of free choice of power sources. Open access will work only if there's excess electricity supply.

Cheap Financing for Maynilad's Sewerage

Maynilad is unlikely to achieve the previous billed volume growth of 10% (2010) as

water consumption continues to grow more slowly in the southern most portion of the concession area, Cavite province. These are mostly residential areas. The quarterly financials showed that only the water utility unit suffered a drop in revenues in 4Q12 versus increases seen in all business segments, quarter on quarter. Expect Maynilad to be capex-heavy also with the sewerage investments required by MWSS kicking in this year, which means water will be more expensive as tariffs rise for Maynilad's investment recovery. Maynilad had to shoulder an additional PHP93bn in the sewerage investment from the previous agreement of Php44bn with government. But that's over the concession's life of up to 2037. Marubeni, a new partner of MPIC in Maynilad which bought DMCI's 16% share and MPI's own 4% stakes in Maynilad, now has a 20% stake. Marubeni is reviewing how MPI is doing the water business and is providing cheap financing from Japan International Cooperation Agency (JICA), but available only after two years. There was no earnings guidance.

Near term share price catalyst will be positive news flow on potential PPP projects bag list. Note that share prices were firm above Php5.00 despite the share dilution

Table 1. Biggest cash from Meralco, but fastest growing is hospital

2012 Core EBITDA	in bn Php	% Change
Maynilad	10.40	11
Meralco	26.00	0
Toll Road	4.40	7
Hospitals	2.20	35

Source: MPI

Table 2. MPI management eyes PPP project initiative funding structure at 30% equity, 70% debt

Projects	Cost in bn Php	Project Description
LRT South	28	construction of 11.7km double rail-track extension
Mactan Int'l Airport	18	repair of existing terminal and construction new terminal, O&M
NAIA Expressway	16	construction of 7.75km of elevated expressway
Cavite Acquisition	6.80	Cavite as platform for Southern network

Source: MPI

MARKET STATS

For the week ending March 1, 2013

Top Gainers			Top Losers		
Stock	Price	% w-o-w change	Stock	Price	% w-o-w change
BEL	5.70	8.57%	SMDC	8.23	-11.70%
PX	18.98	7.84%	EDC	6.72	-9.31%
RLC	23.50	6.82%	FGEN	24.20	-6.38%
SCC	241.00	4.42%	BPI	107.00	-6.14%
MWC	36.35	4.30%	ALI	31.50	-3.96%

PSEi	Value	% w-o-w Change
Closing	6,642.27	-0.34%
High	6,725.36	0.53%
Low	6,610.22	1.36%
Value T/O (in mn Php)	47,200.93	11.46%
Foreign Selling (mn USD)	20.73	-479.11%

PSEi may move higher on month-end window dressing

Last week, the PSEi registered its first weekly decline for the year. The benchmark lost 22.8 points (-0.3%) to close at 6,642.27. The Industrial, Property and Holdings sectors led the decline. Mining & Oil managed to close the week 2.5% higher while Services gained 1.5%. SMDC (-11.7%) led all index decliners followed by Lopez firms EDC (-9.3%) and FGEN (-6.4%). EDC announced last Friday that it had shut down plants 1 and 2 of the Bacon-Manito geothermal facility, just days after it started commercial operations. Value turnover averaged Php10.0bn, higher due to the MSCI index rebalancing. Foreigners were net sellers by Php843mn.

Inflation for the month of February will be released tomorrow at 9 AM PHT; consensus is looking for a 3.3% increase, higher than the previous month's 3.0%. Elsewhere, more earnings results slated to be reported this week. Tomorrow, PLDT will be holding its own investors briefing while the Aboitiz group will report on Wednesday, March 6. So far, the current earnings season beating and/or meeting expectations.

FILINVEST

Filinvest Land, Inc. (FLI) seeks more debt for project funding to max out ROE above 10%

FLI Stock Data	
Price (Php)	1.97
Market Cap (Php Bn)	47.77
Outstanding shares (Bn)	24.25
PE 2013E (X)	12.40
Price to Book (X)	1.08

Source: Bloomberg

Cheap

The second cheapest in the property sector on PE basis, FLI's earnings may grow by 15% this year to Php3.85bn. 2012 earnings likely to close at Php3.3bn PE is 12.40x 2013 earnings versus 19x, peer property issues' average.

Growing Rental Portfolio

The company is bullish on leasing, doubling its mall and office space portfolio to 300k sqm and 400k sqm by 2015, respectively. Lease escalation is 5% yearly. Expansion in both the developmental --residential units single-detached, mid-rise buildings (MRBs), the latter with a gross profit margin (GPM) of 45% against consolidated GPM of 44%-- and leasing portfolios will maintain the current sales mix of 60-70% and 30-40%, respectively.

Rush in the Office Space before Glut

A total of 1.2m sqm of office space will be in the market this year (620k) and next (580k), the highest since 2008. According to Jones Lang LaSalle's figures, vacancy will only be 20% during these periods, with hefty take-up of 450k sqm yearly. But there could be a glut in 2015 with 350k sqm more of new BPO office space supply and little expected take-up.

Table 1. Filinvest Land Inc.	9mo2012	9mo2011
Unit sales	6,344.00	6,039.00
Php bn value	9.91	8.44

Capitalizing on OFW market's 1st Home Appetite

About half of the 9mo2012 Php5.4bn topline was sales to OFWs. Also half of the 9mo2012 unit sales (in table below) were MRBs. MRBs and high rise residential buildings saw rising GPM of 43% versus year ago's 39%. There was a 5% increase in units sold (overall) to 6,344 as 9mo2012 versus year ago, in table below. The consolidated GPM of FLI's developmental business was steady at 44%. Without these two popular products (that come in socialized, affordable and middle income price points/unit of Php700k to Php2mn and Php4mn, the latter for a 100sqm unit, GPM would have dropped by 4% last year.

Higher than 10% ROE

With an eye for more than 10% ROE by 2015, (it was 7% in 2011), FLI will be funding projects this year with more debt. Debt to equity ratio is low at 0.55:1, inclusive of the 7-year fixed rate bond floated last July 2012 for total borrowings of Php24.5bn. Net debt stood at Php22.8bn, 9mo2012. Debt maturities are well spread out going to 2015, with a chunk due next year worth Php5.8bn.

Landbank Huge.

There were no landbank acquisitions recently as FLI's landbank is huge, good for ten years, total of 2,288 hectares, 17% of which is joint venture and 85% of which in the so-called Mega Manila (Metro Manila, Bulacan, Calabarzon).▲

Table 2. Guidance	2011A	2012E	2013E
Net income in bn Php	2.94	3.35	3.85
Net income growth guidance (%)		15-20	15-20
EPS Php		0.14	0.16
PE (X)		13.33	11.59
Peer property PE average			19.73

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