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STOCK WATCH

▶ COMPETITION HITS AP'S HOLD ON ANCILLARY MARKET

▶ SCANDIUM PLANT MAY BE NICKEL ASIA'S SECOND UPSIDE

▶ GALOC OIL FIELD RAMP-UP AND WIDER MARGINS BOOST OV'S EARNINGS BACK TO PHP1BN

Government lifts ban on mining permits; positive but no big deal for some

A survey of the mining sector's views on the government's lifting of the ban on exploration and mining agreements.

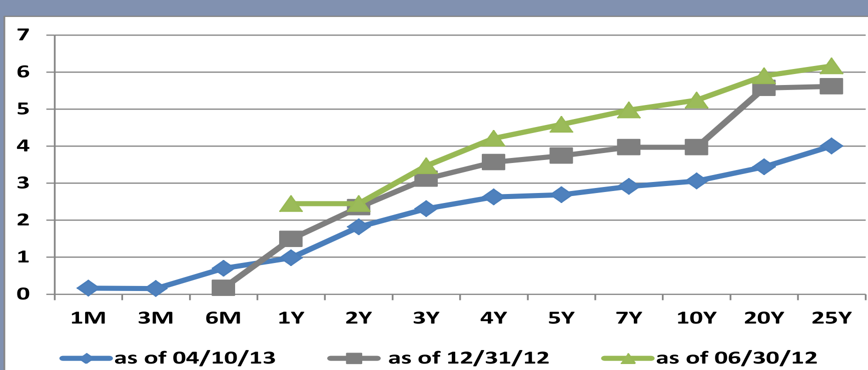
Government has lifted the ban on the issuance of new mining permits, but not the moratorium on the issuance of Mineral Production Sharing Agreements (MPSAs). Government will process only exploration permits (EPs), Financial and Technical Assistance Agreement (FTAA) and Mining Agreement beginning March 18. The ban was installed in January 2011 and has put the sector on a standstill. This recent order was signed and approved by DENR Sec. Paje.

We expect the development to be mining sector positive from a regulatory standpoint, but won't impact fundamentals for some in a big way. Lepanto share prices which has a pending FTAA application has started to move up, Nickel Asia and Atlas as well. Philippine mining investments dropped 48% to $160mn (Php6.4bn) in 1H2012 as foreign investors' sentiment turned averse on the Philippine mining

Continued on page 2

Long end positions might shift to the belly

Peso Yield Curve



We expect yields to move north in the absence of positive leads, as the long end continues to rise up to the 4Q level in the medium-term due to profit-taking. Investors are seen to reposition next week because of the 3-year auction wherein most might sell their long end positions and move investments to the belly. Government securities fell by an average of 27.52 basis points (bps) accross the curve, month-on-month, last Friday (April 5, 2013). The recent Fitch Ratings upgrade from BB+ to BBB- will improve foreign direct investments in the country, provide it with wider funding resources, and lower borrowing costs. The 20-year debt papers led the rally as it fell by 153.61 bps to 3.3139%, followed by the 25-year debt papers down 96.03 bps to 3.8680%. For the short end of the curve, both the 91-day Treasury bill (T-bill) and

Continued on page 7

GSM PM CLOSE April 8, 2013
0.91yr 1.15% unchanged
3.52yr 2.525% unchanged Dealt @ 2.48% to 2.50% for Php253Mn
5yr 2.85% unchanged Dealt @ 2.75% for Php200Mn
8.74yr 3.05% (0.05 bps up)
8.89yr 3.05% (0.05 bps up)
18.39yr 3.85% (0.10 bps up) Dealt @ 3.675% to 3.70% for Php146Mn

Note: GSM is Government Securities Market

GSM PM CLOSE April 8, 2013
22.81yr 4.15% (0.15 bps up) Dealt @ 3.95% for Php50Mn

RTB Trades April 8, 2013
25yr 4.025% (0.025 bps up) Dealt @ 3.97% to 4.015% for Php428Mn

(Government lifts ban... continued from page 1)

sector, with the MPSA moratorium expected to last until new legislation on government's share of the economic benefit (taxes and revenue sharing) is in place. Full year government investment target was originally set at $2.27bn, (Php90.80bn) for 2012, but was revised down to $509mn (Php20.36bn) for the entire year, following the dismal first half results.

The softening of the government's stance signals government is supportive of mining. We expect a further clarification of these in the next few days.

The contention of mining players was that what's the sense of exploring if you'll eventually have no MPSA or a contract with government? Mines and Geosciences Bureau (MGB) earlier explained to IAG Research that an investor doing exploration is given a preferential right to an MPSA and that should assure his investments.

For Nickel Asia (NIKL), government's order merely put more sense into the existing regulation. Mining is done in phases and capex disbursements keep pace with that. It is sunk cost and miners can walk away from an exploration phase if they don't get to confirm anything underneath. The lifting of the ban is no big deal for the company as NIKL already has everything in place, MPSAs and EPs. The only thing that matters to the nickel outfit is the LME direction, according to the executive.

NIKL has Kepha, with an MPSA, behind the Taganito mine project. NIKL can just drill and get production going from that mine. But that is not happening because the LME has not improved.

On the other hand, Atlas (AT) has pending applications for exploration permits for target areas near the Carmen Copper in Toledo Cebu and for Berong Nickel which it owns partly with UK-Based Toledo Mining and for copper and gold projects in the Mt. Diwalwal area, Mindanao. The lifting of the ban is positive for Atlas.

Anti-mining local governments have interfered with big projects about to take off like the $5.7bn Tampakan copper gold project in Cotabato, the biggest undeveloped in Asia and that of Nickel Asia's nickel project in Samar. There was already a directive by DILG Secretary Mar Roxas to local governments to abide by the national law pertaining to mining. Despite this, Tampakan has not moved and many bet that will happen only after the local elections.

NIKL has met less support from the local government that withheld shipping permits from its Manicani nickel ore mine in Eastern Samar. NIKL echoed AT's wish that mining laws and regulations be made uniform at the national and local government levels. NIKL has an existing MPSA both in the Manicani and Manmanok projects. Please see pending applications per mining company in Table 1 below.

That the recent order raised the application fees for mining permits also makes sense, in that it tries to weed out short term speculators and restrict entry only to serious players. ▲

Table 1.

Mining Company	Pending Applications
1) Dizon Copper Silver Mines, Inc.	mineral processing permit (gold tailings dam)
2) Nickel Asia Corporation	EP, Manmanok gold mine in Apayao, Manicani Nickel Ore mine in Eastern Samar
3) Oriental Peninsula Resources Group, Inc.	EP for Mindanao gold project
4) Lepanto Consolidated Mining Company	FTAA Gold Fields' Far Southeast Project
5) Alcorn Gold Resources Corporation	EP, Leyte gold and copper mine, also in Albay and Iloilo; MPSA Agusan; EP nickel, Rixal and Aborlan, Palawan
6) Manila Mining Corporation	EP Kalayaan and Silangan
7) Philex Mining Corporation	MPSA for a portion of SIlangan, Kalayaan Mine
8) Apex Mining Company	EP, Maco mine in Compostella Valley
9) Atlas Mining Corporation	EP for Berong Nickel Project
10) Marcventures Holdings, Inc.	Environmental Compliance Certificate for Pile Mine

Source: Company Data, Disclosures

AboitizPower
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Aboitiz Power Corporation (AP)

Competition hits AP's hold on ancillary market; comeback of geothermal unit in 2H2013 is key to earnings

AP Stock Data	
Price (Php)	36.50
Market Cap (Php Bn)	268.59
Outstanding shares (Bn)	7.36
PE 2013E (X)	
Price to Book (X)	3.48

Source: Bloomberg

More players in ancillary

What AP has put up in the reserve/ancillary power market as a first mover advantage is no longer just its own. The onslaught of competition hit AP hard. Ancillary energy sales dropped 19% last year. Ancillary revenues slid 7% or Php820mn to Php11.5bn. It should have been a more lucrative year for AP's ancillary. Ancillary revenues were a third of the power generation EBITDA worth Php32bn. But the 2012 ancillary market results were inopportune. A record high 7,800MW peak demand in Luzon grid was a silver lining, demand-wise. Instead, competitors snatched a bigger share of the action; names like 728MW Caliraya Botocan Kalayaan operated by Sumitomo Corp. and Lopez-owned Energy Development Corp. through 305MW Green Core and 132MW FGHydro. Other difficulties were: 1) Magat's water level being below the rule curve which held back contracting in 4Q2012; and 2) slower regulatory action on ancillary contract applications.

Strong distribution results

AP partly gained from distribution what it lost in ancillary. Power distribution's EBITDA rose 18% to Php4.6bn. Energy sales volume and gross margin soared 6% to 3,934GWh and 11% to Php1.60/kwh, respectively. Good results from elsewhere in the power generation business--Pagbilao and the hydros -- helped mitigate the ancillary dent. Pagbilao and the hydros produced incremental EBITDA worth Php1.2bn and Php780mn, respectively, to Php12.2bn and Php9.78bn. These more than offset the Tiwi-Macban and oil-based plants' cash shortfalls worth a combined Php1.5bn year-on-year. Please see page 4. Pagbilao's energy sales rose to a three-year high, hitting 4,232GWh with load factor also at a three-year high of 69% from last year's 55% and 2010's 50%. But last year's EBITDA was far weaker than the Php16bn achieved in 2010 with only 3,540 GWh sold, but with almost half of it sold to the then robust spot market whose price averaged Php7.97/kwh.

Weak oil and geothermal

Still, AP's power generation EBITDA grew by only 1% to Php32bn. Aside from weak ancillary action, other dampeners were also at play. One perennial issue was the geothermal unit's deadlock with Chevron, the steamfield operator and fuel supplier of AP's Tiwi-Macban. The standstill barred Tiwi-Macban from fully exploiting high WESM prices, which averaged Php6.50/kwh in 2012. Chevron's steam field originally geared to supply 460MW of equivalent power to AP was short by 60MW, necessitating a dig up of more wells to augment the fuel supply. But as to who will spend for the digging was one issue AP and Chevron were at loggerheads. And if AP were to pass on that cost to Chevron, will AP necessarily bite the resulting higher steam fuel price? Meanwhile, AP's oil-based plants delivered EBITDA that were Php631mn lower than year ago as higher sales volume growth of 21% to 936GWh were offset by weaker selling prices that followed lower fuel costs. The geothermal setback and weak oil base plants led to a Php1.5bn fall in the cash contributions of these two to AP's consolidated EBITDA. With the same level of energy sales of 3.5k GWh but at higher steam fuel cost of Php1.52/kwh, Tiwi-Macban's cash generation mellowed, slipping Php900m to Php8.7bn last year. Its EBITDA comprised a lower 27% of the power generation EBITDA total from previously 30%. Recall that at its best ever in 2010, Tiwi-Macban produced Php11.2bn cash comprising a third of AP's total, but still Php5bn short of Pagbilao's best ever result of Php16bn in 2010.

Peak prices at the spot yet AP's windfall were hardly back

Pagbilao's EBITDA in 2012 paled in comparison to its Php16bn high in 2010 when it did more spot sales, hitting peak prices of Php8.00 (on the average in 2010). That was when AP was just about to embark on a policy of contracting more (to stabilize cashflow) of its capacity than letting it be exposed to WESM, the latter shrank to just 15% of total sales last year. Though spot prices have spiked anew to the levels seen in 2010, hitting at one point last year a high of Php16/kwh, AP's traditional merchant market windfall was hardly evident.

Revenue sharing

Whether Chevron and AP would soon find a common ground in a revenue sharing scheme to the satisfaction of the capex and fuel pricing issues is a much awaited positive driver for the geothermal unit's big comeback. The likely structure of the

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contract is being catalyzed by the extent of selling opportunities AP had missed last year, both in the ancillary and spot market. Tiwi-Macban sold a low 127GWh to spot last year, a miniscule 4% of its total 3,465GWh in 2012 and a far cry from 792GWh it sold in 2010, which was a quarter of its total 3,483Gwh sales for that year. The most that Mr. Aboitiz could disclose to us was that AP will shoulder the opex part (Tiwi-Macban) while Chevron will take care of fuel cost and capex. Then both will share in the electricity revenues. Should the cost per kwh to AP come down to the level of the hydros, about Php0.50/kwh, then it is something that could boost Tiwi-Macban's margins, bring it back to the spot market in a bigger way and raise energy sales above 3,400GWh, a level where it seemed to have plateaued in the last two years.

Outlook

We think it is Tiwi-Macban's steam supply and new contracts which will generate incremental earnings for AP over that of last year. The geothermal spot sales will happen in a big way in 2H2012, helped by a steam fuel supply ramp-up back to 460MW of equivalent power. We imagine 60MW of additional steam fuel to be geared for the WESM at an assumed price of Php7.00/kwh. Given current Tiwi-Macban's weighted selling price of Php4.70/kwh for bilateral contracts for 400MW, we have a blended selling price of Php5.00/kwh this year. Tiwi-Macban's 460MW at a plant availability of 90% will produce 3,627GWh, slightly higher than 2012's 3,465GWh. Since our EBITDA margin improves to 57% from 52% (the latter based on historical), we expect EBITDA from Tiwi to reach Php10.3bn. The improvement in the EBITDA of Tiwi-Macban is predicated on the revenue sharing agreement with Chevron that potentially leads to a cash cost reduction of Php0.50 to Php1.00/kwh. At a net profit margin of 51%, we get net profits of Php9bn for Tiwi this year for a full year impact or an increment of Php750m only if on half year basis. This will be on top of last year's Php7.6bn full year earnings of Tiwi-Macban that factored in Php250m of replacement power losses. We think the power distribution is toppish, with new heights reached in terms of EBITDA, volume and margin. The ancillary will be beset by falling prices as GN Power is commissioned this year and more IPPs partake of the ancillary pie. There are no new near-term capacities to boost earnings dramatically. ▲

Aboitiz Equity Ventures Corp.	2011	2012	YOY
Core Net Income (in bn Php)	20.83	23.39	12%
Segment Contribution			
Power	16.12	18.23	13%
Banking	3.45	3.85	12%
Food	1.23	1.30	5%
Parent and others	0.03	0.01	-84%
Core Net Income in bn Php	20.83	23.39	12%
Ex-Pagbilao	25.01	27.15	9%
EBITDA			
Consolidated	38.91	40.87	5%
Beneficial	33.41	34.97	5%
Subs and Affiliates Stand Alone Results			
Pilmico net income (in bn Php)	1.23	1.30	5%
Aboitiz Power			
Core net income	21.11	23.70	12%
Reported net income	21.61	24.40	13%
Union Bank net income	6.60	7.59	15%
Net Interest income	6.98	7.30	5%
Non-interest income	7.85	9.19	17%
Net interest margin %	3.34	3.76	42 bps up
Ave. yield %	5.48	5.44	4 bps down
Ave. cost %	2.14	1.68	46 bps down
Casa funds	47.0	53.0	13%
Deposits ADB	199.0	176.0	-12%

Aboitiz Power Corp.	2011	2012	YOY	% to Total
Power Generation				
Energy sales in GWh	9,422	10,660	13%	
Hydro	1,090	1,131	4%	11%
Geothermal	3,310	3,465	5%	33%
Pagbilao	3,402	4,232	24%	40%
Oil	773	936	21%	9%
Ancillary (excluded from energy sales)	2,993	2,418	-19%	
Note: The figures don't add up to their totals as per AP due to the capacity				
Aboitiz Power Corp.				
Power Generation				
Beneficial EBITDA (in bn Php)	31.7	32.1	1%	
Renewable Plants	18.6	18.4	-1%	
Hydro	9.0	9.8	9%	
Geothermal	9.5	8.7	-8%	
Thermal Plants				
Coal	11.0	12.3	11%	
Oil	2.1	1.4	-31%	
Power Distribution				
Beneficial Power Sales Gwhr in 000	3.7	3.9	6%	
Peak Demand Dist'n MW	954	985	3%	
Gross Margin/Php kwh	1.44	1.60	11%	
Beneficial EBITDA in bn Php	3.9	4.6	18%	
Source: Company Data				

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NICKEL ASIA CORP.

Nickel Asia Corporation (NIKL)

Scandium plant may be NIKL's second upside

NIKL Stock Data	
Price (Php)	25.20
Market Cap (Php Bn)	50.74
Outstanding shares (Bn)	2.01
PE 2014E (X)	12.00
Price to Book (X)	2.68

Source: Bloomberg

NIKL's key earnings upside was its $150mn Taganito nickel ore processing High Pressure Acid Leaching Plant, its 2nd HPAL. The HPAL will be operationally in full swing by 2014 and underpins a consensus earnings growth of 44% to Php4bn next year. Still, NIKL's second upside could be in the making. Sumitomo Mining Ltd. --NIKL's partner in the HPAL -- is doing a trial run next year of a milestone technology, the first in the country, that will recover and commercialize Scandium production, a rare earth metal derived from HPAL's end-product nickel sulfide cobalt (NSC), sold at $2,000/kg in the open market (no LME benchmark) and used as a heat resistant, metal strengthener additive to aluminum and batteries. Scandium, also produced in Russia, Ukraine and China, go into automotive and electronics manufacturing.

Because scandium will be produced by a separate plant to be put up in Palawan by the Japanese and recovered from the first and the second HPAL's semi-processed end-product (57% nickel content NSC), the latter two will be credited with earnings (scandium credits) which are accruing to NIKL to the extent of its economic interests of 6% and 22.7% in Coral Bay and Taganito HPAL, respectively. Coral Bay is NIKL's first HPAL while its 2nd is that of Taganito. It will only be after the economics of Scandium production is discovered that NIKL can quantify the economic benefits of its newly found technological edge.

For now, a bigger part of NIKL's upside depends on how fast nickel ore selling prices improve than on the 2013 shipment ramp-up to 14m tons, whose portion of 1.8m tons will be deliveries to the 2nd HPAL starting in May 2013. There will be an additional 3.2m tons of incremental ore feed/deliveries to the 2nd HPAL from the Taganito mine in 2014. A yearly 3m ton delivery of low grade nickel ore are due to Coral Bay. All in all, shipment next year will reach 17m tons, the bulk of which will be limonite of grade 1.1%/ton ore. Last year's shipments were 11.7m tons, 12% above the 2011 level, yet earnings were sharply lower year-on-year due to the nickel price slump to $8/lb.

Management's view was that a $1.00/lb hike in nickel ore selling prices to $9.00/lb. from the current $8.00/lb. for its mostly lateritic ore shipments could fuel an earnings surge of Php1bn but since a quick price recovery is a long shot, a total earnings climb back to Php3bn is considered a stretch. Nor is shipping high grade nickel the solution to the earnings weakness. NIKL is refraining from shipping the high grade reserves; none of its 2% nickel will be sold this year, lest its mine life of 30 years be shortened. Only the 1.8% of the high-grade reserves will be shipped. Thus, 2013 earnings guidance is flat, hovering around the expected Php2.7bn net profits in 2012. Full year 2012 earnings were Php2.2bn versus 2011's high of Php3.5bn. Total volume of ore shipped went up 13% to 11.73mn wet metric tons.

Once it gets commercial success, Nickel's scandium technology may end up doing more good to earnings than the slow moving nickel market. PE is 12x 2014 earnings. ▲

Chart. 1 Nickel Asia Corp's Profit History

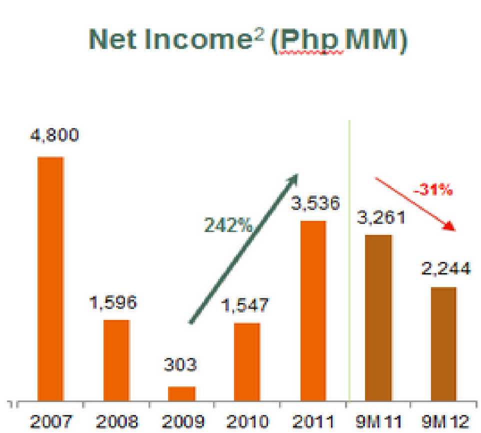

Chart 2. Nickel Asia Corp.'s margin history and average selling prices/lb. of nickel

	2007	2008	2009	2010	2011	2011 9M	2012 9M
EBITDA margin	64%	39%	35%	49%	54%	*60%*	*46%*
Net income margin²	29%	27%	6%	19%	28%	*32%*	*23%*
Ave. Ni price per pound (US$)	16.87	9.54	6.67	9.89	10.35	*11.04*	*8.03*

The Philodrill Corporation (OV)

Galoc oil field ramp-up and wider margins boost OV's earnings back to Php1bn

OV Stock Data	
Price (Php)	0.04
Market Cap (Php Bn)	8.06
Outstanding shares (Bn)	191.87
PE 2014E (X)	11.51
Price to Book (X)	2.10

Source: Bloomberg

Output ramp-up

At Php700mn earnings guidance of Philodrill for 2014, PE improves to a lower 11.51x from currently 22x based on trailing 12 months. The lower PE opens up a price upside of 40%-63% to our target price of Php0.06-0.07/share using a discounted cashflow analysis. We think potential share price appreciation is made credible by the first full year impact of Galoc 2's production and wider margin. OV expects a doubling of oil output and reduced breakeven costs by 2014, suggesting increased profitability of each barrel (bbl) of oil produced notwithstanding Galoc 1's reserves running its course of natural decline in the next five years. Galoc's overall oil flow and commercial sales will ramp up from Galoc phase 1's existing 5k-6k barrel of oil per day (bpd) to 10k-12k bpd. OV's estimate is double the roughly 2m a year output, inclusive of Galoc 2's share, by late this year and the full year impact of such in 2014. The production hike is premised on the 4Q2013 impact of Galoc 2's operations which will start with the drilling in 3Q2013 of Galoc 2 and commercial sales kicking only late in the year, 4Q2013. Drilling to commercial sale is a short stretch of a few months, according to OV management.

Oil field's life extends to 2015

Galoc oil production started in 2008, with 10m barrels of oil reserves and now has remaining 6m reserves yet to be used up until 2018 at the current rate of production. Galoc 2 (which has the fifth and sixth oil well) has an estimated reserves of 10m barrels of oil on par with Galoc 1. Galoc 1 (with 4 oil wells) underwent rehabilitation in late 2011 and restarted commercial operations in April last year, initially producing 5k bpd. With Galoc 2's additional 10m reserves, the field's life extends from 2018 to 2025.

Reserves are high-grade and ready for commercialization

Galoc's 10m reserves, with low sulfur content of medium-grade quality and known internationally (as it is sold to Korea and Shell) as the Northwest Palawan light sweet crude is better than Dubai crude in terms of quality tagged as 37 degree APM. As such, it commands a $12/bbl premium over Dubai MOPs benchmark.

Lower breakeven cost, higher margin

At the current rate of Galoc 1's production, breakeven cost is $30/bbl or an operating margin of 74%. That margin will widen further (with the doubling of oil sales volume) to 89% as breakeven cost drops to $12/bbl on the $110/bbl selling price currently. Right now, OV has an attributable oil production of 190k bbl/yr, a third and two thirds of which are split between the smaller fields (North Matinloc, Matinloc and Nido) and Galoc. OV made Php300mn in 9mo2012 versus year ago's Php1bn on reduced output from the shutdown of Galoc in 1Q2012. It hopes earnings could reach back to Php1bn in two years' time or in 2015.

Key asset is RP's lone commercially producing oil field with geographical proximity muting geopolitical risk

Galoc is the bigger commercially producing oil field versus OV's three other smaller oil fields -- North Matinloc, Matinloc and Nido. The oil fields are closer to Palawan (only 60km off the coast) than Forum Energy's Sampaguita natural gas field which is 180km from Palawan's shores. In the Galoc contract, OV has a 7.2% stake, the 2nd largest among the consortium of local partners, the largest of which is JG Summit's Oriental Petroleum, 7.7%. Recall that the three other smaller oil field ship out considerably less, collectively only at 12.5k bbl of oil per shipment compared to 350k bbl per shipment of a regular tanker, the commercial quantity per shipment applicable to Galoc. Due to the lower volume of the other three oil fields, the selling prices are discounted on a graduated scale, currently at $12/bbl on Dubai crude price of $105/bbl.

Technological edge with australian partner Otto Energy as principal contract operator

Galoc Production Co. (GPC) owns 33% of the Galoc field while Nido Petroleum is the 2nd largest (foreign owner with a 27%) stake. GPC is a subsidiary of the ASX-listed global oil exploration, development and oil producer Otto Energy. Galoc phase 2 has a project cost of $184mn, 7.2% of which is attributable to OV and raised from internal cash. OV's debts (largely payables and no bank debt) are nil, about Php100m versus equity of Php3.1bn, based on the 9mo2012 balance sheet.

(Galoc... continued from page 8)

Strong Capital Position and Already Dividend Paying out of Commercial Operations

Aside from its strong balance sheet made robust by a rights offer at the height of the 2008 crisis, OV has been declaring dividends, cumulative of 25 cents in the last four years, on which stocholders have made hefty returns on their initial Php0.035/share outlay. Dividends in 2011 amounted to Php0.009/share on EPS of Php0.01 or 90% dividend payout and yield of 2.09% on share price of PHp0.043 Last year, dividends shot up to Php0.001 on a likely EPS of Php0.002 for a 50% dividend payout, raising dividend yield to 2.33%.

Strong potential of other finds: natural gas find in Mindoro, oil as big as Galoc in Nido 1X1, east of West Linapacan

Two years from now, Mindoro, a natural gas field to be drilled in 2H13 this year, same time as Nido 1X1, will go commercial. Nido will also go commercial two years from now. 22%-owned Mindoro will produce natural gas fuel capable of running a 25MW to 30MW gas-fired power plant. Its reserves remain unknown though there are reports, which OV denied, it is as big as the 2.7Tcf reserves of Malampaya. The capex for these two (attributable) are likely to be worth $40mn and $50mn, which will be shared among the contract participants.

Regulatory overhang puts new projects at risk

There is another project called Linapacan, which is east of West Linapacan and yet to be awarded to OV after securing a license in last July 2012 under the fourth Philippine oil contracting round. The government is reportedly reviewing all oil winning contracts and might rebid the same, setting off a lull in local oil development activities since last July and damping foreign investors' appetite that have gone to alternative prospects, which OV cited to include West Africa. The other projects whose commercialization are further in the horizon are Octon and Bonita, the latter with the bigger oil reserve potentials than existing operations. In these oil fields is where OV enjoys a free carry (in the development cost) for an attributable equity share of 14% and 15%, respectively. There is also the Nido 1X2, which could yield 10k barrels per day, as big as Galoc 1 and 2 combined. Another one is 7%-owned West Linapacan where OV also enjoys a free carry and would require a capex of $16.3mn. But even that is further off the picture. Recall that West Linapacan got off commercially in 1991 under Alcorn Petroleum, with an aggressive production ramp-up to 17k bpd in its first year, but was shut down two years after when water got into the well. It now needs to be redeveloped.

Intrinsic value based on doubling of sales volume and wider margins on economies of scale

We based our company valuation strictly on existing operations which means only realizable cashflows were taken up in the model. It factored in the the ramp-up in Galoc 2 happening in 4Q13 and the significant improvements in operating margins arising from increased production. We used a WACC of 10% (the benchmark for oil exploration firms) and EV/EBITDA multiple of 10 for comparable peers and these yielded an implied price of Php0.06-0.07/share. Our DCF analysis values only the attributable sales volume to OV, which owns 7.2% of Galoc and the 106k barrels of oil production in the three smaller wells Matinloc, North Matinloc and Nido. We see OV's cashflows to be boosted by the output ramp-up and improvement in operating margin from the current 74% to 88% in 2014, two well-tested and credible drivers for share price appreciation of oil and gas companies.▲

(Long-end... continued from page 1)

the 182-day T-bill rose 15.50 bps and 5.50 bps to 0.2250% and 0.3500%, respectively. Meanwhile, the 364-day T-bill fell 10.00 bps to 0.6250%. The belly also fell, led by the 5-year debt papers down by 25.39 bps to 2.7428%. The 7-year and 4-year debt papers followed the decline, down by 16.81 bps and 12.44 bps to 2.9500% and 2.7250%, respectively.

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