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STOCK WATCH

aboitiz Equity Ventures

- ABOITIZ LAND COULD BE THE NEXT VALUE DRIVER OF AEV

- MA'S PLACER COPPER GOLD MINE TO RE-OPEN IN 2H2014 AT 10K TONS ORE/ DAY

- PX FAST-TRACKS PHP12BN RIGHTS OFFER, DENIES PREEMPTIVE RIGHTS TO FOREIGN RESIDENT SHAREHOLDERS

Aboitiz Land (AL) could be AEV's next value driver

Aboitiz Equity Ventures' (AEV) flat earnings due to AP's earnings fall

1Q2013 AEV's core earnings was flat at +1% year-on-year (y-o-y) to Phpp5.53bn. EBITDA (beneficial) was also flat, +0.20% to Php8.4bn. Brisker growth in reported AEV net income, up 17% to Php6.8bn, was due to a share sale gain involving City Savings (used to be owned by AEV, now 99.54% owned by Union Bank of the Philippines) worth Php1.3bn and foreign exchange gains of Php118mn.

AP's sharp core net income fall of 11% on flat volume and weak selling prices

AEV's key driver AP posted a sharp 11% drop in 1Q2013 earnings to Php4.5bn. This in a nutshell was due to flat sales volume (0.1% down to 2,450GWh) and weakness of selling prices, both spot (down 23% to Php3.80/kwh) and bilateral (down 10% to Php4.85/ kwh). Likewise, distribution unit's energy sales was flat, up 1% to 956GWh. Distribution's gross margin was a bit up, Php0.02/kwh sale higher to Php1.63. Thus generation's EBITDA (beneficial) dropped 12% to Php6.47bn while it was 4% up for the distribution business to Php1.2bn

Renewables cash flow hit by the hydros' lack of water, geothermal fuel supply snag

The EBITDA drop was most pronounced among renewable plants (hydros and geothermal), down 24% to Php3.3bn from Php4.4bn a year ago. The hydro's lower water level and lower ancillary sales led to the hydro's halving of its EBITDA to Php1bn. Thermal plants (oil and coal-fired) fared better, with EBITDA higher by 8% to Php3.14bn versus year ago's Php2.9bn. The latter's margin (Pagbilao) benefitted from a slump in coal fuel prices.

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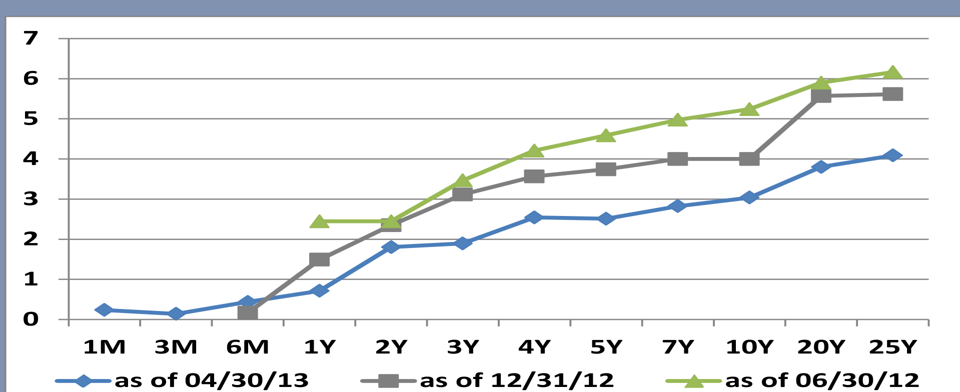
Yield curve to move sideways on lack of firmer leads

Peso Yield Curve



We expect the market to move sideways, within 2 to 5 basis points (bps) due to the lack of firmer leads and the absence of auctions for the week. Last Friday, yields on government debt papers rose by an average of 7.23 bps, week-on-week, as aggressive sellers trimmed their positions ahead of the elections last May 13, 2013. Market players began to reposition towards the weekend, regaining risk appetite, due to expectations of peaceful elections. The 20-year Treasury bonds (T-bonds) went up 14.75 bps to 3.3750% followed by the 25-year T-bonds up 14.62 bps to 3.9118%. The belly of the curve had mixed results. The two-year T-bonds decreased the most as it went down 12.50 bps to 1.8500%. The five-year, four-year and 10-year debt papers also fell 8.91 bps to 2.4499%, 7.50 bps to 2.5000% and 3.73 bps to 2.7500%, respectively.

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GSM PM CLOSE May 7, 2013
0.80yr 1.25% unchanged Dealt @ 0.85% for Php1Bn
3.41yr 2.10% (0.15 bps down)
4.58yr 2.80% unchanged
8.63yr 3.00% (0.10 bps up)
8.78yr 3.00% (0.10 bps up)
18.28yr 3.84% (0.09 bps up) Dealt @ 3.65% to 3.84% for Php4.825Bn

GSM PM CLOSE May 7, 2013
22.70yr 4.10% (0.175 bps up) Dealt @ 3.955% to 4.00% for Php116Mn

RTB Trades May 7, 2013
25yr 4.025% (0.125 bps up) Dealt @ 3.90% to 4.00% for Php4.420Bn

Note: GSM is Government Securities Market

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(Aboitiz Land... continued from page 1)

AEV Stock Data	
Price (Php)	56.00
Market Cap (Php Bn)	309.22
Outstanding shares (Bn)	5.52
PE (X)	16.00
Price to Book (X)	3.38

Source: Bloomberg

Slump in ancillary revenues

Ancillary revenues' sharp fall, (down 61% to Php1.1bn versus Php2.8bn), was due to the dramatic drop of 66% in accepted and billed capacity to 254GWh. AP admitted losing out to competitors in the reserve power market, citing slow approval of proposed contract (for regulating reserve, it has none for contingency reserve). The National Grid Corp. of the Phil. (NGCP) was veering away from AP's type of contract and preferred the capacity type of contract to which the hydros are also suitable.

AP Renewables Inc.'s (APRI) inability to contract

The other contributing factor was the flat energy sales (for contracted energy) held back by the geothermal unit's inability to contract anew (after expiry of some contracts) pending the fuel supply deadlock with steam field operator Chevron. APRI's energy sales dropped 11% for the period to 772GWh, led by bilateral contracts compression to just 554GWh from 833GWh a year ago or a 33% drop. That was reflected in the capacity sold factor's dip to 77% from 86%. APRI's diversion of more energy sales to the spot market (5.74x the previous year to 218GWh) hardly helped as the average realized selling price was 3% lower to Php2.96/kwh even as the Wholesale Electricity Spot Market (WESM) benefitted Pagbilao which is a peaker. Geothermal plants are off-peakers and thus sell at lower than peak prices. Pagbilao's average spot selling price rose 12% to Php4.24/kwh.

Flat but margins gained on weak coal fuel prices

On the other hand, Pagbilao was also flat in energy generation, producing 1,024GWh. But better margin compensated for weak volume since fuel cost improved with the slumping global coal prices. That benefitted the coal-fired plant's fuel cost (coal + energy fee+ purchased power), shedding 32% of its previous value to Php1.95/kwh in 1Q2013.

Pilmico's better margins

1Q2013 net income of hog-raiser and feeds manufacturer Pilmico was higher by 49% to Php326mn due to higher gross profit margin, up 12% to Php156/MT.

UBP's Php4bn income was without tainting

Net income of Union Bank rose 41% to Php4bn on a 7% hike in net interest income and earnings asset volume growth of 10% to Php246bn. There was also a 22% growth in non-interest income to Php3.9bn, 86% or Php3.4bn were from trading gains, which increased by 27%. There was no tainting behind the trading gain; such was done two years ago involving domestic securities only. Fund mix also improved, with a bigger share of peso current account and savings account (CASA) deposits to 31% or Php61bn of total deposits worth Php196bn (average daily balance basis) from 27% a year ago. Credit portfolio was up 13% to Php93bn, led by growth in corporate loans, up +26%. Not to be outshone was the bank's dramatic incursion into consumer loans: mortgage and auto loans were up 25% to Php16bn and 40% to Php7bn, respectively. The bank has improved its efficiency, with revenues rising to 3.1x of operating expenses from 2.9x a year ago. ROE rose to 28.6% from 25.6% a year ago. Return on average assets (ROAA) also improved to 4.8% from 4.3%, same period.

AL is AEV's PPP and property arm; to unleash value creation via AEV

AL, a subsidiary of Aboitiz Company, and Ayala Land, Inc. (ALI) have jointly announced that they agreed in principle to enter into a 50% - 50% joint venture for the development of properties in Cebu. ALI has also teamed up with ALI on a 45% - 45% joint venture (with a foreign partner) under corporate vehile Triple A Partners to bid for Mactan International Airport's operations and maintenance and expansion contract. Apparently, AL will be AEV's PPP and property development arm in Cebu which will capitalize on the brand of ALI and its track record and know-how in mixed use development. ALI, in turn, benefits from the local knowledge of Aboitizes in Cebu. Cebu land prices have risen 10% yearly and demand for housing, subdivision lots and industrial lots continue to pick up. The challenge is lack of supply for landbank near Metro Cebu for industrial lots especially, which for AL are intended for lease at Php67/sqm per month. AL is selling mid to high-end subdivision lots and housing in gated communities near Metro Cebu, with price points of Php2mn - Php3mn for per lot cut of 500 sqm. Sales is 50% attributable to the OFW market. Growth drivers for Cebu's strong property market is its BPO (70k seats), tourism which will be boosted by Mactan airport's capacity expansion, ecozones and the overall bullishness toward Cebu. AL has Php3bn worth of assets, Php43m earnings in 1Q2013, same as last year, over revenues of Php258m, same period. Revenues were flat y-o-y. There were no project launches in 1Q13 but projected capex for 2013 is Php1bn, which reveals a pipeline comprised of Priveya Hills Phase 1 (lots), Persimmon Studios (residential condo), Ajoya and some land acquisition initiatives.

Cheaply valued dividend play

AEV is a buy on the property and PPP potentials of AL, which is now the property arm of the holding company. There is also the EPS recovery prospects of AP once new geothermal contracts get in place this year, improved dividend policy of 50% of previous year's income. AEV is a dividend play, 3% yield, cheaply valued at PE of 16x versus market. AP's cash yield is 3.5% and cheaply valued at 13x PE. AP is adding 1,200MW to its capacity with capex of Php125bn in the next five years, with an interest of Php20bn this year.▲

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Philex Mining Corporation (PX)

fast-tracks Php12bn rights offer, denies preemptive rights to foreign resident shareholders

PX Stock Data	
Price (Php)	14.68
Market Cap (Php Bn)	72.42
Outstanding shares (Bn)	4.93
PE 2014E (X)	18.24
Price to Book (X)	3.23

Source: Bloomberg

Rights offer being fast-tracked

PX shareholders, in last April 30, 2013's special stockholders' meeting, amended its corporate by-laws, denying foreign resident shareholders/subscribers of their preemptive rights over the Php12bn rights offer planned for this year. The terms of such rights have not been defined but are being fast-tracked. A step in that direction is the elimination of lengthy regulatory hurdles entailed by foreign resident/shareholders' subscription to the rights. This amendment though won't be general in effect but will be on a per jurisdiction basis, meaning selective since a key foreign shareholder First Pacific (owning 20% of Philex) will surely exercise its preemptive right. PX shareholders are based in Japan, US and other Asian countries.

Kalayaan project will get bulk of rights offer

Proceeds of the rights offer will go to a line-up of mining projects: the Php5bn development cost for Silangan, tailings dam number 4 (on top of dam 3 which collapsed and making substantial repair progress) to accommodate the waste of Padcal, whose mine life will only be until 2020. Bulk or 60% of the rights proceeds will go to the development of the Kalayaan gold copper mine project, a joint venture with Manila Mining Corp. (MA) Philex sealed a deal with MA, paying up $46mn for the option to acquire 60% of the Kalayaan mine while MA gets 40% interest with a free carry on development cost.

Padcal returns to normal operations

Padcal was in operation for only 22 days in 1Q2013, eking out net profits of Php135mn, 89% lower versus year ago, same period. A non-recurring Php1bn insurance income covering fortuitous events boosted net income to Php1.135bn in 1Q2013. The company is close to normal operations, with milling tonnage of 5m yearly or 10k oz. of gold and 3m lbs. of copper monthly.

Silangan would be as big as Padcal, production-wise.

PX-owned Silangan (located in Surigao province) will be as big as Padcal (in Benguet) output-wise. That would be equivalent to a milling tonnage of 9m yearly in 2011, the highest level achieved by Padcal. Recall that Padcal's milling tonnage went down to 5m in 2012 as metal grade dropped to 0.51g/ton for gold from 0.56g ton ore in 2011. The ball mills that PX is putting together for the Silangan mine will take three years to complete.

Drag of the rights offer

The rights offering will weigh on share prices. Operations are not yet steady and there could be disruptions given the lack of tailings dam capacity. There are a lot of challenges facing PX. Metal prices, gold and copper, have turned the corner, dropping from peaks in 2012 of $1,638/oz. (PX average selling price for gold) and for $3.99/lb. copper (average selling price for PX's Cu). Weak Chinese demand (with GDP of China at 7.6% in 1Q13 below the expected 8%) remains a deadweight on global metal prices. China imports 40% of the world's copper output and is the world's 2nd largest gold buyer, next to India.

Metal grades were also lower for Padcal and will continue to decline with its ore reserve depletion until 2020. Lower production volume has an adverse effect on mining efficiency, raising cost per ton. The effect of last year's output volume collapse to 5m from 9m of milling tonnage in 2011 was to raise production cost per ton to Php647/ton ore milled (2012) from Php560/ton in 2011. 2011 was the peak year when tons ore milled were 9m. Padcal was in operation only for 7 months in 2012, until it was shut down in August 1, 2012 for a tailings pond collapse.▲

(Lower inflation... continued from page 1)

Meanwhile, the three-year T-bond climbed 4.17 bps to 1.8917% and the seven-year T-bond increased by 4.60 bps to 2.6591%. The short term debt papers also went up led by the 91-day Treasury bill (T-bill) up 36.50 bps to 0.5150%, the 182-day T-bill was next ascending 21.50 bps to 0.5150% and the 364-day T-bill followed closely up 16.00 bps to 0.7250%.

Manila Mining Corporation's (MA)

Placer copper gold mine to re-open in 2H2014 at 10k tons ore/day

MA Stock Data	
Price (Php)	0.06
Market Cap (Php Bn)	11.19
Outstanding shares (Bn)	121.26
PE 2013E (X)	-
Price to Book (X)	7.10

Source: Bloomberg

Placer mine re-opening in 2014

MA's Placer mine, located in Placer Surigao del Norte, will reopen next year. This is after the completion of the ongoing feasibility under two Australian mining consulting companies called Mining Associates and Mining One. The mine, located in Surigao province, will operate out of recoveries from the shallow and open pittable portion of the mine, which is part of a larger area that will also require underground mining for much later. Tonnage per day could reach 10k initially, the level it ran shortly after the shutdown 12 years ago, when MA's board of directors opted to stop mining operations due to the expiration of its temporary authority to construct and operate its tailings dam issued by the Department of Environment and Natural Resources. Then the copper flotation project was suspended by the Board of Investments (BOI) on August 23, 2005.

Ore reserves, five years to go and the real deal for MA

Drillings from 400-1,600 meters in depth (below sea level) reveal a gold-rich ore body underneath Placer mine. The mineralization measures 1,200 meters, with a gold grade of 0.37 grams per ton ore and copper grade of 0.80%/ton ore.

As of 2011 records, Placer's 121 drill holes with an aggregate length of 36.8km confirmed 27.7m MT of ore reserves. The latest drilling results (almost through) will further refine resource and reserve estimates at the inferred, indicative and measured categories. This together with the mining strategy will define the mine life, which we learned to be just five years, making the joint venture deal with Philex on the Kalayaan copper gold project the real big project and long-term profit driver of MA.

Php9mn net loss in 2012

The asset, Placer's ore body, is underneath and patience is needed for it in terms of the timing of turning around a Php9mn net loss last year and operating losses in the past years. There is no exact timing as to when Placer is going to bring in the money for MA, the feasibility study is key to the decision to invest and how much funding is required by the project. All the metallurgical relationships must be in place before questions on the investment and potential profit magnitudes can be answered.

Another joint venture (JV) in the offing?

Since there is one huge contiguous ore body that lies underneath the contract areas owned by MA's 95%-owned Kalayaan Copper and Gold Resources Inc. (KCGRI) and Philex Mining Corp.'s Boyongan discovery, there are rumors Philex may acquire a stake in MA. Philex owns 20% of Lepanto, none in MA, and 60% of the Kalayaan project under a $45m option agreement to acquire 60% of it that will entail mine development and giving MA a free carry (on development cost) while retaining MA's 40% stake in the project. MA share prices have risen recently, up 27% to 0.61/shr on expectations of a share sale deal between Philex and MA, potentially the second after that of KCGRI's JV sealed in 2011 with Philex for the exploration and joint developement of the Kalayaan gold and copper project located in Placer, Surigao del Norte.

Feeling its Way?

We're neutral on MA given the huge uncertainties involving the investment decision (mine development). There is not much information that management would or could share at this point, summing answers to key questions as a function of the feasibility study. The latter's content is very much worth waiting for. There's not a word yet on mining strategy, capex and funding for Placer after what seems to be an extended exploration period. MA seems knee-deep in still feeling its way on what the project scale requires.▲

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