

# The Bellwether

Monthly on Market Action and Outlook

## STOCK WATCH



► 2020-40 PLAN: PHP40BN EARNINGS BY 2020



► EARNINGS FLAT AMID DELAY IN ARBITRATION



► INCOME SURGED FROM LACKLUSTER YEARS

## Corporate Earnings:

### Property and Consumer Sectors Uplift Initial Results

Analyst: Czen Bico

Initial FY2014 results indicated 12.3% earnings growth, in line with consensus estimate @ 12-13%. Growth was led by the property sector, while flattish growth of PSEi banks was expected.

**Property Sector: 21% earnings growth despite regulatory measures on real estate lending.** Strong revenue was even seen across different segments. Ayala Land's residential business booked 26% higher revenue (@Php55.9bn). As for SMPH, its rental business posted a 13% growth, while its residential unit increased by 7%. Mid-2014, the BSP started implementing the Real Estate Stress Test (REST). Banks need to maintain a common equity tier 1 of 6% after writing off 25% of its real estate exposure.

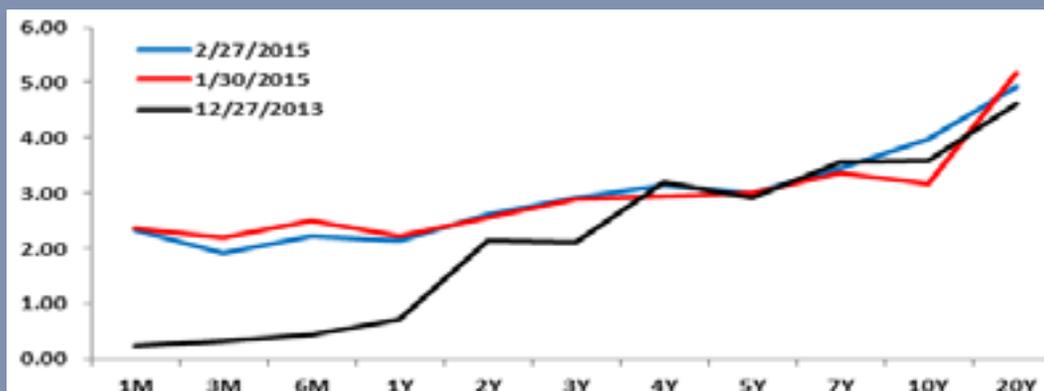
**Consumer sector's 2014 earnings (@14% growth) outperformed PSEi @ 12.3%.** We saw double-digit growth in URC, JFC and DNL's net income. Strongest growth was posted by DNL (@ 26.9% yoy) due to ramp up in orders of biodiesel in 4Q14 and its focus on high-margin products (specialty chemicals, food ingredients, specialty plastics and aerosols). URC and JFC posted 12-13% growth amid strong consumer spending and higher purchasing power of Filipinos. URC's strong earnings performance was driven by its branded foods and consolidation of Griffin's result in 4Q14. As for JFC, it posted a 12.8% growth amid massive store expansion (2014 @ 2,301 stores vs 2013 @ 2,132).

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## Curve Steepened amid Short Duration Strategy

### Peso Yield Curve

Analyst: Czen Bico



The yield curve steepened by 109 bps (10-yr and 3-mo spread @ 207 bps vs Jan @ 98 bps). Traders became cautious in taking position at the long-end due to uncertainties on the Fed rate hike timetable. We saw some profit-taking at the long-end first half of the month, after the 10-yr rate fell to 3.16% end of January and further slid to 3.09% last February 02. Volume was shallower than last month (Feb. daily average @ 21.5bn vs Jan.'s Php50.2bn). The 3-mo rate fell to 1.9125% and 10-yr rate creeping up to 3.98%. The drop in ST rates (ave @ 15.6 bps) was driven by the successful t-bill auction as investors took position amid shorter duration strategy and market's expectation that inflation will remain mild. January inflation was at 2.4%, in line with market consensus at 2.3%-2.4% and better than Dec 2014 inflation @ 2.7%. As for the long-end, the 10-yr rate hovered near the

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## Ayala Land, Inc. (ALI): 2020-40 Plan: PHP40bn Earnings by 2020

Analyst: Ignacio Pardo

### ALI Stock Data

Price (PHP)	36.90
Market Cap (PHP Bn)	541.52
Outstanding shares (Bn)	14.68
2015E PE (X)	31.37
Price to Book (X)	5.12

Source: Bloomberg

**Ahead of Schedule.** ALI aims for PHP40bn in earnings by 2020. This would require earnings to grow 20% annually from PHP11.7bn in 2013. ALI has a strong head start as 2014 earnings grew 26% to PHP14.8bn behind strong topline performance and improved costs.

In order to achieve its 2020-40 plan, ALI plans to utilize its 8,639 ha. landbank for the development of various projects from all its businesses. By 2020, the company will triple both retail GLA to 3.6mn sqm from 1.2mn sqm in 2013 and office GLA to 1.8mn sqm from 0.6mn sqm. Hotels and resorts will triple its rooms to 3,600 from 1,200 in 2013.

In 2014, retail GLA amounted to 1.34mn sqm, up 6.3% from 1.26mn sqm in 2013. Office GLA rose 8.9% to 611,000 sqm from 561,000 sqm. Hotels and resorts increased room count by 8.0% to 2,162 from 2,001 in 2013.

**Per Segment Performance.** Revenues increased 16.8% to PHP95.2bn from PHP81.5bn, while cost of goods sold rose at a slower 14.6% to PHP59.4bn from

PHP51.8bn. As a result, gross profit grew 20.6% to PHP35.8bn from PHP29.7bn, and gross profit margin increased to 37.6% from 36.4%.

ALI's property development business remained healthy with a 20.9% increase to PHP65.9bn from PHP54.5bn in 2013 and a 69.2% contribution to revenues.

The sale of residential units made the biggest impact, growing 26% to PHP55.9bn from PHP44.3bn in 2013 and contributed 58.7% of total revenues. The office for sale segment grew the fastest, up 8.0% to PHP5.3bn from PHP1.4bn in 2013 and contributed 5.5% of revenues from just 1.7% due to the robust sales from the Alveo and Avida brands in Bonifacio Global City. The sale of commercial/industrial lots fell 46.4% to PHP4.7bn from PHP8.8bn due to lower sales of commercial lots in Arca South. The segment contributed 5.0% of revenues from 10.8% in 2013.

Hotels and resorts had the highest growth in ALI's leasing business, up 39.9% to PHP5.6bn from PHP4.0bn in 2013 and contributed 5.9% to revenues on account of higher occupancy (hotels at 73% vs. 60% in 2013, resorts at 48% from 40%). Office leasing rose 19.9% to PHP4.2bn from PHP3.5bn and contributed 4.3% to revenues. Rent from shopping centers reached PHP11.4bn, an 8.4% increase from PHP10.5bn in 2013.

**20% Capex Budget Hike.** ALI has set a PHP100.3bn capex budget for 2015, 20.0% higher than the PHP83.3bn spent in 2014.

Capex will be funded by current cash held, debt and top-up placement. Debt levels will be kept in check as the company has set a debt-to-equity limit of 1:1.

The development of residential projects has the highest allocation at 37.3% of the budget or PHP37.4bn, followed by land acquisition at 31.4% or PHP31.5bn. PHP14.7bn will be spent on the development of malls. These three components make up 83.4% of the budget. The rest will be used for the development of offices (5.0%), hotels (2.8%) and others (8.9%).

The aggressive expansion is key in the company's 2020-40 plan. By 2020, ALI targets triple its retail and office GLA (from 1.2mn sqm in 2013 to 3.6mn sqm and 0.6mn sqm in 2013 to 1.8mn sqm, respectively) and triple its hotels/resorts rooms (2,000 rooms in 2013 to 6,000). The company also plans to build 500 FamilyMart stores, 10 hospitals and 10 clinics over the next five years.

In 2014, ALI spent PHP83.3bn in capex, 19% more than the PHP70.0bn budget. Majority was spent on residential development (PHP33.3bn or 40%) and land acquisition (PHP31.7bn or 38%), while the rest was spent on services (2%) and the development/expansion of offices (14%), hotels (4%) and malls (2%). ▲



## Manila Water Company, Inc. (MWC): Earnings flat amid delay in arbitration

Analyst: Czen Bico

### MWC Stock Data

Price (PHP)	31.30
Market Cap (PHP Bn)	63.10
Outstanding shares (Bn)	2.02
2015E PE (X)	10.82
Price to Book (X)	1.89

Source: Bloomberg

**2014 Net Income @ Php5.8bn posting flat growth from 2013.** Revenue grew by 3%, below 2013 growth of 9%, as the pending arbitration result dragged the utilization of the capex budget and potential price hike. Billed volume for all businesses grew 12% to 671.3 MCM. EBITDA margin also dropped to 71% (2013 @ 73%) after the company booked one-time loss in 4Q to account for the reconnection fees the company booked last 4Q2013 under trust liabilities. Without this, MWC's core income grew 8% in 2014.

MWC said that non-East Zone businesses grew 44% accounting for 11% of consolidated income. Billed volume from these busi-

nesses also posted a 34% growth from the year prior. Net income of the Laguna Water business grew 54% amid expanded water connections (from 66,000 in 2013 to 90,000 in 2014) and lower non-revenue water (from 18% in 2013 to 12% in 2014). Attributable net income (44.35% ownership) from Kenh Dong Water grew 46% to Php112mn due to full-year operations and 150 million liters/day guaranteed consumption.

Capex on the East Zone was at Php4.14bn, below guidance of Php5bn due to permitting issues in Pasig for its waste water network project. Note that the Php5bn guidance was already low due to pending arbitration in the East Zone Concession. Outside the East Zone Concession, capex was at Php1.06bn, 71% was spent for Laguna Water.

**Target arbitration result pushed back to end of 1Q2015 from initial Dec2014-Jan2015 target.** MWC said that the deliberation is not yet completed and the panel still needs to hold one more meet-

ing. Should it win the arbitration process (+Php3/cu.m. based on the alternative business plan), we project MWC's topline and net income to rise by Php1.35bn and Php470mn (full-year impact), respectively. If it loses (-Php7.24/cu.m.), projected impact to revenue and income are Php3.25bn and Php1.12bn (full-year impact), respectively.

**Aggressive Expansion programs outside East Zone.** Early this year, MWC and the Zamboanga City Water District (ZCWD) signed a JV agreement for Performance-based Non-Revenue Water Reduction and Network Restructuring Project. The agreement aims to reduce the non-revenue water from the current 48% to 25% in 2020. This is on top of the capex allocated for Clark Water Corp (Php300mn), Manila Water Total Solutions Corporation (Php492mn) and Manila Water Philippine Ventures Inc. (Php250mn) in 2015. ▲

### MWC Consolidated Financial Performance

	2014	2013	% Change
Revenue	16,357	15,926	3
COS and Operating Expenses	5,088	4,654	9
Other Income (Expenses)	291	375	(22)
Equity Share in Net Income of Associates	357	294	21
Others	(66)	81	(181)
EBITDA	11,561	11,647	(1)
EBITDA Margin (%)	71	73	(3)
Depreciation and Amortization	2,444	2,495	(2)
Interest Expense	1,451	1,561	(7)
Provision for Income Tax	1,836	1,812	1
Non-controlling Interests	17	28	(39)
Net Income	5,813	5,752	1

Source: Company Disclosure

### MWC Billed Volume of Businesses

	2014	2013	% Change
East Zone	449.0	433.6	4
Boracay Island Water	4.0	3.6	11
Clark Water	11.6	9.8	18
Laguna Water	31.8	11.4	179
Thu Duc Water	119.7	120.4	(1)
Kenh Dong Water	55.2	20.6	168
Total	671.3	599.4	12

Source: Company Disclosure

### Stand-alone Net Income of MWC Businesses

in Php mn, except Vietnam units	2014	2013	% Change
East Zone	5,149.0	5,103.0	1
Boracay Island Water	96.0	73.0	32
Clark Water	100.0	86.0	16
Laguna Water	164.0	108.0	52
Thu Duc Water (in VND bn)	117.15	111.70	5
Kenh Dong Water (in VND bn)	47.1	-1.0	

Source: Company Disclosure



## Integrated Microelectronics, Inc. (IMI): Income surged from lackluster years

Analyst: Jaime del Puerto

IMI Stock Data	
Price (PHP)	8.59
Market Cap (PHP Bn)	14.04
Outstanding shares (Bn)	1.63
2015E PE (X)	10.88
Price to Book (X)	1.73

Source: Bloomberg; FMIC Research Estimates

Integrated Micro-Electronics Inc. reported a full year net income of USD29.1mn in 2014, falling behind our estimate of USD30mn. Reported net income grew +178% year-on-year while revenue ramped up +18% to USD844mn from 2013's USD745mn.

IMI was able to outperform the Electronic Manufacturing Services' (EMS) 6% growth. Continued expansion of European auto bus and 4G roll-out in China contributed to the growth in revenues as well as new businesses for the auto and computing sectors in the Philippines.

European and Mexican operations contributed 32% to IMI's full-year revenue while IMI Bulgaria's automotive business went up 14.4% to USD268.6mn year-on-year. EMS operations contributed USD204.9mn in revenues, increasing 8.3% year-on-year as expansion of businesses in storage device and automotive electronics boosted the growth.

Return on Equity improved over the past three years to 13.3% from 2011's 1.9%. Net cash is at \$17.8mn with a total bank debt to equity of 0.41x.

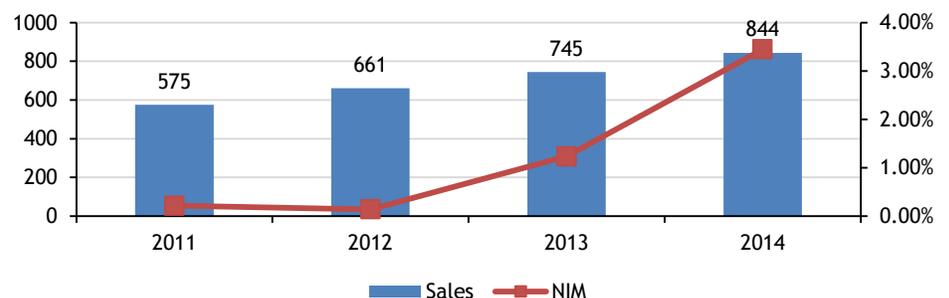
The overall semiconductor industry is seen to be flat for the next years as the previous years' growth was caused by lower base from 2009. Automotive and Communications are seen to grow higher than the total semiconductor market according to World Semiconductor Trade Statistics, sectors that IMI will be focusing on moving forward. This will drive IMI's USD1bn revenue target for 2015. ▲

### Historical Sales (in USD mn)



Source: Company data

### Historical Sales (in USD mn) and NIM (%)



Source: Company data

(Corporate Earnings.. continued from page 1)

2014 Corporate Net income (in Php bn; except CHIPS & IMI in mn USD)										
	2013	2014E	2014A	Chg (Actual)		2013	2014E	2014A	Chg (Actual)	
<b>Financials</b>					<b>Industrials</b>					
SECB	5.01	7.22	7.2	43.7	IMI	9.6	30	29.12	203.3	
BPI	18.81	17.75	18	-4.3	CHIPS*	4.7	-	3.7	-21.3	
BDO	22.6	22.5	22.8	0.9	HLCM	5.1	5.01	4.6	-9.8	
<b>Properties</b>					<b>Services</b>					
ALI*	11.67	14.31	14.8	26.8	GLO*	11.6	13.3	14.5	25	
HOUSE	2.18	3.85	3.3	51.4	MWC	5.75	5.72	5.81	1	
SMPH	16.28	19	18.4	13	<b>Mining and Oil</b>					
RLC**	4.32		5.1	18.1	PNX	0.61	0.66	0.67	9.4	
<b>Consumers</b>					<b>Conglomerate</b>					
URC**	10.62		11.92	12.2	PX	1.08	1.93	1.12	3.7	
JFC	4.7	5.49	5.3	12.8	MPI*	7.23	8.27	8.51	17.7	
DNL*	1.6	1.82	2.03	26.9	Overall Average				23.9	
									Average of PSEi Stocks	12.3

Source: Company Disclosures/Bloomberg data  
 \* Core Net Income  
 \*\* Trailing 12M

**Banks (BPI and BDO) earnings flat as growth in net interest income was offset by contraction in the non-recurring income (such as trading gains and trust fees).** Loan portfolio of these banks expanded by at least 20% (BDO @ 20% growth to Php1.1tn vs BPI @ 26% to Php800mn). Non-interest income of both BPI (5% de-

cline to Php21bn) and BDO (7.4% decline to Php29.5bn) both contracted.

Net income of SECB was @ Php7.2bn, a 43.7% expansion. Its aggressive expansion and re-branding resulted in Php11.2bn (+33% yoy) net interest income.

**We believe that a double-digit earnings growth for 2015 remains attainable.** We estimate that a 13-16% earnings growth will be due to strong consumer purchasing power, firm macroeconomic fundamentals, and increased spending ahead of the 2016 elections. ▲

(Yield Curve.. continued from page 1)

4% level to 3.98%. FXTN 10-59 tucked in 30 bps, closing at 3.4475% last Feb 27 (vs Jan 30 @ 3.1450%).

Bid-cover ratio for the recent t-bill auction (Feb 2) was at 2.4x and average bids fell by as much as 77 bps from the prior auction (Jan 05). Bids (91-d @ 1.541%; 182-d @ 1.758%; 364-d @ 1.947%) were also 60 bps lower than the secondary rates prior auction (3-mo @ 2.346%; 6-mo @ 2.182%; 1-yr @ 2.511%). The demand was motivated by volatility at the global front and inflation expected to remain low. Aside from the overwhelming demand, the

market took into account the National Government's preference towards low rates after the NG rejected all bids last Jan 05. As they became cautious on US rate hike timetable, investors bid higher during the last FXTN 10-59 re-issue (Feb 17). Bids were 17 bps (bids @ 3.573%) higher than the paper's yield at secondary auction (@ 3.4%), resulting in BTr rejecting all bids. BTr officials emphasized that fundamentals point to low yields.

**Outlook:** While domestic fundamentals support yields at low levels, traders will remain defensive amid volatility at the

global front and time table of Fed rate hike. Unless there will be dovish statements this coming Fed meeting (Mar. 19), the bearish US treasury market will continue to price in firm US economic recovery (2015E GDP growth @ 3.1-3.2%) and this will offset possible appetite for safer assets due to risks coming from the Euro area. With only a few months left towards the said timeline, local traders will be cautious in taking position despite local fundamentals pointing to lower yields. The BSP revised its 2015 inflation forecast from 3% (Dec meeting) to 2.3%. ▲

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