



Date
15 December 2015

Company
Ayala Corporation

First Look Corporate
9M15 Earnings On-Track;
Maintain BUY - Core Holding

Stock AC

Price 735
52wk Range 648.50 - 823.50

Rating BUY - Core Holding
Target 859, 26.2x P/E
Upside 11%

Issued Shares 619.61mn

Market Cap P470,904mn

Free Float 40.20%

PSEi 5.99%, 6/30
MSCI 6.04%, 7/45

We maintain a **BUY - Core Holding** rating for AC but lower Target Price to 840/sh (from 890/sh), 22x 2016P/E, with an upside of 14%. AC benefits from strong equity earnings growth from core business units and as the contributions from new businesses - energy and infrastructure - continue to increase. AC has also strategically diversified into healthcare through hospitals and drugstores and education.

On-Track: 9M15 Earnings rose 26% to P17.7bn

- 9M15 Net Earnings rose 26% to P17.7bn, on track for FY15 target P20 billion, from sustained earnings momentum of telco (GLO), real estate (ALI) and banking unit (BPI), including capital gains realized in the 3Q (+72% to P7.3bn). Additionally, equity earnings contribution grew by double-digits from business units - Ayala Automotive and AC Energy (+14% to P21.4bn).
- Excluding partial sale of AC Energy's partial stake in NLREC (an 81MW wind farm in Ilocos Norte) this year and divestment of Stream Global Services last year, 9M15 Earnings grew 23%.
- **ALI** (TP 43.20, BUY) 9M15 Net Income +19% to P12.8bn as Real Estate Revenues rose 10% to P70.2bn driven by the residential development (+10% to P40bn) as it continued to build up recurring portfolio which currently accounts for 46% of total Net Earnings.
- **BPI (TP 94.30, HOLD)** Net Income +8% to P13.8bn as Total Revenues (+9% to P44.1bn) were driven by core banking business. Net Interest Income grew 12.3% and Non-interest Income by 12.3%.
- **GLO** (TP 2,230, BUY) Net Income +34% to P14.1bn as service revenues expanded (+15% to P83.4bn) from robust demand for data services across mobile, broadband, and fixed line segments. Excluding the P1.2b gain from 51% stake sale of Yondu, Inc., Core Net Income grew 10%.
- MWC Net Earnings grew 1% to P4.6bn as 3Q Net Income alone grew 13% to P1.6bn on growth of East Zone concession and higher contribution of other businesses (+3%) which accounted for 12% of Total Net Income.
- **IMI** grew 5% to \$22mn on operational efficiency improvements combined with the expansion of its automotive programs as Revenues declined 4% to \$621mn due to the weakness in Euro alongside weakness in the China economy.
- **AC energy** continues to expand its renewable energy portfolio recently entered into a partnership agreement with Bronzeoak Clean Energy Inc. for the development, construction and operation of a ₱1.3 billion-solar power farm in Bais City, Negros Oriental. The first phase will have 18MW with target completion in March 2016. The second phase will have up to 50MW.
- **AC Infrastructure** through LRMC took over the operations of the LRT Line 1 last September and has begun to introduce station rehabilitation and improvements. Its toll road Muntinlupa Cavite Expressway, has likewise started full commercial operations last July and has steadily ramped up traffic. automated fare collection systems project under AF Payments, Inc. Its automated automated fare collection systems project under AF Payments, Inc. completed the roll out of its Beep cards on LRT lines 1 and 2 and MRT 3 with take-up hitting past the 1 million mark.

	Actual		Forecast		
	2013	2014	2015	2016	2017
Sales	136.94	156.42	181.76	205.13	229.09
	31%	13%	12%	9%	9%
EBITDA	30.01	35.66	44.58	53.61	61.05
	48%	35%	15%	16%	16%
EBIT	21.36	26.51	36.94	42.89	44.83
	48%	35%	15%	16%	16%
Net Income	12.78	18.60	20.86	24.04	27.11
	21%	30%	18%	11%	11%
EPS	20.51	30.93	33.05	38.51	43.68
	13%	35%	18%	11%	11%
BVPS	235.68	291.82	318.27	348.86	388.37
PBV			2.39	2.18	1.96
ROA%	2.30	2.81	3.1	3.25	3.66
ROE%	9.28	11.17	11.07	11.26	11.71



Technicals

Current 735
 Support 700 / 690, 610
 Resistance 736, 756, 790 (to challenge downtrend), 823.50 (all-time high)
 Target 840, +14% upside

- The stock maintains long-term uptrend which began in 2011, however currently is at low-end support of that channel.
- Indicators: RSI-14 is still above oversold territory while MAC/D remains in bearish crossover
- While current price suggests a BUY as it provides 14% upside, current corrective market pressures may lead to more attractive entry points. Watch important support at 70/690, if broken however, can lead to next formidable support at 610.
- Employ a Pyramid Buy Strategy for positioning to ensure more conservative cost-average.

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