

**Date**

17 December 2015

Company

Aboitiz Equity Ventures

First Look Corporate9M15 Earnings below Expectations;
Maintain Core - Holding**Stock AEV****Price** 56.10**52wk Range** 48.10 - 59.20**Rating** HOLD - Core Holding**Target** 56.00, 14xP/E**Downside** 0% + 2.5% Div Yld**Issued Shares** 5,524m**Market Cap** P311,594m**Free Float** 45.92%**PSEi** 4.67% (10/30)**MSCI** 3.92% (9/42)

We rate AEV a **HOLD - Core Holding** and maintain **Target Price at P56/sh, 14x 2015P/E**. Dividend is estimated at 1.44/sh or a yield of 2.5% (ex-date March 2016). Over the long-term the company presents growth opportunities in infrastructure - set to be 5th core business and as it ventures outside the country.

Net Income below expectations, accounts for 62.5% of FY15 Forecast primarily from lower contributions of power and banking units

- AEV Consolidated Net Income declined 17% to P11.9bn from lower contributions of power and banking units which account for 87% of total. Meanwhile, food unit recorded stellar growth and newly acquired companies began contributions.
- Core Net Income declined by 10% to P12.5 billion, after excluding a non-recurring loss of P623.2 million (versus last year's gain of P379.6 million) due to a revaluation of AEV's Power Strategic Business Units' (SBU's) consolidated dollar-denominated liabilities and placements.
- Power (AP) accounted for 75% of total Net Income while SBU units each accounted for Banking (UBP) 12%, Foods (Pimlico) 11% and Land (AboitizLand) 2%.

AP (TP 43.20, HOLD) contribution fell 7% to P9.4bn. Excluding non-recurring items, AP recorded a 3% decline to P10 billion. Total attributable electricity sales increased by 7% to 3,546 GWh, led by industrial sales (+9%). Gross margin declined 3% to P1.64 per kWh primarily from Davao Light & Power Company, Inc., which incurred higher direct cost due to the lag in recovery of pass through charges and the additional cost for running its embedded plant during the period.

UBP contribution fell 40% to P1.4bn due to trading losses coupled with increase in operating expenses. Net Interest Income +8% to P8.6bn from higher interest income and flat funding costs while Total other income -22% to P4.6bn.

Pimlico Foods Corporation recorded a stellar growth of 46% to P1.4 billion from Feeds-Philippines contribution which grew 101% to P573.7 million while international arm Feeds-Vietnam, which turned a year last August, added P90 million to bottom line.

AboitizLand registered a decline of 56% in contribution to P249 million as revenues decreased 20% to P1.7bn due to lower sales in LiMA Land industrial lots and higher manpower cost due to organizational expansion.

Newly acquired companies – Western Union remittance agent network PETNET, Inc. (**PETNET**) and Lafarge Republic, Inc. (**LRI to be renamed Republic Cement & Building Materials, Inc.**), which only began contributing last June and mid-September of the year respectively, posting income contributions of P14.7 million and P22.4 million.

| | Actual | | Forecast | | |
|-------------------|--------|-------|----------|--------|--------|
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| Sales | 89.41 | 99.93 | 109.67 | 120.74 | 131.52 |
| | | 12% | 10% | 10% | 9% |
| EBIT | 19.92 | 23.20 | 25.22 | 28.95 | 31.8 |
| | | 16% | 9% | 15% | 10% |
| EBITDA | 24.26 | 28.36 | 30.44 | 34.75 | 38.32 |
| | | 17% | 7% | 14% | 10% |
| Net Income | 23.97 | 18.84 | 19.04 | 20.80 | 21.22 |
| | | -21% | 1% | 9% | 2% |
| EPS | 3.81 | 3.40 | 3.51 | 3.76 | 3.83 |
| | | -11% | 3% | 7% | 2% |
| BVPS | 17.55 | 19.49 | 21.15 | 23.46 | 24.89 |
| PBV | | | 2.64 | 2.38 | 2.25 |
| ROA% | 8.96 | 6.96 | 6.83 | 6.82 | 6.32 |
| ROE% | 22.37 | 17.94 | 15.4 | 15.23 | 14.86 |

“Despite the slight slide in profits, our strategic growth plans – whether at home or abroad – remain intact. Our recent foray into infrastructure, for instance, represents an excellent opportunity to be involved in nation building and participate in the robust growth expectations in that sector.”

“We believe progressive infrastructure is what will propel our country's economic growth and what will ultimately lead to a better life for our fellow Filipinos. Overseas, we remain on the lookout for growth opportunities that fit into our investment parameters, ensuring that will deliver value to our stakeholders.”

- AEV President Erramon I. Aboitiz.



Technicals

Current 56.10
Support 55, 53.85, 52.30, 50.70
Resistance 56.50, 59.20 (all-time high)
Target Price 56 (0% change), Dividend Yield at 2.5%

- The stock has remained resilient in a tight consolidation range between 58 - 55, but also tests supports at 53.85 and 52.30 and exaggerations to 50.70.
- Recall that AEV has been raising funds via treasury share sale since last year from a 50bn carve out, of which 21.794mn have been sold between 54.40 - 55.25/share raising P1.2bn so far. Take note that the sale price pts. could also provide psychological support.
- Indicators are neutral with RSI 14-day at 41 while MAC/D remains in a bearish crossover.
- BUY trigger price is at 48.70 for a minimum upside of 15%, excluding Dividend Yield of 2.5%

REFERENCES AEV, Bloomberg, Reuters, DA Market Securities, Inc. **DISCLAIMER** This report is provided for informational purposes only and is not intended to solicit buying and selling of securities or to participate in any particular trading strategy. DA Market Securities, Inc. (DMS) makes reasonable effort to use reliable, comprehensive information, but makes no representation or warranties as to the accuracy, completeness, or timeliness of the data provided. DMSI shall not have liability for any damages of any kind relating to such data. This report may not be reproduced or published for any purpose. DA market officers, directors and employees, including persons involved in the preparation or issuance of this report, may have investments in securities or derivatives of securities of the companies mentioned in this report.