

**Date**

10 December 2015

**Company**

Aboitiz Power Corp.

**First Look Corporate**

9M15 Earnings Slightly Below Forecast;  
Maintain Buy for Medium to Long-Term Prospects

**Stock AP**

Price 40.00

52wk Range 39.90 - 47.00

Rating HOLD - Core Holding

Target 43.20, 17x P/E

Upside 8%

Shares 7,538m

Market Cap P294,344m

Free Float 19.45%

PSEi 1.91% (18/30)

MSCI 2.33% (12/45)

We maintain a HOLD-Core Holding rating for AP and adjust Target Price to P43.20/sh (from 45.30), 17x 2015P/E, an upside of 8%. 9M15 Net Income slightly below forecast. However, AP remains a preferred pick for a medium- to long-term investor interested in a steady dividend yield (est. at 3.15% or 1.26/sh, ex-date March 14) and a power generation portfolio that aims to grow over 70% to ~4,000MW by 2019 domestically, as well as pursue regional opportunities.

**Slightly below estimate: 9M15 Net Income -8% to P12.2bn, accounting for 72% of FY15 forecast**

- Net income fell 8% to P12.2 billion. Excluding revaluation of dollar-denominated loans and placements, Core Net Income decreased 3%.
- Power generation accounted for 78% of earnings at 9.48 billion (-12%) due to lower steam flow from Tiwi-Makban plants, lower average prices due to new ancillary contract for the Binga plant, and unrealised forex losses of Therma Luzon. Average selling prices declined by 27% also as fuel costs continued to decline.
- Net generation rose 9% to 9,161 GWh driven by the expansion of bilateral contracts by 16% to 8,254 GWh, making up 90% of total energy sold. Meanwhile, spot market sales decreased 28% to 907 GWh. Attributable sales increased 5% to 1,866MW as Tiwi-Makban output was offset by higher capacity sales from other plants.
- Power distribution share increased 6% to P2 billion driven by 9% growth in industrial sales. Total attributable electricity sales increased 7% to 3,546 GWh. Gross margin however decreased 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.

**Building Domestic Capacity; Exploring Regional Opportunities**

- Unit 1 of Davao Coal (130MW) began commercial operations last September 18 and delayed Unit 2 (130MW) is expected to be commissioned within 1H16.
- Ongoing construction of 59-MW Negros Solar Energy Project
- SN Aboitiz Power-Magat, Inc. signed a MOA with the National Irrigation Administration (NIA) for construction of an 8.5MW hydroelectric power plant along the Maris Main (South) Canal in Magat.
- Entered into agreements to explore and develop a potential 2x55 MW geothermal plant with PT Medco Power Indonesia in East Java Province, Indonesia; and a potential 127 MW hydropower generation project with SN Power AS and PT Energi Infransantara along the Lariang River in Central Sulawesi, Indonesia.
- Recall that AP is seeking to increase current domestic capacity of 2,250MW to ~4,000MW by 2019, aiming for a balanced portfolio of contracted and capacity and spot while building on new renewable energy sources and capitalizing on the open access regime. The company continues to explore regional opportunities.

	Actual		Forecast		
	2013	2014	2015	2016	2017
<b>Sales</b>	72.06	79.04	87.44	95.65	99.81
		10%	11%	9%	4%
<b>EBIT</b>	19.48	22.35	23.25	26.83	27.86
		15%	4%	15%	4%
<b>EBITDA</b>	23.35	26.99	29.02	32.97	32.87
		16%	8%	14%	0%
<b>Net Income</b>	18.6	16.56	16.92	18.68	18.71
		-11%	2%	10%	0%
<b>EPS</b>	2.53	2.25	2.32	2.55	2.59
		-11%	3%	10%	2%
<b>BVPS</b>	11.91	12.5	13.14	14.06	14.91
<b>PBV</b>			6.68	6.24	5.89
<b>ROA%</b>	10.41	8.13	7.66	7.87	7.86
<b>ROE%</b>	22.05	18.60	17.5	17.99	17.2



**Technicals**

<b>Current</b>	40.00
<b>52-week Range</b>	39.90 - 47.00
<b>Support</b>	39.70, 38.40, 35.90
<b>Resistance</b>	41.30, 43.20, 43.80
<b>Target</b>	43.20, upside 8%

- Currently at the low end of trading range 39.90 - 43.80 that has been in place since August. However, the stock also remains within larger downtrend pattern, down 14.8% since hitting all-time high 47 in March.
- Indicators RSI 14-day in oversold territory at 34 however MAC/D remains tilted down in a bearish crossover
- The consolidation range is tradable. However, considering market weakness, a break below the 39.70 support, may lead to test of lower supports considering larger downturn pattern. Note that Buy Trigger price for TP is 37.55.

**REFERENCES** AP, 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. (DMSI) 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.