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DA MARKET SECURITIES

Date
17 March 2016

Company
Ayala Corporation

First Look Corporate
FY15 Earnings Outperform;
Energy as 4th major business leg
HOLD, Maintain TP

Stock AC

Price 735.00
52wk Range 600.00 - 823.50

Rating BUY
Target 840, 22x P/E
Upside 14%

Issued Shares 620.15mn

Market Cap P455.80bn

Free Float 40.20%

PSEi 5.84%, 7/30
MSCI 5.87%, 7/45

**We rate AC a HOLD and maintain Target Price at 840/sh, 22x 2016P/E, with an upside of 14%. FY15 Net Income +20% to P22.3 billion, a year ahead of target. AC benefits from strong equity earnings growth from core business units, particularly ALI and GLO and as contribution from energy business grows, expecting the business to become its 4th major leg. AC has also strategically diversified into infrastructure, healthcare (through hospitals and drugstores) and education.**

**Earnings Outperform: FY15 Net Income +20% to P22.3 billion**

- Earnings were driven by the solid performance of real estate (ALI +19%) and telecommunications (GLO +23%) businesses as well as contributions from its power generation unit. AC Energy core profit grew 3x from P0.2 billion to P0.6 billion due to higher generation and improved operating efficiency. AC Energy is expected to be 4th major leg of the conglomerate. Meanwhile, BPI (+1.1%), MWC (+2%) and IMI posted flat growth. *See per unit performance in page 2.*
- Earnings grew 24%, excluding one-time gains of AC Energy on the partial sale of NLREC (2015) worth P1.5 billion and divestment from Stream Global Services (2014) worth P1.8 billion.
- Equity earnings contributions +13% to P28 billion.
- Consolidated Revenues surpassed P200 billion mark, +11%
- Board approved filing of a shelf registration of PhP20 billion bonds. Along with bilateral Peso facilities, bond proceeds will cover the Peso funding requirements up to 2019.
- End 2015, at the parent level, Gross debt at ₱93.6 billion (-7%) and cash of ₱47.4 billion. Balance sheet remains healthy with parent net debt to equity ratio at 0.44 to 1 and consolidated net debt to equity ratio at 0.55 to 1.
- 2016 capex P22.4 billion at parent level mainly to fund power generation projects. Group-level capex P174 billion primarily to support the growth strategy of its real estate and telecom.

| | **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 |

**ALI (LTP 34, TP 43.20, BUY)** Recurring Net income from malls, office, and hotels and resorts accounted for 34% of earnings. Net Income +19% to 17.6 billion as residential +12% to P58 billion, reservation sales +4% to P105.3 billion, Office +32% to P6.4 billion new launches and higher completion, leasing revenues +16% to P24.5 billion from higher occupancy and average rental rates of its shopping centers and office spaces.

**GLO** Core Net Income +4%; Net Income +23% to P16.5 billion, including P1.2 billion gain from sale of 51% stake in Yondu Inc. Service revenues +15% to ₱113.7 billion as Mobile revenues +9% to ₱85.1 billion on sustained postpaid segment (+7%) and faster expansion from the prepaid segment (+10%). Mobile subscribers +20% to 52.9 million on postpaid (+6%) and pre-paid (+21%) growth. Mobile data revenues +55% to P22.1bn on the back of infrastructure improvements. Broadband (including Bayantel) revenues and subscriber base climbed 38% to ₱17.5 billion and 55% to 4.3 million. Excluding Bayantel, revenues grew 27% to P16.1 billion. EBITDA +17% to P45.8 billion while EBITDA Margin was steady at 40%. Capex spent P32.1 billion to support its data infrastructure requirements. For 2016, to spend $700-750 million (P33-35 billion) for data network initiatives.

**BPI** Net Earnings +1.1% to P18.2 billion as core business grew. Total revenues +6.4% to P59.4bn as Net Interest Income +11% to P38.6bn on higher average asset base. Non-interest income -1.2% to ₱20.7 billion with forex and securities trading gains at ₱2.9 billion. Net Loans +9% to P872.9bn with a 78%-22% corporate retail mix. Deposits +8.5% to P1.3 trillion and CASA ratio 72.3%. Cost-to-income ratio 53.7%. Total assets +4.6% to 1.5 trillion. 90-day NPL 1.6% in 4Q15 (vs. 1.8% year before). Loan loss cover 110.2%, excluding value of collaterals. CAR 13.6%.

**MWC** Net Income +2% to P6 billion. Revenues rose 4% to 16.9 billion from a 2% growth in billed volume. Non-east zone earnings contribution +46%, accounting for 16% of Net Income. Billed volume of domestic units +30%, Thu Duc Water, Kenh Dong Water and a stake in Saigon Water contributed P404 million (+13%). While its 5-gallon bottled water product "Healthy Family" opened 3 new plants in 4Q15 with combined capacity of 43,000 bottles per day.

**IMI** Net income flat at $28.8mn (P1.3bn) due to the volatility in forex and weakness in China. Revenues -4% to $814.4mn due to a weak euro and downturn in computing and telecom segments. Excluding impact of changes in currency exchange, automotive +21%, total revenues would have grown 2%. Auto segment offset revenue headwinds. China operations revenues -14% to $279.3million as the 4G telecommunications network rollout in China reaches its projected volume coupled with a slowdown in the consumer electronics segment. Europe and Mexico ended flat with combined revenues of $267.4mn from weakness in euro. Manufacturing services operations revenues +10% to $225.3mn due to a strong demand for automotive cameras and security and access control devices.

**AC Energy** Net income P2.1bn gains from partial sale of 81MW wind farm (NLREC) worth P1.5 billion. Notably, core profit grew 3x from P0.2 billion to P0.6 billion due to higher generation and improved operating efficiency.

**Power generation portfolio targets +67% or additional 400MW to total 1000MW capacity this year but operational by 2019; expected to be 4th major leg of the conglomerate**

- From current capacity of ~600MW including: 50% interest in 270MW coal plant in Calaca, Batangas of SLTEC; 80% stake in 540MW (4x135MW) coal-fired power plant of GNPower Kauswagan Ltd. Co.
- AC targets 1000MW this year once the first phase of 2x660 GNP reaches financial close.
- Under its Renewable Energy portfolio, Monte Solar Energy Inc. (JV with Bronzeoak Clean Energy Inc.), an 18MW solar power farm started commercial operations in February. This is the first phase of the targeted total 50MW. AC is also looking into wind and others.
- The second 135MW unit of its thermal plant, SLTEC (JV with listed firm TA) also started commercial operations in February, doubling capacity.
- The first unit of its 4x135MW GNPower plant expected to be completed by 4Q17.

**Progressing Transport infrastructure (AC Infra)**

- Through Light Rail Manila Corporation (LRMC), successfully took over the operations of the LRT1 last September and has since increased the number of operational light rail vehicles (LRVs) by ~15%.
- Automated Fare Collection System (ACFS) under AF Payments, Inc. now has over 1.5 million Beep cards in circulation today.
- The Muntinlupa Cavite Expressway (MCX) started operations last July and is currently serving over 22,000 vehicles per day.



## Technicals

| | |
|---|---|
| Current | 735 |
| Support | 730, 650, 600 |
| Resistance | 748, 770, 823.50 (all-time high) |
| Target | 840, +14% upside |

- The stock faces resistance at 770, remaining within downtrend which began in May
- Indicators RSI-14 and MAC/D are at oversold territory which may require pullbacks.
- Positive move seen in the longer-term chart is a return to the uptrend channel beginning 2011. A further rise a rise above the 50MA would also be positive. MAC/D also points to significant upside over the long-term.
- Current price indicates a HOLD with a 14% upside. For investors who wish to position, Buy trigger is at 730. Watch supports or if 750-770 level can hold up as new supports as indicators ease.