

**Date**

23 March 2016

**Company**

First Generation Corporation

**First Look Corporate**

FY15 Earnings In-Line; FY16 Capacity est. +23.5%; Expansion Pipeline

**Stock FGEN****Price** 20.75**52wk Range** 17.60 - 31.30**Rating** BUY**Target** 28.60, 9.9xP/E, 0.94P/BV**Upside** 38%**Issued Shares** 3,660mn**Market Cap** P75.964bn**Free Float** 32.67%**PSEi** 0.76%, 27/30**MSCI** 1.03%, 24/45

We maintain a **BUY** rating for FGEN and Target Price at 28.60/sh, 9.9x 2016 P/E, 0.94 2016P/BV, with an upside of 38%.

- FY15 in-line with forecast. Attractive valuation having declined to a 2-year low of 17.60, 7x 2016P/E (-45%); currently at 20.75, 8x 2016P/E (-35%) from the high of 31.80 hit in early 2015.
- FY16 presents strong growth drivers as capacity expands by 23.5% to 2,679MW as company expects to commission delayed 97MW Avion and 414MW San Gabriel power plants.

**Earnings In-Line: Recurring Income +7% to \$163 million**

- Recurring Net Income +7% to \$163 million from higher dispatch from natural gas-fired plants and lower expenses; as well as lower interest expenses for the parent company.
- Net Income Attributable to Shareholders -13% to \$167 million as subsidiary EDC contributed lower earnings vs. higher extraordinary gains booked in 2014.
- Consolidated Revenues from sale of electricity -3% to US\$163 million primarily from lower pass-through fuel charges.
- Gas plants Sta. Rita and San Lorenzo accounted for 59% of total revenues as contribution -11% to US\$1.20 billion from lower pass through fuel charges which was partially offset by higher combined dispatch of gas plants at 81% vs. 70% (2014). Recurring earnings contribution +10% to \$118 million as higher dispatch was supplemented by lower interest expenses.
- EDC's geothermal, wind and solar revenues accounted for 39% or US\$709 million, +9% due to full-year contributions of new wind and rehabilitated geothermal projects. Recurring earnings -3% to \$90 million due to higher opex.
- FG Hydro accounted for 2% or US\$42 million, +13.5% from higher dispatch. Recurring earnings -33% to \$8 million due to expiration of Income Tax Holiday (ITH) in April 2014.

**Growth Drivers: Pipeline of Capacity Expansion**

- FY16 strong growth drivers as capacity expands by 23.5% to 2,679MW as company expects to commission delayed 97MW Avion and 414MW San Gabriel power plants.
- Moving forward, the company may also work on the 414MW Sta. Maria gas plant.
- Previously, company said it will start investing this year \$500 million to build hydro power projects in Mindanao, prioritizing the \$100mn 23MW Bubunawan hydro project in Bukidnon. The company also has service contracts for the \$120mn 30MW Puyo hydro plant in Jabonga and the \$40mn 10-MW Cabadbaran hydro project, both in Agusan del Norte.
- From 2016 to 2019, the company may also invest \$1 billion for a regasification terminal for liquefied natural gas (LNG) which will take four years to develop. The LNG is meant to address the expected depletion of the Malampaya gas starting as early as 2022.

	Actual			Forecast	
	2013	2014	2015	2016	2017
<b>Sales</b>	80.87	84.47	83.77	103.40	118.50
		4%	17%	10%	10%
<b>EBITDA</b>	25.20	28.58	32.72	36.39	40.74
		13%	20%	14%	9%
<b>EBIT</b>	18.44	21.31	23.94	27.17	30.18
		16%	22%	14%	7%
<b>Net Income</b>	5.01	8.58	7.61	9.64	11.49
		71%	-11%	27%	19%
<b>EPS (Php)</b>	1.49	2.53	2.09	2.18	3.11
		70%	-22%	29%	25%
<b>BVPS (Php)</b>	17.04	17.54	20.85	22.08	24.17
<b>PBV (Php)</b>			1.00	0.94	0.86
<b>ROA%</b>	2.45	3.79	5.14	5.56	6.36
<b>ROE%</b>	7.42	12.81	9.82	12.16	13.76



**Technicals**

- Current 20.75
- Support 17.60 (recent low, formidable), 16.58
- Resistance 22.80, 24.50, 26, 28, 31.80 (all-time high)
- Target 28.60, +38% upside

- The stock risen above 50-day and 100-day MA but still below 150-day MA (23.30)
- Showing a double bottom at 17.60, and has been trending up along with volume, albeit a market laggard. Note also that low marked in 2016 is higher from 2013.
- While in the short-term chart (1YR) RSI and MAC/D approach overbought, long-term chart (5YR) show significant room for upside.

**REFERENCES** FGEN, PSE, 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.