

**Date**

2 March 2016

**Company**

Manila Electric Company

**First Look Corporate**

FY15 Earnings In-Line; Share price run-up leads to lofty valuation

**Stock** MER**Price** 332**52wk Range** 260.40 - 343.80**Rating** HOLD/SELL**Target** 287, 18xP/E**Upside** -14%**Issued Shares** 1,127mn**Market Cap** P374,196mn**Free Float** 18.74%**PSEi** 2.34%, 15/30**MSCI** N/A

We maintain a **HOLD** and **Target Price** at **P287/sh** for **MER**. However, we note that the stock will trigger a **SELL** rating above **338/share** (downside risk of above **-15%**). Note that current street-high target is at **350/sh**. Current price suggests lofty valuation at **20.5x** considering flat to negative earnings growth expectations over the short to medium term. See page 3 for Technical Analysis.

**Short-Medium Term Investors:** May take advantage of the current run up to profit-take considering flat to negative earnings growth FY16-FY17. A continued share price run-up may also be viewed as equivalent to declared dividend of 9.92/sh and may trigger profit-taking ahead of ex-date March 18.

**Long-Term Investors:** Positive growth prospects will be more visible as the company comes closer to commerciality of its diversified power generation projects (~2019-2021). See page 3 for details of MGEN's portfolio with a total planned capacity of 3,909MW.

**FY15 Core Earnings** grew slower by **4%** to **P18.9 billion**, as lower distribution charge (**-11%**) was offset by uptick in sales volume (**+5.8%**).

- Core Net Income grew slower by 4% to P18.9 billion, net of P326 million one-time gain booked in 4Q16 from the sale of 50% stake in a tech firm.
- Distribution Revenues declined 2% to P55.1 billion due to low fuel prices and switch of captive costumers to retail electricity suppliers, and lower distribution rates.
- In July 2015, MER implemented a distribution rate cut of P0.1752/kWh or 11.3%.
- Sales volume ticked up 5.8% to 37,124 gigawatt-hours (GWh) due to warmer temperatures due to onset of El Nino beginning August 2015 (recording new system peak of 6,298MW this month), better power plant availability, and low inflation and healthy GDP growth spurred by remittances and revenues from the BPO sector.

**EBIT -10.3% to P23.41 billion, below estimate P27.72 billion from higher**

- FY15 EBIT declined by 10.3% to P23.41bn dragged by 4Q14 EBIT which declined by 60.9% as MER booked additional provisioning of about P5 billion in Real Property Taxes due to a Supreme Court ruling which upheld a decision declaring that transformers, electric posts, transmission lines, insulators, and electric meters are not exempted from real property taxes (RPT).

**FY16 Management guides flat core earnings for FY16**

- MER management expects flat Core Earnings for FY16 as lower distribution rates impact around P7 billion of Revenues but offset with increased contribution of subsidiaries and operating efficiency.

**Dividend 9.92/sh (ex-date March 18)**

- Recently declared dividend of a total of P9.92/share (P3.22/sh regular + P6.70/sh special), ex-date March 18, payable April 15. This brings total dividends declared for FY15 at 15.25/sh, representing a 5% yield at FY15 closing price of 320/sh and pay-

	Actual		Forecast	
	2014	2015	2016	2017
<b>Sales</b>	266.34	274.12	280.99	290.83
		3%	3%	4%
<b>EBITDA</b>	32.19	29.03	32.05	29.6
		-10%	10%	-8%
<b>EBIT</b>	26.09	22.12	26.65	25.19
		-15%	20%	-5%
<b>Net Income</b>	18.05	19.10	17.97	16.12
		6%	-6%	-10%
<b>EPS</b>	16.02	16.94	16.17	14.87
		6%	-5%	-8%
<b>BVPS</b>	70.23	71.22	73.73	74.81
<b>PBV</b>	4.73	4.66	4.50	4.44
<b>ROA%</b>	6.77	6.93	6.56	6.2
<b>ROE%</b>	23.4	23.96	22.07	19.53

<b>MGen Power Generation Portfolio</b>				
<b>Power Project</b>	<b>Ownership</b>	<b>Capacity</b>	<b>Location</b>	<b>Completion Target</b>
<b>San Buenaventura Power Limited (SBPL)</b>	JV between MGen (51%) with New Growth BV (49%), a wholly owned subsidiary of Electricity Generating Public Co. Ltd. of Thailand	455MW Coal	Mauban, Quezon	2019
<b>Redondo Peninsula Energy, Inc. (RP Energy)</b>	JV between MGen (52%) with Aboitiz Power Corp. and Taiwan Cogeneration Corp.	600MW (2x300) Coal	Subic, Zambales	Late 2019
<b>Altimonan One Energy, Inc. (A1E)</b>	<i>In talks with partners</i>	1200MW (2x600MW) Coal	Altimonan, Quezon	Unit 1 - early 2021
<b>Global Business Power Corp. (GBPC)</b>	22% equity interest	Total 854 MW - 702MW Coal (150MW under construction), 152MW Diesel	846.5MW (150MW under construction) Visayas, 7.5MW Mindoro	150MW Coal under construction expects 3Q16 operations
<b>PacificLight Power Pte. Ltd (PLP)</b>	Incorporated with parent First Pacific Co. Ltd.; owns 70% stake in GMR Energy Singapore Pte. Ltd.	800MW (2x400MW) LNG	Jurong Island, Singapore	operating since February 2014



**Technicals**

**Current** 332.00  
**Support** 322, 311, 301, 290  
**Resistance** 335, 343.80 (recent high), 375.42 (all-time high)  
**Target** 287, -14% downside

- MER has steadily risen from March 2014 lows, now set to test next resistances at 343.80 (recent high) and if broken, possibly even 375 (all time high).
- Note that both RSI-14 and MAC/D have also steadily risen, approaching overbought territory.
- The short-term investor may opt to sell on current strong rally, minding resistances at 335, 343, and 375 or sell when momentum begins to weaken.
- **Recall:** Psychological support level: 235/sh: April 2015, Beacon Electric sold 10% to parent MPI for P26.5bn or 112.70mn shares at P235/sh. Dec 2013, JGS bought 27% stake for P72bn or 305.68m shares at ~P235/share,

**REFERENCES** MER, 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.