

# Aboitiz Power Corp. AP [PSE]

First Metro Rating

 Last Price  
 29.80

 Industry  
 Power Generation & Distribution

 Sector  
 Utilities

## A Repeat of AP's Windfall?

 By: C.S. Ulang  
 Analyst

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### Stock Data

|                         |       |
|-------------------------|-------|
| Price (Php)             | 29.80 |
| Market Cap. (Php bn)    | 219   |
| Outstanding Shares (mn) | 7,359 |
| Book Value/Share (Php)  | 7.85  |
| Price/Book (X)          | 3.80  |

### Fundamental Indicators

| in mn Php          | FY09A  | FY10E  | FY11E  |
|--------------------|--------|--------|--------|
| Sales Php mn       | 23,174 | 64,204 | 63,766 |
| Net Profits Php mn | 5,657  | 21,907 | 20,179 |
| EPS Php            | 0.76   | 2.97   | 2.74   |
| PER (x)            | 11.79  | 10.37  | 10.88  |

Source: Bloomberg Consensus Estimates

| AP Earnings (mn Php)   | 2008A | 2009A | 2010A   | 2011E  | 2012E  |
|--|-------|-------|---------|--------|--------|
| Therma Luzon 700MW   |       | -79   | 9,547   | 8,115  | 9,002  |
| AP Renewables Inc. 467MW                                       |       | 2073  | 10,180  | 11,578 | 11,804 |
| CEDC 246 (AP interest is 26%)                                  |       |       | (14)    | 361    | 337    |
| Therma Marine 200MW  |       |       | 129     | 412    | 395    |
| Sibulan Hydro 46MW   |       |       | 124     | 149    | 146    |
| Sub-total (Newly Acquired Capacities)                          | 0     | 1,994 | 19,966  | 20,615 | 21,684 |
| Base Business: (Existing Capacity) Generation and Distribution | 4,333 | 4,231 | 3,120   | 3276   | 3,439  |
| Power generation   | 2,779 | 2,662 | 1,187   | 1179   | 1,238  |
| Power distribution   | 1,478 | 1,569 | 1,933   | 2097   | 2,201  |
| Magat and Binga's spot and ancillary                           |       |       | 3,237   | 2,398  | 2,448  |
| Parent and others  | 76    | (567) | (1,282) | 0      | 0      |
| Consolidated Net Income  | 4,334 | 5,658 | 25,041  | 26,288 | 27,571 |

### I. The Windfall Repeats

Last March 8, we said two things in our report on AP whose reverse may not be a long shot after all. 1) AP's 2010 earnings of PHP25bn may be hard to match. 2) This is mainly due to the electricity spot price risk of AP's merchant capacity being potentially on the downside.

We have identified certain events likely to keep the WESM tight and allow AP to achieve further earnings growth on a consolidated basis in 2011. Recall that AP's spot market sales were huge; 2.4bn kwh of the total 9.7bn kwh sold in 2010; from Pagbilao, Tiwi-Macban and the hydro plants Magat and Binga.

#### 1) Reduced Power Supply Headroom

Dependable power supply in the Luzon grid for 2011 is estimated at 8,104MW net of planned outage which, in turn, is seen to average 1,100MW, according to the Dept. of Energy (DOE). While the net power supply is above the demand for power, it will have little headroom under two scenarios:

- Power demand surges beyond 4.5% over last year's peak demand of 7,615MW. DOE predicts demand for power in the Luzon grid will grow 4.5% in 2011. Under this growth scenario, excess power supply will be 146MW.
- Power supply is curtailed by unplanned outages, that are not reflected in the power supply of 8,104MW. The estimated average for planned outage in 2011 is 1,100W. Recall that last year,

power outage (planned and forced) averaged 1,500MW and had wiped out the initially expected 485MW of excess power supply. The highest unplanned power outage which happened for one month starting early January 2010 for a single operating unit was 600MW, one of the 1,200MW Sual plant's two units.

#### 2) Extrapolated WESM is Upward

By excluding the events behind WESM's sharp spikes in 2010 through extrapolation of last year's actual monthly spot prices from last January 2011 base spot price of PHP4.00/kwh, we obtained a normalized average WESM price of PHP6.25/kwh for 2011. This is the average spot price we expect for this year and which is embedded in our earnings forecast for AP's profits in 2011 and 2012. This price level compares well with AP's average selling price of PHP6.20/kwh for merchant sales of Pagbilao, Tiwi-Macban, ancillary contract and the hydros Magat & Binga last year.

### II. Other Earnings Boosters

A) Better load factor to 64% from 56% for 700MW Pagbilao (TLI), and higher availability of 95% for 467MW Tiwi-Macban, (APRI), from 85%. Together, these two plants comprise 60% of AP's total attributable "running" capacity of 1,953MW by end-2010.

B) A total of 306MW new capacity in 2010 will bear their first full year earnings impact in 2011. These plants have no spot price upside potential as they're all contracted, but have fuel cost pass thru that protect their margins.

- 200MW power barges contracted with NGCP;
- 246MW CEDC which is only 26% owned by AP contracted with VECO;
- 42.5MW Sibulan Hydro contracted with Davao Light.

C) Also, we expect AP's 1bn kwh sales to the ancillary market to repeat and together with spot sales contribute PHP2.4bn in net profits this year.

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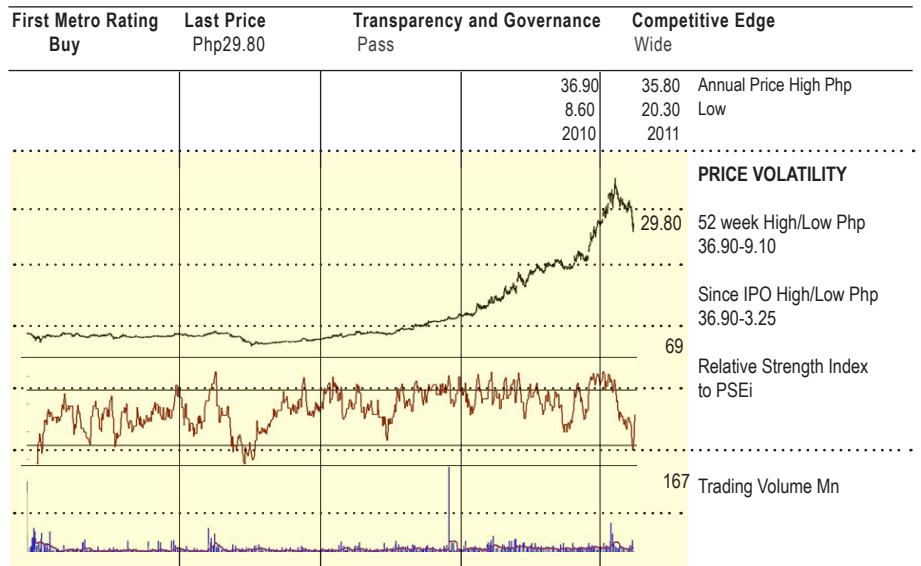
The company was incorporated on February 13, 1998 as a holding company for the Aboitiz Group's investments in power generation and distribution. With investments in power generation and distribution companies throughout the Philippines, the Aboitiz Group is considered one of the leading Filipino-owned companies in the power industry.

2010 Net Profits Php bn  
Php 25

Mkt Cap Php bn  
Php219

Industry  
Power Generation & Dist'n

Sector  
Utilities



| Growth Rates         |        |         |        |
|----------------------|--------|---------|--------|
|                      | 2009   | 2008    | 2007   |
| Revenue %            | 89.29  | 8.23    | 30.31  |
| Operating Income %   | 230.17 | (16.68) | 58.37  |
| Earnings/share %     | 30.51  | (10.61) | 78.37  |
| Book Value/Share %   | 14.33  | 12.77   | 109.51 |
| Stock Total Return % | 130.89 | (8.62)  | 3.92   |
| +/- Market           | 63.33  | (46.29) | 23.76  |

| Profitability Analysis |         |              |       |
|------------------------|---------|--------------|-------|
|                        | Current | 5 Yr Average | Ind.  |
| T12mo ROE %            | 49.05   | 38.10        | 26.45 |
| Return on Assets %     | 21.52   | 14.10        | 9.52  |
| Operating Margin %     | 49.47   | 35.02        | 19.64 |
| Net Margin %           | 49.47   | 32.25        | 20.39 |

| Financial Position      |         |           |
|-------------------------|---------|-----------|
|                         | Sep2010 | Dec-31-09 |
|                         | Php Mn  | Php Mn    |
| Cash & Cash Equivalents | 10,293  | 3,815     |
| Receivables             | 6,542   | 3,606     |
| Other Current Assets    | 1,849   | 1,383     |
| Property and Equipment  | 74,014  | 72,911    |
| Other Long-term Assets  | 31,564  | 28,510    |
| Total Long-term Assets  | 105,582 | 101,425   |
| Total Assets            | 126,088 | 111,340   |
| Current Liabilities     | 14,276  | 14,655    |
| Long-term Borrowing     | 57,792  | 59,714    |
| Total Liabilities       | 74,812  | 76,293    |
| Total Equity            | 51,276  | 35,046    |

| Valuation Analysis      |         |      |       |
|-------------------------|---------|------|-------|
|                         | Current | Ind. | Mkt.  |
| Price /T12moEPS         | 9.10    | 13.9 | 12.63 |
| EV/T12moEBITDA          | 11.08   | 9.17 | 7.74  |
| Price/T12moCash Flow    | 10.8    | 6.71 | 7.74  |
| Dividend Yield %        | 0.96    | 1.89 | 2.54  |
| Price/Book              | 3.92    | 2.36 | 2.26  |
| Price/ T12mo Sales/shr. | 4.12    | 2.47 | 2.32  |

| STOCK PERFORMANCE |        |         |        |        |         |
|-------------------|--------|---------|--------|--------|---------|
|                   | 2007   | 2008    | 2009   | 2010   | 3/7/11  |
| Total Return %    | 3.77   | (8.62)  | 130.89 | 270.00 | -7.40   |
| +/- Market        | 23.76  | (46.29) | 63.33  | 43.00  | -10.26  |
| Dividend Yield %  | 0      | 4.74    | 2.33   | 4.00   | n.a.    |
| Market Cap Php Mn | 39,000 | 27,963  | 47,095 | 88,303 | 230,324 |

| FINANCIALS                      |          |          |          |         |         |
|---------------------------------|----------|----------|----------|---------|---------|
|                                 | 2006     | 2007     | 2008     | 2009    | 2010    |
| Distn/Generation Php Mn         | 8,616.74 | 11,209.9 | 12,108   | 12,466  | n.a.    |
| Other Revenue Php Mn            | 64.27    | 102.1    | 134.57   | 10,734  | n.a.    |
| Total Operating Revenues Php Mn | 8,681    | 11,312   | 12,243   | 23,174  | n.a.    |
| Net Income Php Mn (common)      | 1,849.6  | 4,138.44 | 4,424.33 | 5,657   | 25,041  |
| Earnings per Share              | 0.37     | 0.66     | 0.59     | 0.77    | 3.40    |
| Dividends Php Mn                | 896      | 0        | 1,325    | 1,472   | 9,566   |
| Shares Mn                       | 5,400    | 7,358    | 7,359    | 7,359   | 7,359   |
| Book Value per Share            | 1.73     | 3.63     | 4.10     | 4.69    | 7.85    |
| Assets Php Mn                   | 12,345   | 36,162   | 47,272   | 111,341 | 126,088 |
| Total Equity Php Mn             | 8,672    | 27,023   | 30,692   | 35,047  | 51,275  |

| PROFITABILITY      |       |       |       |       |         |
|--------------------|-------|-------|-------|-------|---------|
|                    | 2006  | 2007  | 2008  | 2009  | 9mo2010 |
| Return on Assets % | 15.5  | 17.15 | 13.39 | 9.62  | 14.76   |
| Return on Equity % | 22.49 | 23.5  | 15.23 | 16.22 | 35.27   |
| Net Margin %       | 21.31 | 36.78 | 35.4  | 34.52 | 49.46   |

| FINANCIAL HEALTH |       |       |       |        |         |
|------------------|-------|-------|-------|--------|---------|
|                  | 2006  | 2007  | 2008  | 2009   | 9mo2010 |
| Short-Term Liab. | 146   | 3,404 | 4,854 | 8,240  | 6,501   |
| Long-term Debt   | 1,052 | 1,073 | 6,758 | 59,714 | 57,792  |

| VALUATION             |      |      |      |       |         |
|-----------------------|------|------|------|-------|---------|
|                       | 2006 | 2007 | 2008 | 2009  | 9mo2010 |
| Price/T12moEPS        | ---  | 9.42 | 6.44 | 12.03 | 9.10    |
| Price/T12moSales/shr. | ---  | 3.46 | 2.28 | 3.49  | 4.12    |
| Price/Book            | ---  | 1.44 | 0.93 | 1.99  | 3.97    |

| Quarterly Results      |         |         |         |          |  |
|------------------------|---------|---------|---------|----------|--|
| Revenue Php Mn         | Dec.-09 | Mar.-10 | Jun.-10 | Sept.-10 |  |
| Most Recent Period     | 9,355   | 16,600  | 17,523  | 11,773   |  |
| Prior Year Period      | n.a.    | n.a.    | 12,150  | 12,469   |  |
| Revenue Growth %       | Dec.-09 | Mar.-10 | Jun.-10 | Sept.-10 |  |
| Most Recent Period     | 216.65  | 473.43  | 284.61  | 84.90    |  |
| Prior Year Period      | -7.12   | -2.51   | 45.67   | 99.52    |  |
| Earnings Per Share Php | Dec.-09 | Mar.-10 | Jun.-10 | Sept.-10 |  |
| Most Recent Period     | 0.0054  | 0.0220  | 0.0158  | 0.0175   |  |
| Prior Year Period      | 0.1580  | 0.0500  | 0.1700  | 0.3000   |  |

| Global Peers by Market Cap  |                |                       |        |        |  |
|-----------------------------|----------------|-----------------------|--------|--------|--|
| Name                        | Mkt. Cap US\$m | Trailing 12M Rev \$mn | P/E    | ROE    |  |
| Pha Lai Thermal Power JSC   | 28,750         | 236                   | 11.13  | (5.86) |  |
| Sarawak Energy Bhd Berhad   | 44,890         | 401                   | 12.04  | 10.09  |  |
| Zhejiang Electric Power Co. | 920,580        | 1,025                 | 11.57  | 0.29   |  |
| Anhui Wenergy Co., Ltd      | 43,700         | 404                   | 148.79 | 0.94   |  |

| Top Common Stockholders       |               |               |               |
|-------------------------------|---------------|---------------|---------------|
| Name                          | In 000 Shares | % to Total OS | Capital Stock |
| Aboitiz Equity Ventures, Inc. | 5,569,684     | 75.69%        |               |
| HSBC - Clients' Account       | 397,485       | 5.40%         |               |
| ATR KimEng - Clients' Account | 212,035       | 2.88%         |               |
| Aboitiz Land, Inc.            | 151,113       | 2.05%         |               |
| Others                        | 1,028,229     | 13.98%        |               |
| Total                         | 7,358,546     | 100.00%       |               |