Manila Electric Co. , MER [PSE]

First Metro Rating	Last Price	Industry	Sector
	222	Power Distribution	Utilities

Growth is In Power Generation

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Stock Data

Price (Php)	222
Market Cap (Php bn)	250
Outstanding Shares (bn)	1.127
Book Value/Share (Php)	52.23
Price/Book (X)	4.25

Fundamental Indicators

in bn Php	FY09A	FY10E	FY11E
Sales	178.6	228.1	250.7
Net Profits	6.0	12.0	15.3
EPS Php	5.33	10.66	13.57
PER (x)	38.49	20.83	16.33

Topline Trajectory Hangs on Tariff Decision

Again, regulation is making Meralco's revenue outlook uncertain. Meralco officials disclosed to us in a recent visit that distribution tariffs' direction in the next four years could cut both ways: higher than the current PHP1.65/kwh to Meralco's proposed PHP1.7056/kwh or lower down to the regulator's indicative PHP1.45/kwh. The tariff takes effect in July 2011, the first year of a four-year 3rd regulatory period, 2012-2015, whose tariff outcome allows Meralco a maximum return on regulatory asset base (RAB) of 15.1%.

Energy Sales Remain an Earnings Driver.

Meralco projects 4% growth in energy sales, a normalization of last year's historical high 9% growth to 27.7bn kwh, powered by industrial power demand revival, +17.9% in 9mo2010. For this year, it will be the commercial sector, malls and and BPOs, with a share of 40% in 2010 overall energy sales, leading industry (share of 28%) and the residential sector, (share of 31%).

Earnings Growth in 2011

A 4% annual energy sales growth in 2011 and a 10% drop in nominal tariffs to PHP1.49/kwh which should mean an effective tariff of PHP1.57/kwh in 2011 will still enable Meralco to achieve a 25% growth in earnings to PHP15.3bn based on our estimate in Table 1 below.

2010 Results

Meralco made about PHP12bn in 2010 with EBITDA of a little less than PHP20bn. Earnings were propped by strong energy sales growth of 9% and a series of tariff increases backloaded in the last two years of the 2nd regulatory period (2007-2011): PHP0.2570/kwh implemented in May 2009 to PHP1.2227/kwh which had a full year impact in 2010 and another PHP0.2690/kwh to PHP1.4917/kwh in Jan. 2010, suspended but resumed in April 2010. The last tariff hike was implemented last January of PHP0.1547/kwh that brought tariff to a historical high of PHP1.6464/kwh. This level is likely to adjust in the 2H2011, the first semester of the 1st year of the third regulatory period.

Capex and Growth

Viewed as a future growth source, Meralco's venture in power generation will be operational by 2H2012, with a 150MW peaking diesel-fired plant, the first unit of the five year goal of 1,500MW capacity. Meralco is compliant with the law's capping ownership of power generation asset at 25% and 30% of the national electrical capacity and Luzon grid by a single entity. It is also compliant with the law's prohibition of a distribution utility's power purchases from an affiliate exceeding 50% of its power supply requirements.

We are revisiting our earnings estimates by month-end.

Table 1. (in 000 Php)

Earnings Estimates	2007	2008	2009	9mo09	9mo2010	2010E	2011E	2012E
Distribution	17,435,000	17,418,000	21,099,000	15,385,000	24,785,000	31,025,325	33,890,482	34,093,067
Supply	5,753,000	5,753,000	6,560,000	4,823,000	6,471,000	8,100,257	8,848,308	8,901,200
Metering	2,923,000	2,923,000	3,923,000	2,828,000	4,097,000	5,128,536	5,602,151	5,635,638
Wheeling Revenues	26,111,000	26,094,000	31,582,000	23,036,000	35,353,000	44,254,118	48,340,941	48,629,905
Total Revenues	196,171,000	186,999,000	178,686,000	139,190,000	183,394,000	228,081,568	250,769,057	252,268,063
Operating Exp.	13,180,000	13,627,000	13,902,000	9,992,000	11,258,000	15,168,000	15,168,000	15,744,384
Operating Income	12,931,000	12,467,000	17,680,000	13,044,000	24,095,000	31,780,118	36,207,285	36,303,499
Interest & fin'l charges	(2,999,000)	(4,135,000)	(3,328,000)	(2,024,000)	(1,914,000)	(3,218,000)	(3,250,180)	(3,282,682)
Interest & fin'l income	2,147,000	2,919,000	3,924,000	458,000	1,491,000	4,957,000	5,006,570	5,006,570
Provisions	(646,000)	6,617,000	(1,179,000)	(3,651,000)	(4,609,000)	(4,609,000)	(4,309,000)	(3,615,000)
Sub-total	11,433,000	17,868,000	17,097,000	7,827,000	19,063,000	28,910,118	33,654,675	34,412,388
Other expenses	5,340,000	12,668,000	8,118,000	574,000	7,387,000	12,267,000	12,733,146	13,217,006
Pre-tax income	6,093,000	5,200,000	8,979,000	7,253,000	11,676,000	16,643,118	20,921,529	21,195,382
Income Taxes	(2,057,000)	(2,067,000)	(2,623,000)	(1,999,000)	(3,405,000)	(4,493,642)	(5,648,813)	(5,722,753)
Net income	4,036,000	3,133,000	6,356,000	5,254,000	8,271,000	12,149,476	15,272,716	15,472,629

Preliminary FMIC-IAG Estimates Based on Company Data and Guidance Prior to 2010 Operating Results

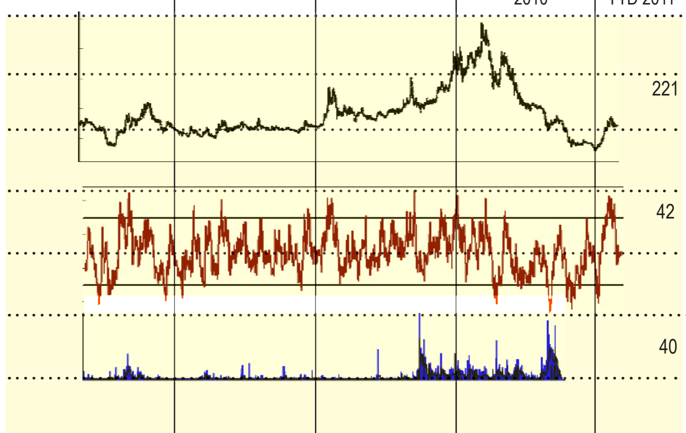
Manila Electric Co., MER [PSE]

FY2009 Sales Php bn	Mkt Cap Php bn	Industry	Sector
Php185	Php 250	Power Distribution	Utilities

First Metro Rating	Last Price	Transparency and Governance	Competitive Edge
	Php 222	Pass	Wide

The Manila Electric Company (MER) is the biggest among the electric distribution utilities in the country. The principal business is the distribution and sale of electric energy through its distribution network facilities in its franchise area. MER has diversified into businesses directly related to its core business of electric distribution. The Company has investments on companies involved in engineering, construction, consultancy with expertise in the fields of power generation, transmission and distribution, telecommunications and industrial installations. Through its other investments, it is also involved in information technology and property development.

	2010	YTD 2011	
	236	299	Annual Price High
	145	213	Low



PRICE VOLATILITY

52 week High/Low Php 299.60-155.00

Since IPO High/Low Php 302.50-10.50

Relative Strength Index to PSEi

Trading Volume Mn

FY2007	FY2008	FY2009	FY2010	Current	STOCK PERFORMANCE
70.44	(26.82)	249.50	15.45	(5.7)	Total Return %
23.76	(46.29)	63.33	43.13	(7.6)	+/- Market %
1.18	1.18	1.22	1.22	2.55	Dividend Yield %
65,674	65,674	231,090	253,575	250,254	Market Cap Php Mn

Growth Rates	2009	2008	2007
Revenue %	(3.60)	(4.40)	5.19
Operating Income %	(20.00)	(4.33)	(32.4)
Earnings/share %	113.39	(28.45)	(71.65)
Dividends/Shr. %	150	0.	n.a.
Book Value/Share %	113.39	(28.30)	(71.51)
Stock Total Return %	249.50	(26.82)	70.44
+/- Market	63.33	(46.29)	23.76

FY2006	FY2007	FY2008	FY2009	9mo10	FINANCIALS
190,787	200,693	191,775	184,972	188,904	Revenue Php Mn
10 ,691	7,227	6,914	10,815	11,676	Operating Income Php Mn
13,686	3,759	2,800	6,005	8,271	Net Income Php Mn
12.86	3.54	2.53	5.42	7.06	Earnings per Share
0	1,103	1,106	2,857	6,159	Dividends Php Mn
1,104	1,104	1,104	1,127	1,127	Shares Mn
43.47	46.84	47.66	52.25	52.23	Book Value per Share
168,316	177,292	178,384	183,850	185,140	Assets Php Mn
50,974	55,021	56,159	53,507	60,798	Total Equity Php Mn
436	370	1,597	(6,645)	n.a.	Free Cash Flow Php Mn

Profitability Analysis	Current	5 Yr Average	Ind.	Mkt.
Return on Equity %	14.92	8.27	7.75	16.98
Return on Assets %	4.69	2.23	2.42	4.62
Operating Margin ross Margin %	6.26	2.52	23.86	16.39
Operating Margin %	8.16	1.88	8.92	16.18

FY2006	FY2007	FY2008	FY2009	9mo10	PROFITABILITY
8.10	2.13	1.57	1.617	3.51	Return on Assets %
32.92	7.55	5.36	10.92	10.92	Return on Equity %
7.17	1.87	1.46	3.00	3.25	Profit Margin %
5.60	3.60	3.60	6.00	5.85	Operating Margin %

Financial Position	9mo10 Php Mn	Dec.-09 Php Mn
Cash & Cash Equivalents	20,235	17,068
Receivables	26,703	20,222
Other Current Assets	5,740	4,347
Net fixed assets	109,311	106,430
Total Assets	183,850	172,129
Other Long-Term Assets	18,634	21,014
Total Long-term Assets	128,320	127,444
Current Liabilities	50,290	172,129
Long-Term Borrowing	15,925	42,123
Total Liabilities	120,872	110,983
Total Equity	62,978	61,146

FY2006	FY2007	FY2008	FY2008	IH09	FINANCIAL HEALTH
2.09	2.42	2.08	2.08	6.25	EBIT/Int. Exp.
2.95	33.86	30.89	30.89	8.16	EBITDA/Total Int. Exp.
18..60	40.73	35.0	35.0	18.33	Net Debt-to-Equity

FY2006	FY2007	FY2008	FY2008	Current	VALUATION
3.93	23.26	23.45	23.45	71.78	Price/12M EPS
4.49	5.54	1.95	1.95	1.28	Price/12M Sales/share
1.13	1.76	1.25	1.25	4.25	Price/Book

Valuation Analysis	Current	Ind.	Mkt.
Price /T12M EPS	29.16	12.36	13.74
EV/EBITDA	13.48	8.15	n.a.
Price/Cash Flow	9.74	5.89	7.42
Dividend Yield %	2.57	1.78	2.56
Price/Book	4.25	1.99	2.26

Quarterly Results

Revenue Php Mn	Dec. 09	Mar10	Jun10	Sept10
Most Recent Period	41,866	61,103	66,361	61,440
Prior Year Period	45,555	48,904	48,904	48,688

Revenue Growth %	Dec. 09	Mar10	Junt10	Sept10
Most Recent Period	(10.31)	34.13	35.70	26.24
Prior Year Period	11.5	(0.07)	(3.47)	(1.07)

Earnings Per Share Php	Dec09	Mar10	June10	Sep 10
Most Recent Period	0.62	1.78	2.52	2.76
Prior Year Period	(0.02)	0.08	2.11	1.57

Global Peers by Market Cap

Name	Mkt. Cap US$mn	Trailing 12M Rev $mn	ROE	P/E
Chubu Electric Power	17,900	25,300	13.06	86.34
SP Ausnet	1,745	836	26.90	12.44
Okinawa Electric Power	975	1,751	5.18	13.30
Trust Power	1,608	494	23.00	8.97

Top Common Stockholders

Name	In mn Shares	% to Total OS Capital Stock
PLDT Group	451	40%
GSIS	338	30%
Lopez	79	7%
Others	259	23%
Total	1,127	100.00%

FIRST METRO INVESTMENT CORPORATION Metrobank Group