

Semirara Mining Corp.SCC [PSE]

First Metro Rating Buy	Last Price 165.00	Intrinsic Value PHP199	Consider Buy PHP165.00	Consider Sell PHP199	Industry Mining and Power Generation	Sector Power Generation
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SCC Eyes PHP6bn Profits in 2011

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Call Report Nov. 30, 2010

Currency amounts expressed with "Php" are in Philippine Peso unless otherwise denoted.

Stock Data

Price (PHP)	165.00
Market Cap (bn-Php)	49.20
Shares outstanding (m)	356
Book Value/share (Php)	32.46
Price/book (x)	5.08

Fundamental Indicators

	2009A	2010E	2011E
Sales (PHP m)	11,943	21,485	24,827
Net Profit (PHP m)	1,804	2,800	4,676
EPS (PHP)	6.34	7.19	13.38
PER (x)	8.44	22.79	12.25

Bloomberg Consensus Earnings

2011 Profit Outlook Robust.

SCC consolidated 2011 net earnings guidance stands at PHP6.0bn, better than the 2010 guidance of PHP2.5bn, as disclosed to us by SCC finance officers in a company visit last week. Net income for 2009 were PHP1.8bn; for 9mo10 it was PHP3.2bn.

Power generation, through Sem-Calaca Power Corp., is next year's biggest earnings contributor, with PHP4bn or 67% of the earnings guidance, followed by that of coal mining income expected in the range of PHP2.0bn-2.5bn.

SCC's market capitalization of PHP49bn vs. our 2011 earnings forecast translates to a PE of 7.42X and makes it a buy. Please see Table 1 below.

Higher Sales and Wider Margin on Increased Power Capacity. The plant rehabilitation which started last July 2010 for plant 2 and starts in 2H2011 for plant 1 raises running capacity to 400MW in 1H2011 from 340MW in 1H2010, with the full rehab of plant 2 by mid-Dec. 2010. Calaca is then able to take advantage of the summer

	2009A	2010E	2011E
Revenues	11,943,685,811	13,485,450,000	17,647,164,000
Cost of Goods Sold	9,362,435,848	10,518,651,000	13,764,787,920
Gross Profits	2,581,249,963	2,966,799,000	3,882,376,080
Operating expenses	749,580,000	539,418,000	1,142,000,000
Operating income	1,831,669,963	2,427,381,000	2,740,376,080
Net income mining	1,809,558,157	2,362,120,761	2,517,302,080
Net income power		1,197,540,655	4,078,481,455
SCC Consolidated		3,559,661,416	6,595,783,535

months' high electricity spot prices that stretch net profit margin on spot sales to 177%, based on our 1H2011 ave. WESM spot price assumption of PHP8.74/kwh. Spot sales is 30% of the 400MW capacity in 1H2011. The rest are contracted with Meralco and the Cavite Ecozone, with net profit margin at 22%. Pls see Table 2 below.

Coal Price Uptrend and Higher Capacity Utilization.

Coal prices are bound to rise 10%-15% in 2011 to \$60/ton or PHP2,640 based on company guidance. SCC sales mix ratio is 50:50 for local market and exports, respectively. Local and export prices are the same based on import parity rule. On the other hand, coal production will be 6m tons next year, 100% capacity utilization vs. 5.8m tons this year.

Risk of Loss from Replacement Power Nil. Key rehab risks are cost overrun and replacement power loss, which are nil. Rehab capex disbursed so far were in line with expected; \$20m out of the \$60m budget. Power replacement loss last Sept. and Oct. totalling PHP500m won't repeat as energy production will be in excess of contracted energy by as much as 30% or 274m kwh in 2011. Recall that last Sept.-Oct. 2010, Sem-Calaca suffered PHP500m loss on spot electricity purchase of PHP8.00/kwh sold at PHP4.50/kwh to bilaterals in 2H2010 due to an unexpected 1-month shutdown of plant 1.

Earnings Estimate. We've lowered to PHP6.6bn our original 2011 earnings for SCC of PHP7.7bn due to the delayed rehab of the plants. Our earlier estimate was based on full rehab of two plants by end-Feb. 2011. Still, however, we rate SCC a buy based on the low PE and discount to NAV of 21%. Please see Table 3 below.

Table 2. Sem-Calaca P & L Estimates for 2010 and 2011

Operational Assumptions	1H2010	2H2010	2010E	1H2011	2H2011	2011E
plant 1 capacity in MW	160	160		150	0	
plant 2 capacity in MW	180			250	250	
Total Running Capacity	340	160	250	400	250	325
Energy production plant 1 & 2	1,126,080,000	368,640,000	1,494,720,000	1,440,000,000	900,000,000	2,340,000,000
Spot Purchases in kwh/Sales	12,720,000	770,160,000	782,880,000	0	0	
Spot Sales in kwh				446,400,000	273,600,000	720,000,000
Contracted Sales kwh/ Meralco, etc.	1,138,800,000	1,138,800,000	2,277,600,000	993,600,000	626,400,000	2,277,600,000
Energy Prices & Cost						
Ave. selling price contracted Php/kwh	4.50	4.50	4.50	4.50	4.50	4.50
Spot Price Php/kwh	8.00	5.00	6.50	8.74	5.00	6.87
Coal Php/kwh	1.90	1.90	1.90	2.50	2.50	2.50
P & L Estimates						
Total Revenues	5,124,600,000	5,124,600,000	10,249,200,000	8,372,736,000	4,186,800,000	12,559,536,000
Cost of Energy Sales	2,241,312,000	4,551,216,000	6,792,528,000	3,600,000,000	2,250,000,000	5,850,000,000
Operating Expenses	495,475,200	162,201,600	657,676,800	633,600,000	396,000,000	1,029,600,000
Net income	1,587,085,227	(389,544,873)	1,197,540,655	3,338,408,727	740,072,727	4,078,481,455

Source: FMIC-IG Estimates & Company Guidance

Table 3. SCC Valuation

Net Asset Value	in bn PHP
Gross Value Base Business (mining - using DCF)	53,319
Sub-total	53,319
Less: Net Debt Parent only	1,575
Value of the Coal Business	51,744
Add: Calaca's Acquisition Price + Rehab. Budget	18,900
Value of SCC	70,644
Outstanding shares in mn	355
NAV /php shr.	199.00

Semirara Mining Corp.SCC [PSE]

2009 Sales Php Mn **11,944** Mkt Cap Php mn **49,200** Industry **Mining and Power Generation** Sector **Power**

The company was incorporated in 1980. SCC explores, develops and mines coal. It recently ventured in the power generation business by purchasing 600MW coal-fired Calaca power plant.

First Metro Rating Buy **Last Price** Php165.00 **Intrinsic Value** 199.00 **Transparency and Governance** **Competitive Edge**



Growth Rates			
	2009	2008	2007
Revenue %	40.67	31.17	37.95
Operating Income %	75.81	10.57	(2.68)
Earnings/share %	27.18	25.88	5.51
Dividends/share %	50	233	0
Book Value/Share %	(14.42)	(6.80)	6.95
Stock Total Return %	70.65	(28.29)	152.22
+/- Market	127.12	(46.29)	23.76

Profitability Analysis				
	Current	5 Yr Average	Ind.	Mkt.
T12mo ROE %	48.33	33.93	33.44	18.89
Return on Assets %	21.97	19.26	16.47	4.71
Operating Margin %	16.16	15.02	24.48	21.09
Net Margin %	17.10	15.11	21.59	16.83

Financial Position		
	12-09 Php Mn	12-08 Php Mn
Cash & Cash Equivalents	481	1,012
Receivables	1,254	1,779
Inventories	3,084	1,383
Investments and advances	244	223
Property and Equipment	17,819	1,106
Other Non-Current Assets	455	284
Total Assets	23,827	6,111
Trade and Other Payables	2,857	1,189
Current Portion of Long-term Debt	2,659	389
Long-term Debt	8,364	137
Total Non-current Liabilities	8,464	174
Total Equity	9,847	4,301

Valuation Analysis			
	Current	Ind.	Mkt.
Price /T12moEPS	9.62	14.36	13.48
EV/T12moEBITDA	11.10	12.79	n.a.
Price/T12moCash Flow	10.62	14.59	793
Dividend Yield %	4.61	2.04	2.47
Price/Book	5.08	4.13	2.39
Price/ T12mo Sales/shr.	2.44	3.53	2.47

STOCK PERFORMANCE					
	2006	2007	2008	2009	11/31/10
Total Return %	-34.16	152.22	(28.29)	127.12	247.64
+/- Market	46.01	23.76	(46.29)	70.65	45.26
Dividend Yield %	6.57	2.72	13.55	10.91	4.61
Market Cap Php Mn	8,209	5,066	12,213	8,188	49,200

FINANCIALS					
	2006	2007	2008	2009	9mo2010
Coal Revenues Php Mn	4,687	6,466	8,490	11,500	9,462
Power Revenues Php Mn	-	-	-	443	7,432
Total Revenues Php Mn	4,687	6,466	8,490	11,944	16,895
Net Income Php Mn	601	633	796	1,809	3,200
Earnings per Share	2.16	2.28	2.87	6.52	10.42
Dividends/Shr. Php	1.20	1.20	4.00	6.00	1,781
Shares Mn	278	283	278	278	356
Book Value per Share	15.54	16.62	15.49	13.26	32.46
Assets Php Mn	6,511	6,558	6,111	23,827	27,795
Total Equity Php Mn	4,315	4,614	4,300	33,069	11,563

PROFITABILITY					
	2006	2007	2008	2009	Current
Return on Assets %	8.94	9.69	12.57	7.56	21.27
Return on Common Equity %	14.15	14.15	17.18	17.30	48.33
Net Margin %	12.80	8.30	9.38	15.12	17.10
Operating Margin %	35.67	20.67	14.58	15.40	16.16

FINANCIAL HEALTH					
	2006	2007	2008	2009	9mo2010
Short-Term Liab.	976	730	389	2,800	456
Long-term Debt	713	397	137	10,900	11,475

VALUATION					
	2006	2007	2008	2009	Current
Price/T12moEPS	8.45	19.30	10.28	8.44	9.62
Price/T12moSales/shr.	1.08	1.89	0.96	1.28	2.44
Price/Book	1.17	2.65	1.90	1.55	5.08

Quarterly Results

Revenue Php Mn	Jun-09	Sept-09	Dec-09	Mar-10
Most Recent Period	3,124	2,883	2,704	6,094
Prior Year Period	2,163	1,807	2,045	3,231

Revenue Growth %	Jun-08	Sept-09	Dec-09	Mar-10
Most Recent Period	44.42	59.99	32.21	88.57
Prior Year Period	65.96	88.85	13.14	49.38

Earnings Per Share Php-08	Sept-09	Dec-09	Mar-10	
Most Recent Period	1.49	2.09	1.83	2.14
Prior Year Period	0.50	0.25	0.81	1.08

Global Peers by Market Cap

Name	Mkt. Cap US\$m	Trailing 12M Rev \$mn	P/E	ROE
Bandanna Energy Ltd.	273	0,010m	n.a.	4.08
Cockatoo Coal	228	17.3m	n.a.	60.16
Banpu	5,333	1.69b	12.22	32.01
Gujarat NRE Coking Coil Ltd.	610	121.50m	n.a.	3.38

Top Common Stockholders

Name	In mn Shares	% to Total OS Capital Stock
DMCI Holdings, Inc.	157	56%
HSBC - Clients' Account	53	19%
PCIB Securities, Inc.	22	8%
Others	46	17%
Total	278	100.00%