

Philequity Corner (July 27, 2009)

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Beneficiaries of the Turf Wars

Since our *Turf Wars* article came out, frenetic activities surrounded stocks identified with Manny Pangilinan, Ramon Ang and the Lopez group. A clear beneficiary of the Meralco battleground is the Lopez group. Besieged and bewildered, the Lopezes now have a new lease on life after the takeover. Their balance sheet appears to have turned the corner, the value of their share prices are increasing, and investor sentiment has turned positive on the Lopez companies.

A Life of its own

Stock market pundits, research analysts, strategists, and fund managers are dumbfounded with the price of Meralco. Not even the Lopezes, MVP, and RSA would have thought it will reach a stupefying price of P205.00 last Friday. Compared to a year ago, Meralco was only trading at P59.00.

Despite the pronouncement of MVP and RSA that they are cooperating and working harmoniously to create shareholder value, the share price of Meralco continues to surge. What is puzzling is the continuous rise in the past few weeks. Why is the share price of Meralco continuing to go up, seemingly defying gravity? Meralco's share price has a life of its own.

Back in March, we wrote *A White Knight Emerges in Meralco* (March 9, 2009) which figured MVP as the white knight who eventually became the king in Meralco. Since then, Meralco continued its ascent in tandem with the market's recovery. As we had written in the past, we believe the market bottomed in March 6, 2009. (See article *666 on 3-6-9* in the April 13, 2009 issue of the Philippine Star.) We are thus using March 9 as a reference point for the tables we are presenting.

MVP Turf

The MVP magic worked wonders on PSEi-member stocks, Philex Mining and Lepanto Consolidated. His purported ongoing due diligence on Lepanto Consolidated pushed the share price to a 52-week high. That magic was also evident in Prime Media's 137% gain, as the company was rumored to be the vehicle for the acquisition of our home, Philstar.

Meanwhile, PLDT and Piltel have underperformed relative to the rest of the MVP-related stocks. In mergers and acquisitions, typically, the acquirer tends to lag and the target company gains the most.

	Closing Price		% Gain since
MVP-related stocks	24-Jul-09	YTD gain	White Knight
			9-Mar-09
PLDT	2,395.00	8.9%	7.4%
Piltel	8.30	18.6%	10.7%
Metro Pacific Investments	5.60	107.4%	107.4%
Metro Pacific Tollways	8.00	213.7%	190.9%
Philex Mining	8.00	63.3%	45.5%
Prime Media	0.71	136.7%	136.7%
Lepanto Consolidated	0.27	332.0%	332.0%
Meralco	205.00	262.8%	142.6%

Source: Bloomberg, Philequity Research

RSA Turf

Stocks related to San Miguel or RSA have also made handsome returns. After the lifting of trading suspension following the consummation of the deal with foreign partner QTel, Liberty Telecom's share price skyrocketed to P3.25, equivalent to more than 1,000% increase all in a single day. Third-liners CyberBay and Prime Orion, which are linked to RSA in one way or the other, also flew through the roof on speculation.

	Closing Price		% Gain since
RSA-related stocks	24-Jul-09	YTD gain	White Knight
			9-Mar-09
San Miguel Corp	61.50	51.9%	48.2%
San Miguel Brewery	9.30	12.0%	8.1%
Petron Corp.	5.70	11.8%	7.5%
Ginebra	17.25	30.2%	43.8%
Liberty Telecoms	2.65	1225.0%	1225.0%
Pepsi-Cola Phils.	1.50	72.4%	66.7%
CyberBay Corp.	0.52	160.0%	160.0%
Prime Orion Phils	0.48	182.4%	200.0%
Meralco	205.00	262.8%	142.6%

Source: Bloomberg, Philequity Research

Lopez Turf

Meralco's share price was indeed the biggest gainer. Its price at an all-time high of P205.00 equates to a 128% return since San Miguel started its takeover assault by buying GSIS's Meralco stake at P90.00 apiece. With Meralco continuing its dizzying ascent, other Lopez stocks followed suit. The Lopezes are clearly a beneficiary of the war in Meralco.

	24-Jul-09	% Gain Since	% Gain Since
	Closing Price	<i>Turf Wars</i>	<i>White Knight</i>
		13-Jul-09	9-Mar-09
Meralco	205.00	14.5%	142.6%
First Philippine Holdings	40.50	24.6%	68.8%
Benpres Holdings	2.85	26.1%	145.7%
First Gen Corp.	23.25	12.0%	43.1%
Energy Dev't Corp.	4.55	16.7%	78.4%
ABS-CBN	22.75	4.6%	75.0%
PSE Index	2,676.47	7.4%	39.4%

Source: Bloomberg, Philequity Research

Sweet Surrender

Relinquishing control of Meralco was a painful decision for the Lopez family. Monetary-wise, it was beneficial to them though. Their pride may be wounded, but financially they became stronger. This one big decision spun the entire Lopez group around. The table below shows the impact of the Meralco divestment to the market value of all their listed entities: Almost all of the Lopez companies more than doubled since the start of the year.

Listed Company	Parent Company	Stake of Parent Firm	Market Cap (end-2008)	Market Cap (Latest)	Percentage Gain
Benpres Holdings	Lopez, Inc.	52.8%	4,444	13,057	194%
First Phil. Holdings	Benpres Holdings	43.1%	9,005	23,916	166%
Meralco	First Phil. Holdings	10.7%	66,337	228,556	245%
First Gen Corp.	First Phil. Holdings	54.8%	7,938	18,832	137%
EDC	First Gen Corp.	66.2%	28,323	67,827	139%
ABS-CBN	Benpres Holdings	58.5%	9,549	17,736	86%

Source: Philequity Research

Less is More

After their sale to MVP's group, First Philippine Holdings' (FPH) direct stake of 10.7% at P205.00 per share is worth P24.4 billion. They used to own 33.4% of Meralco, which was only P22.15 billion at the start of the year. The 20% beneficial stake FPH sold to PLDT (through Piltel) at P90.00 was worth only P20.3 billion. The value of the 20% stake sold to PLDT is much less than the 10.7% they own now. Less is definitely more.

	Ownership stake	Value in P'million
First Holdings beneficial stake in Meralco	33.40%	22,150
Meralco stake sold to PLDT	20.00%	20,300
First Holdings remaining direct stake in Meralco	10.68%	24,410

Source: Philequity Research

Life after Debt

As for First Philippine Holdings, its debt profile has dramatically improved. From a debt-ridden holding firm, it now sits atop a huge cash pile. The company disclosed recently that it paid some P6.9 billion in liability – ahead of its scheduled maturity. It intends to further lighten up on its debt position; investors could expect news on debt pre-termination in the coming months. More importantly for the shareholders, the company may be able to restore its declaration of cash dividend. Its parent, Benpres Holdings, stands to benefit from this move.

As Meralco now appears to be less of a core asset, the group can now focus on their generation businesses, First Gen and Energy Development Corp. Opportunities still abound as government assets are up for privatization. Both First Gen and EDC can pursue its growth aspirations by leveraging on their parent's financial muscle. Whether organic or via acquisitions, their growth prospects appears to have more certainty.

Definitely for the Lopezes, there is life after Meralco. And absolutely, there is life after debt.

The Greatest Gain of All

The ultimate gainer of all these activities is the capital market. Because of these turf wars, stock prices have gone up; additional capital was invested; stockbrokers experienced increased trading activities; the Philippine Stock Exchange had bigger volume and fees; and the government received more taxes. Everybody wins. Should we have more turf wars then?

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