



# THE WEALTH VAULT

A Product of Wealth Securities, Inc.

13 May 2011

## MORNING NOTES

### PSEi performance

PSEi Index 12 May 2011:	4,312.01	- 23.03
Value T/O, net	Php 3,745 million	
52-week High	4,413.42	
Low	3,073.71	
Foreign Buying:	Php 1,628 million	
Foreign Selling:	Php 2,948 million	

### Regional performance

Dow Jones	: 12,695.92	+ 65.89
FTSE 100	: 5,944.96	- 31.04
Nikkei 225	: 9,716.65	- 147.61

### Trading snapshot

Index Movers	Points
PLDT	-11.29
Aboitiz Equity Ventures	-7.83
Ayala Land Inc.	+6.05
Philex Mining	+5.14
ICTSI	-4.25

Index Out-performers	Up
Lepanto Mining A	7.32%
Philex Mining	6.48%
Universal Robina Corp.	2.62%
Ayala Land	2.19%
First Gen Corp.	1.87%

Index Under-performers	Down
ICTSI	3.35%
Aboitiz Equity Ventures	2.82%
Meralco	2.79%
SM Prime Holdings	2.50%
Filinvest Land Inc.	2.40%

### Calendar

May 13	Mar `11 KB Loans, Apr `11 CB Accts
May 13	1Q `11 Inflation Report
May 13	AC, SMC 1Q `11 results briefing
May 14	PSE ASM

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## HEADLINES

### US stocks close higher on volatile trading as commodity selloff eases

■ US stocks closed higher on Thursday (May 12) as selloff of commodities eases. All three major indices closed higher with the Dow and the S&P closing 0.5% higher while the Nasdaq closed 0.6% higher. Defensive shares like healthcare led the rally as investors shift to them. Uncertain economic signals and sliding commodity prices however offered a volatile market as investors bet on the market's trend. Crude oil recovered 1% but stayed below US\$100 a barrel while silver lost 3.1% during trading. Financial shares declined however as Goldman Sachs Group was downgraded to "sell" by Rochdale Securities leading the stock to close 3.5% lower. Cisco on the other hand fell 4.8% after reporting that its earnings are below what analysts are expecting. Energy companies also declined due to weaker oil prices.

### ABS-CBN net income down 10% YoY for 1Q `11 to P976M

■ ABS CBN reported that net income decreased by 10% YoY to P976M for the first quarter of 2011 on absence of political ads that bolstered results last year. Consolidated revenues also declined 15% YoY to P6.6B for the same period. Advertising revenues declined 21% YoY but with the taking political ads into account, increased 10% YoY. Consumer sales also experienced a slight decline of 5% to P2.5B due to lower sales of ABS-CBN Global. ABS CBN Global posted a decline of 15% on revenues due to lower subscriptions in Japan, Europe and the Middle East. Subscriptions in Canada however experienced double digit increases although were not enough to compensate for the lost subscribers in other regions. Sky Cable on the other hand reported an increase of 6% YoY in its revenues driven by a stronger take-up of its broadband internet services (+31% YoY).

### Manila Water reports core income up 11% YoY to P1.5B

■ Manila Water reported that its core income increased 11% YoY to P1.5B for 1Q `11. Net income however experienced a slight drop of 3% to P816M. Operating Revenues also increased by 5% to P2.7B as household connections also increased by 64,000 subscribers (+ 5.8%YoY). Despite higher electricity costs, operating expenses only grew 4% due to the company's efforts to reduce overhead costs. EBITDA margin also remained strong at 72%.

### Petron Corp. posts net income of P3.4B for 1Q `11

■ Petron Corporation announced that net income for the 1<sup>st</sup> quarter of 2011 reached P3.4B while sales revenues increased to P64.05B (+15% YoY). The strong results were boosted by strong export sales that increased 60% YoY to 1.38M barrels sold. Petrochemical export volume also increased by 32%. Local demand however weakened due to high oil prices. Despite lower local demand, Petron was still able to increase its market share to 38.6% as of February from 37.8% at the end of 2010.

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**Globe Telecom net income up 8% YoY to P16.5B for 1Q`11**

- GLO announced that Service Revenues increased to P16.5B for 1Q2011 (+8% YOY). OPEX & Subsidy likewise increased to P7.4B (+12% YOY), resulting to an EBITDA of P9.1B (+5% YOY). EBITDA Margin was slightly lower at 55% from 57% a year ago. This all resulted to an NIAT of P3.0B (+1% YOY). Core NIAT, which excludes non-recurring items, FX and mark-to-market adjustments, was also at P3.0B but increased by 6% vs. 1Q2010.
- *GLO expects margin pressures to continue as a result of competition and the preference of its customers for lower yield promos and affordable postpaid plans. Some margin pressure will also be experienced as its broadband business grow faster than account for a bigger share of its revenue base. To compensate for lower yields, GLO is focused on growing its revenue base faster and managing its costs better.*

**PLDT reports core NIAT of P10.6B for 1Q`11, +1% YoY**

- TEL disclosed that Service Revenues amounted to P34.6B (-4% YOY), while Expenses declined to P20.9B (-4% YOY) for 1Q2011. EBITDA Margin increased to 61% from 59% a year ago due to cost management initiatives. This resulted into NIAT of P10.7B (-6% YOY). However, Core NIAT increased to P10.6B (+1% YOY). TEL's Free Cash Flow also increased to P15.0B (+17% YOY) for 1Q2011.
- *Like GLO, TEL is pushing its broadband business in order to compensate for declining revenues from its other businesses. Broadband and internet service revenues grew by 8%, but have so far failed to offset the 4% and 10% declines in the service revenues of Smart and Fixed Line, respectively. This happened while the margins of the Smart and Fixed Line businesses improved YOY. Moving forward, it is critical for TEL to find the optimal balance between improving the margins and managing service revenues. Notwithstanding, TEL maintains that it is on track to meet its 2011 Core NIAT guidance of P40.5B.*

**RCBC announced net income of P1.0B (+5% YoY) for 1Q`11**

- RCB announced that its 1Q2011 Net Income increased to P1.0B (+5% YOY). Net Interest Income was stable at P2.6B while Non-Interest Income increased to P1.8B (+18% YOY) on the back of a 32% increase in Trading Gains. Total Assets increased to P311B (+10% YOY).
- *RCB was one of the few banks who managed to increase Trading Gains YOY for the 1Q2011. We expect that banks in general will encounter a more challenging trading environment for the rest of 2011. Moving forward, it will be important for RCB to focus on growing its Net Interest Income to compensate for possibly lower trading gains for the rest of the year.*
- RCB also announced today that Hexagon Investment Holdings Limited, which is managed by CVC Asia, will buy 171M of common shares of RCB for a price of P29.00. This will boost RCB's Capital Adequacy and Tier 1 Ratios to 19.9% and 14.9% respectively. In turn, this will support the growth of RCB's loan portfolio, with a specific focus on consumer and SME segments.
- *The deal, priced at P29.00 per share, provides an arbitrary floor for RCB's stock price. This reinforces the equity infusion made by IFC to RCB, which was also priced at P29.00 per share. Though the new issuance will result in dilution as the new shares amount to 15% of RCB's enlarged capital base, both IFC and CVC Asia share the view that there is room for further upside, even after considering dilution, at P29.00 per share. At P29.00 per share, RCB will be trading at a 2010 PBV of 1.35x.*

**ICTSI net income up 25% YoY to US\$28.5M for 1Q `11**

- ICTSI announced that revenues from port operations increased 28% to US\$154.9M for the first quarter of 2011. EBITDA was reported at US\$71.6M. ICT attributes the strong results from the recovery of international trade and an increase in storage revenues and ancillary services.

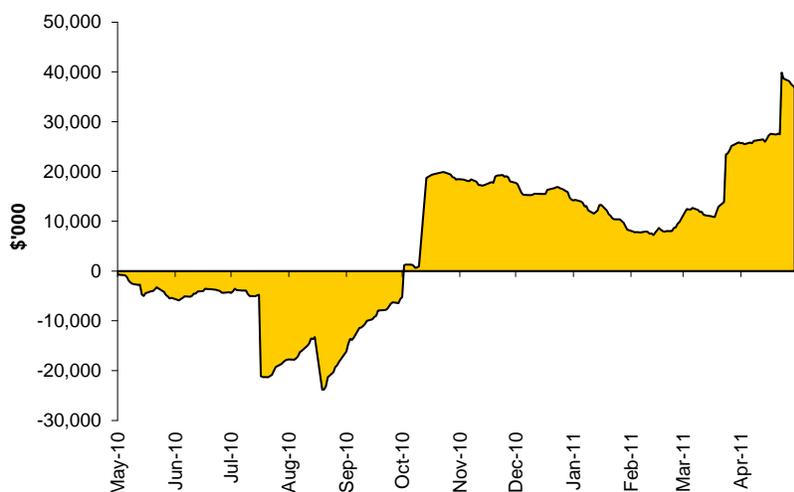
**Nickel Asia posts net income of P809M for 1Q `11 from P11M in 1Q 2010**

- NIKL reported that its 1Q2011 Headline Net Income of P809M from only P11M from the same period last year. This resulted in Net Income – Net of Minority Interests of P428M for 1Q2011, compared to a Net Loss of P102M for the same period last year. 1Q2010's Net Loss was primarily due to non-core / non-recurring items such as losses on FX and commodity hedges. Total Revenues increased to P2.1B (+81% YOY), as the company ramped up shipment volumes to take advantage of higher nickel prices. EBITDA increased to P1.3B (+296% YOY).

**Security Bank net income up 8.5% YoY to P1.01B for 1Q `11**

- SECB disclosed that its 1Q2011 Net Income amounted to P1.01B (+8.5% YOY). Total Assets increased to P183.5B (+28% YOY), driven by a 26% increase in loans. This resulted in the increase of 1Q2011 Net Interest Income to P1.6B (+10% YOY). Though SECB reported lower trading gains for the quarter, this was compensated by a 19% growth in Fee Income and a 63% increase in FX Gains driven by customer-related FX flows. Operating expenses decreased to P978M (-7% YOY), as SECB reported declines in retirement and advertising expenses. SECB's asset quality ratios remained healthy at 1.1% for the NPL Ratio and 310% for the NPL Cover.
- We view SECB's 1Q2011 results positively as they managed to report a decent increase in Net Income YOY despite the absence of strong trading gains for the quarter. Most noteworthy is SECB's effort to increase its loan portfolio, in an attempt to compensate for lower trading gains and Interest Income from Investments in Securities. We expect Net Interest Income to continue driving earnings this year, given SECB's track record in generating industry-best Balance Sheet Spreads from its lending and deposit-taking businesses. Also noteworthy is how SECB managed to control operating expenses while expanding in size. Lastly, the increase in Total Assets is viewed positively as it signifies that SECB is aiming for a better and increased leverage ratio for this year.*

**Foreign Buying-Selling : 12-month period**



Source: Technistock

