

Philequity Corner (05/30/2011)
By Valentin Sy

Each Dog Has Its Day

“Each dog has its day.” That is what Felipe Yap, Philequity director and Chairman & CEO of Lepanto Consolidated and Manila Mining Corp., always tells us whenever we have a board meeting in Philequity. During our meetings, we would usually tease him that while the whole market has gone up, Lepanto and Manila Mining have gone nowhere. His standard answer has always been *“Watch out, each dog has its day.”*

Finally, this year Lepanto and Manila Mining are having their moment in the sun. The companies are among the top performers in the exchange this year with Lepanto surging 89 percent so far and Manila Mining gaining 87 percent. In comparison the PSE index is just up by 1.7 percent year-to-date.

Lepanto’s market cap has also expanded to Php39 billion as of last week from just Php2.5 billion in early 2009. Meanwhile, Manila Mining’s market cap has risen to Php8.7 billion today from just Php1.2 billion in early 2009.

The turning point

The turning point in Lepanto came in September of last year when Gold Fields Switzerland Holdings AG, a wholly-owned subsidiary of Gold Fields Ltd. of South Africa, entered into an 18-month option agreement with Lepanto and Felipe Yap to acquire 60 percent of the Far Southeast gold copper project in Mankayan, Benguet. Gold Fields is currently conducting an aggressive drilling program as part of a feasibility study of Far Southeast.

The most significant gold-copper porphyry in the world

Gold Fields CEO Nick Holland called Far Southeast as “the most significant gold-copper porphyry in the world” in a speech to the Denver Gold Forum on September 2010. According to Holland, early indications of the drilling showed that the mineralized ore is bigger than earlier thought. He estimates that the mineral content of the mine is somewhere between 400 million and 600 million tons. The ore grade is estimated to contain 2 grams of gold per ton and about 0.8 percent copper.

The boy who cried wolf

Investing in Lepanto and Manila Mining has not always been profitable. In fact, many investors who came in during speculative frenzy were left burned. Because of their stock losses, they gave Felipe Yap the monicker “The Boy Who Cried Wolf,” referring to Aesop’s fable.

Investors who jumped in whenever Lepanto or Manila Mining was rumored to be in talks for possible deals were almost always disappointed.

Among the companies who took an interest in Lepanto as early as 2005 were Canadian-listed Ivanhoe Mines which owns and operates a world class copper and gold mine in Southern Mongolia. Lepanto’s “A” shares doubled to a high of Php 0.46 as investors speculated the entry

of Ivanhoe Mines into Lepanto. Aside from Ivanhoe, US-based Phelps Dodge Corp. along with a number of other companies were also said to be in talks with Lepanto at that time.

Several months later, with no deal in sight, the frenzy died down. And the share price went back down to Php 0.20 in time for a 1:5 rights offer at Php 0.20 per share.

Lepanto Consolidated “A” (2005 to present)



Source: Technistock, Wealth Online

The same pattern would repeat several times. In April 2006, Anglo American (the world's second largest mining company), Zijin Mining (China's largest gold producer) and Ivanhoe again were rumored to be in talks with Lepanto, sending the share price back up to the Php 0.40 level again. When no deal happened, the share price went back down near Php 0.20 in time for a 1:8 rights offer at Php 0.20.

In November 2007, Lepanto announced that Zijin is proposing to invest \$70 million for a 20% stake in Far SouthEast subject to due diligence and regulatory approvals. The price of “A” shares went as high as Php 0.53 this time around. But several months later, with no firm commitment from Zijin yet, the share price went back below Php 0.30 just in time for a 1:7 rights offer at Php 0.25.

Fanatics-turned-skeptics miss the real deal

Mistakenly believing that Felipe Yap is just The Boy Who Cried Wolf, many investors lost interest in Lepanto after these false starts. Many Lepanto fanatics turned into skeptics. Embittered, these skeptics would miss out on the huge move later when the share price would rise 15 times from Php 0.06 in early 2009 to a new all-time high of Php 0.93 seven trading days ago. Many have stayed on the sidelines even when Gold Fields struck a deal with Lepanto and even when MVP (thru Philex) took a 5% stake in Lepanto and ventured into a deal with Manila

Mining. Refer to our article *Follow the money (Manny) trail* in the May 23, 2011 issue of **The Philippine Star**.

From Speculator, to Investor, to Single-Biggest Owner, to chairman

Unbeknownst to many new investors, Lepanto was not always controlled by Felipe. It was previously controlled by Carlos Palanca, Jr., whose family was more known for having started La Tondena Distilleries. Meanwhile, Felipe was into textile, garments, retail and supermarkets in the Visayas and in Davao.

The joke with Felipe is that he first came in, a long time ago, only as a speculator in Lepanto. Then when he could not sell out (or being “ipit” as we call it), he became an investor and thereafter a long-term investor. Aided by the cashflow from his businesses, he later on purchased more shares until he became the biggest shareholder of Lepanto, thereafter becoming its Chairman.

The bull-headed Felipe

Born on the year of the Ox or Bull, Felipe is known to be bull-headed and very obstinate. In fact, he prides himself to be very stubborn and adamant which makes him a very good negotiator. In the end, he says that his stubbornness benefits the shareholders because he always brings the best deal on the table, just like with the recent Lepanto and Manila Mining deals.

Having the last laugh

Behind the teases and the jokes Felipe always receives during our board meetings, we have always been a believer. In fact we are one of the early believers and we continue to believe in Felipe when most everyone else has turned skeptic.

Now that Gold Fields is almost in, and MVP is in, The Boy Who Cried Wolf is having the last laugh. Felipe owns roughly 40 percent of Lepanto. When Far Southeast goes into production, Felipe will be one of the richest in the Philippines and in Asia.

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