

Philequity Corner (Oct 7, 2013)

By: Valentino Sy

A Win-Win Deal

The Gokongweis are truly the smartest entrepreneurs in the country. Last week, the blockbuster transaction with the San Miguel group for the sale of its ~27% shareholdings in Meralco valued at Php72 billion deal was a testament to this. Whenever they find value in an opportunity presented to them, they seize it. They have the courage to ride out on that investment over a long period. They have the fortitude and the intelligence to crunch the numbers and make such investment. More importantly, they have the resources to pay cash in a worthwhile deal. The Meralco sale was an all-cash transaction. Just like what we said in our *Philequity Corner* article *Pacquiao Stocks* more than two years ago (16 May 2011), “We have always considered the Gokongweis to be the most intelligent businessmen in the country.”

One may recall that nearly two years ago, the Gokongweis – through JG Summit – sold its stake in Digitel, owner of the Sun Cellular brand, to PLDT for a blockbuster deal worth Php69.2 billion. It allowed the company to attain an 8% equity stake in PLDT. More importantly, the buyout also triggered consolidation in the competitive telecom industry. See *Philequity Corner* article *The Smart Conquered the Sun* (31 October 2011).

Improved Profile

The purchase of Meralco would significantly improve the profile of JG Summit. First, the cash dividends that JG Summit receives from its operating subsidiaries and investee companies would rise to about Php11 billion per annum. Aside from URC and PLDT, a big part of that figure would come from Meralco. Second, the addition of Meralco would further enhance JG Summit’s asset portfolio. (See table.) This is very important especially for long-term investors looking for a diversified and well-managed company. And third, JG Summit’s growth prospect would be enhanced as its ties with the Pangilinan group foster. We see more collaborative efforts between the two conglomerates in the future.

JG Summit's Subsidiaries & Affiliates

Business Sector	JG Summit Company
Food & Beverage	Universal Robina
Real Estate	Robinsons Land
Airline	Cebu Pacific
Telecommunications	PLDT
Electric Distribution	Meralco
Petrochemicals	JG Petrochem
Banking	Robinsons Bank

Partners, Partners, Partners

Many expect the partnership between the Gokongweis and Manny Pangilinan to flourish as they could discuss business ventures and exchange ideas more regularly. Mr. James Go, Big John Gokongwei’s brother, sits in the board of PLDT representing JG Summit’s stake in the telecom giant. When San Miguel exits from Meralco, JG Summit would also fill in the vacated board seats. Meantime, both JG Summit and Metro Pacific Investments are teaming up in the Cebu-Mactan airport project under PPP.

What’s next for JG Summit and Metro Pacific Investments? Will it be tollways, power generation or some other infrastructure project? Will these two also team up to buy out Lucio Tan’s remaining controlling stake in Philippine Airlines? Will there be a consolidation in the airline industry? And will San Miguel and Ramon Ang be part of the partnership? There’s an ongoing consolidation of the airline industry in the US. Could we see such a scenario unfold in the Philippine setting?

A tidbit, by the way: John Gokongwei and James Go were in the wedding party of Ramon Ang’s eldest son, Paul, who tied the knot with Tala Fernando over the weekend. The guests included not only the powerhouses in the corporate scene but also in government. Both President Aquino and Vice President Binay graced the occasion.

Better Control for Metro Pacific Investments

Manny Pangilinan of Metro Pacific and Ramon Ang of San Miguel have always been perceived as competitors in the many industries they operate in and the infrastructure projects they bid into. (*You may refer to our series of Philequity Corner articles on the Meralco takeover saga.*) With the Gokongweis as partners in Meralco, the company can be more focused in attaining its objectives and better execute on the growth aspirations in the power business.

No more Overhang for Meralco

For months already, the market talk of a possible share sale in Meralco created an overhang on the stock. With this price overhang now resolved, investors will now look into Meralco's future earnings potential as a better gauge of its value. Its long-term move towards power generation will allow it to maximize opportunities as an integrated energy company.

Back in the PSE Index

With the sale of San Miguel's 5.7% stake to various investors last July, Meralco's free float will improve to at least 12%, thus making it eligible to re-enter the benchmark PSE Index. Being one of the largest market cap stocks, Meralco could also make a return to global indices such as the MSCI.

More Cash, More Focus for San Miguel

San Miguel, including two of its subsidiaries, PureFoods and Global Power, stand to benefit from the deal as the group cashes in on its passive investment in Meralco. Including the earlier sale of a 5.7% stake which was priced at P270 per share, the San Miguel group will have the available cash to deploy on its priority projects and truly transform San Miguel into a well-diversified conglomerate with vast investments in both consumer and infrastructure sectors.

A Win for SMC, A Win for the Country

The sale of its shares is not only a win for San Miguel but also for Philippine business and our country. The cash San Miguel will raise can be used to participate in more PPP projects. As the government rolls out additional infrastructure projects next year, SMC can strongly contend against other bidders. What's next after the NAIA Expressway project?

Believers in the Philippine Economy

Moody's upgrade of the country's sovereign rating to Investment Grade is a seal of the Philippines' robust economic fundamentals. The Philippines is the only country in the ASEAN region to ever secure such a rating from all three major credit rating agencies in under a year. This accomplishment is a solid invitation for investors to put in capital and do business in the country.

The Gokongwei family, the Pangilinan group, and the San Miguel companies are believers in the Philippine economy. As serious investors who have placed their bets in the prospects of the country, their growth over the years is a reflection of the country's economic progress. And as the fundamental underpinnings remain favorable, expect these companies to continue investing in the Philippines.

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