



Philequity Corner (May 8, 2017)
By Wilson Sy

The Hunter Games

After consolidating for more than three months between 7,100 to 7,400, the PSEi closed last Friday at 7,842. Aside from robust global markets, one of the catalysts that contributed to the PSEi's strong move is the speculation about possible M&As in the banking sector.

Speculation on RCBC takeover leads bank stocks higher

Recently, there has been speculation that some banks may be in play as potential acquisition targets. This started with RCB's gap up move on April 17.

	4/12/17	5/5/17	% Chg
RCB	39.00	58.70	50.5%
PNB	57.50	68.65	19.4%
EW	20.80	22.70	9.1%
MBT	84.50	86.95	2.9%
UBP	79.65	81.95	2.9%
BDO	121.00	123.00	1.7%
BPI	105.00	105.10	0.1%
SECB	217.00	215.60	-0.6%
CHIB	38.20	36.45	-4.6%

Sources: Bloomberg, Wealth Research

From the table above, it can be seen that RCB has risen 50.5% since April 12. Moreover, it has surged 104.2% from its bottom of 28.75 on March 22, 2016 (at the height of the AMLA investigations). Note that RCB has been rumoured to be a takeover target for several years.

PNB and EastWest Bank follow RCBC's lead

Aside from RCB, both PNB and EastWest Bank (EW) gained significantly since mid-April. Not surprisingly, these three banks were trading below book value and were the cheapest among liquid banking stocks before this recent move ensued. PNB was the subject of an acquisition attempt in the past. It was in late stage negotiations with BPI for a possible M&A before the deal was scuttled at the last minute. Meanwhile, EW's management has recently said that it is open to selling a stake in the bank in order to take in a strategic foreign partner. Still, EW remains as a potential hunter, as it continues to look for acquisitions that will enhance its competitive position. Last year, it acquired the consumer lending and retail banking businesses of Standard Chartered Bank Philippines.

Tale of the tape

Looking at the rankings within the banking sector, one would be able to decipher which among the different banks are the possible hunters and targets. In the table below, we show the top local banks, ranked by assets, loans, deposits and capital.

Bank	Ticker	Assets	Loans	Deposits	Capital
BDO Unibank	BDO	2,324,958	1,500,484	1,905,204	217,535
Metrobank	MBT	1,876,009	1,060,868	1,389,302	205,553
Bank of the Phil Islands	BPI	1,725,696	1,040,720	1,431,300	167,684
Phil National Bank	PNB	753,765	428,027	570,503	109,941
Security Bank	SECB	694,982	289,658	346,598	97,127
China Bank	CHIB	633,198	386,827	541,583	63,386
Rizal Commercial Banking Corp	RCB	521,193	306,167	353,077	62,133
Union Bank of the Phil	UBP	524,432	235,386	376,485	67,587
United Coconut Planters Bank	UCPB	310,099	143,999	265,653	17,665
EastWest Bank	EW	291,818	198,876	240,222	34,449
Asia United Bank	AUB	165,501	98,092	129,705	23,770
PhilTrust Bank	PTC	153,386	55,108	130,030	22,796
Bank of Commerce	BOC	136,843	47,687	117,496	15,365
Phil Bank of Communications	PBC	86,499	46,089	63,146	10,782

Amounts in million pesos; as of end-2016

Sources: Company data, Wealth Research

The Big 3

From the table above, it can be seen that the Big 3 banks (BDO, MBT and BPI) are the obvious hunters. In terms of size, the top 3 banks are in a tier of their own. Moreover, BDO, MBT and BPI all have a history being aggressive acquirers. Below are some of the acquisitions made by the Big 3 banks.

- BDO – One Network Bank (2015), GE Money Bank (2009), Equitable-PCI Bank (2007), Banco Santander (2003), First E-Bank (2002), Dao Heng Bank (2001)
- BPI – Prudential Bank (2005), Far East Bank (2000), CityTrust Bank (1996), Family Savings Bank (1985)
- MBT – Global Business Bank (2002), Solid Bank (1999), Asian Banking Corp (1999), Phil Banking Corp (1999)

We will discuss the different M&A permutations and possible combinations of acquirers and targets in a future article.

Other potential hunters

Aside from the Big 3, there are mid-sized banks which may also end up as potential acquirers. One prospective acquirer is China Bank (CHIB), which has the solid backing of its parent company, SM Investments Corp (SM). Another possible acquirer is SECB, because of its strong Japanese partner – Bank of Tokyo-Mitsubishi UFJ (BTMU). EW and UBP likewise have the backing of their respective owners (the Gotianuns and the Aboitizes), but we do not discount the possibility that they may also end up as acquisition targets. Aside from local banks, foreign banks and financial institutions may also end up as acquirers. In the last few years, we have seen growing interest from foreign banks and entities who want to enter the Philippine market.

Prospective targets

Aside from RCB and PNB, there are also other mid-sized banks that are potential acquisition targets. UCPB has been on the auction block before and the government has stated its intention of selling the bank. Likewise, there was a previous attempt to sell BOC to Malaysia's CIMB, but the deal was not completed due to unresolved real estate issues.

Size matters

By increasing size, successful acquirers may realize the benefits of economies of scale, improved operational efficiency and a wider branch network. Well-planned and properly executed M&As may also allow hunter banks to realize synergies from acquisitions. In addition, size becomes more of a factor in the retail banking space. Bigger banks have wider distribution networks which can attract more new customers and service existing ones. Indeed, in banking, size really matters.

BSP is supportive of industry consolidation

In our recent conversation with central bank officials, they stated that the BSP is in favor of more consolidation within the banking industry. For many years, the BSP has repeatedly stressed that it prefers fewer but stronger banks. Just as an aside, the appointment for the next BSP Governor is right around the corner.

Hunter games in the past

One of the potential catalysts for the stock market are mergers and acquisitions (M&As). In our book “Opportunity of a Lifetime”, we devoted an entire chapter to discuss past M&As and their impact to the stock market (Chapter 9 – Mergers and Acquisitions). These include Manny Pangilinan’s takeover of Philex (PX) and Meralco (MER). Below, we enumerate some of our past articles on major M&As, including those that occurred outside the banking sector.

- *The hunter becomes the hunted (May 30, 2005)*
- *Banking M&A – the saga continues (January 16, 2006)*
- *The hunt is over – SM takes control of EPCI (October 9, 2006)*
- *Checkmate (March 16, 2009)*
- *Turf wars (July 13, 2009)*
- *Hunt for banking supremacy (November 26, 2012)*

M&As, a catalyst for the stock market

We have seen that hunting sprees, or even mere speculation about possible M&As, can drive bank valuations higher. Aside from pushing up the sector’s valuations, banking M&As create speculation and excitement which spills over to the rest of the market. With M&As, fresh money is infused into the stock market, which eventually fund the purchases of other stocks. This is why M&As, even those outside the banking sector, generally propel the market upward. In light of our country’s strong fundamentals, another wave of M&As among banks may drive the PSE Index higher, as it seeks to retest our all-time high of 8,137.

Full disclosure

I am a director of EastWest Bank (EW) and the Philippine Stock Exchange (PSE). This article expresses my personal views and opinions on the topic and not those of the board and management of EW and PSE.

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