

WEDNESDAY, 10 MAY 2012

Philippine Daily Notes

(As of May 18, 2012)

Headlines:

- **Alliance Global, Inc. (AGI):** 1Q12 core net income Php4.15Bil up 46% y/y
- **Atlas Consolidated Mining (AT):** 1Q12 net profits fall sharply on higher operating costs
- **DMCI Holdings, Inc. (DMC):** 1Q12 earnings below forecasts as major business segments disappoint
- **Economy:** Hot money inflows reach US\$772.4 in first 4 months

Market Summary

- The PSEi declined by 137.60 points to 4,879.42 as concerns over the European debt crisis weighed on the market.
- Index losers outnumbered gainers 27 to 1, while two issues remained unchanged. The Holding Firms (-3.69%), and Property (-3.08%) indices declined the most. Notable index decliners included DMC (-4.92%), ALI (-4.52%), JGS (-3.90%), AC (-3.89%) and MPI (-3.45%). On the other hand, the Mining and Oil sector (-1.19%) declined the least as OV (+2.27%) and SCC (+0.08%) were two of a handful of gainers during the last trading session.
- Value turnover declined to Php5.92Bil from Php7.1Bil on Thursday. Foreigners were net sellers for the fifth straight day as they disposed of Php929.6Mil worth of shares.

INDICES

	Close	Points	%	YTD%
PSEI	4,879.42	-137.60	-2.74	11.61
All Shares	3,266.08	-68.25	-2.05	7.26
Financials	1,184.49	-32.67	-2.68	22.25
Holding Firms	4,250.35	-163.04	-3.69	21.31
Industrial	7,493.46	-125.29	-1.64	5.92
Mining & Oil	23,746.98	-287.13	-1.19	1.03
Property	1,769.31	-56.28	-3.08	19.45
Services	1,608.48	-29.78	-1.82	-0.49

INDEX GAINERS

Ticker	Company	Price	%
SCC	Semirara Mining	250.00	0.08
PX	Philex Mining Corp	23.95	0.00
CEB	Cebu Air, Inc.	67.50	0.00
AGI	Alliance Global, Inc.	12.48	-0.16
MWC	Manila Water Co	23.45	-0.42

INDEX LOSERS

Ticker	Company	Price	%
AEV	Aboitiz Equity Ventures	48.00	-5.70
DMC	DMCI Hldgs, Inc.	58.00	-4.92
ALI	Ayala Land Inc	19.00	-4.52
JGS	JG Summit, Hldgs	32.00	-3.90
AC	Ayala Corporation	410.00	-3.89

TOP 5 MOST ACTIVE STOCKS

Ticker	Company	Turnover
MBT	Metrobank	1,028,693,000
DMC	DMCI Hldgs, Inc.	571,492,600
TEL	Phil Long Distance Co	258,465,300
AGI	Alliance Global Inc.	229,619,700
SM	SM Inv. Corp	223,549,900

EVENTS CALENDAR

DATE	TICKER	COMPANY	EVENTS
9-May-12	ATI	Asian Terminals, Inc.	Ex-date Php0.30 Cash Dividend
9-May-12	BMM	Bogo Medellin Milling Company	Ex-date Php2.50 Cash Dividend
15-May-12	PERC	Petroenergy Resources, Corp.	Ex-date Php0.10 Cash Dividend
21-May-12	SMPH	SM Prime Hldgs	Ex-date Php0.29 Cash Dividend
22-May-12	SMDC	SM Development Corporation	Ex-date Php0.05 Cash Dividend
22-May-12	FLI	Filinvest Land Inc	Ex-date Php0.0474 Cash Dividend
23-May-12	SM	SM Investments Corporation	Ex-date Php10.40 Cash Dividend
28-May-12	BLFI	BDO Leasing & Finance, Inc.	Ex-date Php0.05 Cash Dividend
30-May-12	EEI	EEI Corporation	Ex-date Php0.025 Cash Dividend

Alliance Global, Inc.

1Q12 core net income Php4.15Bil up 46% y/y

1Q12 core net income of Php4.15Bil up 46% y/y and exceeds COL estimates. In a disclosure to the PSE, AGI reported core net income of Php4.15Bil in 1Q12 up 46% y/y and representing 37% of COL estimates as Megaworld and Emperor delivered strong 1Q12 results. Total revenues for the quarter came in at Php24.35Bil, up 78% y/y and representing 37% of COL estimates.

Megaworld and Emperor registers strong 1Q12 results. Megaworld reported total revenues of Php7Bil and net income of Php1.58Bil in 1Q12, up 22% and 27% y/y, respectively, on the back of strong sales of residential projects and leasing income. Emperor likewise had a strong 1Q12 with revenues of Php5.5Bil and net income of Php1.03Bil, up 64% and 124%, respectively.

Reiterate BUY rating. We reiterate our BUY rating on AGI with a FV estimate of Php14.89/sh. At Php12.50/sh, AGI is trading at only 11.4X FY12E P/E, significantly lower than the 14.8X FY12E P/E of its local peers. We maintain our positive view on AGI and will review the ratings in light of the stronger than expected 1Q12 performance. The latest financial statements were not yet made available.

Focus Stock

Ticker: **AGI**
 Current Price: **Php12.50**
 COL Rating: **BUY**
 Fair Value: **Php14.89**

Exhibit 1: AGI Results Summary

<i>in PhpMil</i>	1Q11	1Q12	%Change	% of FY Forecast COL
Revenue	13,670	24,350	78.1	37.1
Net Income	2,847	4,150	45.8	37.4
Net Margin (%)	15.5	17.5	2.0	0.7

Source: AGI, COL estimates

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Atlas Consolidated Mining

1Q12 net profits fall sharply on higher operating costs

Net profits fall below consensus forecast. Atlas reported 1Q12 net profits of Php267Mil, a sharp drop compared to 1Q11 net profits of Php705Mil. Earnings for the period represent only 7.0% of consensus forecast as higher operating costs and one-time charges pulled down first quarter results. Revenues declined by 1.4% to Php3.23Bil, pulled down by falling metal prices, partly offset by higher production levels and gold by-product credits.

Exhibit 1: Results Summary

in PhpMil	1Q11	1Q12	% change	% of Consensus
Revenues	3,276	3,231	(1.4)	22.1
Operating Income	1,401	654	(53.3)	11.3
<i>Oper. Margins</i>	42.8	20.2	(22.5)	-
Net Income (loss)	705	267	(62.1)	7.0
<i>Net Margins</i>	21.5	8.3	(13.2)	-

Source: AT, Bloomberg

Operating income misses largely due to higher than expected costs. Operating income in 1Q12 fell 53.3% to Php654 Mil, accounting for only 11.3% of consensus forecast. Operating profits fell as operating costs rose 27.4% to Php2.74Bil due to higher production costs and more intensive exploration activities.

Consensus has a HOLD rating. Consensus has a HOLD rating on AT with a FV estimate of Php19.10/sh.

Focus Stock

Ticker: **AT**
 Current Price: **Php18.38**
 COL Rating: **N/A**
 Fair Value: **N/A**

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DMCI Holdings, Inc.

1Q12 earnings below forecasts as major business segments disappoint

1Q12 earnings below forecasts as major business segments disappoint. DMC's reported 1Q12 net income of Php2.67Bil, representing 20.1% of COL forecast and 22.7% of consensus forecast. Earnings fell short of estimates as the results of DMC's major business segments were all disappointing.

Focus Stock

Ticker: **DMC**
 Current Price: **Php58.00**
 COL Rating: **HOLD**
 Fair Value: **Php51.42**

Exhibit 1: DMC Results Summary

<i>in PhpMil</i>	1Q11	1Q12	%Change	% of FY Forecast COL
Revenue	10,815	13,010	20.3	24.0
Operating Income	2,707	2,830	4.6	21.8
Operating Margin (%)	25.0	21.8	(3.3)	N/A
Net Income	2,267	2,674	17.9	20.1

Source: DMC, COL estimates

Exhibit 2: DMC Earnings Summary

<i>PhpMil</i>	1Q11	1Q12	%Change
Coal	739	650	(12.0)
Power	262	400	52.7
Water	498	611	22.7
Construction	362	282	(22.1)
Real estate	224	405	80.8
Nickel mining	197	269	36.5
Others	(16)	57	(456.3)

Source: DMC, COL estimates

Seasonally weak 1Q and depreciation led to poor results for Maynilad. Water distribution subsidiary Maynilad reported a 19% increase in 1Q12 core earnings to Php1.66Bil. This was driven by a 9.6% increase in tariffs and a 10.1% increase in billed volume, in line with our full year growth forecast for FY12E. However, 1Q12 earnings represent only 19.5% of full year forecast given that 1Q is usually a seasonally weak quarter for water consumption. Furthermore, higher than expected depreciation expense and other charges also dragged down 1Q12 results.

Rising mining cost and prolonged power plant rehab drag SCC's 1Q12 results. SCC's 1Q12 earnings rose 2.6% to Php1.73Bil, representing only 21.5% and 23.1% of COL and consensus forecast. Earnings trailed estimates due to the lower than expected margin of coal mining operations and as power generation revenues fell short of our forecast. As a result, SCC's 1Q12 operating income declined 9.1% y/y to Php1.61Bil, representing only 18.9% of our full year forecast. Even with Php75Mil of forex gains and Php125Mil of other income, net profit still trailed behind estimates.

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Construction earnings below forecast on margin. Earnings contribution from the construction segment dropped 22.1% to Php282Mil in 1Q12, below COL forecast as it represents only 16% of our FY forecast. Revenue from construction rose 40% y/y to Php3.7Bil, representing 32.8% of our full year forecast. However, earnings from this segment failed to meet estimates as gross margin declined to 12.1% from 18.5% last year and lower than our forecast of 27%. Margins declined given majority of construction projects this quarter were building projects which earned lower margins compared to the infrastructure projects. However, management expects margins to improve as it starts major construction works for the new Calaca power plant project and the MRT-7 project.

DMCI Homes revenues miss forecast. Earnings contribution from the real estate business reached Php405Mil in 1Q12, up 81% y/y, but representing only 21.2% of FY forecast. Earnings fell short of expectations mainly due to lower than expected revenues of Php1.72Bil, representing only 17.3% of our full year forecast. Gross margin for real estate improved to 52.4% from 46.7% last year, and higher than our forecast of 35%. Margins improved as DMC Home's average selling price inched up and as costs of sales per unit declined.

Nickel mining comprised 10% of total earnings. Earnings contribution from DMC's nickel mining segment rose 36.5% to Php269Mil and represented 10.0% of DMC's total net income, driven by lower operating cost. Revenues from nickel mining rose 2% to Php974Mil, driven by a 22.2% increase in sales volume to 600,000 WMT. However, this was offset by a decline in nickel ore prices. Earnings growth was led by lower operating cost which fell 11% to Php572Mil. Management reiterated that earnings from the nickel mining segment may not be sustainable given its contract with the mine owner of the Benguet Mine is set to lapse this year and the latter has decided to operate the mine on its own. DMC said the owner of its other operating mine, the Acoje Mine, has also decided to operate its mine on its own. Going forward, DMC is looking to acquire other mining assets in order to make the nickel mining business a sustainable and major earnings contributor.

Maintain Hold rating. We have a HOLD rating on DMC with a FV estimate of Php51.42/sh. Notwithstanding the positive fundamentals of DMC, we believe that valuations have become rich as its share price increased 46.5% since the beginning of the year. DMC is currently trading at a 17.7% premium to of FV estimate of Php51.42/sh.

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Economy

Hot money inflows reach US\$772.4 in first 4 months

Net inflow of investments or “hot money” fell from US\$1.64Bil to US\$772.4Mil in the first four months of 2012. Gross inflows declined by 12% to US\$5.5Bil while gross outflows increased by 2.6% to US\$4.7Bil. For April alone, net inflows plunged 50% to US\$333Mil with most of the investments proceeding to the PSE followed by peso-denominated securities.

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<i>in Php Bil</i>	1Q11	1Q12	% change	9M11	% of full year estimate	
					COL	Consensus
Real estate sales	3,355	4,550	35.63%	4,550	23.54%	
Realized gross profit	949	1,347	41.95%	1,347	30.19%	
Rental revenues	809	950	17.37%	950	20.93%	
EBIT	1,798	2,292	27.43%	2,292	25.95%	
Reported net income	1,246	1,557	24.93%	1,557	23.96%	22.06%

INVESTMENT RATING DEFINITIONS

BUY	HOLD	SELL
Over the next six to twelve months, we expect the share price to increase by 15% or more.	Over the next six to twelve months, we expect the share price move within a range of +/- 15%.	Over the next six to twelve months, we expect the share price to decline by more than 15%.

TOP PICK DEFINITION

A stock that is included in our "Top Pick" list has to meet the following criteria: 1.) It must belong to a sector with neutral to positive outlook; 2.) It must have double digit earnings growth for the current and the succeeding fiscal year; 3.) Its share price appreciation potential must be above 15% as of the date it was included in the list; and 4.) It must have an upward intermediate term trend.

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