

THURSDAY, 06 SEPTEMBER 2012

Field Notes

**Energy Development Corporation (EDC)
More challenges ahead**

- Management sticking with its November trial testing schedule for Bacman.** Management reiterated that it will conduct the trial testing of the unit 1 and 2 of Bacman as scheduled in November. Currently, the turbines of unit 1 and 2 are being re-bladed and this will take two months from September to October. Meanwhile, the generator parts of unit 1 and 2 are still undergoing rehabilitation and testing in England. The generator of unit 1 which was scheduled to be shipped back in August is still with the contractor Alstom as the reliability testing took longer than expected.
- Output declining for Leyte and Tongonan steam fields.** According to management, the output of the Unified Leyte and Tongonan steam fields is steadily declining. Output of the Unified Leyte steam field declined by 1.9% in 1H12, while that of Mindanao 2 declined by a steeper pace of 21.6% for the period. Management said that more drilling activities are needed to boost the steam fields' capacities. However, it is difficult to justify the capex required to boost the output of the Leyte and Tongonan steam fields due to the low average selling price (ASP) for both (ASP below Php3.00/kwh, 38% below Pal-Tong ASP). Drilling efforts are also currently focused on the new acquisition areas such as Palinpinon and Bacman.
- Maintenance capex higher than expected.** Management revealed that this year's maintenance capex for EDC's steam fields and power plants is estimated at Php3.2Bil. This is 14.3% higher than our forecast of Php2.8Bil. The cost of replacement well for existing steam fields is now estimated at US\$7.3Mil, higher than management's earlier estimate of US\$5Mil per well. Management attributed the increase to higher manpower and materials costs.
- Reviewing forecasts.** We have a BUY rating on EDC with a FV estimate of Php8.43/sh. We like EDC for being a pure play on renewable energy since all of its power plants are renewable energy plants, making the company a major beneficiary of rising coal and oil prices. However, we are reviewing our forecast for a potential downgrade in light of the latest development in its Bacman geothermal plants.

Forecast Summary (PhpMil)

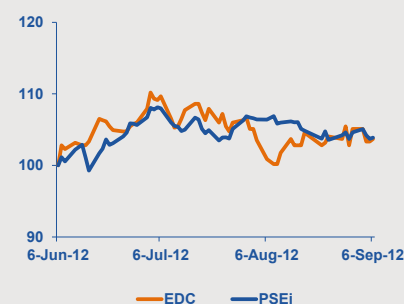
Year to Dec. 31	2009	2010	2011	2012E	2013E
Sales	22,067	24,902	25,263	28,110	33,315
% change y/y	7.5	12.8	1.5	11.3	18.5
EBIT	9,373	10,243	9,218	12,073	16,501
% change y/y	-16.1	9.3	-10.0	31.0	36.7
EBIT Margin (%)	42.5	41.1	36.5	42.9	49.5
EBITDA	10,584	13,688	12,660	15,767	20,354
% change y/y	-10.6	29.3	-7.5	24.5	29.1
EBITDA Margin (%)	48.0	55.0	50.1	56.1	61.1
Net Profits	3,310	4,116	-166	7,083	11,210
% change y/y	154.0	24.3	N/A	N/A	58.3
NPM (%)	15.0	16.5	-0.7	25.2	33.6
EPS (cents)	0.18	0.22	-0.01	0.38	0.60
% change y/y	154.0	24.34	N/A	N/A	58.26

RELATIVE VALUE

P/E(X)	33.4	26.9	-664.4	15.6	9.9
P/BV(X)	3.6	3.4	3.7	3.1	2.4
ROE(%)	10.9	12.8	-0.6	19.6	24.5
BVPS(P)	1.6	1.7	1.6	1.9	2.4
Dividend yield(%)	1.7	2.0	1.7	1.2	1.9

SHARE DATA

Rating	BUY
Ticker	EDC
Fair Value (Php)	8.43
Current Price	5.90
Upside (%)	42.88

SHARE PRICE MOVEMENT

ABSOLUTE PERFORMANCE

	1M	3M	YTD
EDC	2.79	3.69	-6.20
PSEi	-2.37	3.87	18.00

MARKET DATA

Market Cap	110,625.00Mil
Outstanding Shares	18,750.00Mil
52 Wk Range	4.83 - 6.41
3Mo Ave Daily T/O	92.44Mil

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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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