

FRIDAY, 14 DECEMBER 2012

Company Update

**Aboitiz Power Corporation (AP)  
More challenges seen in 2013**

- No agreement reached with Chevron.** Management said that no agreement has been reached with Chevron with regards to the new steam sales agreement for the Tiwi-Makban geothermal plant to replace the existing agreement which will lapse in May 2013. If no deal is reached by June of next year, Tiwi-Makban's steam pricing will be based on the coal-indexed geothermal resource supply contract (GRSC) which will push steam cost to ~ Php2.80/kwh, 74% higher than current cost and 25.6% higher than our estimates, which is based on a 50/50 revenue sharing scheme assumption. Assuming a Php2.80/kwh steam cost, our FY13E earnings forecast for the Tiwi-Makban will decline by 15.1% to Php5.8Bil. AP is hopeful that with the potential investment of the SM Group into Chevron, negotiations between AP and the steam field owner will gather pace.
- Ancillary service revenues could decline beginning next year.** AP is expecting lower ancillary service revenues for 2013, as ERC has ruled that beginning next year, pricing for ancillary service between power plants and the National Grid will be based on a pre-agreed upon capacity fee instead of pricing based on WESM prices. Although there are no details on the new ERC ruling at this point, management believes that ancillary service revenue could decline since it can no longer take advantage of selling ancillary service during times of peak demand to enjoy higher prices. We estimate that ancillary service revenue to account of 22% of AP's total revenues in FY13E.
- Maintain HOLD rating.** We maintain our HOLD rating on AP with a FV estimate of Php38.2/sh. We like AP given the permanent earnings boost that its hydro plants will obtain from the sale of ancillary services. Future earnings will also benefit from the 600MW Subic coal plant and the 300MW Davao coal plant which are scheduled to begin operation by 2015 and 2016, respectively. However, at Php37.1/sh, upside to our revised FV estimate is limited at 2.9%. AP's relative valuation is also not very compelling at this point, with the stock trading at 12.9X FY13E P/E, a premium relative to the 10.66X average FY13E P/E of domestic and regional peers.

**Forecast Summary (PhpMil)**

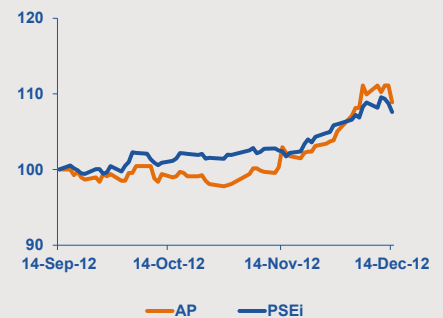
Year to Dec. 31	2009	2010	2011	2012E	2013E
<b>Sales</b>	<b>23,174.3</b>	<b>59,551.5</b>	<b>54,475.6</b>	<b>61,964.6</b>	<b>61,826.7</b>
% change y/y	89.3	157.0	(8.5)	13.7	(0.2)
<b>EBIT</b>	<b>5,456.1</b>	<b>26,231.6</b>	<b>20,355.4</b>	<b>23,087.8</b>	<b>19,849.8</b>
% change y/y	230.2	380.8	(22.4)	13.4	(14.0)
EBIT Margin (%)	23.5	44.0	37.4	37.3	32.1
<b>EBITDA</b>	<b>6,869.0</b>	<b>36,632.0</b>	<b>35,411.0</b>	<b>40,161.0</b>	<b>0.0</b>
% change y/y	217.5	325.6	(18.9)	11.3	(12.2)
EBITDA Margin (%)	29.6	61.5	65.0	64.8	0.0
<b>Net Profits</b>	<b>5,658.5</b>	<b>25,041.1</b>	<b>21,608.3</b>	<b>24,147.7</b>	<b>21,236.2</b>
% change y/y	27.9	342.5	(13.7)	11.8	(12.1)
NPM (%)	24.4	42.0	39.7	39.0	34.3
<b>EPS (Php)</b>	<b>0.77</b>	<b>3.40</b>	<b>2.94</b>	<b>3.28</b>	<b>2.89</b>
% change y/y	27.9	342.5	(13.7)	11.8	(12.1)

**RELATIVE VALUE**

<b>P/E(X)</b>	48.8	11.0	12.8	11.4	13.0
<b>P/BV(X)</b>	7.9	4.8	3.9	3.1	2.7
<b>ROE(%)</b>	16.1	43.4	30.8	27.5	20.9
<b>Dividend yield (%)</b>	0.80	0.8	3.5	2.4	2.6

*\*Source: Citiseconline estimates*
**SHARE DATA**

<b>Rating</b>	<b>HOLD</b>
<b>Ticker</b>	AP
<b>Fair Value (Php)</b>	38.20
<b>Current Price</b>	37.50
<b>Upside (%)</b>	1.87

**SHARE PRICE MOVEMENT**

**ABSOLUTE PERFORMANCE**

	1M	3M	YTD
<b>AP</b>	6.39	9.54	23.64
<b>PSEI</b>	5.06	7.60	30.99

**MARKET DATA**

<b>Market Cap</b>	270,428.72Mil
<b>Outstanding Shares</b>	7,358.60Mil
<b>52 Wk Range</b>	28.53 - 38.00
<b>3Mo Ave Daily T/O</b>	90.60Mil

**GEORGE CHING**

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## Investment Rating Definitions

BUY	HOLD	SELL
<p>Stocks that have a <b>BUY</b> rating have attractive fundamentals and valuations, based on our analysis. We expect the share price to outperform the market in the next six to twelve months.</p>	<p>Stocks that have a <b>HOLD</b> rating have either 1.) attractive fundamentals but expensive valuations; 2.) attractive valuations but near term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely inline or underperform the market in the next six to twelve months.</p>	<p>We dislike both the valuations and fundamentals of stocks with a <b>SELL</b> rating. We expect the share price to underperform in the next six to twelve months.</p>

## Important Disclaimers

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