

THURSDAY, 24 JANUARY 2013

Field Notes

First Gen Corporation: Hydro plant could disappoint this year

- Pantabangan Masiway hydro plants could disappoint in this year.** Management believes that earnings of the Pantabangan-Masiway hydro plant will decline this year after the ERC revised its rules on the pricing of ancillary service revenue. Management revealed that power plants can now choose between 1) selling ancillary services to the national grid on a firm basis, with a pre-agreed upon capacity fee; or 2) sell ancillary services on a non-firm basis with flexible pricing, but taking the risk that the capacity offered will not be sold. Regardless of the method chosen, management believes that ancillary service revenue will decline in 2013, potentially by as much as 50% from the 2012 level of ~ Php2.4Bil. Given the said development, there is a downside risk to our 2013 ancillary revenue forecast of Php2.2Bil.
- Gas plant expansion projects key to future earnings growth.** After successfully buying out BG's minority stake in the gas plants, management said it can now move forward on expanding its gas power generation portfolio from the current capacity of 1,500MW to as much as 2,700MW by 2018.

The first phase of the expansion involves the construction of a 100MW natural gas plant which is scheduled for completion in 2014. The second phase involves the construction of a 300-400 MW plant which is scheduled for completion in 2015. FGEN could also potentially construct a 700MW-800MW gas plant using imported liquefied natural gas (LNG). This project is slated for completion in 2018.

To determine whether or not it will push through with the expansion projects, FGEN is still waiting for the outcome of the ongoing negotiation with the Malampaya natural gas consortium. The key is to secure adequate supply of natural gas at a reasonable price.

FGEN is also looking for partners in the project given the size of the required capex. Note that the first two plants will cost ~ US\$500Mil (Php20.5Bil), while the third plant will cost ~US\$807Mil (Php33.1Bil). FGEN is also looking for a partner that could help secure a guaranteed off-take for the plants' output, similar to its other plants. Management revealed that it is in talks with Meralco for a potential partnership.

- Reviewing earnings and FV estimates.** We currently have a HOLD rating on FGEN with a FV estimate of Php27.6/sh. While there is still an 18.2% upside to our FV estimate, earnings this year could disappoint due to lower than expected ancillary service revenue from FGEN's hydro plant. FGEN is trading at a FY13E P/E of 14.4X, a premium to the 10.7X average FY13E P/E of its regional peers.

Forecast Summary (PhpMil)

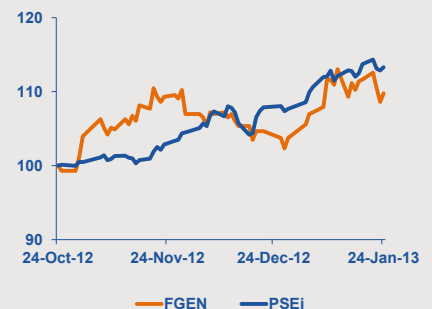
Year to Dec. 31	2009	2010	2011	2012E	2013E	2014E
Sales (US\$Mil)	1,022	1,244	1,364	1,436	1,455	1,454
% change y/y	-43.2	21.7	9.6	5.3	1.3	0.0
EBIT (US\$Mil)	202	245	209	287	312	307
% change y/y	-54.6	21.4	-14.6	37.3	8.5	-1.4
EBIT Margin (%)	19.7	19.7	15.4	20.0	21.4	21.1
EBITDA (US\$Mil)	256	300	271	350	375	372
% change y/y	-52.3	17.3	-9.6	29.0	7.3	-0.9
EBITDA Margin (%)	25.0	24.1	19.9	24.4	25.8	25.6
Net Profits (US\$Mil)	17	70	35	93	127	122
% change y/y	15.4	320.7	-50.1	165.7	36.4	-3.5
NPM (%)	1.6	5.6	2.6	6.5	8.7	8.4
EPS (US\$)	0.00	0.02	0.01	0.028	0.0378	0.0365
% change y/y	15.4	320.7	-50.1	165.7	36.4	-3.5
RELATIVE VALUE						
P/E(X)	109.2	26.0	52.1	19.6	14.4	14.9
P/BV(X)	1.00	1.84	1.49	1.35	1.20	1.08
ROE(%)	2.52	7.10	2.86	6.88	8.35	7.27
Dividend yield(%)	0.00	0.00	0.0	0.13	0.36	0.49

*Source: CiticOnline estimates

SHARE DATA

Rating	HOLD
Ticker	FGEN
Fair Value (Php)	27.60
Current Price	23.60
Upside (%)	16.95

SHARE PRICE MOVEMENT



ABSOLUTE PERFORMANCE

	1M	3M	YTD
FGEN	4.89	9.77	5.83
PSEI	5.03	13.30	5.23

MARKET DATA

Market Cap	79,375.55Mil
Outstanding Shares	3,362.80Mil
52 Wk Range	12.80 - 24.65
3Mo Ave Daily T/O	68.46Mil

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Investment Rating Definitions

BUY	HOLD	SELL
<p>Stocks that have a BUY 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 HOLD 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 SELL rating. We expect the share price to underperform in the next six to twelve months.</p>

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