

aboitiz outlook



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- **Aboitiz Equity 4Q 2009 income up 227%**

Aboitiz Equity Ventures, Inc.'s (AEV) consolidated net income for the fourth quarter 2009 registered a 227% year-on-year (YOY) increase, from ₱745 million (mn) to ₱2.4 billion (bn). Out of the total earnings contributions from the business segments, power accounted for 60%. This was followed by the food, banking and transport groups pouring in 21%, 17% and 2% of the total, respectively.

For the three-month period, AEV incurred a non-recurring gain of ₱418 mn (versus a ₱614 mn non-recurring loss for the same period last year), which consists of:

- (1) ₱369 mn in foreign exchange net gains at the parent and subsidiary levels;
- (2) a ₱36 mn share in the acquisition-related expenses of its subsidiaries;
- (3) a ₱78 mn share in the reversal of National Power Corporation (NPC) charges for ancillary services;
- (4) a ₱43 mn share in the gains booked by its transport business; and
- (5) a ₱36 mn share in the goodwill impairment on the transport group's investment.

Adjusting for these one-off's, AEV's core net income for the quarter still grew at a robust rate of 48% YOY, from ₱1.4 bn to ₱2 bn.

It will be recalled that in August 2009, AEV subsidiary Therma Luzon, Inc. (TLI) won in the bid for the appointment as the Independent Power Producer Administrator (IPPA) of the 700 megawatt (MW) contracted capacity of the Pagbilao coal-fired power plant located in Pagbilao, Quezon (the Pagbilao IPPA). Said bidding was conducted by the Power Sector Assets and Liabilities Management (PSALM).

As an IPPA, TLI is responsible for the coal procurement and the dispatch/sale of the plant's generated power. Operation and maintenance of the plant remain the responsibility of the IPP. Ownership of the plant will revert to TLI upon the expiry of the BOT period, which is in 2025. As part of the IPPA agreement, TLI will pay PSALM a series of monthly payments from the time it assumes dispatch control, which is on October 1, 2009, to August 2025. Given the nature of this transaction, TLI accounted for the Pagbilao IPPA in its financial records as a finance lease, where the company will incur non-cash expenses as a result of booking an asset and a liability. Netting out the non-cash expenses incurred by TLI, AEV's core net income in the fourth quarter of 2009 would have increased further and record a 133% YOY improvement to ₱3.2 bn.

On a full year basis, AEV ended the period with a consolidated net income of ₱8.3 bn, recording an increase of 102% YOY. This translates to ₱1.49 in earnings per share for 2009. The power

group still accounted for the lion's share at 56%, followed by the banking group at 23%, the food group at 16% and the transport group at 5%.

In 2009, the company had a non-recurring gain of ₱961 mn (versus last year's ₱775 mn non-recurring loss). Aside from a ₱380 mn foreign exchange gain at the parent and subsidiary levels, AEV realized a non-recurring income of ₱633 mn, which consists of

- (1) a ₱575 mn reversal of impairment provision to adjust the carrying amount of the assets of Aboitiz Transport System Corporation (ATS) in consideration of the termination of the
- (2) planned sale of ATS; and
- (3) a ₱58 mn booked revenue (net of income tax provision), which represents the option money paid to AEV for the planned sale of ATS.

In addition, AboitizPower Corporation (AboitizPower) booked one-off costs that relate to the acquisition of the Tiwi-Makban geothermal power plants and the Pagbilao IPPA contract, contributing ₱178 mn to AEV's non-recurring expenses. This was offset by a ₱78 mn share in the reversal of NPC's charges for ancillary services to two of AboitizPower's generation companies. In the meantime, ATS booked gains on the sale of one of its vessels and its logistics business, contributing ₱84 mn to AEV's non-recurring income for the period, which was offset by a ₱36 mn goodwill impairment in one of its investments.

Accounting for all one-off items, AEV's core earnings was still strong at ₱7.3 bn, up 50% YOY from ₱4.9 bn. When the impact of TLI's finance lease is taken out, AEV's core net income would have reached ₱8.5 bn, up 74% YOY.

AEV President & CEO Erramon Aboitiz said: "2009 was a record year for AEV. It is very gratifying to see that all our businesses performed well last year inspite of the uncertain environment prevailing at the start of the year. To us it confirms the validity of our business model and the resiliency of our businesses."

Business Segments

Power

AboitizPower ended 2009 with an income contribution of ₱4.3 bn, recording a 30% YOY increase. When adjusted for non-recurring items, the group recorded a 13% YOY rise in its earnings share, from ₱3.6 bn to ₱4.0 bn. Netting out the non-cash expenses incurred by TLI, AboitizPower would have booked an additional ₱1.2 bn in core net income contribution, bringing its total to ₱5.2 bn, up by 45% YOY.

The power generation business contributed ₱3.6 bn for the year, recording an increase of 68% YOY. This was on the back of a 167% YOY rise in total attributable power sales, from 1,728 gigawatt-hours (GWh) to 4,619 GWh. The expansion mainly came from the improved generation of the hydro assets, which resulted from the higher rainfall during the year and the full-year operation of the 100-megawatt (MW) Binga hydro power plant. In addition, the Tiwi-Makban geothermal plants, which were turned over in May 2009, and the Pagbilao coal-fired power plant, whose dispatch control AboitizPower took over in October 1, 2009, contributed a combined energy sales of 2,653 GWh, accounting for 57% of the total sales for the year.

As of year-end 2009, AboitizPower's attributable capacity was at 1,745 MW, posting a 202% YOY expansion. The increase was due to the additions of the Tiwi-Makban geothermal power plants, which recorded peak generation of 467 MW during the year, and the 700 MW contracted capacity of the Pagbilao coal-fired power plant.

The power distribution group's attributable electricity sales for the year grew by 6% YOY, from 3,142 GWh to 3,322 GWh. The attributable power consumption of residential and non-residential customers improved by 7% and 5%, respectively. The group's customer base still grew with the residential segment increasing by 5% and the non-residential inching up by 1%.

The power distribution business recorded a 5% YOY increase in its earnings contribution to AEV, from ₱1.1 bn to ₱1.2 bn. Healthy electricity consumption growth rates, coupled with enhancements in operating efficiencies and higher other income, offset the impact of the under recovery of cost of purchased power by AboitizPower's distribution utilities in March 2009.

Financial Services

The financial services group contributed net earnings of ₱1.8 bn in 2009, recording a 106% YOY improvement from previous year's ₱880 mn.

UnionBank of the Philippines (UnionBank) ended the year with an earnings contribution of ₱1.7 bn, up by 103% YOY. A 109% YOY increase in the bank's net income for the year, coupled with the increase in AEV's equity ownership to roughly 39%, led to the higher contribution.

UnionBank posted a record net income of ₱4.3 bn in 2009, more than doubling its income in 2008 of ₱2.1 bn. The bank's robust earnings was on top of the ₱2 bn provided for impairment losses, which made all of the bank's non-performing loans more than 100% covered.

Interest income for the year increased by 14% YOY to ₱11.9 bn. This was mainly attributable to a 30% YOY expansion in interest earnings on loans and receivables to roughly ₱7 bn. Total loan book as of year-end stood at ₱101 bn, recording an 11% YOY increase from 2008, as lending to all market segments, i.e. corporate, middle market and consumer, expanded. With interest earnings from investments and trading securities improving by 13% YOY to close to ₱4 bn, UnionBank's net interest income rose by 10% YOY, from ₱5.9 bn to ₱6.5 bn. This is notwithstanding a 20% increase in the bank's interest expense brought about by a 20% YOY increase in deposit liabilities.

Higher net securities trading gains led to a 95% YOY increase in the bank's other income. Meanwhile, other expenses only grew by 16% YOY as Unionbank continued to implement cost containment and efficiency improvements.

UnionBank's asset base stood at ₱244 bn as of year-end, with a deposit level of ₱195 bn. The bank's capital adequacy ratio was at 16.1%, which remains above the industry minimum requirement of 10%, while loan loss reserves was at 103%.

AEV's non-listed thrift bank, City Savings Bank (CSB), contributed earnings of ₱96 mn during the year, up 163% YOY. The bank's higher earnings contribution could be attributed mainly to the 67% growth in its interest income on loans. CSB ended the year with a total loan book of ₱4.9 bn, up by ₱1.4 bn, or 41% YOY, from ₱3.5 bn in 2008. Total resources increased to ₱6.1

bn from the 2008 year-end level of ₱4.7 bn. The bank's NPL ratio stood at less than 1% while its NPL coverage ratio was at 194%. Total capital funds amounted to ₱801 mn with a capital adequacy ratio of close to 16%.

Transport

The transport group recorded a 375% YOY increase in income contribution, from ₱81 mn in 2008 to ₱387 mn in 2009.

The strong showing of ATS' earnings was mainly attributable to the ₱2 bn reduction in the company's operating expenses that resulted from lower fuel costs, its single largest expense. The average fuel price in 2009 was lower by 36% YOY.

ATS ended the year with consolidated revenues declining by ₱1 bn. The company's freight and passenger businesses were adversely affected by the loss of one of its ships and the subsequent temporary suspension of all its ro-ro-passenger vessels in September 2009. The last quarter of the year was also plagued with devastating typhoons, which hampered overall operations of the company. International ship chartering business, likewise, recorded a ₱1.3 bn decline in revenues brought about by a depressed market. However, ATS' growing value added business, inclusive of supply chain, rendered a robust ₱1 bn topline expansion.

Food

For 2009, income contribution from AEV's non-listed food subsidiary, Pilmico Foods Corporation, recorded a 168% YOY increase to ₱1.2 bn. Volume expansion in the flour business offset the decline in its average selling prices resulting to a 25% YOY improvement in income contribution. Growth in volumes, coupled with improved margins that resulted from the business' enhanced cost structure (due to lower freight and raw material costs), led to a significant increase in the feeds business' income contribution, growing by 2707% YOY. Despite an 11% YOY decline in sales volume, the swine business' bottomline improved by 13% YOY due to operating efficiencies that resulted to higher margins.

Financial Condition

For the year ending December 31, 2009, the company's total consolidated assets amounted to ₱143 bn, up by 89% from year-end 2008 level. Cash and cash equivalents amounted to ₱5.6 bn, lower by ₱9.6 bn from year-end 2008 levels. Total consolidated liabilities increased by 205% to ₱89 bn, while Equity Attributable to Equity Holders of the Parent increased by 18% to ₱44.7 bn. Current ratio as of period end was at 0.8x (versus year-end 2008's 1.9x), while net debt-to-equity ratio was at 0.4x (versus year-end 2008's 0.08x).

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