

aboitiz outlook



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- **Aboitiz Equity 1Q income surge by 341% to P6.2 bn**

Aboitiz Equity Ventures' (AEV) consolidated net income for the first quarter surged 341% to P6.2 billion (bn) year-on-year (YoY), translating to an earnings per share of P1.13 for the period in review. Of the total earnings contributions from the business segments, power accounted for 90% while the banking and food groups contributed roughly the same at 6% each. The transport group turned in a negative contribution.

For the three-month period, AEV incurred a non-recurring gain of P308 million (mn) versus a P550 mn non-recurring income for the same period last year due to the appreciation of the Philippine peso. Adjusting for this one-off, AEV's core net income for the quarter still grew at a robust 586% YoY, from P865 mn to P5.9 bn.

AEV President & CEO Erramon I. Aboitiz said, *"We are pleased with our first quarter results. The combined income contributions from our businesses have had very good growth on top of the 2009 results which was already a good year."*

Power

AboitizPower recorded an income contribution of P5.7 bn for the quarter, a significant increase from P290 mn from the same period last year. When adjusted for non-recurring items, the group recorded a 1,341% YoY rise in its earnings share, from P373 mn to P5.4 bn.

The power generation business contributed P5.8 bn, up 6,780% YoY, on the back of a 675% YoY rise in total attributable power sales, from 312 gigawatt hours (GWh) to 2,418 GWh. The expansion mainly came from the generation assets acquired in 2009, which contributed a combined energy sales of 2,067 GWh, accounting for 85% of the total attributable power sales for the period.

On investments in power generation, Aboitiz added: *"With investments of about P120 bn over the past few years, our increase in generation capacity is now bearing fruit for our power business."*

The power distribution business' attributable electricity sales for the quarter grew by 9% YoY, from 772 GWh to 841 GWh. Growth was spurred by increases in attributable power consumption of the residential, commercial and industrial customers, recording YoY increases of 5%, 4% and 13%, respectively. The distribution business' customer base still grew with the residential segment rising by 4% and the non-residential inching up by 2%.

Despite the strong growth in electricity sales, the power distribution business recorded a 13% YoY drop in its earnings contribution to AEV, from P191 mn to P167 mn.

Cotabato Light & Power (CLP) and Davao Light & Power (DLP) booked higher operating expenses during the period, as their respective back-up power plants were forced to run to provide the much-needed power to the Mindanao grid. Moreover, the reduction in the systems loss allowance on January 1, 2010, from 9.5% to 8.5%, resulted in higher costs absorbed by Visayan Electric (VECO) and CLP. For the quarter in review, the additional cost booked by VECO and CLP amounted to P69 mn.

Financial Services

The financial services group contributed net earnings of P379 mn in the first quarter of 2010, a 57% YoY improvement from previous year's P242 mn.

UnionBank of the Philippines (UnionBank) ended the quarter with an earnings contribution of P353 mn, up by 54% YoY, mainly a result of a 51% YoY increase in the bank's net income.

Net interest income for the quarter increased by 19% to P1.7 bn largely due to a 25% reduction in the bank's interest expense. Total interest income decreased by 4% YoY to P2.9 bn, as interest earnings on loans and receivables dropped by 5% YoY to P1.6 bn. Lower average loan yields for the period offset the 9% YoY increase in the bank's total loans and other receivables, from P77.8 bn to P84.6 bn. Interest earnings from investments and trading securities improved by 10% YoY to P1.1 bn, as the expansion on securities portfolio more than offset the decline in average yields.

UnionBank recorded a 55% YoY improvement in its securities trading gains but this was offset by the drop in service charges, fees and miscellaneous income. This resulted in a 3% YoY decline in the bank's other income. Other expenses remained flat at P1.4 bn as UnionBank continued to implement cost containment and efficiency improvements.

UnionBank's asset base stood at P236 bn as of quarter-end, with a deposit level of P186.8 bn and a loan book of P84.6 bn. The bank's capital adequacy ratio was at 15.1%, well above the industry minimum requirement of 10% while non-performing loans cover was at 107%.

AEV's non-listed thrift bank, City Savings Bank (CSB), contributed earnings of P26 mn during the quarter, up 95% YoY. The bank's higher earnings contribution could be attributed mainly to the 45% growth in its interest income on loans and service fees. CSB ended the quarter with a total loan book of P5.2 bn, up by 40% YoY. Total resources increased to P6.4 bn from the 2009 year-end level of P6.1 bn. The bank's NPL ratio stood at less than 1% while its NPL coverage ratio was at 178%. Total capital funds amounted to P844 mn with a capital adequacy ratio of close to 16%.

Transport

The transport group ended the quarter with a net loss contribution of P110 mn vis-à-vis last year's net income contribution of P103 mn.

Aboitiz Transport System (ATS) ended the quarter with consolidated revenues of P3.1 bn, a 10% YoY increase. Improvements in the company's international ship chartering business and increased patronage of its value-added services mainly drove topline performance.

ATS' local freight business posted a 5% YoY decline in revenues. This is in spite of increased volumes, as the business maintained a 77% load factor with higher capacity. The passage business operated at very limited capacity during the first quarter with three SuperFerry vessels drydocked and under maintenance. This resulted in a P210 mn reduction in revenues (inclusive of ancillary revenues) for the period in review.

ATS registered a net loss of P142 mn for the quarter in review, mainly attributable to the 31% YoY increase in operating expenses to P2 bn. Fuel prices reversed their trend and recorded a rise of close to 50% YoY during the quarter.

Food

For the first quarter 2010, income contribution from AEV's non-listed food subsidiary, Pilmico Foods Corporation (Pilmico), recorded a 170% YoY increase to P372 mn. Income contribution from the flour business grew more than sevenfold as volume expansion offset the adverse impact of lower average selling prices. 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 92% YoY increase in the feeds business' income contribution. Improvements in both sales volume and selling prices led to a 164% YoY expansion in the swine business' bottomline.

Of AEV's food business, Aboitiz had this to say: *"The food business continues to enjoy healthy margins and volume growth. Our increased capacity in the feed business should help sustain this growth."*

Financial Condition

For the quarter ending March 31, 2010, the Company's consolidated assets amounted to P154.6 bn, up by 8% from year-end 2009 level. Cash and cash equivalents reached P5.7 bn, slightly higher than the year-end 2009 level of P5.6 bn. Consolidated liabilities amounted to P91.8 bn, while Equity Attributable to Equity Holders of the Parent increased by 14% to P51.1 bn. Current ratio as of quarter end was at 0.98x (versus year-end 2009's 0.79x) while net debt-to-equity ratio was at 1.12x (versus year-end 2009's 1.28x).

Aboitiz also added that: *"With the expected growth in our economy, the prospects for AEV for 2010 look very promising."*

Other Developments

On March 10, 2010, the Board of Directors of AEV approved the proposal to acquire up to 60% of its affiliate CSB, a Cebu-based thrift bank. Pilmico, a wholly owned AEV subsidiary, will also acquire the remaining 40% of the CSB equity. AEV and Pilmico's combined purchase is valued at approximately P1.36 bn. The planned acquisition is conditional upon AEV's obtaining the necessary Monetary Board approval for the transaction. As of March 31, 2010, AEV owns approximately 36% of CSB.

On March 10, 2010, AEV declared a regular cash dividend of P0.52 per share for a total amount of P2.9 bn to all stockholders as of March 24, 2010. The dividend was paid out on April 16, 2010.

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