

# abotiz outlook

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## AEV earns P2.26B in the 1H of 2008, up 4%

Aboitiz Equity Ventures, Inc. (AEV) ended the first semester of 2008 with a total recurring net income of P2.26 billion, recording a year-on-year increase of 4% over last year's P2.17 billion. For the period in review, the company had a non-recurring loss of P42 million, which includes (1) a foreign exchange net loss of P200 million at parent and subsidiary levels, (2) a P48 million share in gains on asset sale and insurance claims made by its subsidiary, Aboitiz Transport System Corporation (ATS) and (3) a P110 million share in the reversal of provisions made by an associate company due to an arbitration settlement. This brings AEV's total net income to P2.21 billion, a 9% year-on-year drop from previous year. This translates to an earnings per share of P0.39 for the first semester of 2008.

**Aboitiz Power Corporation (AP)** accounted for 69% of AEV's total income for the period in review. This was followed by the banking group with its income share amounting to 20% of total. The food group shored in earnings contributing 10%, with the balance turned in by the transport group.

### Business Segments

#### Power

Despite the reduced ownership in AP, the power group's income contribution for the period grew by 39% year-on-year, from P1.12 billion to P1.56 billion.

The power generation business shored in bulk of AP's income contribution to AEV. The business ended the period with net earnings contribution of P999 million, up 114% year-on-year. This strong showing can be attributed to the incremental earnings contributions from 2007 acquisitions, with major contributions coming from the 232MW STEAG coal power plant and the 360MW Magat hydro power plant, and the improved performance of AP's other generation assets. Total power sold for the period recorded a 207% year-on-year expansion, from 262 GwH to 806 GwH.

The power distribution business contributed net earnings of P580 million to AEV, recording a 13% decline mainly due to AEV's ownership dilution in AP. AP's distribution utilities continued to record healthy electricity sales growth rates with the first semester posting a 17% year-on-year improvement, from 1,311 GwH to 1,532 GwH. Excluding the sales contribution of the distribution utilities acquired last year, the group recorded an organic growth of 6% year-on-year.

#### Financial Services

The financial services group contributed net earnings of P459 million for the first semester, 43% lower than previous year's P802 million.

**Union Bank of the Philippines (UBP)** ended the period with an earnings contribution of P 439 million, 43% lower than the previous year's P772 million. The decline was due to extraordinary income generated from trading and sale of assets in the same period last year.

Net interest income grew by 13% to P2.7 billion while loans increased by 39% to P54.5 billion during the first semester. Interest income from loans increased by 15% to P2.1 billion on the back of robust expansion in corporate, commercial and consumer finance business. Interest income on trading and investment securities

also improved by 48% to P1.5 billion. In the meantime, interest expense on deposits and bills payables dropped by 36% to P1.7 billion mainly due to reduction in deposit cost and funding requirements.

Given the bank's sustained commitment to cost discipline and efficiency, operating expenses remained flat at P2.6 billion. This resulted to an operating income of P3.9 billion for the first semester.

UBP's asset base stood at P177.7 billion as of semester end, with deposit level of P131.8 billion. The bank's capital adequacy ratio was at 13.3%, inclusive of credit, market and operational risk charges, which remains above the industry minimum requirement of 10%.

AEV's non-listed thrift bank, **City Savings Bank (CSB)**, contributed earnings of P20 million during the period in review, down 33% from the same period last year. The bank's lower earnings contribution could be attributed mainly to lower net interest margins and increased manpower costs. Total resources increased by 13% to P4.5 billion from 2007 year-end level of P4.0 billion. The bank's NPL ratio stood at 2.27% while its NPL coverage ratio was at 120%. Total capital funds amounted to P513 million with a capital adequacy ratio of 17%.

### **Transport**

The transport group ended the first semester with a net income contribution of P19 million, a 94% year-on-year decline from last year's P284 million.

Despite operating at reduced capacity due to vessel sales and repair, **Aboitiz Transport System Corporation's (ATS)** total consolidated revenues grew by 9% year-on-year, from P5.5 billion to P6.0 billion. Robust freight revenues coupled with increased service fees generated from its supply chain management services led to the topline growth.

ATS' freight revenues for the period increased by 12% year-on-year to P3.7 billion. This growth was on the back of the company's improved chartering business and tonnage modernization initiatives. Additional tonnage from its joint venture with the AP Moller Maersk Group, MCC Transport Philippines, replaced the freighter vessel, 2GO1, which the company terminated during the period.

The development of the company's supply chain management solutions business resulted to a 35% expansion in service fees, from P506 million to P682 million. ATS continues to expand its value-added business with the purchase of Scanasia Overseas, Inc. in June 2008. Scanasia is engaged in the business of sales, marketing, warehousing and transportation of temperature-controlled and ambient food products to its customers in the Philippines.

The continued rise in fuel prices and higher charter-related expenses, however, led to a 15% increase in the company's total costs and expenses. Impact on the margins was tempered with the positive earnings contribution of the company's value-added services. Net income attributable to equity holders of parent for the period amounted to P17 million, compared to P367 million last year, which includes a P247.5 million after tax gain on sale of vessels.

### **Food**

Income contribution from AEV's non-listed food subsidiary, **Pilmico Foods Corporation**, amounted to P231 million, slightly up from last year's P230 million. Revenues of its flour business grew by 21% year-on-year, mainly due to higher selling prices. Earnings from its wholly owned subsidiary, Fil-Am Foods Inc., grew by 175% year-on-year with the swine business' robust volume sales and favorable prices realized by both swine and feeds.

### **Financial Condition**

For the period ending June 30, 2008, the company's total assets amounted to P61.3 billion, down by 6% from year-end 2007 level. Cash and cash equivalents amounted to P12.0 billion, lower by P6.5 billion from year-end 2007 level. Total liabilities were maintained at year-end 2007 level, or P18.5 billion, while Equity Attributable to Equity Holders of the Parent decreased by 10% to P34.4 billion. Current ratio as of period end was at 1.9x (versus year-end 2007's 2.5x), while net debt-to-equity ratio was at -0.03x (versus year-end 2007's -0.15x).

## **UnionBank reports P1.2 B net income in the first semester**

UnionBank posted a net income of P1.2 billion in the first semester of 2008, lower than last year's P2.2 billion due to extraordinary income generated from trading and sale of assets in the previous year and external market volatilities. Net interest income rose by 13.1% to P2.7 billion on stronger core business performance. Interest income from loans grew by 15.2% to P2.1 billion on the back of a 38.8% growth in corporate, commercial, and consumer finance loans to P54.5 billion. Similarly, interest income on trading and investment securities jumped by 48.3% to P1.5 billion. On the other hand, interest expense on deposits and bills payables dropped by 36.0% to P1.7 billion from last year due to reduction in deposit cost and funding requirements.

Operating income in the first semester reached P3.9 billion, following second quarter growth of 8.3%. Operating expenses remained flat at P2.6 billion, as the Bank sustained its commitment to cost discipline and efficiency by pursuing process improvement initiatives and developing technologically-advanced solutions.

UnionBank's asset base stood at P177.7 billion in the first semester of 2008. Deposit level was at P131.8 billion during the same period. The Bank's capital adequacy ratio at 13.3%, inclusive of credit, market and operational risk charges, remains above the minimum requirement of 10%.

## **ATS registered P6B in total consolidated revenues for the first six months of 2008**

Aboitiz Transport System Corporation ('ATS') registered total consolidated revenues of P6.0 billion for the six-month period ending June 30, 2008, a 9% improvement versus P5.5 billion in 2007. Freight revenues, which constitute the bulk of the revenues, increased 12% versus last year to reach P3.7 billion in 2008.

To remain competitive in the freight business, ATS continued to modernize its container tonnage. It terminated the charter of its freighter vessel, 2GO1, and replaced the lost capacity with additional tonnage from MCC Transport Philippines' second container vessel. MCC Transport Philippines is a joint venture between ATS and the AP Moller Maersk group.

Passage revenues totaled P1.4 billion, 5% lower versus P1.5 billion in 2007. The decline is largely as a result of the overall reduction in passenger ferry capacity brought about by vessel sales and the conversion of excess passage capacity to freight. Two vessels also underwent repair during the second quarter of the year. Moreover, the industry continues to face fierce competition from the airlines. The improvement in load factors however, has cushioned the drop in revenues. For the six-month period ending June 2008, passenger load factors on its roro-passenger vessels reached a high of 80% compared to only 71% during the same period in 2007. ATS is constantly driving to increase the utilization of assets in order to maximize its earning capacity.

The development of the company's supply chain management solutions business led the 35% growth in service fees, from P506.3 million in 2007 to P682.4 million in 2008. ATS continues to expand its value-added business with the purchase of Scanasia Overseas, Inc. (Scanasia) in June 2008. Scanasia is a company engaged in the business of sales, marketing, warehousing and transportation of temperature-controlled and ambient food products to its customers in the Philippines.

Net income attributable to equity holders of parent for the period in review amounted to P16.8 million compared to P366.6 million in 2007. Total costs and expenses of ATS jumped 15% largely due to higher fuel and charter-related expenses. The continued rise in fuel prices has eroded margins although this has been partly mitigated by the growth of its value-added services. Furthermore, ATS last year registered after tax gain on disposal of vessels of P247.5 million.

As of June 30, 2008, consolidated assets of ATS amounted to P8.6 billion and Cash and Cash equivalents stood at P766.2 million. Total interest bearing debt was at P971.7 million. Stockholders' Equity remained at P4.5 billion, the same level as of December 31, 2007.

ATS will continue to face challenges in rising fuel prices, nevertheless, its balance sheet and cash flows remain strong. It is determined to transform itself into a value added service organization with its efforts focused on integrating its services to build complete supply chain management solutions.

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**Head Office:** Aboitiz Corporate Center, Manuel A. Cuenco Ave., Cebu City, Philippines **Phone:** (63-32) 411-1800 **Fax:** (63-32) 231-4031  
**Manila Office:** 110 Legazpi Street, Legaspi Village, Makati City, Philippines **Phone:** (63-2) 793-2800 **Fax:** (63-2) 817-9508  
**Email:** [aev@aboitiz.com](mailto:aev@aboitiz.com) **Website:** [www.aboitiz.com](http://www.aboitiz.com)