

abotiz outlook



July 31, 2009

- **Aboitiz Power earns P1.9 bn in the 1H of 2009**

Aboitiz Power Corporation (AP) ended the first semester of 2009 with a core net income of P1.9 billion, recording a 15% year-on-year (YoY) decline. For the period in review, the company had a non-recurring net loss of P268 million (versus last year's non-recurring net loss of P122 million), which resulted from the revaluation of dollar-denominated loans and placements of the parent company and some of its associate companies and the one-off expenses related to the acquisition of Tiwi-Makban geothermal plants. This brings AP's total net income to P1.6 billion, which translates to an earnings per share of P0.22.

Business Segments

Power Generation

The power generation business ended the period with an income contribution of P1.0 billion, recording a 21% decline YoY. When adjusted for non-recurring items, the decline in the group's earnings is reduced to 8% YoY, from P1.5 billion for the same period last year to P1.3 billion.

For the period in review, the total attributable power sold was 36% higher than last year, from 806 GwH to 1,093 GwH. The expansion can be mainly attributed to the operation of the 100MW Binga hydro power plant and the Tiwi-Makban geothermal power plants.

As of end-June 2009, AP's attributable capacity was at 1,040 MW, posting a 112% YoY expansion. The increase was due to the turnover of the 175MW Ambuklao-Binga hydro power plants in July 2008 and the 462MW Tiwi-Makban geothermal power plants in May 2009.

On a quarter-on-quarter (QoQ) basis, the group's total attributable power sold improved by 150%, mainly due to the hydro power plants' higher generation levels and the one-month sales contribution of the geothermal power plants. With the higher rainfall during the second quarter, the hydro power plants recorded a 152% QoQ increase in attributable energy sales for the months of April-June 2009. In the meantime, the Tiwi-Makban geothermal power plants contributed 253 GwH of net generation.

Despite higher net generation levels, the group's income contribution declined due to lower electricity spot market prices. WESM's load weighted average price for the period January to June 2009 recorded a 26% YoY decline. This can be attributed to several factors, which include (1) the significant reduction in fuel costs, particularly oil and coal, (2) the increase in average generated power offered in the spot market resulting from the improved operating efficiency of privatized power plants, and (3) the System Operator's settlement of offers made by the Limay oil-fired power plant outside of the electricity spot market.

The Limay oil-fired power plant has been designated as a Must Run Unit (MRU) to support the contingency imposed for the San Jose transformers. As a designated MRU, the Limay plant's cost is not incorporated in the spot market pricing equation, which effectively brings down prices given this plant's high operating cost.

Wholly owned AP Renewables, Inc. (APRI), owner and operator of the Tiwi-Makban geothermal power plants, recorded P316 million in operating income for the period in review. However, the company had to book one-off expenses totaling P265 million, which include P113 million in acquisition-related costs and P152 million in losses due to the settlement of its foreign exchange forward contracts used to hedge the downpayment made to

PSALM (40% of the \$447 million acquisition price). On a recurring basis, APRI contributed P192 million to AP's core earnings for the first semester of 2009.

Power Distribution

The group's electricity sales for the first six months of the year grew by 5% YoY, from 1,532 GwH to 1,603 GwH. Power consumption of both residential and non-residential customers improved by 7% and 4%, respectively. This was on the back of an improved customer base with residential and non-residential accounts growing by 4% and 2%, respectively.

Despite the robust volume growth recorded, the distribution group's income contribution for the period in review recorded a 17% YoY decline to P637 million. The lower earnings can be attributed mainly to the under recovery of cost of purchased power by AP's distribution utilities in March 2009, which resulted from the increase in the National Power Corporation's grid rates.

Financial Condition

As of June 30, 2009, the company's total consolidated assets amounted to P63.3 billion, 34% higher than year-end 2008 level of P47.3 billion. The company's consolidated Cash and Cash Equivalents was at P5.9 billion, while total consolidated interest-bearing loans was at P25.9 billion. Equity Attributable to Equity Holders of the Parent marginally increased to P30.3 billion from year-end 2008. Current ratio as of semester end was at 1.1x (versus year-end 2008's 2.2x), while net debt-to-equity ratio was at 0.62x (versus year-end 2008's -0.13x).

Other Developments

On May 1, 2009, Cotabato Light & Power Company (CLP) implemented its final approved rate structure, which was released by the Energy Regulatory Commission on April 15, 2009. This rate structure was based on the approved annual revenue requirement and performance incentive scheme under the Performance-Based Regulation. CLP is the first distribution utility in the AP group to implement this incentive-based scheme.

On July 31, 2009, AP successfully concluded a negotiated bid for the acquisition from the Power Sector Assets and Liabilities Management Corporation (PSALM) of two barge mounted diesel powered generation plants, each with a generating capacity of 100MW. The prices offered for the power barges, also known as PB 117 and PB 118, are US\$16 million and US\$14 million, respectively. AP will acquire PB 117, which is located in Barangay Sta. Ana, Nasipit, Agusan del Norte, through its wholly owned subsidiary Therma Mobile Inc. PB 118, which is located in Barangay San Roque, Maco, Davao del Norte, will be acquired by AP's wholly owned subsidiary Therma Marine Inc. At least 40% of the acquisition price will be payable upon closing of the acquisition with the remaining 60% payable over a period not to exceed seven years. Upon turnover of the power barges, AP's attributable generating capacity will be 1,240MW.

Note: This report is for information purposes only and should not be relied upon by its intended recipients for investment decisions. It is not an offer to sell or a solicitation of an offer to buy the security of the company covered by this report. AEV makes no warranties, implied or otherwise, as to the accuracy of the information contained herein. Any financial figures presented are unaudited unless stated otherwise. Under no circumstances should this information or any of it be copied, reproduced or redistributed without written permission.

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 **Website:** www.aboitiz.com