

abotiz outlook



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- **Aboitiz Equity 1Q income hits P1.4 bn, up 20%**

Aboitiz Equity Ventures, Inc. (AEV) ended the first quarter of 2009 with a total net income of P1.4 billion, up 20% versus the same period last year. This translates to a P0.25 earnings per share for the first quarter of 2009.

For the period in review, the company had a non-recurring net income of P550 million, versus a non-recurring loss of P33 million in the same period last year. Aside from a foreign exchange loss of P83 million at the parent and subsidiary levels, AEV realized a non-recurring income of P633 million, resulting from the following: (1) a P575 million reversal of impairment provision to adjust the carrying amount of the assets of Aboitiz Transport System Corporation (ATSC) in consideration of the termination of the planned sale of ATSC and (2) a P58 million booked revenue (inclusive of provision for tax), which represents the option money paid to AEV for the planned sale of ATSC. Accounting for these one-off items, AEV recorded a 28% decline in recurring net income.

Power accounted for 38% of AEV's total earnings contributions from the various business segments. The banking group's contribution accounted for 31% while the food and transport groups accounted for 18% and 13%, respectively.

Business Segments

Power

Income contribution by AP amounted to P290 million, recording a 62% decline versus the same period last year. When adjusted for non-recurring items, the group recorded a 53% income drop to P373 million for the quarter in review.

Lower net generated power and softer prices, particularly for AP's merchant hydro power plants, resulted to an P84 million earnings contribution by the power generation business, which is 83% lower. When adjusted for non-recurring items, the business' earnings declined 64%, from P508 million to P184 million.

As of quarter-end, AP's power generation group had an attributable capacity of 578 MW, an 18% YOY increase. This was due to the turnover of the 175-MW Ambuklao-Binga hydro power plants in July 2008. Despite the said increase, total attributable power sold for the quarter in review was lower by 17% YOY, from 377 GWh to 312 GWh. The reduction was mainly due to the lower generated power of the company's hydro, coal and some of its thermal (oil) power plants.

From January to March 2009, Luzon experienced lower rainfall as compared to the same period last year. This brought down the utilization of AP's Luzon-based hydro power plants. The company's coal and some of its thermal (oil) power plants were dispatched less by their respective offtakers, which resulted to lower capacity factors for the quarter.

The power distribution group's electricity sales for the quarter grew by 4%, from 744 GWh to 772 GWh. Power consumption of both residential and non-residential customers improved by 5% and 3%, respectively. This was on the back of an improved customer base with both residential and non-residential accounts growing by 3%.

Despite the robust volume growth recorded, the distribution group's income contribution for the quarter recorded a 34% YOY decline to P191 million. The increase in the National Power Corporation's grid rates in March 2009 resulted to an under recovery of cost of purchased power by AP's distribution utilities in the said month. The one-month lag adversely affected the business' operating margin for the quarter. The increased cost of purchased power will be reflected in the next billing period (April 2009).

Financial Services

The financial services group contributed net earnings of P242 million in the quarter, recording a 4% improvement from previous year's P232 million.

Union Bank of the Philippines (UBP) ended the quarter with an earnings contribution of P229 million, up by 3%.

Interest income for the period increased by 45% to P3 billion. This was mainly attributable to a 49% expansion in interest earnings on loans and receivables to P1.7 billion. The bank's loan portfolio recorded a 66% increase, to P77.8 billion, as efforts on accounts acquisition were implemented in the corporate, commercial and consumer finance market segments. Interest earnings from trading and investments securities improved by 43% to P986 million. Net interest income rose by 15% YOY, from P1.3 billion to P1.4 billion. Similarly, operating income increased by 18% to P2.1 billion as net trading gains improved by 17% to P138 million.

UBP's asset base stood at P215.2 billion as of quarter end, with deposit level of P168.9 billion. The bank's capital adequacy ratio was at 10.8%, inclusive of credit, market and operational risk charges, which remains above the industry minimum requirement of 10%.

City Savings Bank (CSB), contributed earnings of P13 million during the period in review, up 32% from the same period last year. The bank's higher earnings contribution could be attributed mainly to the bank's loan volumes expansion for the period. Total resources increased to P4.7 billion from 2008 year-end level of P4.65 billion. The bank's NPL ratio stood at 1.66% while its NPL coverage ratio was at 111%. Total capital funds amounted to P595 million with a capital adequacy ratio of 15.46%.

Transport

The transport group shored in a positive income contribution of P103 million, a reversal from last year's net loss contribution of P22 million. This was mainly due to a 34% reduction in fuel costs, improved asset utilization and the development of the value added business.

For the quarter in review, the company's consolidated revenue recorded a 4% decline to P2.9 billion. The decline in the company's international chartering business resulted to a 27% drop in freight revenues. In contrast, its freight shipping operations rose by 14% as average freight rates per twenty-equivalent unit (TEU) increased by 16%. Freight capacity is being filled up with its own supply chain and value added business. Increased volumes of the passage business resulted to a 3% increase in revenues, to P635 million. The business continues to offer year-round promotional rates to drive demand and face stiff competition from the airline industry.

For the quarter ending March 31, 2009, freight and passage capacity improved by 4%. The company purchased an additional Cebu Ferries passenger vessel last year. It likewise chartered a freighter to meet the increase in cargo demand. Load factors for the quarter were at 72% and 78% for the passenger and freight, respectively.

The growth in the value added business was fueled by the 218% increase in the sale of goods to total P377 million. Accounting for a major share was ScanAsia Overseas, Inc., a company purchased by ATS in June 2008.

Food

Income contribution from AEV's non-listed food subsidiary, Pilmico Foods Corporation, recorded a 12% decline to P138 million. The flour business recorded an 84% earnings reduction due to lower average selling prices realized in the first quarter, while lower sales volume resulted to a 37% drop in the swine business' earnings. Feeds, in the meantime, recorded a significant improvement in earnings on the back of improved margins due to higher prices, coupled with production cost savings due to input substitution.

Financial Condition

For the quarter ending March 31, 2009, the company's total assets amounted to P75.1 billion, down by 1% from year-end 2008 level. Cash and cash equivalents amounted to P13.4 billion, lower by P3.1 billion from year-end 2008 levels. Total liabilities decreased by 2% to P28.4 billion, while Equity Attributable to Equity Holders of the Parent increased by 1% to P38 billion. Current ratio as of period end was at 1.5x (versus year-end 2008's 1.9x), while net debt-to-equity ratio was at 0.10x (versus year-end 2008's 0.07x).

Other Developments

On April 30, 2009, AEV and its principal stockholder, Aboitiz & Company, Inc. (ACO), have been informed by KGLI-NM Holdings, Inc. (KGLI-NM) that KGLI-NM will no longer proceed with the purchase of US\$30 million worth of ATSC common shares owned by AEV and ACO.

KGLI-NM cited the current constraints in the debt markets as the reason for its decision not to push through with its planned purchase.

In view of KGLI-NM's decision not to close pursuant to the Term Sheet and its notice dated March 31, 2009, the Term Sheet dated December 19, 2008 as well as the Memorandum of Agreement dated September 23, 2008 between AEV and ACO, on one hand, and KGLI-NM, on the other hand, are now deemed terminated. Likewise, the P100 million option money paid by KGLI-NM to AEV and ACO (P83 million for AEV and P17 million for ACO) is also deemed forfeited in accordance with the terms of the Term Sheet.

• UnionBank Q1 2009 results affirm improving quality of revenues and credit

Early into the year following a period of extremely turbulent global financial environment, UnionBank showed how it is building upon the momentum of its fundamental business positioning by continuing its thrust on improving the quality of its revenues and credit portfolio.

UnionBank capped the first quarter of 2009 with marked improvements in its income sources, as evidenced by the 41.3% jump in its revenues to P3.9 billion. Interest income for the period soared by 44.6% to P3.0 billion from P2.1 billion in the same period a year ago. This is attributed to the strong expansion, by 48.6%, in interest earnings on loans and receivables to P1.7 billion from P1.2 billion in the comparable period last year. Interest earnings from trading and investment securities kept pace, with the first quarter level reaching P986.4 million, up 43.0% from P690.0 million last year. This resulted in a 15.2% rise in net interest income to P1.4 billion from P1.3 billion in the same period in 2008.

Similarly, operating income jumped by 20.6% to P2.3 billion from P1.9 billion, as net trading gains improved by 16.5% to P137.6 million in the first quarter of 2009 from P118.1 million in the comparable period in 2008. Net income reached P565.2 million in the first three months of 2009.

Consistent with its core business strategy, UnionBank's resources further expanded to P215.6 billion at end-March 2009, up from P203.9 billion at end-2008 and P160.1 billion at end-March 2008. Largely supporting the sustained growth in resources is the steady increase in loan portfolio to P77.8 billion, up from P46.9 billion in the first quarter last year. Consistent rise in lending to all market segments – corporate, commercial, and consumer – contributed to the sustained increase in overall loan portfolio. Alongside the Bank's asset growth agenda is the enduring enhancement of its risk management platform, as evidenced by the continued reduction in its net non-performing loans to P798.0 million in end-March 2009. As a result, net NPL ratio improved further to 1.3% during the period.

Amid uncertainties in the financial environment, UnionBank's initiatives towards stronger customer franchise allowed the Bank to buck the trend of weak market confidence as deposits continued to surge to P168.9 billion at the end of the first quarter. This represents a 56.8% increase from P107.7 billion posted in the same period

last year. Capitalization remained adequate at 10.8% of risk assets, inclusive of credit, market and operational risk charges.

Mr. Justo A. Ortiz, UnionBank Chairman and CEO, explained, "While it remains quite premature to declare that we have found ourselves at a conclusive stage of market upswing, UnionBank's performance results at the onset of 2009 serve as compelling proof to the success of our chosen strategic path towards better quality of revenues and credit. Building a more sustainable revenue pattern, by pursuing a more robust and risk-adjusted lending posture, coupled with our keen attention to windows of opportunity for trading profits enabled us to considerably temper the pressures threatening the banking system. We will continue to anchor our performance on our long-term strategic imperatives of solid profitability, customer engagement, and good governance, ready to deliver bold results amid challenging market cycles."

• Aboitiz Transport turns a profit for the 1Q 2009

Aboitiz Transport System Corporation (ATS) registered net income attributable to equity holders of parent of P132 million, a marked improvement over 2008 net loss of P36 million.

Total consolidated revenue for the three-month period ending March 31, 2009 reached P2.9 billion, a 4% decrease versus P3.0 billion in 2008. Freight, which constitute the bulk of the revenue, decreased 27% brought about by the decline in its international chartering business. Its freight shipping operations, in contrast, rose 14% versus last year as average freight rates per twenty-equivalent unit (TEU) increased 16%. Freight capacity is being filled up with its own supply chain and value added business. Similarly, Passage revenues totaled P635.1 million, 3% higher versus P617.6 million in 2008 brought about by increased volumes. ATS continues to offer year-round promotional rates to drive demand and counter stiff competition from the airlines.

During the quarter in review, freight and passage capacity increased 4% with the additional Cebu Ferries vessel purchased last year. In addition, ATS chartered a freighter to fill in cargo demand. Load factors remained at high levels of 72% and 78% for passenger and freight respectively. ATS' strategy of having sold ships at high prices during the times of exuberance has paid off. A large portion of its debt has been removed from the balance sheet enabling it to be in a position to purchase or charter newer and more modern tonnage at very competitive prices giving ATS greater flexibility to serve market surges and contractions at much shorter time frames.

Growth in the value added business of ATS is largely generated by the P258 million or 218% increase in the sale of goods to total P376.7 million during the quarter. Contributing a major share is Scanasia Overseas, Inc., a company ATS purchased in June 2008.

Earnings before interest, taxes, depreciation and amortization (EBITDA) registered P462.0 million, much higher compared to P117.3 million during the same period in 2008. Fuel cost decreased by 34% brought about mainly by declining fuel prices.

The increase in interest bearing debt in 2008 was utilized to fund the expansion of supply chain and value added business, an industry with bright prospects. As of March 31 2009, ATS, however, has reduced debt by P85 million to P1.25B billion. Consolidated assets of ATS amounted to P9.7 billion. Stockholders' Equity stood at P4.7 billion. Cash and cash equivalents stood at P1,137.0 million.

On April 30, 2008, the principal stockholders of ATS namely, Aboitiz Equity Ventures and Aboitiz and Company, received a firm and final advice from KGLI-NM that the proposed acquisition of ATS shares will not come to fruition based on the terms agreed upon in the Memorandum of Agreement.

Moving forward, ATS will keep working on ways to increase margins. Efforts will remain focused towards reducing or eliminating additional costs and on improving operating efficiencies in every area of the enterprise. Our passage business has been successfully transformed into a low cost, high yield model when it converted excess passenger capacity to more freight capacity. As a result, overall vessel utilization remains high. We

look forward to a better year, encouraged by lower fuel prices, reduced charter rates and higher asset utilization. Much of the support will continue in developing the value-added businesses as we forge ahead transforming ATS to become the Philippines' leading total transport solutions enterprise.

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