

# Mixing Water and Money

After the waterworks deal, value in Manila giants

By Steven K.C. Poh

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“IT IS LIKE BETTING on who’s going to win,” says Alex Pomento of ING Baring Securities in Manila. He was referring to how share prices of four prominent Philippine conglomerates had done recently. Ayala Corp., Benpres Holdings, Aboitiz Equity Ventures and Metro Pacific Corp. had each led a consortium that bid for two 25-year concessions to provide water and sewerage services to Metro-Manila. “Share prices of the winners went up,” recounts Pomento, “and the losers took a tumble.”

The Ayala-led consortium won rights to the eastern zone which includes Makati, Mandaluyong, Pasig and about 15 other cities or towns. Benpres’s group got the west, serving Manila, Pasay, Quezon City and a dozen other municipalities. The two groups are expected to invest a total of \$7 billion in infrastructure. The Court of Appeals issued a restraining order against the concessions -- a disturbingly common occurrence in big state awards. “We haven’t seen the end,” says Annabelle Dychiao of Crosby-UBP Securities.

Still, punters and analysts are bullish. Ayala Corp. remains a buy for Giovanni de la Rosa, who tracks Philippine conglomerates for ING Baring. The country’s oldest commercial house (est. 1834) is in property, food, financial services, consumer goods, electronics and communications. At 30 pesos, a B share, which foreigners may buy, costs 27 times 1997 earnings -- 67% over the prospective market p/e ratio. De la Rosa cites enhanced asset values at subsidiary Ayala Land and 24% forecast earnings growth at banking affiliate BPI, after its Citytrust purchase. One worry: Ayala’s waterworks bid -- to charge 2.34 pesos for every cubic meter of tap water -- seems low (Benpres offered 4.97).

Selling at 13 p/e, Benpres Holdings is one of the most undervalued Philippine stocks, says de la Rosa. “It is the most comprehensive infrastructure company, our top pick for conglomerates. We see potential upside to 12 pesos from 9.90 in the next 12 months.” Benpres has lifted its stake in First Philippine Holdings. FPH owns 14% of Meralco, the country’s largest electricity distributor; the Rockwell site in a prime Makati area, and a toll-road project. Dychiao believes FPH, now at about 10 p/e, is more focused on power and should start making money in 1999. De la Rosa sees Benpres’s EPS rising 23% this year, with higher income from Rockwell’s redevelopment. Next year, 32% growth is tipped, driven by phone and cable TV ventures. But Benpres may tap shareholders for more capital in 1997.

At just 7 p/e, House of Investments is tipped by Michael Hodgson of Nomura Research Institute in Hong Kong. Its focus on finance and infrastructure building will promote growth, he says. With assets of 8 pesos a share, the stock is selling at a discount to net asset value. Hodgson also favors JG Summit Holdings; it is cash-rich, performing well and trading at a discount to net assets. Widely diverse interests may have led to its low price.

Hodgson is calling Metro Pacific Corp. a “sell.” Its telecommunications interests, due to be listed shortly, excite investors less these days. Its Fort Bonifacio development has rivals. And Metro Pacific has let go of most interests with recurring revenue to focus on property and telecommunications. Still, it trades at 20 p/e.

Warren Chua of Manila's Angping & Associates Securities has caveats about conglomerates. "If you are interested in putting money in specific sectors, buy companies in those sectors. But if you are not the type to put all your eggs in one basket, conglomerates are not a bad idea." His own favorite: "intriguing" Benpres.

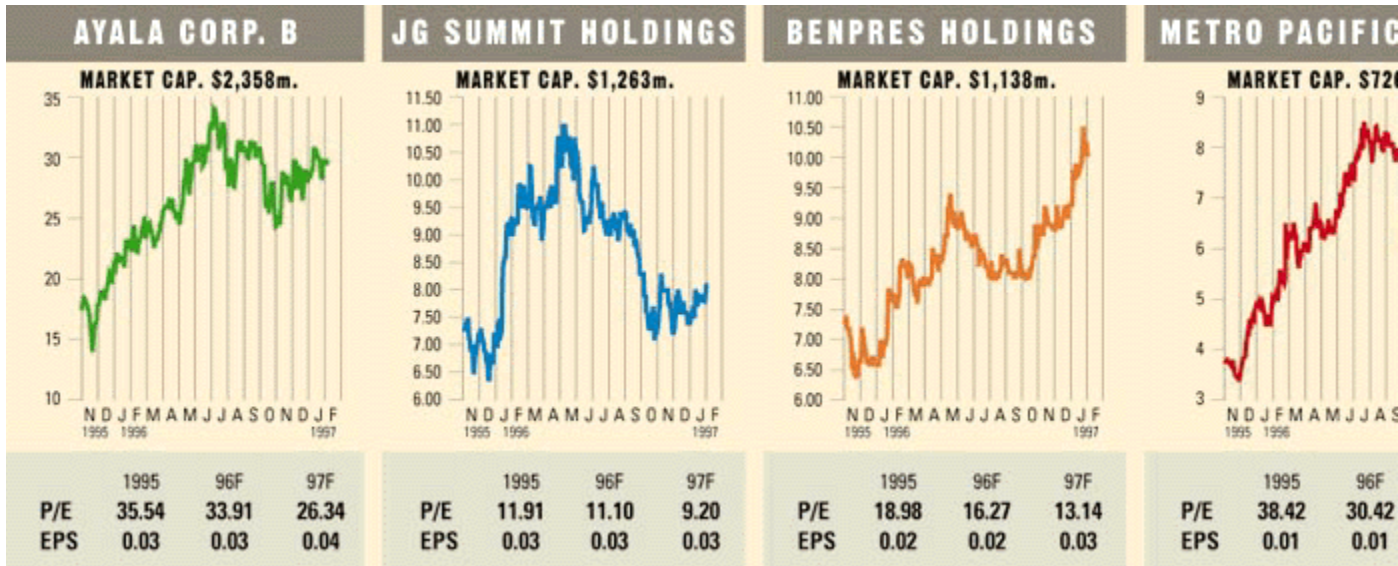


Chart data from when companies were listed. All money values in U.S. dollars except share prices, which are in Philippine pesos. Sources: Asiaweek Research, Datastream, The Estimate Directory