

Industry Updates

Week ended 14 March 2008

KPMG Philippines Bi-monthly Finance News Summary

This publication is a summary of publicly reported information, the accuracy of which has not been verified by KPMG.

Pag-IBIG to invest P1-B in stock market

Pag-IBIG Fund, government's home financing arm, will put up P1 billion to invest in the stock market via balanced fund managers. Pag-IBIG Fund President and CEO Romero FS Quimbo said they plan to distribute this amount to at least four insurance and security companies handling mutual funds, for example.

"That's the way we see (Pag-IBIG Fund) on how we could enter equities market without handling it ourselves," said Quimbo. "We don't have the competence and rigor to do that (we'll) just look at the top four best performing balanced funds in the last three years, then equally distribute (P1 billion) among them (which will be up for) review every quarter."

Pag-IBIG Fund investments are usually long term. At the moment the agency has P50 billion of investible funds and 97 percent are in long-term securities of varying maturities. "Our GS (government securities) assets are products that we got five years ago so they are extremely tradable today," said Quimbo. As for the stock market, the fund has a small equity portfolio amounting to P600-P700 million.

The additional P1 billion is sufficient, added Quimbo. "We're a fund that's responsible for long-term maturities. At the very least our maturities come every 10 years (and) equities is like a daily thing, we're going to put a small amount so that we don't get left behind but at the same time we don't want to suffer because we're not as big as SSS and GSIS."

Quimbo said that they plan to invest just locally at the moment, that they are not considering overseas investments. "(We could) but we haven't fully exhausted the local market yet unlike GSIS and SSS (our) contribution rates have not increased since 1984 and remains at P100 per month unlike theirs where people remit as much as 19 percent of their salaries."

To invest abroad, the Pag-IBIG charter and the law that created it would have to be amended. In the meantime, GSIS and SSS are allowed to invest overseas and would only require board approval to do so. GSIS, for example, has about \$ 1 billion as global bonds.

SOURCE: Manila Bulletin by Lee C. Chipongian. 03.03.08

Metrobank taps IFC for rural lending plan

Metropolitan Bank and Trust Co. said it had engaged International Finance Corp. to serve as its advisor in lending to rural power distributors.

Citing IFC data, Metrobank told the Philippine Stock Exchange that it wanted to lend to electric cooperatives as the sector's demand for medium- and long-term financing was seen to reach \$1.3 billion in the next 10 years.

FINANCIAL SERVICES



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AI Amanah Investment Bank

An IFC study dubbed "Philippines Rural Electrification Review" indicates that the power utilities' appetite for loans would rise as they move to replace capital equipment that are now 20-30 years old.

"Metrobank's involvement in power distribution financing is part of our initiative to maintain market leadership while supporting sectors which are vital to the country's economic development," said Vicente Cuna Jr., Metrobank executive vice president. "With IFC's expertise and track record in the power sector, both globally and locally, we hope to gain a better understanding of electric cooperatives so we can better serve their needs," Cuna added.

For its part, IFC recently launched a rural electrification program aimed at strengthening the capacity of electric cooperatives in Mindanao to achieve their operational, financial, and regulatory objectives. The World Bank's investment arm is managing and funding the advisory program with co-funding from Australia and Canada.

Jesse Ang, IFC acting country manager for the Philippines and Thailand, said the partnership with Metrobank "is central to IFC's objective of expanding access to credit for electric cooperatives in an increasingly competitive and sophisticated energy market." IFC intends to work with electric cooperatives to create demonstration cases and project templates that can be shared with off-takers in other parts of the country.

Metrobank earlier reported that its consolidated unaudited net income in 2007 reached P7.04 billion, 27.5 percent higher than year-ago level. With consolidated total assets of P706.89 billion at end-2007, Metrobank is the Philippines' largest bank. It has a network of at least 800 local and overseas branches, remittance offices and subsidiaries, including 37 offices in 20 foreign cities and territories.

SOURCE: Inquirer.Net by Ronnel Domingo. 03.06.08

Dee is new Malayan Insurance Chairman

The Board of Directors of Malayan Insurance Co., Inc. announced yesterday the election of Helen Y. Dee as the company's new chairman, replacing Atty. Adelita Vergel de Dios who retired from Malayan Insurance, effective February 16, 2008. Dee previously served as president of Malayan Insurance from 1983 to 1995. Through her efforts, the company was able to establish Training and Product Development units, extensive computerization of records, systems and processes, and other modernization efforts that helped it further maintain its No.1 position in the Philippine non-life insurance industry for the past 37 years.

Malayan Insurance has recently received a positive BB rating from Standard & Poors, reflecting the company's stable underwriting performance, sound capitalization, strong market position and aggressive investment portfolio. The company has also been given a favorable B++ rating by A.M. Best Co., the world's oldest and most authoritative insurance rating and information source. Malayan Insurance is the only Philippine insurer with a "good" rating from A.M. Best.

Malayan Insurance Co., Inc. is the flagship company of the Malayan Group of Insurance Companies, which includes the Tokio Marine Malayan Insurance Co., Inc., the First Nationwide Assurance Corporation, and the Bankers Assurance Corporation. Malayan Insurance has a nationwide network of 34 branches, and is a leading provider of fire/property, motorcar, aviation and marine, casualty and personal accident insurance, as well as surety and bonds.

SOURCE: Manila Bulletin. 03.06.08

HSBC sees opportunities in tourism, SME sectors

The local unit of British banking giant Hongkong and Shanghai Banking Corp. Ltd. (HSBC) is keen on expanding its business in the country by exploring opportunities in the small and medium enterprises (SME) and tourism sectors. "I think as the Philippines begins to develop more of its resources moving forward, we would like to be involved in some of these developments," HSBC Chief Executive Officer for Asia Pacific Sandy Flockhart told a press conference. He said tourism has a lot of potential for growth given that it contributes roughly 3% to Philippine gross domestic product (GDP), compared to those of Thailand and Malaysia which is about 12-14%.

"Tourism has a great trickle down effect so it benefits more people, especially those in the provinces. So it's a very attractive opportunity," Mr. Flockhart said. He also said opportunities in the SME sector go beyond mere provision of loans as entrepreneurs are in need of other services from banks such as cash management. The HSBC chief also said the bank was looking at opportunities in the fields of mining and energy where they can provide both investments or loans.

The bank is also exploring the opportunities in the area of bancassurance which will enable it to cross-sell insurance products in its branches.

The bank has previously said that it was intent on establishing six more branches within the year, bringing the total to 30. Bank officials also said they would build a call center facility in Quezon City which will have about 2,500 seats, on top of the 5,500 seats in its facilities in the cities of Muntinlupa and Makati.

HSBC Holdings Plc. reported that total operating income was up 25% to \$87.60 billion as if end-2007 from \$70.07 billion in 2006. Net operating income was up by 13% to \$61.75 billion from \$54.79 billion a year ago.

SOURCE: BusinessWorld by Gerard S. dela Peña. 03.07.08

First Holdings gets SEC go signal for P3-B domestic offering

The Securities and Exchange Commission en banc has approved the application of Lopez-led First Philippine Holdings Corp. to register 50 million series B perpetual preferred shares, priced at P100 per share. First Holdings has tapped Sy-led BDO Capital & Investment Corp. as issue manager and sole bookrunner for the offering that will raise P3 billion in gross proceeds for the conglomerate. First Holdings is offering to the domestic market up to 30 million of the shares, if the over-allotment option is not exercised. In an interview, BDO Capital President Eduardo V. Francisco said perpetual preferred shares, which will be treated as equity, will strengthen the company's balance sheet.

First Holdings intends to file an application to list all of the perpetual preferred shares on the Philippine Stock Exchange. The tentative listing date and start of trading is on March 17.

Net proceeds of P2.94 billion will be used to partially repay or refinance outstanding debt as well as fund acquisitions and other capital and operating requirements. First Holdings will allot P1.5 billion from the net proceeds to repay outstanding debts and accelerate payment through debt buyback efforts. Another P1 billion will be allocated to hike its stake in Manila Electric Company (Meralco), should the government proceed to sell Meralco shares. The remaining P443.09 million will be used to finance capital and operating requirements or other general corporate purposes.

"First Holdings may also choose to further acquire Meralco shares that become available in the market. It also plans to capture the upside in the toll roads business by increasing its ownership stake in MNTC [North Luzon Expressway operator Manila North Tollways Corp.] in the event any of its current NLEX partners decides to reduce its stake in the company," the listed company said in its prospectus. The offered shares are cumulative, nonvoting, nonparticipating and nonconvertible. Holders of perpetual preferred shares do not have rights and privileges identical with those of holders of common shares.

Cash dividends will be paid on the last days of January and July each year, the prospectus read. "Since it has a dividend, investors will have a fixed return. Common shares have no defined dividend. This [perpetual preferred share] is more debt-like, so it will attract more investors," Mr. Francisco said.

Cash dividends will be cumulative. If the board does not declare a dividend for a specific period, First Holdings will not pay on the dividend payment date for that period. "However, on any future dividend payment date on which cash dividends are declared, holders of the perpetual preferred shares must receive cash dividends due them on such dividend payment date, as well as cash dividends accrued and unpaid to the holders of the perpetual preferred shares prior to such dividend payment date," the prospectus read.

The 46-year old company has core investments in key areas power generation, power distribution, toll roads and tollways operations and manufacturing, as well as in support industries such as oil pipeline services, construction and engineering services as well as property development. It owns 66.2% in First Gen Corp.; 33.4% in Meralco; 30% in Panay Electric Co., the fifth largest power distributor in terms of peak demand; as well as 34% of MNTC. The holding company is open to exploring other investment opportunities in electronics/electricals manufacturing, and other infrastructure projects like toll roads.

"In the event that the net proceeds of the offer are substantially less than the amounts required for the above-mentioned purposes, the company has internally generated funds and sufficient access to other credit facilities to satisfy these obligations and working capital requirements," First Holdings said.

SOURCE: BusinessWorld by Ruby Anne M. Rubio. 03.07.08

Firm doubles net income

Cebu-based holding firm Aboitiz Equity Ventures, Inc. more than doubled its 2007 net income to P5.8 billion, buoyed by its power and financial service businesses. In a statement, the listed firm said net income grew by 54% to P5.8 billion from P3.8 billion a year ago, with Aboitiz Power Corp. and Union Bank of the Philippines and City Savings Bank contributing 61% and 23%, respectively, to total income.

The food group maintained its performance with a 10% income share, while the transport group's sustained profit performance for the year resulted to a 6% contribution, Aboitiz Equity said. Earnings per share, it added, improved P1.02 from P0.76 in 2006. Aboitiz Equity said it earned a nonrecurring income of P783 million, which came from a foreign exchange net gain of P470 million and a P313 million share in gains on asset sale made by its subsidiary, Aboitiz Transport System Corp.

Aboitiz Power Corp. remained the top contributor for the firm at P3.3 billion, 47% higher from P2.3 billion in 2006, amid a market debut that diluted its shareholdings in July last year. Its power distribution business generated P1.3 billion from P1.2 billion to Aboitiz Equity, while the power generation business chipped in P2 billion from only P1.1 billion previously.

The financial services group, composed of the Union Bank of the Philippines and City Savings Bank, accounted for P1.24 billion from last year's P1.12 billion.

Aboitiz Transport System Corp., which is 77% controlled by the holding firm, also improved its contribution to P318 million from P142 million due to robust freight revenues and increased service fees from its supply chain management services. Meanwhile, unlisted food unit Pilmico Foods Corp. gave P530 million, a meager increase from P510 million, to the total income pie. Aboitiz Equity's total assets as of 2007 amounted to P65.2 billion, while cash and cash equivalents reached P18.6 billion. Last March 3, the holding firm paid its stockholders as of record of Feb. 21 a special cash dividend of P0.30 per share, or a total of P1.7 billion.

SOURCE: BusinessWorld by LNPL. 03.07.08

Philexport seeks BSP mandate review

The Philippine Exporters Confederation (Philexport) has urged Congress for an immediate review of the mandate of the Bangko Sentral ng Pilipinas (BSP) for its failure to advance the country's economic interests with the current strengthening peso that hurt the export sector. The call was made by Philexport president Sergio R. Ortiz-Luis, Jr. during the general assembly of PHILEXPORT-Zamboanga in Zamboanga City last week even as a BSP official kept on gloating that a strong peso is good for the country.

Sought to be reviewed was the new Central Bank Act passed into law by the Cory Aquino Congress that renamed the old Central Bank to Bangko Sentral ng Pilipinas (BSP). The law made a clear mandate that said: "The primary objective of the Bangko Sentral is to maintain price stability conducive to a balanced and sustainable growth of the economy." Its secondary mandate read, "it shall also promote and maintain monetary stability and the convertibility of the peso" "To our mind, the second mandate has been interpreted by present BSP officials as a go-signal for them to allow the peso to be at the mercy of hot money speculators, instead of it being used as a blanket authority to defend Philippine businesses from portfolio investors' attacks," he told Zamboanga exporters.

Exporters all over the country have either been laying off workers or closing shops after incurring heavy losses due to the strong peso.

Ortiz-Luis said that successful economies in Asia from Japan to now China and Vietnam embarked on export offensives as their development strategies hand in hand with cheap currencies, a policy they jealously refused to surrender despite pressures from the United States. "What saddens us is that one official of the BSP keeps on telling the press that they still favor a strong peso despite their knowledge that exporters, families of OFWs, the BPOs and call centers, domestic industries competing with imports and the tourism industry are all suffering," Ortiz-Luis explained.

He lamented the unkind remarks of the BSP official, saying that in sports and in other fields of competition, one does not kick a man when he is already down. "In the process, he is hurting the suffering majority of our people." Ortiz-Luis further called on the government to stop taking in dollar loans starting this year and keep on pre-paying dollar loans with the excess greenback from OFWs and exports. It will not only stop the peso from further rising against the dollar.

In the long haul, it will channel back much needed tax money from paying debts to funding better education, building new roads, hospitals and irrigation and keeping our people healthy. Also, he sought Congress to set aside an Export Sustainability Fund (ESF) to be initially funded with R2 billion out of the R35 billion in net savings of the national government on the peso's appreciation last year.

Earlier, Quirino congressman Junie Cua, senior vice chairman of the House committee on trade and industry, identified the highly indebted national government, the electric power industry and bigtime smugglers as the only beneficiaries from the strong peso.

SOURCE: Manila Bulletin by Edu Lopez. 03.10.08

Allied Bank raises P4.5B via Tier 2 notes issue

Allied Banking Corp. said Thursday it has raised P4.5 billion through the issuance of Tier 2 subordinated notes, 50 percent more than what it offered to investors because of strong demand. In a statement, the bank said subscriptions reached more than 1.7 times the original issue size of P3 billion. The Philippine peso-denominated notes due 2018 were priced at 7.125 percent, at the middle of the indicative pricing range of 6.875 percent and 7.375 percent. They were rated 'Ba3' by Moody's Investors Service.

"We are pleased with the success of this Tier 2 issue. Despite volatile markets and movements in the benchmark rates during the offer period, the issue enjoyed strong demand from both retail and institutional investors," bank president Reynaldo Maclang said.

In a separate statement, Allied Bank said it would convert a \$50-million debt in the form of Tier 2 subordinated notes to 2.8

million common shares with a par value of P1,000 per share. No other details were given.

Allied Bank may be merged with the much bigger Philippine National Bank (PNB). Both lenders are controlled by Filipino-Chinese billionaire Lucio Tan. The possibility of the merger taking place this year emerged after the Supreme Court issued in December a ruling barring the government from seizing assets belonging to Tan. The government has been trying to recover allegedly ill-gotten wealth of the late Philippine President Ferdinand Marcos and his cronies.

If the merger happens, PNB, as the surviving entity, will become the country's fourth-largest bank by assets.

SOURCE: Inquirer.Net by Enrico dela Cruz / Thomson Financial. 03.13.08

DBP sets aside P1.3B to acquire Al-Amanah

State-owned Development Bank of the Philippines (DBP) said Thursday it would invest about P1.3 billion to take over Al-Amanah Investment Bank and another P500 million to boost the "nautical highway" in Palawan province by buying government-owned NDC Maritime Leasing Corp. DBP president Reynaldo David said DBP would infuse fresh funds in the capital-deficient Al-Amanah and convert Al-amanah over the next five years into a purely Islamic bank—an institution that conforms to the Koran, which prohibits charging of interest.

David also said DBP was in the final stages of acquiring NDC Maritime Leasing, a unit of National Development Co. (NDC), the investment arm of the Department of Trade and Industry. "The aim is to acquire modern vessels to be leased to qualified operators under a lease-purchase agreement, prioritizing missionary routes," he said at a news briefing.

He said NDC and the Department of Trade and Industry had approved in principle the terms of the buyout, although it would still be subject to regulatory approval. "Basically, it's a done deal, and we're just waiting the final due diligence," David said. "It should not take more than 30 days to finish everything." David said DBP would buy NDC's equity in NDC Maritime Leasing, worth about P100 million, reimburse P250-P354 million in cash advances, and pay about P65 million in goodwill premium equivalent to the leasing company's deficits.

NDC Maritime Leasing has three vessels leased to the Montenegro shipping company. David said DBP planned to beef up its fleet after taking it over, in line with DBP support to the Philippine nautical highway.

SOURCE: Inquirer.Net by Doris C. Dumlao. 03.14.08

Feedback

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