

THU 17 MAY 2018

Top Stories:

EW: 1Q18 profits down 22%; below estimates
 FLI: 1Q18 earnings in line with estimates
 ABS: 1Q18 earnings reach Php453Mil, below estimates on lower revenues
 MAC: 1Q18 profits decline 22.4%, below management FY18 guidance

Other News:

Economy: Cash remittances in March 2018 drop by 9.8% y/y

Market Summary

The PSEi declined on Wednesday, losing 16.41 points or 0.21% to 7,869.56.

Index decliners led gainers 16 to 11, while 3 issues remained unchanged. Likewise, most sectors ended in red with Holding Firms (-0.94%) leading the decliners and Property (+0.86%) leading the gainers. Significant index decliners were MBT (-3.20%), FGEN (-2.85%), LTG (-2.50%), GTCAP (-2.40%), and PCOR (-2.39%). Meanwhile, significant index gainers were ALI (+2.49%), BDO (+2.24%), and MEG (+2.15%).

Value turnover decreased to Php6.4Bil from Php8.7Bil the previous session. Meanwhile, foreigners turned net sellers, disposing Php480Mil worth of shares.

(AS OF MAY 16, 2018)

INDICES				
	Close	Points	%	YTD%
PSEI	7,869.56	-16.41	-0.21	-8.05
All Shares	4,754.80	-15.34	-0.32	-4.71
Financials	1,942.95	-0.52	-0.03	-12.88
Holding Firms	7,776.76	-73.46	-0.94	-9.75
Industrial	11,111.66	-74.08	-0.66	-1.07
Mining & Oil	10,254.48	63.14	0.62	-10.85
Property	3,903.88	33.38	0.86	-1.87
Services	1,549.96	-3.90	-0.25	-4.31
Dow Jones	24,768.93	62.52	0.25	0.20
S&P 500	2,722.46	11.01	0.41	1.83
Nasdaq	7,398.30	46.67	0.63	7.17

INDEX GAINERS			
Ticker	Company	Price	%
ALI	Ayala Land Inc	43.30	2.49
BDO	BDO Unibank Inc	136.90	2.24
MEG	Megaworld Corporation	4.75	2.15
SCC	Semirara Mining	29.70	1.37
JFC	Jollibee Foods Corp	286.60	1.27

INDEX LOSERS			
Ticker	Company	Price	%
MBT	Metrobank	83.15	-3.20
FGEN	First Gen Corporation	15.00	-2.85
LTG	LT Group Inc	21.45	-2.50
GTCAP	GT Capital Hldgs Inc	1018.00	-2.4
PCOR	Petron Corporation	9.39	-2.39

TOP 5 MOST ACTIVE STOCKS		
Ticker	Company	Turnover
SMPH	SM Prime Hldgs Inc	603,337,200
ALI	Ayala Land Inc	538,334,000
SECB	Security Bank Corp	418,958,000
SM	SM Investments Corp	297,783,600
MPI	Metro Pacific Inv Corp	288,347,400

Top Stories:

CHARLES WILLIAM ANG, CFA
DEPUTY HEAD OF RESEARCH

JOHN MARTIN LUCIANO
RESEARCH ANALYST

EAST WEST BANKING CORPORATION
BUY
PHP23.40

EW: 1Q18 profits down 22%; below estimates

Earnings underperform on trading losses and weak fees. EW reported a net income of Php945.4Mil in 1Q18, down 22% y/y. Earnings ended below both COL and consensus forecasts at 17.4% and 17.0%, respectively. The underperformance was mainly due to weaker fees and trading losses during the quarter. According to the bank, the decline in fees stemmed from lower fees from teacher loans as the Department of Education suspended new loans to teachers until the renewal of the terms of the Automatic Payroll Deduction System. The first quarter earnings translate to an ROE of 9.1%. (See exhibit 1)

Exhibit 1: Results Summary

<i>In PhpMil</i>	1Q17	1Q18	% Change	% FY18E	
				COL	Consensus
Net interest income	4,504	4,847	7.6	23.2	NA
Non-interest income	1,462	911	-37.7	12.6	NA
Fees	1,275	1,007	-21.0	15.9	NA
Trading gains	26	-239	NA	-164.5	NA
Provisions	1,101	1,125	2.2	22.1	NA
Operating expenses	3,208	3,355	4.6	21.3	NA
Net income	1,209	945	-21.8	17.4	17.0

source: EW, COL estimates

Lending operations grow on higher volume. EW's net interest income climbed 7.6% y/y to Php4.8Bil in 1Q18. Growth was driven by mainly by higher volume. Specifically, the bank's loan portfolio expanded 7% y/y, driven by the growth in consumer loans (+12% y/y). Excluding the impact of the suspended salary loan program, consumer loans would have grown by 14% y/y. On the other hand, we estimate that the bank's margins declined by ~8 bps y/y to 6.44% largely due to higher funding costs. However, this was magnified by the Php7.3Bil LTNCD issuances from April to August 2017. On a q/q basis, margins improved by ~5 bps. Compared to estimates, net interest income ended in line with our forecast, accounting for 23.2% of our 2018 target.

Lower fees and trading losses drag non-interest income. EW's fee-based revenues in 1Q18 reached Php1.0Bil, down 21% y/y. As previously mentioned, the decline was caused by the suspension of the teacher salary loan program. This ended below our forecasts, accounting for just 15.9% of our full-year estimates. Meanwhile, the bank booked trading losses amounting to Php239Mil, a reversal of the Php26Mil gains booked in previous quarter. This underperformed our forecast as we are forecasting Php146Mil trading gains for the full-year. As a result, total non-interest income ended lower by 37.7% y/y to Php911Mil, accounting for just 12.6% of our 2018 estimates.

Reviewing estimates. We will be reviewing our estimates in light of the weaker than expected 1Q18 results. We currently have a BUY rating on EW with an FV estimate of Php23.40/sh based on 1.20X 2018E P/BV. We like EW because of its above average margins and strong growth prospects driven by its large exposure to higher yielding consumer loans. Its aggressive branch expansion program over the past years should also start to bear fruit as more branches mature.

RICHARD LAÑEDA, CFA
SENIOR RESEARCH MANAGER

FILINVEST LAND, INC.
BUY
PHP1.95

FLI: 1Q18 earnings in line with estimates

1Q18 income grew 6.8% on higher rental income. FLI's 1Q18 operating revenues grew 4.6% driven by the 26.2% growth of rental revenues. Real estate sales were flat compared to the same period last year. Higher revenues buoyed operating profit up 3.9% y/y and net income higher by 6.8% y/y. With 1Q18 net income accounting for 24.2% and 23.4% of COL and consensus estimates, FLI is on track to meet full-year estimates.

Exhibit 1: Results summary

<i>in Php Mil</i>	1Q17	1Q18	y/y change	% of full year estimate	
				COL	Consensus
Operating revenues	5,656	5,916	4.6%	30.6%	27.5%
Real estate sales	4,694	4,702	0.2%	33.9%	-
Rental revenues	962	1,214	26.2%	22.3%	-
Operating profit	2,117	2,200	3.9%	27.5%	27.3%
Operating profit margin	37.4%	37.2%	-0.7%	-	-
Net income	1,378	1,472	6.8%	24.2%	23.4%

Source: FLI, COL estimates, Bloomberg

Real estate sales show improvement, upside risk to forecast. Although real estate sales were flat y/y, it showed a big improvement compared to the previous quarter. Recall that FLI of extending the payment terms to buyers starting last year. We saw the negative effect of the delayed revenue booking starting 2Q17. Since 3Q17 we have seen sales improve q/q and in 1Q18, real estate sales grew 39.6% compared to 4Q17. Our full-year real estate sales growth forecast is only 1% therefore there is a good chance that FLI will exceed our estimate.

Rental revenues grow on contribution from new spaces. FLI's rental revenues grew 26.2% in 1Q18 mainly due to the additional income generated by the new buildings in Northgate Cyberzone and Cyberzone Pasay and the opening of Centro Square Mall and Fora in Tagaytay. Accounting for 22.3% of our full-year estimates, FLI's 1Q18 rental revenues is in line with forecast.

Upgrade to BUY with FV estimate of Php1.95. We upgrading our recommendation on FLI from HOLD to BUY as valuations have become more attractive. At the current price of Php1.65, upside to our fair value estimate of Php1.95 is significant at 18.2%. Relative valuation is also attractive as it is trading at 6.57X 2018 P/E compared to the industry average and industry median of 16.38X and 11.86X respectively.

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FRANCES ROLFA NICOLAS
RESEARCH ANALYST

ABS-CBN CORPORATION

BUY

PHP75.60

ABS: 1Q18 earnings reach Php453Mil, below estimates on lower revenues

1Q18 earnings up 7.2% on forex gains. ABS' 1Q18 net income to common shareholders grew 7.2% y/y to Php453Mil, mainly due to forex gains amounting to Php398Mil. Despite this, results are below both COL and consensus estimates accounting for just 13.8% and 14.0% of full year forecasts respectively. The miss in our estimates was attributable to the lower-than-expected revenues, which accounted for just 21.8% of our full year forecast. Meanwhile, operating income dropped 41.3% y/y to Php237Mil, as a result of fewer ad placements during the quarter.

Exhibit 1: Results Summary

In PhpMil	1Q17	1Q18	% Change	% of forecasts	
				COL	Consensus
Revenues	9,576	9,010	(5.9)	21.8	21.7
Operating income	404	237	(41.3)	5.2	5.3
EBITDA margin (%)	4.2	2.6	-	-	-
Net income	314	411	30.6	13.5	-
Net margin (%)	3.3	4.6	-	-	-
Net income to common shareholders	422	453	7.2	13.8	14.0
Margin (%)	4.4	5.0	-	-	-

source: ABS, COL estimates, Bloomberg

1Q18 revenues down 5.9% y/y on fewer ad placements. 1Q18 revenues reached Php9.0Bil, down 5.9% y/y. Advertising revenues declined 10.2% y/y to Php4.3Bil, as a result of lower ad spending by major advertisers. Management noted that businesses spent less on advertising in light of the inflationary cost pressures brought about by the TRAIN law. Moreover, we think that higher global commodity prices and weaker peso also contributed to higher input costs, further prompting businesses to cut on advertising expense. Meanwhile, consumer sales also declined by 1.5% to Php4.7Bil, due to lower theatrical receipts from Global and Films, and lower contribution from the cable business.

Exhibit 1: Results Summary

In PhpMil	1Q17	1Q18	% Change
Advertising revenues	4,840	4,345	(10.2)
Consumer sales	4,736	4,665	(1.5)

source: ABS, COL estimates, Bloomberg

1Q18 costs down 4.3% y/y on efficient cost management . 1Q18 total costs and expenses reached Php8.8Bil, 4.3% lower compared to the Php9.2Bil registered in 1Q17. The improvement in total costs and expenses was mainly due to the 12.5% decline in general and administrative expenses resulting from lower facilities, transportation and employee related expenses. In addition, production costs remained flat y/y as higher depreciation offset lower facilities-related expenses and employee related costs.

Estimates under review. We will be reviewing our estimates on ABS in light of the weaker-than-expected 1Q18 results. We currently have a BUY rating on ABS and FV estimate of Php75.6/sh

ADRIAN ALEXANDER YU
RESEARCH ANALYST

MACROASIA CORPORATION

N/A

N/A

MAC: 1Q18 profits decline 22.4%, below management FY18 guidance

1Q18 profits declined by 22.4% y/y to Php233Mil. MAC's 1Q18 profits declined 22.4% y/y to Php233Mil resulting from lower than expected share of net income from Luftansa Technik Philippines (LTP), and flat revenue growth from its catering business. This represents 17.9% of management's full year profit guidance. 1Q18 service revenue grew 14.6% to Php794Bil on the back of the strong performance of MacroAsia Service Corporation (MASCORP), which focuses on ground handling and aviation. However, 1Q18 revenues from MacroAsia Catering Services (MACS) came in flat at Php409Mil. Share in net income from LTP also dropped by 3% y/y to Php256Mil.

Exhibit 1: Results Summary

<i>in PhpMil</i>	1Q17	1Q18	% Change
Revenues	692	794	14.64%
In flight and other catering	408	409	0.30%
Groundhandling and aviation	201	290	44.05%
Water	29	46	56.26%
Share in income of associates (LTP)	264	257	-2.87%
Net Income	301	233	-22.39%

source: MAC

Catering revenues come in flat, but new facility to come online in 2H18. MACS, which is 67% owned by MAC, 33% by SATS of Singapore, witnessed revenues come in flat at Php409Mil. According to management, the slowdown in catering revenues is to be expected given the fact that MACS is forced to turn down institutional clients due to facility constraints. However, the new catering facility in Sucat is expected to come online by 2H18, which is expected to alleviate capacity constraints. Moreover, revenues from non-airline or institutional clients in the new Sucat facility will no longer be subjected to the 7% concession privilege fee, helping boost margins.

Sustained growth in ground handling. As discussed earlier, MASCORP, which handles MAC's gateway services and ground handling grew 44% y/y to Php290Mil. This was driven primarily by the continuous passenger growth and ramp services for PAL's domestic and international flights. Moreover, MASCORP also managed to win 7 out of 14 former Miascor clients, helping boost revenues. However, direct costs from ground handling and aviation also increased by 59% y/y resulting from higher labor cost associated with the increase in manpower count preparing for the opening of Mactan International Airport Terminal 2 in Cebu.

Soft performance of LTP weighs down profits. MAC's 1Q18 share in net income from LTP dropped by 3% to Php256Mil. The underperformance was caused by the drop in LTP's 1Q18 subcontracted revenues, which dropped to USD17.7Mil from USD40.9Mil the previous year. Moreover, LTP's total service revenues also dropped to USD 57.8MIL from USD82.1Mil on a consolidated basis. Management disclosed that 2018 is expected to be more difficult for LTP due to Airbus' decision to change the interval between regular plane checks from two years to three years. As a result, LTP will need to fill the void left by A380 planes with wide-body and narrow-body planes, which will result in lower margins. However, moving forward, we expect revenues from A380 planes to normalize beginning 2019.

Maintaining 20% profit growth for 2018. Despite MAC's 1Q18 lower than expected net income, management is maintaining their guidance of 20% net income growth for 2018. Assuming that MAC's profits grow by 20% in 2018, it would be trading at 26x 2018 P/E based on its current share price of 26.50. This is a premium compared to the average P/E multiple of its regional peers. However, we believe that the market is already pricing in successful acquisitions, which will help boost profits despite slower growth from LTP.

Other News:

Economy: Cash remittances in March 2018 drop by 9.8% y/y

Personal remittances from OFWs reached US\$7.8 Bil in 1Q18, higher by 1.3% y/y. On the one hand, cash remittances from OFWs coursed through banks stood at US\$7.0 Bil. This is 0.8% higher than the level posted in the same period a year ago. Cash remittances from land-based workers grew by 0.4% y/y to US\$5.6 Bil and sea-based workers grew by 2.3% y/y to US\$1.4 Bil. However, cash remittances in March 2018 fell by 9.8% y/y due to the drop in cash remittances from Saudi Arabia, UAE, Qatar, and the US. According to the BSP, the sharp decline in cash remittances was due to a high base effect following the rapid increase in remittances in March 2017. Furthermore, there are lesser number of banking days in March 2018 which further contributed to the decline in cash remittances. *(source: BSP)*

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IMPORTANT RATING DEFINITIONS**BUY**

Stocks that have a BUY rating have attractive fundamentals and valuations based on our analysis. We expect the share price to outperform the market in the next six to 12 months.

HOLD

Stocks that have a HOLD rating have either 1) attractive fundamentals but expensive valuations 2) attractive valuations but near-term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely in line or underperform in the market in the next six to twelve months.

SELL

We dislike both the valuations and fundamentals of stocks with a SELL rating. We expect the share price to underperform in the next six to 12 months.

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