

Aboitiz Power Corporation (AP)**BUY**

Price	3.80
Target Price	4.95
52 week high	6.10
52 week low	3.00
Shares O/S (M)	7,359
Freefloat (M)	1,766
Market Cap (B)	27.59
Daily Turnover (M)	5.13
Dividend Yield	4.74%

Power Building

COMPANY PROFILE

Aboitiz Power (AP) is the holding company for the power generation and distribution investments of the Aboitiz Group. AP is the leading company in the hydroelectric power generation industry and has a large network of privately-owned distribution utilities in the country.



INVESTMENT HIGHLIGHTS

- Acquisitions made last year improved AP's generating capacity by 200% from 164MW in 2006 to 490MW in 2007. The ownership and operations of the Ambuklao-Binga hydro plants last July increased AP's generating capacity by 175MW.

- The ERC recently lowered the systems loss cap to 8.5% from 9.5%. Despite the change, five out of seven distribution utilities are below the ERC's (Energy Regulatory Commission) cap.

- With the adjustment on the average price per kwh under the PBR (Performance Based Rate) mechanism, AP's distribution utilities are expected to deliver strong revenues in the near future. The ERC will release the Revenue Draft Determinant this December and the approval for AP's new rates is expected on February 2009.

- There is an assured stable sales inflow due to AP's generation based and capacity based contracts wherein the company is guaranteed to receive payment for the energy it produces.

- The company has room for further growth and expansion funded mainly through debts. In a recent disclosure, AP announced that it will issue fixed rate debt notes worth P3.89 billion to fund its acquisitions next year. Presently, AP has a current ratio of 1.81 and a debt to equity of 0.20. It plans to participate in the auction for privatization of the government's plants next year.

- Compared to its peer companies in the country and in the region, Aboitiz Power has a cheap valuation which makes it an attractive investment. Its P/E of 5.12x is below the industry average of 6.0x

	AP	IND	PSEI
3mos	-33.33%	-27.49%	-30.31%
6mos	-29.63%	-30.98%	-28.14%
YTD	-28.30%	-49.58%	-47.50%

Maria Arlysa E. Narciso
Equities Analyst
898-7584

AB Capital Securities Inc.
8th Floor, Phinma Plaza
39 Plaza Drive, Rockwell Center,
Makati City, Philippines
Tel: 898-7555
Fax: 898-7595, 898-7597

email: abcsi@abcapital.com.ph
website: www.abcapitalonline.com

Aboitiz Power Corporation (AP)**BUY****ADDED PRODUCTION**

AP's earnings improved this year due to the added capacities of its newly acquired plants. The 232MW coal fired STEAG State Plant which was obtained last November 2007 has the largest contribution in earnings this year. It accounted for 66% of total EBITDA of oil and coal plants in the first nine months.

This July, SNAP-Benguet assumed ownership and operations of the Ambuklao-Binga hydro power plants with capacities of 75MW and 100MW, respectively. The Magat hydropower plant which was turned over last April 2007 contributed a capacity of 360MW. Both SNAP – Magat and Benguet comprised 69% of total EBITDA of the hydro plants for the same period.

ADDED POWER

Aboitiz Power's planned acquisitions will be a strong driver for a fast growth. Effective last August 26, AP acquired the Tiwi-Makban geothermal plants in Albay and Laguna through the Asset Purchase Agreement between PSALM (Power Sector Assets and Liabilities Management Corporation) and AP Renewables. The turnover of the facility middle of next year will be a big addition to the company's generating capacity. This investment in renewable sources of energy is an added value to the company. Upon closing of the purchase agreement, the company brought its generating capacity to 1,957MW with a total of 70% of the facilities powered by renewable energy.

AP has also set its eyes on other plants to be auctioned by the government such as the 146.5MW Dingle plant, the 246MW Angat hydro plant, and the 192MW Palinpinon and 113MW Tongonan geothermal plants. The company intends to participate in the public auction for the Independent Power Producer (IPP) contracts of PSALM which is the transfer management and operations of some power plants to the IPPs from the NPC.

FULL EFFECT

The full effects of last year's acquisitions will be felt in Aboitiz Power's revenues for 2008 and 2009. Sales are expected to grow by at least 14% driven by revenues from the generation segment. The STEAG plant and the SNAP Benguet and Magat hydro plants will still give strong contributions to the company's total revenues.

Growth opportunities, plant acquisitions, and increased capacities will grow AP's net income grow by 32% this year and 25% next year. The cheap share price made its P/E of 5.12x even more appealing. In the same way, its P/B remains attractive at 0.97x and within its industry range.

	2005	2006	2007	2008F	2009F
Revenue (M)	9,052.66	8,681.01	11,311.99	12,900.00	15,200.00
Net Income (M)	2,443.91	1,849.61	4,138.44	5,466.10	6,932.63
EPS	0.49	0.37	0.66	0.74	0.93
EPS Growth		-24.49%	78.38%	12.55%	25.00%
P/E			8.03	5.12	4.09
BV per share	1.56	1.73	4.3	3.9	4.83
P/B			1.23	0.97	0.79

Aboitiz Power Corporation (AP)**BUY**

AP's valuation appears cheaper than other companies in the region. Both its P/E and P/B are significantly lower than the comparable companies. On the local front, the P/E of AP lies below the industry average of 6.0x. Similarly, the company's P/B is within range of two other local companies. In the same way, AP's return on equity is at 19% while the local companies are around the 10% mark.

Peer Companies	AP	EDC	FGEN	JAPR (India)	600886 (China)
P/E	5.12	7.33	4.31	8.6	15.15
P/B	0.97	1.12	0.32	1.48	2.07

JAPR (Jaiprakash Hydropower Limited) in India; 600886 (SDIC Huajing Power Holding Co. Ltd.) in China

Using the 2009 EPS of 0.93 and an average 2009 P/E of 5.31x, the target price reached was Php4.95 per share. Compared to its price of Php 3.80 as of December 18, the target price has a potential upside of 30.3% over the current share price.

RISKS

The intense competition in bidding for the privatization of some power plants may be a concern for the company. But given its strong balance sheet and low debt to equity ratio, the company may turn to more debts to be able to fund its acquisitions. With its current ratio of 1.81, AP has the liquidity and the competence to repay its future debts.

The volatility in prices of coal and oil may significantly affect AP's plant costs. Since these plants are highly dependent on prices of coal and fuel in the world market, AP may need to keep a close watch on the volatile movement of prices.

The amount of rainfall is significant for AP's hydropower plants. There must be an assured and adequate supply of water for its hydro plants to operate fully.

POWER BUILD-UP

Looking at the bigger picture, Aboitiz Power will be a strong player in the generation industry in the near future. Its continuous expansion will be its fuel for growth especially with the added capacities in its new acquisitions. Having the best of both worlds, it has investments in renewable energy – hydropower and geothermal plants, and its oil and coal fired plants. Moreover, distribution capacities are expected to improve due to the growing industrial segment in the Subic Enerzone. There could also be an uptick in demand brought by the operation of the Hanjin shipyard. Meanwhile, the CDM approved Sibulan Hydro project is expected to generate a little less than \$2M yearly in sale of carbon credits.

Aboitiz Power has a strong growth potential. It has taken every opportunity to expand and has laid out a specific plan for its progress. AP has sufficient liquidity to turn to debt to fund its acquisitions. Seeing its cheap valuation against other companies and its wide room for development, AP is highly recommended as a buy. Robust earnings and good return is assured. Its target price of Php4.95 has a 30.3% potential gain over its current price of Php3.80. Due to the abovementioned factors, AP is rated as a good buy.