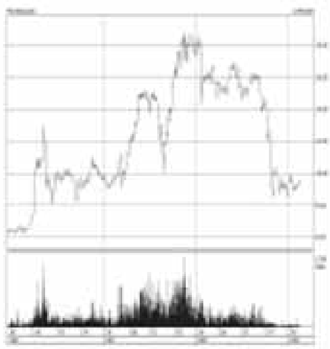
AB Capital Securities, Inc.

February 12, 2009

Mining Sector



	YTD	6 MOS	1 YR
AR	13.33%	-51.43%	-60.00%
AT	30.91%	-71.76%	-64.00%
BC	7.58%	-54.19%	-71.02%
BCB	22.40%	-48.01%	-61.48%
DIZ	41.67%	-52.11%	-66.00%
GEO	7.50%	-54.74%	-63.56%
LC	16.67%	-73.08%	-80.01%
LCB	14.29%	-69.23%	-78.91%
MA	15.38%	-55.88%	-64.29%
MAB	23.08%	-55.56%	-63.64%
OM	7.14%	-31.82%	-37.50%
ORE	-4.55%	-65.00%	-82.50%
PX	0.00%	-33.78%	-28.43%
SCC	16.95%	-37.27%	-40.52%
UPM	12.50%	-56.10%	-73.53%
VUL	-6.45%	-38.30%	-36.96%

Project Development	Years
1) Preliminary Evaluations	.5 - .8
2) Feasibility Studies	1 – 2
3) Engineering and Design	1
4) Financing	1
5) Development/ Construction	2

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Shifting Through

During 2007, there had been a strong interest in and demand for stocks in the mining sector. The global economy was healthy and demand for metals, base metals especially, was fueled by China's insatiable appetite for almost everything. Prices at historic highs coupled with the government's support of the mining industry led to a significant increase in market players, both of local and foreign origins. Developments have since taken a turn for the worse. With major economies plunging into recessions, metal prices have fallen precipitously. The Mining sector now finds itself in a quandary. While the government is still bullish on the sector due to the huge amounts of reserves the country has, companies are not as keen to jump into the picture. Several issues are relevant in discussing the current situation and determining the future of the mining industry. Among the more important ones are the barriers to entry, metal prices and demand, and the entry of foreign companies into the local mining scene.

Natural Barriers

Entering into the mining industry necessitates massive amounts of two resources: capital and time. As shown in the table, the different steps in the development of a mine from start to finish takes more than 5 years. Mining isn't about making a quick buck but rather about patiently building up before the cash flows start to trickle in. Even before any cash or revenue is generated by the mine, huge amounts must be spent on exploration, feasibility studies, development, construction of infrastructures (especially for underground mines), equipment, etc. These two factors make investing in start-up mining companies risky. When metal prices were peaking, it was easier for mining companies to raise capital via equity but with the fall of metal prices, tapping the equity market has become more difficult.

Much of the risk that comes with investing in start-up mining companies arise from the uncertainty around the mines being explored or developed. One uncertainty is with the mine itself. Preliminary findings rarely accurately capture the amount of reserves a mine has to offer. A second uncertainty is the economic viability of mining the reserves. The economic viability of mining the r serves of a mine takes into account all of the costs needed to collect the metal from the ground and prepare it for selling. Nickel is the cheapest to sell as it can be sold in its raw form while Gold and Copper need further processing before they can be sold. If metal prices are high then companies can take on higher costs, which increases the amount of reserves that can be mined. However, due to the fall in metal prices, companies face the challenge of cutting costs to as little as possible

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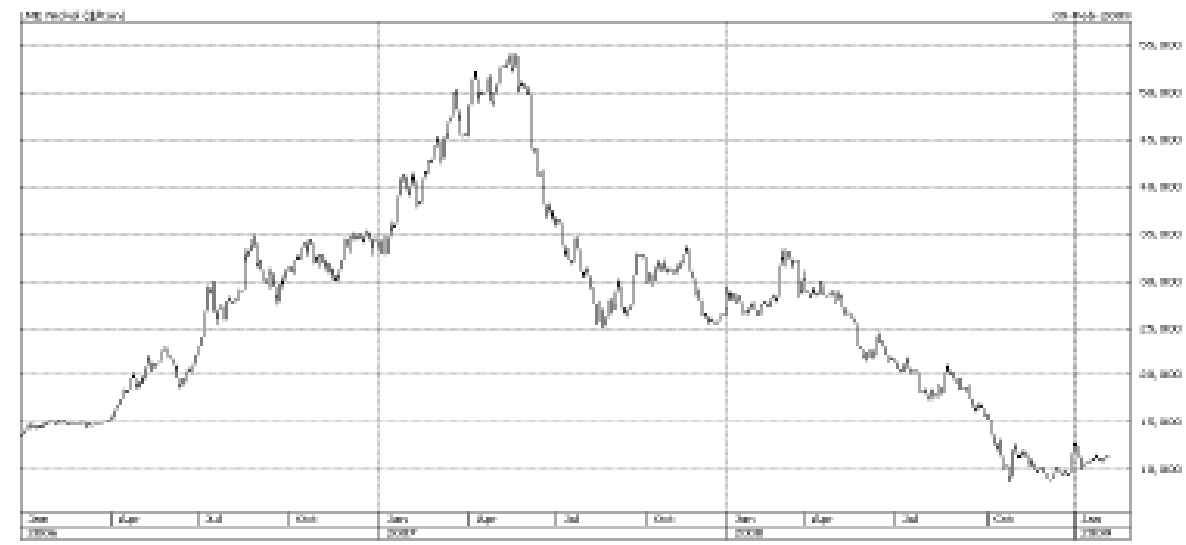
Nickel miners have been especially unfortunate. The ease of mining Nickel, which can sometimes be as easy as picking a piece of rock from the ground, and the abundance of Nickel reserves in the Philippines made it a favorite among companies seeking to take advantage of the then record level of metal prices in 2007. Companies were willing to mine at higher costs because prices at that time could more than enough to cover the said costs. The huge drop in Nickel prices have set back the development of these mines. Companies are now choosing lower costs over swiftness in developing their respective mines.



Price and Demand

Metal Prices, as shown by the charts of Nickel, Gold, and Copper, experienced a decline during the 2nd half of 2008. While Nickel and Copper have stayed at depressed levels, Gold has started a run-up. Gold is seen as a safe haven especially in times of uncertainty. The prolonged recession gripping the major economies of the world have investors turning to Gold as a safe investment. With the current situation expected to persist, Gold will continue to be valuable and has a chance of touching the record level it reached early in 2008. Meanwhile, the global economic slowdown has dramatically reduced demand for base metals such as Nickel. Another reason for the drop in Nickel prices is that substitutes for Nickel were derived during times of scant supply. The strong demand in 2007 coupled with lack of supply conspired to not only push prices to historic highs but also led users to turn to substitutes.

While the demand is still there, most notably from China, there is no longer a race to supply these demands. The lower profitability, and unprofitableness for others, has put a majority of developments on hold, both local and abroad. The current financial crisis stemming from the US has also dried up avenues of capital, which is sorely needed. The lack of current developments might lead to a supply constraint in the future. Current supply is ample to meet the lower demand during this slowdown. However, when economies start to recover and demand for Nickel starts to build up, there might not be enough new developments to meet those demands. As such, companies that are nearing operations (within 1-2 years) will be well suited to see their projects through as the rewards may potentially be huge. Most suppliers need a price of at least $10,000/ton in order to break even.

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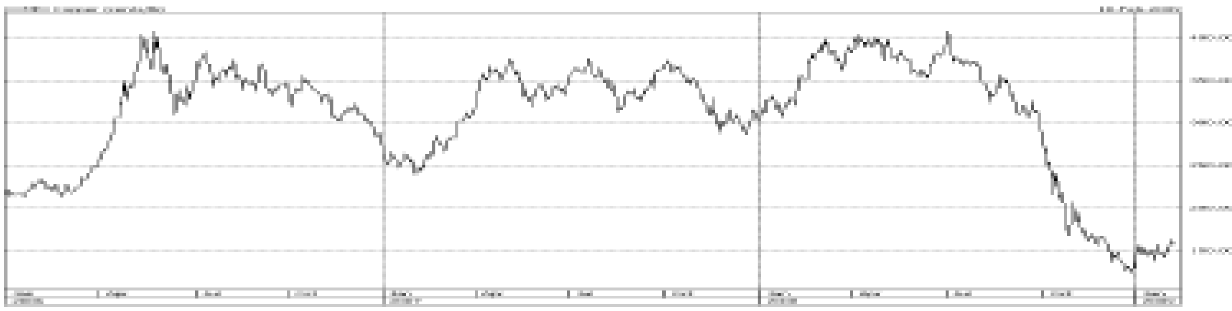
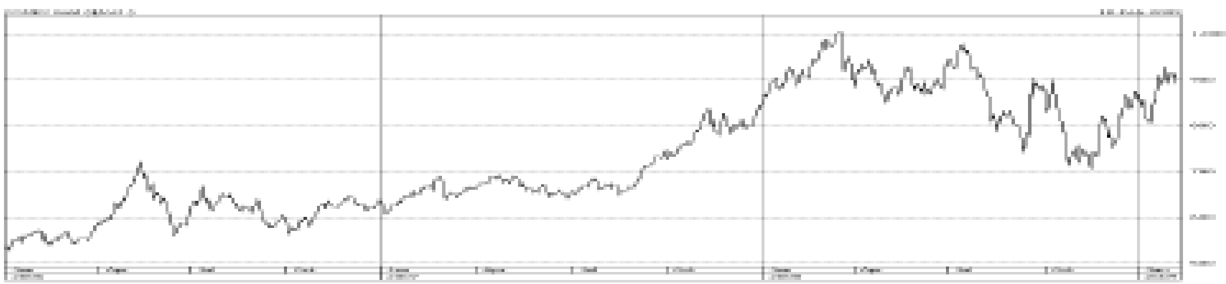
Copper is in the same boat as Nickel in the sense that the global economic slowdown will keep prices at depressed levels for at least the remainder of the year. The outlook is for copper prices to stay below $2.50/pound as economies continue to be sluggish. As opposed to Nickel, however, a heightened surplus of Copper supply will remain a drag in world prices. Gold on the other hand, remains attractive. Gold's decline from its peak is only 10%, as opposed to over 50% for both Nickel and Copper. Also, Gold has stayed above its 2006 prices but more importantly, the demand for Gold is not adversely affected by the global slowdown. Of all metals, Gold remains the most attractive.





Foreign Invasion

In a testament to the attractiveness of the local mining industry, several huge companies from all over the world have come to the Philippines to invest. The Department of Environment and Natural Resources is targeting $10 billion worth of investments in the mining industry by 2013. For 2008, total investments settled around $650 million while the target for 2009 is $800 million. According to government data, investments in the mining industry has reached $2 billion since 2004, the year when full foreign ownership of mining ventures was allowed by the Supreme Court. Below is a table showing some of the foreign companies that have invested in the Philippines.

Company	Location	Expected Start	Resource
BHP Billiton	Davao Oriental	2013	Nickel
Rusina Mining	Zambales	2011	Nickel
OceanGold	Nueva Vizcaya	on hold	Copper, Gold
Xstrata Copper	Tampakan	N/A	Copper, Gold
Mindoro Resources	Surigao and Batangas	N/A	Copper, Gold
CGA Mining	Masbate	2009	Gold
Medusa Mining	Surigao del Sur	2009	Gold

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Foreign companies have a decided advantage over local companies. Aside from having greater capital, most foreign companies have better technical expertise and technology. However, instead of viewing foreign companies as competitors, several local firms have gone the route of tying up with them via joint ventures. Tying up with a foreign company can give a local firm much needed help in developing and eventually operating their mines. Other benefits include lower costs as a result of better management and technical know how, shared exploration and development costs, and better rapport for possible future deals. Realizing this advantage, several firms have tied up with foreign companies. Examples include Geograce (GEO), which tied up with Jiangxi Rare Earth and Rare Metals Tungsten Group of China, and Atlas Mining (AT) who shares the Berong Nickel mine with European Nickel Plc.

Tie-ups, joint ventures, and partnerships are the way to go for smaller local mining companies looking to burst into the scene. While more established companies such as Philex (PX) are able to stand alone, others might not be as fortunate. As of the fourth quarter of 2007, the MGB () has identified 25 First Tier Priority Mineral Development Projects. 18 projects involved foreign companies, half on a stand alone basis and half on tie ups with local companies. It is becoming clear that the Supreme court decision to allow full foreign ownership has had a profound effect on the mining industry. Local players now find themselves not only competing with each other but from global players as well. The prudent decision would be to align themselves with foreign companies in order to benefit from the advantages possessed by these global players.

Stock	Sep 2008	2007	2006	2005
AR	(-3.18)	(-2.99)	(-3.00)	(-3.01)
AT	(-389.70)	127.37	60.60	(-407.96)
BC	(-324.92)	271.15	(-358.03)	(-270.25)
BCB	(-324.92)	271.15	(-358.03)	(-270.25)
DIZ	(-6.96)	(-11.54)	(-17.39)	(-5.99)
GEO	(-67.74)	(-102.36)	(-2.51)	(-163.92)
LC	(-266.17)	(-206.58)	(-35.63)	(-355.22)
LCB	(-266.17)	(-206.58)	(-35.63)	(-355.22)
MA	(-9.51)	276.98	(-112.70)	(-147.42)
MAB	(-9.51)	276.98	(-112.70)	(-147.42)
OM	(-.68)	(-5.33)	(-4.49)	(-29.71)
ORE	(-79.31)	(-54.76)	N/A	N/A
PX	3,288.40	5,004.99	3,086.67	409.14
SCC	570.84	633.28	601.24	1,592.34
UPM	(-15.27)	(-128.62)	(-284.21)	(-259.82)
VUL	.90	3.76	(-28.19)	(-16.84)

net income in millions of Php

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Flight to Quality

A quick look at the earnings since 2006 of listed companies under the mining sector will reveal why mining stocks have dropped dramatically. Aside from the weakness of the overall market, it is plain to see that mining companies have been struggling to make profits. Of the thirteen companies, only two have shown profits in each of the past four years while seven have posted losses in each of the past four years. Although Vulcan (VUL) has posted gains in the past two years, Philex and Semirara (SCC) are the only two companies that can be labeled as truly profitable. This reveals that during the run up the mining sector experienced along with the general market, most of the stocks were being bought based on speculation. Prior to the more stringent reporting rules required by the PMRC (Philippine Mineral Reporting Code), speculation would be rife as to how much reserves, and the corresponding value, the mine of certain companies had.

However, the time for speculation is over. In today's investing environment, riskier assets are shunned for safer instruments. It does not mean that the mining sector should be ignored. Among the listed companies under the mining sector, there are those that stand out, particularly those that have mines that are already under operation. While most companies have mines, majority of them are still in the exploration and development phase. Others still are not operating for one reason or another. The two companies that have been consistently operating are Philex and Semirara, which explains the stability of their earnings over the years. However, another intriguing prospect is Atlas. Atlas has a share in a Nickel mine and recently revived its Carmen Copper Project.

Philex: Now and the Future

Philex is the premier local mining company and derives its income from sales of Copper and Gold. With a forecast 2008 net income of P4.4 billion and a current price of P4.90 (as of February 12, 2009), PX is trading at 4.34 P/E ratio, much lower than what the market is currently doing. Although net income dipped from 2007 to 2008, due to the changes in metal prices, the company has delivered net income of at least P3 billion during the past three years. The drop in Copper prices negatively affects the company's profitability. However, the rise in Gold prices acts as a mitigating factor. With Copper prices set to stay flat but Gold prices expected to rise, PX net income can grow from 2008's P4.4 billion. Another fact that makes PX a good long term investment is their recent acquisition of full ownership in the Boyongan project. The Boyongan project, located in Surigao, started out as a joint venture between Philex and Anglo American Plc. The project covers over 25,000 hectares and, according to the government, could contain 300 million tonnes of reserves. PX and Anglo disagreed over the prospects of the mine, which led to the departure of Anglo from the project. The Boyongan mine, which can start as soon as 2012, gives PX continuity. Its current mine, Padcal, is expected to last approximately 4 to 5 more years. Thus, the start of operations of Boyongan will more or less coincide with the depletion of the Padcal Mine.

Philex	Sept 2008	2007	2006
Revenue	8,002.14	11,230.64	8,492.33
Net Income	3,288.40	5,004.99	3,096.67
Assets	10,595.74	10,904.60	8,016.07
Liabilities	4,246.30	2,462.63	2,948.99
Equity	5,949.44	8,286.85	5,067.08

in Php millions

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Atlas: Revival of Carmen

Two significant developments are the focus in discussing Atlas, the suspension of full scale operations by Berong Nickel Corp (BNC) and the resumption of operations of Carmen Copper. BNC, a subsidiary of Atlas, has pushed back to the second half of 2009 full scale mining operations. BNC has been operating since 2007 but the decline in Nickel prices and a slowdown of demand from China prompted BNC to freeze full scale operations. This is a cost saving move as the subsidiary still has significant inventories of Nickel. Furthermore, it has a supply contract with BHP Billiton that last until 2013 with an option for a five year extension. The contract calls for a shipment of up to 500,000 tons per annum. BNC's stocks (of Nickel) are enough to meet upcoming shipments and ensures steady streams of revenue and income until the subsidiary resumes full scale mining operations.

Carmen Copper Corporation, another subsidiary of Atlas, recently shipped its first batch of Copper concentrates. Similar to its Nickel shipments, Atlas also has a supply contract for its Copper concentrates. Atlas has a deal with MRI Trading AG to supply 60,000 metric tons of Copper concentrates at over twice the current market price of Copper. The resumption of Carmen Copper of the operations at its Toledo mine comes after a 14 year hiatus. The mine is estimated to have over 800 million tons of Copper ore. From last year's negative earnings, which was partly due to the costs of rehabilitating the Toledo mine, Atlas is set to return to positive earnings this year. With revenue from sales of Copper adding to its Nickel operations, Atlas is expected to more than recoup its losses from 2008.

Atlas	Sept 2008	2007	2006
Revenue	669.59	1,253.27	
Net Income	(-389.70)	127.37	60.60
Assets	9,906.47	8,779.06	2,996.70
Liabilities	7,482.00	5,903.48	3,817.20
Equity	924.32	1,759.27	(-1,303.22)

in Php millions

Semirara: Simply Steady

Over the past two years, Semirara has steadily grown its sales and its net income. By September of 2007, the company had already equaled its total sales for 2006. For the nine months ending in September 2008, Semirara did it again, with sales of P6.4 billion, similar to what it did for the whole year of 2007. Among the factors that are helping this trend are a higher selling prices, an expanded market, higher volume sales, and an improvement in the quality of its products. If Semirara continues its current rate of growth, the company can reach sales of over P11 billion by the end of 2009, which would translate to a net income of P1 billion. A net income of P1 billion and a current price of P34.50 (as of February 12, 2009), SCC is trading at a 2009 P/E ratio of 9, which is higher than SCC's historical P/E.

Semirara	Sept 2008	2007	2006
Revenue	6,444.65	6,466.70	4,697.69
Net Income	570.84	633.28	601.24
Assets	6,214.76	6,422.65	6,511.19
Liabilities	2,139.43	1,807.86	2,196.60
Equity	4,075.34	4,614.79	4,314.59

in Php millions

Mining Sector

Conclusion

Mining stocks remain high risk stocks as the development of a mine from the exploration stage to full scale operations can take anywhere from 3-5 years or even more. However, most of the stocks don't give returns commensurate with their risks. Investors who have unsuccessfully tried to ride speculative issues might shy away from mining stocks. However, there are mining stocks that give returns that are in line with the risks associated with investing in such stocks. Philex remains the most stable of all mining issues and, as such, the best investment, especially for the long term. Its steady operations combined with its exploration activities ensure that Philex is a company that is here to stay.

Atlas, on the other hand, has a greater possibility of giving strong returns within the year. Operations by Carmen Copper can reach optimal levels by the second half of this year, which might coincide with resumption of full scale mining operations by BNC. Although depressed prices will exert a downward pressure on the profitability of Atlas, its operations are geared for the long run and the company will eventually benefit when metal prices start to appreciate again. Semirara is the third intriguing option among mining issues. While its growth is impressive and one can do worse than SCC, the stock doesn't necessarily offer anything that stocks in Philex and Atlas do. Furthermore, SCC is less active that PX and AT. PX and AT are rated as buys while investors should keep an eye on SCC. Mining stocks have long been associated with speculation. However, by sticking to issues that have good fundamentals and operating mines, one can shift among the dirt to find gems.