



Petron Corporation (PCOR)

Petron's 1st half earnings report was released recently, positioning the firm for a favorable 2011. Net income boasted a 104% increase from the previous year while revenues rose by 17%, spurred by higher Dubai crude oil prices. Sustainable growth, however, is due to the sharp rise in export sales of Petron's new line petrochemical products.

The recent venture into petrochemicals is a timely response to a growing global demand for the product. Historical regression analysis of GDP and petrochemical production is particularly pronounced in the Asia-Pacific region with petrochemicals growing at a rate of 1.9 times GDP compared to the global rate of 1.5 times global GDP. Petrochemical products are expected to continue to sell at relatively higher prices compared to regular refined products (LPG to propylene and xylene, and gasoline to benzene and toluene)*.

Price (09/16/11)	P15.16	
Shares	9,375 M	
Market Cap	P142,125	
	2010	2011
EPS	0.77	1.29
PE	22.35	11.92
PB	3.32	2.45
ROE	14.87%	20.85%

Petron plans to complete their cogeneration power plant in 2012, and their refinery expansion and upgrades by 2014. The implementation of their Refinery Master Plan 2 (RMP-2) aims to enhance operational efficiency and production. The refinery will improve its capability to convert low margin fuel oil into higher value White Products and petrochemical products, serving to further revenue growth and margins. These additions will bring the refinery up to par with similar refineries in the region and increase their ability to compete regionally and internationally.

Upon completion, the refinery will also be able to produce and supply petcoke to Petron's cogeneration power plant. The end result will be a self-sufficient refinery capable of supplying all of its current and expected power demands, improving production reliability, flexibility, and efficiency. The plant will utilize coal while the refinery is being completed and will have a capacity of 70MW of power and 400MTH of steam. Surplus power will be sold to the national grid. Overall, management expects a boost in revenues and greater margins, predicting a 50% revenue jump from 2010 to 2015.

Maria Arlysa E. Narciso

Equities Analyst

AB Capital Securities, Inc.
14F Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines
Tel.: 898-7555
Fax No.: 898-7596

e-mail: abcsi@abcapitalonline.com.ph

website: www.abcapitalonline.com

Our DCF valuation project a target price of P23.49, a 55% upside from P15.16 (price as of 09/16/11), and is rated a buy. PCOR's PE at its current price is 11.75x vs. market PE of about 15x, while its PB is 2.45x. The company's ROE is at 20.85%.

*Source: Petron Offering Circular 2010, Industry Overview

Financial Summary*in millions except per share data*

	Actual			Estimated
	2008	2009	2010	2011
Total Revenue	P 267,676	P 176,531	P 229,094	P 256,200
Grow th		(34%)	30.00%	18.00%
Gross Profit	P 3,370	P 14,948	P 19,814	P 34,084
Grow th		343.56%	32.55%	40.00%
GP Margin	1.26%	8.47%	8.65%	10.27%
EBITDA	(P 4,874)	P 15,120	P 22,297	P 33,098
Grow th		410.22%	51.59%	44.40%
EBITDA Margin	(1.82%)	8.57%	10.01%	12.27%
EBIT	(P 2,921)	P 20,658	P 24,179	P 34,156
Grow th		807.22%	39.25%	(30.65%)
EBIT Margin	(1.09%)	11.70%	12.56%	7.39%
Net Income	(P 3,987)	P 4,420	P 7,894	P 12,090
Grow th		206.59%	86.18%	53.15%
NI Margin		(1.49%)	2.40%	3.45%
EPS	(P 0.42)	P 0.45	P 0.77	P 1.29
Grow th		2.07%	0.71%	0.68%