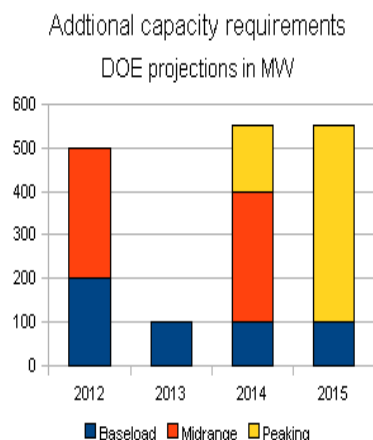


Ticker	Target price	Coverage Rating
AEV	42.2	n/a
AP	37	n/a
EDC	7.47	BUY
FGEN	18.01	n/a
FPH	86.6	n/a
MER	198	SELL

**Report Highlights:**

**The Philippines' demand for power is estimated to increase substantially over the next 18 years.** Peak demand is projected to grow continuously, the Department of Energy projects that by 2030 we will need a total of 11,900MW additional capacity to meet the projected peak demand for Luzon, 2,150 MW for Visayas and 2,500 MW for Mindanao.



Source: Department of Energy

**The country's search for power attracted several firms to enter the industry.** These companies each use a different source of power. According to the data provided by the Department of Energy, a total of 73.1% of the power generated is produced by fossil fuels.

**Most of the country's energy is produced by fossil fuels.** Coal accounts for more than 48% of all fossil fuels used. Meanwhile natural gas and oil based resource make up around 52%. Philippine coal consumption has also been increasing for the past 20 years, and was at an all time high last 2010.

**Philippines has vast reserves of renewable energy,** our country currently has about 6,000 MW reserves of geothermal energy, making us the second largest in the world, and a 700MW wind resource potential which is the biggest in southeast Asia.

**Gregg Adrian R. Ilag**  
Equities Analyst

**The government supports renewable energy** with the Renewable Energy Act, (RA 9513). This aims to encourage investments by attracting foreign investors with a favorable law.

**The current industry situation is favorable to power generating companies,** especially renewable energy players. The present-day business players such as EDC, AP, FGEN and FPH look favorable over the near term because they have interest in renewable energy. We will issue a rating after initiating a coverage on the aforementioned companies.

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	2012 Estimates				
	Revenues	EBITDA	Net Income	EPS	ROE
AEV	81,881	35,426	21,549	3.71	24.50%
AP	66,339	27,601	22,093	2.97	28.20%
EDC	31,563	19,212	9,814	0.52	23.57%
FGEN	1,349	316	112	0.03	10.00%
FPH	70,712	12,685	2,911	4.46	4.24%
MER	260,450	19,862	15,249	12.55	8.86%

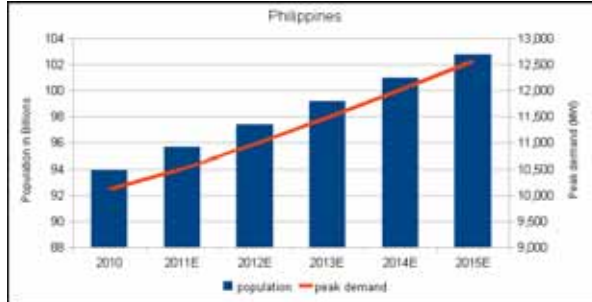
Source: ABCSI Research Estimate, Reuters, Bloomberg

The information contained herein is based on sources which we believe are reliable, but is not guaranteed by us and is not to be considered all inclusive. It is not to be construed as an offer or solicitation of an offer to sell or buy the securities herein mentioned. This firm and its Directors and Officers and/or members of their families may have a position in the securities herein mentioned and may make purchases and/or sales of the securities from time to time in the open-market and otherwise.

**The Power Sector**

	Peak Demand (MW)	Additional capacity Requirements (MW)
Luzon	17636	11900
Visayas	3404	2150
Mindanao	3493	2500

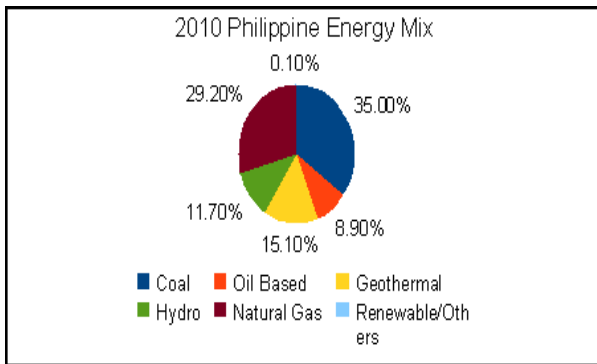
Source: Department of Energy



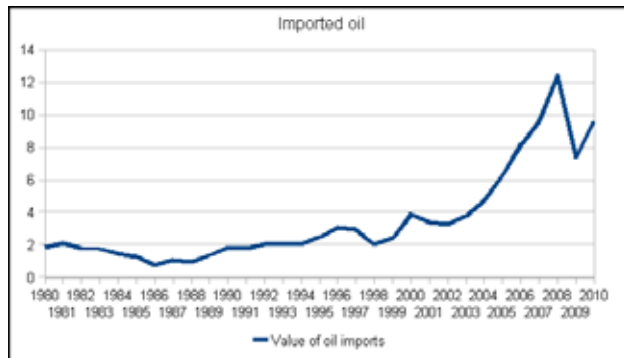
Source: Department of Energy, National Statistical Coordination Board

The Philippines' demand for power is estimated to increase substantially over the next 18 years. Peak demand is projected to grow continuously. The Department of Energy projects that by 2030 we will need a total of 11,900MW additional capacity to meet the projected peak demand for Luzon, 2,150 MW for Visayas and 2,500 MW for Mindanao. Peak demand is estimated to grow by an average of 4.53% for Luzon, 4.98% for Visayas and 4.62% for Mindanao. The current committed capacity is unable to keep up with the rising demand, energy consumption keeps on growing in conjunction with economic and population growth. Meanwhile, the demand for energy is unaffected by changes in fuel prices.

*Seeking more power*



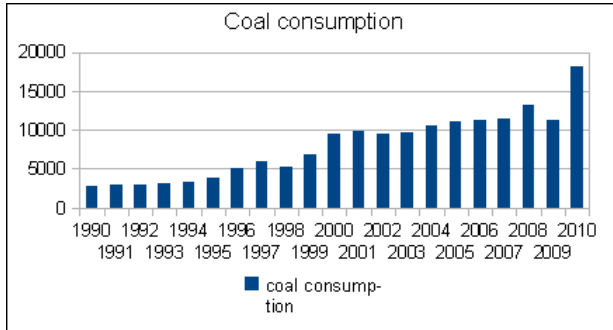
Source: Department of Energy



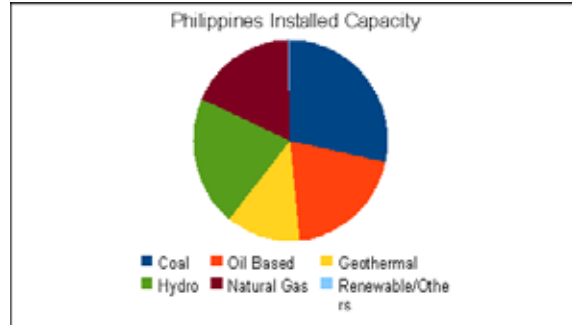
Source: Index Mundi

The country's search for Power attracted several firms to enter the industry. These companies each use a different source of power. According to the data provided by the Department of Energy, A total of 73.1% of the power generated is produced by fossil fuels. They also account for 66.3% of the total capacity, reliance on fossil fuels such as oil, coal and natural gas serves risk of exposure to volatile oil prices. Fossil fuels have higher cost because of their reliance on imported oil, prices of which have been on a steady uptrend, driving future cost higher. The Department of Energy seeks a more sustainable and natural source of energy to lessen the country's dependence on fossil fuels.

*Fossil Fuels*



Source: U.S. IEA



Source: Department of Energy

Coal accounts for more than 48% of all fossil fuels used, while natural gas and oil based resource make up around 52%. Coal has a total resource potential of 2.53 million metric tons. Philippine coal consumption has also been increasing for the past 20 years and was at an all time high last 2010. Some firms are still considering making coal power plants such as Meralco and Trans Asia Oil, hoping to catch the continuous rise in demand. The government has clearly stated some benefits for investing in coal and other fossil fuels however, renewable energy appears more attractive because of the Renewable Energy Law and the advantage of non reliance to oil imports.

*Renewable Energy*

	Additional Capacity Requirements			Total
	Baseload	Midrange	Peaking	
Luzon	5,000	3,900	3,000	11,900
Visayas	1,400		750	2,150
Mindanao	2,000		500	2,500
Total	8,400	3,900	4,250	16,550

Source Businessworld, Department of Energy

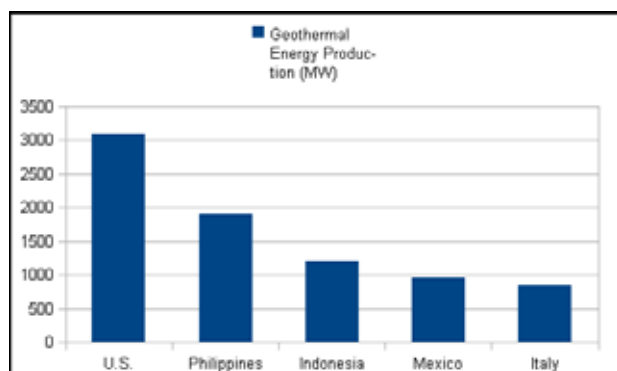
Types of renewable energy	Installation targets*
Solar	50
Hydro	250
Wind	200
Ocean technology	10

Source: Department of Energy

Philippines has vast reserves of renewable energy. Our country currently has about 6,000 MW reserves of geothermal energy, making us the second largest in the world, and a 700MW wind resource potential, which is the biggest in southeast Asia. The government also targets to double our hydro capacity to 3100MW. They also aim to expand power contribution of biomass, solar and ocean energy by 250MW which is currently at 8.3 MW (as of 2010). We think that geothermal energy is the most favorable type of power in the industry given that they are cheap compared to other sources of energy in the same load factor category. We also think that geothermal is best suited to meet the large base load demand (biggest additional capacity requirement according to DOE estimates).

Conventional Energy Source		
Baseload	Midrange	Peaking
geothermal	hydro	wind (on land)
coal	ocean	Solar
oil	solar	
natural gas	wind (off shore)	

source: renewable energy world, renewable info.com



Source: Department of Energy

<i>Estimated Cost per Kwh*</i>	
Coal	\$0.04
Geothermal	\$0.03
Natural Gas	\$0.10

\*Source: Nuclear Energy Institute and U.S. Department of Energy

Geothermal energy accounts for only 12% of the total installed capacity in the Philippines. Furthermore, it contributes only 15.1% of the total power generated. Philippines has a vast source of geothermal energy because we are situated in the Pacific Ring of Fire. The government aims to be the no. 1 geothermal producer in the world harnessing the estimated 6,000MW reserves of our country.

*Government supports Renewable energy*

The Renewable Energy Act, (RA 9513) aims to encourage investments by attracting foreign investors with a favorable law. There are several benefits in the RE law such as income tax holidays, duty free imports for equipment, realty tax cap, smaller corporate tax and tax exemptions. Projects from renewable energy will be prioritized, Furthermore most electricity suppliers are required to have at least a small portion of their energy supplied from renewable energy resources.

*Sector Coverage*

Power Sector coverage								
Ticker	Target price	Price	Forward EPS	Forward BVS	P/E 2012	P/BV 2012	EV/EBITDA 2012	Coverage Rating
AEV*	42.2	41.45	3.66	12.85	11.33	3.23	5.45	n/a
AP*	37	30.85	2.94	8.73	10.49	3.53	8.54	n/a
EDC	7.47	6.27	0.52	2.22	12.06	2.82	7.95	BUY
FGEN*	18.01	14.84	0.93	16.6	15.96	0.89	5.56	n/a
FPH*	86.6	63.3	4.46	118	14.19	0.54	4.92	n/a
MER	198	264	14.2	55.3	18.59	4.77	9.26	SELL

\*consensus target price and EV/EBITDA, corresponding rating will be issued after initiating coverage

The current industry situation is favorable to power generating companies, especially for renewable energy players. The present-day business players such as **EDC**, **AP**, **FGEN** and **FPH** look favorable over the near term because they have interest in renewable energy. EDC has a pure renewable portfolio, AP on the other hand has a mixed of both non-renewable (57%) and renewable(46%). FGEN will also benefit from this as bulk of their revenues come from EDC. Lastly FPH has a dominant market position in renewable energy while trading below book value. We will issue a rating after initiating a coverage on the aforementioned companies.