

abotiz outlook

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- **AEV recurring net income reaches P4.9 billion in 2008, down 3%**

Aboitiz Equity Ventures, Inc. (AEV) ended the year with a recurring net income of P4.9 billion, recording a 3% year-on-year (YOY) reduction from 2007 levels. Ownership dilution in Aboitiz Power Corporation (AP) and lower earnings contributions of parent and its operating units accounted for the marginal decline in earnings performance for the year.

For the period in review, the company had a non-recurring net loss of P775 million, which includes (1) a foreign exchange net loss of P403 million at parent and subsidiary levels, (2) a P575 million loss due to a booked asset impairment in anticipation of the sale of Aboitiz Transport System Corporation (ATS), (3) a P198 million share in the reversal of provisions made by an associate company due to an arbitration settlement, (4) a P43 million share in a subsidiary's project cost write-off and (5) a P48 million share in gains on asset sale and insurance claims made by ATS. All these bring AEV's total net income to P4.1 billion, a 29% YOY drop from previous year. This translates to an earnings per share of P0.73 for the year.

AP accounted for 70% of AEV's total income for the period in review. This was followed by the banking group with earnings contribution amounting to 19% of total. Income share of the food and transport groups were recorded at 10% and 2% of total, respectively.

In 2008, AEV shifted to Fair Value Method in accounting for investment properties held by its subsidiaries and associates, while AP adopted IFRIC 12, a new accounting standard on accounting for service concession agreements. 2007 financials were restated to retroactively apply the adoption of these accounting standards.

Business Segments

Power

Income contribution by AP amounted to P3.3 billion, recording a marginal decline from last year's P3.4 billion. When adjusted for non-recurring items, the group recorded a 30% YOY income growth, from P2.7 billion in 2007 to P3.6 billion in 2008.

Total power sold for the period recorded a 70% YOY expansion, from 1,018 GwH to 1,728 GwH. The increase was brought on by the full-year contributions of the 2007 acquisitions. The takeover and operation of the 100MW Binga hydro power plant in July 2008 has likewise resulted to the increase in the group's generation output. Higher rainfall during the year resulted to higher capacity factors for most of the hydro plants as well.

As of end-2008, AP's power generation group had an attributable capacity of 578MW, an 18% YOY increase from 2007. The increase was due to the turnover of the 175MW Ambuklao-Binga hydro power plants in July 2008.

The power generation business accounts for the lion's share of AP's income contribution to AEV. The business ended the period with net earnings contribution of P2.1 billion, up 3% YOY. With adjustments for one-off's, net income contribution by the business grew by 72% YOY, from P1.4 billion in 2007 to P2.4 billion in 2008.

The power distribution group's kilowatt-hour electricity sales for the period grew by 13% YOY, from 2,790 GwH to 3,142 GwH. Aside from the incremental volume sales from the 2007 acquisitions, expansion in Subic

Enerzone's industrial segment accounted for the strong growth of the distribution group, with power demand increasing mainly due to the operation of the Hanjin shipyard. On an organic basis, the group recorded a growth of 7% YOY.

Despite robust volume growth recorded, the distribution group's income contribution for the year declined by 12% YOY, from ₱1.3 billion to ₱1.1 billion. AEV's ownership dilution in AP coupled with increased fixed operating expenses resulting from 2008's high inflationary environment led to the group's lower earnings contribution for the year.

Financial Services

The financial services group contributed net earnings of ₱880 million in 2008, recording a 29% YOY decline from previous year's ₱1.2 billion.

Union Bank of the Philippines (UBP) ended the period with an earnings contribution of ₱843 million, 28% lower than the previous year's ₱1.2 billion. The decline was due to extraordinary income generated from trading and sale of assets in 2007.

Interest income from loans increased by 39% to ₱5.1 billion on the back of a 68% expansion in its loan portfolio brought on by its robust corporate, commercial and consumer finance business. Interest income on trading and investment securities also improved by 46% to ₱3.5 billion. With interest expense narrowing by 8%, net interest income reached ₱5.9 billion in 2008, a 22% increase from ₱4.8 billion in 2007. Moreover, its focus on low-cost core deposits allowed its net interest margin to improve to 4.1% from 3.3% in 2007.

UBP's asset base stood at ₱204.7 billion as of period end, with deposit level of ₱161.4 billion. The bank's capital adequacy ratio was at 12.9%, inclusive of credit, market and operational risk charges, which remains above the industry minimum requirement of 10%.

AEV's non-listed thrift bank, City Savings Bank (CSB), contributed earnings of ₱37 million during the period in review, down 42% from the same period last year. The bank's lower earnings contribution could be attributed mainly to lower net interest margins and increased operating costs due to branch expansion. Total resources increased by 16% to ₱4.7 billion from 2007 year-end level of ₱4.0 billion. The bank's NPL ratio stood at 1.5% while its NPL coverage ratio was at 116%. Total capital funds amounted to ₱562 million with a capital adequacy ratio of 15.2%.

Transport

The transport group ended the year with an income contribution of ₱81 million, vis-à-vis last year's net income contribution of ₱318 million. On a recurring basis, the transport group's earnings performance expanded by more than six times, from ₱5 million in 2007 to ₱33 million in 2008.

For the year ending December 31, 2008, ATS registered total consolidated revenues of ₱10.3 billion, a 25% YOY improvement from previous year's ₱8.2 billion. The strong showing of the company's freight revenues and improved value-added business accounted for the topline growth.

A 16% YOY increase in the company's freight rates per twenty-equivalent unit (TEU) resulted to a 22% YOY surge in freight revenues, from ₱4.4 billion 2007 to ₱5.4 billion in 2008. ATS is reducing its reliance on spot and market cargo which is more price driven. Freight capacity is now being filled up with its own supply chain and value added business. In 2008, total capacity was close to 250,000 TEUs, with an 88% utilization rate.

Passage business contributed revenues of ₱2.9 billion, a ₱63 million reduction from 2007 level. The average rate per passenger declined by 5% YOY, an effect of the company's year-round promotional rates designed to compete with low budget airlines. The business recorded a total of over 3 million passengers in 2008, which translates to a 70% utilization rate.

In 2008, ATS focused on developing its value-added business. Service fees increased by 45% YOY to ₱675 million, while sale of goods rose by 418% YOY to ₱1.2 billion. In June 2008, Aboitiz One, Inc. purchased ScanAsia Overseas, Inc., a company engaged in the business of sales, marketing, warehousing and transportation of temperature-controlled and ambient food products in the Philippines. 100%-owned Aboitiz One

Distribution, Inc. built a warehouse with 22,000 pallet positions located in Taguig City. This facility has been operational since the beginning of 2009.

Food

Income contribution from AEV's non-listed food subsidiary, Pilmico Foods Corporation, recorded a 13% YOY drop to ₱458 million. Despite a 23% YOY increase in revenues, the flour business recorded a 27% YOY decline in earnings contribution. In the meantime, the company's swine and feeds business recorded a 62% YOY earnings expansion, which resulted from favorable prices and volume sales.

Financial Condition

For the period ending December 31, 2008, the company's total assets amounted to ₱75.7 billion, a 15% YOY increase from year-end 2007 level of ₱65.9 billion. Cash and cash equivalents recorded a 15% YOY reduction, from ₱18.6 billion in 2007 to ₱15.8 billion in 2008. Total liabilities increased by 55% from year-end 2007 level to ₱29.1 billion, while Equity Attributable to Equity Holders of the Parent decreased by 1% to ₱37.8 billion. Current ratio as of period end was at 1.9x (versus year-end 2007's 2.5x), while net debt-to-equity ratio was at 0.15x (versus year-end 2007's -0.15x).

Other Developments

On December 19, 2008, AEV, together with Aboitiz & Company, Inc. (ACO), accepted the Term Sheet offered by KGLI-NM Holdings, Inc. (KGLI-NM) for the acquisition by KGLI-NM of 49% equity stake in ATS instead of the total buy-out proposed in the Memorandum of Agreement signed by the parties in September 2008. The 49% equity stake shall include the 7% equity stake of the public in ATS. Under the present agreement, which is expected to close on or before April 30, 2009, the purchase price will be based on a total equity value of ATS in the amount of ₱4.5 billion or equivalent to ₱1.84 per share. The agreement also gives KGLI-NM an option to acquire the remaining 51% equity stake of AEV and ACO anytime from May 1, 2009 to September 30, 2009 at the same price of ₱1.84 per share plus a premium of nine and a half percent (9.5%) annualized price per share calculated from April 30, 2009 to September 30, 2009, or to date of acquisition. KGLI-NM shall make a tender offer for the ATS shares held by the public in accordance with the rules under the Securities Regulation Code.

The valuation of the ATS shares for purposes of determining the purchase price of the ATS share and the investment participation by KGLI-NM in ATS after the transaction does not include the interest of ATS in the Aboitiz Jebsen Group of Companies, the value of which will be equitably distributed to the shareholders of record prior to the closing of the first tranche of the acquisition.

On February 11, 2009, AEV declared a regular cash dividend in the amount of ₱0.27 per share or for a total amount of ₱1.51 billion to all stockholders of record as of the close of business hours on February 26, 2009, payable on March 23, 2009. As disclosed in the 2008 Information Statement (SEC Form 20-IS) and 2007 Annual Report (SEC Form 17-A), AEV has a dividend policy of distributing at least one-third of its consolidated net income from the preceding fiscal year as cash dividends. This policy is subject to the requirements of applicable laws and regulations and the absence of circumstances, which may restrict the payment of cash dividends.

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