

Sector: Holdings

05 December 2019

Metro Pacific Investment Corp. (MPI)

BUY

Explores opportunities to increase shareholders value

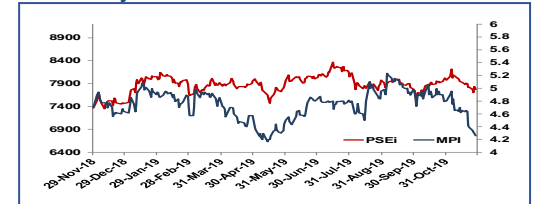
Share Price: PHP3.92
Target Price: PHP6.04
Potential Upside: 54.2%

PSE Code MPI
Bloomberg Code MPI PM
Outstanding Shares (mn) 31,523
52-week High / Low (PHP) 5.28 / 3.91
Market Cap PHP mn 123,570

Cristian R. Miguel
Analyst
+632 8722 0132
research@basecuritiesinc.com.ph

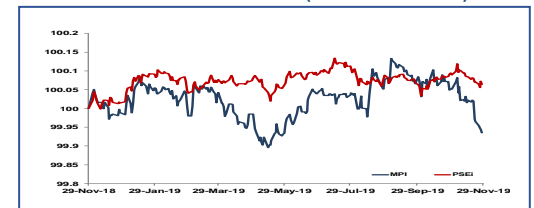
- **Reduces debt level to lower interest expense**
KKR Co. and a subsidiary of GIC Private Ltd. via a consortium acquires MPI's 40% interests in Metro Pacific Hospitals Holdings, Inc or MPHI at a total investment value of P35.3 billion. The transaction will eventually reduce MPI's stake to 20%. MPI plans to use the proceeds to reduce its bank borrowings and thus, lowers its rising interest costs. Based on estimates, we expect MPI to save around P2.6 billion in financing cost starting next year.
- **Sustains double-digit growth in toll road revenues**
On a full year basis, the combined effect of growth in average daily vehicle traffic, toll rate adjustments in NLEx and Cavitex, and opening of new toll roads such as C-5 Southlink Segment 3-A and CALAx subsection 6-8 are expected to support revenue or share in operating income of MPI from the toll road business. Based on estimates, we expect around P5.84 billion in core income contribution from the toll road business, 15% higher YoY.
- **Adjusts basic charge on water by P1.95 per cu.m.**
Maynilad is set to implement the P1.95 per cubic meter adjustment on water rates effective January 01, 2020. The adjustment was approved by MWSS in September 2018 and is part of the partial rate adjustment of P5.73 per cu.m. for the 5th Rate Rebasing Period (2018 to 2022). With our 3.6 percent growth expectation in no. of billed customers and scheduled water rate adjustment in 2020 while taking into account the impact of water supply disruption on consumption, topline growth is still expected to remain at high-single digit next year.

Chart 1: 1-yr Share Price and PSEi



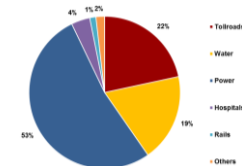
Source: Wallstreet, BA Research

Chart 2: Relative Performance (04 Dec '18 = 100)



Source: Wallstreet, BA Research

Chart 3: 9M 2019 Share in Operating Income



Source: MPI

Table 1: Valuation PHP mn unless stated		Table 2: Estimates (Year-End Dec)				
		2017A	2018A	2019E	2020E	
Water	43,529	Net Income PHPmn	13,142	14,121	15,522	17,884
Tollroad	77,197	Diluted EPS (PHP)	0.4167	0.4476	0.4923	0.5673
Power	134,885	EPS Growth	9.5	7.4	10.0	15.2
Others	31,556	P/E x	9.41	8.76	7.96	6.91
Gross Asset Value (GAV)	287,167	DPS (PHP)	0.0930	0.1030	0.1187	0.1306
Net debt - Parent	(39,921)	Div Yield %	2.4	2.6	3.0	3.3
Preferred shares - Parent	(9,128)	Div. Payout %	27	27	27	27
Gross Net Asset Value (GNAV)	238,118					
GNAV/share	7.55					
Fair value	238,118					
Target price	6.04					
Implied discount %	20%					

Valuation

Our target price on MPI is PHP6.04/sh using SOTP-NAV valuation methodology. Tollroad, power, and water business segments are valued based on Discounted Cash Flow (DCF) method largely driven by revenues, EBITDA and capex. Other businesses are valued using Price to Earnings method. We maintain our BUY rating on MPI with a potential upside of 54.2%.

Healthcare

Interest Expense	2016A	2017A	2018A	2019E	2020E	2021E
Interest costs	(2,112)	(2,669)	(3,370)	(4,081)	(6,580)	(6,751)
Interest costs after reducing debt level	(2,112)	(2,669)	(3,370)	(4,081)	(4,014)	(4,164)
Estimated savings	0	0	0	0	2,566	2,587

Source: MPI, BA Research estimates

Tollroad

Average Daily Vehicle Entries	2016A	2017A	2018A	2019E	2020E	2021E
NLEx	220,010	237,046	253,577	267,693	283,755	300,780
<i>YoY growth</i>	9%	8%	7%	6%	6%	6%
SCTEx	45,025	54,566	62,684	70,998	80,228	90,657
<i>YoY growth</i>	17%	21%	15%	13%	13%	13%
CAVITEx	128,137	139,208	146,315	163,273	179,600	197,560
<i>YoY growth</i>	16%	9%	5%	12%	10%	10%
C-5 South Link Segment 3-A 1					8,000	8,400
<i>YoY growth</i>						5%
CALAx Subsection 6-8 (Mamplasan - Sta. Rosa)					10,000	10,500
<i>YoY growth</i>						5%

Effective Toll Rates (Class 1; excluding VAT)	2016A	2017A	2018A	2019E	2020E	2021E
NLEx						
Open System	40.20	40.60	40.62	48.20	48.20	48.20
Closed System	2.38	2.38	2.60	2.80	2.80	2.80
SCTEx (Closed System)	2.38	2.38	2.70	2.70	2.70	2.70
CAVITEx (Open System)						
CAVITEx R-1	21.40	21.40	21.40	22.69	22.69	22.69
CAVITEx R-1 Extension	57.10	57.10	57.10	58.50	58.50	58.50
C-5 South Link Segment 3-A 1 (Open System)				19.36	19.36	19.36
CALAx Subsection 6-8 (Mamplasan - Sta. Rosa; Closed System)					4.50*	4.50*

Source: MPI, TRB, DPWH, BA Research estimates

* Proposed toll rate

Water

Key Data	2016A	2017A	2018A	2019E	2020E	2021E
Billed Customers (period end)	1,312,223	1,358,758	1,407,503	1,457,898	1,509,654	1,563,246
<i>YoY growth</i>	3.7%	3.5%	3.6%	3.6%	3.6%	3.6%
Volume of Billed Water (mcm)	499	512	527	538	548	558
<i>YoY growth</i>	3.6%	2.6%	3.0%	2.0%	1.9%	1.8%
Water Tariff Adjustment (basic charge per cu.m.)			0.90		1.95	1.95
Note: 5th RP rate rebasing (2018-2022)						

Source: MPI, MWSS, BA Research estimates

Latest Earnings Results

Table 3: Interim Results <i>PHPmn unless stated otherwise</i>	Third Quarter			Nine Months		
	3Q'19	3Q'18	% Chg	9M'19	9M'18	% Chg
Revenues (share in operating income)	5,233	4,802	9	16,407	15,418	6
Tollroads	1,264	975	30	3,689	3,256	13
Water	879	932	(6)	3,179	3,047	4
Power	2,888	2,681	8	8,950	8,503	5
Hospitals	281	248	13	681	586	16
Rails	55	94	(41)	224	299	(25)
Others	(134)	(128)	5	(316)	(273)	16
Head office expenses	(345)	(282)	22	(884)	(839)	5
Interest expense	(1,057)	(929)	14	(3,024)	(2,388)	27
Core income	3,831	3,591	7	12,499	12,191	3
Non-core income (expenses)	(135)	(44)	207	(695)	297	(334)
Reported income	3,696	3,547	4	11,804	12,488	(5)
Diluted EPS (PHP centavos)	12.14	11.37	7	39.62	38.62	3

Source: MPI, BA Research estimates

Income Statement

Table 4: Income Statement <i>PHPmn unless stated otherwise</i>	2016A	2017A	2018A	2019E	2020E	2021E
	Revenues (share in operating income)	15,133	17,847	19,563	21,771	24,115
Tollroads	3,517	3,901	4,423	5,100	5,840	6,369
Water	3,564	3,733	3,794	4,070	4,266	4,622
Power	7,229	9,378	10,823	12,027	14,090	15,408
Hospitals	589	685	771	899	228	262
Rails	273	283	394	325	341	358
Others	(39)	(133)	(642)	(650)	(650)	(650)
Head office expenses	(915)	(1,074)	(1,133)	(1,229)	(1,278)	(1,329)
Interest expense	(2,112)	(2,669)	(3,370)	(4,081)	(4,014)	(4,164)
Core income	12,106	14,104	15,060	16,461	18,822	20,877
Non-core income (expenses)	(650)	(953)	(930)	(930)	(930)	(930)
Reported income	11,456	13,151	14,130	15,531	17,892	19,947
Diluted (PhP centavos)	38.06	41.67	44.76	49.23	56.73	63.25

Source: MPI, BA Research estimates

Rating Definition

BUY - Estimated potential return of >10% in 12 months
 HOLD - Estimated potential return of 0-10% in 12 months
 SELL - Estimated potential return of <10% in 12 months

Rating History

Date of Report	Last Price (PHP)	Target Price (PHP)	Rating
29-Nov-2016	6.20	7.70	BUY
12-July-2017	6.62	7.83	BUY
18-July-2018	4.52	6.09	BUY
23-Aug-2019	4.98	6.75	BUY
05-Dec-2019	3.92	6.04	BUY