

Sector: Holdings

27 January 2020

# Aboitiz Equity Ventures, Inc. (AEV)

**HOLD**

*Realizes the economic benefits of past acquisitions in power and food*

**Cristian Miguel**  
Analyst

+632 8722 0132

research@basecuritiesinc.com.ph

Share Price: PHP52.95  
Target Price: PHP53.70  
Potential Upside: 1.4%

PSE Code AEV  
Bloomberg Code AEV PM  
Outstanding Shares (mn) 5,632.79  
52-week High / Low (PHP) 66.55 / 46.70  
Market Cap PHP mn 298,256

➤ **Power business offers better prospects**

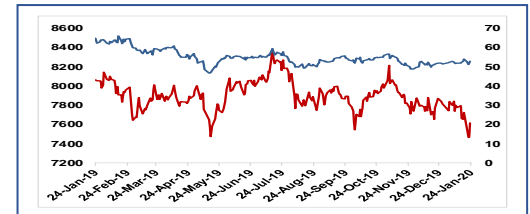
GNPower Dinginin Ltd. Co. owns 2 units of power plant with a combined net sellable capacity of 1,336 megawatts. 668MW Unit 1 is targeted to operate in the third quarter of 2020 while 668MW Unit 2 will operate in the fourth quarter of the same year. This translates to P1.3 billion additional income from partial operations of both units in 2020. However, earning contributions from the Dinginin assets would reach around P5.1 billion in 2021 from their full year operations based on our estimates. AP has 70.0% economic interest in GNPower Dinginin.

From existing power plants, 316MW Unit 1 of GMCP and 130MW Unit 1 of TSI already resumed operations following the unplanned outages of the assets last July and September of 2019, respectively. However, 130MW Unit 2 of TSI is still out of operation since December of last year due to unplanned outage also but expected to go online this January. The resumption of the operations of GMCP and TSI units would bring in additional net sellable capacity of 576 megawatts starting first quarter of 2020.

➤ **Overseas feeds operation drives profitability growth**

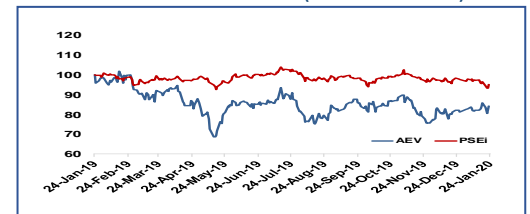
Amid rising input costs and lower swine prices due to the African Swine Fever or ASF, domestic feeds and farms operations recorded losses for the first nine months. However, such losses are still expected to be offset by the domestic flour business and the international feeds operations until the fourth quarter of 2019. This year, ASF still poses risk in the swine feeds and farm business of AEV domestically and globally. However, AEV's feed business is diversified that it also caters to feed requirements of other livestock such as poultries, cattle, fish, shrimp, and etc. across Asia.

Chart 1: 1-Yr Share Price and PSEi



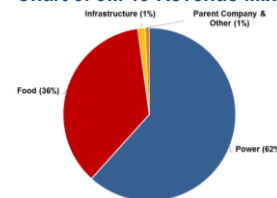
Source: Wallstreet, BA Research

Chart 2: Relative Performance (24 Jan '20 = 100)



Source: Wallstreet, BA Research

Chart 3: 9M'19 Revenue Mix



Source: AEV

Table 1: Valuation PHP mn unless stated		Table 2: Estimates (Year-End Dec)				
			2017A	2018A	2019E	2020E
Power (72%)	265,501	Net Income PHPmn	29,279	31,239	30,100	33,748
Banking and financial (9%)	34,752	EPS PHP	3.84	3.95	3.79	4.25
Food manufacturing (10%)	37,795	PER x	13.80	13.42	13.96	12.45
Cement (4%)	15,350	Dividend PHP	1.34	1.28	1.32	1.27
Real estate (4%)	15,112	Dividend Yield %	2.5	2.4	2.5	2.4
Gross Asset Value	368,510	Dividend Payout %	33	33	33	33
Parent net debt	(32,512)					
GNAV	335,998					
GNAV/sh.	59.65					
Discount %	10%					
Target Price	53.70					

**Valuation**

We set our target price for AEV at PHP53.70/sh using the SOTP NAV valuation method. Operating companies are valued based on the following:

Power – Discounted Cash Flow  
 Banking and Financial – Mark to Market  
 Food Manufacturing – Price to Earnings  
 Cement – DCF  
 Real Estate – Book Value

**Latest Results**

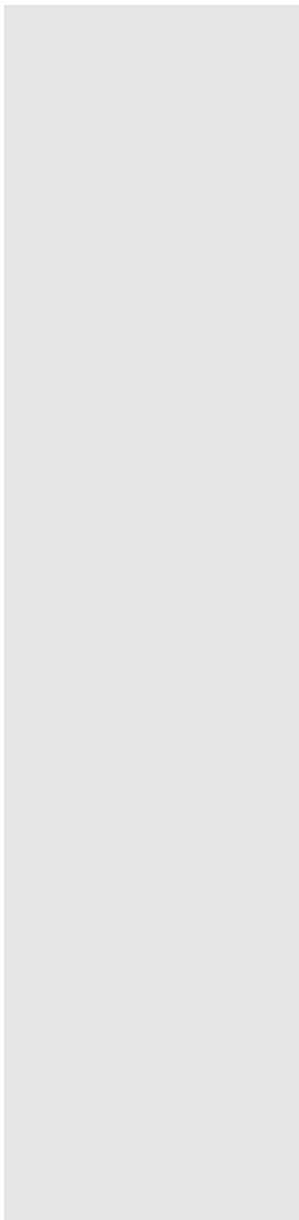
Table 3: Interim Results <i>PHPmn unless stated otherwise</i>	Nine Months			Three Months		
	9M'19	9M'18	Chg	3Q'19	3Q'18	Chg
Total Revenues	152,469	135,252	13	49,917	51,880	(4)
Power	94,681	100,105	(5)	30,722	34,840	(12)
Banking & Financial services	0	478,830	(100)	0	478,510	(100)
Food Manufacturing	55,440	30,645	81	18,823	15,599	21
Real Estate	2,129	2,979	(29)	702	1,007	(30)
Infrastructure	70	71	(1)	24	26	(6)
Parent Company and Others	1,116	1,202	(7)	451	311	45
Less: Intersegment	(967)	(228)	324	(805)	(63)	1,188
Costs and Expenses	127,741	106,083	20	40,522	40,285	1
Operating Income	24,728	29,169	(15)	9,395	11,594	(19)
Income Before Income Tax	24,997	27,584	(9)	10,815	11,535	(6)
Net Income	21,503	24,349	(12)	8,912	10,408	(14)
Earnings Per Share (PHP)	2.79	3.07	(9)	1.20	1.28	(6)

source: AEV, BA Research

**Income Statement**

Table 4: Income Statement <i>PHPmn unless stated otherwise</i>	2016A	2017A	2018A	2019E	2020E	2021E
	Total Revenues	116,415	150,422	186,943	214,580	235,454
Power	89,163	119,391	131,572	137,133	146,828	151,082
Banking & Financial services	550	742	645	0	0	0
Food	23,702	26,230	50,253	74,524	85,702	98,558
Real Estate	2,441	3,674	4,001	2,829	2,829	2,829
Infrastructure	0	34	96	94	94	94
Parent Company and Others	1,581	1,647	1,819	2,001	2,201	2,421
Less: Intersegment	(1,023)	(1,297)	(1,443)	(2,001)	(2,201)	(2,421)
Operating Expenses	87,494	113,845	147,781	174,954	191,537	206,298
Operating Income	28,921	36,576	39,162	39,626	43,917	46,265
Income Before Income Tax	32,943	33,862	35,138	35,412	39,703	42,051
Net Income	28,653	29,279	31,239	30,100	33,748	35,743
Earnings Per Share (PHP)	4.02	3.84	3.95	3.79	4.25	4.51

source: AEV, BA Research



---

**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
24-Jul-2019	56.00	51.50	HOLD
27-Jan-2020	52.95	53.70	HOLD

---