

# Philippines

*Market uncertainty means deal activity will slow until markets improve. However, several power asset auctions are leading deals in H2 2008*

## Current Environment

The Philippine economy for the first half of 2008 enjoyed continued positive growth, albeit slower than last year. Official government data had Q1 GDP expanding at 5.2% compared to last year's 7.0%. Forecast GDP growth for 2008 is down to 5.8% (2007: 7.3%). Personal consumption expenditure continues to be the main growth driver of the economy, expanding in the first quarter by 5.1%. Spending likewise remained strong for residential property, and durable equipment. Foreign remittances from overseas Filipino workers have continued to support the economy, with inflows for the first four months growing by 14.5% to US\$5.4 billion.

Sectors that contributed to positive growth include trade, finance, transportation and communications. The export sector, however, has been adversely affected by the slowdown in external demand, particularly from the United States. Value of total exports shrank by 11.1% in the first quarter. Export levels recovered slightly in April at 4.9% growth year-on-year, but the outlook for a sustained recovery for the rest of the year remains uncertain due to continued weakness in the US economy – a major market for Philippine exports.

Inflation is another macroeconomic concern that has put a break on spending and economic growth. Local inflation level for June was at 11.4%, the highest in 14 years. The inflation level for the first half of the year averaged 7.6%. The central bank expects the inflation rate for the entire year to lie between 7% – 9%. Rising food and fuel prices have led the government to postpone its goal of balancing the budget in 2008 in favour of offering various subsidies and tax relief to the poor. This includes US\$46 million in a one-time power subsidy to approximately four million families who use 100 kWh of electricity or less, sale and distribution of subsidised rice through the National Food Authority (“NFA”), and a tax measure that exempts minimum wage earners from income tax. The measure passed by Congress also raises allowable personal exemptions for individual taxpayers and additional deductions for qualified dependents. Though 2010 is the new target year for balancing the budget, rating agency Standard & Poor says this postponement will not negatively affect the country's sovereign credit rating. The country's debt-to-GDP ratio is expected to hit 50% by end 2008, down from a ratio of 56% in 2007.

The local equity market has not been spared by negative sentiment in global markets. Since the start of the year, the PSE Index is down by approximately 30%, moving from 3621.6 to the 2500 level. Market movements are connected to concern over the impact of inflation, specifically sustained high fuel prices, is having on corporate profits and the general economy. Despite the challenging market environment, IPOs for San Miguel Brewery, Inc. and Pepsi Cola Products Philippines, Inc. pushed through. However, there are several IPO plans that have been deferred until the local equity market recovers from this downturn.

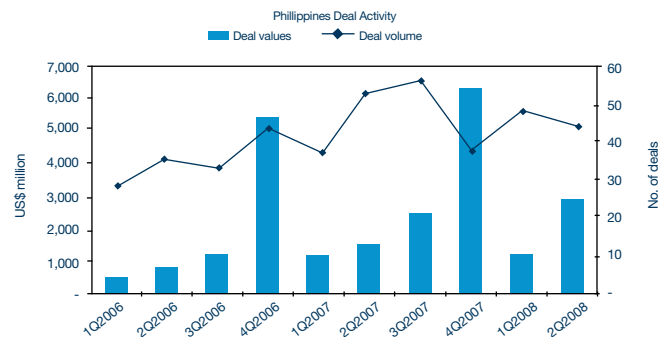
Foreign direct investment (“FDI”) applications with investment promotion agencies such as Clark Development Corporation (“CDC”) and the Philippine Economic Zone Authority (“PEZA”)

increased in the first quarter of 2008 compared to the same period last year. Applications registered with the Board of Investments (“BOI”) and Subic Bay Metropolitan Authority (“SBMA”) decreased, but collectively these investment promotion agencies registered FDIs in the first quarter totalling Php20.0 billion from Php17.9 billion in the same quarter a year ago – an increase of 11.7%. Majority of investments once more were pledged for the manufacturing industry (78.7%). Second to manufacturing were investments into private services with Php3.0 billion (15.2%) in pledges. These investments were mostly in the area of information and communications technology (“ICT”), including business process outsourcing and software development.

Total investment levels, including those from Filipino nationals, reached Php39.1 billion in the first quarter of 2008, 6.3% lower than the Php41.7 billion registered in the same period last year.

The Philippine peso has depreciated slightly against the US dollar over the first half of 2008. Compared to the end 2007 rate, the local currency has depreciated by approximately 7%, moving from a rate of approximately Php/US\$41.96 to Php/US\$44.92 as of the end of June 2008.

## Deal Activity



Source: Thomson Reuters, based on total domestic, inbound and outbound deals announced as of 30 June 2008

Deal value for the first half of 2008 increased 53% from the same period the previous year. Deal volume increased slightly, with 94 taking place in the first half of this year compared to 92 for the same period last year. There was a strong increase in inbound activity with deal value moving from US\$238.2 million for the first half of 2007 to US\$2.8 billion for the first half of 2008. This is mainly due to both local and foreign interest in the sale of a 40% stake in Petron Corporation.

## Petron Corporation

Two different groups have expressed interest in acquiring the remaining 40% government stake, representing 3.75 billion ordinary shares, of petroleum products refiner, wholesaler and retailer, Petron Corporation. One group comprised JG Summit Holdings Inc and Morgan Stanley, which proposed to acquire the stake for 6.55 pesos (US\$0.154) per ordinary share, or a total value of Php24.6 billion (US\$577 million), in a privately-negotiated transaction.



The competing entity is Ashmore Global Special Situations Fund 4 Ltd Partnership, a unit of Ashmore Investment Management Ltd, which proposes to acquire the stake for Php22.8 billion (US\$548 million).

Sea Refinery Holdings BV, a majority-owned unit of Ashmore Investment Management Ltd, launched a mandatory tender offer to acquire the remaining 60% interest, or 5.625 billion ordinary shares, which it did not already own, in Petron Corporation for 6.531 pesos (US\$0.148) in cash per share, or Php36.74 billion (US\$832.07 million).

### Financial sector

Shareholders of Philippine National Bank (“PNB”) and Allied Banking Corporation have approved PNB’s US\$564 million take-over of Allied Bank. The combined assets of the new entity will amount to Php388 billion, ranking it as the fourth largest in the country. The Lucio Tan group will have an 81% share in the merged bank.

Orix Corp acquired the non-performing loan assets of Metropolitan Bank & Trust Co. for Php4.6 billion (US\$114 million).

### Power sector

First Philippine Holdings Corp acquired a 9.16% stake in Manila Electric Co., an electric utility company, from Union Fenosa Sa for Php10.2 billion (c. US\$250 million).

In January, Aboitiz Power Corporation (“AP”), agreed to acquire the entire share capital of Mactan Enerzone Corporation from AboitizLand, Inc, a 60% interest in Balamban Enerzone Corp and the remaining 25% stake which it did not already own in Subic Enerzone Corporation. These three transactions with electric utility companies were to have a combined value of Php888.9 million (US\$22 million). In March, AP acquired the remaining 40% stake of Balamban Enerzone Corp from Tsuneishi Holdings (Cebu) Inc, for Php178 million (US\$4.4 million).

### Real Estate sector

In June, Inframetro Investments Pte Ltd planned to acquire a 58.5% interest in Metro Pacific Investments Corp, for Php1.082 (US\$0.024) per share, or Php2.05 billion (US\$45.8 million).

In March, Megaworld Corporation acquired the three subsidiaries of Ayala Land Inc, a real estate development firm, for Php902 million (US\$21.8 million).

Anchor Land Holdings Inc acquired the entire share capital of Gotamco Investment Realty Corp, a real estate development firm, for Php214.2 million (US\$5.3 million).

SM Prime Holdings intends to acquire the entire share capital of Mega Make Enterprises Ltd, a shopping malls owner and operator, from Oriental Land Development Ltd, in exchange for the issuance of 372.493 million new ordinary shares valued at HK\$661.9 million (Php3.4 billion/US\$85 million).

### Tourism sector

Star Cruises Ltd agreed to acquire a 50% interest in Travellers

International Hotel Group Inc, a casino hotels owner and operator, from Alliance Global Group Inc for Php13.9 billion (c. US\$335 million).

Heung-A Shipping Co Ltd planned to acquire a 31.66% stake in Subic Neocorb, a resort owner and operator, for Php169.1 million (c. US\$4.1 million) in cash.

## Outlook

Deal activity is anticipated to pick up once the equity market stabilises and recovers from the several month-lows it has recently hit, envisaged privatisation of power assets is one major area of activity expected in H2 2008. Market uncertainty has also caused firms to start looking towards 2009 and 2010 for their IPO dates.

### Power asset auctions

The privatisation process of the National Power Corporation’s power generation assets is currently on-going. The 70% benchmark of generation assets privatised is projected to be met by the end of 2008. This benchmark is a major precondition before declaring open access of the retail sector of the country’s electricity market.

- Privatisation of the 620 MW Limay Combined Cycle Power Plant is proceeding on schedule. Participants started due diligence in May. The bid date is scheduled on 30 July 2008.
- Privatisation of the 0.8 MW Amlan hydroelectric plant and 289 MW Tiwi & 458.53 MW Makban geothermal power facilities are also pushing through in July after a one-month postponement of the bidding deadline by request of the bid participants.
- Privatisation of the Independent Power Producer (IPP) Administrators is currently scheduled for September 2008.

### IPO activity

Due to market volatility, few firms have confirmed with specific dates of when they are scheduled to conduct IPOs in the second half of 2008. Firms originally scheduled to conduct IPOs for 2008 but have since postponed them indefinitely include Cebu Air, Inc., Petrolift, Inc., Seaoil Philippines Inc, and Viva Communications.

Below is a list of firms that have indicated their intention to conduct an IPO in the remainder of 2008, including an estimate of the value of the offering if available:

- Sultan Mining and Energy Development Corporation, Php200 million, July 2008
- Rockwell Land Corporation, US\$100 million, late 2008 or 2009
- SPI Global Solutions, US\$158 million (acquisition cost), second half of 2008
- Nationwide Development (investment and mining group), late 2008