

Philippines

As the economy takes off, so too does M&A activity

Current Environment

Government estimates indicate 2007 as an exceptional year for economic growth in the Philippine economy with GDP increasing at 6.9% pa. Government sees their growth estimates as the strongest for the economy in more than 30 years.

Strong economic results were driven by growth in personal consumption expenditure, supported by an estimated US\$14.3 billion remitted by overseas Filipino workers (“OFWs”) – an increase of 10.8% from the US\$12.9 billion remitted in 2006. In addition to encouraging spending on consumer goods, OFW funds have fueled growth in the property and real estate markets. Increased government spending for the May 2007 elections further buttressed the local economy.

On the supply side, the services sector continued to make the largest contribution to growth with an 8.2% growth rate for the first three quarters of 2007. Leading the sector’s growth were retail trade, private services, transportation, communication and storage sub-sectors. Revenues from the burgeoning business process outsourcing (“BPO”) industry are estimated to have grown to US\$4.5-5 billion from US\$3.3 billion in 2006. The agriculture sector contributed to growth by advancing steadily with a 4.7% growth rate.

2007 was a volatile year for the Philippine Stock Exchange index as the local equities market adjusted to uncertainties brought by the credit crisis in the US during the 2nd half of the year. Midway through 2007, news of the sub-prime crisis erased the approximately 20% of gains that had already been made in the year. Nevertheless, the index managed to settle at its highest year-end closing level of 3,621.6, achieving a 21.43% gain for the year. Annual value turnover hit a record US\$32.46 billion, 133% more than 2006’s US\$13.87 billion figure. The year-end level of the market’s total capitalisation hit a new record US\$193.3 billion, 11.2% higher than the US\$173.7 billion recorded in 2006. Proceeds from IPOs and other capital raising activity reached US\$2.17 billion in 2007, 57% higher than the previous high of US\$1.39 billion in 2006. IPOs of note include Aboitiz Power Corporation, National Reinsurance Corporation of the Philippines, Splash Corporation, and GMA Network, Inc.

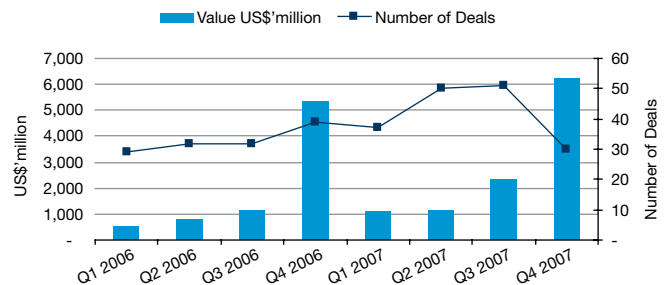
As in 2006, the Philippine peso continued the trend of appreciating against the US dollar, buoyed by dollar-remittances overseas and also the overall weakness of the dollar. It ended 2007 at Php41.28 to the US dollar, having appreciated 19%, the fastest rise in Asia for the year. The strength of the peso mitigated the effect of rising prices of imports, such as petroleum, on the local inflation rate. Food supplies and consequently food prices remained stable as a result of favorable weather throughout the year. Government estimates placed the annual inflation rate at 2.7 percent.

Levels of approved foreign direct investment (“FDI”) in the economy dipped 24.2% from Php148.5 billion to Php112.6 billion in the first nine months of 2007. Investment levels picked up in the 2nd and 3rd quarter of 2007 with fresh investments in sectors such as BPO, finance and real estate, but overall levels remained depressed due to the sharp contraction of investments in manufacturing in the first quarter.

On the fiscal side, balancing the budget remains to be the main policy priority of the government for 2008. This follows budget deficit estimates for 2007 at between US\$144 million and US\$216 million. Improved budget numbers for 2007 have resulted in muted confidence as budget gaps have been plugged through the sale of large state assets rather than through improvements in tax collection efficiency and addressing the perennial problem of tax evasion.

Deal Activity

Announced Mergers & Acquisitions – Philippines



Source: Thomson Financial

The value of announced deals was up 29% to US\$10.1 billion in 2007, with deal volume increasing to 168 as compared to 132 for 2006.

San Miguel Corporation (“SMC”)

In 2007, SMC continued to divest more of its food and beverage units. In addition to the sale of its stakes at National Foods Australia, Coca-Cola Bottlers Philippines, Inc. and Del Monte Pacific Limited, the firm has decided to spin off its top revenue-earning domestic beer division. In 2008 San Miguel plans to conduct an IPO of newly formed subsidiary San Miguel Brewery, Inc. to raise Php14.73 billion to Php25.27 billion. Funds generated by these activity are to push forward SMC’s thrust to enter other industries.

SMC has attempted, unsuccessfully, to acquire power assets under privatisation by the Philippine government. The company bid for the government’s 60% stake in geothermal energy firm Philippine National Oil Co. – Energy Development Corporation (“PNOC-EDC”). The stake was awarded to First Gen Power Corporation, which submitted a Php58.5 billion bid. The company also participated in the auction for a 25-year concession to run National Transmission Corporation (“TRANSCO”), the country’s power grid. The concession was awarded to the US\$3.95 billion bid submitted by a consortium comprised of Monte Oro Grid Resources Corporation, Calaca High Power Corporation and the State Grid of China.



Power Assets Privatisation

The government-run Power Sector Assets and Liabilities Management Corporation (“PSALM”) has been aggressive in auctioning state power assets, in addition to already mentioned PNOC and TRANSCO.

600-MW Masinloc coal-fired power plant, awarded the previous year to YNN Pacific Consortium, was re-auctioned due to the group’s failure to pay the upfront payment of US\$227.54 million. The new auction was won by AES Corporation with a US\$930 million bid.

The auction for 600-MW Calaca coal-fired power plant was won by Franco-Belgian firm Suez-Tractebel with its bid of US\$786.5 million.

The bidding for the 100-MW Binga and 75-MW Ambuklao hydroelectric complex was won by SN-Aboitiz Power with a bid valued at US\$325 million.

Mining sector

Developments in the Mining industry include Zijin Mining Group Co Ltd signing a memorandum of understanding to acquire a 20% stake in Far Southeast Gold Resources Inc. and a 60%-owned unit of Lepanto Consolidated Mining Co for US\$70 million.

Republic Cement Corp and Lafarge Holdings (Philippines) Inc, agreed to acquire certain assets of Concrete Aggregates Corp, a quarrying company for US\$15.7 million

Anglo Philippine Holdings Corp, a majority-owned unit of PCD Nominee Corp, acquired a 3.28% stake in Atlas Consolidated Mining & Development Corp for US\$10.17 million.

ATN Holdings Inc plans to acquire a 70% interest in Mariestad Mining, in addition to planning to acquire a 70% interest in Sierra Madre Consolidated Mines.

Oil and Gas sector

Otto Energy Ltd acquired a 31.38% stake in Galoc Production Co WLL from Granby Oil & Gas PLC and Cape Energy Philippines SA for US\$19.25 million. The transaction includes an 18.28% stake in Galoc Field Offshore.

Telecommunications sector

Metro Pacific Assets Holdings Inc acquired a 46% stake in Philippine Telecommunication Investment Corp (“PTIC”) from Philippine state-owned Presidential Commission on Good Government (“PCGG”) for US\$523 million.

Financial Services sector

Banco De Oro-EPCI Inc acquired Philippine consumer banking operations of American Express Co (“AE”). The acquisition includes the bank’s peso and US dollar credit card portfolios, and the banking services of American Express Savings Bank.

Outlook

While the real Philippine economy is slated to continue growing strongly for 2008, the local equity market is affected by the uncertainty and volatility originating from the US financial market. Some IPO activity initially planned for the early part of 2008 have been postponed, ostensibly to the second half when markets are expected to stabilise and recover.

IPO Activity

Cebu Air, Inc. operator of budget airline Cebu Pacific, indefinitely postponed its US\$309 million public offering originally scheduled for February. Pepsi-Cola Philippines which pushed through with their IPO, lowered their indicative offer price and raised US\$98 million.

Other IPOs planned this year include the following:

- Viva Communications, Inc., Php1.85 billion offering, March
- San Miguel Brewery, Inc., Php15 to 25 billion, first quarter 2008
- Rockwell Land Corporation., US\$100 million, late 2008
- Seaoil Philippines Corporation, Php2.5 to 3.0 billion, first quarter 2008

Power Asset Auctions

Power asset auctions are to continue in 2008, with several more plants up on the block, including the 192.5-MW Palinpinon geothermal plant, the 110-MW Panay diesel power plant, the Manila Thermal plant, and the geothermal complex comprised of the 275-MW Tiwi and 410-MW Makban power plants.

In the latter half of the year the following power plants are scheduled to be auctioned: 150-MW Bacman and 0.8-MW Amlan hydropower plants, 114-MW Iligan I and II diesel-fired power plants, 620-MW Limay power plant, and the decommissioned Aplaya, Bataan and General Santos power plants.

BPO and Real Estate

Demand for commercial real estate is expected to continue being strong in 2008. The slowdown in the US economy is seen to further encourage US firms to outsource back-office operations to local BPO firms. BPO firms are projecting an annual growth of 40% to US\$7 billion, already taking into account the effect of the appreciating Philippine peso. BPO firms currently occupy 60% of commercial office space in Metro Manila’s financial district, Makati City. Much of the planned new commercial space in Metro Manila have already committed to tenants through pre-leasing.