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Earnings Release Q1 2016

Ayala's net income climbs 15% to ₱5.8 billion in Q1

Ayala Corporation recorded a net income of ₱5.8 billion in the first quarter of the year, expanding 15 percent from a year ago, as most of its businesses performed well with largest growth coming from its real estate, power generation, and automotive businesses.

This strong first quarter results was driven by the equity earnings contribution from the conglomerate's business units, which reached ₱7.2 billion, 11 percent higher year-on-year. Ayala Land and Manila Water posted double-digit growth in equity earnings contribution, up 16 percent and 13 percent, respectively. Meanwhile, Ayala Automotive rebounded in the first three months of the year with equity earnings contribution expanding fivefold on the back of strong sales in the Isuzu and Honda brands as its Volkswagen sales started to ramp up.

"As we conclude our medium-term plan this year and embark on a new five-year growth strategy, we are encouraged by the upbeat first quarter results of our businesses. We believe the Philippines continues to be fundamentally strong, and we expect most of our businesses to continue growing at a healthy pace," Ayala president and chief operating officer Fernando Zobel de Ayala said.

Real Estate

Ayala Land registered a 14 percent growth in net income to ₱4.7 billion on the back of robust residential, office space sales, and commercial leasing segments and higher margins across all product lines. Real estate revenues, inclusive of interest income on accretion, grew 8 percent to ₱26.7 billion supported by the steady performance of its property development and commercial leasing businesses.

Residential revenues expanded 14 percent to ₱15.9 billion on higher bookings and project completion. Reservation sales rose 6 percent to ₱24.7 billion. This was supported by improved revenues from the sale of office space, which jumped 33 percent to ₱1.3 billion on bookings primarily from Alveo Financial Tower in Makati Central Business District.

Revenues from shopping center and office leasing segments improved during the period on contribution of newly opened malls and office spaces. Shopping center revenues expanded 15 percent to ₱3.6 billion, while office leasing revenues grew 13 percent to ₱1.4 billion. Together with hotels and resorts, shopping centers and office leasing, the recurring income business contributed 40 percent of Ayala Land's net income in the first quarter.

Telecom

Globe Telecom sustained its robust topline growth bolstered by gains across its data-related product segments, with net income growing 3 percent to ₱4.3 billion in the first three months of the year.

Globe's bottomline growth was tempered by the ₱6.2 billion in depreciation expenses during the period. A 40 percent jump from a year ago, the depreciation expenses resulted from the one-time adjustments from end of useful life of certain assets, the additional depreciation charges from Bayan during the quarter which were not part of the depreciation in the previous year, as well as the depreciation of new assets completed in 2015.

Without the impact of non-recurring charges, foreign exchange gains, and mark-to-market charges, Globe's core net income stood at ₱4.2 billion in the first quarter, flat from a year ago.

Service revenues reached ₱29.9 billion in the first quarter, a 14 percent improvement from its year-ago level. This strong growth was partly driven by contribution from Bayan amounting to ₱1.5 billion.

Customer base expansion in both the prepaid and postpaid segments drove the 7 percent growth in mobile revenues, which reached ₱23.1 billion from a year ago. Globe's mobile subscribers jumped 18 percent to 57.3 million at the end of the first quarter.

Mobile data service revenues soared 62 percent to ₱9.1 billion owing to the increasing smartphone penetration and availability of low-priced data capable devices combined with Globe's attractive offerings and improved data network. This was partly offset by the decline in core mobile voice and SMS revenues by 11 percent and 15 percent, respectively as traffic shifted to data services.

Similarly, Globe's group home broadband business, which includes Bayan, posted robust growth with revenues expanding 51 percent to ₱3.5 billion and subscriber base improving 41 percent to 1.1 million. Strong demand for internet and data connectivity combined with its bundled entertainment-related content offerings drove Globe's home broadband revenues during the period. Globe's corporate data business likewise soared, climbing 51 percent to ₱2.3 billion on increased demand for service solutions and cloud-based services from corporate clients.

This translated to a consolidated EBITDA of ₱13 billion, 18 percent higher year-on-year, with EBITDA margin at 44 percent, higher than the 42 percent recorded the previous year.

Banking

Bank of the Philippine Islands reported a net income of ₱5 billion in the first quarter of the year, up 1.3 percent year-on-year as its core lending business, non-interest income, and securities trading continue to improve.

The bank's total revenues grew 5 percent to ₱15.3 billion supported by the 6 percent increase in net interest income, which reached ₱10 billion. Non-interest income improved 2.8 percent to ₱5.3 billion on combined gains from securities and foreign exchange trading, which grew 22 percent.

BPI's operating expenses went up 7.3 percent to ₱7.9 billion, primarily driven by higher regulatory and marketing-related costs. This translated to a slight increase in cost-to-income ratio to 51.4 percent from 50.3 percent a year ago.

The bank's loan portfolio expanded 18.1 percent to ₱861.2 billion, comprising 78 percent corporate and 22 percent retail borrowers. Despite the growth in the bank's loan book, its gross 90-day non-performing loans slightly decreased to 1.7 percent. Meanwhile, total deposits reached ₱1.3 trillion, 12 percent higher from its year-ago level. Current and savings account at the end of the first quarter stood at 72.6 percent.

This puts BPI's total assets to ₱1.5 trillion, up 9 percent year-on-year. The bank's capital adequacy during the period remains strong, recording a 7 percent increase from the previous year to ₱156 billion, with capital adequacy ratio at 13.9 percent.

Water

Manila Water registered a 3 percent growth in net income to ₱1.5 billion in the first three months of the year on improved East Zone operations, backed by strong topline growth of its domestic businesses.

Billed volume in the Metro Manila East Zone climbed 6 percent owing to the expansion initiatives in the Pasig, Marikina, and Taguig areas. Furthermore, its domestic operations jumped 44 percent to ₱643 million bolstered by higher connections and upward tariff adjustments particularly in Laguna Water and Boracay Water as well as contribution from Estate Water.

Manila Water's two bulk water companies in Vietnam, Thu Duc Water and Kenh Dong Water as well as its investment in Saigon Water, grew 4 percent year-on-year. Manila Water's businesses outside the East Zone, which includes domestic and overseas operations, collectively grew 4 percent, accounting for 15 percent of its net income in the first quarter.

Manila Water continues to improve its operating efficiencies, with non-revenue water in the Metro Manila concession lower at 11.2 percent at the end of the first quarter, a 0.9 percent-point improvement year-on-year. Meanwhile, collection efficiency remained strong in the first three months of the year at 100 percent.

Electronics Manufacturing

Integrated Microelectronics registered a net income of \$6.5 million (or ₱311 million) in the first quarter, a 4 percent decline year-on-year. IMI's continued shift in revenue mix to new platform technologies drove the 3.2 percent sequential improvements in its consolidated revenues from the fourth quarter of 2015 to \$199.1 million (or ₱9.4 billion) in the first quarter of the year.

This transition reflects IMI's strategy to exit some of its low-margin consumer electronics businesses and the discontinued products in the computing segment as it ramps up its automotive and industrial products.

IMI's China operations posted a 3.3 percent decline in revenues to \$66.6 million as customer demand on consumer electronics slow down, including phased out models. Its revenues from its Europe and Mexico operations grew 6.4 percent to \$73.3 million in the first quarter on higher demand in the automotive segment, mitigating the effect of a weaker euro. Meanwhile, IMI's revenues from its Philippine operations decreased 2.3 percent to \$51.4 million on strong growth in the automotive and industrial segments, which partially filled the revenue gap from computer peripherals.

Power and Transport

AC Energy sustained its positive earnings trajectory, generating a net income of ₱250 million in the first quarter as its power projects achieved more efficient operating levels.

AC Energy currently has approximately 650 megawatts in attributable capacity across its conventional and renewable investments. With financial close of the first unit of the 2x660MW GN Power Diningin plant expected in the third quarter of this year, AC Energy is set to achieve its goal of assembling 1,000 megawatts of attributable capacity by the end of 2016.

In transport, AC Infrastructure recorded net earnings of ₱23 million following the systems takeover of LRT1 in September last year. AC Infrastructure currently has three public-private partnership projects in its portfolio – the 4-kilometer Muntinlupa-Cavite Expressway, the Beep ticketing system, and the extension and operations and maintenance of LRT1.

Balance Sheet

Ayala maintains a comfortable balance sheet that allows it to pursue investments as well as cover its dividend and debt obligations. At end of the first quarter, parent company cash stood at ₱37.7 billion, putting its net debt-to-equity ratio to 0.43 at the parent level and 0.60 at the consolidated level. Ayala's loan-to-value ratio, which is the ratio of its parent net debt to the value of its investments, stood at 8.1 percent at the end of the first quarter.

This week, Ayala filed a registration statement with the Securities and Exchange Commission in connection with the issuance of peso fixed rate bonds of up to ₱20 billion to be issued in one or more tranches. The first tranche of the bonds, which will be used primarily to refinance existing debt, will be issued with a principal amount of ₱10 billion and tenor of 7 years.

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Investor/Analyst Contact:

Mike Aquilizan
aquilizan.mbv@ayala.com.ph

Ayala Corporation

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AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in Thousand Pesos)

	March 31, 2016 (Unaudited)	March 31, 2015 (Unaudited)
INCOME		
Sale of goods	30,461,801	28,013,583
Rendering services	14,816,764	13,037,777
Share of profit of associates and joint ventures	4,153,597	3,713,895
Interest income	1,595,408	1,648,687
Other income	1,770,945	1,423,941
	52,798,515	47,837,883
COSTS AND EXPENSES		
Costs of sales	24,681,579	21,769,927
Costs of rendering services	7,778,955	7,432,814
General and administrative	4,078,135	3,941,670
Interest expense and other financing charges	3,236,243	3,101,019
Other charges	1,110,634	669,593
	40,885,546	36,915,023
INCOME BEFORE INCOME TAX	11,912,969	10,922,860
PROVISION FOR INCOME TAX		
Current	2,054,263	1,976,223
Deferred	103,934	142,851
NET INCOME	9,754,772	8,803,786
Net Income Attributable to:		
Owners of the parent	5,780,048	5,043,726
Non-controlling interests	3,974,724	3,760,060
	9,754,772	8,803,786
EARNINGS PER SHARE		
Basic	8.81	7.63
Diluted	8.68	7.51



AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands)

	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	78,437,829	82,154,542
Short-term investments	1,118,104	2,052,288
Accounts and notes receivable - net	102,289,990	82,595,788
Inventories	82,080,107	68,430,908
Other current assets	26,757,477	27,617,032
Total Current Assets	290,683,507	262,850,558
Noncurrent asset held for sale		
	290,683,507	262,850,558
Noncurrent Assets		
Noncurrent accounts and notes receivable	39,575,867	41,793,499
Land and improvements	91,580,077	92,894,879
Investments in associates, joint ventures and others - net	172,995,191	162,711,420
Investment in bonds & other securities	3,323,387	3,737,816
Investment in real properties - net	89,780,612	83,669,492
Property, plant and equipment - net	42,118,756	39,644,489
Service concession assets - net	79,335,373	78,828,840
Intangible assets	3,494,014	3,909,603
Deferred tax assets	9,462,320	9,742,797
Pension and other noncurrent assets	15,941,949	14,291,330
Total Noncurrent Assets	547,607,546	531,224,165
Total Assets	838,291,053	794,074,723
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	163,132,591	145,597,876
Short-term debt	31,206,523	24,387,515
Income tax payable	2,971,710	1,943,217
Current portion of:		
Long-term debt	25,332,759	28,153,532
Service concession obligation	1,154,962	1,255,644
Other Current Liabilities	11,169,851	4,629,680
Total Current Liabilities	234,968,396	205,967,464
Noncurrent Liabilities		
Long-term debt - net of current portion	224,822,167	210,799,647
Service concession obligation - net of current portion	7,436,014	7,538,374
Deferred tax liabilities	7,479,772	6,440,505
Pension liabilities	2,460,056	2,545,978
Other noncurrent liabilities	25,948,013	32,238,772
Total Noncurrent Liabilities	268,146,022	259,563,276
Total Liabilities	503,114,418	465,530,740
Equity		
Equity attributable to equity holders of Ayala Corporation		
Paid-in capital	74,179,624	73,919,322
Cumulative translation adjustments	(153,415)	288,683
Cost of share based payments	333,244	568,847
Remeasurement gains/losses on defined benefit plans	(1,267,395)	(1,249,716)
Net Unrealized gain on available-for-sale financial assets	(402,582)	(554,297)
Equity reserve	12,217,580	12,402,311
Equity - conversion option	1,113,745	1,113,745
Retained earnings	130,248,511	124,468,464
Treasury stock	(2,300,000)	(2,300,000)
Preferred shares held by a subsidiary		
	213,969,312	208,657,359
Non-controlling interests	121,207,323	119,886,624
Total Stockholders' Equity	335,176,635	328,543,983
Total Liabilities and Equity	838,291,053	794,074,723