



11 August 2017

1H 2017 EARNINGS RELEASE

Ayala's net income rose to ₱15.1 billion in the first-half, up 9% year-on-year

Ayala Corporation's net income expanded nine percent in the first half of the year to ₱15.1 billion year-on-year, primarily driven by the solid contributions of its real estate and power generation businesses. Equity earnings amounted to ₱17.4 billion in the first semester, six percent higher from a year ago. This was underpinned by robust contributions from Ayala Land and AC Energy, which grew 17 percent and 64 percent, respectively.

In the second quarter, Ayala recorded a net income of ₱8.1 billion, up two percent from its year-ago level. The higher securities trading gains recognized by Bank of the Philippine Islands in the previous year tempered Ayala's net earnings during the period.

"We are pleased with the overall strong performance of our businesses. The active portfolio management, new business initiatives, and financial discipline we employed in recent years—supported by a healthy domestic economy—continue to bolster Ayala's growth trajectory," Ayala President and Chief Operating Officer Fernando Zobel de Ayala said.

Real Estate

Ayala Land sustained its growth trajectory in the first semester, recording ₱11.5 billion in net income, an 18 percent-jump from a year ago on the continued expansion of its property development and commercial leasing businesses.

Revenues from Ayala Land's property development business rose 32 percent to ₱44.3 billion, mainly driven by strong performance across its residential, office for sale, and commercial and industrial lots sales segments. Residential revenues jumped 27 percent to ₱36.8 billion on new bookings and project completions across all residential brands. Reservation sales expanded 11 percent year-on-year to ₱61.4 billion. In the second quarter alone, reservation sales reached a record ₱34.1 billion, up 12 percent from its year-ago level. Meanwhile, booked sales soared 22 percent from a year ago to ₱40.5 billion. In the first semester, Ayala Land launched ₱31.9 billion worth of residential and office for sale projects.

In the office for sale segment, revenues expanded 36 percent to ₱4.2 billion driven by bookings from the High Street South Corporation Plaza 2 project. Revenues from commercial and industrial lot sales surged more than twofold to ₱3.3 billion backed by lot sales in Arca South, Vermosa, and Naic.

In commercial leasing, mall leasing revenues rose 12 percent from its year-ago level to ₱7.9 billion lifted by the contributions of new malls including The 30th, Tutuban Center, and UP Town Center. Revenues from office leasing climbed to ₱2.9 billion, 14 percent higher year-on-year buoyed by contributions of newly opened offices such as the UP Town Center, UP Technohub Building P, and the Ayala Center Cebu Corporate Center. Moreover, hotels and resorts revenues improved six percent to ₱3.4 billion on higher occupancy and average room rates at El Nido Resorts. In addition, Ayala Land's property management revenues grew 12 percent to ₱816 million driven by an increase in managed properties and higher carpark volume. Altogether, Ayala Land's recurring income business contributed 36 percent of its net income in the first half of the year.

Banking

Continued investments to ramp up its digitization strategy coupled with lower securities trading gains tempered Bank of the Philippine Islands' net income in the first semester to ₱11.7 billion, eight percent lower from its year-ago level.

Revenues ended flat at ₱35.3 billion as the solid growth in BPI's core banking business balanced out a lower non-interest income. The bank posted ₱23.5 billion net interest income, 14 percent higher year-on-year on the back of higher asset yields and an improved loan-to-deposit ratio. Non-interest income dropped 18 percent to ₱11.8 billion owing to a slowdown in securities trading. The decline was partly tempered by BPI's fee-based business, which grew 18 percent from the previous year, driven by cards and payments, service charges, and investment banking.

BPI's loan book expanded 17 percent to ₱1.1 trillion, driven by corporate loans, which accounted for 79 percent of the bank's loan portfolio in the first semester. The bank continues to improve its asset quality with gross 90-day non-performing loans ratio at 1.5 percent from 1.6 percent in the previous year, while reserve cover stood at 126 percent during the period. Total deposits grew eight percent to ₱1.4 trillion. The bank's current and savings accounts ratio stood at 73 percent.

As part of its commitment to widen its reach to underbanked and underserved Filipinos, BPI relaunched in July its microfinance arm, BPI Direct BanKo to service the needs of self-employed micro-entrepreneurs (SEMEs). BPI Direct BanKo currently operates 24 branches and micro-banking offices (MBOs) with a target to open 100 new branches and MBOs by year end.

Telecom

Globe Telecom sustained its topline growth on robust demand for data-related services across its product segments, with revenues expanding five percent to ₱62.9 billion in the first half of 2017.

Mobile revenues rose five percent to ₱48.3 billion, lifted by strong demand for mobile services. Mobile data revenues jumped 13 percent as mobile data traffic surged 85 percent to 280 petabytes during the period. Meanwhile, mobile subscribers dipped three percent to 59.7 million in the first semester as a result of Globe's shift in reporting prepaid subscribers who do not reload 120 days to 90 days of inactivity, which started in the first quarter of 2017.

Meanwhile, home broadband revenues grew eight percent to ₱7.7 billion, in step with a higher home broadband subscriber base which also improved eight percent to 1.2 million. In the first semester, data-related services accounted for 53 percent of Globe's total revenues.

Higher depreciation, interest expense, and costs related to the acquisition of San Miguel's telecom assets weighed down on Globe's net earnings, which dropped 10 percent to ₱8.1 billion in the first half of the year. Excluding costs related to the San Miguel deal, net earnings would only be four percent lower.

Globe ended the first half of the year with earnings before interest, taxes, depreciation, and amortization (EBITDA) of ₱27.3 billion, six percent higher from a year ago. Globe's EBITDA margin improved to 43.3 percent from 42.8 percent in the previous year.

In its drive to continue improving customer connectivity and increase data traffic, Globe in the second quarter rolled out more than 1,100 cell sites that utilize the LTE frequencies acquired from the San Miguel deal. It also deployed close to 150,000 broadband lines in the same period.

Water

The steady performance of its Manila Concession coupled with increasing contributions from its domestic subsidiaries drove the three percent increase in Manila Water's net income to ₱3.2 billion in the first half of the year. Revenues rose four percent to ₱9.1 billion buoyed by the continued expansion of its businesses outside Metro Manila.

Manila Water's domestic business, Manila Water Philippine Ventures, recorded an attributable net income of ₱306 million, up 20 percent from a year ago, on strong contributions from Laguna Water and Estate Water. Laguna Water's net income rose 49 percent to ₱148 million, lifted by the expansion of coverage in Laguna province. Meanwhile, Estate Water's net earnings jumped 69 percent to ₱122 million, backed by increased connections and billed volume growth. Net income from Manila Water's non-Manila concession businesses reached ₱584 million, representing 18 percent of Manila Water's consolidated net income from 15 percent during the previous year.

The Manila Concession booked a three percent increase in net income to ₱3 billion driven by a one percent-improvement in billed volume resulting from sustained demand of commercial customers. Operational efficiency in the Manila Concession remained strong, with non-revenue water ratio at 12.8 percent and collection efficiency at 99 percent.

On a consolidated basis, Manila Water's billed volume rose three percent to 366.9 million cubic meters in the first half of the year.

In June, Manila Water acquired additional shares of Saigon Water Infrastructure Corporation ("SII"), bringing its total ownership of the company to 37.99 percent. The transaction is in line with Manila Water's investment strategy in Vietnam and in Asia.

Industrial Technologies

AC Industrials registered a net income of ₱739 million in the first half of the year, three percent lower from the previous year, as the lower contributions of its vehicle retail business tempered the gains from the robust performance of its electronics manufacturing arm.

Its electronics manufacturing unit, Integrated Micro-Electronics, Inc. (IMI), registered a net income growth of 14 percent to US\$17 million, bolstered by its organic businesses in the Philippines, China and Mexico operations, as well as fresh contributions from newly acquired businesses. IMI's total revenues grew 22 percent to US\$501 million. Newly acquired businesses VIA Optronics and STI Enterprises Ltd. posted US\$72.5 million in combined revenues, with one month contribution from STI.

AC Industrials' vehicle retail business posted ₱14.7 billion in revenues, up 37 percent year-on-year, mainly driven by strong sales across all brands. However, this was offset by the lower dividend income from Isuzu Philippines Corporation, resulting in a 21 percent-decline in the net income of AC Industrials' vehicle retail segment to ₱319 million.

In July, AC Industrials acquired MT Technologies GmbH, a German-based automotive supplier of models, tools, and plastic parts for automotive original equipment manufacturers (OEMs) and automobile tier 1 suppliers. In addition, its manufacturing facility for KTM motorcycles in Laguna commenced operations in June. These investments form part of AC Industrials' strategy to increase its competence and capabilities in the automotive value chain and complement existing businesses in manufacturing services and vehicle retail.

Power Generation

In power generation, AC Energy's net income surged 64 percent to ₱949 million in the first semester on the back of a favorable wind regime, improved efficiencies of its operating coal plants combined with feed-in-tariff earnings from its solar plant, as well as fresh contributions from Chevron's geothermal assets in Indonesia.

AC Energy continues to pursue domestic and foreign expansion initiatives as it targets to double its attributable power generating capacity to 2,000 megawatts by 2020. In July, AC Energy entered into an agreement with UPC Renewables for the development of small island power projects in Indonesia.

Also in July, AC Energy, together with Star Energy, transferred 99 percent of its consortium interest in ACEHI-STAR Holdings to AllFirst Equity Holdings. ACEHI-STAR is the special purpose company that signed a share sale and purchase agreement with Chevron Philippines to acquire its geothermal assets, subject to certain conditions precedent.

Infrastructure

AC Infrastructure continues to improve efficiencies in its three public-private partnership projects. Light Rail Manila Corporation, the operator of LRT-1, averaged close to 430,000 in daily ridership in the first semester. Since taking over operations in 2015, it has increased the number of light rail vehicles by 35 percent to 104. Meanwhile, the Muntinlupa-Cavite Expressway is now serving nearly 28,000 vehicles per day, a 23 percent increase from its year-ago level. In addition, the Beep ticketing system now has nearly four million cards in circulation and has processed approximately ₱7.2 billion in transactions across rail, bus, and retail platforms since its release in 2015.

Social Infrastructure

In healthcare, AC Health continues to widen access to affordable medicine and primary healthcare services through Generika and FamilyDOC. In the first half of the year, Generika's revenues reached ₱1.5 billion, up 10 percent year-on-year bolstered by higher retail and distribution sales across its branch network. As of the first half of 2017, Generika had a footprint of 698 branches nationwide. Meanwhile, FamilyDOC opened four new clinics in Las Pinas City, Imus, Cavite and Paranaque City. Since opening its pilot clinic in 2015, FamilyDOC has served over 30,000 unique patients as of July 2017 and has a branch network of 10 clinics in the southern Greater Manila Area. FamilyDOC aims to launch 14 more clinics this year.

In education, AC Education is completing enrollment for school year 2017-2018 in both APEC Schools and University of Nueva Caceres (UNC). As of end-July 2017, enrollment in APEC schools reached 16,200 enrollees, 54 percent higher year-on-year as it welcomes its first batch of Grade 10 Junior High School students and Grade 12 Senior High School students. APEC Schools is present in 23 sites across Metro Manila, Rizal, Cavite, and Batangas. Moreover, UNC increased its student population by five percent to 8,054 despite the absence of incoming freshmen in the second year of implementation of the K-12 law.

Balance Sheet

Ayala's balance sheet remains at a comfortable level. Cash at the parent level amounted to ₱12.1 billion, while net debt stood at ₱64.4 billion. Net debt-to-equity ratio for the period was 0.67 at the consolidated level and 0.60 at the parent level. Ayala's loan-to-value ratio or the ratio of its parent net debt to the total value of its investments was 9.8 percent in the first half of the year.

In line with Ayala's prudent cash and debt management strategy, Ayala's Board of Directors approved the filing of a three-year shelf registration with the Securities and Exchange Commission of up to ₱30 billion debt securities in one or more tranches. The shelf registration provides Ayala financial flexibility to issue debt instruments opportunistically as market permits.

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UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousand Pesos, Except Earnings Per Share Figures)

	June 2017	June 2016
INCOME		
Sale of goods	81,036,288	61,588,165
Rendering of services	29,619,120	29,319,694
Share of profit of associates and joint ventures	9,381,482	10,128,567
Interest income	3,344,726	3,281,852
Other income	6,910,225	4,036,021
	130,291,841	108,354,299
COSTS AND EXPENSES		
Costs of sales	64,435,321	48,349,786
Costs of rendering services	15,572,632	15,843,976
General and administrative	9,952,775	8,398,833
Interest and other financing charges	7,214,493	6,685,092
Other charges	2,905,448	2,110,430
	100,080,669	81,388,117
INCOME BEFORE INCOME TAX	30,211,172	26,966,182
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	5,575,983	4,485,862
Deferred	32,635	353,123
	5,608,618	4,838,985
NET INCOME	24,602,554	22,127,197
Net Income Attributable to:		
Owners of the parent	15,059,380	13,772,428
Non-controlling interests	9,543,174	8,354,769
	24,602,554	22,127,197
EARNINGS PER SHARE		
Basic	23.22	21.18
Diluted	22.82	20.90

AYALA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousand Pesos)

	June 2017 Unaudited	December 2016 Audited
ASSETS		
Current Assets		
Cash and cash equivalents	49,965,162	60,223,324
Short-term investments	2,045,605	1,008,705
Accounts and notes receivable	118,410,083	116,841,963
Inventories	76,044,597	76,752,875
Other current assets	45,755,378	33,638,483
Total Current Assets	292,220,825	288,465,350
Noncurrent Assets		
Noncurrent accounts and notes receivable	30,008,513	36,484,347
Land and improvements	100,747,788	101,049,171
Investments in associates and joint ventures	196,574,644	180,313,743
Investment properties	120,067,631	110,916,644
Property, plant and equipment	75,435,223	64,074,471
Service concession assets	84,872,949	82,422,249
Intangible assets	14,361,323	9,716,403
Deferred tax assets - net	12,158,183	12,414,647
Pension and other noncurrent assets	28,029,856	25,847,478
Total Noncurrent Assets	662,256,110	623,239,153
Total Assets	954,476,935	911,704,503
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt	21,905,959	30,858,137
Accounts payable and accrued expenses	170,766,937	164,600,578
Income tax payable	2,035,524	2,270,315
Other current liabilities	13,680,429	17,522,984
Current portion of:		
Long-term debt	11,139,698	19,792,669
Service concession obligation	770,066	754,519
Total Current Liabilities	220,298,613	235,799,202
Noncurrent Liabilities		
Long-term debt - net of current portion	280,645,399	245,203,145
Service concession obligation - net of current portion	6,850,432	6,822,862
Deferred tax liabilities - net	9,026,068	9,543,754
Pension liabilities	2,239,288	2,469,140
Other noncurrent liabilities	44,220,515	40,870,522
Total Noncurrent Liabilities	342,981,702	304,909,423
Total Liabilities	563,280,315	540,708,625
Equity		
Equity attributable to owners of the parent		
Paid-in capital	74,731,342	74,379,760
Share-based payments	280,078	495,759
Remeasurement losses on defined benefit plans	(1,549,628)	(1,548,192)
Net unrealized loss on available-for-sale financial assets	(1,068,175)	(466,676)
Cumulative translation adjustments	2,412,939	1,414,550
Equity reserve	12,113,508	12,211,275
Equity conversion option	1,113,745	1,113,745
Retained earnings	158,532,253	145,622,311
Treasury stock	(2,300,000)	(2,300,000)
	244,266,062	230,922,532
Non-controlling interests	146,930,558	140,073,346
Total Equity	391,196,620	370,995,878
Total Liabilities and Equity	954,476,935	911,704,503