

ENERGY DEVELOPMENT CORPORATION:

Flat revenues, uptick in opex to result to lower earnings for 2017

Operating expense lower in 2016, but will likely pick up this year. EDC's operating expense (including GAEX) declined 4.6% y/y in 9M16, mainly due to the absence of one-time costs related to plant maintenance (repairs, typhoon proofing, etc). While management expects full year 2016 operating expense to be lower compared to the previous year, it expects expenses to pick up in 2017 (~ 5%) due to the scheduled maintenance program for its Bacman, Nasulo and Unified Leyte plants.

Revenues growth subdued due to WESM, contract repricing. While sales volume is expected to increase this year as previous rehabilitation works on EDC's geothermal plants begin to bear fruit, management believes that delivering revenue growth this year will be challenging as spot prices in the WESM remain depressed. There is also a chance that the supply contracts of FG Hydro (Pantabangan-Masiway hydro plant) will be repriced at a lower level this year, resulting to a lower average selling price for the hydro plant. We estimate that EDC's 2017E revenues will remain flat at Php34.7Bil as the lower than expected average selling price of Bacman and FG Hydro will likely be offset by the upward price adjustment in the contract pricing of EDC's other plants, and the higher output of the Burgos Wind farm.

Reiterate BUY rating. We expect EDC's 2017E earnings to decline by 7.5% to Php8.5Bil. However, despite the projected decline in earnings this year, we reiterate our BUY rating and our FV estimate of Php8.34/sh. We like EDC given its stable cash flow with more than 80% of revenues derived from long term contract agreements. At Php5.30, EDC is only trading at 11.6X our 2017 earnings estimate, well below the 13.60X average 2017 P/E of domestic peers. Capital appreciation potential based on our FV estimate of Php8.34 is also significant at 57% while dividend yield is attractive at 4.7%.

FORECAST SUMMARY:

Year to Dec. 31	2013	2014	2015	2016E	2017E
Sales	25,656	30,867	34,360	34,785	34,751
% change y/y	-9.6	20.3	11.3	1.2	-0.1
EBIT	11,889	13,809	13,334	14,783	14,033
% change y/y	-11.7	16.1	-3.4	10.9	-5.1
EBIT Margin (%)	46.3	44.7	38.8	42.5	40.4
EBITDA	15,458	17,888	18,489	19,762	19,285
% change y/y	-9.2	15.7	3.4	6.9	-2.4
EBITDA Margin (%)	60.3	58.0	53.8	56.8	55.5
Net Profits	4,740	11,681	7,642	9,243	8,543
% change y/y	-45.3	146.5	-34.6	20.9	-7.6
NPM (%)	18.5	37.8	22.2	26.6	24.6
EPS (cents)	0.25	0.62	0.41	0.49	0.46
% change y/y	-45.27	146.46	-34.58	20.95	-7.57

RELATIVE VALUE

P/E(X)	21.6	8.8	13.4	11.1	12.0
P/BV(X)	2.8	2.3	2.2	1.9	1.8
ROE(%)	13.1	26.8	16.2	17.2	14.7
BVPS(P)	1.9	2.3	2.5	2.9	3.1
Dividend yield(%)	2.5	3.7	4.6	4.8	4.5

*Source: COL estimates

SHARE DATA

Rating	BUY
Ticker	EDC
Fair Value (Php)	8.34
Current Price	5.46
Upside (%)	52.75

SHARE PRICE MOVEMENT



ABSOLUTE PERFORMANCE

	1M	3M	YTD
EDC	9.20	-8.39	6.02
PSEI	8.62	-6.23	5.64

MARKET DATA

Market Cap	102,375.00Mil
Outstanding Shares	18,737.01Mil
52 Wk Range	4.89 - 6.45
3Mo Ave Daily T/O	200.92Mil

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Important Rating Definitions

BUY

Stocks that have a BUY rating have attractive fundamentals and valuations based on our analysis. We expect the share price to outperform the market in the next six to 12 months.

HOLD

Stocks that have a HOLD rating have either 1) attractive fundamentals but expensive valuations 2) attractive valuations but near-term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely in line or underperform in the market in the next six to twelve months.

SELL

We dislike both the valuations and fundamentals of stocks with a SELL rating. We expect the share price to underperform in the next six to 12 months.

Important Disclaimer

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