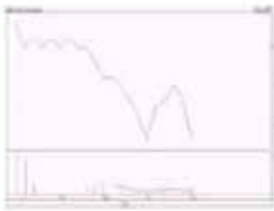


Aboitiz Power Corporation (AP)
BUY

All Powered Up

Price	4.35
Target	5.20
Market Cap (Pm)	31.055
52 week High	6.20
52 week Low	4.20



Better Performance

The performance of Aboitiz Power Corporation has improved across the board. For the first half of 2007, APC's revenue went up by 26% to P5.259 billion. Even more impressive is that its income rose by 39% to 1.124 billion, increasing its EPS to 21 centavos. Systems loss is down from last year, which indicates an increase in operational efficiency. APC is also making moves in order to produce electricity at the most opportune times, namely times when the peak rate applies.

	2004	2005	2006	2007	2008
Sales (Pm)	6,589.98	8,052.66	8,681.00	10,157.59	11,998.55
Net Income (Pm)	1,613.05	2,443.80	1,849.61	2,437.82	2,855.55
EPS (P)	0.32	0.49	0.37	0.40	0.40
EPS Growth		32.13%	-33.99%	8.00%	0.00%
P/E	13.49x	8.90x	11.73x	10.89x	10.89x
Book Value per share (P)		1.44	1.61	1.73	1.82
Price/Book Value per share		3.02x	2.71x	2.52x	2.40x

Acquisitions fuel growth

Aboitiz Power Corporation has increased its power generating capacity from 164 MW to 411 MW, an increase of 151%. The bulk of the increase comes from the successful bid it made with its partner, SN Power Invest, for the 360 MW Magat hydroelectric plant. APC also acquired interests in thermal plants located in Mactan (50 MW) and Cebu City (70 MW). Furthermore, APC also obtained shares in distribution companies. As of late, APC not only has plans of acquiring more plants but is also developing plants in Simbulan and Tamugan. The increase in power generating and distributing capabilities will serve as the impetus for APC's continued growth in revenues and income. Assets are up 55% to P19.16 billion compared to the end of the year 2006. A 34% stake in a power plant that is coal fired was recently acquired. This acquisition further boosts APC's power generating capacity by 79 MW.

Risks covered

With majority of Aboitiz Power Corporation's plants being of the hydroelectric type, APC is praying for more rain. Rainfall is definitely down and there are fears that a drought would hit certain areas of the Philippines. In fact, power production in certain hydroelectric plants are down resulting in blackouts. However, APC believes that the adverse effects of low rainfall are exaggerated. With regard to their performance, the effect of rainfall is at most 10%, whether positively or negatively, of target revenue. Furthermore, any decrease in the amount of electricity generated can be countered by the price at which electricity is sold.

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Aboitiz Power Corporation (AP)

BUY**Government seeks to lower rates**

Aboitiz Power Corporation is banking on the privatization of 70% of National Power Corporation's assets to increase their own assets. The privatization is mandated by EPIRA (Electric Power Industry Restructuring Act). EPIRA was enacted so that the monopoly of Meralco would end and prices would drop as a result. Lawmakers are pushing for greater power for the Energy Regulation Commission; foremost is the ability to reject provisional rate hikes pending a public hearing. Other laws that are being sought include those that would prevent companies from passing on certain expenses to the consumers.

The future looks bright

While Aboitiz Power Corporation currently derives more income from its distribution business, it has boosted the income generating ability of its power generation business. APC has acquired interests in numerous power plants and has greatly increased its power generating capacity. This fact, coupled with its contracted output, gives its power generation business a tremendous upside. Furthermore, the demand for electricity is stable. APC should have no problem reaching its projected revenue and income levels as its power generating capacity continues to grow. Also, they can counter the risks they are exposed to as we have mentioned. With today's closing price of P4.35, AP is trading at a P/E of 10.875x. Even after the big drop in the market today, its peers are trading at a P/E of 13x. Using its current EPS of P.40 and adjusting its P/E to the level of its peers, we have set a target price of P5.20. This an upside of 19.5% from its current price of P4.35.