CLSA
ASIA-PACIFIC MARKETS

Phoenix Petro

P11.20 - BUY

Leo Venezuela
leo.venezuela@clsa.com
(63) 28604013

13 January 2011

Philippines
Power

Reuters	PNX.PS
Bloomberg	PNX PM

Priced on 12 January 2011
Phils Phisix @ 4,032.4

12M hi/lo P13.80/4.64

12M price target	P15.97
±% potential	+43%
Target set on	12 Jan 11
Shares in issue	376.8m
Free float (est.)	28.7%
Market cap	US$96m

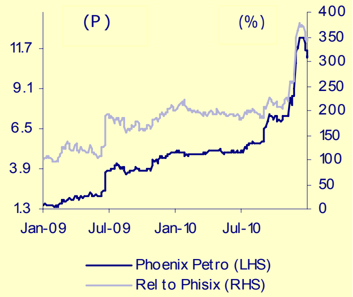
3M average daily volume
P3.4m (US$.1m)

Foreign s'holding 0.9%

Major shareholders
Phoenix Petroleum Holdings Inc 53.1%
Udenna Corp 13.4%

Stock performance (%)

	1M	3M	12M
Absolute	4.7	56.6	127.2
Relative	7.4	63.9	73.9
Abs (US$)	3.6	54.8	134.6



Source: Bloomberg

www.clsa.com

Initiating coverage

The little giant

We initiate coverage on Phoenix Petroleum with a BUY recommendation owing to its strong market positioning and inexpensive valuations. The company is on an aggressive expansion mode and is seeking to have the 4th largest network by 2015 with over 500 service stations and 5% volume market share. The growth in its retail station network will drive earnings growth over the next two years by annual EPS growth at 55-69% with ROEs between 24-29% --- further highlighting its inexpensive valuations. Our target price is based on a 40% discount to the 14.6x 2011CL market PE implying 43% upside.

The only publicly-listed independent oil player

The Philippine oil industry has gone through massive changes over the past fifteen years. From full regulation in the 1970s as a result of the oil crises then, it is now a fully-deregulated environment with over 60 participants. Phoenix Petroleum is one of the main beneficiaries of the significant change in the regulatory environment and it is engaged in all aspects of the downstream oil industry.

Aggressive expansion mode

It currently has 148 service stations mostly concentrated in the Mindanao area. Over the next 2-3 years and with a P3bn capex program, it will rapidly expand in Luzon to bring its service network to over 500 service stations by 2015. Metro Manila is located in Luzon (home to 71% of the country's motor vehicles). It is also beefing up terminal system to bring its distribution network closer to its customers bringing down costs. While it currently has a market share of just 1.2% by volume and 3.8% by retail station, we believe that the company will eventually the 4th largest oil player in the country after Shell, Chevron and Petron.

Inexpensive valuations

Valuations remain inexpensive for Phoenix Petroleum. At 6x 2011CL earnings, we think that it remains undervalued despite trading at close to the top of historical PE multiple range. We believe that the historical trading PE and PB ranges do not accurately capture the re-rating story for Phoenix Petroleum with its expansion into the higher gross margin retail station business and less reliant on the more commodity-based commercial fuel supply business. The company has strong 69% EPS growth and 28% ROE for this year. We believe that it should trade at higher multiples with a narrower 40% discount to the 2011CL market PE of 14.6x, the basis for our P15.97 target price.

Financials

Year to 31 Dec	08A	09A	10CL	11CL	12CL
Revenue (Pm)	4,615	5,873	14,166	19,455	24,874
Net profit (Pm)	150	751	406	686	1,062
EPS (P)	0.80	2.79	1.08	1.82	2.82
EPS growth (% YoY)	(5.3)	249.2	(61.4)	69.2	54.7
PE (x)	14.0	4.0	10.4	6.1	4.0
Core EPS (P)	0.80	0.66	1.08	1.82	2.82
Core EPS growth (% YoY)	(5.3)	(17.2)	62.7	69.2	54.7
FCF yield (%)	(11.3)	(40.4)	(43.9)	27.4	16.6
PB (x)	3.0	2.0	1.7	1.3	1.0
ROE (%)	23.9	67.7	20.0	23.9	28.4
Net debt/equity (%)	79.1	125.0	126.2	59.5	25.0

Source: CLSA Asia-Pacific Markets

Industry and company

Phoenix Petroleum is one of the main beneficiaries of oil industry deregulation

The Philippine oil industry has gone through massive changes over the past fifteen years. From a government-regulated industry with just three players beginning in the 1970s, it is now in a fully-deregulated environment with over 60 participants through the entry of new players. Phoenix Petroleum Phils is one of the main beneficiaries of the significant change in the regulatory environment.

Industry background

Following a period of consolidation, the oil firms were limited to the "Big Three" in the 1970's

Prior to the deregulation of the industry, it was the government that set the local prices of all petroleum products sold locally from 1973 onwards. Furthermore, after a period of consolidation in the 1970s the oil marketing industry was also just limited to three players: Caltex Phils (now called Chevron Texaco Phils), Pilipinas Shell and the government-owned Philippine National Oil Company (PNOC). These companies are known in the industry as the "Big Three" and these three entities were not just petroleum product marketers but also had their own refineries. The service stations of PNOC were under the brand name Petron and the marketing arm became a publicly-listed company when Petron had its IPO in September 1994.

Oil Price Stabilization Fund set up in response to the oil crises during the 1970s

Since the Philippines imports 99% of its petroleum requirements, significant increases in the price of petroleum products are always particularly hard on the country. To address the shocks of the oil crises in the 1970s, the government of President Ferdinand Marcos (1965-1986) set up the Oil Price Stabilization Fund (OPSF). The rationale for the OPSF was to cushion and help ride out the effects of the volatility in global petroleum prices in the local market. In times of low crude oil prices, the OPSF would be replenished and during times of rising crude oil prices, the oil companies would draw on the fund to smoothen out local pump prices.

The use of the OPSF was highly politicized by some administrations

However, the use of the OPSF was highly politicized with the government incurring substantial budget deficits as it tried to defer price increases to avoid public protests. What would happen then was a massive increase in local pump prices when the government could no longer hold off price increases. It can be said that some of the coup attempts in the 1980s during the administration of President Corazon Aquino (1986-1992) tried to ride on public indignation (through several general strikes) during one such incident when pump prices of gasoline went up by 50% overnight from P14 to P21 per litre. Moreover, some administrations had also drawn on the OPSF when it was in surplus to fund non-oil-related expenditures.

Several sectors were deregulated during the 1990s

It was during the administration of President Fidel Ramos (1992-1998) when there were moves to deregulate certain industries such as the power, telecommunications, banking and oil. For the oil industry, the deregulation is merely a return to the state of the industry prior to 1973.

The current environment is the second attempt at oil industry deregulation

The current deregulated environment is actually the Philippines' second attempt in deregulating the industry. Prior to the current set-up, Congress had passed a law (RA 8180) in 1996 that had deregulated the industry. However, the Supreme Court had declared the law unconstitutional because of three provisions in the law: 1) the 4% tariff differential between crude and finished oil products; 2) provisions on predatory pricing; and, 3) the imposition of minimum 60-day inventory requirements. The Supreme Court declared that these provisions unconstitutional as these were detrimental to competition by giving undue advantages to the existing oil companies.

The current deregulated environment has been in existence since 1998

The Downstream Oil Industry Deregulation Act of 1998 (RA 8479) allowed market competition and removed government control on the pricing, exportation, and importation of petroleum products as well as the establishment of retail outlets, storage depots, ocean-receiving facilities and refineries. The revised law was essentially still the same version as the previous one but without the unconstitutional provisions. This law also required the oil industry players to go public within a certain period of time. Since the passage of the law, the Big Three have been able to get deferments on this listing requirement and so far only one company has complied with this provision.

The government is relegated to monitoring the industry

The government's role in the deregulated environment would be relegated to one of monitoring price movements of local pump prices as well as imports and exports. Since under this law there are no government subsidies and that the oil players let market forces determine prices, the government would still at times use moral suasion on oil companies not to increase their prices too rapidly. It also had used its influence in deferring oil price increases through Petron as a 40% equity owner through PNOC, ie, Caltex and Shell would not immediately raise prices if it knew that Petron would not raise its prices in the next few days.

Currently more than 60 players in the space

Aside from the Big Three, there are more than 60 players in the deregulated oil industry environment since 1998. These are known in the industry as the "independent players." Most of them are local firms but there are some large foreign-owned firms such as PTT of Thailand, Petronas of Malaysia, Liquigaz of the Netherlands and Total of France.

We believe that the current deregulated environment is here to stay

We believe that the current deregulated oil industry environment is here to stay. While there are still calls by some sectors and the occasional Congressman for a repeal and/or review of RA 8479 from time to time (especially during times when local pump prices are on the upswing), protests are no longer mainstream and come mainly from the more militant groups. We believe that this is due to more public acceptance of an environment where small incremental price changes (either up or down) are the norm rather than large, lumpy ones.

The state of the industry

The Philippines consumes slightly more than 310,000 BPD of petroleum products

The Philippines consumes slightly more than 310,000 barrels per day (BPD) of petroleum products, up from 225,000 BPD in 2006. Around 50% of this demand is addressed by the direct importation of finished petroleum products while the balance of 50% is supplied by the production of finished petroleum products from the two local refineries of Pilipinas Shell and Petron. In 1H2010 alone, Philippine demand for petroleum products rose by 5.4% to 56.2m barrels (MMB).

Figure 1

Philippine petroleum products supply and demand (MMB)

	2007	2008	2009	2010
Refined production	72	65	52	59
Imported finished products	46	48	58	57
Total supply	118	113	110	116
Total demand	105	101	107	112

Source: Phil Dept of Energy

The country's total refining capacity is less than consumption

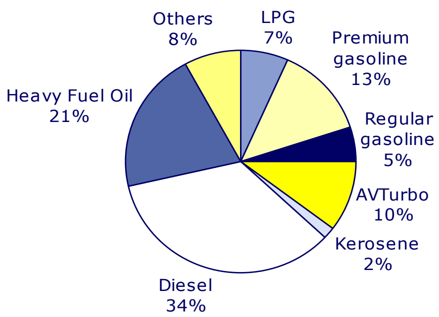
Chevron Texaco Phils no longer operates its refinery in San Pascual, Batangas and merely serves as a finished-import terminal. The refineries of Pilipinas Shell and Petron have capacities of 110,000 BPD and 180,000 BPD, respectively. The Petron refinery is located in Limay, Bataan while the refinery of Pilipinas Shell is located in Tabangao, Batangas. This means that even if both refineries were running at their stated capacities, they output will still not be enough to meet the country's demand for finished oil products meaning that either the Big Three or the independent players must import refined petroleum products on their own.

Diesel accounts for 39% of volume demand

The product mix of local refinery production and demand roughly mirror each other with any gaps taken in by the direct importation of finished petroleum products. Diesel fuel, used mainly for transportation and for power generation, accounts for around 121,000 BPD (39% of total) followed by premium gasoline (55,800 BPD) and heavy fuel oil (52,700 BPD)

Figure 2

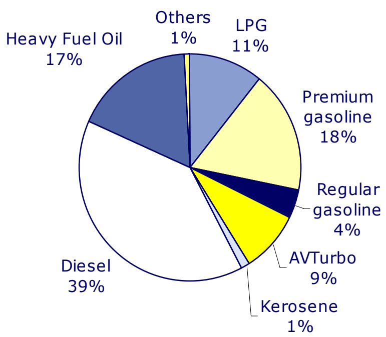
Local refinery production volume breakdown (%)



Source: Phil Dept of Energy

Figure 3

Demand volume breakdown (%)



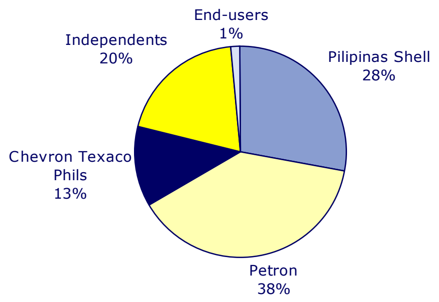
Source: Phil Dept of Energy

Independent oil players account for 21% of total and retail market share

The Philippine oil industry is generally divided into three categories: retail trade, industrial trade and the liquefied petroleum gas (LPG) trade. The Big Three firms still control 79% of the market for total petroleum products in volume terms. The market shares for the retail service station market do not change much with the independent oil players still accounting for around 21% of the market.

Figure 4

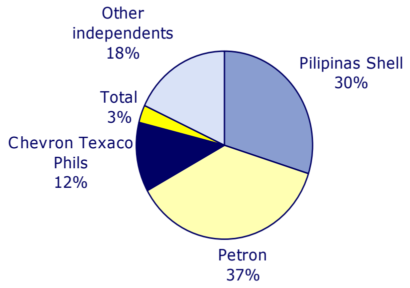
Total petroleum product market share volume breakdown (%)



Source: CLSA Asia-Pacific Markets

Figure 5

Total retail market share volume breakdown (%)



Source: CLSA Asia-Pacific Markets

Petroleum product demand seen to grow 4-5% annually driven by transportation

We estimate that the demand for petroleum products will grow between 4-5% annually over the next 2-3 years with the transportation sector continuing to take more than 34% of petroleum products consumed in the country. Due to the increase in LPG consumption by the transportation sector, we estimate that this has increased by around 2 pt over the past three years from 32%. The driver for this growth in the transportation can be seen in the number of new vehicles sold as well as the new and renewal of car registrations.

2010 vehicle sales have finally exceeded the previous all-time high set in 1996

Vehicle sales continued to be strong last year with around 169,000 units sold, an increase of nearly 37,000 units or +28% YoY. Last year was a breakthrough since it was the first time that annual vehicle sales have exceeded the highest ever figure of 162,000 in 1996 right before the Asian Financial Crisis. Since 2002, vehicle sales growth has been ranging from 3-28% with only in 2004 where there was a 3% YoY decline in sales. For 2011, the Chamber of Automotive Manufacturers of the Phils (CAMPI) is looking at an initial growth rate of 5% for this year or 177,000 vehicles.

CAMPI data may actually even be understated

We believe that the CAMPI data understates the amount of vehicles on the road as the data does not include the following vehicles: 1) vehicles sold by non-CAMPI members such as Korean brands; and, 2) the private importation of second-hand and pre-owned vehicles. Take note that there is a large variance between the new vehicle sales as reported by CAMPI and the new vehicle registrations data disclosed by the government agency Land Transportation Office (LTO). Since the CAMPI data does not include motorcycles and tricycles, we also stripped out the motorcycles and tricycles from the registration data of the LTO. Looking at the 2008-2009 data alone, there seems to be an extra 50,000 vehicles that are not captured by the CAMPI figures.

Figure 6

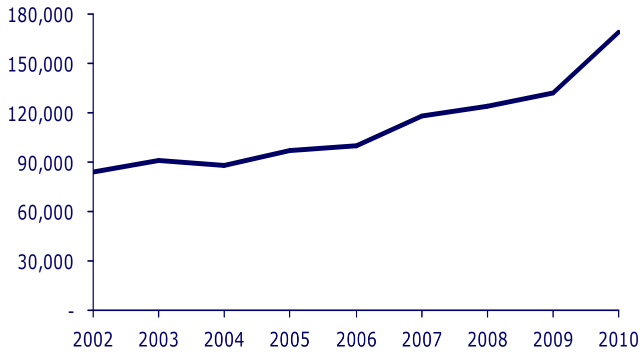
New vehicle sales vs new vehicle registrations

	2002	2003	2004	2005	2006	2007	2008	2009
New vehicle sales	84,041	90,535	88,003	97,063	99,541	117,903	124,449	132,444
Imports and unclassified	114,889	105,029	138,852	76,608	74,567	233,826	53,002	50,145
New vehicle Registrations (ex-motorcycles and tricycles)	198,930	195,564	226,855	173,671	174,108	351,729	177,451	182,589

Source: CAMPI, Land Transportation Office

Figure 7

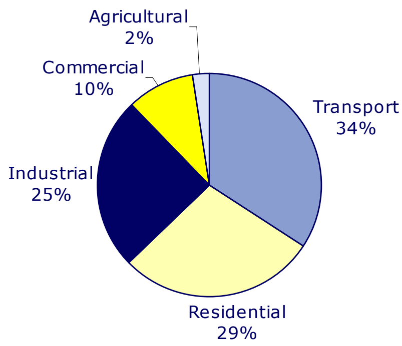
New vehicle sales (units)



Source: CAMPI

Figure 8

Petroleum products sector use breakdown (%)



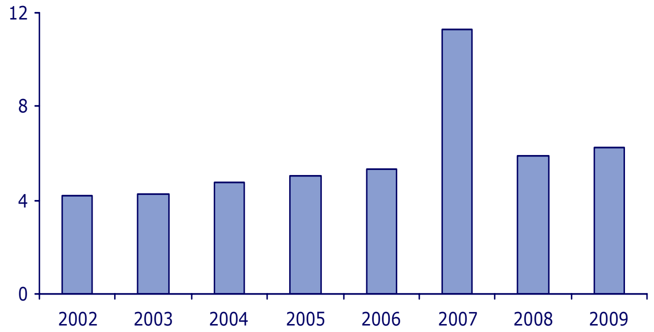
Source: Phils Dept of Energy

An estimated 6.5m registered vehicles are on Philippine roads

Based alone on the number of annual registrations of motor vehicles (inclusive of motorcycles and tricycles) there are around 6.2m vehicles on Philippine roads as of end-2009. No data has yet been released by the LTO for 2010 but estimate that this should grow at the very minimum the growth rate of CAMPI's vehicle sales suggesting that as of the end of last year, there should be at least 6.5m registered vehicles on Philippine roads. Of these number of vehicles approximately 71%, or 4.6m vehicles can be found on Luzon island.

Figure 9

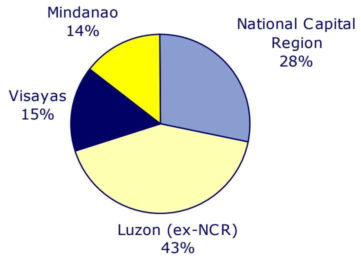
Vehicle registrations (new and renewals) (m units)



Source: Land Transportation Office

Figure 10

Vehicle registrations (new and renewals) geographical breakdown (%)



Source: Land Transportation Office

Background: Phoenix Petroleum Phils

Founded in 2002 as a fuels wholesaler

Phoenix Petroleum is an independent oil player incorporated in May 2002 as a Davao, Philippines-based fuels wholesaler under the name Davao Oil Terminal Services Corp (DOTSCO).

Now engaged in all aspects of the downstream oil industry

The company is engaged in all aspects of the downstream oil industry. Phoenix Petroleum does the following activities: 1) trading of petroleum products gasoline, diesel, jet A-1; 2) blending of lubricants and other chemical products; 3) owning and operating retail stations; 4) supplying finished petroleum products to commercial and industrial accounts; and, 5) terminaling, hauling and into-plane services for commercial and general aviation. It does not operate a refinery so the company basically acquires finished petroleum products from its suppliers. The company also has a small property development business where it sells industrial lots from an industrial park that it acquired in 2009. Phoenix Petroleum is the exclusive supplier of aviation fuel for low-cost carrier Cebu Pacific in Mindanao.

Figure 11

Phoenix Petroleum's businesses and brands

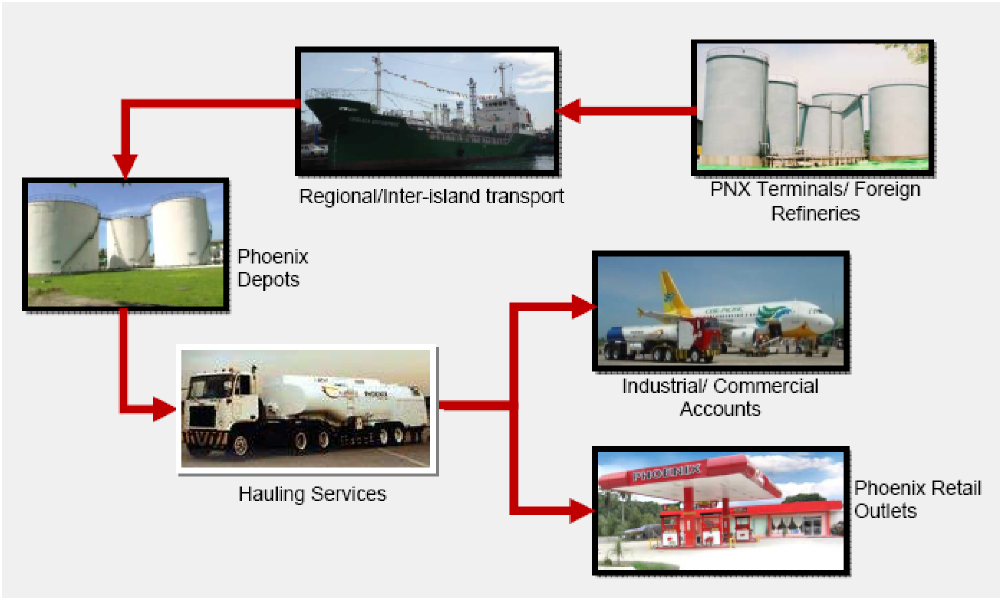
Source: Phoenix Petroleum

Owns its own end-to-end supply chain

Phoenix Petroleum operates its own end-to-end supply chain that originates from either its terminals or foreign refineries and then go into inter-island vessels. These are then stored in the company's supply depots and then are hauled by the company's tanker-truck fleet for delivery to commercial and industrial accounts or its retail stations.

Figure 12

Phoenix Petroleum supply chain



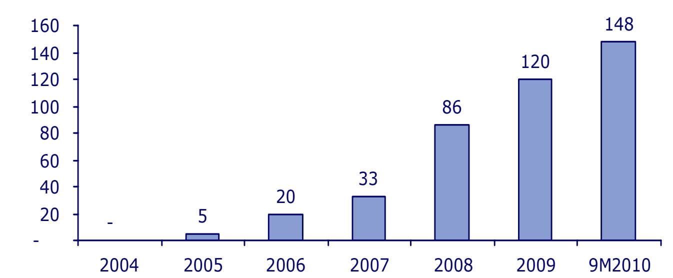
Source: Phoenix Petroleum

Entered the retail network business in 2005 with 5 stations

The company entered the retail network business in 2005 with an initial five stations under the "Phoenix" brand. In August 2006, the company's name was officially changed into its current Phoenix Petroleum Phils name. It now has 148 retail stations located mainly in Mindanao (116) and then followed by stations in Luzon (30) and Visayas (2). In 2009, the company had acquired a 65-hectare industrial park in Calaca, Batangas through the acquisition of Bacnotan Industrial Park Corp (BIPC). It has also gotten Board of Investments (BOI) approvals and registrations as a New Industry Participant which has given it several 5-year income tax holidays for its depots.

Figure 13

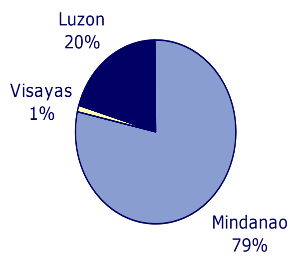
Number of service stations



Source: Phoenix Petroleum

Figure 14

End-9M10 service station geographical breakdown (%)



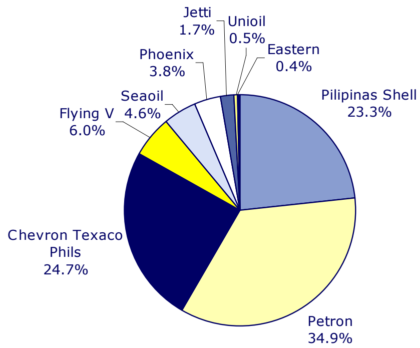
Source: Phoenix Petroleum

Concentration in Southern Mindanao gives it a local market share of 23%

Around 79% of Phoenix Petroleum's retail stations are located in Mindanao with the concentration in the southern portion near Davao. So despite Phoenix having just a nationwide market share of 3.8% (in terms of stations), its concentration of stations in Southern Mindanao give it a 23% market share, tying it with Petron, its other competitor with the largest market share in the region.

Figure 15

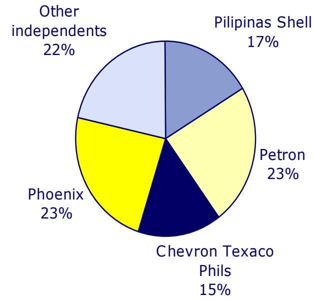
Nationwide retail station breakdown (%)



Source: Phoenix Petroleum

Figure 16

Southern Mindanao retail station breakdown (%)



Source: Phoenix Petroleum

In 2010, revenues from Luzon overtook Visayas-Mindanao

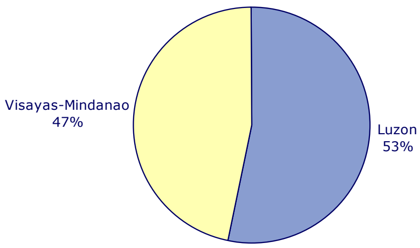
The majority of Phoenix Petroleum's revenues come from Luzon despite the company's Mindanao origins. In 9M10, Visayas-Mindanao revenues grew by 93% YoY, the Luzon revenues grew even faster at 6x on account of significant growth in retail, commercial and airline revenues. It was in 2010 where revenues from Luzon overtook the revenues from the Visayas-Mindanao regions. This is quite a dramatic change as just in the previous year, Visayas-Mindanao revenues accounted for 77% of Phoenix Petroleum's total revenues.

Retail has the highest gross margins at 10-13%

Commercial accounts still comprise nearly half of Phoenix Petroleum's revenues with airline and retail accounting for 30% and 22% of revenues, respectively. Over-all gross margins are around 8-9% but retail has higher margins at between 10-13%.

Figure 17

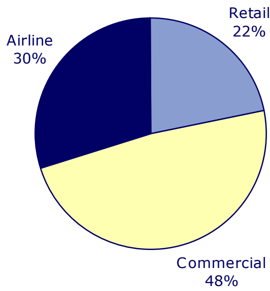
Revenue by area breakdown (%)



Source: Phoenix Petroleum

Figure 18

Revenue by product breakdown (%)



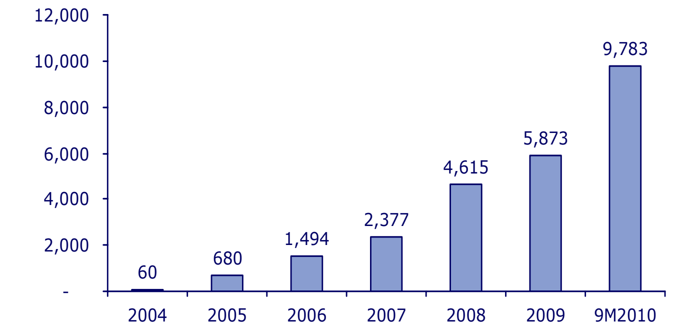
Source: Phoenix Petroleum

Since 2004, revenues and earnings have had CAGRs of 143% and 174%, respectively

The strong expansion of the company has considerably brought up revenues and earnings over the past few years. Phoenix Petroleum's consolidated revenues as of end-9M2010 were at P9,783m, a 163-fold increase from 2004, or a 143% CAGR. This made it the 211th largest firm in the Philippines as of 2009 from being the 570th largest just three years previously. Earnings growth too was strong. From P0.8m in net profits in 2004, net profits in 9M2010 reached P259m, 2% higher than the P254m core net profit reported in 2009. Adding back the P497m one-time gain in 2009, the company reported P589m in earnings during that period. Since 2004, Phoenix's earnings have enjoyed a 174% CAGR.

Figure 19

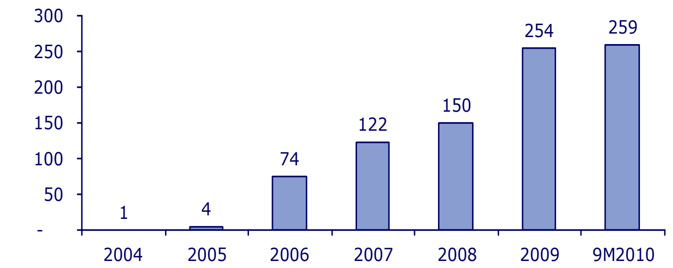
Consolidated revenues (Pm)



Source: Phoenix Petroleum

Figure 20

Core net profits (Pm)



Source: Phoenix Petroleum

The Chairman and President and CEO positions are held by controlling shareholders

The company is run by professional managers with the members of the senior marketing, sales and operations management teams having an average experience of 18 years in the oil industry. Two members of the family of the controlling shareholders, Domingo Uy and Dennis Uy, hold the positions of Chairman and President and CEO, respectively.

The only oil industry firm that has complied with law and gone public

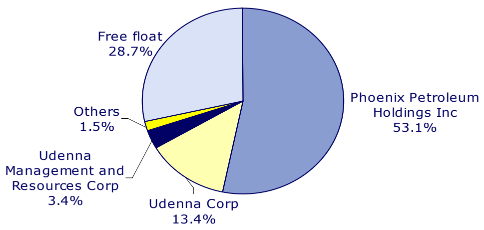
It is the only oil industry firm that has complied with RA 8479 to go public with its IPO done in July 2007. The IPO was 15x oversubscribed at P9.80 and was P355m in size. The company's IPO was broken down into 80% primary and 20% secondary shares. The company was able to raise P284m which it used for the expansion of its retail station network and depot and logistics facilities over 2007-2008.

The controlling shareholders own 69.9% of the company

Phoenix Petroleum is 69.9%-owned by the Davao-based Uy Family through Phoenix Petroleum Holdings Inc (53.1%), Udenna Corp (13.4%) and Udenna Management and Resources Corp (3.4%). Miscellaneous parties own 1.5% of the company while the free float is at 28.7% although if we strip out the 9.6% holdings of the government-controlled pension fund Social Security System (SSS), the free float is reduced to 19.1%. The company is very much under-owned by foreigners with shareholdings of non-Filipinos at less than 1%.

Figure 21

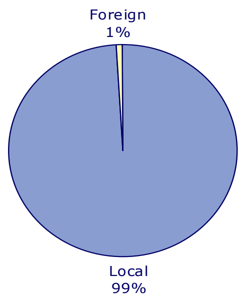
Shareowner breakdown (%)



Source: CLSA Asia-Pacific Markets

Figure 22

Foreign and local shareholding breakdown (%)



Source: CLSA Asia-Pacific Markets

Aggressive expansion plans

Capex program of P3bn over the next 2-3 years to roll out stations and built storage capacity

The company has aggressive expansion plans over the next 2-3 years. It will be spending a total of over P3bn in order to fund its expansion plans of putting additional service stations (+189) and building up additional depot capacity (+112% to 202.3m litres) in six locations. The bulk of the service stations will be in Luzon where 71% of the registered motor vehicles are found. The additional storage capacity will be built up in the following locations: 1) Calaca, Batangas; 2) New Washington, Aklan; 3) Subic Freeport; 4) Bacolod, Negros Occidental; 5) Villanueva, Misamis Oriental; and, 6) General Santos City.

Volume market share of 5% by 2012

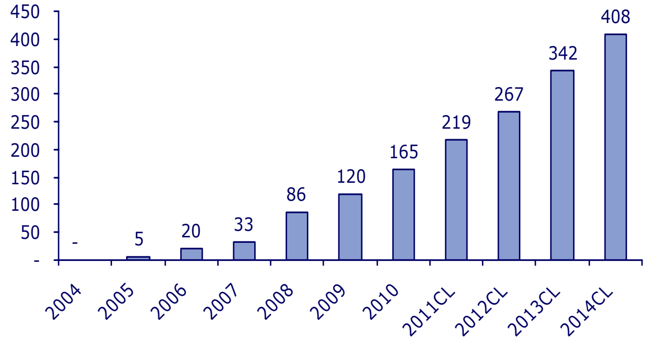
The aim of the expansion is to hit volume market share of 5% by 2015 from the current 1.2% in 2009. We estimate that it is possible for it to have doubled its volume market share to around 2.4% through a 54% increase in sales volumes driven by the expansion of its retail station network from 120 to 165 outlets (+38% YoY).

The retail station business will account for 27% of total revenues in the next 2-3 years

We estimate that the higher gross margin retail station business will account for a higher percentage of the company's revenues going forward. From around 22% of revenues last year, we expect revenue contributions from the retail business to increase to 27% of the total in the next 2-3 years displacing the large commercial accounts business.

Figure 23

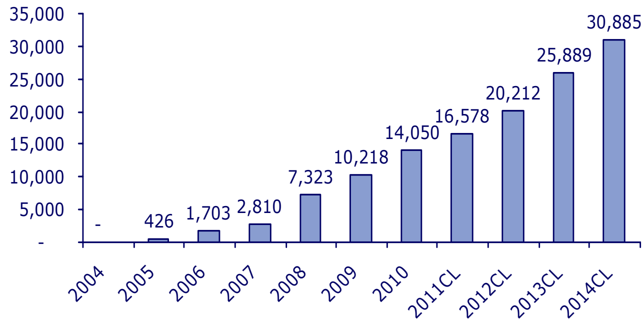
Number of service stations



Source: CLSA Asia-Pacific Markets

Figure 24

Monthly sales volumes (KL)



Source: CLSA Asia-Pacific Markets

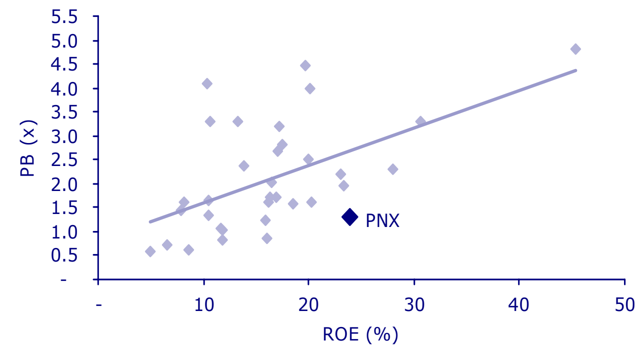
Phoenix Petroleum has the 4th highest ROE and 2nd highest EPS growth this year

Inexpensive valuations

Despite its strong outperformance of its share price over the past 12 months, we believe that Phoenix Petroleum remains significantly undervalued. With strong 69% and 55% EPS growth in 2011 and 2012, respectively, as well as high ROEs, it is one of the cheapest counters in our coverage (Fig 25 and 26). For 2011, we estimate that Phoenix Petroleum has the 4th highest ROE at 24% while having the 2nd highest EPS growth for this year at 69%.

Figure 25

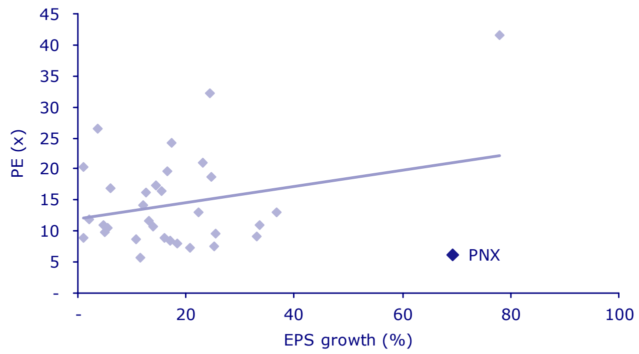
2011CL PB vs ROE



Source: CLSA Asia-Pacific Markets

Figure 26

2011CL PE vs EPS growth



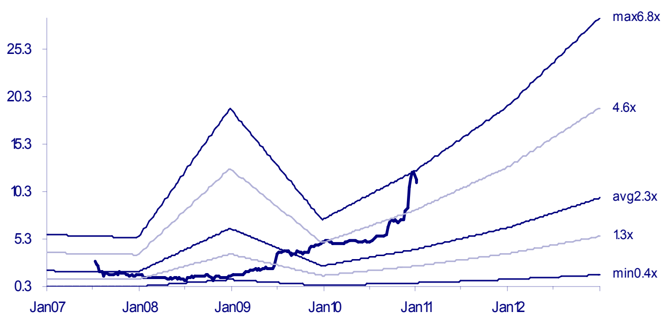
Source: CLSA Asia-Pacific Markets

The historical PE and PB multiples do not accurately capture the re-rating

While it is currently trading at close to the top of its historical PE and PB trading bands, we believe that the historical bands do not accurately capture the re-rating story of Phoenix Petroleum. With its strong brand franchise and aggressive expansion, we believe that Phoenix Petroleum should trade at a narrower discount to the 2011CL market of 14.6x as it re-rates going forward over the next 12 months.

Figure 27

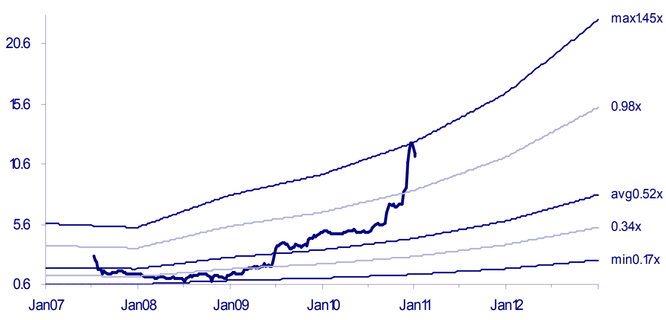
12-month forward PE bands (x)



Source: CLSA Asia-Pacific Markets

Figure 28

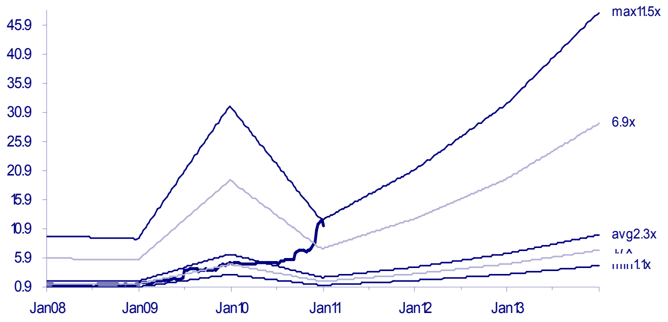
12-month forward PB bands (x)



Source: CLSA Asia-Pacific Markets

Figure 29

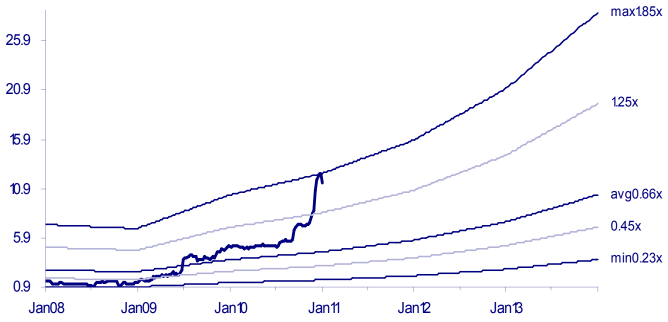
Trailing PE bands



Source: CLSA Asia-Pacific Markets

Figure 30

Trailing PB bands (x)



Source: CLSA Asia-Pacific Markets

A narrower 40% discount to the 14.6x 2011CL market PE is warranted

We do indeed realize that Phoenix Petroleum can never trade at par with the market PE due to its small market capitalization and low trading volume despite the strong earnings growth and high ROEs but we believe that the discount should narrow from the current 58% discount to the market to 40%. This 40% discount to the 14.6x 2011CL market PE is the basis for our P15.97 target price and the still significant discount (at the target price) should more than enough to compensate for market cap and trading volumes. Even at our target price, Phoenix Petroleum will still lie below the trendline in Fig 26.

BUY with a potential 43% upside

We initiate coverage on Phoenix Petroleum with a BUY recommendation with a potential 43% upside to our P15.97 target price.

evalu@tor® The Asia-Pacific Market Database

Summary financials

Year to 31 December	2008A	2009A	2010CL	2011CL	2012CL
Summary P&L forecast (Pm)					
Revenue	**4,615**	**5,873**	**14,166**	**19,455**	**24,874**
Op Ebitda	224	361	767	1,162	1,558
Op Ebit	165	284	667	953	1,265
Interest income	44	(1)	15	6	8
Interest expense	(64)	(110)	(269)	(258)	(176)
Other items	0	573	0	20	20
Profit before tax	**144**	**747**	**413**	**722**	**1,117**
Taxation	6	5	(7)	(35)	(55)
Minorities/Pref divs	0	0	0	0	0
Net profit	**150**	**751**	**406**	**686**	**1,062**
Summary cashflow forecast (Pm)					
Operating profit	**165**	**284**	**667**	**953**	**1,265**
Operating adjustments	0	0	0	0	0
Depreciation/amortisation	59	77	100	209	293
Working capital changes	110	(569)	(1,834)	1,758	(54)
Net interest/taxes/other	(46)	(115)	(276)	(293)	(231)
Net operating cashflow	**288**	**(322)**	**(1,343)**	**2,627**	**1,272**
Capital expenditure	(526)	(896)	(510)	(1,472)	(573)
Free cashflow	**(238)**	**(1,218)**	**(1,853)**	**1,155**	**700**
Acq/inv/disposals	19	(261)	128	115	135
Int, invt & associate div	17	(34)	(7)	6	8
Net investing cashflow	**(490)**	**(1,191)**	**(389)**	**(1,350)**	**(430)**
Increase in loans	453	1,373	1,274	(1,243)	(874)
Dividends	(15)	0	(13)	0	0
Net equity raised/other	6	149	468	0	0
Net financing cashflow	**445**	**1,522**	**1,728**	**(1,243)**	**(874)**
Incr/(decr) in net cash	**243**	**9**	**(4)**	**34**	**(32)**
Exch rate movements	0	0	0	0	0
Opening cash	**114**	**357**	**366**	**362**	**395**
Closing cash	**357**	**366**	**362**	**395**	**364**
Summary balance sheet forecast (Pm)					
Cash & equivalents	357	366	362	395	364
Debtors	765	1,369	1,955	1,999	2,376
Inventories	156	458	1,151	1,445	1,851
Other current assets	179	726	694	694	694
Fixed assets	881	1,700	2,110	3,373	3,652
Intangible assets	0	0	0	0	0
Other term assets	30	69	76	76	76
Total assets	**2,368**	**5,003**	**6,663**	**8,217**	**9,167**
Short-term debt	831	1,549	2,779	874	294
Creditors	750	1,059	464	2,575	3,337
Other current liabs	0	53	53	53	53
Long-term debt/CBs	72	728	771	1,433	1,139
Provisions/other LT liabs	23	85	68	68	68
Minorities/other equity	0	45	5	5	5
Shareholder funds	691	1,484	2,522	3,209	4,271
Total liabs & equity	**2,368**	**5,003**	**6,663**	**8,217**	**9,167**
Ratio analysis					
Revenue growth (% YoY)	95.2	27.3	141.2	37.3	27.9
Ebitda growth (% YoY)	55.1	61.2	112.4	51.6	34.0
Ebitda margin (%)	4.9	6.1	5.4	6.0	6.3
Net profit margin (%)	3.3	12.8	2.9	3.5	4.3
Dividend payout (%)	12.5	0.0	4.6	0.0	0.0
Effective tax rate (%)	(4.0)	(0.6)	1.7	4.9	4.9
Ebitda/net int exp (x)	10.8	3.3	3.0	4.6	9.3
Net debt/equity (%)	79.1	125.0	126.2	59.5	25.0
ROE (%)	23.9	67.7	20.0	23.9	28.4
ROIC (%)	15.8	12.8	15.1	17.4	23.5
EVA®/IC (%)	1.6	(1.5)	0.9	3.2	9.3

Source: CLSA Asia-Pacific Markets

Recommendation history - Phoenix Petroleum Philippines Inc PNX PM

Date	Rec level	Closing price	Target
12 January 2011	BUY	11.20	15.97

Source: CLSA Asia-Pacific Markets

Key to CLSA investment rankings: BUY = Expected to outperform the local market by >10%; **O-PF** = Expected to outperform the local market by 0-10%; **U-PF** = Expected to underperform the local market by 0-10%; **SELL** = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).