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A Financial and Operational Analysis of Meralco

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Abstract: Meralco, being the largest utility distribution company in the Philippines for 111 years, providing power to 5, 189, 247 customers, has indeed, been serving a large portion of the country's population. The Meralco Group Structure is in charge of a number of corporations such as the Clark Electric Distribution Corporation (CEDC), Meralco Powergen Corporation (MPC), Lighthouse Overseas Insurance Limited (LOIL) and Corporation Information Solutions, Inc. (CIS). This is a paper that summarizes the analysis on the current financial and operational aspects of Meralco. Being the country's service power of choice, it holds opportunities for franchise expansion and innovative solutions, catering to a wide range of market, however, uncontrollable number of power pilferers and the increasing number of solar panel users pose a threat to the success of this firm. A weakness is the incorrect and unwanted charging of electricity to several consumers. The objective of this paper is to analyze Meralco Group's current financial situation through sales, operational and financial performance, analyze its developments over the years and suggest appropriate strategies for improvement or recommendations. In the report, the highlights of the quarter, balance sheets, statement of income and statement of retained earnings are shown. With the determination to serve in a constant and relentless manner, Meralco has reached a core net income of 12.07 billion pesos and a total revenue of 298.6 billion pesos. The team has concluded that the company is growing exponentially every single year; thus, it would be a brilliant idea for investors to invest as there is a 4% cash dividend released every year.

Keywords: Meralco; financial analysis; operations; utility corporation; business analysis

1. Introduction

1.1 Background of the Study

Meralco is an investor-owned electric utility company. It is currently the largest electric distribution utility in the Republic of the Philippines, serving roughly a quarter of the estimated ninety-four million population of its population. It has been in service for 111 years, having been established in 1903 with the mission of providing their customers the best value in energy, products and services. Their vision is to be a world-class company and the service provider of choice. The company started out as Manila Electric Railroad and Light Company in 1903 and it aimed to provide electric light power and an electric street railway system to Manila and its suburbs. The company started out as Manila Electric Railroad and Light Company in 1903 and it aimed to provide electric light power and an electric street railway

system to Manila and its suburbs. They provided the area its first modern mass public transportation system but eventually gave up its transportation business after a little over four decades. Meralco has concentrated on providing electricity since 1948. In 1961, the company was rendered to be the first major American enterprise to be 'Filipinized' as it was bought by a group of Filipino investors from its American owners. While in the ownership of Filipino investors, the company became the first billion-peso company in the Philippines in 1969. The Philippine Government made it a policy for all the major generating facilities to be owned by the government, causing them to sell its generating plants to the National Power Corporation and electric distribution became its core business. As requested by the government, Meralco operated the LRT from Baclaran to Caloocan. The company has gathered a mass of awards and citations throughout its run, the most recent ones being PSE Bell Awards in November



2013 and Corporate Governance Asia in the Philippine category in 2014.

1.2 Products and Services

Meralco's products and services are providing power and other services. Under power, their services are divided into 3 parts: Electric Distribution, Power Generation and Retail Electric Supply. Under the Electric Distribution are the MERALCO and Clark Electric Distribution Corporation (CEDC). Under the Power generation is the Meralco Powergen Corporation (MGEN) and Subsidiaries. Lastly, under the Retail Electric Supply is the MERALCO through MPOWER business unit. The other services that MERALCO is providing their customers are Meralco Industrial Engineering Services Corporation (MIESCOR), Meralco Financial Services Corporation (FINSERVE), Lighthouse Overseas Insurance Limited (LOIL), Republic Surety Insurance Company, Inc. (RSIC), Corporate Information Solutions, Inc. (CIS), e-Meralco Ventures, Inc. (EMVI) and Subsidiary, Meralco Energy, Inc. (MEI), and MIESCOR Rail.

1.3 Recent Developments

Recent developments are important to inspect when studying a company's financial and operational aspects and their performance as these may give light to the cause of a company's development or steady progress or possibly its losses. There were three recent developments that Meralco has acquired.

First is during 2013, Meralco was awarded with PSE Bell Award for the Corporate Governance. The second one is the e-Service Application. In the e-Service Application, it includes the New Connection, Temporary Service, Reconnection, Separation of Service, Change in Load/Service and Relocation of service entrance. Through their e-Service Application, consumers can review their service information, check their complaints status, inquire on bill history, send comments and suggestions and receive email notifications, enabling them to do these transactions and obtain information online. The third and last development or change that we will be looking at is their partnership with the PLDT and the San Miguel group in 2009 as this may be vital in the changes in the company's status for the past few years.

1.4 Objectives and Scope of the Study

1.4.1 Analyze Meralco's current situation through financial ratios

The study aims to observe and analyze Meralco's financial ratios to be able to determine the company's standing and how much has changed with it throughout the past few years. This may also determine any trends in its total standing, comparing it to financial ratios of the past years.

1.4.2 Analyze Meralco's developments

The company's developments, as said earlier, may have affected the company's performance greatly may it have resulted to an increase in their sales or a loss or decrease in their sales. Linking this to the previous objective, the developments may have affected the financial ratios and if the ratios resulted to a loss, the cause may be indicated in its developments. If, however, the ratios resulted to an increase in sales or an increasing trend, the credit may also be given to its developments.

1.4.3 Suggest Strategies

This study aims to provide solutions and strategies for the company related and in consideration of their financial ratios and their recent developments therefore linking all three objectives. The first two objectives will play a great role in the third item as they will be the basis of whether or not the strategies formulated and provided will be helpful for the company's current and future progress.

2. Methodology

2.1 Fred David SWOT Matrix

A company's mission, vision and objectives must be supported and defined by a SWOT analysis in order to gain some perspective, reveal action areas and translate analysis to strategies. Fred David designed a strategic pattern model that obtains required information and awareness of the said industry gathered from various members, such as the board of directors, experts and company managers. It is considered to be useful in drawing lines of future action (Terrados, 2007).

	STRENGTHS <ul style="list-style-type: none"> Philippines' largest distributor of electrical power Service power of choice <u>Metro Manila's</u> only electric power distributor and holds the power distribution franchise for 22 cities and 89 municipalities, including the whole of the <u>National Capital Region</u> and the <u>exurbs</u> that form <u>Mega Manila</u> Most income generating electricity supplier in the Philippines Franchise Expansion Innovative Solutions 	WEAKNESSES <ul style="list-style-type: none"> Unwanted charges
OPPORTUNITIES <ul style="list-style-type: none"> Innovation of technologies Cater to a wider range of market 	<ul style="list-style-type: none"> Franchise Expansion - Cater to a wider range of market <p>Meralco operates using expansion and using this, they could add more plants to areas they don't currently cover, giving them a larger market.</p>	<ul style="list-style-type: none"> Unwanted Charges - Innovation of technologies <p>By increasing the level of their technology, Meralco can possibly lessen the charges and may serve their market better.</p>
THREATS <ul style="list-style-type: none"> Uncontrollable numbers of power pilferers Increasing number of solar energy/solar panels users 	<ul style="list-style-type: none"> Philippines' largest distributor of electrical power - Uncontrollable numbers of power pilferers <p>Being the service power of choice, there's a tendency of power theft. Meralco should invest on theft prevention hardwares to monitor and prevent the distribution of losses.</p>	<ul style="list-style-type: none"> Unwanted charges - Increasing number of solar energy/solar panels users <p>Because of these charges, users shift to solar energy. Meralco can give assurance to users about eliminating unwanted charges.</p>

3. Results and Discussion

To analyze the company's competitive position, the researchers decided to include an assessment of both internal and external environment for strategic planning and future decision-making. However, this type of framework not only is for assessing positives and negatives, it also a long track record of effectiveness. The fundamental idea behind this matrix lies on the concept of determining the strength, weakness, threats and opportunities available. The analysis would further delve into possibilities for new

solutions to problems, clarify future decisions, refine plans when new opportunities open wider avenues or when new threats arise and close existing paths.

3.1 SWOT Analysis

3.1.1 Strengths

Meralco has been the Philippines' largest distributor of electrical power making it also the service power of choice. It is Metro Manila's only electric power distributor and holds the power distribution franchise for 22 cities and 89 municipalities, including the whole of the National

Capital Region and the exurbs that form Mega Manila. It is also the most income generating electricity supplier in the Philippines. With the nature of the business, franchise expansion can be offered to provinces to cater to a larger market expand in the country.

3.1.2 Weaknesses

A nuisance to the success of the firm would be the unwanted charges pressed to the customers. Be it wrongfully calculated bills, or add-ons that were unknowingly included to the plan. Several consumers have expressed their concerns regarding this inconvenient, and often times unacceptable dispute with the company. The possibly poor maintenance of the company's facilities and equipment could be the culprit at large. Investing in its innovation would be highly recommended, as it is entirely for the smoother and more efficient service that the firm wishes to guarantee its valued consumers.

3.1.3 Opportunities

In order to progress and expand, the firm is advised to further the company's investments in the innovation of its technologies. Doing this would up the company's competitiveness largely, and would ultimately make it possible for Meralco to cater to a wider range of consumers; possible prospects that have yet to be established, as well as an entire market they have yet to utilize. By investing and implementing equipment and technology, the firm will be furthering their efficiency and success rate by a sky-rocketing amount.

3.1.4 Threats

Inevitably, each and every firm must battle its competitors, as well as threats to its marketability that may come every now and then. For instance, the increasingly large and uncontrollable number of pilferers, as well as the increasing number of solar energy and solar panel users, threatens to tip the scale and send the company to a downward spiral. Another pressing matter would be power theft, as power is wrongfully stolen from one consumer to another, and the rightful owner is then wrongfully charged.

3.2 Financial Ratios Analysis

The financial ratios analysis may give light on how much the company's performance has

improved or decreased and this may also help the authors to determine what the causes of the increase or decrease in their ratios. This in itself may help to determine suggestions and solutions for the company.

Table 1. Financial and Operating Highlights
(in millions)

	2009	2010	2011	2012	2013
<i>Revenues</i>					
Electric	178,686	239,077	253,989	282,991	294,849
Non-electric	2,072	1,856	2,819	2,279	3,787
Total	180,758	240,933	256,808	285,270	298,636
<i>Cost and Expenses</i>					
Purchased power costs	150,928	200,916	205,674	231,068	238,198
Operations and maintenance	14,634	16,462	199,133	18,698	18,775
Depreciation and Amortization	4,831	5,911	5,504	5,576	6,118
Interest and other financial charges (income)-net	499	(1,044)	(819)	(1,041)	307
Others	1,811	5,370	8,570	7,956	10,911
Total	172,703	227,615	238,062	263,248	274,309
Net Income attributable to equity holders of parent	6,005	9,685	13,260	17,117	17,211

In 2009, the company joined a partnership with PLDT and San Miguel. This seems to have been a vital change in the company as their net income has increased since the time of the partnership. The numbers has been increasing for five years until 2013 and this is one of their most recent developments. Along with their newly-formed partnership is their acquisition of the e-Service application which seemed to have helped them gain revenues. The company's total expenses may have increased over time as well but their sales have increased enough as well to keep their net earnings increasing over time, coming to the conclusion that their recent developments have given them positive results.



4. Conclusion

As per the analysis of the authors, it is concluded that a utility company such as Meralco has been financially increasing in each passing year for more than 5 years. It has a solid structure with 111 years of experience and has become the largest electric distribution utility in the Philippines with a total revenue of P298.6 billion -- a record of all-time best levels in sales, operational and financial performance in 2013.

Given the compelling financial credibility of the company, the authors recommend that investing in Meralco would sprout better profits than investing in other establishments. The financial risk is at its minimum, the company being in the utility industry. On top of this, MERALCO provides for a 4% cash dividend a year. With this, it is safe to conclude that, as far financial capabilities concerned, investing in this company is a win-win for both the company and the investor.

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6. Resources

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