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A Financial and Technical Analysis of Aboitiz Equity Ventures

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Abstract: Aboitiz Equity Ventures (AEV) is a fast growing conglomerate company in the Philippines today. It is composed of four sub businesses: Power, Food, Real Estate, and Banking. This research paper will focus on AEV, it's background, and how the simple start up family company was able to surpass and survive for many generations. This paper presents the financial situation of AEV, and evaluates and analyzes how the company is managed , using the mathematical finance equations to analysis the effect of cash, inventory, working capital, short and long term financing plan of of the company. After the analysis, they have a clearer idea of the company's direction and sustainability in the upcoming years. The objective is to learn from the successful business practices of AEV so that more people can apply the same tactics to their company, and identify any flaws and problems present in the company to strengthen it so it remains sustainable for the future.

Keyword: AEV, Conglomerate, Power and Energy, Aboitiz and Company

I. INTRODUCTION

A. *Brief Background of Study*

Aboitiz & Company is a family lead organization that owns majority of Aboitiz Equity Ventures (AEV). The company started out as a partnership in 1920. In '94, AEV went public with various businesses, including Aboitiz Power. In 2002, they took Aboitiz Power public. This public company focuses on power generation and distribution - the transmission of energy to the users. It operates 39 facilities in the Philippines that handle renewable energy such as hydroelectric and geothermal, as well as non-renewable energy coming from coal and oil. Aside from power, AEV has major investments in banking, food, and land development businesses.

AEV aligns its CSR (corporate social responsibility) by pursuing inclusive growth through its mission of helping people help themselves towards the vision of the company: "Being the neighbor of choice in areas where businesses operate".

AEV values integrity, innovation, teamwork, and responsibility. These values encompass AEV's passion for better ways and driven to lead, excel, and serve.

B. *Describe Relevant Development*

Aboitiz believes that good governance begins with its strong foundational core values of fairness, prudence, integrity, respect for the individual and diverse cultures, and work ethics that live corporate social responsibility on a day to day basis. Aboitiz has been able to develop itself as a powerhouse company through its practice and engagement on these core values. The company has always viewed its corporate existence, goals, and strategies on a long term scale. They believed that a "short-term" mindset will make it difficult to achieve a sustainable future. In order to go beyond this, it committed on this idea of long term thinking and it has helped their development as company grow further.

Aboitiz has been developing more power.project by enhancing their competitiveness in the market through excellent and well-thought strategies. The main strategy that this company in

order to increase its competitiveness in the industry is corporate governance. The principles allowed them to achieve sustainable growth and Aboitiz will continue to aim for to remain a constant competitor.

Aboitiz focuses on remaining true to its role in finding better ways to do business. The company aims to keep the "Three-P" of People, Profit, and Planet to balance for its corporate growth and sustainability. The company's commitment to "Three-P" led to its continuous development over the past years which development is continuously improving.

C. *Objective and Scope of Study*

C.1. General Objective:

The research group is interested in finding out how Aboitiz is doing in the competitive market of power, banking and consumer products. This will determine whether the company has the capability and resources to maintain its growth and development in the coming years.

C.2. Specific Objectives:

- To determine the financial status of Aboitiz as a company.
- To predict the financial status of Aboitiz.
- To determine if Aboitiz will sustain its development and continue being a competitor in its industry.

C.3. Scope and Limitations:

- This study only focuses on the market and industry of the Philippines.

The research group decided to limit the study in the Philippines in order to see a better picture of the impact Aboitiz has on the Philippine economy.

- Quality of Data

Despite having quality data on Aboitiz Company, the analysis and results of the study group may change because of the fast pace of growth of the company.

- Time Constraint

The single academic term to study Aboitiz and this may not be enough to accurately determine its true potential.



II. METHODOLOGY

This part will focus on the various analytical tools and methods used in power, banking, food, and land development business. The company handles the distribution and the generation of renewable energy such as hydroelectric and geothermal; and non-renewable energy such as coal and oil. This paper discovered how the company was able to generate energy that is available and reliable yet still being produced efficiently at the lowest cost.

AEV is the largest shareholder of UnionBank that offers a wide variety of quality financial products and services to retail customers, middle-market and corporate clients, and major government institutions. AEV is able to reach out to its different clients, with methods used to ensure that the financial products and services are of the best quality.

AEV has a food subsidiary called Pilmico Foods Corporation, one of the largest flour manufacturers in the country. This paper identified Pilmico for its market competitiveness through customer satisfaction and the quality products and processes it offers.

Aboitzland is AEV's subsidiary in land development area engaged in design and development of distinct communities for residential, industrial, and commercial use. It has been in operation for two decades. This paper aims to study how this subsidiary is able to remain as one of the country's most trusted brands in real estate development.

<p>options to generate power.</p> <p>2. 4 fuels: water, diesel, geothermal, and coal. Coal and geothermal are base load units- they are cheaper to generate but you have to run the whole day. The hydros can be peakers, you only use it when the demand peaks. The flexibility gives the company strength</p> <p>3. Attractive as an organization, get good talent. The organization being attractive lures young and eager individuals to work under one of the most lucrative companies.</p> <p>4. Long-term thinkers because it has been in existence for over a hundred years</p> <p>5. Trust: Strong culture which leads to trust, since all businesses are economy driven and consumption driven. Focus has been to help. As the economy improves, so do the businesses. In the Philippine setting, where our GDP is improving, so does AEV</p> <p>6. The bank is high-tech</p>	<p>bounded by regulations. Limitations may cause the inability to maximize output.</p> <p>2. Business is still limited to the Philippines and not global.</p> <p>3. Real estate is a cycle where you have a boom and glut (housing bubble). A surplus of housing and inventory amidst a small market leads to a glut.</p> <p>4. Dependent on imports – food and coal from Indonesia. Company is susceptible and vulnerable to shortages due to the presence of tropical storms and typhoons.</p>
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SWOT Matrix

<p>Strengths:</p> <p>1. For power, we are industry leaders</p> <p>We have a good balance between different fuels, which gives us a lot of</p>	<p>Weaknesses:</p> <p>1. The different businesses are very dependent on regulations. It's not a free market but</p>
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<p>Opportunities:</p> <ol style="list-style-type: none"> 1. The population is growing. The Philippine population is growing at an exponential rate. 2. There is a lot of promise in the economy. Not only is our population growing, but also our economy. Which allows for foreign investors to invest in local companies. 3. Regulation – we understand it. It's a barrier for entry, so less competition. It's an understanding the business, and being able to compete within the regulatory environment. 4. To go international- has a lot of potential 5. Since the bank is high tech, there's an opportunity to grow in the high tech banking environment 	<p>Threats:</p> <ol style="list-style-type: none"> 1. Foreign investors entering the market. With the power, you can have new competitors, new players who come in and don't understand the market very well. 2. For hydros, weather is a threat (el nino or a drought). 3. For banking, technology is a threat. All of a sudden, the market changes dramatically. We have to be on the ball with technology 4. For Land, everyone becomes over-optimistic, so you get the bubble (as stated previously). The demand does not grow as much as expected.
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ROE	36.8%	34.2%	25.3%
ROA	19.42%	18.37%	8.51%
Net debt/equity	59%	45%	48%

Comparing all the ratios and data, it is clear that the company performed best in 2011. Since then, the company's income has been decreased. But, the company has been able to pay off some of their long-term debts, and their debt ratio has been improving. Although the return on investment is pretty low in 2013, the company is still accruing a gain and not a loss. AEV has a lower debt as compared to the previous years. The company is performing satisfactory – it is providing profits for investors and shareholders.

IV. CONCLUSION

Overall, Aboitiz Equity Ventures has a consistent financial statement in terms of their business ventures in power, banking, food, and land development for at least the past three years. Their business with renewable and non-renewable energy, however, has the highest income compared to their other business ventures. There is quite an improvement when it comes to the income of banking as a shareholder of Union Bank. When it comes to equity, both their investment in food and power have increased compared to the previous years. AEV is doing well from the financial point of view. The overall trend in the company is that it has a stable financial standing throughout the years such that it does not experience great fluctuations.

III. RESULTS AND DISCUSSIONS

	2011	2012	2013
Debt to equity ratio	1.12	0.97	1.02
EBITDA (in php millions)	38,979	40,871	36,492
NPM	54.14%	50.45%	23.14%

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