

MONDAY, 29 FEBRUARY 2016

Alert
**TEL:
2016 core earnings guidance of Php28Bil 14% below expected**

TEL disclosed that FY15 core earnings ended at Php35.2Bil, 5.9% lower y/y. The result is in line with the company's own guidance of Php35Bil, and is also in line with COL and consensus estimates, accounting for 101.5% and 102.6% of full-year forecasts, respectively.

More importantly though, TEL provided disappointing guidance for its performance in 2016. According to TEL, it expects core earnings to drop 20% to Php28Bil. Earnings guidance for 2016 is also around 14% below our forecast of Php32.5Bil. Management mentioned it is lowering its profit guidance as it shifts its operations to be data-oriented. As a result, TEL expects a single-digit revenue growth for 2016 and a continued decline in EBITDA as legacy businesses such as international and national long distance and SMS revenues are replaced with data. Moreover, TEL added its working assumptions for the said guidance includes the entry of a third player in the industry. Capex levels will remain elevated, resulting in higher depreciation and financing costs. In light of these, no special dividends are expected to be paid out.

We will release a more detailed report after the analyst briefing this afternoon. We currently have a HOLD rating on TEL and a FV estimate of Php2,100/sh.

Exhibit 1: Results Summary

<i>in PhpMil</i>	4Q14	4Q15	% Change	FY14	FY15	% Change	% of forecasts	
							COL	Consensus
Service revenues	41,982	40,929	(2.5)	164,943	162,930	(1.2)	100.5	94.7
EBITDA	19,941	16,134	(19.1)	76,877	70,200	(8.7)	96.2	95.0
<i>EBITDA margin (%)</i>	47.5	39.4	-	46.6	43.1	-	-	-
Core net income	8,849	8,135	(8.1)	37,410	35,212	(5.9)	101.5	102.6
<i>Core margin (%)</i>	21.1	19.9	-	22.7	21.6	-	-	-

source: TEL, Bloomberg, COL estimates

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Investment Rating Definitions

BUY	HOLD	SELL
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 twelve months.	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 inline or underperform the market in the next six to twelve months.	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 twelve months.

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