COL FINANCIAL
PHILIPPINES

EAGLE CEMENT CORPORATION:

Ready to soar

Eagle Cement Corporation (EAGLE) will be offering 500Mil primary shares plus 75Mil optional secondary shares.in an IPO priced at Php15.0/sh. The total net proceeds of ~Php8.0Bil will be used to partially finance the construction of a 2Mil MT capacity cement plant in Cebu. Offering period will be from May 16, 2017 to May 22, 2017, while the tentative listing date on the PSE is May 29, 2017. EAGLE will be the second IPO for the year.

Exhibit 1: IPO details

Stock symbol	EAGLE
Offer price	Php15.0
Offer period	May 16-22, 2017
Total shares on offer (in Mil)	575.0
Primary	500.0
Optional - Secondary	75.0
Gross proceeds to be raised (in Bil)	Php8.6
Issued and outstanding shares after offer (in Mil)	5,000.0
Estimated public float post IPO	10.0 - 11.5%
Tentative listing date	May 29, 2017

source: EAGLE

Company background

Eagle Cement Corporation (EAGLE) is the fourth largest player in the cement industry based on sales volume with the fastest growing market share since starting commercial operations in 2010. It is engaged in the business of manufacturing, marketing, sale, and distribution of cement. EAGLE is 31.43% owned by Ramon S. Ang (RSA) and Family and 68.57% owned by Far Eastern Cement Corporation (selling shareholder), which is also 100% owned by RSA and Family. It has the newest, state-of-the-art, and single largest cement manufacturing plant located in San Ildefonso, Bulacan. The Bulacan plant currently has two production lines with annual combined cement production capacity of 5.1Mil MT. Moreover, the company has a grinding and packaging facility in Bataan and two distribution centers located in Parañaque and Cavite. At present, EAGLE distributes cement in the Luzon area particularly in the NCR, Regions I, II, III, and 4A. For the year ended December 31, 2016, EAGLE had total sales volume of ~3.1Mil MT and sales of Php13.3Bil

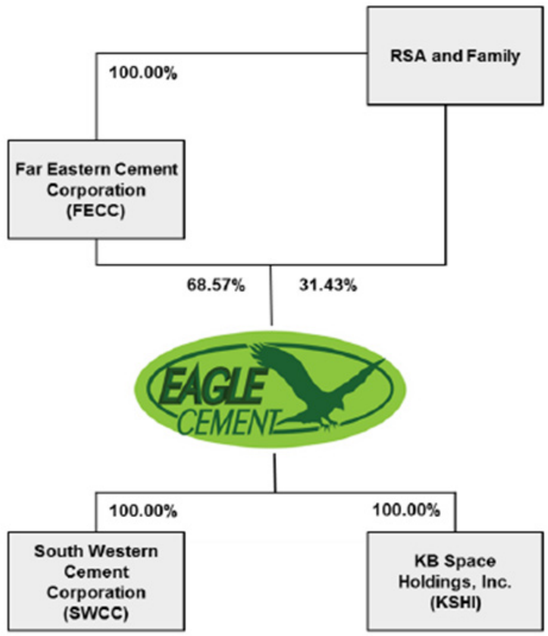
FINANCIAL SUMMARY

Year to December 31	2014	2015	2016
Revenues	**8,760**	**11,065**	**13,276**
% change y/y		*26.3*	*20.0*
EBITDA	**3,782**	**4,411**	**6,309**
% change y/y		*16.6*	*43.0*
EBITDA margin (%)	*43.2*	*39.9*	*47.5*
Net income	**3,115**	**3,680**	**4,113**
% change y/y		*18.1*	*11.8*
Net income margin (%)	*35.6*	*33.3*	*31.0*
EPS (cents	**0.10**	**0.35**	**0.88**
% change y/y		*250.0*	*151.4*
Relative Value			
P/E (x)	**150.0**	**42.9**	**17.0**
P/BV (x)	**9.4**	**6.4**	**4.9**
ROE (%)		**28.7**	**25.0**
Dividend yield (%)	**0.0**	**0.0**	**5.0**

source: EAGLE

Frances Rolfa Nicolas
Research Analyst
rolfa.nicolas@colfinancial.com

Exhibit 2: Corporate Structure



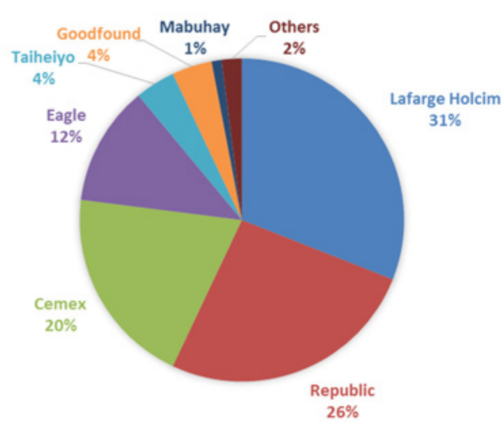
source: EAGLE

Exhibit 3: Ownership Structure

Shareholders	Pre- IPO		Post- IPO Without the over-		Post- IPO With the over- allotment	
	no. of shares	%	no. of shares	%	no. of shares	%
FECC	3,085,714,283	68.6%	3,085,714,283	61.7%	3,010,714,283	60.2%
RSA and Family	1,414,285,722	31.4%	1,414,285,722	28.3%	1,414,285,722	28.3%
Public	0	0.0%	500,000,000	10.0%	575,000,000	11.5%
Total	**4,500,000,005**	**100.0%**	**5,000,000,005**	**100.0%**	**5,000,000,005**	**100.0%**

source: EAGLE

Exhibit 4: Cement Industry Market Share (as of end 2015)

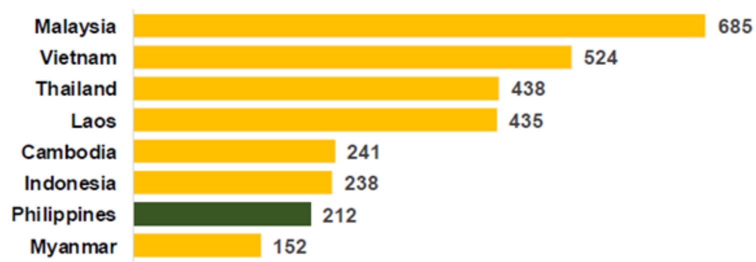


Source: CHP, COL estimates

Beneficiary of the growing construction industry, favorable demand & supply outlook

Eagle is poised to benefit from the Philippines' growing construction industry due to the country's strong GDP growth and the government's plan to boost infrastructure spending in the following years. Historically, the country's construction and cement demand grew faster than GDP. From 2005 to 2015, GDP grew at a CAGR of 5.4% while the construction industry grew at faster rate of 7.9%. Likewise, cement demand grew robustly during the same period at a CAGR of 7.7%. Despite the significant increase, there is still significant room to grow as the Philippines has one of the lowest per capita cement consumption among its Southeast Asia counterparts. In 2014, cement consumption per capita was at 212kg/capita, ahead of Myanmar but below countries such as Indonesia, Thailand and Malaysia among others.

Exhibit 5: 2014 South East Asia Cement per Capita Consumption

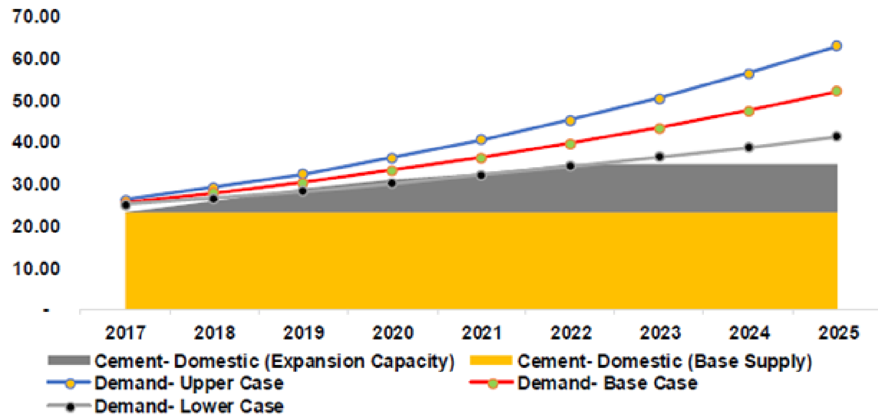


Source: Cement Market Report

Growth outlook remains favorable moving forward. GDP is seen to grow ~7% from 2017 to 2020 with the construction industry in the limelight. The government has dubbed the next six years as the golden age of infrastructure with the implementation of projects ranging from road networks, airport and seaport modernization. In addition, the Department of Budget and Management said that a total of Php8.4Tril would be spent for infrastructure projects in the next six years. This would increase infrastructure spending to 7.1% of GDP by 2022, a significant improvement from 1.8% in 2010. Some of the projects underway include NLEX-SLEX Connector Road, South Integrated Transport System, Bonifacio Global City to Ortigas Road Link Project, Sta. Monica-Lawton Bridge and Viaduct (Phase I & II-A) among others.

The expected increase in construction and infrastructure spending will require additional cement supply to address the expected growth in demand. Note that as of December 2016, the cement industry has an estimated effective cement production capacity of 25.8Mil tonnes. According to the cement market report, the cement industry would need an additional 11.6Mil tonnes of cement capacity to address cement consumption until 2025. Meanwhile, supply is expected to increase by just ~7.0Mil tonnes by 2020 to ~33Mil tonnes based on known expansion plans of cement companies. This would imply a supply deficit of around ~4Mil tonnes which should allow prices to remain stable at the very least. Although the impending supply shortage may encourage capacity expansion, the tight supply situation is expected to persist in the next few years as it takes around 2-3 years to build a cement plant.

Exhibit 6: Cement Supply Demand 2017-2025



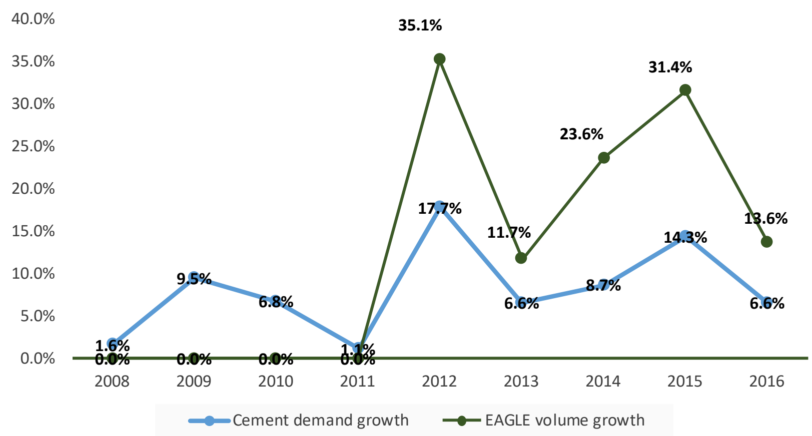
Source: Cement Market report

Capacity expansion to increase market share

EAGLE is well positioned to capitalize on the government's planned infrastructure roll out. Just last year, EAGLE completed line two of its Bulacan plant which boosted its annual cement production capacity to 5.1Mil MT. Line 3 is expected to increase capacity by another 2Mil MT and is due for completion in 2018. It is intended to supply the Bicol regions and some of the Visayas regions. Meanwhile, the Cebu cement plant will include construction of a manufacturing plant, a distribution center, and marine terminals in Southern Luzon, Visayas, and Mindanao regions. It is expected to increase capacity by another 2 Mil MT and is targeted to be completed in 2020. The Cebu plant is intended to supply the rest of the Visayas regions, and Mindanao. Note that the Line 3 expansion is already fully funded according to management. On the other hand, the Cebu cement plant project, which costs ~Php12.5Bil, will be funded through a combination of equity (using IPO proceeds), debt, and internally generated funds.

The successful execution of EAGLE's aggressive expansion plan would allow the company to capture the expected increase in cement demand and further expand its market share in the cement industry. Assuming that EAGLE'S expansion plans are completed on time, EAGLE's total capacity would grow by 78% to 9.1Mil MT by 2020. Meanwhile, growth potential of sales volume is more significant at 164% based on the fact that EAGLE was only operating at ~60% capacity as of end 2016. Note that EAGLE's volume growth has always exceeded the cement industry's volume growth since its first year of operations in 2011. This in turn allowed the company to grow its market share from 7.0% in 2011 to 11.8% in 2016.

Exhibit 7: Cement Industry vs. EAGLE Historical Sales Volume Growth

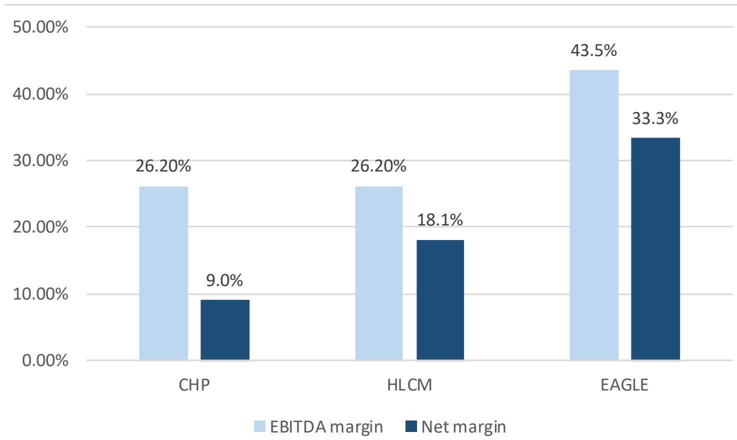


Source: EAGLE, Philippine Statistical Yearbook

Fully integrated facility improves ability to compete

EAGLE's cement manufacturing facility (Bulacan cement plant) covers end-to-end production of cement from raw material sourcing and processing to cement packaging and cargo loading. The production lines utilize state of the art technology and the facility are regularly upgraded with the latest machinery. Moreover, it is strategically located near rich limestone and shale reserves covered by the exclusive mineral rights of the company. These allow the company to manage costs and margins resulting to higher efficiency and profitability compared to its domestic peers. Note that from 2014-2016, EBITDA margin and net margin of EAGLE averaged 43.5% and 33.3% respectively. These are much higher compared to the average EBITDA margin and net margin of its domestic peers HLCM (26.2% and 18% respectively) and CHP (26.2% and 9% respectively), providing EAGLE greater flexibility to compete in terms of pricing.

Exhibit 8: 2014-2016 Average Margin Comparison



Source: EAGLE, CHP, HLCM

The planned Cebu plant will also be a fully integrated facility and will be located in close proximity to limestone and shale reserves like the Bulacan plant. Hence, we expect the company to sustain its production efficiencies moving forward.

Premium Valuation

Assuming that EAGLE's FY17 revenues will grow at its 4-year historical CAGR of 23.2% and that net margins will remain at its FY16 level of 31%, EAGLE would be trading at a 2017E P/E of 15.2X based on its offer price of Php15.0/sh. This is a premium compared to the 2017E P/E of its domestic peers HLCM (14.7X) and CHP (13.3X) although lower than the median 2017E P/E of its regional peers of 16.0X. However, at Php15.0/sh, its 2017E EV/EBITDA would be 11.3X. This is significantly higher than the EV/EBITDA multiple of its domestic peers HLCM (9.0X), CHP (8.7X), and the median EV/EBITDA of its regional peers (9.6X). We believe though that EAGLE's higher valuation multiples are warranted given its significant earnings growth potential resulting from the country's favorable demand growth outlook, EAGLE's future expansion plans and more efficient operations.

Exhibit 9: Relative Valuation

Company	Symbol	FY17 PE	FY17 EV/EBITDA
Holcim Philippines Inc.	HLCM PM	14.7	9.0
Cemex Holdings Philippines Inc.	CHP PM	13.3	8.7
Indocement Tunggal Prakarsa Tbk PT	INTP IJ	17.8	10.3
Anhui Conch Cement Co. Ltd.	914 HK	10.7	5.6
Lucky Cement Ltd.	LUCK PA	20.3	11.7
Siam City Cement PCL	SCCC TB	17.8	10.2
Asia Cement Corp.	1102 TT	17.3	15.3
Semen Indonesia Persero Tbk PT	SMGR IJ	13.6	8.0
Eagle Cement Corporation	EAGLE	15.2	11.3
	Median ex EAGLE	**16.0**	**9.6**

EAGLE also intends to pay out up to 50% of previous year's net income as cash dividends. Based on its offer price of Php15.0/sh, this translates to a dividend yield of 3.3%.

Risks

Delay in infrastructure projects. EAGLE is reliant on public and private construction activity in the country. Any delay in the roll out of the planed government infrastructure projects may affect the company's sales volume. Meanwhile, private construction activity in the country is dependent on numerous factors such as the continuous growth of the business process outsourcing sector, overseas Filipino remittances among others. As such, an economic slowdown may impact the company's business.

Execution of its expansion plans. EAGLE's future earnings growth is largely hinged on the successful execution of its capacity expansion plans. Any delays will negatively affect its ability to grow profits.

Poor sentiment for cement companies. Sentiment for listed cement companies was negatively affected by the disclosure of weak first quarter earnings results by HLCM and CHP. Both companies disclosed lower profits brought about by weaker sales volume and lower selling prices. This could also hurt sentiment for EAGLE.

Intense competition. The cement industry is highly competitive. As EAGLE will be entering new markets in Visayas and Mindanao, existing dominant players in those areas could employ aggressive pricing and distribution strategies to protect their market share. Note that Cemex is number 1 in Visayas while Holcim is number 1 in Mindanao. The company's sales volume may also be affected by imported cement from traders. On the positive side, EAGLE's above average margins should improve its ability to compete.

Seasonality of operations. Heavy rain and sustained rainfalls can slow down construction activity and consequently decrease the demand for construction materials. The rainy season in the Philippines, typically lasts six months (June- November) during which cement volume is expected to decline.

Appendix 1:

Income Statement

	2014	2015	2016
Net Sales	8,760	11,065	13,276
Cost of goods sold	(4,843)	(6,295)	(6,339)
Gross profit	**3,917**	**4,769**	**6,937**
Operating expenses	(639)	(826)	(1,294)
Income from operation	**3,278**	**3,943**	**5,643**
Finance costs	(269)	(242)	(375)
Interest income	36	61	89
Share in profit of joint venture	12	–	–
Other income– net	126	24	54
Income before income tax	**3,183**	**3,786**	**5,410**
Income tax expense	(68)	(107)	(1,298)
Net income	**3,115**	**3,680**	**4,113**

Balance Sheet

	2014	2015	2016
Assets			
Current Assets			
Cash and cash equivalents	4,232	4,473	6,621
Financial assets at fair value through profit or loss	40	0	0
Trade and other receivables	417	138	485
Invetories	636	979	1,374
Other current assets	1,308	1,512	729
Total current Assets	**6,633**	**7,102**	**9,209**
Available-for-sale (AFS) financial assets	-	125	181
Property, plant and equipment	12,023	14,332	15,774
Investment properties		534	578
Intangible Assets	15	15	194
Other noncurrent assets	847	1,092	1,633
Total noncurrent assets	**12,885**	**16,098**	**18,360**
Total Assets	**19,518**	**23,200**	**27,569**
Liabilities			
Trade and other payables	1,702	2,116	2,348
Income tax payable			412
Current portion of loans payable	441	440	0
Total current liabilities	**2,143**	**2,556**	**2,760**
Loans payable - net of current portion	5,860	5,426	5,957
Net retirement benefits liability	34	23	30
Provision for mine rehabilitation and decommissioning	-	25	26
Net deferred tax liabilities	479	530	570
Total noncurrent liabilities	**6,374**	**6,003**	**6,583**
Total Liabilities	**8,517**	**8,559**	**9,343**
Equity			
Capital stock	3,500	3,500	7,500
Retained earnings			
Appropriated	4,900	4,000	3,500
Unappropriated	1,434	5,924	5,962
Other equity reserves	1,167	1,217	1,264
Total equity	**11,002**	**14,641**	**18,226**
Total Liabilities and Equity	**19,518**	**23,200**	**27,569**

Appendix 1:

Cash Flows

	2014	2015	2016
Cash flows from operating activities			
Income before income tax	3,183	3,786	5,410
Adjustments for:			
Depreciation and amortization	504	468	666
Finance costs	269	242	375
Fair value changes in investment properties	0	0	(146)
Write-off of investment property	0	0	103
Loss on early debt extinguishment	0	0	100
Interest income	(36)	(61)	(89)
Gain on sale or property, plant and equipment	(106)	(0)	(19)
Unrealized foreign exchange losses (gains) -net	6	(23)	14
Retirement benefit costs	10	12	12
Dividend income	0	(2)	(7)
Loss (gain) on sale of financial assets at FVPL	(47)	5	0
Share in profit of joint venture	(12)	0	0
Operating income before working capital changes	**3,772**	**4,427**	**6,420**
Decrease (increase) in:			
Trade and other receivables	6	283	(175)
Inventories	(123)	(318)	(318)
Other current assets	(785)	753	428
Other noncurrent assets	(507)	(855)	(405)
Increase in trade and other payables	193	446	146
Net cash generated from operations	**2,556**	**4,735**	**6,096**
Income taxes paid	0	(422)	(509)
Interest received	36	58	86
Contributions to plan assets	0	(22)	0
Retirement benefits paid	0	(1)	0
Net cash provided by operating activities	**2,592**	**4,347**	**5,673**
Cash flows from investing activities			
Additions to:			
Property, plant and equipment	(2,861)	(2,592)	(2,151)
Acquisition of subsidiaries (net of cash acquired)	0	(534)	(385)
AFS financial assets	0	(119)	(56)
Intangible assets	0	0	(4)
Devidends received	0	2	5
Collection of finance lease receivables	0	0	5
Proceeds from sale of:			
Property, plant and equipment	165	0	0
Financial assets at FVPL	20	35	0
Investment in a joint venture	277	0	0
Net cash used in investing activities	**(2,399)**	**(3,208)**	**(2,587)**
Cash flows from financing activities			
Payments of			
Loans payable	(225)	(453)	(5,968)
Dividends	0	(90)	(555)
Interest	(251)	(379)	(332)
Debt issuance costs	0	0	(49)
Stock transaction costs	0	0	(20)
Proceeds from loan availments	1,600	0	6,000
Issuance of common stock to independent directors	0	0	0
Net cash provided by (used in) financing activities	**1,124**	**(922)**	**(924)**
Net increase in cash and cash equivalents	**1,316**	**218**	**2,162**
Effects of exchange rate changes on cash and	**(6)**	**23**	**(14)**
Cash and cash equivalents at beginning of year	**2,922**	**4,232**	**4,473**
Cash and cash equivalents at end year	**4,232**	**4,473**	**6,621**

Appendix 1:

Ratio

Selected Ratios	2014*	2015	2016
Profitability ratios			
Gross profit margin	44.7%	43.1%	52.2%
Net profit margin	35.6%	33.3%	31.0%
Return on assets	16.0%	17.2%	16.2%
Return on equity	28.3%	28.7%	25.0%
Efficiency ratios			
Receivable turnover	21.0	39.8	42.6
Inventory turnover	7.6	7.8	5.4
Payable turnover	2.8	3.3	2.8
Average collection period	17.4	9.2	8.6
Average age of inventory	47.9	46.8	67.7
Average payment period	128.2	110.7	128.5
Cash conversion cycle	(62.9)	(54.7)	(52.2)
Liquidity ratios			
Current ratio	3.1	2.8	3.3
Quick ratio	2.2	1.8	2.6
Solvency ratios			
Debt to equity	0.57	0.40	0.33

Source: EAGLE

*2014 ratios are based on ending balances

Important Rating Definitions

BUY

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 12 months.

HOLD

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 in line or underperform in the market in the next six to twelve months.

SELL

We dislike both the valuations and fundamentals of stocks with a SELL rating. We expect the share price to underperform in the next six to12 months.

Important Disclaimer

Securities recommended, offered or sold by COL Financial Group, Inc. are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources we believe to be reliable, we do not guarantee its accuracy and said information may be incomplete or condensed. All opinions and estimates constitute the judgment of COL's Equity Research Department as of the date of the report and are subject to change without prior notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. COL Financial and/or its employees not involved in the preparation of this report may have investments in securities of derivatives of the companies mentioned in this report and may trade them in ways different from those discussed in this report.

COL Research Team

April Lynn Tan, CFA
VP & Head of Research
april.tan@colfinancial.com

Charles William Ang, CFA
Deputy Head of Research
charles.ang@colfinancial.com

George Ching
Senior Research Manager
george.ching@colfinancial.com

Richard Lañeda, CFA
Senior Research Manager
richard.laneda@colfinancial.com

Frances Rolfa Nicolas
Research Analyst
rolfa.nicolas@colfinancial.com

Andy Dela Cruz
Research Analyst
andy.delacruz@colfinancial.com

Justin Richmond Cheng
Research Analyst
justin.cheng@colfinancial.com

Kyle Velasco
Research Analyst
kyle.velasco@colfinancial.com

John Martin Luciano
Research Analyst
john.luciano@colfinancial.com

Contact

COL Financial Group, Inc.
2402-D East Tower, Philippine Stock Exchange Centre,
Exchange Road, Ortigas Center, Pasig City
1605 Philippines
Tel No. +632 636-5411
Fax No. +632 635-4632
Website: www.colfinancial.com