September 9, 2022

Maybank Securities

Utilities

Philippines

AC Energy Philippines (ACEN PM)

Moving forward from coal

BUY

Share Price	PHP 7.04
12m Price Target	PHP 8.00 (+14%)
Previous Price Target	*PHP 9.40*

Reiterate BUY; TP trimmed to PHP8.0

Following ACEN's 1H22 outperformance, we lift our FY22E net income forecast to PHP5.1b but cut our FY23 net income forecast by 22% to PHP9.1b to factor in ACEN's divestment of SLTEC. This translates to a lower, rolled-forward DCF-based TP of PHP8 (-15%), which also factors in our higher RFR/MRP assumption of 6.0%/5.5% (from 4.0%/6.0%). Still, we maintain our BUY call given ACEN's high, long-term earnings growth visibility, as it pursues its higher 20GW RE target by YE30E.

Selling coal plant to Energy Transition Mechanism

In Jul 2022, ACEN said it will sell its stake in SLTEC to EPHI and Insular Life for PHP3.7b, and it hopes to close by YE22E. Including PHP3.5b net proceeds from partial redemption of SLTEC's capital, ACEN should receive an upfront PHP7.2b for its stake in SLTEC. Starting FY23E, ACEN will forgo SLTEC's annual net income contribution of PHP2.4b, which could still swing sharply as ACEN, which will remain SLTEC's operator, will remain exposed to coal price and supply risk until SLTEC's PSA with MER expires in FY29E. This transaction brings ACEN closer to a 100% RE target, which should unlock financing opportunities for its 20GW new project pipeline.

20GW renewables by FY30E

ACEN has set a more aggressive target of 20GW by YE30E, after its initial 5GW target, which we expect it to reach by YE24E. This is achievable, in our view, given its 18GW of shovel-ready projects in Australia (8.1GW), Philippines (6.5GW), Vietnam (1.6GW), and other markets (1.8GW), on top of its existing 3.4GW RE. We expect the incremental 15GW post-FY25E which it needs to reach 20GW to largely feature onshore solar/wind plants, which could deliver IRRs of 10-15%. The 15GW contributes 24% to our TP.

Premium valuation remains warranted

At current levels, ACEN still trades at a premium, at FY22E PER of 55x, which we think is still warranted given its high earnings growth visibility. ACEN still offers the fastest earnings growth potential in its sector, at an attractive FY23 PEG ratio of 0.4x, superior to the sector's 1.25x.

FYE Dec (PHP m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	20,488	26,081	29,882	34,964	46,799
EBITDA	5,861	3,832	3,749	14,956	25,171
Core net profit	4,288	5,251	5,077	9,106	14,898
Core EPS (PHP)	0.40	0.18	0.13	0.23	0.38
Core EPS growth (%)	251.0	(55.2)	(28.3)	79.4	63.6
Net DPS (PHP)	0.04	0.06	0.06	0.03	0.03
Core P/E (x)	14.7	61.6	55.0	30.6	18.7
P/BV (x)	1.2	3.7	2.8	2.6	2.3
Net dividend yield (%)	0.7	0.5	0.9	0.4	0.4
ROAE (%)	8.0	7.4	4.7	8.7	12.9
ROAA (%)	3.2	3.4	2.6	3.8	5.6
EV/EBITDA (x)	19.6	96.6	95.6	26.2	15.4
Net gearing (%) (incl perps)	net cash	12.5	33.5	51.8	42.0
Consensus net profit	-	-	6,429	12,849	15,865
MKE vs. Consensus (%)	-	-	(30.4)	(29.1)	(6.1)

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Company Description

AC Energy Philippines is the power unit of Ayala Corp with plans to increase renewable capacity to 5GW by 2025

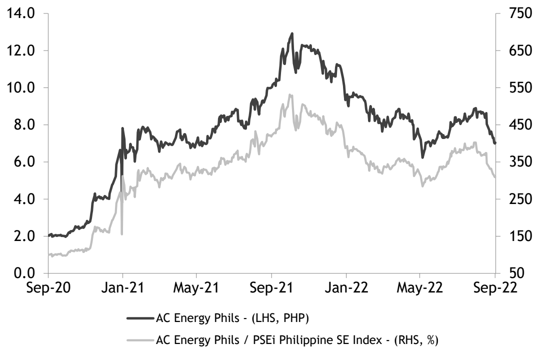
Statistics

52w high/low (PHP)	12.92/6.23
3m avg turnover (USDm)	2.1
Free float (%)	18.7
Issued shares (m)	39,645
Market capitalisation	PHP279.1B
	USD4.9B

Major shareholders:

Ayala Corp.	62.5%
GIC Pte Ltd	16.9%
Capital Group Cos Inc	2.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(19)	(8)	(30)
Relative to index (%)	(20)	(6)	(27)

Source: FactSet

Acronyms used:
COD - Commercial operation date
EPHI- ETM Philippines Holdings, Inc.
GEAP -Green Energy Auction Program
MRP - Market risk premium
PSA - Power Supply Agreement
SLTEC- South Luzon Thermal Energy Corp (246MW coal)
RE - Renewable Energy
RFR - Risk free rate
WACC_ Weighted average cost of capital

Stocks mentioned:
Bank of the Philippine Islands (BPI PM, CP: PHP95.05, BUY, TP: PHP111.00)
Manila Electric Co. (MER PM, CP: PHP315.20, Under review)

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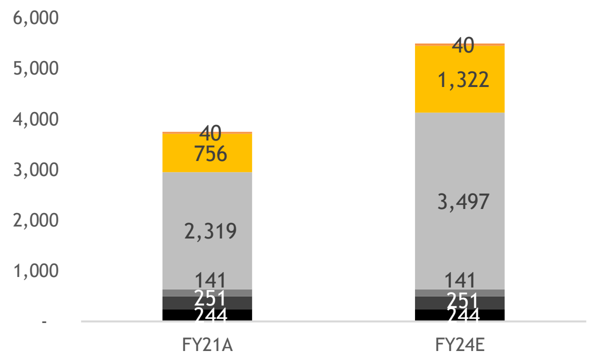
Tear Sheet Insert

Value Proposition

- ACEN aims to accumulate 5GW worth of renewable attributable assets by 2025 and envisions itself becoming the largest listed renewable energy company in Southeast Asia. It is the only listed local power generation company that has vast exposure with 1.4GW operational RE in offshore markets including Vietnam, Australia, India and Indonesia.
- As of end-1H22, ACEN had 3.9GW of attributable assets, 64% of which are solar while 20% are wind.
- Of the 3.9GW, 2.4GW are currently operational and of that, 1.9GW or 81% have PPAs.
- Earnings sensitivity to coal should reduce following incremental RE and decommissioning of SLTEC by FY40E, 15 years earlier than its economic life.

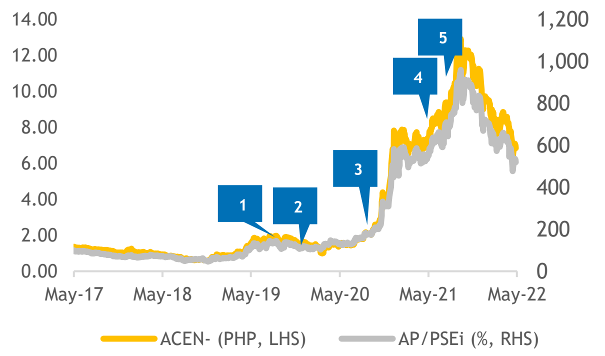
Portfolio progression by 2024 (in MW)



Source: Company, Maybank IBG

Price Drivers

Historical share price trend



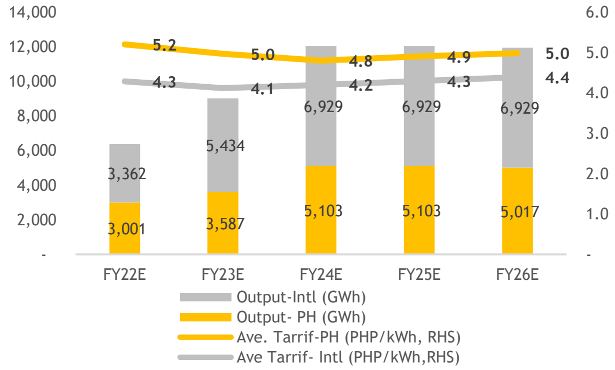
Source: Company, Maybank IBG Research

1. AC Energy officially acquired 3.67b shares in the then shares of Phinma Energy (later renamed to ACEN) for an equivalent stake of 51.5%.
2. AC Energy injected its onshore assets via a property-for-share swap to its listed entity, with ACEN issuing 6.67m primary shares to AC Energy Inc at PHP2.37/share.
3. ACEN raised PHP5.4b via stock rights offer comprising 1 rights share for every 1.11 share held at PHP2.37/share
4. The PSE announced the inclusion of ACEN to its benchmark index starting 16 Aug 2021.
5. ACEN injected 1.4GW offshore assets via a similar property-for-share swap, with ACEN issuing 16.7b shares to AC Energy Inc. at PHP5.15/share.

Financial Metrics

- The completion of 1.8GW further RE between FY22-24E will boost ACEN's attributable capacity to hit its targeted 5GW by 2024, a year earlier than planned, and will add an estimated PHP10b to ACEN's bottomline.
- Including the 1.4GW of projects under construction, we estimate ACEN would need PHP87b (USD1.7b) to achieve its 5GW target by FY25, which its balance sheet should be able to easily accommodate at 28% net gearing and DCSR of 3.9x by FY25.

Output and average tariff rate



Source: Company

Swing Factors

Upside

- Value-enhancing acquisitions or additions in capacity to support ACEN's target to accumulate 20GW worth of attributable RE assets by 2030.
- Higher commodity prices and faster-than-anticipated RE technology breakthroughs may make ACEN's RE more competitive in supplying baseload electricity to the grid.
- Inclusion in other major indices add liquidity.

Downside

- Time-sensitivity of project execution as delayed construction of its wind assets could mean losing eligibility to incentives such as for the FIT rate.
- Project execution risk, which could delay their construction timelines and miss 5GW target by 2025.
- Regulations and policies under the new administration are less favourable/supportive towards development of renewable energy in the country.

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Risk Rating & Score[1]	40.5
Score Momentum[2]	NA
Last Updated	7 Jul 2022
Controversy Score[3] (Updated: 27 May 2022)	0

Business Model & Industry Issues

- AC Energy's growth story rides on the global transition towards RE as it embarks on an ambitious target to be the largest listed renewable energy (RE) company in Southeast Asia by increasing its attributable RE to 20GW by FY30E. While ACEN still has exposure in coal and diesel assets, it has announced plans to fully divest out of coal by FY30E. This decision will reduce the company's exposure to the risk of having stranded assets, which has been heightened following the DOE's coal moratorium.
- On the domestic front, ACEN's RE expansion positions it to be one of the key beneficiaries of the Renewable Portfolio Standards (RPS), which mandates distribution utilities to source at least 1% of its annual incremental demand from RE sources. However, the wave of RE demand originally expected to arise from the RPS is likely to be deferred as the unprecedented, pandemic-caused drop in demand has pushed the need for new RE capacity back.
- Under Ayala group, ACEN executed several restructuring initiatives: (i) an asset-for-share swap for the domestic assets of its parent, AC Energy Inc (ACEI), which was completed in Jun 2020; (ii) the sale of 4.0b primary shares to GIC in 1Q21; and (iii) another asset-for-share swap for ACEI's international assets in 2Q21. ACEN also did a stock rights offer and a follow-on offer, which ACEI did not participate in, to further raise capital for the company's expansion plans, as well as enable minority shareholders to claw back some of the dilution from (i) (ii) and (iii).
- Overall, as a subsidiary of the Ayala Corp (AC PM), which is undeniably at the forefront of ESG initiatives in the Philippines, ACEN aligns their ESG practices to its parent's high ESG standards.

Material E issues

- ACEN targets to accumulate at least 20GW of RE assets by FY30.
- Across its power plant sites and future projects, ACEN adheres to ADB- and IFC-standard site checks and programmes to preserve biodiversity, in compliance to the Green Bond it issued in FY19.
- ACEN still has some legacy coal and diesel assets but it will fully divest out of coal by FY30 and retire them by FY40. It is likely to retain some diesel assets to counter the intermittency of is RE assets but will operate these on a need-basis.
- Total attributable GHG emissions (Scope 1 &2) reached 2,152,062 tCO2e in FY21. There are no specific GHG reduction targets but as all incremental additions to the portfolio would be RE assets and ACEN is looking to divest out of coal by FY30 and become Net Zero by 2050, we expect GHG emissions to decline over time.
- One of the diesel barges (PB102; a 30 year-old barge) had an oil spill in Jul 2020. ACEN immediately activated containment protocols and was able to contain the leakage within the same day. Apart from the 170 personnel deployed by the coast guard, ACEN also deployed additional oil-skimming equipment from another barge, Shell and Harbor Star. These diesel barges have been divested.

Material S issues

- In relation to PB102's oil spill incident, ACEN temporarily relocated 120 households in the area to protect them against fumes and provided them with food, healthcare, personal protection equipment and other necessities.
- ACEN has 702 permanent employees as of FY21. Of this, 73% are male while 27% are female. Moreover, middle management and senior management positions accounted for 35% and 4% of the total, respectively.
- Safe manhours reached 6,468,047 as there were no fatalities recorded in FY20.
- ACEN's work set up for its head office employees is digitized, enabling the company to activate its work-from-home protocols during the lockdown.
- ACEN implements comprehensive CSR programmes in all of its locations, providing funds for building schools, hiring locals and providing replacement livelihood, if necessary. It has spent PHP98m in attributable community CSR activities, including international communities.

Key G metrics and issues

- The Board of Directors (BOD) is composed of 11 members, with 2 executive, 5 non-independent nonexecutive, and 4 independent non-executive members.
- Fernando Zobel de Ayala is the Chairman while Jaime Augusto Zobel de Ayala is the Vice-chairman. No other Zobel de Ayala family members are on the BOD. While it is a family-owned conglomerate, family members on the BOD are kept to a maximum of two. In order to earn a position at any of the subsidiaries within the group, younger Zobel de Ayala family members must obtain an MBA and work their way up as they will start at an entry-level position. The only other family member at ACEN is Jaime Urquijo, who works as Assistant Vice President for the international business segment.
- In terms of gender diversity, there is an even distribution with 6 male board members and 5 female.
- Sycip Gorres Velayo and Co. (SGV), the local partner of Ernst & Young, has been the external auditor of ACEN (formerly PHINMA Energy and Trans-Asia Oil & Energy Dev't Corp.) since its incorporation in 1969. Audit fees in FY21 totalled PHP13.6m, accounting for 0.2% of pretax income.
- As part of AC's restructuring of its power business, ACEI's onshore (excluding legacy coal assets) and offshore assets were infused into the listed entity, ACEN. The infusion was done through a property-to-equity swap where: (i) ACEN issued 6.185b shares at PHP2.37/sh for ACEI's onshore assets in Jun 2020; and (ii) issuance of 16.68b shares at PHP5.15/sh for ACEI's offshore assets.

[1] ***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2] ***Score Momentum*** - indicates changes to the company's score since the last update – a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. [3] ***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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	Quantitative parameters (Score: 44)					
	Particulars	**Unit**	**2019**	**2020**	**2021**	**AP (2021)**	**FGEN (2021)**

	Particulars	Unit	2019	2020	2021	AP (2021)	FGEN (2021)
E	Scope 1 GHG emissions	m tCO2e	1.06	1.29	2.14	3.92	6.41
	Scope 2 GHG emissions	m tCO2e	0.02	0.01	0.01	5.69	0.00
	Total	**m tCO2e**	**1.07**	**1.30**	**2.15**	**9.61**	**6.41**
	Scope 3 GHG emissions	m tCO2e	NA	NA	NA	NA	0.00
	Total	**m tCO2e**	**0.53**	**1.22**	**2.15**	**9.61**	**6.41**
	Scope 1 emission intensity	tonsCO2e/MWh	0.3	0.3	0.5	NA	0.3
	Green energy share of capacity	%	38%	36%	87%	27%	42%
	Water recycled as % of usage	%	NA	NA	NA	2.5%	NA
	% of flyash recycled/treated	%	92%	82%	83%	NA	NA
	% of recycled material used	%	NA	NA	NA	100.0%	NA
	% of debt from green instruments	%	NIL	NIL	27.8%	0.0%	5.7%
	NOx (excluding N2O)	tons	NA	NA	NA	NA	2,945
	SOx	tons	NA	NA	NA	NA	623
	SPM/particulate matter (PM10)	tons	NA	NA	NA	NA	342
S	% of women in workforce	%	23.4%	24.8%	24.8%	29.0%	29.5%
	% of women in management roles	%	NA	NA	35.0%	28.2%	31.0%
	Lost time injury frequency rate	number	NA	NA	NA	0.08	NA
G	MD/CEO salary as % of net profit	%	4.0%	0.5%	1.0%	0.2%	3.0%
	Top 10 employees salary as % of profit	%	NA	NA	NA	NA	NA
	Independent director tenure <10 years	%	100%	100%	100%	100%	33%
	Women directors on board	%	40%	36%	45%	0%	22%

Qualitative Paramaters (Score: 67)

a) is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee?

In March 2020, AC Energy announced the board's approval of its environmental and social (E&S) policy, incorporating sustainability into its business and organization and with the company's transition to a low-carbon portfolio and divestment of its coal plant by 2030 at the core of its policy framework.

b) is the senior management salary linked to fulfilling ESG targets?

Yes.

c) Does the company follow TCFD framework for ESG reporting?

ACEN already includes climate change related disclosures based off TCFD framework. ACEN will do TCFD report in FY22.

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

Still in progress.

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

Implementing structural retrofits to improve plant efficiency, coal residual is sold to cement companies or disposed of in accredited pits, building a low-carbon portfolio that will be 100% RE by 2030E.

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

120 MW GigaSol Alaminos solar farm is surrounded by Ayala Land's Carbon Forest. So far, ACEN has planted 527,000 trees.

Target (Score: 100)

Particulars	Target	Achieved
5,000-MW RE capacity by 2025	5,000 MW	3,445 MW
Full divestment to 0% thermal by 2025	0% thermal	13% thermal
Early retirement of SLTEC by 2040	SLTEC retirement by 2040	Sale to EPHI pending approval from regulators.
Net Zero by 2050	0.0	2.15m tCO2e

Impact

NA

Overall score: 64

As per our ESG matrix, AC Energy Corp. (ACEN PM) has an overall score of 64.

ESG score	Weights	Scores	Final Score
Quantitative	50%	44	22
Qualitative	25%	67	17
Target	25%	100	25
Total			**64**

Based on our ESG assessment, ACEN has an adequate ESG policy framework that has been integrated well into its power generation operations, which are largely renewables. Worth highlighting is the high G score due to its gender and board diversity. It also has aggressive targets for "E", which include medium and long-term energy transition targets, which are clearly making progress. ACEN has not yet divested its coal plant but it is noteworthy it has already secured energy transition financing to accelerate the plant's retirement. ACEN's overall ESG score is 64, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

1. 1H22 earnings; ahead our estimates

ACEN reported 2Q/1H22 net income of PHP1.8b/PHP2.2b (+25%/+19% YoY). 1H22 earnings came ahead our expectations, at 61%. The beat in 1H22 was due to higher-than-expected other income, which included a PHP529m FX gain realised from foreign exchange forward contracts and revaluation gains arising from USD-denominated receivables. Excluding these other income as well as the PHP600m various one-off contract buyout expenses and curtailment impact in 1Q22ACEN's 1H22 net income would've been PHP2.1b, which is in line or 54% of our FY22E PHP4.6b forecast.

Fig 1: ACEN's 2Q/1H22 earnings

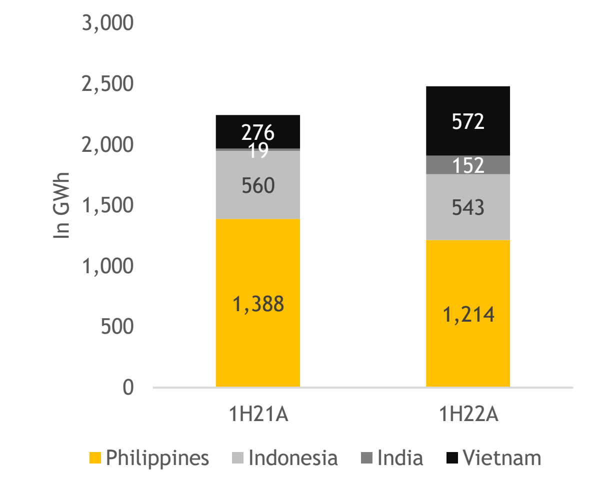
PHP m	2Q22	2Q21	% YoY	1Q22	% QoQ	1H22	1H21	% YoY	MKE FY22e	% of FY22e
Revenue	8,565.9	7,687.0	11.4	7,402.6	15.7	15,968.5	13,414.9	19.0	29,256.6	54.6
Cost of sales	(6,761.3)	(5,950.9)	13.6	(7,868.1)	(14.1)	(14,629.4)	(10,384.3)	40.9	(26,290.1)	55.6
Gross income	**1,804.6**	**1,736.1**	**3.9**	**(465.5)**	**(487.7)**	**1,339.1**	**3,030.5**	**(55.8)**	**2,966.4**	**45.1**
Gross profit margin	*21%*	*23%*		*-6%*		*8%*	*23%*		*10%*	
Operating expenses	*(363.9)*	*(826.4)*	*(56.0)*	*(285.0)*	*27.7*	*(648.9)*	*(1,221.2)*	*(46.9)*	*(1,237.7)*	*52.4*
Income from operations	**1,440.8**	**909.7**	**58.4**	**(750.5)**	**(292.0)**	**690.3**	**1,809.3**	**(61.8)**	**1,728.7**	**39.9**
EBIT margin	*17%*	*12%*		*-10%*		*4%*	*13%*		*6%*	
Interest expense	**(760.1)**	**(375.0)**	**102.7**	**(504.3)**	**50.7**	**(1,264.4)**	**(803.7)**	**57.3**	**(2,046.3)**	**61.8**
Equity in JV and assocs	118.2	359.6	(67.1)	344.5	(65.7)	462.7	936.1	(50.6)	1,212.9	38.1
Others - net	1,850.0	1,226.4	50.9	1,219.8	51.7	3,069.8	2,240.8	37.0	4,716.8	65.1
Income before tax	**2,648.9**	**2,120.7**	**24.9**	**309.5**	**756.0**	**2,958.4**	**4,182.5**	**(29.3)**	**5,612.1**	**52.7**
Benefit/(Provision) for income tax	(449.2)	63.1	(812.4)	443.0	(201.4)	(6.2)	(65.3)	(90.5)	177.8	(3.5)
Net income	**2,199.7**	**2,183.8**	**0.7**	**752.4**	**192.3**	**2,952.2**	**4,117.2**	**(28.3)**	**5,789.9**	**51.0**
Net income margin	26%	28%	(9.6)	10%	152.6	18%	31%		20%	
Minority Interest	(421.7)	(765.6)	(44.9)	(347.4)	21.4	(769.1)	(1,426.8)	(46.1)	(1,824.0)	42.2
Net income to common shareholders	**1,778.1**	**1,418.1**	**25.4**	**405.0**	**339.0**	**2,183.1**	**2,690.4**	**(18.9)**	**3,965.9**	**55.0**
Non-recurring items	0.0	0.0		600.0		600.0	0.0		600.0	100.0
Core Net Income	1,778.1	1,418.1	25.4	1,005.0	76.9	2,783.1	2,690.4	3.4	4,565.9	61.0

Source: Company, Maybank IBG Research

1H22 highlights:

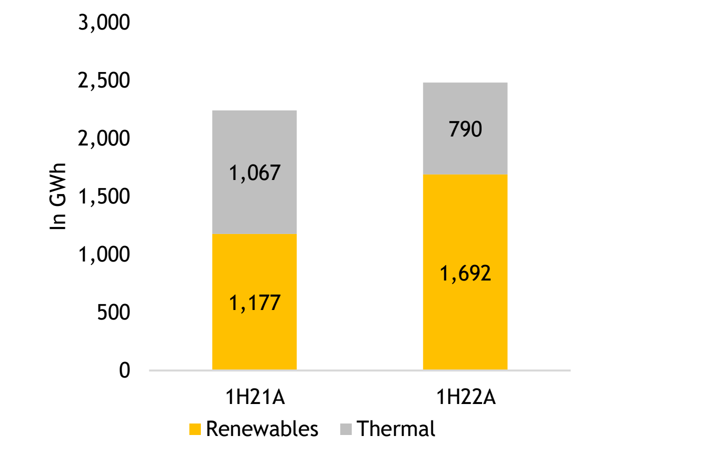
- Revenues grew 19% YoY on new revenue contributions from 63MW Palauig Solar Farm and 120MW Alaminos Solar Farm that started operations Apr 2021 and Jun 2021, respectively. Merchant plants also benefited from higher spot prices YoY. This offset the impact of the roughly two-month outage of SLTEC due to various planned and unplanned outages. SLTEC will undergo another planned 40-day outage in 3Q22 starting Aug 2022.
- Gross profit margin contracted 15ppts to 8% due to elevated spot market prices during a major preventive maintenance outage of the SLTEC thermal plant, higher oil prices, and a non-recurring customer contract buy-out fee.
- EBIT margin contracted 9ppts to 4% due to the drag of direct costs which offset the lower general/administrative expenses as a result of more development management expenses being capitalised YoY in 1H22
- Other income (net) rose 37% to PHP3.1b amid higher interest income and FX gains arising from ACEN's foreign exchange forward contracts and USD-denominated receivables assets.
- ACEN ended 1H22 with 3,942MW net attributable capacity, of which 87% or 3,445MW was from RE. Excluding SLTEC and remaining 251MW oil/diesel plants, ACEN is 31% away from its 5GW YE25E target and 83% away from its 20GW YE30E target.
- Gross D/E and net gearing ratios were in 1H22 were steady at 0.4x/0.15x.

Fig 2: Attributable output per country (in GWh)



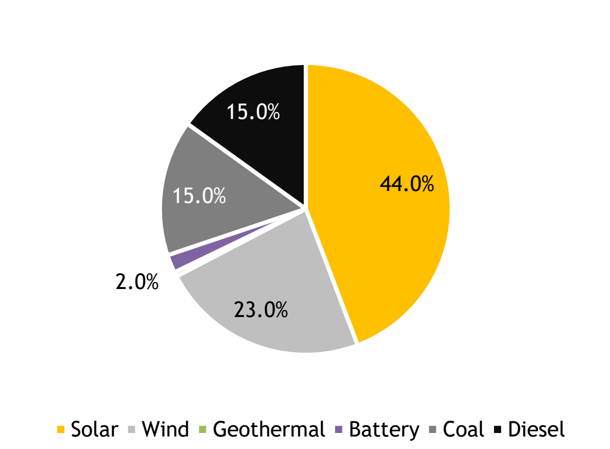
Source: Company

Fig 3: Attributable output per technology (in GWh)



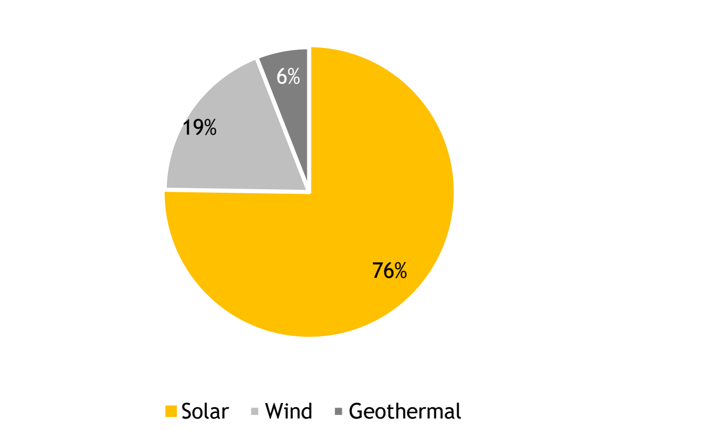
Source: Company

Fig 4: ACEN power generation portfolio- Philippines



Source: Company

Fig 5: ACEN power generation portfolio- International



Source: Company

Fig 6: ACEN plant performance

	Availability Factor		Capacity Factor	
	1H21	1H22	1H21	1H22
Solar	98%	99%	17%	17%
Wind	94%	92%	32%	27%
Geothermal	94%	93%	89%	88%
Diesel	96%	97%	18%	11%
Coal	71%	77%	52%	52%

Source: Company

Fig 7: Project update (updated COD, % of completion)

Project	MW	COD	% of completion
Philippines			
Pagudpud Wind	160	1H23	49%
San Marcelino Solar	283	1H23	27%
Arayat-Mexico Solar Phase 2	42	1H23	17%
Cagayan Solar	133	2H22	1%
Capa Wind	70	1H24	1%
International			
New England Solar	521	1H23	59%
Masaya Solar	420	2H22	55%
Lac Hoa & Hoa Dong Wind	60	2H22	90%

Source: Company

2. Selling coal plant to Energy Transition Mechanism

ACEN followed through with its commitment to fully exit coal by entering into an energy transition mechanism transaction to implement the divestment and just transition of its sole coal power asset, SLTEC. A total of PHP7.2b in upfront proceeds is expected from this ETM transaction. ACEN will use the proceeds from the divestment to invest in more renewable energy projects.

- The first tranche of the transaction was SLTEC signing on 11 Apr 2022 a PHP13.7b Omnibus Loan and Security Agreement to refinance its existing PHP9.8b debt and raise PHP3.5b funding for partial redemption of its capital held by ACEN.
- The second tranche of the transaction was agreed upon on 26 July 2022, wherein ACEN announced the planned divestment of all its SLTEC shares (mostly preferred shares) via ETM. Subject to regulatory approval for restructuring of SLTEC's capital stock, ACEN's remaining shares in SLTEC will be acquired by EPHI, a special purpose vehicle owned by Bank of the Philippine Islands (BPI PM, CP: PHP95.05, BUY, TP: PHP111.00) and Insular Life (investing PHP1b for 10m redeemable preferred shares of SLTEC) for an aggregate value of PHP3.7b.
- The second tranche of the transaction is pending regulatory approvals and transaction structure of the ETM is yet to be finalized, but ACEN expects the sale to close by end-2022. The PHP3.7b shares were sold at par, implying further potential value realization transactions at the ETM level. The various investors in EPHI will get future returns from the ETM in the form of dividends with a "high single digit" coupon rate according to management.
- Through this ETM, ACEN aims to decommission SLTEC's plant by 2040, 15 years ahead of the end of its technical life. SLTEC is ACEN's largest thermal asset and divestment of which would limit ACEN's thermal exposure to just 251MW of oil/diesel plants. We expect ACEN may also dispose of these by FY25E.

Assuming the transaction closes, ACEN will raise upfront proceeds but already forgo SLTEC's FY23E net income of PHP2.4b. ACEN also confirmed that it will still be liable to supply SLTEC's replacement power requirement to Meralco (MER PM, CP: PHP315.20, Under Review) until its PSA with MER expires in FY29E. Still, this brings ACEN closer to being 100% RE and unlocks financing opportunities for its 20GW new pipeline of projects considering ESG-sensitive institutions may have considered its coal exposure negatively.

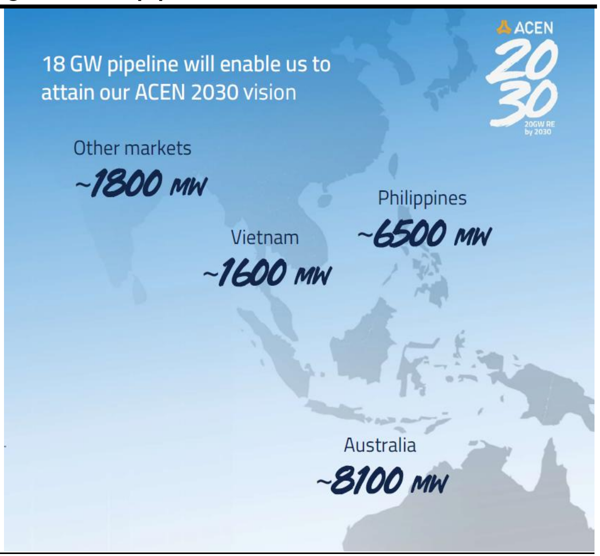
3. 20GW renewables by FY30E

Confident in hitting its 5GW RE target for FY25E, ACEN set a more aggressive target of 20GW RE for FY30E. This is an aggressive target as it is actually 4x its FY25 target and 4.8x its current RE capacity of 3.4GW.

However, in our view, this target is achievable for ACEN in our view given its 18GW of shovel-ready RE projects it has access to through its various investments and joint ventures. Broken down per country, the bulk of the 18GW is from Australia (8.1GW) and Philippines (6.5GW) while the balance is from Vietnam (1.6GW) and 1.8GW from other markets. Moreover, we see its key countries as able to absorb ACEN's new 15GW RE. The Philippines continues to experience supply tightness, exacerbated by a continued moratorium on new coal power projects, and expecting continued disruptions in Malampaya gas production. In Australia, we expect ACEN to help displace 10GW of coal plant supply which is set to retire within the decade while Australia also has its own target of 82% generation from renewables by FY30E, which it will reach with 25GW more RE capacity. Vietnam also targets 27GW new RE to reach 70GW renewables by FY30.

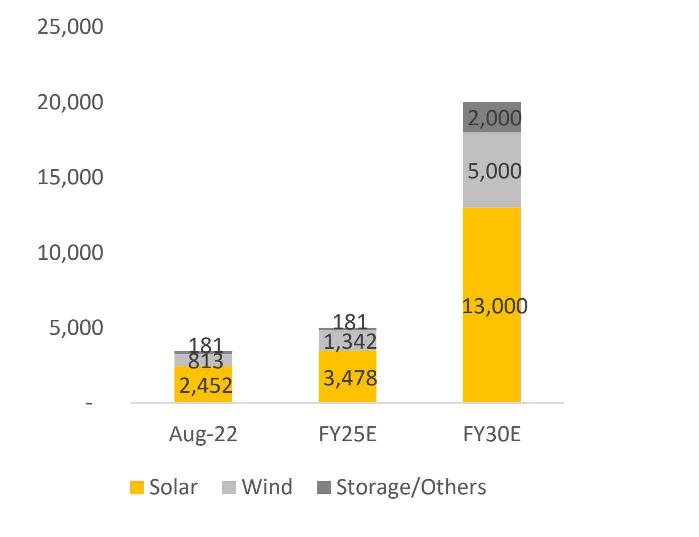
We assume the incremental 15GW, which ACEN needs after FY25 to reach 20GW, would still largely feature onshore solar/wind and deliver IRRs of 10-15%. To optimise returns, we assumed ACEN to borrow up to 70% of project costs. Using an IRR approach, assuming average IRR of 12%, we value the incremental 15GW at PHP76b which contributes 24% to our net asset value.

Fig 8: 18GW pipeline of ACEN



Source: Company

Fig 9: Est. attributable MW RE per technology (in MW)



Source: Company, Maybank IBG Research

4. Forecast updates

We lift our FY22E net income forecast to PHP5.1b following strong 1H22 earnings but cut our FY23 net income forecast by 22% to PHP9.1b to reflect divestment of SLTEC.

Fig 10: Summary of forecast changes

in PHP m	FY22E-old	FY22E-new	% ch	FY23E-old	FY23E-new	% ch	Notes
Revenues	**29,257**	**29,882**	**2%**	**40,777**	**34,964**	**-14%**	
Revenue from sale of electricity	29,038	29,666	2%	40,552	34,741	-14%	*Divestment of 246MW SLTEC offset impact of earlier than expected COD of 160MW Pagudpud Wind by 1H23*
Output (GWh)	*6,336*	*6,362*	*0%*	*8,969*	*7,536*	*-16%*	*Lower output due to divestment of SLTEC, which is ACEN's sole baseload plant, by FY23E.*
Average selling price (PHP/kwh)	*4.6*	*4.7*	*1%*	*4.5*	*4.6*	*2%*	
Other revenue	219	217	-1%	226	223	-1%	
Cost of sale of electricity	-26,290	-26,899	2%	-24,507	-21,742	-11%	
Purchased power	-15,607	-15,861	2%	-9,900	-9,927	0%	*ACEN still remains liable for replacement power cost of SLTEC as the holder of the PSA with MER until FY29E*
Other direct costs	-10,684	-11,038	3%	-14,607	-11,815	-19%	*Reflects divestment of SLTEC.*
Gross profit	**2,966**	**2,984**	**1%**	**16,270**	**13,222**	**-19%**	
Gross profit margin	10.1%	10.0%		39.9%	37.8%		
General and administrative expenses	-1,238	-1,424	15%	-1,483	-1,427	-4%	
EBIT	**1,729**	**1,559**	**-10%**	**14,787**	**11,794**	**-20%**	
Interest and other finance charges	-2,046	-2,077	1%	-3,575	-3,596	1%	
Equitized income	1,213	1,250	3%	1,216	1,238	2%	
Other income (loss)	4,717	5,960	26%	4,812	4,543	-6%	*c.PHP1b forex gains assumed in FY23E.*
Pre-tax income	**5,612**	**6,693**	**19%**	**17,241**	**13,979**	**-19%**	
Income tax expense/ benefit	178	-640	-459%	-1,724	-2,597	51%	*Refined forecasts to reflect per plant individual tax rates.*
Effective tax rate	*NA*	*9.55%*		*-10.00%*	*-18.57%*		
Net income	**5,790**	**6,054**	**5%**	**15,517**	**11,383**	**-27%**	
To minority	-1,824	-1,577	-14%	-3,879	-2,277	-41%	
To common shareholders	**3,966**	**4,477**	**13%**	**11,638**	**9,106**	**-22%**	
Non-recurring charges	600	600	0%	0	0	NA	
Core net income	**4,566**	**5,077**	**11%**	**11,638**	**9,106**	**-22%**	

Source: Company, Maybank IBG Research

5. Valuation

5.1 Reiterate BUY, cut TP to PHP8.0

We reiterate BUY on ACEN although we cut our TP to PHP8.0 (from PHP9.4) to reflect divestment of the 244MW SLTEC coal plant by FY23E and higher dynamic WACCs of 6.3-6.5% (from 5.7%-6.5%) as we lift our RFR and MRP assumptions to 6.0% and 5.5% (from 4.0% and 6.0%), respectively.

We also refined our valuation methodology for 15GW RE investments post-FY25 to instead use an IRR method which assumes an equity return of 12% and dynamic WACC between 6.3-6.5% under the following assumptions.

- Risk free rate of 6% and market risk premium of 5.5%;
- Asset beta of 1.0x, which is justified given RE capacities service more pro-cyclical peaking demand;
- Debt to equity split of 70%:30%;
- After tax cost of debt of between 4-5%.

Fig 11: SOTP target price

In PHP m	Ave. Stake	Old TP	New TP	Change	Value per share (PHP/sh)	Notes
Coal ETM	100%	21,189	7,200	-66%	0.18	*Reflects divestment and upfront ETM proceeds of SLTEC.*
Oil	83%	6,435	6,325	-2%	0.16	
Solar	91%	25,127	31,226	24%	0.79	*Reflects roll-forward of DCF, economic useful life of solar assets existing/under construction standardized to 25 years (from 20 years). These offset impact of higher WACC.*
Wind	94%	37,394	41,861	12%	1.06	*Earlier than expected operations of Pagudpud Wind by 3Q23 (from 1Q24) to serve GEAP.*
Geothermal/BESS		2,690	2,649	-2%	0.07	
ACE Exenor	80%	6,275	3,663	-42%	0.09	*Market capitalization. Previous estimate assumed follow on offer would materialize although this was cancelled.*
New Solar Onshore (FY23-24E)	100%	17,624	16,279	-8%	0.41	*Higher dynamic WACCs of 6.3-6.5% (from 5.7%-6.5%)*
New Wind Onshore (FY23-24E)	100%	10,475	9,984	-5%	0.25	*Higher dynamic WACCs of 6.3-6.5% (from 5.7%-6.5%)*
Philippines		**127,210**	**119,185**	**-6%**	**3.01**	
Australia	100%	61,517	71,514	16%	1.80	*Reflects roll-forward of DCF, economic useful life of solar assets existing/under construction standardized to 25 years (from 20 years). These offset impact of higher WACC.*
India	80%	3,232	3,143	-3%	0.08	
Indonesia	36%	7,134	7,160	0%	0.18	
Vietnam	64%	50,282	53,422	6%	1.35	*Reflects roll-forward of DCF, economic useful life of solar assets existing/under construction standardized to 25 years (from 20 years). These offset impact of higher WACC.*
New Solar Onshore (FY23-24E)	50%	15,322	16,659	9%	0.42	
New Wind Onshore (FY23-24E)	50%	7,794	8,402	8%	0.21	
International	**100%**	**145,281**	**160,300**	**10%**	**4.04**	
RE project reinvestments post-2024	100%	140,381	75,531	-46%	1.91	*Higher WACC, changed methodology to IRR approach (12%) which assumed average project cost at USD0.7m/MW and equity return of 12% on 15GW new RE installed between FY25-FY30E.* *Previous investments valuation approach assumed 75% of ending cash balance from FY24 continuously reinvested in more RE projects at a blended IRR of 12% with WACC of 5.8%.*
Gross asset value		**175,112**	**355,017**	**103%**	**8.95**	
Less: Net debt	100%	(21,969)	(24,096)	10%	(0.61)	
Less: Notes payable	100%	(20,195)	(20,195)	0%	(0.51)	
Net asset value		**370,708**	**310,726**	**-16%**	**8.00**	

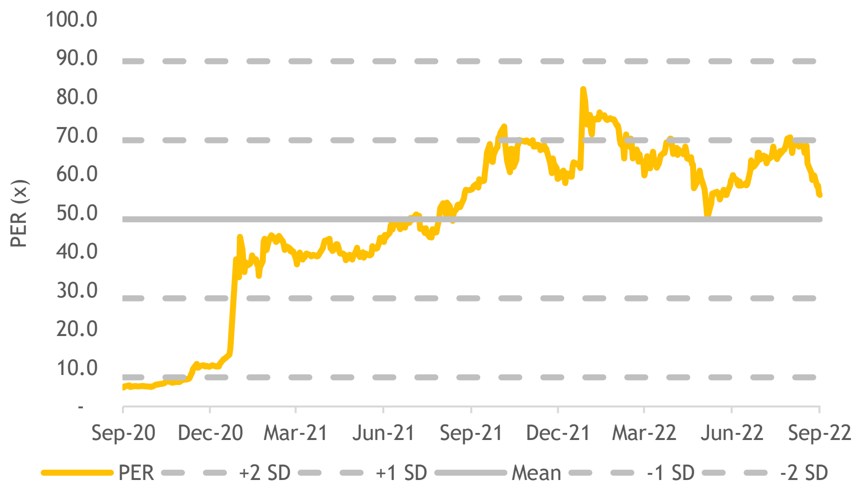
Source: Maybank IBG Research

5.2 Premium remains warranted

ACEN still trades at a premium versus its sector, at FY22E PER of 55x. With further growth prospects from its 15GW implied pipeline to get to 20GW by end-2030, we are of the view its premium remains warranted.

ACEN still offers the fastest earnings growth potential within its sector, which translates into attractive FY23 PEG ratio of 0.4x — superior to the sector's 1.25x. Its earning quality also remains intact as 76% of its attributable capacity ex.SLTEC remains contracted under some form of PPA. Execution risk and rising sector competition are the largest risk factors we see for ACEN, although we believe these are managed by its breadth of project partners, financial backing of the Ayala group, and cost advantages due to scale economies for activities such as procurement.

Fig 12: ACEN's 5-year PER band



Source: Bloomberg, Maybank IBG Research

ACEN's PER still ascribes a growth premium to the stock as the company now aims to quadruple its FY25E capacity by FY30E.

Fig 13: Peer comparison (as of 8 Sep 2022)

Name	Ticker	CP	TP	Upside	Rec	EPSg		PER		ROE		Div. Yield
						FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E
Median						*1.9*	*26.7*	*9.1*	*7.6*	*10.6*	*12.2*	*4.5*
AC Energy Corp.	**ACEN PM**	**7.00**	**8.00**	**14.3**	**BUY**	**-28.3**	**79.4**	**54.7**	**30.5**	**3.8**	**6.4**	**0.9**
Aboitiz Power Corp.	AP PM	31.80	35.00	10.1	BUY	-9.2	45.3	13.9	9.6	11.0	14.4	4.6
First Gen Corp.	FGEN PM	17.52	28.00	59.8	BUY	13.0	8.1	4.3	4.0	10.3	10.0	4.5
Manila Electric Co.	MER PM	315.20	Under Review	NA	NA	NA	NA	NA	NA	NA	NA	NA
Semirara Mining	SCC PM	41.50	43.00	3.6	BUY	166.3	-27.6	4.1	5.6	50.1	33.4	12.0

Source: Bloomberg, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	4.8	49.6	62.3	30.6	18.7
Core P/E (x)	14.7	61.6	55.0	30.6	18.7
P/BV (x)	1.2	3.7	2.8	2.6	2.3
P/NTA (x)	1.2	3.7	2.8	2.6	2.3
Net dividend yield (%)	0.7	0.5	0.9	0.4	0.4
FCF yield (%)	nm	nm	nm	nm	3.6
EV/EBITDA (x)	19.6	96.6	95.6	26.2	15.4
EV/EBIT (x)	28.3	nm	nm	33.2	18.6
INCOME STATEMENT (PHP m)					
Revenue	20,488.2	26,081.4	29,882.4	34,964.0	46,799.3
EBITDA	5,860.8	3,832.0	3,748.9	14,956.3	25,171.3
Depreciation	(1,810.7)	(2,005.9)	(2,189.5)	(3,162.1)	(4,322.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	4,050.0	1,826.2	1,559.4	11,794.3	20,849.2
Net interest income /(exp)	(1,988.1)	(1,694.4)	(2,076.6)	(3,595.6)	(4,357.9)
Associates & JV	1,490.2	1,952.8	1,250.4	1,237.8	1,171.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	3,551.9	5,723.6	5,960.2	4,542.9	4,541.2
Pretax profit	7,104.0	7,808.2	6,693.4	13,979.4	22,204.0
Income tax	(701.9)	(142.1)	(639.5)	(2,596.6)	(3,581.2)
Minorities	(2,114.0)	(2,415.1)	(1,577.1)	(2,276.5)	(3,724.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4,288.1	5,251.0	4,476.7	9,106.2	14,898.3
Core net profit	4,288.1	5,251.0	5,076.7	9,106.2	14,898.3
Distributable Income	4,288.1	5,251.0	5,076.7	9,106.2	14,898.3
BALANCE SHEET (PHP m)					
Cash & Short Term Investments	28,077.2	26,445.4	28,775.9	28,398.9	37,121.4
Accounts receivable	16,611.7	33,309.3	32,510.4	33,312.9	44,655.7
Inventory	1,391.3	1,490.6	1,473.9	1,489.2	1,661.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	31,837.9	36,038.6	55,200.3	79,795.2	77,093.6
Intangible assets	2,537.1	2,376.0	2,376.0	2,376.0	2,376.0
Investment in Associates & JVs	18,795.1	21,358.3	46,734.6	60,392.6	62,458.5
Other assets	42,565.5	50,143.3	51,653.4	52,734.9	52,273.8
Total assets	**141,815.8**	**171,161.4**	**218,724.3**	**258,499.8**	**277,640.2**
ST interest bearing debt	5,342.8	824.5	2,166.8	3,315.8	3,381.2
Accounts payable	6,490.2	6,280.8	7,369.5	7,446.1	8,306.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	21,546.4	40,312.8	70,899.9	98,935.2	100,531.2
Other liabilities	4,157.0	5,775.0	6,006.0	6,257.0	6,530.0
Total Liabilities	**37,536.5**	**53,192.6**	**86,442.1**	**115,954.0**	**118,748.1**
Shareholders Equity	53,880.5	88,018.0	100,754.3	108,741.3	121,363.1
Minority Interest	50,398.8	29,950.8	31,527.9	33,804.5	37,529.0
Total shareholder equity	**104,279.3**	**117,968.8**	**132,282.2**	**142,545.8**	**158,892.1**
Total liabilities and equity	**141,815.8**	**171,161.4**	**218,724.3**	**258,499.8**	**277,640.2**
CASH FLOW (PHP m)					
Pretax profit	7,104.0	7,808.2	6,693.4	13,979.4	22,204.0
Depreciation & amortisation	1,810.7	2,005.9	2,189.5	3,162.1	4,322.1
Adj net interest (income)/exp	(72.0)	(2,681.8)	(2,455.5)	(947.3)	(183.3)
Change in working capital	(3,596.8)	(1,353.1)	1,904.3	(741.3)	(10,654.8)
Cash taxes paid	(244.9)	(472.4)	(639.5)	(2,596.6)	(3,581.2)
Other operating cash flow	(1,877.3)	(1,886.2)	(141.3)	(1,249.5)	(1,183.3)
Cash flow from operations	3,123.7	3,420.6	7,550.8	11,606.7	10,923.5
Capex	(6,304.1)	(5,926.2)	(20,943.7)	(27,174.2)	(912.1)
Free cash flow	(3,180.3)	(2,505.7)	(13,392.9)	(15,567.5)	10,011.4
Dividends paid	(2,507.8)	(3,410.2)	(2,299.0)	(1,119.2)	(2,276.5)
Equity raised / (purchased)	9,742.0	6,361.4	10,558.6	0.0	0.0
Change in Debt	3,661.5	13,988.8	31,929.5	29,184.3	1,661.4
Other invest/financing cash flow	(17,829.8)	(17,455.7)	(23,416.5)	(12,965.9)	(786.7)
Effect of exch rate changes	(1,438.7)	1,389.6	(1,049.2)	91.4	113.0
Net cash flow	(11,553.1)	(1,631.7)	2,330.4	(376.9)	8,722.5

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	27.0	27.3	14.6	17.0	33.8
EBITDA growth	466.8	(34.6)	(2.2)	299.0	68.3
EBIT growth	nm	(54.9)	(14.6)	656.3	76.8
Pretax growth	886.4	9.9	(14.3)	108.9	58.8
Reported net profit growth	508.4	22.5	(14.7)	103.4	63.6
Core net profit growth	508.4	22.5	(3.3)	79.4	63.6
Profitability ratios (%)					
EBITDA margin	28.6	14.7	12.5	42.8	53.8
EBIT margin	19.8	7.0	5.2	33.7	44.6
Pretax profit margin	34.7	29.9	22.4	40.0	47.4
Payout ratio	10.0	33.6	53.1	12.3	7.5
DuPont analysis					
Net profit margin (%)	20.9	20.1	15.0	26.0	31.8
Revenue/Assets (x)	0.1	0.2	0.1	0.1	0.2
Assets/Equity (x)	2.6	1.9	2.2	2.4	2.3
ROAE (%)	8.0	7.4	4.7	8.7	12.9
ROAA (%)	3.2	3.4	2.6	3.8	5.6
Liquidity & Efficiency					
Cash conversion cycle	100.8	261.6	325.0	240.7	206.4
Days receivable outstanding	211.1	344.5	396.5	338.9	299.9
Days inventory outstanding	31.2	24.2	19.8	24.5	23.4
Days payables outstanding	141.6	107.1	91.3	122.7	116.9
Dividend cover (x)	10.0	3.0	1.9	8.1	13.3
Current ratio (x)	4.8	8.2	6.4	5.8	7.0
Leverage & Expense Analysis					
Asset/Liability (x)	3.8	3.2	2.5	2.2	2.3
Net gearing (%) (incl perps)	net cash	12.5	33.5	51.8	42.0
Net gearing (%) (excl. perps)	net cash	12.5	33.5	51.8	42.0
Net interest cover (x)	2.0	1.1	0.8	3.3	4.8
Debt/EBITDA (x)	4.6	10.7	19.5	6.8	4.1
Capex/revenue (%)	30.8	22.7	70.1	77.7	1.9
Net debt/ (net cash)	(1,188.0)	14,691.8	44,290.9	73,852.1	66,791.0

Source: Company; Maybank IBG Research

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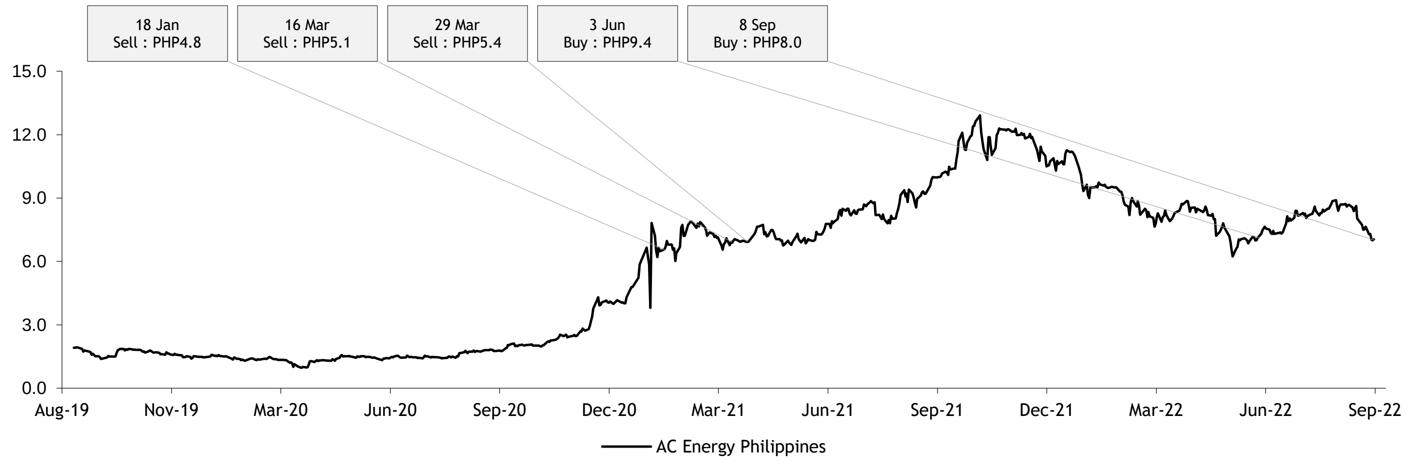

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