September 14, 2023

Maybank Securities

First Gen Corp (FGEN PM)

Fuel-supply risk managed

BUY

Share Price	PHP 18.62
12m Price Target	PHP 31.00 (+69%)
Previous Price Target	*PHP 29.30*

Company Description

Third largest power producer in the Philippines. Largest portfolio of clean energy.

Statistics

52w high/low (PHP)	21.70/15.02
3m avg turnover (USDm)	0.1
Free float (%)	11.7
Issued shares (m)	3,559
Market capitalisation	PHP66.3B
	USD1.2B
Major shareholders:	
First Philippine Holdings Inc	67.8%
Valorous Asia	19.9%
FIL Ltd	1.0%

Price Performance

	-1M	-3M	-12M
Absolute (%)	(7)	(2)	8
Relative to index (%)	(5)	2	14

Source: FactSet

Utilities

Philippines

LNG terminal reduces supply risk; Maintain BUY

FGEN's 1H23 earnings was in line with consensus, at 52% of FY23 forecast, but behind our estimate, at 47%, due to higher-than-expected minority interest arising from the outperformance of EDC. We trim our FY23/24 earnings forecasts by 7%/1% but maintain BUY given FGEN's FY23-25E earnings CAGR of 6.9%, which should be achievable with the full commercial operation of its LNG terminal by Oct'23, reducing supply risk. We roll forward our valuation base to 1H24 and raise our DCF-based TP by 6% to PHP31.0, offering 69% potential upside.

1H23 earnings miss was due to EDC

1H23 net income of USD166.7m (+30% YoY) fell behind our FY23 forecast due to the higher-than-expected minority share in EDC, which is 45.8%-owned by FGEN. Although EDC's 1H23 revenue of USD442m (+13% YoY) was within our expectation, EDC's 1H23 EBITDA margin of 57% was ahead of our 55% forecast due to a 59% reduction in replacement power purchase costs, largely due to better availability of its Bac-Man geothermal plant to service electric cooperative/RES/GEOP customers as issues related to its 1H22 plant outage have already been addressed.

Reducing FY23/24E earnings forecasts

Reflecting the 1H23 outperformance of EDC, we raise the consolidated FY23/24E GPM of FGEN by 120/230bps to 34.5%/37.1%, which reflects 35%/30% of sales volume to the spot market from our previous assumption of 29%/30%. At our PHP7.0/6.0 per kwh FY23/24 spot price assumption, this raises EDC's ASP by 10%/9%. We make no changes to our FY23 sales volume forecast. Nevertheless, this also raises minorities' share in FGEN's net income by 29%/27% YoY, such that our FY23/24 earnings forecasts for FGEN reduce by 7%/1%.

Maintain BUY, raising TP to PHP31.0 (+6%)

Despite the earnings cuts, our DCF-based TP is higher by 6% to PHP31.0. Our TP implies 5.9x FY24E PER, which is below the stock's 5-year mean of 6.2x and above its current FY23 PER of 3.6x. Trading at 3.6x PER, our BUY call is premised on FGEN's undervalued sustainable 6.9% FY23-25E earnings growth, which should be achievable with the commercial launch of its LNG terminal in Oct 2023. Further, potential LNG price volatility should be partially managed by the cost-pass-through feature of FGEN's PPAs, which covers 95% of its total portfolio until FY24-27.

FYE Dec (USD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,167	2,667	2,617	2,624	2,487
EBITDA	709	750	895	958	909
Core net profit	258	261	329	356	320
Core EPS (cts)	7.3	7.3	9.1	9.9	8.9
Core EPS growth (%)	(6.5)	1.2	24.4	8.4	(10.3)
Net DPS (cts)	1.4	0.7	0.7	0.9	1.0
Core P/E (x)	7.5	4.1	3.6	3.3	3.7
P/BV (x)	0.8	0.4	0.4	0.4	0.4
Net dividend yield (%)	2.6	2.2	2.2	2.7	2.9
ROAE (%)	11.6	11.5	13.3	12.8	10.3
ROAA (%)	4.6	4.8	5.4	5.0	4.0
EV/EBITDA (x)	5.0	3.3	3.7	3.2	3.1
Net gearing (%) (incl perps)	33.3	26.2	38.0	22.0	11.0
Consensus net profit	-	-	269	274	280
MIBG vs. Consensus (%)	-	-	22.2	29.9	14.2

Acronyms used:

CSP - Competitive selection process
DOE - Department of Energy
EDC- Energy Development Corp. (Not listed)
FCF- Free cash flow
FIT - Feed in tariff
FSRU- Floating storage regasification unit
LNG - Liquified natural gas
MMBtu- Million British thermal units
MMscf- Million standard cubic feet
MTPA- Metric tons per annum
NIA- National Irrigation Administration
NPC-National Power Corp.
PSA - Power supply agreement
PPA- Power Purchase Agreement
RE - Renewable energy
RES - Retail Electricity Supplier

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Tear Sheet Insert

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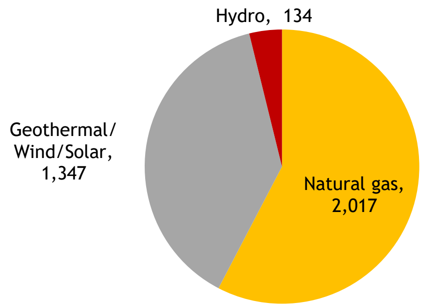
Value Proposition

- FGEN is the Philippines' third-largest independent power producer and the only listed power generator that has no exposure to coal and thermal assets. FGEN owns and operates 30 power plants across Luzon, Visayas and Mindanao with 2,721 MW of attributable capacity.
- FGEN has the highest exposure to natural gas and geothermal plants with attributable capacity of 2,017MW and 539MW, respectively. It can serve the baseload, mid merit and peaking market segments.
- Only way to get exposure to Energy Development Corp. or EDC (FGEN's subsidiary), the largest vertically integrated geothermal company in the world, with installed geothermal capacity of 1,185MW.

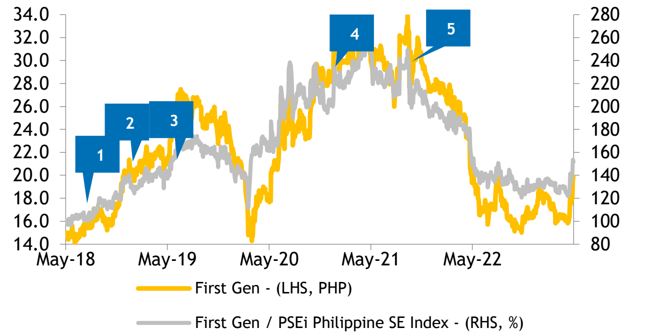
Diversified clean power portfolio



Source: Company

Price Drivers

Historical share price trend



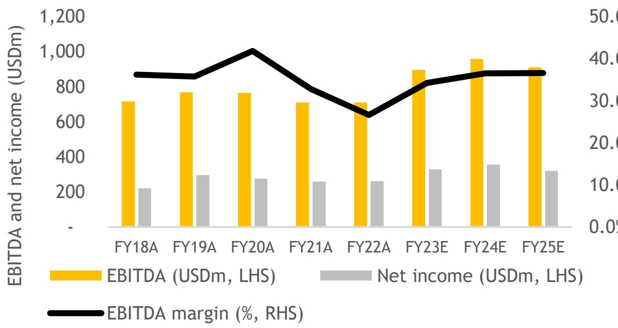
Source: Company, Maybank IBG Research

1. Contracted full capacity of San Gabriel to a Meralco PSA.
2. PSE approves EDC's voluntary delisting from 29 Nov 2018.
3. DOE issued the notice to proceed for FGEN's planned LNG terminal, in partnership with Tokyo Gas.
4. Valorous Asia Holdings, a unit of global investment firm KKR, successfully tendered 427,041,291 common shares (11.9% stake) of FGEN at an offer price of PHP22.5/sh.
5. Malampaya maintenance schedule from 2-22 Oct 2021 results in outage of San Gabriel.

Financial Metrics

- Bulk or 66% of group's FY22 topline came from its natural gas power generation business. The remaining revenues are from its renewable energy business, which is under EDC.
- The majority of FGEN's power generation is sold under long-term power contracts with take-or-pay arrangements. These protections are factored into our FY23-24E gas EBITDA/kwh forecasts of USD0.03/0.03 per kWh, little changed from FY20-22A's average of USD0.028/kWh.
- Our TP is based on the sum of the DCFs of the subsidiaries (Dynamic WACCs between 7.5-9.6%, terminal growth of 2% for natural gas).

FGEN EBITDA and net income



Source: Company

Swing Factors

Upside

- Completion of FGEN's FSRU or its interim LNG terminal is an opportunity to venture into the downstream natural gas industry and supply LNG to third parties once operational by Sep 2023.
- Securing PSA during MER's CSP for FGEN's planned 1,200MW Sta. Maria natural gas plant (COD 2026).

Downside

- Unplanned outages of power plants.
- Offtake risk if gas and geothermal PSAs are not renewed.
- Depletion of Malampaya reserves prior to the COD of the LNG terminal/FRSU by Oct 2023 will restrict gas output and bloat fuel costs.

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Risk Rating & Score[1]	34.6 (High risk)
Score Momentum[2]	-5.7
Last Updated	26 Jan 2022
Controversy Score[3] (Updated: 27 Nov 2021)	1 (Low)

Business Model & Industry Issues

- FGEN is still the only pure clean energy stock in the country today, with zero exposure in traditional thermal assets. The company has committed to promoting a decarbonized energy system and will not venture into coal plants in the future.
- As FGEN has the highest exposure in natural gas, a cleaner transitional fuel to the shift from traditional thermal to RE, it stands to benefit the most from the Department of Energy's policy shift towards RE.
- In 2017, EDC, a majority-owned subsidiary of FGEN and the largest vertically-integrated geothermal company in the world, was the target for a USD1.3b voluntary tender offer from a consortium between Macquarie Infrastructure Management Asia (MIRA) and GIC's affiliate Arran Investment, which acquired a 31.7% stake from minority shareholders, and was thereafter delisted in late 2018. MIRA acquired 2 board seats in EDC, GIC holds one, while FGEN/FPH have the remaining 5 regular board seats (excluding independent directors).
- Stemming from issues from the then-presidential candidate Rodrigo Duterte with ABS-CBN (ABS PM) during the 2016 electoral campaign, ABS had been at the cross hairs of the president, which led to allies in the Congress to block the renewal of its franchise. The other Lopez group companies were also looked at by the administration's allies and FGEN's long-term PSAs with Meralco (MER PM) were questioned in one of the Congressional hearings. This inquiry quickly dissipated and did not materialize into anything adverse for FGEN.

Material E issues

- Even before interest in ESG piqued, FGEN had already committed back in 2016 that it will not venture into coal plants, in line with their mission of bringing a "regenerative future" through a decarbonized energy system.
- FGEN has the cleanest portfolio among the listed gencos with zero coal assets. Natural gas accounts for 74% of FGEN's attributable capacity, followed by geothermal at 20% and hydro and wind & solar comprising the balance.

  GHG avoided (vs coal) reached 9.8m tCO2e in FY21, with total GHG scope 1 and 2 emissions amounting to 6.4m tCO2e, 20% more compared to FY20.FGEN's carbon intensity (in tCO2e/MWh) also remained manageable at 0.3.

Material S issues

- There was only 1 work fatality and injury, and no incidents of work-related ill health recorded from FY16-21.
- There are 48 senior management positions and of that, 33 are male and 15 (or 31%) are female. In FY21, FGEN had 2,193 employees with a 2.4:1 male to female ratio.
- Based on MER's average generation costs, FGEN's natural gas plants have provided cheaper all-in tariffs in comparison to coal plants for 9 out of the last 12 years (2009-11 and 2016-21), lowering electricity costs for the public.

  FGEN's CSR initiatives focus on: 1) education, 2) community health and safety, 3) livelihood, 4) environment, 5) sociocultural, and 6) disaster response and relief. FGEN's plants have allocated PHP0.01/kWh of their total electricity sales as financial benefits to their host communities.

Key G metrics and issues

- The board of directors (BOD) consists of 9 members, with an equal share (3 each) of executive directors, non-executive directors and independent directors. The BOD is dominated by males as there are only 2 female BOD members.
- 3 out of the 9 members of the board are part of the extended Lopez family. Only 1 of them holds an executive position in FGEN.
- There is minimal need for FGEN to have a RPT committee as aside from the fact that there were no material RPT (at least 10% of total consolidated assets) in FY21, as a genco, its dealings with distribution utilities, including its affiliate MER, would be made public and subject to approval from the Department of Energy.
- Compensation of key management personnel in FY20 totalled PHP383m, accounting for 3% of FY21 NIAT.
- Following the denial of ABS-CBN franchise, Lopez-owned businesses were also put in the spotlight, which included FGEN. During the congressional hearings of MER in Jul 2020, some lawmakers were questioning the 25-year PSAs signed with FGEN back in the late 90s as they argued that generation cost is elevated as MER is tied up with these long-term PSAs. However, there were no subsequent hearings that escalated the issue. The PSAs are direct contracts between MER and FGEN that were approved by the Energy Regulatory Commission.
- Eugenio Lopez III, Chairman Emeritus and Director of ABSCBN, announced his resignation three months after the denial of ABS-CBN's franchise, citing personal reasons for stepping down. He also stepped down as director of FGEN, among other Lopez-held businesses. Manuel L. Lopez Jr., the current Chairman and CEO of Lopez Holdings Corporation, was elected to fill his spot in FGEN's BOD.

  SyCip Gorres Velayo & Co. (SGV), a member firm of Ernst & Young, has been FGEN's external auditor since its incorporation in 1998. Audit fees in FY21 totalled PHP11m, accounting for just 0.09% of FY21 pre-tax profits.

[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: 18)						
	Particulars	Unit	2019	2020	2021	AP (2021)	ACEN (2021)
E	Scope 1 GHG emissions	m tCO2e	5.71	5.34	6.41	3.92	2.14
	Scope 2 GHG emissions	m tCO2e	0.01	0.00	0.00	5.69	0.01
	Total	**m tCO2e**	**5.71**	**5.34**	**6.41**	**9.61**	**2.15**
	Scope 3 GHG emissions	m tCO2e	0.01	0.00	0.00	NA	NA
	Total	**m tCO2e**	**5.72**	**5.35**	**6.41**	**9.61**	**2.15**
	Scope 1 emission intensity	kgCO2e/MWh	0.3	0.3	0.3	NA	0.5
	Green energy share of capacity	%	42%	42%	42%	27%	87%
	Water recycled as % of usage	%	NA	NA	NA	2.5%	NA
	% of flyash recycled/treated	%	NA	NA	NA	NA	83%
	% of recycled material used	%	NA	NA	NA	100.0%	NA
	% of debt from green instruments	%	NIL	NIL	5.7%	0.0%	27.8%
	NOx (excluding N2O)	tons	3,386	2,477	2,945	NA	NA
	SOx	tons	186	98	623	NA	NA
	SPM/particulate matter (PM10)	tons	186	80	342	NA	NA
S	% of women in workforce	%	29.0%	30.2%	29.5%	29.0%	24.8%
	% of women in management roles	%	NA	NA	31.0%	28.2%	35.0%
	Lost time injury frequency rate	number	NA	NA	NA	0.08	NA
G	MD/CEO salary as % of net profit	%	2.3%	2.9%	3.0%	0.2%	1.0%
	Top 10 employees salary as % of profit	%	NA	NA	NA	NA	NA
	Independent director tenure <10 years	%	33%	33%	33%	100%	100%
	Women directors on board	%	11%	11%	22%	0%	45%

Qualitative parameters (Score: 67)

a) Is there an ESG policy in place and is there a standalone ESG Committee or is it part of the risk committee?

FGEN adopted its parent's corporate sustainability policy and planned for sustainable activities to reduce GHG emissions. First Gen's board of directors adopted ESG as fiduciary duty in 2020 and has a Board Risk Oversight Committee overseeing risk management programmes.

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

No.

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

Yes.

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

Yes, but not discussed in detail.

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

Heat Recovery Steam Generator units of the CCGT power plants help optimize the power plant's output. Dry-low NOx technology embedded in the plants' combustion systems keep flue gas below the emission limits set under the Philippine Clean Air Act.

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

Natural buffer zone using a 10-hectare mangrove forest established within its Batangas facilities.

Target (Score: 100)

Particulars	Target	Achieved
Pioneer the development of a liquefied natural gas terminal in the Philippines.	2022	No, but on track for 3Q23.
Targets to bring 416-MW new disclosed RE projects to commercial operations by 2029	2029	In progress
Targets long-term RE mix to be 37% RE	37%	42%
Carbon neutral by 2050	0	5.5

Impact

NA

Overall Score: 53

As per our ESG matrix, First Gen Corp. (FGEN PM) has an overall score of 53.

ESG score	Weights	Scores	Final Score
Quantitative	50%	22	11
Qualitative	25%	67	17
Target	25%	100	25
Total			**53**

As per our ESG assessment, FGEN has relatively established ESG policy that has been integrated well into its operations and has itemized medium to long-term targets, which indicate it will continue to improve its score if these are achieved. We also note robust GHG emissions disclosures including Scope 3. However, it has room for improvement in quantitative "E" and "S" metrics YoY and would benefit from more transparency on how it will achieve its carbon neutral target. FGEN's overall ESG score is 53, which makes its ESG rating above average in our view (average ESG rating = 50).

1. 1H23 earnings above our estimate

2Q23 net income of USD77.2m (+30% YoY; -14% QoQ), brings 1H23 net income to USD166.4m (+36% YoY). 1H23 core net income of USD166.7m (+30% YoY), which strips out unrealized FX gains and other non-recurring items, tracks behind our FY23 forecast of USD354.8m, at 47.0%.

The miss was due to the higher-than-expected minority share of net income arising from the outperformance of EDC, which is 45.8%-owned by FGEN.

Fig 1: 1H23 earnings review

USD m	2Q23	2Q22	% YoY	1Q23	% QoQ	1H23	1H22	% YoY	MIBG FY23E	% of FY23E
Revenue	634.8	703.2	(9.7)	652.2	(2.7)	1,287.0	1,273.6	1.0	2,735.1	47.1
Cost of sales	(423.6)	(528.5)	(19.8)	(423.8)	(0.0)	(847.4)	(922.6)	(8.2)	(1,826.1)	46.4
Gross income	211.2	174.7	20.9	228.4	(7.5)	439.6	351.0	25.2	909.0	48.4
Gross profit margin	33.3	24.8		35.0		34.2	27.6		33.2	
Operating expenses	(57.5)	(52.3)	9.9	(54.3)	5.9	(111.8)	(107.3)	4.3	(222.5)	50.2
EBIT	153.7	122.4	25.6	174.1	(11.8)	327.8	243.8	34.5	686.5	47.7
EBIT margin	24.2	17.4		26.7		25.5	19.1		25.1	
Interest income	8.4	0.9	848.2	6.8	24.4	15.2	1.5	922.5	20.4	74.3
Interest expense	(24.7)	(19.8)	24.9	(23.9)	3.4	(48.6)	(39.7)	22.5	(110.5)	44.0
Others - net	0.0	(2.9)	(101.0)	(0.1)	(130.3)	(0.1)	5.2	(101.3)	0.0	
Income before tax	137.4	100.6	36.6	156.9	(12.4)	294.3	210.8	39.6	596.3	49.3
Income tax	(23.4)	(25.9)	(10.0)	(21.3)	9.6	(44.7)	(48.3)	(7.4)	(93.3)	47.9
Effective tax rate	-17.0%	-25.8%		-13.6%		-15.2%	-22.9%		-15.7%	
Net income	114.0	74.6	52.8	135.6	(15.9)	249.6	162.5	53.6	503.0	49.6
Net income margin	18.0	10.6		20.8		19.4	12.8		18.4	
Minority Interest	(36.8)	(15.0)	144.8	(46.3)	(20.6)	(83.2)	(40.2)	106.8	(148.2)	56.1
Net income attrib. to com.	77.2	59.6	29.6	89.2	(13.5)	166.4	122.3	36.1	354.8	46.9
Non-recurring items	0.3	9.8	(97.1)	(0.0)	(675.5)	0.2	5.8	(96.0)	0.0	
Core net income	77.5	69.3	11.8	89.2	(13.1)	166.7	128.1	30.1	354.8	47.0

Source: Company, Maybank IBG Research

Consolidated revenue rose by 1% YoY to USD1.29b in 1H23 as the 1% YoY contraction in the revenue of FGEN's natural gas (2,017MW) and hydro plants (134MW), which together account for 65% of total revenue, was offset by the 34% YoY revenue growth of EDC (1,347MW), which accounts for 35% of total revenue.

Natgas plants

- Net income contribution from the natural gas plants in 1H23 reached USD94m (-1% YoY), which is only 44% of our FY23E estimate of USD215m.
- Although total output in 1H23 of 6,492GWh was in line with our 12,984GWh forecast, the segment's EBITDA margin was only 22.0%, 30bps behind our FY23E 22.3% expectations due to higher-than-expected manpower/salaries expenses, which account for 36% of the segment's total opex.

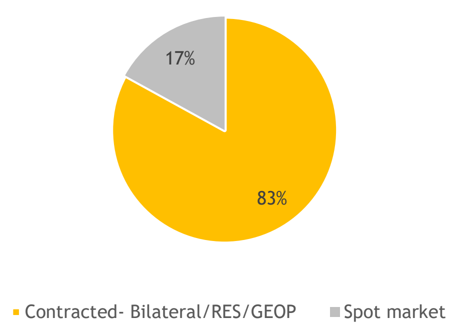
Hydro plants

- Net income contribution from the hydro plants contracted by 42% YoY to USD7.5m as the lower reservoir levels due to the hotter weather and the re-assignment of FG Hydro's (134MW) 100MW PSA to EDC beginning Aug 2022 reduced revenues by 53% YoY.

EDC

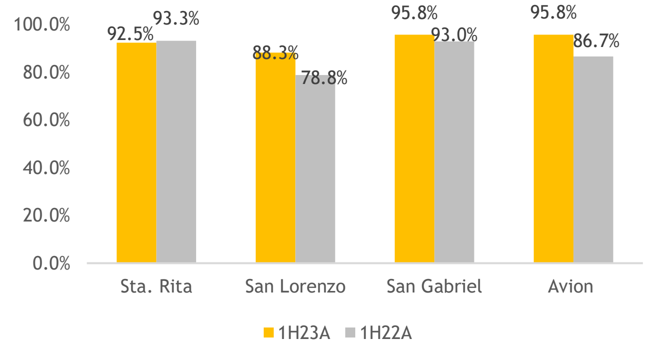
- Net income contributions from EDC rose 114% YoY to USD154m, ahead our FY23 forecast of USD275m at 56%. Although 1H23 revenue/output of USD442m (+13%; 51.7% of FY23 forecasts)/3,931GWh (+2% YoY; 48.0% of FY23 forecasts) was inline our forecast, the segment's EBITDA margin of 57% was ahead of our estimate of 55% due to a 59% reduction in 1H23 replacement power costs to PHP4.1b, in turn due to lower YoY power replacement purchases of its Bac-Man Geothermal facility to serve electric cooperative, RES, and GEOP customers as issues related to its temporary outage in 1H22 were already addressed.

Fig 2: Contracting % mix- by offtaker (as of Jun '23)



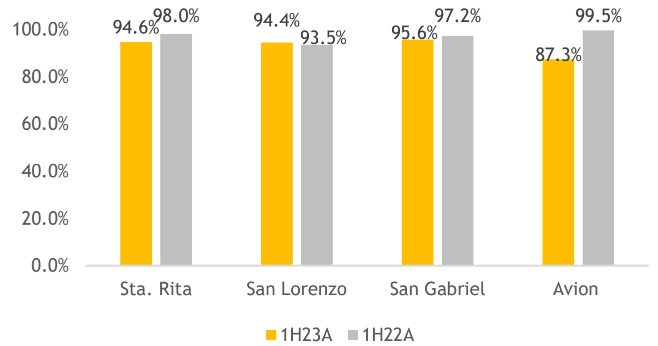
Source: Company

Fig 3: Natural gas plant availability factors (in %)



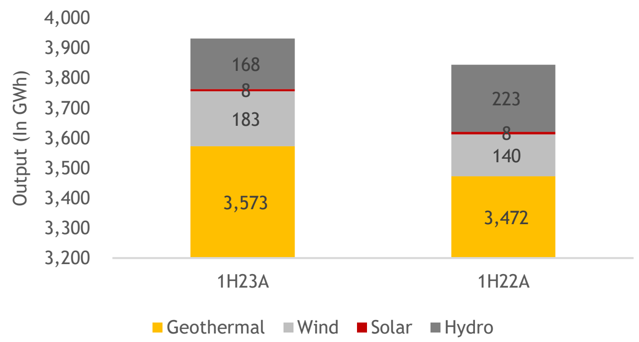
Source: Company

Fig 4: Natural gas plant reliability factors (in %)



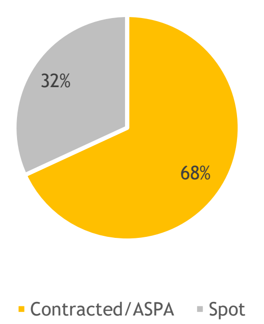
Source: Company

Fig 5: EDC renewables generation output (in GWh)



Source: Company

Fig 6: EDC % capacity sales mix (As of Jun '23)



Source: Company, Maybank IBG Research

Fig 7: Offtakers of EDC/FG Hydro

Tech	Capacity (MW)	Offtakers
Geothermal	1,185	PPA with NPC/other cooperatives and distribution utilities, RES, spot market
Wind	150	Entitled to FIT of PHP8.53/kWh
Solar	12	Entitled to FIT of PHP8.53-9.68/kWh
Hydro	134	100MW MER PSA, spot market

Source: Company

2. Forecast revisions

We cut our FY23/24E earnings forecasts by 7%/1% on the basis of the following:

Fig 8: Summary of forecast changes

in USD m	FY23E old	FY23E new	% ch YoY	FY24E old	FY24E new	% ch YoY	Notes
Revenue	**2,735**	**2,617**	**-4%**	**2,735**	**2,624**	**-4%**	
Natural gas	1,730	1,597	-8%	1,701	1,530	-10%	
Output (GWh)	*12,833*	*12,997*	1%	*13,831*	*14,144*	2%	*Factors in higher FY23/24E capacity utilisation for 420MW San Gabriel at 76.9% (from 73%).*
ASP (USD/kwh)	0.135	0.123	-9%	0.123	0.108	-12%	*Factors in -2%/-3% decrease in LNG prices, which is passed through to customers.*
EDC	855	921	8%	1,013	951	-6%	
Output (GWh)	8,189	8,189	0%	8,722	8,677	-1%	
ASP (USD/kwh)	5.7	6.2	10%	5.4	5.8	9%	*Reflects FY23/24E spot price of PHP7 per kWh/PHP6 per kWh; 65%:35% (from 71%:29%)/70%:30% (Unchanged) contracted-to-spot EDC output mix for FY23/24E. Higher USD:PHP exchange rate of 55.1/53.3 (from 54.1/52.7).*
FG Hydro/others	150	99	-34%	145	143	-1%	
Cost of sale of electricity	-1,826	-1,715	-6%	-1,783	-1,651	-7%	
Natural gas	-1,349	-1,267	-6%	-1,307	-1,168	-11%	*Lower FY23/24E US LNG futures of USD3.0/USD3.4 per MMBtu as of Sep 2023 (from USD3.1/USD3.52 per MMBtu as of Jun 2023).* *FY23/24E landed cost of USD7.2/7.6 per MMBtu for imported LNG still assumes USD2.0 per MMBtu shipping cost and USD2.2 per MMBtu shipping cost.* *Assuming 8%/50% (previously 25%/50%) utilisation of offshore LNG terminal by FY23/24E.*
EDC	-470	-389	-17%	-469	-412	-12%	*Lower replacement power procured by Bac-Man geothermal plant.*
FG Hydro/others	-94	-51	-46%	-73	-64	-12%	*Lower water service fees paid to NIA, lower replacement power purchases from spot market.*
Gross profit	**909**	**902**	**-1%**	**952**	**973**	**2%**	
Gross profit margin	33.2%	34.5%	1.2%	34.8%	37.1%	2.3%	
General and administrative expenses	-223	-220	-1%	-231	-231	0%	
Operating income	**686**	**683**	**-1%**	**720**	**742**	**3%**	
Interest income	20	30	49%	36	43	20%	*Higher yielding cash placements.*
Interest expense	-111	-103	-7%	-144	-136	-6%	*Assumed interest for Casecnan acquisition to only start in FY24 as debt would only be incurred in 2H23.*
Other income	0	0		0	0		
Pre-tax income	**596**	**611**	**2%**	**613**	**650**	**6%**	
Income tax expense	-93	-91	-3%	-98	-99	1%	
Effective tax rate	*-15.7%*	*-14.9%*		*-16.0%*	*-15.3%*		.
Net income	**503**	**520**	**3%**	**514**	**550**	**7%**	
To minority	-148	-192	29%	-153	-194	27%	*Higher share of EDC's minority shareholders in our higher earnings forecasts for EDC.*
To common shareholders	**355**	**329**	-7%	**361**	**356**	-1%	
Pref divs	0	0	-2%	0	0	-1%	
Net income post prefs	**354**	**328**	**-7%**	**361**	**356**	**-1%**	

Source: Company, Maybank IBG Research

3. LNG terminal updates

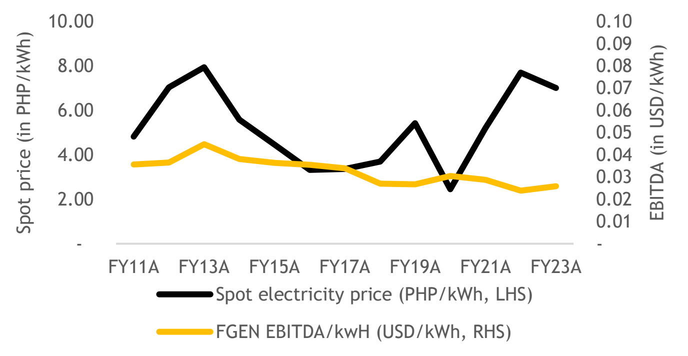
We expect the full COD of FGEN's 5.26 MTPA offshore LNG terminal by Oct'23 as construction of the LNG terminal was already completed in Mar'23 and is already in the commissioning phase. Development of this LNG terminal is a positive for FGEN as this will reduce its dependence on the depleting Malampaya gas field while also posing earnings upside if it can supply to other gas plants.

Despite this, we still forecast FGEN's natural gas plants' FY23/24E EBITDA per kWh to remain steady at USD0.03/kWh, same as FY22, amid the continuing cost-pass-through feature of its major gas PPAs.

On 7 Jul, FGEN secured a contract for its first LNG cargo supply of 154,500 cubic metres, which should arrive by Sep 2023 and be adequate for 30 days of FGEN's natural gas fuel requirements, assuming typical dispatch of FGEN's full 2,000MW natural gas portfolio, which requires 325m standard cubic feet (MMscf) of gas per day. The company also continues to be in discussions with potential LNG suppliers for both spot and medium-term LNG supply agreements.

We forecast FGEN's FY23/24E blended effective natural gas cost to be at USD10.4 per MMBtu/USD9.1 per MMBtu, compared to FY22 Malampaya gas price of USD10.1 per MMBtu. The FY24E blended natural gas cost reflects our estimated USD10.6/MMBtu Malampaya gas price and estimated landed cost of LNG at USD7.6 per MMBtu (factoring in USD2.0 per MMBtu regasification cost, shipping cost, and US LNG futures price of USD3.4 per MMBtu).

Fig 9: EBITDA per kWh versus electricity spot prices



Source: Company, Maybank IBG Research

Fig 10: FGEN's LNG terminal with berthed FSRU

Source: Company

4. Maintain BUY, TP of PHP31.0

We maintain BUY on FGEN as we expect sequentially better financial performance from both the natural gas-fired and RE portfolios of FGEN in FY23-25E:

- The output of FGEN's natural gas plants, which accounts for c.52-60% of earnings in FY23-25E, should be sustained at 12,997/14,144/14,144GWh in FY23/24/25E given the readily available fuel from its new LNG terminal;
- We expect EDC to continue to benefit from the higher priced power contracts it secured in 1H23, which covers 65% of its 1,347MW portfolio, as well as the anticipated elevated spot price in FY23/24/25E due to continued supply-demand tightness in Luzon power grid, as we expect 35%/30%/30% of EDC's output will remain uncontracted.

Factoring in our earnings adjustments, our DCF-based TP of PHP31.0 (+6%) offers potential upside of 69%, which includes FY24E yield of 2.7%. FGEN is trading at 1SD below its 5-year average PER of 6.2x. Even at our updated PHP31.0 TP, the implied FY23E PER of FGEN remains attractive at 5.4x, below its 5-year PER of 6.2x, strengthening our BUY.

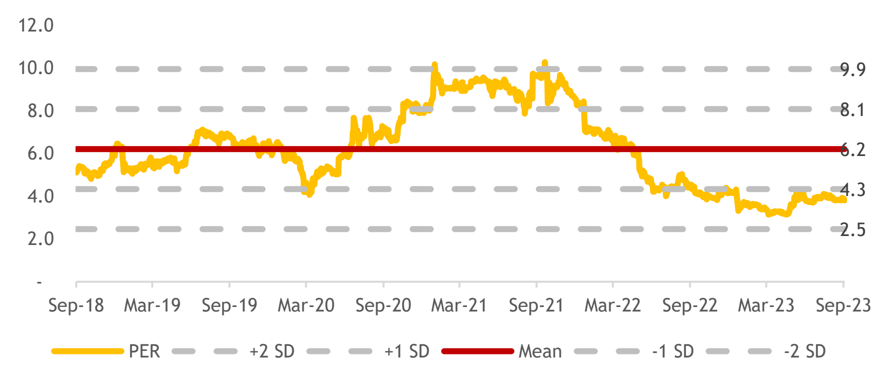
Fig 11: Changes to TP

PHPm	Old TP	New TP	% ch	Notes
Sta Rita	72,422	75,382	4%	
San Lorenzo	20,223	20,749	3%	
San Gabriel	27,129	26,832	-1%	
Avion	10,502	10,678	2%	
Gas	130,275	133,641	3%	Roll forward DCF to 1H24; Using dynamic WACC of 7.5-8.3%; Factors in existing natural gas fired capacity of 2GW.
Geothermal/ Wind/Solar	60,193	59,472	-1%	Roll forward DCF to 1H24; Using dynamic WACC of 8.5-9.6%; Factors in existing 1,347MW installed capacity and pipeline of c.200MW renewables (geothermal, pumped storage hydro) for FY23-24E COD.
Hydro	8,516	8,686	2%	Roll forward DCF to 1H24
Gross asset value	198,985	201,800	1%	
Net debt/cash	-94,742	-89,770	-5%	
Net asset value	104,243	112,030	7%	
NAV/sh	29.30	31.00	6%	

Source: Maybank IBG Research

Our TP adjustments factor in rolling forward of our DCF valuation base to 1H24 and factors in FGEN's existing portfolio as well as EDC's disclosed pipeline of c.200MW geothermal and hydro.

Fig 12: FGEN's 5-year PER band



Source: Bloomberg, Maybank IBG Research

FGEN is trading at between 1-2SD below its 5-year average PER of 6.2x. This is due to concerns surrounding Malampaya gas curtailments, LNG, and uncertainty on renewable of gas PSAs. Low free float of below 12% is also a concern.

Re-rating catalysts are emerging. FGEN has been receiving its full gas allocation since Jun-2022 and expects to operate the LNG terminal within Oct 2023. Other potential re-rating catalysts include re-contracting of natural gas plant PPAs and further visibility on EDC's expansion pipeline as the company targets to grow its portfolio to up to 13GW by FY30E.

Fig 13: Peer comparison (as of 13 Sep 2023)

Name	Ticker	CP	TP	Total return	Rec.	EPSg FY23E	EPSg FY24E	PER FY23E	PER FY24E	ROE FY23E	ROE FY24E	Div Yld FY24E
Median						*24.4*	*-2.8*	*7.3*	*7.5*	*18.1*	*15.7*	*5.9*
AC Energy	ACEN PM	4.64	8.00	73.6	BUY	73.5	43	21.6	15.1	6.9	9.2	1.2
Aboitiz Power	AP PM	33.00	47.60	51.4	BUY	17.1	-2.8	7.3	7.5	18.1	15.7	7.2
First Gen Corp.	**FGEN PM**	**19.16**	**31.00**	**64.4**	**BUY**	**24.4**	**8.4**	**3.7**	**3.4**	**13.3**	**12.8**	**2.6**
Manila Electric Co.	MER PM	361.00	387.00	13.1	BUY	33.6	-12.7	11.2	12.9	29.2	24.1	5.9
Semirara Mining & Power	SCC PM	34.45	39.60	24.2	BUY	-12.7	-19.9	4.2	5.2	41.2	28.4	9.3

Source: Bloomberg, Maybank IBG Research

Note: Total return includes 12-month forward FV upside plus FY24E yield

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	8.4	5.2	3.6	3.3	3.7
Core P/E (x)	7.5	4.1	3.6	3.3	3.7
P/BV (x)	0.8	0.4	0.4	0.4	0.4
P/NTA (x)	0.8	0.4	0.4	0.4	0.4
Net dividend yield (%)	2.6	2.2	2.2	2.7	2.9
FCF yield (%)	28.4	35.8	nm	51.4	48.1
EV/EBITDA (x)	5.0	3.3	3.7	3.2	3.1
EV/EBIT (x)	7.3	4.7	4.9	4.1	4.1
INCOME STATEMENT (USD m)					
Revenue	2,166.8	2,666.7	2,617.0	2,624.4	2,486.6
EBITDA	709.0	750.1	894.8	957.6	909.5
Depreciation	(224.7)	(217.1)	(212.0)	(215.6)	(209.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	484.4	533.0	682.8	742.0	699.7
Net interest income /(exp)	(81.8)	(74.1)	(72.3)	(92.5)	(108.8)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	25.5	4.9	0.4	0.0	0.0
Pretax profit	428.1	463.8	610.9	649.5	590.9
Income tax	(73.9)	(94.3)	(90.8)	(99.4)	(93.4)
Minorities	(96.0)	(108.1)	(191.6)	(193.8)	(177.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	258.3	261.4	328.5	356.3	319.6
Core net profit	258.3	261.4	328.5	356.3	319.6
Preferred Dividends	(13.6)	(8.9)	(0.4)	(0.5)	(0.5)
BALANCE SHEET (USD m)					
Cash & Short Term Investments	724.7	816.2	1,167.4	2,036.4	2,536.1
Accounts receivable	391.2	503.0	493.6	495.0	469.0
Inventory	206.9	194.1	173.9	167.5	157.2
Property, Plant & Equip (net)	2,667.5	2,588.6	3,590.0	3,654.8	3,739.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1,513.0	1,274.0	1,274.0	1,274.0	1,274.0
Total assets	**5,503.4**	**5,375.9**	**6,698.9**	**7,627.7**	**8,175.7**
ST interest bearing debt	422.6	346.1	539.6	633.1	658.2
Accounts payable	603.8	574.2	514.5	495.4	465.2
LT interest bearing debt	1,292.1	1,245.0	1,940.7	2,276.9	2,367.2
Other liabilities	212.0	251.0	251.0	251.0	251.0
Total Liabilities	**2,530.2**	**2,416.3**	**3,245.7**	**3,656.3**	**3,741.5**
Shareholders Equity	2,438.0	2,414.0	2,716.0	3,040.3	3,325.3
Minority Interest	535.2	545.6	737.3	931.1	1,109.0
Total shareholder equity	**2,973.2**	**2,959.6**	**3,453.2**	**3,971.4**	**4,434.3**
Total liabilities and equity	**5,503.4**	**5,375.9**	**6,698.9**	**7,627.7**	**8,175.7**
CASH FLOW (USD m)					
Pretax profit	428.1	463.8	610.9	649.5	590.9
Depreciation & amortisation	224.7	217.1	212.0	215.6	209.7
Adj net interest (income)/exp	81.8	74.1	72.3	92.5	108.8
Change in working capital	209.1	(51.6)	(30.2)	(14.0)	5.9
Cash taxes paid	(79.3)	(87.7)	(90.8)	(99.4)	(93.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	870.2	634.0	804.6	887.5	862.8
Capex	(317.6)	(246.8)	(1,213.4)	(280.4)	(294.3)
Free cash flow	552.5	387.2	(408.8)	607.1	568.4
Dividends paid	(63.9)	(33.1)	(26.5)	(32.0)	(34.6)
Equity raised / (purchased)	(115.9)	(101.4)	0.0	0.0	0.0
Change in Debt	(151.4)	30.8	889.2	429.7	115.4
Other invest/financing cash flow	(272.7)	292.1	(102.6)	(135.8)	(149.5)
Effect of exch rate changes	3.9	(2.5)	(0.0)	0.0	0.0
Net cash flow	(47.6)	573.2	351.2	869.1	499.7

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	18.4	23.1	(1.9)	0.3	(5.3)
EBITDA growth	(7.3)	5.8	19.3	7.0	(5.0)
EBIT growth	(8.9)	10.0	28.1	8.7	(5.7)
Pretax growth	(10.6)	8.3	31.7	6.3	(9.0)
Reported net profit growth	(6.3)	1.2	25.7	8.4	(10.3)
Core net profit growth	(6.3)	1.2	25.7	8.4	(10.3)
Profitability ratios (%)					
EBITDA margin	32.7	28.1	34.2	36.5	36.6
EBIT margin	22.4	20.0	26.1	28.3	28.1
Pretax profit margin	19.8	17.4	23.3	24.7	23.8
Payout ratio	19.5	9.3	7.9	8.8	10.7
DuPont analysis					
Net profit margin (%)	11.9	9.8	12.6	13.6	12.9
Revenue/Assets (x)	0.4	0.5	0.4	0.3	0.3
Assets/Equity (x)	2.3	2.2	2.5	2.5	2.5
ROAE (%)	11.6	11.5	13.3	12.8	10.3
ROAA (%)	4.6	4.8	5.4	5.0	4.0
Liquidity & Efficiency					
Cash conversion cycle	(21.8)	(12.7)	(7.1)	(5.1)	(4.1)
Days receivable outstanding	69.5	60.4	68.5	67.8	69.8
Days inventory outstanding	47.2	37.7	38.6	37.2	37.7
Days payables outstanding	138.6	110.8	114.3	110.1	111.5
Dividend cover (x)	5.1	10.8	12.6	11.3	9.4
Current ratio (x)	1.5	1.6	1.7	2.3	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.2	2.1	2.1	2.2
Net gearing (%) (incl perps)	33.3	26.2	38.0	22.0	11.0
Net gearing (%) (excl. perps)	33.3	26.2	38.0	22.0	11.0
Net interest cover (x)	5.9	7.2	9.4	8.0	6.4
Debt/EBITDA (x)	2.4	2.1	2.8	3.0	3.3
Capex/revenue (%)	14.7	9.3	46.4	10.7	11.8
Net debt/ (net cash)	990.0	774.9	1,312.9	873.5	489.3

Source: Company; Maybank IBG Research

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Historical recommendations and target price: First Gen Corp (FGEN PM)

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