



ACCORD CAPITAL
EQUITIES CORPORATION
Member: Philippine Stock Exchange

Share Offering

STOCK DATA:

Price (PhP)	26.00
Firm offer shares (m)	75.0
Option shares (m)	11.2
Offer size w/option (P m)	2,241.4
Shares Outstanding (m)	261.2
Major Shareholders:	
Concepcion Holdings, Hy-land Realty and Development Corp, Horizons Realty, Inc.	67.00%
Public	33.00%

Initial Public Offering:

CONCEPCION INDUSTRIES CORP (CIC)

PRICE:PhP26.00

SUBSCRIBE

Leading air conditioner and refrigerator maker to raise PhP2.1bn for debt payment and expansion through joint venture with Midea to distribute white appliances. Offers direct play in consumer appliances industry; price to trade at 12.5x 2014 PER

IPO OVERVIEW:

- **Concepcion Industries Corp (CIC)** is offering the sale of up to 74.96m common shares at PhP26.00 per share. The offer shares are comprised of 11.24m new primary shares and 63.72m secondary shares to be sold by its three existing shareholders, namely: Concepcion Holdings, Inc., Hy-land Realty and Development Corp, and Horizons Realty, Inc. Including the additional sale of optional shares for over-allotment, the company will raise approximately PhP2,084m. Proceeds of the offer will be used to pay off some of its debt, working capital, and expansion of business operations. Post-offer, CIC will have 261.4m common shares of which 33% will be held by new investors.

COMPANY BACKGROUND:

- **CIC is a holding company** that owns two subsidiaries, Concepcion-Carrier Air Conditioning Co. (CCAC) and Concepcion Durables, Inc. (CDI). CCAC is engaged in the manufacture, sale, distribution and service of air conditioning and refrigeration products for residential, commercial and industrial customers. It carries the Carrier, Toshiba, Condura and Kelvinator air conditioner brands. CDI is engaged in the manufacture, assembly, and trade of refrigeration equipment through the Condura and Kelvinator brands. CCAC and CDI manufacture their products from its 36,000 square meter factories at Light Industry and Science Park in Cabuyao, Laguna. CCAC has a production capacity of 500,000 air conditioner units per year while CDI has a capacity of 300,000 units per year.

BUSINESS OPERATIONS:

The company derives its revenues from its air conditioning, refrigeration segments, and aftermarket services. It made PhP6.9bn in revenues in 2012.

CIC Financial Highlights

for year ending Dec 31 (P m)	2010	2011	2012	2013E	2014F
Revenue	6,123	5,606	6,940	3,088	3,405
EBITDA	1,189	976	1,031	1,194	1,353
Net Profit Attributable to holder	507	391	417	471	545
Earnings per share (P)	1.94	1.50	1.59	1.80	2.08
EPS growth (%)	na	(23.0)	7.0	13.0	16.0
Price to earnings (x)	13.4	17.4	16.3	14.4	12.5
EV/EBITDA (x)	4.9	5.7	5.2	3.3	2.6
Price to book value (x)	2.8	3.0	3.3	1.9	1.5
Return on Equity (%)	20.7	17.5	20.1	13.4	21.1
Return on Assets (%)	12.5	9.8	8.2	6.9	6.7

Source: Company, Accord Estimates

- **Air Conditioning.** CCAC's biggest revenue driver, this segment accounts for more than 60% of the company's total revenues. Through its Carrier, Condura, Toshiba and Kelvinator brands, CCAC sells to both residential and commercial customers through trade retail dealerships and property developers (for residential) and through supply contracts (for commercial). The types of residential air conditioner units it manufactures include: window room, split-type, and multisplit units. Commercial types include: packaged equipment, ducted splits, chillers, VRF (variable refrigerant flow), and also provides custom solutions and aftermarket services.

- **Refrigeration.** Operating under wholly-owned subsidiary CDI, the refrigeration segment is composed of residential and commercial, and industrial refrigeration. It contributes more than 30% of total revenues. Under its Condura and Kelvinator brands, it manufactures direct cool refrigerators and freezers, no-frost refrigerators, island freezers, cold rooms, and provides aftermarket services.

- **Aftermarket services.** CCAC offers quality parts, maintenance, repair, installation and other specialized services through its parts stores and service centers. This segment contributes around 4% of total revenues.

INVESTMENT CONSIDERATIONS:

- **Long industry track record and solid market position.** Since its establishment in 1962, the group has been in the air condition business using a license with Carrier International to sell Carrier brand units. From then, it has expanded and introduced new brands into the market, building a strong reputation with its customers. This has led to CCAC holding a solid 37% market share in the local air conditioner industry in 2012, followed by Panasonic Manufacturing (23%), Samsung Electronics (9%) and LG Electronics (6%). CDI also has a leading position in the refrigeration market with a 26% share, followed by Panasonic (22%), LG Electronics (12%), Haier Electrical (12%) and Sharp (12%).

- **Low penetration for air conditioners and fridge freezers.** Given CIC's leading market position, it can capitalize on the growth potentials for the still underserved air conditioner and fridge freezer industry on the back of robust consumer spending and economic growth. The Philippines lags in terms of household penetration of high-margin split air conditioners fridge freezers relative to its ASEAN neighbors. In split air cons, the Philippines has a penetration rate of only 8% vs 74% in Singapore, 49% in Malaysia, and 16% in Indonesia. In fridge freezers meanwhile, the Philippines holds a 35% penetration rate, sharply lower compared with Singapore's 99% and Malaysia's 56%.

INVESTMENT CONCERNS:

- **Tighter industry competition.** CIC faces stiffening industry competition from long-time rivals and the entry of new players from abroad. The entry of Samsung Electronics and LG Electronics from South Korea, and Haier of China, with their competitively priced and innovative appliances, have given customers a wider variety of choices that may threaten CIC's elevated air

con and refrigeration industry position. To strengthen its position, CIC is tying up Midea of China to distribute and sell branded appliances including washing machines and other kitchen appliances in the country.

- **Weaker demand as economy cools.** CIC's whole customer base is located in the Philippines. While the country enjoys sustained robust economic growth in the last two years, accompanied and supported by healthy consumer spending and investments, a slow down in growth may result in softer demand for new air conditioners and refrigerator appliances. The local property market, from which CIC has benefitted from, may also affect demand for air con and refrigerator units once the sector begins to show signs of tapering in the medium to long-term.

RECOMMENDATION:

- From an initial offer price of PhP31.45 per share, it was reduced sharply to PhP26.00 due to increased market volatility in recent weeks. That was probably a correct decision because it brought the stock's valuation to a level in-line with industry peers within the region. At its offer price, CIC will be trading at a price-to-earnings (PE) ratio of 12.5x its projected earnings in 2014, just slightly higher than 12.2x average 2014 PE of air conditioner and refrigeration manufacturers in Asia (see table). In terms of EV/EBITDA, CIC will be trading at 2.6x, a discount to its Asian peers' multiple of 6.9x.

Company	Country	Mkt Cap (P b)	EV/ EBITDA	2014 PER
Concepcion Industries	Philippines	6.8	2.6	12.5
Daikin Industries	Japan	953.9	10.0	19.0
Gree Electric Appliance	China	408.6	4.2	2.6
Fujitsu General	Japan	57.8	5.5	10.5
Zhejiang Yankon	China	52.8	14.4	18.3
Chigo Holding	Hong Kong	8.4	9.9	3.5
Regional Average			6.9	12.2

Given its (i) leading industry position, (ii) healthy financials (almost zero debt), (iii) growth potential amid expanding economy, and (iv) relatively fair valuation, we rate CIC **SUBSCRIBE**.

Concepcion Industrial Corp

Balance sheet

(for year ended Dec 31)

	2010	2011	2012	2013E	2014F
ASSETS					
Current assets					
Cash and cash equivalents	957	1,195	1,669	2,897	3,341
Trade and other receivables	1,888	1,631	2,055	2,293	2,506
Inventories	812	790	943	1,070	1,671
Prepayments and other current assets	32	57	56	115	125
Total current assets	3,688	3,673	4,722	6,374	7,643
Non-current assets					
Property and equipment	180	165	175	229	251
Deferred income tax	184	166	199	229	251
Total non-current assets	372	336	379	474	516
Total assets	4,060	4,009	5,101	6,848	8,160
LIABILITIES AND EQUITY					
Current liabilities					
Trade payables and other liabilities	971	1,048	2,439	2,828	3,091
Short-term borrowings	0	0	282	80	80
Provision for warranty	19	17	31	38	42
Other provisions	135	138	132	153	167
Income tax payable	54	33	81	146	200
Total current liabilities	1,179	1,236	2,964	3,245	3,580
Non-current liabilities					
Total non-current liabilities	438	540	66	76	84
Total liabilities	1,617	1,776	3,030	3,321	3,663
Equity					
Attributable to owners:					
	1,883	1,567	1,293	2,902	3,863
Non-controlling interest	560	666	778	624	634
Total equity	2,443	2,233	2,072	3,526	4,497
Total liabilities and equity	4,060	4,009	5,101	6,847	8,160

Source: Company, Accord Estimates

Concepcion Industrial Corp

Income Statements

(for year ended Dec 31)

	2010	2011	2012	2013E	2014F
Net sales and services	6,123	5,606	6,940	7,642	8,354
Cost of sales and services	3,959	3,738	4,719	4,994	5,438
Gross profit	2,164	1,868	2,221	2,648	2,916
Operating expenses	1,074	1,005	1,309	1,480	1,587
Other operating income - net	57	62	63	26	25
Operating profit	1,146	924	975	1,194	1,353
Profit before income tax	1,146	924	973	1,182	1,341
Provision for income tax	351	278	289	354	402
Other comprehensive income (loss)	(4)	3	(15)	(15)	0
Net income	791	649	669	812	939
Net income attributable to					
Holders of parent	507	391	417	471	545
Non-controlling interest	284	258	253	341	394
	791	649	669	812	939

Source: Company, Accord estimates

Financial Ratios	2010	2011	2012	2013E	2014F
Gross margin	35%	33%	32%	35%	35%
Operating margin	19%	16%	14%	16%	16%
EBITDA margin	19%	17%	15%	16%	16%
Net margin	8%	7%	6%	6%	7%
Return on Equity (%)	21%	18%	20%	13%	12%
Return on Asset (%)	12%	10%	8%	7%	7%
Total debt (in P m)	0	0	282	80	80
Total debt to Assets (%)	0%	0%	6%	1%	1%
Current ratio (%)	313%	297%	159%	196%	214%
Inventory turnover days	75	77	73	78	112
Receivables days	113	106	108	110	110
Payables days	58	68	128	135	135

Source: Company, Accord Estimates

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