EDITED TRANSCRIPT
UNIVERSAL ROBINA CORPORATION (URC) FY2012 NINE MONTHS EARNINGS CALL

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PRESENTATION

Speaker:

Ladies and gentlemen, welcome to URC's quarterly investors briefing. Joining us today from URC are Mr. Lance Gokongwei, President and Chief Operating Officer and Mr. Michael Liwanag, Head for Corporate Planning and Investor Relations. URC will give you a brief company presentation on the results. At the end of the presentation there'll be a question and answer session at which point in time if you wish to ask a question you need to press star one on your telephone keypad. I will now like to hand the conference over to your speaker, Mr. Lance Gokongwei. Sir, please go ahead.

Lance Gokongwei:

Thank you. Good afternoon. Today I will be presenting the unaudited financial results of URC as of the first nine months of the fiscal year 2012. Let me first go into the financial performance for both URC and its respective divisions.

For the total company, quarter three sales grew at the rate of 4% vs. same period last year resulting in year to date sales of Php 53 billion. Year to date sales grew at 5%. This was mainly driven by the strong performance of Branded Foods Philippines though slightly tempered by the reduced sales for the sugar division. In terms of profitability, third quarter EBIT was up 30% vs. the same period last year, resulting in year to date EBIT of Php 5.8 billion, a 6% growth which was mainly contributed by the Branded Foods Business. Year to date EBIT margins are 10.9%, just slightly above the same period last year as the margin trends improved in the third quarter. Total Branded Foods Businesses are now ahead in terms of year to date margins due to better volumes and more relaxed input prices. The Commodity Foods Group year to date margins are also ahead on the back of better selling prices for flour and lower freight and hauling subsidies for sugar. Third quarter core earnings were up 33% vs. same period last year resulting in a year to date figure of Php 6.1 billion, a 7% increase for the year. So far this year we have registered Php 356 million pesos in net finance revenue, an increase of 79% vs. the same period last year, due to reduced interest expense with the retirement of the $200m bond last January as well as continuing interest income from our various bond holdings. Lastly, year to date net income continued to be above same period last year by 24% at Php 6.1 billion due to the continuing increase in market values of our various financial instruments.

Let me now discuss the operating divisions in detail.

Total Branded Foods sales for the third quarter grew at 10% vs. the same period last year resulting in a year to date figure of Php 41.7 billion, which is an 11% increase for the year. Third quarter EBIT grew much faster at 24% vs. same period last year resulting in a 14% year to date increase to Php 4.1 billion. Branded Foods Philippines was the key contributor to the solid performance of the group. The Philippine Business exceeded expectations and accelerated top line growth. Third quarter revenue was up 19% vs. same period last year and year to date revenue is at Php 25.2 billion or a growth of 15%. URC Philippines registered record sales in June breaching the 3 billion peso mark in a single month and replicated this again in July.

Beverage was the primary contributor as it registered third quarter growth of 70% vs. last year and year to date growth of 51% on the back of exceptional performance of our coffee business. In particular, our new coffee mix products have done very well and over the past three market share readings, we have gained over 1.3 percentage points in total coffee value market share ending at 13.9% and 2.1 points in market share for coffee mix ending at 10.4%. Ready to drink beverage has recovered on the back of the growth of our tea and particularly our water and juice offerings.

The snackfoods line has been growing, albeit at a slower year to date pace of 5% last year. Salty snacks continue to grow at a double digit rate on the back of the successful new product entries in the extruded segment category. Biscuit and candy categories continue to grow, however chocolate was still challenged as competitive pressures from lower priced and lower value added products started to bite. Following the solid sales figures, absolute EBIT for third quarter was up 36% vs. the same period last year leading to year to date profit growth of 13%, again due to relatively lower prices for some key inputs such as sugar, flour, palm oil and coffee beans.

Looking at the international business, third quarter sales declined slightly by 2% vs. same period last year due to softer sales coming from Thailand, resulting in a year to date figure of Php 15.1 billion pesos or a growth of 5% in peso terms and 6% in US dollar terms. Despite the tempered sales, year to date EBIT continued to be above last year by 25% due to better margins overall brought about by additional scale, reduced input prices and trimmed down losses from China.

URC Thailand sales remain sluggish with a year to date at -5% in peso terms as the effects of the reduction in biscuit and wafer categories continue to show. As a sign of this decreased consumption, market share readings from AC Nielsen show that the total Thai biscuit and wafer markets have declined vs. same period last year in terms of volume by 6% and 2% respectively. In order to accelerate the recovery, URC has started more aggressive promotions, specifically in the modern trade and we are looking to increase the weight of our biscuit and wafer offerings in the coming months to offer consumers greater value for money. Looking at the other categories, our newly launched cake products have shown significant potential selling 66,000 cases in June as evidence of strong acceptance from the trade and consumers is beginning to show. Moving forward, we are expecting some recovery from Thailand in our fourth quarter though we expect year to date figures to remain quite flattish.

Vietnam sales continued to be buoyant growing mid-teens on a year to date basis vs. same period last year. The ready to drink beverage business continued to be the main contributor, hitting a record high of 4.2 million cases, consisting of C2 and Rong Do energy drinks. C2 as a tea brand has overtaken our competitor to become the number one brand in the Vietnamese ready to drink tea category. The brand likewise continues to show healthy growth. Our energy drink, Rong Do, has also been doing quite well and should contribute more when classes resume in the fourth quarter.

Malaysia/Singapore has slowed down slightly though it is still growing at a mid-single digit rate on a year to date basis. The recent slowdown was due to some new products launched last year which have not proven to be as resilient as we had hoped. The focus for this country remains on the continuing improvement of its distribution structure as well as the rationalization of its product portfolio in order to give more attention to performing and high potential products.

Indonesia had a positive third quarter result pulling up revenue growth to mid-single digit, arresting the decline reported in the first half. Our newly launched extruded products have been doing well so far and we are hoping this trend continues as a key part of our strategy of expanding our presence in the snacks market.

Year to date sales for China and Hong Kong was relatively flattish vs. same period last year, however, we continue to make progress in augmenting coffee and biscuit capacities for other affiliates and this in turn has helped spread the fixed cost of the country resulting in reduced losses for the year.

For Commodity Foods Group, third quarter sales was below last year by 22%, resulting in a year to date figure of Php 5.9 billion, down 26% due to lower sugar prices and volume. However, third quarter results showed much better margins vs. the same period last year resulting in an EBIT increase of 26% for the quarter, resulting in year to date EBIT of Php 2.1 billion, just down by 6% vs. record high last year.

For Flour, third quarter sales and EBIT were flattish due to slightly higher selling prices last year vs. the current year, despite increasing sales volumes. On a year to date basis, the Flour business remains healthy with top line ending at Php 3.2 billion, representing an 11% growth and EBIT ending at Php 1 billion representing growth of 11% as well.

The Sugar business registered a 34% decline in its sales for its third quarter, registering a year to date figure of Php 2.7 billion or a year to date decline of 46%. The year to date decline is due to the lower selling prices vs. last year and lower volumes so far this year. For the year to date volume, we have sold 1.6 million bags for the first nine months vs. 2.4 million bags for the third quarter last year. However, third quarter absolute EBIT grew by 64% due to much higher margins stemming from significantly lower freight and hauling subsidies vs. last year. Also, for the month of June, selling prices have already reached higher points than the same period last year. We are expecting higher sales volumes to come in the fourth quarter relative to last year as well as the full effect of higher selling prices and this should augur well for the operating performance of our sugar business.

Onto our Agro-Industrial Group, third quarter top line was marginally down due to a slight decline in the Feeds business coupled with the flattish sales for the Farms business. However, year to date sales ended at Php 5.5 billion, which is still up by 7%. On the EBIT side, we saw a significant 61% increase vs. same period last year for the third quarter due to the recovery of our Farms business resulting in Php 261 million EBIT for the year to date figure.

On the Farm side, sales value was flattish for the third quarter although year to date sales ended at Php 2.7 billion, still up 6%. Prices for pork were generally soft in the third quarter vs. last year despite better volumes. However, a recovery can already be seen in the EBIT performance of our Farm division as it registered a 109% third quarter growth vs. last year. The government has started to implement measures to control the unimpeded importation of frozen meat into the country and this has resulted in higher pork prices, particularly at the end of June. For the third quarter, the average selling prices were at Php 99 compared to the first half average of Php 84. With this recovery in prices, our hogs business booked a valuation gain of Php 177 million in our biological assets and this more than compensated for the revaluation loss of Php 104 million we recorded in the first half.

Third quarter sales for our Feeds business declined slightly by 2%, though the year to date figure remains up at Php 2.8 billion representing 8% growth. Third quarter results showed weaker volumes brought about by the exit of many backyard hog raisers due to poor pork prices during the first few months of the year. Margins have also been much healthier than last year with year to date profitability higher by almost 180 basis points vs. last year due to reduced corn and feed wheat prices. This resulted in significant year to date growth of 31% in terms of absolute EBIT.

Turning to our balance sheet, URC's balance sheet remains very healthy. URC managed to generate EBITDA of Php 8.3 billion of the first nine months of the fiscal year, a 5% increase vs. the same period last year. We likewise registered Php 3 billion EBITDA in the third quarter which is a 21% increase vs. the same period last year.

URC registered an increased net cash position of Php 9.4 billion as of the end of third quarter 2012 from Php 2.3 billion at the start of the fiscal year. This increase was mainly due to the sale of treasury shares in June which added Php 7.4 billion, as well as Php 10.1 billion cash generated from operations. Other major cash items include the retirement of our $200m debt last January, dividends paid out of Php 3.9 billion as well as CAPEX investments of approximately Php 3 billion. Gearing continues to remain quite low at 0.3 vs. 0.4 for the same period last year.

Let me now briefly discuss the plans and expectations for the company moving forward. For our guidance, though sales will be called down slightly from high single digits to mid-single digits, we are maintaining our EBIT guidance of mid-teens growth for total URC, estimating approximately Php 7 .7 billion to Php 7.8 billion. On the core Branded Foods Business, we are maintaining both top line and EBIT guidance of low to mid-teens and low twenties respectively.

The plans and outlooks for the remaining months of the fiscal year are as follows:

1. We expect Branded Foods Philippines to continue its excellent performance for the rest of the year on the back of the continuing strong sales of our new products as well as generally buoyant consumption from the upbeat Philippine economy. On the international side, we expect some recoveries from Thailand in the fourth quarter as the result of more aggressive promotion spending and brand building initiatives. Vietnam will continue to drive growth for our international business.
2. The business may face potential headwinds with rising soft commodity prices in the past week. We will continue to monitor our margins closely and will perform necessary actions such as price increases and other productivity initiatives when applicable. In terms of the recent rapid increases in corn, soya and wheat prices, we do not expect significant impact this fiscal year; however, these soft commodities are expected to remain on the high side and may significantly impact our margins in the next fiscal year.
3. For the balance year, we expect some new products to be launched and lines to be commissioned. Examples of key launches in quarter four would be Mang Juan, a new brand of noodles under our Philippine branded business, as well as snack products for Vietnam and Indonesia. We are also in the process of commissioning additional snack and biscuit lines across the ASEAN region to provide additional capacities in the near term. We also expect the products we have launched in the past month to contribute significantly to the top line. Noteworthy are our new Mang One snack products and Choco Boom chocolate products in the Philippines, our renewed strategy for expanding our snack business in Indonesia, which is showing a lot of promise, as well as our packaged cake launch in Thailand and our energy drink rollout in Vietnam.
4. We expect Sugar business to register a good fourth quarter which will allow us to hit almost the same levels of EBIT as the record high last fiscal year. Flour, likewise will be able to end up with approximately the same level of EBIT as last year and we expect the Agro-Industrial Group to register marginally higher EBIT vs. the same period last year driven by the recovery of prices in the Hogs business and better margins for our Feeds business.

Let me now update you on recent developments we have announced with regards to the acquisition of shares of URC International. To give everyone a backgrounder, URC, the parent, owns 77% of URC International with the remaining 23% being owned by an investment company, International Horizons, which was controlled by the Gokongwei family. The board, through URC management, has decided to consolidate the ownership of our international business since this group has historically been the fastest growing part of our business and is strategically seen to be a major profit and sales driver in coming years. Consolidating the total ownership of the business will allow us to recognize 100% of the earnings of the international business. After due diligence and comparative valuation studies, management presented to the board the proposed valuation of 100% of URC international at Php 31.3 billion, thus valuing the 23% minority stake at Php 7.2 billion. This acquisition is expected to be value accretive to URC and looking at forward earnings consensus, URC is valued at approximately 16.7x 2013 earnings while the transaction value pegs URC international at approximately 15.5x fiscal year 2013 earnings using the 30 day volume weighted average price of approximately Php 60. We expect to complete the transaction by the close of September.

That ends our presentation and we're now open to questions. Thank you.

QUESTION AND ANSWER

Speaker:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. *(Operator Instructions)*

Christopher Chu, Hamon Asset Management:

Thank you guys for the presentation. I just have three quick questions. One, can you kindly comment on the operating expenses, dropped 12% from this point last year? The second question was about the international segment. On a QQ basis the sales have been slipping and sliding. You guys registered 4.9 in sales in Q3 but five in Q2 and 5.5 in Q1 and whether or not this was a concern. The third and final question is about sugar - you may have mentioned this earlier - but in the third quarter you registered 1.1 sales in sugar and registered 0.4 in EBIT but the EBIT was the same in the second quarter on 0.7 sales so it was actually less effective. I was wondering if you can provide guidance towards that? Thank you.

Michael Liwanag, Head, URC Corporate Planning and Investor Relations:

Okay, the reason for that is that is we actually spent more on A&P particularly in trade promotions, and last year actually our expenses were back loaded into the fourth quarter so on A&P alone, which contributed around 45% of total OPEX if you look at selling and GAE , A&P grew by 11.5% with trade promotions growing by around 45% year to date but we expect the same level of growth; I think it's around 11 to 12%.

Lance Gokongwei, President and COO, URC:

On the question of the international front, definitely we've seen some weakness, particularly in our Thai business, which is an important part of our business. Likewise, we do expect that with the initiatives we've started in Thailand, primarily with increasing weights of our biscuit and wafer products which constitute the majority of our sales in Thailand, we expect and we are already beginning to see signs that there is increasing volumes for these products in Thailand. So we generally expect that we will close the year internationally at about 470 plus million in sales vs. about $439m for last year so we're expecting about seven – approximately seven to 8% revenue growth from the current year to date number of about 5%, so yes we have been concerned about this that's why we're taking much more aggressive action. I guess the good news is that…

Christopher Chu, Hamon Asset Management:

The sales drop is really driven by Thailand or is it slowing on a consolidated basis?

Lance Gokongwei, President and COO, URC:

The rate of growth has slowed in certain countries, I would say notably Malaysia and China. Vietnam and Indonesia still seem to be quite buoyant but the country with a reduction was really Thailand where for the third quarter we're seeing, in peso terms, probably a 15% reduction vs. last year. We do expect though that in the fourth quarter, as we've seen in the first month of July, that these volumes are beginning to show some recovery in Thailand, thus we expect revenue growth for the entire business to pick up, thus we're guiding year end revenues of about 470 plus vs. the same period last year of 439 full year.

Christopher Chu, Hamon Asset Management:

No, I mean is it fair to say then that the 4.9 in the third quarter is, in your opinion, the trough because it seems like the word 'recovery' is surfacing quite frequently?

Lance Gokongwei, President and COO, URC:

Yes I would say on a growth basis Q4 2012 will be growing vs. Q4, 2011. I cannot say that it will be a low number primarily because we have the Ramadan holidays in August which may affect Malaysian and Indonesian business in this period but definitely our Q4 2011 was lower than our Q3 2011 but we don't expect that to happen this year. Did you understand what I said?

Christopher Chu, Hamon Asset Management:

Understood. And the third point on sugar?

Lance Gokongwei, President and COO, URC:

Okay sugar, what you are seeing are net sales because we – a significant amount of our sugar is actually sold internally to our Philippine branded business so the right way to look at that is in the gross sales number and if you look at the gross sales number for Q2 that's about 1.4 billion and in Q3 there's about 1.6 billion.

Christopher Chu, Hamon Asset Management:

Okay, but then you were selling more sugar inQ3, I mean why didn't we see an EBIT pick up, particularly if sugar prices are also recovering?

Lance Gokongwei, President and COO, URC:

Sorry we're 1.4 billion for Q2 and 1.6 billion Q3. The profitability is approximately 379 Q2 and 394 Q3 so a lot of the margins depend on what the acquisition costs of the sugar is. Not all the sugar is produced by ourselves, sometimes we have to buy planter share so it depends at what price we buy the planter share of sugar.

Karisa Magpayo, Citigroup:

Hi. Thank you for the call. I just have two questions. First, how much of the sales from the branded domestic business and branded international business is driven by volumes and by increased selling prices and then second should we expect margin enhancement particularly overseas to be tempered because of increased A&P in Thailand? Thank you.

Lance Gokongwei, President and COO, URC:

Yeah, okay. Year to date volume in Philippines is – basically the price increases weighted about 2 to 3%, everything else is volume in the Philippines.

For the fourth quarter we expect some reductions in margins for the particular biscuit and wafer products in Thailand, because we are offering more value or offering more weight. But overall we think that relative to the entire margin mix, because of some price reductions, particularly in very significant raw materials such as PET and sugar overseas, and palm oil – we do expect that margins trends and margins should be sustained and could continue to improve moving forward.

Karisa Magpayo, Citigroup:

Okay. In terms of the overseas sales is this largely volume driven or were there price increases as well?

Lance Gokongwei, President and COO, URC:

I would say that's practically all volume.

Edmund Lee, COL Financial:

Hi. Good afternoon. I just have two questions, both on the international business. For the first question I noticed that EBIT margins especially in the third quarter dropped significantly to 8.1%. Could you provide us with better detail, if it is coming from more losses in China or lower margins in more profitable countries? My second question is on the projections for the URC international. I think when you look at the EBIT margins both are at 8.5% for both 2012 and 2013; does this already factor in the commodity - higher commodity prices for this year despite – and could you just comment on that? Thank you.

Lance Gokongwei, President and COO, URC:

The margin reduction in international is really quite slight and I would say that's primarily from reduced profits in Thailand as we are beginning to spend more money on promotions, on rebuilding interest in the category. Now basically for next year we actually feel that gross margins on the branded food side as a whole will continue to be stable to increasing. We are going to see some cost pressures, particularly on wheat, but on almost every other item that we use, the major ones being sugar, coffee and palm oil and potato and the like, PET, prices of those are actually flat to lower than the current year. So overall we expect margins to be quite healthy next year.

The main item that will be affected by the higher prices of soft commodities would be our flour business and our feeds and farm business because that will most directly consume a lot of wheat and corn and soybean obviously.

Michael Liwanag, Head, URC Corporate Planning and Investor Relations:

And one of the projections for URC International, you're looking at 2013 numbers, the EBIT margins there is actually very conservative I think, 8.5%. I think we will end 2012 at around 8.7% so it's a base case basically when we did the projection.

Edmund Lee, COL Financial:

Okay, so these projections are more on the conservative side, would you say that?

Lance Gokongwei, President and COO, URC:

Yeah well that's basically the plan, yeah.

Ghia Yuson, First Metro Securities:

Hi, just one question. URC international recorded 15.1B sales in the nine month period. I just wanted to ask if this is for a total URC international or just the 77% attributable to URC?

Lance Gokongwei, President and COO, URC:

No, it's for the whole company. The 23% owned by the International Horizon comes out in the minority interest of equity earnings.

Srivatsa Krishna, Tree Line Advisors:

Yeah, I just want to understand what is the real problem in Thailand. When I met your management before I was told that the biscuits category as a whole, for the entire country, has slowed down quite sharply and that's what Nielsen data showed. You being one of the key players you suffered as well but now it seems like there's some competitive pressures in Thailand so can you clarify how much of it is due to industry slowdown and…so generally, what I understand is the consumption in Thailand is pretty strong…

Lance Gokongwei, President and COO, URC:

Yeah I think with Thailand specifically – let's point back to last year. I think last year right after the floods, which I believe happened in the October/November period, we had extraordinarily very high sales because a lot of consumers were consuming biscuits and wafers and the trade was buying a lot of biscuits and wafers because there was a lack of electricity and people were eating convenient foods. Now what we've seen is that the trade probably kept a lot of excess inventories and that in the process of being wound down. The second factor is that in an effort to address higher commodity prices of two years ago, we actually shrank the size of our biscuit offering, the weight of our biscuits by about 15% in general. We would still sell four to six pieces for five Baht but the absolute sizes of the biscuits were reduced by about 15 to 20%. Many of our competitors did not follow this move so what we've been doing since in fact late July and early August has been to bring back this weight and we are now offering greater value or basically greater value for the same price. So we think this combination of offering better value as well as the fact that from our review of our distributors we think that trade inventories have normalised from the very heavy stocks that they took during the flood period and right after, that we're now in a position to have recovery in volumes.

Ajay Sharma, Akshayam Capital:

Hi. Can you tell me how much of your international revenues and EBIT was accounted by Thailand in the first nine months?

Lance Gokongwei, President and COO, URC:

For the first nine months of Thailand is – it's approximately half, half the profits and a third of sales.

Ajay Sharma, Akshayam Capital:

Of the international, right?

Lance Gokongwei, President and COO, URC:

Yes, because we have some divisions that are losing money so basically if you add Thailand, Vietnam and Malaysia they will more than exceed 100% of profit.

Cheska Tenorio, UBS:

Yes, hi. Thanks for the call. Just one question in the sugar business, I understand or I was guided previously that due to lower prices in sugar some of the volume which normally is front loaded, because of the seasonality of sugar, for this year it will be back loaded. Can you give guidance on that one and the overall impact to the overall company's seasonality as well? Thanks

Lance Gokongwei, President and COO, URC:

Basically, as we pointed out in the presentation, for the first time this year in June the price of sugar is now exceeding the same period last year. If you recall last year we had extremely high prices of sugar, reaching a peak of over 60 pesos per kilogram of refined sugar in the first seven, eight months of the last fiscal year. This year we're seeing the first six months prices are probably 40 to 45% below that but now we're seeing prices which are higher than the same period last year. The trading strategy we took last year was to sell as much sugar as we could at the start of the year and as a result if you look at last year we sold basically 90% of our sugar in the first three-quarters. Last year we sold about 80, 85% of sugar in the first three-quarters. This year we expect it to be pretty much – we'll probably sell 30% of the sugar in the last quarter.

Eric Ritter, Hamon Asset Management:

Yes, I'd like to know what the main - or if you could tell me what the margins are by division this quarter and which ones improved? I don't know if it's been announced somewhere but I didn't see it in the press release – I didn't see it in the IR. And then if you could also tell me, are you planning to do any further M&A because there's been a lot of talk about why you're doing all these deals?

Lance Gokongwei, President and COO, URC:

On the margins I think it's - basically most of the margins are in the presentation. You have a sales and EBIT by division there. M&A, we are in the process of - probably we should announce a rather small transaction before the end of the fiscal year for something in the sugar business in the Philippines.

Eric Ritter, Hamon Asset Management:

Why is Philippines sales so strong in branded? I thought previously the exciting thing was Thailand and Vietnam were growing faster than the Philippines so is this just a particular product that's selling well or what happened?

Lance Gokongwei, President and COO, URC:

I would say generally the Philippine economy is quite buoyant but we've also been quite successful, particularly in many of our new product initiatives. I think most particularly we've had success, particularly in the coffee category, which is a very large category in the Philippines, it's an $800m category and we've picked up a lot of our business there. Our business is running over 50% ahead of last year and what makes us feel good about this business is that we – on a relative basis our market share is still quite low so I know we still have a lot of runway to gain market share in a very fast growing category. Second is we've had a lot of success as well in our core snack products, particularly for salty snacks where we're now growing at double digits and I guess this is also a function of some success in the new product side.

Eric Ritter, Hamon Asset Management:

Okay but I thought previously you said that everybody – you're so big in the Philippines it's a hard to grow so what you're saying still is there is – what's the long-term growth – what's the longer term growth potential for the Philippines or the trend, the normal trend line?

Lance Gokongwei, President and COO, URC:

I would say the average category mature should probably, in a country that grows 5-6%, will probably grow at, you know, 5-7%, right, so you're looking at high single digit growth if you include – if you look at nominal terms it should be a reasonable long-term target.

Eric Ritter, Hamon Asset Management:

Okay and the main reason for the margin to improve 100 basis points Q on Q is what, because margin went from 9.8 to 11.9, right?

Lance Gokongwei, President and COO, URC:

Well the main increase is really because the branded businesses in both Philippines and international are showing much better margins. If you look at last year the low point for the margins was on Q3 and Q4 and since then margins have been inching up higher and Q3 has been the highest gross margins we've had so far this year and expect Q4 gross margins for our branded business to be even better than Q3.

Eric Ritter, Hamon Asset Management:

And why is that?

Lance Gokongwei, President and COO, URC:

Primarily because I would say a lot of the raw materials we used have been a little bit more cooperative. I would say particularly with regards to major ones like sugar, palm oil, coffee and PET. So I think that's helped. The second thing is particularly with the Philippines, the Philippine peso has been very strong so that helps companies like us that buy a lot of raw materials which are US dollar based pricing.

Eric Ritter, Hamon Asset Management:

And I guess the last question, what about the bond portfolio? Are you making any further progress to reduce the size of it?

Lance Gokongwei, President and COO, URC:

The bond portfolio is approximately the same size as it was at the Q3 although we expect that for Q4 we will report again significant gains on a marked to market basis.

Rebecca Lewis, Arisaig Partners:

Thanks for the presentation. I just wanted to follow up briefly on the Vietnam business. Obviously with some tempered performance in Thailand it's an important growth engine overseas. Can you comment on the – I think it's mid-teens growth you said? Can you comment on, first of all, the price and volume split between that?

Lance Gokongwei, President and COO, URC:

Without revealing too many secrets I would say today that Vietnam, in terms of sales and profitability, is larger than Thailand.

Basically the profitability trend there looks very strong because very recently we've been able to raise prices on a C2 by about 5% towards the end of the third quarter and second PET prices have had a slight correction from three or four months ago.

Rebecca Lewis, Arisaig Partners:

Can I ask the importance – obviously C2's gone into the number one position now, which is great. The growth, is it coming from growing established categories or is it the new launches in the snack area?

Lance Gokongwei, President and COO, URC:

I would say most of the growth has continued to be on the beverage side. C2 continues to grow double digit but we've had very significant success in entering the energy drink business with our Rong Do or Red Dragon product.

Rebecca Lewis, Arisaig Partners:

And the long-term view for Vietnam, is it on a five year basis a mid-teen aim or a high teens?

Lance Gokongwei, President and COO, URC:

We will of course like to see our business double in four or five years but it's very hard for me to say what it will be. But historically, we've grown our international business from $80m in '04 to I guess this year 470 plus, so we continue to believe that on a three to five year basis our Philippine business should grow 8-10% and our international business should grow 14 to 15%. That's what we think should happen given the relative sizes of the market and our relative positions in each market.

Taibah AlQatami, Asiya Investments:

Hello, my question is on the ethanol business. What's the progress regarding that and is the deal that you mentioned potentially toward the end of the year buying a small business, a sugar business in the Philippines, is it related to the ethanol business?

Lance Gokongwei, President and COO, URC:

No, the ethanol business is on track, it should begin operation for the 2014 fiscal year. The sugar business, we are in deep negotiations. We are at the MOA stage and we're doing detailed due diligence right now. It's a milling district which is adjoining one of our existing mills so we believe that by acquiring this now we generate much better economies of scale in that localised mill industry.

Taibah AlQatami, Asiya Investments:

And how do you expect to fund this?

Lance Gokongwei, President and COO, URC:

Well actually it's - again I repeat it's a very small deal, it's below a billion pesos so it's nothing earth shaking.

Taibah AlQatami, Asiya Investments:

My last question is regards to the issue, like selling the treasury sale; was it driven by the 23% state acquisition of URC international?

Lance Gokongwei, President and COO, URC:

Yes.

Taibah AlQatami, Asiya Investments:

So was the rationale selling shares vs. acquiring debt or using the cash?

Lance Gokongwei, President and COO, URC:

Yeah we felt that with the treasury shares we had it was probably – since the deal we were looking at was earnings accretive because it was ideal for us to issue these shares to acquire the remaining stake in the international business. We believe that even with the incremental shares we should still be able to sustain improving earnings per share and improving dividends over time while still preserving the balance sheet that will allow us to move aggressively in terms of both acquisitions or capital expenditure should the need arise.

Sridhar Nishtala, T.Rowe Price:

Hi Lance, Hi Mike. I have a few questions. Firstly, I mean just looking at your whole business mix, how do you think the mix of businesses looks like in say, three or four years time? How much of your profit do you think would come from your consumer businesses and how much from your commodity businesses? Do you think of your business in that way?

Lance Gokongwei, President and COO, URC:

You know the way I look at our business I tend to think that our sugar and flour business are very intimately connected to our branded business because, as we mentioned before, a very substantial amount of our flour and sugar volumes are generated from sales to our internal branded business so the way management tends to look at it is we look at ourselves as having really a branded business with aligned commodity businesses as well as a smallish feed and farm business. With our investment pattern, it's clearly focused on building the branded side of the business and I would say probably in five years you're practically looking at a 90 to 95% branded business aligned with our commodity and sugar and probably the profitability will be the same way.

Sridhar Nishtala, T.Rowe Price:

Right, okay. Because I mean the reason I ask is if I look the last ten years it's basically your commodity foods which has grown the fastest in term so operating profit growth during that period, much faster than the growth of your branded consumer so do you think that in the next five years that trend will diverse pretty much totally in favour of consumer.

Lance Gokongwei, President and COO, URC:

No, I think the reason why URC has the highest commodity margins in the entire Philippines is because we are so closely aligned with our branded business. I don't think you can have the success in one without the success in the other.

Sridhar Nishtala, T.Rowe Price:

Right, okay. The second question I had was just on your international side. So you mentioned that three markets make more than 100% of your profit so which are the key markets which are in the red? That's basically China, Indonesia, from what I recall. What do you think is the path to profitability in those two markets and particularly in Indonesia the first half was weak. I thought there were new products being introduced in second half; how is that progress happening?

Lance Gokongwei, President and COO, URC:

China is pretty much an EBITDA breakeven operation now, primarily because we've managed to control the operating expenses at the local selling level but the big benefit there has really been through the export of biscuits and particularly coffee and creamer to the Philippines so that has increased capacity utilization that has improved revenue per employee and as a result the business there is essentially EBITDA breakeven. Indonesia is still struggling. Again we still expect to lose somewhere in the region of $6m or so in that market but I think what we are beginning to notice is that the snack businesses where we are betting our future on is showing year on year growth of about 25 to 30%. The volumes in Indonesia look rather flat if you look at it in total but that's really because snacks has been growing fast, but our own sugar confectionery business has really begun to shrink, as has most of the sugar confectionery business in Indonesia, and I think this has to do with a coinage change in Indonesia where, if I recall properly, the price has gone to three pieces for 500 rupiah from the original one for 100 and that shrank the sugar confectionery market in Indonesia.

Sridhar Nishtala, T.Rowe Price:

Okay, so how far do you think Indonesia is for it to become significant for your overall international business, I mean do you think it's still work in progress for the next one or two years or do you think it can happen quicker than that?

Lance Gokongwei, President and COO, URC:

It's definitely a work in progress. I do hope that in two years I can get it to EBITDA breakeven and I think I have to get it to about $50m in turnover.

Sridhar Nishtala, T.Rowe Price:

Okay. And my last question was just on your bond portfolio. Could you sort of help me understand the impact the peso position has in terms of the valuation there? How much of it is in foreign currency?

Lance Gokongwei, President and COO, URC:

It's primarily all in dollars but you notice we had a significant FX loss. This is not really from the bond portfolio but it's primarily related to the revaluation of our URC international assets into pesos because the peso I guess has been very strong and if you mark to market all our offshore companies that has resulted in the FX loss. It is significant but our main metric in running our business has really always been sales and cash generation.

Sridhar Nishtala, T.Rowe Price:

Fair enough. So how much of the bond portfolio – so it's more or less all invested abroad, is it?

Lance Gokongwei, President and COO, URC:

Yes.

Sridhar Nishtala, T.Rowe Price:

Okay. And you know you mentioned that you are using China as a manufacturing base for supplying the rest of your business. It's an interesting thing because everybody is complaining in China about high costs nowadays.

Lance Gokongwei, President and COO, URC:

Well you know what we're just being practical because we have the asset there.

Sridhar Nishtala, T.Rowe Price:

Right. So if the opportunity arose of actually getting rid of that would that be something you would consider?

Lance Gokongwei, President and COO, URC:

I cannot get rid of it because I need the capacity.

Sridhar Nishtala, T.Rowe Price:

Right. No if you were to move capacity, say to Vietnam or maybe Philippines?

Lance Gokongwei, President and COO, URC:

Yeah, definitely if the coffee plant were in Vietnam we'd probably be in better shape.

Koh Sang Lim, New Silk Road Investment:

Hi, thanks Lance and Mike for doing the call. I have three questions; one is on your Vietnam market share. You mentioned that you have overtaken the market leader but from your presentation slide it says that your market share is at 39%. Can you just give me an update on the market share of C2 in Vietnam, the latest figures?

Lance Gokongwei, President and COO, URC:

As a brand we are the market leader at 39%, but our competitor has two brands. They have a brand called Dr. Thanh, which is a herbal tea, and he has a brand called Zero Degree which is a sweet or fruit flavoured tea similar to C2 so as an individual brand C2 is now the leading brand in Vietnam. But as a company our competitor's two brands still give him a larger market share than it does us.

Koh Sang Lim, New Silk Road Investment:

Understood. I think regarding your sugar business, I think when I last met management the figure of a billion EBIT was floated for second half EBIT. I'm just wondering whether with the third quarter results do you need to revise this number?

Lance Gokongwei, President and COO, URC:

We expect to end the year at about one four EBIT, maybe one seven EBITDA.

Koh Sang Lim, New Silk Road Investment:

Okay, so it's still on track, yeah?

Lance Gokongwei, President and COO, URC:

Yeah one point four – probably very close to last year is where we expect to end up.

Koh Sang Lim, New Silk Road Investment:

Okay. And with your Philippine business so strong would you consider raising prices again for fourth quarter?

Lance Gokongwei, President and COO, URC:

We would do it selectively but I would caution that we do not expect major price increases for the next month or two at the very least because we've just had a very serious typhoon here and I think we probably have to be very responsive to public opinion and not raise prices for the next couple of months.

Christopher Leow, CIMB:

Hi. I'd just like to check, can you give us an idea of your capital expenditure for this year and next year and in what areas will you be spending it on?

Lance Gokongwei, President and COO, URC:

This year we guided at $120m. I think we will not reach that number, we're probably headed towards more like $100m dollars, of which 80 million is probably on our branded business.

Next year - we're still in the process of preparing our budgets but I would say it's probably a number flat to lower than this year

Christopher Leow, CIMB:

Okay. And specifically can you tell us in what areas will you be spending it on for the branded consumer business? What categories are you going to expand capacity for instance?

Lance Gokongwei, President and COO, URC:

I cannot get really into the details but by country we're spending the most of it in Vietnam.

Christopher Leow, CIMB:

Okay. And in the last quarter you mentioned that you were exploring an expansion in Myanmar. Can you give us an update on that?

Lance Gokongwei, President and COO, URC:

Yeah in Myanmar we are in the process of securing an investment licence, which is quite a time consuming process. We have already reached the stage where we are presenting our investment proposal to – I believe they call it the MIC or Ministry of Investment in Myanmar. Subject to that approval then that will allow us to secure an investment licence and actually close the property that we have already reserved in an industrial estate from three or four months ago.

Christopher Leow, CIMB:

Sorry, one last question, in terms of price increases, if wheat prices stay at these levels by what quantum would you need to increase prices by if you were not to impact margins?

Lance Gokongwei, President and COO, URC:

Okay if I just look at our flour business in general we probably import 240/250 thousand tonnes of wheat so you're probably looking at a $40m increase in wheat. I would say 65% of that is sold to outside customers so we probably need a price increase equivalent to about 12 to 15%. We expect to have two sets of price increases probably in the next month for flour, which will probably recover 7-8% of that. On the impact on our noodle and biscuit business, we actually just raised our noodle prices last month by about 4-5% but I think that's not enough. We are not the market leader here but certainly we will follow the leader, if he pushes up prices.

So in summary I don't think we will recover all of these wheat prices but I think we will probably recover a significant part of it.

Christopher Leow, CIMB:

For your flour business, right?

Lance Gokongwei, President and COO, URC:

Yeah.

Christopher Leow, CIMB:

Okay. And in terms of new categories, in Philippines are you thinking of entering into any new categories like, I don't know, ice cream?

Lance Gokongwei, President and COO, URC:

We're going launch and expand our range within our existing categories. We believe there's really a lot of opportunity to be in many of our categories.

Lance Gokongwei, President and COO, URC:

Okay I think that probably concludes our third quarter presentation. Mike and I will be available for questions if you need to contact us and we hope to hear from you again when we present our full year results in the next few months. Thank you very much.

Speaker:
Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may now disconnect.

END OF TRANSCRIPT