EDITED TRANSCRIPT
UNIVERSAL ROBINA CORPORATION (URC) 1H FY14 UNAUDITED RESULTS
EARNINGS CALL

EVENT DATE/TIME: MAY 12, 2014/2:00PM (MANILA TIME)

PRESENTATION:

Speaker:

Ladies and gentlemen, thank you for standing by and welcome to the URC Quarterly Investor Briefing Conference Call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you will need to press *1 on your telephone keypad. I must advice you that this conference is being recorded today, 12th May 2014. I will now like to hand the conference over to your first speaker today, Mr Lance Gokongwei. Thank you, please go ahead sir.

Lance Gokongwei:

Good afternoon. Today I will be presenting the unaudited financial results of Universal Robina Corporation as of the first half of fiscal year 2014. Top-line growth for total URC remains strong as Q2 net sales grew by 14% versus same period last year, which resulted in first half sales of Php 45.7 billion, a 13% increase versus prior year driven by the strong growth of Branded Food Philippines.

The margin expansion trend continued onto the second quarter due to lower inventory prices of many major raw materials and additional scale for the business. As a result, second quarter EBIT grew by 42% which resulted in the first half EBIT of Php 7 billion, 42% growth versus same period last year with margins of 15.3%, a 310 basis point expansion. Core earnings for the first half registered at Php 7.1 billion, up 19% versus same period last year. The company registered net finance revenue of Php 55 million in the first half of this year versus Php 221 million in the prior year as we liquidated most of our financial investments in fiscal year 2013. Lastly, first half net income closed at Php 6.2 billion, up 14% versus same period last year. Growth was slower than operating income as we booked lower market valuation gains and net finance revenue, given that we liquidated most of our bond and equity holdings last year.

Total branded food sales for Q2 was up 20% versus last year, which resulted in first half revenues of Php 37.8 billion, an increase of 20%. Q2 EBIT grew much faster at 52% versus same period last year, resulting in Php 5.3 billion or a 52% increase for the first half. Year to date margins ended higher by 290 basis points at 14%. Branded Food Philippines was the key driver to the solid performance of the group and Branded Foods International also contributed as Thailand, Vietnam and Malaysia/Singapore posted double digit growth in local currency terms in the second quarter.

Sales for Branded Food Philippines sustained its momentum as second quarter revenue grew by 25% versus last year, which led to first half sales of Php 25.6 billion, a growth of 20% of volume growth of 23%. The significant growth in top-line was contributed by all segments led by beverages as beverages registered a first half growth of 42% versus same period last year, mainly backed by the robust growth of our powdered beverage business, primarily coffee 3-In-1. We continue to grab market shares from competition, with latest exit readings as of February for total coffee at 27.5%, higher by 180 basis points versus December 2013. Ready to drink beverage also grew at double digits with contributions coming from tea, juice and water. Snack-foods also posted double digit growth at 18% as salty snacks, bakery and confectionery all sustained their growth, mainly driven by core brands.

In the first half, we launched a total of 13 new products which now contribute about 1% of turnover. Absolute EBIT grew much faster than sales as Q2 ended 62% above same period last year, which translated to a first half figure of Php 4.1 billion, a 64% increase due to lower input prices and scale. First half EBIT margins registered at 16%, significantly better than last year by 360 basis points. Sales for Branded Food International accelerated in Q2 as we registered 11% growth versus last year which translated to a first half growth of 10%. In dollar terms, sales grew by 2% for the first half due to the depreciation of the Philippine peso.

Q2 absolute EBIT for the intentional business grew by 21% versus same period last year and resulted in first half EBIT of Php 1.2 billion, a growth of 20% with margin sustained.

Our Thai business grew despite the weak macro environment due to favourable sales posted by our key biscuit brands including Fun-O and Cream-O and new products that gained traction. Total impulse category just grew 1% for the period but we saw the positive impact of our creative strategy among others of launching a two baht cookie to cater to the constrained consumers in up country.

Vietnam sales began to recover, up 11% from the weakness in beverage sales posted in Q1 due to cold weather and further affected by weak consumer demand which has affected the total FMCG sales industry in Vietnam. The whole ready-to-drink tea industry in Vietnam, according to Nielsen, declined by 8% during the period, but our new product, C2 Oolong and Soda Pop, are showing signs of traction while our energy drink, Rondo, registered strong double digit growth. Snack-food categories grew double digit due to the holiday season.

Indonesia sales declined versus the same period last year as we closed down our beverage business. Our snack business however continued to post double digit growth at about 18%.

Malaysia, Singapore posted positive growth versus same period last year, about 9%, driven primarily by chocolate biscuits and candies. China and Hong Kong were up versus last year, again up 11% in peso terms on the back of cereals and oats.

For our commodity food group, first half sales declined by 24% as volume for the sugar business was affected by the unusually wet weather season which affected cane supply for the period. Despite this, we expect an extended milling season which will result to better cane supply in the coming months. Profitability was also affected by the decline in volume sold but this was mitigated by the increase in average unit price for sugar. On the other hand, flour sales increased by 6% due to significantly higher volumes. Absolute EBIT increased mainly due to lower wheat prices against same period last year.

On to our agro-industrial groups, on the farm side, sales increased by 12% due to higher volumes and higher average selling prices. For EBIT, first half figures were still significantly up versus same period last year. This includes their evaluation gain of Php 172 million on our biological assets as fiscal year market prices were marked at Php 109 per kilo versus an end 2013 market price at Php 93 per kilo. For feeds, sales increased by 4% but EBIT declined by 29% due to significantly higher input cost.

Turning to our balance sheet, it remains quite healthy. We have managed to generate EBITDA of Php 8.9 billion for the first half of 2014, a 34% increase over same period last year. We continue to maintain a net cash position of Php 4.3 billion as of the first half from Php 8.1 billion as of the end of 2013 fiscal year. Major cash inflows were Php 10.1 billion earnings from operation. On the other hand, major cash outflows were Php 4.3 billion in CapEx, majority of which went to our branded food businesses primarily in the ASEAN as well as Php 6.5 billion in cash dividends. This is equivalent to 65% of the previous year's reported net income. Gearing ratio continues to be manageable at the low level of 0.13 as we have zero long term debt in our balance sheet.

Before we discuss our future plans and guidance, let me give you our view on some of the top commodities we use. We have seen significant increases for some of our top commodities namely palm oil and robusta in the last few months. But this has been offset by declines in sugar and cocoa powder. With this, we expect out full year weighted input cost increases to hover around 3% with currency weakness factored in. We have done pricing actions on a selective basis starting March and we will continue to review the trend for these top commodities and implement options of further price increases where applicable.

Lastly, let me take you through our outlook and plans for the balance of the fiscal year. Our plans and our outlook are as follows.

- Total branded foods will grow mid to high-teens in top-line but expect margin pressures going to the second half, especially in the coffee category.
- We are in the process of commissioning the creamer factory in Vietnam this month, which will augment the requirements of the Philippines. We also expect to start commissioning our bio-ethanol facility by the last quarter of 2014 fiscal year. We will further finish the construction of our factory in Central Vietnam, Myanmar and our biomass powered co-gen plant by the end of 2014 calendar year.
- We have recently announced our initiatives on regional alignment. We plan to accelerate this regional alignment by integrating the core functions in operations, procurement and supply chain and support groups such as HR, corporate planning and IT. We are doing full organizational reviews to determine manpower competencies and match this with the requirements across the region. And we have also started major projects in improving selling systems in both Indonesia and Thailand.

- The CapEx budget for fiscal year 2014 is approximately USD 200 million, with the bulk going to the branded foods business, primarily in the ASEAN. This amount also includes additional CapEx investment for the acquisition of our new projects in the sugar business. As of the moment, we have already spent USD 96 million for the first six months.

Finally, for our full year guidance, though we are maintaining our sales guidance of low to mid-teens, we are calling up our EBIT guidance to low to mid-20s for total URC, and are estimating at least Php 13 billion in operating profits for the current fiscal year. That ends our short presentation. We are now open for Q&A.

QUESTION AND ANSWER

Speaker:

Thank you. Ladies and gentlemen, we will now begin the question and answer and session. If you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the # key. And the first question comes from the line of Bobby Jayaraman of Frunze Investments. Please ask your question.

Bobby Jayaraman, Frunze Investments:

Hello, good afternoon to everyone. My question is regarding the international performance. I wanted to check whether you're profitable in all the countries you're operating in, especially Indonesia?

Lance Gokongwei, President and CEO, URC:

We are profitable in all countries except Indonesia.

Bobby Jayaraman, Frunze Investments:

And in Indonesia, you mentioned that you had closed down the beverage business. So, would that lead to profitability moving forward?

Lance Gokongwei, President and CEO, URC:

Our first objective is to reach EBITDA profitability, which we think we can achieve probably two fiscal years from now.

Bobby Jayaraman, Frunze Investments:

Okay, thank you.

Speaker:

Thank you. Once again ladies and gentlemen, if you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the # key. There are no further questions at this time. I will now like to hand the conference back to today's presenters. Please continue.

Lance Gokongwei, President and CEO, URC:

If there are no further questions, thank you and we'll speak to you again in a few months.

Michael Liwanag, Vice President, URC:

Yeah, August.

Lance Gokongwei, President and CEO, URC:

Thank you.

Speaker:

Ladies and gentlemen, that concludes our conference for today. Thank you for your participation. You may all now disconnect.

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