

EEI Corporation (EEI)

1-year Chart



Recommendation

TRADING BUY

Last: P1.84 (05/28/09)	High: P2.85 (06/4/08)
	Low: P0.70 (12/04/08)

Technical Analysis

Support 1: P1.80	Resistance 1: P1.90
Support 2: P1.78	Resistance 2: P1.94

- ❖ *EEI might need to pause for technical breathers within P1.78-P1.80 over the near-term given the stock's latest ascending channel. We laud the positive improvement on the stock's turnover, although MACDs might soon reverse given its ascent to overbought zone. Position on weakness. Potential upside is at P2-P2.10.*

Corporate Snapshot:

- ❖ **1Q09 earning +24.5%.** *EEI posted 24.5% improvement in net earnings for 1Q09, after the firm's other income rallied 92.2% to P124.2mn, driven by technical & management fees from overseas operations/subsidiaries. Also, cost of goods sold fell 15.1% to P1.4bn, thereby improving margins from 10.2% to 11%. The latter more than offset the 14.2% drop in core businesses at P1.6bn, weighed by construction contracts (-20.3% at P855mn) & services (-4.4% at P685.8mn). Also, consolidated contracts & orders that have already been realized as of March dipped 12.6% to P873.8mn. The decline in production from local contracts mirrored the expected slowdown in the industry, on account of reduced capital expenditures by private firms.*
- ❖ **Changing topline mix.** *Domestic receipts (88% of total construction revenues) fell 17.6% during the quarter. Offshore income meanwhile, expanded 49.5% to P182.3mn, raising its overall contribution to topline from 7% to 12%. Gross Profit from construction reached P104.7mn (-2.6%). Services (42.3% of topline), showed moderate weakness at P685.8 (-4.4%). Gross margins nevertheless widened to 9.1% from 8.8%, as the decline in construction costs outpaced contraction in revenues. Order backlog (unrealized portion) for domestic operations reached P3bn as of March 2009.*

In Pmn	1Q09	1Q08	% change
Revenue	1,623	1,892	-14.2
Construction contracts	855	1,073	-20.3
Services	686	718	-4.4
Gross Profit	179	192	-6.8
Net Income	155	125	+24.5
EPS	0.60	0.48	+24.4
Consolidated contracts & orders	874	1000	-12.6

OVERSEAS

Order Backlogs	New Contracts
Sharq ethylene plant	JGC Corp. contract for Saudi Polymers project in Saudi Arabia with 49%-owned Al-Rushaid Construction Corp. (ARCC)
Saudi Aramco's Flare Tips project	GAMA Qatar Company contract under the Chiyoda-Technip Joint Venture (fabrication & erection, & electro-mechanical works for Qatargas 3 & 4 Onshore project)
Mitsubishi's desalination plant	
Qurrayah's boiler tubes replacement	
Piperack Modules for Shaw Stone Webster Asia, Inc	

DOMESTIC

Order Backlogs	
St.Francis Shang Towers (Mandaluyong)	Ramo IV-C of the Ninoy Aquino International Airport
Mandarin Square (Binondo)	Villamor Skyway Interchange (DPWH)
Beacon tower of GeoEstate Holdings, (Makati)	Biscom Sugar Refinery (Negros)
Acacia Grove Condominium Hotel in (Alabang)	JGC Corp.'s Coral Bay Nickel Mining Project (Palawan)

❖ **Upbeat expectations offshore.** The gradual adjustment in EEI's topline mix might cushion the impact of weak domestic performance, given its substantial offshore exposure, particularly in Middle East. As of March, offshore backlog reached P20.32bn, resulting to concentration of project assets & manpower overseas. Outlook remains upbeat, given higher crude prices, which bodes well for EEI's petroleum-producing client network. In fact, EEI recently bagged \$162mn worth of contract in Saudi & Qatar & is currently waiting for the operation of a new refinery & power plant facility in Kuwait. There are still 2-3 more contracts in the Middle East where EEI had either been declared qualified or just waiting for take-off. As contingencies to Middle East, EEI also ventured into potential projects in Asia-pacific & Africa.

❖ **Hazy prospects from public spending, biofuel investments.** The government earmarked nearly P160bn for infrastructure, as part of its P330bn Economic Resiliency Plan. However, take-offs of said programs have been long pestered by delays of all sorts & despite hefty allocation most of them remain on the shelf. Thus, EEI could not expect much from the earlier announced spending as long as these projects go through the same lethargic process & funding implementation. Also, EEI's prospects from the implementation of the Biofuels Act this year remain hazy due to deferment of bioethanol investments. Though a number of firms have already expressed interest venturing into bioethanol, lack of adequate funding has been obstructing take-off for said projects. Therefore, EEI's ability to take advantage of the alcohol refining & distilling manufacturing industries remains hinged on accessibility to funding for interested players. EEI is not a neophyte in biofuel, having done major contract works for Petron Corporation (PCOR), covering fabrication & installation of ethanol blending facility for Mandaue, Cebu terminal.

