Philippine National Bank (PNB):
PNB to price rights offering at 15-20% discount

PNB reveals estimated pricing of rights. In addition to its disclosure on November 7, PNB added today that the estimated pricing of its Php15Bil rights offering (equivalent to 16.9% of market cap) is expected to be in the range of 15-20% discount to the 10-day volume-weighted average price at the time of pricing. The final offer price will be announced in due time.

Based on our calculations, the current volume-weighted average price is around Php84.70/sh. This would imply a range of Php70.60 to 73.70 for the rights offering assuming the offer price is finalized today.

Proceeds to boost capital position. According to the bank, the rights offering is aimed to proactively strengthen its capital base as it seeks to expand its lending capabilities to capitalize on the growing economy. This should also further improve its capital position ahead of the stricter rules under Basel III.

Offering expected to weigh down prices in short term. As we have indicated in our previous reports, we expect PNB's announcement to drag its share price in the short term as the market anticipates a potential dilution. In addition, the newly issued shares would have to be absorbed by the market once the transaction is finalized. Nevertheless, we continue to like PNB as a turnaround play given its efforts to improve profitability coupled with revenue and cost synergies that are expected to result following its merger with Allied Bank. As such, we are maintaining our BUY rating on PNB with an FV estimate of Php112.00/sh based on 1.5X 2014E P/BV.

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Investment Rating Definitions

BUY	HOLD	SELL
Stocks that have a **BUY** rating have attractive fundamentals and valuations, based on our analysis. We expect the share price to outperform the market in the next six to twelve months.	Stocks that have a **HOLD** rating have either 1.) attractive fundamentals but expensive valuations; 2.) attractive valuations but near term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely inline or underperform the market in the next six to twelve months.	We dislike both the valuations and fundamentals of stocks with a **SELL** rating. We expect the share price to underperform in the next six to twelve months.

Important Disclaimers

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