



## **President's Report First Quarter 2019**

LT Group, Inc.'s (LTG) unaudited attributable net income for the first quarter of 2019 was Php4.42 billion, Php791 million or 22% higher than the Php3.63 billion earned in 1Q18.

The tobacco business accounted for Php2.84 billion or 64% of total attributable income. Philippine National Bank (PNB) contributed Php1.08 billion or 24%. Tanduay Distillers, Inc. (TDI) added Php229 million or 5%. Eton Properties Philippines, Inc. (Eton) accounted for Php148 million or 3% while Asia Brewery, Inc. (ABI) provided Php82 million or 2% of total. The 30.9% stake in Victorias Milling Company, Inc. (VMC) accounted for Php75 million, or 2%.

LTG's balance sheet remains strong. As of the end of March 2019, the cash balance of the parent company stood at Php1.46 billion. Debt-to-Equity Ratio was at 3.8:1 with the Bank, and at 0.2:1 without the Bank.

### **Tobacco**

The tobacco business reported a net income of Php2.85 billion for the first three months of 2019, Php489 million or 21% more than the Php2.36 billion reported for 1Q18.

Equity in net earnings from LTG's 49.6% stake in PMFTC reached Php2.69 billion, 18% or Php405 million higher than the Php2.29 billion realized in the first quarter of 2018.

The improvement in earnings was due to the volume mix and the price increase of Fortune in December 2018.

The Government continued its efforts against the illicit trade which includes smuggled and locally produced products. In 1Q19, there were 23 enforcements with 3 illegal factories shut down, 24 machines seized and an estimated US\$8.5 million worth of fake cigarettes confiscated. This is significantly higher than the 9 enforcements in 1Q18. We commend the Government for taking this problem seriously, as the number of raids has been increasing and has been effective in curbing the presence of illicit products in the market. However, continued actions and vigilance are needed in order to contain the growth of the illicit trade. The tax-driven price increases of the tax paying industry players make it attractive to make profits from the illicit trade.

LTG is not against tax increases, but believes that the hikes should be moderate. Continual price increases to pass on higher excise taxes may result to further volume drops. The industry's volume was estimated at 109 billion sticks in 2012 and declined to an estimated 73 billion sticks in 2018, or a decrease of 33% over a six-year period. Excise taxes have substantially increased

starting 2013, under Republic Act (RA) 10351 and the current RA 10963 starting 2018. From a low of Php2.72 per pack of 20 sticks in 2012 for the lower tier and Php12 per pack for the upper tier, the excise tax is currently at Php35 per pack, or about 3x to 13x.

### **Philippine National Bank (PNB)**

PNB's net income under the pooling method was Php1.95 billion for 1Q19, 30% or Php448 million higher than 1Q18's Php1.50 billion. Both quarters included gains from the sale of Real and Other Properties Acquired (ROPA), at Php48 million, net of taxes, in 1Q19 and Php177 million in 1Q18. Excluding the ROPA gain, the Bank's core income was at Php1.90 billion in 1Q19, 44% higher compared to 1Q18's Php1.32 billion.

Net Interest Income was 11% higher at Php7.09 billion from Php6.42 billion as loans and receivables grew by 17% y-o-y to Php589 billion and Net Interest Margin was slightly lower at 3.0% from 3.3%. Loan to Deposit Ratio (LDR) increased to 79.1% as of March 2019 from 75.5% as of March 2018 as deposits increased at a slower pace than loans at 13% y-o-y to Php745 billion from Php658 billion.

Net Service Fees and Commission Income grew 14% to Php968 million from Php852 million primarily due to higher deposit, interchange and credit card related fees.

Trading and Foreign Exchange Gains increased substantially to Php856 million from Php38 million in 1Q18.

Operating Expenses, excluding ROPA sale-related items, were 19% higher at Php6.72 billion from Php5.67 billion, which included higher provisioning for probable credit losses of Php346 million compared to Php70 million in 1Q18, the Php151 million increase of documentary tax stamps and the Php198 million increase in gross receipts tax (GRT). The Bank also booked Php264 million more depreciation expenses from the new core banking system which the Bank migrated to in 3Q17.

Net Non-Performing Loans (NPL) ratio was at 0.3% as of March 2019, lower than the 0.4% as of March 2018. NPL cover stood at 158% compared to 128% as of March 2018.

### **Tanduay Distillers, Inc. (TDI)**

TDI's net income for 1Q19 reached Php234 million, Php99 million or 73% more than the Php135 million reported for 1Q18.

Total revenues were Php4.73 billion, 11% or Php483 million higher than 1Q18's Php4.24 billion. Revenues from liquor were 6% higher y-o-y to Php3.92 billion from Php3.70 billion with the 5% growth in volume, as well as higher selling prices to pass on the increase in excise taxes.

Meanwhile, revenues from bioethanol were 46% higher at Php810 million from Php574 million on the back of an 34% increase in volume.

TDI's nationwide market share for distilled spirits was at 28.1% as of March 2019, higher than March 2018's 26.1%. The Company enjoys a bigger share in the Visayas and Mindanao regions where most of TDI's sales are generated. In the Visayas, TDI's market share was at 63.4% as of March 2019, compared to 65.4% as of March 2018. In Mindanao, market share stood at 71.6% compared to 68.9% for the same periods.

Gross Profit Margin (GPM) was flat at 17%. Operating expenses were slightly lower at Php528 million in 1Q19 from Php535 million in 1Q18 due to lower selling expenses.

### **Eton Properties Philippines, Inc. (Eton)**

Eton ended the quarter with a net income of Php149 million, Php52 million or 54% higher than the Php97 million recorded in 1Q18.

Revenues were 11% higher y-o-y to Php646 million from Php579 million as leasing revenues were 13% more at Php400 million while sales from residential units increased by 9% to Php246 million.

Eton Square Ortigas, a stand-alone pocket retail development located at Ortigas Avenue, San Juan City was completed in 2018. It is currently fully leased out with all tenants lined up for opening within the first half of 2019.

Moreover, eWestMall and eWestPod, the retail and office components of the mixed-use development Eton WestEnd Square in Makati City, with 16,500 square meters of leasable space is targeted for completion by the end of 2019.

Eton is also constructing (1) Eton City Square 1, the neighborhood retail and commercial center in Eton City, Sta. Rosa, Laguna. The 3.7 hectare pocket retail development features 6,500 square meters of gross leasable area; and (2) NXTower I, an office building located between Emerald Avenue and Ruby Road in Ortigas, Pasig City which will have 21,000 square meters of gross leasable space.

As of end-March 2019, Eton had around 39,000 square meters of retail space and 125,000 square meters of office space.

### **Asia Brewery, Inc. (ABI)**

ABI's net income for 1Q19 was at Php82 million, 45% or Php67 million lower than the Php149 million reported for 1Q18.

Revenues were at Php3.86 billion, 13% or Php457 million higher than 1Q18's Php3.40 billion due to higher revenues from energy drinks, bottled water, packaging and soymilk.

Overall GPM declined to 28% from 30% primarily as a result of product mix and higher PET packaging costs. Operating expenses were 20% higher as the Company spent more on advertising and promotions.

Cobra energy drink continues to account for the largest share of revenues at 35% of total. It remains the market leader with a share of over 70%. Cobra was able to post a growth in volume in 1Q19, a reversal from the drop in FY2018 due to the impact of the price increase to pass on the tax on sugary drinks. In 2018, ABI raised the selling price of Cobra by Php2 per 240ml returnable glass bottle to pass on the tax.

The sales volume of Absolute and Summit, our bottled water brands, continued to be strong. Our market share is at 25%, the second largest in this segment. Water accounted for 26% of revenues.

ABI started selling Vitamilk in returnable glass bottles in 1Q17. Our market share is over 70% and sales in this category continue to grow by double-digit. Soymilk contributed 11% of total revenues.

The packaging business' revenues were 11% higher y-o-y and accounted for 19% of revenues. ABI supplies the glass bottle and other packaging requirements of TDI and ABI and also sells to third parties.

**LT GROUP, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Amounts in Thousands)

	<b>March 31, 2019</b> <b>(Unaudited)</b>	<b>December 31, 2018</b> <b>(Audited)</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	<b>P184,387,805</b>	P176,496,004
Financial assets at fair value through profit or loss	<b>19,140,514</b>	10,783,021
Financial assets at fair value through other comprehensive income (FVTOCI)	<b>18,271,619</b>	9,256,885
Financial assets at amortized cost	<b>19,473,364</b>	—
Loans and receivables	<b>261,877,738</b>	245,934,405
Inventories	<b>13,535,589</b>	13,108,204
Due from related parties	<b>2,028,660</b>	2,028,632
Other current assets	<b>10,456,726</b>	9,105,700
	<b>529,172,015</b>	466,712,851
Assets of disposal group classified as held for sale	<b>7,394,780</b>	8,238,623
<b>Total Current Assets</b>	<b>536,566,795</b>	474,951,474
<b>Noncurrent Assets</b>		
Loans and receivables - net of current portion	<b>341,056,725</b>	347,753,938
Financial assets at FVTOCI	<b>63,771,824</b>	48,094,583
Financial assets at amortized cost	<b>75,066,734</b>	99,772,711
Investment in associates and joint ventures	<b>21,122,409</b>	20,314,141
Property, plant and equipment:		
At appraised values	<b>60,346,728</b>	60,317,761
At cost	<b>9,359,775</b>	7,802,933
Investment properties	<b>29,996,622</b>	30,318,901
Deferred income tax assets	<b>1,854,275</b>	1,899,044
Other noncurrent assets	<b>6,090,678</b>	6,551,322
<b>Total Noncurrent Assets</b>	<b>608,665,770</b>	622,825,334
<b>TOTAL ASSETS</b>	<b>P1,145,232,565</b>	<b>P1,097,776,808</b>

**LIABILITIES AND EQUITY**

<b>Current Liabilities</b>		
Deposit liabilities	<b>P677,280,280</b>	P672,342,296
Financial liabilities at fair value through profit or loss	<b>320,566</b>	470,648
Bills and acceptances payable	<b>88,469,907</b>	60,549,245
Accounts payable and accrued expenses	<b>24,940,581</b>	22,516,482
Income tax payable	<b>771,040</b>	1,012,898
Short-term debts	<b>2,050,000</b>	2,050,000
Current portion of long-term debts	<b>180,621</b>	90,829
Due to related parties	<b>80,199</b>	80,199
Other current liabilities	<b>10,294,299</b>	8,616,177
	<b>804,387,493</b>	767,728,774
Liabilities of disposal group classified as held for sale	<b>6,344,590</b>	7,237,811
<b>Total Current Liabilities (Carried Forward)</b>	<b>810,732,083</b>	774,966,585

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>Total Current Liabilities (Brought Forward)</b>	<b>P810,732,083</b>	<b>P774,966,585</b>
<b>Noncurrent Liabilities</b>		
Deposit liabilities - net of current portion	52,190,606	47,219,123
Bills and acceptances payable	8,610,627	9,533,590
Long-term debts - net of current portion	18,434,970	18,555,324
Net retirement benefits liability	1,447,440	1,636,201
Deferred income tax liabilities	8,796,486	8,811,004
Other noncurrent liabilities	5,255,135	5,864,593
<b>Total Noncurrent Liabilities</b>	<b>94,735,264</b>	<b>91,619,835</b>
<b>Total Liabilities</b>	<b>905,467,347</b>	<b>866,586,420</b>
<b>Equity</b>		
Attributable to equity holders of the Company:		
Capital stock	10,821,389	10,821,389
Capital in excess of par	35,906,231	35,906,231
Preferred shares of subsidiaries issued to Parent Company	18,060,000	18,060,000
Other equity reserves	804,095	804,095
Reserves of disposal group classified as held for sale	(21,893)	(21,893)
Other comprehensive income, net of deferred income tax effect	17,495,784	15,410,482
Retained earnings	96,597,069	91,998,914
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	179,650,156	172,966,699
Non-controlling interests	60,115,062	58,223,689
<b>Total Equity</b>	<b>239,765,218</b>	<b>231,190,388</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P1,145,232,565</b>	<b>P1,097,776,808</b>

**LT GROUP, INC. AND SUBSIDIARIES****INTERIM CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	<b>Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>REVENUE</b>		
Banking	<b>₱12,918,202</b>	₱9,218,073
Beverage	<b>3,601,469</b>	3,105,982
Distilled spirits	<b>4,725,202</b>	4,222,644
Property development	<b>645,800</b>	578,539
	<b>21,890,673</b>	17,125,238
<b>COST OF SALES AND SERVICES</b>	<b>10,778,347</b>	7,665,103
<b>GROSS INCOME</b>	<b>11,112,326</b>	9,460,135
<b>EQUITY IN NET EARNINGS OF ASSOCIATES</b>	<b>2,516,522</b>	2,168,211
	<b>13,628,848</b>	11,628,346
<b>OPERATING EXPENSES</b>		
Selling expenses	<b>695,939</b>	635,642
General and administrative expenses	<b>7,525,554</b>	6,422,804
	<b>8,221,493</b>	7,058,446
<b>OPERATING INCOME</b>	<b>5,407,355</b>	4,569,900
<b>OTHER INCOME (CHARGES)</b>		
Finance costs	<b>(63,328)</b>	(30,007)
Finance income	<b>36,221</b>	23,342
Foreign exchange gains - net	<b>175,133</b>	21,102
Others – net	<b>622,945</b>	669,227
	<b>770,971</b>	683,664
<b>INCOME BEFORE INCOME TAX</b>	<b>6,178,326</b>	5,253,564
<b>PROVISION FOR INCOME TAX</b>		
Current	<b>919,869</b>	748,634
Deferred	<b>(36,860)</b>	21,359
	<b>883,009</b>	769,993
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>5,295,317</b>	4,483,571
<b>NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS</b>	<b>8,719</b>	(177,160)
<b>NET INCOME</b>	<b>₱5,304,036</b>	₱4,306,411
<b>NET INCOME ATTRIBUTABLE TO:</b>		
Equity holders of the Company	<b>₱4,421,714</b>	₱3,630,528
Non-controlling interests	<b>882,322</b>	675,883
	<b>₱5,304,036</b>	₱4,306,411
<b>Basic/Diluted Earnings Per Share</b>	<b>₱0.41</b>	₱0.34