



## **President's Report First Half 2020**

LT Group, Inc.'s attributable net income for the first half of 2020 amounted to Php10.03 billion, Php790 million or 9% higher than the Php9.24 billion reported for the first half of 2019.

The tobacco business accounted for Php8.18 billion or 82% of total attributable income. Philippine National Bank (PNB) contributed Php795 million or 8%. Tanduay Distillers, Inc. (TDI) followed with Php541 million or 5%. Eton Properties Philippines, Inc. (Eton) added Php402 million or 4% while Asia Brewery, Inc. (ABI) accounted for Php40 million or less than 1%. The 30.9% stake in Victorias Milling Company, Inc. (VMC) accounted for Php148 million or 1%.

In June, LTG paid cash dividends of Php0.43 per share or a total of Php4.65 billion or a 20% payout rate on the 2019 attributable net income of Php23.12 billion.

LTG's balance sheet remains strong. Debt-to-Equity Ratio was at 3.81:1 with the Bank, and at 0.18:1 without the Bank.

LTG redeemed in 1H20 Php7.1 billion of the Php18.06 billion preferred shares issued in 2013 and 2014 for the acquisition of PNB. The balance of these preferred shares was at Php1.43 billion as of end-June 2020.

As of the end of June 2020, the cash balance of the parent company stood at Php249 million.

### **Tobacco**

The tobacco business had a net income of Php8.22 billion for the first six months of 2020, Php2.34 billion or 40% more than the Php5.87 billion reported in 1H19.

Equity in net earnings from LTG's 49.6% stake in PMFTC was Php8.25 billion, Php2.59 billion or 46% more than 1H19's Php5.65 billion. The higher income is attributed to the higher share of premium Marlboro as well as the price increases implemented in late August 2019. Volume declined 18% in 1H20 due to impact of the enhanced community quarantine (ECQ) implemented in Luzon starting March 17 and in other select cities thereafter, as well as higher prices. The industry's volume is estimated to have declined by 17%.

The Government continued its efforts against the illicit trade which included smuggled and locally produced products. During the first six months of 2020, there were 70 enforcements, slightly lower than 1H19's 72. However, 118 machines were seized from illegal factories, 2.7x more than

the 44 machines seized in 1H19. The 118 machines can form 21 lines, with each line estimated to produce as much as 3 million sticks per day.

On July 25, 2019, President Duterte signed Republic Act (RA) 11346 which increased further the excise tax on tobacco starting January 2020. From Php35 per pack in 2019, it increased to Php45 per pack in 2020, increasing by Php5 per pack annually from 2021 to 2023, then increasing by 5% annually thereafter.

PMFTC and its main competitor implemented price increases in late August and early September 2019, respectively. Currently, the recommended retail price per stick of premium Marlboro is at Php6 (from Php5), mid-priced Fortune at Php5 (from Php4) and low-end Jackpot at Php4 (from Php3).

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

PNB's net income under the pooling method was Php1.44 billion for the first half of 2020, Php2.60 billion or 64% lower than the same period in 2019. The lower net income was primarily due to the Php8.44 billion provision for credit losses that the bank booked in 1H20, significantly higher compared to Php809 million in 1H19, due to the ongoing COVID-19 pandemic that has resulted in a downturn in the economy.

Net Interest Income was 19% higher at Php17.48 billion from Php14.75 billion as Net Interest Margin improved to 3.4% from 3.1%. Loans and receivables grew by 2% year-on-year (y-o-y) to Php603 billion.

Net Service Fees and Commission Income was lower by 9% at Php1.70 billion. Trading and Foreign Exchange Gains were 129% higher at Php3.70 billion from Php1.61 billion.

Operating Expenses were Php7.87 billion or 55% higher at Php22.19 billion from Php14.32 billion, largely due to the increase in provisioning.

Net Non-Performing Loans (NPL) ratio was at 3.0% as of June 2020, higher than the 0.3% as of June 2019. NPL cover stood at 73%, from 158% as June 2019.

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

TDI's net income for the first half of 2020 was Php543 million, Php163 million or 43% higher than 1H19's Php380 million.

The higher income is due to improved margin in the liquor segment and a 41% decrease in selling and marketing expenses from PHP786 million to Php467 million.

Total revenues were Php10.01 billion, Php498 million or 5% higher than 1H19's Php9.51 billion due to higher prices of both liquor and bioethanol. Revenues from liquor were Php9.09 billion,

10% higher than 1H19's Php8.25 billion with the average Php160 per case price increase implemented in January, which offset the 4% drop in volume. Revenues from bioethanol were 28% lower at Php919 million from Php1.27 billion as volume was 33% lower, partially offset by the 9% increase in selling prices.

As of end-June 2020, TDI's nationwide market share for distilled spirits was at 24.1%, compared to June 2019's 29.8%. In the Visayas and Mindanao regions where most of TDI's sales are generated, market share was at 62.4% and 72.0%, respectively, as of June 2020, compared to 64.3% and 72.4%, respectively, as of June 2019.

Gross Profit Margin (GPM) was slightly lower at 16% from 17%, due to higher alcohol costs. Operating expenses were 28% lower at Php818 million due to lower selling and marketing expenses.

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

Eton's net income for the first half of 2020 was at Php404 million, 9% or Php33 million higher than the Php371 million reported for the same period in 2019. The higher net income is attributed to the increase in rental income.

Total revenues were at Php1.20 billion, 14% lower than the Php1.39 billion of 1H19. Real estate sales amounted to Php298 million, 49% lower than 1H19's Php584 million. Leasing revenues were 11% higher at Php898 million due to the escalation rates of existing leases as well as additional space that came on stream.

Additions to the leasing portfolio came from Eton WestEnd Square in Makati City during 2Q19. Its retail component, eWestMall, has two floors of retail spaces with a total leasable area of approximately 3,600 square meters. The office component, eWestPod, has over 13,000 square meters of office space.

At the end of June 2020, Eton Properties had a leasing portfolio of approximately 181,000 square meters of office space and over 43,000 square meters of retail space.

Projects in the pipeline include the 36-storey Blakes Tower in Makati City which will have 10,500 square meters of office space and 14,000 square meters of residential space. Others are the 4.3-hectare Eton City Square in Sta. Rosa, Laguna, with the first phase having 6,900 square meters of commercial space and NXTower I, an office building along Emerald Avenue and Ruby Road in Ortigas with 21,000 square meters of gross leasable area.

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

ABI's net income for 1H20 was Php40 million, 84% or Php204 million lower than 1H19's Php244 million. The lower net income was primarily due to lower volumes across ABI's products as the ECQ affected sales in sari-sari and convenience stores as well as in supermarkets.

Revenues were at Php6.74 billion, 17% lower than 1H19's Php8.10 billion. Overall GPM was lower at 26% from 28% due to sales mix. Operating expenses were 13% lower at Php1.12 billion as the Company spent less on advertising and promotions.

Cobra energy drink continues to account for the largest share of revenues at 40% of total. It remains the market leader with a share of 72% in 1H20.

Our bottled water brands, Absolute and Summit, continue to have the second largest share in this segment at 26%. Bottled water accounted for 26% of revenues.

Soymilk Vitamilk's market share was at 76% for 1H20. However, like our other beverages, its volume was affected by the ECQ.

The packaging business' revenues were 21% lower due to lower demand from third parties. ABI supplies the glass bottle and other packaging requirements of TDI and ABI and also sells to third parties. Packaging accounted for 15% of revenues in 1H20.

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	P244,442,563	P184,913,132
Financial assets at fair value through profit or loss	19,359,930	13,469,380
Financial assets at fair value through other comprehensive income (FVTOCI)	11,592,942	16,968,590
Financial assets at amortized cost	36,132,343	25,252,670
Loans and receivables	255,396,206	260,926,594
Inventories	13,942,462	12,196,871
Due from related parties	2,055,258	2,029,436
Other current assets	11,685,272	11,379,265
<b>Total Current Assets</b>	<b>594,606,976</b>	<b>527,135,938</b>
<b>Noncurrent Assets</b>		
Loans and receivables-net of current portion	364,184,577	411,253,754
Financial assets at FVTOCI	48,793,645	110,549,031
Financial assets at amortized cost	58,551,076	75,212,087
Investment in associates and joint ventures	22,137,050	27,254,278
Property, plant and equipment:		
At appraised values	59,416,948	59,811,911
At cost	11,752,127	12,087,216
Investment properties	32,547,101	32,631,441
Deferred income tax assets	4,214,944	2,386,671
Other noncurrent assets	6,968,769	7,508,226
<b>Total Noncurrent Assets</b>	<b>608,566,237</b>	<b>738,694,615</b>
<b>TOTAL ASSETS</b>	<b>P1,203,173,213</b>	<b>P1,265,830,553</b>

**LIABILITIES AND EQUITY**

<b>Current Liabilities</b>		
Deposit liabilities	P734,866,653	P772,143,072
Financial liabilities at fair value through profit or loss	669,776	245,619
Bills and acceptances payable	21,349,469	51,821,601
Accounts payable and accrued expenses	29,367,369	26,700,462
Income tax payable	1,068,034	690,518
Short-term debts	3,040,000	5,150,000
Current portion of long-term debts	14,650,761	1,002,593
Due to related parties	65,325	65,325
Other current liabilities	13,786,185	18,842,433
<b>Total Current Liabilities (Carried Forward)</b>	<b>818,863,572</b>	<b>876,661,623</b>

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
<b>Total Current Liabilities (Brought Forward)</b>	<b>₱818,863,572</b>	<b>₱876,661,623</b>
<b>Noncurrent Liabilities</b>		
Deposit liabilities - net of current portion	47,597,600	46,095,883
Bills and acceptances payable	14,703,782	4,141,689
Long-term debts - net of current portion	56,405,181	71,566,863
Net retirement benefits liabilities	1,809,458	1,699,743
Deferred income tax liabilities	8,557,035	8,510,128
Other noncurrent liabilities	5,112,755	3,147,053
<b>Total Noncurrent Liabilities</b>	<b>134,185,811</b>	<b>135,161,359</b>
<b>Total Liabilities</b>	<b>953,049,383</b>	<b>1,011,822,982</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	1,438,837	8,538,837
Other equity reserves	1,024,653	1,024,653
Other comprehensive income, net of deferred income tax effect	13,362,187	18,038,315
Retained earnings	118,413,312	112,604,635
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	<b>180,954,090</b>	<b>186,921,541</b>
Non-controlling interests	69,169,740	67,086,030
<b>Total Equity</b>	<b>250,123,830</b>	<b>254,007,571</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱1,203,173,213</b>	<b>₱1,265,830,553</b>

**LT GROUP, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF INCOME**  
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Six Months Ended June 30		For the Quarter Ended June 30	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>REVENUE</b>				
Banking	P29,769,549	P26,910,524	P13,914,617	P13,971,652
Beverage	6,315,797	7,599,681	2,591,681	3,998,212
Distilled spirits	9,981,905	9,507,002	4,950,453	4,781,800
Property development	1,196,323	1,392,551	585,265	746,751
	47,263,574	45,409,758	22,042,016	23,498,415
<b>COST OF SALES AND SERVICES</b>	<b>20,714,855</b>	<b>22,908,813</b>	<b>9,672,198</b>	<b>12,130,466</b>
<b>GROSS INCOME</b>	<b>26,548,719</b>	<b>22,500,945</b>	<b>12,369,818</b>	<b>11,367,949</b>
<b>EQUITY IN NET EARNINGS OF ASSOCIATES</b>	<b>8,071,909</b>	<b>5,389,331</b>	<b>3,220,787</b>	<b>2,872,809</b>
	34,620,628	27,890,276	15,590,605	14,240,758
<b>OPERATING EXPENSES</b>				
Selling expenses	944,665	1,505,703	361,185	809,764
General and administrative expenses	23,784,060	15,818,259	12,038,344	8,002,342
	24,728,725	17,323,962	12,399,529	8,812,106
<b>OPERATING INCOME</b>	<b>9,891,903</b>	<b>10,566,314</b>	<b>3,191,076</b>	<b>5,428,652</b>
<b>OTHER INCOME (CHARGES)</b>				
Finance costs	(202,763)	(125,738)	(102,133)	(62,410)
Finance income	31,855	76,058	27,899	39,837
Foreign exchange gains - net	519,329	633,462	365,587	457,288
Others – net	1,410,138	1,769,954	673,237	865,098
	1,758,559	2,353,736	964,590	1,299,813
<b>INCOME BEFORE INCOME TAX</b>	<b>11,650,462</b>	<b>12,920,050</b>	<b>4,155,666</b>	<b>6,728,465</b>
<b>PROVISION FOR INCOME TAX</b>				
Current	2,792,191	1,904,954	1,483,499	980,545
Deferred	(1,854,288)	(46,998)	(1,197,943)	(10,138)
	937,903	1,857,956	285,556	970,407
<b>NET INCOME</b>	<b>P10,712,559</b>	<b>P11,062,094</b>	<b>P3,870,110</b>	<b>P5,758,058</b>
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Equity holders of the Company	P10,027,227	P9,237,145	P3,814,665	P4,815,431
Non-controlling interests	685,332	1,824,949	55,445	942,627
	P10,712,559	P11,062,094	P3,870,110	P5,758,058
<b>Basic/Diluted Earnings Per Share</b>	<b>P0.93</b>	<b>P0.85</b>	<b>P0.35</b>	<b>P0.44</b>