



President's Report First Quarter 2020

LT Group, Inc.'s attributable net income for the first quarter of 2020 amounted to Php6.21 billion, Php1.79 billion or 41% more than the Php4.42 billion reported for the 1Q19.

The tobacco business accounted for Php4.99 billion or 80% of total attributable income. Philippine National Bank (PNB) contributed Php761 million or 12%, followed by Tanduay Distillers, Inc. (TDI) with Php199 million or 3%. Eton Properties Philippines, Inc. (Eton) added Php168 million or 3% while Asia Brewery, Inc. (ABI) accounted for Php74 million or 1%. The 30.9% stake in Victorias Milling Company, Inc. (VMC) accounted for Php91 million or 1%.

LTG's balance sheet remains strong. Debt-to-Equity Ratio was at 3.86:1 with the Bank, and at 0.16:1 without the Bank.

LTG redeemed Php4.7 billion of the Php18.06 billion preferred shares issued in 2013 and 2014 for the acquisition of PNB. The balance of these preferred shares is at Php3.84 billion as of end-March 2020.

As of the end of March 2020, the cash balance of the parent company stood at Php360 million.

Tobacco

The tobacco business reported a net income of Php5.00 billion for the first three months of 2020, Php2.16 billion or 76% more than the Php2.85 billion reported in 1Q19.

Equity in net earnings from LTG's 49.6% stake in PMFTC was Php5.02 billion, Php2.33 billion or 86% more than 1Q19's Php2.69 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 9% in 1Q20 due to higher prices coupled with the impact of the enhanced community quarantine (ECQ) implemented in Luzon starting March 17 and in other select cities thereafter. The industry's volume is likewise estimated to have declined by 9%.

The Government continued its efforts against the illicit trade which included smuggled and locally produced products. During the first quarter of 2020, there were 24 enforcements same as in 1Q19. However, 110 machines were seized from illegal factories, 4.5x more than the 24 machines seized in 1Q19. The 110 machines can form 20 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 Php1.37 billion for 1Q20, Php576 million or 30% lower than 1Q19's Php1.95 billion. The lower net income was primarily due to the Php3.36 provisions for credit losses that the bank booked in 1Q20, significantly higher compared to Php346 million in 1Q19, due to the ongoing COVID-19 pandemic that is expected to result in a downturn in the economy.

Net Interest Income was 24% higher at Php8.85 billion from Php7.11 billion as loans and receivables grew by 12% year-on-year (y-o-y) to Php658 billion, as well as an increase in its investment portfolio. Net Interest Margin was higher at 3.4% from 3.0%.

Net Service Fees and Commission Income was flat at Php965 million. Trading and Foreign Exchange Gains were 158% higher at Php2.21 billion from Php857 million.

Operating Expenses were Php3.85 billion or 55% higher at Php10.86 billion from Php7.02 billion, largely due to the Php3.01 billion increase in provisioning. Other expenses that were higher were documentary tax stamps and gross receipts tax and depreciation and amortization.

Net Non-Performing Loans (NPL) ratio was at 1.7% as of March 2020, higher than the 0.3% as of March 2019. NPL cover stood at 80%, from 158% as of the same dates.

Tanduay Distillers, Inc. (TDI)

TDI's bottom line for the first three months of 2020 was Php199 million, Php35 million or 15% lower than the Php234 million reported for the same period in 2019.

The lower income is due to lower margins from higher alcohol costs.

Total revenues were Php5.06 billion, Php336 million or 7% more than 1Q19's Php4.73 billion. Revenues from liquor were Php4.50 billion, 9% higher than 1Q19's Php4.12 billion with the average Php160 per case price increase implemented in January, which offset the 4% drop in volume. Revenues from bioethanol were 8% lower at Php553 million from Php603 million as volume decreased by 18% and selling prices by 10%.

As of end-March 2020, TDI's nationwide market share for distilled spirits was at 27.7%, compared to March 2019's 28.1%. In the Visayas and Mindanao regions where most of TDI's sales are generated, market share was at 67.0% and 75.0%, respectively, as of March 2020, compared to 63.4% and 71.6%, respectively, as of March 2019.

Gross Profit Margin (GPM) was slightly lower at 16% from 17%, due to higher alcohol costs. Operating expenses were 5% lower at Php504 million.

Eton Properties Philippines, Inc. (Eton)

Eton's net income for 1Q20 was at Php169 million, 13% or Php20 million higher than 1Q19's Php149 million. The higher net income is attributed to the increase in rental income and the improvement in the gross profit margin of real estate sales to 60% from 48%.

Total revenues were at Php611 million, 5% lower than the Php646 million reported in 1Q19. Real estate sales amounted to Php141 million, 43% lower than the Php246 million in 1Q19. Leasing revenues increased 18% or Php70 million to Php470 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 March 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 the first quarter of 2020 was Php74 million, 10% or Php8 million lower than 1Q19's Php82 million. The lower net income was due to the increase in equitized loss in a joint venture.

Revenues were at Php3.87 billion, flat compared to 1Q19. The higher revenues from beverages were offset by the drop in sales of packaging materials to third parties.

Overall GPM was slightly better at 29% from 28%. Operating expenses were 8% lower at Php613 million as the Company spent less 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 72% in 1Q20. Volume was affected by the ECQ, starting in mid-March.

Our bottled water brands, Absolute and Summit have a market share of 25%, the second largest in this segment. Water accounted for 29% of revenues. The continued strong demand was complemented by the new plant in Pampanga that started operating in May 2019.

ABI started selling locally-produced Vitamilk in returnable glass bottles in 1Q17. In 1Q20, 44% of Vitamilk's volume was locally produced, and is expected to have a bigger share going forward. Our soymilk market share was 76% in 1Q20, but sales volume was lower as the ECQ affected sales in convenience stores. Vitamilk contributed 11% of total revenues.

The packaging business' revenues were 12% lower as more of the production capacity was earmarked for internal use for Cobra and Vitamilk bottles. ABI supplies the glass bottle and other packaging requirements of TDI and ABI and also sells to third parties. Packaging accounted for 17% of revenues in 1Q19.

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

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	P201,215,831	P184,913,132
Financial assets at fair value through profit or loss	24,257,415	13,469,380
Financial assets at fair value through other comprehensive income	13,591,822	16,968,590
Financial assets at amortized cost	34,805,534	25,252,670
Loans and receivables	271,146,814	260,926,594
Inventories	12,935,181	12,196,871
Due from related parties	2,055,258	2,029,436
Other current assets	12,900,306	11,379,265
Total Current Assets	572,908,161	527,135,938
Noncurrent Assets		
Loans and receivables - net of current portion	394,806,750	411,253,754
Financial assets at FVTOCI	40,272,511	110,549,031
Financial assets at amortized cost	64,460,278	75,212,087
Investment in associates and joint ventures	27,670,130	27,254,278
Property, plant and equipment:		
At appraised values	59,968,544	59,811,911
At cost	11,843,979	12,087,216
Investment properties	32,699,400	32,631,441
Deferred income tax assets	2,962,925	2,386,671
Other noncurrent assets	7,584,901	7,508,226
Total Noncurrent Assets	642,269,418	738,694,615
TOTAL ASSETS	P1,215,177,579	P1,265,830,553

LIABILITIES AND EQUITY

Current Liabilities		
Deposit liabilities	P741,270,455	P772,143,072
Financial liabilities at fair value through profit or loss	352,957	245,619
Bills and acceptances payable	30,423,222	51,821,601
Accounts payable and accrued expenses	26,678,173	26,700,462
Income tax payable	1,168,358	690,518
Short-term debts	2,790,000	5,150,000
Current portion of long-term debts	873,347	1,002,593
Due to related parties	65,325	65,325
Other current liabilities	14,246,975	18,842,433
Total Current Liabilities (Carried Forward)	817,868,812	876,661,623

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Total Current Liabilities (Brought Forward)	P817,868,812	P876,661,623
Noncurrent Liabilities		
Deposit liabilities - net of current portion	45,682,589	46,095,883
Bills and acceptances payable	14,985,683	4,141,689
Long-term debts - net of current portion	70,234,785	71,566,863
Net retirement benefits liabilities	1,738,091	1,699,743
Deferred income tax liabilities	8,531,968	8,510,128
Other noncurrent liabilities	6,146,866	3,147,053
Total Noncurrent Liabilities	147,319,982	135,161,359
Total Liabilities	965,188,794	1,011,822,982
Equity		
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	3,838,837	8,538,837
Other equity reserves	1,024,653	1,024,653
Other comprehensive income, net of deferred income tax effect	11,042,953	18,038,315
Retained earnings	119,062,780	112,604,635
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	181,684,324	186,921,541
Non-controlling interests	68,304,461	67,086,030
Total Equity	249,988,785	254,007,571
TOTAL LIABILITIES AND EQUITY	P1,215,177,579	P1,265,830,553

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

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

	Three Months Ended March 31	
	2020	2019
	(Unaudited)	(Unaudited)
REVENUE		
Banking	₱15,854,932	₱12,938,872
Beverage	3,724,116	3,601,469
Distilled spirits	5,031,452	4,725,202
Property development	611,058	645,800
	25,221,558	21,911,343
COST OF SALES AND SERVICES	11,042,657	10,778,347
GROSS INCOME	14,178,901	11,132,996
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	4,851,122	2,516,522
	19,030,023	13,649,518
OPERATING EXPENSES		
Selling expenses	583,480	695,939
General and administrative expenses	11,745,716	7,815,917
	12,329,196	8,511,856
OPERATING INCOME	6,700,827	5,137,662
OTHER INCOME (CHARGES)		
Finance costs	(100,630)	(63,328)
Finance income	3,956	36,221
Foreign exchange gains - net	153,742	176,174
Others - net	736,901	904,856
	793,969	1,053,923
INCOME BEFORE INCOME TAX	7,494,796	6,191,585
PROVISION FOR INCOME TAX		
Current	1,308,692	924,409
Deferred	(656,345)	(36,860)
	652,347	887,549
NET INCOME	₱6,842,449	₱5,304,036
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the Company	₱6,212,562	₱4,421,714
Non-controlling interests	629,887	882,322
	₱6,842,449	₱5,304,036
Basic/Diluted Earnings Per Share	₱0.57	₱0.41