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## The Purchase of Meralco

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of employing such tactics.) It is neither heroic nor rational to meet an argument by running away from it. It is the peculiar concern of the Department of Education to favor civic progress, and civilization is said to be formed by men locked together in argument.

Let me conclude this essay with an observation on nationalism, to the inculcation of which Dr. Salcedo exhorts teachers. Educators and parents do not resent government exhortation to what Dr. Salcedo calls enlightened nationalism. What they resent are attempts to lay down binding rules on how to produce nationalists. Dr. Salcedo does not do this in his speech. Suggestions, however, have come from official sources. We shall cite only one, the Flag Salute Regulation. The constitutionality of the rule was upheld in the recent *Gerona* case, but there is a certain hollow ring in Mr. Justice Montemayor's defense of the rule.

...in the field of love of country, reverence for the flag, national unity and patriotism they [men] can hardly afford to differ, for these are matters in which they are mutually and vitally interested, for to them, they mean national existence and survival as a nation or national extinction.

There is an overemphasis on the value of the flag salute as an instrument for inculcating "love of country and love of the flag, all of which make for a united and patriotic citizenry, so that later in after years they may be ready and willing to serve, fight, even die for it." The men who lost their lives in Bataan before the Flag Salute Rule never knew what they missed! For our part, we prefer the position taken by Mr. Justice Jackson and the majority of the U.S. Supreme Court justices in the *Barnette* case: "If there is any fixed star in our constitutional constellation, it is that no official, high or petty, can prescribe what shall be orthodox in politics, nationalism, religion, or other matters of opinion..."

JOAQUIN G. BERNAS

## *The Purchase of Meralco*

On June 8, 1961, in Wilmington, Delaware, a Letter Agreement was signed by A. F. Tegen, President of the General Public Utilities Corporation, and by Roberto Villanueva, Vice-Chairman of the Trustee Committee for Meralco Securities Corporation, stating the terms of sale of the Manila Electric Company to Meralco Securities Corporation by General Public Utilities Corporation.

Meralco Securities Corporation will acquire and hold the securities of Meralco. These consists of the following:

- 1) P8 million worth of First Mortgage Bonds, Series "A", 6%, due December 31, 1972.

- 2) 10 Meralco Serial Promissory Notes, in the amount of \$3,355,430.90, payable to General Public Utilities Corporation or Order, maturing at 6-month intervals starting September 1963, bearing interest at 6% a year.
- 3) 350,000 shares of Meralco 6¼% cumulative preferred stock, par value ₱20 a share.
- 4) 6 million shares of Meralco common stock, par value ₱10 a share.

The purchase price of all these securities will be \$46 millions plus the dollar equivalent of Meralco's undistributed earnings from January 1, 1961 to the closing date of final sale. The closing date must be within 30 days of June 8, 1961, the day on which the Letter Agreement was signed. The dollar value of 1961's undistributed earnings will be computed at the Central Bank's prevailing "free market" rate, currently 3 to 1. Estimating that 1961's half-year earnings will be about ₱12 millions, this will add about \$4 millions to the price of Meralco. Round figures the full price will be about \$50 millions. One-tenth of the \$50 millions is payable on the closing date and the balance in nine equal annual installments. Interest on the unpaid balance will be charged at the modest rate of 3% a year, only half what the World Bank charges underdeveloped countries for its development loans; in Manila at present it is quite impossible to borrow at less than 12% a year. The Agreement states that the amounts payable will not be reduced by any margin fee, special tax, or the like. For this reason the dollar value of 1961's earnings were calculated at the straight rate of 3 to 1.

Upon first learning of the terms of the sale, one gets the instant impression that buying Meralco on these terms is like finding money in the street. It is sheer good luck: a costless purchase, almost. You see, in 1960 Meralco earned close to ₱24.6 millions net income and the company's earnings have been growing fast and steadily. In 1954 profits reached the level of ₱14 millions for the first time; this year they ought to be double that. Between 1958 and 1959, net earnings grew by almost ₱3 millions — from ₱18.3 million to ₱21.25 millions; between 1959 and 1960 by another ₱3.3 millions. At this rate, 1961 profits will come to around ₱28 millions. That is to say, Meralco can be expected to earn more than enough over the next decade to pay its own purchase price.

Let us look at the matter a bit more closely, assuming that by the time the second annual installment falls due Meralco will have earned for its new owners something in the neighborhood of ₱25 millions annual profits. Sometime around July 1, 1961, Meralco Securities Corporation had to pay the first installment, about \$5 millions. The men behind the Meralco Securities Corporation had to advance this

sum by raising close to ₱17.5 millions to pay the Central Bank for dollars at 3.45 to 1. Having done that, their financial troubles are over. In the following years Meralco will buy itself for them. The second annual installment will amount to \$5 millions plus 3% interest on the unpaid balance of \$45 millions: that is, \$6.35 millions in all. If the rate of exchange remains around 3.5 to 1, ₱25 millions of net earnings will cover this obligation handily. The third payment will be lower, \$6.2 millions. The fourth will be about \$6, getting lighter each year as the unpaid balance shrinks and as Meralco's net income grows. Once over the first year's hurdle, the purchasing group's financial troubles are over. Moreover, by marketing 60% of their shares of the newly formed Meralco Securities Corporation, the men behind the securities holding company will have capital flowing into their hands—about ₱120 millions, it is believed—which they will be free to use for any purpose they choose.

The puzzling question is why General Public Utilities Corporation should be willing at this time to give away a goose that can be depended upon to lay such golden eggs. In 1960 Meralco remitted to its parent \$4.2 millions. The company's corporate charter has some seventeen years still to run. With decontrol of foreign exchange on the horizon, and assuming that the rate of exchange will remain fairly stable, GPU might have looked forward to another decade and a half of annual remittances swelling to \$6 millions and more, if profits should continue to grow as they did during the past decade. Notice also that, starting in September 1963, the Company would have been remitting, by previous arrangement with the Central Bank, an additional \$672,000 for five years in repayment of its Promissory Notes. Manila will certainly continue to grow together with its industrial environs. Meralco has a promising future. After a decade and a half, if GPU should experience difficulty in getting Meralco's charter renewed, then it could pull out of the Philippines, selling Meralco on terms surely higher than the present terms of sale. Yet GPU has entered into an agreement to give Meralco up within 30 days of June 8, 1961.

Of course, a public utility is open to special pressures. For example, by an order dated December 27, 1957, the Public Service Commission directed reductions in Meralco's rates which would have cut its 1960 earnings by ₱8.5 millions: from ₱24.56 millions to little over ₱16 millions. The Company has had this order under appeal before the Supreme Court. On the other hand, it may be otiose to pry about for sinister motives behind the sale. With decontrol coming and an accompanying rate of exchange as favorable even as 3.5 to 1, Meralco's peso costs especially of fuel oil and of equipment will go way up. At the same time, every ₱100 of profit will become harder to earn and, once earned, will buy fewer dollars for GPU. In any case the American company judges that this is the time to sell out.

It has been reported that Meralco Securities Corporation is capitalized at ₱200 millions. This is reasonable. Any corporation which earns ₱25 millions a year is netting annual gains of 12 1/2% on an investment of ₱200 millions. And it points out another way of appreciating how favorable this trade is: the group behind Meralco Securities Corporation purchases a ₱200 million asset for the price of the down payment. After that Meralco pays for itself. Within the business community it has been rumored that the controlling group intends to retain 40% of the stock of Meralco Securities Corporation—valued at ₱80 millions—and to offer the rest to the public, ₱120 millions worth. Many invitations to participate have already been extended privately to people with money to invest.

The usual objections raised against this kind of transaction in a developing economy are two: first, Filipinos apply the inadequate bit of capital formed in this country not to set up a new firm and create new jobs, but merely to buy out a going business owned by foreigners, who then withdraw their capital from this capital-hungry economy. Second, scarce foreign exchange gets eaten up in the repatriation of foreign investment rather than in the importation of sorely needed capital goods.

The present case is singularly free from both these faults. First, Meralco will not absorb scarce Filipino capital; it will provide out of its own earnings over the next ten years funds more than sufficient for its own purchase. These profits would otherwise have belonged to Americans. Second, no foreign exchange will be used up, really; as a matter of fact, over the long run, incalculable amounts of foreign exchange will be saved. One might conservatively foretell that Meralco would have remitted to GPU in the course of the next ten years at least \$50 millions plus the 3% interest charges. And as long as Meralco remained in American hands, remittances of profits in the form of dollars might have gone on until the Last Day. Now, once the ten years are past, no more foreign exchange will be used up for Meralco remittances either of earnings or of capital.

Congratulations are due to the group upon a smooth piece of trading. May the Manila Electric Company continue to grow and to prosper under its new owners!

MICHAEL MCPHELIN

## *Eucalyptus Trees*

The eucalyptus tree is well named. The name is taken from two Greek words which mean "well covered"—an apt description of the dense foliage that crowns this kind of tree. The *Diccionario de Agri-*