PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

19 October 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,141.25 (+0.59%)	74,564,621.33	(2,776,471.78)	26.12 (+0.69%) = 1,407.63	53.891

MARKET OUTLOOK

- The local bourse climbed on Thursday amid last-minute buying and a hawkish US Federal Reserve.
- The index ended positive due to last-minute buying spree as investors try to retest the 7,200 level despite the absence of fresh local catalysts to lure back foreign investors in our stock market.
- Yesterday's movement was expected as the index stocks were heavily sold down last week following a triple-digit drop by the Dow Jones for two straight days. As such, the current factors do not point toward an actual recovery for the market.
- This is more of a rebound, but not convincing enough to assume that the market is in a reversal trend since most of the news coming from the west are still supportive or indicative of future strength for the US dollar and a hawkish stance from the US Fed which can further the foreign selling in our market.
- The "slightly hawkish" minutes of the recent Federal Open Market Committee (FOMC) meeting also pushed the local index upward.
- FOMC minutes from the September meeting showed that Fed officials debated how high to push interest rates, with a majority appearing to favor an eventual and temporary move above the level they deem neutral for the economy in the long run. The committee was otherwise in broad agreement over continuing on the current, gradual path of rate increases.
- Meanwhile, Wall Street fell overnight as weak earnings reports from industrials raised worries about rising expenses and the impact of tariffs, adding to concerns over higher borrowing costs after hawkish commentary in the Federal Reserve's minutes.
- The US-China trade war, higher rising borrowing costs and wage pressures have been the main concern of investors as the Q3 earnings season draws near, and contributed to last week's selloff.
- The market is a little bit on edge as it digests rising rates and minutes from the Fed meeting. There is some spill over in volatility from last week.
- There are lingering concerns from last week's drop and what that means. The sharp rise in rate and tariffs are on everybody's minds now.

ECONOMIC HIGHLIGHTS

PH Banks

- Philippine banks will remain stable despite a weakening peso and global market volatility, S&P Global Ratings said, even as it noted that economic growth will be slower than initially expected over the next two years.
- S&P said most Southeast Asian markets are unlikely to be hit hard by rising global economic risks, as reflected by volatile stock markets, skittish bond markets and depreciating currencies.
- In this environment, S&P said it sees local banks on good fiscal footing even if peso has lately fared worse against the dollar than its Southeast Asian peers.
- "Concerning currency volatility, the Philippines is an exception and has seen the peso steadily devalue due to a ramp-up of imports for the government's ambitious infrastructure plans. This has a limited impact on the country's banking system, which is heavily domestic focused and has a limited foreign exchange position," S&P said.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4%% (July 2018)	GIR	US$75.161-B (September 2018)
Fiscal Surplus / (Deficit)	(P2.6-B) (August 2018)	Exports Growth Rate	3.1% (August 2018)	BOP	US$1.272-B (August 2018)
Inflation	6.7% (2012 BY) (September 2018)	Imports Growth Rate	11.0% (August 2018)	O/N RP	5.00% (as of September 27, 2018)
91-day T-Bill Rate	4.404 (as of October 8, 2018)	Cash Remittances	US$2.476-B (August 2018)	O/N RRP	4.50% (as of September 27, 2018)

ECONOMIC CALENDAR

Monday, October 22

- Budget Balance (Sept.)

ECONOMIC HIGHLIGHTS (continued)

PH Banks (continued)

- The peso has depreciated by over 8% year-to-date and even touched fresh 12-year lows over the past month as it traded above P54 to $1.
- However, S&P said that peso depreciation is driven by a widening current account deficit rather than external factors. The current account posted a $3.1-bil deficit as of end-June, coming from a $133-mil gap in 2017's H1, already matching the full-year estimate as imports continued to grow by double-digit pace while exports remain slumped year-on-year. The gap is equivalent to 0.9% of gross domestic product.
- The Philippines had been posting current account surpluses until a reversal in 2017, although authorities said the heavy importations were in support of increased domestic economic activity.
- In May, S&P gave a "stable" outlook for economic and industry risks for Philippine banks and cited "improved credit fundamentals."
- S&P also tempered its Philippine growth forecast to 6.5% this year and 6.6% in 2019, from 6.7% and 6.8%, respectively, back in August.
- This mirrors downgrades from the World Bank and the International Monetary Fund earlier this month, while the Asian Development Bank penciled in a lower forecast of 6.4% for 2018.
- On Tuesday, economic managers cut their GDP growth forecasts to 6.5% to 6.9% this year, after last semester disappointed with a 6.3% expansion against 6.6% in 2017's H1.

Fuel Excise Tax

- The Department of Finance (DOF) said yesterday it is maintaining its recommendation to suspend the next increase in fuel excise tax in January despite declining Dubai crude oil prices.
- "The recommendation to suspend stands. We are anticipating a formal announcement from OP (Office of the President)," Finance assistant secretary Antonio Lambino said when asked whether the suspension would proceed.
- The official reiterated that the review of the suspension, if warranted, would take place next year.
- "The review will happen at some point next year after the suspension is implemented," he said.
- Earlier, the DOF said in its economic bulletin that the suspension of the next fuel excise hike may not be necessary anymore as the futures prices of Dubai crude oil for November and December 2018 dropped below the $80 per barrel level.
- Citing data from the S&P Global Platts as of Oct. 12, Finance Undersecretary Gil Beltran said the Dubai crude oil futures for November and December 2018 stood at around $77 per barrel, down from the Oct. 8 figures of above $80 per barrel.
- He said the actual price of Dubai crude oil also declined by nearly three percent to $80.19 per barrel last Oct. 12 from $82.58 per barrel on Oct. 8.
- However, Beltran later on clarified that Dubai crude oil prices may still go up by November as the US' sanctions against Iran kick in.
- Under the TRAIN Law, the excise tax of fuel increased by P2.50 per liter effective Jan. 1, and will continue to rise by another P2 per liter in Jan. 1 next year, and P1.50 per liter by 2020.
- However, the law provides that the next increase should be suspended if the Dubai crude oil price averages at least $80 per barrel, based on the Means of Platts Singapore, in three months preceding the scheduled increase.
- Should the suspension push through, the DOF earlier said the government may incur as much as P41 billion reverse losses in a year.
- However, the agency said this would be slightly offset by higher value-added tax (VAT) collections from higher fuel prices, as well as the depreciation of the peso.
- Economic managers have said the government may cut some of its non-infrastructure expenditures to compensate for the lost revenues.

ECONOMIC HIGHLIGHTS (continued)

Investment Pledges

- Project approvals by the Board of Investments (BOI) rose 19% in the nine months to September this year mainly due to big-ticket ventures in the power and manufacturing sectors, the country's top trade official said.
- Trade Secretary and BOI chairman Ramon Lopez said investments registered with the agency reached P454.8-bil as of end-September from P381.2-bil in the same period last year.
- Investments for power projects grew 49% to reach P168-bil as of end-September from the previous year's P112.8-bil.
- Driving the increase in the power sector was Pulangi Hydro Power Corp.'s 250-megawatt hydroelectric power plant in Bukidnon with an investment of P38-bil.
- Investments registered for manufacturing projects surged 184% to P104-bil in the nine-month period from P36.5-bil a year ago.
- This segment was bolstered by the approval of Petron Corp.'s P82-bil investment in the Condensate Processing Complex Project in its refinery in Limay, Bataan and the P62.6-bil liquefied natural gas (LNG) terminal project of FGEN LNG Corp. in Batangas City with a capacity of five million tons per year.
- Other manufacturing projects approved by the BOI for the period are the P1.8-bil investment of Bio Renewable Energy Ventures in producing coconut methyl ester and glycerin in Misamis Oriental, the P151-mil project of Biotech Farms Inc. for fiber egg trays production in South Cotabato, and Conibo Organics Inc.'s P60-mil project for production and export of coconut noir in Camarines Sur.
- Approved investments in the transport and logistics sector as of end-September also jumped 569% to P102-bil from last year's P15.3-bil.
- Growth in the transport and logistics sector was propelled by the acquisition of Philippine Airlines Inc. of six Airbus A321neo aircraft worth P19-bil for international routes and the P11.8-bil investment of Cebu Air Inc. for the purchase of five Airbus A321ceo units for local and international flights under the Cebu Pacific brand.
- Other projects in the transport and logistics sector are Shogun Ships Co. Inc.'s four passenger and cargo vessels with P2.2-bil worth of investment to service routes in Sorsogon, Samar and Masbate; Southwest Gallant Ferries Inc.'s P750-mil investment for a passenger ship to service the Batangas-Caticlan routes; and VS Grand Ferries Corp.'s P208-mil high-speed Catamaran passenger vessel for the Samar and Cebu routes.
- Investor confidence in the country remains high. The Philippines continues to attract more investments because the economy is strong enough to withstand challenges on both the domestic and international fronts.
- The government is optimistic it would sustain the gains seen with the implementing rules and regulations of the expanded Ease of Doing Business Act which seeks to address bureaucratic red tape to be released soon, and roadshows for the Strategic Investment Priorities Plan to identify preferred investment activities in full swing.
- The BOI is hopeful it would achieve the P680-bil target for approved investments this year.
- Last year, investments approved by the agency reached P617-bil.

CORPORATE NEWS

PCOR

- Petron Corp. is planning to add a new petroleum refinery in Bataan that will boost its capacity by 100,000 barrels daily.
- The company will shell out an initial $3-bil for the additional refinery that will produce high-grade or Euro 6 petrochemical, diesel and gasoline.
- Last year, Petron unveiled an expansion project that would boost its current capacity to 270,000 by 2019 from the current 180,000 barrels daily.
- Of the new plan, this will address the gasoline and diesel and jet fuel requirement of our country.
- Meanwhile, the company can sell diesel at a cheaper price than the diesel that the government plans to import from Singapore.
- This was in reaction to the Philippine National Oil Co.-Exploration Corp.'s announcement of its plan to import an initial 50,000 metric tons of diesel from Singapore within the month.
- Petron's prices would be cheaper without the 12% VAT.

CORPORATE NEWS (continued)

SMC

- San Miguel Holdings Corp. (SMHC) has committed to shouldering the costs for right-of-way acquisition and local government permits for its proposed New Manila International Airport in Bulacan in order to secure the go signal from the Department of Transportation (DoTr).
- SMHC volunteered to pay for these expenses just to reach an agreement with the government.
- SMHC submitted to the government an unsolicited proposal for the P735-bil New Manila International Airport, which would involve the construction, operation and maintenance of a 2,500-hectare alternative gateway in Bulacan with an annual capacity of 100 million passengers.
- Transportation Secretary Arthur P. Tugade said the DoTr is set to issue a Certificate of Successful Negotiation for the Bulacan airport project.
- He said their target is to get the approval from the National Economic and Development Authority (NEDA) and complete the Swiss challenge before the year ends.
- SMHC's proposal for the New Manila International Airport in Bulacan has been pending final approval since April, when the NEDA first conditionally approved the project.
- Finance Secretary Carlos G. Dominguez III previously said the financial backing of parent company SMC is needed to give the final go-ahead for the project, as SMHC's total equity of P60-bil in 2016 was deemed insufficient to pursue the project cost if it followed a 70-30 debt-to-equity financing mix.
- SMC had said then it is willing to follow the advice of the finance chief to follow a Joint and Several Liability Agreement with the proponent, and just needs the concession agreement to be finalized with the DoTr first to fix the plan.

PNX

- Phoenix Petroleum Philippines, Inc. said its board of directors had approved the issuance of commercial papers amounting to up to P10-bil, of which an initial series amounting to P7-bil are to be offered this year.
- With the board approval, Phoenix Petroleum said the Securities and Exchange Commission (SEC) had accepted the registration of the company's commercial papers on Thursday in accordance with the implementing rules and regulations of the Securities Regulation Code.
- The company has appointed PNB Capital and Investment Corp. as the sole issue manager for the commercial papers program, as well as the lead underwriter and sole bookrunner for the initial series.
- Phoenix Petroleum said it will use 70% of the proceeds or around P4.9-bil for the importation of fuels and lubricants. The rest will be used to repay short-term loans with BDO Unibank, Inc., Asia United Bank Corp., Robinsons Bank Corp., United Coconut Planters Bank, and Development Bank of the Philippines, which are due in December.

ISM

- ISM Communications Corp. is raising its capitalization to a whopping P75-bil from a meager P2.8-bil to facilitate the issuance of shares to its new controlling owner, Davao-based businessman Dennis Uy.
- In a filing with the stock exchange, ISM said its board of directors approved the issuance of 24.058-bil shares to Udenna Corp.'s major shareholders – Uy and his wife Cherylyn – in exchange for two billion shares or 100% of Udenna.
- The shares will be taken out of ISM's increase in capital which will comprise 75-bil common shares with a par value of P1 per share.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,222.00	US$2.738