PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

08 October 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,078.20 (-0.21%)	75,119,512.77	(16,291,589.70)	25.86 (+0.62%) = 1,405.36	54.345

MARKET OUTLOOK

- The stock market could fall to the 6,900 level this week as rising oil prices are expected to foster inflation worries among investors.
- Further sell-offs were likely as fears of crude hitting $100 per barrel would stoke inflation, which hit a new nine-year high of 6.7% last month.
- The stock market may continue to correct considering the fact that there will be an increase in crude oil prices again. It was higher than a week ago so there will be an adjustment in the local fuel price, which will ignite the inflationary trend.
- Both Brent crude and West Texas Intermediate surged to $86 and $76 per barrel, respectively, last week as the US prepared to impose new sanctions against oil producer Iran.
- As US markets and the dollar get stronger, foreign funds will also continue fleeing the local stock exchange. So far, foreign investors have been in net selling mode for 27 consecutive trading days.
- While the central bank said inflation has peaked in September, rising crude oil prices may still lead to a faster print in the months ahead.
- Nothing is giving investors the peace of mind to get back into the market, and the lack of catalysts certainly does not add any encouragement.
- The index failed to close above the 7,200 support level which means the bottom seen back in July may not be the bottom that many had hoped for. Next key support level is at 7,000, and if that doesn’t hold there is no telling how low this market can go.
- Investors are expected to favor bonds. For instance, 10-year US Treasury yields jumped to around 3.2% last week, the highest recorded in the last seven years.
- In light of the US Federal Reserve’s expected adjustment on its widely followed rate, funds flow has favored fixed income, ahead of an expected jump in yields. This partly explains some fund managers’ portfolio reallocation in favor of fixed assets, while waiting for macro catalysts to warrant their risk appetite for equities.
- Participants may also start looking to nine-month earnings results, with the deadline for submission scheduled on Nov. 15.
- Special emphasis will be on quarter-on-quarter improvements. Until the selling pressure ebbs, most might opt for defensive bets, especially for stocks worth holding for the long term with sustainable dividend yields.
- The PSEi’s immediate support is placed at 7,000, with resistance from 7,200 to 7,350.

ECONOMIC HIGHLIGHTS

Inflation Outlook

- Inflation can now go either way towards yearend after September logged a fresh nine-year high, economists said.
- Prices of basic goods rose by 6.7% in September from a year ago to mark a fresh nine-year high, although a tad slower than market expectations.
- The Philippine Statistics Authority said on Friday last week that food, transport and utility prices led the increase last month, worsened by the impact of typhoon Mangkhut, locally called Ompong, and unrelenting oil prices.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4%% (July 2018)	GIR	US$77.829-B (August 2018)
Fiscal Surplus / (Deficit)	(P2.6-B) (August 2018)	Exports Growth Rate	0.3% (July 2018)	BOP	US$1.272-B (August 2018)
Inflation	6.7% (2012 BY) (September 2018)	Imports Growth Rate	31.6% (July 2018)	O/N RP	5.00% (as of September 27, 2018)
91-day T-Bill Rate	3.549 (as of September 10, 2018)	Cash Remittances	US$2.401-B (July 2018)	O/N RRP	4.50% (as of September 27, 2018)

ECONOMIC CALENDAR

Monday, October 8
- Foreign Exchange Reserves (Sept.)

Wednesday, October 10
- Balance of Trade (Aug.)
- Exports YoY (Aug.)
- Imports YoY (Aug.)
- Foreign Direct Investments (July)

Monday, October 22
- Budget Balance (Sept.)

ECONOMIC HIGHLIGHTS (continued)

Inflation Outlook (continued)

- That pushed the nine-month pace to 5%, a percentage point higher than the 2% to 4% target set by the central bank for the entire 2018.
- Both the central bank as well as President Rodrigo R. Duterte's economic team are of the view that inflation has already peaked, and will clock in slower during the last three months of 2018.
- On a month-on-month basis, inflation clocked in at 0.9% in September, steady from August's pace.
- Financial markets reacted in different ways to Friday's inflation report, with the Philippine Stock Exchange index shedding 0.21%, though shallower than Thursday's 1.63% fall, while the peso actually rebounded against the dollar, strengthening by nine centavos from Thursday.
- But the Bank of the Philippine Islands (BPI) said inflation could still pick up.
- The behavior of inflation has a direct link with oil. Unless the said commodity shows a consistent deceleration, then consumer prices may continue to rise significantly, the bank said.
- Citing historical data, BPI said inflation usually breaches target when average global oil prices surge by at least 30% year-on-year. The benchmark West Texas Intermediate (WTI) crude oil price rose by 40% last month.
- Recent global oil price trends are likely to prevent a turn in the headline inflation print in the near term. Inflation could peak in December should oil prices fall month-on-month in October and November but the turn could be delayed further if WTI Crude and Brent continue to soar.
- Still, Land Bank of the Philippines said that inflation is "starting to drop" after September, when Ompong's impact on food prices contributed 30-50 basis points in the September inflation print.
- London-based Capital Economics also said that inflation could ease over the months ahead as government interventions to boost rice supply help ease price pressures.
- Even if oil prices remain elevated, oil price inflation will start to moderate over the next few months. Finally, the impact of previous tax hikes on items such as fuel, alcohol and high-sugar drinks will drop out of the annual comparison at the beginning of next year, the think tank said, even as it said it expects two more rate hikes from the central bank either in its Nov. 15 or Dec. 13 policy review — the last two for 2018.
- The analysts also pointed out that the sustained depreciation of the peso may push the central bank to hike rates further, apart from the goal of reining in inflation expectations.

Growth Forecasts

- A regional research group has slashed its growth forecast for the Philippines, noting that surging inflation and consumer pessimism will likely weigh on household spending and dampen overall expansion.
- The ASEAN+3 Macroeconomic Research Office (AMRO) joined multilateral lenders in trimming the growth estimate for the Philippines to 6.5% from 6.8% previously, as reported in the October issue of its Regional Economic Outlook.
- That puts the Philippines as the sixth fastest-growing economy among the 10 Association of Southeast Asian Nations (ASEAN) members plus China, Hong Kong, Japan and South Korea, while domestic inflation is the fastest across the 14 markets covered.
- For the growth rate revision, the main reason is that inflation is higher than previously expected, and high inflation continued to erode the purchasing power of household and consumer confidence, AMRO said.
- The AMRO's revisions mirror similar downgrades by the World Bank and the International Monetary Fund, while the Asian Development Bank pencilled in a lower forecast of 6.4% the past week.
- AMRO said that the downward-revised growth rate "still reflects the robust growth of the Philippine economy."

ECONOMIC HIGHLIGHTS (continued)

Growth Forecasts (continued)

- In 2019, AMRO sees Philippine GDP growth slowing further to 6.4%. This is slower compared to the 6.7% given by the IMF and the World Bank.
- Still, AMRO expects the Philippines to be resilient to external shocks, as its macroeconomic fundamentals remain sound, with no serious external imbalance and ample international reserves.
- Moreover, the latest data suggest that the current account deficit remained contained and the basic balance is still positive. Thus, the economy is expected to remain resilient against external shocks.

CORPORATE NEWS

ALI

- Ayala Land, Inc. (ALI) is planning to register another P50-bil under the Securities and Exchange Commission (SEC)'s shelf registration program, allowing the company to raise money from the issuance of fixed securities in the next three years.
- The debt securities program will be a combination of commercial papers, bonds, and other types of fixed income instruments.
- The listed property giant last Friday used up the P50-bil under its initial shelf registration approved by the SEC in 2016. The company was able to raise P8-bil during the final tranche from the issuance of fixed rate bonds with an annual coupon rate of 7.0239%.
- ALI also offered P10-bil in fixed rate bonds during the first half of the year, intended to fund the construction of several mall projects.
- The company raised a total of P29-bil in fixed rate bonds from 2016 to 2017, and P3-bil worth of homestarter bonds in 2016.
- The bond issuances this year partially financed the firm's P110.8-bil capital expenditure, as ALI ramped up its project launches and construction to take advantage of the growing demand for residential units in the country.

AP

- SN Aboitiz Power (SNAP) has submitted its latest hydroelectric project for inclusion in the Energy department's list of certified energy projects of national significance (CEPNS), the government's policy that aims to hasten the development of new power plants.
- The company's application was submitted in late September, making it among the latest addition to the hundred of applications so far received by the Department of Energy (DoE) since the President signed Executive Order 30 in June 2017.
- DoE, which issued the implementing rules and regulations in April 2018, has so far certified four projects. EO 30 intends to establish a simplified approval process and harmonize the relevant rules and regulations of all government agencies involved in the permitting process.
- The company had complied with most of the requirements to be certified.
- The project is composed of 20-megawatt (MW) Ollilicon and the 120-MW Alimit hydroelectric power plants. The technical studies for the third component, the 250-MW Alimit pumped storage, have been temporarily suspended due to market constraints.
- SNAP was issued the renewable energy service contract for the project in 2014. The signed agreement brings the renewable energy company and Ifugao a step closer toward building the first hydropower facility in the province.
- On Oct. 4, SNAP and the municipal governments of Aguinaldo, Lagawe and Mayoyao signed a framework agreement on the proposed Alimit hydropower complex in Ifugao province.
- The agreement outlines the cooperation, collaboration and obligations between and among SNAP as project proponent and the municipalities as hosts during the development and operation phase of the project.

CLC

- Chelsea Logistics Holdings Corp. (CLC) is allocating more than $100-mil for the expansion of its fleet as it expects six passenger vessels to be delivered in the next three years.
- The listed company inaugurated on Friday two new ships — the M/T Chelsea Providence oil tanker and the M/V Salve Regina passenger vessel at the Manila North Harbour Port.

DAILY MARKET PRIMER

08 October 2018

CORPORATE NEWS (continued)

CLC (continued)

- The company is adding more roll-on, roll-off (RoRo) passenger vessels to its existing fleet of 88 ships to cater to its underserved routes, and those routes that still utilize old vessels.
- The other six passenger ships it ordered will be delivered in twos per year, starting in November.
- Memorandum Circular No. 2018-05 from the Maritime Industry Authority (MARINA) limits the age of registered cruise ships to be at most 20 years old. Around seven to eight vessels of CLC will be due for phase out in the next five years because of this.
- Aside from inter-port connections in Visayas and Mindanao, CLC is eyeing some routes including those from Batangas to Iloilo and Bacolod.
- At present, CLC's share of the passenger market stands at around 30%. The company hopes to increase its share with the modernization of its fleet.

GLO

- Globe Telecom, Inc. is expecting to speed up the roll out of more than 120 cell sites in Metro Manila as it signed an agreement with the Metro Manila Development Authority (MMDA) to cut the process for securing permits in building telco infrastructure.
- The Ayala-led telecommunications giant said the deal allows it to deploy small cell antennas along EDSA, Roxas Boulevard, C5 and Congressional Avenue, among other locations.
- Globe said around 25 permits from local government units are needed to set up a radio tower, and the process takes about eight months. With the MMDA deal, Globe said the small cell antennas will help improve wireless network coverage in major thoroughfares controlled by MMDA.

MWIDE

- Megawide Construction Corp. is launching next month the Parañaque Integrated Terminal Exchange (PITX), a "landport" for passengers from the south going to Metro Manila.
- MWM Terminals, a consortium of Megawide and WM Property Management, Inc., won the 35-year concession period to build and operate the PITX in 2015.
- The P2.5-bil terminal located beside the old Coastal Mall in Parañaque City is expected to improve passenger movement by connecting buses, taxis, jeepneys, and in the future, the Light Rail Transit Line 1 (LRT-1) South Extension, in one portal.
- Once fully operational, the PITX is expected to receive an average foot traffic of 100,000 a day, but total capacity is at 200,000 passengers daily.
- Megawide said the PITX has approximately 12,000-square meter (sq.m.) leasable space inside the building, which will be available to tenants by December. It will also lease four 17,900-sq.m. towers for interested tenants starting next year.
- The PITX is a three-storey building that will feature departure bays for buses, jeepneys and taxis on the first floor, an arrival bay for buses on the second floor, and private car parking facilities, action utility vehicles (AUV) bays, and a link to the future LRT-1 South Extension on the third floor.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,198.55	US$2.772