

# DAILY MARKET PRIMER

09 October 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,050.82 (-0.39%)	73,672,287.85	(9,725,261.55)	26.00 (+0.54%) = 1,411.31	54.281

## MARKET OUTLOOK

- Local equities slumped on Monday as investors remained cautious given inflationary pressures on the Philippine economy.
- The market is still absorbing all these economic situations: interest rates, inflation, peso-dollar weakness – all are being problematic to the market – and investors are concerned how they can see inflation improve in the coming months.
- On a technical note, the main index has a support level of 6,950, indicating that it could fall closer to its 52-week low of 6,923.67.
- The market has been a bit oversold, the volume is thin. There is pressure for the market to rally, which is what the investing public is watching out for. However, it begs the question: can the rally be sustained?
- The general trend in the market is a quick turnaround – investors cash in on gains made even on short upward spurts.
- Overall market sentiment is still pessimistic as the course of inflation remains uncertain while multilateral lending institutions downgrade Philippines' 2018 growth forecast.
- Chinese markets reopened after a week-long holiday, and market participants in Asia were anxious as to see how financial markets in the region's largest economy would perform.
- Unfortunately, local equities were caught off-guard as the People's Bank of China (PBOC) cut reserve requirement ratio (RRR) by an unexpected 100 basis points starting Oct. 15. The most recent cut could suggest a higher priority of stabilizing domestic growth amid notable escalation in US-China confrontation after US Vice-President Pence's speech on Oct. 4,
- The PBOC had been carefully balancing between the two targets of stabilizing domestic growth and the renminbi exchange rate since July, but the most recent cut could suggest a higher priority of stabilizing domestic growth amid notable escalation in US-China confrontation.
- This would suggest that the local market can still be affected by more developments in the on-going trade spat between the world's two largest economies.

## ECONOMIC HIGHLIGHTS

### 3<sup>rd</sup> Telco

- Four local firms and only one foreign company, Norway's Telenor Group, firmed up their interest in participating in the auction for the country's third major telecommunications service provider by purchasing the bid documents on Monday – the first day of its availability.
- Representatives from businessman Dennis A. Uy's Udenna Corp., Telenor Group, Now Corp., a consortium of Davao-based TierOne Communications International Inc. and former politician Luis "Chavit" C. Singson's LCS Group of Companies, as well as an unidentified local company, bought the bid documents at the National Telecommunications Commission (NTC) office in Quezon City.
- The NTC was surprised that five companies have already bought documents on the first day, while some who have been "very vocal" about their interest have not done so yet.

## 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	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**
**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)

**3<sup>rd</sup> Telco** (continued)

- However, the muted interest from foreign firms comes after Information and Communications Technology Acting Secretary Eliseo M. Rio, Jr. previously said China Telecom, South Korea's KT Corp. and LG Uplus Corp., and Vietnam's Viettel Telecom are keen on participating in the bidding.
- Telenor, the incumbent telecom operator in Norway, is looking for a local partner to boost its bid. Late last month, Shanshil Ahmed Shibly, deputy director for regional operations of Telenor subsidiary Grameenphone, said the company is in talks with potential local partners.
- However, the NTC is hopeful more firms will come forward. Bid documents can be purchased online or at the NTC office for P1 million until the deadline for submission of bids on Nov. 7.
- The selection documents are composed of information on the Philippine market, DICT's (Department of Information and Communication Technology) national broadband plan, and instruction to participants which include everything they have to do and follow to submit their selection documents.
- Meanwhile, Philippine Telegraph and Telephone Corp. (PT&T) confirmed in a text message that they have downloaded the bid documents from the NTC website, but will make the payment at the NTC next week.
- Aside from TierOne, PT&T and Now Corp., Mr. Rio previously identified Converge ICT Solutions, Inc., Transpacific Broadband Group International, Inc. (TBGI) and EasyCall Communications Philippines, Inc. as the local companies keen on becoming the third telco.
- The government's initiative to attract a third telco player comes at the request of President Rodrigo R. Duterte, who wants to break the duopoly of Globe Telecom, Inc. and PLDT, Inc.
- After the opening of bid documents on Nov. 7, the NTC said it would be able to identify the bidder with the highest level of commitment shortly after. The "provisional winner" will then be given 90 days to finalize its business and roll-out plans, among other requirements.
- Mr. Rio earlier assured that the third telco will be named before Christmas.
- Although buying bid documents comes at no restrictions, eligible participants are only those with a congressional franchise or pairs with a company that has one, have a paid-in capital of at least P10-bil, have experience as a nationwide telco provider for the last 10 years, and have no outstanding liability to the NTC as of Oct. 1. It also cannot be affiliated with Globe or PLDT.

**September GIR**

- The Philippines' gross international reserves (GIR) has shrunk to a seven-year low in the first nine months of 2018 due to outflows related to the central bank's foreign exchange operations.
- Preliminary data from the central bank showed that the GIR stood at \$75.161-bil, lower than the \$77.933-bil recorded as of end-August and compared with the \$89.962-bil as of end-September 2017.
- The month-on-month decline in the GIR level was due mainly to outflows arising from the foreign exchange operations of the central bank, payments made by the national government (NG) for its maturing foreign exchange obligations, and revaluation adjustments on the central bank's gold holdings resulting from the decrease in the price of gold in the international market.
- The decline in the GIR level was partially tempered by the NG's net foreign currency deposits.
- At this level, the GIR nonetheless continues to serve as an ample external liquidity buffer and is equivalent to 6.8 months' worth of imports of goods and payments of services and primary income.
- The end-September foreign reserves is also equivalent to 5.9 times the country's short-term external debt based on original maturity and 4.2 times based on residual maturity.
- Net international reserves or the difference between the central bank's GIR and total short-term liabilities, likewise decreased by \$2.77-bil to \$75.15-bil as of end-September, from \$77.92-bil as of end-August.

**CORPORATE NEWS**
**CLC**

- Chelsea Logistics Holdings Corp. (CLC) said it submitted a P16-bil unsolicited proposal to the Department of Transportation (DoTr) for the modernization of Sasa port in Davao City.
- The proposal, which was submitted mid-2018, covers a 25-year concession period that will have four phases focusing on the rehabilitation of the port facilities and increasing its capacity.
- Phase 1 of the proposal would require around P5-bil.
- The Sasa port will be handling container, general cargo and passenger ships for both domestic and international markets.

**SM**

- Tholding firm of country's richest man Henry Sy, Sr. is shifting its investment strategy, favoring businesses where they can secure a minority position instead of taking full control of the company.
- SMIC has been positioning itself in a number of firms in the previous years. In 2017, it acquired a 34.5% stake in Negros Navigation Company, Inc., the parent of integrated transport solutions provider 2GO Group, Inc.
- The listed conglomerate also acquired earlier this year a 34% interest in Goldilocks, Inc., after the deal to buy the entire shareholdings of the bakeshop chain fell through. Goldilocks' current owners will continue to run the company with SMIC as a minority investor.
- A 34% interest should be enough to influence decisions that need approval by at least two-thirds of a company's shareholders.

**ICT**

- International Container Terminal Services, Inc. (ICTSI) said it has received the green light from the Philippines Ports Authority (PPA) to proceed with its expansion of the Manila International Container Terminal (MICT).
- The Razon-led listed port operator said the expansion of Berths 7 to 10 has been divided into two phases.
- The first phase, which covers the construction of Berths 7 and 8 will begin on Oct. 15. The second phase will add a full back-up area for future Berths 9 and 10, and is expected to start on Feb. 19, 2019.
- The berth expansion, which will all have a controlling depth of 13.5 to 14.5 meters, "will further strengthen MICT's capacity to service the world's larger box ships and the increasing volume that comes with them."
- ICTSI said the establishment of Berth 7 is part of its contractual obligations under its deal with the PPA. The company has allotted more than \$380-mil allocation for capital expenditure this year, including the MICT expansion.
- The company also expects 16 new rubber-tired gantries to arrive in 2019, of which eight will be available by April. Two more super post Panamax quay cranes are also expected to be delivered by next year.

**MRP**

- The Philippine Stock Exchange (PSE) has asked Melco Resorts and Entertainment (Philippines) Corp. (MRP) to engage with its minority shareholders to resolve pending issues on its tender offer, which will take the company a step closer to delisting from the local bourse.
- MRP is currently in the process of complying with the requirements for its application to delist from the PSE, including the conduct of a tender offer by its majority shareholder MCO (Philippines) Investments Limited (MCO Investments) to acquire at least 95% of the total shares of the company.

**GOLD BUYING / Troy Oz.**

US\$1,202.90

**COPPER BUYING / lb.**

US\$2.772

 2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. [www.meridiansec.com.ph](http://www.meridiansec.com.ph) Tel: +632 635 6261 to 64

**Disclaimer:** This document is based on information obtained from sources believed to be reliable, but we do not make any representations as to its accuracy, completeness and correctness. Any information is subject to change without notice and MSI is not under any obligation to update or keep current the information contained herein. Opinions, estimates, and projections expressed reflect the analyst's personal views. Any recommendation contained in this document does not have regard to specific investment objectives, financial situation and the particular needs of any addressees and are in the form of fundamental and technical ratings. Technical ratings may differ from fundamental ratings as technical analyses involve the application of different methodologies based on price and volume related information. This document is for the information of the addressee only and is not to be taken on substitution for the exercise of judgment by the addressee. No liability whatsoever is accepted for and direct or consequential loss arising from any usage of this report. This document is not to be construed as an offer or solicitation of an offer to buy or sell securities. In the course of our regular business, we may have a position in the securities mentioned and may make purchases and/or sales of them from time to time in the open market. Any unauthorized distribution, copying or disclosure of this material is strictly forbidden.