

# DAILY MARKET PRIMER

23 October 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,236.16 (+1.18%)	82,544,278.20	(1,538,369.62)	26.52 (+0.34%) = 1,428.85	53.878

## MARKET OUTLOOK

- Local equities firmed up on Monday as investor sentiment improved in anticipation of the third-quarter earnings season.
- Philippine markets started the week on a positive note as investors gear up for the start of earnings season. Investors brushed off the weaker performance of the US stocks as this was due to the lower than expected housing data, overshadowing solid corporate earnings.
- SM Prime Holdings, Inc. was the first PSEi-member firm to disclose its financial performance for the first nine months of the year. The Sy-led company booked a 17% profit increase to P23.44-bil in the nine months ending September, following a 15% uptick in consolidated revenues to P74.56-bil.
- Continued optimism over corporate earnings numbers may just drive the market higher.
- With the index breaking out of a significant support area around the 7,130-7,150 level, next resistance should be in the area of its 50- and 100-day moving averages, and at Sept. 24's high of 7,400-7,430. A caveat, net foreign selling still remains present and total value turnover is still noticeably low.
- Investors may likely book gains amid the lack of other market-moving catalysts.
- With inflation expectations still elevated, the central bank indicated that further monetary action — after rate hikes totaling 150 basis points to date this year — was likely.
- The market could still trade sideways and hover around the 7,000 level.

## ECONOMIC HIGHLIGHTS

### Budget Balance

- The government's fiscal deficit closed in on the program in the nine months to September, according to latest cash operations data from the Bureau of the Treasury (BTr) on Monday that showed state spending growth continuing to outpace an increase in revenues.
- The budget shortfall in the January-September period grew 78% to P378.2-bil from P213.1-bil in 2017's comparable period, now just five percent short of a P396.6-bil program for the past nine months. That compared to a P193-bil H1 deficit that was 27% below the P264.3-bil program for those six months.
- Overall revenues grew 17% to P2.11-tril in the nine months to September from P1.8-tril in the comparable period last year, topping a P2.03-tril target by 4%.
- Taxes accounted for about 90% at P1.9-tril of revenues, up 16% from last year, but was a percent short of a P1.91-tril target. Of that amount, the Bureau of Internal Revenue (BIR) raked in P1.44-tril, up 11% year on year, but 2% short of the P1.47-tril target. The Bureau of Customs (BoC) collected P434.6-bil, up 34% and exceeding its P417.5-bil target by 4%. Other office contributed P16.7-bil, up 5% from last year.
- Non-tax revenues accounted for a tenth of overall revenues in the January-September period, growing 33% to P216.1-bil and 72% more than the P125.5-bil goal. The BTr generated P90.5-bil of that amount, 21% bigger than a year ago and double its target for the period, while other offices raised P125.5-bil, a 43% jump from last year.

## 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)	(P96.2-B) (September 2018)	Exports Growth Rate	3.1% (August 2018)	BOP	(US\$2.696-B) (September 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**
**ECONOMIC HIGHLIGHTS** (continued)

**Budget Balance** (continued)

- The same comparable nine months saw state disbursements growing 24% to P2.49-tril from P2.01-tril, 3% more than the P2.43-tril spending goal. “Other” expenditures — which include infrastructure spending and other capital outlays — accounted for 89% of the total at P2.218-tril, up 26% from a year ago and 3% past a P2.146-tril goal. Interest payments stood at P271.3-bil, 9% bigger than last year but 3% short of the P281-bil goal.
- September alone saw the fiscal deficit more than double to P96.2-bil from P36.9-bil.
- Overall revenue growth increased by just a percent to P202.4-bil from P200.1-bil, due to high base-effects from Mighty Corp.’s partial tax settlements last year amounting to P17.6-bil, according to the BTr.
- Tax revenues that month were flat at P183.4-bil. The BIR collected P130.6-bil, 8% less than a year ago. Excluding Mighty’s 2017 tax settlement, BIR collections would have gone up by 5% year on year. BoC collections grew 27% annually to P51.1-bil. Tax revenues from other offices grew 23% to P1.8-bil.
- Non-tax revenues grew 12% to P18.9-bil, with the BTr generating P7.2-bil of that amount, down two percent from last year. Other offices generated P11.7-bil, 22% up from last year.
- Expenditures, on the other hand, grew 26% to P298.6-bil in September from P237-bil in the same month in 2017. “Other” expenses surged 26% to P265.9-bil from P210.6-bil, while interest payments grew 24% to P32.7-bil from P26.4-bil.

**BOP Outlook**

- The country’s balance of payments (BOP) position will continue to post deficits in at least the next few months amid a continued surge in imports of goods, but some investment inflows will likely help narrow the gap in the near term, analysts said.
- The Philippines’ external payments position swung to a \$2.696-bil deficit last month, reversing from a \$1.272-bil surplus in August and the narrow \$24-mil surfeit in September 2017.
- The BOP measures the country’s transactions with the rest of the world at a given time.
- A deficit means more funds left the economy than what went in, while a surplus shows that more money entered the Philippines.
- This is the biggest gap in over four years and pushed the nine-month balance to a deficit of \$5.136-bil, versus the \$1.5-bil deficit expected by the central bank for the entire 2018.
- The central bank attributed the continued outflows to payments made by the national government for maturing foreign debt, as well as the its regular foreign exchange operations to defend the peso, which traded weaker than P54 against the greenback during the month.
- Economists said the BOP will likely remain under pressure in the months ahead amid heavy importations and weak export receipts.
- The BOP will likely remain in deficit, but some improvement emanating from flows into the financial account are unlikely, ING Bank N.V. Manila said, referring to the BOP component consisting of direct portfolio and other forms of investment.
- ING said plans for a fresh dollar bond sale by the Bureau of the Treasury could boost inbound investments and equity inflows. With the Philippines moving into an investment phase of its growth, government may likely have to rely more on the financial account for funding as the current account remains in the red for now.
- Imports grew by 15% while exports slipped by 2% as of end-August, leaving the trade gap at \$26.003-bil in the eight months to August, according to preliminary data from the Philippine Statistics Authority.
- The government is “on track” to issuing fresh bonds to foreign investors this quarter, with a team of officials on a road show in the United States over the past week.

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## **ECONOMIC HIGHLIGHTS** (continued)

### **BOP Outlook** (continued)

- BOP deficits will continue on the back of a bigger oil import bill as world crude prices remain elevated.
- However, the recent softening in oil prices as well as stronger remittances for the holidays may provide support to the BOP and the peso.

## **CORPORATE NEWS**

### **COSCO**

- Cosco Capital, Inc. told the stock exchange on Monday that it has divested its entire stake in Liquigaz Philippines Corp., a distributor of liquefied petroleum gas (LPG) in the country.
- The listed holding firm of tycoon Lucio L. Co said its unit Canaria Holdings Corp. sold all of its shares in Liquigaz and Calor Phils. Holdings, Inc. to Fernwood Holdings, Inc. The share purchase agreement was signed on Oct. 19.
- The company did not disclose the deal's value, saying it is "less than 12% of the total asset of Cosco Capital, Inc. as of December 2017" which stood at P111.61-bil.
- However, Cosco said the sale is subject to the approval of the Philippine Competition Commission, which requires mandatory notification of mergers and acquisitions with the threshold for the size of person at P5-bil and the size of transaction at P2-bil.
- In 2014, Cosco acquired Liquigaz from SHV Energy of the Netherlands.
- Cosco's portfolio includes interests in grocery retail, real estate and property leasing, liquor distribution, oil and mining, and specialty retail.

### **AC**

- Ayala Corp. (AC)'s infrastructure unit is investing more than a billion pesos to grow its logistics business, as the conglomerate capitalizes on opportunities in the growing e-commerce industry.
- AC Infrastructure Holdings, Inc. formally launched on Monday Entrego Fulfillment Solutions, Inc., its 60-40 joint venture company with Brilliant 1257 GmbH & Co. Vierte Verwaltungs Kg (Brilliant), a subsidiary of Zalora operator Global Fashion Group (GFG).
- Entrego started out as the logistics division of Zalora Philippines in 2013, before being transformed into a joint venture firm between GFG and AC Infra. The company offers integrated fulfilment solutions such as management of parcel, documents, and bulk deliveries for business-to-business (B2B) and business-to-consumer (B2C) clients.
- The investment will cover Entrego's 12,000-square meter facility being built in southern Metro Manila. The facility will have the capacity to process more than 100,000 packages a day, and is expected to be completed by Q4 of 2019.
- The company has 45 distribution hubs across the country, ensuring 90% nationwide coverage for deliveries. It targets to have a total of 60 distribution hubs by next year to further expand its coverage.
- Entrego's customers include Zalora, with a share of less than 30%, and the Ayala Group, cornering less than 50%.
- In September 2017, the Ayala group also acquired a 49% stake in Zalora Philippines operator BF Jade E-Services, Inc.
- The investment in Entrego will benefit their businesses in real estate, banking, telecom, health, automotive, and industrial manufacturing.
- At the same time, AC Infra targets to unveil another similar partnership within the year.

**GOLD BUYING / Troy Oz.**

US\$1,228.75

**COPPER BUYING / lb.**

US\$2.779

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