

DAILY MARKET PRIMER

29 October 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,064.33 (+1.40%)	92,367,183..27	(7,410,453.96)	25.69 (-1.38%) = 1,381.84	53.789

MARKET OUTLOOK

- The stock market is likely to trade sideways this week, analysts said, as investors pause trading ahead of the long weekend.
- Despite the losses, the index managed to close above the key-support level at 7,000 after falling beneath it several times last week. The market also performed better than its Asian peers.
- Expect little activity in the market this week as financial markets will be closed on Thursday and Friday for All Saints' Day and All Souls' Day, respectively.
- With only three trading days next week, it is to be expected that the market will see little action in the market as investors may stay on the sidelines and start the holidays before everybody else. By now it is certain that the index will end the month of October down 2% to 3% unless some window dressing is seen.
- Expect thinner participation unless significant catalysts come up to re-entice investible cash into equities.
- Also, be warned about more volatility in global markets, which the PSEi has been mirroring for most of last week.
- Expect to see volatility in global equities, as fund managers run clueless in weighing the odds between 'fear' and 'opportunities.' US authorities are on a delicate balance in ensuring internal stability within their political sphere, while being in the midst of a gray zone on trade relations with peers.
- On a technical note, the PSEi could find a bottom soon.
- Historically, October to December has always been a turning point for the market. In the last 18 years, buying the index between Q4 and closing positions by the end of Q1 of the following year has showed the least risk.
- The index's immediate support is placed from 6,800 to 7,000, with resistance from 7,100 to 7,200.

ECONOMIC HIGHLIGHTS

NPLs

- Bad debts held by big banks kept growing in August but at a slower pace compared to the pickup in total lending, latest central bank data showed.
- Universal and commercial banks saw cumulative non-performing loans (NPLs) reach P112.936-bil that month, inching up from July's P112.297-bil and rising 8.4% from P104.213-bil in August 2017.
- NPLs refer to loans left unpaid at least 30 days past due date. These are considered risky assets given a slim chance that borrowers would pay their outstanding balances, in turn spelling losses for lenders.
- The increase in bad loans is slightly faster than the 8% logged in July but slower than the 9.5% climb in June, according to latest available data from the central bank.
- Still, NPLs grew slower than the 17.9% increase in loans by the big lenders, with the total rising to P8.406-tril from P7.131-tril in August last year.
- As a result, the share of soured debts to total loans dropped to 1.34% from 1.46% a year ago, which is a more manageable level for the lenders.
- Past due loans, referring to loans that missed the payment deadline, grew by a faster 29.8% to P159.744-bil in August.

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)

NPLs (continued)

- On the other hand, restructured debts — loans given a longer repayment period — slipped by a tenth to P31.729-bil, data showed.
- Mounting problem loans prompted lenders to raise provisions they set for possible credit losses. Reserves went up 13.1% year-on-year to P161.301-bil, enough to cover nearly 1.5 times the total stash of bad debts.
- Non-performing assets held by big lenders steadied from last year at P69.896-bil.
- This represents the value of real property and other items seized from clients who failed to pay their obligations.
- Strong loan growth came alongside a steadily increasing deposit base. Total deposits held by big banks went up by 9.7% to P11.144-tril in August from P10.158-tril a year ago. These funded bank loans, with outstanding credit equivalent to 75.43% of the deposit base.
- The central bank monitors NPL ratios of banks and financial firms in order to check asset quality and maintain the soundness of the financial system.
- Bad loans amounted to P177.388-bil across the entire Philippine banking system, up 11.4% from a year ago.
- Their share to total debts declined to 1.88% from 1.97% previously, sustaining a trend observed over the past few years.

Savings Rate

- The Philippines' declining savings rate is exposing the country to external vulnerabilities, Australia-based ANZ Research said in a report explaining external balances in Asia.
- The research company wrote that "savings investment gaps have continued to widen in many Asian economies, which in turn have fueled their current account surpluses," which bear noticeable differences.
- "Higher investment underlies the worsening of current account deficits in Indonesia and the Philippines, while slower income growth and terms of trade shocks have significantly impacted India's savings rate," it added.
- "Separately, the savings ratio has trended lower in the Philippines and India," the firm wrote.
- ANZ Research also wrote that in the Philippines alone, the investment rate had risen to a multiyear high of 26.1% of gross domestic product (GDP) in June, "largely reflecting the government's infrastructure spending push."
- It added that the country's economy also had one of the lowest saving rates in the region at 27.6% of GDP, "which increases its external vulnerability during phases of high growth."
- The country's current account—a major component of the balance of payments—hit a deficit of \$3.087-bil in H1 of 2018, equivalent to 1.9% of GDP.
- This gap was blamed on the country's large trade deficit as the government's infrastructure push boosted imports.
- Based on latest available data, the trade deficit widened by 64.7% to \$26.003-bil in January-to-August from \$15.791-bil a year ago.
- The government is banking on its ambitious "Build, Build, Build" infrastructure program to boost economic growth, which economic managers recently revised to a lower 6.5% to 6.9% this year from the previous 7.0% to 8.0%.
- Growth remained below target at 6.3% in January-to-June.

CORPORATE NEWS
PSE

- The Philippine Stock Exchange, Inc. (PSE) is studying the possibility of independent valuation providers rendering opinions on tender offers, after investors raised concerns over the tender offer by Melco Resorts and Entertainment (Philippines) Corp. (MRP)'s largest shareholder.
- The exchange has initiated the comment process after receiving letters from retail investors and brokers in the past four weeks in relation to MRP's tender offer.
- The PSE may change the rules on accredited valuation providers, as per PSE Memorandum No. 2011-0104, or the Guidelines for Fairness Opinion and Valuation Reports, after the formal comment process.
- In 2016, the Shareholders Association of the Philippines also asked the PSE to revisit valuation rules for voluntary tender offers "to minimize doubt of the investing public on the fairness of tender offer prices."

BEL

- Belle Corp. reported a net profit of P595-mil in Q3, down 16.8% from year earlier, as the property developer came off a strong year-earlier performance that was boosted by one-time gains.
- Gross revenue during Q3 fell 7.6% to P1.94-bil, it told the stock exchange on Friday.
- In the nine months to September, Belle, which develops tourism and leisure destinations, reported a recurring profit of P2.94-bil, up 19% from a year earlier. Consolidated net profit was P2.68-bil, up 1% from a year earlier.
- Belle, whose principal asset is the City of Dreams Manila, said the lower growth rate was "due mainly to one-time gains recorded in 2017 from sales of non-core investments and properties."
- Through subsidiary Premium Leisure Corp. (PLC), the company's earnings before interest, taxes, depreciation and amortization (EBITDA) from its income share in the gaming operations of City of Dreams Manila increased nearly 30% to P1.84-bil.
- PLC has an operating agreement with the Philippine affiliate of Melco Resorts and Entertainment Ltd. (Melco) that gives it a share of gaming revenue or earnings at City of Dreams Manila.
- Belle said EBITDA rose from its real estate businesses to P1.79-bil in the first nine months, up 8% from a year earlier.
- It said a significant portion of the real estate-related EBITDA at P1.54-bil was derived from Belle's lease of the land and buildings comprising City of Dreams Manila to Melco.
- The balance came from sales of real estate products and property management activities at its Tagaytay Highlands and Midlands residential and leisure complexes south of Metro Manila, it added.

PNX / PXP

- Independent oil company Phoenix Petroleum Philippines, Inc. is granting preferential rights to PXP Energy Corp. to participate and acquire up to a 49% stake in the former's project to build a liquefied natural gas (LNG) terminal and a gas-fired power plant with a Chinese partner, the oil and gas exploration company told the stock exchange on Friday.
- The disclosure follows PXP Energy's announcement on Thursday that Dennison Holdings Corp. is set to subscribe for 340-mil shares in the listed company at a discounted price of P11.85 per share for a total P4.03-bil.
- PXP Energy said its board of directors signed the subscription agreement with Dennison on Oct. 26, 2018.
- The preferential rights, which is subject to its board approval and consent of Phoenix Petroleum's partner China National Offshore Oil Corp. (CNOOC), grants PXP Energy equity, interest or participation in the contemplated joint venture or related agreement for the construction, development, and operation of an LNG terminal and gas-fired power plant.

GOLD BUYING / Troy Oz.

US\$1,231.75

COPPER BUYING / lb.

US\$2.748

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

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