PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

MARKET RECAP

04 July 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,348.42 (+1.12%)	92,488,260.37	8,419,019.94	23.78 (-0.50%) = 1,269.61	53.432

Market Recap

- Share prices on the Philippine Stock Exchange rallied for the fourth straight session as investors bought positions in shares that have been oversold in past weeks.
- The benchmark PSEi gained 81.08 points or 1.12% to close at 7,348.42. Meanwhile, the broader All Shares index rose 44.21 points or 1.003% to 4,454.04 at the closing bell.
- This is likely driven by technical factors since technical indicators have been pointing to the index being oversold.
- Late last month, the market entered bear territory after the main index declined more than 20% from its peak in January.
- Trading volume remains thin, with investors still cautious amid the escalating trade rift between the US and China.
- The low value turnover and relatively quiet moves by the index may be representative of the hesitation investors are feeling in anticipation of June's inflation figure to be released this Thursday, June 5.
- Locally, investors are watching out for the latest inflation which comes out Thursday, and will remain on the sidelines as the US closes for its Independence Day celebration.
- Asian stocks, however, were on shaky ground as the specter of a Sino-US trade war haunted investors ahead of an end-of-week deadline for US tariffs on billions of dollars worth of Chinese imports.
- More than 590.893-mil shares, valued at P4.941-bil, changing hands. Advancers and decliners were dead even, 100 to 100, while 56 issues were unchanged.
- Gainers: RLC (+4.77%), DMC (+3.48%), SMPH (+2.78%), GLO (+2.73%), TEL (+2.44%)
- Laggards: PCOR (-1.56%), FGEN (-0.95%), LTG (-0.89%), MBT (-0.53%), BPI (-0.23%)

Growth Outlook

- The growth outlook for the Philippines in the near term remained strong on the back of stable economic, fiscal and monetary policies, favorable demographics, its ambitious infrastructure program, as well as the comprehensive tax reform, debt watcher S&P Global Ratings said.
- Growth-wise, the Philippines in the past two years has actually been stellar. In terms of the outlook for the next two years, S&P thinks that 6.5% and above as a pace of growth is actually very easily achievable.
- The government is targeting a 7% to 8% growth yearly in the medium term after the economy expanded by 6.7% last year, among the highest gross domestic product growth rates in the region.
- S&P's rosy forecast was attributed to "the very favorable demographic trends that continue to benefit the Philippines, particularly through providing a very mobile and effective labor force that has generated a lot of investments and consumption onshore."
- From the economic side of policy, it seems to be very stable and tends to have a lot of continuity across administrations.
- S&P also noted the gains to be made under the Duterte administration's massive "Build, Build, Build" program.
- The ramping up of the infrastructure program was one of the relatively newer additions to the policy toolkit.
- That's a positive, in that it can generate even further potential growth farther into the future.
- Under "Build, Build, Build," the government plans to rollout 75 "game-changing" flagship projects alongside spending a total of over P8-tril on hard and modern infrastructure until 2022 to usher in the "golden age of infrastructure."
- Overall, the Philippine growth outlook, S&P said, "is pretty strong."
- S&P is quite upbeat about the policy environment in the Philippines. This is because of the confidence direct investors have in the policy framework.
- The ratings agency noted that for the first time in quite a number of years, some degree of tax reforms are being carried out in the Philippines. This was expected to go on over the remaining years of the administration.
- The first package on personal income taxation or the Tax Reform for Acceleration and Inclusion (TRAIN) Act was signed into law by President Duterte last December.
- Tax reform "would, to some extent, stabilize government revenue and hopefully provide more funds for infrastructure," S&P said.

MARKET RECAP

Growth Outlook (continued)

- The key things S&P is looking at in tax reforms is that the government actually has the ability to carry this out. This shows greater proactiveness on the part of the policymakers and improvements in the government's support for sovereign ratings.
- This is one of the reasons why the credit rater has a "positive" outlook on the Philippines' credit rating.
- In April, S&P raised its credit rating outlook for the Philippines to from "stable" to "positive," citing improved fiscal management following the passage of the first tax reform package.
- This means the country's long-term sovereign credit ratings, affirmed at 'BBB', may be raised over the next six months to two years.

Consumer Lending

- Consumer lending in the Philippines is expected to continue growing as the delinquency rate registered at an all-time low, TransUnion Philippines Business Products & Solutions said.
- The delinquency rate in the Philippines came in at an all-time low in May 2018.
- Only 4% of all bank customers who take out loans pay 30 days past the deadline and an even lower 0.7% pay 90 days past the deadline, according to the private credit bureau.
- Delinquency is managed, but the portfolios are growing.
- When delinquency is managed, it should make banks more confident in extending more credit.
- TransUnion takes into account information from 38 banks in the country, involving 8-mil customers covering 18.5-mil accounts.
- According to central bank data, consumer lending reached P1.491-tril in 2017 from P1.271-tril in 2016.
- TransUnion said it plans to roll out a separate credit rating system for small and medium enterprises (SMEs), which banks can use to evaluate loan applications.
- TransUnion expects to roll out the SME credit rating in 2019. The metrics will cover the general health and well-being of various industries in which businesses operate.

PSE

- The Philippine Stock Exchange has penalized five companies owned by some of the country's prominent families for failure to comply with their reportorial requirements on time.
- These firms include the Yuchengco-led House of Investments, the Po family's Century Pacific Food Inc., Del Rosario-led Phinma Corp., Concepcion Industrial Corp. and Centro Escolar University of the Yaps.
- Century Pacific was fined for delayed discloaure of changes in the shareholdings of a principal officer.
- Bulletin for delayed disclosure of the changes in the shareholdings of a director.
- Phinma failed to immediately report a buyback transaction.
- HI and CEU, meanwhile, were fined for belated disclosure of the changes in the indirect holdings of a director.

ECONOMIC INDICATORS					
GDP Growth Rate	6.8% (Q1 2018)	Unemployment Rate	5.5% (April 2018)	GIR	US$78.968-B (May 2018)
Fiscal Surplus / (Deficit)	(P32.9-B) (May 2018)	Exports Growth Rate	(8.5%) (April 2018)	BOP	(US$583-M) (May 2018)
Inflation	4.6% (2012 BY) (May 2018)	Imports Growth Rate	22.2% (April 2018)	O/N RP	4.00% (as of June 20, 2018)
91-day T-Bill Rate	3.484 (as of June 25, 2018)	Cash Remittances	US$2.360-B (April 2018)	O/N RRP	3.50% (as of June 20, 2018)

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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