PrimeEquity Research

Meridian Securities Incorporated
Member: Philippine Stock Exchange

MARKET RECAP

24 July 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,447.02 (+0.95%)	82,921,084.22	(897,317.49)	25.23 (-0.23%) = 1,350.18	53.446

Market Recap

- Philippine share prices rose, led by a positive reception to President Rodrigo R. Duterte's third State of the Nation Address (SONA), optimistic corporate earnings and a lack of bad news on trade tensions.
- The benchmark Philippine Stock Exchange Index (PSEi) gained 70.22 points or 0.95% to close at 7,447.02. The broader All Shares index climbed 31.91 points or 0.71% to 4,505.23 at the closing bell.
- President Duterte urged Congress to pass a second package of proposed tax reforms before the end of the year, among other priority economic measures, during his third SONA held on Monday.
- He also called for the swift passage of the rice tariffication bill that will remove quantitative restrictions on rice imports.
- The President also promised "radical" reforms in the mining industry, reminding players to not destroy the environment or compromise the country's resources.
- He also reiterated his administration's commitment to improve the quality and bring down the cost of local telecommunications services.
- The President also directed all government units and agencies to fully implement the recently approved Ease of Doing Business Act.
- Market players also welcomed the President's "very supportive" statement on tax reform.
- The passage of Package 2 may also provide a boost for the stock market since a lower corporate income tax rate would boost the bottomline performance of listed companies as well as the small and medium enterprises in the country.
- Businesses will also have more cash to spend on expansion, which will contribute to faster economic growth.
- The President's statement in the SONA was clear and very business-friendly especially when he touted his admin's effort to make business processes easier in the country. That might further buoy market sentiment tomorrow.
- Investors are also looking on the bright side. There is a cautious dipping into the market, mainly driven by positive sentiment on the corporate earnings front.
- More than 2.648-bil shares, valued at P4.431-bil, changed hands. Market breadth was positive, with advancers outpacing decliners, 107 to 92, with 43 issues unchanged.
- Gainers: SCC (+4.92%), GLO (+3.39%), MER (+3.35%), SM (+3.05%), AEV (+2.90%)
- Laggards: BDO (-1.45%), EDC (-1.16%), URC (-0.76%), SMC (-0.73%), SECB (-0.59%)

IPAs

- The Department of Finance (DOF) is urging Congress to give the department authority in governing investment promotion agencies (IPAs).
- In a congressional hearing over the proposed second package of tax reforms on Tuesday, Finance Undersecretary Karl Kendrick Chua said the DOF should be part of the board of all IPAs in the country.
- IPAs are "agencies tasked to formulate and develop strategies to position the country as among prime destinations for investments with each one having distinct functions and offering incentive packages," according to the Department of Trade and Industry (DTI).
- "We propose that the DOF, as fiscal manager, be included in all IPAs," Chua said, noting there should be a parent board which also includes the DOF.
- "In the spirit of collegiality, the veto power is something we can let go," he said.
- The DOF is only part of the board of two IPAs, one of which is the Philippine Economic Zone Authority (PEZA).
- IPAs also include the Aurora Pacific Ecozone (APECO), the Authority Freeport Area of Bataan (AFAB), the Clark Development Corp. (CDC), the Cagayan Economic Zone Authority (CEZA), the Phivdec Industrial Authority (PIA), and the Philippine Retirement Authority (PRA).
- Other IPAs are the Regional Board of Investments (RBOI), the Subic Bay Metropolitan Authority (SBMA), the Tourism Infrastructure and Enterprise Zone Authority (TEZ), and the Zamboanga City Special Economic Zone.
- Under the proposed Tax Reform for Acceleration and Inclusion 2, the DOF seeks to amend or repeal at least 123 special laws on investment incentives and consolidate what's left into one omnibus incentive code.

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SC Ruling on Public Finances

- The Department of Finance will thoroughly examine the new Supreme Court ruling ordering the immediate release of a higher share of national government revenue to local government units, which two global debt watchers said could harm the Philippines' public finance management program.
- In a landmark decision, a copy of which was released on Monday, the high court said the "just share" of LGUs should be computed and sourced from all national taxes, and not just from internal revenue collections.
- The SC also directed the "automatic" release of increased transfers from the central to local government units "without need of further action," adding that the adjustments in IRA of LGUs need not wait for next year's General Appropriations Act, which would still undergo legislative approval.
- Two of the so-called "Big Three" debt watchers, Fitch Ratings and Moody's Investor Service, earlier warned of the SC ruling's fiscal risk.
- "We should communicate that this issue is not a simple matter. Both Fitch and Moody's have put a red flag as warning regarding this Supreme Court ruling. They are fully aware of the [ruling's] possible risks," Finance Secretary Carlos Dominguez III said.
- The Finance chief earlier said the IRA arrearages could reach P1-tril to P1.5-tril if the SC's decision is retroactively implemented.
- Meanwhile, Budget Secretary Benjamin Diokno said the ruling would put a strain on the government's budget with the cost initially estimated at P1.2-tril to P6-tril, depending on the nature of the decision.
- It can also potentially increase the government's fiscal deficit to around 6% of gross domestic product, twice the current deficit ceiling of 3%, Diokno said.
- "We'll have to significantly cut 'Build, Build, Build," he said, referring to the Duterte administration's ambitious infrastructure program that aims to upgrade the country's aging ports and roads to supercharge economic growth.
- The Department of Budget and management has sought the help of the Office of the Solicitor General to appeal the SC's decision.

FB

- Shares of San Miguel Food and Beverage Inc. jumped after the Bureau of Internal Revenue ruled that the firm's share swap transaction and planned follow-on offering were not subject to tax.
- From a closing price of P62 per share on July 5, FB shares soared 12.9% to close at P70 Monday after the trading suspension was lifted. The stock is now doing P67.80.
- With the favorable BIR ruling, FB will pursue its planned follow on offering which is estimated to raise about $1.5-bil to comply with the minimum public float rule.

ECONOMIC INDICATORS					
GDP Growth Rate	6.8% (Q1 2018)	Unemployment Rate	5.5% (April 2018)	GIR	US$77.675-B (June 2018)
Fiscal Surplus / (Deficit)	(P54.3-B) (June 2018)	Exports Growth Rate	(3.8%) (May 2018)	BOP	(US$1.177-B) (June 2018)
Inflation	5.2% (2012 BY) (June 2018)	Imports Growth Rate	11.4% (May 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$2.469-B (May 2018)	O/N RRP	3.50% (as of June 20, 2018)

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