PrimeEquity Research

Meridian Securities Incorporated
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

12 September 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,518.01 (-1.03%)	100,332,330.26	(10,714,717.72)	26.11 (+0.93%) = 1,406.13	53.854

MARKET OUTLOOK

- Local equities slumped on Tuesday as the second meeting between United States and North Korean leaders alongside the delay of President Rodrigo R. Duterte's scheduled speech in the afternoon dampened investor sentiment.
- Participants may have been anticipating President Duterte's supposed address to the nation. This was, however, moved from the original schedule of 3 p.m. to a later time.
- Local shares slid once more apprehension over a second meeting between Trump and Kim Jong Un and lingering concern over US and China trade tensions weighed on investor optimism.
- North Korean leader Kim Jong Un was also reported to have requested for a second meeting with US President Donald J. Trump to continue nuclear negotiations. This will be a follow-up to their first meeting in Singapore last June.
- However, gains on Wall Street overnight may curb losses locally due to fears of an escalation in Sino-US trade spat.
- President Donald Trump on Friday threatened duties on $267-bil of goods on top of planned tariffs on $200-bil of Chinese products. China has vowed to respond if the United States took any new steps on trade.
- China has also decided to approach the World Trade Organization next week for permission to slap sanctions on the United States, for Washington's non-compliance with a ruling in a dispute over US dumping duties.
- The pressure point today clearly seems to be about trade more than anything else. China's been playing such a long game and none of that has been good for the markets.
- The WTO complaint has been stirring up this escalation, which has reignited concerns about trade in general.

ECONOMIC HIGHLIGHTS

Trade Balance

- Flat merchandise export sales and inbound foreign goods' continued surge caused the country's trade gap to widen further in July, the Philippine Statistics Authority (PSA) reported on Tuesday, putting more pressure on the peso that has lately been hitting its weakest level in nearly 13 years.
- The value of merchandise exports grew by just 0.3% annually to $5.851-bil in July, according to PSA's preliminary data. This was slower than the 2.8% growth in June and 21.9% in July 2017.
- On the other hand, July import payments increased to its fastest pace so far this year with a 31.6% growth to $9.397-bil compared to June's 24.2% rise and the 0.3% decline in July 2017.
- Consequently, the country's trade deficit expanded to $3.546-bil in July, wider than June's $3.188-bil and $1.305-bil in July 2017.
- To date, merchandise export sales shrank 2.8% to $38.744-bil from $39.869-bil in the same seven months last year while imports increased by 15.7% to $61.234-bil versus last year's $52.923-bil.
- Under the government's program, exports and imports of goods have been targeted to grow by nine percent and 10%, respectively, this year.
- On a cumulative basis, the balance of trade yielded a $22.49-bil deficit, 72.3% bigger than the $13.055-bil trade gap recorded in January-July 2017.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4%% (July 2018)	GIR	US$77.829-B (August 2018)
Fiscal Surplus / (Deficit)	(P86.4-B) (July 2018)	Exports Growth Rate	0.3% (July 2018)	BOP	(US$1.177-B) (June 2018)
Inflation	6.4% (2012 BY) (August 2018)	Imports Growth Rate	31.6% (July 2018)	O/N RP	4.50% (as of August 9, 2018)
91-day T-Bill Rate	3.225(as of September 3, 2018)	Cash Remittances	US$2.357-B (June 2018)	O/N RRP	4.00% (as of August 9, 2018)

ECONOMIC CALENDAR

Monday, September 24
- Budget Balance (August)

Thursday, September 27
- Monetary Board Policy Meeting

ECONOMIC HIGHLIGHTS (continued)

Trade Balance (continued)

- Outbound manufactured goods, which made up 83.4% of total sales in July, dipped 0.3% to $4.882-bil, although electronic products, which made up around 56% of total exports, rose 5.2% to $3.276-bil.
- Outbound shipments of agro-based products likewise dropped by 5.4% to $386.103-mil while those of petroleum products plunged 75.9% to $12.484-mil.
- Bucking the trend were exports of mineral products (4.3% growth to $373.603-mil) and forest products (130.8% to $24.488-mil).
- Meanwhile, the July import print marked the fourth straight month of double-digit growth.
- Purchases of raw materials and intermediate goods, which made up 36.8% of total imports that same month, grew 28.3% to $3.457-bil.
- Likewise, capital goods, comprising 33.9% of the import total, grew 38.9% to $3.183-bil.
- Also growing that month were imports of consumer goods (22% to $1.561-bil), as well as mineral fuels, lubricant and related materials (35.8% to $1.142-bil).
- As the global trade situation becomes less encouraging, improving the overall climate for export development becomes all the more indispensable.
- Trade war fears have weighed on business sentiment, hence softer global activity. With a resolution unlikely in the short term, the dispute is expected to dampen growth in both economies and drag down growth in the wider global economy.
- Despite the flat merchandise export performance, analysts were upbeat on growth prospects of the sector for the year despite risks.
- Exports are expected to improve in H2 of 2018 with the Christmas season anticipated to drive demand higher.
- Although the impact on the Philippines is uncertain, the certainty that the Philippines is interconnected to global trade particularly with the US and China.
- The US was the Philippines' top export market in July with a 16.6% share at $972.52-mil, followed by Hong Kong's 14.7% ($859.98-mil) and Japan's 13.7% ($799.02-mil) market shares.
- The same month saw China as the Philippines' top source of imports with a 19.8% share ($1.859-bil) followed by South Korea's 10% ($936.49-mil) and Japan's 9.7% ($911.48-mil).

Tax Reform Program

- The Senate will start next week committee-level work on the second tax reform package designed to overhaul the corporate tax and incentives scheme.
- This was after the House of Representatives approved on final reading on Monday House Bill No. 8083, or the "Tax Reform for Attracting Better and High-quality Opportunities" (TRABAHO) bill.
- The Department of Finance (DOF) had intended the measure to be revenue-neutral, but the removal of a provision pegging the pace of CIT rate reduction to revenues raised from streamlined perks had raised concerns that it could throw a wrench on the state's carefully watched fiscal balance. The version approved by the House states that the President may even "advance the scheduled reduction" in CIT rate "when adequate savings are realized from the rationalization of fiscal incentives."
- Senators have been lukewarm to the measure, arguing that removal of some incentives may lead to job losses, but eventually Senate President Vicente C. Sotto III filed a counterpart measure last month.
- The Senate version cuts the CIT rate to 25% in the first year of implementation, while the Finance department has wanted the cut to be 25% as well, but conditional on the amount of additional revenues raised from streamlining of incentives.
- The DOF aims to have TRABAHO implemented starting 2019.

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CORPORATE NEWS

SMC

- The Securities and Exchange Commission (SEC) has formed a special panel to investigate a complaint filed against San Miguel Corp. (SMC) and its subsidiaries for allegedly violating the mandatory tender offer rule prior to the merger of its traditional businesses.
- Josefina Multi-Ventures Corp., a minority shareholder of SMC unit Ginebra San Miguel, Inc. (GSMI), said in a petition submitted to the SEC that SMC should have conducted a tender offer to all minority owners of the company before pushing through with the share swap transaction that would merge San Miguel Pure Foods, Inc., San Miguel Brewery, Inc., and GSMI under San Miguel Food and Beverage, Inc. (SMFB).
- SMC said in a disclosure to the stock exchange on Tuesday that it has received a summons and amended petition in relation to the case.
- Josefina Multi-Ventures, which described itself as a GSMI shareholder since 2014 and holds a total of 1.84-mil shares, said SMC should have made the tender offer after acquiring around 75% of SMFB.
- Citing Section 19.2 of the Securities Regulation Code, the company said a tender offer is required once a person or group of persons acting in concert acquire at least a 35% stake in a listed company.
- The petitioner also questioned the SEC's ruling that the tender offer rules do not apply to the transaction since it involves a de facto merger or consolidation, wherein the change in control will only result to indirect from direct.
- Josefina Multi-Ventures noted that control did not shift from direct to indirect, since SMC and SMFB are two completely different entities.
- Josefina Multi-Ventures is now asking for the nullification of the share swap between SMFB and SMC. It is asking that SMFB be directed to conduct a mandatory tender offer for the benefit of the minority shareholders of GSMI.
- The complaint could put a halt on SMFB's planned P142-bil follow-on offering this year, which should bring the company's public float to the minimum 10% from its current 4.12%.

ABG

- Japan's Universal Entertainment Corp. is taking its Philippines casino operator public through a subsidiary's purchase of a majority stake in Manila-listed Asiabest Group International.
- Asiabest, a holding company, said on Tuesday its shareholders signed a deal for Tiger Resort Asia Ltd. to acquire two-thirds of the company for P46.5-mil ($12-mil).
- Tiger, which owns the operator of the $2.4-bil Okada Manila integrated casino-resort, is a subsidiary of Universal.
- The special block sale, which will take effect on Nov. 12, would allow the casino operator to join the Philippines' stock exchange, the worst performing bourse in Southeast Asia this year.
- The move comes amid a difficult political climate for casinos in the Philippines, with President Rodrigo Duterte saying he hates gambling and vowing there would be no new casinos set up during his presidency.
- Okada Manila is one of three integrated casino-resorts operating in the Philippine capital's version of the Las Vegas gaming strip. Melco Resorts and Entertainment (Philippines) Corp. (MRP.PS), which operates City of Dreams Manila in the same gaming strip, plans to de-list from the stock exchange.
- Tiger would offer to buy out minority shareholders of Asiabest, which implemented a voluntary trading suspension on Tuesday.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,197.95	US$2.618