PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

13 September 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,449.20 (-0.92%)	105,097,121.62	(16,442,031.11)	26.41 (+1.15%) = 1,424.13	53.924

MARKET OUTLOOK

- Shares fell on Wednesday as the Philippine peso posted its lowest finish against the greenback in 13 years, alongside escalating trade tensions between the United States and China.
- The peso closed at P54.13 versus the US dollar on Wednesday, 19 centavos weaker than the P53.94 posted in the previous session. This marks the local currency's lowest close since December 2005.
- Market players already disheartened by last week's inflation surprise had reacted to the peso's continued decline.
- Philippine shares closed lower once more, mostly on renewed trade tension as China lodged permission with WTO (World Trade Organization) to levy tariff on the US and crude oil rising on hurricane and EIA WTI (US Energy Information Administration West Texas Intermediate) outlook.
- Given that the PSEi closed yesterday at its intraday low, and also below the 7,460-7,500 support area, watch out for further downside movement given its current momentum and the ever-present net foreign selling.
- However, the market may find respite on Wall Street's slight rise overnight, after news of a fresh round of U.S.-China trade talks.
- The Trump administration has reached out to China for a new round of trade talks as it prepares to activate punitive U.S. tariffs on $200-bil worth of Chinese goods.
- Next support if the PSEi does continue its move is in the area of its July 6 low around 7,150.

ECONOMIC HIGHLIGHTS

Tax Reform Program

- The Senate version of the second tax reform package that cuts corporate income tax rates and streamlines fiscal perks may result in bigger foregone revenues than the bill approved last week by the House of Representatives, the Department of Finance (DOF) told reporters on Wednesday.
- The Senate's counterpart to House bill No. 8083, or the Tax Reform for Attracting Better and High-quality Opportunities (TRABAHO), could result in an estimated "P130-bil loss" in the first year of implementation, compared to the P62-bil foregone revenues from the House measure.
- This is because the Senate's version, filed by Senate President Vicente C. Sotto III, proposes an immediate, unconditional reduction in the corporate income tax (CIT) rate to 25% next year from 30% currently, while rationalization of incentives — which scraps those deemed redundant and sets stricter eligibility criteria — would come two years after.
- Both chambers of Congress did not adopt the DOF's proposal of making the CIT reduction conditional on incremental revenues to be collected from reduced fiscal incentives.
- The problem is rationalization means no removal of incentives. Everyone can still apply. If they meet the conditions, they can get the incentives. So it's not a guaranteed neutral revenue.
- Credit raters Fitch Ratings and Moody's Investors Service have flagged that such impact of watered-down tax reform could weigh on state revenues needed to fuel the government's infrastructure drive that will need more than P8-tril until 2018, when President Rodrigo R. Duterte ends his six-year term.

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)

Tax Reform Program (continued)

- The TRABAHO bill approved by the House on final reading on Monday seeks to cut the CIT rate gradually to 20% by 2029 from 30% currently via a two percentage-point reduction every other year starting 2021 in a bid to put the Philippines at par with Southeast Asian peers in attracting foreign investors on this count.
- Fiscal incentives will be given to businesses in industries identified in the Strategic Investments Priority Plan that satisfy performance indicators. Such perks include a three-year income tax holiday (ITH) after which businesses may apply for a special 18% CIT rate starting 2021, going down to 13% in 2029; allowable deductions on labor, research and development, training and infrastructure development costs and import duty exemption for up to five years, before being subjected to the regular corporate tax scheme.
- Currently, eligible companies enjoy an ITH up to nine years and, after that, a 5% tax on gross income in lieu of all other taxes among other incentives that are not time-bound.
- The DOF still hoped that discussions in the Senate Ways and Means committee starting next week would lead to a version that would be more consistent with its proposal.
- There is still "ample time" for at least the second tax reform package to secure legislative approval before lawmakers shift their attention towards yearend to preparations for the May 2019 mid-term elections.
- Finance Secretary Carlos G. Dominguez III had said early last month that "there is now more political resistance to succeeding tax reform packages."
- "Part of the reason for this resistance is the proximity of elections. Tax policy, as we know, is never the best way to be reelected."
- The important thing now is to get the hearings started so that the debate is done objectively, not subject to hearsay or opinions.

Infrastructure Development Push

- Foreign chambers welcome the government's infrastructure development push and unveiled their annual list of recommendations to further push this drive, but believe efforts to streamline incentives would make the country less attractive to investments.
- The European Chamber of Commerce of the Philippines' Infrastructure and Logistics Committee says it is very happy with the increased acceleration of infrastructure projects.
- The Korean Chamber of Commerce of the Philippines, Inc. (KCCI) cited that ongoing projects of the "Build, Build, Build" infrastructure program are ongoing at a very quick pace.
- American Chamber of Commerce of the Philippines, Inc. (AmCham), meanwhile, noted that the big issue at hand is the ability to spend fast enough. At the same time, acknowledged that "it's really physically impossible to build as quick as much as wanted.
- The government has been ramping up its spending on infrastructure in a bid to push overall economic growth to a faster 7% to 8% annual pace until 2022, when President Rodrigo R. Duterte ends his six-year term, from the 6.3% to 6.5% average in 2010-2016, and has lately been hitting its targets in this regard.
- However, leaders of the Joint Foreign Chambers of the Philippines voiced in a press conference after the forum their longstanding concern over government efforts to stem its bleeding by billions of pesos yearly in terms of revenues foregone due to generous incentives.
- The Canadian Chamber of Commerce of the Philippines would like to see that reduction phase for the corporate income tax rate as fast as possible, start as early as possible, hopefully 2019 instead of 2020 or 21.
- ECCP said that its biggest worry is that somebody tinkers with incentives for the BPO (business process outsourcing) industry, a key dollar earner for the country especially at a time of a widening current account deficit.

ECONOMIC HIGHLIGHTS (continued)

Infrastructure Development Push (continued)

- For this year, the JFC published only three policy briefs on seaports and shipping, roads and railways, and water, unlike previous Arangkada reports that covered a wide array of sectors.
- On the roads and railways, the JFC made 18 recommendations, including improvement of right of way acquisition; restructuring regulatory agencies and providing adequate resources; maintaining high levels of public and private sector investment in needed infrastructure; as well as conducting robust public-private partnership and privatization programs, among others.
- On water policy, the JFC called for the appointment of a water czar; finalizing and implementing a unified financing framework for water supply and sanitation works; and expanding wastewater treatment coverage through adoption of new technologies, among others.
- For seaports and shipping, the JFC recommended building strategic regional clusters around several ports and airports; reducing domestic shipping costs and tapping the potential of cruise tourism, among several others.

CORPORATE NEWS

SMC / FB

- The food and beverage unit of diversified conglomerate San Miguel Corp. (SMC) said it plans to import unmilled rice should the government pass a law lifting quantitative restrictions (QR) on the volume of rice imports annually.
- SMC said the company can undertake rice importation to help ensure food security and to assist local farmers.
- The company has the capacity to put up grain mills beside its existing feed mills, citing its facilities in Darong, Davao; Iloilo; Barong, Negros Oriental; Mandaue, Cebu; San Fabian, Pangasinan; Mabini, Batangas; and Sariaya, Quezon.
- As to the volume of rice can be imported, the company said one grain terminal will be able to handle three to four million tons each year.
- SMFB can import rice from Asian countries such as Cambodia, Vietnam, and Thailand which can readily supply the Philippines with its rice needs.
- Since the government will impose tariffs on the imported rice, this can be used to subsidize the needs of local farmers.

JFC

- Homegrown food giant Jollibee Foods Corp. (JFC) will be opening its first stores in the United Kingdom (UK), Macau, and Manhattan within the next few months.
- The listed company said its first store in Macau will be unveiled on Sept. 28.
- In the United Kingdom, Jollibee will open its first store along Earls Court Road in London on Oct. 20.
- JFC has yet to set an exact date for its Manhattan, New York opening, but said that it will happen "within a few months."
- JFC's opening in the three new locations forms part of its plan to take advantage of the large population of Filipino workers abroad.
- Aside from Filipinos, the company said it is starting to see more local markets enjoying its brands. For instance, it noted its customers in Vietnam and Brunei are all locals, with the company being one of the fastest growing chains in both locations.
- JFC added that more than half of its customers in Hong Kong and Singapore are also locals.
- JFC envisions to continue replicating its success in the Philippines, Vietnam, Brunei, Hong Kong and Singapore in other markets soon.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,197.95	US$2.687