PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

17 October 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
6,987.02 (+0.87%)	87,665,227.24	(4,129,703.74)	25.66 (+1.91%) = 1,388.98	54.130

MARKET OUTLOOK

- Shares climbed on Tuesday, saved by last-minute buying and minimal foreign outflow compared to previous weeks.
- The market remained mostly subdued the entire day, moving sideways, until finally surging in the last few minutes. The lower net foreign selling may have contributed to the day's gain.
- The main index was trading mostly in the negative at the start of the day, tracking the sell-off seen in international markets as the United States' row with Saudi Arabia came into focus.
- The stock market also recovered on Tuesday as investors hunted for bargain issues while cheering a peso recovery.
- The sustainability of the rally, however, is questionable. Value turnover is still thin and foreign fund flows are still not in our favor.
- It's mostly an oversold bounce. The degree of the move is a function of the moves the market has seen already this month more than anything else.
- Investors are advised to remain on the lookout for US markets, with the main index's support pegged at 6,790 and initial resistance at 7,130.
- Wall Street surged more than 2% overnight after upbeat earnings reports from major companies and solid economic data, as equities rebounded from a recent sharp sell-off.
- Investors are expecting a strong quarter of corporate profits, hoping the reports can calm nerves following concerns over global trade tensions and rising bond yields.

ECONOMIC HIGHLIGHTS

PH Growth Targets

- The Development Budget Coordination Committee (DBCC) on Tuesday slashed economic growth and fiscal goals and raised inflation forecasts in the face of tighter credit conditions, rising oil prices and a worsening Sino-US trade row.
- The DBCC cut the gross domestic product (GDP) growth target for 2018 to 6.5% to 6.9%, from 7% to 8% in its July meeting, but maintained the 2019-2022 target at 7% to 8%.
- It also raised inflation forecasts to 4.8% to 5.2% for this year and 3% to 4% in 2019, from 4% to 4.5% and 2% to 4%, respectively, while keeping the 2% to 4% target range for 2020-2022.
- "We have agreed to revise the medium-term macroeconomic assumptions to reflect the developments in national and local level, high global prices, tightening monetary policy, higher domestic inflation," Budget Secretary Benjamin E. Diokno said.
- "We have tempered our optimism with prudence and good judgement in terms of the reality. We feel we can still achieve up to 6.9%," Socioeconomic Planning Secretary Ernesto M. Pernia said.
- GDP grew 6.3% last semester against 6.6% in 2017's H1.
- Headline inflation averaged five percent in the nine months to September against the central bank's 2% to 4% target range for full-year 2018.

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)	(P2.6-B) (August 2018)	Exports Growth Rate	3.1% (August 2018)	BOP	US$1.272-B (August 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

Monday, October 22
- Budget Balance (Sept.)

ECONOMIC HIGHLIGHTS (continued)

PH Growth Targets (continued)

- Mr. Diokno said state economic managers are "optimistic that the administration has taken enough measures to tame inflation in the last quarter of 2018 and the full year of 2019," citing President Rodrigo R. Duterte's orders last month to boost supply and streamline distribution of farm goods, as well as the impending replacement of rice import quotas with a regular tariff scheme that is expected to slash retail prices of the staple by P7 per kilogram. Rice carries one of the heaviest weights in the theoretical basket of widely used goods at 9.6%.
- The central bank has raised benchmark interest rates by a cumulative 150 basis points since May in an effort to douse inflation expectations.
- The DBCC also now expects the foreign exchange rate to average P52.5-53 per dollar in 2018 and P52-55 for 2019 until 2022, from P50-53 previously.
- They also see Dubai crude averaging $70-75 per barrel (/bbl) this year, rising further to $75-85/bbl in 2019, and then easing to $70-80/bbl in 2020 and P65-75/bbl in 2021-2022. Previously, the body programmed $55-70 in 2018 and $50-65 from 2019 to 2022.
- Malacañan Palace on Monday announced the suspension of a P2 per liter excise tax hike for oil scheduled in January, in the face of projections that the price of Dubai crude — Asia's benchmark — will average more than the $80/bbl trigger set under the tax reform law for such deferment in the remaining three months of the year.
- Mr. Diokno said that the DBCC will form a task force "to look into the different items in the budget that can be postponed or outright cut" in order to temper the fiscal impact of some P41-bil in foregone revenues expected from the oil tax hike suspension.
- Saying that infrastructure spending "will be exempted" from cuts, he said the DBCC team will consider cuts in government vehicle purchases, personnel benefits for unfilled positions as well as some maintenance and other operating expenses.
- Mr. Diokno also said that the DBCC slashed projected revenues this year to P2.820-tril from P2.846-tril initially "with the deferred implementation of E-receipts and fuel marking" under Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion Act — the first of up to five tax reform packages that took effect in January.
- State expenditures are now programmed to hit P3.346-tril this year from P3.370-tril previously.
- But the programmed fiscal deficit is unchanged at equivalent to 3% of GDP this year and 3.2% in 2019 on a planned spike in infrastructure spending, and 3% in 2020-2022.
- The strong momentum of public spending will be sustained as the government transitions to an annual cash-based budgeting system. In this scheme, all government programs and projects budgeted for the fiscal year should be implemented and delivered in the same fiscal year. This will address underspending, a perennial problem of the bureaucracy, while ensuring the prompt delivery and completion of economic and social services of the government.
- The DBCC also raised assumptions for the 364-day Treasury bill rate to 4.4% to 4.6% this year and to 4.5% to 5.5% in 2019-2022 from 3% to 4.5%.
- Projected growth of goods exports was cut to 2% this year and 6% for 2019-2022, from 9% previously.
- Projected growth of goods imports was likewise reduced to 9% in 2018 and 2019, and to 8% for 2020-2022, from 10% across the board previously.
- The central bank's Monetary Board said this is not unique to the Philippines, but is true of all emerging markets.
- Service exports are expected to grow 9% this year and 11% in 2019-2022, as previously projected.
- Service imports are projected at 3% this year, 5% in 2019, 6% in 2020, and 7% in 2021-2022, from 10% across the board previously.

ECONOMIC HIGHLIGHTS (continued)

Monetary Policy

- The central bank may pause its tightening moves should month-on-month inflation show deceleration, the policy-making Monetary Board said, noting that the impending removal of rice import quotas should help prod overall price increases back to target in 2019.
- The Monetary Board said the central bank may "take a pause" should the pace of price increases soften starting this month. But it did not discount the possibility that commodity prices could still pick up faster.
- The Monetary Board will hold its seventh review for the year on Nov. 15.
- Policy makers have raised benchmark interest rates by a cumulative 150 basis points (bp) since May as the central bank sought to rein in inflation expectations at a time that prices of basic goods have been surging beyond the central bank's 2% to 4% target band for full-year 2018. The central bank raised rates in four consecutive meetings, including a back-to-back 50bp increase in August and September, as inflation was seen breaching the target range even in 2019.
- Inflation hit a fresh nine-year-high 6.7% in September, pushing the year-to-date pace to 5%. The central bank foresees 2018 inflation averaging 5.2% and by 4.3% next year, both piercing the ceiling of the target range.
- Monetary authorities are watching month-on-month inflation as it shows the "momentum" of price movements. A month-on-month pace of 0.3% or less would be more in line with the original target, but noted that eight of the past nine months have clocked in a faster pace.
- September's month-on-month seasonally adjusted pace clocked in at 0.8%, coming from 0.9% in August.
- The Monetary Board noted that there may be a chance that inflation could still log faster this month, versus the central bank's expectation that the prices may have already peaked last month.
- The implementation of the rice tariffication law — which would replace a minimum quota scheme with a regular duty scheme — will be instrumental in tempering inflation, since it is expected to slash rice retail prices by about P7 per kilogram. The measure will bring down inflation by 0.7 percentage points. Without rice tariffication, average inflation year-on-year will be higher than 4% in all likelihood.
- The measure has been approved by the House of Representatives and which is expected to clear the Senate soon after lawmakers return from their Oct. 14-Nov. 12 break.
- The DBCC also expects the peso to average P52-55 to the dollar in 2019, making key imports like oil more expensive.

CORPORATE NEWS

DD

- DobleDragon Properties Corp. said it has partnered with the operator of MyHealth Clinics to open medical clinics in its community malls.
- The listed property developer said its subsidiary CityMall Commercial Centers, Inc. (CMCCI) signed a strategic partnership with Equicom Group for the rollout of the latter's multi-specialty medical clinics in CityMalls nationwide.
- DoubleDragon said the first batch of clinics will be built in 12 CityMalls in the next 12 months, with four each in Luzon, Visayas, and Mindanao.
- MyHealth Clinic is under the Equicom Group and an affiliate of Maxicare Healthcare Corp., touted as the largest health maintenance organization in the country. It operates a network of full-service ambulatory clinics offering outpatient health care products and services.
- The Equicom Group is led by businessman and banker Antonio L. Go, who was previously the chairman of Equitable PCI Bank. The bank was considered the third largest in the country in terms of assets until it was acquired by Sy-led BDO Unibank, Inc. in 2007.
- CMCCI, the umbrella company for all CityMall projects, is 66% owned by DoubleDragon and 34% owned by SM Investments Corp.
- The company is targeting to have 50 CityMalls by end of the year. This month, community malls opened in Iponan in Cagayan de Oro City and Sorsogon City in Bicol. It is set to open in Calapan City, Mindoro; and San Carlos City, Pangasinan next week, and in November, branches in Isulan, SOCCSKARGEN; Roxas Avenue, Capiz; Bulua, Cagayan de Oro City; and Cadiz City, Negros.
- DoubleDragon aims to have 100 CityMalls covering 700,000 square meters (sq.m.) by 2020. The malls are mostly located in Tier 2 and 3 cities in the provinces, as the company seeks to position itself as the number one mall operator in those areas.

CORPORATE NEWS (continued)

PCOR

- Petron Corp. has completed the sale of the P20-bil second tranche of its peso-denominated fixed rate bonds last week, the listed oil refining and distribution company told the stock exchange on Tuesday.
- The bond offering, which the company completed on Oct. 12, is the remaining portion of its P40-bil shelf registration with the Securities and Exchange Commission (SEC). The first tranche was offered about two years ago.
- The second tranche was divided into P13.2-bil Series C bonds and P6.8-bil Series D bonds. They were listed and traded at the Philippine Dealing & Exchange Corp., for which a certificate of permit to offer securities for sale was issued by the SEC on Oct. 4, 2018.
- Petron previously said BDO Capital & Investment Corp. and BPI Capital Corp. had been appointed as joint issue managers and, together with China Bank Capital Corp., as joint bookrunners and joint lead underwriters, including other banks that may be invited to join the group.
- When the first tranche was offered in 2016, Petron said the proceeds would be used mainly to refinance existing debt and fund working capital requirements. That year, the company commissioned its $2-bil refinery upgrade, increasing its capability to produce more high-value fuels and petrochemicals.
- The first issuance, which was Petron's first listing at the bond exchange, was twice oversubscribed over the base offer and was priced at the tight end of the marketing range, the company had said.

MEG

- Megaworld Corp. is continuing to expand its homegrown hotel brand, as it revealed plans to open a Belmont Hotel within the Iloilo Business Park in Mandurriao, Iloilo City.
- Megaworld said the Belmont Hotel Iloilo will be the third hotel in the business park, after Richmonde Hotel and Courtyard by Marriott. It is targeted to open in 2023.
- The 12-storey hotel will have 405 suites, targeting tourists attending events at the Iloilo Convention Center which is within walking distance.
- In 2017, around 1.08-mil local and foreign tourists visited Iloilo City.
- Megaworld opened its first Belmont Hotel at Newport City in Pasay City. It is planning to open the second one at Boracay Newcoast next year, while another is being planned at The Mactan Newtown in Lapu-lapu City, Cebu.

ABS / GLO

- ABS-CBN Corp. is shuttering its mobile services brand next month, saying its business model was "financially unsustainable."
- ABS-CBN Convergence, Inc. said all ABS-CBNmobile prepaid, postpaid, and SkyMobi subscribers can use text, call and data services until Nov. 30.
- This comes after the company announced in July it is no longer renewing its contract with Globe Telecom, Inc. that allows ABS-CBNmobile to use the latter's network.
- ABS-CBNmobile is a mobile virtual network operator that the network giant launched in 2013 in partnership with Globe.
- ABS-CBNmobile and SKYmobi promo offers will also no longer be offered to subscribers starting Oct. 25.
- In June, ABS-CBN also closed its remittance business in United States, Canada and United Kingdom due to losses that reached P16.18-mil ($310,233).

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,227.75	US$2.780