PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

02 October 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,222.08 (-0.75%)	78,273,136.82	(12,522,617.47)	25.84 (+0.54%) = 1,398.00	54.102

MARKET OUTLOOK

- The stock market reentered bear territory for the third time this year on Monday as investors continued to pare their positions due to inflation concerns.
- Investors stayed on the sidelines while anticipating the release of inflation figures on Friday.
- It was a slow and unenthusiastic start for October as the PSEi fell by as much as 100.62 points to its intraday low. Value turnover was noticeably weak at only P4-bil — which could be due to participants anticipating September's inflation figure.
- Concerns are growing ahead of the next inflation report after the central bank gave an estimate of 6.3% to 7.1% for the September reading.
- The consensus view is that consumer price growth—which surged to 6.4% in August—likely accelerated to a fresh nine-year year last month.
- In addition to its estimate range, the central bank said September inflation could have printed at 6.8%, while the Department of Finance said it could be unchanged from August's 6.4% record.
- Most Asian indices also logged flat finishes as the China was closed for the Golden Week Holiday. The Hong Kong market was also closed for National Day celebration.
- Meanwhile, a last-minute deal to save NAFTA as a trilateral pact raised hopes for progress in talks with other countries at the start of Q4.
- This may provide some relief and lift the market after the new United States-Mexico-Canada Agreement (USMCA) rescued a $1.2-tril open-trade zone on Sunday.
- US President Donald Trump coerced Canada and Mexico into accepting more restrictive commerce with their main export partner in a deal that will make it harder for global auto makers to build cars cheaply in Mexico and aims to bring more jobs to the United States.
- Market reaction to these developments are relatively short-lived, but the economics in the market is very strong and concerns about the trade issues, among others, have been holding it back from moving higher.

ECONOMIC HIGHLIGHTS

Manufacturing Activity

- Improvement of Philippine manufacturing activity remained "modest" in September, according to a monthly survey IHS Markit conducted for Nikkei, Inc., but "robust" domestic consumption, a "solid" rise in new orders and "upbeat business confidence" offset muted foreign demand and "strong" inflation to propel the country back to fore among major economies of the Association of Southeast Asian Nations (ASEAN).
- The Philippines' Nikkei Purchasing Managers' Index (PMI) notched up to 52 in September from 51.9 in August, higher than the 50.5 average of the seven major ASEAN markets tracked by the regional report that was down from the preceding month's 51.
- The Philippines last topped the region in December last year.

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)	(P2.6-B) (August 2018)	Exports Growth Rate	0.3% (July 2018)	BOP	US$1.272-B (August 2018)
Inflation	6.4% (2012 BY) (August 2018)	Imports Growth Rate	31.6% (July 2018)	O/N RP	5.00% (as of September 27, 2018)
91-day T-Bill Rate	3.549 (as of September 10, 2018)	Cash Remittances	US$2.401-B (July 2018)	O/N RRP	4.50% (as of September 27, 2018)

ECONOMIC CALENDAR

Wednesday, October 3
- Retail Price Index YoY (Aug.)

Friday, October 5
- Core Inflation YoY (Sept.)
- Inflation Rate YoY (Sept.)
- Inflation Rate MoM (Sept.)
- PPI YoY (Aug.)
- Industrial Production YoY (Aug.)
- Foreign Exchange Reserves (Sept.)

Wednesday, October 10
- Balance of Trade (Aug.)
- Exports YoY (Aug.)
- Imports YoY (Aug.)
- Foreign Direct Investments (July)

Monday, October 22
- Budget Balance (Sept.)

ECONOMIC HIGHLIGHTS (continued)

Manufacturing Activity (continued)

- A PMI reading above 50 indicates an improvement in business conditions from the preceding month, while a score below that mark signals deterioration. The manufacturing PMI is composed of five sub-indices, with new orders weighing 30%, output at 25%, employment at 20%, suppliers' delivery times at 15% and stocks of purchases at 10%.
- Manufacturing conditions in the Philippines improved further at the end of the third quarter, with the latest PMI data continuing to signal robust demand and upbeat business confidence.
- September took Q3's pace of improvement to 51.6, suggesting that growth had moderated from 53.1 the previous quarter.
- Output growth accelerated in September, while the rise in new orders "remained solid" overall.
- Export orders, however, fell, capping six straight months of expansion.
- That means demand that fueled overall improvement was largely from locals.
- It noted that September marked the second straight month of net employment gains amid the need "to raise staff numbers to meet increased demand."
- At the same time, Nikkei said that firms continued to feel inflation pressures, which they passed on to customers.
- Filipino goods producers continued to face strong cost increases as the third quarter concluded. Input price inflation remained steep and well above the historical average. A combination of factors contributed to inflation, including a strong dollar, higher prices for raw materials (such as steel, electronic and electrical components, plastics, paper, sugar, and fuel), effects of the TRAIN laws and supply shortages, the report read, referring to Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion Act.
- Firms, in turn, passed on higher costs to customers in order to preserve profit margins. Prices charged for Filipino manufactured products were raised at the second-highest rate in the survey history during September.
- Business confidence about output in the next 12 months remained elevated in September, though slightly lower than in August, the report added.
- According to the Rizal Commercial Banking Corp., the pickup in manufacturing activity was due to the sustained growth in real estate and construction, and the positive effects of allied industries that are related to both real estate and construction such as construction materials.
- The bank attributed the sustained growth of purchases amid high inflation to expectation of further price increases.
- The rising trend in inflation may have also prompted some manufacturers to front-load production as a hedge vs. any further increase in prices/inflation in the future, it said.
- RCBC added that reconstruction in northern Luzon in the wake of the typhoon that struck last month could further spur construction-related manufacturing activity.
- IHS Markit said that the outlook remains positive despite high inflation.
- September survey data suggest that growth in coming months is likely to be resilient, while strong cost inflation remains a key concern. In general, Filipino manufacturing firms are optimistic about the business outlook in the year ahead, it said.
- Noting that "inflation was partly driven by typhoon-related factors, IHS Markit said a weaker peso, supply shortages, higher global commodity prices and the TRAIN laws continued to drive inflation higher.
- As such, the latest PMI price gauges raised doubts about prospects that consumer inflation will reach a peak in September, suggesting instead that inflation could remain elevated in the months ahead"

ECONOMIC HIGHLIGHTS (continued)

Growth Outlook

- The government remains bullish despite recent downward adjustments to the country's growth outlook, the National Economic and Development Authority (NEDA) said on Monday.
- The NEDA issued the statement after both the Asian Development Bank (ADB) and International Monetary Fund (IMF) trimmed their growth forecasts for the Philippines due to rising challenges.
- The ADB last week announced that the country would likely grow by 6.4% and 6.7% this year and the next, respectively, lower than the 6.8% and 6.9% it previously held.
- The IMF last week also said it was trimming its 2018 forecast to 6.5% from 6.7% while keeping its 2019 outlook at 6.7%.
- In August, meanwhile, Fitch Solutions said it expected Philippine economic growth to hit 6.3% this year, lower than the previous forecast of 6.5%.
- NEDA understands the concerns of ADB and Fitch, but remains confident about the strength and stability of the country's macroeconomic fundamentals.
- The economy has been strong, growing by an average of 6.4% in the last eight years. The growth is the fastest since the mid-1970s.
- NEDA attributed growth since 2010 to robust domestic demand, the rising contribution of investments and the industry sector, and high growth in total factor productivity.
- The economy grew by 6.3% in H1, below the government's 7.0% to 8.0% target and last year's 6.7% result.
- While this is slower compared to that of last year, the economy has strong enough macroeconomic fundamentals to weather external risks.
- The nation's fiscal policy remains prudent, external position is supportive of economic growth, a stable banking system, and measures to address high inflation are currently being prioritized.
- NEDA said growth would be expedited by policy reforms and faster implementation of the government's infrastructure program.
- One such reform is Administrative Order (AO) 13 that removes non-tariff barriers and streamline the importation of agricultural products, which the NEDA said would counter high inflation.
- Besides short-term measures, NEDA also needs to look at long term solutions like giving farmers access to farming technology and developing high yielding varieties of rice and other vegetables

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CORPORATE NEWS

URC

- Universal Robina Corp. (URC) is buying out its American partner for Hunt-Universal Robina Corp. (HURC), ending its 35-year-old partnership with the company while still keeping the licensing agreement for its products.
- The Gokongwei-led firm said it has signed a share purchase agreement to buy ConAgra Grocer Products Company, LLC's 50% stake in HURC for P3.18-mil. This comprises of 1.4-mil shares priced at P2.27 apiece.
- URC will now gain full control of HURC, which it said will allow the company to "integrate and simplify its business operations as part of its Philippine business portfolio."
- After ConAgra's exit from the partnership, URC said it will continue to manufacture and sell Swiss Miss Products under a trademark license agreement with the company.
- URC's buyout of ConAgra's shares in HURC comes less than a week after it also took control of its partnership with Japanese firm Calbee, Inc. for Calbee-Universal Robina Corporation, Inc. (CURC). The company disclosed last Sept. 27 that it is buying Calbee's 50% stake in the JV firm for P170.6-mil, or 32.7-mil shares at P5.217 each.
- URC committed to invest P8-bil in capital expenditures this year to support its capacity expansion and to improve handling and distribution.

AC / HI

- The Ayala and Yuchengco groups have approved the merger of their education businesses valued at around P15.5-bil, with listed firm iPeople, Inc. to be the surviving entity.

CORPORATE NEWS (continued)

AC / HI (continued)

- Ayala Corp. (AC) and Yuchengco-led House of Investments, Inc. (HI) said they have signed the definitive agreements merging their respective education units, AC Education, Inc. (AEI) and iPeople, Inc.
- HI will control 51.3% of the surviving entity iPeople, while AC will have a 33.5% stake.
- Earlier on Monday, the Philippine Stock Exchange granted HI and iPeople's requests to suspend the trading of their respective shares until 9 a.m. of Oct. 2 to give the investing public equal access to the material information.
- AEI and iPeople's merger will allow the groups to offer a complete education cycle. iPeople brings to the table Malayan Education System, the operator of Mapua University, which is considered a leading private engineering and technical university in the country.
- The merger will bring iPeople's combined student population to almost 60,000 students.
- AC said the merger will still be subjected to the approval of AEI and iPeople's respective board of directors, as well as the required regulatory approvals.

ICT

- A subsidiary of International Container Terminal Services, Inc. (ICTSI) recently started operations of a new berth in Puerto Cortes in Honduras.
- The Pier 6 facility, operated by Operadora Portuaria Centroamericana S.A. de C.V. (OPC), was inaugurated by Honduran President Juan Orlando Hernandez.
- ICTSI said the $145-mil greenfield development represents the first phase of OPC's expansion in Puerto Cortes. It added 350 meters of quay to the existing 800 meters and depth of 14 meters.
- The company said OPC is currently the only port in the Central America-Four region that can receive the biggest box ships because of its new super post-Panamax cranes. The cranes increased the annual operational capacity of the terminal by 50% to 1.4-mil twenty-foot equivalent units (TEUs).

MWIDE

- The young business magnate has resigned as director of Megawide Construction Corp., a company he co-founded with Edgar Saavedra in 1997.
- Megawide said Michael Cosiquien submitted his resignation last Sept. 28, citing the need to focus on other business ventures.
- Cosiquien is busy building his own business empire which includes real estate development and the cold storage business.
- Through his realty firm Isoc Land, Cosiquien is developing a 12-storey green office building on a 23,541 square meter lot along Macapagal Boulevard in Pasay City.
- He just opened his first cold storage facility in Alabang. The plant offers the latest technology for storing fruits, vegetables, seafood, meat and poultry. Plans are underway to open facilities in Taguig and Caloocan next year.
- Apart from this, Cosiquien submitted an unsolicited proposal to build 25,000 cell towers across the country, a project that will require an investment of about P100-bil. If that pushes through, it will be in joint venture with OCK Group Berhad of Malaysia.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,190.75	US$2.785

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