

DAILY MARKET PRIMER

04 September 2018

| PSEI | Value Turnover (US\$) | Net Foreign Flow (US\$) | PHI:US (PLDT ADR) | US\$ 1.00 |
|-------------------|-----------------------|-------------------------|-------------------------|-----------|
| 7,832.22 (-0.30%) | 104,659,437.49 | (13,136,207.19) | 26.22 (unch) = 1,402.11 | 53.475 |

MARKET OUTLOOK

- Local equities slumped on the first trading day of September as investors awaited the release of August inflation data, which is expected to clock in another fresh high.
- The Philippine Statistics Authority is scheduled to release inflation data for the month of August on Wednesday, Sept. 5.
- Preliminary figures already indicate that last month's results were faster than July's 5.7%. The central bank's Department of Economic Research last Friday said headline inflation likely fell within the range of 5.5% to 6.2%, higher than the central bank's 5.1% to 5.8% estimate last July.
- A poll of economists meanwhile yielded a median inflation estimate of 5.9%, matching the Department of Finance's estimate announced on Monday.
- Market participants are also wary of the effect of the stronger dollar and a possible rate hike from the US fed to the global trade as the rift between US and China as well as Canada remains unsettled.
- With U.S. markets closed for Labor Day, as well as worries over the escalation of trade disputes between world powers and a deepening sell-off across emerging market currencies, trading activity may generally be subdued.
- As the market heads into a new week and month, trade concerns will remain front and center of investors' minds, along with increasing concerns about stability in emerging markets.
- There are a few existential threats to the world and a broad based trade war is one.

ECONOMIC HIGHLIGHTS

Inflation Outlook

- Inflation's seven-month rise will likely show signs of slowing even as it appears to have hit a new nine-year high in August, the Finance department said on Monday.
- The inflationary momentum is easing as shown by the forecast deceleration in the month-on-month price change to 0.38% from 0.51% last month, even as the year-on-year change is projected to hit 5.9%, it said ahead of Wednesday's release of official inflation data.
- Consumer price growth, which was just 2.4% in August last year, has been on the rise since the start of 2018, topping the 2.0% to 4.0% target since March 2018 and hitting 5.7% in July — a nine-year high based on updated Philippine Statistics Authority (PSA) data.
- The central bank has a 5.5% to 6.2% forecast for the month and analysts polled have offered projections ranging from 5.8% to 6.1%.
- The driver of inflation is largely supply-side challenges which need to be addressed by improving productivity.
- In the immediate to medium-term horizon, the country needs to enhance food security by taking advantage of international trade, the Department of Finance (DOF) added, noting ongoing moves to lift quantitative restrictions on rice, which accounts for 9.6% of the consumer price index basket.
- Economic managers earlier raised this year's inflation forecast to 4.0% to 4.5% from 2.0% to 4.0%, higher than the central bank's 2.0% to 4.0% goal, in recognition of latest developments.

ECONOMIC INDICATORS

| | | | | | |
|-----------------------------------|------------------------------|----------------------------|-------------------------|----------------|------------------------------|
| GDP Growth Rate | 6.0% (Q2 2018) | Unemployment Rate | 5.5% (April 2018) | GIR | US\$76.892-B (July 2018) |
| Fiscal Surplus / (Deficit) | (P86.4-B) (July 2018) | Exports Growth Rate | (0.1%) (June 2018) | BOP | (US\$1.177-B) (June 2018) |
| Inflation | 5.7% (2012 BY) (July 2018) | Imports Growth Rate | 24.2% (June 2018) | O/N RP | 4.50% (as of August 9, 2018) |
| 91-day T-Bill Rate | 3.203(as of August 20, 2018) | Cash Remittances | US\$2.357-B (June 2018) | O/N RRP | 4.00% (as of August 9, 2018) |

ECONOMIC CALENDAR

ECONOMIC HIGHLIGHTS (continued)

Growth Outlook

- Overall economic growth will likely fall short of the official target this year, according to the country's Finance chief and a financial and investment advisor, partly due to quickening inflation even as infrastructure development should pick up steam.
- "Q2 results came out and it looks like our economy took a breather," Finance Secretary Carlos G. Dominguez III said in an interview last week with Fitch Ratings.
- "I think we will still be close to 6.8% this year. I think the momentum on our 'Build, Build, Build' is very strong and we are really moving quite well in our infrastructure program," he added.
- Fitch itself expects Philippine GDP growth to reach 6.8% annually from this year to 2019.
- Socioeconomic Planning Secretary Ernesto M. Pernia has said that elevated inflation has weighed on growth, adding that GDP expansion will now have to hit at least 7.7% this semester in order to hit the lower end of the government target.
- But Mr. Dominguez said that despite inflation's spike, the economy is not in danger of overheating. Fitch in July flagged a widening current account deficit, high inflation and rapid credit growth as signs of overheating risk, as it then affirmed the country' credit rating at a notch above minimum investment grade rating with a "stable" outlook.
- For Denmark-based Lundgreen's Capital, Philippine GDP growth will likely settle around 6.5% this year as inflation will likely eat into real expansion.
- Moreover, progress on infrastructure projects remains "very slow" two years into the Duterte administration.
- Lundgreen's Capital, said the government's 7% to 8% growth goal is good as missed.
- The Denmark-based financial advisor said 6.5% full-year growth may be doable, but this means that increased activity should be seen between July and December.
- Lundgreen's Capital said that while growth is likely to settle below target, economic activity will remain upbeat.
- However, Lundgreen's Capital said the government has to resolve infrastructure bottlenecks before it can unlock faster growth prospects.
- On the flipside, solid household spending continues to prop up overall economic activity.
- The private consumption story is still valid and pretty strong despite higher food prices, so it means that inflow to the middle-income class is still at a high pace.

Manufacturing Activity

- Manufacturing activity in the Philippines saw "a modest improvement" in August as new business inflows and optimism picked up and more jobs were generated, even as production growth slowed and input costs and prices rose "at marked rates," according to a survey conducted by IHS Markit for Nikkei, Inc..
- The Nikkei Philippines Manufacturing Purchasing Managers' Index (PMI) improved to 51.9 in August from 50.9 in July, described by the report as a "modest improvement in the health of the sector."
- Business conditions in the Philippines' manufacturing sector improved further midway through the third quarter. While output growth softened, new business inflows picked up pace, and optimism improved. Job creation was also reported for the first time in three month.
- Firms continued to scale up purchasing activity, which contributed to further accumulation in input inventories. Meanwhile, inflationary pressures remained strong, with both input costs and output prices rising at marked rates.
- Survey results show that higher sales and increased operating capacity were drivers for the output growth, where it also noted that bad weather disrupted production schedules.
- It also said that firms reported delivery delays due to "inclement weather, supply shortages and poor traffic conditions."

ECONOMIC HIGHLIGHTS (continued)

Manufacturing Activity (continued)

- At the same time, survey details revealed that domestic markets were the primary driver of higher demand as export sales grew at a noticeably slower pace. Growth in export orders was the weakest in the current six-month period of expansion.
- It also noted that firms ramped up acquisition of inputs to “meet greater operating demand” despite elevated costs — particularly on increased material prices including metal, sugar, rice — a weaker exchange rate and tax hikes under the Tax Reform for Acceleration and Inclusion law (TRAIN). Input cost inflation remained sharp in August, partially reflecting the impact of the TRAIN law rollout at the start of this year. Consequently, firms raised selling prices further to pass on higher costs to customers. Output prices increased at a marked pace.
- The Philippines’ manufacturing sector continues to expand on a steady pace, with forward-looking indicators pointing towards similar growth rates in coming months.

CORPORATE NEWS

RRHI

- Robinsons Retail Holdings, Inc. (RRHI) has tightened its grip on the chain of Ministop convenience stores in the company, as Mitsubishi Corp. exited the venture.
- The Gokongwei-led retailer said its wholly-owned unit Robinson’s, Inc. will purchase Mitsubishi Corp.’s 161.05-mil shares in Robinsons Convenience Stores, Inc. (RCSI), equivalent to an 8% stake in the exclusive master franchisee of Ministop in the country.
- The transaction raised RRHI’s effective ownership in RCSI to 59.1% from 51%. The company did not disclose the deal’s value due to a non-disclosure agreement.
- Mitsubishi also unloaded its remaining 4% stake to Japan-based partner Ministop Co., Ltd., which hiked the latter’s stake to 40.9%.
- Robinson’s, Inc. and Mitsubishi have entered into a share purchase agreement for the transaction.

PAL

- The operator of Philippine Airlines (PAL) on Monday said the Securities and Exchange Commission (SEC) has approved the equity restructuring plan to partially wipe out its deficit.
- PAL Holdings, Inc. said the SEC issued a certificate of approval of its equity restructuring on Aug. 23.
- PAL said the approval means the company may now use its additional paid-in capital of P25.340-bil from its 2017 financial statement to partially wipe out its deficit of P29.074-bil in the same year.
- The flag carrier’s application for equity restructuring is a repeat of what it did in October 2007. At that time, the company had also sought the SEC’s approval to use its additional paid-in capital to wipe out its deficit. SEC approved PAL’s application then, allowing the company to remove a deficit of P253.73-mil using its additional paid-in capital of P4.03-bil.
- At that time, PAL said the regulator required the company to get approval from the SEC before using its remaining additional paid-in capital to erase any losses in the future.
- In September last year, the SEC approved a similar application from PAL, again crafted to remove its deficit in its financial report. It requested to decrease its authorized capital stock and increase the par value of each of its shares.
- PAL said then the removal of its deficit was part of the company’s intentions to welcome a new strategic investor that will buy “less than 40% of the company.”
- Discussions with prospective investors have not progressed.

SCC

- Semirara Mining and Power Corp. (SMPC) said it remains on track to finish backfilling activities for the southern part of Panian pit in Antique by June 2019, as part of the company’s efforts to restore ecological balance in the open-mine pit.
- The Consunji-led integrated energy company said in a statement that it has already filled South Panian with 62.7-mil bank cubic meters (BCM) of overburden materials as of end-June, comprising more than half its year-end target of 120-mil BCM.
- BCM refers to the volume of earth lying naturally that is neither loose nor compact due to mine-site activities such as excavation.

DAILY MARKET PRIMER

04 September 2018

CORPORATE NEWS (continued)

SCC (continued)

- The company is dedicating 25 dump trucks and four excavators for the rehabilitation work in South Panian.
- SMPC stopped mining operations in Panian last September 2016 after securing certification from the Department of Energy for the depletion of the pit's mineable coal reserves.
- It has since embarked on the Panian pit's rehabilitation program as per a five-year work program and budget submitted to the energy department. This will restore Panian's original landscape that had open grasslands with a variety of trees and shrubs.
- The company plans to blanket the area with humic acid, compost, and other materials to add nutrients to the soil once the Panian pit becomes a stable landform. It will also undertake a massive reforestation program where endemic and suitable plant species will be planted.
- As of end-June, SMPC has already planted more than a million trees in the area, including beach agoho, narra, and molave, among others. Surviving mangroves planted in Semirara Island's shorelines have also reached over 650,000 across more than 196 hectares.
- Meanwhile, SMPC's environmental project called Semirara Marine Hatchery Laboratory has also produced more than 144,000 giant clams in the area as of the first half of 2018. The company noted that giant clams are very sensitive to water quality, and thus cannot thrive in polluted areas.

TEL

- PLDT, Inc. denied on Monday reports it is seeking a compromise agreement with the Department of Labor and Employment (DoLE) on its dispute over regularization of employees of the telecommunications giant's service contractors.
- PLDT noted it was granted by the Court of Appeals (CA) on July 31 an injunction on the DoLE order demanding the company to issue regular employment status to more than 7,000 of its service contractors.
- It noted the CA agreed that "the DoLE's appreciation of evidence leaned in favor of the contractor workers, and that the Secretary had 'lost sight' of distinctions involving the labor law concepts of 'control over means and methods,' and 'control over results.'"
- The July 31 order of the appellate court said the DoLE was being speculative in its order versus PLDT, and the order had no substantial evidence.
- In response, the DoLE said last month it will file a motion for reconsideration through the Office of the Solicitor General to argue its case.
- But PLDT noted it still has a motion for partial reconsideration with the appellate court concerning the regularization of its workers doing installation, repair and maintenance (IRM) services.
- PLDT also questioned the CA ruling, which appears to conclude all IRM jobs are "irregular," noting the law allows some of these jobs to be "project-based" or "seasonal" in nature.

GOLD BUYING / Troy Oz.

US\$1,197.80

COPPER BUYING / lb.

US\$2.655

2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. www.meridiansec.com.ph Tel: +632 635 6261 to 64

Disclaimer: This document is based on information obtained from sources believed to be reliable, but we do not make any representations as to its accuracy, completeness and correctness. Any information is subject to change without notice and MSI is not under any obligation to update or keep current the information contained herein. Opinions, estimates, and projections expressed reflect the analyst's personal views. Any recommendation contained in this document does not have regard to specific investment objectives, financial situation and the particular needs of any addressee and are in the form of fundamental and technical ratings. Technical ratings may differ from fundamental ratings as technical analyses involve the application of different methodologies based on price and volume related information. This document is for the information of the addressee only and is not to be taken on substitution for the exercise of judgment by the addressee. No liability whatsoever is accepted for and direct or consequential loss arising from any usage of this report. This document is not to be construed as an offer or solicitation of an offer to buy or sell securities. In the course of our regular business, we may have a position in the securities mentioned and may make purchases and/or sales of them from time to time in the open market. Any unauthorized distribution, copying or disclosure of this material is strictly forbidden.