

DAILY MARKET PRIMER

05 July 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,348.42 (+1.12%)	92,488,260.37	8,419,019.94	23.78 (unch) = 1,270.61	53.432

MARKET OUTLOOK

- Local stocks jumped to their fourth straight day of gains on Wednesday as investors continued to search for bargains given the main index's historically low valuation.
- Investors might have also positioned in anticipation of a positive inflation release today.
- This is the first time the PSEi managed to stay in positive territory for four consecutive sessions since February, when the market was trading around the 8,600 level.
- Potential inflation surprises notwithstanding, the rally is sustainable since the index is cheap already and a lot of the risks previously seen are short-term in nature.
- Investors are also waiting for inflation figures to be released later today. The central bank projected inflation to have accelerated by 4.3% to 5.1% last June, lower than the target range of 4.6% to 5.4% in May. Meanwhile, the Department of Finance said inflation likely reached a fresh five-year high of 4.9%.
- On the other hand, stocks may get off to a cautious start as investors remained nervous amid a looming deadline for Washington's proposed tariffs on Chinese imports, leaving financial markets in a state of anxious uncertainty.
- Asia is bereft of the usual leads as the US markets were closed on for the Independence Day holiday. Moves by Chinese shares and the yuan remain a key factor in the meantime.

ECONOMIC HIGHLIGHTS

Government on PPP

- The country's economic managers remain lukewarm to pursuing more big-ticket projects via public-private partnership (PPP) even as the shift in financing mode from official development assistance (ODA) to other modes is being considered.
- Finance Secretary Carlos Dominguez III said should government pull out some projects from ODA financing due to the long approval process, it would still largely prefer to build the hard infrastructure using government funds and auction off the operations and maintenance (O&M) to the private sector.
- He said, however, that government would continue to entertain unsolicited proposals that have already been put forward.
- Socioeconomic Planning Secretary Ernesto Pernia said last week there has been a consensus among economic managers to entertain possible shifts from ODA financing to other modes of project delivery — such as PPP and general appropriations — if the processing of ODA loans take too long. This is meant to fasttrack the delivery of projects within President Duterte's term.
- The processing of ODA loans typically takes months, even years, because of varying bureaucratic processes in donor countries.
- Pernia said the government is prepared to change the financing of projects originally meant for ODA financing “ as deemed necessary.”
- Dominguez said the government remains wary of the complications that usually accompany PPP projects such as the long time requirement for negotiations and the lawsuits that have in the past ensued between private firms.

ECONOMIC INDICATORS

GDP Growth Rate	6.8% (Q1 2018)	Unemployment Rate	5.5% (April 2018)	GIR	US\$78.968-B (May 2018)
Fiscal Surplus / (Deficit)	(P32.9-B) (May 2018)	Exports Growth Rate	(8.5%) (April 2018)	BOP	(US\$583-M) (May 2018)
Inflation	4.6% (2012 BY) (May 2018)	Imports Growth Rate	22.2% (April 2018)	O/N RP	4.00% (as of June 20, 2018)
91-day T-Bill Rate	3.484 (as of June 25, 2018)	Cash Remittances	US\$2.360-B (April 2018)	O/N RRP	3.50% (as of June 20, 2018)

ECONOMIC CALENDAR

Thursday, July 5

- Inflation rate (June)

Friday, July 6

- Foreign exchange reserves (June)

Tuesday, July 10

- Balance of trade (May)
- Exports (May)
- Imports (May)
- Industrial production (May)

ECONOMIC HIGHLIGHTS (continued)

Government on PPP (continued)

- He noted that some projects that were originally drawn up as PPPs before moved to the construction phase faster when financing was changed to government appropriations and the O&M component was auctioned off to the private sector.
- The Finance chief also said this is an opportune time for the government to build a solid base of state assets using its own resources when it is enjoying good credit rating and access to favorable financing.
- Economic managers also frown on the minimum revenue guarantee scheme in which private proponents can require the government to guarantee their revenue shortfalls in PPP projects.
- While financing via the ODA route is more arduous, economic managers still consider it to be a vital component of financing for its ambitious “Build, Build, Build” program that aims to overturn decades of neglect in the country’s public infrastructure.
- This is largely because concessional financing can still be extended to a developing country like the Philippines and with longer tenor for loans.
- Dominguez said the economic team is now having more frequent meetings with their Chinese and Japanese counterparts to expedite the processing of ODA loans.
- Pernia also urged the public to be more patient as government projects still have to hurdle a full project cycle after approval by the NEDA Board. The government’s project cycle is divided into six processes: project identification, appraisal and approval process (ICC, DBCC, NEDA Board clearance), budgeting and funding, implementation (detailed engineering and design, procurement, and construction), monitoring and evaluation, and post-evaluation.

ADB Loan

- The government and the Asian Development Bank (ADB) signed a memorandum of understanding (MoU) on June 29 for the regional lender’s \$7.1-bil sovereign lending program to the Philippines for 2019–2021.
- ADB said the lending program will particularly support the current administration’s infrastructure program, with two-thirds of the financing pipeline — about \$4.5-bil — going to projects that “connect regions and communities and manage urbanization, such as railways, bridges, roads and flood management.”
- ADB is committed to working closely and collaboratively with the government of the Philippines to ensure that we deliver on our pipeline of projects, ADB said.
- This follows the meeting among the National Economic and Development Authority, Department of Finance and the ADB last month where the latter presented the borrowing program.
- About \$945-mil is allocated this year, consisting of two policy-based loans worth \$600-mil, a \$300-mil results-based loan and \$45-mil in project loans.
- ADB has been very cooperative and helpful in the country’s objectives to sustain its economic growth and achieve inclusive development. This will help bring the nation closer to its longer-term vision of a prosperous, middle-income country where no one is poor by 2040.
- The government plans to spend over P8-tril on infrastructure until 2022, when President Rodrigo R. Duterte ends his six-year term, in a bid to speed up economic growth to 7% to 8% annually until 2022 from 6.3% in 2010-2016 as well as slash unemployment rate to 3% to 5% in the last year of this government from 5.5% in 2016 and poverty incidence to 14% from 21.6% in 2016.

CORPORATE NEWS
MPI

- Metro Pacific Tollways Corp. (MPTC) targets to get the greenlight from Indonesian regulators for the conduct of a tender offer in favor of minority shareholders of infrastructure firm PT Nusantara Infrastructure Tbk by August.
- The Indonesian counterpart for the SEC is called the Financial Services Authority (FSA).
- MPTC on Tuesday announced that its unit PT Metro Pacific Tollways Indonesia (MPTI) acquired an additional 4.99% stake in PT Nusantara or 760-mil shares. The share purchase brought PT MPTI's total stake in PT Nusantara to 53.26%, prompting the firm to conduct a mandatory tender offer to its minority stockholders.
- PT Nusantara's minority shareholders collectively own 44.21% of the firm, with the other 2.53% held as treasury shares.
- Should all shareholders participate in the tender offer, MPTC would have to pay out 1,421-bil Indonesian Rupiah (IDR) or around P5.29-bil, based on a price of 79 centavos per share.
- MPTC is currently preparing the funding plan for the offer.
- Meanwhile, toll road operator NLEX Corp. looks to brave the bond market anew by Q4 of 2018 to finance the construction of the North Luzon Expressway — South Luzon Expressway (NLEX-SLEX) Connector Road.
- The unit of Metro Pacific Tollways Corp. (MPTC) needs financing for P16-bil out of the NLEX-SLEX Connector Road's total project cost of P23-bil. Of this, 30% will be funded through equity and 70% will be through a combination of bonds or bank loans.
- Around P11-12-bil (from banks or bonds) may be done in tranches. The remaining P7-bil of the project cost will be spent for right-of-way acquisition, which can be paid over time.
- The company on Wednesday raised P6-bil from the issuance of Series A bonds due 2025 with a coupon rate of 6.6407% per annum and Series B bonds due 2028 carrying an interest of 6.9% per year.
- The funds raised from the first tranche of the P25-bil bonds under shelf registration will be used to finance the company's R-10 Section Project, a 2.6-kilometer elevated toll road set to extend the C-3 Road exit ramp of Segment 10 to R-10 Road near the Port Area.
- The issuance is the 11th listing at the Philippine Dealing & Exchange Corp. (PDEX) for the year, bringing the total new listings for the year to P88.81-bil.
- With this, the Metro Pacific group now has a total of P31.5-bil worth of listed bonds in the PDEX, comprising 3.58% of the total outstanding face amount of P881-bil corporate bonds enrolled at the fixed income exchange.

GOLD BUYING / Troy Oz.

US\$1,256.00

COPPER BUYING / lb.

US\$2.868

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