

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,817.31 (-0.03%)	105,362,821.74	(1,636,323.00)	25.73 (+1.30%) = 1,367.45	53.146

**MARKET OUTLOOK**

- Local equities ended flat on Monday as investors took a wait-and-see approach pending the release of several key economic reports this week.
- Philippine shares traded with some precaution as this week marks the release of key economic data points.
- The government is set to release July inflation data today, August 7. On Thursday, it will release the country's Q2 gross domestic product (GDP) report ahead of a central bank meeting in the afternoon.
- Overall expectations would be for the latest figure to breach 5% once again — June's inflation was 5.2% which exceeded both government and market expectations — with the DOF forecasting 5.3%, albeit within the central bank's own range of 5.1% to 5.8%.
- Although traders have been factoring a 50-basis-point interest hike from the central bank as it reviews policy this week, the economic reports will help determine the market by the end of the week.
- The Philippines' economic growth remains to be favorable, which could lend support to the main index's rise.
- The index has been recovering in recent weeks and has managed to hover in the high side in short-term trading.
- Momentum has slowly returned and whether it will continue may be decided by the end of the week.
- There are various catalysts seen for the market's recovery, including higher than estimated earnings growth for local firms; inflation to peak; the US Fed to stop raising rates; and firms in the US and China to continue reporting strong corporate earnings despite the trade war.
- The market wants to see the central bank raising rates. The market already anticipates that inflation will be high. It wants the central bank to take steps to control inflation.

**ECONOMIC HIGHLIGHTS**
**Revenue Losses from Tax Incentives**

- The Department of Finance (DOF) argued on Monday that redundant tax incentives have continued to take more from the economy than provide benefits, with 645 enterprises enjoying such perks even after 15 years in business.
- This, the department said, showed that investment perks given to a number of the big companies "have become redundant and unnecessary" since "many of them are inherently profitable."
- Moreover, "revenue losses are expected to increase to P196.02-bil or by 9.77% in 2017," the DOF said in a statement on Monday.
- The Finance department said that revenues forgone due to redundant tax perks amounted to P178.56-bil in 2016. In 2015, such potential revenues added up to P301-bil.
- The DoF noted that its estimates do not yet include revenue leakages that may arise as a result of abuse of transfer pricing.
- Citing data provided under the Tax Incentives Management and Transparency Act (TIMTA), the DoF said that the government gave away P86-bil worth of income tax incentives to firms in 2015 that paid out a total of P83-bil combined in dividends.

**ECONOMIC INDICATORS**

<b>GDP Growth Rate</b>	6.8% (Q1 2018)	<b>Unemployment Rate</b>	5.5% (April 2018)	<b>GIR</b>	US\$77.675-B (June 2018)
<b>Fiscal Surplus / (Deficit)</b>	(P54.3-B) (June 2018)	<b>Exports Growth Rate</b>	(3.8%) (May 2018)	<b>BOP</b>	(US\$1.177-B) (June 2018)
<b>Inflation</b>	5.2% (2012 BY) (June 2018)	<b>Imports Growth Rate</b>	11.4% (May 2018)	<b>O/N RP</b>	4.00% (as of June 20, 2018)
<b>91-day T-Bill Rate</b>	3.219(as of July 23, 2018)	<b>Cash Remittances</b>	US\$2.469-B (May 2018)	<b>O/N RRP</b>	3.50% (as of June 20, 2018)

## ECONOMIC CALENDAR

Tuesday, August 7

- Core inflation rate (JULY)

Thursday, August 9

- Trade data (JUNE)
- GDP growth rate (Q2)
- Interest rate decision

Friday, August 10

- Industrial production (JUNE)

Wednesday, August 22

- Budget balance (JULY)

## **ECONOMIC HIGHLIGHTS** (continued)

### **Revenue Losses from Tax Incentives** (continued)

- The DOF said that only 43% of the firms registered with investment-promotion agencies are “worthy” to receive fiscal incentives, with the balance considered to be “unnecessary or redundant.”
- In a public hearing of the House of Representatives Ways and Means committee on the second tax reform package last week, the Finance department’s cost-benefit analysis of giving away tax perks was presented, finding that the economy on the average gets only 60 centavos per peso of tax incentives granted.
- It also noted that perks whose costs outweighed benefits were granted mostly to non-manufacturing and service-sector firms.
- The House committee will meet today to present the consolidated bill of the Corporate Income Tax and Incentives Reform Act, after a technical working group convened on Sunday.
- The committee on Wednesday last week had already approved the bill in principle.
- In its current form, House Bill No. 7458 seeks to lower the corporate income tax annually starting 2019 from 30% to 20% to make it competitive in Asia. The DOF’s version meanwhile proposed to cut it only up to 25%, where a one percentage point cut will be warranted per P26-bil collected from reducing fiscal incentives.
- The DOF said that the Philippines collects at a lower efficiency even with a higher tax rate, compared to rivals in the region.
- The bill also seeks to replace the existing five percent gross income earned tax incentive in lieu of all other national and local taxes with a 15% tax on net income, while capping this perk at five years, to be granted only to sectors identified in the Strategic Investment Priorities Plan.

### **Tax Clearance**

- All applications for tax clearance required of prospective bidders for government contracts can soon be filed in regional offices of the Bureau of Internal Revenue (BIR).
- Revenue Regulation 18-2018, signed by Finance Secretary Carlos G. Dominguez III on Jul. 27 and published in a newspaper on Monday, said that tax clearance applications required by Republic Act No. (RA) 9184, or the Government Procurement Reform Act, and Executive Order No. 398 — which requires “timely and complete payment of taxes as a precondition for entering into and as a continuing obligation in contracts with the government” — “shall be manually filed with the Collection Division of the Revenue Regional Office” where taxpayers concerned are registered, or with the “concerned office under the Large Taxpayers Service.”
- Previously, the tax clearance applications were lodged with the Office of the Accounts Receivable and Monitoring Division at the BIR’s National Office in Quezon City.
- The new revenue regulation will take effect on Aug. 21, 15 calendar days from publication.
- The regulation also noted that manual filing will be done “until such time that an on-line application for this purpose has been made available for use of prospective bidders.”
- The new regulations also said that “For those which were previously issued tax clearance for bidding purposes, the requested tax clearance shall only be issued if they are found to be regular eFPS (Electronic Filing and Payment System) users from the time of enrollment up to the time of filing of application.”
- The regulations added that “regular usage of eFPS shall not apply to new applicants,” adding that “the submission of the new applicant’s latest income tax and business tax returns not filed and paid through the Bureau’s eFPS shall suffice.”
- Other requirements for a tax clearance include: not having unpaid annual registration fees, not having open valid “stop-filer” cases, not identified as a taxpayer who “cannot be located”, not having pending criminal information filed in any court arising from tax-related cases and not having delinquent accounts.

**CORPORATE NEWS**
**SMPH**

- The property firm of country's richest man Henry Sy reported a 16% profit growth for the first six months of 2018, driven by the provincial expansion of its malls alongside higher demand for residential properties.
- SM Prime Holdings, Inc. said in a statement on Monday that its net income reached P16.62-bil for the January to June period, on the back of a 15% uptick in consolidated revenues to P49.77-bil.
- SM Prime's expansion projects in various progressive provincial areas in the Philippines, as well as bolstered presence in Metro Manila, allowed the Company to maintain double-digit growth in all of our businesses,.
- The listed property developer's shopping mall business accounted for the bulk of total revenues at 58%. Mall revenues jumped by 12% to P28.71-bil.
- Rental revenues rose by 13% to P24.49-bil, driven by same-mall sales that went up by 8% and contribution from newly opened and expanded malls. Cinema and event ticket sales grew 10% to P2.59-bil, boosted by blockbuster films such as "Avengers: Infinity War," "Jurassic World: Fallen Kingdom," and "Deadpool 2."
- The residential segment through SM Development Corp. (SMDC) generated P17.05-bil in revenues, 23% higher year-on-year. The double-digit increase was driven by sales from high-rise housing projects in Metro Manila launched from 2015 to 2017.
- SMDC's reservation sales during H1 jumped by a fourth to P34.45-bil, amid a 7% increase in number of units sold to 9,319 units.
- SM Prime's hotel, convention centers, and commercial properties group collectively generated a 10% increase in revenues to P4.11-bil.

**ALI**

- Ayala Land, Inc. (ALI) expanded its attributable profit by 18% in Q2 of 2018, as the company reported growth across its residential, office, mall, and other businesses during the period.
- Net income attributable to equity holders of the parent climbed to P7.21-bil in the April to June period, from P5.9-bil in Q2 of 2017. Revenues meanwhile went up by more than a third to P43.4-bil, versus the P32.9-bil it posted in the same period a year ago.
- This pushed the company's attributable profit 18% higher to P13.5-bil in H1 of 2018, while revenues gained 25% to P80.4-bil.
- For the first six months of 2018, revenues from the sale of residential lots and units, office spaces, and commercial and industrial lots surged 27% to P55.7-bil, while commercial and industrial lot sales increased by 16% to P3.9-bil.
- Reservation sales for the six-month period improved by 17% to P72-bil, indicating a monthly take-up of P12-bil.
- The listed property developer also recognized P4-bil in sales from its investment in Malaysia through MCT Bhd, where it is currently completing an integrated development in Southern Klang Valley as well as a residential project in Cyberjaya.
- ALI has not come close to the 50-50 contribution target from residential development and leasing businesses, due to the strength of the latter. The ALI official was referring to the company's 2020 vision, which targets to generate P20-bil in revenues from both residential development and leasing segments by 2020.
- The company has spent P48.4-bil in capital expenditures for H1 of 2018, out of its P110.8-bil allocation for the year. Of this, 45% was spent to complete residential projects, 25% for commercial leasing projects, 15% for equity investments, including for its Malaysian unit MCT Bhd and Prime Orion Philippines, Inc., 10% for land acquisitions and 5% for estate development.

**GOLD BUYING / Troy Oz.**

US\$1,214.50

**COPPER BUYING / lb.**

US\$2.728

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