

# DAILY MARKET PRIMER

08 August 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,725.85 (-1.17%)	98,342,318.27	(2,119,799.49)	25.46 (-1.05%) = 1,350.40	53.040

## MARKET OUTLOOK

- Local stocks fell on Tuesday as investors reacted negatively to data showing inflation accelerated to a fresh five-year high of 5.7% in July.
- The Philippine Statistics Authority on Tuesday reported that inflation was at its highest in five years last month, breaking June's high of 5.2%. The official figure was at the higher end of the central bank's 5.1% to 5.8% estimate for the month.
- The figure also exceeded the Department of Finance's (DOF) projection of 5.3% as well as the 5.5% median estimate from a poll of 14 economists.
- With the continued spike in prices of goods, the market is now anticipating the central bank's policy meeting on Aug. 9, where it is expected to once again hike rates to temper inflation.
- Another rate hike is expected to be announced after the central bank's policymaking Monetary Board meets this Thursday, with many analysts forecasting an increase of as much as 50 bps.
- A strong earnings season is hopefully seen to cushion some of the impact from the ongoing issues.
- The stock market has been recovering of late from a year-to-date lows in the 6,900 level — hit in June — but has yet to return to January's above-9,000 record peak.

## ECONOMIC HIGHLIGHTS

### June Manufacturing Output

- Domestic manufacturing sustained its robust expansion in June although it grew at a slower pace as production volume of construction-related manufactures eased, the Philippine Statistics Authority (PSA) reported yesterday.
- Factory output, as measured by the Volume of Production Index (VoPI), grew 18% in June, reversing the 0.1% contraction in June 2017 but was slower than the 19.8% growth in May. Increased output were seen for petroleum products, textiles, rubber and plastic products, machinery, food manufacturing and beverages.
- In terms of value, the Value of Production Index (VaPI) for manufacturing grew 18.9% in June, likewise a turnaround from the 2.1% contraction in June 2017, but was slower than the growth rate of 21.3% in May.
- In June, factories operated at an average capacity utilization rate of 84.3%. 60% or 12 of the 20 major industries operated at 80% and above capacity utilization rates.
- These were: petroleum products, basic metals, non-metallic mineral products, machinery except electrical, food manufacturing, electrical machinery, chemical products, paper and paper products, rubber and plastic products, printing, wood and wood products, and textiles.
- The National Economic and Development Authority (NEDA) said the manufacturing sector is expected to sustain double-digit growth in the coming months.
- NEDA noted, however, that "growth in the production volume of construction-related manufactures eased in June."
- Robust domestic and higher external demand, increased investments and OFW remittances, improved consumer confidence, and stable business confidence backed this growth in manufacturing.

## 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>	5.7% (2012 BY) (July 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

### 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)

### **June Manufacturing Output** (continued)

- The prospect for H2 of the year is bright. The country hopes to further climb this upward trajectory as government implements reforms positively affecting the industries and doing business in the country.
- The Inclusive, Innovation-led, Industrial Strategy, the Ease of Doing Business and Efficient Government Service Delivery Act, and completion of ongoing infrastructure projects are expected to also contribute to the growth of major industries.
- To further drive manufacturing growth, local government units can be capacitated more to attract investments in manufacturing and manufacturing-related services outside Metro Manila.

### **PH Business Optimism**

- Business optimism in the Philippines slipped last quarter as against the year-ago level, although the country was still second-best in Southeast Asia, according to new research from Grant Thornton.
- The firm said optimism in the country's economy dipped to 81% of respondents from 88% — reflecting "reaction to the external economic environment, the moderate pace of economic growth and the short-term challenges" — though the latest reading was still eight points more than in 2018's Q1.
- But among the five covered members of the Association of Southeast Asian Nations (ASEAN), it said the figures "generally reflect the long-term view that the Philippines is on track towards becoming one of the top 20 economies in the world."
- The Philippines' Q2 reading was below Indonesia's 98%, but better than Malaysia's 52%, Singapore's 32%, Thailand's 2%.
- The record levels of optimism are undoubtedly pushed upwards by the continued growth of China, a close trading partner for many of the region's economies, P&A Grant Thornton said.
- But what's really encouraging to see is the greater focus on regional cooperation since the formation of the ASEAN Economic Community in 2015. Closer ties between businesses will provide the future fabric for growth in the region in the years ahead, it added.
- For the Philippines, the local economic outlook and profitability were also significantly higher than the ASEAN averages, the firm said.
- It cited "significant improvements" in major constraints to doing business in the Philippines.
- More and more organizations view regulations and red tape as less of a constraint: the firm's ratings on red tape have dropped to a six-year low of 20%.
- Transport infrastructure is also reported to have greatly improved: views on transport infrastructure as a hindrance to business conduct have decreased to a six-year low of 14%.
- It also said an increasing number of businesses had reported that the lack of skilled workers is no longer a major constraint to doing business. Ratings on the lack of skilled workers have dropped by 20 percentage points to 36%.
- Moreover, profitability expectations among Filipino businesses increased by 24 percentage points to 80%.
- But it said fewer respondents expect to invest in research and development in the next 12 months, with expectations decreasing by 14 percentage points to 48%.
- There are spectacular growth opportunities for domestic and neighboring markets in Asia, Grant Thornton said. Demand and production capacities will continue to grow.
- It said 54% of the Filipino senior business executives who responded to the survey said that they intended to expand their business domestically in the next 12 months.
- Manufacturing has seen an upsurge in recent months, as more foreign investors look at the Philippines as a manufacturing hub in the long term, it said, adding that more businesses expect to invest in plant and machinery at 70%.

## **CORPORATE NEWS**

### **ALI**

- Ayala Land, Inc. (ALI) is mulling the issuance of P5-bil worth of bonds before the end of 2018 to partly finance its capital expenditure for the year.
- The company may issue the bonds out of its shelf registration from the Securities and Exchange Commission, as they have P8-bil left from the three-year program.
- The listed property developer earlier said it plans to raise P20-bil from a combination of bilateral loans from banks and retail bonds. So far, it has raised P15-bil — with P10-bil through the bond market and P5-bil from bilaterals.
- The funds will potentially be used to finance part of ALI's P110.8-bil capex for this year. This year's capex is 21% higher than the P91.4-bil it spent in 2017, as ALI wanted to take advantage of the strong demand for residential properties in the country.
- ALI has already spent P48.4-bil from its capex during the first six months of the year. Residential projects cornered bulk of the spending at 45%, followed by commercial leasing projects at 25%. Fifteen percent was used for equity investments; 10% went to land acquisitions, while the remaining five percent was for real estate development.
- Noting the capex rollout was slow during H1, the company will still be able to spend what it has set aside.

### **ICT**

- International Container Terminal Services, Inc. (ICTSI) reported its attributable net income increased by 3% to \$53.597-mil in Q2, on all-time high revenues and volumes.
- ICTSI said its attributable net income dropped 6% to \$97.66-mil in the first six months of 2018 from \$103.6-mil a year ago, "due primarily to the start-up costs of the new terminals in Papua New Guinea and Australia." Last year's comparable figure had included a one-time gain of \$7.5-mil from the termination of its sub-concession agreement in Nigeria.
- ICTSI cited several other factors that contributed to its financial performance: "a decrease in the company's share in the net loss at Sociedad Puerto Industrial Aguadulce S.A., its joint venture container terminal project with PSA International Pte Ltd. in Buenaventura, Colombia; and a \$2.8-mil non-recurring gain from the pre-termination of interest rate swap related to the pre-payment of the project finance loan at its terminal operations in Manzanillo, Mexico in May 2018."
- Excluding the non-recurring gains, the port operator said consolidated net income attributable to equity holders would have gone up by 15% in Q2, but would have dipped by 1% in H1.
- Q2 revenues jumped 10% to \$336.4-mil, bringing the six-month tally 10% higher to \$661.8-mil.
- The increase in revenues was mainly due to volume growth; new contracts with shipping lines and services; increase in revenues from non-containerized cargoes, storage and ancillary services; and the contribution from the Company's new terminals in Lae and Motukea in Papua New Guinea, and Melbourne, Australia, ICTSI said.
- Excluding the new terminals, consolidated gross revenues increased by 7% in the April to June period, and 6% in H1.
- For the quarter ended June 30, ICTSI said total consolidated throughput rose 5% to 2,388,715 twenty-foot equivalent units (TEUs). ICTSI handled consolidated volume of 4,714,255 TEUs in the first six months of 2018, up 4% year-on-year.

### **EAGLE**

- Earnings of Eagle Cement Corp. (ECC) rose by 6% in Q2 of 2018, driven by the strong sales of its cement products.
- ECC said net income reached P1.256-bil in the April to June period, higher than the P1.189-bil it posted in the same period a year ago. Net sales exhibited a 14% increase to P4.208-bil for the three-month period.
- The listed cement manufacturer's gross profit margins slipped to 49% during the quarter, versus the 51% seen in the same period a year ago, while net income margins slightly dropped to 30%, from 32% in Q2 of 2017.
- On a six-month basis, ECC's net income rose 5% to P2.322-bil, while net sales jumped 10% to P8.211-bil.
- Meanwhile, gross profit margins for the first semester was unchanged from the previous year's 48%. Net income margins went down to 28% from 30% in the same quarter a year ago.
- ECC is currently expanding its capacity through a third production line in its Bulacan facility, which will add 2-mil metric tons annually. The third line is due for completion within Q3.
- The company is also constructing a fourth production line in Malabuyoc, Cebu, as it targets to expand its market to the Visayas and Mindanao regions. The line will have a capacity of 2-mil metric tons, and is scheduled to be completed by 2020.
- The expansion program will bring ECC's total capacity to 9.1-mil metric tons every year.

**CORPORATE NEWS** (continued)

**PCOR**

- Petron Corp. reported a 16% increase in net income to P9.5-bil in the first six months of 2018, as sales volumes in the Philippines and Malaysia were sustained while prices of petroleum products rose.
- Petron, the country's the largest oil refining and marketing company, did not release Q2 figures.
- In H1, consolidated revenues rose 32% to P273.5-bil from P207-bil in the same period last year "driven by sustained sales volumes of its Philippine and Malaysian operations and higher prices of crude oil and finished products."
- Consolidated sales volumes expanded to 54.4-mil barrels. Benchmark Dubai crude oil in the first semester averaged \$68 per barrel, 32% higher compared with the level in the same period last year.
- In the Philippines, Petron said "continued focus on other high-margin products resulted in petrochemicals generating strong sales." This allowed the company to surpass by 14% last year's first half volumes. Gasoline and aviation fuel also increased by 8% and 4%, respectively.
- In Malaysia, where Petron said it is a "leading player," sales volumes grew by 7% largely because of stronger retail sales.
- Operating income for the semester stood at P15.6-bil, higher by 7% compares with than last year's P14.6-bil.

**PIZZA**

- Shakey's Pizza Asia Ventures, Inc. (SPAVI) grew its earnings by 7% in Q2 of 2018, as higher prices of raw materials tempered the double-digit increase in sales.
- The listed casual restaurant operator reported a net income of P212.41-mil in the April to June period of 2018, higher than the P198.52-mil it generated in the same period a year ago. This followed a 16% increase in systemwide sales — which measures sales from both company-owned and franchised stores — to P2.4-bil during the period.
- Q2 revenues meanwhile picked up 12% to P1.92-bil.
- Same-store sales growth (SSSG) stood at 9% for the three-month period, higher than the 2% increase seen in the same period in 2017.
- This pushed SPAVI's net income 7% higher to P396-mil in the six months ending June, against the P371-mil it realized in the same period a year ago, following a nine percent uptick in revenues to P3.69-bil.
- Systemwide sales climbed 13% to P4.6-bil, as same-store sales grew by 5% during the first semester. The SSSG for the six-month period matches the high end of SPAVI's full-year SSSG target growth of 3% to 5%.
- Despite the slight compression in the company's margins year-on-year, it remains above average in terms of its profitability metrics and sees this as an advantage in weathering competitive headwinds.
- The company expects managing higher input costs, a depreciating peso, and continuously rising inflation to remain a challenge in the short to medium term. There are opportunities to maximize scale, increase efficiencies, and manage overhead costs in order to meet its double-digit earnings growth target for the year.
- The company will be launching new campaigns during the coming holidays to take advantage of the positive consumer sentiment, as well as to offset the seasonal slowdown caused by the rainy season.
- SPAVI ended H1 of 2018 with 217 stores in the country after opening five new outlets. It looks to close the year with a total of 228 stores locally.
- Overseas, the company has recently opened its first outlet in Dubai, which also marks its second international store after Kuwait. SPAVI is banking on the large population of overseas Filipino workers in these markets to drive sales.

**GOLD BUYING / Troy Oz.**

US\$1,208.90

**COPPER BUYING / lb.**

US\$2.760

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