

# DAILY MARKET PRIMER

15 August 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,527.78 (-1.41%)	99,574,232.18	(27,615,089.24)	25.64 (+1.10%) = 1,366.79	53.307

## MARKET OUTLOOK

- The stock market fell further on Tuesday as investors remained anxious over the possible ripple effects of Turkey's financial crisis.
- There is still the pessimism over the Turkish crisis that's curbing risk appetite among investors.
- However, gains on Wall Street overnight amid a rebound in the Turkish lira eased fears of a broader financial contagion, may just boost investor optimism.
- The Turkish lira regained some ground a day after it plunged to an all-time low. The rebound came as the country's central bank took steps to ease pressure on the currency.
- Turkey's central bank has rolled out an emergency plan to ensure economic stability as the lira opened the week slumping to new record lows. The measures include providing "all the liquidity the banks need" and continuous monitoring of the situation.
- Meanwhile, the meeting between US National Security Advisor John R. Bolton and Turkish Ambassador to the US Serdar Kilic yielded news of the possible release of the detained American pastor.
- Investors will also focus on Q2 results, as the reporting season draws closer to the finish line.
- Market players are also keen on the MSCI portfolio rebalancing. The MSCI index is an important index of fundamentally sound stocks for investors, the addition of a new "choice" to invest in may urge investors to shift funds to the new entries.

## ECONOMIC HIGHLIGHTS

### Rate Hikes and Growth

- The central bank's stronger tightening step last week could initially dampen growth, Fitch Ratings said, although robust domestic demand should continue to support expansion.
- Fitch said gross domestic product (GDP) growth could take a hit following an aggressive rate hike from the central bank at its Aug. 10 policy meeting.
- This comes after a disappointing 6% GDP expansion in Q2.
- The Q2 GDP outturn was below expectations, and Thursday's 50bp rate hike by the central bank could put some further downward pressure on growth for the remainder of the year, Fitch said.
- Economic expansion eased to its weakest pace in three years due to slower growth in consumer spending, even as this was offset by a surge in state spending.
- By industry, exports contracted from a year ago while farm output stood flat, the Philippine Statistics Authority announced Thursday last week.
- That same day, the central bank tightened rates by 50 basis points in a bid to temper inflation expectations, even as it acknowledged that supply pressures — which are beyond the central bank's scope — have been driving prices higher.
- Nevertheless Fitch still expects the Philippines to be a strong growth performer this year and next, due to a combination of strong domestic demand and a still-resilient external environment despite rising risks from the escalation in trade tensions between China and the US.

### ECONOMIC INDICATORS

<b>GDP Growth Rate</b>	6.0% (Q2 2018)	<b>Unemployment Rate</b>	5.5% (April 2018)	<b>GIR</b>	US\$76.892-B (July 2018)
<b>Fiscal Surplus / (Deficit)</b>	(P54.3-B) (June 2018)	<b>Exports Growth Rate</b>	(0.1%) (June 2018)	<b>BOP</b>	(US\$1.177-B) (June 2018)
<b>Inflation</b>	5.7% (2012 BY) (July 2018)	<b>Imports Growth Rate</b>	24.2% (June 2018)	<b>O/N RP</b>	4.50% (as of August 9, 2018)
<b>91-day T-Bill Rate</b>	3.290(as of August 6, 2018)	<b>Cash Remittances</b>	US\$2.469-B (May 2018)	<b>O/N RRP</b>	4.00% (as of August 9, 2018)

## ECONOMIC CALENDAR

Wednesday, August 22

- Budget balance (JULY)

## **ECONOMIC HIGHLIGHTS** (continued)

### **Rate Hikes and Growth** (continued)

- As of its last review, Fitch expected the Philippine economy to grow by 6.8% this year, faster than 2017's 6.7% pace.
- In December, Fitch upgraded the Philippines' credit rating to "BBB" — or one notch above minimum investment grade — with a "stable" outlook. This was affirmed early July in the face of strong growth prospects, although the debt watcher flagged rising inflation, rapid bank lending and a wider trade gap as key risks to the outlook.
- Fitch had then flagged that the Philippine economy is facing "overheating" risks, but said the central bank's policy tightening moves may help contain such risks.
- Separately, the inter-agency Financial Stability Coordination Council (FSCC) said its members were working to "strengthen" long-term finance through various policies geared to ensure the country's resilience amid "volatile" times.
- Financial markets are extraordinarily volatile this year and the FSCC continues to assess the possible impact to the Philippines of changing macro-financial conditions.
- The FSCC held its quarterly meeting yesterday. It is composed of the BSP, the Department of Finance, Bureau of the Treasury, Insurance Commission, Philippine Deposit Insurance Corp. and the Securities and Exchange Commission.

### **Growth Outlook**

- A blistering 7.7% gross domestic product (GDP) expansion this semester — needed for the economy to hit the bottom of an official full-year target for 2018 — may still be "possible" on the back of strong capital formation, according to a senior official of the Department of Finance (DOF).
- "While the Q2's 6% growth rate was disappointing to us because it's slower than what we thought we will achieve, there is that silver lining in the growth performance. The fastest growing sector is capital formation. It's more than 20% and, because of that, we believe that in the future quarters we will be able to perform better," Undersecretary Gil S. Beltran, the DOF's chief economist, said.
- Philippine Statistics Authority data show that gross capital formation grew 20.7% in Q2.
- The 6.6% and 6% Q1 and Q2 GDP growth rates, respectively, fueled a 6.3% H1 expansion that compares to the government's 7% to 8% target for 2018.
- "Still possible but difficult. If we get 30-40% increase in capital formation in the third or fourth quarter," he said.
- Mr. Beltran said that an above-seven percent growth rate "is not new," noting that it was reached during the presidency of Gloria M. Macapagal-Arroyo, how speaker at the House of Representatives.
- "We have to push capital formation further because during those years that we achieved 7.7% to 7.8% growth, we had a 30% to 40% increase in capital formation. So we will need to work harder," he said, adding this should offset agriculture's marginal growth.
- Asked whether overall price spikes could pull down economic growth, Mr. Beltran said inflation's recent surge made a marginal dent on household consumption in the second quarter.
- "What was affected is just consumer spending. It's a slowdown of 0.1 percentage points. Q1 household consumption: it was 5.7% in Q1 and went down to 5.6% in Q2," he recalled. "Actually we have grown at very high rates in the past even with a higher rate of inflation."
- Inflation clocked in at a fresh multi-year-high 5.7% in July, bringing the year-to-date pace to 4.5% against the central bank's 2% to 4% full-year target range for 2018.

**CORPORATE NEWS**
**JFC**

- Strong sales from its fastfood businesses in the Philippines and abroad helped lift Jollibee Foods Corp.'s (JFC) earnings 15% higher in Q2.
- JFC said its net income attributable to equity holders of the parent company jumped 15% to P2.25-bil during the April to June period. This brought H1 figure to P4-bil, up 16% year-on-year.
- Basic earnings per share for Q2 rose 14.4% to P2.071-bil and by 15.1% to P3.728-bil for the first six months.
- System-wide sales, a measure of all sales to consumers from both company-owned and franchised stores, added 27% to P53.93-bil in Q2.
- For H1, system-wide sales rose 23% to P99.91-bil, "driven by store network growth, continued strong same store sales growth, the consolidation of Smashburger and impact of currency exchange rate changes."
- JFC consolidated Smashburger, its US-based burger chain, starting April 17. Excluding Smashburger, system-wide sales increased by 18.1% in Q2, and by 19% in H1.
- System-wide sales in all regions were strong during the April to June period, led by the North America business which surged 195.6% due to Smashburger; and Europe, Middle East and Asia (excluding Philippines) which rose by 46%.
- The foreign business now accounts for 26.8% of JFC's global system-wide sales.
- JFC's consolidated revenues, which include sales by company-owned stores, fees from stores operated by franchisees and commissary sales to stores operated by franchisees, increased by 24% to P40.3-bil in Q2, and by 21% to P75.1-bil in H1.
- Consolidated cost of sales went up 25% to P33-bil for Q2, while increasing 22% to P61.6-bil in H1.

**DMC**

- DMCI Holdings, Inc. registered a net income of P5-bil in Q2, up by nearly 39% compared with the P3.6-bil posted a year ago, with most of its business segments performing well except for the power business.
- Consolidated revenues during the quarter hit P23.9-bil, higher by 31% from P18.3-bil in the same three months last year, the Consunji-led firm said.
- In H1, net income reached P9.2-bil, an increase of 21% compared with the P7.6-bil in the same period last year due to the higher contributions from the firm's coal and nickel mining, real estate, construction and water businesses.
- The unplanned and prolonged outages of Sem-Calaca Power Corp. and Southwest Luzon Power Generation Corp. "cut into the profitability" of parent firm Semirara Mining and Power Corp. (SMPC).
- Consolidated revenues during the semester reached P44.2-bil, up 19% from P37.1-bil during the same period last year.
- DMCI Holdings' core net income during H1 rose by 10% to P8.6-bil from P7.8-bil a year ago. It excluded the P715-mil one-time gain of the sale of an undeveloped lot by DMCI Homes, Inc. and a P69-mil one-off refinancing cost of Maynilad Water Services, Inc.
- For Q2 alone, the firm's core net income rose by 16% to P4.2-bil from P3.6-bil.
- Other income during H1 more than doubled to P88-mil from P27-mil due to higher interest income.

**SSI**

- Earnings of SSI Group, Inc. increased by 8% during Q2, fueled by a 13% growth in same-store sales.
- The listed specialty store retailer said its Q2 net income went up to P150.4-mil year-on-year as strong sales growth and rationalized expenses helped offset the effects of a weaker peso.
- This brought its H1 net income 3% higher to P283.3-mil.
- Revenues increased by 14% to P4.67-bil during the April to June period, and by 11% to P9.3-bil for the first six months of 2018.
- SSI said its same-store sales growth (SSSG) stood at 13.4% and 11.6% during Q2 and H1, respectively.
- Fast fashion accounted for the bulk of SSI's H1 sales at P3.33-bil, up 5% year-on-year. This was followed by luxury & bridge lines at P2.23-bil, surging 24%.
- Operating expenses rose 2% to P1.74-bil during Q2, bringing H1 figure to P3.45-bil, up 0.7%.
- SSI expects sales to peak during Q4, as consumers shop more ahead of the Christmas and New Year holidays.
- SSI is planning to open e-commerce sites for the brands Lush, Dune and Aeropostale as well as re-launch its marketplace sslife.com.ph within H2.

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15 August 2018

## **CORPORATE NEWS** (continued)

### **DD**

- DoubleDragon Properties Corp. said its Q2 consolidated net income more than doubled to P513.5-mil, boosted by rental revenues from its community malls and offices.
- DoubleDragon said its consolidated net income jumped 144% to P513.5-mil during the April to June period, from P210.7-mil a year ago.
- For the January to June period, the listed property developer reported its consolidated net income surged 234% to P1.26-bil.
- Recurring revenues increased by 216% to P883.29-mil for the three months ending June 30, fueled by the 358% surge in rental revenues to P749.95-mil.
- During H1, consolidated revenues went up 123% to P3.63-bil, while recurring revenues rose 199% to P1.41-bil. Rental income also more than quadrupled to P1.16-bil.
- This is the first time the value of its investment properties exceeded the P50-bil mark, now at P51.2-bil as of end-June.
- DoubleDragon targets to have a leasable portfolio of 1.2-mil square meters (sq.m.) by 2020. This will include 700,000 sq.m. from 100 CityMalls, 300,000 sq.m. from Metro Manila office projects, and 100,000 sq.m. from 5,000 hotel rooms under the Hotel 101 and JinJiang Inn Philippines brands.

### **LPZ**

- Lopez Holdings Corp. reported a net income of P1.03-bil in Q2, higher by 43% compared with year ago's P721-mil profit attributable to the equity holders of the parent firm, with the stable showing of its energy unit boosting the quarterly results.
- The stable performance of the energy group under associate First Philippine Holdings Corporation (FPH) accounted for the results, the company said.
- In H1, Lopez Holdings said net income reached P2.17-bil, up 23.3% from P1.76-bil in the same semester last year.
- Lopez Holdings serves as the holding firm of the Lopez family for its investments in major development sectors.
- FPH recorded a net income attributable to the parent firm's equity holders of P1.95-bil, more than three times higher than the P607-mil posted a year ago.
- In the first six months, FPH registered a net income of P4.05-bil, up 60.7% from P2.52-bil a year ago.
- ABS-CBN recorded a 41% decrease in net income during the period, the holding firm added. As of mid-2018, Lopez Holdings owned 47% of FPH and 56% economic interest in ABS-CBN.
- Energy unit First Gen Corp. posted a net income of \$45.19-mil, nearly three times more than \$16.70-mil in the same quarter last year. The company reports its figures in dollars, its functional currency.
- The company said its H1 reported recurring net income attributable to the equity holders of the parent reached \$115-mil, up 35% from a year ago.
- First Gen said the natural gas platform's performance offset the soft showing of the other platforms. It said the period's "strong numbers" were also boosted by lower interest expenses as a result of its deleveraging initiatives.
- During H1, the natural gas platform delivered recurring earnings of \$88-mil, up from \$51-mil previously.

**GOLD BUYING / Troy Oz.**

US\$1,193.00

**COPPER BUYING / lb.**

US\$2.678

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