PrimeEquity Research

Meridian Securities INCORPORATED
Member: Philippine Stock Exchange

DAILY MARKET PRIMER

18 October 2018

PSEi	Value Turnover (US$)	Net Foreign Flow (US$)	PHI:US (PLDT ADR)	US$ 1.00
7,099.68 (+1.61%)	106,210,040.40	(11,724,823.11)	25.94 (+1.09%) = 1,401.90	54.044

MARKET OUTLOOK

- Local shares continued their recovery on Wednesday, tracking the upswing seen in international markets, complemented by bargain hunting of oversold stocks.
- The index tracked the global stocks performance driven by optimism of strong corporate earnings.
- Investors also bought back selected oversold stocks ahead of Q3 earnings results.
- Investors felt maybe the worst is over for inflation that the selling has been overdone.
- Investors turned a cautious eye on the slower-than-expected growth of the Philippine economy, in addition to rising tensions in the trade war between the United States and China.
- This, however, does not mean that the market will be going out of the consolidation and turn into a bull market. Not yet.
- The market has to go through a consolidation, to balance out the economic factors that caused it to go down. Right now, expect the market to consolidate and maintain the low of 6,800 to the high of 7,800.
- The minutes of the Fed's September policy meeting, at which it raised rates for the third time this year, is due at 2:00 p.m. ET (1800 GMT). Since the meeting, a string of strong economic data has prompted Fed policymakers to say they expect to continue a rate-hike cycle that began in late 2015.
- The stock index may pull back after a two-day consecutive blockbuster rally which is likely to be challenged by the Fed's FOMC minutes.
- Every now and then there might be a comment or an anecdote which we didn't know about and the market might have made a quick reaction to it but generally it is a short-lived move.

ECONOMIC HIGHLIGHTS

Fuel Excise Tax

- There may be less pressure for the government to press on with its stated commitment earlier this week to put off an oil excise tax hike set in January amid signs that Dubai crude price — Asia's benchmark — could in this final quarter average less than the $80 per barrel (/bbl) trigger price under the law for automatic suspension, the Department of Finance (DOF) hinted on Wednesday.
- At the same time, one DOF senior official said that the situation bears watching as oil prices remain "too volatile," hence, pressure is still tilted to the upside.
- "While Dubai oil price levels for the next six months using Oct. 8 futures prices would have required suspension of the adjustment in excise tax for the next six months, the latest prices levels show otherwise," said DOF Undersecretary and Chief Economist Gil S. Beltran.
- Oct. 12 futures data show $77.913/bbl for November and $77.482 for December, from above $80/bbl for both months on Oct. 8 and 11, yielding a prospective $78.53/bbl average this quarter.
- Dubai crude spot price rose by 43% to $77.02/bbl in September from $53.86/bbl a year ago and by 6.78% from August's $72.23/bbl.

ECONOMIC INDICATORS					
GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4%% (July 2018)	GIR	US$75.161-B (September 2018)
Fiscal Surplus / (Deficit)	(P2.6-B) (August 2018)	Exports Growth Rate	3.1% (August 2018)	BOP	US$1.272-B (August 2018)
Inflation	6.7% (2012 BY) (September 2018)	Imports Growth Rate	11.0% (August 2018)	O/N RP	5.00% (as of September 27, 2018)
91-day T-Bill Rate	4.404 (as of October 8, 2018)	Cash Remittances	US$2.476-B (August 2018)	O/N RRP	4.50% (as of September 27, 2018)

ECONOMIC CALENDAR

Monday, October 22
• Budget Balance (Sept.)

ECONOMIC HIGHLIGHTS (continued)

Fuel Excise Tax (continued)

- Spot prices averaged \$81.74/bbl in the 12 trading days to Oct. 16, 49% more than the \$54.86/bbl in last year's comparable period. Dubai crude dropped to \$79.30/bbl on Oct. 15 and further to \$78.80/bbl on Oct. 16 from above-\$80/bbl since September's last three trading days.
- Republic Act No. 10963, or the Tax Reform for Acceleration and Inclusion Act (TRAIN) that took effect in January, raised fuel excise taxes by P2.50 per liter this year and is scheduled to add P2/liter and P1.50/liter in 2019 and 2020, respectively, totaling a P6/liter excise tax hike.
- Malacañang Palace announced its commitment to suspend the scheduled oil tax hike last Monday in the wake of Oct. 11 futures data showing above-\$80/bbl levels this month to December, with prices falling below that trigger starting January. Oct. 8 futures data showed below-\$80/bbl starting April. The Finance department explained then that Malacañang made the announcement in advance to douse inflation expectations.
- Analysts said that the law's trigger price may not be the only deciding factor in this issue, since the January trigger period is just four months away from the May mid-term elections that, in turn, have a bearing on the 2022 presidential elections.
- The DOF bulletin on Wednesday noted that uncertainties in the global economy arising from the trade war, US President Donald Trump imposing sanctions on Iran, and declining Venezuela production scared financial and commodity markets, sending equities and commodity prices gyrating from day to day.
- The Finance department estimates suspension of January's scheduled oil tax hike to cost the government some P41-bil in foregone revenues.
- Economic managers are now scrounging for items — except for infrastructure and human capital development — for which expenditures could be suspended.
- Also on Wednesday, Budget Secretary Benjamin E. Diokno said that the increase in fuel vouchers for public utility jeepney franchise holders will be put on hold, following Malacañang's announcement of impending suspension of the scheduled oil tax increase.
- The program was intended as a mitigating measure for the public transportation sector affected by the fuel tax hike under TRAIN.
- About 179,000 jeepney franchise holders nationwide are entitled to receive P5,000 worth of fuel vouchers this year and P20,515 in 2019.
- Surging oil and rice prices drove headline inflation to multiyear peaks lately, averaging % in the nine months to September against the central bank's 2% to 4% target range for full-year 2018.
- The government now forecasts full-year inflation to average 4.8% to 5.2% this year and 3% to 4% in 2019.

TDFs

- Yields fetched for term deposits declined this week amid strong demand, with banks willing to park more funds with the central bank even for longer periods.
- Demand reached P119.08-bil during Wednesday's auction, down from the P124.259-bil worth of bids received a week ago but still well above the P80-bil the central bank wanted to sell.
- All tenors remained oversubscribed for the third straight week, with offers piling up under the month-long tenor. With the strong appetite, banks even asked for lower returns for their placements across the board.
- The seven-day deposits fetched P66.002-bil in total demand, settling higher than the P50-bil on the auction block although lower than the P73.282-bil in offers received the previous week.
- Market players asked for smaller yields from a narrow 4.68% to 4.7488% range to fetch a 4.7207% average, a tad lower than last week's 4.7274%.

ECONOMIC HIGHLIGHTS (continued)

TDFs (continued)

- Tenders for the 14-day instruments also stood buoyant at P31.273-bil, slightly lower than last week's P33.216-bil but still beyond the central bank's P20-bil offer. Banks also tempered their requested returns, which drove the average lower to 4.765% from 4.7729% previously.
- Meanwhile, appetite for the 28-day tenor improved to P21.805-bil compared to P17.761-bil the past week and more than double the P10-bil the central bank put up for this week's exercise. The stronger demand also drove average returns lower to 4.8362% coming from 4.8549% during the Oct. 10 auction.
- This is the first time that yields went down since the central bank announced another rate hike worth 50 basis points during their Sept. 27 policy meeting. The move, which is meant to rein in inflation expectations and support the peso, brought benchmark interest rates to the 4% to 5% range.
- "Relative stability" in the foreign exchange market as well as sustained robustness in government spending are arming banks with more cash for lending and investments, with the surplus left to be parked under the TDF.
- For next week's offering, the central bank will raise the auction volume of 28-day deposits to P20-bil from P10-bil, bringing the total amount up for grabs to P90-bil.

TRABAHO

- The proposed reduction in corporate income tax (CIT) under the second package of the Comprehensive Tax Reform Program (CTRP) is projected to generate as much as 1.4-mil jobs from 2021 to 2029, according to the Department of Finance.
- In a statement, Finance Assistant Secretary Antonio Lambino said the proposed lowering of CIT under the Tax Reform for Attracting Better and High-Quality Opportunities (TRABAHO) bill is expected to free up more capital for firms, enabling them to increase their investments and hire more people.
- Citing DOF estimates, Lambino said the jobs generated by the bill could reach 113,944 in the first year of its implementation in 2021; 171,940 in 2023; 252,031 in 2025; 361,767 in 2027; and 511,021 in 2019; for a total of 1.4-mil jobs over the 10-year period.
- Lambino said this is in line with the earlier statement of Finance Undersecretary Karl Kendrick Chua, in which he emphasized the impact of the lower CIT rate on job generation.
- In addition, Lambino said the proposed tax incentives reform under the bill is also expected to result in net employment gain, as it prioritizes firms that create more jobs in the grant of tax perks.
- Under the House-approved TRABAHO bill, the government seeks to reduce the current CIT rate of 30% by two percentage points every two years starting 2021 until it reaches 20% in 2029, while rationalizing fiscal incentives.
- The Senate is still discussing at the committee level its own version of the tax measure, dubbed as the Corporate Income Tax and Incentives Reform Act.
- Finance Secretary Carlos Dominguez earlier expressed hope that the Congress could pass CTRP's Package 2 soon, in consideration of President Duterte's appeal to approve the measure within the year.
- "This second package of the CTRP will level the playing field for business and spur greater economic activity that will spell more jobs in the long haul," Dominguez said.
- "The CIT cut will make the business sector more competitive in the region and give a significant boost to SMEs that employ a majority of Filipino workers," he said.

CORPORATE NEWS

SMPH

- Businessman Dennis A. Uy's Global Gateway Development Corp. (GGDC) has engaged SM Prime Holdings, Inc. to be the first locator in its 177-hectare Clark Global City leasehold in Pampanga.
- In a statement issued Wednesday, GGDC said it has signed a sublease agreement with Sy-led SM Prime for up to 10 hectares inside the Clark Freeport Zone.
- Under the deal, GGDC will sublease an initial five hectares to SM Prime. The SM Group will then have the option of taking up five more hectares within the next three years.

CORPORATE NEWS (continued)

SMPH (continued)

- The subleased space will allow SM Prime to expand its adjacent developments in the area, which includes SM City Clark, a four-storey retail and office building for business process outsourcing firms, and the Park Inn Hotel.
- Earlier this year, Mr. Uy's group secured the government's approval for the lease rights of Clark Global City for a total of 75 years. This came after the group's $1-bil acquisition of the growing logistics hub in 2017.
- Since the start of its development, the master planned development already has a 173-hospital bed carrying the Medical City brand and two fully-leased out Grade A office buildings covering around 57,000 square meters of leasable office and retail spaces. The buildings form part of the West Aeropark complex.
- Mr. Uy's group is currently constructing three more buildings in the office complex, all of which have been pre-leased.

AC

- Ayala Healthcare Holdings, Inc. (AC Health) has acquired a minority stake in a home health application called AIDE, as it bets on technologies that can disrupt the health care industry in the future.
- In a statement issued Wednesday, AC Health, a subsidiary of Ayala Corp., said the investment forms part of its strategy to invest in health technology solutions.
- The company did not disclose the exact value of the investment, but a source noted that AC Health will hold a minority stake or less than 30%.
- Founded by siblings Paolo, Pamela, and Patrick Bugayong, the AIDE mobile app allows patients to book doctors, nurses, and other medical professionals to provide health care services in their homes. Services range from medical consultations, nursing care, physical therapy, caregiving, lab extraction and interpretation, as well as veterinary care.
- AIDE Chief Executive Officer Paolo Bugayong said the partnership with AC Health will help expand their reach to more Filipinos.
- AC Health established earlier this year its health technology arm called Vigos. The platform develops its own products, such as an Electronic Medial Records and Clinic Information System which is being used across all FamilyDOC clinics. FamilyDOC is a network of community-based clinics also owned by AC Health.
- The health care arm of Ayala in 2017 also invested in MedGrocer, an online pharmacy licensed by the Food and Drugs Administration which offers medicine delivery and corporate medicine benefits management.

ALI

- Avida Land Corp. will be spending P7.4-bil to build the first phase of its multi-tower residential condominium in Mandaluyong.
- The mid-range brand of listed property developer Ayala Land, Inc. unveiled on Wednesday Avida Towers Verge, a three-tower condominium development along Reliance Street corner Mayflower Street, Mandaluyong City.
- The first tower consists of 34 floors with a total of 1,020 residential units and seven commercial units. The units range from junior one-bedroom, or studio units, spanning 22 to 24 square meters (sq.m.), and one-bedroom covering 34 to 36 sq.m.
- The junior one-bedrooms are priced from P4.2-4.4-mil, while one-bedroom units are sold from P6.7-7.7-mil. Monthly amortization starts at P17,000.
- The company expects to generate P4 billion from the sale of units in the first tower, noting that 10% has been sold so far. At this pace, they expect to out the tower by next year.

GOLD BUYING / Troy Oz.	COPPER BUYING / lb.
US$1,224.95	US$2.780