

DAILY MARKET PRIMER

31 July 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,773.32 (+0.93%)	105,058,165.52	9,581,136.02	25.34 (+1.16%) = 1,352.42	53.371

MARKET OUTLOOK

- The Philippine Stock Exchange index (PSEi) gained for the fifth consecutive session on Monday, fueled by continued foreign buying and window dressing.
- Despite opening weaker, the foreign flow helped the PSEi steadily rise throughout its session and finish on its day high.
- Many see the market's continued ascent to be a sign that the trend has reversed after the market officially entered bear territory last month.
- While the market has been performing strongly the past four weeks, it is not likely to return to the 9,000 mark soon because of lingering concerns on rising inflation and possible weak Q2 corporate results, among others.
- With very little else to go by, the local bourse may take its cue from Wall Street which fell overnight on growth concerns ahead of a Federal Reserve meeting.
- Window-dressing activities may also continue as the month draws to a close.
- With the so-called "ghost month" as well as the Monetary Board's policy meeting looming, investors may choose to position themselves ahead of both or may opt to cash in on gains made over the last five days.
- The Federal Reserve meets on Tuesday and Wednesday and is expected to keep rates unchanged and reaffirm outlook for further rate hikes. While the Philippine central bank, on the other hand, is expected to announce another rate hike on the Monetary Board's upcoming August 9 meeting.

ECONOMIC HIGHLIGHTS

Foreign Ownership Restrictions

- The Foundation for Economic Freedom (FEF) on Monday raised concerns over the provisions of the draft Federal Constitution on foreign ownership restrictions, saying that it still retained the "out of step and out of sync" limitations under the current Charter.
- The draft Federal Constitution proposed by the Consultative Committee (ConCom) has retained the 60%-40% ownership of corporations, public utilities, educational institutions, and land as well as the 100% Filipino ownership of mass media. It also allowed Filipinos or corporations at least 70% Filipino-owned to engage in the advertising industry.
- The federal and regional governments may also undertake a joint venture in the exploration, development, and utilization of natural resources with Filipino citizens or entities at least 60% Filipino-owned.
- It also provided provisions allowing Congress to change the ownership percentage of these corporations through legislation.
- The draft Federal Constitution also gave preference to Filipinos "in the grant of rights, privileges, and concessions covering the national economy and patrimony."
- In a statement, the organization called for the lifting of the foreign equity restrictions in the draft Federal Constitution as a "decisive economic liberalization (move) to promote domestic and foreign investments and to create jobs."
- "The restrictive and protectionist constitutional provisions which the draft proposes to perpetuate should be lifted immediately, even as the other impacts of the federal form of government are subjected to deeper and full study," the group said.

ECONOMIC INDICATORS

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

ECONOMIC CALENDAR
Wednesday, August 1

- Nikkei Manufacturing PMI (JULY)

Friday, August 3

- Retail Price Index (JUNE)

Saturday, August 4

- Inflation rate (JULY)

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)

Foreign Ownership Restrictions (continued)

- The organization pointed out that the same restrictions in the 1987 Constitution have been responsible for the country's "inferior growth relative to the economic aspirations" of the country compared to its neighbors.
- "These have sent strong signals to foreign investors that they are not welcome to invest in the Philippines to create jobs, transfer technology, provide healthy competition, and improve the lives of Filipinos," it stated.
- It also said the provisions did not label the Philippines as a "modernizing country embracing the future" but as a "backward-looking, anti-modernist, and protectionist" country.
- Even if the draft Federal Constitution has given Congress the authority to decide on the capital requirements, the FEF noted that the provisions still retained the restrictions in the current Charter and only relied on the change to happen "if and when Congress sees fit."
- FEF then proposed instead for Congress to regulate the entry of foreign investments. It also mentioned that this has been the practice of other countries.
- "We propose that the default provisions not be restrictions but allow Congress to regulate the entry of foreign investments as conditions, including public welfare and national interest, warrant," it said.
- "Moreover, by removing these restrictions in the fundamental law of the land, we are signaling that change has happened and we are open to investment, foreign or local," it added.
- It also questioned the provisions mandating preference to Filipinos in the "grant of rights, privileges and concessions covering the national economy and patrimony." It argued that phrase may be interpreted as keeping out foreigners to promote protectionism and monopoly.

3rd Telco

- The Department of Information and Communications Technology (DICT) is ready for the selection of a third telco player that will compete with giants PLDT and Globe, saying the new player may
- The oversight body had earlier agreed to choose the new player based on committed level of service, which resolved an impasse that has delayed the selection process.
- The problem over the 3G frequency won by Bayan Telecommunications Inc. – a part of which may be included in frequencies to be awarded to the new telco player – is also on its way to being settled.
- NTC commissioner Gamaliel Cordoba reported that the contenders for that frequency have agreed to withdraw their petition. Its now with the solicitor general. SolGen wil now bring this to the Supreme Court for the disposition of the Supreme Court. So basically before we have the selection process formalized, the case is settled," Information and Communications Technology Secretary Eliseo Rio said.
- In 2005, the National Telecommunications Commission (NTC) awarded slots of 3G frequencies to PLDT Inc.'s Smart Communications Inc., Globe Telecom Inc., Digitel, and Connectivity Unlimited Resource Enterprises Inc.
- While Bayantel won the fifth 3G frequency slot, through an appellate court ruling in 2010, it was challenged by the NTC and the case is pending in the Supreme Court.
- Rio said the government would come up with an equitable way of distributing Bayantel's 10 Megahertz (MHz) on 3G frequency.
- "Once we get the 10 MHz of Bayantel, we have to decide. If we give all of those to the third telco, what will happen is Globe has only 10 MHz, third telco will have 25 MHz, and PLDT 25 MHz. So Globe will be at a disadvantage and we don't want that to happen also. What we want is an equitable distribution of the frequency," he said.
- President Duterte wants a new telco player to compete with incumbent players to provide more options and better service to consumers.

CORPORATE NEWS

MER

- Manila Electric Co. (Meralco) said core profit was P5.93-bil in Q2, up 7.4% year-on-year, as the country's biggest power distribution utility posted higher energy sales during the period.
- Including one-time items, net profit was P6.66-bil, up 17%, after revenue rose 7% to P79.74-bil, the bulk of which came from electricity sales.
- In H1, consolidated core profit rose 7% to P10.9-bil, while consolidated net profit rose 14% to P12-bil. Revenue was P150.5-bil, up 7%, while volume of energy sold was at 21,665 gigawatt-hours, up 7%.
- In H1, electricity sales rose 7% to P146.9-bil amid little change in non-electricity revenue.

URC

- Universal Robina Corp. (URC)'s attributable profit dropped by more than a third during the second quarter, taking a hit from the weaker peso, with currency depreciation also affecting its international subsidiaries, as well as setbacks at its domestic coffee business.
- The food and beverage company reported a net profit attributable to equity holders of the parent of P1.86-bil, down 35% from a year earlier.
- In the six months to June, URC's attributable profit fell 23% to P4.81-bil.
- The listed firm said operating income and foreign exchange gains declined. URC said net foreign exchange gains declined by 77% "due to the combined effects of depreciation of international subsidiaries' local currencies and Philippine peso vis-à-vis the US dollar."
- Revenue meanwhile rose 10% to P33.18-bil during the second quarter. In the first six months they rose 5.89% to P64.37-bil.
- The company has three core businesses — branded consumer foods (BCF), agro-industrial products, and commodity food products.
- The BCF segment saw a 2% increase in sales from the domestic and international business to P50.4-bil. Revenue posted by the domestic business fell 2%, weighed down by coffee.
- Meanwhile, revenue posted by the international business rose 8% to P21-bil, following the recovery of its Vietnam operations alongside growth in Indonesia and Australia.
- The agro-industrial products and commodity food products generated combined sales of P13.2-bil, up 22% year-on-year, after higher volumes in sugar, flour and feeds, and better selling prices for hogs.
- URC is planning to make P8-bil in capital expenditures this year, to support the expansion of capacity and to improve handling and distribution.

HOUSE

- Mass housing developer 8990 Holdings, Inc. said revenue rose 142% to P3.5-bil during Q2, amid pent-up demand for affordable housing.
- The listed firm did not report Q2 profit figures. However, it said its H1 revenue of P6-bil grew 98% and exceeded the company's internal target.
- Q2 is typically a slow period for property developers. 8990 Holdings's revenue fell 36% in H1 of 2017.
- The company said its net profit margin was 40% for H1, while net profit for the period was P2.4-bil, doubling from a year earlier.
- 8990 Holdings said earlier that it hopes to book a P4.31-bil profit in 2018, amid projected revenue of P11.5-bil.
- The company is banking on its P35-bil Ortigas Extension project to be one of the growth drivers for this year. The residential condominium complex consists of 22 buildings with 13 to 15 floors each, offering a total of 18,993 units.
- While the company has yet to secure a license to sell the Ortigas Extension project, it is confident of obtaining the permit and start selling before the year ends.
- Meanwhile, 8990 Holdings is planning to issue P3-bil worth of securities in Q3. These include the sale of the firm's contract-to-sell receivables, consisting of loans averaging P950,000 each at a maximum period of 20 years.
- The company has been selling its receivables to banks in previous years to boost cash.

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CORPORATE NEWS (continued)

IMI

- Strong automotive business revenues last year allowed Ayala Corp.'s Integrated Micro-Electronics Inc.'s (IMI) to become the world's fifth largest electronics manufacturing service (EMS) provider in the segment.
- IMI said it secured the top five slot, up from sixth in a year earlier, based on a ranking by California-based New Venture Research (NVR).
- Automotive segment revenues climbed 18% to \$446-mil from 2016's \$378-mil. Counting the entire business, IMI ranked 18th worldwide as of March 2018.
- Drivers for the increase include the uptake of more electronics in the car via advanced driver assistance systems, body electronics, lighting, power management, safety system and infotainment.
- With the advent of autonomous cars and electric vehicles, demand has increased dramatically and will continue to do so as technologies evolve.
- Last week, IMI reported a 33% increase in H1 revenues to \$668.8-bil, driven by its core businesses and contributions from acquisitions.
- Net income for the period hit \$31.6-mil, boosted by the sale of property in China, from \$17-mil a year earlier.
- European operations — dominated by automotive businesses — contributed \$170.1-mil to revenues, while China added \$162.1-mil on the back of new industrial applications and automotive platforms.
- Philippine revenues totaling \$136-mil were up 5%, driven by the automotive camera business and new industrial applications.
- The company noted that a weaker euro and yuan, along with higher interest expenses and effective tax rates, had weighed on its H1 bottomline but IMI was confident that a trade row between China and the US and the Brexit issue will have a minimal effect on its business.

GOLD BUYING / Troy Oz.

US\$1,223.60

COPPER BUYING / lb.

US\$2.799

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