

MARKET RECAP

09 July 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,186.62 (-0.001%)	63,315,079.21	(13,683,726.15)	24.10 (+0.42%) = 1,287.18	53.412

Market Recap

- Philippine share prices edged lower as higher-than-expected inflation is expected to continue to remain on investors' minds this week.
- The benchmark PSEi shaved off 0.09 points or 0.001% to close at 7,186.62. Meanwhile, the broader All Shares index lost 2.04 points or 0.05% to 4,385.30 at the closing bell.
- The June inflation result, which breached market expectations and fanned fears of further central bank policy rate hikes, continued to influence trading decisions.
- Some analysts expect an increase of as much as 50 bps to be announced as early as next month.
- The market, however, pared losses as attention turned to listed firms' earnings prospects.
- Investors' focus will likely turn to earnings and whether listed firms remain on track with regard to full-year expectations.
- More than 843.705-mil shares, valued at P4.857-bil, changing hands. Market breadth was negative with decliners beating advancers, 127 to 65, while 45 issues were unchanged.
- Gainers: BPI (+1.71%), RLC (+1.54%), SM (+1.25%), PCOR (+0.92%), AC (+0.84%)
- Laggards: MBT (-2.72%), JFC (-2.39%), DMC (-2.18%), GLO (-1.98%), AP (-1.56%)

Infrastructure

- The Duterte administration's infrastructure push continues to be hampered by bureaucratic bottlenecks, as shown by the Department of Public Works and Highways' use of only a third of its P662.69-bil funding in 2017.
- Even as the DPWH vastly improved its ability to earmark its budget for various purposes, the Commission on Audit found a slight decline in the agency's actual spending of the funds.
- In its 2017 annual audit report, the COA said only P222.66-bil, or 33.6%, of the DPWH's allotment was disbursed "due to the delayed/non-implementation of infrastructure projects."
- The year 2017 saw a slight dip from the disbursement rates of 34.14% (P185.12-bil of P542.23-bil) and 34.03% (P148.23-bil of P435.58-bil) in 2016 and 2015.
- The utilization of funds declined despite the DPWH incurring more obligations—or contracts, expenditures and other legal liabilities that the government would need to pay for—in 2017.
- The DPWH managed to obligate P610.93-bil, or 92.19% of the P662.69-bil cleared by the Department of Budget and Management in 2017.
- This was a huge improvement compared to the obligation rates of 77.32% (P419.28-bil of P542.23-bil) and 78% (P33.975-bil of P435.58-bil) notched in the years 2016 and 2015.
- For state auditors, this showed the DPWH management "was not able to effectively manage the increasing amount of funds entrusted to the agency due to low physical delivery of target project and activities."
- The DPWH's inability to make use of its available funds was partly blamed on the delays or even the failure to implement thousands of infrastructure projects in 2017.
- A total of 2,334 projects worth P62.59-bil were not completed within the specified contract time. One hundred twenty of these projects, costing P6.67-bil, incurred negative slippage (or the rate of delay) of 15%, but the DPWH had not imposed damages on the erring contractors or rescinded the contracts.
- Meanwhile, 135 projects worth P6.07-bil were suspended, 15 worth P2.1-bil were terminated, and 815 worth P2.58-bil were not implemented at all.
- Affected projects in 2017 include flood control projects, school buildings, farm-to-market roads, and various road infrastructure.
- Recurring causes of delay include the delayed approval of proposed sites or the late issuance of permits by the local government units, lack of manpower, unfavorable weather conditions, difficulties in acquiring or transporting construction materials, right of way issues, and inadequate planning.
- The delayed implementation of the projects "exposed [the DPWH] to risks of increased project costs and unenforceable All Risk Insurance," auditors said.

MARKET RECAP

09 July 2018

Infrastructure (continued)

- The delays also meant “the funds allotted and obligated for the abovementioned projects were unnecessarily kept idle and undisbursed for a longer period of time.”
- There’s also a domino effect as intended beneficiaries were deprived of the projects’ immediate use and other government agencies could not deliver basic social services due to the absence of infrastructure.
- The project delays also caused the government to incur P27.65-mil in commitment fees, which were paid to the foreign lenders in exchange for their agreement to postpone the grant of a loan.
- A total of P24.94-mil in commitment fees had to be paid to the Japan International Cooperation Agency because of the delays in the Central Luzon Link Expressway Project, the Arterial Road Bypass Project II, the Pasig-Marikina River Channel Improvement Project Phase II, the Flood Risk Management Projects for the Cagayan, Tagolaon and Imus Rivers, and 84 road upgrading projects.
- Another P2.7-mil was paid last year to the Asian Development Bank because of the delays in 13 road improvement projects.
- The abovementioned projects were delayed by the low disbursement of loan proceeds, averaging 15.45% (P762.7-mil of P4.84-bil).
- This was caused by the non-accomplishment of target activities due to unfavorable weather, delayed relocation of informal settlers, change of plans, and the late issuance of local government permits.

AGI

- The nearly decade-old partnership between Andrew Tan and the Genting Group of Malaysia is reportedly in crisis mode.
- Tan felt disrespected by Genting’s failure to notify him of a background investigation on the June 2017 shooting and arson incident at their joint project, Resort World Manila casino in Pasay City.
- When news of the casino attack hit CNN and other global news outfits, Genting was asked by US regulators to conduct its own investigation on how a lone gunman was able to wreak so much havoc with 36 people dying from suffocation and 70 others injured.
- It was a routine probe carried out by casino firms operating in the US (Resorts World operates in Catskills and Queens in New York and has a casino under construction in Las Vegas).
- Genting complied and undertook the background probe in cooperation with US authorities.
- The only kink was Genting failed to notify its Filipino partner.
- Tan was surprised about getting calls inquiring about the 2017 casino attack and was irked that Genting did not even bother to inform him.
- This incident has become more than a minor kink that Tan has reportedly given serious thought about breaking up.
- Tan apparently believes that he can get another partner to continue the Pasay City casino as well as proceed with the \$1.1-bil mega-casino under construction at the Entertainment City gaming complex of the Philippine Amusement and Gaming Corp. in Parañaque City sans Genting.

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)	(P32.9-B) (May 2018)	Exports Growth Rate	(8.5%) (April 2018)	BOP	(US\$583-M) (May 2018)
Inflation	5.2% (2012 BY) (June 2018)	Imports Growth Rate	22.2% (April 2018)	O/N RP	4.00% (as of June 20, 2018)
91-day T-Bill Rate	3.484 (as of June 25, 2018)	Cash Remittances	US\$2.360-B (April 2018)	O/N RRP	3.50% (as of June 20, 2018)

 2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. www.meridiansec.com.ph Tel: +632 635 6261 to 64

Disclaimer: This document is based on information obtained from sources believed to be reliable, but we do not make any representations as to its accuracy, completeness and correctness. Any information is subject to change without notice and MSI is not under any obligation to update or keep current the information contained herein. Opinions, estimates, and projections expressed reflect the analyst’s personal views. Any recommendation contained in this document does not have regard to specific investment objectives, financial situation and the particular needs of any addressees and are in the form of fundamental and technical ratings. Technical ratings may differ from fundamental ratings as technical analyses involve the application of different methodologies based on price and volume related information. This document is for the information of the addressee only and is not to be taken on substitution for the exercise of judgment by the addressee. No liability whatsoever is accepted for and direct or consequential loss arising from any usage of this report. This document is not to be construed as an offer or solicitation of an offer to buy or sell securities. In the course of our regular business, we may have a position in the securities mentioned and may make purchases and/or sales of them from time to time in the open market. Any unauthorized distribution, copying or disclosure of this material is strictly forbidden.