

# MARKET RECAP

18 September 2018

PSEi	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,286.34 (-1.72%)	121,644,870.25	(5,429,825.42)	26.31 (+0.19%) = 1,421.03	54.207

## Market Recap

- The stock market fell back to the 7,200-levels at the close as escalating trade tensions between the United States and China rattled investor sentiment.
- The benchmark PSEi slumped 127.22 points or 1.72% to 7,286.34 at the closing bell. The broader All Shares slid 61.29 points or 1.35% to 4,488.71.
- The market drop was attributed to news that US President Donald Trump has decided to levy a 10% tariff rate on Chinese imports beginning September 24, which would eventually increase to 25% on January 1 next year.
- This dampened trading sentiment across Asia, and Philippine shares traded lower on this development.
- Trump also warned of further taxes to be imposed on some \$267-bil worth of Chinese goods should Beijing pursue retaliation plans.
- The Philippine market also tracked the decline overnight on Wall Street.
- US stocks extended losses ahead of the tariff announcement after Trump asserted his belief that the United States' trade deficit with China was too big, stating "we can't do that anymore."
- More than 1.234-bil shares valued at P6.594-bil, changed hands. Market breadth was negative, with decliners beating advancers, 155 to 50, and 35 issues were unchanged.
- Gainers: DMC (+3.77%), FGEN (+2.27%), RRHI (+1.86%), LTG (+0.13%), GLO (+0.09%)
- Laggards: MBT (-4.21%), BPI (-4.14%), SM (-3.36%), MEG (-3.05%), AP (-2.97%)

## Tax Reform Program

- Remaining tax reforms targeted by the Executive will bag final approval in the House of Representatives this 17<sup>th</sup> Congress, a leader of the chamber assured on Monday, but not all will hurdle both legislative chambers by yearend as President Rodrigo R. Duterte (PRRD) requested in his third State of the Nation Address (SONA) last July.
- The Executive had submitted all tax reform packages to Congress in July in hopes of securing legislative approval by Dec. 14 — when lawmakers go on their Christmas break — since legislators are expected to increasingly be taken up with preparations for the May 2019 mid-term elections towards yearend.
- Newly installed House Ways and Means panel Chairman Rep. Estrellita B. Suansing of Nueva Ecija's first district told reporters on Monday that she is committed to securing final approval of all tax reforms "before my term ends and before Speaker's (Gloria M. Arroyo's) term will end" on June 7 next year, the last day of the 17<sup>th</sup> Congress.
- Only the first package has been enacted so far: Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) that slashed personal income tax rates but increased or added taxes on a host of items besides scrapping value added tax exemptions.
- Still awaiting plenary approval in the House is the second package — the Tax Reform for Attracting Better and High-quality Opportunities (TRABAHO) bill — which reduces the corporate income tax rate gradually to 20% from 30% currently and removes redundant fiscal incentives that have been costing the economy billions of pesos in foregone revenues yearly, among other measures.
- The other proposed reforms include a general tax amnesty, further increases in tobacco and alcohol excise tax rates, a bigger government take in mining revenues, adoption of a uniform valuation scheme for real property taxes at the local level and streamlining of taxes on passive income, among other measures.
- The House on Monday began committee-level discussions on the tax bills designed to give government a bigger share in revenues of miners, who opposed both measures.
- The Ways and Means committee started deliberations on the Department of Finance (DOF)-backed House Bill No. 7994, which seeks to impose a uniform royalty equivalent to five percent of miners' gross output on top of all other national and local taxes.
- It also discussed House Bill 422, which seeks to impose a 10% tax on miners' gross revenues, or a 55% levy on their adjusted net mining revenue — defined as gross revenue less production and other deductible costs, but not to exceed 10% of direct mining, milling and processing costs — whichever is higher, in lieu of all national and local taxes except for taxes on real property, value added, capital gains, stock transactions, documentary stamps, donors, and other fees.

# MARKET RECAP

18 September 2018

## Tax Reform Program (continued)

- The DOF expects HB 7994 to generate a P1.83-bil incremental revenue in the first year of implementation.
- Ms. Suansing said both bills address Executive Order No. 79, signed by Benigno S.C. Aquino III in 2012, as the new revenue-sharing scheme will allow the Executive to lift the moratorium on new mining contracts.
- The Chamber of Mines of the Philippines (COMP) opposed both bills during the hearing, saying taxes on the industry are already “very heavy,” as levies on minerals have just been increased by TRAIN, which took effect last January.
- COMP Executive Director Ronald S. Recidoro cited a 2012 International Monetary Fund study that the Philippines’ current mining tax is “already too high to attract quality investments that we need.”
- Mr. Recidoro said that he would prefer a tax on net revenues, as the tax on gross would be “regressive” for miners given large up-front costs on heavy machinery, power and labor.
- Walter W. Brown, president and chief executive officer of listed Apex Mining Company, Inc., said that “the imposition of the same tax regime for all types of mines should be amended.”
- “Before we tax mines we should take a look at the cost structure. Underground miners’ cost structure is much higher versus nickel miners. It should be subject to much more definitive study.”

## AGI

- Alliance Global Group Inc. (AGI) has earmarked P240-bil for its capital expenditures over the next three years, largely to build more residential buildings, offices, hotels and malls.
- The money will also be used to beef up the group’s landbank as well as boost the number of McDonald’s stores across the country.
- In the past 10 years, AGI budgeted around P470-bil for its capex, 80% of which was spent over the last five years as it embarked on an ambitious expansion program.
- Property arm Megaworld Corp. rolled out around P200-bil worth of residential projects and added 800,000 square meters in gross leasable area for its office and lifestyle malls businesses.
- It is aggressively expanding its hotel portfolio to boost its room inventory to 12,000 in the next few years in support of the government’s thrust to attract 10-mil tourists by 2020.

## CLC

- Chelsea Logistics Holdings Corp. is gearing up for acquisitions, looking to snap up firms engaged in shipbuilding and repair services.
- CLC also plans to acquire companies engaged in passenger and cargo operations.
- To fund its expansion, CLC intends to sell as much as 5-mil preferred shares with an over-allotment option of 2-mil shares at P1,000 apiece.
- The company has earmarked P2-bil out of the expected sales proceeds for acquisitions and landbanking.

## ECONOMIC INDICATORS

<b>GDP Growth Rate</b>	6.0% (Q2 2018)	<b>Unemployment Rate</b>	5.4% (July 2018)	<b>GIR</b>	US\$77.829-B (August 2018)
<b>Fiscal Surplus / (Deficit)</b>	(P86.4-B) (July 2018)	<b>Exports Growth Rate</b>	0.3% (July 2018)	<b>BOP</b>	(US\$455-M) (July 2018)
<b>Inflation</b>	6.4% (2012 BY) (August 2018)	<b>Imports Growth Rate</b>	31.6% (July 2018)	<b>O/N RP</b>	4.50% (as of August 9, 2018)
<b>91-day T-Bill Rate</b>	3.225 (as of September 3, 2018)	<b>Cash Remittances</b>	US\$2.401-B (July 2018)	<b>O/N RRP</b>	4.00% (as of August 9, 2018)

2702-C, 27/F East Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City, M.M., Philippines. [www.meridiansec.com.ph](http://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 addressee 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.