

MARKET RECAP

25 September 2018

PSEI	Value Turnover (US\$)	Net Foreign Flow (US\$)	PHI:US (PLDT ADR)	US\$ 1.00
7,332.17 (-1.37%)	No Data Available	No Data Available	25.66 (-0.12%) = 1,386.33	54.211

Market Recap

- Share prices on the Philippine Stock Exchange struggled as the latest round of US-China tariffs revived fears the trade dispute would knock global growth, while crude oil was elevated near four-year highs after Saudi Arabia and Russia ruled out immediate production increases.
- The benchmark PSEI fell 101.44 points or 1.37% to 7,332.17 at the closing bell. The broader All Shares added 36.62 points or 0.81% to 4,494.90.
- China and the United States imposed a new round of tariffs on each other's goods on Monday, intensifying a trade dispute that is expected to hit global economic growth.
- Global financial markets have been spooked in the past few months as traders and policy makers worried the heated Sino-US trade row could chill investment and trade in a blow to world growth.
- The tense backdrop added to the general caution ahead of an expected interest rate hike by the Federal Reserve this week and uncertainty over the future of US Deputy Attorney General Rod Rosenstein. Rosenstein oversees the special counsel investigation into Russia's role in the 2016 presidential election.
- The Fed begins its two-day policy meeting later on Tuesday.
- Equities had made strong gains last week as investors had hoped the United States and China would find ways to strike some form of compromise over the trade issues. However, both Washington and Beijing showed no signs of backing down, stoking concerns the dispute would drag on for a protracted period.
- The latest flare up in trade conflict concerns is a negative factor for equities. Some markets have positive factors to fall back on, but such support could be negated if the Chinese market is hit by volatility.
- More than 612.444-mil shares valued at P3.495-bil, changed hands. Market breadth was negative, with decliners barely edging out advancers, 99 to 81, and 55 issues were unchanged.
- Gainers: JGS (+2.57%), AEV (+1.69%), PCOR (+0.89%), AGI (+0.79%), DMC (+0.51%)
- Laggards: PGOLD (-4.03%), BPI (-3.63%), SMPH (-3.51%), SM (-2.70%), ALI (-2.57%)

Tax Reform Program

- The House of Representatives Ways and Means Committee on Monday raced to tackle more of the Executive's proposed tax reforms in a bid to approve as many of them as possible before lawmakers turn their attention to preparations for next year's midterm elections, this time focusing on making capital income and financial intermediary taxes simpler, fairer and more efficient.
- A Department of Finance (DOF) brief distributed during the hearing showed that, under the current system, capital income tax has 52 rates and bases, tax on financial intermediaries has eight while financial transactions' documentary stamp tax (DST) has 20.
- Such a complicated tax structure — involving varied tax rates and unequal treatment of equivalent or comparable financial instruments — gives rise to arbitrage that can distort investment decisions and entails high administrative and compliance costs.
- Moreover, investments in equity and some long-term instruments favored by those who can afford them are subject to lower tax rates compared to taxes on short-term investments and savings deposits of "working-class individuals," the bill noted further.
- Among others, existing rates on dividend income now amount to 10%, 20% and 25% for individuals, against 10-11.7% for Indonesia, Malaysia, Singapore, Thailand and Vietnam. HB 8252 proposes to simplify this regime with a uniform 15%.
- The rates for companies' dividend income — now at 10%, 15% and 30% — will also be harmonized at 15%, matching the rate of the other five major Southeast Asian economies except Indonesia.
- The same measure also initially keeps the 0.6% rate for stock transaction tax on listed equities, which will then be slashed by 0.1 percentage point annually until a final rate of 0.1%. In the other comparable major Southeast Asian economies, this item is "mostly exempt", the DOF brief noted.
- The tax on initial public offerings — now at one, two and four percent and which is not levied in most of the other major regional economies except Indonesia — will be removed.

MARKET RECAP

25 September 2018

Tax Reform Program (continued)

- The rates of capital gains tax on unlisted stocks — currently at five percent, 10% and 15% — will also be harmonized at 15%, against exemption for individuals and 17.5% for corporations in much of the Philippines' major Southeast Asian peers.
- The proposed reform also expresses all DST rates in ad valorem (% instead of peso terms), harmonizes all life and non-life insurance rates and removes the DST on domestic money transfers in order to lift the burden on the poor, among others.
- HB 8252 also proposes changes to the tax on trading gains on debt instruments and the premium tax on insurance products (proposed at two percent for life insurance and five percent for non-life insurance from the current two and 12% for life and 12% for non-life, respectively), among others.
- Financial sector representatives present at the hearing generally expressed support for the measure, save for a few concerns.
- The bill proposes 0.2%, 0.5%, 7.5% and 12.5% ad valorem DST for non-life insurance products and 0.007-0.02% for the DST on life insurance instruments.
- The DOF projects incremental revenues from this reform at P18.5-bil, P16.9-bil, P15.1-bil and P13.7-bil annually between 2019 and 2022, when President Rodrigo R. Duterte ends his six-year term.
- Assuming 70% tax collection efficiency, these annual projections are slashed to P13-bil, P11.8-bil, P10.6-bil and P9.6-bil in the same corresponding years.

LTG

- The listed investment arm of taipan Lucio Tan is venturing into infrastructure development with the acquisition of a 45% stake Asia's Emerging Dragon Corp.
- LT Group Inc. said it purchased nine million shares of AEDC at P100 each for a total consideration of P900-mil. LT Group indirectly owns AEDC through Kenrock Holdings.
- AEDC, which is engaged in infrastructure development, is part of a consortium that seeks to redevelop the aging Ninoy Aquino International Airport.
- LTG deems it necessary to support AEDC in its bid to take part in the development of the airport by infusing additional capital.
- Under the deal, the initial payment for the subscription of the shares shall be 25% of total purchase price or P225-mil.

ECONOMIC INDICATORS

GDP Growth Rate	6.0% (Q2 2018)	Unemployment Rate	5.4% (July 2018)	GIR	US\$77.829-B (August 2018)
Fiscal Surplus / (Deficit)	(P2.6-B) (August 2018)	Exports Growth Rate	0.3% (July 2018)	BOP	US\$1.272-B (August 2018)
Inflation	6.4% (2012 BY) (August 2018)	Imports Growth Rate	31.6% (July 2018)	O/N RP	4.50% (as of August 9, 2018)
91-day T-Bill Rate	3.549 (as of September 10, 2018)	Cash Remittances	US\$2.401-B (July 2018)	O/N RRP	4.00% (as of August 9, 2018)

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