

Daily Market Commentary

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Philippine Equities Market

As of January 26, 2018				
INDICES	VALUE	Points	%Chg	YTD%
PSEi	9,041.20	42.03	0.47	5.64
All Shares	5,269.32	24.07	0.46	5.60
Financials	2,256.73	(8.38)	(0.37)	1.19
Industrial	12,089.96	39.21	0.33	7.65
Holding Firms	9,358.00	100.23	1.08	8.61
Services	1,696.81	0.47	0.03	4.75
Mining and O	12,189.62	(93.42)	(0.76)	5.97
Property	4,126.96	35.14	0.86	3.74

Top 3 Most Active Stocks

TICKER	COMPANY	TURNOVER
BDO	BDO Unibank Inc	437,531,100
ALI	Ayala Land Inc	425,506,200
SMPH	SM Prime Hldgs Inc	402,369,400

TOP INDEX GAINER

SM	SM Investments Corp	PRICE	%
		1,140.00	3.64

TOP INDEX LOSER

MBT	Metrobank	PRICE	%
		101.30	-2.31

UITF/MUTUAL FUNDS

BDO - SDF	UP	NAV
		123.1922
BDO - Money Market Fund	UP	NAV
		1,534.6548

FOREX

USD/PHP	PREV	CURRENT	DIFF
		51.04	DOWN

BITCOIN

BTC	PREV	CURRENT	DIFF
		583,166.40	UP

Market Data

	Value
Volume turnover	1,021,926,517
Value	7,831,756,625.85
Foreign Transaction (net)	(242,248,104.08)

Regional Indices

	Value	%Chg
Dow Jones	26,616.71	UP 0.85
NASDAQ	7,505.77	UP 1.28
S&P500	2,872.87	UP 1.18
H. Seng	33,154.12	UP 1.53
Nikkei225	23,735.80	UP 0.44

Stock Picks

STOCK CODE	CP	CHANGE
AC Ayala Corp	UP	1,051.00 11.00
ALI Ayala Land	DOWN	46.60 -0.90
BDO BDO Unibank	DOWN	157.40 -0.10
BLOOM Bloomberry	UP	12.82 -0.02
EEL EEI Corp	DOWN	12.94 -0.06
GERI Global Resorts	NO CHANGE	1.37 0.00
MRSGL Metro Retail	NO CHANGE	3.69 0.00
PXP PXP Energy	DOWN	9.25 -0.06
SM SM Investments	DOWN	1,128.00 -12.00
SMPH SM Prime	UP	38.95 0.35
SSI SSI Group	DOWN	3.18 -0.05
WLCON Wilcon Depot	DOWN	9.70 -0.08

Commodities

	Last	Chg	%Chg
Gold			
Brent			
WTI			

Global Events/Market

- Economists say hawkish-tilting Fed could move rates quicker
- US equities were flat as Commerce Secretary Wilbur Ross and Treasury Secretary Steven Mnuchin hinted a trade war against China, sparking concerns over Trump's protectionist policies. The DJIA rose to 26,252.12 (+0.16% DoD) while the S&P 500 closed at 2,837.54 (-0.06% DoD).
- Europe stocks pulled back as the continued weakness in the US dollar drove a rally in the Euro and British Pound, putting pressure on shares of European exporters. The MSCI Europe declined to 135.29 (-0.51% DoD).
- US Treasury yields rose following US Treasury Secretary Mnuchin's comments on the weakening dollar, which cast a shadow of doubt on the timing of policy normalization. Yields were up 1.92bps on average, with the 10-yr rising by 3.34 bps to end at 2.6465%.
- The US Dollar posted its steepest slide since March 2016 as investors digested Mnuchin's statement that a weaker currency is good for trade which fueled uncertainties on the government's stance on a more protectionist trade. The DXY ended at 89.206 (-1.02% DoD).

(Source: <https://www.bpiassetmanagement.com/pages/the-morning-view/>) BPI Research

Local Events/Market

- UBP: 4Q17 earnings climb 5% y/y; slightly below COL estimates
- Economy: DoF cautious on firms' income tax cuts
- DoE urged to strictly monitor oil companies' monthly inventories
- Economy: Swiss Challenge system for big projects, no more public bidding
- Telco sector: Security issues hindering entry of China Telecom
- BLOOM: BLOOM offers to purchase 16-ha Solaire lot from Pagcor
- MPI: MPTC to borrow Php36Bil for projects
- AP: AP expects power demand and sales to improve this year
- SMC: NEDA sees SMC's Bulacan airport proposal to remain viable
- Economy: Customs tax collection target reduced to Php598 Bil from Php627 Bil

(Source: COL Financial <https://ph9.colfinancial.com/ape/Final2/research/downloads/2018-01-29-PH-D.pdf>, BPI Research, BusinessWorld)

PSEi/Fixed Income/Forex Summary

- The PSEi advanced last Friday, gaining 42.03 points or 0.47% to close at 9,041.20. Index gainers led decliners 15 to 14, while 1 issue remained unchanged.
- Likewise, most sectors advanced with Holding Firms (+1.08%) leading the gainers and Mining & Oil (-0.76%) leading the decliners. Significant index gainers were SM (+3.64%), RLC (+1.29%), ALI (+1.06%), AP (+0.85%), and URC (+0.77%). Meanwhile, significant index decliners were MBT (-2.31%), RRI (-1.50%), and JGS (-1.27%).
- Value turnover decreased to Php7.8Bil from Php8.9Bil the previous session. Meanwhile, foreigners turned net sellers throughout the day, liquidating Php242Mil worth of shares.
- Local equities were on a downward trend during today's session as yesterday's close 1pt below 9,000 prompted profit-taking. LTG had the biggest drop following details of 4Q GDP showed weak figures for alcoholic beverages and tobacco. The PSEi closed at 8,920.23 (-0.88% DoD).
- Local fixed income yields ended higher on thin trading volumes for the day despite robust demand for the BSP's 7-day term deposit facility. On average, yields went up by 9.07 bps, with the 10-year ending flat at 6.0154%.
- The Philippine peso marginally strengthened even as 2018 growth may slightly slow, following a softer-than-expected GDP print for 4Q17, as the Philippines remains to be one of the fastest growing countries in the region. The USD/PHP pair closed at 50.960 (+0.27% DoD).

(Source: COL Financial (<https://ph9.colfinancial.com/ape/Final2/research/downloads/2018-01-29-PH-D.pdf>), BPI Research (<https://www.bpiassetmanagement.com/pages/the-morning-view/>))

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Other News:

UBP: 4Q17 earnings climb 5% y/y; slightly below COL estimates

Earnings miss slightly on lower fees and higher operating expenses

Union Bank's earnings during the fourth quarter climbed 5% y/y to Php2.0Bil amidst strong growth in net interest income and lower provisions. However, full-year total profits declined by 16% y/y to Php8.4Bil mainly due to the absence of one-off gains booked in the previous year. Excluding this one-off, core income would have grown by 30% y/y to Php8.2Bil. Profits came slightly below COL estimates at 97% of full-year target but above consensus estimates at 103%. The underperformance came as the stronger-than-expected net interest income and lower-than-expected provisions only partially offset the weaker-than-expected non-interest income and higher-than-expected operating expenses. The bottom-line earnings figure translates to an ROE of 14.1% (adjusted for goodwill).

Higher volume drives expansion in net interest income

UBP's net interest income expanded 32% y/y to Php5.2bil in 4Q17, bringing the full-year total to Php17.6Bil, up 19% y/y. This ended above our estimates, accounting for 106% of our full-year forecast. The expansion in net interest income was largely driven by higher volumes. Note that the bank's loan portfolio and total interest earning assets expanded by 19% and 20%, respectively. Meanwhile, we estimate that the bank's net interest margin ended slightly lower by ~5 basis points at ~3.30%. Nevertheless, margins still outperformed our forecasts as we only expected NIMs to reach 3.2% for 2017.

Weak trading gains and fees drag earnings

UBP booked Php4Mil in trading gains during the fourth quarter, a reversal of the Php23Mil trading losses booked in the previous year. However, the full-year total still declined by 93% y/y to Php267Mil due to the absence of the one-off gains booked in 3Q16. Indeed, recall that the bank decided to sell a portion of its securities portfolio during this period. Compared to our estimates, trading gains ended below, accounting for only 76% of full-year forecasts.

(Source: COL Financial, BusinessWorld)

Economy: Swiss Challenge system for big projects, no more public bidding

President Duterte wants to eliminate the bidding process for public work projects, citing the delays in completion and rampant corruption. Instead, the projects of the Philippines will be conducted similar to a Swiss Challenge. Under a Swiss Challenge system, a government agency which receives an unsolicited proposal from a private group, will invite third parties to match or improve upon the offer. The original proponent of the project will then be given the opportunity to match the counterbid or improve on it once more.

Under the current procurement law, the government bids out public works or services projects, where the lowest bidder is normally awarded the contract. However, according to President Duterte, the operation of syndicates rigged the bidding process by bribing officials to make extra money. This resulted in substandard or unfinished projects. In fact, according to the President, the Swiss Challenge process should be acceptable to "straight people in the government". The President has warned contractors that he will not tolerate excessive delays and would only allow at most, a one-month delay under the principle of slippage. Otherwise, the project will be given to another group and the erring contractor will be sued. The President has promised those who complete the work on time and with no corruption will be rewarded with prompt payment, 15 days from the completion of the project. *(Source: COL Financial, Inquirer)*

Telco sector: Security issues hindering entry of China Telecom

The entry of China Telecom as a potential third telecommunication player in the country is hindered by security issues that hound its Philippine operations. Although China Telecom has the financial clout to throw in between USD700Mil and USD1Bil to enter the telecom business, security issues could eventually be a huge problem. China Telecom has the financial muscle to make a huge investment as this will only account for 2% of its 2018 projected revenue. This could allow the company to overcome the high barriers to entry due to the high capex requirement of the industry. Despite the government downplaying the security risk exposure resulting from the entry of China Telecom, the threat is real especially for US firms outsourcing in the Philippines should they switch providers. A study has revealed that there have been 76 state-sponsored cyberattacks linked to China since 2005, 75 were revealed to be espionage in nature. In addition, 44 of these state-sponsored attacks were targeted towards the US during this period. *(Source: COL Financial, Philstar)*

BLOOM: BLOOM offers to purchase 16-ha Solaire lot from Pagcor

BLOOM disclosed that its wholly owned subsidiary, Sureste Properties Inc., submitted a bid to purchase the 16-hectare land in Entertainment City where Solaire Resort & Casino is located. Alongside the bid, BLOOM also submitted to Pagcor an offer to purchase the subject land by negotiated sale in case the bidding failed. Pagcor has set the starting bid price for the lots at Php37.23 Bil which should be paid in cash. *(Source: COL Financial, Philstar)*

MPI: MPTC to borrow Php 36Bil for projects

Metro Pacific Tollways Corp., a subsidiary of MPI, is planning to borrow Php36Bil within the first quarter to fund its projects. Specifically, the firm intends to raise Php11Bil for the C-5 South Link and Php25Bil for the CALAx. In addition, the company also said that it prefers to borrow from local banks as the firm's revenues are in pesos. *(Source: Col Financial, Philstar)*

AP: AP expects power demand and sales to improve this year

AP expects power demand and sales under its power distribution business to experience an improvement. This is on the back of continued economic growth in its franchise areas. In particular, AP President and COO, Mr. Moraza said that the group sees overall growth to hit 5% this 2018, better than the ~4% growth the previous year. *(source: Col Financial, Philstar)*

SMC: NEDA sees SMC's Bulacan airport proposal to remain viable

The National Economic Development Authority (NEDA) said that SMC's international airport project seems viable since it passes the hurdle rate or the minimum rate of return. However, some clarifications are being sought on the financial rate of return, which would give the government a clearer picture of the project's profitability. The proposed Php700Bil project in Bulacan will cover around 2,500 hectares, of which 1,168 hectares will be an airport complex, while the remaining area will serve as a city complex. It is expected to be completed in six years upon approval. *(source: Col Financial, Philstar)*

Economy: Customs tax collection target reduced to Php598 Bil from Php 627 Bil

The Development Budget Coordination Committee (DBCC) adjusted its customs tax collection target to Php589 Bil from its initial target of Php627 Bil. However, DBCC did not disclose the reason for the downward revision of its target. According to Customs commissioner Isidro Lapeña, he is confident that the Bureau of Customs will be able to hit the target as it implemented immediate reforms to prevent corruption and ensure the correct valuation of shipments that come into the country. *(source: Col Financial, PhilStar)*