

Daily Market Commentary

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Philippine Equities Market				
As of February 13, 2018				
INDICES	VALUE	Points	%Chg	YTD%
PSEi	8,570.14	82.23	0.97	0.14
All Shares	5,053.21	27.31	0.54	1.27
Financials	2,206.01	7.12	0.32	(1.08)
Industrial	11,397.63	(72.99)	(0.64)	1.48
Holding Firms	8,707.78	101.17	1.18	1.07
Services	1,706.91	14.70	0.87	5.38
Mining and O	11,396.77	112.32	1.00	-0.92
Property	3,868.60	55.75	1.46	(2.75)

Top 3 Most Active Stocks		
TICKER	COMPANY	TURNOVER
SMPH	SM Prime Holdings Inc	426,406,300
BPI	Bank of the Phil Islands	409,458,800
SM	SM Investments Corp	394,653,500

TOP INDEX GAINER		PRICE	%
SMPH	SM Prime Holdings Inc	36.15	3.29

TOP INDEX LOSER		PRICE	%
JFC	Jollibee Foods Corp	277.00	-2.12

UITF/MUTUAL FUNDS		NAV	
BDO - SDF	UP	116.2923	
BDO - Money Market Fund	UP	1,535.9037	

FOREX	PREV	CURRENT	DIFF
USD/PHP		51.98	0.21 UP

BITCOIN	
BTC	367,335.80 DOWN

Market Data		Value
Volume turnover		1,817,331,830
Value		7,664,865,070.74
Foreign Transaction (net)		(841,649,999.75)

Regional Indices			
	Value	%Chg	
Dow Jones	24,640.45	UP	0.16
NASDAQ	7,013.51	UP	0.45
S&P500	2,662.94	UP	0.26
H. Seng	29,839.53	UP	1.29
Nikkei225	21,254.65	UP	0.05

Stock Picks			
As of 10:00 am			
	LAST	Change	%Change
AC	1,028.00	8.00	0.78 UP
ALI	43.80	0.10	0.23 UP
BDO	149.50	(0.50)	-0.33 DOWN
BLOOM	13.20	(0.10)	-0.75 DOWN
EEI	11.00	(0.22)	-1.96 DOWN
GERI	1.33	-	0.00
MRSGL	3.41	(0.03)	-0.87 DOWN
PXP	8.90	0.15	1.71 UP
SM	973.50	(16.50)	-1.67 DOWN
SMPH	35.95	(0.20)	-0.55 DOWN
SSI	2.90	(0.01)	-0.34 DOWN
WLCON	10.78	(0.12)	-1.10 DOWN

Commodities			
	Last	Chg	%Chg
Gold			
Brent			
WTI			

Global Events/Market

- US equities finished higher, marking a third consecutive gain for equity benchmarks, as the market awaits the key inflation reading due to be released today. The DJIA index closed at 24,640.45 (+0.16% DoD) and the S&P500 index closed at 2,662.94 (+0.26% DoD).
- European equities ended lower as volatility that pushed stock markets into correction territory crept back as investors remain wary of rising inflation and bond yields. The MSCI Europe index closed at 124.99 (-0.63% DoD).
- US Treasury yields were relatively flat ahead of the inflation report. The market is in wait-and-see mode ahead of the report as concerns over high inflation continue to impact markets. On average, yields dipped 0.39 bps with the 10-year falling to 2.829%, down 2.91 bps DoD.
- The US dollar continued to weaken ahead of the inflation report and as equity markets recovered signaling flight to more risky assets. The DXY closed at 89.703 (-0.56% DoD).
- Asian stocks advanced as investors were in bargain-hunting mode after the huge decline in stock prices last week. The Hang Seng index was up by 1.29%. The MSCI APXJ index closed at 563.87 (+1.03% DoD).

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

Local Events/Market

- JFC: Full-year profits end in line with estimates, to acquire additional 45% stake in Smashburger
- RCB: 2017 earnings grow 11%; in line with consensus estimate
- AEV, AC, AGI, FDC, JGS, MPI: Consortium submits Php350Bil proposal for NAIA uplift

(Source: <https://ph9.colfinancial.com/ape/Final2/research/downloads/2018-02-08-PH-D.pdf>) BPI Research, BusinessWorld)

PSEi/Fixed Income/Forex Summary

- The PSEi advanced on Tuesday, gaining 82.23 points or 0.97% to close at 8,570.14. Index gainers led decliners 21 to 7, while 2 issues remained unchanged.
- Likewise, all sectors except for Industrial (-0.64%) ended in green, with Property (+1.46%) leading the group. Significant index gainers were SMPH (+3.29%), AEV (+2.71%), RLC (+2.70%), JGS (+2.60%), and DMC (+2.24%).
- Meanwhile, the significant index decliners were JFC (-2.12%), SMC (-2.07%), and LTG (-1.31%). Value turnover increased to Php7.7Bil from Php5.9Bil in the previous session. Meanwhile, foreigners continued to be net sellers for the thirteenth consecutive day, liquidating Php842Mil worth of shares.
- Local equities were slightly up as local investors picked up bargains amidst continued foreign selling. SMPH (+3.29% DoD) was the best performer, closing above its 200-day moving average of Php 34.98. The PSEi ended at 8,570.1 (+0.97% DoD).
- Local fixed income yields fell amidst continued speculation of a reserve requirement cut. A 1% cut in the reserve requirement could potentially unlock more than Php 100 Bn in market liquidity, some of which could be invested in government securities. On average, yields fell 23.00 bps.
- The Philippine peso continued to decline against the dollar on the back of continued foreign outflows in the stock market (\$16.22 Mn net foreign selling). The PHP/USD ended at 51.980 (+0.41% DoD).

(Source: <https://ph9.colfinancial.com/ape/Final2/research/downloads/2018-02-08-PH-D.pdf>), BPI Research (<https://www.bpiassetmanagement.com/pages/the-morning-view/>)

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Other News:

AP: Reducing estimates on potential delays in operation of power projects

Commercial operation of power projects pushed back due to regulatory issues. The start of the commercial operation of the 68MW Manolo Fortich Hydroelectric plant and the 400MW Pagbilao Coal Expansion Project could be slightly pushed back due to potential delays in securing the necessary regulatory permits. The Manolo Fortich is expected to begin commissioning works at the end of the month, but it is still waiting for the Certificate of Endorsement (COE) from the Department of Energy in order to be able to begin commercial operation. Meanwhile, the Pagbilao Coal Expansion project is already in the commissioning stage, but it is still waiting for the Certificate of Compliance (COC) from the Energy Regulatory Commission. However, the issuance of permits from the government could be delayed. In December 2017, The Office of the Ombudsman suspended all four commissioners of the ERC for one year. (for allegedly giving due preference to Meralco and its power supply agreements with affiliated power generation companies by extending the deadline for their compliance with the competitive selection process). This put a halt all activities pertaining to the approval of Power Supply Agreements and the issuance of COCs. While the Court of Appeals issued a 60 day Temporary Restraining Order in early February to stop the suspension of the four ERC commissioners, we believe that the 2 month suspension of the ERC commissioners will likely delay the issuance of the COC needed by AP to begin the operation of its power projects.

We previously assumed that both the Manolo Fortich and the Pagbilao Expansion Project would begin commercial operation at the start of 1Q18. *Our new forecast now assumes that* both of these projects will begin operating in 3Q18, around six months later than our previous forecast.

Reducing estimates, but maintaining BUY rating. After factoring in the delay in the operation of Manolo Fortich and the Pagbilao Coal Expansion Project, we are reducing our

UBP, AEV: UBP to acquire majority stake in PETNET

City Savings Bank, Inc. and Union Properties, Inc., both subsidiaries of UBP, have signed a share purchase agreement with AEV to acquire 51% of the common shares of PETNET, Inc. The subsidiaries acquired 2.46Mil shares at Php487.54/sh, translating to a total price of Php1.2Bil. The transaction is subject to closing conditions and regulatory approval, which is targeted by 2Q18. PETNET, more widely-known by its retail brand name PERA HUB, has the largest network of Western Union outlets in the Philippines which has over 2,800 outlets nationwide. In addition, the company offers a variety of cash-based services including remittance, currency exchange, and bills payment. (Source: UBP, Businessworld)

The consolidation of AEV's interests in the financial industries should allow synergies to form between CitySavings and PETNET. Nevertheless, we believe this should have minimal earnings impact as the total transaction price represents only ~0.2% of UBP's total assets in 2017.

We have a HOLD rating on AEV with a FV estimate of Php67.1/sh. We like AEV given the expansion plans of its power subsidiary AP and food subsidiary Pilmico Foods. AEV's is also well positioned to participate in the government's infrastructure projects owing to its recent acquisition of republic cement as well as its strong balance sheet and excellent track record in acquiring businesses. However, AEV is currently priced at a premium to both the market value and the fair value of its subsidiaries. Based on our FV estimate of Php75/sh, the stock is already fully valued.

We have a BUY rating on UBP with an FV estimate of Php107/ sh based on 1.60X 2018E P/BV (adjusted for goodwill). While UBP has historically been heavily reliant on its trading operations, we like the bank given its aggressive expansion into the retail segment through City Savings. This should continue to build on its recurring revenue base going forward. (Source: Col Financial)

JFC: Full-year profits end in line with estimates, maintain HOLD

Full-year profits rise 15.0% y/y to Php7.1 Bil. JFC's net income in 2017 grew by 15.0% y/y to Php7.1 Bil, in line with COL and consensus estimates as it accounts for 103.6% and 101.8% of COL and consensus forecasts, respectively. However, JFC's operating profits ended slightly below COL and significantly below consensus estimates as it grew by a slower pace of only 9.4%. This was due to the lackluster operating income performance of JFC in 4Q17 which declined by 4.6% to Php1.5 Bil. According to JFC, the rapid rise of raw material costs and store and manufacturing expenses greatly reduced its gross profit margins, affecting its profitability. JFC did not disclose the reason for the higher net income figure versus its operating profits but we think that this may be due to the bigger loss of its 60% stake in the operation of Dunkin Donuts in China. Note that as of 9M17, Dunkin Donuts in China already booked a net loss of Php420.1 Mil. Nevertheless, revenues remained upbeat for the year, growing by 15.6% y/y to Php131.6 Bil. This is in line with COL (101.0% of forecast) and consensus (101.7% of forecast) estimates. This was driven by a sizable 465 new stores in 2017 and a healthy 7.0% same-store sales growth. The revenue growth was driven by its domestic restaurant systemwide sales which grew by 13.2% y/y to Php135.2 Bil and its international restaurant systemwide sales which grew by 23.4% y/y to Php36.0 Bil. **SOURCE: Col Financial**

RCB: 2017 earnings grow 11% in line with consensus estimate

2017 earnings grow 11%; in line with consensus estimate. RCBC's net income during the fourth quarter jump 146% to Php904Mil from Php367Mil in the previous year. However, the jump in earnings was largely due to the low base set last year. Recall that the bank posted weak net interest income in the previous period. This brought the full-year earnings up by 11% y/y to Php4.3Bil. Compared to consensus estimate, earnings ended in line, representing 98.7% of full-year forecast. Meanwhile, net interest income during the full year expanded 15% y/y. The 2017 earnings translate to an ROE of 6.7%. **Source: COL Financial**

AEV, AC, AGI, FDC, JGS, MPI: Consortium submits Php350Bil proposal for NAIA uplift

A consortium of seven conglomerates submitted a Php350Bil proposal to transform the Ninoy Aquino International Airport (NAIA) into a regional airport hub. The seven companies are Aboitiz Infra Capital Inc., AC Infrastructure Holdings Corp., Alliance Global Group Inc., AEDC, Filinvest Development Corp., JG Summit Holdings Inc., and Metro Pacific Investment Corp. The first phase aims to improve and expand current terminals, which would cost Php100Bil and be completed within 48 months. Once completed, the airport's capacity will grow from the current 30Mil passengers to 65Mil passengers per year. Meanwhile, the second phase will involve the construction of a second runway, taxiways, passenger terminals, and associated support infrastructure. This will further raise the capacity to 100Mil passengers per year. **(Source: Philstar) Col Financial**

