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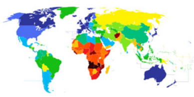
The Bellwether

Fortnightly on Market Action and Outlook

STOCK WATCH



Emerging markets skid on a money flow reversal; End of easy money?

Money flow reversal

Overseas investors have pulled a record $2.7bn from Thai, Indonesian and Philippine stock markets this month (as of June 14, 2013), the biggest eight-day outflow since 1999, according to Bloomberg. Not the first time US policy easing reversal and strengthening dollar have thrown emerging markets into a money flow reversal, noted well-known economist and Bank of Israel Gov. Stanley Fischer.

End of the easing cycle?

All of the above were blamed on the Fed stimulus cutback announced yesterday. The BSP's maintaining the SDA rate last June 13, 2013 has began to psyche up the market it is at the tail-end of the loose money policy. The peso in reaction to the SDA rate cut pause bounced and continued to firm up the following day to Php42.85 from its previous close of Php43.04. So far, the peso has dropped 5.53% year-to-date (ytd).

China-led regional slowdown; Philippines less vulnerable

Some of the market sell-off fears were about a China-led regional slowdown overriding the US and Japan recovery benefits to the rest of the world. A China GDP slowdown to below 7% next year might mean a prolonged commodity markets slump and hit commodity-driven economies such as Indonesia and Malaysia. Indonesia has 20% of total exports in commodities, much of it exported to China. Malaysia has a third of its exports in commodities and China absorbs an even bigger 13% of Malaysia's total

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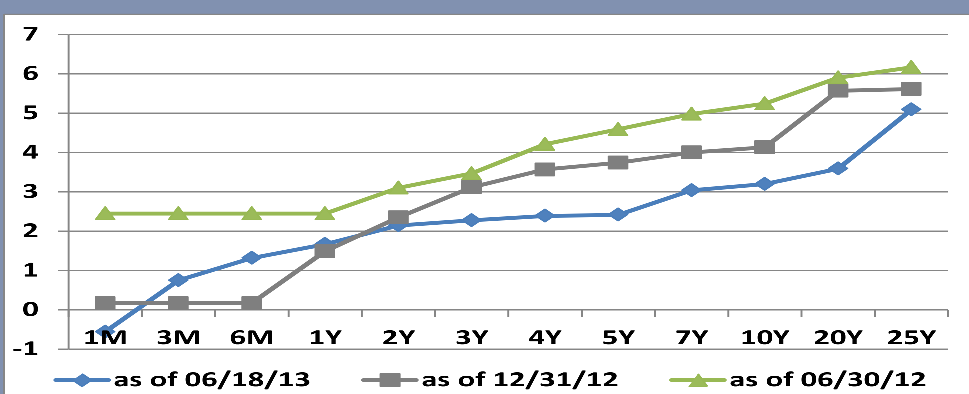
Yields to normalize downward

Peso Yield Curve



The long end of the yield curve rose 20 to 30 basis points (bps) last week as banks took defensive positions in a directionless market ahead of the Fed Policy meeting today. Secondary market trading was notably reduced to Php11bn last week versus Php16bn the previous week. The 25-year debt Treasury bond (T-bond) surged by 43.16 bps to 5.0043% and the 20-year T-bond rose 3.42 bps to 3.5049%. The belly also went up, as the four-year, three-year and two-year debt papers, gained 39.50 bps to 2.8450%, 19.01 bps to 2.3386%, and 7.50 bps to 2.5000%, respectively. The short end was mixed: the 182- and 364-day debt papers both rose by 12.50 bps to 2% while the 91-day T-bill slid 0.5000% to 2%, respectively. The rates moving averages clustered/converged, signaling an upmove fueled by the US interest rates outlook and

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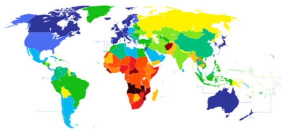
GSM PM CLOSE June 10, 2013
0.80yr 2.00% unchanged Dealt @ 2.00% for Php941Mn
3.41yr 2.50% unchanged Dealt @ 2.30% to 2.40% for Php90Mn
4.58yr 2.625% unchanged
8.63yr 3.70% (0.20 bps up)
8.78yr 3.70% (0.20 bps up)
18.28yr 4.45% (0.15 bps down) Dealt @ 4.25% to 4.40% for Php2.069Bn

GSM PM CLOSE June 10, 2013
22.70yr 5.00% unchanged

RTB Trades June 10, 2013
25yr 4.90% (0.05 bps up) Dealt @ 4.50% to 4.80% for Php533Mn

Note: GSM is Government Securities Market



(Emerging markets... continued from page 1)

exports. The good news is that RP has only 5% of exports in commodities and China accounts for only a tenth of Philippine exports. Thailand has an even lower share of commodity exports at 8% of total, with China making up only 12% of total export markets.

Yield differential narrowing but Philippines is fundamentally sound

Another factor behind the sell-off is the narrowing yield differential. We recall an IMF report (published last April) stating that net capital inflows to emerging markets had risen with a widening interest rate differential and vice versa. See Figure 1.59 below. That gap (which we proxied with the 10-yr yield of the US vs. Asia 10-yr benchmarks) is forecast to trend down/ narrow this year based on Bloomberg consensus forecasts. The good news for RP is that we still have Php1.9T in SDAs to add to liquidity once phased out, plus the growing BPO revenues (linked with the US recovery) and OFW remittances. Our current account is also in surplus relative to GDP and the GIR at record high. Philippine yield curve shifts have also tended to lag Asian yield curves. See below.

Why Philippines is fundamentally a sound buy:

• Budget deficit/GDP at -1.76%, better than Malaysia

• Strong external liquidity; record high GIR $83bn (as of last May) and current account at surplus balance /GDP of 1.21%, better than Indonesia and Thailand

• Manageable debt level; debt-to-GDP at 51%, lower than Malaysia and Singapore

• Benign inflation; 2013 projected inflation, one of the lowest in the Asian region, at 2.8% (lower than Indonesia, Thailand and Singapore)

• Fastest growing Asian economy at 7.8% during the first quarter of 2013

• Investment grade and expecting an upgrade from a third rating agency.

• Healthy corporate earnings growth which we project at 20% this year, together with the excess liquidity, could catapult at 7,200 for a PE of 18.7x.

• There is no debt crisis in the country and the banking sector enjoys highest capital adequacy ratio of 17%, historic low for NPL ratio of 1.5%, with LDR at 80%, low versus Asian peers of 90%-110%.

Pricey stocks were sold off

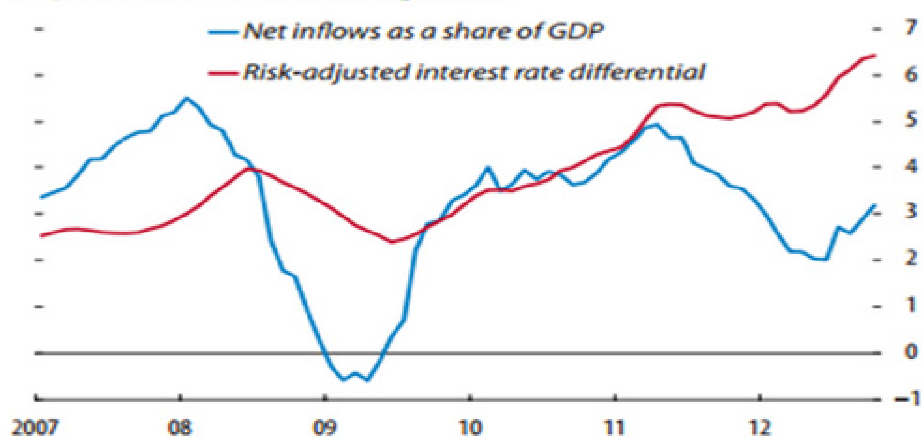
The Philippine index fell 6.8 percent at the close on June 13, 2013, -17.4% off the year's intra-day peak of 7,403.65 on May 15, 2013. Ytd, the index is still up 8.84 percent.

Cue to follow

The main cue to follow is the US employment based on Fed's pronouncement below:

*U.S. equities have outperformed those in the rest of the world since May 22, when Fed Chairman Ben S. Bernanke said the Fed **"could"** scale back stimulus efforts **if the employment** outlook shows **"sustainable improvement."*** ▲

Figure 1.59. Net Capital Flows to Emerging Market Economies
(In percent, 12-month rolling sums)



(Lower inflation... continued from page 1)

overriding positive domestic fundamentals as such as OFW remittances, +6% to Php1.8bn and export earnings, +12.68% to $4bn as of April 2013; BPO revenues, +22% to $13.5bn and the current account surplus, +1% to $7.1bn as of end-2012. The sound fundamentals will normalize rates soon such that yields are bound to correct.

Globe Telecom, Inc. (GLO) and ABS-CBN Corporation (ABS) leapfrog to media convergence

GLO Stock Data	
Price (Php)	1,527.00
Market Cap (Php Bn)	200.33
Outstanding shares (Bn)	132.41
PE 2013E (X)	19.34
Price to Book (X)	4.86

Source: Bloomberg

ABS Stock Data	
Price (Php)	41.00
Market Cap (Php Bn)	33.73
Outstanding shares (Mn)	822.66
PE 2013E (X)	14.04
Price to Book (X)	1.62

Source: Bloomberg

Ahead of PLDT?

Globe may have gone ahead of PLDT's media convergence strategy that has failed to take off with the hemorrhaging TV5. Globe is earning carriage fees (estimate and structure of economic benefit sharing still undisclosed) from ABS CBN Convergence Inc., a newly formed telecommunications (telco) subsidiary of media outfit and 60.3% Lopez Inc.-owned ABC-CBN Broadcasting. The convergence sub is riding on Globe's upgraded Long-term Evolution technology (LTE)-powered mobile network infrastructure as it attempts to market its own brand of prepaid and postpaid SIMs, handsets/smartphones, and generate advertising revenues from these. The selling point of these ABS-CBN Convergence's branded mobile gadgets and SIM connection is that through them ABS-CBN programs/content can be exclusively accessed.

Php4bn Capex for a Big Market

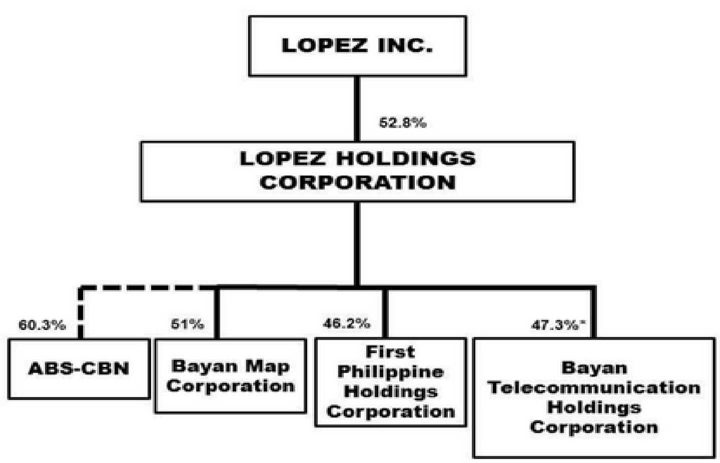
The full blast roll-out of marketing outlets to sell the handsets and SIMs, infrastructure integration, and required applications will cost Php4bn. The size of ABS-CBN Convergence's mobile connection and device market is equal to the local audience share of its parent broadcasting company network of 42% of urban and rural homes nationwide. There are about 20.20m Philippine household units as of 2010. PLDT has 75m subscriber base versus Globe's 35m.

Stymied telco ambition

Key earnings beneficiary is ABS-CBN, which now appears to be the vehicle for the Lopez group's telco ambition. Such ambition was stymied by 47% Lopez Holdings-owned Bayantel's financial difficulties that led to Globe's buy-out of its debts. Such debt buy-out, in turn, enabled Globe's eventual takeover of a court-approved rehabilitation plan for the Lopez telco anytime this year. Bayantel is more of a fixed line operator catering to business/ corporate data requirements. It may figure in the Globe and ABS-CBN media convergence tie-up near-term but no details were provided yet.

Benefit to Globe

Through the carriage fees boosting its topline and even with the ABS-CBN Convergence subscribers cannibalizing (to an extent) Globe's subscriber base, Globe sees more benefits than risk. There is the immediate and partial recovery of its Php20bn investments in high-speed mobile internet and data transmission network infra called LTE by accommodating a client like ABS-CBN whose telco business it views as less of a threat (little cannibalization) and more of a growth driver. Aside from ABS-CBN, Lopez Holdings which owns 61% of ABS-CBN will be an earnings beneficiary. Under PFRS10, ABS-CBN is no longer consolidated with Lopez Holdings but is presented as an affiliate since control, voting rights really rest with Lopez Inc., the issuer of PDRs to which Lopez Holdings subscribed in exchange for the economic benefits of the underlying common shares. First Philippine Holdings is the other Lopez Holdings-owned company that the latter consolidates given that PFRS10 accounting rules treat it as a subsidiary despite a lower 46% ownership. FPHC's major assets are 66.2%-owned FGEN, 86.8%-owned Rockwell Land Corp. as of end 2012. Globe was up Php90.00 to Php1,570.00/share while ABS-CBN rose Php1.50 to Php46.00. LPZ's PE is 7.5x for a 48% EPS growth this year. 2013 earnings by consensus estimated at Php3.7bn from Php2.5bn core net income in 2012. ▲



METRO PACIFIC INVESTMENTS

Metro Pacific Investments Corporation

MPI's dividends rises to 25% (of current year's income) in 2015; Sees Php7.5bn - Php7.7bn 2013 earnings

MPI Stock Data	
Price (Php)	5.55
Market Cap (Php Bn)	144.40
Outstanding shares (Bn)	26.02
PE 2013E (X)	18.14
Price to Book (X)	1.63

Source: Bloomberg

Rising income, rising dividends

With MPI's net income rising (up +28% to Php6.5bn in 2012), so are its dividends. The 1Q2013 core earnings were up 23% to Php1.9bn year-on-year (yoy) and may reach Php7.5bn - Php7.7bn for the entire 2013, an 18% growth yoy. MPI announced an increase of dividend payout to 25% by 2015 from the current 13% (based on current year's income as opposed to previous year). It is also deferring a reverse stock split plan, keeping the capital structure intact, as the stock forms part of the MSCI Global Standard Indices come May 31. Dividend payout may be 18% next year and more tempered in 2016 when Maynilad loses its tax holiday, over which MPI will work out a scheme to at least secure a rate lower tax than the 30% to a likely 18%.

Tariff hikes are key to earnings

Earnings growth drivers are tariff increases, Php8/km for the toll roads or 11% hike and a five-year rate rebasing for the water utility (28% total tariff hike applied for by MPI with the regulators) on staggered yearly implementation. Both of these can happen this year, but were earlier stalled by regulatory delays.

Water tariffs are rising due to the following:

• investments in sewerage (Php50bn) that need to be recovered,

• lower discount rate to 8.5% from 9.3% (same as the utility's guaranteed rate of return) due to the country's lower sovereign risk (now investment grade)

• lower water consumption, 6% billed volume growth in 1Q2013 versus 10%-11% in the initial regulatory period.

Capex for long-term earnings kicker toll roads

MPI has just raised Php6bn worth of equity capex for its told road Harbor Link, City Link, Cavite Laguna (CALA) expressway, Manila-Cavite expressway (CAVITEX) expansion - 100% of CAVITEX MPI recently acquired. Project cost is Php20bn for all toll road projects, whose full year earnings impact will be felt jointly in 2017 for both City Link (to open 2015) and Harbor Link (late 2016). MPI is raising an additional Php14bn (bond issuance) to fund below given a Php20bn borrowing headroom.

• LRT Extension,

• the Connector Road (awaiting Swiss Challenge since issues over the Sky way concession and with PNCC are being ironed out still

• and Mactan Airport bids.

MPI expects the connector road (connecting South Luzon Expressway (SLEX) and North Luzon Expressway (NLEX)) will boost traffic volume in NLEX (3% growth in 1Q2013 to 160k vehicles per day) by a higher 6%-7% and eventually to 12% with the full completion of all toll road projects. NLEX's full toll road capacity is 200k traffic volume per day. Current volume is 160k/day.

Meralco sees full year 2014 Php300mn earnings from open access implementation scheduled for 2H2013. Meralco is charging a 1% initial net margin on retail electricity supply clients when open access kicks in. The distribution utility also stands to gain in 2015 a total of $50mn from its Singapore-based LNG-fired plant which it owns 27%.▲

MPI Earnings Estiamtes

Business Segments	Economic Interest	Stand Alone	Attributable
		2013E Net Income (Php bn)	
Water	53%	8.0	4.2
Electricity	24%	17.7	4.2
Toll road	100%	2.4	2.4
Hospital	64%	0.9	0.6
Total contributions			11.4
Core income			9.5
Non-core expenses			-1.0
EPS			0.29
PE			21.07

Source: IAG Estimates

Cristina S. Ulang, Research Head | Basil Jason L. Go, Research Analyst | Bianca P. Angala, Research Analyst | Patricia L. Dalusung, Research Associate | Ignacio V. Pardo, Research Associate

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