FIRST METRO
INVESTMENT CORPORATION
Metrobank Group

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The Bellwether

Fortnightly on Market Action and Outlook

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Strong 2Q2013 GDP growth

We predict 2Q2013 GDP to accelerate to the level of 8.0%-8.5% based on the growth dynamics of Philippine election years. Historically, the local economy has been off to a strong start in the first quarter of election years and picks up momentum in the second quarter. This is due to election and government infrastructure spending peaking in 2Q as seen in the 2004, 2007 and 2010 elections, firing up Philippine consumption which is about three quarters of the domestic economy. We believe the momentum of 1Q2013 GDP growth of 7.8% (the best in Asia and above China's 7.6%) will step up a gear in 2Q2013, specifically our estimate is a 20 - 70 bps increase on top of the 7.8% achieved in 1Q2013. That leads us to our forecast range of 8.0%-8.5%.

On the demand side, we see Philippine consumption expenditure driving growth as it benefits from the expansive BPO industry with its huge employment impact and sustained OFW remittances growth. The other major driver of growth is gross capital formation which count construction, (public and private) and durable equipment as major contributors. On the production side, the services sector will continue to bloom, helped by retail and wholesale trade, real estate, banking and transportation. Industry growth will be pushed by the burgeoning requirements for utilities services, power, water, petroleum and fuel. Thus we firmly believe that the best of this year is yet to come.

The Philippines was the fastest growing economy in Asia in 1Q2013 edging out China for the top spot. Real GDP growth surprised on the upside at 7.8% year-over-year (yoy), exceeding 7% for the third consecutive quarter. The first quarter growth shattered consensus economist estimates of 6% for the period. In seasonally adjusted quarter-on-quarter (qoq) terms, growth surged to 8.9% in 1Q2013 from 8% in 4Q2012. We do not see this trend abating as we forecast GDP growth of over 8.0% in 2Q2013 driven by household & government spending, and manufacturing. The continued robust growth of the Philippines has earned the country the praise of the "rising tiger" economy.

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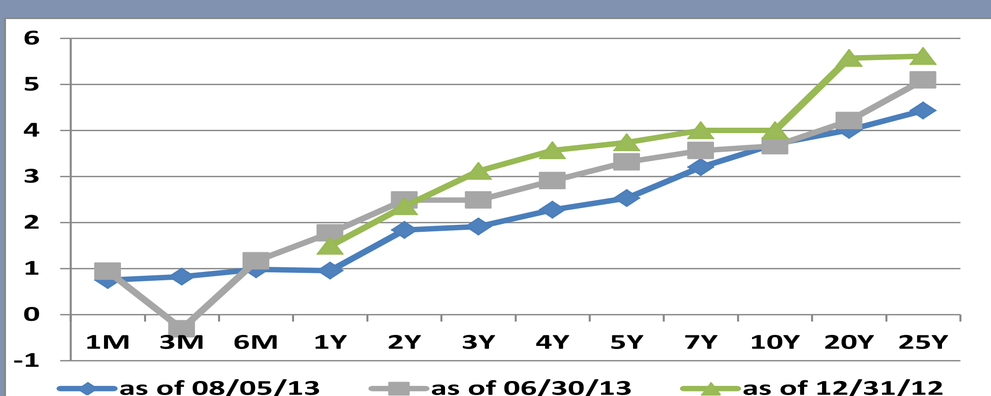
Yield curve to trade sideways

Peso Yield Curve



We expect investors to shift to the long end of the curve followed by the results of the last auction of the 10-year RTBs only reaching 3.25%, way below the 3.5%-3.75% market expectation. Speculations on U.S. quantitative easing pressuring up the peso yield curve upwards may be offset by the SDA phase out. SDA deposits have already decreased month-on-month from Php1.852T to Php1.799T as of end-June. The yield curve went down by an average of 16.13 basis points (bps) week-on-week last July 19, 2013. Medium term debt papers rallied the most as the seven-year Treasury bonds (T-bonds) fell 50.00 bps 3.1250%; the five-year T-bonds slid 41.10 bps to 2.5890%; the four-year T-bonds slipped 37.63 bps to 2.4028%; the two-year T-bonds down by 25.00 bps to 2.2500%; and the three-year T-bonds shed 16.62 bps to

Continued on page 8

GSM PM CLOSE July 25, 2013
3.12yr 2.30% unchanged
4.84yr 2.625% unchanged
8.35yr 3.45% unchanged
8.50yr 3.45% unchanged
18.00yr 4.38% (0.09 bps down) Dealt @ 4.485% to 4.35% for Php11.731Bn

GSM PM CLOSE July 25, 2013
22.41yr 4.75% (0.15 bps down) Dealt @ 4.75% for Php552Mn

RTB Trades July 25, 2013
25yr 4.65% (0.11 bps down) Dealt @ 4.74% to 4.60% for Php3.871Bn

Note: GSM is Government Securities Market; yr is years to go

(Strong 2Q2013 GDP growth... continued from page 1)

2 Million Tourist Arrivals in First Five Months of 2013

The Department of Tourism (DOT) said that the Philippines attracted 2.01m tourists from January to May this year, the highest five-month total, growing 10.54% yoy. Topping the list of tourists are South Koreans, accounting for 24.3% of total, and growing by 23% yoy. Next biggest is from the US, accounting for 15%. For the April-May 2013 period, tourist arrivals rose by 10% to 738k from 672k in the same period last year. China only accounted for 6.2% of total tourist arrivals in the Philippines in 2012, and grew only 3.2% in 2012 from a 30% growth in 2011. DOT targets total tourist arrivals to hit 5.5m for 2013, up 30.95% from 4.2m in 2012. DOT sees tourist arrivals reaching 10mn by 2016.

The on-going review of the Civil Aviation Authority of the Philippines (CAAP) presents the potential of the country being upgraded to Category 1 status, which will allow new direct routes between the Philippines and other countries. According to US Ambassador Harry Thomas, assuming that all goes well, the Philippines will be able to get the Category 1 rating by February next year.

Last April 26 this year, Philippine Airlines (PAL) announced 12 new destinations in the Philippines, Southeast Asia, China, Australia and the Middle East in its growing route network. PAL will be adding 21 new aircrafts this year to cater to its new routes, and has plans to order 20 more Boeing aircrafts for long-haul flights to take advantage of the anticipated lifting of the ban on Philippine carriers from mounting additional flights to the US. Tourism will further be boosted as the European Union just lifted the restriction on PAL to fly to the group's 28 member states as the airlines took steps to improve safety standards. We believe that this move will boost European tourists to the country, and we see other airlines such as Cebu Pacific (CEB) to follow suit.

CEB will commence long-haul flights starting in the 3rd quarter of this year. The airline will lease up to 8 Airbus A330-300 aircraft to serve new markets beyond the range of CEB's current fleet of Airbus A320 aircraft. The Airbus A330 has a range of up to 11 hours which means CEB could serve markets such as Australia, Middle East, parts of Europe and the US.

The key catalysts for luring in the tourists include the upcoming casino projects and infrastructure improvements on transportation, particularly airports but we also expect upgrading the railways and roads in Metro Manila to have a positive impact.

Infra Spending Up 36% as of May

The government spent 35.6% more in infrastructure for the first five months of the year as the government significantly increased disbursements for public works. A total of P104.6bn was spent, accounting for 35% of the full-year budget of P298.2bn. According to officials, more than half of the spending was allotted for public works. Given that infra spending is below the budgeted pace of P24.85bn/month, we see infra spending to pick up in the remaining seven months of the year.

Rolling out the PPPs

The Public-Private Partnership (PPP) projects, targeted at improving the transport, power and tourism sectors, have been progressing quite slowly. Only 3 out of the 28 projects have been awarded so far but 9 are near auction stage. The government forecasts an investment boom in the next three years, helped by the fast completion of the PPP projects with an estimated total value of $5.12bn.

The investment upturn has so far been primarily private-sector driven. The roll out of the PPP projects has been slow but slowly gaining momentum. Megawide won the P16.4bn Phase I of the PPP for School Infra Project (PSIP) last August 2012, and is the only bidder for the P5.7bn Modernization of the Philippine Orthopedic Center (MPOC) project, while San Miguel won the bid for the P15.9bn NAIA Expressway project in April this year. The Daang Hari-SLEX Link road project, which was awarded to Ayala Corp. (AC) in December 2011, is 30% complete as of April 2013, but has encountered delays because of a revised design submitted by AC. We believe that none of these projects will impact 2nd Quarter 2013 GDP as construction could start later this year. The total value of PPPs amounts to $5bn to $6bn (Php20bn-Php24bn) in 2013 to 2015. Hence, we see investments to GDP to increase steadily over the next three years.

Investment Cycle is Construction-Driven

Real investment has now increased qoq for five consecutive quarters. According to the 1Q2013 national accounts release, real investment (gross fixed capital formation) growth in 4Q2012 reached a 10-month high of 19.7% yoy, having been revised up from just 10.6%. 1Q2013 growth was a little slower at 16.8% yoy. Elevated business confidence and capacity utilization metrics support strong investment growth. Activity appears to have been particularly strong in the construction segment – public and private sectors up 46% and 31%, respectively. Investment has so far been largely construction driven, accounting for 54% of nominal gross fixed capital formation. Real gross fixed capital formation rose by 16.8% yoy in 1Q2013 with construction rising by 33.7% yoy. The risk is that investment growth has been construction centric and may prove vulnerable to higher interest rates. On the other hand, capital goods imports have remained weak and investment outside construction is not particularly lively.

Construction sector value added delivered record high growth of 29.9% in 4Q2012 and then 32.5% in 1Q2013, in real terms. Growth in nominal terms is only a little faster, at 37.6% yoy in 1Q2013, indicating limited price pressures. The high level of confidence and easy credit environment that we expect to support investment in general should support growth in the construction sector.

However, the recent pace of yoy growth is quite high to be sustained, with cement sales suggesting the pace of growth may already be coming off. According to the Cement Manufacturers Association of the Philippines (CeMAP), total volume of cement sales rose by only 3.4% in the first quarter to 4.787mn tons. This is 8.6% higher compared to 4Q2012 sales of 4.409mn tons. Growth slowed down in 1Q2013 due to a high base

(Strong 2Q2013 GDP growth... continued from page 2)

effect as 1Q2012 grew by 20.3%.

Manufacturing Index up 58.6 in June from 56 in May

The Philippines industrial sector is dominated by manufacturing, which comprised 23% of GDP and 71% of the industrial sector as of 1Q2013. The mining sector has potential but is not a significant contributor to the economy at present which comprised only 0.93% of GDP as of 1Q2013. We expect manufacturing activity to hold up during 2013 in line with growing domestic demand growth and an export recovery – contingent on global economic environment. Based on latest Purchasing Managers Index (Philippines) figures, the manufacturing gauge went up to 58.6 in June from 56 the previous month, indicating faster expansion. Any figure above 50 means growth.

Manufacturing, as measured by the volume of production index, rose 20.4% yoy in May, its highest growth in 7 months. This is an improvement from 8.7% growth in April. The surge in manufacturing is driven by petroleum products up 139%, chemical products up 84.8%, basic materials up 68.1%, furniture and fixtures up 56.6%, and electrical machinery up 12%. The value of production index rose 9.7% in May, a rebound from a 1.6% decline in April. This tempered the decline of exports in May to 0.83% as manufacturing exports increased by 2% to $3.78bn yoy.

Smaller Manufacturing Base

The manufacturing sector has been gaining momentum as it grew over 5% yoy for the last three quarters ending 1Q2013, reaching a peak of 9.7%. Nevertheless, manufacturing as a percentage of GDP continues to be low at 23% as of 1Q2013 compared to 39% in the 1980's. Food manufacturing, which comprised 53% of gross value added in 1Q2013, grew by 14.9% to P300.8bn in the first three months of the year. Other contributors to the growth were: radio, television and communication equipment and apparatus, which rebounded to 20.2% from a decline of 4.8%; Chemical & chemical products, grew by 18.4% from zero growth, to name a few. Growth is expected to be sustained by the inflow of investments into the industrial sector. The rise of manufacturing cost in China has put pressure in Japan, South Korea and other neighbors to find alternative sites where costs of production are lower such as the Philippines. This manufacturing renaissance could be a significant driver of job generation and poverty reduction.

FDI Improves in April

Foreign direct investments (FDI) saw a net inflow of $202mn in April this year, up 61% yoy from April 2012 and a recovery from the $78mn outflow in the previous month. Year-to-date net FDI amounts to $1.51bn, still 2.8% lower than the $1.55bn registered in the same period last year. A total of $1.12bn of equity placements were made in the country, comprising 74.42% of the total FDI target this year of $3.2bn. We expect FDIs to continue to grow, coming from the recently-granted investment grade ratings by S&P & Fitch. The Bangko Sentral ng Pilipinas (BSP) expects FDI to reach $3.2bn this year, 14% higher than the $2.8bn in 2012.

Services Sector Remains Buoyant

Service sector value added expanded 7% on the year in 1Q2013, well above the ten year average of 6.1%. Seasonally-adjusted growth on the quarter recorded a three year high of 2.7% in 1Q2013. International trade in services seems to have a drag on service sector activity, probably in part because the outsourcing industry in general has been experiencing headwinds due to the strong peso. However, given that the Peso depreciated against the dollar in 2Q2013, we could see better figures in the coming period. The international trade in services and service activities related to merchandise trade may recover somewhat during 2013. The real estate and financial services sectors are likely to remain resilient given double digit 2012 presales growth among listed property companies (MEG – 80%, ALI – 50%, VLL - 31%, SMDC – 21%, FLI – 15%, etc.) and the country being in the early stages of the credit cycle as bank credit to GDP is still one of the lowest in the region at 39% as of 2012.

Election Spending

Former National Treasurer Leonor Briones said that election spending reached up to P584bn this year. The election period is a chance for the infrastructure and construction sectors to expand, as they naturally do during these times. "The last three election years saw a noticeable uptick in year-on-year GDP growth in the first and second quarters from the quarters immediately preceding these," said National Economic Development Authority (NEDA) director-general Arsenio Balisacan. There was a 7.3% first quarter GDP growth during the 2004 presidential elections, 6.3% in the first quarter 2007 mid-term elections, and 8.4% during the first quarter 2010 presidential elections. In those 3 instances, GDP accelerated in the second quarter as GDP increased by 7.70%, 7.60%, and 8.90%, respectively. This was driven by an acceleration of government spending in the period. The consensus 2Q2013 GDP forecast stands at 6.4%.

Strong Electricity Sales

The election season and warm temperature boosted Meralco's bottom line as electricity sales grew by 6.5% yoy to 9,086 GWh in 2Q2013 from 8,528 GWh in 2Q2012 – a recovery from the 1.2% headline growth registered in 1Q2013. Sales volume in May and June 2013 breached for the first time the 3k GWh-mark and pushed the consolidated 6-month volume for January to Jun 2013 to 16,863 GWh, a 4.0% increase from the same period last year. Volumes across all customer classes reflected increases: +4.7% commercial; +4.4% for residential and industrial, +2.7%

20% Rise in 1H2013 Vehicle Sales

The Chamber of Auto Manufacturers in the Philippines Inc. (CAMPI) said combined sales of the group and the Truck Manufacturers Association Inc. reached 87,226 units as of end-June, a 20% increase from the 72,871 units sold in the same period last year. Vehicle sales for the month of June grew by 4% to 14,239 from 13,697 last year, and a decline of 10.22% from the 15,859 units in May. This brings the 2nd Quarter 2013 sales up by 12% to 45,524 vehicles from 40,631 vehicles sold in the same period last year, a slowdown from the 29% increase registered in the first quarter of the year. According to CAMPI president Rommel Gutierrez, industry wide sales are expected to reach 210,000

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(Strong 2Q2013 GDP growth... continued from page 3)

units in 2013 or 5% more than the initial forecast of 200,000 units. We believe that this is possible given that car companies such as Toyota is ramping up production. Toyota Philippines said that it is expanding production by 18% to 36,300 units this year.

Improving Consumer and Business Sentiment

The Consumer Confidence Index (CI) - though still in the negative territory showing more pessimists - showed a "trend up" with the second quarter figure hitting a new record-high of -5.7%. Consumer optimism has translated to more vehicle and energy sales. The CI's counterpart on the Business Expectations Survey, meanwhile, also surged to a new all-time high of 54.9% during from April to June "which could support expanding employment."

The first quarter 2013 Social Weather Report showed that 39% of Filipinos expected their lives to improve this year, while only 6% expected otherwise, resulting in a "very high" net personal optimism of plus 32, three points up from December's "high" net personal optimism of plus 29. The survey, conducted from March 19 to 22, also showed that 35% of Filipinos expected that the economy "will be better" while 11% expected it "will be worse," for a "very high" net economic optimism of plus 23, four points up from the previous quarter's also "very high" plus 19.

Depreciating Peso

The Peso depreciated against the USD in 2Q2013 by 5.70% to P43.135. The Peso, which appreciated against the USD by 6.50% in 2012, has reversed last year's trend on news that the FED will taper its quantitative easing program as early as September this year. The peso depreciated by 0.4% in May and further accelerated its drop by 3.9% in June. Given the depreciating currency, some companies who have decided to call off opening offices here may reconsider in light of this recent development. The BPO industry is a huge driver for the economy as it is expected to bring in $16bn income and to employ around 720k people this year. Household consumption should also benefit as a weaker peso will increase the purchasing power of OFW remittances. As of the April & May period, remittances grew by 6.4% to $7.7bn.

Remittances Hit $8.78bn in First Five Months of 2013

The cumulative OFW remittances for the first five months of 2013 rose to $8.78bn, or a 5.6% increase from the same period registered last year. The Bangko Sentral ng Pilipinas (BSP) said that the steady increase in personal remittances during the period was driven by remittance flows from by land-based OFWs with work contracts of one year or more that reached $7.2bn. Remittances grew by 5.7% to $3.67bn for the April-May period. According to the Philippine Overseas Employment Administration (POEA), there were an additional 75,255 job orders recorded in May alone. United States, Saudi Arabia, Canada, the United Kingdom, the United Arab Emirates, Singapore, and Japan were the top sources of remittances.

Trade Balance Remains a Headwind

Merchandise exports reached $4.89bn in May, down 0.8% from $4.93bn in the same month last year. However, this was slower than the yoy decline of 11.1% in April. The slower export decline in May can be attributed to the increased import demand for the country's manufacturing and petroleum products in countries like Malaysia and Thailand. Manufactured products were down 11% yoy, driven by the decline in electronics, -9.3% yoy. Electronics remained the Philippines' top export product during the month, accounting for about 35% or $1.73bn of the total exports. However, the amount represented a 9.3% decline from $1.91bn in the same month last year. In the first five months of the year, exports contracted by 6% to $21.09bn from $22.44bn last year. April to May exports was lower by 6% to $9bn, similar to the decline in 1Q2013.

Merchandise imports posted a contraction of 3.6% in the first five months of the year to $24.76bn. The country's total merchandise imports posted a contraction of 2.4% from $5.39bn in May 2012 to $5.26bn in May 2013. Imports of electronic products, which accounted for 24.3% of the total import bill in May, amounted to $1.28bn or a 10.6% decline from $1.43bn posted in May 2012. However, on a monthly basis, there was a recovery in electronic product imports as it posted a 20.1% year-on-year growth from $1.06bn recorded in April 2013. It can be noted that more than 50% of the country's merchandise exports, particularly electronic products, are import-dependent. With this, any decline or increase in imports affect the amount of exports shipped to countries worldwide. The drop in May was after imports snapped a three-month decline in April, when it rose 7.4% to $5.14bn. The negative growth for May was brought about by 6 out of 10 major commodity groups which includes cereals and cereal preparations; transport equipment; electronic products; mineral fuels, lubricants and related materials; plastics in primary and non-primary forms; and organic and inorganic chemicals. Nevertheless, the strong April figure brings April to May imports up 2.21% to $10.40bn this year compared to last year.

The Philippines economy's trade exposure is less than most economies in the region, with an unusually strong bias towards services and electronics. We expect export growth to improve a little on a less weak global economy in 2013. However, import growth will likely be stronger due to favorable domestic demand conditions. We expect the trade deficit to worsen in 2Q2013 given May level of $3.64m but the depreciating peso against the USD should alleviate some of these worries as the country's exports become more competitive.

Outlook

The pace of growth in 1Q2013 featured extremely strong government spending and investment activity (especially construction) and weak exports. These factors will likely be the same variables to drive 2Q2013 GDP with the added boost of election spending. Based from the 2004, 2007 and 2010 elections, the 2Q GDP growth tends to accelerate from the 1Q level. Services sector will stay robust and buoyed by tourism, business process outsourcing and financial intermediation. Due to the depreciating Peso, the purchasing power of local Filipinos should increase as remittances abroad will be able to buy more goods locally. The strong electricity sales in 2Q2013 should be a positive indicator for the manufacturing, construction and the mining sectors. Hence, we expect that 2Q GDP figures to likely surpass 7.8% GDP registered in 1Q2013.▲

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D&L

D&L Industries, Inc. (DNL)

high margin product tack rolls on and is key to earnings

DNL Stock Data	
Price (Php)	7.09
Market Cap (Php Bn)	25.32
Outstanding shares (Bn)	3.57
PE (X)	16.00
Price to Book (X)	3.15

Source: Bloomberg

DNL sees a slower 15% growth in earnings 2014 to Php1.58bn versus this year's anticipated 30% to Php1.38bn. Consensus growth estimate is 18% for 2014.

The food ingredient maker hiked 1Q2013 earnings by 19% to Php314mn, a pace described internally as slightly behind target relative to full year. But the profit guidance stays with the product mix shifting and resulting margin enhancement happening in the next three quarters.

Key strategy is not so much the general sales volume ramp-up as:

1) Pushing high margin specialty food ingredients and food ingredients, GPM of 15%; bottomline contribution, 34%;

2) sales volume share, 38% or 54k metric tons (MT) in 2012 plastics input products (GPM of 30%, bottomline contribution of 45%, sales volume share 6.5%, 9.4k MT);

3) and reducing dependence on the lower margin, less profitable and volatile refined coconut oil manufacturing and trading (GPM, 6% and 47% of sales volume, 68k MT).

Sales volume on the growth path

Sales volume for food ingredients is projected to grow mid-teens this year and next per guidance. Food ingredients are a significant third of earnings and derive much of its momentum from local institutional clients in the Philippine food business and is thus buoyed by the direction of domestic spending.

For plastics, sales volume will stabilize at a slightly lower rate as the surge last year of 20-25% was due to a one-shot supply chain diversification of Thai and Japanese clients requiring plastic inputs for automotive manufacturing. Plastics are a small share of volume, 6.5%, but is a key driver of exports, which is a fourth of topline and double from where it was two years ago. Ninety percent (90%) of exports are plastics. Exports hedge the predominantly net importer cost structure of DNL at the cost of goods sold (CGS) level, with 73% of raw materials imported --plastic inputs and palm oil - coming from Malaysia, Indonesia and the regional market for petrochemicals. Also, ninety percent of DNL's CGS is raw materials. Half of that is palm oil, 15% are locally sourced coconut oil (CNO). The rest is plastic inputs, e.g. resins, polymers.

Cultivating relationships to push high margin products

The important thing about the plastics business is that it accounts for 45% of bottomline due to its 30% GPM such that volume increases could make a meaningful impact on earnings. And in this area DNL has started cultivating relationships that could grow sales volume. It has clinched a manufacturing and distribution agreement with several foreign groups but the one with the earnings impact as early as this year is that of leading Japanese chemical firm Showa Dengko KK with an expected Php50mn initial earnings contribution this year.

Low margin refined coconut oil will continue to shrink in revenue contribution

On the other hand, sales volume of refined coconut oil (which is 47% of sales volume and falls under food ingredients but of the low margin category) will be flattish and share to group revenues will fall to 33% from current 43% on deliberate volume contraction and price weakness.

Forward PE is 16x, lower than the average of 24x for four selected consumer counters; (AGI owns McDonalds and Emperador, JFC, PGOLD, URC). Constraints are low stock liquidity and market cap, Php25bn.▲


Aerosol cans


Plastic compounds


Plastic colours and additives

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The Bellwether
Fortnightly on Market Action and Outlook

PNB

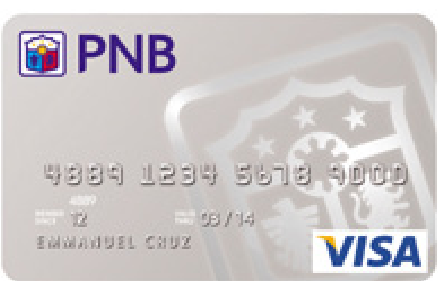
Philippine National Bank (PNB)
breaks away from flat: 20% max income growth likely in 2014

PNB Stock Data	
Price (Php)	84.00
Market Cap (Php Bn)	91.24
Outstanding shares (Bn)	1.09
PE (X)	12.26
Price to Book (X)	1.02

Source: Bloomberg

Earnings Target
PNB sees earnings growth of 15% this year to Php5.4bn and maximum of 20% next year, the first time the bank is breaking away from flat earnings of Php4.7bn in 2011 and Php4.7bn in 2012. The consensus was 13% earnings growth for 2013 and 14% next year, based on Bloomberg. PNB's 1Q2013 earnings of Php2.6bn, 112% above the year ago level and largely due to strong Treasury income, makes the full year 2013 target almost a done deal. 2Q2013 results are seen to benefit from further trading gains and nil MTM losses arising from the yield curve up-move.

Loans are seen to grow 13% on Capital Raising and LTNCD Issuance
PNB's loan to deposit ratio (LDR) is one of the industry's lowest at 59% as of 1Q2013, below the industry average of 69%. That creates an upside given the $300mn recapitalization thrust ahead of Basel 3's tough capital conservation buffer (2.5%) and implied bank balance sheet stress testing requirements. Loans stood at Php235bn as of 1Q2013. Capital adequacy ratio stands at 21.7% while tier 1 capital is 16.8%.



High Margin SME and Consumer Market Focus
PNB will continue to grow its SME portfolio, now at 11% of the bank loan portfolio from just 4%-5% in 2009. The same tack applies to the consumer loan market, whose share to loan portfolio has grown to 10% from just 6% in 2009. Its LGU market, a key strength, will stabilize at 15% going forward. Majority of the loans is still geared to corporates, largely behind the lower-than-desired 4% net interest margin of the bank.

Php5bn Tier 2 Replacement
Deposits will grow more aggressively, 15% this year and next, to boost the funding base and will be complemented by a Long-Term Negotiable Certificate of Deposit (LTNCD) issuance, replacing an expensive 10-yr 8.5% tier 2 capital the bank has just called in on its fifth year, this year.

Cheap Valuation for a Bank on the Take-Off
PNB trades at 12.26x on forward earnings. Forward PB is 1.02x, lower than 1.5x for heavily traded big banks, the former largely reflective of stock illiquidity. PNB's below-industry- ROE of 12.20% as of 1Q2013 has upside given efforts to raise loan to deposit ratio over an enlarged delivery platform of 653 domestic branches (merged infrastructure). Post-merger, PNB is the country's fourth largest private bank in terms of asset size worth Php537bn as of 1Q2013. Banking industry ROE stood at 20% in 1Q2013. Price of Php84.00 this morning is 27% lower from peak of Php116.00 last May 6 and 6.4% above last month's lowest year-to-date price of Php77.00.▲

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PUREGOLD

Puregold Price Club, Inc. (PGOLD)

2Q2013 earnings likely to show acceleration

PGOLD Stock Data	
Price (Php)	40.15
Market Cap (Php Bn)	111.07
Outstanding shares (Bn)	2.77
PE 2014E (X)	22.00
Price to Book (X)	8.62

Source: Bloomberg

We see two earnings drivers for PGOLD's likely 2Q2013 outperformance year-on-year:

1) the high-margin high-end store format S&R which wasn't yet in PGOLD's books as of 2Q2012

2) the twenty 8-month old PGOLD stores maturing into P&L contributors in 2Q2013.

PGOLD will book this year as the first full year earnings impact of its 31 new stores last year. Since not all of these new stores are making money, we estimate PGOLD will reflect Php391mn of earnings from only the 20 store openings for the period January-September 2012. This considers the 8-month gestation period for newly opened stores to align its profitability with the group-wide average: revenue per store of Php416mn and net profit margin of 4.7%. The estimate includes only the PGOLD network since the recent acquisitions (19 stores of Parco acquired for Php900mn in May 2012 and 15 stores of Company E bought for Php330mn last January) are on breakeven mode. The Parco network is refurbishing and has slower sales as a result.

S&R will also register its first full year earnings contribution this year. S&R was not in PGOLD yet as of 2Q2012, but in 2Q2013 PGOLD will book S&R's contribution. Its 2012 full year revenue contribution to PGOLD's group topline of Php57bn was Php6.2bn, 10.8% of the former. And that was only for half the year. Thus the 2Q2013 revenue of S&R we estimate to be Php3.1bn, (conservative at zero growth) yielding net profits of Php341mn at the actual 2012 net profit margin of 11%.

Same store sales of the base PGOLD stores for its 140 network as of 1Q2013 stood at only 2%, that is why the earnings kickers are acquisition-related (S&R) and organic expansion. The target is to put up 25 stores per year but surprise acquisitions have been a feature of the expansion strategy. A joint venture with an Ayala Group unit by a PGOLD subsidiary on the core grocery retailing business with still unquantifiable benefits is in the works.

Company E's 15 store network and the newly set up PGOLD stores, 9 of them in 1Q2013, are best expected to deliver front end fees from suppliers, described internally as not "substantial" but will still add to revenues.

Total store network, acquired and organic, is 180 as of 1Q2013. Recall that PGOLD put up 38 stores in 2011 to reach a network of 100, set up 31 more in 2012. It added 9 stores in 1Q2013.

EPS growth is seen to accelerate 24% in 2014 from this year's projected of 22%. This is by consensus. Forward 2014 PE improves to 22x from the current 27x, but still pricey on a retreating market.▲

(Yield curve... continued from page 1)

2.2930%. Yields on the long end also rallied as the 25-year and the 10-year debt papers dropped 14.04 bps to 4.9979% and 12.50 bps to 3.7000%, respectively. Meanwhile, the short end of the curve was mixed: the 91-day and 364-day Treasury bills (T-bills) both retreated by 2.50 bps to 1.1000% and by 2.50 bps to 1.3500% while the 182-day T-bills rose by 23.42 bps to 1.4842%.

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