

## Cautious ahead of GDP

April 29 - May 3, 2019

### PSEi 2019 Performance



### Weekly PSEi Performance

	As of May 3, 2019	W-o-W Change	YTD Change	Weight In the Index
PSEi	7,968.0	1.3%	6.7%	
FMETF	119.5	1.5%	7.2%	
All Shares	4,906.1	1.0%	8.6%	
Financials	1,774.5	1.8%	-0.3%	17.5
Industrial	11,832.1	3.8%	8.0%	11.9
Services	1,614.5	1.8%	11.9%	11.1
Property	4,273.3	-0.4%	17.8%	21.1
Holdings	7,592.3	0.8%	3.4%	37.7
Mining & Oil	7,738.4	-0.8%	-5.6%	0.6

### Market Statistics (in Php bn)

	May 3, 2019	YTD
Ave. Daily Value Turnover	7.3	7.7
Foreign Buying	16.7	367.9
Foreign Selling	16.1	324.7
Net Foreign Buying/(Selling)	0.6	43.2
% of Foreign to Total	56%	55%

### Foreign Indices

	Value	W-o-W	YTD	P/E
Dow Jones	26,505.0	-0.1%	13.6%	16.4
S&P 500	2,945.6	0.2%	17.5%	17.7
FTSE 100	7,380.6	-0.6%	9.7%	12.8
DAX	12,412.8	0.8%	17.6%	13.7
Nikkei	22,258.7	0.0%	11.2%	15.3
Hang Seng	30,081.6	1.6%	16.4%	11.6
Shanghai	3,078.3	-0.3%	23.4%	11.8

Sources: PSE data, Bloomberg

### Equities Outlook

**Outlook.** Expect some profit taking on rally this week which may bring the PSE to 7,800-7,900. Philippine April inflation came in at 3.0%, lower than the median forecast of 3.1%. We believe that despite the easing inflation, this will be offset by weakness in 1Q19 Philippine GDP and heightened volatility brought by Trump's tough stance on tariff against China.

Philippine 1Q19 GDP will be out on Thursday. Market is anticipating a slower GDP growth of 6.1% vs. last year's 6.5% and 4Q18's 6.3%, due to the budget delay, crippling government expenditure which kept it flat year-on-year in 1Q19 at Php777.99bn, 98.31bn lower than the Php876.3bn target.

Over the weekend, US President Trump announced implementation of tariff hike to 25% (from 10%) on US\$200bn worth of imports as early as Friday and the second tranche on US\$325bn Chinese imports will soon follow. He cited that tariff has had little impact on product costs and US inflation remained under the Fed's target.

Citing these threats, easing Monetary Policy, through RRR - cut or interest rate cut from the Monetary Board, can provide some support for the index. The Monetary Board is scheduled to convene on May 9, Thursday.

**Market Review.** The market rallied last week, reaching an intraday high of 8,077 last Friday before settling at 7,968, up 1.3% for the week and 6.7% year-to-date. Strong 1Q19 results, supported by S&P's recent credit rating on the Philippines, inspired the market to rally. The biggest gainer last week was URC, up 17.5%, after beating consensus estimates when it reported Php3bn net income in 1Q19 vs consensus estimate of Php10.6bn for the year.

**Market Flows.** Foreigners followed the previous week's Php3.4bn net foreign buying with another Php595mn purchase last week, marking an eight straight week of net foreign buying. Year-to-date, foreigners bought Php43.2bn of Philippine shares. Biggest recipient was ICT (Php690mn), URC (Php430mn), and SMPH (Php401mn). MBT (Php564mn), JFC (Php455mn), and PGOLD (Php237.0) received the most net selling from investors abroad.

**Regional Markets.** Global markets delivered mixed performance. The Dow was up 0.1% while S&P was down 0.2% as investors weighed the upside as both US markets approached record highs. The most recent FOMC meeting concluded last Friday with the committee holding policy rate steady, citing inflation "running below" target. However, Fed Chief Powell noted that GDP rose at a solid rate posting 3.2% 1Q19 growth, way ahead of the consensus 2.3% growth. Hang Seng and Shanghai Composite Index recovered from the preceding week's decline with Hang Seng recovering 1.6% week-on-week after falling by 1.7% the week prior. Shanghai Comp slowed down its decline to 0.3% from a 5.4% drop.

**Currencies.** The peso inched higher by 0.6%, breaching the Php52-mark, bucking the downward trend from regional peers led by South Korean Won which saw 0.8% decline followed by 0.5% drop in Indonesian Rupiah. The peso's strength came on the back of improved economic outlook coming from the credit grade upgrade from S&P.

### Economic News

BSP reported that lending (net of RRP) slowed down to 9.9% year-on-year in March from 13.7% in February. This was reflected in the slower money supply (M3) growth of 4.2%, lowest in 11 years. On a month-on-month basis, lending contracted by 1.8% while M3 saw a 1.0% decline. Lending to real estate contracted by 1.3% while Wholesale & Retail Trade fell 1.7%. Market expects that the Monetary Board will remain inclined to ease monetary policy, consistent with the new BSP governor's pro-growth stance.

### Corporate News

MER reported 1Q19 core income of Php5.6bn, up 14%, ahead of consensus due to reversal of loss at its retail electricity arm, and 4% reduction in effective tax rate. Electricity sales grew at a meager 2% in 1Q19 but 2Q19 is showing some promise brought by the summer season, citing electricity sales in April alone was already 7%.

MPI core profit was flat at Php3.7bn as the 42% jump in financing charges (parent level) offset the 8% growth in operating profit.

URC surprised the market with its core earnings before tax growth of 24% to Php3.6bn as gross profit margin doubled to 30.6%. Earnings to common shareholders, was up 3% to Php3bn, already 28% of full year consensus forecast of Php10.7bn. This led to a 17.5% jump in price and Php430mn net foreign buying.

AEV disappointed, posting 27% decline in core net income to Php3.9bn, following AP's 21% decline and UBP's 25% drop year-on-year. AP's contraction was attributed to margin contraction from higher electricity spot prices which averaged Php4.75/kwh, exacerbated by outages in AP Renewables (Tiwi Macban) and over-contracting ahead of Thermal Visayas commissioning. UBP managed to keep net interest income flat but trading gains declined by 19%, dragging net income contribution to parent to Php1.1bn.