

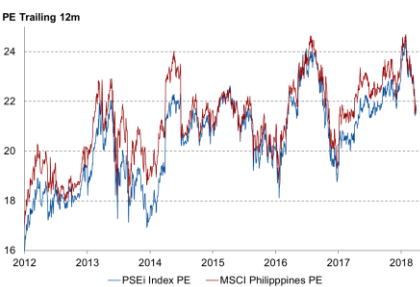
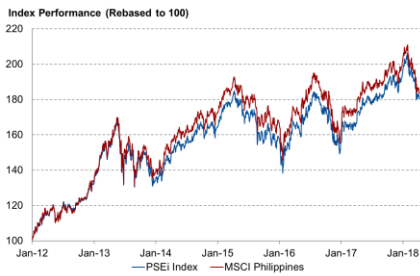
11 April 2018

EQUITY STRATEGY

Exports fall but current account deficit low versus peers and equities cheap versus history

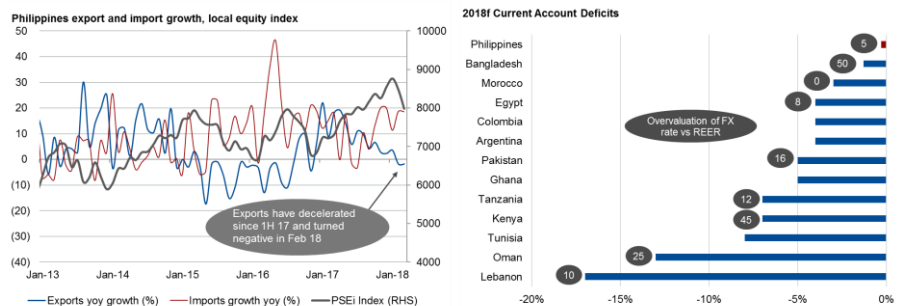
- **Philippines current account is worsening but still benign versus peers** – The current account in the Philippines should slide towards a small deficit over the next few years as infrastructure-related imports ramp up (compared to c.0% in 2017, the IMF forecasts a 0.3% and 1.0% deficit in 2018 and 2022, respectively). But exports have also been decelerating since H1 17 and [data](#) for February released this morning shows an actual contraction yoy (by 1.8%, compared to Bloomberg consensus forecasts of growth of 6%). We note four silver linings:
 - 1) January export growth was revised up from a preliminary 0.5% to a finalised 3.5%.
 - 2) Electronics, the largest component of exports (c55% of total) were up 5% yoy.
 - 3) Current account forecasts for the Philippines look relatively tame compared to some of the other Frontier and small Emerging markets we look at, where IMF 2018 forecasts range from 1% to 17%;
 - 4) FX rate for the Philippines is close to fair value (merely 5% over REER) in contrast to most of the countries in our coverage with current account deficits.
- Philippines was the value market we highlighted in our [Q1](#) Frontier and small Emerging equity review that appeared most anomalous: the local equity index is cheap relative to history and underperformed in Q1 despite GDP growth of c7%, inflation below 4% in 2018 (according to IMF forecasts) and an FX rate close to fair value (REER). The local PSEi index is down 10% ytd in US\$ total return terms versus MSCI FEM up 3%. Trailing P/B is 2.4x, 10% below the 5-yr mean (vs MSCI FEM's 2.1x, a 22% premium to its 5-yr mean), and trailing ROE is 11% (vs MSCI FEM's 13%).
- In 24 charts in this report, we provide a snapshot of market performance, macroeconomics, domestic politics and geopolitics. We also provide a top-down screen of Philippines stocks which highlights value (on a trailing multiple basis) in Metropolitan Bank and Trust, Union Bank of Philippines, Robinsons Land in Real Estate, Manila Water in Utilities and Semirara in coal mining.

Equities performance, valuation



Source: Bloomberg

Current Account – Trade gap widens, CAD low versus peers



Source: PSA, Bloomberg, IMF, Bruegel

Contact:

Hasnain Malik
+971 4 447 9218
hasnain.malik@exotix.com

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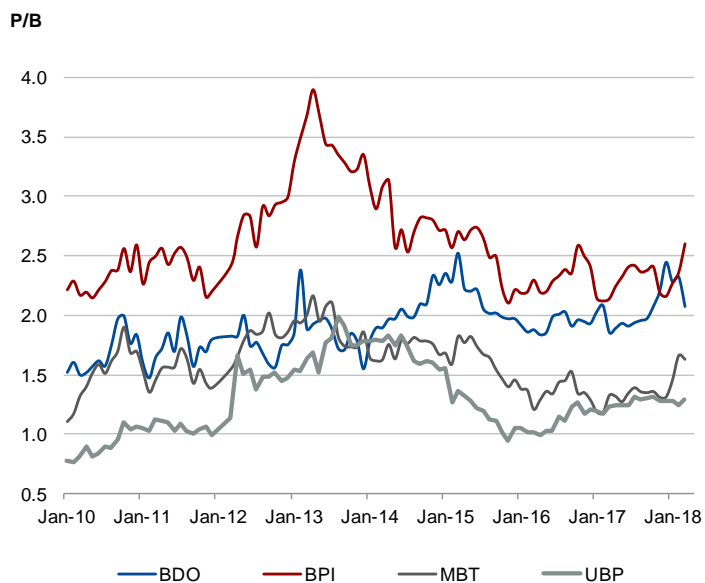
Stock screen and historic valuation

Figure 1: Screen for size, liquidity, performance and trailing valuation

Sector/ Company Name	Mkt Cap (USD m)	Free Float (%)	FFMC (USD m)	ADV (USD k)	Price Change 1Y (%)	<FM	Value Metric 1 PB 12m <1.5x	ROE 12m >15%	Value Metric 2 PE 12m <15x	Value Metric 3 DY 12m >3%	All 3 value metrics	2 out of 3 value metrics
PHILIPPINES												
MSCI PHILIPPINES	166,005			87,636	2		2.4	11.2	21.3	1.6		
MSCI PHILIPPINES IMI	186,868			100,403	0		2.2	11.0	19.5	1.6		
PSEI - PHILIPPINE SE IDX	187,203			98,792	5		2.4	10.7	21.5	1.6		
REAL ESTATE												
SM PRIME HOLDINGS INC	18,691	32	5,949	6,292	14		3.7	11.2	35.1	0.8		
AYALA LAND INC	11,445	52	5994	10,079	14		3.6	16.2	23.4	1.2		
ROBINSONS LAND CO	1,869	39	723	1,035	(25)		1.2	9.3	13.5	1.9		
CONGLOMERATES												
SM INVESTMENTS CORP	23,087	46	10,658	7,158	38		3.7	10.5	36.4	0.8		
AYALA CORPORATION	11,427	43	4924	7,306	na		2.4	12.2	21.0	0.7		
JG SUMMIT HOLDINGS INC	8,755	55	4,852	3,163	(21)		1.7	3.5	50.9	0.4		
ABOITIZ EQUITY VENTURES INC	7,282	45	3243	1,600	(11)		2.5	14.6	17.8	1.9		
BANKS												
BDO UNIBANK INC	11,607	38	4,397	7,315	14		2.1	11.0	21.5	0.9		
BANK OF THE PHILIPPINE ISLAN	7,938	49	3908	4,350	na		2.3	13.0	18.9	1.7		
METROPOLITAN BANK & TRUST	6,340	59	3,747	5,473	0		1.4	9.3	15.1	1.2		
UNION BANK OF PHILIPPINES	1,851	32	593	151	na		1.3	11.9	11.4	2.1		
TELECOM & UTILITY												
PLDT INC	6,039	54	3,249	3,653	(18)		2.9	12.4	23.5	5.2		
MANILA WATER COMPANY	1,076	56	606	776	na		1.2	11.3	10.9	3.1		
FOOD & RETAIL												
UNIVERSAL ROBINA CORP	6,156	44	2,714	3,907	(15)		4.1	15.5	28.1	2.2		
JOLLIBEE FOODS CORP	5,978	44	2609	4,260	na		7.8	19.3	43.6	0.8		
PUREGOLD PRICE CLUB INC	2,767	33	902	1,825	24		3.1	13.0	24.9	0.8		
MINING												
SEMIRARA MINING AND POWER CO	2,537	26	663	1,962	(17)		3.5	39.5	10.5	8.1		
TECHNOLOGY												
INTEGRATED MICRO-ELECTRONICS	722	25	177	964	130		2.5	12.4	20.1	1.4		

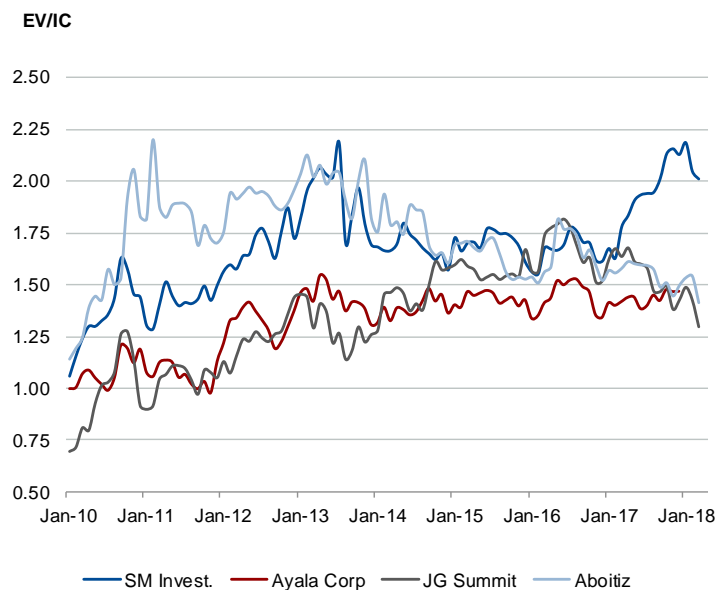
Source: Bloomberg (11 April 2018)

Figure 2: Banks trailing P/B since Jan 2010



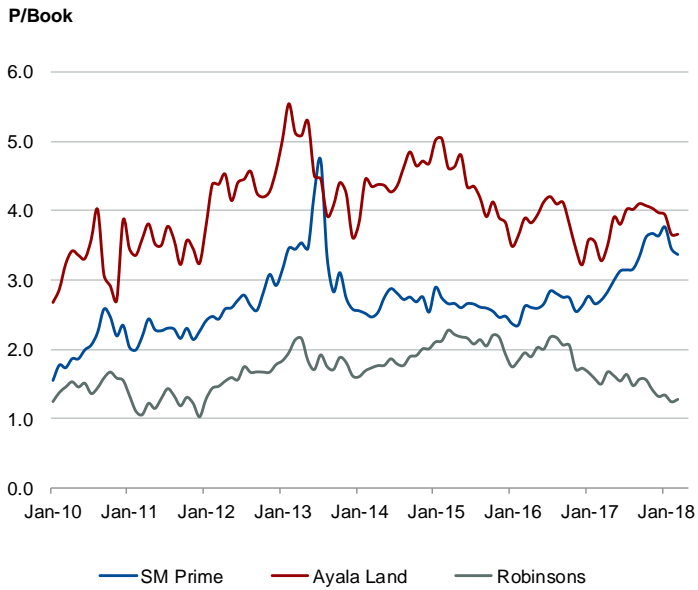
Source: Bloomberg (11 April 2018)

Figure 3: Conglomerates trailing EV/IC since Jan 2010



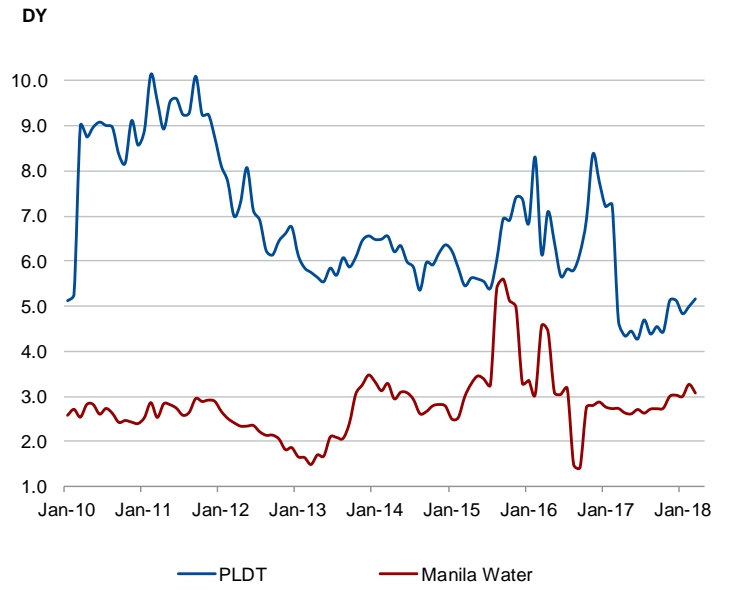
Source: Bloomberg (11 April 2018)

Figure 4: Real Estate trailing P/B since Jan 2010



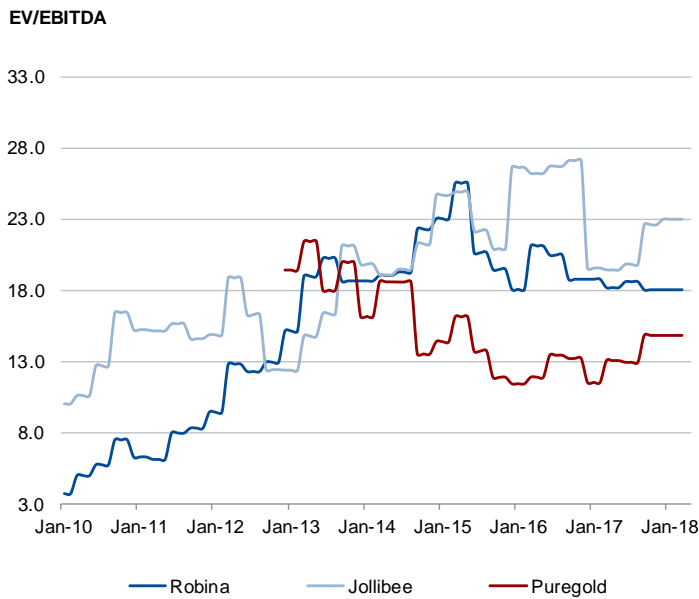
Source: Bloomberg (11 April 2018)

Figure 5: Utilities trailing dividend yield since Jan 2010



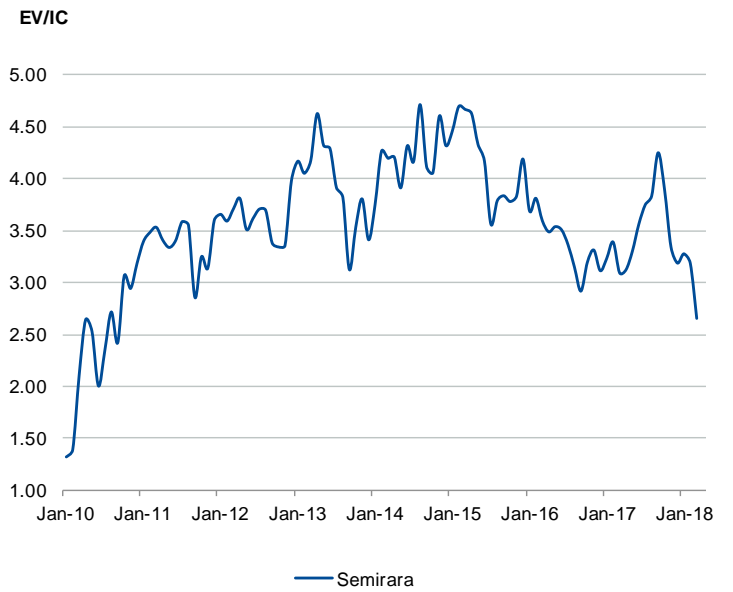
Source: Bloomberg (11 April 2018)

Figure 6: Consumer trailing EV/EBITDA since Jan 2010



Source: Bloomberg (11 April 2018)

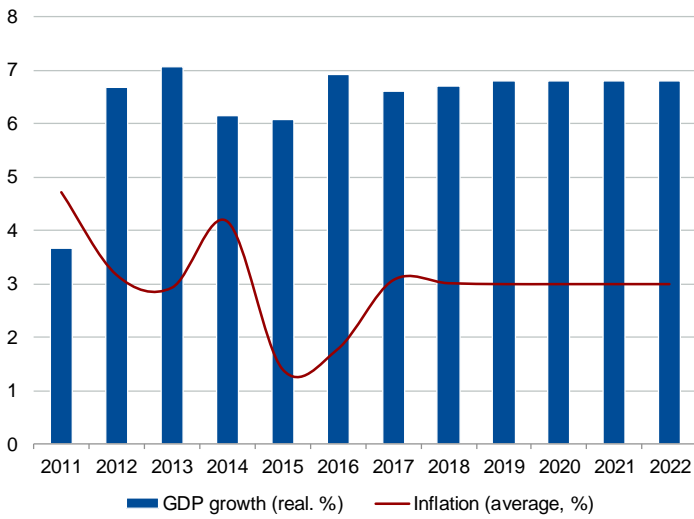
Figure 7: Semirara (coal mining) trailing EV/IC since Jan 2010



Source: Bloomberg (11 April 2018)

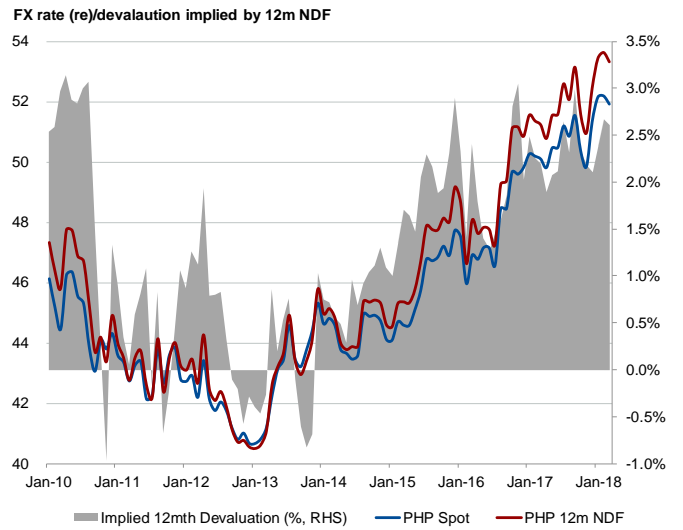
Macroeconomic snapshot

Figure 8: Growing fast with low inflation



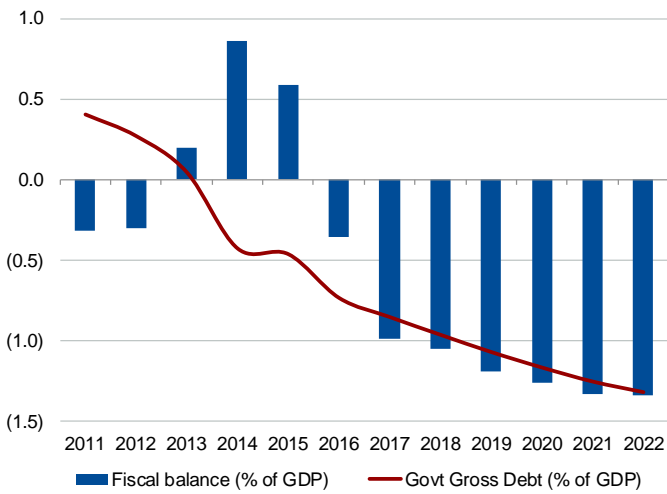
Source: IMF

Figure 9: FX rate 5% above REER, 12m NDF implies no stress



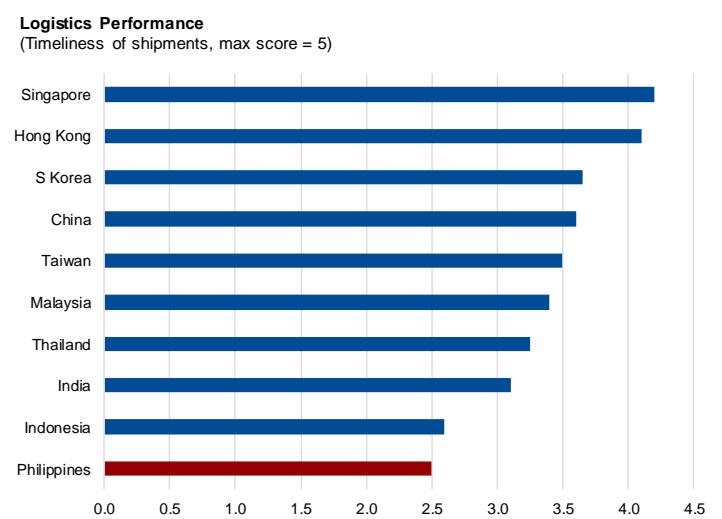
Source: Bloomberg (11 April 2018)

Figure 10: Fiscal deficit widening but still modest



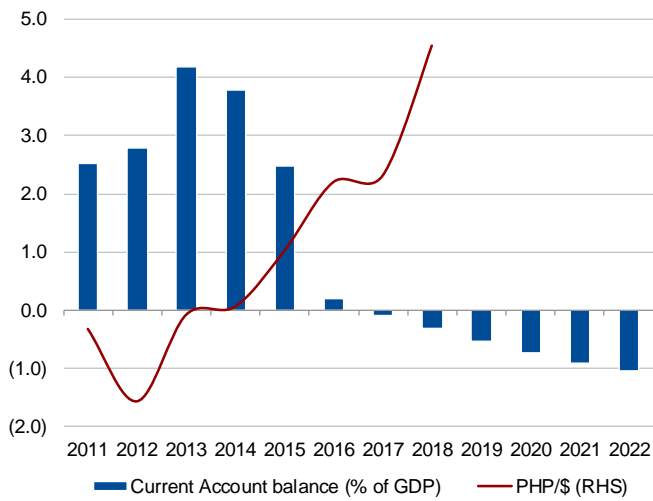
Source: IMF

Figure 11: Infrastructure bottleneck



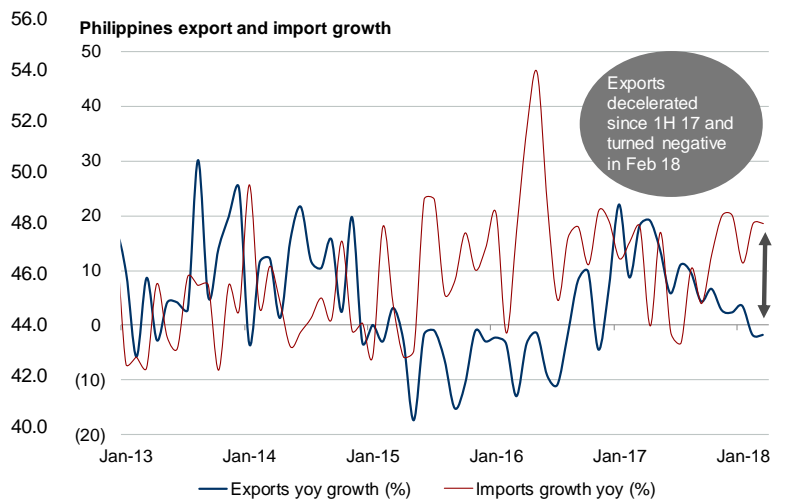
Source: IMF

Figure 12: Current account sliding to a small deficit



Source: IMF, Bloomberg (11 April 2018)

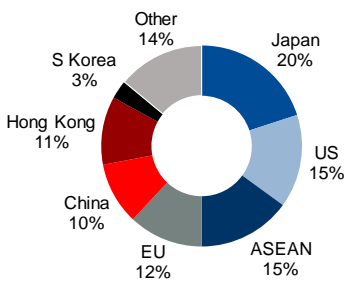
Figure 13: Exports shrank in February 2018



Source: PSA, Bloomberg (11 April 2018)

Figure 14: Exports are about 30% of GDP

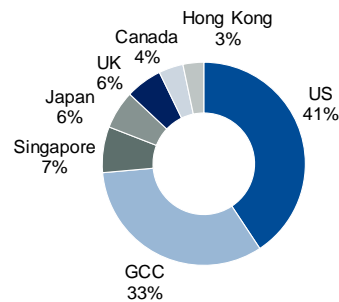
Exports split by destination



Source: OEC

Figure 15: Remittances are about 10% of GDP

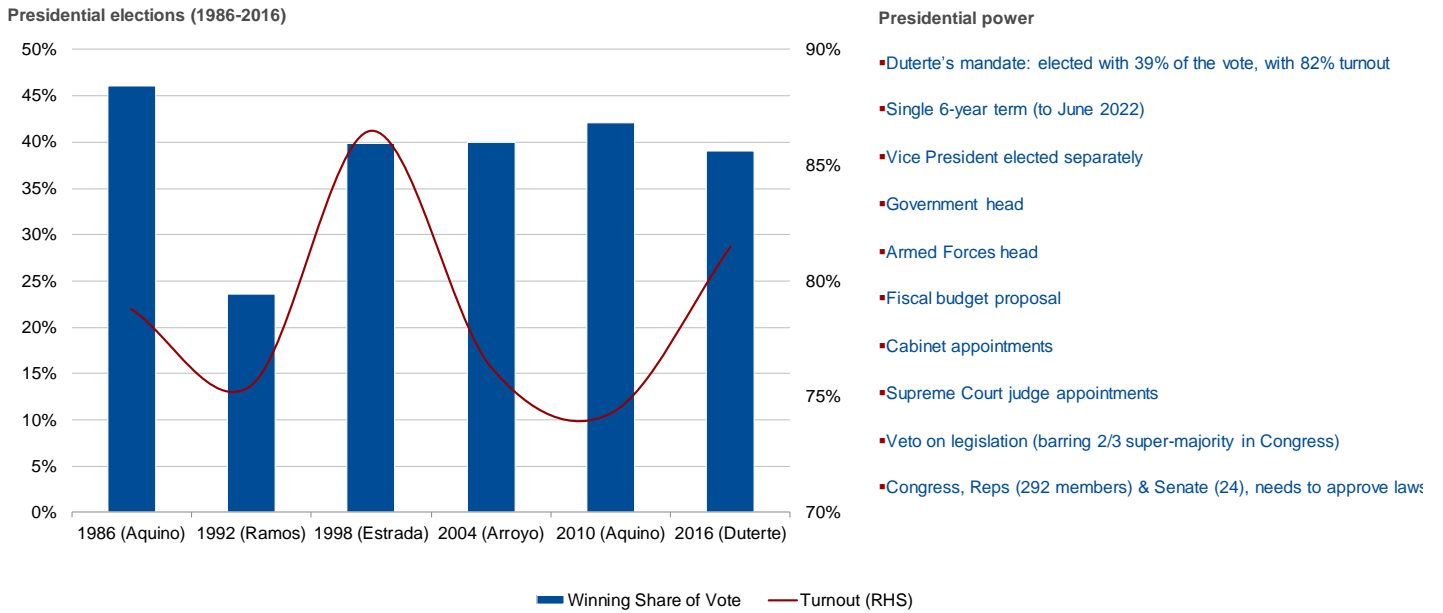
Remittances split by source



Source: WB

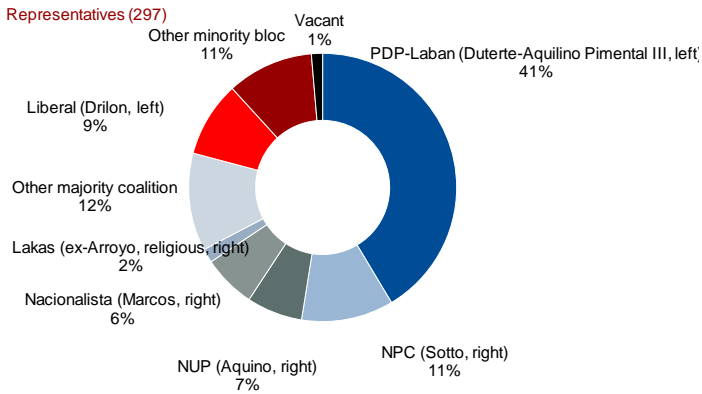
Politics and geopolitical snapshot

Figure 16: President dominates the political system, Duterte until June 2022



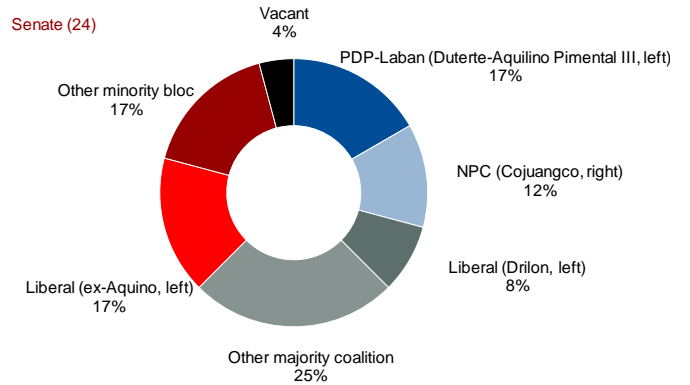
Source: COMELEC, Exotix

Figure 17: Legislative Lower House (Representatives)



Source: COMELEC

Figure 18: Legislative Upper House (Senate)



Source: COMELEC

Figure 19: Between the US and China

Duterte rebalancing US and China relations



(1) Geopolitics

- Colonisation under the Spanish (1565-1898) and US (1898-1946)
- Control of Asia-Pacific sea transit key for both US and China
...Mutual defence treaty exists between Philippines and US...
- China clearly militarily superior to Philippines...
 - 1992: declaration that South China Sea is China's (9-Dash Line)
 - 2004: seizure of Philippine Spratly Islands
 - 2012: Scarborough Shoal stand-off
 - Modernization of PLAN navy, militarisation of 7 reefs close to Philippines
- ...But inferior to US

	US	China
Nuclear Submarines	68	7
Aircraft Carriers	10	2
	all nuclear	conventional
	60-aircraft capacity	30
	catapult-launch	inclined ramp

- Yet, China is able to test (and push) the limits of US commitment

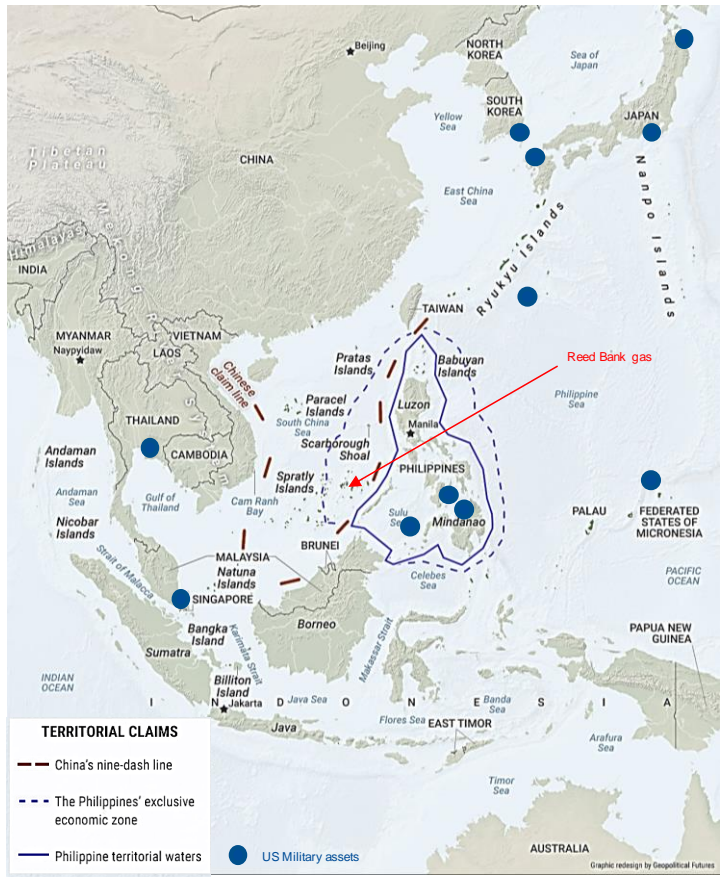
(2) Economics

- Philippines gas (Matamata) has peaked, reliant on oil imports
- Need Chinese for offshore exploration (Reed Bank joint drilling)

(3) Domestic Politics

- Philippines military against China détente
- Coup very unlikely but military can act as an influencer

Philippines dependent on China for offshore gas exploration



Source: Press reports, GPF, Exotix

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Trading recommendations as at 31 March 2018:

Buy	44	Sell	36	Hold	53
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