

Philequity Corner (November 11, 2013)

By Valentino Sy

A Torrent of Share Issuances and Placements

Our stock market rallied strongly after hitting an intraday low of 5,562 on August 28. However, after that strong run-up, our market has entered a consolidation mode. Though it briefly advanced after the US government shutdown and debt ceiling problems were solved, the PSE Index pulled back shortly after. Given our market's recent movement, many are probably wondering why our stock market has not rallied even as global headwinds have abated and our country's fundamentals remain solid.

Supply Overpowers Demand

Listed local companies continued to take advantage of the favorable outlook for our stock market by raising fresh capital. Though the additional capital will help the companies grow, the size, timing and frequency of the share issuances and placements can cause a temporary weakness in the stock market.

As we mentioned in a previous article, big-ticket share issuances and placements that occur within a short span of time tend to sap stock market liquidity (*An Avalanche of Overnight Secondary Placements*, July 23, 2012). In effect, these take away the money that could otherwise be used to buy stocks in the market. These cause the stock market to be weak in the short-term, as the oversupply of shares overpowers existing demand. The market corrected when it experienced an avalanche of overnight placements last year and we are seeing something very similar this time around.

A Bigger Avalanche

The continued strong performance of the Philippine stock market provides an attractive background for equity raising. Given favorable market conditions, corporates can price equity issuances higher and raise more cash. We saw this happen last year, as P125.2b in fresh capital was raised from the overnight placements, stocks rights offerings and initial public offerings (IPOs) in FY12.

Share Issuances and Placements - Full-Year 2012 (FY12)	
Type of Share Issuance	Amount (in Pb)
Overnight Secondary Placements	66.2
Stock Rights Offerings	47.8
Initial Public Offerings	11.2
Total	125.2

Sources: PSE, Wealth Securities Research

As we show in the table below, the total amount of share issuances and placements in FY12 was easily topped in 1H13 because of the continued strong performance of our stock market.

Share Issuances and Placements - 1st Half of 2013 (1H13)	
Type of Share Issuance	Amount (in Pb)
Overnight Secondary Placements	124.4
Initial Public Offerings	15.5
Total	139.9

Sources: PSE, Wealth Securities Research

Another Torrent of Shares

As we show in the table below, there were large secondary placements that were done in 2H13 that were completed closely after each other.

Overnight Secondary Placements in 2013			
Company	Ticker	Date	Amount (in Pb)
GT Capital Holdings	GTCAP	1/10/2013	14.3
Ayala Land	ALI	3/7/2013	12.2
LT Group	LTG	4/17/2013	37.7
Melco Crown (Philippines) Resorts	MCP	4/24/2013	15.4
Cosco Capital	COSCO	5/31/2013	16.8
Manila Electric Company	MER	7/19/2013	17.4
SM Investments	SM	8/1/2013	6.5
Emperador	EMP	9/25/2013	16.2
Universal Robina	URC	10/3/2013	12.1
RFM Corp.	RFM	10/4/2013	1.6

Sources: PSE, Wealth Securities Research

In the table below, we show some of the IPOs that were completed this year. The combined IPOs of Travellers and Robinsons Retail, which are only six days apart, amounted to P45.9b.

Initial Public Offerings in 2013			
Company	Ticker	Date	Amount (in Pb)
Philippine Business Bank	PBB	2/19/2013	3.2
Asia United Bank	AUB	5/17/2013	8.4
Travellers International Hotel Group	RWM	11/5/2013	17.7
Robinsons Retail Holdings	RRHI	11/11/2013	28.1

Sources: PSE, Wealth Securities Research

It is worth noting that the overnight placements and IPOs that were completed in the past 1 ½ months amounted to P59.6b. These big-ticket placements and IPOs that were conducted over a very short period of time have sapped our market's liquidity and have caused the stock market's recent weakness.

Announcement of Stock Rights Offerings

On top of what we have already shown, two of the biggest local banks announced that they will conduct stock rights offerings. BPI will raise P25.0b while PNB will raise P15.0b. Note that both bank stocks fell more than 5% after their respective announcements. These moves contributed to the prevailing weakness of our stock market, which is already suffering from the indigestion of the massive share issuances and placements. Moreover, investors have been relatively tentative and have become wary that there may be more placements and share issuances that will be conducted soon.

Weathering the Storms

Our stock market has weathered a lot of global and local headwinds this year. Globally, we had to deal with the prospect of QE tapering (*The Tale of the Taper*, July 22, 2013), the Asian scare (*The Best House*

in a Bad Neighborhood, September 2, 2013) and the US government shutdown and debt ceiling problems (*Shutdowns and Debt Ceilings*, October 14, 2013). Locally, we had to endure natural disasters in the form of super typhoons and a strong earthquake.

Napoles and Yolanda

Aside from natural calamities, our country also had to witness man-made disasters like the Zamboanga siege, the Napoles scam and the ongoing pork barrel fiasco. Last weekend, our country was ravaged by Typhoon Yolanda, the strongest typhoon in history ever to make landfall. Notwithstanding all these, our stock market continues to perform strongly compared to our Asian neighbors. As we show in the table below, the PSE Index is still the best performer among the ASEAN-5.

Year-to-Date Performance of ASEAN Indices				
Country	Index	YTD	YTD - USD Terms	
Philippines	PSE Index	9.3%	3.9%	
Malaysia	FTSE Malaysia KLCI	6.8%	2.7%	
Indonesia	Jakarta Composite Index	3.7%	-12.4%	
Thailand	Stock Exchange of Thailand	0.9%	-1.7%	
Singapore	FTSE Strait Times	0.3%	-1.5%	

Source: Bloomberg

Time to Digest

Despite the resilience of our stock market, we are seeing that it is clearly suffering from indigestion. The torrent of share issuances and placements and the prospect of more to come have caused the balance of demand and supply to tip over the side of the latter. The resulting short-term weakness of our stock market has caused it to consolidate for the meantime. Nonetheless, we remain confident that the strong fundamentals of our country and corporates are intact. This is a temporary setback and it will not derail the bull market that we are experiencing. Given time, the market will be able to digest the avalanche of new shares and recover from the natural and man-made disasters that we have experienced. After this, we believe that the market will return to its upward path.

Time to Help

Our country is no stranger to natural disasters and super typhoons. Somehow, our people can cope with these things because of the magnanimity of Filipinos. Given the widespread damage that Typhoon Yolanda has dealt to our countrymen in the Visayas region, we expect that Filipinos will again share their generosity to help those who were severely affected by the typhoon. Helping each other has allowed us to bounce back from severe calamities and has transformed us into the resilient nation that we are known to be. And now is the time to help.

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