

Philequity Corner (December 23, 2013)

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Christmas Gifts

2013 has been a wild rollercoaster ride for Philippine stocks. This year, we saw our index become one of the world's best performers because of our solid fundamentals and strong growth. However, we also saw our index become one of the worst performers during the latter part of the year primarily because of Yolanda. As the year draws to a close, we take a look at the year that was and the events that defined it. We also enumerate some of the recent events that can turn things for the better.

2013: The Year That Was

Below, we enumerate the events that defined 2013. These contributed to the wild swings that our stock market experienced this year.

- 1. The Run-up.** In the earlier part of the year, we experienced an impressive run-up (*The Run-up*, January 21, 2013 and *The Impressive Run-up Continues*, February 4, 2013). From 5,813 as of year-end 2012, the PSE Index reached an all-time high of 7,404 on May 15. At the high, our index was up 27% vs. year-end 2012 and was one of the best performing stock indices in the world. Looking back, 2013 will be remembered as the year when our country became one of the fastest growing economies in Asia and was rated by major credit rating agencies as investment grade (*Investment Grade*, April 1, 2013).
- 2. The Tale of the Taper.** Our stock market's run-up came to a halt when Fed Chairman Ben Bernanke first hinted about QE tapering on May 22 (*The Tale of the Taper*, July 22, 2013). The anticipation of QE tapering caused a vicious correction in global stocks as it triggered large-scale unwinding, deleveraging and repatriation of funds among global investors. This correction caused our index to reach an intraday low of 5,678 on June 25 (*5-6-7-8*, July 1, 2013). It also marked the start of broad-based US dollar strength and consequently, the weakness of emerging market (EM) currencies such as the Philippine peso.
- 3. Peso Tops Out.** The strength of the US dollar caused the Philippine peso to top out at 40.45 after 8 years of strengthening (*The Peso Tops Out*, May 27, 2013). Since then, the peso has continued weakening, closing at 44.50 last Friday.
- 4. The Asian Scare.** Talks of QE tapering caused a massive exodus of funds from EM to developed markets (DM). This exposed the vulnerabilities of Asian countries with huge current account deficits such as India and Indonesia. And though we did not share our neighbors' problems, our stock market was nonetheless sold down. This sell-down drove our index to reach an intraday bottom of 5,562 on August 28 (*The Best House in a Bad Neighborhood*, September 2, 2013).
- 5. The Pork Barrel Scam.** Widespread corruption in the government was exposed when the pork barrel scam erupted. It started when former employees of Janet Napoles came out in the open and expressed their willingness to testify against past and present lawmakers. The pork barrel / Napoles scam has since exposed the deep web of corruption that happens in the government and has implicated some of the nation's top and most visible leaders. This caused confusion among the citizenry especially after the issues were muddled.

6. **Zamboanga Siege.** In September, a rogue faction of the Moro National Liberation Front (MNLF) staged a 3-week siege of Zamboanga. This resulted to hundreds of deaths and the displacement of thousands of residents. Aside from the damage, it reminded everyone of the ongoing and unresolved conflict in Mindanao.
7. **Bohol Earthquake and Other Natural Disasters.** The country experienced various natural disasters such as floods, typhoons and earthquakes this year. A big calamity was the 7.2 magnitude earthquake that hit Bohol and Cebu and severely affected thousands of people in those areas.
8. **Yolanda.** Yolanda, the strongest recorded typhoon to ever make landfall, was the biggest blow that our country experienced this year. It killed thousands of people and dealt damage equivalent to billions of pesos.

Despite all the various global headwinds and man-made disasters, the strong fundamentals of our country kept our stock market from sliding. However, Yolanda was the black swan event that ultimately caused our stock market to weaken. It exposed the vulnerabilities of the government and our country as a whole. Consequently, it triggered a change in investor sentiment for our country, from positive to negative (*Yolanda, a Black Swan*, November 25, 2013).

Christmas Gifts

We at Philequity were alarmed with how quickly investor sentiment for our country changed. This is why we invited a representative of the government to attend our Philequity Board Meeting last November 18. At that meeting, we conveyed the thoughts and sentiments of the investing community about the recent events that our country experienced. We are fortunate that we have a government that acted quickly on these important matters. Below, we enumerate recent positive developments (Christmas gifts) that our country can be thankful for.

1. **PPPs jumpstarted.** There was some disappointment from various sectors over the slow rollout of the government's PPP program. This changed towards the end of the year as the government acted faster in streamlining the approval and bidding processes of these projects. On November 20, the National Economic Development Authority (NEDA) board gave final approval for 7 projects worth over P180b. More importantly, the government included 'sweeteners' to make the project terms more attractive for the private sector.
2. **Government bids out Mactan-Cebu Int'l Airport.** The government completed the successful bidding of the Mactan-Cebu Int'l Airport. A consortium by Megawide (MWIDE) and Indian airport operator GMR Infrastructure submitted the best bid. Although the bid process has already been completed, it would be beneficial for the government to look at the track record of potential operators since these partnerships will last for a very long time.
3. **Revisiting the mining bill.** The government has recently revisited the proposed taxation schemes on the mining bill. Last week, the Mining Industry Coordinating Council (MICC) proposed a simplified scheme where the government will take 10% of the gross revenues of mining projects. Readers and investors may refer to Wealth Securities Research for more detailed updates regarding the PPPs and the mining sector.

- 4. Ex-Senator Ping Lacson appointed as reconstruction czar.** In the early part of December, President Noynoy Aquino (PNoy) picked ex-Senator Ping Lacson to head the reconstruction efforts for the areas that were hit by Yolanda. Not to waste any time, Lacson has started meetings with the private sector in order to determine how they can participate in the reconstruction efforts.
- 5. Reopening of Robinsons Place Tacloban.** Despite being battered by Yolanda, Robinsons Place Tacloban was reopened last week. Though operations will be limited, the mall was reopened to provide for the shopping needs of people there for the upcoming Christmas. Robinsons Retail (RRHI) said that this is its way of giving back to the community since Robinsons Place Tacloban has been one of the company's best performers. Moreover, it shows the bullishness of the Gokongweis on the country in general and their confidence that Tacloban will rise again.
- 6. OFW remittances and BPO revenues remain strong.** OFW remittances for the month of October reached \$2.3b, an all-time high. Meanwhile, the BPO sector has been establishing offices all over the country and is poised to contribute \$16b in revenues for full-year 2013. These two industries are the primary reasons why our country enjoys a current account surplus and are crucial underpinnings of the robust domestic consumption that our country experiences.

Counting the Blessings

2013 has been a very difficult year not only for investing but also for the country as a whole. Despite the global headwinds and various negative events, we are thankful that we have a president that is not tainted by any major scandal and still commands the trust and confidence of most Filipinos. As the dust settled from all the distractions, we saw how PNoy and his team responded to adversity, swiftly and decisively. The administration clearly showed that it is focused on the post-Yolanda reconstruction and on expediting its PPP program. We look forward to seeing more positive developments like these in 2014. This type of deliberate government action is needed in order to regain the momentum that was lost because of the series of natural and man-made disasters that our country experienced this year. Moreover, this can be the linchpin that can turn the tide of investor sentiment, from negative back to positive.

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