JUNE 19, 2023

PHILEQUITY CORNER

By Antonio R. Samson

Investor relations

A recently created unit (usually just one person) in listed companies is tasked with providing a basis for investor confidence in the company. Investor Relations (IR) is usually available to explain big movements in the financial statements, after disclosure to the PSE. This usually reports to Finance and not Corporate Communications in most companies.

Investor briefings of quarterly performances first to analysts, then to media, involve senior management like the CEO, the CFO and the heads of major business units who are there to answer questions involving the business and its activities. This scheduled event is supplemented by more routine briefings by IR on issues between quarters.

The aim of these briefing sessions is to instil (or restore) investor confidence in a listed stock. This is not the same as “hyping” which is frowned upon by the regulatory authorities as an artificial prop to bring up the price of a stock based on frothy assumptions, like a possible acquisition by an unnamed investor. A “guidance” projection or the expected year-end performance with firmer assumptions based on plans already underway is allowed.

What exactly is “investor confidence” and how do you get it or lose it? There are components both macro (the economy) and micro (the firm) to be considered.

The Covid pandemic was a big macro downer in the last three years. Is the economy now recovering from this? A few indicators will suffice. Is there really “revenge spending” to prop up consumption? Is the peso depreciating against the dollar showing a flight from the local currency? How about the stagnant PSE index, a basket of 30 stocks that reflects the stock market performance? A sub-set of this is the tracking of the daily volume of trading.

Now and then, pollsters get into the act and run a survey precisely to measure business confidence. This gets thrown into the pot and even gets bigger headlines—business gaining confidence in the economy. Not surprisingly this same survey will also track the rating of political leadership. Approval ratings can move the economic needle either way.

While investor confidence is a short-term event, lasting only one quarter at most, “investment climate” is more of a long-term concern. It tracks a country’s business hospitality, bureaucratic processes, openness to private enterprise and attraction of foreign direct investment. This also includes infrastructure like airports, roads, power, and transport.

Investment climate now also counts on the talent pool (English speakers for the call centers), legal system that respects private property, competitive wages, office space rentals, union aggressiveness, tax laws, public security, and a host of softer items like how private businesses are faring.

The macro elements above are beyond the control of investor relations, even as they affect the value of a particular stock. It’s the economics of the firm that is being managed by the company’s financial spokesperson. More important are the quarterly numbers and the news-making blips that hit companies.
With new media now covering business much like movies and sports, there is now a new tabloid slant to business coverage. This is based on personalities. Speculations on groups that are politically blessed or executives on their way out the door are now considered valid topics for business coverage. Even health issues and feuding groups inside the company can fall on the lap of Investor Relations – she is on paid vacation leave to discover the wonders of Antarctica.

Then there is unconfirmed information on organizational movements, upcoming mergers, and battling shareholders. Is this also within the purview of investor relations? The safe course, prior to a formal disclosure, is to dodge these assumptions – we have no basis to give any comments on those issues.

While IR provides narratives for the numbers and numbers for the narratives like plans for the coming year, the ever-watchful analysts for the investors have their own financial views and interpretations. They have revenue and profit estimates which companies fall short of or surpass.

With corporate earnings of listed companies already disclosed for the first quarter, there is a better reading of investor confidence at the corporate level. Analysts set profit targets for their watched stocks and “market sentiment” (a first cousin of investor confidence) usually firm up or collapse with the numbers.

Stock prices are often based on future earnings, the first quarter gives a clue as to where a company or sector is headed. Investor confidence, or the lack thereof, cannot be quantified. Still, it is somehow reflected in the stock price.