

## Philequity Corner (April 21, 2014)

By Valentino Sy

### Easter Wish List

Yesterday was Easter Sunday and Easter is about rebirth. In this article, we share with everyone our Easter Wish List. These are our wishes and hopes for the country. These are initiatives or projects that need to be accomplished in order to sustain our country's resurgence. We believe that these crucial milestones will help propel our country to the next level of economic growth.

- 1. Successful implementation of the Philippine Development Plan.** The revised Philippine Development Plan (PDP) aims to raise our GDP growth to 6.5-7.5% this year, 7.0-8.0% next year and 7.5-8.5% by 2016. We commend the vision, detail and effort that our economic managers are putting into the PDP. We believe that targeting specific areas where poverty incidence is high would mean that our economic growth may start becoming more inclusive. If this plan is implemented successfully, it can have very bullish implications for the economy and our stock market.
- 2. Sustained FDI growth.** Our stock market has so far enjoyed massive foreign inflows in 2014. Year-to-date, net foreign buying in the Philippine stock market has amounted to P24.9b. Moreover, our stock market has experienced net foreign buying in 43 out of the last 48 trading days. Recently, we have seen signs that investor confidence is translating into more foreign direct investments (FDIs). In January 2014 alone, \$1b worth of net FDIs came to our country. We hope that this is something that can be sustained moving forward. Though our stock market benefits from foreign portfolio flows, our economy clearly needs more FDIs so that it can grow faster. Unlike foreign portfolio flows which can easily go out of our country, FDIs are more permanent and are usually used for the capital expenditures of businesses. If FDI growth is sustained, our economy would be able to grow faster and foreign portfolio flows would consequently follow.
- 3. Faster and smoother rollout of the PPP program.** We hope that the government would be able to sustain the smooth rollout of its flagship PPP program. Since the PPP program is one of the major initiatives of the Aquino administration, the government has to ensure that these crucial infrastructure projects will be awarded and implemented on time. Though the PPP program initially encountered delays, we are pleased with how it has gained traction recently. We hope that this will pave the way for the smoother rollout of the other PPP projects.
- 4. Increased infrastructure spending.** Based on the revised PDP, the government intends to raise infrastructure spending to 5% of GDP by 2016. The country's poor infrastructure has often been cited as one of the main bottlenecks for inclusive and sustainable economic growth. Addressing the country's infrastructure problem will therefore improve access and facilitate the faster flow of goods and services within the country. Extensive road networks, efficient mass transport systems and modernized airports will help boost tourism, spur real estate development and promote economic development outside Metro Manila. Aside from creating more jobs, we expect higher infrastructure spending to have a multiplier effect on our GDP. Moreover, better infrastructure will ensure that our country would be able to maintain above-trend economic growth for many years to come.
- 5. Improvement of the power sector.** Our country's high power costs have often been identified as a competitive disadvantage for multinationals that are looking to establish operations in the

Philippines. Lately, our power sector has been hounded by supply disruptions, price spikes and rate hike issues. Like infrastructure, power is an essential cog that is needed to support our country's rapid economic growth. We therefore hope that the government can come up with long-term solutions to improve the reliability, increase the supply and reduce the cost of power in the country.

- 6. Bigger and more efficient airports.** Our achievements will not count for much if our main international airport is often cited as the worst in the world. Our international airports are the first things that foreign tourists experience and see when they enter the country. Thus, the full potential of our tourism industry may not be realized if our airports remain small, clogged and inefficient. We hope that the government can finally come to terms about the building of new airports near Metro Manila and throughout the country.
- 7. Further consolidation in the airline industry.** Despite the limitations of our airports, our airline industry finally regained the Category 1 rating from the US. Aside from building bigger airports, we wish that the rating upgrade will also lead to a more efficient and more profitable airline industry. Cebu Pacific has already started this with its recent acquisition of Tiger Air. We believe that further industry consolidation, such as a possible merger between Philippine Airlines and Cebu Pacific, will lead to rationalized operations and result to better services.
- 8. Development of the tourism sector.** Better infrastructure, bigger airports and more efficient airlines will pave the way for the development of our tourism sector. While our country has a big tourism potential, we have yet to realize this due to certain bottlenecks. We hope that the government would be able to address these bottlenecks and achieve the aggressive target of 10 million tourist arrivals by 2016.
- 9. Continued growth of OFW remittances and BPO revenues.** OFW remittances and BPO revenues have been the lynchpins of our economy. In 2013, OFW remittances amounted to \$22.8b while BPO revenues reached \$15.5b. These support the robust domestic consumption that our country is enjoying. We hope that these sectors will sustain their impressive growth in the years to come.
- 10. Stronger job creation.** So far, relations with the labor force have been smooth, productive and peaceful in the Aquino administration. This has paved the way for the gradual improvement and faster job creation in the manufacturing sector. Moving forward, we wish that faster FDI growth, the implementation of various infrastructure projects and the resurgence of the manufacturing sector will all lead to faster and stronger job creation in the country.
- 11. Fairness and consistency in implementing regulations.** Recently, the water distribution and power sectors have been severely affected by regulatory issues. The issues on rate rebasing for water distribution and the debate on power rate hikes have undermined investor confidence on the government's ability to set a consistent and level playing field. These issues have diluted our gains in setting firmer regulatory mechanisms for water and power utilities. Note that these policies were once viewed as best practices by other governments. Moving forward, we wish that the government would be clear, firm, fair and consistent in implementing regulations and policies.
- 12. Constitutional amendments.** We wish for our government to be able to push through with the amendments of certain economic provisions in the Constitution. These provisions pertain to foreign ownership limits in land, agriculture, media, infrastructure and utilities. We believe that the influx of FDIs into these industries will fast-track our economic growth. Moreover, foreign investors will come in with the best technology and best practices to help improve these industries.

- 13. Development of the mining sector.** Considering our country's rich mineral deposits, our mining sector is terribly underdeveloped. Note there are 5 big-ticket mining projects that may generate investments of \$1b or more. Most, if not all, of these projects are expected to contribute at least P1b in taxes annually. Aside from contributing to taxes and the country's GDP, these mining projects will create thousands of employment opportunities for the communities surrounding them.
- 14. Philippine peso in the sweet spot.** After topping at 40.45 last year, the peso has been in a wild ride. Global headwinds such as the QE tapering, the Asian scare and the EM currency contagion exerted downward pressure on the peso. Since then, the peso has stabilized after finding support at 45.50. Now, the peso is back at its new sweet spot of 43 to 45. We deem that a stable peso at current levels is actually beneficial to our economy.
- 15. Peace with our neighbors.** In the last few years, the Philippines has gotten into diplomatic rows with Taiwan, Hong Kong and China for various reasons. Regardless of who is right or wrong in these issues, we believe that there is more to be gained from conflict resolution. Working towards common solutions for both sides would ensure that trade relations and tourist arrivals are not hampered by these issues. These countries are our neighbors; thus, we will inevitably deal with them, one way or the other. Considering this, common sense dictates that it will be better for us to work with them rather than against them.
- 16. The Church and the State working together.** After an intense and divisive debate on the Reproductive Health (RH) law, the Supreme Court has finally declared the RH law as constitutional. Catholic Bishops' Conference of the Philippines (CBCP) President Archbishop Socrates Villegas has accepted this outcome. Although the Church does not see eye-to-eye with the pro-RH groups, Archbishop Villegas said that the Church can still work hand-in-hand with the government. We hope that the Church can finally move on from this bitter debate and move forward. We wish that the resolution of the RH debate will allow the Church and the State to work together in uplifting the poor and improving the lives of Filipinos.
- 17. Continuation of political and economic reforms.** We have always commended the government for implementing important structural reforms that strengthened our country. The gains from these reforms are now being felt. We believe that these reforms, aided by the vigilance of the citizenry, will last beyond this administration's term.

Despite the various headwinds that our country has encountered over the past year, our stock market continues to do well, supported by the continued strong performance of our economy. However, if we expect strong economic growth to be sustained, further action is needed. So far, the government has laid out its midterm plans through the PDP and the PPP programs. The plans look encouraging and we fervently hope that the government can fully implement these programs. We believe that the successful implementation of these plans and the other initiatives in our Easter Wish List will propel our country to reach the next level of economic growth. Moreover, the completion of these projects will serve as an important catalyst for the next leg of the bull market in Philippine stocks.

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