



# Vantage *point*

**MARKET OUTLOOK: BULLISH**  
**STRATEGY: SELECTIVE BUYING ON PROPERTY, FINANCIALS AND POTENTIAL M&A PLAYS**

After numerous discussions and lobbying, the first package of the comprehensive tax reform program has finally been ratified. This will then be sent to the President for signing so it can be implemented on January 1, 2018.

Similar to E-VAT, this is a very important and significant fiscal reform. This tax reform package may boost economic growth and, consequently, lead to a higher credit rating. With this package providing about PhP 130 billion in net revenues, this is likely to be viewed by ratings agencies as credit positive. This tax reform package also enables the promised Golden Age of Infrastructure which, if implemented properly and speedily, will be very transformative for our country.

Moreover, this is also the most awaited catalyst for our stock market in general. Just like previous fiscal reforms, this can lead to higher economic growth, corporate earnings and valuation multiples for Philippine stocks that benefit from tax reform. Note that our index has been trading between 16-22x P/E for the past 6 years. We favor the banking sector on higher loan growth, the consumer sector on higher consumption, the property sector on more buoyant property prices and conglomerates with significant exposure to these sectors.

In addition, the Philippine peso may further appreciate on the back of more flows into stocks. A break below 50 will be very bullish for the peso and points toward further strength.

Philippine Stock Exchange Index (PSEi) – 1 year chart



## TRADING STRATEGY



With the ratification of the tax reform package, we remain bullish in the Philippines' growth prospects. Thus, we have further increased our exposure to index stocks.



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