Stocks in Focus:

COLing the Shots: Will 6,900 hold?

Volatility has returned to the market with the PSEi threatening to break the 6,900 support again after failing to break it earlier this month. Despite the negative sentiment prevailing, we think there is a strong chance that the 6,900 support will hold.

The main catalyst for the latest sell-off of the Philippine market is the poor performance of the U.S. market. Nevertheless, the ongoing correction of the U.S. market is actually a positive sign. According to COL's chairman and long-time investor of global equity markets Edward Lee, "Global markets have been weak since the start of the year. . . The fact that the U.S. market is now falling is an indication that we are at the tail end of the downward cycle for emerging market equities (including the Philippines)." Note that during market corrections, fund managers prioritize selling their worst performing stocks which are usually smaller companies or those with less attractive fundamentals. Fund managers usually wait for as long as they can before they sell their favorite stocks which are typically top blue-chip issues.

Fundamentally speaking, there is also reason to be more optimistic as there are signs that inflation could peak in the fourth quarter. After increasing sharply since the start of the year, the price of regular milled rice is now stabilizing between Php45.00/kilo and Php46.00/kilo. The government also recently announced that it will temporarily suspend the implementation of an additional Php2.00/liter excise taxes on fuel originally scheduled for 2019. Coupled with the recent decline in oil prices, this should help keep inflation down.

Top Stories:

BPI: Outlook remains positive despite slower loan growth; Reiterate BUY
CHP: 9M18 core net loss reaches Php142Mil, EBITDA below estimates
HLCM: 9M18 net income down 24.3% y/y on rising costs and financial expenses

Market Summary:

The PSEi advanced on Friday, gaining 97.49 points or 1.40% to close at 7,064.33.

Index gainers led decliners 15 to 7, while 8 issues remained unchanged. Most sectors ended in green with Holding Firms (+2.14%) leading the gainers. Significant index gainers were SM (+4.07%), AC (+3.37%), JFC (+3.05%), SMC (+2.94%), and MEG (+2.56%). On the other hand, significant index decliners were SCC (-2.21%), AP (-1.52%), and MBT (-1.23%).

Value turnover decreased to Php5.0Bil from Php5.5Bil in the previous session. Meanwhile, foreigners continued to be net sellers, disposing Php399Mil worth of shares.

(AS OF OCT 26, 2018)

INDICES

	Close	Points	%	YTD%
PSEi	7,064.33	97.49	1.40	-17.46
All Shares	4,332.59	51.35	1.20	-13.17
Financials	1,563.56	1.48	0.09	-29.89
Holding Firms	6,957.87	146.04	2.14	-19.25
Industrial	10,522.41	90.36	0.87	-6.31
Mining & Oil	9,411.22	-14.96	-0.16	-18.18
Property	3,494.49	70.81	2.07	-12.16
Services	1,461.59	3.62	0.25	-9.77
Dow Jones	24,688.31	-296.24	-1.19	-0.13
S&P 500	2,658.69	-46.88	-1.73	-0.56
Nasdaq	7,167.21	-151.12	-2.07	3.82

INDEX GAINERS

Ticker	Company	Price	%
SM	SM Investments Corp	895.00	4.07
AC	Ayala Corporation	920.00	3.37
JFC	Jollibee Foods Corp	270.00	3.05
SMC	San Miguel Corporation	164.50	2.94
MEG	Megaworld Corp	4.41	2.56

INDEX LOSERS

Ticker	Company	Price	%
SCC	Semirara Mining Corp	26.60	-2.21
AP	Aboitiz Power Corp	32.50	-1.52
MBT	Metrobank	64.50	-1.23
AEV	Aboitiz Equity Ventures In	45.15	-1.2
DMC	DMCI Hldgs Inc	11.98	-0.83

TOP 5 MOST ACTIVE STOCKS

Ticker	Company	Turnover
URC	Universal Robina Corp	364,091,100
ALI	Ayala Land Inc	247,253,500
ICT	Intl Container Term Svcs In	239,315,400
JFC	Jollibee Foods Corp	186,689,200
SMPH	SM Prime Hldgs Inc	158,442,500

Stocks in Focus:

APRIL LYNN TAN, CFA
VP & HEAD OF RESEARCH

COLing the Shots: Will 6,900 hold?

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Fundamentally speaking, there is also reason to be more optimistic as there are signs that inflation could peak in the fourth quarter. After increasing sharply since the start of the year, the price of regular milled rice is now stabilizing between Php45.00/kilo and Php46.00/kilo. The government also recently announced that it will temporarily suspend the implementation of an additional Php2.00/liter excise taxes on fuel originally scheduled for 2019. Coupled with the recent decline in oil prices, this should help keep inflation down.

Valuations of stocks are also already very attractive. Out of the 63 stocks that are part of our coverage list, 83% are currently trading below their 10-year historical average P/Es while 54% are trading at P/Es that are at least one standard deviation below their 10-year historical average. This means that these stocks traded at higher valuations 84% of the time during the past 10 years.

There might be concerns about TEL given the ongoing bidding for the third telco license. Nevertheless, we maintain our positive view on TEL. We believe that it will take a while for the new telco to reach a level where it can disrupt the operations of existing players given the amount of time and resources needed to make the necessary investments. The absence of a common tower policy and the inability of the government to prevent TEL and GLO from putting up their own towers also raises the bar for the new telco to compete seriously with the incumbents.

CHARLES WILLIAM ANG, CFA
DEPUTY HEAD OF RESEARCH

JOHN MARTIN LUCIANO
SENIOR RESSEARCH ANALYST

BANK OF THE PHILIPPINE ISLANDS
BUY
PHP97.00

Top Stories:

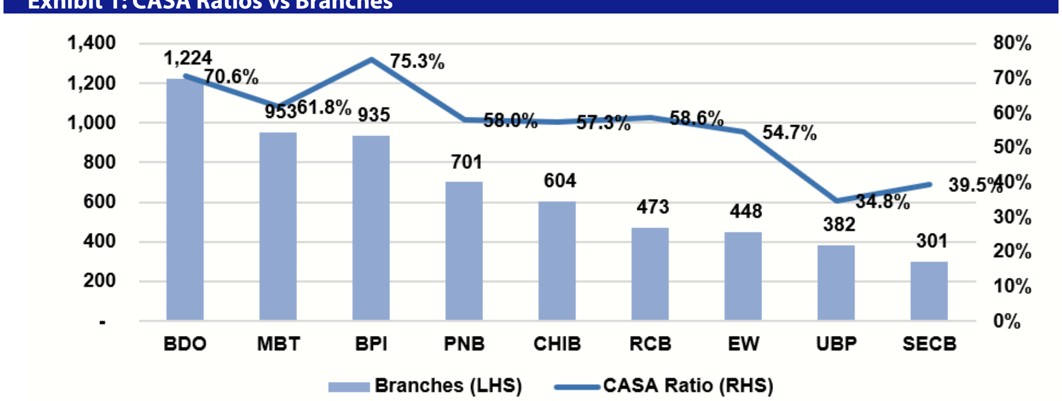
BPI: Outlook remains positive despite slower loan growth; Reiterate BUY

In our recent meeting with BPI, the bank noted that it expects domestic inflation to remain elevated for the rest of the year and US monetary policy to further tighten. As a result, the bank believes that there will be additional rate hikes from the BSP this year, which will cause lending rates to further rise. Thus, BPI is guiding slower 2018 and 2019 loan growth of 10-12% (from 15.5% growth in 2017). Despite the slower growth, we maintain our positive outlook on the bank's lending income as we expect net interest income to grow by a 3-year CAGR of 15%, driven by a healthy loan growth of 12% and an average of ~10 bps annual improvement in margins. Meanwhile, we reiterate our BUY rating but slightly reduce our FV estimate to Php97/sh following the revision in our forecasts.

Positive outlook in net interest income despite slower loan growth. In our recent meeting with BPI, the bank noted that it expects domestic inflation to remain elevated for the rest of the year and US monetary policy to further tighten. As a result, the bank believes that there will be additional rate hikes from the BSP this year, which will cause lending rates to further rise. Thus, BPI is guiding slower 2018 and 2019 loan growth of 10-12% (from 15.5% growth in 2017). Growth is expected to be driven by corporate and working capital loans. Aside from the potential decrease in loan demand from higher rates, the bank is also deliberately being selective in granting loans given that there is an alternative at 4.5-5.0% through the BSP's term deposit facility.

Being one of the biggest banks in the country, we believe BPI is one of the main beneficiaries of rising interest rates. Recall that in our recent sector report, we highlighted that banks with large low-cost deposit base will allow outperform banks that rely heavily on high-cost funding. Note that BPI's CASA ratio is currently the highest in our coverage at 75.3%. More importantly, we believe the bank is also well-positioned to priced-in higher policy rates given that ~75% of the bank's loan portfolio re-price under a year. The bank also noted that margins should improve in 3Q18 as competition is being more rational at pricing loans. Over the next three years, we are forecasting net interest income to grow by a CAGR of 15%, driven by a healthy loan growth of 12% and an average of ~10 bps annual improvement in margins.

Exhibit 1: CASA Ratios vs Branches



Fee-based revenues to continue steady growth. BPI's fee-based revenues is expected to sustain its steady growth going forward. Although fee-based revenues during the first half were weaker than expected, this was dragged by lower asset management fees as the bank reduced their fees. In addition, the bank's fees from its investment banking business were weak as some deals have not yet materialized. Nevertheless, the growth in fees from credit cards, transaction banking, and deposit service charges remained strong. While the bank only expects flat growth this year due to the said drags, we expect fees to normalize next year following the low base this year and as interest rates start stabilizing.

No large trading losses seen. With rising interest rates, investors are also concerned with mark-to-market losses. However, note that the bulk of the BPI's securities portfolio is classified under the HTC category at 88.7% of its total securities portfolio. Therefore, we don't expect the bank to book significant mark-to-market gains nor losses given that the bank merely collects the recurring coupon payments. Nonetheless, we expect trading gains to remain muted as interest rates continue to rise.

Operating expenses to normalize. We expect the growth in operating expenses to normalize following the jump during the second quarter. Note that operating expenses for the quarter jumped 20% y/y, boosted by one-off costs such as the migration to EMV credit cards and the issuance of stock rights offering. As such, the bank expects operating expenses to grow at a slower pace of 10-12% annually as the bank continues to expand its branch network by 20 branches annually. Note that the bank is also targeting a cost-to-income ratio of 55%, largely in line with our forecast.

Updating earnings forecasts; Reiterate BUY. In light of these factors, we are revising our 2018 and 2019 earnings forecasts downwards by 9% and 14%, respectively. The decline in our forecasts was largely driven by lower net interest income and fees. A summary of the changes in our forecast is given below:

Exhibit 2: Earnings Revisions

	2018			2019		
	Old	New	Change	Old	New	Change
Net interest income	54,902	54,345	*-1.0*	64,713	62,300	*-3.7*
Non-interest income	24,311	22,783	*-6.3*	25,341	23,605	*-6.8*
Fee-based revenues	8,872	8,407	*-5.2*	9,442	8,938	*-5.3*
Trading gains	1,185	923	*-22.1*	1,229	938	*-23.7*
Provisions	4,016	3,903	*-2.8*	4,599	4,356	*-5.3*
Operating expenses	42,353	43,179	*2.0*	46,497	47,968	*3.2*
Net income	25,660	23,474	*-8.5*	30,436	26,236	*-13.8*

source: COL estimates

Meanwhile, we reiterate our BUY rating but slightly reduce our FV estimate to Php97/sh following the revision in our forecasts. Overall, we continue to like BPI because a) it is one of the major beneficiaries of the country's healthy economic growth on the back of its strong and highly liquid balance sheet and b) it consistently delivered above average profitability compared to its peers. At its current price, the bank is trading at 1.4X 2019E P/BV, well below the 10-year historical average of 2.3X.

FRANCES ROLFA NICOLAS
RESEARCH ANALYST

CEMEX HOLDINGS PHILIPPINES
BUY
PHP3.10

CHP: 9M18 core net loss reaches Php142Mil, EBITDA below estimates

9M18 core net loss reaches Php142Mil, EBITDA below estimates. CHP reported that 3Q18 net loss reached Php70Mil. However, the said figure includes non-core items such as forex losses, other losses, and shutdown costs amounting to Php59Mil, Php6Mil, and ~Php200Mil respectively. Excluding these, we estimate that core net income reached Php196Mil, 11.3% lower compared to the Php220Mil core net income registered in the same quarter last year. This brought 9M18 core net loss to Php142Mil, a reversal from the Php814Mil core net income posted in the same period last year. Meanwhile, we estimate that 3Q18 operating performance as measured by EBITDA increased by ~10.3% y/y to ~Php886Mil after adjusting for estimated shutdown costs. This brought 9M18 EBITDA to Php2.4Bil, down 8.2% y/y. Results are below COL and consensus estimates accounting for 70.6% and 68.7% of full year forecasts respectively. The miss in our forecast was largely due to the higher-than-expected cost of sales.

Exhibit 1: Results Summary

							% of estimates	
in PhpMil	3Q17	3Q18	% change	9M17	9M18	% change	COL	consensus
Net Sales	5,572	6,026	*8.1*	16,561	17,905	*8.1*	*76.1*	*75.5*
Operating Income	468	304	*(35.1)*	1,671	1,324	*(20.8)*	*64.2*	*58.2*
Operating margin (%)	*8.4*	*5.0*	-	*10.1*	*7.4*	-	-	-
Operating EBITDA	803	686	*(14.6)*	2,624	2,410	*(8.2)*	*70.6*	*68.7*
EBITDA margin (%)	*14.4*	*11.4*	-	*15.8*	*13.5*	-	-	-
Net Income	202	(70)	-	688	(605)	-	-	-
Core Net Income	220	196	*(11.3)*	814	(142)	-	-	-
Net Margin (%)	*4.0*	*3.2*	-	*4.9*	-	-	-	-

source: COL estimates, CHP, Bloomberg

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9M18 revenues up 8.1% y/y as expected. CHP's 3Q18 revenues reached Php6.0Bil, bringing 9M18 revenues to Php17.9Bil, up 8.1% y/y. Results are in line with both COL and consensus estimates accounting for 76.1% and 75.5% of full year forecasts respectively. The growth in revenues was mainly due to higher volumes, which grew 10% y/y, as a result of higher public infrastructure spending and strong residential sector construction. Meanwhile, 3Q18 ASP was 4% up y/y, but down 1% q/q due to the higher percentage of picked-up versus delivered cement. Note that the higher proportion of picked-up cement is part of the company's strategy to lessen distribution costs. Moving forward, we expect ASP to remain at current levels as volume from imports from traders have also stabilized. Management noted that 9M18 imports from traders grew ~20-25%, which is roughly the same as the growth in 1H18.

9M18 cost of sales up 14.4% y/y on rising input costs. 9M18 cost of sales grew 14.4% y/y to Php10.7Bil, mainly due to higher fuel, and power costs. The figure was higher-than-expected accounting for 80.8% of our full year forecast. The increase in power costs was brought about by higher grid rates, while the increase in fuel costs was mainly due to the weak Peso. Recall that the company's fuel requirements are dollar denominated, and thus are affected by foreign exchange rates. Moving forward, the company noted that they have not hedged their coal requirements for next year as they expect coal prices to drop. Moreover, CHP is looking into using lower grade coal for their production to save costs.

Capacity expansion delayed to 4Q20. The expected start of operations of the Solid plant expansion has been pushed back to 4Q20 from its previous guidance of 1Q20. The company noted that it has already signed an agreement with CBMI Construction Co., Ltd of China for the procurement, construction, and installation of the new line. Recall that the said expansion will increase CHP's capacity by ~20% or 1.5Mil MT. This implies that the company will have to rely on imported cement to support sales volume growth and that margins would remain within a tight range a bit longer. We expect margins improvement from the additional capacity to be felt starting 2021.

Maintain BUY rating. We currently have a BUY rating on CHP and FV estimate of Php3.1/sh. We will be reviewing our estimates in light of the higher-than-expected cost of sales and delay in capacity expansion.

FRANCES ROLFA NICOLAS
RESEARCH ANALYST

HOLCIM PHILIPPINES INC.
N/A
N/A

HLCM: 9M18 net income down 24.3% y/y on rising costs and financial expenses

Rising cost of sales and financial expenses drag margins. HLCM's 3Q18 net income reached Php177Mil, 47.6% lower compared to the Php337Bil registered in 3Q17. This brought 9M18 net income to Php1.7Bil, down 24.3% y/y. The drop in earnings was mainly due to rising costs of fuel, energy and distribution coupled with the peso's depreciation against the US dollar. Moreover, 9M18 net financial expenses reached Php117.9Mil, a significant reversal from last year's net financial income of Php15.9Mil, due to additional short-term loans borrowed for the company's production capacity expansion. Meanwhile, 3Q18 revenues grew 3.0% y/y to Php8.5Bil, bringing 1H18 revenues to Php27.3Bil, up 6.2% y/y. The growth in revenues was attributable to the 8% growth in sales volumes, partially offset by the estimated 1.8% drop in ASP. These led to lower operating EBITDA margins and net margins of 12.5% (from 17.3%) and 6.4% (from 9.0%) respectively.

Exhibit 1: Results Summary

in Php Mil	3Q17	3Q18	% change	9M17	9M18	% change
Revenues	8,265	8,517	3.0	25,664	27,268	6.2
Gross Profit	1,643	1,188	(27.7)	6,089	5,097	(16.3)
Gross Margin (%)	*19.9*	*13.9*	-	*23.7*	*18.7*	-
Operating EBITDA	973	635	(34.8)	4,436	3,403	(23.3)
EBITDA Margin (%)	*11.8*	*7.5*	-	*17.3*	*12.5*	-
Net Income	337	177	(47.6)	2,300	1,740	(24.3)
Net Margin (%)	*4.1*	*2.1*	-	*9.0*	*6.4*	-

source: HLCM

There is no consensus rating on HLCM

Changes in Shareholdings

Stock	Volume	Acquired or Disposed	Price per share	Person (Designation)
COL	100	D	15.82	Juan G. Barredo (VP- Head of Sales and Customer Support Services)
TEL	100	D	1430.00	Benedict Patrick V. Alcoseba (Vice President)
SMC	19,000	A	156.00	Ramon F. Villaviciencio (Director)

Source: PSE

CALENDAR OF EVENTS

OCTOBER

SUN	MON	TUE	WED	THU	FRI	SAT
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

KEY EVENTS HOLIDAY

OCT 2
SMC: EX-DATE PHP0.35 CASH DIVIDEND

OCT 3
TBGI: ANNUAL SHAREHOLDERS MEETING

OCT 4
MBC: ANNUAL SHAREHOLDERS MEETING
BCOR: ANNUAL SHAREHOLDERS MEETING

OCT 5
CDC: ANNUAL SHAREHOLDERS MEETING

OCT 6
PA: ANNUAL SHAREHOLDERS MEETING

OCT 8
STR: EX-DATE PHP0.0489 CASH DIVIDEND

OCT 9
FGEN: EX-DATE PHP0.35 CASH DIVIDEND
NIKL: ANNUAL SHAREHOLDERS MEETING

OCT 10
VLL: EX-DATE PHP0.2252 CASH DIVIDEND
MWIDE: EX-DATE PHP0.12 CASH DIVIDEND

OCT 13
WPI: ANNUAL SHAREHOLDERS MEETING

OCT 17
IDC: ANNUAL SHAREHOLDERS MEETING

OCT 19
DFNN: ANNUAL SHAREHOLDERS MEETING

OCT 20
FEU: ANNUAL SHAREHOLDERS MEETING

OCT 23
IPO: EX-DATE PHP0.06 CASH DIVIDEND

OCT 25
SGP: ANNUAL SHAREHOLDERS MEETING
T: ANNUAL SHAREHOLDERS MEETING
ACE: ANNUAL SHAREHOLDERS MEETING

OCT 26
PHES: ANNUAL SHAREHOLDERS MEETING
FPI: ANNUAL SHAREHOLDERS MEETING
WIN: ANNUAL SHAREHOLDERS MEETING
STI: ANNUAL SHAREHOLDERS MEETING

OCT 30
SUN: ANNUAL SHAREHOLDERS MEETING

IMPORTANT RATING DEFINITIONS

BUY

Stocks that have a BUY rating have attractive fundamentals and valuations based on our analysis. We expect the share price to outperform the market in the next six to 12 months.

HOLD

Stocks that have a HOLD rating have either 1) attractive fundamentals but expensive valuations 2) attractive valuations but near-term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely in line or underperform in the market in the next six to twelve months.

SELL

We dislike both the valuations and fundamentals of stocks with a SELL rating. We expect the share price to underperform in the next six to12 months.

IMPORTANT DISCLAIMER

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