



November 2016

Sustained growth amidst global challenges

Presented by BDO Trust and Investments Group

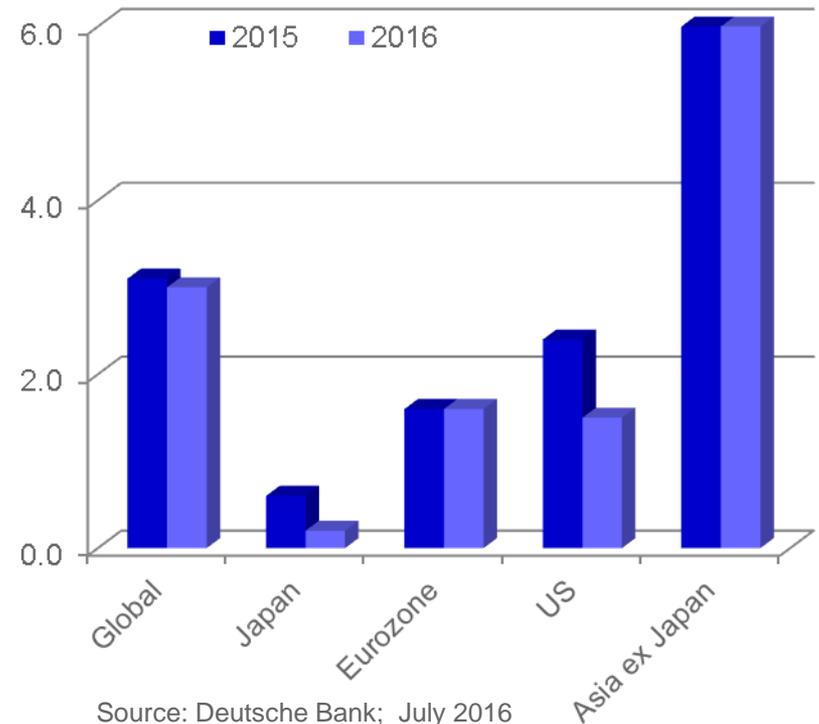
Outline

- **Global Economic Outlook**
- **Philippine Economic Outlook**
- **Investment Strategy**
- **Major Risk Areas**

Global economic pullback

- Global economic growth slows down
- US Fed holds off rate hike on Brexit fears
- Negative yields in Eurozone & Japan
- China, Indo, SoKor cut interest rates
- Brexit contagion rattles EU region

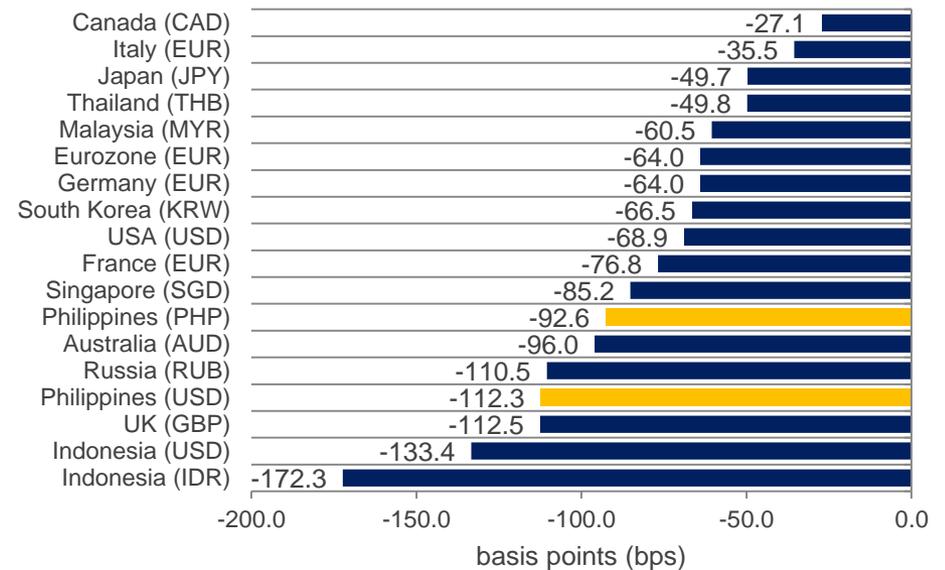
Real GDP Growth (%YoY), 2015 – 2016F



Brings down cost of money

- Global economic weakness results
- Delay in US interest rate hike
- Central Bank cut interest rates
- Negative 10-yr yields of UST, bunds

10-Year Bond Markets, Yield Change, 7M16

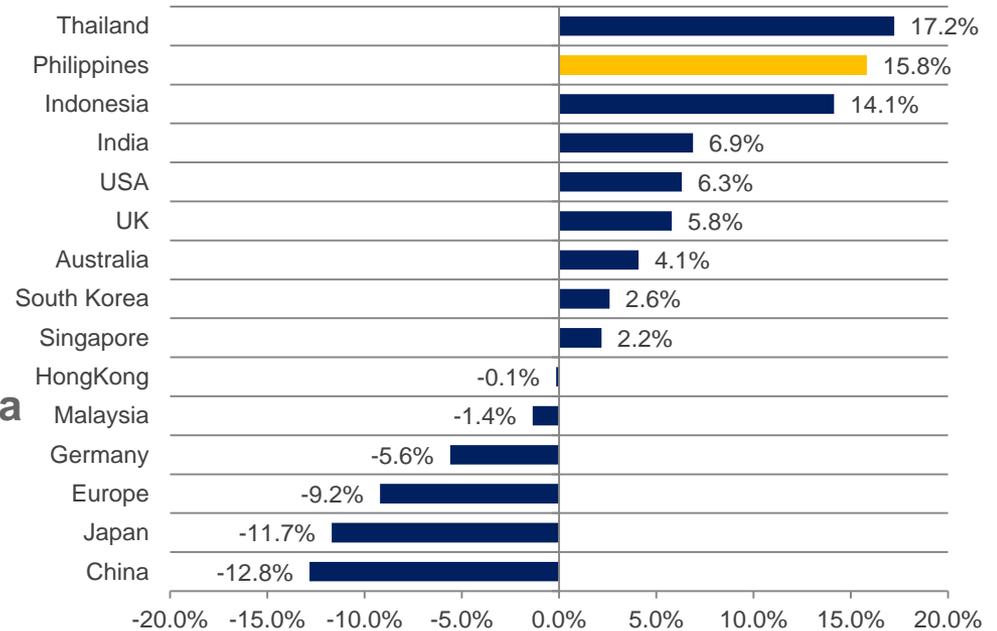


Source: Bloomberg, as of July 20, 2016

Investors rebalance portfolios

- Stocks rallied on market catalysts
- Delay in US interest rate hike
- Central Bank stimulus & support
- Negative 10-yr yields of UST, bunds
- Investors rotate back to EM & SE Asia

Global Stock Markets, % Change, 7M16



Source: Bloomberg, as of July 20, 2016

Gold regains luster

- Gold falls 45% from 2011 peak then bounces 26% to \$1300/oz post Brexit
- Crude oil falls 82% from 2012 peak of \$120/bbl; recovers to \$45/bbl in mid- Jun
- Market talk of cap on oil supply
- Poor demand from Europe, China, EM

Dubai Crude & Gold Prices Jan 3, 2000 – June 15, 2016

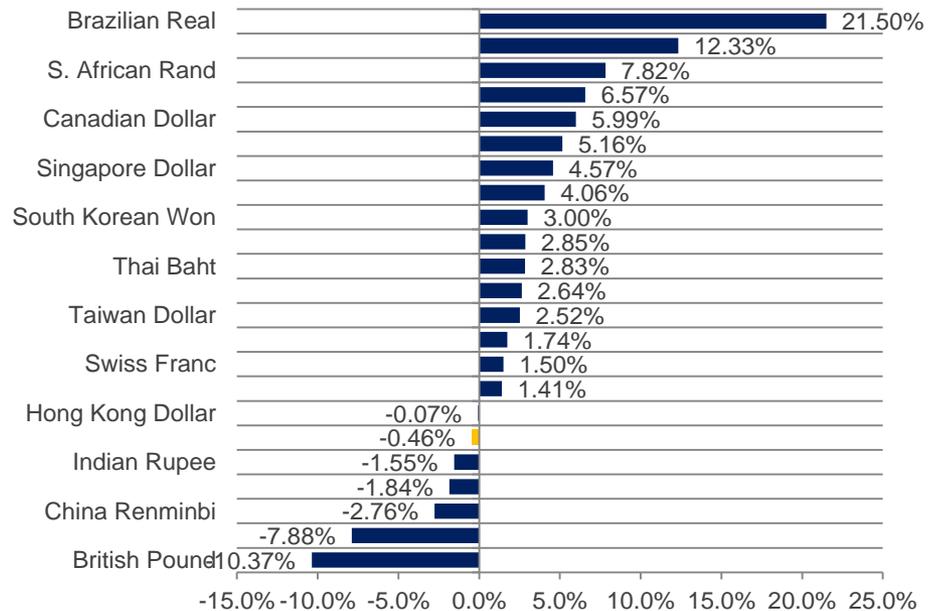


Source: Bloomberg

Major currencies reflect changes

- Oil bounce lifts Real, Rand, CAD
- UK Pound falls to 31-yr low on Brexit
- Yen gains on hopes for more stimulus
- China widens Yuan range
- Phil Peso very stable

Global Currency Movement, % Change, 7M16



Source: Bloomberg, as of July 20, 2016

Expect modest US growth

- 1.1% GDP growth in 1Q16 vs 1.4% in 4Q15
- Biz spending fails to pick-up
- Consumer demand & services weaken
- 287k non-farm jobs created; 4.9% jobless rate w/ wages up 2.6%YoY in June
- Fed airs concern on Brexit in minutes

Real GDP Growth, QoQ
3Q13 – 1Q16

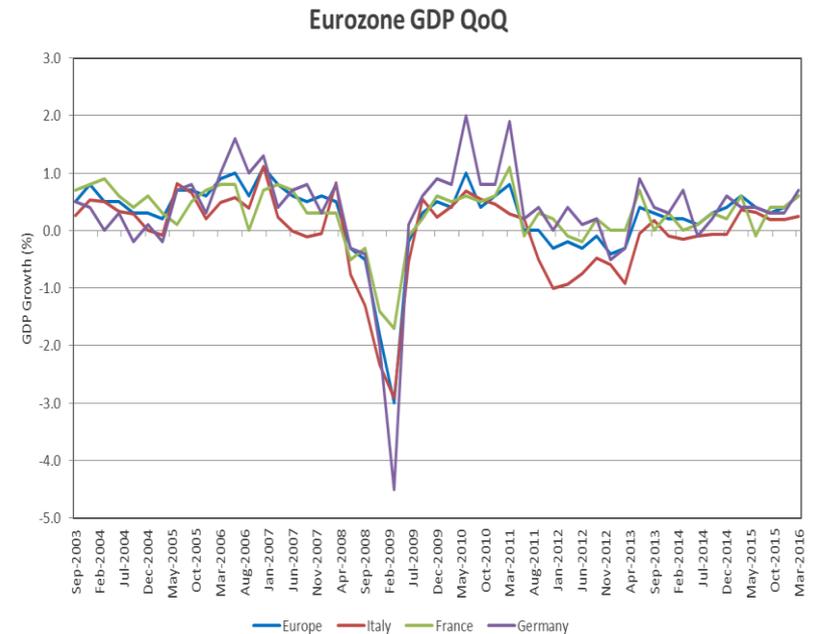


Source: Bloomberg

Brexit to keep Europe fragile

- More monetary & fiscal stimulus needed
- Euro zone mfg PMI weakens 0.7pts in July
- GBP falls 10%, 31-yr low after vote
- 5 UK property funds halt redemptions
- Italian banks need to recapitalize

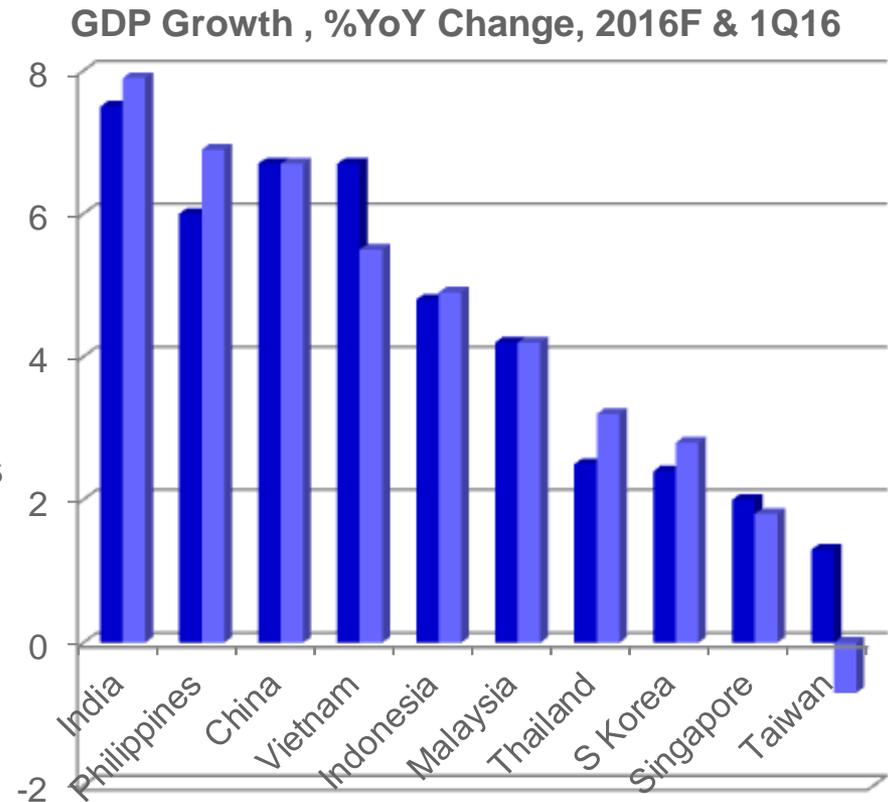
Real GDP Growth, QoQ
3Q13 – 1Q16



Source: Bloomberg

Asia struggles amidst weak external demand

- Slower growth & weak exports in 2016
- 6.7% China GDP growth in 2Q16
- Yuan falls to 6-yr low; int rate cut to low
- TWN econ growth disappoints in 1Q16
- Indo, S Korea, Malaysia cut rates by 25bps in June-July 2016

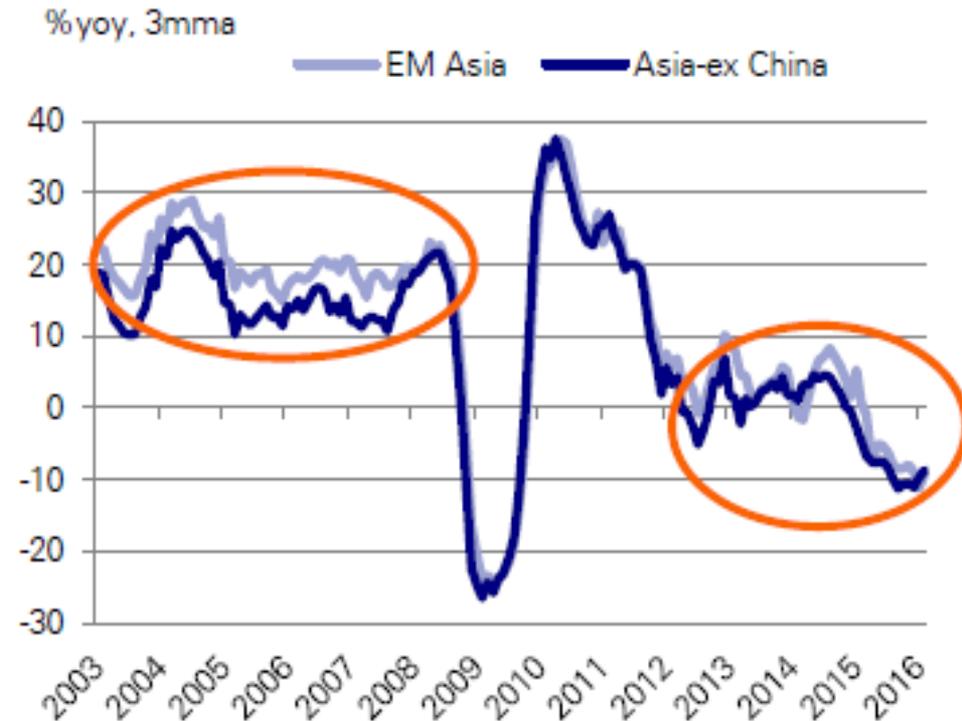


Source: Asia Economics Monthly, Deutsche Bank; June 9, 2016

Reflects in soft exports

- Export decline drags GDP growth in Asia
- Weak external demand to blame
- China's slowing economy dampens regional trade
- Export growth may become positive by Aug

Asian Merchandise Export Growth,
%YoY Change, 5M2016

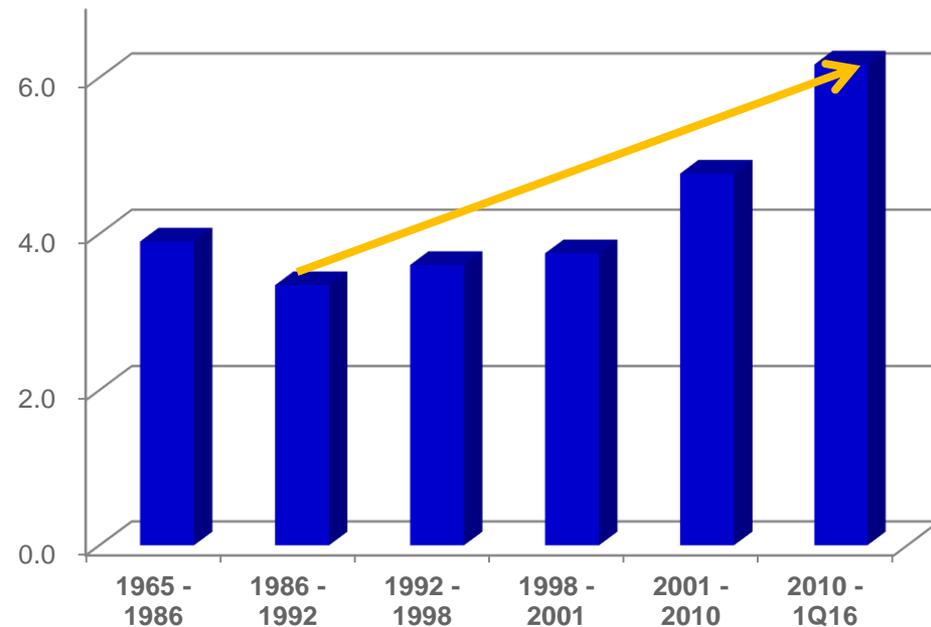


Source: Asia Economics Monthly, Deutsche Bank; May 12, 2016

Duterte inherits robust economy

- 6.9% GDP in 1Q16, 3-yr hi
- Ind (8.7%) & services (7.9%) are robust
- Investment (23.8%) driven growth
- Private (7.0%) & public (10%) spending
- Exports fell 3.8%; 14th straight mo in May
- GDP growth seen at 6.3% in 2016

Economic Growth by Administration, 1965 – 1Q16

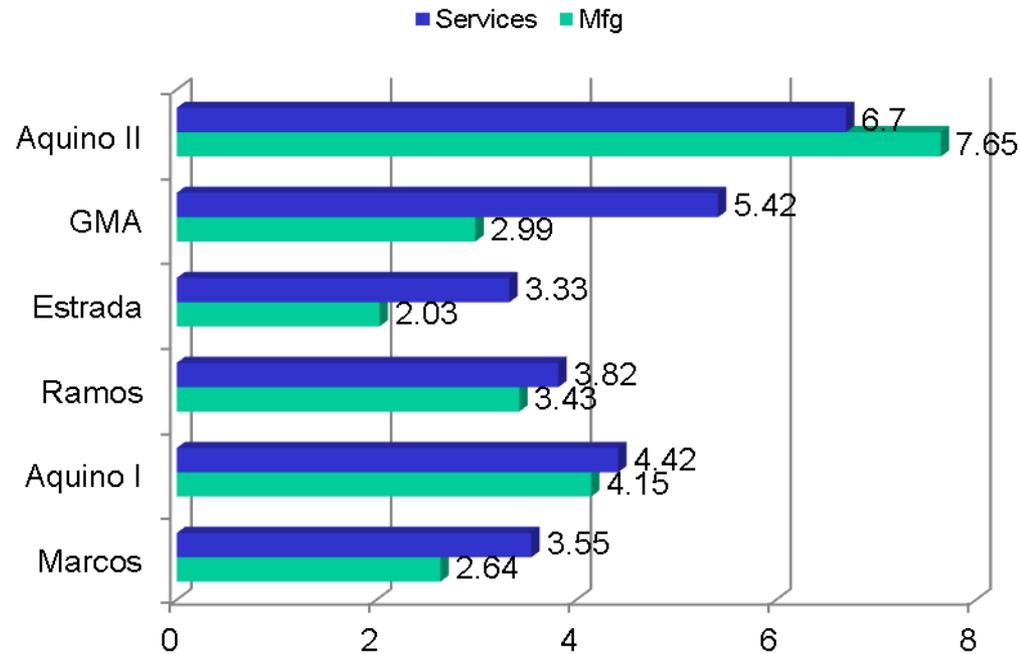


Source: National Statistics Coordinating Board; BDO

Manufacturing jobs required for push

- Aquino grew manufacturing faster
- Return of FDIs in PEZA zones
- In other countries, mfg has a positive correlation to investment rate
- Need to make Phils attractive to FDI is clear- creates jobs & increase income

Average Growth Rate by Administration, 1965 – 2016

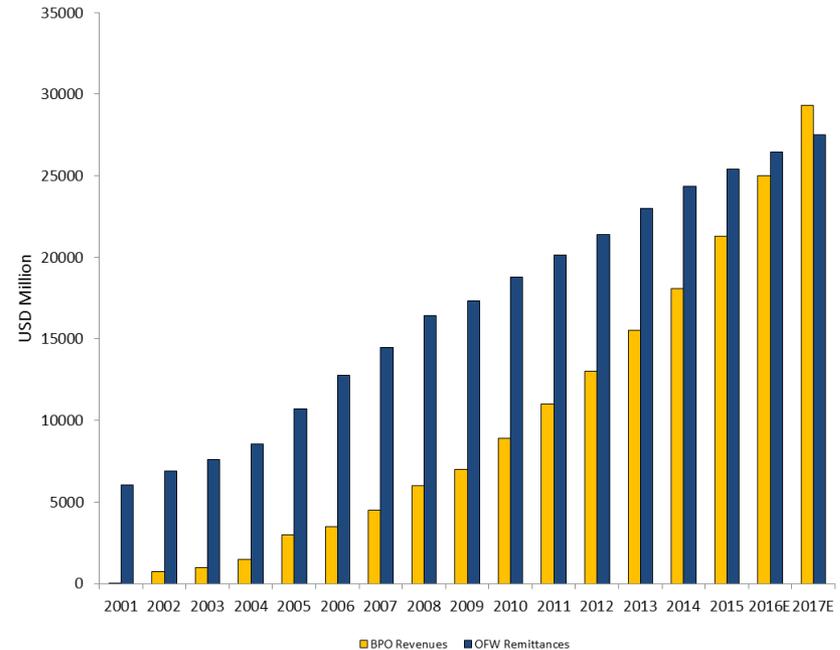


Source: World Bank, Business World Graphics

Drivers: 1) Robust consumer demand

- Supported by \$25.8Bn OFW & \$22Bn BPO inflows in 2016
- \$2,800 GDP/capita vs \$4K in Indo
- 36% auto sales in June, 27% in 1H16
- 15% rise in tourists in 1Q2016
- SSL & tax cuts could boost demand

BPO Revenues & OFW Remittances
in USD, 2001 – 2017F



Source: BSP; BDO

2) Strong domestic investments

Company	Php Billion	Priority Investments
Ayala Land Inc	85	Project completion & landbanking
SM Prime Holdings	60	Mall expansion, high-rise residential, landbanking, & China
GT Capital	60	Property & power expansion
Megaworld	55	Residential projects, land banking
Century Property Group	48	Horizontal property & tourism estates
PLDT	43	Improve network
JG Summit	41	Fleet expansion , mall expansion, & land acquisition
Globe Telecom	40	Data and broadband expansion
DMCI Holdings, Inc	40	Real estate & power generation
Vista Land & Lifescapes	36	Property projects& land bank
Metro Pacific Investments	30	Power, water, toll, railways, hospital, & Vietnam projects
Aboitiz Power	30	Additional power capacity
Starmalls	26	3-yr expansion of malls: 3 in '15, 5 in '16, 7 in '17
Meralco	25	P154bn thru 2020 vs P83bn last 5yrs;P91bn for distribution
Ayala Corp	22	Water & power expansion
Resorts World Manila	22	Expansion of Manila & build-up of Bayshore
Filinvest Land Inc	20	Mixed use property
Maynilad	17	Water projects
Robinson Land Corp	17	Expansion of malls
Manila Water Co	15	East zone water concession
Energy Development Corp	14	Geo-thermal power plant in Leyte
LT Group	10	Property, beverage, tobacco
Federal Land	10	New product launches in BPO & residential space
ABS-CBN Corp	10	Digital TV, sound stages

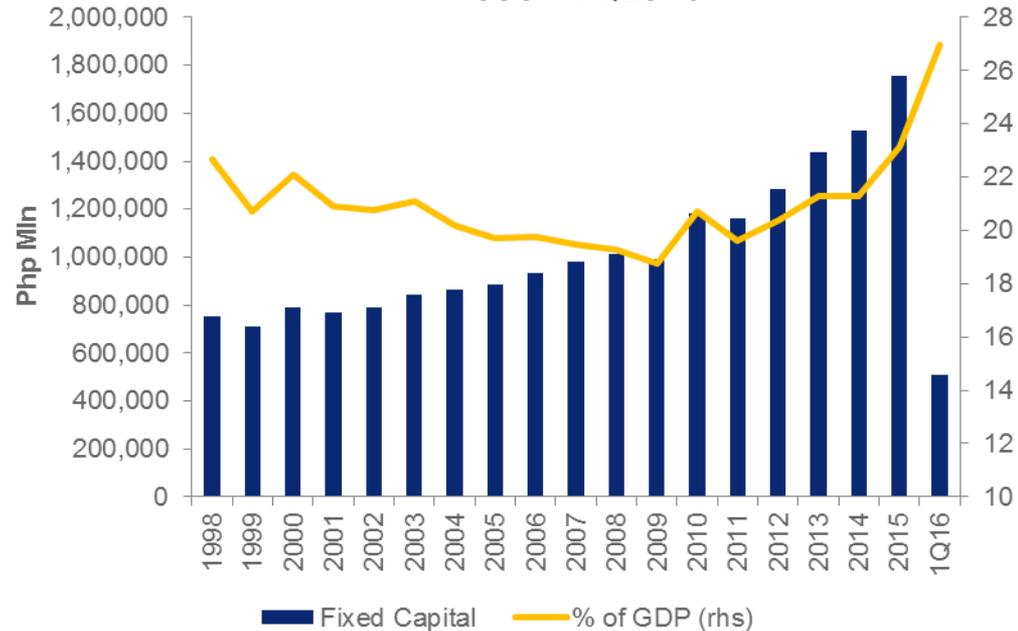
Source: Company Announcements



Positive business sentiment

- Investment driven growth since 2013
- Can we boost attractiveness for FDI?
- Reduce crime & streamline licenses
- Pnoy awards 12 PPP worth P197bn
- 15 projects for bid worth P600bn

Philippine Fixed Capital Investment, % of GDP
1998 - 1Q2016



Source: NSCB, BDO

3) Aggressive public spending

- Boost infra spend from 3.3% to 5% of GDP
- Pursue agri growth via support services
- Increase scholarships for poor
- Expand CCT & index taxes to CPI
- P3.0Tn budget in 2016; P3.3Tn likely in 2017



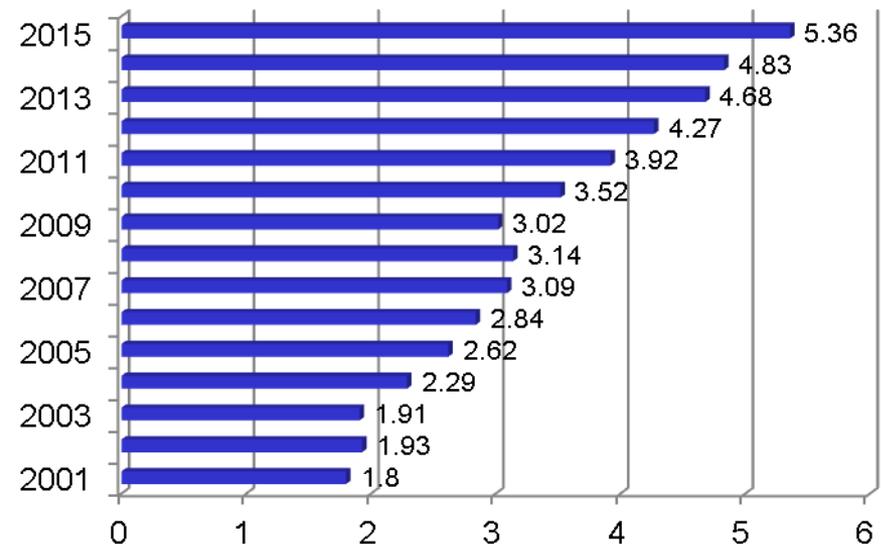
Duterte's 10 point agenda

0. Law & order, **anti-drugs**, anti-kidnapping, address traffic
1. Cont & improve macro econ policies; **reform BIR & BoC**
2. **Reform tax system**; index to inflation rate of tax brackets
3. **Accelerate infra spending** at least 5% of GDP; boost PPP
4. **Attract FDI** by easing foreign restrictions, remove red tape
5. **Pursue agri'l dev't** – improve mkt access, support services
6. Address land reform bottlenecks, security of land tenure to make projects bankable to attract investments in rural areas
7. Strengthen basic educ; focus on skills in communication, math, & logical thinking; provide scholarships for college
8. Promote Sc, Tech, & Arts to enhance innovative & creative capacities needed in dev't & participation in global econ
9. Expand & improve CCT, index grants to inflation
10. Step up implementation of RPRH Law- 3 child policy?

4) Tourism is a low-lying fruit

- Creates jobs, countryside dev't
- Int'l ad campaigns useful for market
- Increase in luxury hotels & resorts
- Need improved int'l airport & logistics
- Abu Sayaf: a blackeye for promotions

International Visitor Arrivals, in Millions
2001 – 2015



Source: Official Gazette, Business World Graphics

Low inflation

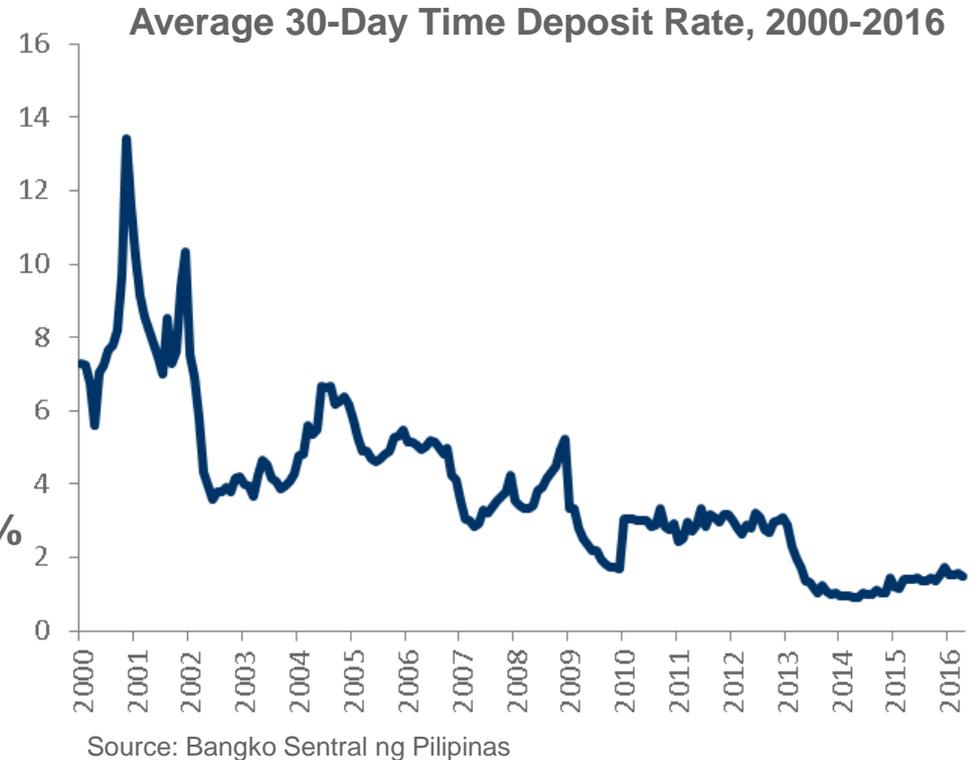
- Inflation falls from 10.5% to 1.1% in 2016
- El Nino & low base could exert pressure
- 1.9% in Jun vs 1.1% in Apr; 1.3% in 1H16
- BSP: 2.0% in 2016, 3.0% in 2017



Source: Bangko Sentral ng Pilipinas

Falling interest rates

- Investment grade status in 2013
- Fiscal consolidation story
- Low inflation & low budget deficit
- P55bn budget surplus in Apr; P57.5bn deficit in 4M16
- Risk: higher deficit/GDP to 3% from 1.8%



Stocks bounce from low

- PSEi up 12.1% 1H16, 15.6% ytd 7M16
- 32% gain from 6084 lo in Jan 2016
- \$902Mio foreign net inflow in 7M16
- 20.5x PER vs 19.5x 5-yr PER
- Target: 8,200 in 2016, 9,000 in 2017
- SSL, infra spend, tax cuts, more tourist arrivals are future catalysts

Phil Stock Exchange Index, Jul 2013 – Jul 2016

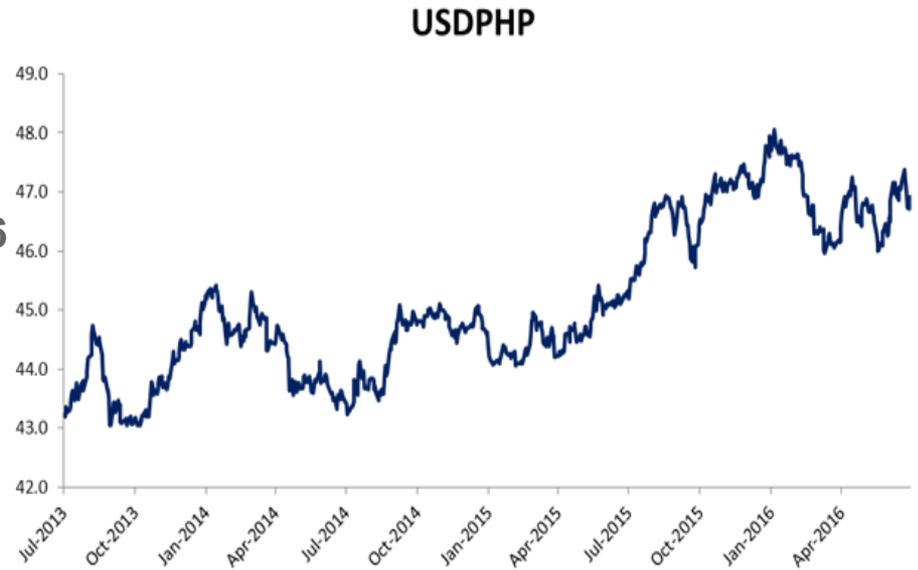


Source: Philippine Stock Exchange

PHP gains on dovish Fed

- Elections & Brexit weaken PHP
- P47.27/USD prior vs P45.85 in June
- \$184 BOP surplus in Apr; -\$90Mio in 4M16
- 2.9% OFW inflows to \$10.9Bn in 5M16
- P46.50–P47.50/USD seen in 2H16

Philippine Peso per USD,
July 2013 – July, 2016

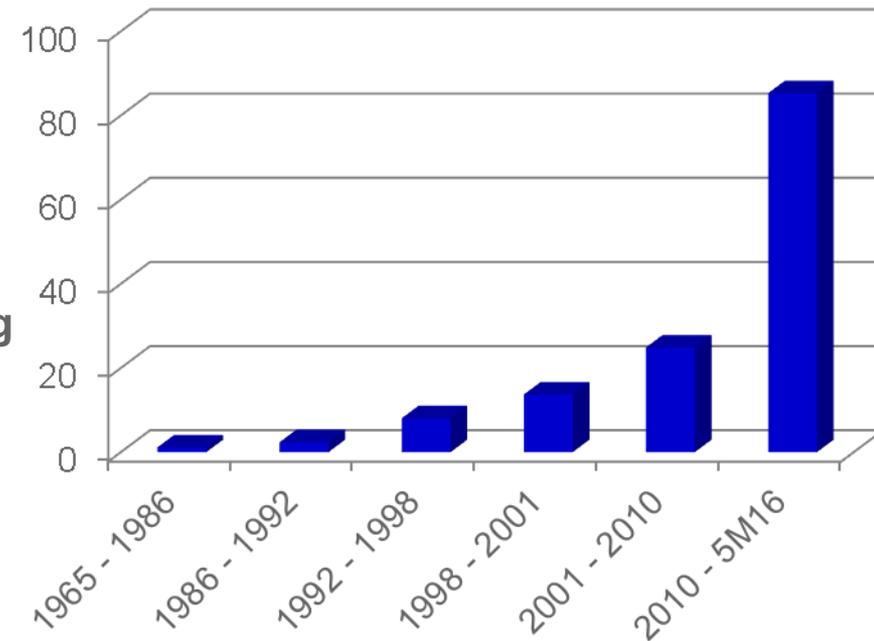


Source: Bloomberg

And sound external position

- Rising reserves from crises of 70s & 80s
- GIR at \$85.3Bn in Jun, all-time high
- 10.4x mo of imports & 5.9x ST ext debt mat
- Drop in gold prices and payment of maturing debt in May

Ave Gross Int'l Reserves, 1965 - Jun 2016

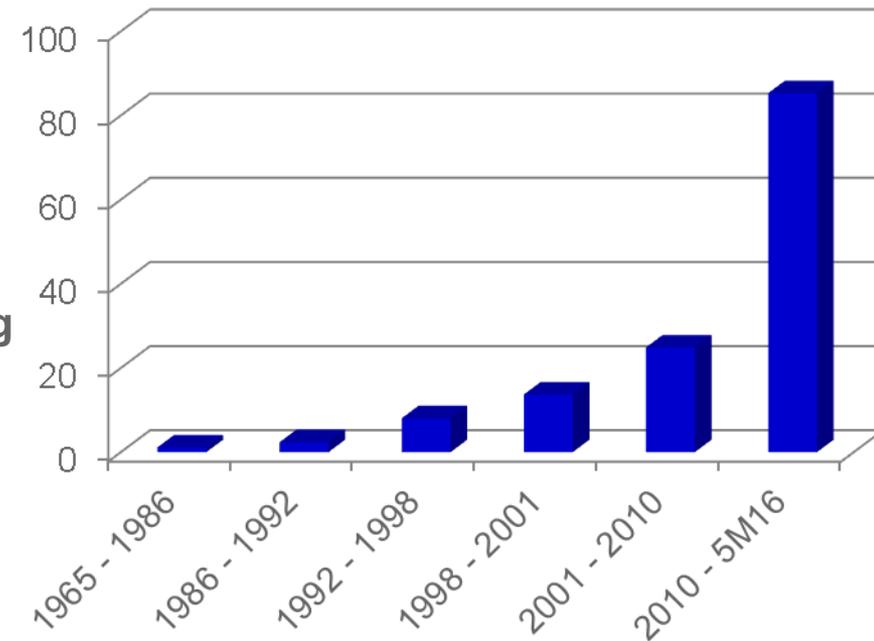


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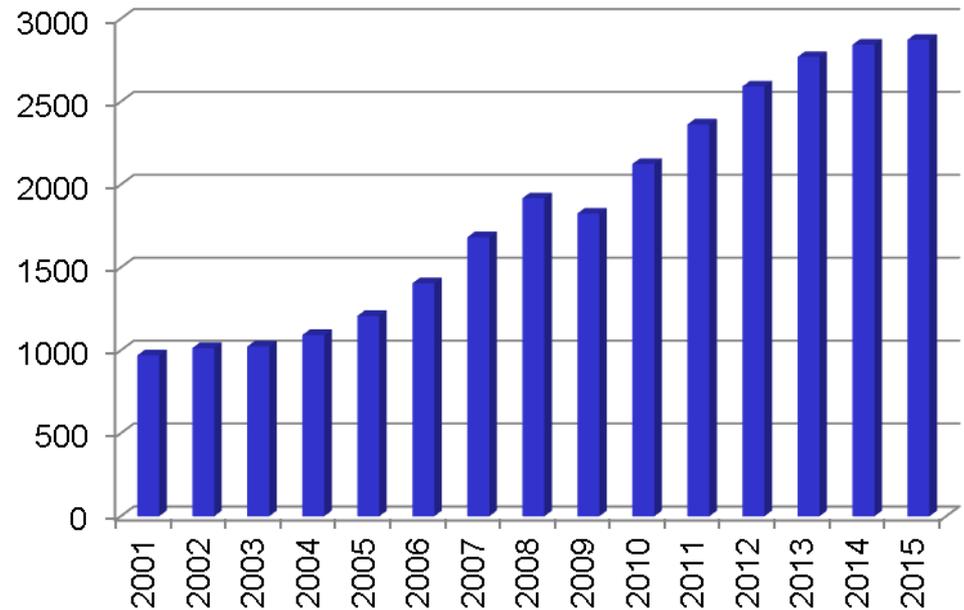


Source: Bangko Sentral ng Pilipinas

Hence, wealth effect is positive

- Per capita GDP tripled in 10 years
- National savings rate is now 27% from 4% in 1985
- AUM of banks' trust dept is now P2.6Tn from P768Bn in 2004
- Auto sales above 20% for 5 years
- Property sales brisk; P300K/sqm in Makati

GDP per Capita, in USD, 2001- 2015



Source: National Statistics Coordinating Board

Investment Strategy in 2H16

	Outlook	2016	Strategy
Inflation	Expect inflation to rise on El Nino & base effect	2014- 4.2% 2015- 1.4% 2016- 2.0% 2017- 3.4%	
Interest rate	Fed reduces rate hikes in 2016 BSP on hold BSP to close Onite window to Trust Cut in reserve requirement possible	2015 10yr- 3.8% 2016 10yr- 2.7%	<ul style="list-style-type: none"> • Reduce cash • Increase duration to slight OW • Increase corporate bond holdings
Equities	GDP expansion on election spend; 12% EPS gr but stiff competition	2014 - 7,230 2015 - 6,952 2016- 8,200 2017- 9,000	<ul style="list-style-type: none"> • OW consumer, property, conglo • Neutral power • UW telco, banking, gaming , mining

Overweight consumer, property, holdings

Sector	Stock	Market Price 12-Jul-16	12-Mo Target	Upside (%)	
Consumer	URC	200.00	240.00	20.00	17% EPSg
	RRHI	86.50	89.00	2.89	15% EPSg
	JFC	250.00	258.00	3.20	35% EPSg
	CNPF	16.18	18.00	11.25	21x PER vs. 27x ind
Property	ALI	39.70	43.40	9.32	14% EPSg
	RLC	31.00	32.70	5.48	19x PER vs. 22x ind
	MEG	5.00	6.00	20.00	
Holdings	SM	1,005.00	1,108.00	10.25	20% EPSg
	LTG	16.00	18.50	15.63	89% EPSg
	GTCAP	1,520.00	1,628.00	7.11	16% EPSg
	MPI	7.10	8.10	14.08	16x PER vs. 19x ind

Major Risk Areas

- Geopolitical risk in S. China Sea & M East
- China's hard landing & contagion effects
- Execution risk of Duterte Administration in 2018
- Regulatory risk in telco, mining, power
- International condemnation of extra-judicial executions

Thank you.

We find ways[®]