

Philequity Corner

January 15, 2007

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Count Our Blessings

We are used to reading bad news whenever we open our newspapers. Our minds have been conditioned to read about dirty politics and crimes. Political mudslinging is part of our daily fare. Politics is vicious in our country. Even the church takes an active part in politics. The extreme left gets a lot of media coverage and usually receives front-page treatment even if they represent the minority view. The extreme right and coup plotters are not penalized and become politicians. The so-called cause-oriented groups highlight the plight and the exploitation of the poor but fail to offer any concrete solutions.

With this deluge of daily bad news, things get muddled. We tend to forget that there are bright spots in our country. We have our share of blessings. Consider the following:

1. Our economic and fiscal recovery. Our economic recovery story is now well known among foreign investors but it is unfortunate that this is barely played up in the local media. After several reshuffling in the Cabinet, we finally formed a team of unpoliticized economic managers who managed to prioritize the implementation of reforms over political popularity. The result is that we are now in a virtuous regime of contained budget deficit, low inflation and interest rates, and a strong peso. This has created a more conducive environment for investments and is now spurring economic activities. It also triggered renewed interest in the stock market which is poised to reach the previous highs. Because of the prevailing low interest rates, many Filipinos are able to pursue a basic dream – that of acquiring their own homes.

2. OFWs – more than just modern day heroes. They comprise about 10% of our population and more than 20% of our labor force. About one in every two Filipino households is estimated to have an OFW relative.

We can never emphasize enough the importance of OFWs and how their steady remittances have been keeping our economy up, especially during global and domestic economic downturns. True, the exodus of Filipinos for greener pastures abroad has some social costs. But there are economic and social benefits as well. The huge remittances of \$10-12 billion annually is financing the needs of their relatives back home while tiding the entire economy over during financial crises. The amount is equal to about a third of our annual export receipts and has been providing a big boost to our dollar reserves. This, among others, has provided support to the peso whenever it is under attack.

Of late, OFWs have also become a significant market for some of our important sectors. The property sector now generates about 40% of revenues from sales to OFWs while the banking sector earns a good amount of fee income on remittances. The telecom sector has also benefited from OFW remittances in terms of the steady demand for various communications services.

3. The advent of Business Process Outsourcing (BPO). We commonly refer to them as call centers but this is a misnomer. BPOs in the country have evolved to provide services that are far more complex than just customer service representation. Their services also cover very diverse fields, from financial to legal and medical services. As of latest estimates, BPO companies now

employ 110,000 Filipinos and generate close to \$2 billion in annual revenues. This is seen to grow further with the continued influx of BPO companies.

Aside from revenues and employment, the growing number BPO firms locating in the country have spurred a demand for specialized office buildings/spaces which now comprise a new “sub-segment” in our property sector. A property company will never be considered a full-service company if it does not provide specialized (called built-to-suit) office buildings for BPO clients. The unusual working hours for BPO employees have also benefited consumer companies in terms of extended business hours. This is particularly true for those involved in operating convenience shops, fast-food restaurants and other retail shops.

More importantly, the BPO phenomenon highlights the good-natured trait of the Filipino. This is reportedly one of the key reasons why companies prefer the Philippines over other countries.

4. Alternative sources of energy. The spiraling of oil prices last year has spurred a worldwide rush to discover and developed new alternative and renewable sources of energy. Fortunately for the Philippines, we have learned our lessons during the oil crisis in the 1970s which prodded the government to take a closer look at substitute indigenous energy sources. It led to the discovery and development of geothermal energy. Today, the Philippines is the second largest geothermal energy producer in the world next only to the US.

The recent IPO of PNOC-EDC opened our eyes to the fact that we are indeed blessed to have geothermal power. Geothermal energy output in the country reached 9,902 GWh in 2006 or 18% of our total power generation mix. This is seen to grow further given the continued exploration by geothermal firms. Data from the energy department put the total potential geothermal reserves of the country at 4,970 MW of which only 2,146 MW have been developed and used to produce electricity. Meanwhile, the contribution of oil-based power to our power generation mix has dropped from 20.2% in 2000 to 10.9% in 2005. If this trend continues, the country should become less and less dependent on imported fuel oil for its energy needs.

Think of the implications if we can harness the full potentials of our geothermal resources. It is abundant, renewable, environment-friendly, and one of the cheapest forms of energy (next only to hydro and wind). Based on PNOC-EDC data, the equivalent crude oil price of steam power is at \$18/barrel vs. the current crude oil price of between \$50-60/barrel. Imagine the dollar savings that can be generated by replacing oil with steam in generating energy. In the case of PNOC-EDC, the country’s biggest geothermal energy producer, it has generated an accumulated 78,124 GWh from geothermal steam and electricity, contributing about \$3.5 billion in forex savings by replacing 130 million barrels of fuel oil equivalent.

5. Largely untapped mineral resources. We have discussed this in previous articles but we need to point out once more the largely untapped state of our mining industry. The country is the considered the fifth most mineralized in the world, with nine million hectares of mineralized land, and established reserves 13 known metallic and 29 non-metallic minerals. Government estimates put the country’s reserves at 7.1 billion tons of metallic and 51 billion tons of non-metallic minerals. This was conservatively valued at close to \$850 billion or about 10 times our GDP!

While world metal prices remain favorable, we must pursue vigorously the development of our mining industry lest we miss out on current opportunities.

6. Tourism sector still in infancy stage. This is one more aspect of the country that has yet to be fully developed. Despite the aggressive implementation of various tourism programs, we still

lagged our neighbors in terms of tourist arrivals and revenues. For all intents and purposes, our tourism industry has remained in the infancy stage. Our tourist arrivals of just 2.5 million visitors a year, for instance, pale in comparison to Thailand's 13.5 million. The same is true with our \$2.6 billion tourism earnings vs. Thailand's \$20 billion. We hope that government will make good its commitment to pursue the various infrastructure projects to improve the accessibility and attract investments into various tourist destinations. We are a firm believer in the beauty of our country which can be harnessed to spur economic activities in the various regions and bring about progress to the countryside. Our country is endowed with the best tourism spots in the world. Spread out all over the country are beaches and diving spots that are among the best in the world. We have lush forests, beautiful mountains and waterfalls. The Philippines have one of the most number of shopping malls, restaurants, bargain *tiangges* that can offer the widest range of choices for tourists.

7. Our people. Last but not the least, the Filipino. He is famous all over the world as being good natured. He has an amazing ability to keep a happy disposition even amid challenges. His determination to survive and rise above crises is just remarkable. Given the proper environment, he is very hard working and efficient. Every Filipino is a natural singer and dancer, too. He sings and entertains, with most hotels around the world employing bands composed of Filipinos. People love being around Filipinos. He is gregarious, helpful, congenial, and funny. Because of these traits, many consider the Philippines as still the best place to retire and live in.

Our country is not a hopeless case. In fact, things have improved considerably and are only going to get better. We have these factors to get us into higher heights if only we can focus, shed off our skepticism and destructive politics. We are starting a new year. Let us remove our blinders at the start of year 2007. There are many good things about the Philippines. LET US COUNT OUR BLESSINGS.

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Philequity's new address: We would just like to inform our investors and readers of Philequity's new office address as follows: 2703-A, 27th Floor East Tower, PSE Center, Tektite Road, Ortigas Center, Pasig City.

Aside from the contact details below, you can also reach Philequity through telephone numbers 706-0795 and 635-6965.

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