

PHILEQUITY CORNER

By Ignacio B. Gimenez

The rampaging BULL is here!

“It is never too late to make money in this market! With the PHISIX reaching a new six-year high last week, we have never been more bullish on Philippine stocks.”

The above quote was what we said last March 27 in our article entitled “**Time to Make Money (Part 2).**” Those who heeded our recommendation would have profited an average return of 11.9%, equivalent to the gain of the benchmark PHISIX which ended at 2,470 last week. Those who followed our sector picks would have gained more. For example, the property and mining indices are up 19.5% and 60.4%, respectively, since March 24. Year-to-date, our top three sector picks (which includes the Banking Index) are up an average of 44.5% vs. the PHISIX return of 17.9%. Our own Philequity Fund has outperformed the PHISIX with its 27.56% year-to-date return!

Performance of Top 3 Sector Picks vs. PHISIX

	% chge since March 24 ("Time to Make Money" article)	% chge year-to-date
Property Index	19.5	30.1
Banks & Financial Services Index	6.2	24.3
Mining Index	60.4	88.0
Average of Top 3 Sector Picks	28.7	47.5
Philippine Composite Index	11.9	17.9

Source: Technistock

Philippines ... back on foreign funds “buy list”

The market gained a whopping 8.8% last week as foreign funds positioned in “blue chip” issues. This is not unexpected. Many stockbrokerage houses who have recently gone on marketing trips reported the continued positive attitude of foreign clients on the Philippines. Even the California Public Employees’ Retirement System (CalPERS), the biggest pension fund in the US, has reportedly raised the country’s ranking in its preferred list of emerging markets on account of improving fundamentals. Net foreign buying reached P3.3 billion last week, with P1.9 billion on Friday alone. Ayala issues topped the foreign “buy list” last week with almost P1.3 billion going into Ayala Corp., Ayala Land, Inc., and Bank of Phil. Islands.

Issue	Week ending	Net foreign buying (Pesos)	Week ending	Net foreign buying (Pesos)
Ayala Corp	5 May 06	502,964,400	28 April 06	-86,959,575
Ayala Land Inc	5 May 06	465,662,900	28 April 06	217,130,600
Bank of Phil. Islands	5 May 06	322,468,150	28 April 06	613,538,950
Filinvest Land Inc	5 May 06	287,294,620	28 April 06	9,457,160
Manila Water Co	5 May 06	285,875,700	28 April 06	31,024,400
PLDT	5 May 06	253,754,100	28 April 06	351,596,400
Megaworld	5 May 06	168,883,960	28 April 06	-1,679,340
Globe Telecom	5 May 06	120,800,550	28 April 06	35,648,750
Metrobank	5 May 06	112,617,700	28 April 06	-41,240,850
Petron Corp	5 May 06	55,673,950	28 April 06	-55,878,350

Source: Technistock

Majority of the index issues were up last week, including the second- and third-liners. This is a good indication of market breadth. With the PHISIX at 2,470, there is still much room for stocks to move higher.

Good fundamentals beget good business

What could propel the Phisix back to previous highs are good fundamentals. Earnings growth is seen at an average of 13-15% in the next two years. This is underpinned by the improvements in the economy as the momentum for reforms has been undistracted. A virtuous cycle now exists as the shrinking deficit and stable interest rates has encouraged more investments and higher economic activities, leading to more revenues for the government. More investments and strong OFW remittances have also kept the peso relatively stable, even as the central bank reported foreign reserves at a record high of US\$20.2 billion. All these spell good prospects for the stock market.

Going forward, the market's uptrend appears sustainable. The expectations of a 5.5% GDP growth in the first quarter as farm output rebounds indicates that the 5.5%-6% full-year target is achievable. With inflation still under control combined with good fiscal position, interest rates should remain relatively stable.

At this point, the market is set to test its 1999 high of 2,632, which we think is reachable within the next few months. After all, the PHISIX is still 28% below its all-time high of 3,447 in 1997, while other ASEAN indices such as the Jakarta Composite Index and Singapore Straits Times are already above their pre-1997 Asian crisis highs.

PHISIX Weekly Chart (1987 – 2006)



Source: Technistock

Sectoral picks

Philequity remains bullish on the prospects of the property, banking and mining sectors. Fuelling the continued boom in the property sector are low interest rates and the strong demand which is a getting a boost from OFW remittances. The power of the OFW money is now felt not only by

property firms with low-cost housing projects but even among those providing mid- and higher-cost projects. The likes of Ayala Land, Megaworld and Filinvest reported that 25% to 40% of their sales are from Filipinos overseas. Their data do not include sales made to local residents who depend on remittances from relatives abroad in acquiring properties.

Despite the recent run-up in share prices of certain bank stocks, we believe there remains an upside. The sector is still trading below 2x book value in contrast to almost 3x in 1999-2000. This is in spite of the fact that non-performing assets and non-performing loans are at their lowest while NPA/NPL coverage is at its highest. Loans are also being propelled by the high demand for property and consumer products. The ongoing consolidation and recapitalization among banks should also provide additional speculative flavor.

Meanwhile, the mining sector provides the greatest promise as its potential has yet to be fully explored (*see April 3 and April 24, 2006 issues of Philequity corner*). The sector offers the biggest turnaround story as mining companies bounce back following the completion of exploration activities and rehabilitation of old mines which are now rendered economically viable as world metal prices hit levels that are highest in 25 years. The advent of the Mining Act should also enable the sector to achieve its potentials as the law has paved the way for foreign investors to participate and introduce the much-needed investments and technology.

For comments and inquiries, you can email us at info@philequity.net or gime10000@yahoo.com.