Philequity Corner (May 5, 2008)
By Valentino Sy

Something is amiss with the Philippines

Global equities have been in a bottoming process since January. Interest rates have since been slashed by 150 basis points more. Various liquidity boosting facilities were implemented by the Fed and other major central banks. Regulatory moves to free up capital in the mortgage market (with the Fed taking in mortgage-backed securities as collateral) have been initiated. The Fed's role as a lender of last resort (thru the bailout of Bear Stearns) has been augmented.

All these unprecedented reflationary efforts are now finding their way into the financial markets. Tech-heavy Nasdaq has since rallied by 12.5 percent from its January 2008 low. The Dow Jones Industrial Average (DJIA) and the S&P 500 indices have likewise rebounded by 12.2 percent and 11.3 percent from their January lows, respectively.

US Markets	January Low	Price as of May 2	%Chg
Nasdaq	2,202.5	2,477.0	12.5%
DJIA	11,634.8	13,058.2	12.2%
S&P 500	1,270.1	1,413.9	11.3%
Average			**12.0%**
Other Developed Markets			
U.K. (FTSE 100)	5,338.7	6,215.5	16.4%
France (CAC 40)	4,505.0	5,069.7	12.5%
Japan (Nikkei)	12,572.7	14,049.3	11.7%
Germany (DAX 30)	6,384.4	7,043.2	10.3%
Average			**12.8%**

Source: Bloomberg

Other developed markets and Asian markets took their cue from the US. The FTSE 100 surged 16.4 percent, the CAC 40 has rallied by 12.5 percent. In Asia, the Taiwan Stock Exchange Index and the Hang Seng have rallied 21.4 percent and 20.9 percent, respectively.

Asian Markets	January Low	Price as of May 2	%Chg
Taiwan (TWSE)	7,384.6	8,963.6	21.4%
Hong Kong (Hang Seng)	21,709.6	26,241.0	20.9%
Singapore (STI)	2,746.7	3,236.1	17.8%
Thailand (SET)	730.7	843.2	15.4%
India (BSI)	15,332.4	17,600.1	14.8%
South Korea (KOSPI)	1,628.4	1,848.3	13.5%
Indonesia (JCI)	2,229.8	2,342.8	5.1%
Malaysia (KLSE)	1,340.3	1,271.5	-5.1%
Philippines (PSEi)	2,953.9	2,723.0	-7.8%
China (CSE 300)	4,708.4	3,959.1	-15.9%
Average			**8.0%**

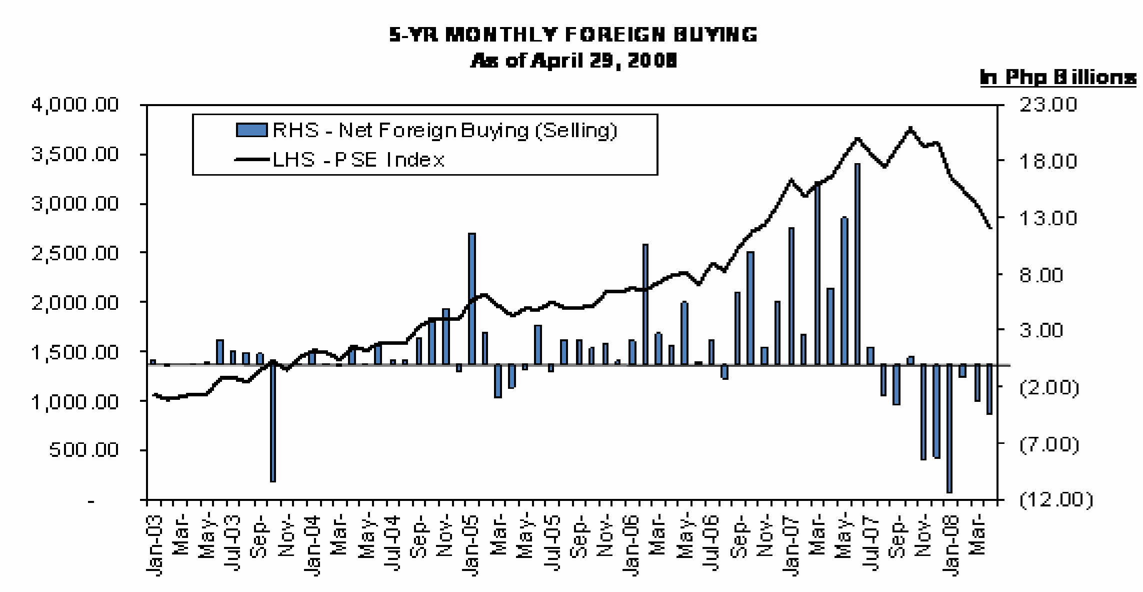
Source: Bloomberg

Something, however, is amiss with the Philippines. From its January lows, the PSEi has declined further by 7.8 percent. Year-to-date return of -25 percent is one of the worst in Asia.

Investors allergic to subsidies

While global equities have found their footing recently, Philippine equities are still searching for a bottom. This could probably be due to the recent pick-up of inflation and the hysteria generated by the current rice crisis.

Unfortunately, this generated a very bad image for the Philippines at a time when the sentiment for risk aversion is high enough to severely affect Philippine equity prices. This is evident on the figure below which shows that foreign selling resumed in March and April after abating in February.



Source: PSE, Philequity Research

Adding to the negative sentiment is the government's plan to throw in more subsidies. While these policies will help alleviate inflationary pressure in the short-term, these policies are difficult to finance for an extended period of time. Moreover, the country risks a reversal of its fiscal gains over the last several years.

Glass half-full or glass half-empty?

Nonetheless, we view these concerns on inflation and possible fiscal underperformance (due to subsidies) as temporary setbacks. The Philippine economy remains robust, expanding at its fastest in 30 years. Corporate profitability is expected to be sustained. In terms of valuation, Philippine equities are already considered cheap (trading at 11.5x PER '08 or at the low end its historical range). In fact, a lot of companies have been buying back their shares and raising dividends.

With regards to the external markets, our view is that the subprime crisis has evolved into its last stages and that the worst is over as evidenced by the recovery in US and global stocks. Over the next few months, the US financial system should begin a period of rehabilitation. Overall, we remain optimistic on the Philippines. We view the current situation as a glass half-full rather than half-empty.

Wisdom of diversification

Meanwhile, a potential bottom in Philippine equities has yet to be confirmed in the charts. This brings to the fore a basic investment tenet that we have always emphasized way back - that it is always prudent to have a diversified portfolio of assets (e.g. some in fixed income, some in equities, some in alternative assets). And for those who are able to trade in the world markets, exposures in different countries and in different currency denominations should provide further diversification.

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