**Philequity Corner (March 28, 2011)**
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## Oil Price Surge, Earthquake and Nuclear Fallout

In our presentation to the Philequity Board of Directors last March 16, we reviewed the current state of the 2-year old bull market, as well as our outlook for 2011. We believe that the world economic recovery and the bull market are still intact. However, we note that the political upheaval in the Middle East and North African (MENA) region causing oil prices to surge, along with the Japanese earthquake and nuclear crisis, are risks to the global recovery story.

### Oil Spike

Since the beginning of this year, oil prices are up 15% and have gone above $100/barrel as the political turbulence spreads to several countries in the MENA region. Investors and consumers alike are concerned that the unrest in the MENA region will lead to significant disruptions in oil supply. While it may be farfetched to assume that supply from the Middle East will be totally cut off, the table below showing 2009 production data (Table 1) illustrates why investors are apprehensive of the political unrest in the region. The unrest in Libya caused oil prices to spike up, and yet it only accounts for 2% of global oil production. We shudder to imagine the impact on pump prices if and when the contagion spreads to other countries in the region, especially Saudi Arabia.

**Table 1 – 2009 Oil production Data**

| Countries | thousands of barrels | % of total |
|---|---:|---:|
| RUSSIA | 3,465,808 | 13% |
| SAUDI ARABIA | 3,011,291 | 11% |
| UNITED STATES | 1,956,596 | 7% |
| IRAN | 1,473,519 | 6% |
| CHINA | 1,386,587 | 5% |
| MEXICO | 949,518 | 4% |
| CANADA | 941,510 | 4% |
| UNITED ARAB EMIRATES | 880,582 | 3% |
| IRAQ | 872,566 | 3% |
| KUWAIT | 857,750 | 3% |
| VENEZUELA | 817,400 | 3% |
| LIBYA | 602,250 | 2% |
| EGYPT | 196,735 | 1% |
| BAHRAIN | 12,775 | 0% |
| **World** | 26,394,480 | 100% |

*Source: EIA, OPEC*

### Remittances at Risk

While any escalation of conflict in the MENA region will invariably lead to an increase in oil prices, it is also worth evaluating the impact of the same crisis on one of our country's biggest foreign inflows – OFW remittances. Table 2 shows OFW remittances for 2010 per region while Table 3 deals with the number of workers deployed as of November 2010. The tables below speak for themselves. It is worth emphasizing though that while our exposure to Bahrain, Libya and Egypt as far as OFWs are concerned is negligible, it will be complete different if the unrest spreads to Saudi Arabia and the other Gulf States (see Table 4).

**Table 2 - OFW Remittances for 2010**

| Region | Remittances | As a % of total |
|---|---|---|
| AMERICAS | $9.988 billion | 53% |
| EUROPE | $3.180 billion | 17% |
| MIDDLE EAST | $2.964 billion | 16% |
| ASIA | $2.363 billion | 13% |
| OCEANIA | $0.236 billion | 1% |
| **Total** | $18,765 billion | 100% |

*Source: BSP*

**Table 3 - Deployed OFWs as of November 2010**

| Region | Workers | As a % of total |
|---|---|---|
| AMERICAS / TRUST TERRITORIES | 3,610,851 | 36% |
| MIDDLE EAST | 3,057,233 | 31% |
| ASIA, East & South | 1,327,748 | 13% |
| EUROPE | 769,046 | 8% |
| SEA-BASED WORKERS | 647,195 | 7% |
| OCEANIA | 400,108 | 4% |
| AFRICA | 88,829 | 1% |
| **WORLD TOTAL** | **9,901,010** | **100%** |

*Source: POEA, DFA*

**Table 4 – Deployed OFWs in the Middle East as of November 2010**

| MENA Countries | Workers | As a % of total |
|---|---|---|
| SAUDI ARABIA | 1,435,259 | 46% |
| UAE | 799,064 | 26% |
| QATAR | 345,734 | 11% |
| KUWAIT | 204,088 | 7% |
| BAHRAIN | 64,972 | 2% |
| OMAN | 51,335 | 2% |
| ISRAEL | 43,686 | 1% |
| JORDAN | 34,801 | 1% |
| LIBYA | 34,369 | 1% |
| LEBANON | 32,658 | 1% |
| SYRIA | 19,992 | 1% |
| EGYPT | 6,535 | 0% |
| IRAQ | 6,215 | 0% |
| IRAN | 4,621 | 0% |
| YEMEN | 3,591 | 0% |
| **TOTAL** | **3,086,920** | **100%** |

*Source: POEA, DFA*

## Citizens of the World

Similar to the situation in the Middle East where OFWs had to be repatriated as a result of social unrest, OFWs in Japan were put at risk as a result of the looming nuclear crisis. Prior to that, our government had another OFW scare. Last February, when our government deported 14 Taiwanese nationals to China instead of to their maiden country, it provoked a diplomatic backlash that resulted in stricter screening rules as well as a longer processing period for job applicants to Taiwan. There were even fears that the contracts of nearly 130,000 OFWs working there would be terminated. While, at present, the probability of any crisis in the Asian region is unlikely, Table 5 below illustrates that Filipinos are present not just in faraway lands, but even in neighbouring countries. Filipinos are indeed citizens of the world.

**Table 5 - Deployed OFWs in Asia as of November 2010**

| Asia | Workers | As a % of total |
|---|---|---|
| HONG KONG | 261,277 | 20% |
| MALAYSIA | 251,954 | 19% |
| SINGAPORE | 225,311 | 17% |
| JAPAN | 216,297 | 16% |
| **TAIWAN** | **127,736** | **10%** |
| SOUTH KOREA | 92,579 | 7% |
| CHINA | 33,812 | 3% |
| MACAU | 21,473 | 2% |
| THAILAND | 19,634 | 1% |
| INDONESIA | 15,491 | 1% |
| VIETNAM | 7,980 | 1% |
| OTHER ASIAN COUNTRIES | 54,204 | 4% |
| **TOTAL** | **1,327,748** | **100%** |

*Source: POEA, DFA*

## Reducing our oil dependency

In addition to a possible exodus of OFWs, the government would have to contend with its rising oil bill. Currently, the Philippines imports 338,400 barrels of oil and oil products per day. Fortunately, the country is rich in natural resources that we could use to our advantage. Not only do we have abundant metal reserves, but we are also rich in geothermal energy, being the country with the 2nd largest installed capacity in the world of about 1904 MW, behind only the United States and ahead of even Indonesia. Some companies, including Ayala Corporation recently, have begun investing in wind farms up north. Hydroelectric power has also been a boon for companies like Aboitiz Power that were able to win the government’s auctions of various dams.

## Gindara, A Second Malampaya?

However, these renewable sources of energy are limited by location and efficiency. As such, fossil fuels will remain a large part of our country’s power generation. One of the overlooked ventures in the Philippines is the coming offshore oil exploration in Palawan called Gindara-1. Because the companies embarking on this project are not listed in the local bourse, this drilling project has not been publicized. While Gindara-1 has had little or no fanfare, a successful find in this well will be a tremendous boost to the Philippine economy. Gindara-1, which is located some 50 kilometers of the Malampaya gas field in Palawan, will be drilled by Australian company Nido Petroleum and Shell Philippines Exploration B.V. in May 2011. The site, if drilled successfully, has potential reserves of 1 billion barrels of oil that can be easily tapped. Gindara-1 is the first of five wells to be drilled in the block and, while it will not turn us into an oil-exporting country, it will definitely help reduce the country’s oil burden. Let us hope that black gold springs from this well.

## Philippine Stocks to Watch

Unfortunately, outside investors cannot participate in Nido Petroleum since it is not listed on our stock exchange. There are other energy plays though that traders can buy, such as Aboitiz Power, which is one of the premiere power producers, using both coal-fired and hydroelectric plants. For geothermal energy, one can invest in Energy Development Corporation (EDC). EDC is the top geothermal power producer in the country, and it is planning to extend its geothermal reach to Indonesia and Chile. Semirara Mining Corporation (SCC), on the other hand, is the only listed coal miner with a mine in Antique. In addition, it has put up a coal-fired power plant in Calaca, Batangas to serve our country's electricity needs. While rising oil prices pose a risk to our country's recovery, let us not lose sight of these bright opportunities in the market that will allow investors to profit in these uncertain times.

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