

Philequity Corner (October 26, 2015)
By Valentino Sy

Corporate Buybacks and Owners Buying

In a previous article (see *A Cloudy September*, 5 October 2015), we wrote about how asset classes all over the world experienced the worst August and September in years. In fact, the Philippine stock market fell 8.9% during the 3rd quarter, wiping out all its gains for the year.

October – a good start to the 4th quarter

Fortunately, things are looking up as the 4th quarter begins. After coming from one of the worst 3rd quarters in history, the market is off to a good start, rising 5% so far in October. The S&P 500 also logged its best month in 4 years, surging 11% from its August low. In comparison, the PSEi is up 9.6% from its bottom in August.

Low at 6,603

As we said in previous articles, the sharp reversal in stock markets and emerging market currencies show that things have stabilized and it is very likely that we have seen the low for the Philippine stock market at 6,603 last August 25 (see *The Ghost Vanishes*, 21 September 2015 and *Contagion No More*, 12 October 2015). This call on the low was also imparted and explained by GSIS President Robert Vergara in his Bloomberg interview.

Foreign selling abates

One of the reasons behind the stabilization of our stock market is the slowing of foreign outflows. After consistent foreign selling of more than PhP 60 billion from April to September, we now see pockets of foreign buying. Although it is too early to say if this is a trend, this is an encouraging sign that we are closely monitoring.

Who has been buying?

Given the sheer magnitude of foreign outflows, the question is this – who has been buying? Certainly, local mutual funds and UITFs have been major buyers. Our own Philequity Fund has seen retail investors continuously buying into the fund as the market was correcting. State pension funds like GSIS and SSS have also been buying heavily in the open market. Likewise, local investors, big and small, have been buyers in the past months. However, there is a new set of buyers absorbing the foreign selling – the owners and companies themselves.

From selling to buying

One of the factors that can cause a market correction is an avalanche of share placements. We have written about this in previous articles and explained how the market entered into a consolidation as a result of so many secondary share issuances in a short span of time (see *An Avalanche of Overnight Secondary Placements*, 23 July 2012 and *A Torrent of Share Issuances and Placements*, 11 November 2013). This time, the opposite is happening because instead of the owners and companies selling shares, they are now the ones buying.

Presentation of Shareholder Buybacks

In presentations to our clients and investors, we have been citing examples of owners and companies that have been buying their own shares of stock. In fact, our own fund manager also presented this at the Corporate Governance Forum sponsored by the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE). We are now sharing this portion of the presentation with our readers.

Below is the list of companies that we have been presenting to our clients. The list shows which companies have bought back significant amounts of their own shares or have owners who are buying heavily in the open market, especially when the market corrected:

Companies with corporate buybacks

1. ABS-CBN
2. Belle Corporation
3. Bloomberry Resorts Corporation
4. Cosco Capital
5. International Container Terminal Services
6. Puregold Price Club
7. Vista Land and Lifescapes

Companies with major shareholders and owners buying

1. Alliance Global
2. Aboitiz Power
3. Belle Corporation
4. Cosco Capital
5. DMCI Holdings
6. D&L Industries
7. East West Bank
8. Energy Development Corporation
9. Emperador
10. GMA 7
11. Lopez Holdings
12. Metrobank
13. Nickel Asia
14. Semirara Mining and Power Corporation
15. SSI Group

Owners see long term value

While corporate buybacks and shareholder purchases themselves are not indicative of a stock's short term performance, these show that the owners see long term value in their company's share price. It also shows how confident they are in the company's future prospects. This is especially true when they buy consistently or significantly, and not just token amounts.

In fact, some of the owners of the companies listed above have already bought hundreds of millions of pesos worth of their own shares. Some of these companies have also been implementing their share buyback program on a near daily basis. This is another bullish sign that we have not seen in years.

Have a long term horizon

At Philequity, we have always advocated that investors have a long term time horizon. On page 63, Chapter 2 of the book "Opportunity of a Lifetime", we said that an investor should "**maintain a long term investment horizon to see the opportunity beyond the current crisis.**" Just like the owners of the companies listed above, investors should use corrections as an opportunity to buy stocks whose fundamentals are intact. If a company is well-managed, has a good business model and solid growth prospects, an investor can be assured that, over the long term, the company's stock price will continue to appreciate.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 689-8080 or email ask@philequity.net.