



Philequity Corner (July 25, 2016)
By Wilson Sy

The Punisher's SONA

Before the elections, we wrote about a phenomenon that was sweeping the country. We said that the sudden widespread popularity of Rodrigo Duterte is something that sociologists and political analysts should understand and study (*Groundswell*, April 18, 2016). After The Punisher's resounding win in the elections, we wrote about how the Duterte groundswell has spread to the stock market (*The Punisher Shines – Big Win for Stocks*, May 16, 2016 and *Groundswell in the Stock Market*, May 30, 2016).

Today, as President Duterte delivers his first State of the Nation Address (SONA), Filipinos worldwide will watch as he outlines his plans for the country. There are high expectations of the change that he and his team had promised. Now, it is time for The Punisher to deliver. President Duterte should capitalize on the groundswell that propelled him to power, the strong mandate that he won in the elections and the record-high trust rating that he now enjoys to deliver the structural reforms that our country needs.

Our Wishlist

As the President details his goals and plans, we present our wishlist for the country. Our wishlist contains actions and initiatives that we believe will have direct effects on our stock market and economy. Some of these have already been mentioned in the government's 10-point economic agenda but we also included them in our wishlist to emphasize their importance.

- 1. Sustain or accelerate GDP growth.** Our economy grew at an average of 6% in the Aquino administration and 6.9% in 1Q16. **The Duterte administration aims to achieve a growth target of 7 to 8% from 2018 to 2022.** We believe that this is possible if the government can successfully harness the potential of our economy and continue the implementation of important structural reforms.
- 2. Golden age of infrastructure building.** The Duterte team has repeatedly stated that it intends to address bottlenecks in project delivery in order to upgrade the state of our country's infrastructure. **Budget Secretary Benjamin Diokno said that the country will enter a 'golden age of infrastructure building.'** He also stated that the government aims to increase infra spending to 5% of GDP in 2017 from current levels of about 2 to 3%. The public-private partnerships (PPP) will continue and may be supplemented by hybrid infrastructure projects. Diokno also said that projects will be constructed simultaneously and not sequentially, with some employing 24-hour construction.
- 3. Airports, rails and roads.** It is crucial to construct new airports, rails and roads and upgrade existing ones. There are proposals for the new airport/s to be built in Clark or Sangley Point or both. There are also plans to build railways from Metro Manila to provincial hubs or locations such as Clark or Albay. Our leaders can look at the law on eminent domain implemented by Indonesia, which has made it easier for the Indonesian government to acquire right of way for infra projects.
- 4. Improve the traffic situation.** There are many concrete and detailed proposals coming from the Management Association of the Philippines (MAP) represented by Eddie Yap. One of them is to grant the government emergency powers in order to solve the traffic problem. We hope that the traffic situation can be addressed as it will benefit many Filipinos.
- 5. Reduction of income taxes.** This was one of the main recommendations of George Barcelon and the Philippine Chamber of Commerce and Industry (PCCI) in a business summit that they had with

President Duterte and his economic team. Since we have one of the highest tax rates in the region, our tax regime has to be updated in order to be progressive and competitive.

Lowering corporate taxes will be a positive catalyst for local corporates while also increasing the attractiveness of our country to foreign investors. Meanwhile, lowering personal income taxes should support consumption spending, which has been the lynchpin of our economy.

6. **Revenue measures to compensate for tax cuts.** The Duterte team has to ensure that the tax reform package is fiscally responsible. **Tax reductions must be met with compensating revenue measures**, which may be achieved by widening the tax base and improving compliance. Other recommendations include increasing the value-added tax (VAT) rate, lessening the exemptions from VAT, increasing excise taxes on fuel and imposing new taxes on soft drinks and junk food. The government can also study Indonesia's tax amnesty program if it will be necessary to review and revise the bank secrecy law. The government should do these initiatives as soon as possible in order to take advantage of President Duterte's strong mandate and high trust rating.
7. **PERA / REIT.** The implementation of Personal Equity Retirement Account (PERA) and Real Estate Investment Trust (REIT) are initiatives that will directly benefit the stock market. PERA will institutionalize a voluntary savings plan for retirees. REIT will allow investors to invest in property assets that have steady cash flows while shortening the investment cycle for property companies.
8. **Opening-up of the economy.** Part of the government's agenda is the **amendment of the Constitution to open various sectors of the country to foreign investors**. This will go hand-in-hand with improving the ease of doing business in the country, such as shortening the processing time for permits and licenses. These can encourage more investments in sectors such as energy, utilities, agriculture, infrastructure and telecoms.
9. **Passage of Freedom of Information (FOI) bill into law.** FOI will require government agencies to disclose information about their transactions and projects. **It will thus promote transparency and accountability in the government. We are delighted that this item in our wishlist was granted in advance when President Duterte signed the Executive Order for the implementation of FOI yesterday.**
10. **Faster internet speed.** Faster internet can better support businesses (such as companies in the BPO industry) and be used for educational purposes. It can also enable the government to provide better social services to our countrymen. Our leaders can look at Estonia's model as a digital society. The country has modernized basic applications and transactions, making it a great example of how the government can efficiently interact with its citizens.
11. **National ID system.** Estonia also has a national ID system which has worked well with its digital society. This has made it easier for its citizens to declare and pay taxes, avail of social services or apply for permits and licenses. These are some of the things that the government can study and possibly implement in the country. Incidentally, the national ID system is also one of the main recommendations of the PCCI in their business summit with the Duterte team.
12. **Higher education spending.** Higher and more efficient education spending will immensely benefit our country's young population and ensure that there will be a growing supply of skilled and educated workers for many years to come.
13. **Promote countryside development.** Apart from harnessing the potential of various provinces to contribute to our country's GDP growth, promoting countryside development will alleviate poverty in many rural areas. In support of this, the government should also stimulate the agricultural sector, which still employs a big portion of our population.

- 14. Respect the sanctity of contracts.** To attract businessmen and investors, the government has to be a firm and fair regulator. Respecting the sanctity of contracts ensures that there will be stability and predictability with how rules and regulations are implemented.
- 15. Balanced and fair mining policies.** President Duterte mentioned in a previous statement that **he wants to apply the best practices and standards in mining from countries such as Australia and Canada.** We thus hope that the government can be balanced and fair in coming-up with policies that promote responsible mining and protection of the environment. The government should be firm in going after illegal and destructive mining while promoting environmentally-responsible mining.
- 16. A balanced energy mix.** The government has to chart the long-term target for our country's energy mix and support this with appropriate policies. **Our country's energy mix should properly balance renewable energy and fossil fuel sources.** Moreover, it should be able to support our economic growth while also considering long-term environmental impact.

PSEi 14,000 by 2022

In a recent article (*Phil presidential elections and the stock market*, May 2, 2016), we showed a table with the returns of the PSE Index under different Philippine presidents. We show this table again below.

Historical Returns of the PSEi under different Philippine presidents

President	Election Date:	1 week	1 month	1 year	3 years	Election to Election
Corazon C. Aquino	2/25/1986	22.3%	29.1%	294.9%	543.4%	849.8%
Fidel V. Ramos	5/11/1992	6.6%	27.4%	30.2%	117.8%	78.9%
Joseph Estrada	5/11/1998	-3.8%	-13.2%	14.8%	-34.3%	-34.3%
Gloria Macapagal-Arroyo 1	1/20/2001	17.6%	15.2%	-13.5%	6.5%	7.0%
Gloria Macapagal-Arroyo 2	5/10/2004	-4.4%	-0.7%	24.2%	115.0%	102.1%
Benigno Aquino III	5/10/2010	4.7%	3.6%	37.0%	129.0%	122.5%

Sources: PSE, Wealth Securities Research

Excluding the terms of Cory and Erap, the average return of the PSEi in a six-year presidential term is ~100%. We excluded Cory's term as stocks surged after coming-out of the martial law years, when the stock market and the economy were practically dead. We also excluded Erap's term since he was not able to complete a six-year term due to his impeachment.

The PSE Index closed at 6,992 before the election of Rodrigo Duterte and has gone up 14.8% since then. This momentum will be sustained if the government can implement the initiatives that we identified in our wishlist above. **Considering that the average return for a Philippine president's six-year term is 100%, we believe that the PSEi will reach 14,000 or higher by the end of President Duterte's term in 2022.** We therefore wish the Duterte government success in implementing its agenda for the country which the President will lay out in today's SONA.

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