

Philippine Strategy

Small outperformance in model portfolios last year

Neutral outlook

Our model portfolios last revised in Sep 2015 held up fairly well, with a slight outperformance over the PSEi last year. Based on our first 2016 strategy report, two changes were made in the composition of the models. With these revisions and despite one of the worst starts to the year, our current models are still beating the index. Due to the usual wait-and-see stance among investors in election years and the monetary policy overhang from developed economies and locally, we are NEUTRAL.

2015 was a struggle

In Sep 2015 the blended underperformance of our model portfolios was 2.5ppts (*Slower 2Q growth, portfolio revisions, 11 Sep 2015*). After an overhaul that took out commodity plays and companies that surprised with negative earnings, our revised portfolios were biased toward consumer (26%), property (25%) and conglomerates (19%). Sustained softening in core earnings of our universe, which fell 2.5% YoY in the Jul-Sep quarter vs 5% the previous quarter, coupled with market volatility in anticipation of the Dec US rate hike made 4Q15 difficult. Still, the blended performance of our models was slightly better than the PSEi, although it was still an overall loss for us. Our combined portfolios lost 3.4% for the year, a small outperformance over the PSEi's 3.9% decline.

Politics to dominate in 2016

Presidential elections are always a big deal and this year will be no different. Historically, there are proven election plays and among these are ABS-CBN Corp (ABS/ABSP), Jollibee Foods Corp (JFC) and SM Prime Holdings (SMPH). All have experienced boosts either to revenue, earnings or share prices in past election years and all were in our end-2015 models. Similarly, based on valuations and potential benefits post-elections, we expect Metro Pacific Investments Corp (MPI) and PLDT (TEL) to do well. Together with Century Pacific Food Inc (CNPF) which we recently started covering, we identified these six stocks as 2016 winners (*Philippines's Six-for-16: Smooth Transitioning, 4 Jan 2016*).

Minimal changes to models

Thus we start the year with minimal changes to our portfolios, incorporating TEL and CNPF in our main and small-cap portfolios respectively. They replace Robinsons Retail Holdings Inc (RRHI) and Concepcion Industrial Corp (CIC) respectively, at the same weightings as at end-2015. RRHI has been slowing down store openings relative to their plans while CIC has been negatively affected by the cautious stance of residential property developers. Taking off from where we left off at end-2015, our current portfolios have lost 5.9% YTD compared with the PSEi's 7.8% decline.

Economic fundamentals remain solid

With turmoil in markets and the global economy, the Philippines sustained GDP growth of 5.6% YoY in 9M15. Growth accelerated from 1Q along with government spending. The 9M15 current account surplus was USD5.6b (2.6% of GDP) as net services exports made up for a bigger goods trade deficit and 2015 international reserves were stable at USD81b from 2014's USD80b. These helped temper depreciation in the PHP/USD to an average 2.4% even with no change in monetary stance. As well as anticipation of further US rate hikes in 2016, there are local changes as the central bank targets improvements in its monetary tools.

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Country Index vs MSCI

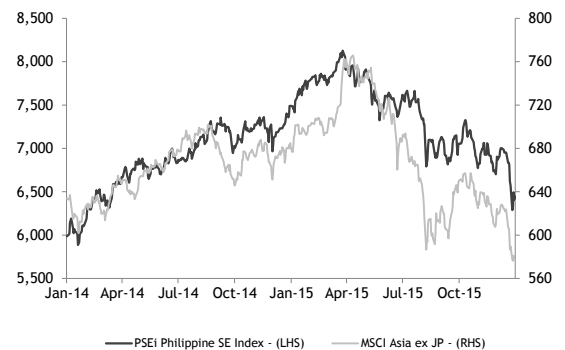


Figure 1. 9M15 earnings summary by sector

	Net income/loss (PHPm)				YoY Change		Company count	Core net income/loss (PHPm)		YoY Change
	3Q15		3Q14		3Q15			9M15	9M14	9M15
	Reported	Core	Reported	Core	Reported	Core				
Property	15,832	15,832	13,236	13,236	19.6%	19.6%	6	50,637	43,574	16.2%
Utilities	15,852	18,452	18,501	16,352	-14.3%	12.8%	9	58,256	53,575	8.7%
Consumer	9,886	9,968	8,921	8,708	4.3%	7.2%	10	31,522	28,463	10.8%
Conglomerates	21,298	19,596	20,007	20,053	6.5%	-1.8%	7	62,145	56,582	9.8%
Banks	20,227	19,970	22,481	21,715	-10.0%	-8.0%	10	67,083	64,588	3.9%
Telecoms	12,048	12,228	11,628	12,716	3.6%	-3.8%	2	39,786	40,139	-0.9%
Transport	105	3,036	521	1,792	-79.9%	69.5%	2	13,211	7,936	66.5%
Media	1,580	1,580	1,096	1,096	44.2%	44.2%	2	4,087	2,837	44.1%
Cement/construction	1,215	1,215	875	875	38.9%	38.9%	2	4,677	4,540	3.0%
Gaming	276	276	2,125	2,125	-87.0%	-87.0%	2	1,321	7,314	-81.9%
UNIVERSE	98,961	102,795	106,156	105,432	-6.8%	-2.5%	56	334,688	319,974	4.6%

Source: Company disclosures, Maybank ATR Kim Eng estimates

Figure 2. Universe Coverage Forecast

Company count	2015F (%)	2016F (%)
Property	17.6	18.8
Utilities	12.9	20.5
Consumer	10.9	15.2
Conglomerates	7.6	12.4
Banks	10.9	5.1
Telecoms	-1.6	3.8
Transport	50.2	9.6
Media	43.1	33.2
Cement/construction	0.7	-2.9
Gaming	-46.9	111.5
Universe	7.9	12.1

Source: Maybank ATR Kim Eng estimates

Figure 3. Model portfolio performance

As of 29 Dec 2015				As of 15 Jan 2016			
Main	80%	Small-cap	20%	Main	80%	Small-cap	20%
Weight		Weight		Weight		Weight	
SMPH	14%	ABSP	25%	SMPH	14%	ABSP	25%
MPI	12%	FLI	25%	MPI	12%	FLI	25%
AC	12%	CEB	20%	AC	12%	CEB	20%
ALI	11%	CIC	20%	ALI	11%	CNPF	20%
URC	10%	TA	10%	URC	10%	TA	10%
SCC	9%			SCC	9%		
RRHI	9%			TEL	9%		
JFC	8%			JFC	8%		
SECB	8%			SECB	8%		
BDO	7%			BDO	7%		
PSEi end: 6952 start: 7231 -3.9%				PSEi end: 6409 start: 6952 -7.8%			
Blended model performance -3.4%				Blended model performance -5.9%			

Source: Maybank ATR Kim Eng estimates

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Definition of Ratings

Maybank Kim Eng Research uses the following rating system

BUY	Return is expected to be above 10% in the next 12 months (excluding dividends)
HOLD	Return is expected to be between - 10% to +10% in the next 12 months (excluding dividends)
SELL	Return is expected to be below -10% in the next 12 months (excluding dividends)

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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