

# AB Capital Securities Inc.

## Stock Market Outlook and Stock Picks



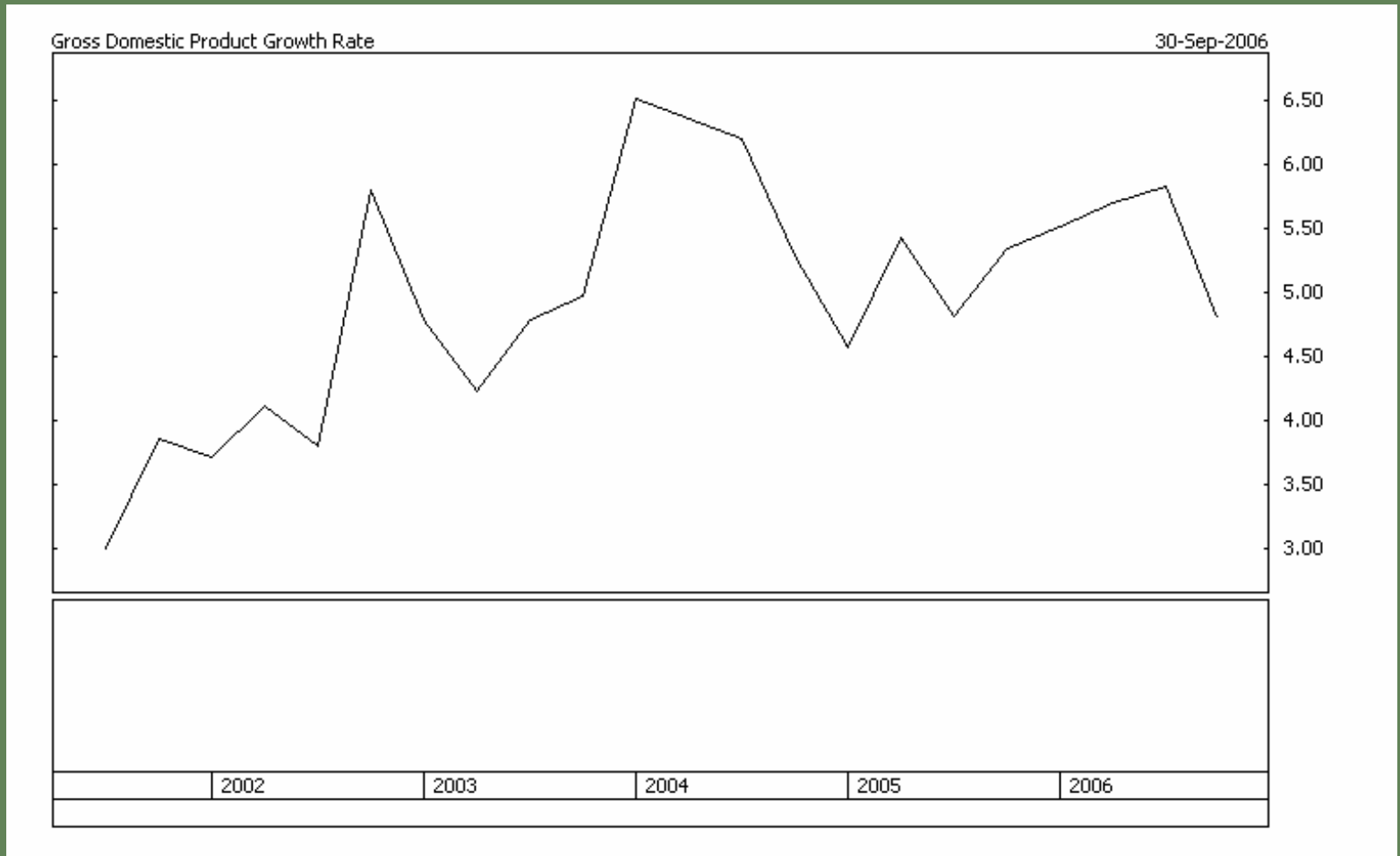


# Macro Economic Outlook

- The Philippine economy is projected to grow by 5.6% next year compared to 5.5% in 2006
- Growth will be driven by consumer spending, infrastructure, construction, real estate, retail trade, outsourcing, and telecommunication.
- Sentiments are expected to improve further, driven largely by the fiscal deficit, which is expected to shrink to P63 billion.



# GDP Growth



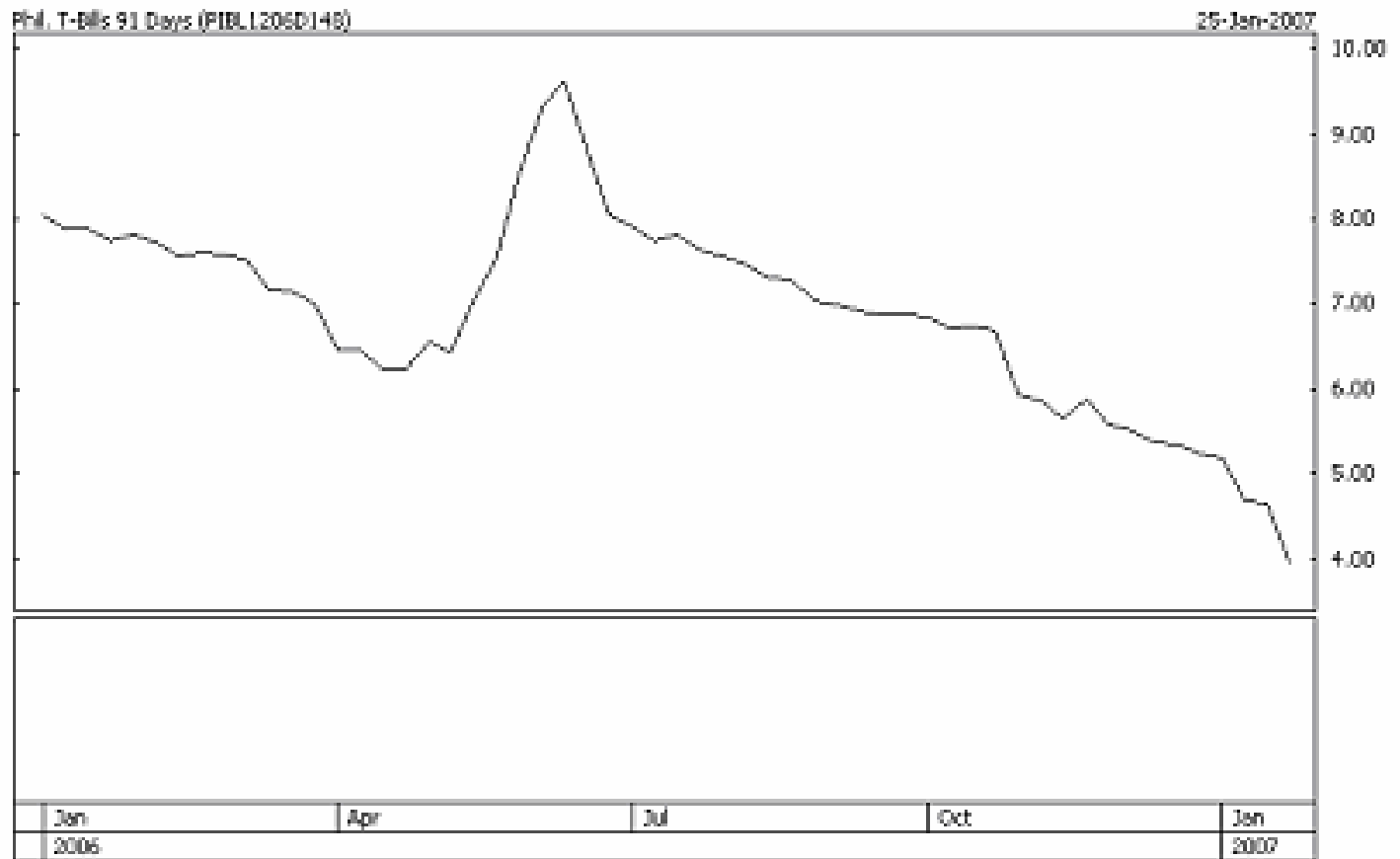


# Macro Economic Outlook

- The outlook for interest rates remains favorable given the improvement in the consolidated public sector deficit and strengthening of the peso.
- Inflation is projected to average at 5.0% compared to 6.6% for 2006.
- The main risk for 2007 is domestic political risks. The unresolved political issue of constitutional change will dominate headlines.



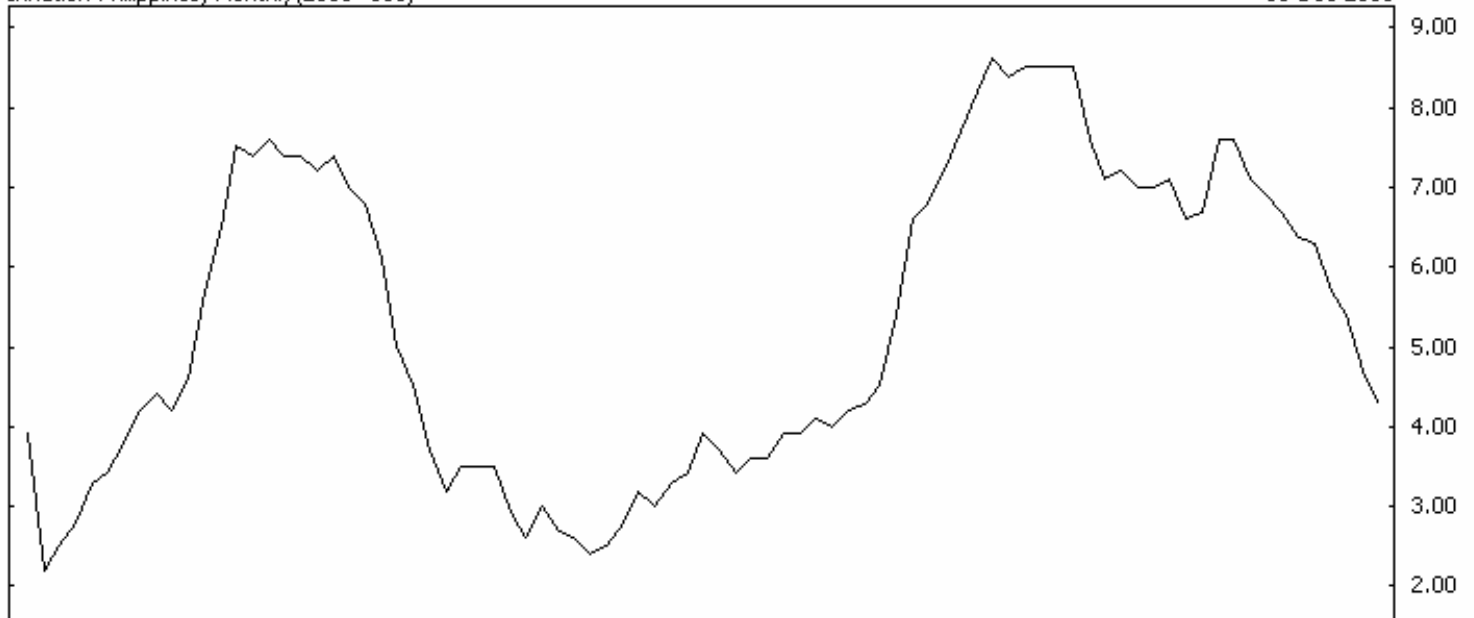
# 91-Day T-bill Rates



# Inflation Rate

Inflation-Philippines, Monthly(2000=100)

31-Dec-2006



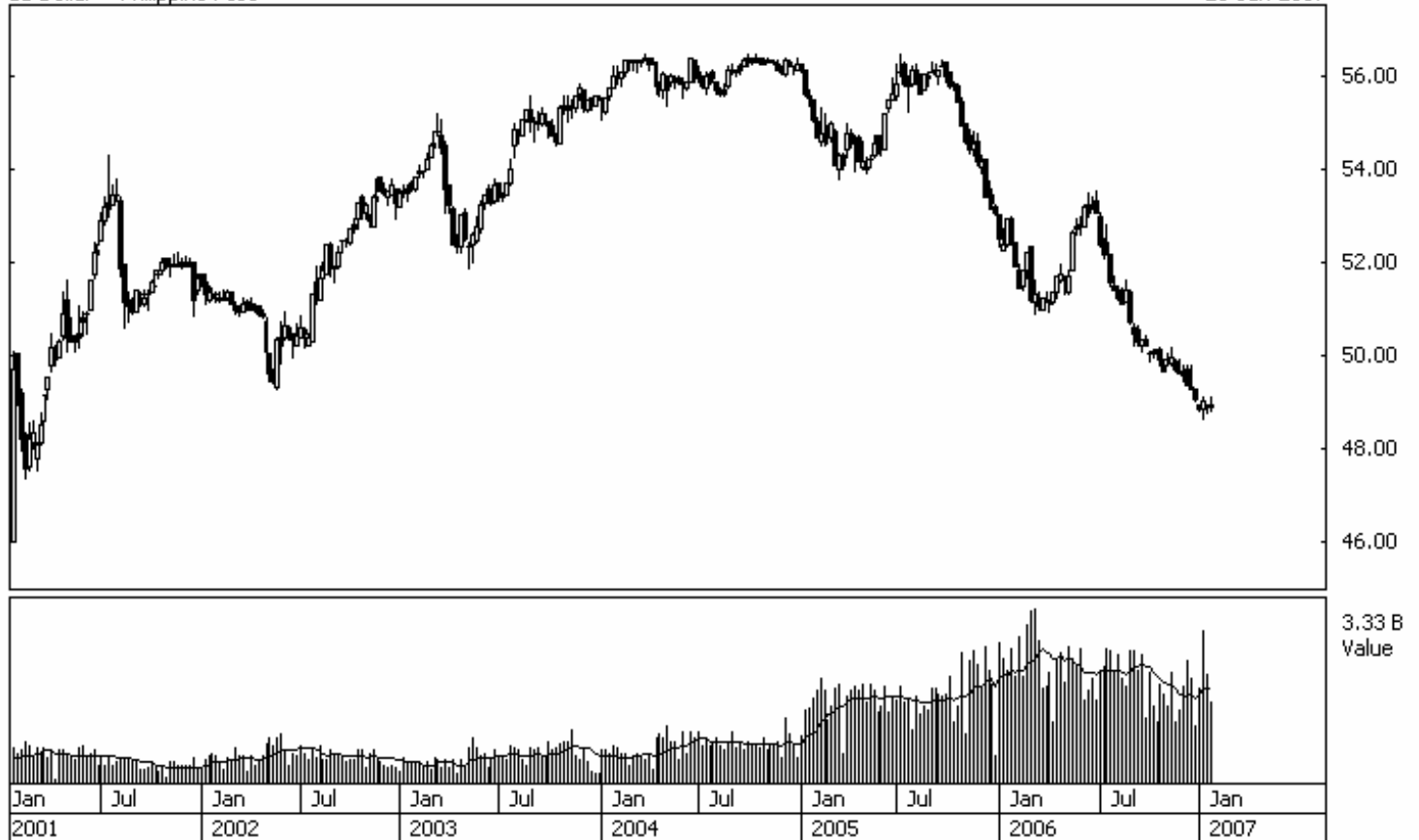
	Jan	Jul	Jan	Jul	Jan	Jul	Jan	Jul	Jan	Jul	Jan	Jul	Jan	Jul
	2000		2001		2002		2003		2004		2005		2006	



# Philippine Peso

US Dollar = Philippine Peso

25-Jan-2007



# Macro Economic Outlook

- External risks comes in the form of an expected moderation in global growth in 2007 and that could affect exports





# Stock Market Outlook

- The 2006 stock market performance (+42.3% yoy) will be a hard act to follow
- Our target for the main index in 2007 has been upgraded to 3,450 from 3,300
- A positive macroeconomic outlook should filter down to sustained corporate earnings growth in 2007.
- Listed companies' earnings are projected to grow by 17% in 2007.





# Stock Market Outlook

- Current market FY07E PE of 15x is within the region's average
- With sustained profitability and earnings growth, the market can now demand a higher PER
- A major driver for the market is continuing slide in local interest rates.
- Recommended sectors for 2007 are construction, property, telecommunications and power.





# Country Valuations

## Country valuations and earnings

	PER (x)		Dividend yield (%)	EPS growth (%)		3 mth change to earnings (%)		Performance (%)	
	2006E	2007E		2006E	2007E	2006E	2007E	3 mths	YTD
Australia	14.6	13.8	3.9	13.6	5.8	0.2	1.4	9.7	18.4
China	15.5	14.2	2.0	-6.0	9.2	1.0	1.9	16.5	51.0
Hong Kong	16.2	17.4	2.8	8.0	-7.2	5.7	-2.0	7.0	17.6
India	20.5	17.6	1.0	19.0	16.6	2.3	3.8	20.0	44.7
Indonesia	14.4	12.9	2.3	32.4	11.6	5.7	0.9	16.7	43.1
Korea	12.0	10.4	1.6	-5.3	15.6	-0.8	-1.9	7.9	5.1
Malaysia	15.7	14.2	3.8	10.4	11.2	2.4	1.2	9.7	16.4
New Zealand	14.8	14.3	5.7	1.7	3.5	-0.7	-0.2	9.4	8.2
Philippines	16.4	14.1	2.2	8.5	16.5	0.0	3.6	21.5	34.4
Singapore	15.3	15.1	3.1	22.7	1.4	4.8	3.1	15.6	22.2
Taiwan	15.1	12.7	3.8	20.0	18.8	-3.7	-2.4	7.6	11.6
Thailand	10.7	10.3	3.3	-0.3	4.4	-1.1	-1.5	5.4	7.1
Far East ex-Japan	14.2	12.8	2.6	4.0	10.3	1.6	0.3	11.2	22.7
Pacific ex-Japan	17.8	16.0	1.8	9.7	11.0	-0.7	0.1	1.7	7.2
Japan	18.7	16.5	1.2	7.1	13.4	-0.6	1.6	0.4	1.2



# Technical Outlook

Short Term: : Overbought

Intermediate Term : Bullish

Long Term: : Bullish

- The PSEi has moved above the bullish uptrend channel, showing a sign of exuberance in the market.
- The relative strength index is at its highest level (77.52) since November of last year.



# Technical Outlook

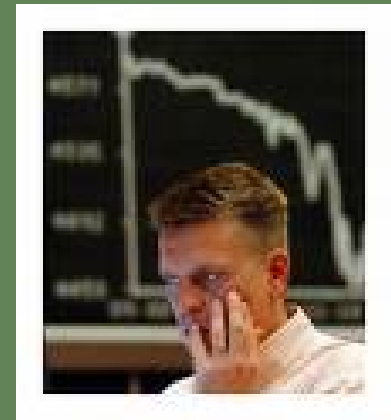
- The main resistance is at the 3,450 level.



# Stock Picks

Stock recommendations are divided according to the following:

- High dividend paying stocks
- Value stocks
- Low P/BV stocks
- Stable earnings stocks
- Growth stocks
- Contrarian stocks
- Sunrise stocks
- Consensus picks





# Dividend Stock

- We are looking for stocks, whose dividend yield exceed the benchmark rate
- The said company should have a reasonable expected growth in earnings per share.
- Our dividend stock is Globe Telecoms, Inc.
- Globe is projected to to have a dividend yield of 5.2% in 2007, better than the benchmark 91-day treasury bill yield of 3.17%



# Globe Telecoms, Inc.

- Globe's yield will increase further to 6.5% by 2008, approximating 10 year sovereign bond yields.
- Globe's eps is projected to grow by 25%, higher than the market's average growth of 16%
- Cost-cutting measures and the compelling value propositions of its various products will drive growth for the cellular firm.



# Globe Telecoms, Inc.





# Value Stock

- We are looking for for stocks with low PE ratios
- It must have a reasonable growth in earnings
- Our value stock for 2007 is Philippine Long Distance Telephone Co.
- PLDT is one of the few big cap stocks that has a below market average PE and above average eps growth



# Philippine Long Distance Telephone Co.

- PLDT is trading at a FY07E PE of 12.4x against a market PE of 16x and regional telecom PE average of 18x.
- EPS growth of 28% results to a low PEG ratio of 0.42
- Strong management team expected to deliver stable earnings growth and payout.
- BPO business a source for growth going forward.



# Philippine Long Distance Telephone Co.

- Consensus target price is conservatively placed at P3,000 or an upside of 10%
- Proposed entry price is P2,400.00



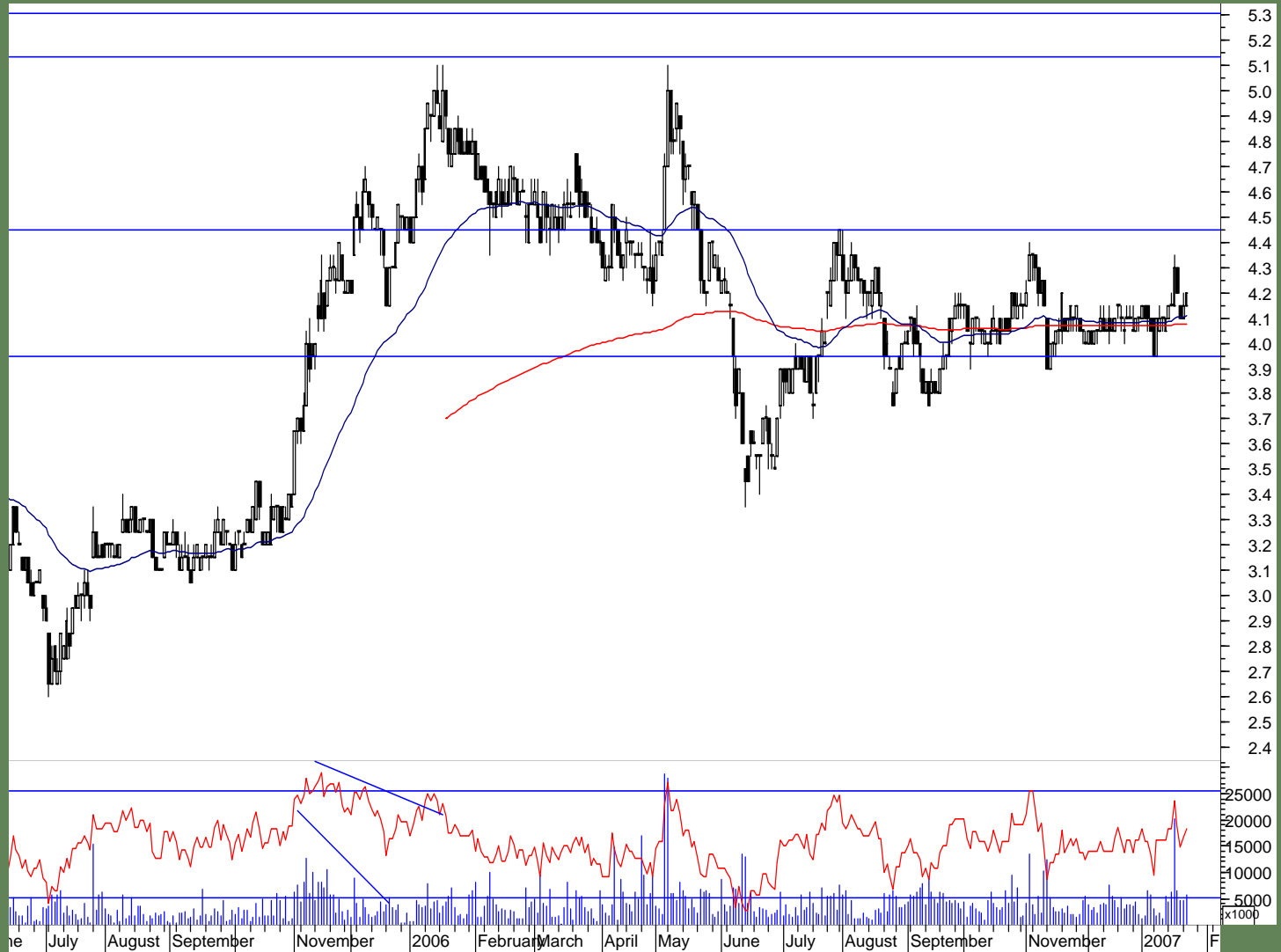


# Low Price To Book Value

- We are looking for for stocks with relatively low P/BV ratios and high return on equity.
- Our low P/BV stock pick is Petron Corporation (PCOR).
- The stock is trading at P/BV of 1.0x but has a return on equity of 15.0%
- The company is continuing its expansion program in the retail market and pursuing its diversification strategy into petrochemicals.



# Petron Corporation





# Stable Earnings Company

- We are looking at stocks that will report stable earnings growth of at least 20%.
- Stock prices should not be risky with a beta of less than 1.0 and PE ratio of below industry average.
- We are recommending Universal Robina Corporation (URC)



# Universal Robina Corp. (URC)

- URC is projected to have EPS growth of 22% in 2006 and 2007.
- URC is one of the least risky index issue with a beta of 0.48.
- It is trading at a projected 2007 PE of 11.4x as against the Food industry average of 19.4x.
- URC will benefit from stronger election spending



# Universal Robina Corp.

- Our proposed entry price for URC is P18.50
- Target selling price is at P22 or 14x PER which at par with market





# Growth Stocks

- We are looking for companies that are projected to have above average EPS growth.
- PEG ratio should be less than one.
- There is an indication that growth can be sustainable.
- We are recommending ABS-CBN Broadcasting Corporation



# ABS-CBN Broadcasting Corp

- ABS's EPS is conservatively projected to grow by an average of 37% in 2006 and 2007.
- It is currently trading at par with the market average price to earnings ratio but has a PEG ratio of 0.29x
- ABS Global, which contributes about 20% of the company's revenues is seen as a long-term growth driver for ABS
- Company would benefit from election spending this year.



# ABS-CBN Broadcasting Corp





# Turnaround Stock

- We are looking for a company that has a catalyst for improvement.
- We are recommending Apex Mining Corporation (APX A/B)
- It is projected to produce 100,000 oz. of gold in 2006 and 200,000 oz. in 2008
- It is also expected to produce 300,000 to 400,000 ounces of silver.



# Apex Mining Corporation

- From Gold alone, the company can generate an estimated EPS of 2.54.
- Pricing it at par with an actively traded mining stock like Philex Mining would peg a fair value of P11.6.







# The Next Big Thing

- We are looking for a company that belongs to an up and coming industry or a sunrise industry
- We are recommending Chemrez Technologies, Inc.
- Environmental and economic concerns and government legislation will promote long term biodiesel demand
- PER of 12x 2007 earnings compare favorably to other biodiesel issues, which are averaging at 15x



# Chemrez Technologies Inc.

- Our proposed entry price is P4.90 and a target price of P6.00



# Market Consensus Picks

- Besides the issues mentioned, we also advise watching over other market favorites.
- Among those not included in our list are:
  - Ayala Corporation
  - Megaworld Corporation
  - Ayala Land Inc.
  - SM Investment Corp.
  - Banco De Oro
  - Manila Electric Company



# Strategy Table

Stock Picks	Market Price	Proposed Entry	Target Exit	Potential return From Market Price	Potential return From Proposed Entry	Consensus Target
<b>Dividend Stock</b>						
Glober Telecoms Inc.	1,295.00	1,230.00	1,600.00	23.6%	30.1%	1,402.50
<b>Value Stock</b>						
PLDT	2,795.00	2,400.00	3,000.00	7.3%	25.0%	2,650.00
<b>Low P/BV Stock</b>						
Petron Corporation	4.10	4.10	5.00	22.0%	22.0%	5.38
<b>Stable Earnings Stock</b>						
Universal Robina Corp.	19.00	18.50	24.00	26.3%	29.7%	28.00
<b>Growth Stock</b>						
ABS CBN Broadcasting Corp.	21.25	20.00	24.00	12.9%	20.0%	19.00
<b>Turnaround Stock</b>						
Apex Mining Corp.	5.10	5.00	7.50	47.1%	50.0%	3.50
<b>Next Big Thing</b>						
Chemrex Technologies, Inc.	5.00	4.90	5.90	18.0%	20.4%	8.75
<b>Other Market Picks</b>						
Ayala Corporation	625.00	550.00	645.00	3.2%	17.3%	571.00
Megaworld Corporation	2.45	2.30	2.80	14.3%	21.7%	2.60
Ayala Land Inc.	16.75	15.50	18.00	7.5%	16.1%	17.10
SM Investment Corp.	390.00	330.00	400.00	2.6%	21.2%	365.00
Banco De Oro	49.00	45.00	54.00	10.2%	20.0%	54.00
Manila Electric Co.	72.50	55.00	70.00	-3.4%	27.3%	65.00



# Some Key Statistics

Stock Picks	Market Price	O/S Shares (In Millions)	Market Cap (In Millions) PHP	2007 EPS	2007 PE
<b>Dividend Stock</b>					
Glober Telecoms Inc.	1,295.00	132.07	171,030.65	111.75	11.6
<b>Value Stock</b>					
PLDT	2,795.00	188.45	526,717.75	216.00	12.9
<b>Low P/BV Stock</b>					
Petron Corporation	4.10	9,375.00	38,437.50	0.61	6.7
<b>Stable Earnings Stock</b>					
Universal Robina Corp.	19.00	2,222.00	42,218.00	1.66	11.4
<b>Growth Stock</b>					
ABS CBN Broadcasting Corp.	21.25	769.00	16,341.25	1.24	17.1
<b>Turnaround Stock</b>					
Apex Mining Corp.	5.10	754.00	3,845.40	2.54	2.0
<b>Next Big Thing</b>					
Chemrex Technologies, Inc.	5.00	1,397.86	6,989.30	0.45	11.1
<b>Other Market Picks</b>					
Ayala Corporation	625.00	343.93	214,956.25	27.36	22.8
Megaworld Corporation	2.45	20,641.62	50,571.97	0.14	17.5
Ayala Land Inc.	16.75	10,824.11	181,303.84	0.43	39.0
SM Investment Corp.	390.00	586.00	228,540.00	14.76	26.4
Banco De Oro	49.00	962.02	47,138.98	3.54	13.8
Manila Electric Co.	72.50	999.00	72,427.50	6.35	11.4



# Portfolio Management

Stock Picks	Potential Return	Proposed Weight	Projected Contribution To Portfolio
<b>Dividend Stock</b>			
Glober Telecoms Inc.	30.1%	25.0%	7.5%
<b>Value Stock</b>			
PLDT	25.0%	20.0%	5.0%
<b>Low P/BV Stock</b>			
Petron Corporation	22.0%	7.5%	1.7%
<b>Stable Earnings Stock</b>			
Universal Robina Corp.	29.7%	10.0%	3.0%
<b>Growth Stock</b>			
ABS CBN Broadcasting Corp.	20.0%	5.0%	1.0%
<b>Turnaround Stock</b>			
Apex Mining Corp.	50.0%	15.0%	7.5%
<b>Next Big Thing</b>			
Chemrex Technologies, Inc.	20.4%	5.0%	1.0%
<b>Other Market Picks</b>			
Ayala Corporation	17.3%	2.1%	0.4%
Megaworld Corporation	21.7%	2.1%	0.5%
Ayala Land Inc.	16.1%	2.1%	0.3%
SM Investment Corp.	21.2%	2.1%	0.4%
Banco De Oro	20.0%	2.1%	0.4%
Manila Electric Co.	27.3%	2.1%	0.6%
<b>Projected ROI</b>			<b>29.2%</b>

