

Flight to Safety

Global equity markets have been rattled by the credit crisis and instability in the Euro zone. Philippines was not spared as it dropped 18% within two months to September 26 from its new high of 4,550.53 last August 2. We went as low as 3,720 where the PSEi's support lies before rallying above 4,200 or its initial resistance. Back in Europe, credit ratings have been downgraded in such a short span of time. Weak growth outlook, ballooning deficit, increasing borrowing costs and sensitivity to market turmoil caused rating agencies to downgrade several EU nations. (see Table 1)

Table 1

Euro Nations	GDP % yoy	Debt % of GDP	Deficit % of GDP	Rating Agencies		
				S&P	Moody's	Fitch
Greece	-5.50	142.80	-10.50	CC	Ca	CCC
Portugal	0.90	93.00	-9.10	BBB-	Ba2	BBB-
Ireland	2.30	96.20	-32.40	BBB+	Ba1	BBB+
Italy	0.80	119.00	-4.60	Au	A2	A+
Spain	0.70	60.10	-9.20	AA-	A1	AA-
Belgium	2.30	96.80	-4.10	AA+u	Aa1	AA+
France	1.70	81.70	-7.00	AAAu	Aaa	AAA
Germany	2.80	83.20	-3.30	AAAu	Aaa	AAA

US is likewise facing some headwinds especially with a deadlock in the financial sector and stagnating labor market. Unemployment, which currently stands at 9.1%, continues to be a major concern. While economic data remain mixed, Fed is still looking at exercising various measures to keep the economy from a deadly spiral. The Dow Jones has been consolidating at a range of more than 900 points since August. Initial resistance may be 11,700 before testing the psychological 12,000 level. Until a sound resolution is agreed upon in Europe and the economic malaise in US is addressed, we may expect the volatility and weakness in markets to persist.

Strategy: The Perfect Scrutiny

The recent slump caused local stocks to be cheaper than their pre-Euro crisis valuations. If the conditions described above persist, we suggest to look for stocks which give out high dividend yields and those with a good business mix. Also, economic weakness may call for a scrutiny of which stocks would likely perform resiliently. At this point, we are considering power and food companies. Below is a list of our stock picks.

PLDT (TEL)

The company has the highest dividend yield among the blue chips in the

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PSEi. Given every February and August, TEL has a yield of more than 9%. It was recently granted an approval by the NTC for its acquisition of 51.55% of Digitel from JG Summit subject to certain conditions. First is for PLDT to permanently offer the Unlimited service of Digitel and the second is to divest CURE (Connectivity Unlimited Resources Inc.) which owns 10MHz of 3G frequency. This acquisition will lead PLDT to have a 69% market share and increase its revenue stream in the future. For these reasons alone, PLDT would be a good choice for security and stability.

Globe Telecom, Inc. (GLO)

Besides the steady revenue brought by its mobile business, Globe is seeing higher and faster growth from its broadband service. In service revenues, mobile contributes more than half. But it is in the broadband and fixed line segment which rapidly sees improving revenue stream. Broadband recorded a double digit growth in revenues compared to mobile while subscriber base likewise grew in the first half. In the maturing mobile market, Globe will redirect its focus towards growing its broadband service. Its potential is already being seen in the growth figures alone. Similar to TEL, Globe gives out dividends every February and August with a yield of more than 7%.

Semirara Mining Corp. (SCC)

The company recorded impressive earnings for the first half, its profits jumping 80%. Higher volume and export and domestic demand for its coal contributed to this. Its prospects for power and increasing its capacity to service its mining business and also its contracts with NPC gives a larger potential for the company to incur higher revenues from this segment. SCC operates the 600MW coal fired plant in Batangas. They plan to increase their capacity to 1,200MW by constructing four new plants.

Philex Mining Corp. (PX)

The combined gold and copper play of PX makes it an attractive stock to invest in. The mine life of Padcal in Benguet has been extended until 2020. Based on an evaluation as of first half, the mine has 85.6mn tons of reserves. With high gold prices pushed by instability in equities, and an increase in production, we can expect higher sales to be sustained in the coming years. Add to that Silangan which if development begins, will give additional sales to the company together with what Padcal produces. Initial estimate of PX's gold and copper Silangan project in Surigao del Norte is worth \$22bn and could be more once a thorough evaluation is completed. PX also acquired an initial 5% stake in Kalayaan Copper Gold Resources, a subsidiary of Manila Mining, to explore the mining site which is just near Silangan. PX will eventually raise its stake in the subsidiary to 60%.

Aboitiz Power (AP)

In the first half, AP partially completed the rehabilitation of its Ambuklao hydropower facility and also acquired or finished the developments of several other plants. This brought total attributable capacity of AP to 2,331MW as of the first half. The company plans to reduce exposure to volatility in the spot market by having more bilateral contracts. AP's generation capacity will increase further once it completes the following: a) full rehabilitation of Ambuklao-Binga hydro and Tiwi-Makban geothermal facilities, b) completion of construction of Greenfield and Brownfield developments. Being a power utility, the stock is expected to remain profitable and resilient given economic conditions.

Metropolitan Bank and Trust Company (MBT)

Among the three biggest banks, MBT has the most attractive valuation. Its earnings growth is primarily coming from its core business or interest income and then supported by trading gains and other fees. It also has dividend yield of 2.7%. In terms of liquidity, the company has a CAR of 17.2% as of first half and is able to keep its NPL ratio manageable, at 2.6% in the same period. MBT currently has a PE of 13.8x, lower than the market's 14.5x and versus the two other big banks.

Security Bank Corp. (SECB)

SECB is expanding by acquisition to further increase revenue and customer base. As of first half, the bank's CAR stands at 15.4% while its NPL is at 1.0%. SECB gives a dividend of P0.50 per share twice a year. It translates to a dividend of 3.9%. SECB has a PE of 8.8x.

Megaworld Corporation (MEG)

We recommend Megaworld for the very reason that its real estate sales remains strong coupled with its office developments and rental income. For the office, MEG draws its revenues from the BPO sector whose demand for space is still growing. Megaworld has an office space inventory of 384,000 sqm with additional 78,000 sqm by yearend.

Jollibee Foods Corp. (JFC)

This food company is on a local and foreign acquisition mode. It is continuously expanding its business portfolio, with its latest purchase of a majority stake in BK Titans Inc. which owns the operator of the Burger King franchise in the Philippines. Outside the country, it has expanded the reach of Jollibee, a fast food chain, to Asia and the West. Meanwhile, it is also eyeing more acquisitions in China. Business in China currently accounts for 10% of group sales. JFC is not very sensitive to market volatility and fluctuations. Although encountering a resistance at 90, this stock still provides stability of earnings and a high revenue growth.

DMCI Holdings Inc. (SMC)

The defensive ventures of DMC's subsidiaries like power and water and the improving performance of its mining business gives the company a good mix of revenue stream and exposure to various areas of businesses with a high growth potential.

San Miguel Corporation (SMC)

It's position in the power sector through SMC Global Power will boost SMC's earnings in the future. Also, its developments in Petron's oil refineries for 2015 will accommodate a majority of the oil and petrochemical market. The deferment of SMC Global's listing to next year will somehow stall price movement until a definite plan is announced. But its interests in utilities makes a stable and favorable stock to hold on to or to start accumulating.

Alliance Global Group, Inc. (AGI)

AGI has its presence in all the right ventures – quick service restaurants, real estate, liquor, snacks, and entertainment which has a high growth potential in the coming years. The other mentioned subsidiaries

offer stable revenues for the Parent. Meanwhile the entertainment, as the Philippines gears up to become one of the entertainment and casino hubs in Southeast Asia, will be the next big contributor to the company's performance. AGI has a dividend yield of more than 4%.

Table 2

STOCK	PE	PB	SUPPORT	RESISTANCE	NOTES
TEL	10.67	4.91	2320	2500	
GLO	12.4	2.49	900	940	
SCC	13.34	5.73	205	226	Next resistance at 240 once it breaks 226.
PX	23.22	5	22.45	25	Next resistance at 30 once it breaks 25.
AP	10.91	3.73	26.65	30	Next resistance at 33.25 once it breaks 30.
MBT	13.87	1.49	61.85	70	Next resistance at 77.75 once it breaks 70.
SECB	8.82	1.66	85	93	
JFC	30.38	5.23	83	90	Next resistance at 97 once it breaks 90
DMC	9.75	3.2	36.4	40	Next resistance at 48 once it breaks 40
SMC	10.87	1.21	110	120	
AGI	8.59	1.46	9.7	10.85	Next resistance at 12.13 once it breaks 10.85

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