

AB Capital Securities Inc.

Stock Market Outlook

March 18, 2008



Presentation Outline

- Economic Outlook
- Industry Projections
- Stock Market Outlook
- Technical Analysis
- Strategy

Economic Overview

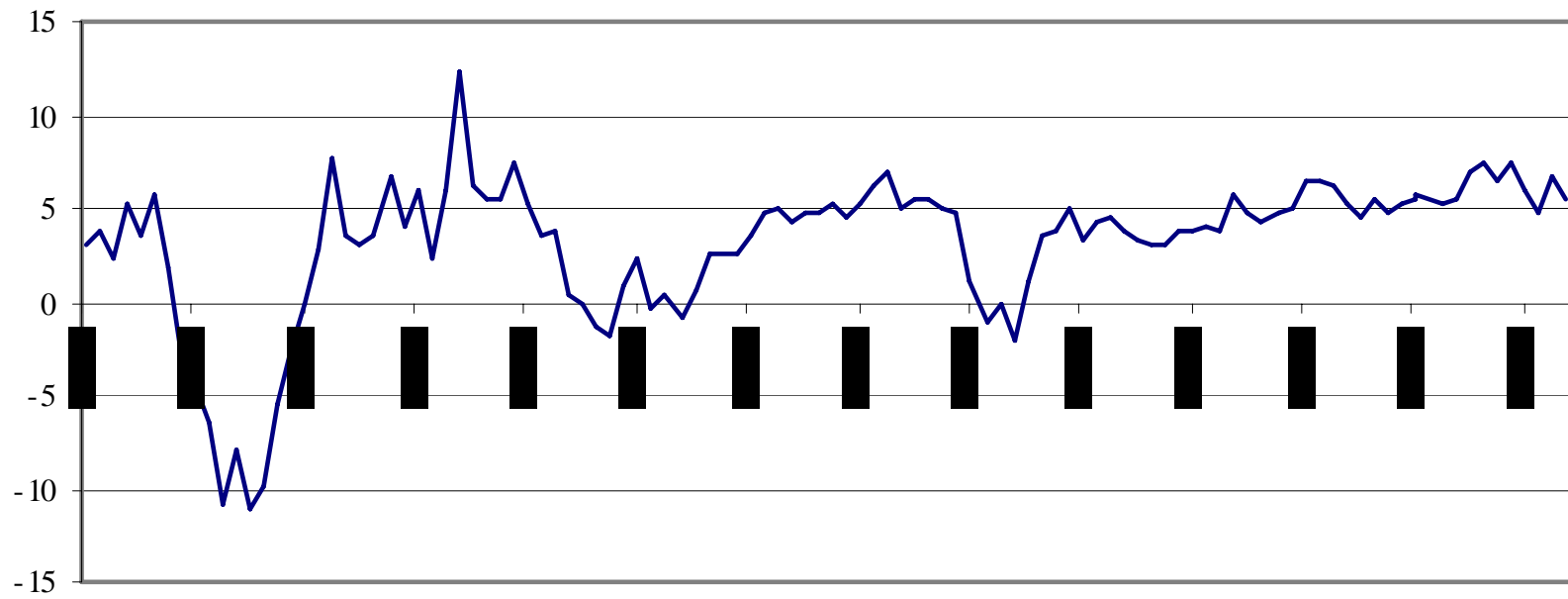
- The domestic economy will continue to grow in 2008, albeit at a lower rate than in 2007.
- Growth will come from strong domestic consumer demand and historically low local interest rates.

Economic Overview

- A US recession and global slowdown will dampen exports, foreign investments and overseas employment of Filipino workers.
- Uncertainties as to the magnitude of losses from the US subprime mortgage defaults will keep the global financial markets unsteady.
- Inflation risk is building up due to the rising cost of energy and the build-up in food prices.

Modest GDP Growth Expected

Quarterly GDP Growth (%)



Modest Growth Expected

- The country's gross domestic product growth is expected to slow down to 5.8% in 2008 from 7.3% in 2007.
- The downturn in the US economy and rising oil prices will hurt the manufacturing and agriculture sectors.
- It will dampen external trade and investments from abroad.

Modest Growth Expected

- The services and mining sectors will continue to be sources of strength for the economy.
- Consumer spending will remain healthy while the construction sector will continue to benefit from infrastructure spending and housing projects.
- Growth in government expenditures will slacken as the government reduces expenses in an effort to balance the budget.

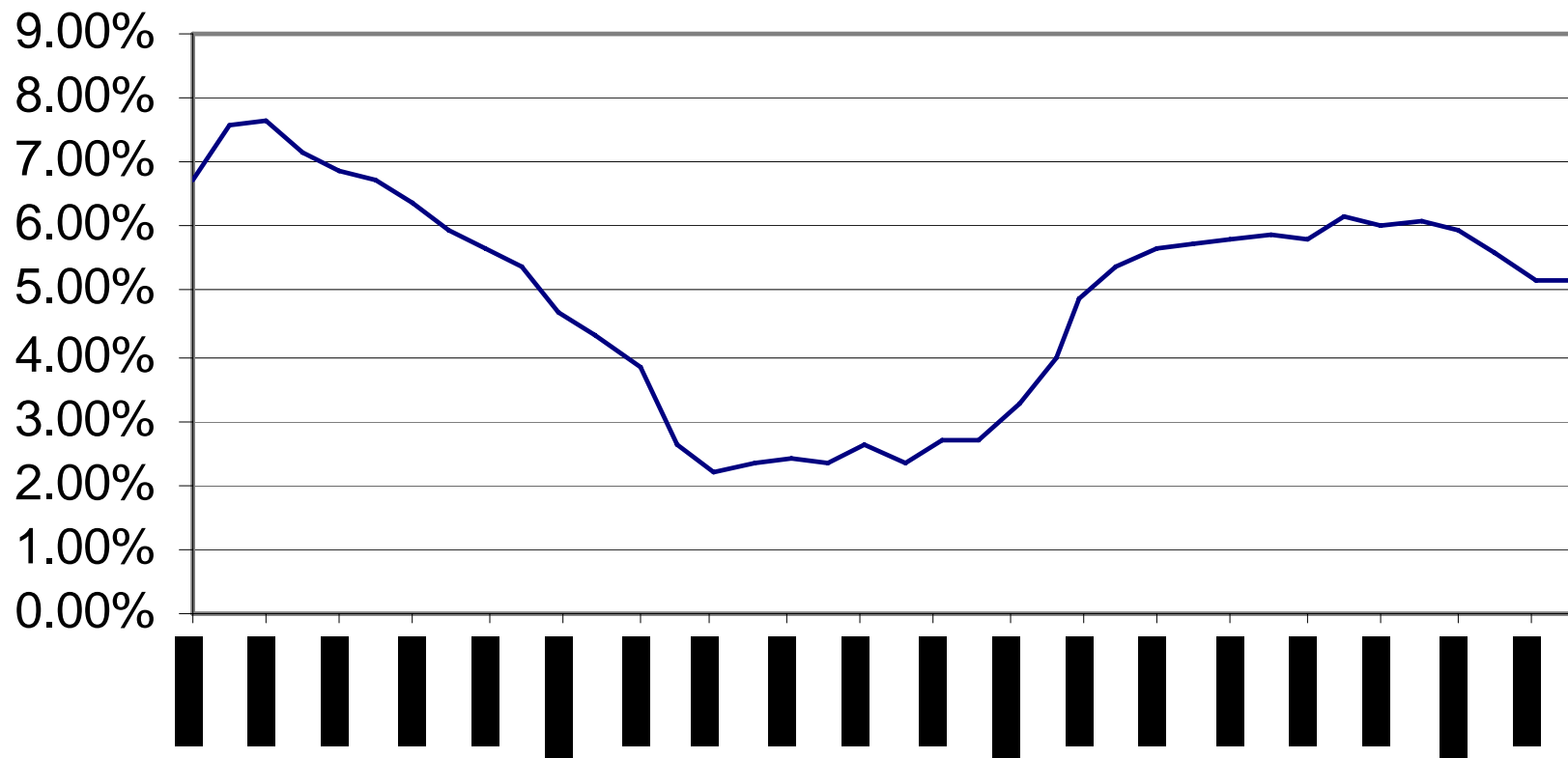
Modest Growth Expected

- The agriculture sector's growth will slow down due to the return this year of La Nina and the higher costs of farm inputs .
- Higher cost of energy is expected to slow down the country's manufacturing output.
- Rising metal prices in the world market due to the weak U\$ Dollar and the increasing appetite of China and India for minerals are sending positive signals for the mining sector.

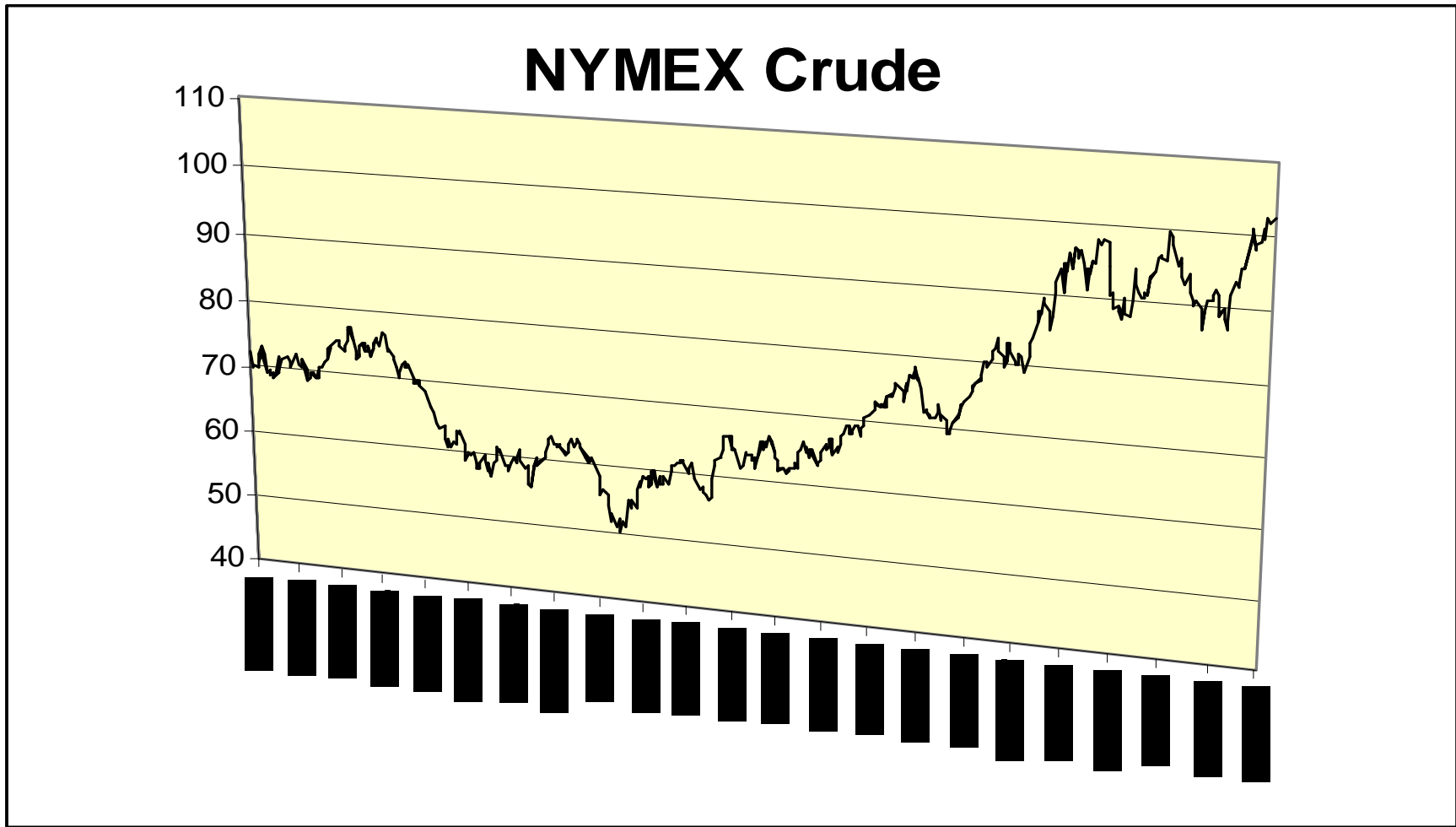
Inflation To Spike Up

- Domestic consumer prices are expected to rise primarily due to higher global commodity prices.
- 2008 Inflation is projected to average at 5.7% from 2.8% in 2007.
- Rising energy costs will trickle down to transport fares, utilities and wages.
- A recurrence of La Nina this year could affect food supply

Inflation To Spike Up



Peak Oil



Interest Rates Bottoming Out

- Domestic interest rates have bottomed out
- Rates may rise due to higher domestic inflation rate.
- Risk premium growing due to political uncertainties in the country.

Forty Will Hold

- Structural weakness in the US economy will continue to dampen the US dollar.
- However, the Peso may have topped out against the dollar due to a dwindling balance of payments and also because of significant supply shocks particularly the oil price spikes
- Volatility in the global markets will lessen portfolio inflows, foreign direct investments and big ticket asset sales.

Forty Will Hold

- The Philippine Peso has hit a major bottom at P40 against the U\$ Dollar (Technically)
- The local currency has broken out from its one month consolidation.
- More importantly, the Peso has breached its medium term moving average line.
- Technical resistance seen at P42.85

Forty Will Hold



Budget Surplus May Have To Wait

- A balanced budget could be difficult to achieve without one-time sales.
- The tax take of the BIR jumped 14.4% in the first two months of the year as it continued to undertake reforms to boost collections.
- There is an absence of new tax measures that could serve as sources of fresh revenues.

Budget Surplus May Have To Wait

- The government is planning to increase infrastructure spending to shield the economy from a slowdown in the United States.
- If the US slips into recession, the government may introduce a stimulus package.
- There are allegations that the BIR front loaded or collected in advance the tax obligations of some companies, leaving the BIR with a smaller amount of tax to collect this year.

Snapshot

	2004	2005	2006	2007	2008F
Peso/ Dollar Exchange Rate (Avg)	56.04	55.08	51.31	46.18	41.42
91-day Treasury Bill Rates (Avg)	6.0%	7.3%	6.4%	5.4%	6.1%
Inflation Rate (Avg)	6.0%	7.7%	6.2%	2.8%	5.7%
Real GDP Growth	6.4%	4.9%	5.5%	7.3%	5.8%
PSEi (Year End)	1,822.93	2,096.04	2,982.54	3,621.60	3,300.00
PSEi Annual Gain (%)	26.4%	15.0%	42.3%	21.4%	-8.9%

Banking Sector – Subprime Related Woes

- Banking stocks being hit hard by the US subprime crisis.
- The Bangko Sentral ng Pilipinas (BSP) expects bank lending to expand by 10 percent.
- Although Philippine banks have limited subprime exposure, interest in banking issues may remain depressed.
- Lower bank valuations will open M&A opportunities in the future

Utilities – Defensive Plays

- Utilities should do relatively do well in times of uncertainties.
- Rising cost of energy and a likely supply shortage in 2009 will benefit power generating firms.
- Power distribution should also benefit from better pricing mechanisms going forward.
- Water utilities should see stable to strong revenue growth due to rate increases.

Food Sector - Matured

- Valuations remain high relative to the general market.
- Rising input costs such as commodities and energy prices seen to dampen profit growth.
- Growth in consumer spending could be affected by a slow down in economy.

Telecoms – Dividend Plays

- Telcos will be dividend attractions for this year.
- However, they may become less attractive once interest rates start to climb.
- Revenue and profit growth will be modest as mobile penetration is already high.
- Broadband may be a revenue and profit driver

Property Sector - Peaking

- Property stocks depressed due to perception that it is exposed to risks resulting from a possible US recession.
- Selling of property stocks could have been overdone as sales to US based clients ranges from 3% to 15%.
- The property sales remain healthy, buoyed by strong demand from locals and Filipinos abroad.

Property Sector - Peaking

- Filipinos abroad are still finding value in Philippine-based homes vis-à-vis US houses, given the latter's decline.
- Peak of the property sector may be reached late next year as supply kicks in between 2009-2010.

Market Outlook – Tough Times

- Philippine stocks seems to be headed for its first loss in five years
- US Recession / Global Economic Slow Down
- Interest rates bottoming / Rising Inflation
- Political Noise
- Disappointment of not achieving the target of a balanced budget

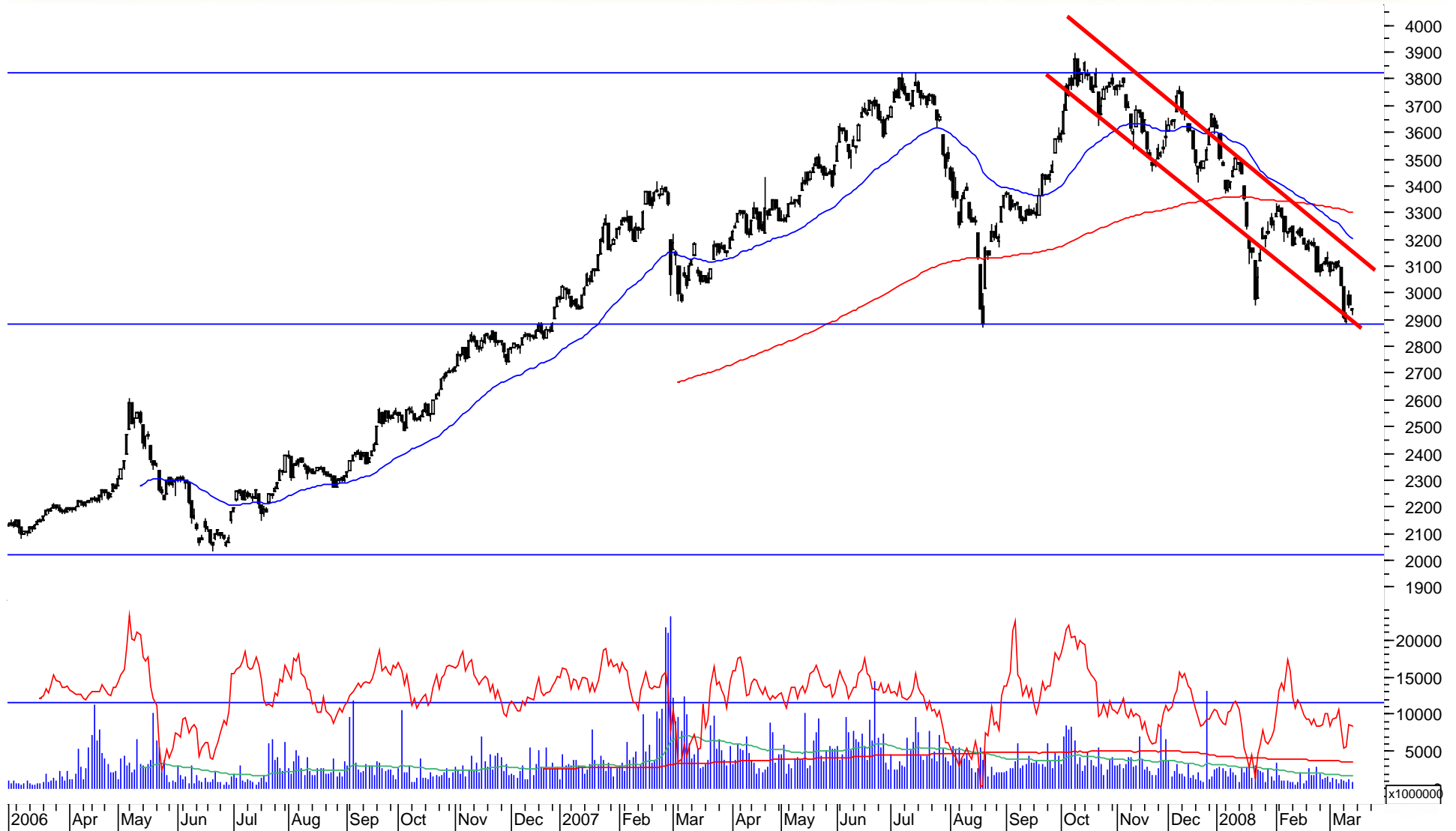
Regional Valuations

	2008	2009
Korea	10.30	10.70
Taiwan	10.99	10.30
Thailand	11.14	10.38
Singapore	12.90	11.09
Philippines	12.91	10.90
Indonesia	14.02	12.26
Malaysia	14.19	12.49
Japan	14.40	13.10
India	14.48	11.83
Hong Kong	15.89	13.52
<i>Average</i>	13.12	11.66

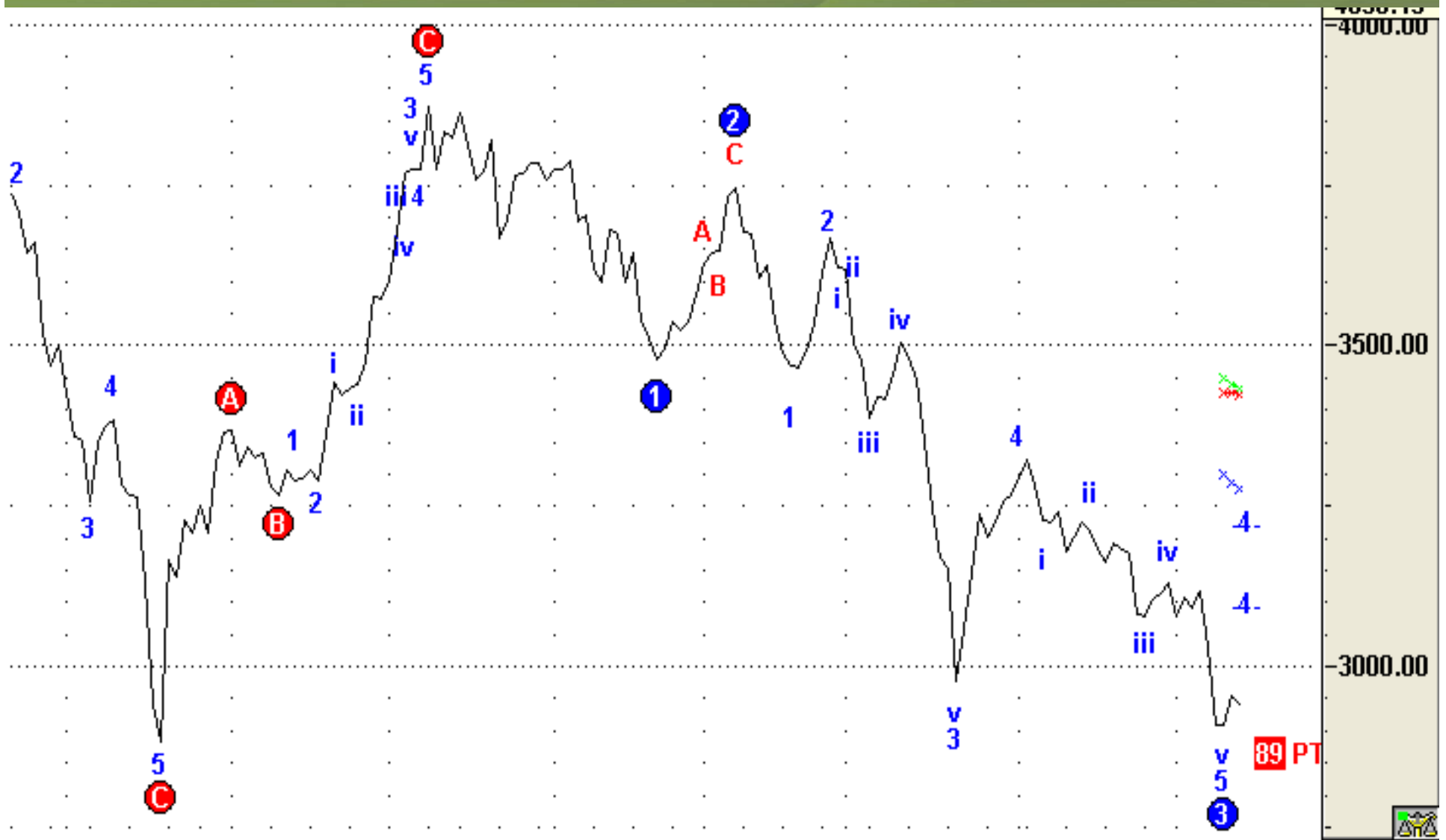
Technical Outlook - PSEi

- Short Term – Oversold, Double Bottom
- Medium term – Bearish, Moving Average Sell
- Long Term – Solid downtrend since Sept
- Best Case – 82% Fibonacci retracement back to 3,500
- Worst Case – Big Double Top target of 2,000

Technical Outlook - PSEi



Technical Outlook - PSEi

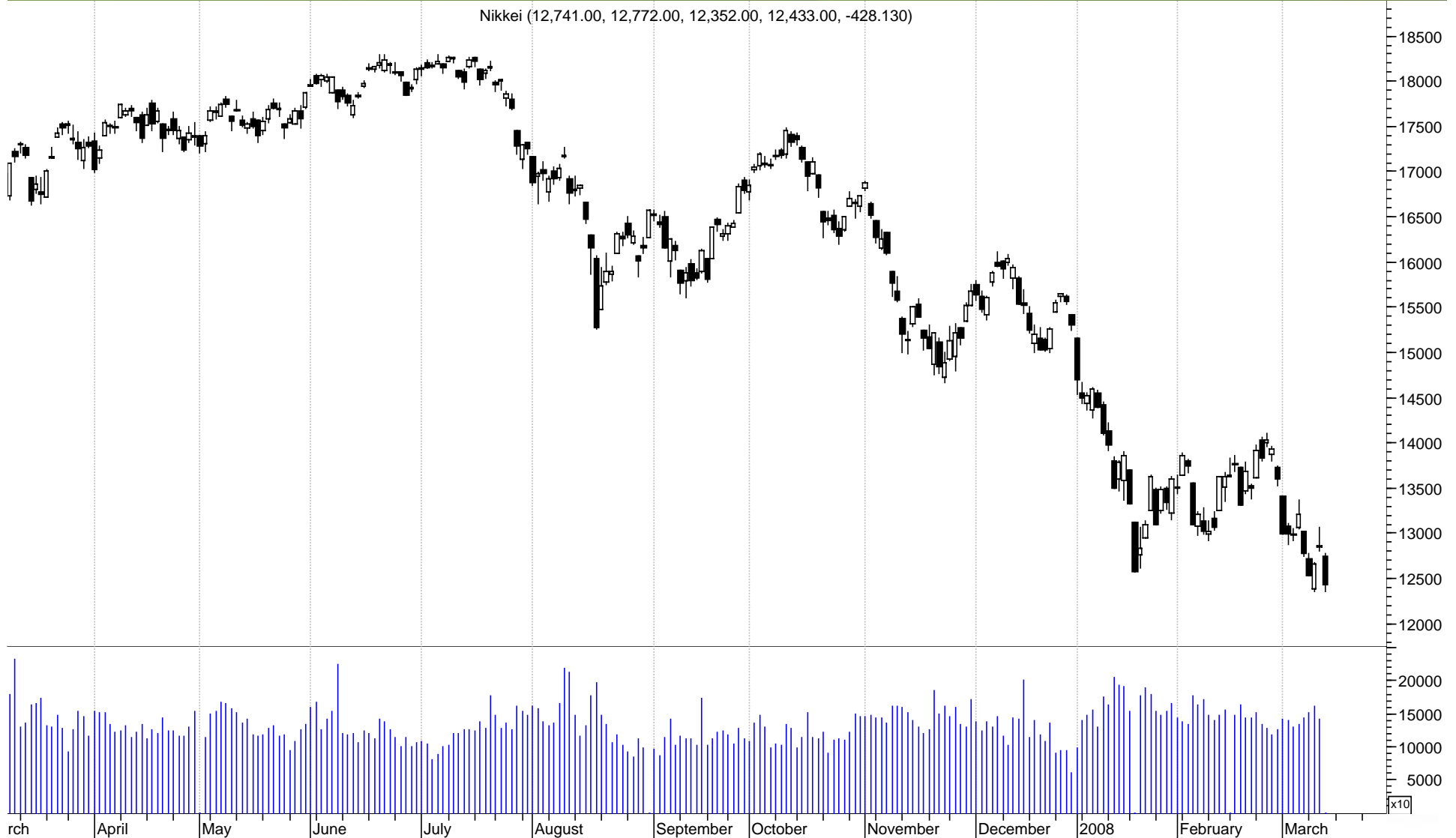


Technical Outlook – Asian Markets – Hang Seng



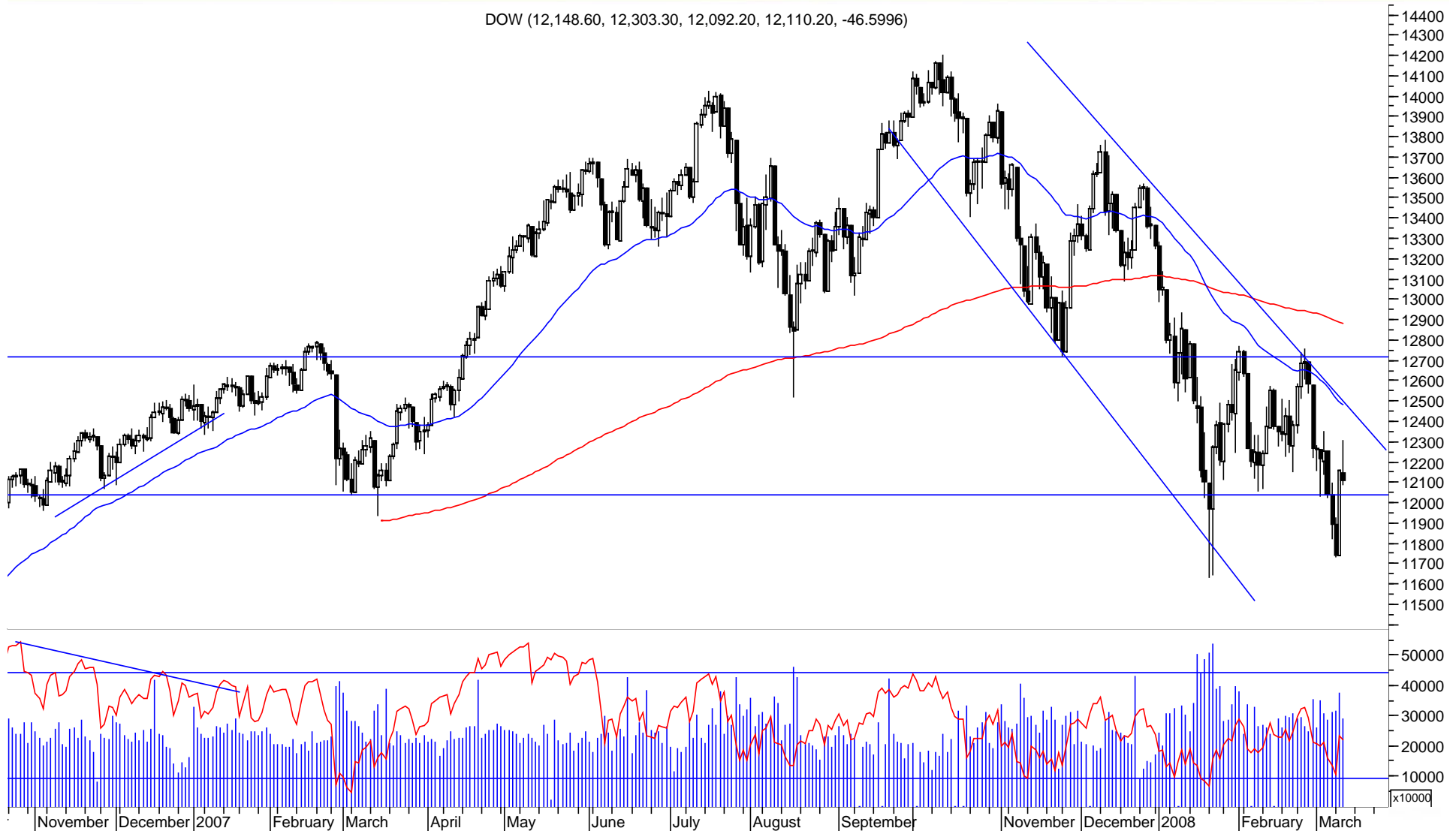
Technical Outlook – Asian Markets – Nikkei

Nikkei (12,741.00, 12,772.00, 12,352.00, 12,433.00, -428.130)

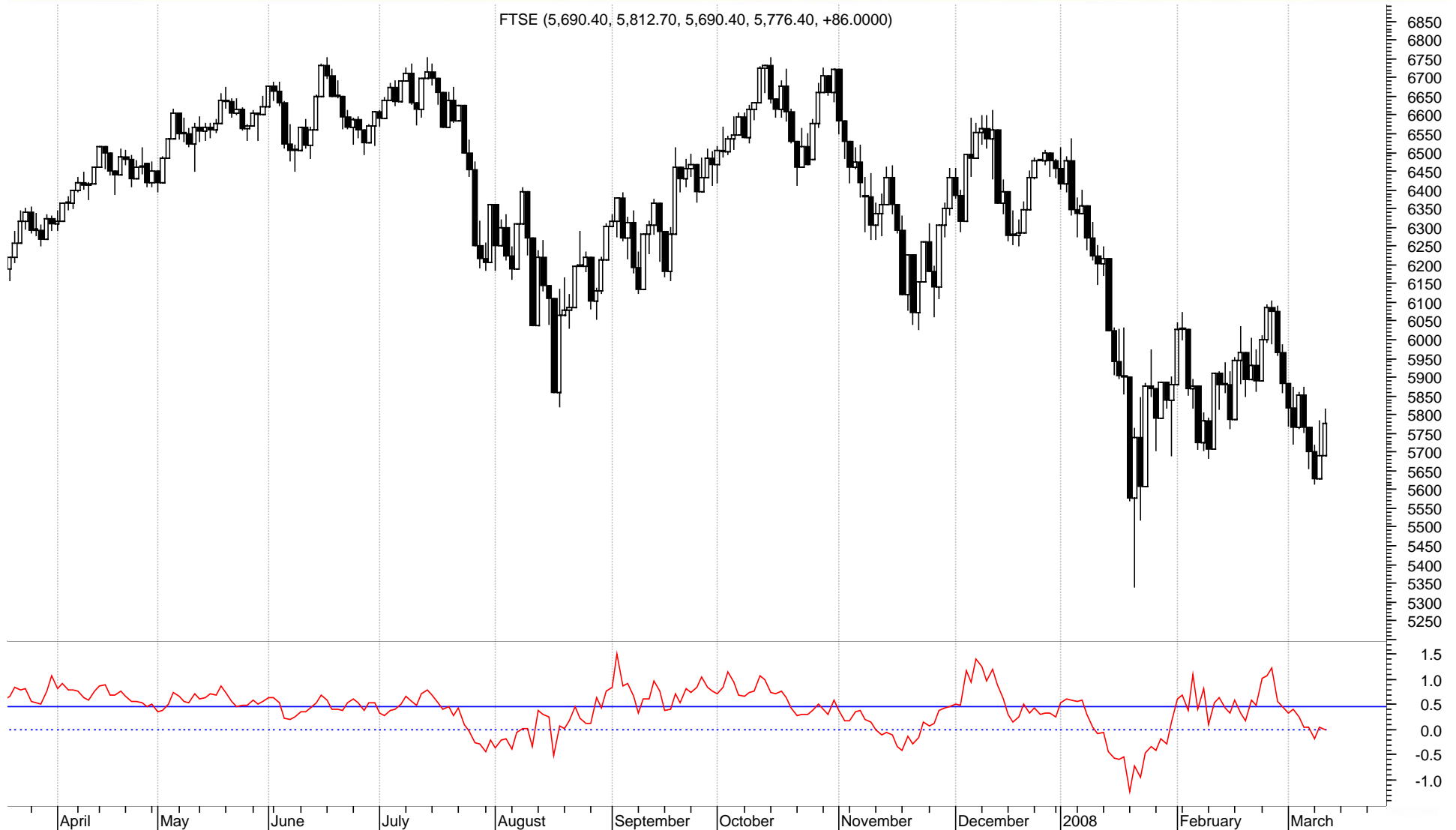


Technical Outlook – Dow Jones Industrial Average

DOW (12,148.60, 12,303.30, 12,092.20, 12,110.20, -46.5996)



Technical Outlook – European Markets - FTSE



Strategy Proposed

- Defensive – Stay in a wait and see mode
- With the current fundamental and long term technical backdrop, we are recommending a sell on rally strategy
- There could be opportunities on mining issues as precious metals are seen to benefit from the weak U\$ Dollar and rising inflation

Strategy Proposed

- Long term positions on extremely undervalued financial issues like RCBC and MBT
- Wait for positive signals externally and locally before taking aggressive positions in stocks
- Successful test of support levels should be used for short term trading positions.
- Market likely to remain weak until August and rally towards the last quarter of the year.