



MARKET INSIGHTS

FOCUS ON PHILIPPINES: A STRONG MANDATE HERALDS

JUNE 2016

DUTERTE'S LANDSLIDE WIN

Rodrigio Duterte, seven time Mayor of Davao province, will be sworn in as the 16th President of The Philippines on 30 June 2016. Duterte won the popular vote by a large margin in 2016's presidential polls. Separately, the Vice President post has been won with a narrow lead by lawyer and social activist Leni Robredo, who ran under the current ruling Liberal party. The two are expected to share a complementary working relationship given Duterte's no-nonsense, firebrand reputation and Robredo's nurturing and conciliatory approach.

Most recently, several political parties have pledged their alliance to a coalition with Duterte's party, the Partido Demokratiko Pilipino-Lakas ng Bayan. This backing is crucial and is contributive towards Duterte's ability to translate his execution record in Davao City to national level.

Duterte seems to have built a good-sized moat to help drive certain painful but necessary reforms to transition the Philippines economy to its next phase of growth.

DUTERTE'S IMPRESSIVE TRACK RECORD

Duterte's political experience stems from an impressive track record of serving as Mayor of Davao for seven terms, over more than 22 years since 1988. He is largely credited for transforming Davao from being among the country's most dangerous cities in the 1980s to one of the safest today; an achievement that speaks of his perseverance and ability to execute reforms.

Well known for his iron-fist stance on crime, corruption and drugs, Duterte successfully pursued a multi-pronged approach through modernising crime-fighting with technology, revising the law and elevating the threat of crime and drugs to that of national security.

Beyond crime-fighting, Duterte worked to achieve peace and order through diplomacy with the leftist wing political party. Through various heartland initiatives, Duterte exemplified a 'people-first' strategy in developing Davao's economy – he introduced a programme to give financial aid to small and medium enterprises and established tourism, agricultural and industrial hubs in the countryside to create jobs.

With a resume that boasts of restoring peace and security and improving economic prosperity, Duterte is not short of political experience and decision-making under pressure.



A CONSTRUCTIVE ECONOMIC PLAN IN THE MAKING

A draft eight point economic agenda released by the Duterte camp reveals his priorities.

Agenda point	Details
To continue and maintain current macro policies	<ul style="list-style-type: none">▶ Reduce corruption and bureaucracies in the Bureau of Internal Revenue and Bureau of Customs▶ Improve tax collection▶ <i>Continuity will be a relief for the market</i>
Accelerate infrastructure spending	<ul style="list-style-type: none">▶ 5% of Gross National Product to be allocated for infra spending▶ Address bottlenecks in the Public Private Partnerships▶ <i>Starting from a low-base from Aquino administration</i>
Improve the Philippines' attractiveness to Foreign Direct Investments	<ul style="list-style-type: none">▶ Ease restrictive policies and enhance the process of doing business as what is being done in Davao City▶ <i>May require legislation which increases complexity of implementation</i>
Pursue a genuine agricultural strategy	<ul style="list-style-type: none">▶ Promote support to farmers to increase productivity▶ <i>May revive the agriculture sector which is long overdue</i>
Address bottlenecks in land registration and management	<ul style="list-style-type: none">▶ Promote better coordination among the 4 bureaus that are involved in land registration and management▶ <i>May require further progress through legislation</i>
Improve the tax system	<ul style="list-style-type: none">▶ Make tax more progressive
Expansion and improvement of cash transfer program	<ul style="list-style-type: none">▶ Foster inclusive growth
Strengthen the basic education system	<ul style="list-style-type: none">▶ Support growth via upgrading human capital in service sectors

The agenda suggests that Duterte is unlikely to reverse any of the good done by the outgoing Aquino administration – disruption was one concern that naysayers had of Duterte. Also, having a Vice President from the outgoing administration may somewhat facilitate continuity.

The appointment of cabinet members is also critical to building capability to execute the above plans. Although unofficial as yet, names of several proposed appointment holders that have been released sound promising; it includes representatives who are technocrats who served in previous administrations or people from academia who come rich with experience and qualification in their respective areas of work.

Source: CNN Philippines, Macquarie Research, Eastspring Investments.



PHILIPPINES ENJOYS SOUND FUNDAMENTALS

The Philippines economy, one of Asia's strongest structural stories, is underpinned by a young population. The macro balance sheet has witnessed notable improvement over the last few years. The country also enjoys net creditor status to the rest of the world, urging all of the big three ratings agencies to award the country the investment grade status. Sustained macro stability has also resulted in a structural decline in interest rates.

Against this backdrop, the growth momentum appears resilient, further supported by absent excesses in leverage and domestic demand. In the most recent quarter, the Philippines economy grew 6.9% year-on-year, which puts it on track to fall within the government's target range of 6.8% - 7.8%.

The Aquino administration introduced measures that helped increase government accountability, spur Public-Private-Partnerships and deregulate certain sectors.

These went a long way in lifting the economy but not enough for it to have a life of its own.

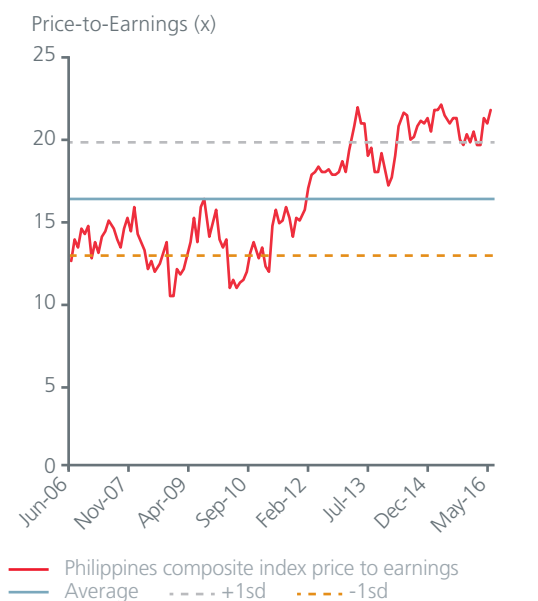
More needs to be done to sustain and transition Philippines to its next phase of growth. The incoming administration would need to embark on that path rather quickly.

PHILIPPINES CONTINUES TO OFFER AN ATTRACTIVE PROPOSITION FOR INVESTORS

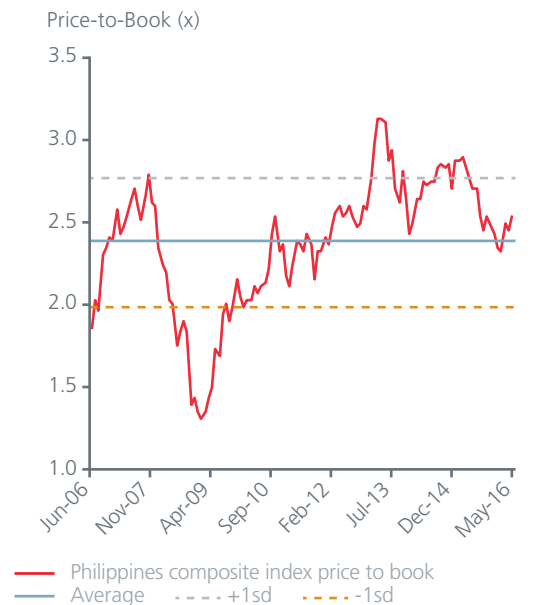
The period leading up to the presidential polls saw an uptick in volatility in Philippines' equities. Positive sentiment has since returned; a big and clear win, a lack of controversial signals for business and what is shaping to look like strong congressional support to Duterte are allaying major concerns.

While the Philippines' structural story remains intact, it is not unknown. Headline valuations remain rich (Fig.1), driven by expensive large cap stocks.

Fig.1. Valuations



Source: Bloomberg, as of 10 June 2016.



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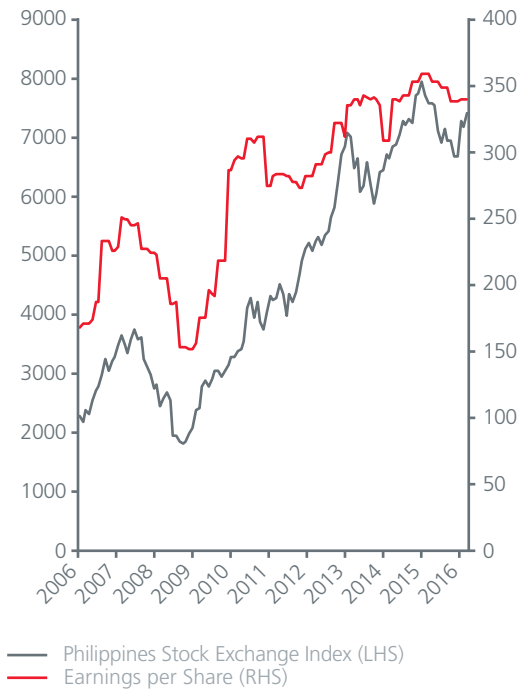


We believe, long-term, the market will likely rise in line with corporate earnings' growth (Fig.2) which in turn is expected to recover over the next two years (Fig.3).

Our Philippines equity strategy is managed with a long-term, bottom-up valuations' approach. It endeavours

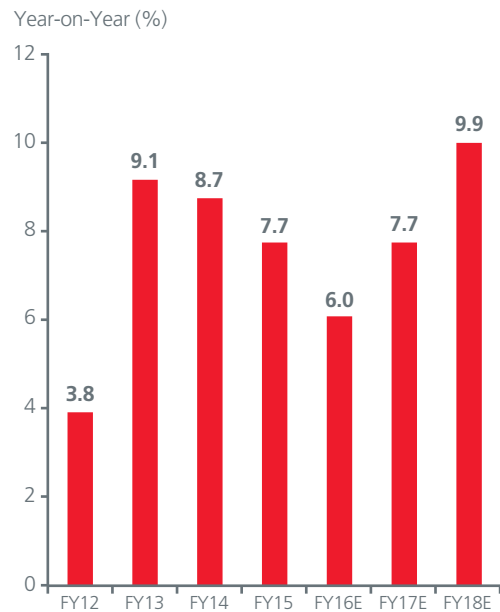
to establish high conviction positions in companies with valuations at a discount against their long-term sustainable profits. By broadening our horizon amidst rich valuations of large-cap stocks, the strategy has a tilt towards more attractively valued mid-cap and off-benchmark investment opportunities.

Fig.2. Price Index and Earnings per Share



Source: Bloomberg, as of 10 June 2016.

Fig.3. MSCI Philippines Earnings Growth



Source: Thomson Reuters, Institutional Brokers Estimate System estimates, as of 10 June 2016.



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