COL FINANCIAL PHILIPPINES
PHILIPPINE EQUITY RESEARCH
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COLing the Shots

The Tides of Opportunity

COLing the Shots is a monthly publication by COL which provides insights on investment opportunities based on global and local developments that could affect the market. COLing the Shots aims to provide timely and relevant information and analysis as well as a model portfolio for successful investing.

Key Highlights

Dear Clients,

Instead of my usual COLing the Shots report, I'd like to share with you my presentation during COL's mid-year market briefing (*Click here to download report*). The presentation is the product of brainstorming sessions with COL's management team, research team and sales team, and various contacts in the industry. These sessions were very useful as they gave me a better picture of the major issues facing the market today and the topics that should be focused on. Using the inputs and relevant pieces information that we have gathered, we came out with our stock market outlook for the rest of the year.

Here are the key messages of our presentation:

- **The PSEi long term uptrend is still intact** even with the increasing prospects of diminishing liquidity as the Philippines enjoys favorable economic growth outlook both in the short term and in the long term, and is less vulnerable to the headwinds facing other emerging market Asian economies.

- Nevertheless, **we face challenges and risks in the short term**, in terms of our stock market's relatively more expensive valuation, the expected slowdown in the PSEi's 2014 earnings growth, and the risk of contagion as fund managers put us in the same basket as Thailand and Indonesia. Consequently, **we could still suffer from a weaker peso, rising interest rates and volatile financial markets in the short term.**

- To combat these risks, we advise investors to **focus on sector that are not expected to deliver weak earnings growth in 2014, do not have large fund raising requirements, and whose earnings are not sensitive to rising interest rates, currency weakness or volatile financial markets.** Investors should also **adopt a staggered approach in buying stocks** as the market will most likely continue to move sideways in the next few months given the prevailing concerns.

- **We are removing MBT and BDO in our COLing the Shots model portfolio** due to increasing likelihood that these stocks could underperform the market in the short term as banks' non-interest income and the value of their trading portfolios are vulnerable to rising interest rates. **We are instead adding Robinsons Land (RLC) and Ayala Corp. (AC).** We like RLC since it is expected to benefit from the continuous expansion of its leasing portfolio and the rebound of its residential development business. Meanwhile, we like AC since it is successfully executing on its plan to increase its exposure to the power sector. It is also expected to be one of the major players in the bidding for PPP projects. Both stocks are expected to deliver double digit earnings growth and are trading at attractive valuations.

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Later this week, we will also be coming out with a piece answering some of the more important questions that were asked during the market briefing that took place last Monday as we did not have time to answer questions.

With the knowledge that you will gain from going through our presentations (this one and Juanis Barredo's technical analysis presentation entitled "Tempering Tides will Bring Opportunity" *click here to download report*), we hope that you are properly guided through these turbulent times and are able to capitalize on the opportunities that are currently available.

Yours,

April Tan, CFA

Investment Rating Definitions

BUY	HOLD	SELL
Stocks that have a **BUY** rating have attractive fundamentals and valuations, based on our analysis. We expect the share price to outperform the market in the next six to twelve months.	Stocks that have a **HOLD** rating have either 1.) attractive fundamentals but expensive valuations; 2.) attractive valuations but near term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely inline or underperform the market in the next six to twelve months.	We dislike both the valuations and fundamentals of stocks with a **SELL** rating. We expect the share price to underperform in the next six to twelve months.

Important Disclaimers

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