COL FINANCIAL PHILIPPINES

PHILIPPINE EQUITY RESEARCH

THURSDAY, 08 AUGUST 2013

COLing the Shots

The Tides of Opportunity: Answers to questions asked during the mid-year market briefing

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.

As promised, here are our answers on three of the most relevant questions that were asked during the mid-year market briefing. Happy reading!

I entered the market close to the peak in May this year. What would you suggest as a strategy? Should I still sell now or hold on to my position?

It really depends on your investment time horizon and on the size of the portfolio that you currently have.

If you are a long term investor and the amount of money that you have invested is something that you do not need in the short term, then you can just hold on to your position. Although it might take a while, we remain confident that the market will eventually recover and reach new highs.

If you are a long term investor but are heavily invested, you may want to consider reducing your size. The volatility of the market in the next few months might be too difficult for you to bear if your size is too big.

If you are a short term investor, it might be a good idea to sell your positions now as the market is still expected to undergo a correction *(please review our technical analysis presentation to understand our short term view of the market)*. Aside from cutting your losses, selling your position now would provide you with emotional and psychological benefits. It might be difficult for you to mentally prepare for the market's eventual recovery if you are sitting at a huge loss.

Share prices of stocks such as FLI, MEG and FPH have gone down significantly, is there something wrong with these stocks?

Nothing has changed as far as the fundamentals of these stocks are concerned. All three started to fall in the middle of May, at the same time as the market's general decline. However, reasons why these issues dropped more significantly compared to the others include the following:

1. These stocks are less actively traded. As a result, huge selling orders on these stocks had to be executed at a steep discount to the market price to be completed promptly.

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2. Uncertainty on how high interest rates would increase could have negatively affected sentiment for property stocks (CPG and FLI). Demand for residential properties usually weakens when interest rates go up. Although we share the view that interest rates have bottomed, we do not believe that rates will go up significantly given ample liquidity available domestically and the release of ~Php1.4 Tril in liquidity once non-trust entities are no longer allowed to place funds in SDAs by November. Moreover, we believe that demand for residential properties is in a secular uptrend given the huge existing backlog, favorable demographics of the country, increasing affluence of Filipinos and the fresh availability of affordable payment terms. Finally, CPG and FLI are not highly leveraged and have no immediate fund raising requirements.

Is there a property bubble?

No, we do not think that there is a property bubble. As discussed earlier, we believe that demand for residential properties is in a secular uptrend given the huge existing backlog, favorable demographics of the country, increasing affluence of Filipinos, and the fresh availability of affordable payment terms. Our view is shared by the BSP and Moody's. Earlier this year, BSP governor Amando Tetangco was quoted as saying that there is no property bubble because "there is still fundamental support in the growth of (the residential) sector coming from real demand." Meanwhile, ratings agency Moody's said "the growth of the Philippines' real estate market has so far been healthy and there's no reason to believe that a property bubble is forming."

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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