
Philippine Capital Markets Outlook & Portfolio Strategy

October 2013

Outline

- **Global, Asia and Philippine Macroeconomic Outlook**
- **Key Indicators: Outlook, Trend & Strategy**
- **Portfolio Asset Allocation**

Global Macroeconomic Outlook

Summary of Global and Asian Macroeconomic Outlook

➤ Global Outlook & Strategy

- o Global GDP growth moderating to 3.0%-3.5% in 2014
- o Japan, US economic recovery remains fragile, Europe exits recession
- o High unemployment rate, gov't indebtedness cap recovery
- o US Fed: TAPERING IS NOT EQUIVALENT TO TIGHTENING
- o ECB, BOJ are expected to extend asset purchases
- o Interest rates are seen to gradually increase (25 to 50 bps per year)
- o Global stocks to perform better than global bonds

➤ Asian Outlook & Strategy

- o Asia ex-Japan economic outlook to modestly improve in 2014
- o Exports in Developed Asia to bounce back on better global economy
- o Stocks in Korea, Taiwan, Hong Kong, China are favored
- o Medium-Term Risk: Private sector indebtedness is at elevated levels
- o Risk Mitigants – Robust US\$ reserves; low government debt

US, Europe and Japan

Global GDP growth lowered to 3.0%-3.5% in '14

Global GDP Growth %	2012	2013F	2014F	2015F	2016F	2017F
Citibank	2.6%	2.4%	3.2%	3.5%	3.7%	3.7%
HSBC	2.2%	2.0%	2.6%	n.a.	n.a.	n.a.
JP Morgan	2.1%	2.6%	3.0%	n.a.	n.a.	n.a.
World Bank	2.3%	2.0%	3.0%	3.3%	n.a.	n.a.
Global GDP growth range (%)	2.1%-2.6%	2.0%-2.6%	2.6%-3.2%	3.3%-3.5%	3.7%	3.7%

Source: Citibank, HSBC, JP Morgan, World Bank

- o **US, Europe, Japan's economic recovery remains fragile on high unemployment rate, high government debt burden**

US growth improves to 2.5%-3.0%; Europe exits recession

US GDP Growth	2012	2013F	2014F	2015F	2016F	2017F
Citibank	2.8%	1.6%	2.7%	3.2%	3.2%	3.0%
HSBC	2.2%	1.5%	2.4%	n.a.	n.a.	n.a.
JP Morgan	2.0%	2.0%	2.7%	n.a.	n.a.	n.a.
World Bank	2.2%	2.0%	2.8%	3.0%	n.a.	n.a.
US GDP growth range (%)	2.0% to 2.8%	1.5% to 2.0%	2.4% to 2.8%	3.0% to 3.2%	3.2%	3.0%

Source: Citibank, HSBC, JP Morgan, World Bank

Euro-area GDP Growth	2012	2013F	2014F	2015F	2016F	2017F
Citibank	-0.5%	-0.5%	0.6%	0.9%	1.3%	1.5%
HSBC	-1.0%	0.5%	1.5%	n.a.	n.a.	n.a.
JP Morgan	0.5%	-0.6%	0.6%	n.a.	n.a.	n.a.
World Bank	-0.5%	-0.6%	0.9%	1.5%	n.a.	n.a.
Euro-area GDP growth range (%)	-0.5% to 0.5%	-0.6% to 0.5%	0.6% to 1.5%	0.95% to 1.5%	1.3%	1.5%

Source: Citibank, HSBC, JP Morgan, World Bank

Japan: More asset purchases to boost growth

Japan GDP Growth	2012	2013F	2014F	2015F	2016F	2017F
Citibank	2.0%	2.0%	2.0%	1.0%	1.2%	1.2%
HSBC	1.9%	1.6%	0.9%	n.a.	n.a.	n.a.
JP Morgan	0.3%	3.5%	0.6%	n.a.	n.a.	n.a.
World Bank	2.0%	1.4%	1.4%	1.3%	n.a.	n.a.
Japan GDP growth range (%)	0.3% to 2.0%	1.4% to 2.0%	0.6% to 2.0%	1.0% to 1.3%	1.2%	1.2%

Source: Citibank, HSBC, JP Morgan, World Bank

- o Bank of Japan (BOJ) to pursue more asset purchases to offset adverse effects of higher sales tax

Major Central Banks to maintain liquidity

- o US Federal Reserves: TAPERING is not equivalent to TIGHTENING
- o European Central Bank (ECB) to pursue another round of LTRO
- o Bank of Japan (BOJ) to pursue more asset purchases to offset adverse effects of higher sales tax

Absence of Inflationary Pressures

US Inflation	2012	2013F	2014F	2015F	2016F	2017F
Citibank	1.8%	1.3%	2.0%	2.1%	2.1%	2.1%
HSBC	2.1%	1.6%	1.9%	n.a.	n.a.	n.a.
World Bank	2.1%	2.4%	2.5%	2.5%	n.a.	n.a.
Euro-area inflation	2012	2013F	2014F	2015F	2016F	2017F
Citibank	2.5%	1.5%	1.4%	1.3%	1.4%	1.3%
HSBC	2.5%	1.4%	1.3%	n.a.	n.a.	n.a.
Japan inflation	2012	2013F	2014F	2015F	2016F	2017F
Citibank	0.0%	2.1%	0.7%	0.5%	0.7%	0.5%
HSBC	0.0%	0.0%	0.7%	n.a.	n.a.	n.a.
JP Morgan	0.0%	0.1%	2.1%	n.a.	n.a.	n.a.
World Bank	0.0%	2.1%	0.7%	0.5%	0.7%	0.5%

Source: Citibank, HSBC, JP Morgan, World Bank

Extended Low Interest Rate Environment

US Federal Funds Rate	2012	2013F	2014F	2015F	2016F	2017F
Citibank	0.25%	0.25%	0.25%	0.75%	1.65%	2.50%
HSBC	0.25%	0.25%	0.25%	n.a.	n.a.	n.a.
Eurozone - Repo Rate	2012	2013F	2014F	2015F	2016F	2017F
Citibank	0.88%	0.56%	0.50%	0.50%	0.56%	0.81%
HSBC	0.75%	0.25%	0.25%	n.a.	n.a.	n.a.
Japan – Overnight call rate	2012	2013F	2014F	2015F	2016F	2017F
Citibank	0.07%	0.07%	0.13%	0.07%	0.07%	0.07%
HSBC	0.05%	0.05%	0.05%	n.a.	n.a.	n.a.

Source: Citibank, HSBC, JP Morgan

10-Year Gov't Bond Yields – Gradual Increase

US	2012	2013F	2014F	2015F	2016F	2017F
Citibank	1.80%	2.30%	3.00%	3.50%	3.75%	4.00%
Capital Economics	1.80%	2.75%	3.00%	3.50%	n.a.	n.a.
HSBC	1.70%	2.60%	2.10%	n.a.	n.a.	n.a.
Eurozone	2012	2013F	2014F	2015F	2016F	2017F
Citibank	1.57%	1.60%	1.83%	2.00%	2.25%	2.50%
Capital Economics	1.87%	2.00%	2.25%	2.50%	n.a.	n.a.
HSBC	1.57%	3.30%	2.60%	n.a.	n.a.	n.a.
Japan	2012	2013F	2014F	2015F	2016F	2017F
Citibank	0.85%	0.76%	0.70%	1.00%	1.25%	1.25%
Capital Economics	0.68%	0.75%	0.75%	1.00%	n.a.	n.a.
HSBC	0.70%	0.80%	1.10%	n.a.	n.a.	n.a.

Source: Citibank, Capital Economics, HSBC,

Forex: US\$ firmer vs euro; stronger vs Yen

Euro/US\$	2012	2013F	2014F	2015F	2016F	2017F
Citibank	1.28	1.30	1.31	1.34	1.35	1.35
Capital Economics	1.28	1.35	1.30	1.25	n.a.	n.a.
HSBC	1.32	1.24	1.22	n.a.	n.a.	n.a.
JP Morgan	1.28	1.33	1.32	n.a.	n.a.	n.a.
Yen/US\$	2012	2013F	2014F	2015F	2016F	2017F
Citibank	81	99	109	110	110	110
Capital Economics	81	105	110	120	n.a.	n.a.
HSBC	86	99	94	n.a.	n.a.	n.a.
JP Morgan	81	100	103	n.a.	n.a.	n.a.

Source: Citibank, Capital Economics, HSBC, JP Morgan

East Asia and the Pacific

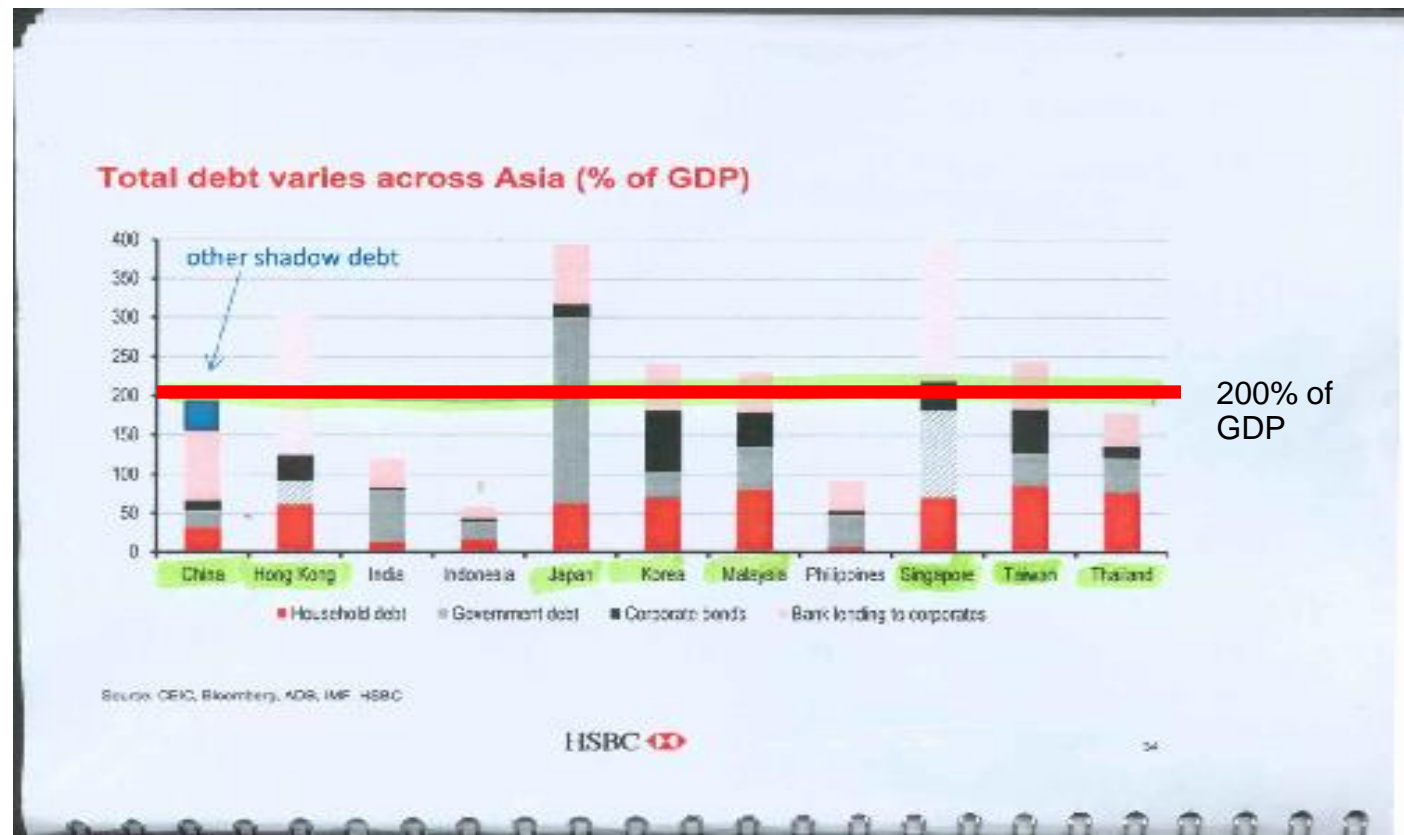
East Asia and the Pacific

Economic Indicators	2012	2013F	2014A	2015F
GDP growth	7.5%	7.3%	7.5%	7.5%
Current account/GDP	2.2%	2.0%	1.9%	1.9%
Inflation	4.4%	3.9%	5.1%	4.0%
Fiscal balance/GDP	-1.9%	-2.3%	-2.5%	-2.5%

Source World Bank, June 2013 (Cambodia, China, Fiji, Indonesia, Lao PDR, Malaysia, Mongolia, Myanmar, Papua New Guinea, Philippines, Solomon Islands, Thailand, Timor-Leste, Vietnam)

- **The region is growing faster than the global economy**
- **Inflation is modestly rising to 4%-5% range**
- **Fiscal deficit (% of GDP) is being contained below 3%**

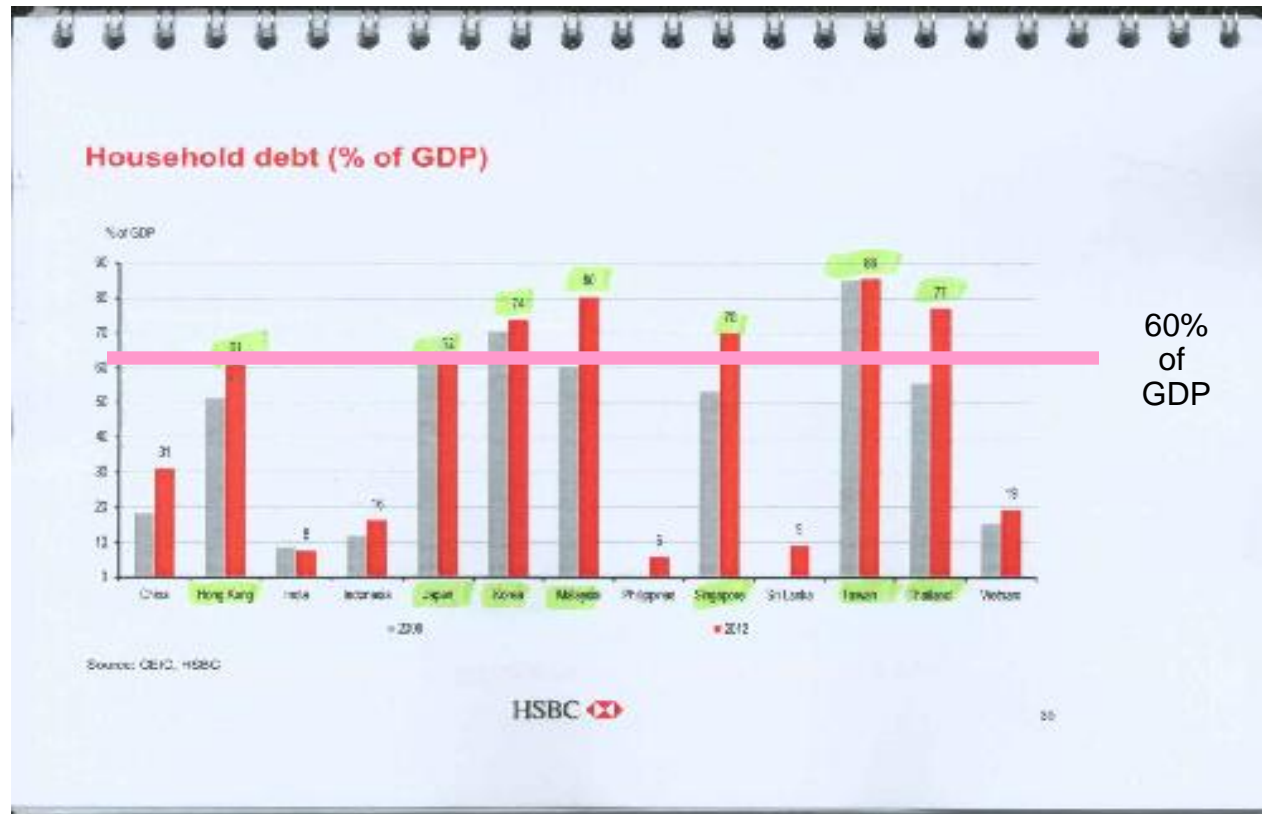
Total debt is at elevated levels in Asia



Source: HSBC

- o Total debt = household + government + corporate + bank lending
- o Total Debt-to-GDP is nearly 2x or more
- o China, Hong Kong, Japan, Korea, Malaysia, Singapore, Taiwan, Thailand

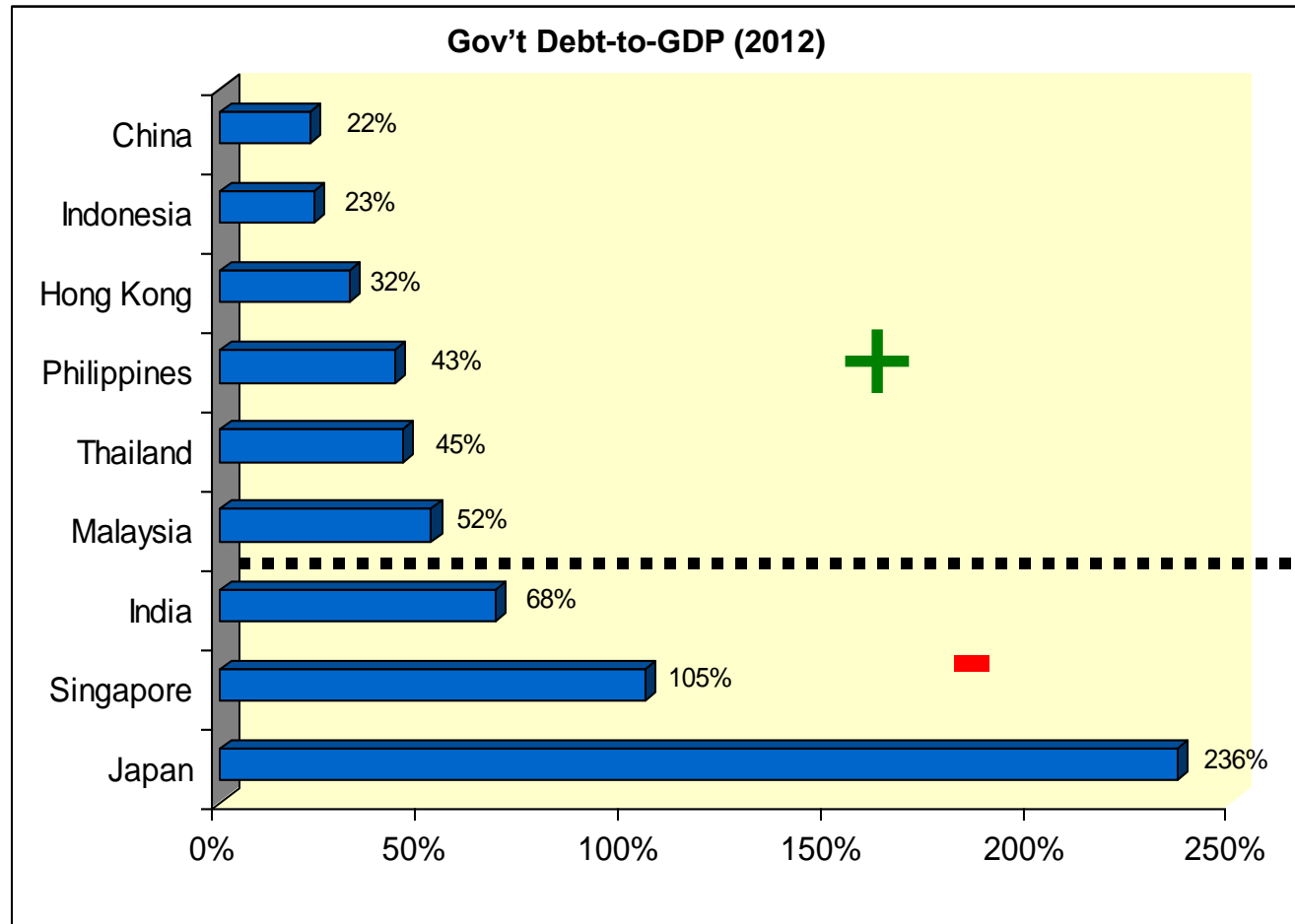
Consumer debt has risen substantially since '08



Source: HSBC

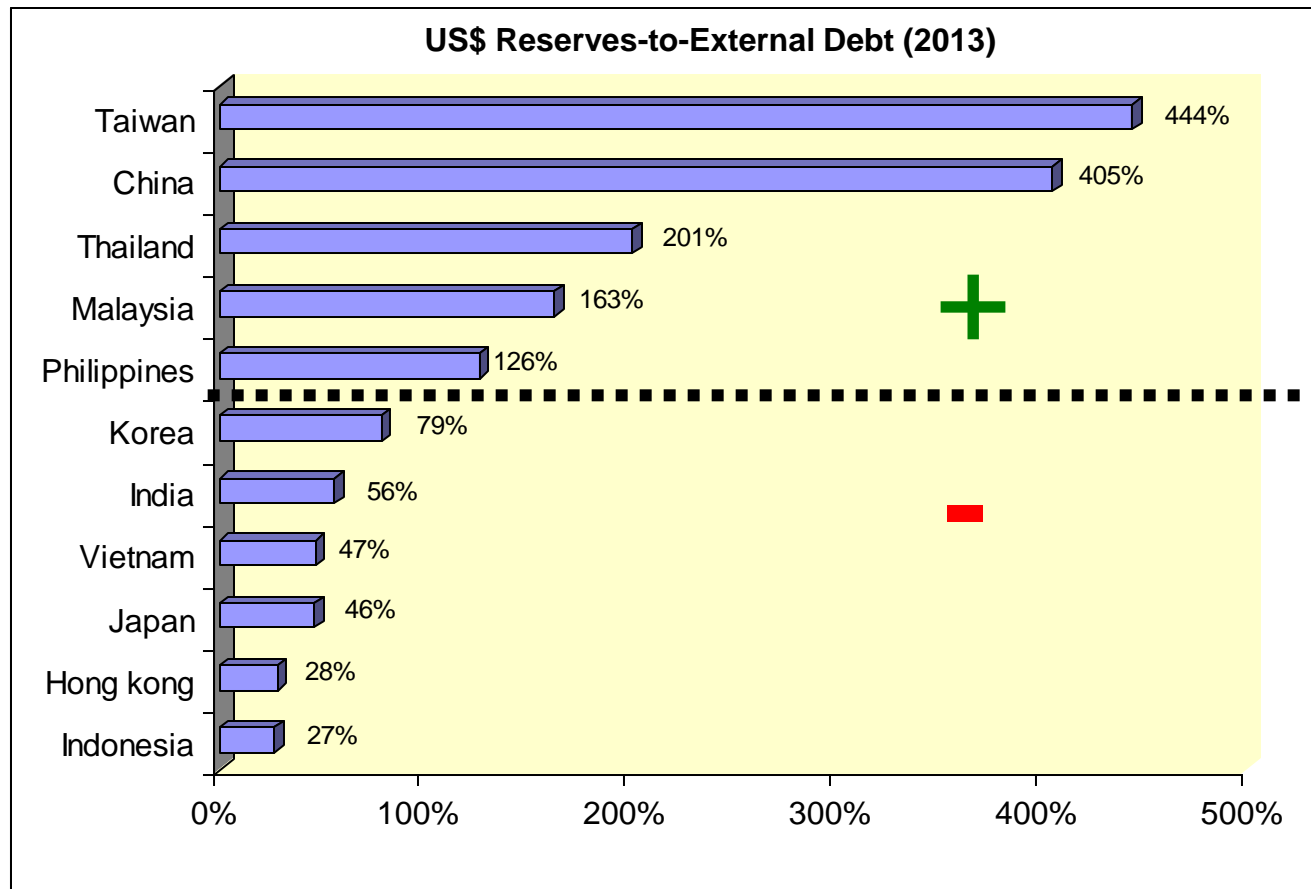
- o House hold debt has risen substantially in Hong Kong, Korea, Malaysia, Singapore, Taiwan, Thailand

Risk Mitigants: Low government debt level



- o With the exception of Japan, Singapore, India

Robust USD reserves to external debt cover



Source: JP Morgan, HSBC, World Bank, BDO Private Bank

o Except for Korea, India, Vietnam, Japan, Hong Kong & Indonesia

Heat Map Indicator in Asia-Pacific

Country	Total Debt-to-GDP	Gov't Debt-to-GDP	HH* Debt-to-GDP	Bank Debt-to-GDP	US\$ Reserves -to-External Debt	Potential Crisis
Japan	395%	236%	62%	97%	46%	Gov't, bank debt & forex crises
China	195%	22%	31%	142%	405%	State-owned bank crisis
Hong Kong	305%	32%	61%	212%	28%	Bank debt & forex crisis
India	125%	68%	8%	49%	68%	Gov't debt & forex crises
Indonesia	55%	23%	16%	16%	27%	Forex crisis
Korea	238%	30%	74%	134%	79%	Consumer, bank-debt & forex crises
Malaysia	225%	52%	80%	93%	163%	Consumer, bank-debt crises
Philippines	95%	43%	6%	46%	126%	Contagion crisis; US\$ debt corporate crisis
Singapore	400%	105%	70%	225%	105%	Consumer, gov't-; and bank-debt crises
Taiwan	245%	45%	86%	114%	444%	Consumer and bank-debt crises
Thailand	180%	45%	77%	58%	201%	Consumer debt crisis

Source: HSBC, JP Morgan, World Bank, BDO Private Bank Research; * - Household (HH)

Implications to Asian Financial Markets

- Modest recovery in Developed Economies (US, Japan, Europe) to boost export sector in Asia
 - Liquidity from BOJ, ECB tempers rise in interest rates in the short-term
 - Provides support to risk assets such as stocks and property over a 3-year period
-
- Rising private sector indebtedness could trigger the next wave of Asian financial crisis in the next 5 years
 - Caution on companies with high leverage or gearing ratios (particularly those exposed to US dollar debt liabilities and mismatched with local currency revenues)

Global Stock Performance & Outlook

Region/Country	Index	30 Sept 2013	YTD Return (%)	P/E 2013	2-Yr Avg ROE (%)
Japan	Topix	1,194	38.9%	13.4x	8.8%
United States	S&P 500	1,682	17.9%	13.8x	16.0%
United Kingdom	FTSE 100	6,462	9.6%	11.4x	14.5%
Global/World	MSCI ACWI	382	12.4%	12.9x	13.3%
Australia	S&P/ASX 200	5,219	12.3%	13.6x	13.5%
Pan-Europe	DJ-Stoxx 600	310	10.9%	12.5x	12.0%
Asia Ex-Japan	MSCI Asia ex-Japan	534	-2.5%	13.4x	12.8%
Emerging Market	MSCI EM	987	-6.4%	10.1x	13.0%
Central, Eastern Europe, Middle East, Africa	MSCI EM EMEA	329	-7.8%	8.4x	11.8%
Latin America	MSCI Latam	3,303	-13.0%	12.5x	12.5%
Philippines	PSEi	6,192	6.5%	16.5x	14.9%

Source: Bloomberg (September 30, 2013)

- Recovery play (2-3 years): UK, Europe
- Tactical play (1-2 year) MSCI Asia ex-Japan
- Medium-Term play (>3 to 5 yrs): US, Sectors – energy, financials, industrials, tech

Global Stock Performance in 2012

Region	Index	End-Dec 2011	End-Dec 2012	Return (%)	'12 Rank/ Return(%)
Asia ex-Japan	MSCI Asia ex-Jap	459	548	19.4%	1
Japan	Topix	729	860	18.0%	2
Central, Eastern Europe, Middle East, Africa	MSCI EM EMEA	303	357	17.8%	3
Emerging Market	MSCI EM	916	1,055	15.1%	4
Australia	S&P/ASX 200	4,057	4,649	14.6%	5
Pan-Europe	DJ Stoxx 600	245	280	14.4%	6
Global/World	MSCI ACWI	300	340	13.4%	7
United States	S&P 500	1,258	1,426	13.4%	8
United Kingdom	FTSE 100	5,572	5,898	5.8%	9
Latin America	MSCI Latam	3,602	3,798	5.4%	10

Source: Bloomberg (December 30, 2012)

- Emerging Markets (EMs) outperformed Developed Markets (DMs) last year

Philippine Macroeconomic Outlook

Philippine Capital Markets for 2014

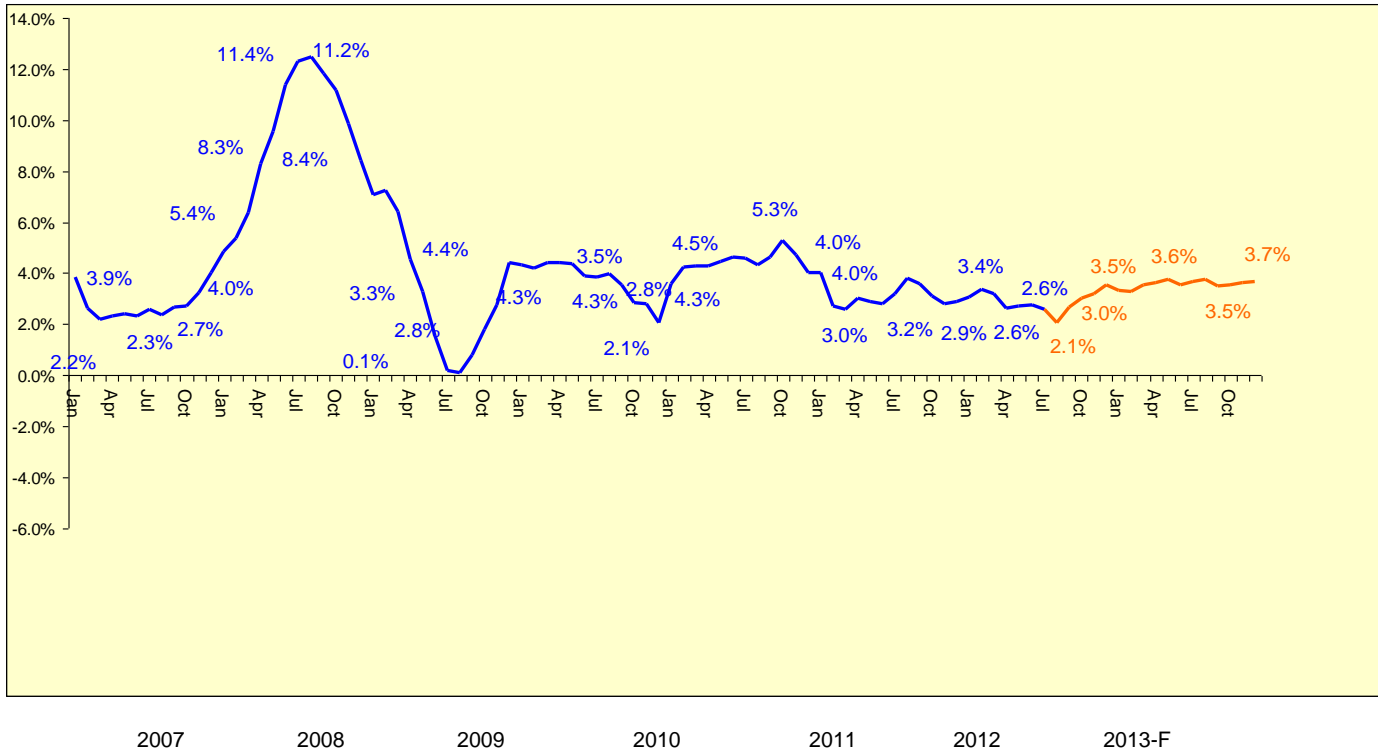
- o GDP growth to moderate to 6.5% in 2014 from 7% this year
- o Inflation to rise to 3.5% in 2014 from 2.9% this year
- o Local interest rates to increase by 50-75 bp in 2014
- o ROP prices are attractive but may still adjust lower
- o PSEi building base at 6,300-6,500; targeting 6,800 by Dec and 7,500 in 2014 (18x to 19x P/E)
- o Local stocks may generate 10% return per year on sustained earnings growth and modest return on equity (ROE)

Select Philippine Indicators

	2010A	2011A	2012A	2013F	2014F
Real GDP growth	7.6%	3.7%	6.6%	6.75%	6.5%
Deficit (Php billion)	-314.5	-172.0	-189.0	-226.0	-268.0
Deficit (% of GDP)	(3.5%)	(1.9%)	(1.8%)	(2.0%)	(2.2%)
Public sector debt (% of GDP)	54.7%	52.1%	57.8%	53.7%	49.7%
Inflation Index= 2006 (%)	3.8%	4.7%	3.1%	2.9%	3.5%
O/N key rates (%)	4.00%	4.40%	3.50%	3.50%	4.00%
3-month PDST-F (avg)	3.73%	2.05%	1.00%	1.00%	1.50%
5-year PDST-F (avg)	5.95%	5.45%	4.80%	3.88%	4.63%
5-year ROPs (avg)	2.70%	2.92%	1.40%	2.83%	3.08%
10-year ROPs (avg)	4.34%	4.25%	2.18%	4.38%	4.50%
GIR (US\$ billion)	62.37	77.10	84.00	86.00	89.00
P/US\$ rate (e-o-p)	43.89	43.50	41.00	42.50	44.00
P/US\$ rate (avg)	45.11	43.29	42.20	42.30	43.00
PSEi Index at 6,192 (Sept 30 '13)					
P/E (x)		22.6x	19.1x	17.0x	16.3x
P/bk (x)		3.26x	2.81x	2.55x	2.33x

Source: BDO Private Bank Research; F – Estimates as of September 30, 2013

Benign inflation on soft commodity, metal, crude oil prices



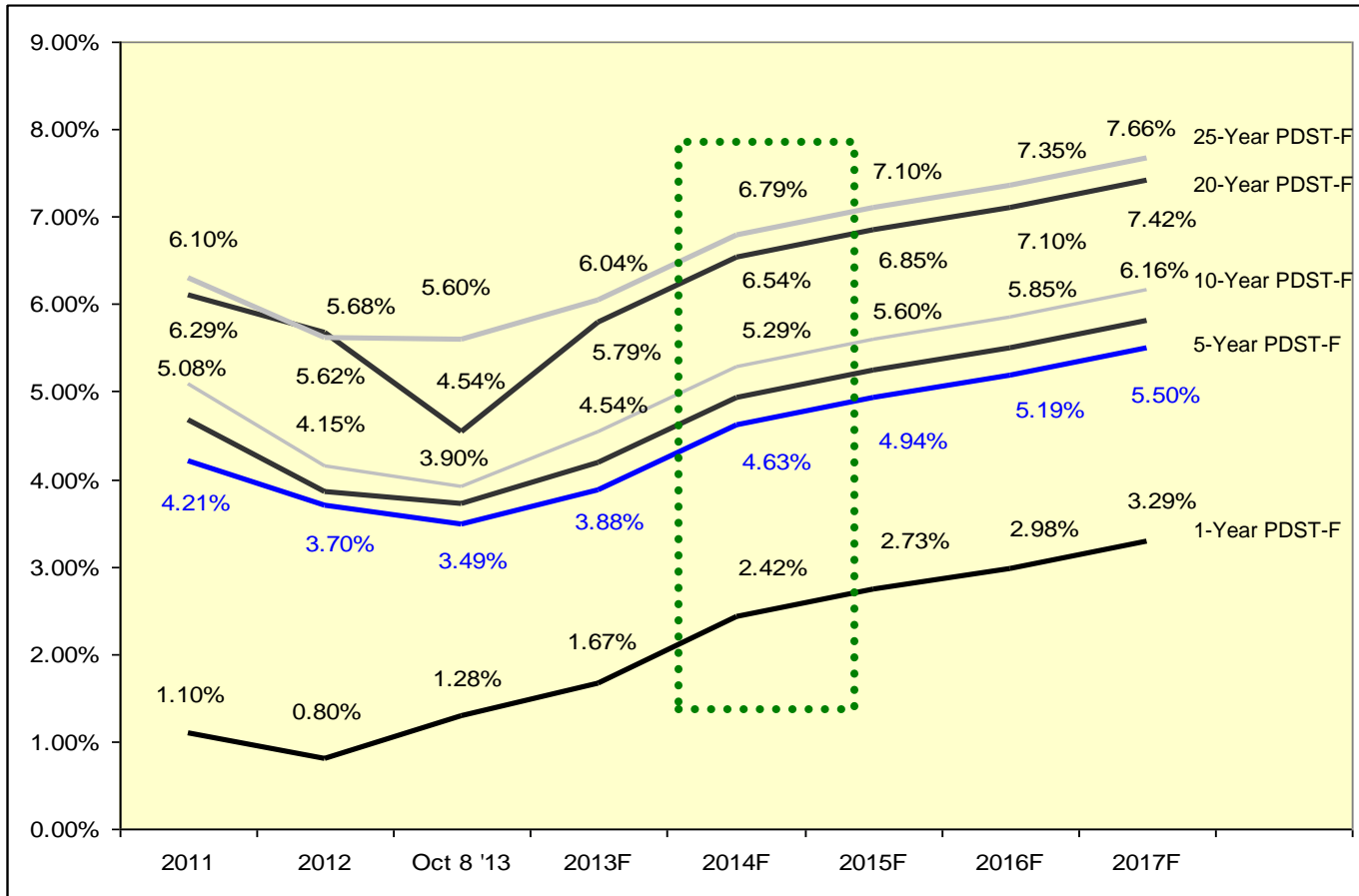
Source: BDO Private Bank Research; F – Estimates as of October 8, 2013

- o Inflation target reduced to 3.6% from 4.0% by end-December 2013
- o Inflation projected to rise to 3.5% in 2014 from 2.9% in 2013

Key Indicators: Trends, Outlook & Strategy

Key Indicator: Local Bond

Local Bond Yield Forecast – Rising but reduced by 50 bps



Source: BDO Private Bank Research Forecast, Bloomberg, October 8, 2013

Gov't Peso Bonds vs. Forecast



Gov't Peso Bonds (FXTN, yield)	Actual Lows 13	Actual Oct 8 '13	2013F	2014F	2015F	2016F
5-year FXTN	2.388%	3.49%	3.88%	4.63%	4.94%	5.16%
7-year FXTN	2.871%	3.72%	4.19%	4.94%	5.25%	5.50%
10-year FXTN	3.040%	3.90%	4.54%	5.29%	5.60%	5.85%
20-year FXTN	3.542%	4.54%	5.79%	6.54%	7.10%	7.35%

Source: BDO Private Bank Research Forecast, , Bloomberg (October 8, 2013)

- o Yields on government bond increased by 80-100 bps from its low this year
- o Negative real rates are unlikely to be sustained
- o Anticipate another 50 to 75 basis points rise in yields before curve stabilizes

PHP Bond: Outlook & Trend

	2014-2016
5-Year FXTN, PHP, Yield (%)	4.00%-5.00%
TREND IN YIELD	Generally Upward
KEY FACTORS TO MONITOR	<ul style="list-style-type: none"> • Yields on US treasuries rising by 25 to 50 bp per year • Local inflation normalizing towards 3%-4% levels

Source: BDO Private Bank Research

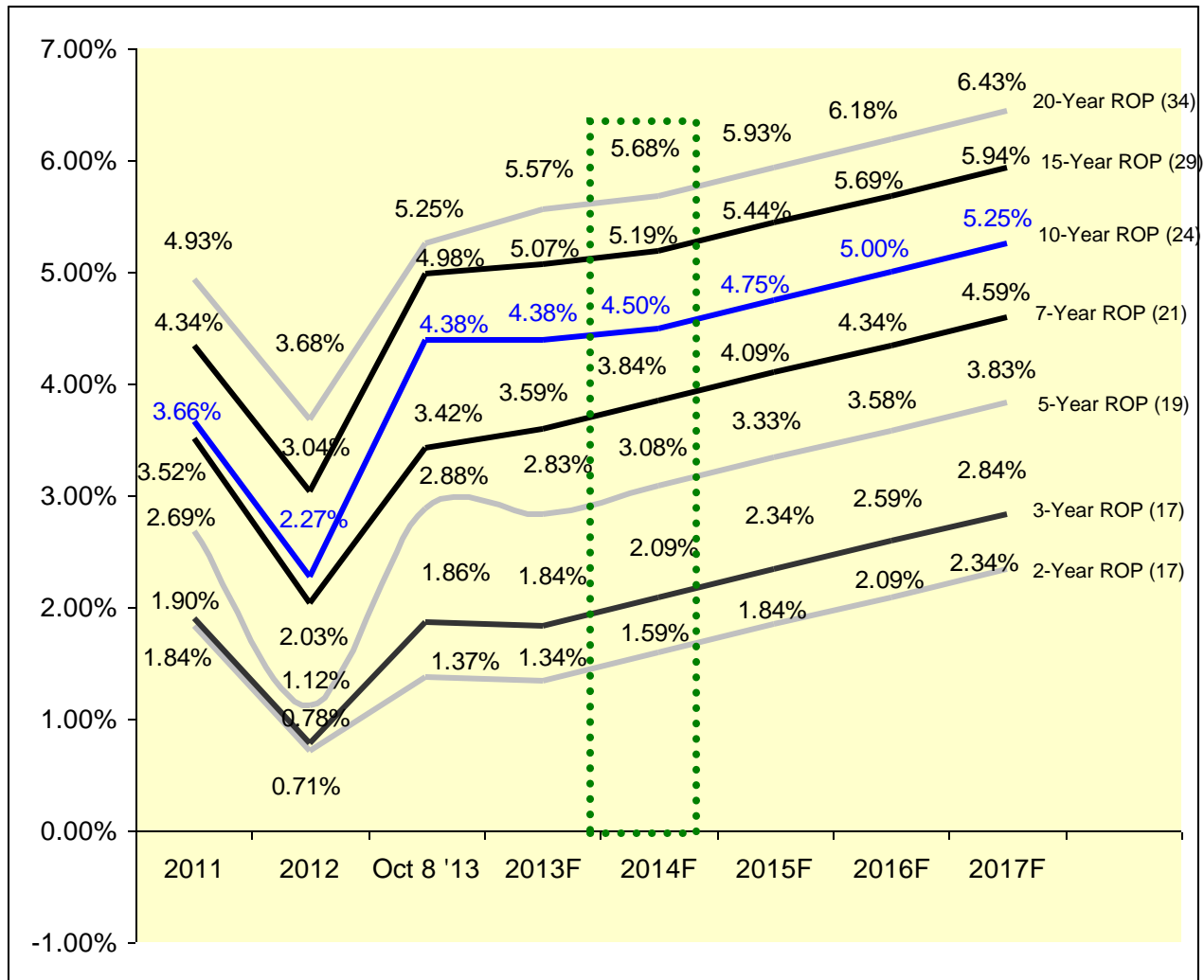
PHP Bond: Strategy

PHP Bond	Investment Plan
<p style="text-align: center;">TACTICAL (less than 1 year)</p>	<ul style="list-style-type: none"> ▪ Prefer short duration bond or bond funds ▪ Target average duration/maturity of less than 3 years
<p style="text-align: center;">STRATEGIC (3-year holding period)</p>	<ul style="list-style-type: none"> ▪ Prefer investing in 5-year tenor if net yield offers at least 3.5% ▪ Government Bonds: 70% weight; ▪ Overweight government bonds for capital preservation; ▪ Protection against credit deterioration on rising interest rates ▪ Corporate Bonds: 30%-weight; at least investment grade or BBB- rating ▪ Target average duration/maturity 5 years or less

Source: BDO Private Bank Research

Key Indicator: Philippine Sovereign Bonds (ROP) – US\$

Yields on ROPs – Gradual increase only



ROPs vs. Forecast

PH Sovereign Bonds (ROPs, US\$)	Actual Oct 8 '13	2013F	2014F	2015F	2016F
ROP-17 (3-year)	1.86%	1.84%	2.09%	2.34%	2.59%
ROP-19 (5-year)	2.88%	2.83%	3.08%	3.33%	3.58%
ROP-21 (7-year)	3.42%	3.59%	3.84%	4.09%	4.34%
ROP-24 (10-year)	4.38%	4.38%	4.50%	4.75%	5.00%

Source: BDO Private Bank Research Forecast, , Bloomberg (October 8, 2013)

- o Yields on ROPs to rise by about 25 to 50 bp per year
- o Yields on US\$-denominated bonds are higher than yields on local bonds

US\$ Bond: Outlook & Trend

	2014-2016
10-Year ROPs (US\$)	3.50%-4.50%
TREND IN YIELD	Generally Upward
KEY FACTORS TO MONITOR	<ul style="list-style-type: none">• US real GDP sustains 3% growth over a 3 year period• Fed targets at least 1% positive real rate• Fed starts raising overnight key rates in late 2015 or early 2016

Source: BDO Private Bank Research

US\$ Bond: Strategy

US\$ Bond	Investment Plan
<p style="text-align: center;">TACTICAL (less than 1 year)</p>	<ul style="list-style-type: none"> ▪ ROPs are ripe for short-term trading opportunity
<p style="text-align: center;">STRATEGIC (3-year holding period)</p>	<ul style="list-style-type: none"> ▪ Prices of ROPs are getting attractive ▪ Limit/Manage exposure on Asian HY bonds and focus on at least BB+ rated issuers ▪ Target 70-30 weighting: ROPs/ Indon sovs/Asian HY ▪ Be credit-conscious; minimize exposure on corporates with mismatched US\$ debt liabilities ▪ Target average duration/maturity 5 years or less

Source: BDO Private Bank Research

Key Indicator: Foreign Exchange (Php/US\$)

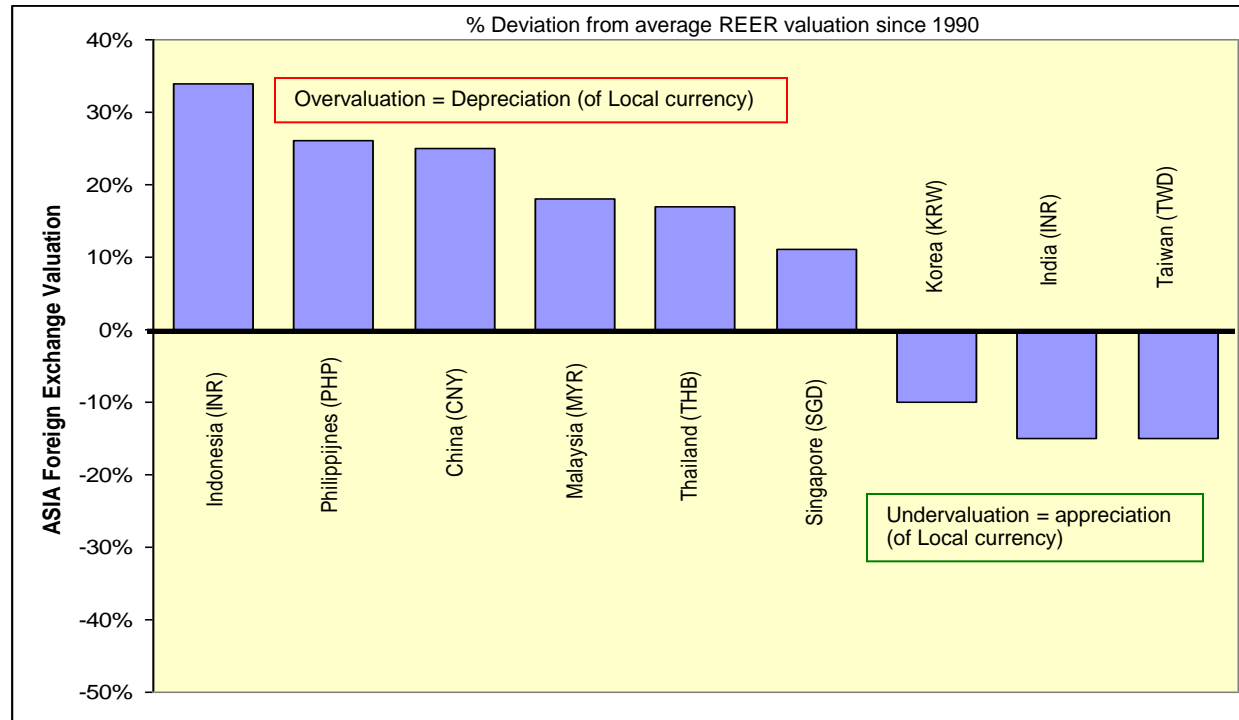
Peso to weaken in Q3; strengthen in Q4

Exchange Rate vs. US\$	2011A	2012A	2013F	2014F	2015F	2016F
Philippine Peso (vs US\$)	43.72	41.05	42.00	42-45	42-45	42-45
US\$ vs Euro	1.30	1.28	1.31	1.34	1.35	1.35
Yen vs. US\$	77	81	105	110	110	110
Philippine Statistics						
BOP surplus (US\$ Bn)	11.0	9.0	4.0	1.8	1.8	1.8
Gross Int'l Reserves (US\$ Bn)	75	84	86	89	91	94
External Debt (US\$ Bn)	60	64	68	72	75	78

Source: BDO Private Bank Research, Citibank

- o Peso peaked 44.70-level in August
- o Peso to strengthen towards 43.00-42.50 level in December
- o Reversing our previous call of strong Peso due to the following reasons:
 - o Strong US dollar on improving US economic growth in 2014 & beyond
 - o Weaker Yen could result in weaker Asian currencies, including Peso
 - o Japan accounts for 18% weighted trade of the Philippines' total trade
 - o 42-45 level is generally weaker than government's target of 41-43

Asia Foreign Exchange Valuation



Source: JP Morgan, BDO Private Bank Research, World Bank

- o REER = Real Effective Exchange Rate
- o It's the value that consumer pays for an imported good at the consumer level (inclusive of tariffs and transaction costs associated with the importing the good)

Peso/US\$: Outlook & Trend

Foreign Exchange	2014-2016
Php/US\$ rate	42-45
TREND	Generally Weaker
KEY FACTORS TO MONITOR	<ul style="list-style-type: none">• Firmer US\$ as US economy trends toward 3% growth• Weaker Yen puts pressure on Asian currencies to depreciate

Source: BDO Private Bank Research

Peso/US\$: Strategy

Foreign Exchange	Investment Plan
<p style="text-align: center;">TACTICAL (less than 1 year)</p>	<ul style="list-style-type: none"> ▪ Trade the Peso within 42-45 level ▪ Buy below 43; Sell above 44
<p style="text-align: center;">STRATEGIC (3-year holding)</p>	<ul style="list-style-type: none"> ▪ Increase US\$ holdings of total portfolio (to 40%-50% from 20%-30%) ▪ Accumulate below 43-level ▪ Invest and diversify out of Philippine assets ▪ Prefer US stocks, particularly those in industrials, transport, technology and financials (growth over value) ▪ ETF recovery themes - Europe, UK ▪ ETF tactical trading (1-2 year holding) – MSCI Asia ex-Japan, EM

Source: BDO Private Bank Research

ETF-Proxy Index

Region/Country	Index	'14 Forecast	Est. Return (%)	P/E 2013	Div. Yld (%)
Central, Eastern Europe, Middle East, Africa	MSCI EM EMEA	462	30.1%	8.4x	4.14%
Emerging Market	MSCI EM	1,395	30.7%	10.1x	3.04%
Japan	Topix	1,219	1.6%	13.4x	1.94%
United Kingdom	FTSE 100	8,989	29.1%	11.4x	4.15%
United States	S&P 500	2,265	26.0%	13.8x	2.27%
Global/World	MSCI ACWI	486	20.4%	12.9x	2.83%
Latin America	MSCI Latam	4,228	21.1%	12.5x	2.96%
Pan-Europe	DJ-Stoxx 600	391	19.5%	12.5x	3.78%
Australia	S&P/ASX 200	6,343	16.3%	13.6x	4.82%
Asia Ex-Japan	MSCI Asia ex-Japan	730	27.4%	13.4x	2.86%

Source: Bloomberg (September 30, 2013); BDO Private Bank Research Forecasts

- Strategists favor growth stories such as Emerging Market (EM), Japan, UK, S&P 500 or US
- Recovery or value-oriented themes are MSCI-Asia ex-Japan, Pan-Europe
- New frontier/exotic theme is MSCI EM EMEA (but thin liquidity)

Key Indicator: Philippine Stock Market

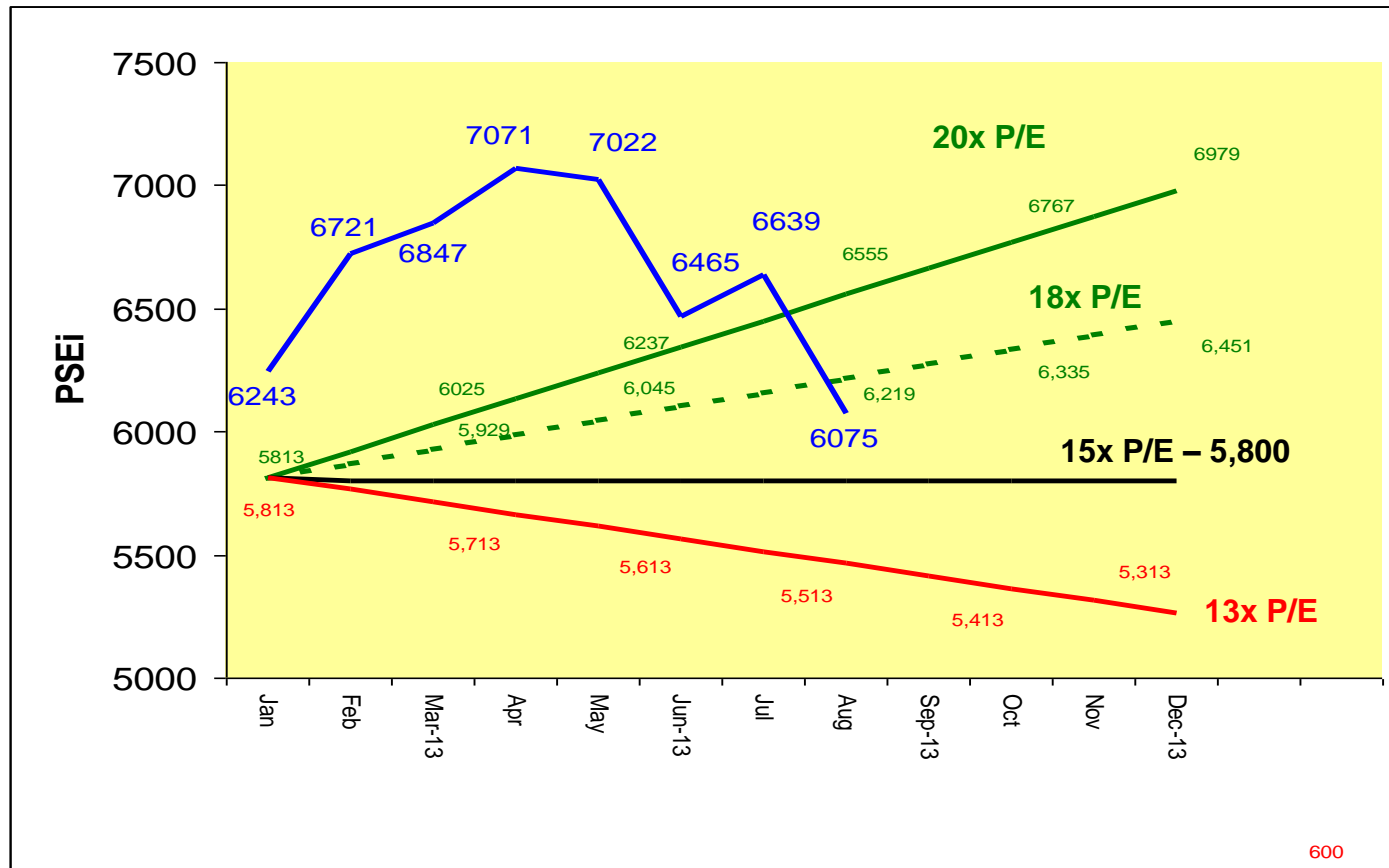
Stock Market Fundamentals

PSEi Index	2011A	2012A	2013F	2014F	2015F	2016F
Net income (Php million)	291,219	344,720	387,948	404,210	449,647	494,168
Earnings growth (%)	2.4%	18.4%	12.5%	4.2%	11.2%	9.9%
Price-to-earnings	22.6x	19.1x	17.0x	16.3x	14.6x	13.3x
Price-to-book	3.26x	2.81x	2.55x	2.33x	2.09x	1.90x
Gross Yield (%)	2.19%	1.85%	2.05%	2.05%	2.08%	2.11%
ROE (%)	14.9%	15.8%	15.8%	14.9%	15.1%	15.0%

Source: PSEi at September 30, 2013- Bloomberg Consensus Annualized Earnings (July 2, 2013)

- o Peak valuation reduced to 18x from the lofty levels 20-25x
- o Many of the PSEi stocks now trade below 15x P/E on 2013 earnings
- o Buy below 6,500 level

Stock Market Valuation Forecasts for 2H '13



- o PSE Index '13 target reduced to 6,500-6,800 level from 6,800-7,000

PH Stock Market : Outlook & Trend

	2014-2016
PSEi	5,500- 8,500
TREND	Upward Bias but with Toppish Formation
KEY FACTORS TO MONITOR	<ul style="list-style-type: none"> • Global economy accelerates to 3.0%-3.5% growth over the medium-term <ul style="list-style-type: none"> • Gradual rise in interest rates still support modest corporate earnings growth • Valuations appear expensive beyond 18x P/E

Source: BDO Private Bank Research

PHP Stock Market: Strategy

Stock Market	Action Plan
<p style="text-align: center;">TACTICAL (less than 1 year)</p>	<ul style="list-style-type: none"> ▪ Buy/accumulate stock funds below 6,500 level ▪ Select stock securities trading below 15x P/E with at least 10% earnings growth
<p style="text-align: center;">STRATEGIC (3-year holding period)</p>	<ul style="list-style-type: none"> ▪ Principal-protect portfolio allows exposure in stocks to 20%-30% range ▪ Limit exposure to stocks according to client's risk-return and CSA/IPS profiling ▪ Invest in UITFs, MFs, or ETFs for professional managed funds

Source: BDO Private Bank Research

Portfolio Asset Allocation

Investors' Portfolio Asset Allocation Guide

Asset Class Investor Profile	Portfolio Mix (Fixed Income/Stock)	Return Outcome (Worst to Best)
Conservative	100%-0%	2.3%
Defensive	90%-10%	1.5%-3.2%
Moderate	80%-20%	0.7%-4.2%
Balanced	70%-30%	-0.1 to 5.2%
	60%-40%	-0.8% to 6.1%
	50%-50%	-1.6% to 7.1%
	40%-60%	-2.4% to 8.1%
Aggressive	30%-70%	-3.2% to 9.0%
	20%-80%	-4.0% to 10.0%
	10%-90%	-4.7% to 11.0%
	0%-100%	-5.5% to 11.9%

Source: BDO Private Bank Research; PSE Index close at 6,192 on September 30, 2013

O Key Assumptions

- 1) 3-year Gov't PHP Bond, gross yield of 2.85%, net of 2.2%
- 2) PSEi target 18x in 2016, 8,500 level - Optimistic Scenario
- 3) PSEi target of 10x in 2016, 4,750 - Pessimistic Scenario
- 4) Holding Period: less than 3.25 years

Summary of Portfolio Strategy

Asset Class	Peso-Asset	US\$-Asset
CASH <ul style="list-style-type: none"> ▪ Liquidity Facility 	<ul style="list-style-type: none"> ▪ Invest in money market funds, time deposits 	<ul style="list-style-type: none"> ▪ US\$ Time Deposit (BDO, other parties)
FIXED INCOME <ul style="list-style-type: none"> ▪ Cash Bonds ▪ Funds 	<ul style="list-style-type: none"> ▪ Limit duration/maturity to less than 5 yrs ▪ 70/30 – Php gov’t bonds/Highly-rated local corporate bonds; focus on accrual income ▪ Invest medium-term on bond funds with duration less than 5 	<ul style="list-style-type: none"> ▪ 70/30 – Sovereigns/Investment grade rated US\$ corporate bonds ▪ Reduce duration/maturity to less than 5 years ▪ Reduce exposure on corporates with mismatched revenues/US\$ debt liability
Stock Market <ul style="list-style-type: none"> ▪ Direct Securities ▪ Funds 	<ul style="list-style-type: none"> ▪ Limit stock exposure to 20%-30% of total portfolio ▪ Expected return of 10% per year ▪ Customized Stock Portfolio Models (Value-oriented, momentum-oriented) ▪ Preferred shares or high-dividend yielding stocks ▪ UITFs, mutual funds 	<ul style="list-style-type: none"> ▪ Limit stock exposure to 20%-30% of total portfolio ▪ Invest in Exchange Traded Funds (ETFs) with benchmark rather than individual securities ▪ ETF theme ▪ Recovery – UK, Europe, US ▪ Tactical – EM, MSCI-Asia ex-Japan ▪ Sector – US – energy, technology, financials, industrials

Source: BDO Private Bank Research

Sample PHP Asset Allocation - Moderate Investor

Asset Class	Amount (Php Mn)	Net Yld (%)	Weight (%)	Wtd Avg Yld (%)	Maturity (years)	Wtd Mat (yrs)	Income (Php)
Cash							
BDO Money Mkt Fund**	2,000,000	1.00%	20%	0.20%	1.0	0.20	20,000
Fixed Income							
Gov't – RTB 5-9	2,000,000	1.92%	20%	0.38%	2.0	0.40	38,000
Gov't – FXTN 3-20	2,000,000	1.88%	20%	0.37%	2.8	0.55	37,000
AC Preferred – 2A**	1,000,000	4.76%*	10%	0.48%	10.0	2.00	48,000
First Pacific 2019**	1,000,000	5.30%	10%	0.53%	6.0	0.60	53,000
Total Fixed Income	8,000,000		80%	1.96%		3.75 yrs	196,000
Stocks							
BDO Equity Fund**	2,000,000	10.00%*	20%	2.00%	3.0	0.60*	n.a.
Total Stocks	2,000,000		20%	2.00%	3.0	0.60 yrs	n.a.
Grand Total - Portfolio	10,000,000		100%	3.96%		4.35 yrs	

Source: BDO Private Bank Research; * - estimated return on stocks is 10% per year (not guaranteed) over a 3-year period; ** - waiver investments

Sample US\$ Asset Allocation - Moderate Investor

Asset Class	Amount (US\$)	Net Yld (%)	Weight (%)	Wtd Avg Yld (%)	Maturity (years)	Wtd Mat (yrs)	Income (US\$)
Cash							
Sec Bank –US\$TD-91	20,000	1.67%	10%	0.17%	1.00	0.10	334
Fixed Income							
SMIC-19	70,000	4.38%*	35%	1.53%	5.00	1.75	3,066
ROP-19	70,000	2.88%*	35%	1.01%	5.00	1.75	2,016
Total Fixed Income	160,000		80%	2.75%		3.60 yrs	5,416
Stocks							
ETF – S&P 500**	20,000	8.0%*	10%	0.08%	3.0	0.30*	n.a.
Odyssey Asia Pacific Fund**	20,000	10.0%*	10%	1.00%	3.0	0.30*	n.a.
Total Stocks	40,000		20%	1.08%	3.0	0.60 yrs	n.a.
Grand Total - Portfolio	200,000		100%	3.83%		4.20 yrs	

Source: BDO Private Bank Research; * - estimated return on stocks i% per year (not guaranteed) over a 3-year period: **- waiver investments

List of Dividend-Paying Philippine Stocks

Companies	2008 Yld (%)	2009 Yld (%)	2010 Yld (%)	2011 Yld (%)	2012 Yld (%)
PLDT	6.62%	7.92%	8.70%	7.70%	6.85%
Globe Telecom	9.87%	6.99%	10.00%	5.47%	5.95%
Semirara Mining Corp	13.56%	10.91%	3.24%	4.52%	5.15%
Aboitiz Power Corp	4.74%	2.33%	0.96%	4.41%	4.17%
GMA7 Network	10.47%	6.49%	14.06%	14.47%	3.93%
La Farge Republic	12.23%	6.53%	3.29%	5.09%	3.58%
Philex Mining Corp	0.00%	0.00%	0.87%	1.84%	3.54%
Manila Electric Company	1.70%	1.17%	3.05%	3.16%	3.11%
Aboitiz Equity Ventures	4.80%	5.84%	4.25%	3.94%	2.72%
Union Bank of the Phils	8.37%	3.03%	3.67%	3.79%	2.66%
Universal Robina Corp	7.34%	2.27%	2.21%	4.56%	2.57%
Bank of the Phil. Island	4.68%	3.75%	2.92%	3.26%	2.42%
DMCI Holdings	3.77%	2.10%	1.39%	2.42%	2.22%
Alliance Global	0.00%	0.00%	0.48%	3.54%	2.18%
Energy Development Corp	14.40%	2.66%	2.04%	2.54%	2.07%
China Banking Corp	4.40%	3.57%	2.76%	3.02%	2.00%
Manila Water Corp	2.64%	2.54%	2.40%	2.89%	1.86%

Source: BDO Private Bank Research; Philippines Stock Exchange

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