Smooth sailing

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

- Since we last came out with our COLing the Shots report in January 21, the PSEi has risen by 4.4% to 7,803.45. So far, fundamentals continue to support our positive view towards the market. A few weeks ago, the government announced that 4Q14 GDP growth reached 6.9%, outperforming consensus growth forecast of 5.9%. More importantly, economic growth drivers were very encouraging, making us more confident regarding the sustainability of the country's economic growth.

- Global liquidity also continues to increase, which is favorable for the stock market. On February 4, People's Bank of China cut the reserve ratio or the amount of cash that banks must set aside with them by 50 basis points to 19.5%. On January 22, The European Central Bank announced the launch of a €60 Bil monthly bond buying program as a means to boost economic growth and to fight deflation in Europe. Although the U.S. is expected to be one of the first economies to begin raising interest rates, minutes of the Fed meeting released last February 18 showed that many Fed officials expressed concerns that economic growth in the US remained fragile and that raising interest rates prematurely would hurt the ongoing recovery. Domestically, the BSP kept the benchmark interest rate unchanged during its February meeting, and said that it is not obligated to increase interest rates even if the U.S. Fed does increase interest rates later this year.

- Companies are also starting to release earnings results for the full year of 2014. We wouldn't be surprised if some companies disclosed better than expected profits brought about by stronger sales and higher margins. For example, URC recently disclosed that 1QFY15 operating profits jumped by 32.5% to Php4.4 Bil. The said amount is already equivalent to 28.1% of our full year forecast. URC's performance beat expectations as it benefited from the strength of its domestic branded consumer foods business (sales up 16.9%), lower commodity prices and larger scale (operating margin +290 basis points).

- We are not discounting the possibility that the PSEi could suffer from a correction soon as the market is already overbought according to technical indicators. However, we continue to view corrections as an opportunity to buy for those that have not yet entered the market.

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So far so good

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A few weeks ago, the government announced that 4Q14 GDP growth reached 6.9%, outperforming consensus growth forecast of 5.9%. More importantly, economic growth drivers were very encouraging, making us more confident regarding the sustainability of the country's economic growth. Government spending jumped by 9.8% during the fourth quarter after performing dismally during the first nine months of the year. Meanwhile, construction grew by 8.1% in the fourth quarter, bringing full year growth to 8.4%. Manufacturing also remained strong, rising by 7.3% in 4Q14. This brought full year growth to 8.1%. Finally, exports jumped by another 15.9% in the fourth quarter, maintaining the growth momentum during the first nine months of the year.

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COLing the Shots stock picks up 9.8%

Our stock picks for 2015 performed quite well during the past few weeks. A portfolio with an equally weighted exposure to our 10 stock picks would have generated a return of 9.8%, outperforming the 4.4% increase of the PSEi during the same period.

Exhibit 1: Performance of COLing the Shots Stock Picks

	21-Jan	18-Feb	Period return
DNL	15.34	19.16	24.90%
AC	711	736.5	3.60%
MBT	91.4	95.1	4.00%
SMPH	18.78	19.94	6.20%
AP	42.7	44.5	4.20%
CIC	43.3	58	33.90%
GTCAP	1,130.00	1,191.00	5.40%
EDC	8.63	8.69	0.70%
FGEN	26	29	11.50%
CEB	86.5	89.9	3.90%
PSEi	7,474.10	7,803.45	4.40%

A lot has also happened during the past few weeks as far as our stock picks are concerned.

Metrobank disclosed that it plans to launch a Php32 Bil stock rights offering to boost is Tier 1 capital adequacy ratio to a more comfortable level of 13% vs. the minimum requirement of 8.5%. We believe that the news was viewed favorably by investors. In fact, it acted as a catalyst for MBT's share price to go up as it removed concerns that prices would drop once the bank announces a share placement. MBT's parent company GTCAP also did a share placement at Php1,130/sh amounting to Php10 Bil. Nevertheless, the placement will not lead to any dilution since all the shares sold were secondary shares owned by the Ty family. The Ty family sold shares in GTCAP so that they would have enough funds to participate in MBT's rights offering. (The Ty family owns 26% of MBT outside of GTCAP)

We increased our FV estimate for SMPH slightly by 6.3% to Php23.60/sh after we factored in the company's more aggressive mall expansion plan this year and additional expansion plans until 2018. Note that SMPH plans to double its total mall leasing portfolio by 2018 from 6.95 Mil sqm in 2013. Nevertheless, we don't think that we are being too aggressive in our forecasts as we have yet to factor in the potential impact of its recent acquisition of a 40% stake in Ortigas and Company.

SMPH's share price has increased quite a bit since it's weighting in the MSCI index will be increased effective end February and fund managers who track the performance of the MSCi Index are rebalancing their portfolios to reflect the change. Nevertheless, SMPH's share price will most likely correct once the deadline of the rebalancing period ends, providing investors with an opportunity to buy the stock at a cheaper price.

Aside from SMPH, we also increased our FV estimate for AP by 3.2% to Php47.60 after factoring in the significant increase in capacity of its Davao and Cebu coal plants. Due to the higher capacity, we forecast the earnings contribution of the two plants to rise by 21.6% in 2018E and by 45.1% in 2019E. CIC was the best performing stocks in our list, rising by 33.9% to Php58.00/sh during the period in review. However, there may be concerns as CIC recently disclosed that 2014 profits rose by a slower than expected pace of 23% to Php628 Mil.

CIC's management clarified that 2014 profits disappointed as it was negatively affected by the port congestion. Shipments were delayed, causing it to forgo the booking of sales for certain products. Transport costs also went up, and stayed high despite the drop in oil prices. Nevertheless, CIC said that demand for its products remains strong, and that it is still targeting to grow sales and profits by 15% in 2015, in line with our expectations.

Because of this, any correction in CIC stock resulting from its weaker than expected 2014 earnings result should be viewed as an opportunity to buy the stock.

Although CEB's share price has increased by 3.9% compared to its January 21 close of Php86.50/sh, some investors might feel disappointed as it reached a high of Php99.10/sh before correcting to its current level of Php89.90/sh. CEB's shares corrected in response to the rebound in oil prices. From a low of US$43.58/barrel on January 29, oil has rebounded to US$55.00/barrel recently. Nevertheless, we are not worried and believe that the ongoing correction is an opportunity for investors to buy more shares of CEB. Note that our FV estimate for CEB of Php156.00/sh is based on an oil price of US$86-91/barrel. This is still way above oil's current price of US$49.45/barrel. Moreover, although oil prices may not go back to its previous low, we also doubt whether it will return to its 2014 high of US$107.73/barrel as demand will most likely remain soft given the disappointing economic indicators disclosed by the US (4Q14 GDP grew by a slower than expected 2.6%) and China (Manufacturing activity contracted in December as implied by the PMI).

Exhibit 2: COLing the Shots Stock Picks

	Price	15 FV	Buy Date	Buy Price	Current Return	Buy Below Price
DNL	19.16	17.8	2/14/2013	6	219.30%	15.48
AC	736.5	855	8/5/2013	600	22.80%	743.48
MBT	95.1	112	1/23/2014	79.8	19.20%	97.39
SMPH	19.94	23.6	1/23/2014	14.48	37.70%	20.52
AP	44.5	47.6	7/15/2014	36	23.60%	41.39
CIC	58	53.2	1/20/2015	43.3	33.90%	46.26
GTCAP	1,191.00	1,340.00	1/20/2015	1,130.00	5.40%	1,165.22
EDC	8.69	9.9	1/20/2015	8.63	0.70%	8.61
FGEN	29	37.3	1/20/2015	26	11.50%	32.43
CEB	89.9	156	1/20/2015	86.5	3.90%	135.65

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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