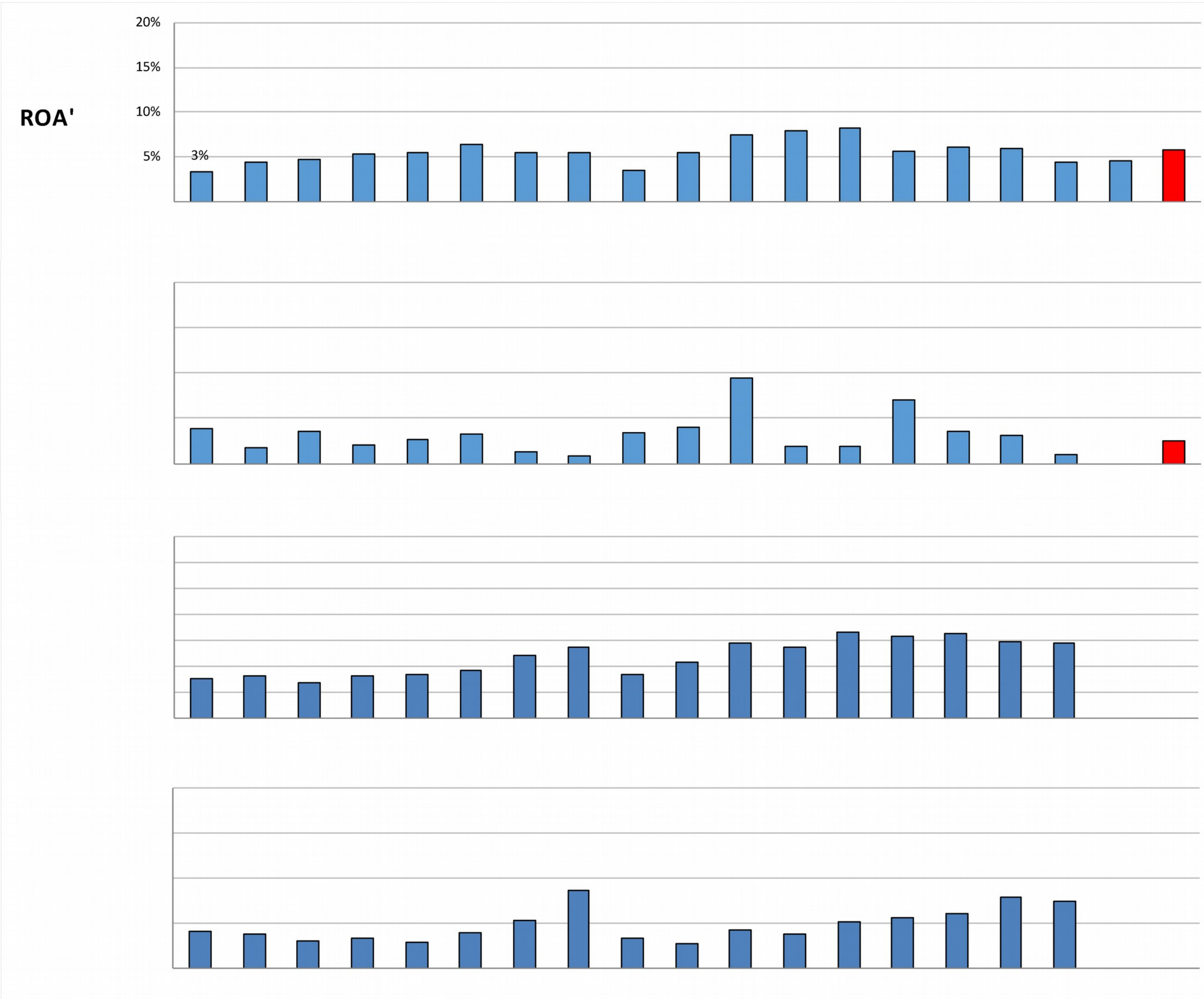
Market Valuations

If you are interested in deep analysis similar to this report, please consider attending this 4-day Program in January 2017 brought to you by CFA Society Philippines, entitled:

Investing & Finance Masterclass
How to Beat the Market: As Real as it Gets

Register HERE.

Performance and Valuation Prime™ Analysis
82 PH companies (non-financial)



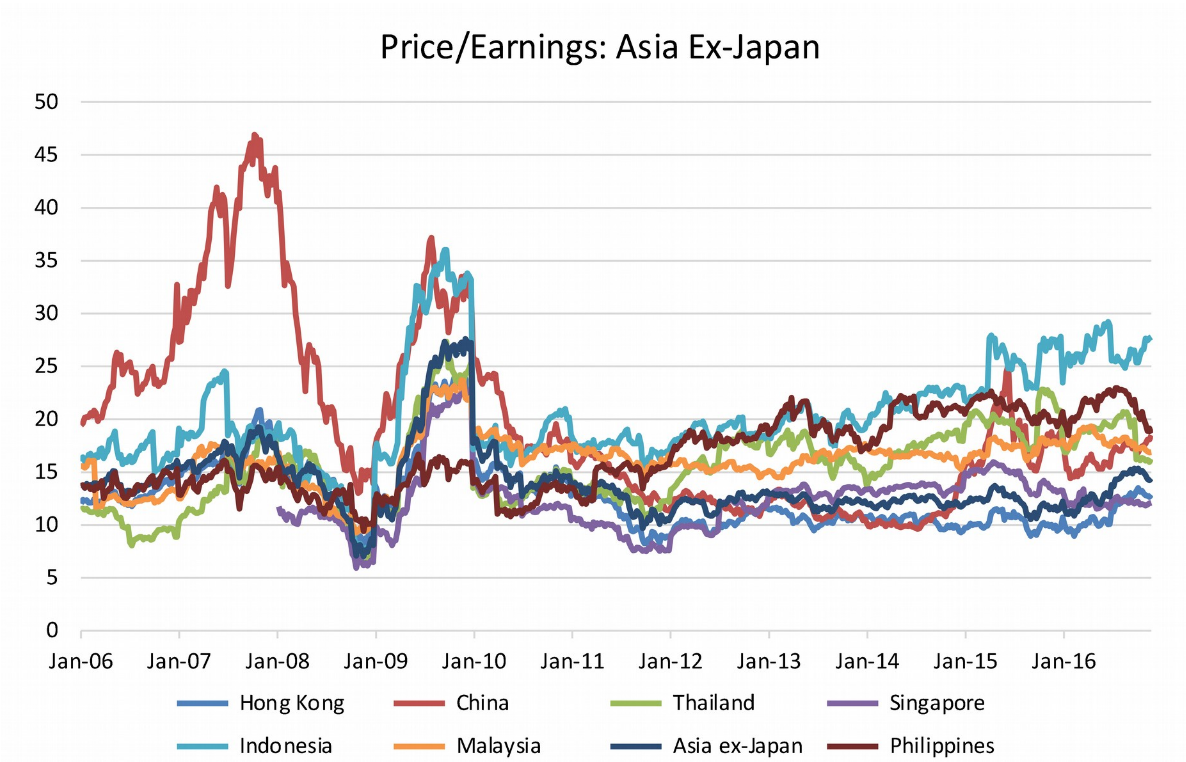
Source: Capital IQ, Valens Securities Analysis

Data Date: As of 28-Nov-2016

Philippine corporate profitability around cost-of-capital levels with low double-digit growth. Valuations are below recent year peaks, however markets are pricing in growth to continue to be at 2015 levels with ROA' stabilizing around cost-of-capital levels, as opposed to declining as analysts project.

- Philippine corporate profitability, based on ROA', has consistently been at or above cost-of-capital levels since 2009, though it declined since 2010-2012 peaks
- Corporate profitability remains intact at around cost-of-capital levels on the back of a strong Q3 GDP growth at 7.1%, which signals a resilient economy despite the weakness in the EM region
- Asset' growth in the Philippines is expected to be flat relative to 2015 levels. Analysts expect ROA' to take a step down to 4% levels in 2016 and 2017, however markets also expect flat 6% ROA'. With expectations already for an ROA' rebound, equity upside may be limited. However, existing fundamental tailwinds indicate long-term success, and with no apparent catalysts for credit destruction, the domestic environment warrants these expectations

Regional Valuations



Source: Bloomberg, Valens Securities Analysis

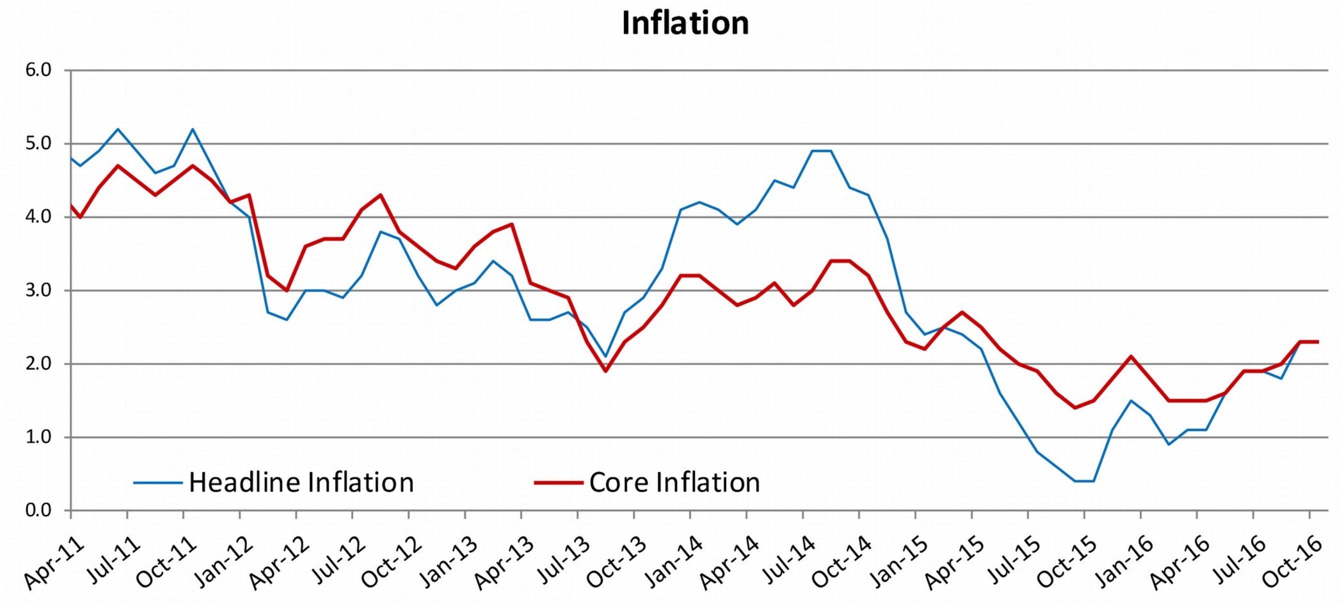
Data Coverage: Monthly from Jan-2006 to Nov-2016

Country			
Indonesia			
Philippines			
China			

Data Date: 25-Nov-2016

On a P/E basis, the Philippines is at the higher end of regional valuations.

- Over the past ten years, the Philippines has seen material multiple expansion. Its average P/E rose from the low end of regional averages to the high end of regional averages, while most markets have seen their P/E compress. Its yearly P/E average rose from 14x in 2006 to 19x in 2016
- While this valuation expansion initially makes the Philippines appear expensive, several fundamental factors imply that this expansion may be warranted, in turn implying that valuations are reasonable. This is especially true as Philippines valuations have come in materially in the second half of the year



Source: Bangko Sentral ng Pilipinas, National Statistics Coordination Board, Valens Securities Analysis — Data Coverage: Monthly from Apr-2011 to Oct-2016

The Philippines' year-on-year headline inflation was steady at 2.3% in October from the previous month's level as weather-related constraints drove price increases of selected food items. Likewise, core inflation, which strips out volatile food and energy items to measure underlying price pressures, also stayed at 2.3% in October. Both inflation measures were within the BSP's forecast of 1.9%-2.7% for the month, but the year-to-date average inflation rate of 1.6% remains below the government's announced annual target of 2% to 4%.

- Headline inflation reached its highest since the 2.4% recorded in March 2015. However, year-to-date average inflation rate of 1.6% was still below the BSP's target range for 2016. Despite that, the BSP noted that the inflation reading is in line with expectations over the policy horizon, which is likely to support consumption growth
- Inflation pressures in October were driven by higher price increases in vegetables and fruits due to weather-related production disruptions post-typhoons "Karen" and "Lawin". This was slightly offset by the sluggish price increases of meat and fish during the month
- In September and October 2015, headline inflation rates marked the lowest in two decades due to sufficient supply of food and moderate price pressures in energy and oil rates
- Such low inflation is beneficial to the Philippine economy as it encourages stronger domestic consumption amidst the weak external demand for goods and services. Lower inflation may also lead to higher loan demand, since interest rates are usually low during periods of low inflation, and ultimately implies lower cost of doing business

Global Offices

Head Office – Cambridge, U.S.A.
110 Cambridge St.
Cambridge, Massachusetts 02141
TEL +1 (646) 491-2601
info@valens-securities.com

Asia Research Division – Manila, Philippines
2404-B Philippine Stock Exchange Center,
East Tower, Ortigas Center, Pasig City 1605
TEL +63 (2) 470-3188
info@valens-securities.com

This material has been prepared by Valens and is provided for information purposes only. The information provided is not intended to provide a sufficient basis on which to make an investment decision. Information and opinions presented in this material have been obtained or derived from public sources believed by Valens to be reliable, but Valens makes no representation as to their accuracy or completeness. Neither Valens nor its affiliates accept any liability for any loss arising from the use of this material. Any reference to potential asset allocation and potential returns do not represent and should not be interpreted as projections. Opinions expressed are the express views of the author and are subject to change without notice, and should not be interpreted as constituting offers to buy or sell any securities or other financial instruments. Associates at Valens or one or more of its affiliates may or may not have financial interests, outstanding positions, or other financial relationships with the companies of the aforementioned securities. This report has been prepared for the use of Valens clients and may not be redistributed, reproduced, retransmitted, in whole or in part, without the express written consent of Valens. Additional information is available to clients upon request. Investors should seek financial advice regarding individual client circumstances, needs, objectives, and the appropriateness of implementing any investment strategy discussed or recommended. Clients should understand that statements regarding future prospects may not be realized. Past performance is not indicative of future results.