

Pushing on a string

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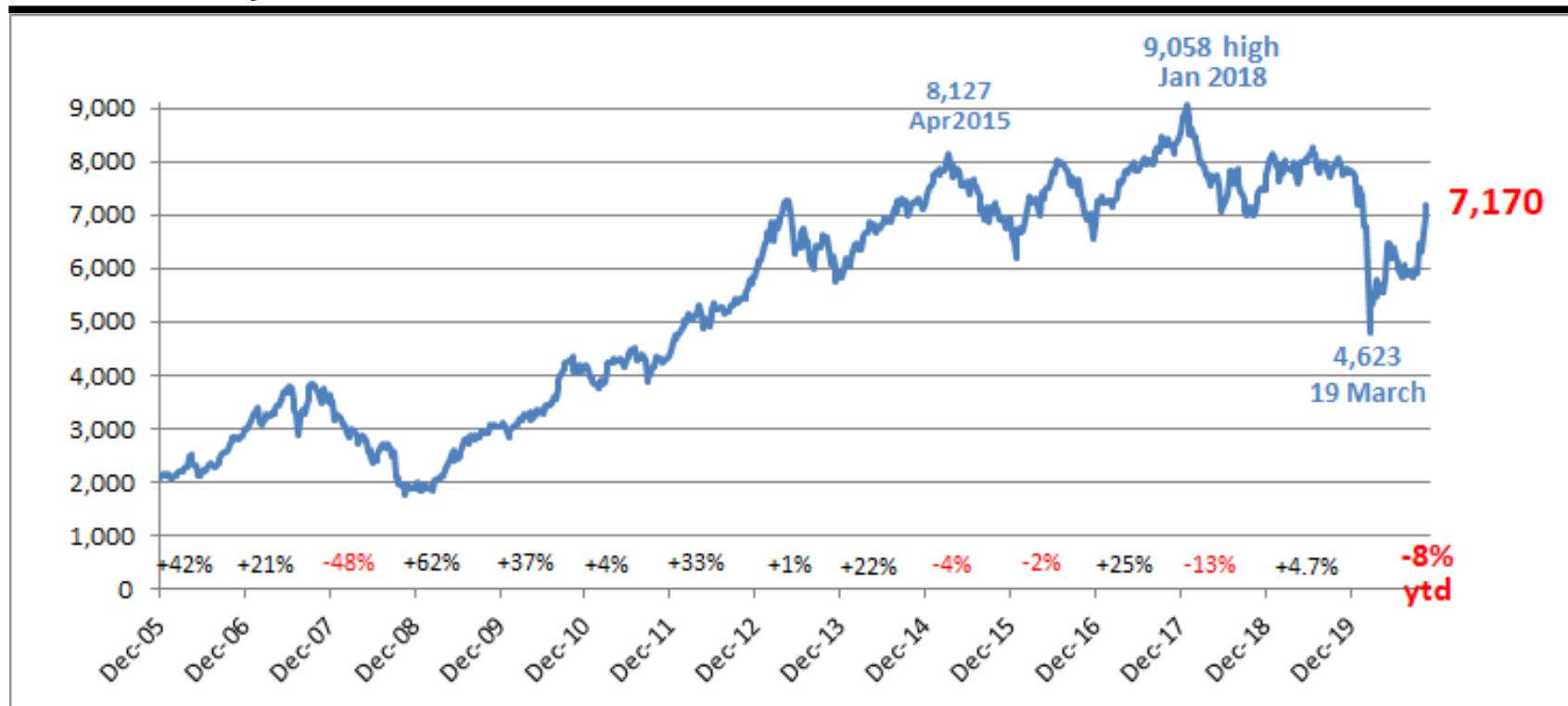
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November 2020

2020 – a very bad year for the PSEi...

PSEi weekly

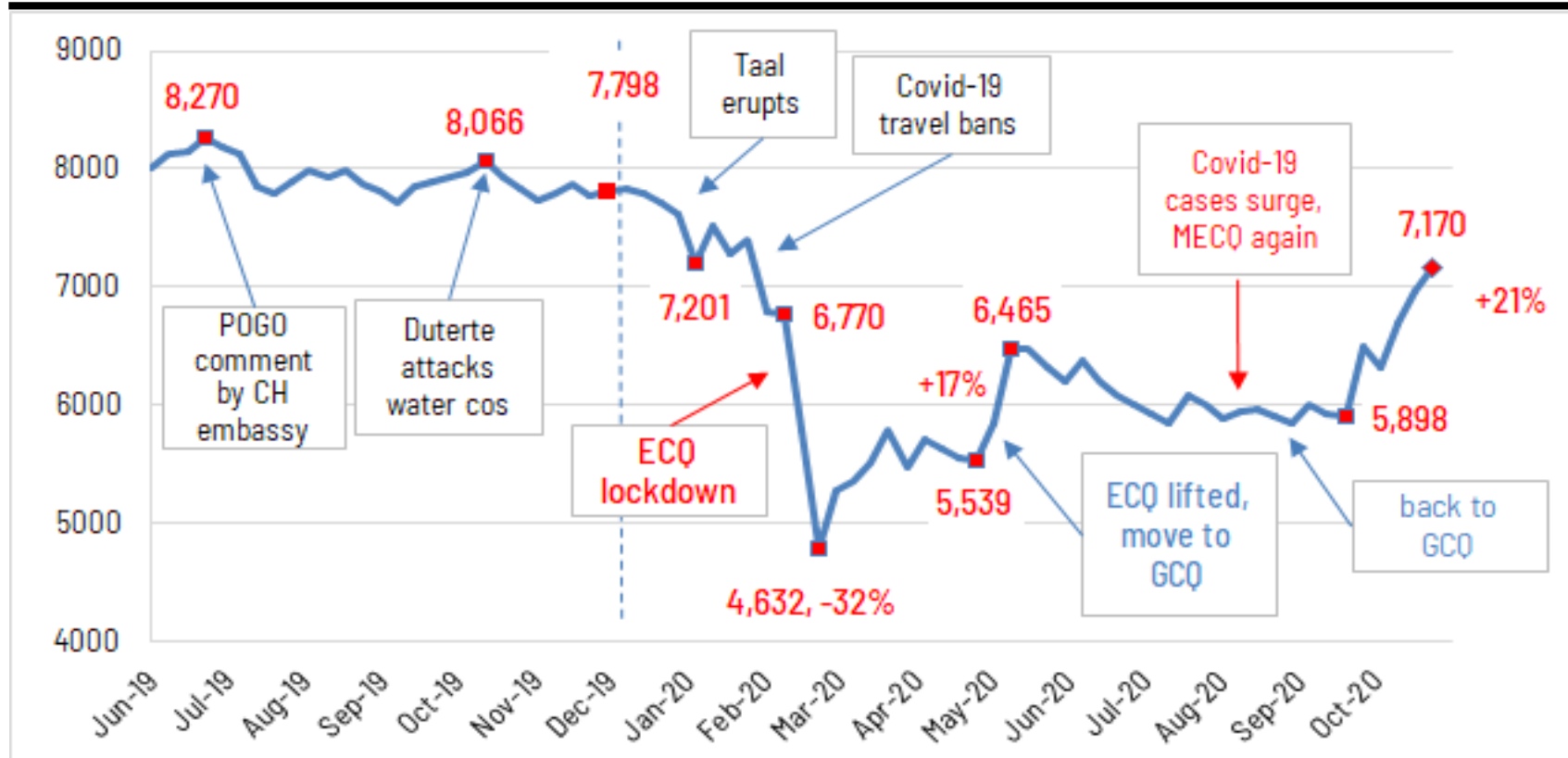


... But bouncing sharply, up 55% from the bottom... can momentum carry through?

Source: Bloomberg Finance LP, REGIS estimates; prices at 20 Nov 2020

2020 ... but climbing up from the bottom

PSEi - Trouble, even before Covid

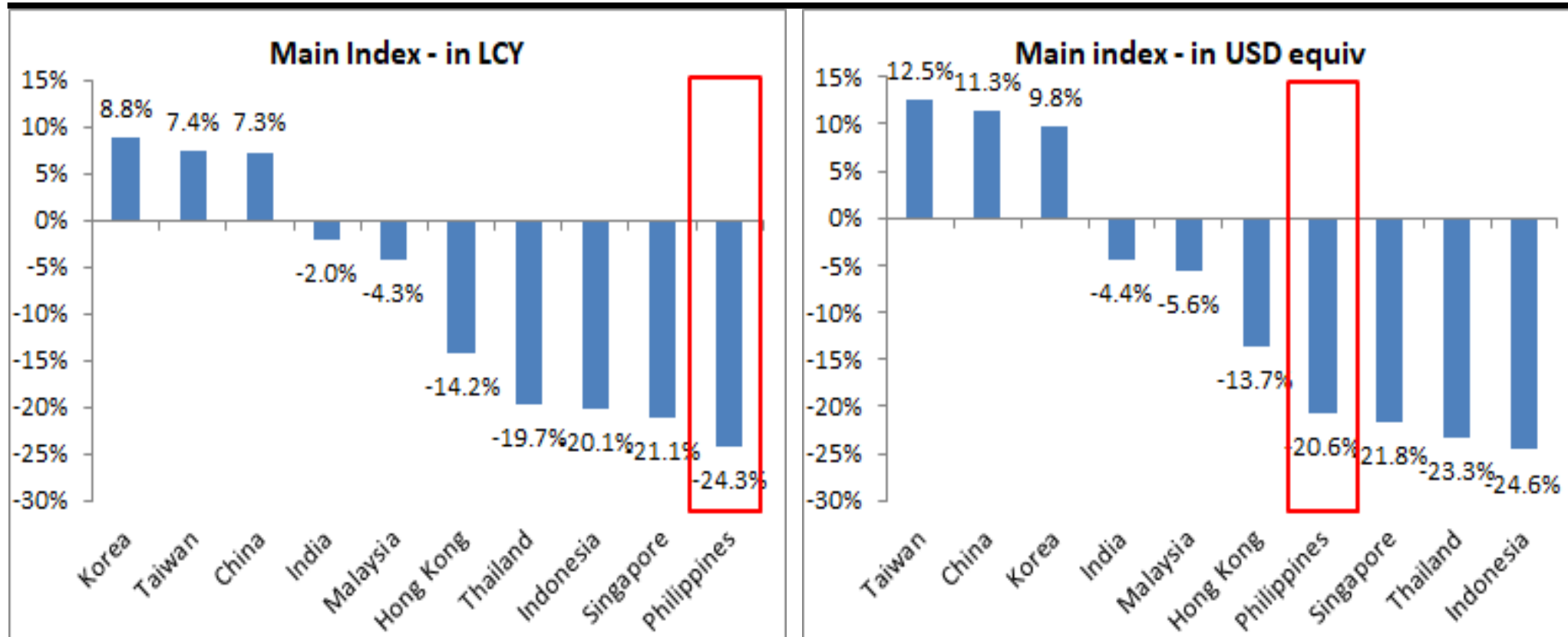


Politics, natural disaster, pandemic... just one horseman short?
Can we sustain the recent runup?

Source: Bloomberg Finance LP, REGIS estimates; prices at 20 Nov 2020

2020 – ... but climbing up from the bottom

PSEi – was at/near the bottom of the heap in early October...

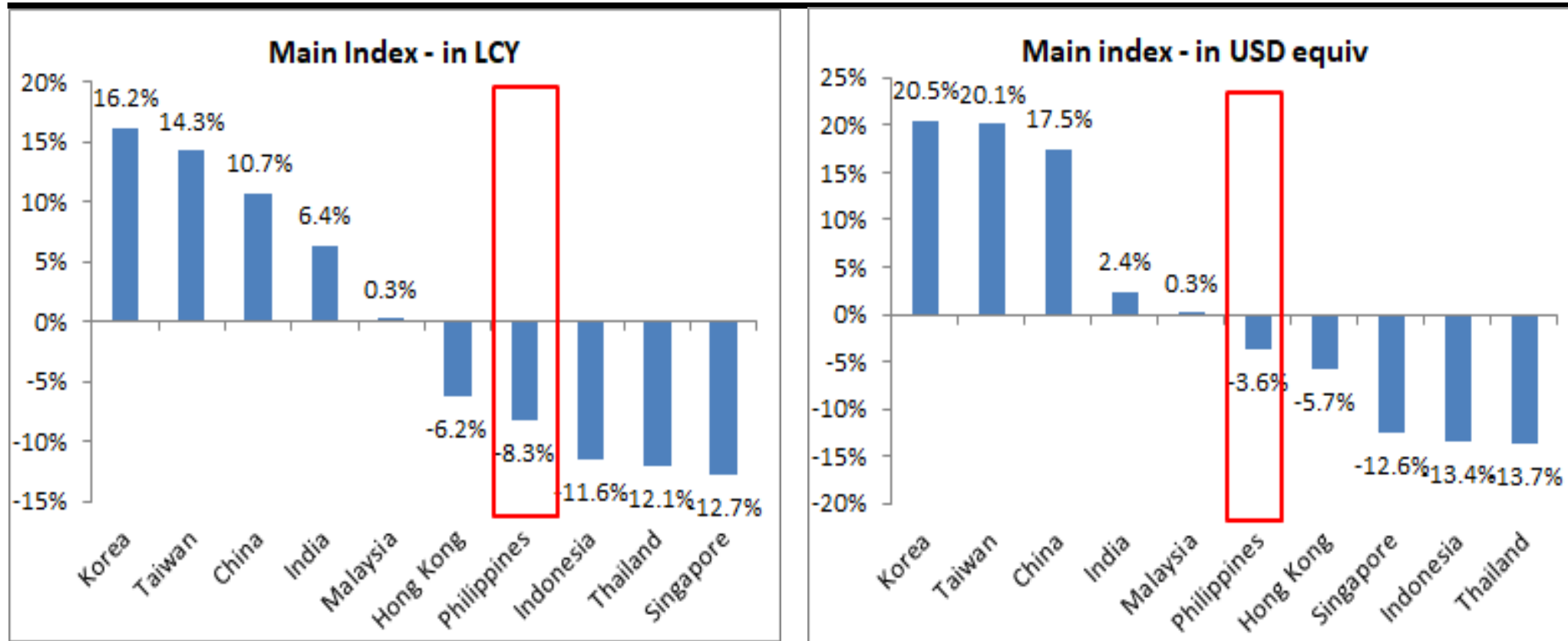


Dragged up by a strong currency

Source: Bloomberg Finance LP, REGIS estimates; prices at 09 Oct 2020

2020 – ... but climbing up from the bottom

PSEi – ... but has since rallied hard; +19% in the last 6 weeks

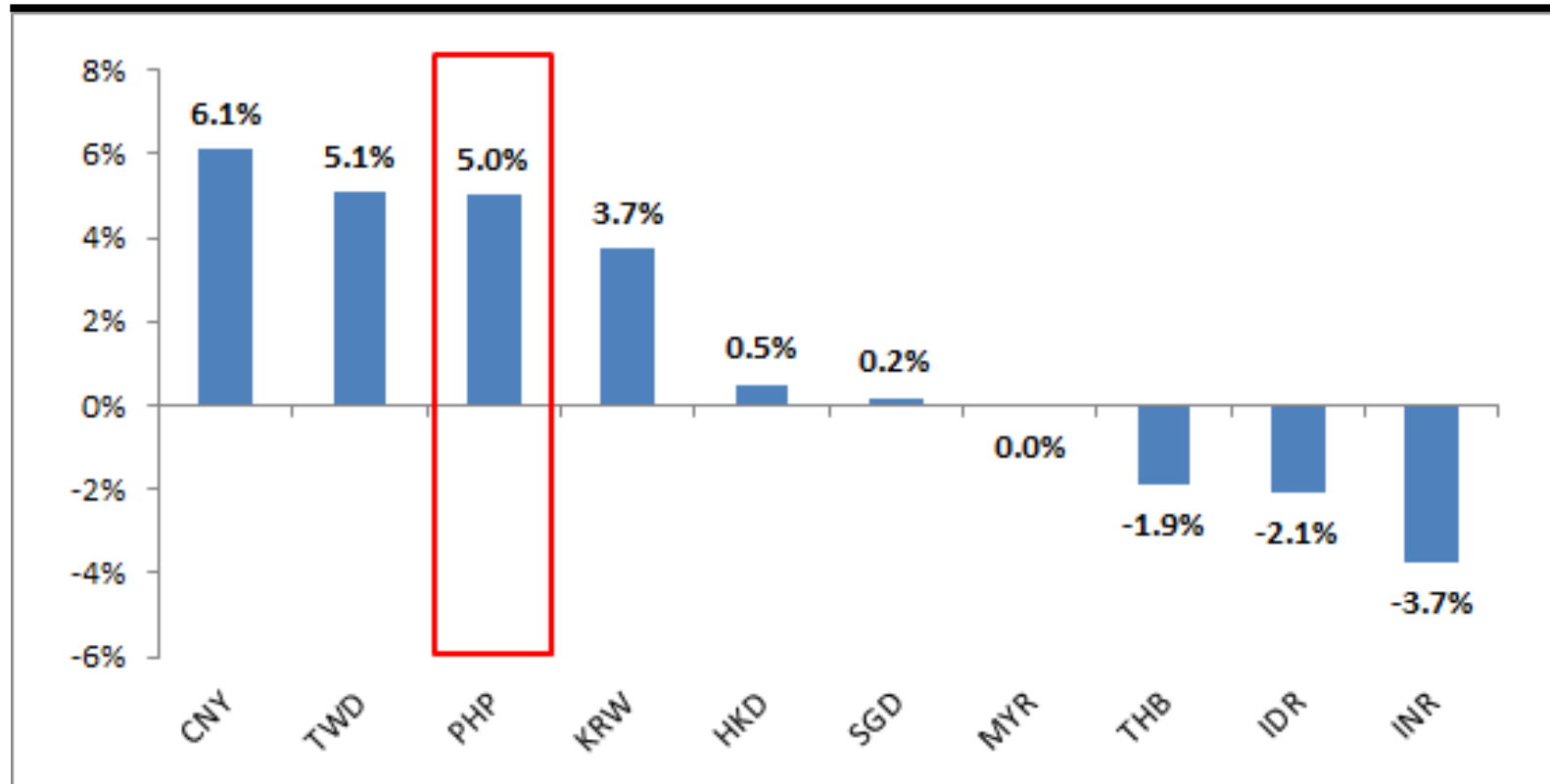


Now just down 4% year-to-date

Source: Bloomberg Finance LP, REGIS estimates; prices at 20 Nov 2020

PHP – the surprise outperformer

Asian currencies vs USD, ytd



*Trade deficit -56% in 8M20 on weak GDP, low oil prices
Government, corporates raised c\$15bn from FX bond markets*

Source: Bloomberg Finance LP, REGIS estimates, prices as of 20 Nov 2020

REGIS base case evolution

April 2020

Lockdown period

6-8 weeks "hard lockdown" (ECQ)

1-2 months easing movement restrictions

Slow normalization in 4Q20 and 1Q21

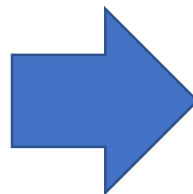
GDP – FY20: -2.5% / FY21: +7-8%

BSP policy rate 3.0% (2.5%)

Fiscal deficit 5% of GDP or higher

PHP steady, on trade, oil

PSEi earnings – 2020E -10-15%yoy (-20-25% from pre-Covid estimates)



August 2020

Lockdown period

2 months "hard lockdown" (ECQ)

1-2 months easing movement restrictions

Some level of Quarantine for most of 2H20

GDP – FY20: -6.5% / FY21: +5%

BSP policy rate 2.25%, likely flat till year-end

Fiscal deficit 10% of GDP

PHP steady, on trade, oil

PSEi earnings – 2020E -35%yoy (-45% from pre-Covid estimates); FY2021E +27%, but still 17% below 2019

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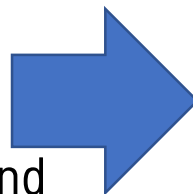
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Fiscal deficit 10% of GDP

PHP steady, on trade, oil

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November 2020

Lockdown period

2 months "hard lockdown" (ECQ)

1-2 months easing movement restrictions

Quarantine levels until 1H2021???

GDP – FY20: -10.0% / FY21: +7%

BSP policy rate 2.0%, RRR cuts, QE+DM

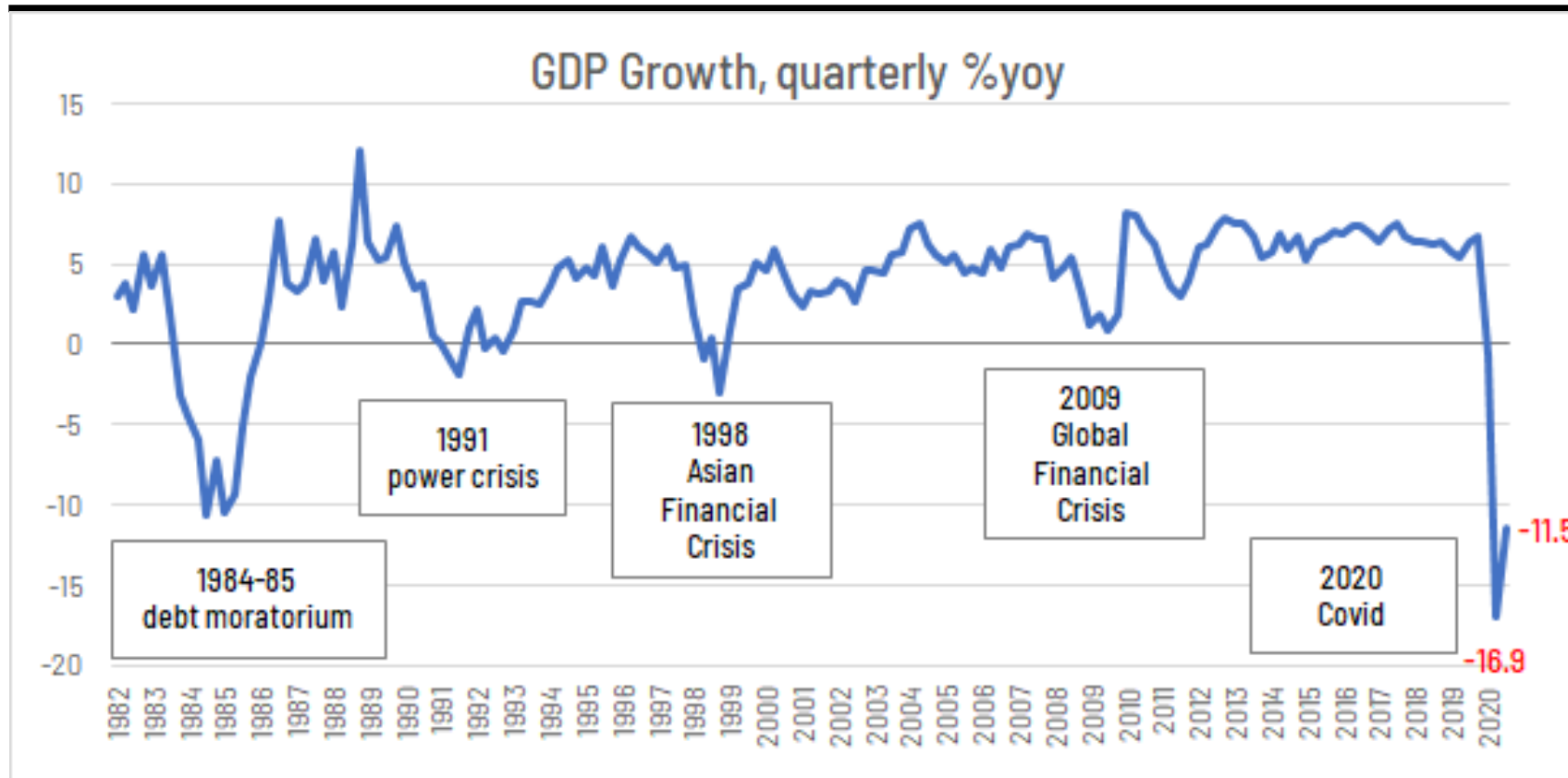
Fiscal deficit 10% of GDP

PHP steady, on trade, oil

PSEi earnings – 2020E -35%yoy (-45% from pre-Covid estimates); FY2021E +27%, but still 17% below 2019

GDP bottoms in 2Q20, -16.5% yoy, but...

2Q GDP print was the worst on record (since 1982)

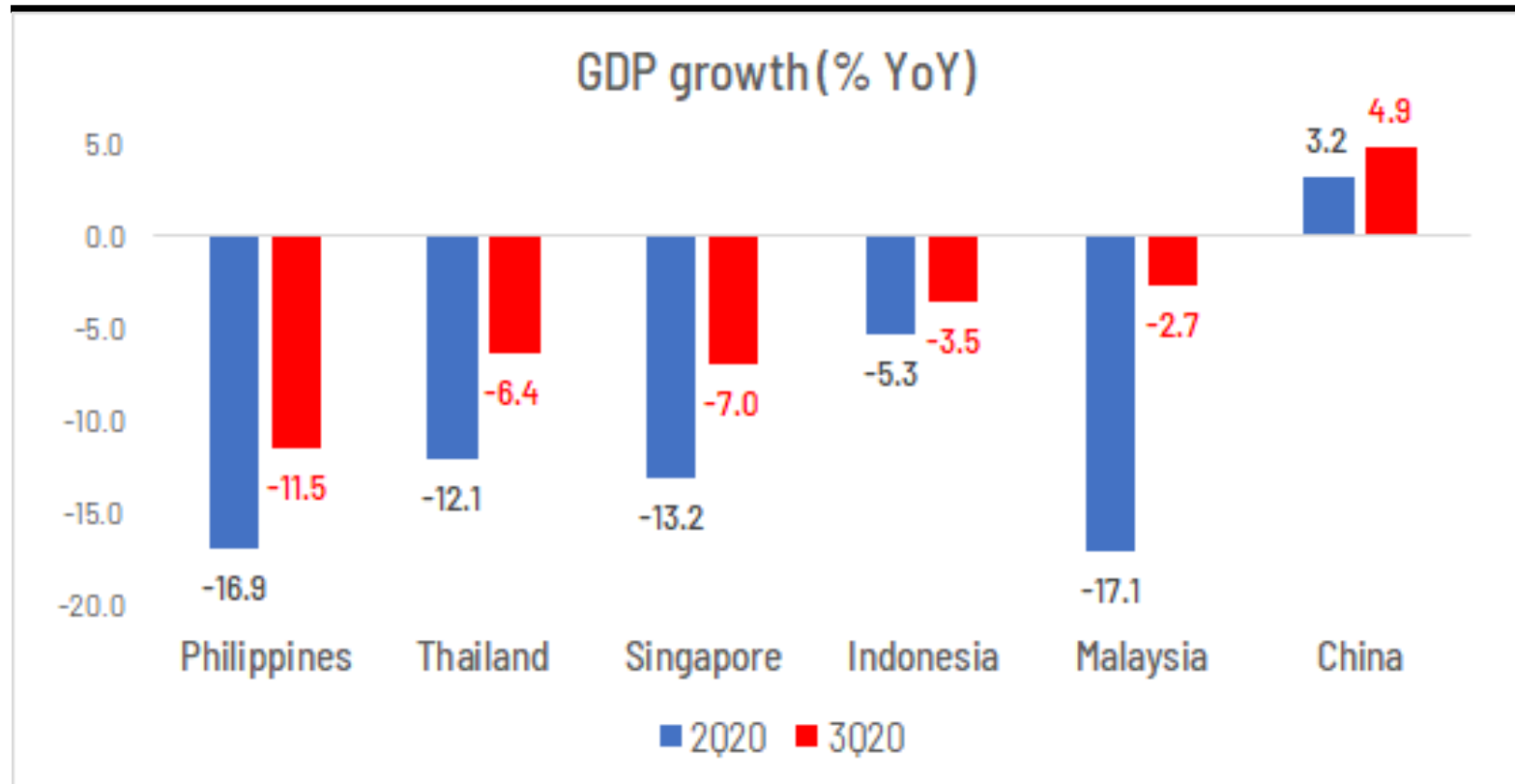


... Recovery much weaker than expected. Can we make up for lost time?

Source: Philippine Statistics Authority, REGIS estimates

GDP recovery slower than the region

3Q20 GDP was more sluggish than expected

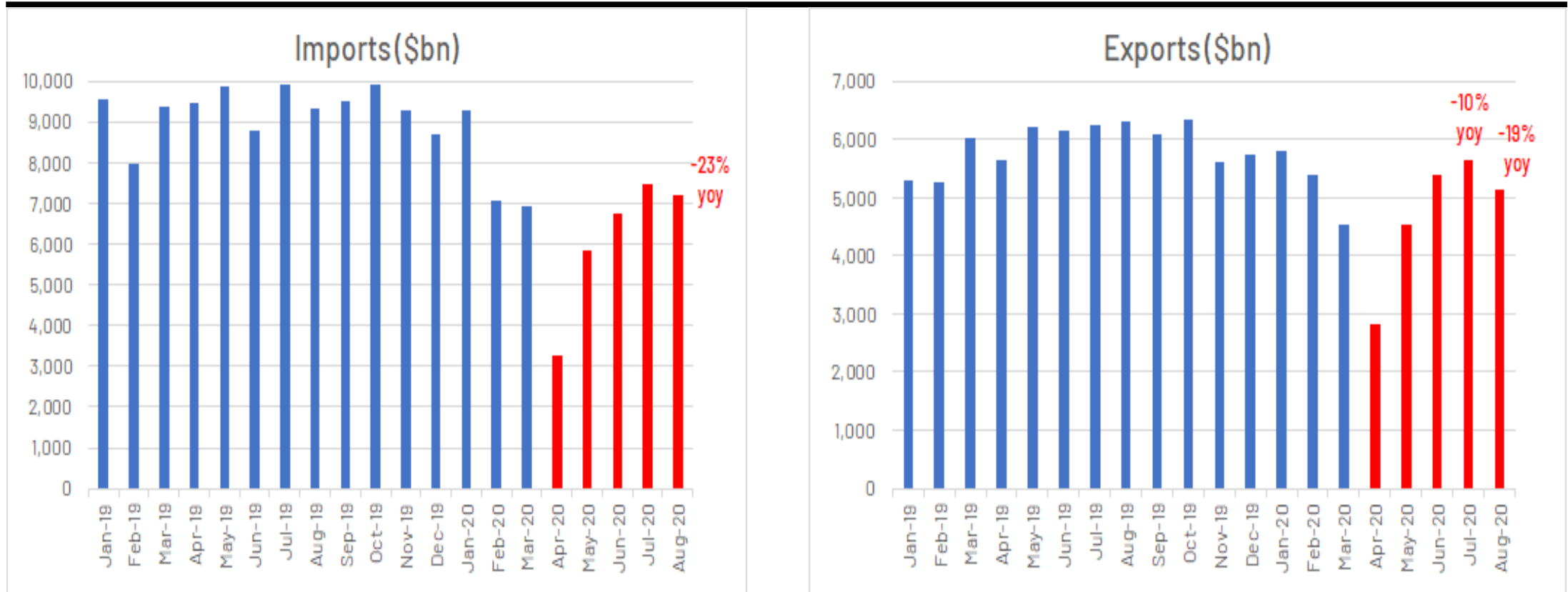


Can we make up for lost time?

Source: Bloomberg Finance LP, REGIS estimates

Sequential gains in Apr to June...

Imports and exports recovering nicely (interrupted by August 2wk MECQ re-lockdown)

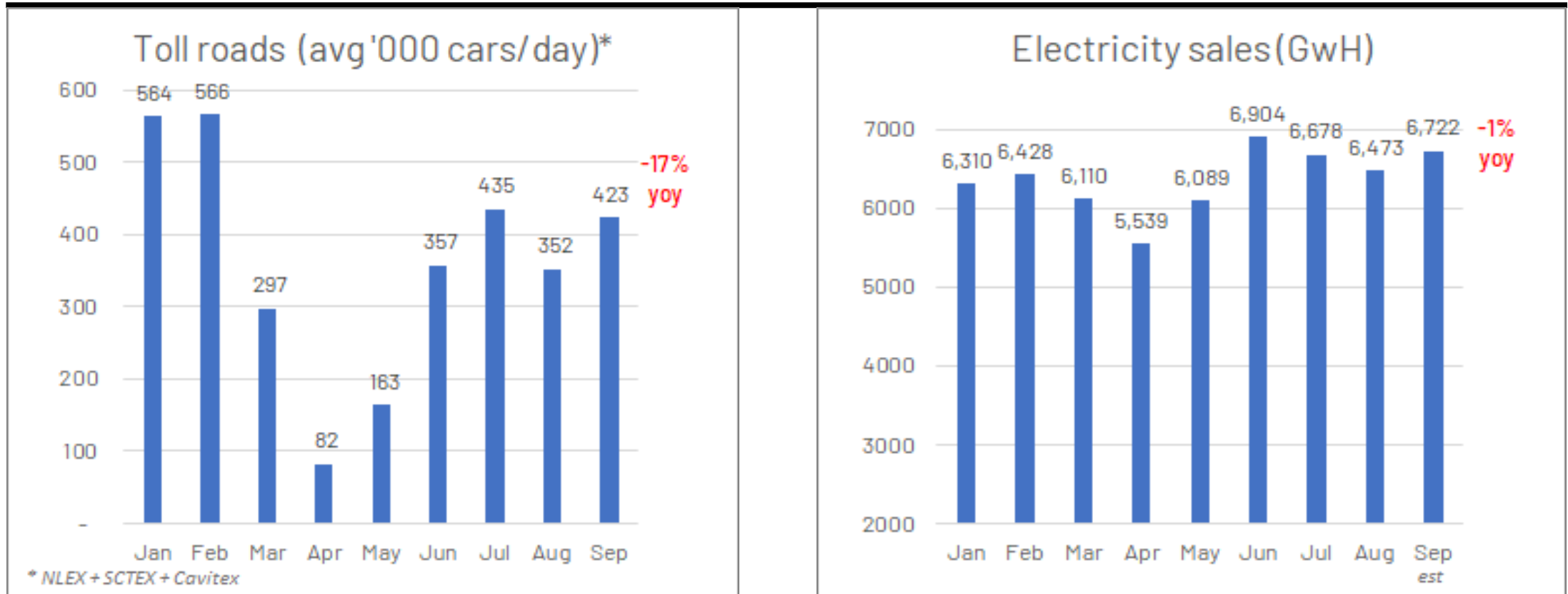


Exports bounce back faster, likely reflecting faster recoveries elsewhere

Source: Philippine Statistics Authority, REGIS estimates

Sequential gains in Apr to July...

Some sectors recovering more quickly than others

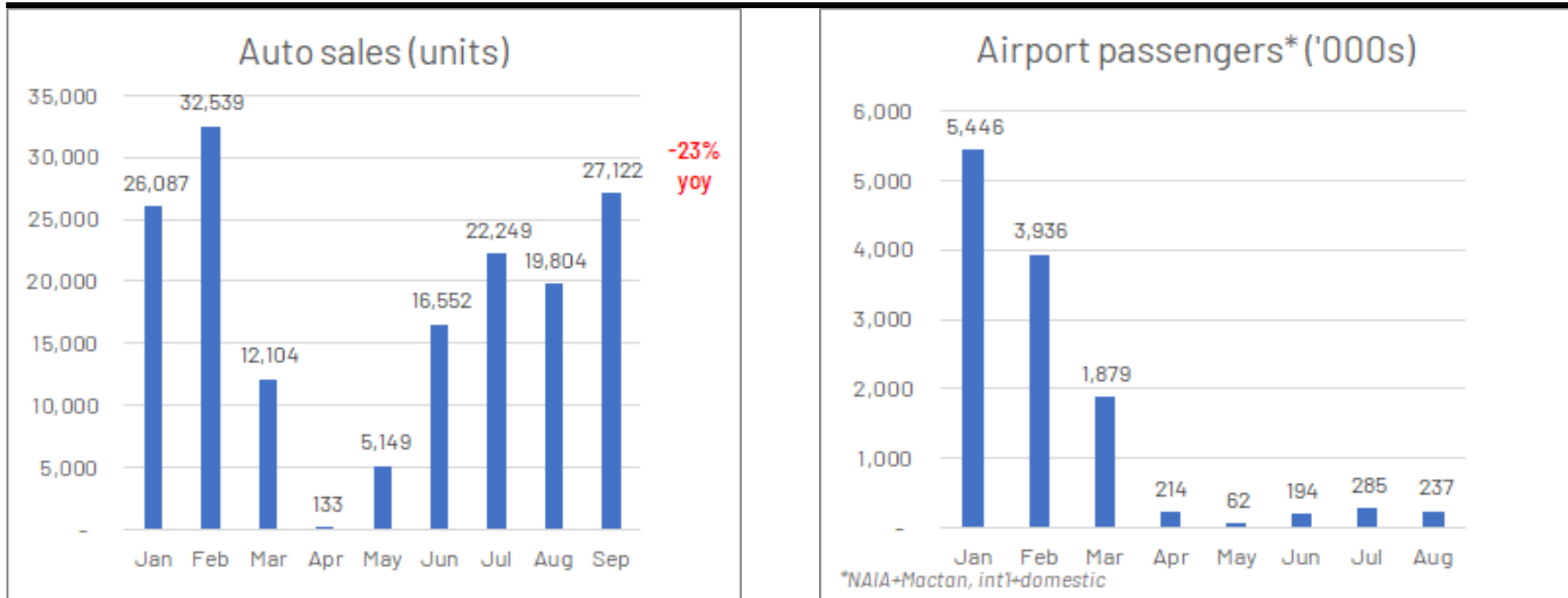


Industry data shows highly uneven recovery

Source: Metro Pacific Inc, WESM, REGIS estimates

Sequential gains in Apr to July...

Some sectors recovering more quickly than others

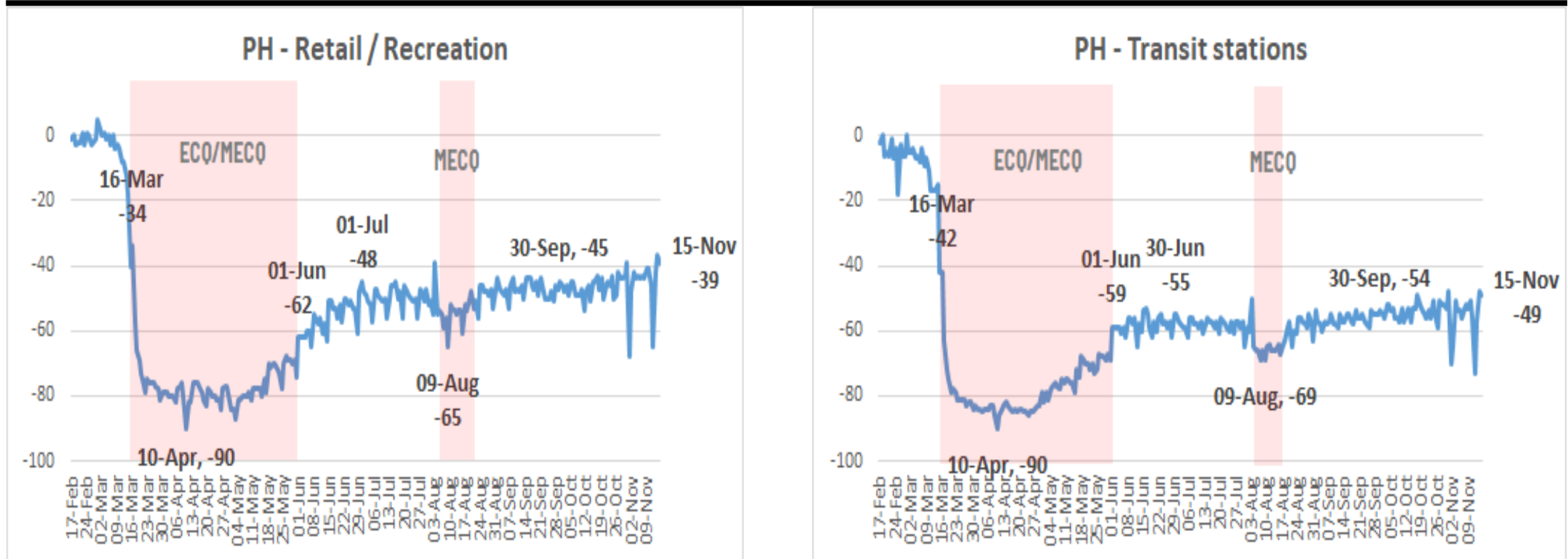


Industry data shows highly uneven recovery

Source: AVID, CAMPI, Civil Aviation Authority, REGIS estimates

... but Mobility recovering more slowly...

Google mobility data flattened in July; down again in August on MECQ; recovering into Sept/Oct

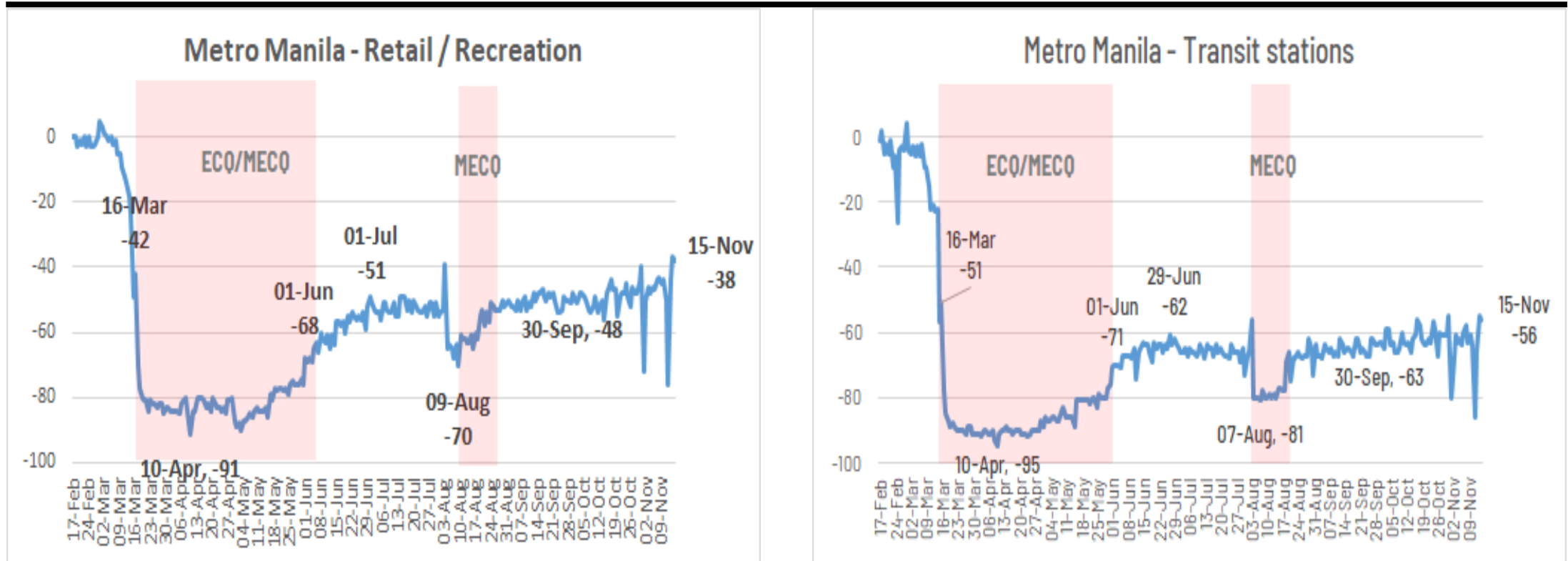


Likely due to limited access to public transportation

Source: Google LLC "Google COVID-19 Community Mobility Reports". <https://www.google.com/covid19/mobility/> Accessed: 20 Nov 2020

... even slower recovery in Metro Manila

Google mobility data flattened in July; down again in August on MECQ; recovering into Sept/Oct

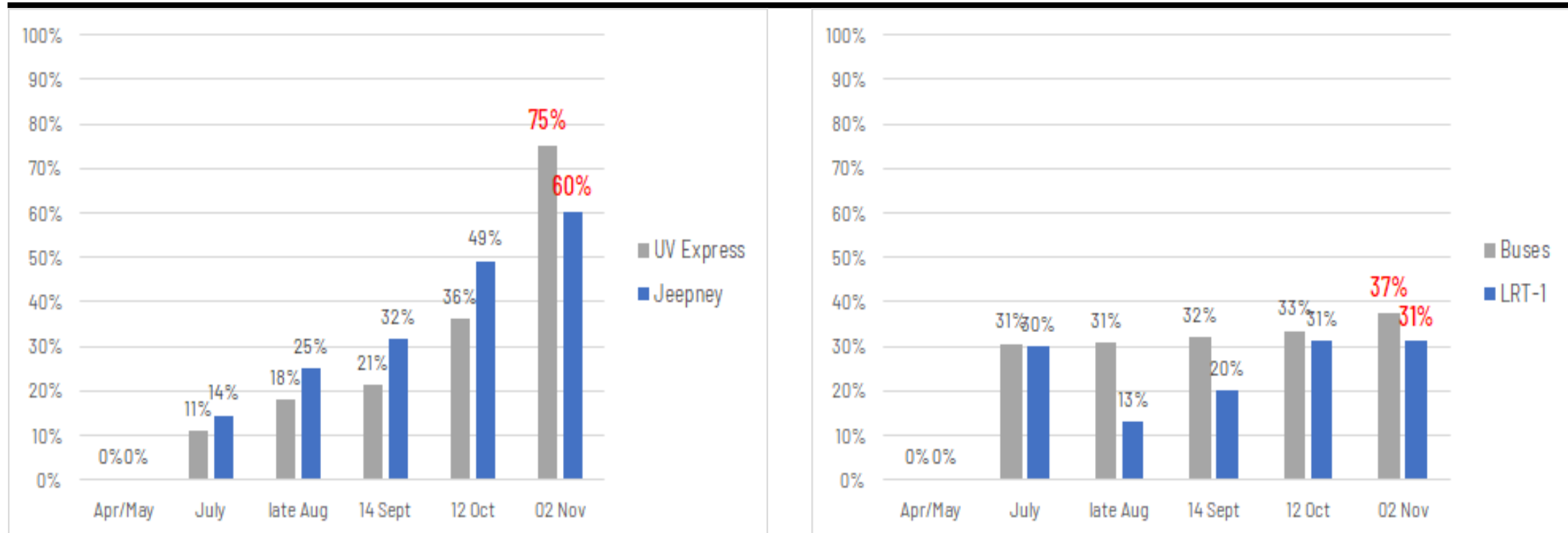


Likely due to limited access to public transportation

Source: Google LLC "Google COVID-19 Community Mobility Reports". <https://www.google.com/covid19/mobility/> Accessed: 20 Nov 2020

Public transport limited, returning slowly

Metro Manila transport modes, as % of pre-Covid levels

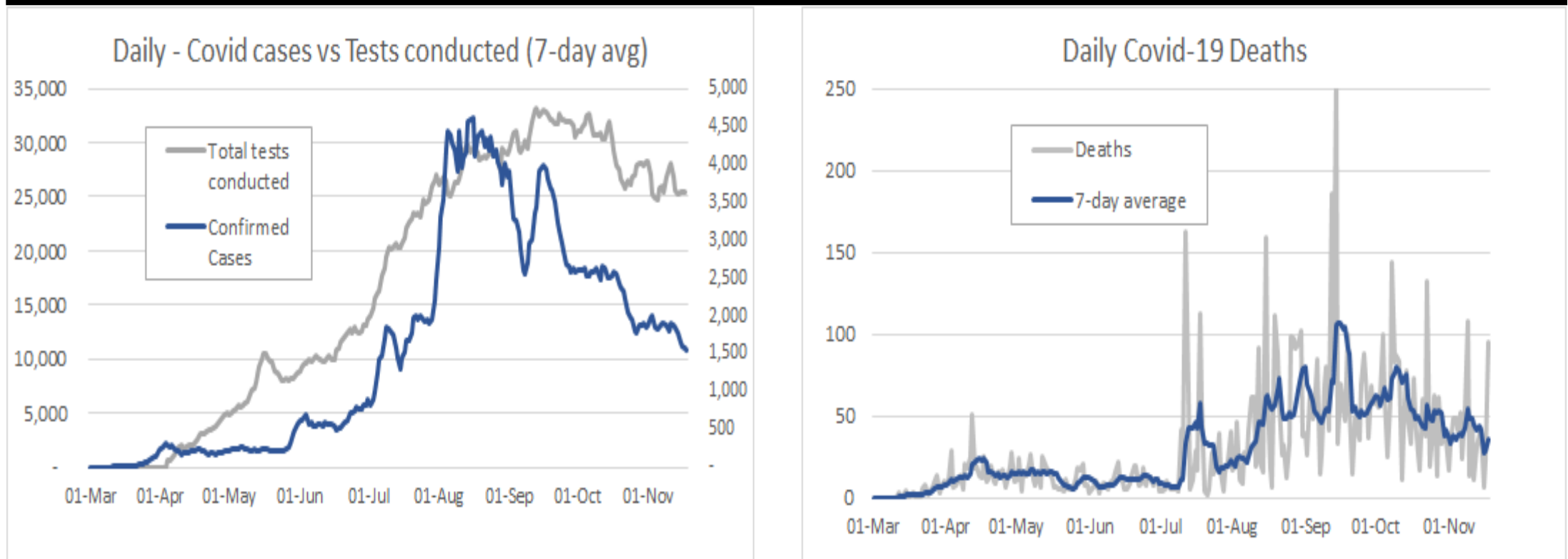


BUT – Buses / Jeepneys / UVX at 50% capacity per vehicle
Curfews limit operating hours

Source: Philippine News Agency , various news sources, REGIS estimates

Could we open the economy faster?

Average daily count down to <2,000; Total Covid-19 case count closing on 400,000*

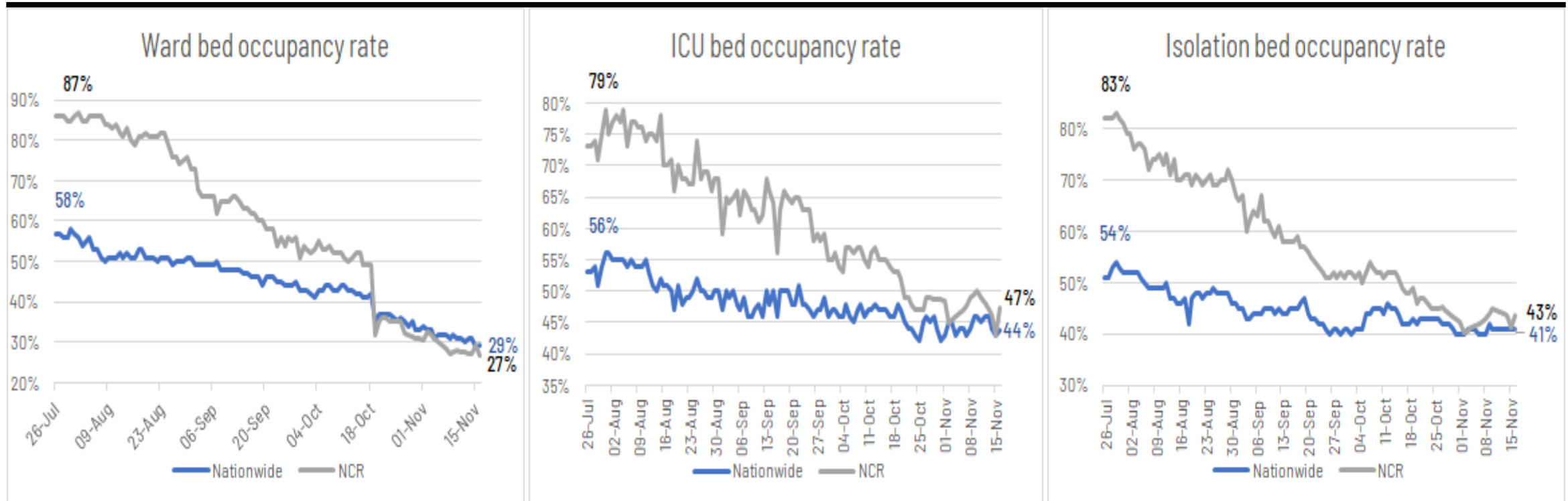


*Testing should pick up again after Red Cross dispute settled.
But Covid-19 deaths are also trending down*

Source: Department of Health, *data as of 18 Nov 20, REGIS estimates

Could we open the economy faster?

Hospital occupancy has been easing; can Metro Manila (NCR) handle another surge?

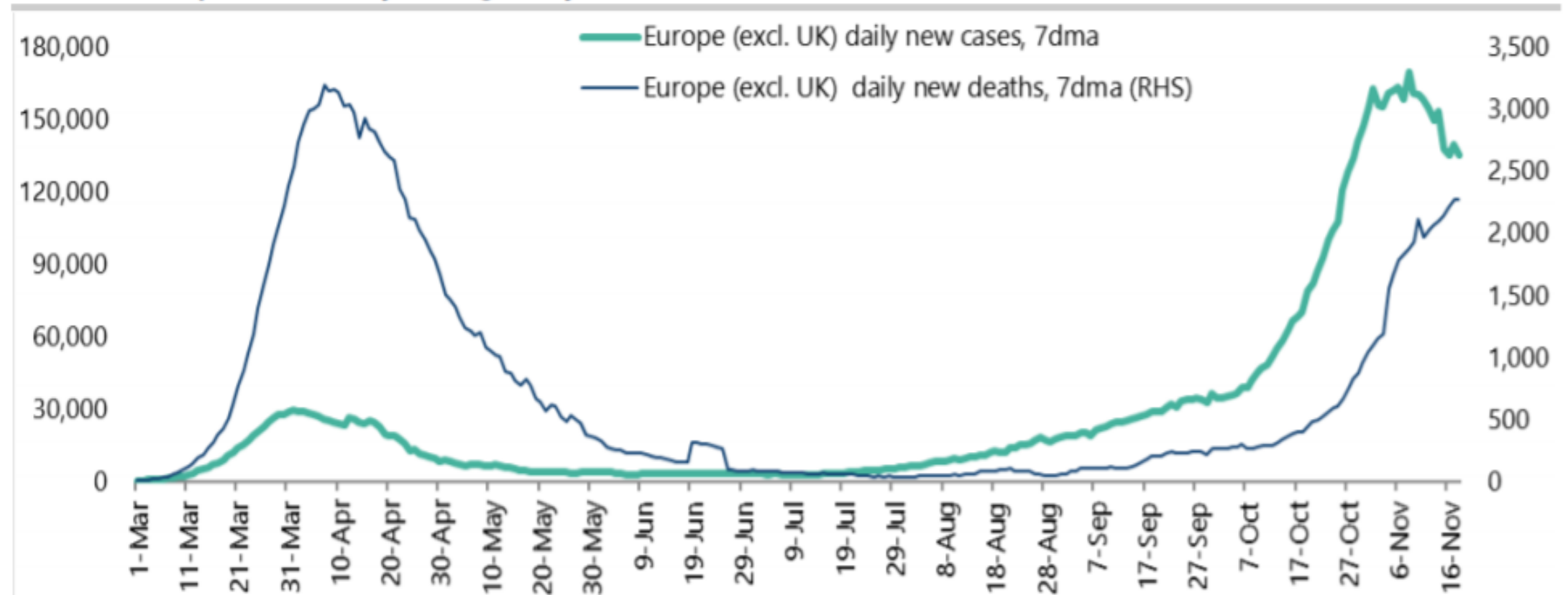


Healthcare system seems better able to cope with Covid-19

Source: Department of Health, *data as of 18 Nov 20, REGIS estimates

Covid rates spiking in Europe...

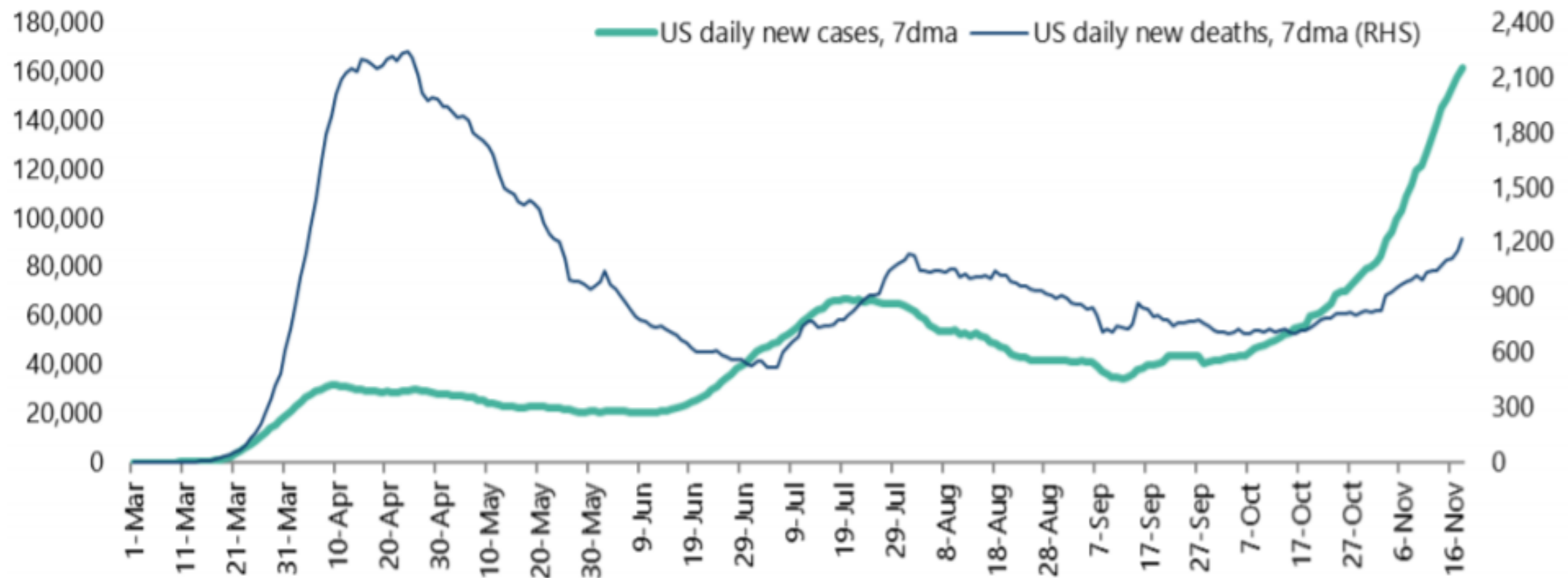
Exhibit 3: Europe ex-UK 7-day average daily Covid-19 cases and deaths



Source: Johns Hopkins University

... even worse in the US

Exhibit 4: US 7-day average daily Covid-19 cases and deaths



Source: Johns Hopkins University

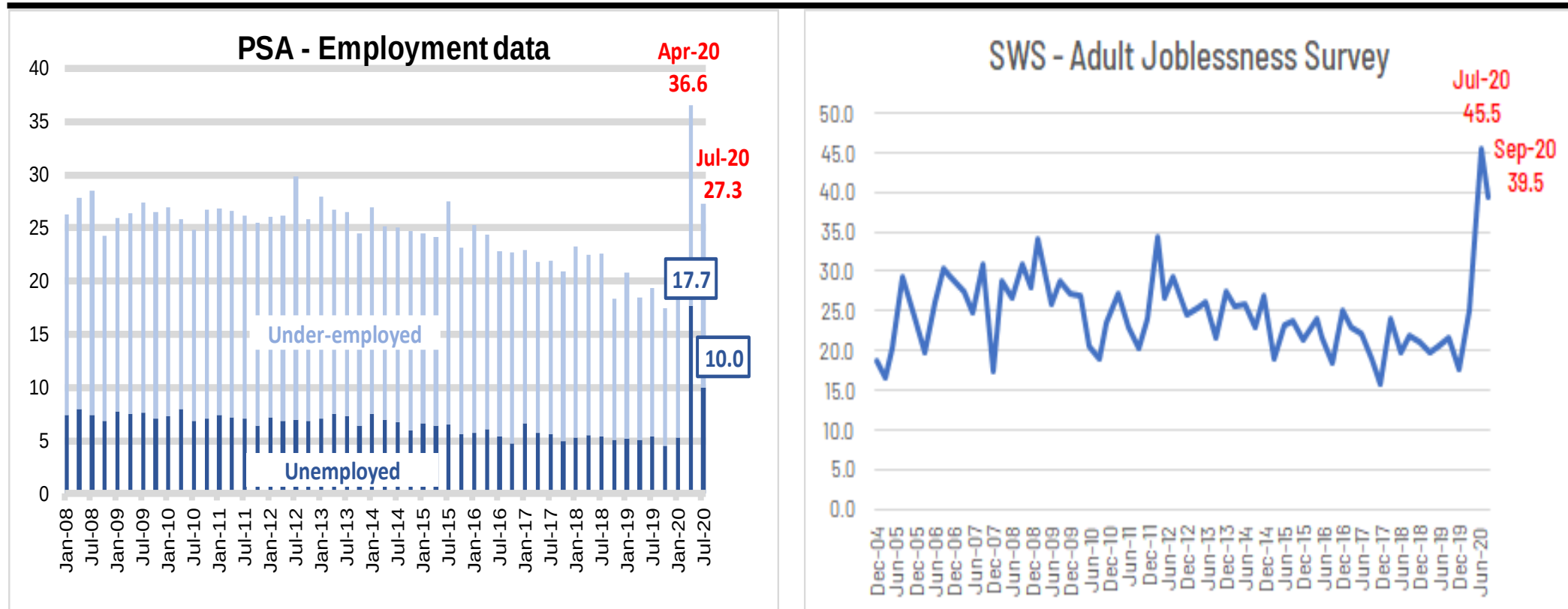
Vaccine news looks promising

- **Pfizer / BioNTech**
 - 95% effective, but needs to be stored/transported at -20degC
 - Expects to get US FDA emergency approval by end-November
- **Moderna**
 - 94.5% effective; Can be stored at higher temperatures than Pfizer/BioNTech
- **Russia**
 - 2 approved – **Sputnik V** and **EpiVacCorona**; Neither has done “Phase 3” trials
- **China**
 - Already given vaccine to ~1 million people
- **Others in development**
 - COVAX Initiative – Inovio, CureVac, Institut Pasteur/Merck/Themis, AstraZeneca/University of Oxford, Novavax, University of Hong Kong, Clover Biopharmaceuticals, and University of Queensland/CSL

When will Philippines get it?

Damage done?

Unemployment / joblessness spiked in April, staying high into July/Sept

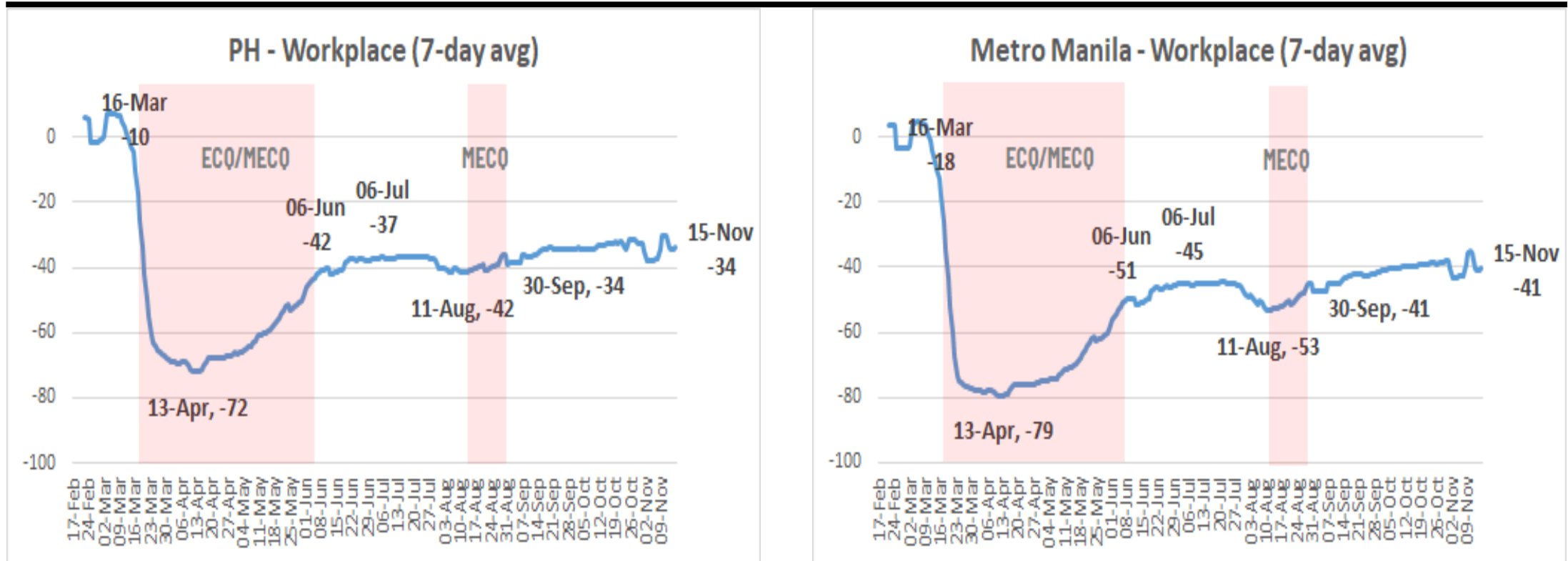


Medium-term impact on household balance sheets

Source: Philippine Statistics Authority, Social Weather Stations

Damage done?

Work-from-home? Lack of public transport? Or job losses?

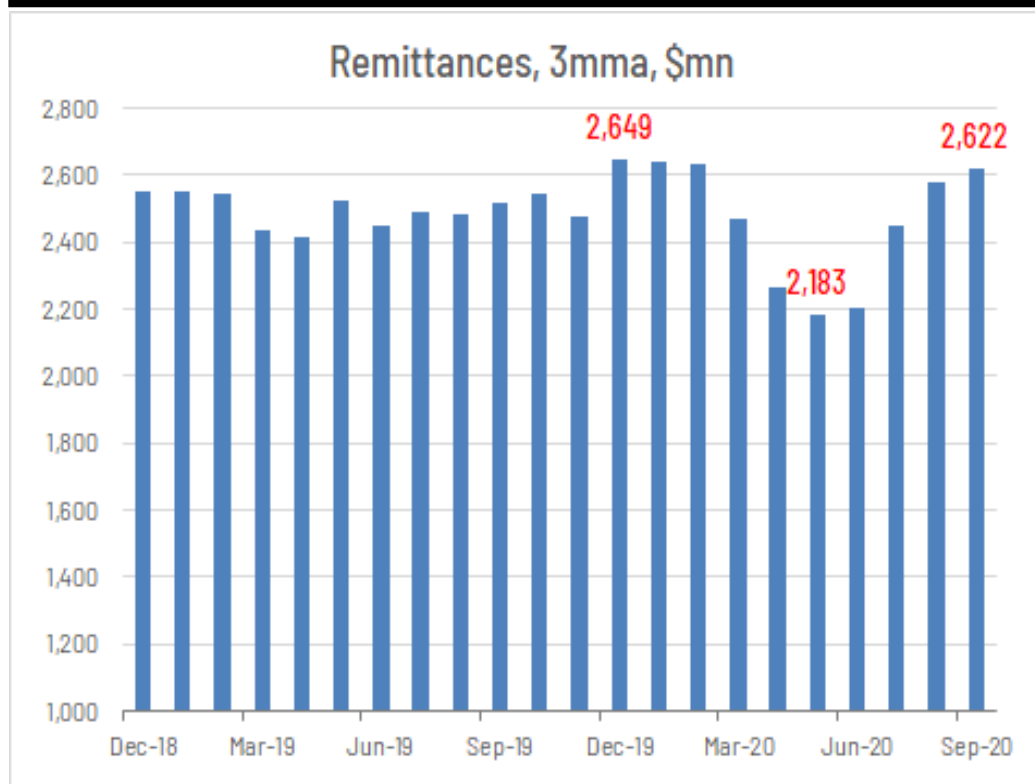


Temporary furloughs, or permanent job cuts?

Source: Google LLC "Google COVID-19 Community Mobility Reports". <https://www.google.com/covid19/mobility/> Accessed: 20 Nov 2020

Damage done?

Remittances bouncing sharply in 3Q, after a plunge in May; Sept back to pre-Covid peak



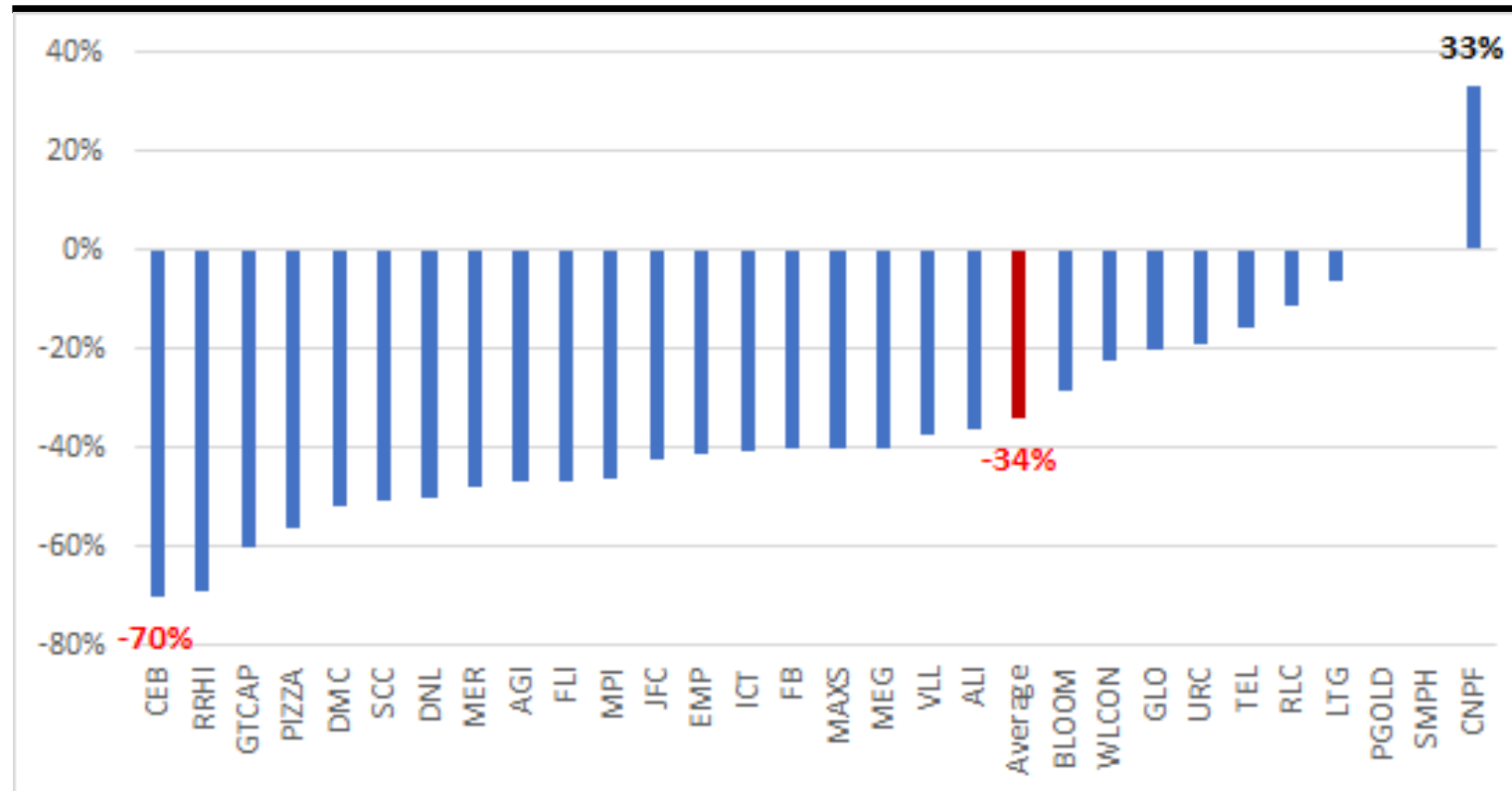
Remittances (\$mn)	Sep-20	% YoY	9M20	% YoY	% to total
USA	849	10%	7,108	10%	32%
Middle East	462	17%	3,868	-13%	18%
Saudi Arabia	159	17%	1,291	-19%	6%
UAE	113	14%	928	-23%	4%
Qatar	75	46%	605	9%	3%
Kuwait	53	0%	418	-25%	2%
Asia	446	6%	3,790	8%	17%
Europe	119	2%	1,268	-13%	6%
Other land-based	155	13%	1,180	-15%	5%
Total land-based	2,031	10%	17,214	-1%	79%
Total sea-based	570	7%	4,672	-4%	21%
TOTAL	2,601	9%	21,886	-1%	

About 300,000 have been repatriated, how many more are jobless but opting to stay?

Source: Bangko Sentral ng Pilipinas, Department of Foreign Affairs, Department of Labor and Employment, REGIS estimates

Damage done?

Capex budgets for 2020 – reductions vs pre-Covid



Companies preserving cash; Uncertainty re: demand recovery

Source: Company data, REGIS estimates

Fiscal stimulus has been underwhelming

Passed and proposed stimulus bills – lowest among ASEAN peers

Bayanihan 1 – P275bn (\$5.5bn) 1.5% of GDP

- Passed in March 2020, ended June 2020
- P200bn cash handouts to 18mn families in April/May

Bayanihan 2 – P140-165bn, 0.9% of GDP

- Signed into law on Friday, 11 Sept
- Cash infusion to government FIs

CREATE – formerly known as Tax Reform Package 2

- Immediately cut corporate tax rate from 30% to 25%
- Possible passage in 2H20

ARISE – P1.3trn (7% of GDP) spread over 3 yrs

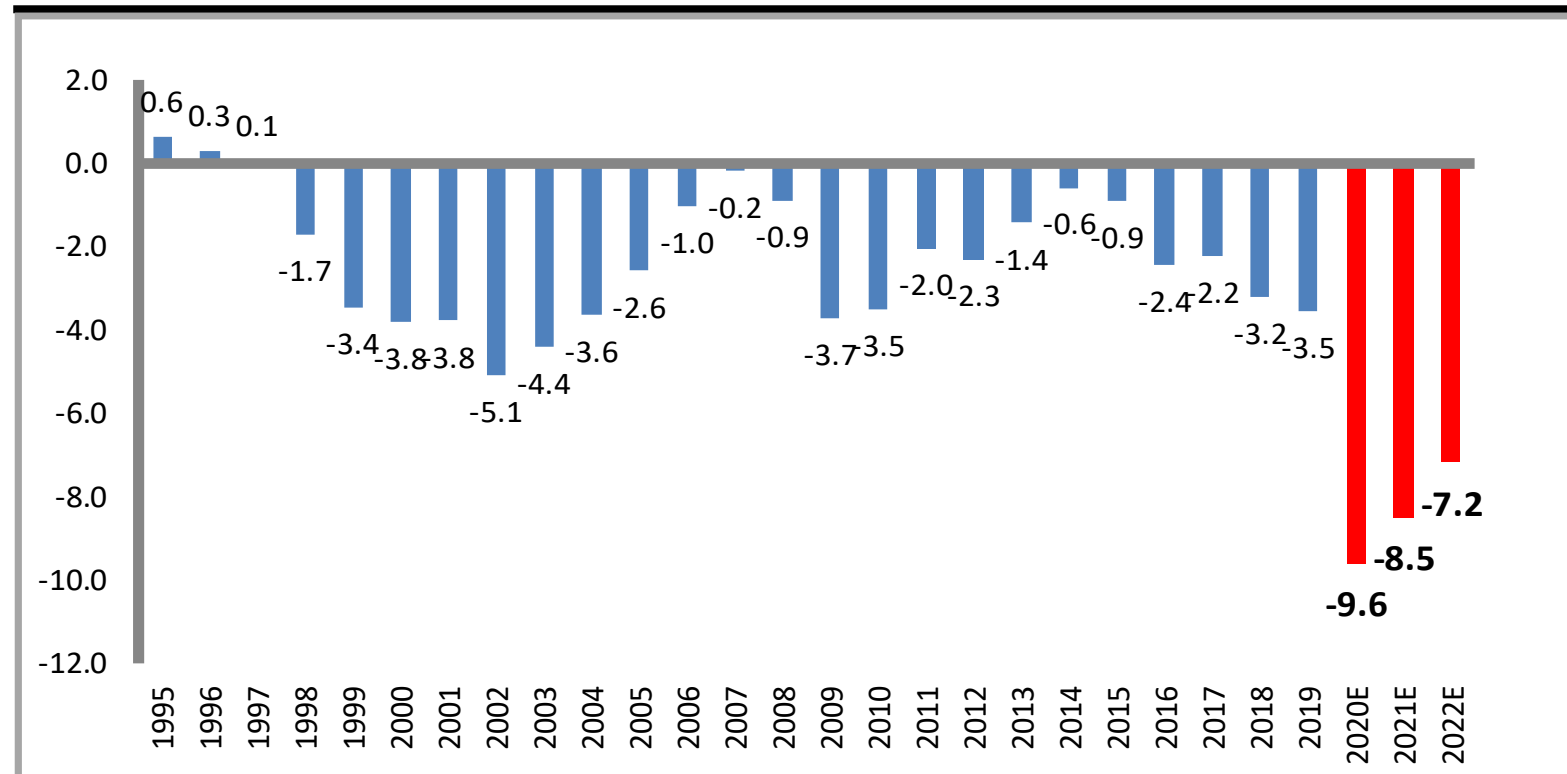
- Passed by House, pending at Senate
- DOF opposes ARISE, lack of fiscal space

	Fiscal stimulus (US\$bn)	% of GDP
Malaysia	59	16.5%
Thailand	69	12.6%
Vietnam	13	4.9%
Indonesia	49	4.4%
Philippines	13	3.6%

Source: Asian Development Bank, REGIS estimates

No (fiscal) room at the inn?

Fiscal deficit as a % of GDP



DBCC recently revised budget deficit forecasts to 9.6% of GDP for 2020E even before any potential stimulus spending bill

Source: Bureau of Treasury, Development Budget Coordination Committee, REGIS estimates

Keeping powder dry?

2021 Budget – big jumps proposed for in Infra, Health spending

	Proposed	Revised*	2021 /	Original	2021 /
<u>By Agency (Pbn)</u>	2021	2020	2020 Rev	2020	2020 Orig
Education	754	650	16%	693	9%
Public Works & Highways	667	439	52%	582	15%
Interior and Local Govt	246	236	4%	242	2%
National Defense	209	180	16%	192	9%
Health (incl PhilHealth)	203	178	14%	176	16%
Social Welfare	171	367	-53%	201	-15%
Transportation	144	84	71%	101	43%
Agriculture	66	71	-6%	65	3%
Labor	28	24	17%	24	15%
Others	2,017	1,873	8%	1,826	10%
Total	4,506	4,100	10%	4,100	10%
<i>Debt service</i>	<i>560</i>	<i>461</i>	<i>22%</i>	<i>461</i>	<i>22%</i>

Risk of budget delays (again) due to Congressional politics (again)?

Source: Department of Budget and Management, REGIS estimates

BSP – decisive response

Aggressive monetary and regulatory response to Covid-19 crisis

MONETARY

- **Policy rates**
 - Cut policy rates by 200bps ytd, including surprise rate cuts in June / November
- **Reserve requirement**
 - Cut RRR by 200bps (to 12%), releasing P200bn into the financial system
- **Quantitative Easing + Direct Monetization**
 - Announced it would purchase of up to P850bn in short-term Treasuries
 - Bought an additional P1trn worth of Treasuries in the open market as of August

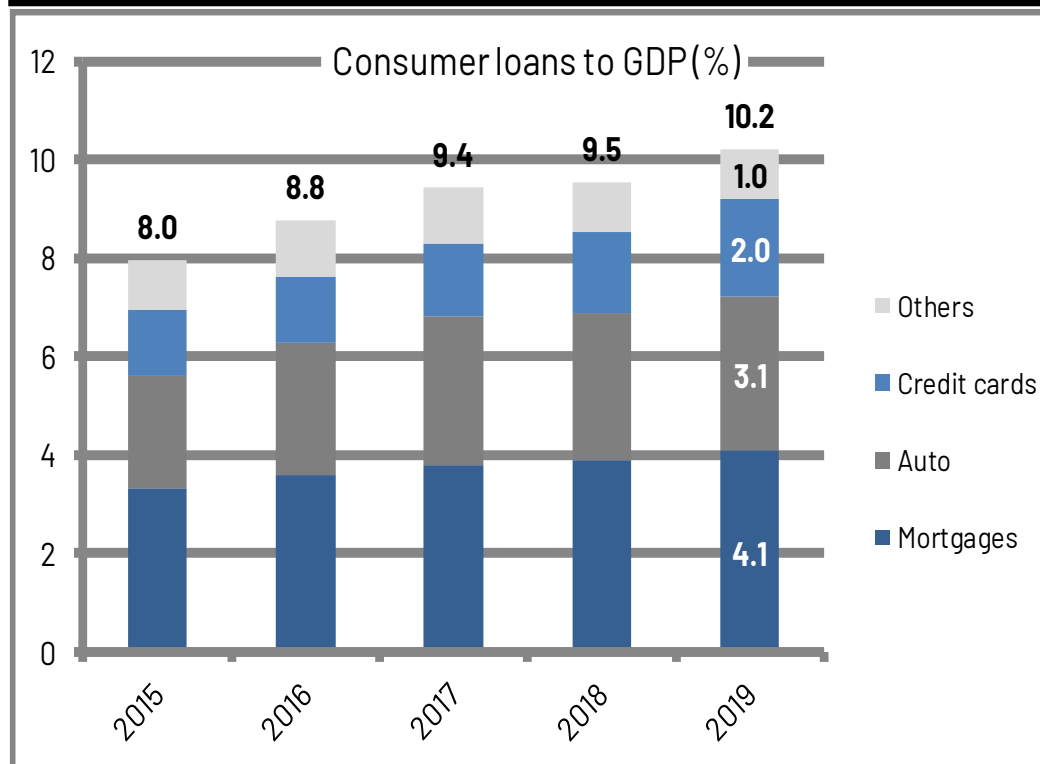
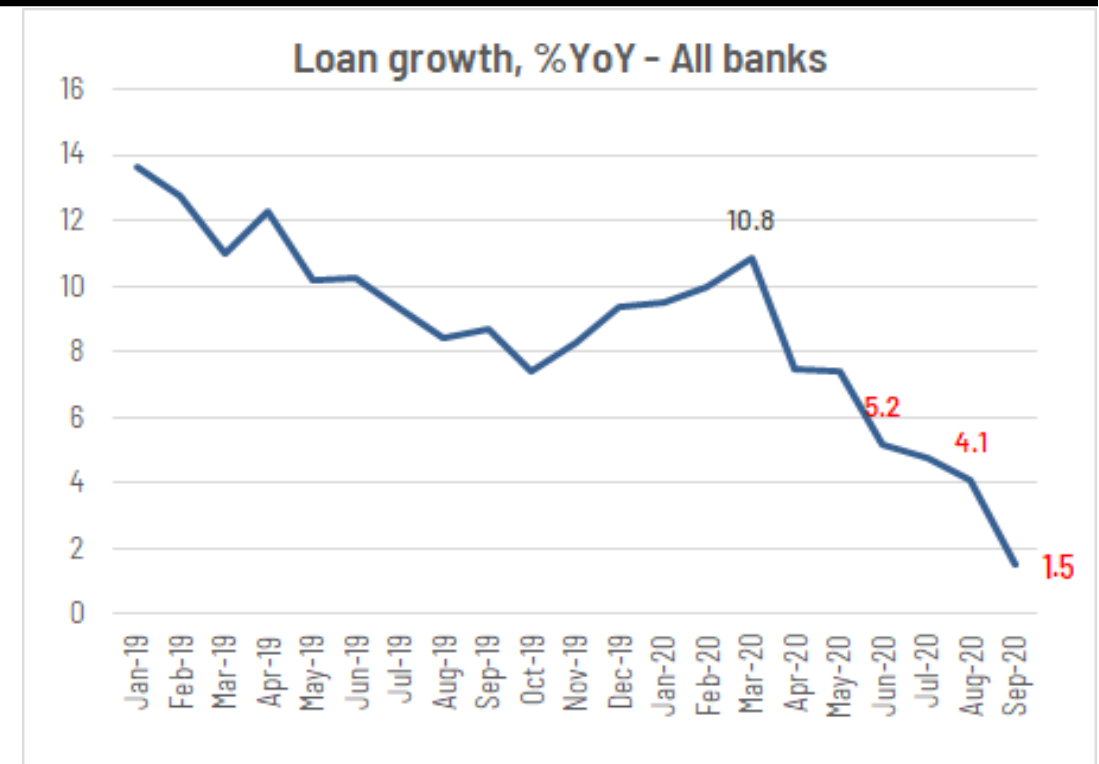
REGULATORY

- **Treatment of Covid-affected loans**
 - Ease documentation on loan restructuring
 - Exclude accts when computing past due ratios
 - Credit losses may be staggered over 5 years
- **Capital relief**
 - Banks allowed to utilize capital conservation buffer, effectively lowering minimum CET-1 ratio from 10.5% to 8.0%
- **SME loan support**
 - Risk weight reduced to 50% from 75%; if loan secures guarantee, risk weight is 0%
 - New SME loans may qualify as part of RRR

Source: Bangko Sentral ng Pilipinas, REGIS estimates

Pushing on a string

Transmission of monetary policy is weak, delayed at best

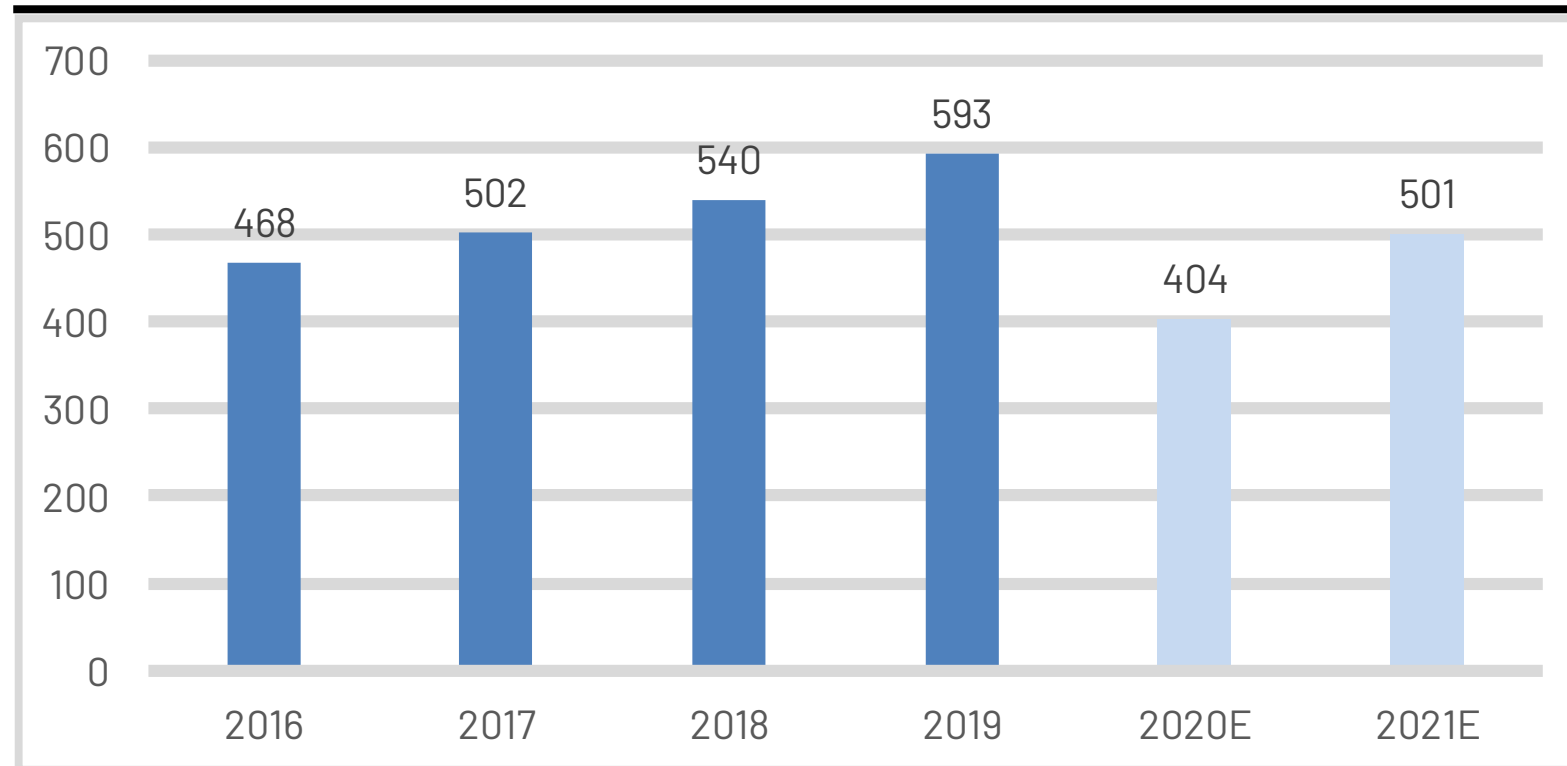


*Household debt to GDP just 10% (mortgages just 4%); Only c30% of adults have bank accounts
Despite all the liquidity released, loan growth slowed to 1.5% in August (-3.6% from 1Q20)*

Source: Bangko Sentral ng Pilipinas, REGIS estimates

Deeper dip, longer recovery

PSEi aggregate earnings (Pbn)

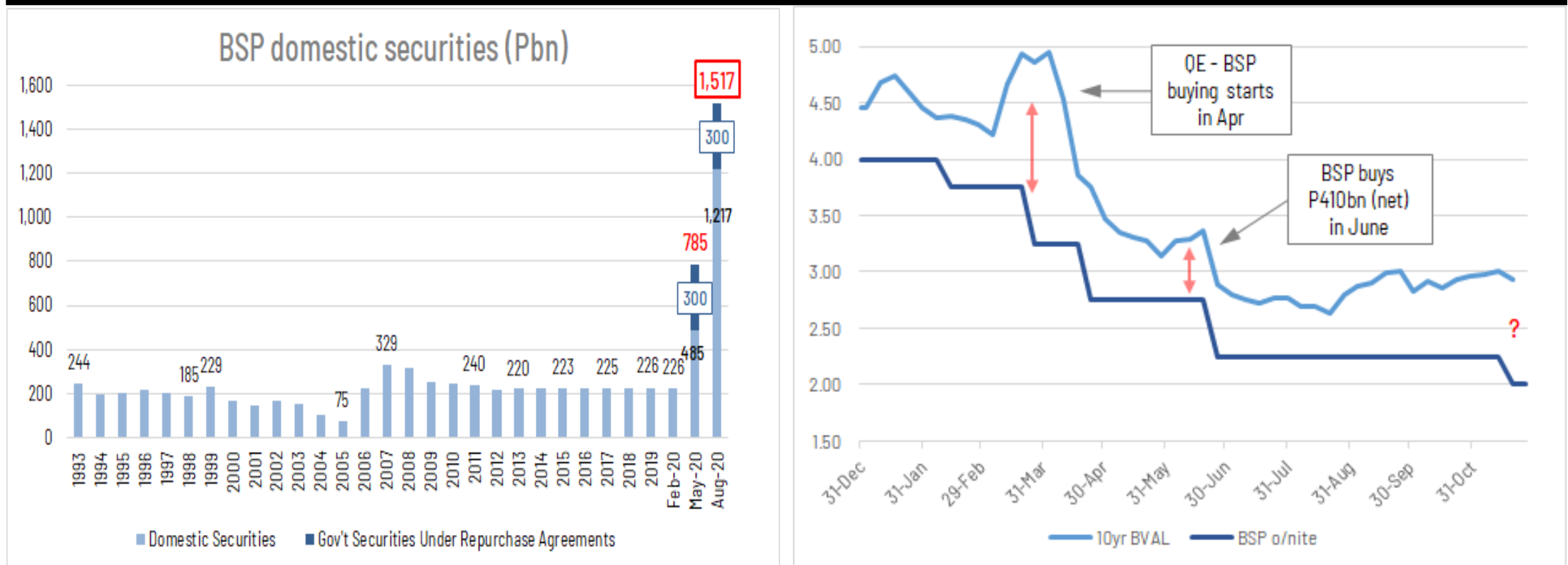


*REGIS estimates PSEi 2020E profits -35% yoy (-45% from pre-Covid), rebounding 27% in 2021E
But 2021E still 17% below 2019 levels*

Source: Philippine Stock Exchange, company data, , REGIS estimates

Don't buck the BSP – lower rates for longer

Our own version of QE + DM...

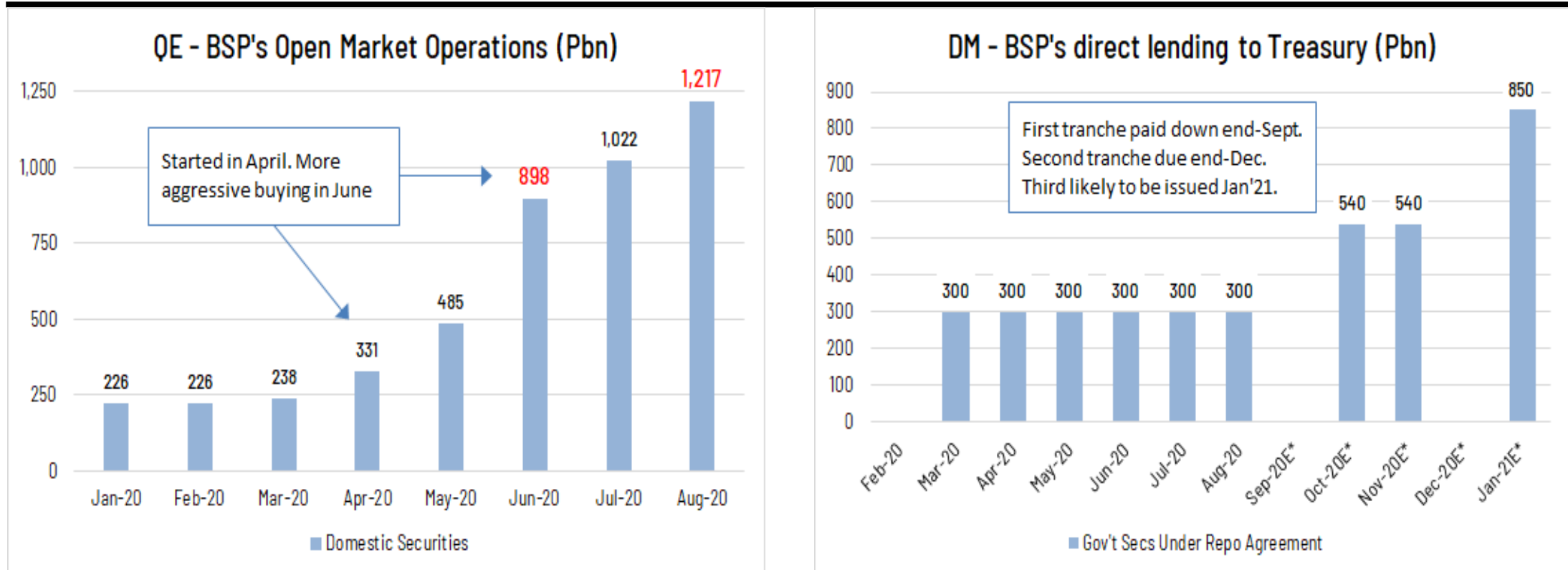


Flattening the (yield) curve

Source: Bangko Sentral ng Pilipinas, REGIS estimates

Don't buck the BSP – lower rates for longer

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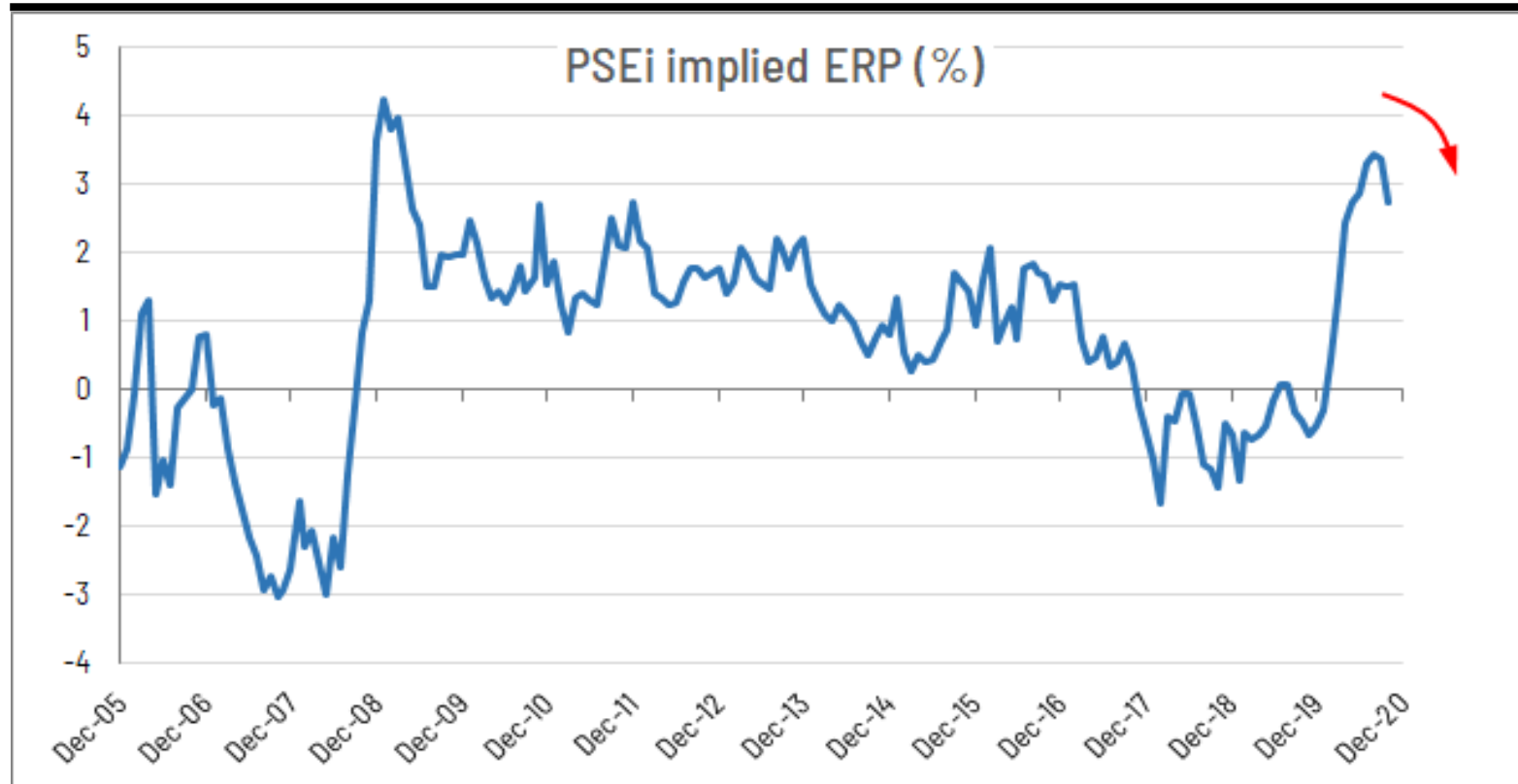


BSP to keep bond buying program "at least for the next... two years."

Source: Bangko Sentral ng Pilipinas, REGIS estimates

QE positive for financial markets

Implied Equity Risk Premium (%) neared 2009 post-GFC highs

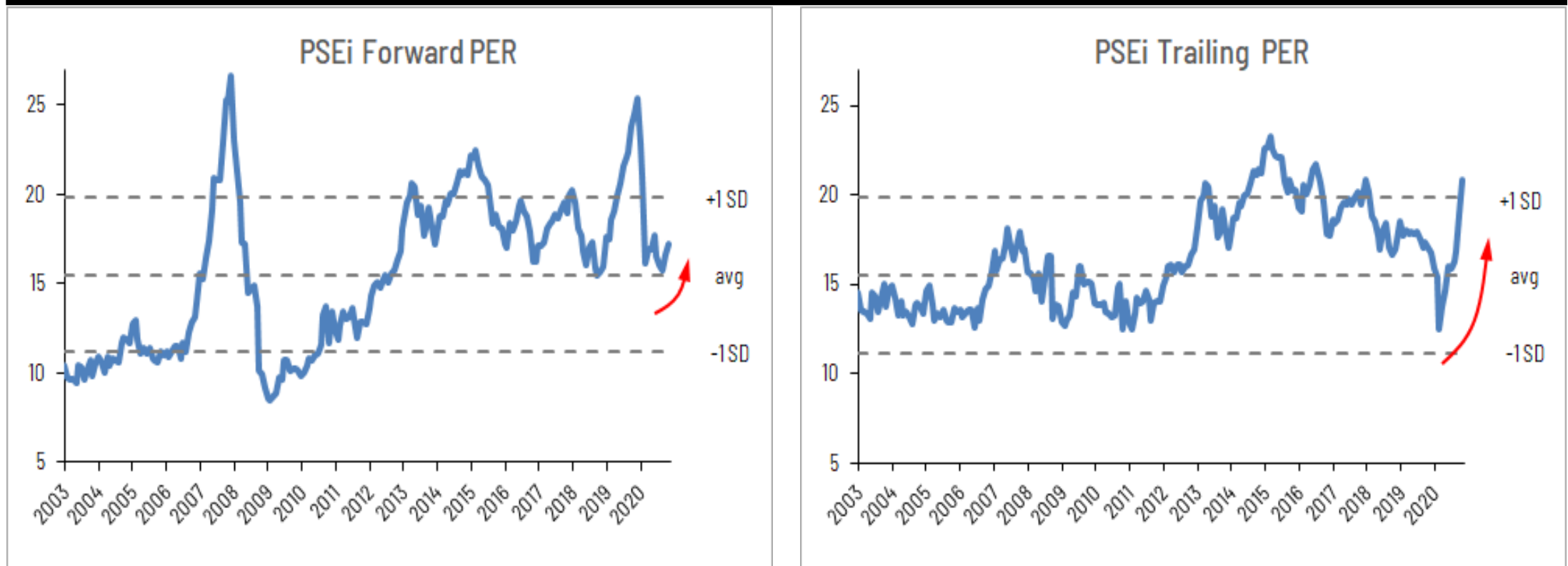


Earnings risk (uncertainty) is extremely high... but will it matter?

Source: Bloomberg LP, company data, REGIS estimates

Market valuations rising sharply

Rising above long term (>15yrs) average

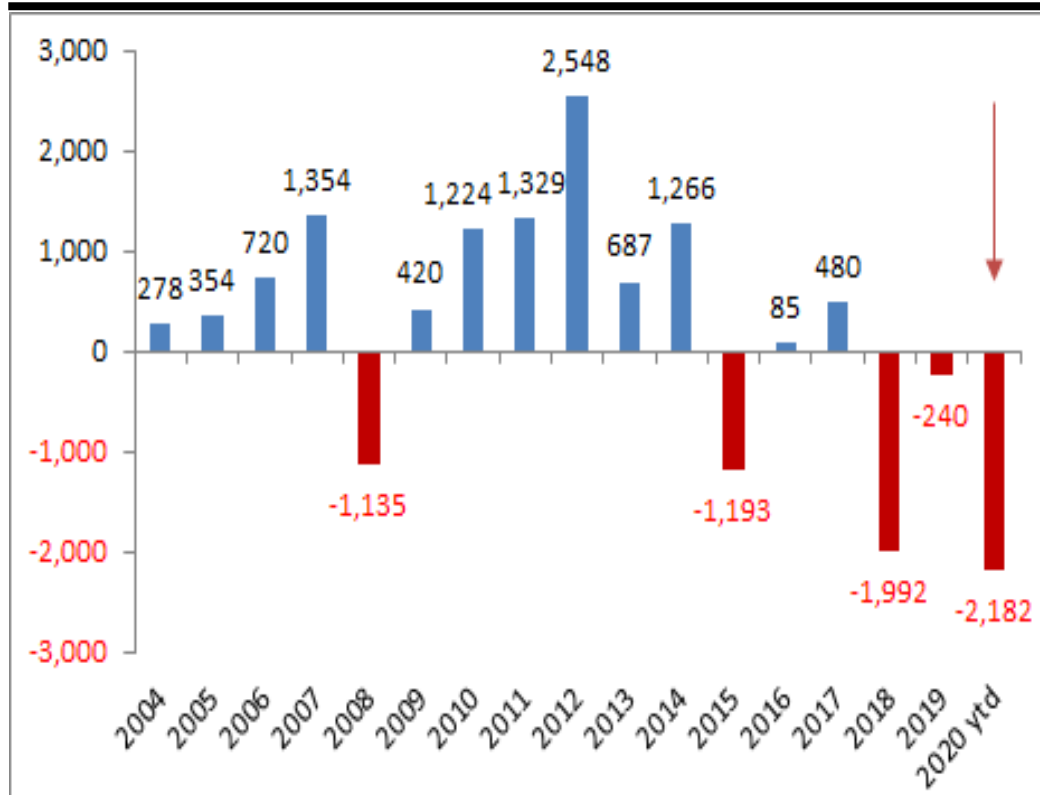


Market valuations moving well ahead of – or in spite of -- fundamentals

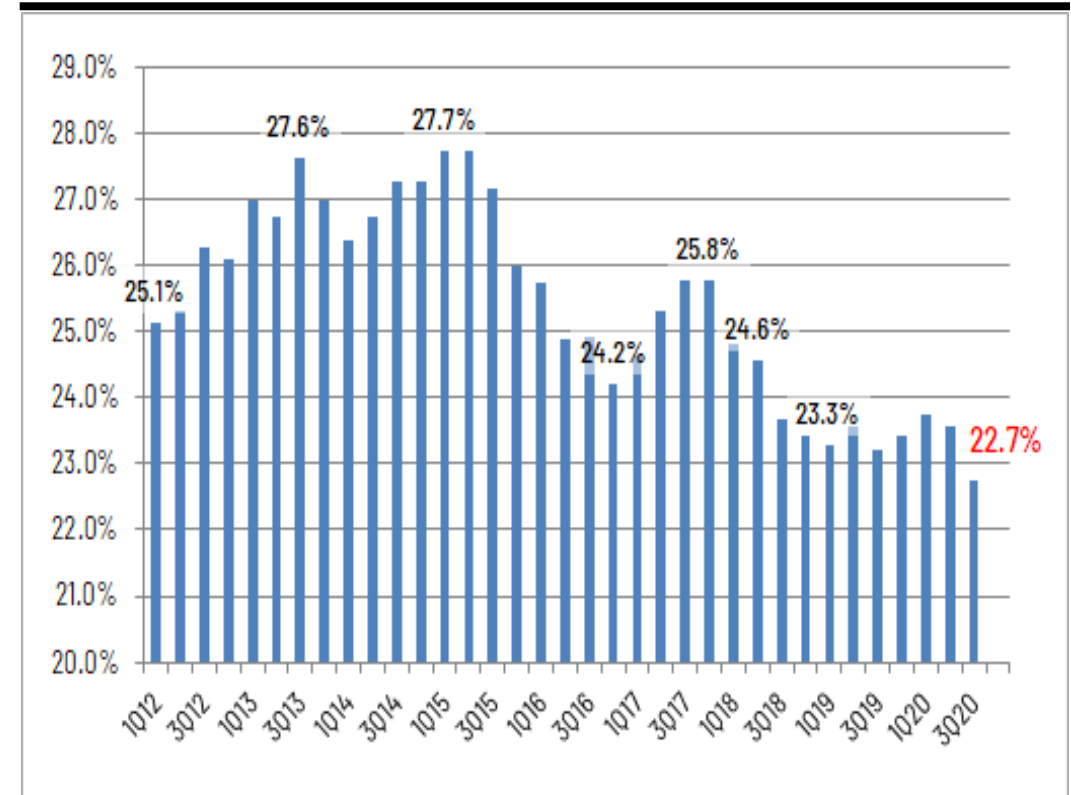
Source: Bangko Sentral ng Pilipinas, REGIS estimates

Foreign positioning is very light

Foreign net selling for a 3rd straight year (\$mn)



Foreign ownership down to new lows

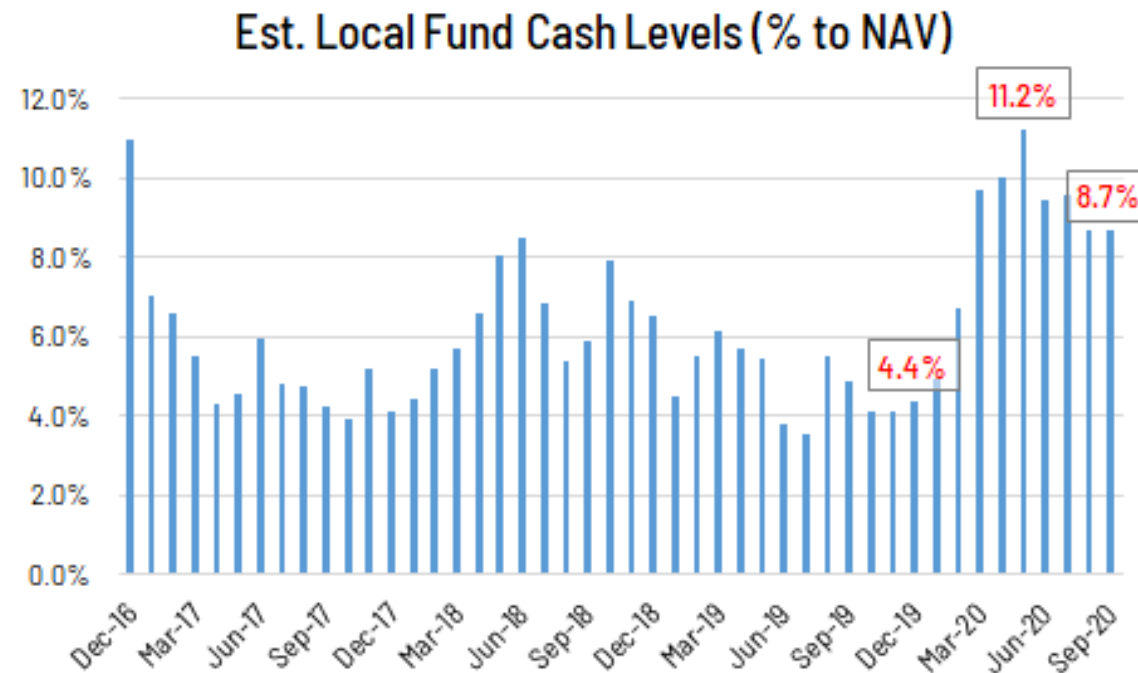


Foreigners turned buyers last few weeks; doesn't take much to move the market

Source: Philippine Stock Exchange, REGIS estimates

Locals – still cashed up

AUM-weighted cash levels at c9% in Sept



Pressure to deploy – with fixed income rates so low, investors are likely to increase allocations to risk assets (equities)

Source: Various funds' fact sheets, REGIS estimates

Key themes

ESG – Environment, Sustainability, Governance

- “Doing well by doing good”

Work- and study-from-home

- Future of office space
- E-learning
- Demand for broadband – wired, wireless

E-commerce

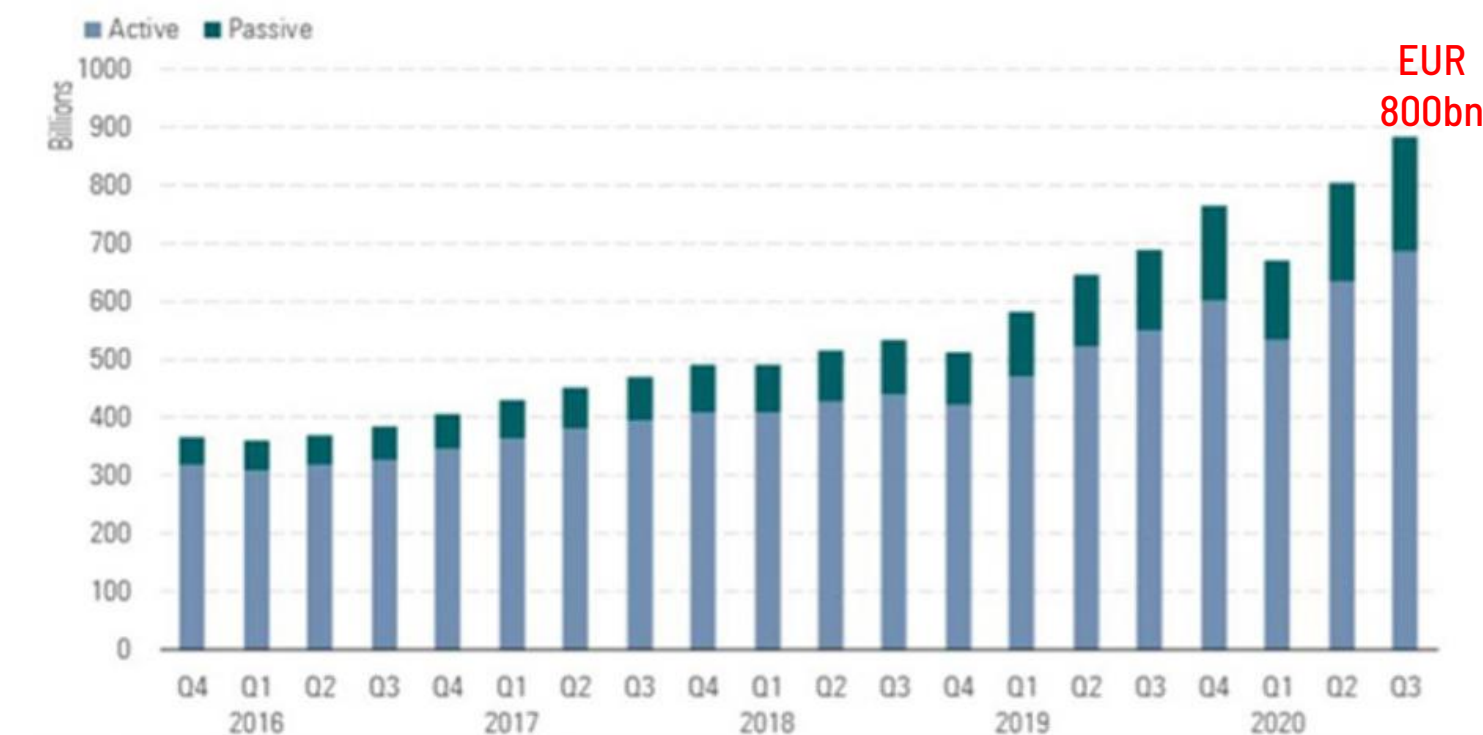
- Future of bricks-and-mortar retail; Impact on malls
- Restaurants vs delivery; Grocery delivery
- Logistics

Digitalization – Big Data (and big data centers)

Source: REGIS estimates

ESG funds hit \$1 trillion in 2020

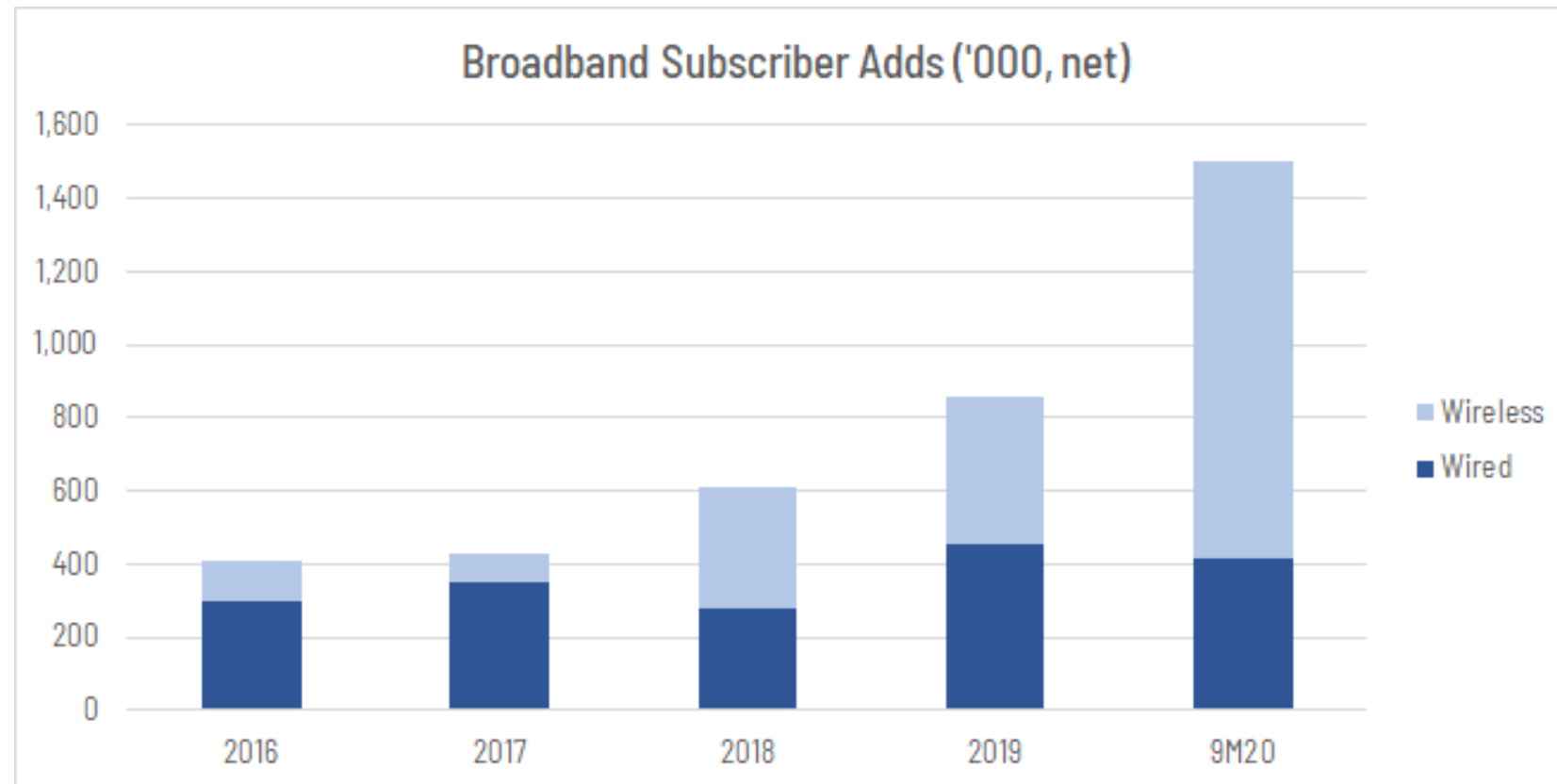
Quarterly European Sustainable Fund Assets (EUR billion)



Source: Morningstar Direct, Morningstar Research. Data as of September 2020.

“Doing well by doing good” – It’s not just a fad anymore
RE, smart grids, electric cars, meat substitutes, sustainable practices, etc

Covid and Broadband demand



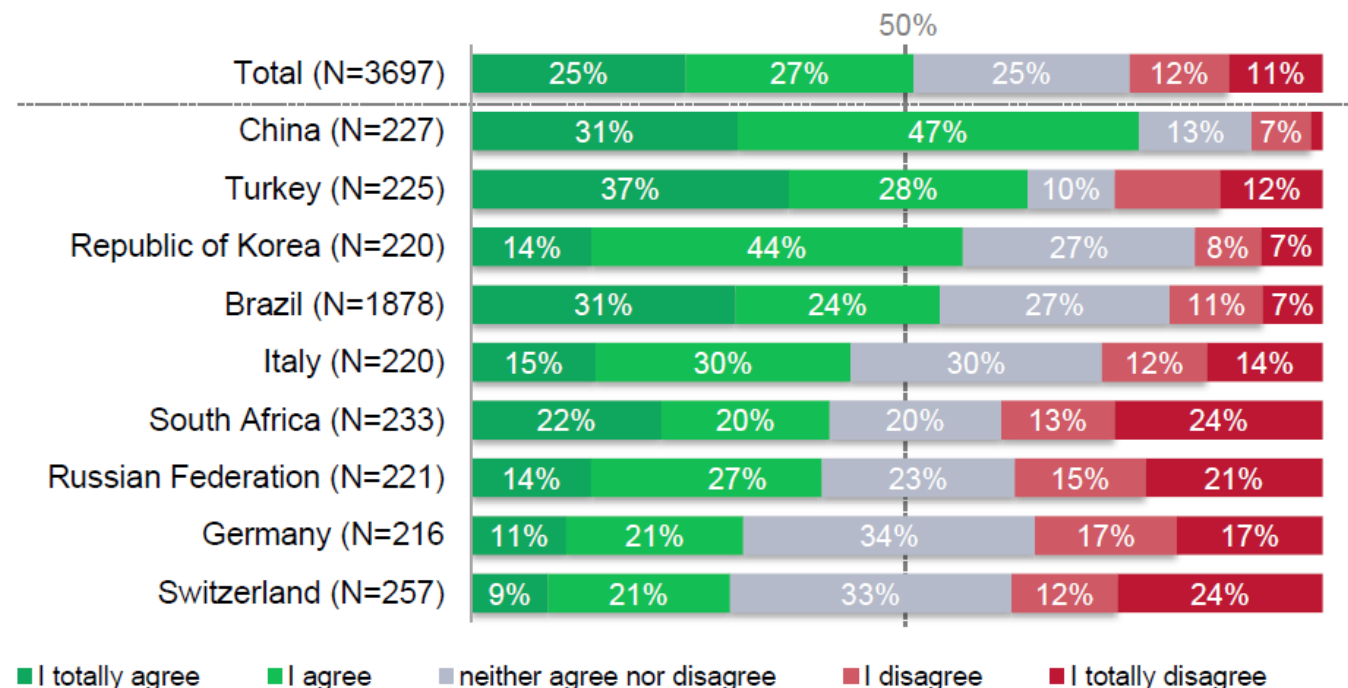
*How permanent is WFH, distance learning? Future of offices, schools, doctors' offices?
With Zoom, Skype, WebEx, etc – will it cut down business travel?*

Source: Company data, REGIS estimates,

Covid and E-commerce

Shift to online shopping is most evident in Emerging economies

Since the outbreak of COVID-19, I am shopping more often online than before.



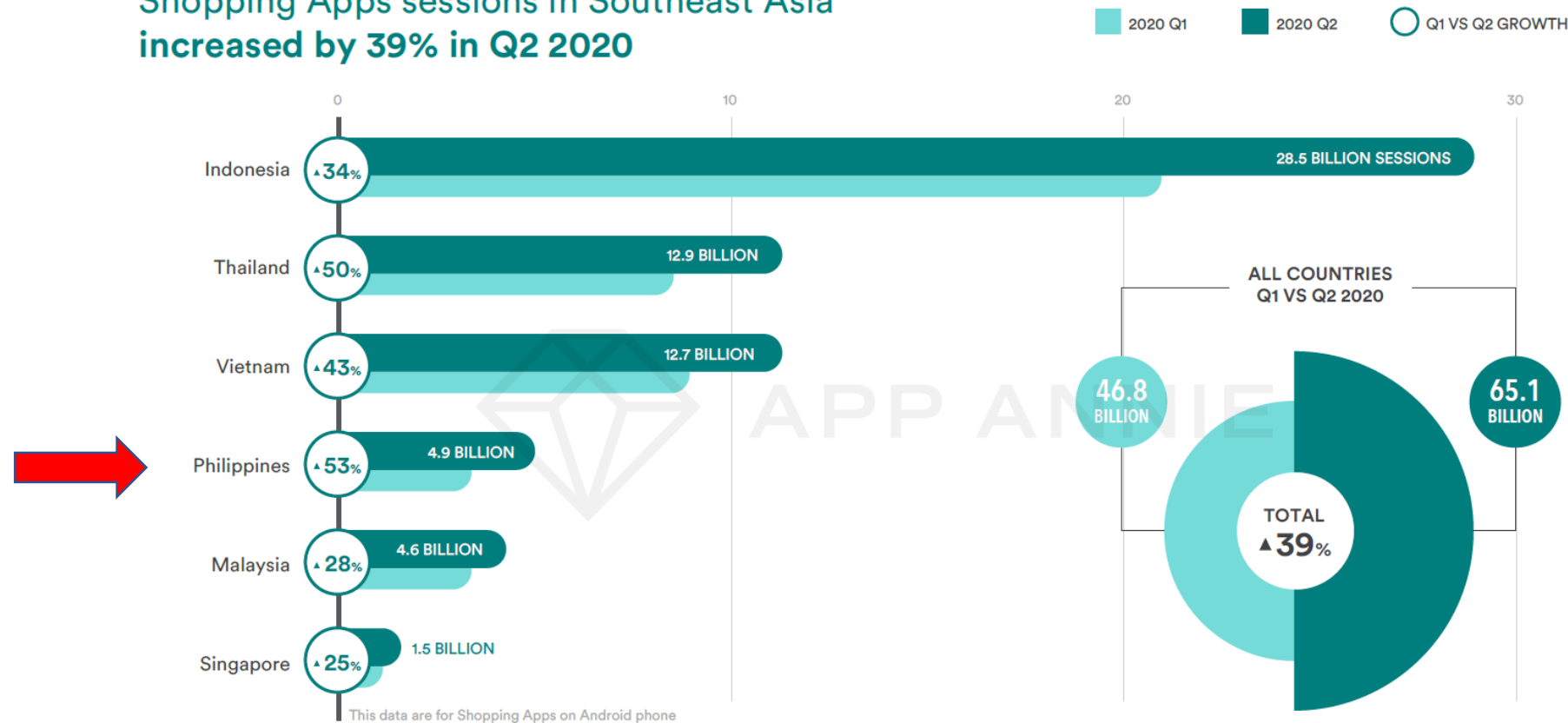
*Online markets (Lazada, Shopee), Food delivery (FoodPanda), non-food (Lalamove)
Opens larger markets for small businesses. Future of malls, restaurants, supermarkets?*

Source: United Nations Conference on Trade and Developments,

Covid and E-commerce

PHL lags in ASEAN, but has seen the largest YoY growth in online shopping

Shopping Apps sessions in Southeast Asia increased by 39% in Q2 2020



Source: <https://iprice.ph/insights/mapofecommerce/en/>

E-wallet and Banks' e-channel adoption

BPI	end-2019	Sep2020	vs pre-Covid
Online/mobile - enrolled (mn)	3.72	4.27	15%
Online/mobile - active users (mn)	1.90	2.50	32%
% of txns online/mobile	48.6%	68.8%	42%
% of txns online/mobile/ATM	85.2%	92.0%	8%

Metrobank	Sep2019	Sep2020	vs pre-Covid
Mobile app downloads			194%
Monthly enrolments	53k Jan'20	149k Sep'20	181%
% of txns online/mobile/ATM	68.0%	74.0%	9%

EastWest	Sep2019	Sep2020	vs pre-Covid
Monthly enrolments			40%
% of txns online/mobile			117%

GCash and PayMaya transactions are up 3-5x vs 2019
GCash forecasts P1trillion worth of transactions in 2020

Source: Company data, various news sources, REGIS estimates