

# BUY ON DIPS- HERE LIES A CHANCE

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The Philippine market had corrected about 6% from its high achieved just last week. So, is this the end of this bull market or a pause? First, let's sound off the reasons for the decline:

- 1) **POOR TELCO RESULTS STARTED IT ALL.** One may argue that there had been expectations of poor results in this sector which with PLDT alone is a big chunk of the benchmark index. However, the street didn't anticipate that earnings would actually start sliding therefore putting at risk the absolute cash dividends. As such, defensive and high dividend yield portfolios started unloading the stock. The stock eventually tamed down at the 2400 level after the company announced it has resumed its buyback program.
- 2) **LOCAL RETAIL/FOREIGN HEDGE FUND PANIC.** This wasn't confirmed but by the looks of the market activity, it seemed that a prominent local on-line broker had been selling heavily the last 3-4 days especially on high beta stocks. Unfortunately, there was also a rumor of a big US hedge fund doing the same thing. As such, the supply exceeded the demand causing the drop. These two segments are known to be aggressive either way – hence the bigger drop of the market over the last few days.
- 3) **SHIFT BACK TO THE CHINA MARKET** –To a certain extent, this may be true as some foreign funds may be cashing in on a very small market like the Philippines as the year ends and shifting it to the biggest Asian market in China which had seen some positive actions in the last few months. However, the Philippine market is small and most foreign accounts remain just neutral to underweight for the Philippines so we believe it may be selected accounts that have been selling the market. Unfortunately, the Philippines' market liquidity still remained low compared to its neighbors in the region.

Despite these reasons, we believe the market had entered back from slightly expensive valuations to fair value for 2010. We like to think that this market consolidation is a great opportunity to come in especially for those who had wanted to come in but was waiting for a sizable correction to happen. Here are some positive views:

- 1) **MACRO FUNDAMENTALS REMAIN STRONG** – Exports jumped 46% year-on-year for the month of September — the strongest for the year and maybe for the last five years. Inflation dipped to 2.8% for October - way better than the consensus of 3.3%.
- 2) **MARKET BREADTH IS TAKING SHAPE AGAIN** – Two stocks namely Alliance Global and Aboitiz Power entered the MSCI Philippines Benchmark index with no deletion of any name. This would imply that the overall free float market capitalization of the Philippines had grown. One may argue that in the whole scheme of things, it may look marginal, but at least it brings the Philippines closer to at least having a 1% weighting in the Asia-Ex-Japan index rather than 0.5%.
- 3) **EARNINGS REMAIN STRONG (ex-Telco sector)** —3<sup>rd</sup> quarter earnings have generally been in-line or have positive surprises. The initial projections of most analysts was a slowdown in earnings for the 3<sup>rd</sup> quarter but it didn't seem to be the case especially for the cyclical sectors like Property and Banking. The only sector that disappointed was the Telecommunications Sector (which paid the price and fuelled this current correction).

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