

Thriller in Manila

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Keith Summers, CFA

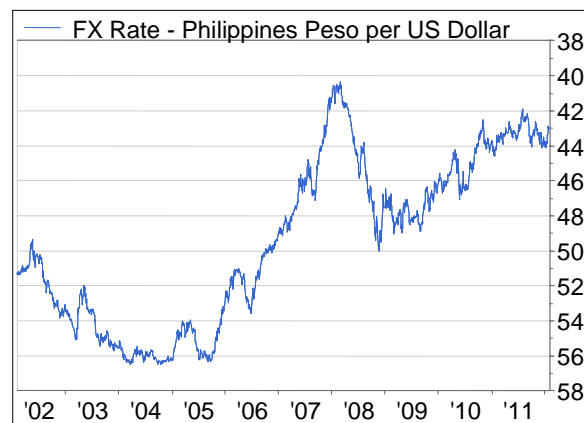
Even 37 years later, it's still considered one of the biggest sports events of the 20th century. Fourteen exhausting rounds between Muhammad Ali and Joe Frazier that ended in a TKO for Ali – the “Thrilla in Manila.”

Philippines is a different place now, in fact, one of the best performing markets in January was the Philippines Stock Exchange (PSE), which rose by seven percent and hit a new all-time high on January 23rd. (We had about 14% of the Fund invested in PSE equities in January). A different kind of ‘thrilla’...but we'll take it.

For a country with a long and intertwined history with the USA, (one of the biggest construction firms, EEI, was founded by a US Navy officer), the PSE, due to its relatively small size, has been overlooked by many US investors.

Although rich in resources, only about 10% of the market is represented by mining, oil or gas production. Finance, real estate development, telecoms and utilities make up over half of the market – unlike many other high-growth economies, most of the public companies are not export-oriented. (which makes this market just slightly less susceptible to global economic turmoil than its neighbour, Malaysia – but only slightly).

Of course, whenever we're investing abroad the currency outlook can't be overlooked.



Fiscal reforms during the last decade have strengthened the peso and it has been stable in the 42-43 range for the last two years. The outlook is modestly optimistic for the near term. Looking ahead, the drivers for continued growth are evident. Earnings growth, continued capital inflows, growing domestic demand, and relative price stability.

The exchange (about 250 listed firms), offers a pure play on a good economic story:

- real GDP growth rate of 7.9%
- unemployment rate of 6.4%
- inflation rate of 4.1%
- 3 month interest rate of 1.5%
- 10-year interest rate of 5%
- External debt/GDP ratio of 32% (ten years ago it was twice that)

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And the fundamentals are competitive too:

	Phillipines	World
2011 Earnings Growth	36%	22%
Forecasted Earnings Growth for 2012	16%	14%
Forward P/E	13.2x	11.4x
Dividend Yield	2.2%	2.6%

And while no one would call a 13x valuation a 'deep value' story, it is in line with its 20-year average, we're not ready to call it 'overbought'.

Like most countries in Asia, Philippines is enjoying optimal conditions: a young and more educated population, a growing middle class and improved political stability. As we've seen elsewhere, these three things usually combine to produce a competitive growth story.

If only every market had this much going for it.

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