BDO MONEY TALKS

The construction blast

By Roxanne S.C. Olanday

The Philippine construction sector has remained resilient over the years, logging a steady growth rate of 6.8% in real terms from 2009 to 2014. In terms of gross value added, it rose by 9.9% year-on-year (YoY) to Php422.2 billion last year and 10.5% YoY to Php223.8 billion for the first six months this year. In fact, data from the Philippine Statistics Authority (PSA) show that construction made up nearly one-fifth of the country's industrial sector, which is primarily manufacturing-driven, and approximately 5.9% of the country's economy.

Table 1: Gross Value Added In Construction At Current And Constant Prices, In Billion Pesos (2009-2014)

	At current prices							At constant 2000 prices						
(In PhP Billions)	2009	2010	2011	2012	2013	2014	CAGR %	2009	2010	2011	2012	2013	2014	CAGR %
Construction	460.4	551.2	535.4	633.1	727.4	828.2	10.3%	285.0	325.8	302.0	348.3	384.1	422.2	6.8%
Share of Construction to GDP (%)	5.7%	6.1%	5.5%	6.0%	6.3%	6.6%		5.4%	5.7%	5.1%	5.5%	5.7%	5.9%	
Share of Construction to Industry (%)	18.1%	18.8%	17.5%	19.3%	20.2%	20.9%		17.1%	17.5%	15.9%	17.1%	17.3%	17.6%	

Source: PSA, BSP

The strong performance of the sector this year can be attributed to private construction's growth of 12.1% to Php520.8 billion, with increased demand for housing, office and retail space. This robust demand is due to the steady growth of the business process outsourcing (BPO) sector, overseas Filipino worker (OFW) remittances and tourists in the country. Around 2.3 million OFWs sending home remittances, 4.83 million inbound tourists and 1.03 million BPO employees in 2014 fueled the real estate industry and thus also construction, with OFWs repairing and building homes, tourists seeking housing and lodging and BPO offices expanding and encouraging the proliferation of new growth centers across the country. Likewise, public construction picked up in the final quarter of 2014 amounting to Php129.8 billion (+6.3%) for the year from the government's increased reconstruction and infrastructure rehabilitation efforts for Typhoon Yolanda stricken areas. The National Economic and Development Authority's (NEDA) estimated over one million homes need to be constructed for areas devastated by the typhoon in 2013.

Table 2: Gross Value Added In Construction (Public vs. Private), In Billion Pesos (1H14 vs. 1H15; 2013 vs. 2014)

INDUSTRY/INDUSTRY GROUP	At Current Prices						At Constant 2000 Prices					
(In PhP Billions)	2013	2014	% Change	1H14	1H15	% Change	2013	2014	% Change	1H14	1H15	% Change
Public Construction	283.2	309.0	9.1	191.1	199.3	4.3	122.1	129.8	6.3	78.7	81.3	3.3
Private Construction	977.9	1,127.8	15.3	505.7	579.3	14.6	464.6	520.8	12.1	228.7	257.5	12.6
Gross Value in Construction	1,261.1	1,436.8	13.9	696.8	778.6	11.7	586.7	650.6	10.9	307.4	338.8	10.2
Gross Value Added in Construction	727.4	828.2	13.9	407.9	457.9	12.3	384.1	422.2	9.9	202.6	223.8	10.5

Source: PSA

Table3: Construction Projects By Type (Based on Approved Building Permits); Value in PhP Billions

	2013		2014		% change		1H14		1H15		% change	
Type of Construction Projects	**Share**	**Value**	**Share**	**Value**	**Share**	**Value**	**Share**	**Value**	**Share**	**Value**	**Number**	**Value**
Residential	72.7%	133.8	71.1%	152.8	-2.2%	14.2%	71.2%	63.6	72.4%	76.7	1.6%	20.6%
Non-Residential	12.1%	135.2	12.0%	184.9	-1.1%	36.8%	11.4%	54.5	12.5%	65.6	10.0%	20.4%
Additions, Alterations, Repairs	15.2%	24.2	16.9%	28.9	11.3%	19.4%	17.4%	13.0	15.1%	15.9	-13.1%	22.3%
Total	120,80.5	293.2	126,875	366.6	5.0%	25.0%	62,197	131.1	62,662	158.2	0.7%	20.7%

Source: PSA

Based on PSA reports of approved building permits, the total value of construction from January to June this year reached Php158.2 billion, 20.7% higher than the same period last year. While bulk of the projects remains to be residential in nature, it is interesting to note that last year, the value of the 15,191 non-residential projects at Php184.9 billion, exceeded the value of the 90,201 residential projects by as much as Php32.1 billion, having increased by 36.8% versus 2013. Majority of these non-residential projects were commercial-type buildings (i.e. malls, hotels, supermarkets, etc.). Nonetheless, residential-type buildings still increased in value by 14.2% with an upsurge in duplexes and quadruplexes by 175% to 3,859 units. Residential condominiums, though the least in number at 165 projects had the lion share in terms of value, amounting to Php64 billion or 42% of all residential type projects, closely followed by single houses at Php63.1 billion.

Volume 6 Number 10
October 2015

Location-wise, Region 4A or the CALABARZON area accounted for the largest share at 22.9% of the total projects in 2014, followed by Region 3 (Central Luzon) at 12.6% and NCR at 10.5%. As of June this year, CALABARZON projects reached 16,024, 13% higher than the prior year. Also gaining ground is Region 8 (Eastern Visayas) at 2,595 projects, growing 188% versus June 2014. Province-wise, Cavite has consistently topped the list since 2011 with 10,020 projects or 7.9% share in 2014. This was a 40.1% growth compared to the first semester of 2014. Second in line is Bulacan, followed by Laguna and the following complete the top 10 preferred provinces for construction this year: Batangas, Bohol, Rizal, Leyte, Cebu, Davao del Sur, Misamis Oriental, Negros Oriental and Pangasinan.

Table 4: Construction Projects by Region

Construction Projects by Region	2013	% of total	2014	% of total	1H14	1H15	% change
CAR	1,161	1	1,480	1.2	763	636	-17
Region 1 (Ilocos Region)	7,050	5.8	7,511	5.9	4,238	4,504	6
Region 2 (Cagayan Valley)	2,256	1.9	3,347	2.6	1,665	1,858	12
Region 3 (Central Luzon)	12,025	10	16,047	12.6	7,916	7,108	-10
NCR	13,948	11.5	13,381	10.5	6,296	5,500	-13
Region 4A (CALABARZON)	31,340	25.9	29,092	22.9	14,193	16,024	13
Region 4B (MIMAROPA)	2,086	1.7	2,508	2	1,174	1,351	15
Region 5 (Bicol Region)	3,177	2.6	2,830	2.2	1,487	1,756	18
Region 6 (Western Visayas)	5,124	4.2	5,483	4.3	2,722	2,723	0
Region 7 (Central Visayas)	13,168	10.9	12,440	9.8	7,121	5,566	-22
Region 8 (Eastern Visayas)	1,980	1.6	2,407	1.9	901	2,595	188
CARAGA	3,984	3.3	3,922	3.1	1,799	1,736	-4
Region 9 (Zamboanga Peninsula)	3,484	2.9	3,761	3	1,871	2,189	17
Region 10 (Northern Mindanao)	7,698	5.4	8,119	6.4	3,481	3,956	14
Region 11 (Davao Region)	8,916	7.4	11,500	9.1	4,945	3,846	-22
Region 12 (SOCCSKSARGEN)	3,100	2.6	2,822	2.2	1,464	1,352	-8
ARMM	268	0.2	245	0.2	161	5	-97
TOTAL	**120,755**		**126,875**		**62,197**	**62.705**	**1**

Source: PSA

Meanwhile, construction materials prices did not significantly change. The wholesale price of construction materials barely moved, rising only 1.9% in 2014. Plumbing fixtures led the increase in prices and accessories/waterworks materials, followed by sand and gravel, and tile works, whereas only fuels and lubricants declined. In contrast, retail prices for construction materials fell by 0.2% in May this year after not moving in April and May 2014. Based on data from the Construction Materials Retail Price Index in NCR, on an annual basis, declines were mostly noted in electrical materials and plumbing materials while upticks were seen in carpentry, painting and related compounds.

In terms of employment, the construction sector maintained its strong performance, having improved the most versus other industries. It added close to 150,000 employees or 7.1% to around 2.8 million employed as of April this year compared with 2013 levels, according to the latest data from the PSA. It remains the second biggest employer in the industrial sector -- next to the manufacturing sector having contributed 6.6% to total employment or approximately 2.5 million in 2014. It has been gradually expanding at a compound annual growth rate of 4.5% since 2009.

Table 5: Employment in Construction in the Philippines (2009 to April 2015)

In Millions	2009	2010	2011	2012	2013	2014	CAGR %	April 2014	April 2015	% Change
Total Employment	35.1	36.0	37.2	37.6	36.3	37.3	1.0	38.7	39.2	1.3
Construction	1.9	2.0	2.1	2.2	2.3	2.5	4.5	2.6	2.8	5.7
Share to total employments(%)	5.4	5.6	5.6	5.9	6.3	6.6	3.4	6.8	7.1	4.4

Source: PSA

Industry Outlook

The Philippine Constructors Association (PCA) forecasts that construction may grow into a Php1.7 trillion industry this year if the government is able to fulfill its plans of ramping up infrastructure expenditure, which it failed to do last year due to project delays. The government expects to spend Php562.3 billion or 4.0% of the country's gross domestic product (GDP) near its goal of reaching the global benchmark of 5% GDP dedicated to infrastructure investments by 2016. The PCA is particularly optimistic in light of the upcoming elections next year. Additionally, the Housing and Land Use Regulatory board targeted the construction of one million housing units by 2016 with 300 condominium projects slated for the mid-market segment of Metro Manila. Otherwise, the PCA sees the sector achieving Php1.2 trillion to Php1.3 trillion.

Meanwhile, innovation in construction may change the game in the future. At present, the most recently adapted technology in the industry involves the precast concrete construction method where casting and curing reinforced concrete is done in a controlled environment, before transport to construction sites for lifting, assembling and finishing, much like putting together Lego blocks. This cuts down the building process to 8 - 10 days versus the 45 - 60 days required for the more conventional method of piling hollow blocks on top of each other.

Another innovation, though not yet commercially used is 3D-printing construction. In Angeles, Pampanga lies the world's first 3D printed hotel suite in Lewis Grand Hotel — soon to be the world's first 3D printed commercial building from plans to expand the suite to an entire section of the hotel. The unit took 100 hours to complete, with plumbing wiring and rebars installation all ready. The 3D-print material was made of sand and volcanic ash that created a 10.5 meters by 12.5 meters (or 34.5 ft. by 41 ft.) space, with two bedroom villas, a living room and a Jacuzzi room. It is similar to the precast method that involves assembly of building materials on-site after the "cast" is created in a different location. The assembly of the 3D printer used for the hotel suite took approximately 2 months as it comprised of numerous materials testing but the team involved says this can be cut to a much shorter time frame.

Though opening and pricing has yet to be set, Lewis Yakich, the material science engineer heading the project and the present owner of the hotel, already sees bigger things for the future of 3D printing and construction. Yakich has already signed a contract to 3D-print a whole subdivision of 20 homes and a memorandum of agreement (MOA) to pre-sell these low-income houses. He aims to grow this to 1,000 homes in the next 2 years. According to Yakich's cost estimates, because 3D-printing construction may soon be able to print 6 houses simultaneously, approximately 60% of construction costs can be saved. Perhaps once the technology has been perfected and commercialized, assembly time can also be cut to as short as the pre-cast method.

In summary, there are high hopes for the unrelenting growth in the construction sector, boosted both by private and public construction. The sustained growth of the real estate industry, driven by the steady flow of OFW remittances, tourists and growing number of BPO workers increase demand for commercial space and residential buildings that ultimately continue to support private construction. While residential buildings still take the lead, non-residential or commercial buildings are also growing at robust pace. Key construction areas in the country remain to be in Luzon, particularly the CALABARZON area. Meanwhile, the rosy macroeconomic picture in the country will push public construction, such as increased infrastructure outlays amid a current low-interest rate and low-inflationary environment. And lastly, employment-wise, the sector is becoming a major employer among the different industries, next to manufacturing.

EEI Corp (EEI)

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EQUITY RESEARCH

Company Background

EEI Corporation (EEI) was incorporated on April 17, 1931 as a machinery and mills supply house for the mining industry. The Company eventually expanded into construction services and distribution of a broader range of industrial machinery and systems. EEI is a member of the Yuchengco Group of Companies, a conglomerate with interests in banking, financial services and property development.

The Company is primarily involved in the installation, construction and erection of power generating facilities; oil refineries; chemical production plants; cement plants; food and beverage manufacturing facilities; semiconductor assembly plants; roads, bridges, rails, ports, airports and other infrastructures; and high rise residential and office towers, and hotel buildings. The Company also operates one of the country's modern steel fabrication plants. The Company is also engaged in doing construction projects overseas.

Share Data

PSEi Code	EEI
Rating	Outperform
52-wk range (Php)	7.56 – 11.58
Current Price (Php)	7.88
Target Price (Php)	9.75
Price Upside (%)	23.8
Dividend Yield (%)	2.5
Total Return (%)	26.3

Review of Share Price Performance

Since the beginning of 2015, EEI's share has generally been on a downtrend after it reported flat net earnings growth of 0.3% in 2014 because of the 66.1% increase in cost of goods sold which depressed profit margins. This caused an initially price decline of 12.8% to Php9.50 on April 4 from its 2014 yearend price of Php10.90. The price recovered by 11.6% to Php10.60 on May 25 after it bagged a construction agreement with SMC's consortium that's building the Metro Manila Skyway Stage 3 Project. It continued its descent to its current price of Php7.88, a 25.7% fall as government continues to spend below their programmed infrastructure budget for 2015. In addition, reports that Saudi Arabia has been delayed in payments to contractors have adversely affected EEI's performance. The Company has a joint venture partner in Saudi Arabia and has been relatively active in bidding for construction projects in the country.

EEI vs PSEi

PSEi (Green); EEI (Blue)

Source: Bloomberg

Equity Valuation

Comparative Valuation	Closing Price (Php)	Mkt Cap (Php bn)	2015 P/B (x)	2015 P/E (x)	2015 ROE (%)	Div Yield (%)	Free Float* (%)
Construction							
CTD VN	256.13	11.06	–	11.45	16.3	2.4	60.4
CK TB	37.39	63.34	2.29	20.42	9.6	1.9	57.3
EEI PM	**7.88**	**8.17**	**1.17**	**8.69**	**13.5**	**2.5**	**44.4**
MWIDE PM	5.88	14.11	1.31**	8.97**	15.6**	–	24.4

*Sources: Bloomberg; *Philippine Stock Exchange; **BDO PB estimates*
Notes: CTD VN – Cotec Construction JSC; CK TB – CH Karnchang PCL; EEI – Engineering Equipment Inc (EEI) Corp; MWIDE – Megawide Construction Corp

- **Trading close to book value.** EEI valuations are the cheapest in the region with P/B of 1.17x and a P/E of 8.7x based on 2015 earnings prospects. Compared against regional peers, it's more than 50% less expensive than CH Karnchang PCL (CK TB) at 20.4x P/E and easily cheaper than Cotec Construction JSC (CTD VN) with P/E of 11.5x with a commendable ROE of 13.5%.

- **Construction contracts and ancillary unit boost income.** EEI's 1H 2015 revenues grew 31.4% to Php9.24 billion led by construction contract revenues that increased 37.4% to Php8.4 billion, while merchandise sales rose 79.7% to Php147 million. Despite cost of goods sold rising faster by 33.9% during the first semester, it was able to keep operating expenses in check rising only by 1.6%. These resulted to net earnings growing almost 27% to Php435 million during 1H 2015.

Earnings Results: Full Year 2014, First Half 2015

In PHP Millions	2013	2014	Chg (%)	1H'14	1H'15	Chg (%)
Construction	9,391	15,709	67.3%	6,112	8,398	37.4%
Services	888	1,183	33.2%	581	553	-4.9%
Merchandise Sales	164	170	3.9%	82	147	79.7%
Real Estate Sales	81	18	-77.3%	9	8	-13.7%
Others	808	501	-38.0%	243	131	-46.1%
Total Revenues	11,332	17,581	55.2%	7,027	9,237	31.4%
Cost of Goods Sold	9,243	15,350	66.1%	6,092	8,157	33.9%
Expenses	731	789	7.9%	401	407	1.6%
Net Income	916	918	0.3%	343	435	26.9%

Source: EEI

Our View and Recommendation:

Short-term (less than 2 years): Over the next 2 years, we expect EEI to generate stable construction revenues as contractor for the Metro Manila Skyway Stage 3 Project and subcontractor for the New Bohol Airport. Given adjusted multiples of 12x P/E and 1.2x P/B, our target price of Php9.75 has potential price upside of 23.8% over the next 12 months. EEI's price advance however, may be held back by its small market capitalization at Php8.7 billion or US$187 million. Not liquid enough for foreign institutional funds to take exposure. **Outperform.***

Medium-term (beyond 2 years): Over the medium-term however, we see EPS growth to generate an almost flat annualized rate of 0.8% through 2018 as it faces steeper competition with soon-to-be publicly-listed companies like DM Wenceslao & Associates (DMWA) and Datem Inc (DATEM). News have also surfaced that Saudi Arabia is delaying payments to government contractors and this could impact EEI's JV with Al Rushaid Constuction Co (ARCC) which has an existing contract order from Saudi Aramco. Nonetheless, we assume that EEI is able to book Php18.3 billion worth of new contracts on average year on year as domestic construction remains the bigger component of its business. Moreover, its propriety status allows it to subcontract work from all project owners since it's not associated with any conglomerate. And at 12x P/E, 1.2x P/B, and estimated dividend yield of 2.5%, we expect EEI's price to reach Php10.96 for a total return of 13.5%. **Outperform.***

***Outperform** These are stocks whose share prices are going to outperform or beat the return of the Philippine Stock Exchange Index over a 12-month period.

Analyst Attributed Estimates

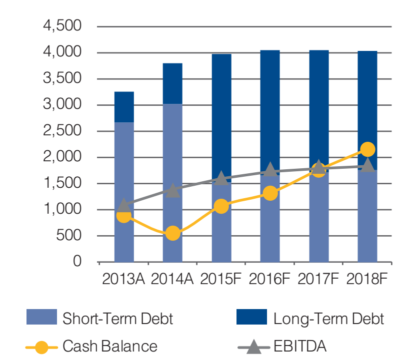
Internal	2015F	2016F	2017F
Net Inc. (Php Mn)	847	906	930
ROE (%)	12.1%	11.9%	11.1%
Div / Sh	0.20	0.20	0.20
Div Yd (%)	2.5%	2.5%	2.5%
BV / Sh	7.04	7.72	8.41
EPS	0.82	0.87	0.90
P/B (x)	1.12	1.02	0.94
P/E (x)	9.64	9.01	8.78

Source: BDO Private Bank Research

Major Shareholders	% Stake
House of Investments Inc	44.3
PCD Nominee (Filipino)	34.3
PCD Nominee (Foreign)	16.7
Pan Malayan Management & Investment Corp	2.1
Lim, Roy S	0.2
Others	2.4
TOTAL	**100.00**

Source: List of Top 100 Stockholders (As of September 30, 2015)

Debt Capacity Chart (Php millions)



Overall, since EEI's last credit review, it was able to maintain its medium investment grade credit rating of **"BBB-*", supported by prudent leverage, sufficient operating cashflows and debt service coverage ratios.**

FIXED INCOME RESEARCH

Financial Highlights (Php millions)

	2013	2014	2015F	2016F	2017F	2018F
Cash	898	564	1,080	1,326	1,767	2,158
Receivables – net	3,703	5,973	6,333	6,924	7,169	7,359
Total Assets	13,601	18,352	20,294	21,533	22,388	23,194
Current Liabilities	6,935	10,822	10,458	11,055	11,246	11,369
Long Term Liabilities	883	871	2,537	2,479	2,422	2,364
Total Liabilities	7,818	11,693	12,995	13,535	13,668	13,733
Total Equity	5,783	6,659	7,299	7,998	8,721	9,461
Short-term Debt	2,672	3,012	1,521	1,654	1,710	1,753
Long-term Debt	575	778	2,449	2,392	2,334	2,277
Total Debt	3,247	3,789	3,970	4,045	4,044	4,030
Debt to Equity (%)	56.2%	56.9%	54.4%	50.6%	46.4%	42.6%
Net Debt to Equity (%)	40.6%	48.4%	39.6%	34.0%	26.1%	19.8%
Debt to Assets (%)	23.9%	20.6%	19.6%	18.8%	18.1%	17.4%
Net Interest Expense	19	86	130	155	153	150
EBITDA	1,096	1,395	1,596	1,734	1,790	1,830
EBITDA % Increase	-12.5%	27.2%	14.4%	8.6%	3.3%	2.2%

Source: EEI; F – BDO Private Bank Research

- **Relies on short-term debt for working capital…** While most private-public partnership (PPP) participants establish a consortium to get involved in infrastructure projects, EEI has opted to participate in this government initiative on a pure contractor basis. Given a smaller capex demand compared to these infrastructure joint ventures (JV), their financing needs are mostly driven by working capital requirements which they draw mostly from short-term borrowings. The Yuchengco-led construction firm was tapped by Citra Central Expressway Corp (CITRA), the San Miguel Corp (SMC)-led consortium, to build Sections 3 and 4 of the Php26.7 billion Metro Manila Skyway Stage 3 Project. The elevated expressway project spans 14.8 KM from Buedia, Makati City to Balintawak, Quezon City and is expected to be completed by 2017.

- **…but subcontracts some projects.** EEI also clinched an agreement last August 2015 with the Chiyoda-Mitsubishi JV as a subcontractor for the Php7 billion New Bohol Airport project. The deal consists of supply and construction of the civil portion of the project which already commenced last June 2015 and is expected to be completed within 30 months or between late-2017 and early-2018.

Our View and Recommendation:

Operating cash is adequate for yearly expenses. EEI's construction operation has historically had little capital expenditures (capex), and we expect average capex through 2018 to remain minimal and below Php600 million. This can easily be financed by internally generated funds with EBITDA projected to reach Php1.74 billion in the next 4 years. With minimal short-term obligations averaging Php1.66 billion through 2018, operating cash flow along with immediate cash is more than enough to repay current debt. Despite having almost 50% of its total debt subject to floating rate, a 100 basis points increase in its borrowing rate will just add Php20 million to its annual interest expense (or 2.4% of our projected 2015 net income).

Steady earnings growth to reduce leverage. As EEI reaps the benefits as a civil works contractor of PPP, industrial (ie power plants, steel factories), and land development projects (ie. commercial buildings, housing) EBITDA is projected to grow at an annualized rate of 7% through 2018, potentially reaching Php1.8 billion by then. As a result of steady earnings accumulation, EEI's D/E ratio is expected to slide to 42.6% in 2018 from almost 57% in 2014. The improvement in operating cash flow will also shorten the theoretical number of years to pay all their debt obligations to about 1 year in 2018 from an estimated 2 years this year.

***BBB (Medium Grade)** Neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such issues lack outstanding investment characteristics and in fact have speculative characteristics as well.

Holcim Philippines Inc (HLCM)

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EQUITY RESEARCH

Company Background

Holcim Philippines, Inc. (HLCM) was incorporated on November 12, 1964 as Hi-Cement Corporation and amended to its current name on November 30, 2004 after 40 years. It is a member of the Switzerland based Holcim Group, one of the world's leading suppliers of cement, as well as aggregates, concrete, and construction-related services. It is also involved in the local manufacture, sale, and distribution of cement and clinker.

HLCM and its subsidiaries own four (4) production facilities, one (1) cement grinding mill, three (3) ports, as well as multiple storage and distribution points across the country. Its cement plants are located in La Union, Bulacan, Misamis Oriental, and Davao. It also has the most extensive sales and distribution network in domestic cement industry. They manufacture four (4) main cement products under the brands: Holcim Premium, Holcim 4X, Holcim Excel, and Holcim WallRight Cement. Its products are sold in bags, jumbo bags, and in bulk.

The consolidated operations of the four cement production facilities have fortified HLCM's premier position in the Philippine cement industry, with an estimated market share of 34% given its total installed clinker and cement production capacity of 8.2 Million metric tons per year (MTPY).

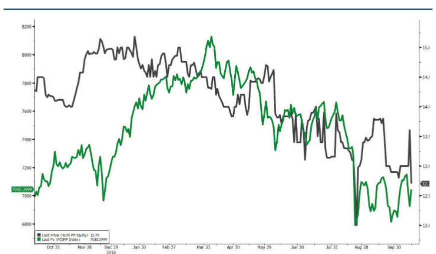
Share Data

PSEi Code	HLCM
Rating	Outperform
52-wk range (Php)	12.00 – 15.30
Current Price (Php)	12.70
Target Price (Php)	14.68
Price Upside (%)	15.6
Dividend Yield (%)	6.5
Total Return (%)	22.1

Review of Share Price Performance

Since our last review on August 15, 2014 when HLCM was evaluated at Php13.58, the price initially rose 11.8% to Php15.18 on January 27, 2015 after the company disclosed of its possible merger with LRI and subsequent acquisitions news. It fell 16.3% to its current level of Php12.70 after the company reported a growth slowdown for two consecutive quarters (1Q and 2Q) when it was forced to use higher cost input to manufacture cement because of untimely plant shutdown. But HLCM's share price still outperformed the Philippine Stock Exchange Index in relative terms.

HLCM vs PSEi



PSEi (Green); HLCM (Dark Grey)

Source: Bloomberg

Equity Valuation

Comparative Valuation	Closing Price (Php)	Mkt Cap (Php bn)	2015 P/B (x)	2015 P/E (x)	2015 ROE (%)	Div Yield (%)	Free Float* (%)
Cement							
LAFCEM BD	53.45	62.08	7.13	37.97	32.6	–	35.4
JKCE IN	467.99	32.72	2.64	30.56	9.4	0.8	31.9
HLCM PM	**12.70**	**81.94**	**3.73****	**15.87**	**23.3**	**6.5**	**14.3**

*Sources: Bloomberg; *Philippine Stock Exchange; **BDO PB estimates*
Notes: LAFCEM BD – Lafarge Surma Cement Ltd; JKCE IN – JK Cement Ltd; HLCM PM – Holcim Philippines Inc

- **Attractive valuations versus regional peers…** HLCM has the lowest P/E at 15.9x versus La Farge Surma Cement Ltd (LAFCEM BD) and JK Cement Ltd (JKCE IN) which is roughly half of the P/E their multiples of 38x and 30.6x, respectively. On the other hand, HLCM's ROE of 23.3% is more than double than that of JKCE IN. Given HLCM's generous dividend yield of 6.5%, we find its fundamental valuations quite attractive. Why the discount in valuation? We believe that HLCM is being discounted by investors due to the shares' thin liquidity at less than 10% of public float.

- **…despite earnings decline on higher input cost and plant maintenance.** HLCM's 1H 2015 sales revenue growth of 6.7% was not enough to outpace the 13.6% increase in cost of sales and 31.2% rise in general and administrative expense that caused its net income to decline by 8.9% to Php3.03 billion during the first semester. The lower profit was attributed to early implementation of plant maintenance activities, higher usage of more expensive clinker amid strong demand, and provisional expense for an arbitration case in Singapore. The company aims to stabilize cement supply in 2H 2015 by trying to improve production efficiency and upgrade facilities to allow their plants to run longer before any scheduled maintenance activities.

Earnings Results: Full Year 2014, First Half 2015

In PHP Millions	2013	2014	Chg (%)	1H'14	1H'15	Chg (%)
Sales Volume (in Mn MTs)	6,400	7,187	12.3%			
Revenues	28,893	32,649	13.0%	16,861	17,995	6.7%
Operating Profit	6,130	7,223	17.8%	4,697	4,158	-11.5%
EBITDA	7,849	8,709	11.0%	5,383	4,899	-9.0%
Net Income	4,559	5,145	12.9%	3,322	3,027	-8.9%

Source: HLCM

Our View and Recommendation:

Short-term (less than 2 years): During 1H 2015, the cement industry grew 11% better than the 9.6% growth 1H 2014. We expect HLCM to benefit from this improvement and see this to continue into 2H 2015 as government infrastructure spending gains traction and better cement demand from the private sector. As such, assuming adjusted valuation multiples of 18.0x P/E and 4.0x P/B, we expect HLCM's share price to reach Php14.68 over the next 12 months, providing a price upside of 15.6%. We expect their cement operations to normalize in the 2H 2015 once factories that were shut due to early maintenance resumes operation. This is seen to reduce their input costs as they would no longer need to import expensive clinker which caused their margins to diminish during 1H 2015. **Outperform.***

Medium-term (beyond 2 years): As more infrastructure projects gain traction all over the country in the next 3 to 5 years, EPS growth is seen to register above 10% growth beginning 2017 as the 2 million MTPY additional capacity from their existing cement plants becomes available and gradually improves their earnings margins through 2018. As operating efficiency is realized, the share price could reach Php17.38 by 2018 giving an annualized total return of 16.7% inclusive of their generous 6.3% projected dividend yield. **Outperform.***

***Outperform** These are stocks whose share prices are going to outperform or beat the return of the Philippine Stock Exchange Index over a 12-month period.

Analyst Attributed Estimates

Internal	2015F	2016F	2017F
Net Inc. (Php Mn)	5,165	5,639	6,224
ROE (%)	23.5%	25.4%	27.1%
Div / Sh	0.82	0.80	0.80
Div Yd (%)	6.5%	6.3%	6.3%
BV / Sh	3.40	3.48	3.64
EPS	0.80	0.87	0.96
P/B (x)	3.73	3.65	3.49
P/E (x)	15.87	14.53	13.17

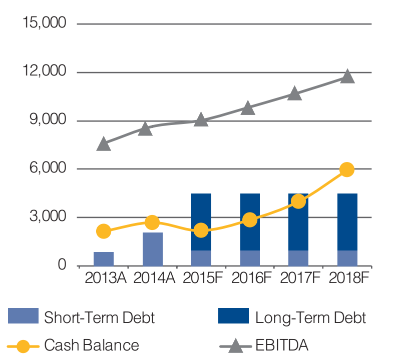
Source: BDO Private Bank Research

Major Shareholders

Major Shareholders	% Stake
Union Cement Holdings Corp	60.6
BV HolderFin	18.1
Sumitomo Osaka Cement Co Ltd	9.2
Cemco Holdings Inc	7.1
PCD Nominee (Foreign)	2.7
PCD Nominee (Filipino)	1.8
Others	0.5
TOTAL	**100.0**

Source: List of Top 100 Stockholders (As of September 30, 2015)

Debt Capacity Chart (Php millions)



Overall, we lowered HLCM's credit rating to **BBB-*** from "A" last August 15, 2014, on the back of additional borrowings from its expansion program. Once the cash flows from the expansion are realized, its debt burden is expected to improve so does its credit rating.

FIXED INCOME RESEARCH

Financial Highlights (Php millions)

	2013	2014	2015F	2016F	2017F	2018F
Cash	2,149	2,698	2,210	2,856	4,016	5,968
Receivables – net	1,781	2,259	2,531	2,747	2,982	3,236
Total Assets	28,227	30,907	33,843	35,008	36,763	39,270
Current Liabilities	6,074	8,050	7,577	8,199	8,819	9,548
Long Term Liabilities	676	764	4,298	4,364	4,436	4,513
Total Liabilities	6,750	8,814	11,875	12,563	13,255	14,062
Total Equity	21,476	22,093	21,968	22,445	23,508	25,208
Short-term Debt	893	2,100	1,000	1,000	1,000	1,000
Long-term Debt	0	0	3,500	3,500	3,500	3,500
Total Debt	893	2,100	4,500	4,500	4,500	4,500
Debt to Equity (%)	4.2%	9.5%	20.5%	20.0%	19.1%	17.9%
Net Debt to Equity (%)	-5.8%	-2.7%	10.4%	7.3%	2.1%	-5.8%
Debt to Assets (%)	3.2%	6.8%	13.3%	12.9%	12.2%	11.5%
Net Interest Expense	(24)	31	136	226	223	217
EBITDA	7,605	8,645	9,044	9,860	10,736	11,688
EBITDA % Increase	16.6%	13.7%	4.6%	9.0%	8.9%	8.9%

Source: HLCM; F – BDO Private Bank Research

- **Borrows long-term for acquisitions…** HLCM acquired some Php3.1 billion worth of Lafarge Republic Inc (LRI) assets last August 2015 in lieu of the global merger of their parent companies in Europe. The 5 – 10 year syndicated bank loan that was availed for the asset purchase is seen to double HLCM's D/E ratio to an average of 19.4% through 2018 from 9.5% in 2014. The purchased entities includes: 1) 100% of Lafarge Republic Aggregates (LRA) and Quimson Limestones Inc (QLI); 2) 40% of Sigma Cee Mining Corp (SCMC) and APC Properties Inc (API); 3) Star Terminal & Shipping Services Inc (STSSI), and parcels of land in Bulacan. LRA manufactures construction aggregates (ie. rock, stone, cement and other minerals), QLI quarries limestones and other minerals, SCMC explores lands and mines, API is a holding firm, and STSSI is into logistics. The new assets thus broaden HLCM's range of products and services in the construction sector.

- **…while increasing output capacity.** HLCM will also allot US$40 million (Php1.8 billion) to debottleneck its cement plants and expand annual cement manufacturing capacity by 22% to 10 million metric tons (MTs) by 2016. Even though they've already said they can afford to borrow given little debt, our projections suggest that their healthy operating cash flow can fund this expansion. Most of the additional capacity will come from its Batangas cement plants that could provide an extra 1.5 million MTs. For the moment, the company will defer its earlier plan to build a new US$550 million cement factory in the same area with yearly capacity of 2.5 million MTs until the next administration in 2016.

Our View and Recommendation:

Steady growth in operating cash. Although EBITDA growth is projected to ease by 4.6% this 2015 from 13.7% in 2014 on more costly inputs (imported clinker), it will almost double to 9% in 2016 causing operating cash to reach Php9.9 billion. The additional 1.8 million MTPY capacity in 2016 from expansion of existing cement facilities is intended to de-clog its factories and reduce production costs. D/E ratios meanwhile is seen to double to 20.5% in 2015 from 9.5% in 2014 with the company borrowing Php3.5 billion to finance its LRI acquisitions and working capital requirements. The spike in total debt shouldn't be a cause of concern given a healthy operating cash of over Php9 billion through 2016 that can easily meet short-term obligations over the next 2 years.

…can sustain hefty dividend payouts and repay long-term debt. While HLCM has hefty annual dividends at Php5.2 billion, EBITDA can easily cover 2x the amount even if you add their yearly interest payments which is just Php220 million. With 78% of borrowings having long tenors, their stretched maturity profile allows amiable repayment terms allowing them to redirect excess funds to capital spending to increase capacity.

***BBB (Medium Grade)** Neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such issues lack outstanding investment characteristics and in fact have speculative characteristics as well.

Megawide Construction Corp (MWIDE)

Dennis V. Carreon
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EQUITY RESEARCH

Company Background

Megawide Construction Corporation (MWIDE) was incorporated in July 28, 2004 to primarily engage in general construction business. It includes constructing, enlarging, repairing, or engaging in any work upon buildings, houses and condominium, roads, plants, bridges, piers, waterworks, railroads, and other structures, and to own, use, improve, develop real estate of all kinds. The company takes advantage of advanced technology building systems, such as pre-cast concrete and formwork systems in its projects.

It is one of the major players in the Philippine construction industry. It has completed low-rise and high-rise condominiums, office buildings, hotels and casinos. Their major clients include a variety of top property developers such as SM Development Corporation (SMDC), Filinvest Land, Inc. (FLI), Rockwell Land (ROCK), and Megaworld Corporation (MEG). In recent years, they have actively participated in bidding for Public-Private Partnership (PPP) projects.

The firm has a 12 hectare (HA) modern precast concrete manufacturing complex in Rizal. The facility is fully automated and considered to be the largest and most advanced precast plant in the country and in Southeast Asia. It is also a building solutions factory that allows the company to have shorter construction period, cost efficiency, increased productivity and enhanced operational capability.

Share Data

PSEi Code	MWIDE
Rating	Outperform
52-wk range (Php)	5.10 – 9.10
Current Price (Php)	5.88
Target Price (Php)	6.76
Price Upside (%)	15.0
Dividend Yield (%)	-
Total Return (%)	15.0

Review of Share Price Performance

Since our last review last October 17, 2015 when MWIDE was still at Php8.69, the price trended a downward path until July 9, 2015 when it closed at Php5.52, declining 36.5% as company suffered a 36% decline in net income during 2014. This was due to several project delays and technical issues that hampered the start of construction that eventually led to lower contract revenues realized. The price recovered to Php6.47 on August 7, 2015 after it pre-qualified to bid for the Php50.2 billion prison facility PPP in Fort Magsaysay. It traded sideways since then sliding 9.1% to its current price of Php5.88. MWIDE share price, however, has outperformed the Philippine Stock Exchange Index, in relative terms in the past 6 months.

MWIDE vs PSEi

PSEi (Green); MWIDE (Red)

Source: Bloomberg

Equity Valuation

Comparative Valuation	Closing Price (Php)	Mkt Cap (Php bn)	2015 P/B (x)	2015 P/E (x)	2015 ROE (%)	Div Yield (%)	Free Float* (%)
Construction							
CTD VN	256.13	11.06	-	11.45	16.3	2.4	60.4
CK TB	37.39	63.34	2.29	20.42	9.6	1.9	57.3
EEI PM	7.88	8.17	1.17	8.69	13.5	2.5	44.4
MWIDE PM	**5.88**	**14.11**	**1.31****	**8.97****	**15.6****	**-**	**24.4**

*Sources: Bloomberg; *Philippine Stock Exchange; **BDO PB estimates*
Notes: CTD VN – Cotec Construction JSC; CK TB – CH Karnchang PCL; EEI – Engineering Equipment Inc (EEI) Corp; MWIDE – Megawide Construction Corp

- **Attractive valuations with decent ROE.** With 1.3x P/B and 9x P/E based on 2015 earnings prospects, MWIDE's valuation is within range of EEI, though it has a better ROE of 15.6%. Regionally, it's the second cheapest construction company in terms of P/E compared to CTD VN and CK TB at 11.5x and 20.4x, respectively. Moreover, it has an ROE that's higher than CK TB which is only 9.6% and very close to CTD VN's 16.3%.

- **Better earnings on airport contribution.** MWIDE saw 1H 2015 revenues grow 12.8% y/y to Php5.7 billion attributable to Php724 million revenues that Mactan Cebu International Airport (MCIA) generated, which translates to 13% of total top line. With the inclusion of the airport operations, there was an improvement in profit margins that resulted to a 42% increase in net income to Php790 million during the first semester. The company is expecting to end 2015 with net income somewhere between Php1.3 – 1.5 billion.

Earnings Results: Full Year 2014, First Half 2015

In PHP Millions	2013	2014	Chg (%)	1H'14	1H'15	Chg (%)
Contract Revenues	10,880	9,842	-9.5%	5,055	4,978	-1.5%
Airport Operations Revenues	-	-		-	724	
Total Revenues	**10,880**	**9,842**	**-9.5%**	**5,055**	**5,701**	**12.8%**
Gross Profit	1,781	1,594	-10.5%	882	1,430	62.1%
Operating Income	1,443	1,219	-15.5%	692	1,068	54.3%
EBITDA	1,963	2,020	2.9%	1,151	1,538	33.7%
Net Income	**1,396**	**832**	**-40.4%**	**556**	**790**	**42.1%**
Margins						
Gross	16.4%	16.2%		17.5%	25.1%	
Operating	13.3%	12.4%		13.7%	18.7%	
EBITDA	18.0%	20.5%		22.8%	27.0%	
Net	12.8%	8.4%		11.0%	13.9%	

Source: MWIDE

Our View and Recommendation:

Short-term (less than 2 years): As MWIDE expands its current infrastructure portfolio (i.e. MCIA, ITS Southwest Terminal, Modernization of Philippine Orthopedic Center, etc…) we expect the additional revenues to provide better margins for the construction firm. Assuming base multiples of 11x P/B and 1.2x P/B, our 12 month target price of Php6.76 gives a potential price upside of 15%. **Outperform.***

Medium-term (beyond 2 years): Over the medium-term, MWIDE's EPS growth is seen to register an annualized rate of 4.7% as it expands MCIA's passenger capacity in phases until its expected completion within 2018. For the moment, we don't expect MWIDE to declare cash dividends as it is seen to deploy excess funds to finishing the airport development. At 11x P/B and 1.2x P/B, MWIDE's price could provide an annualized price appreciation of 9.8% reaching Php7.91 a piece by 2018. **Neutral.****

***Outperform** These are stocks whose share prices are going to outperform or beat the return of the Philippine Stock Exchange Index over a 12-month period.
****Neutral** These are stocks whose share prices are going to move in tandem or within the PSEi movement as a benchmark over a 12-month period.

FIXED INCOME RESEARCH

Analyst Attributed Estimates

Internal	2015F	2016F	2017F
Net Inc. (Php Mn)	1,573	1,668	1,730
ROE (%)	15.6%	14.6%	13.5%
Div / Sh	-	-	-
Div Yd (%)	0.0%	0.0%	0.0%
BV / Sh	4.48	5.05	5.66
EPS	0.66	0.70	0.72
P/B (x)	1.31	1.16	1.04
P/E (x)	8.97	8.46	8.15

Source: BDO Private Bank Research

Major Shareholders

Major Shareholders	% Stake
Citicore Holdings Investment Inc	56.80
PCD Nominee (Filipino)	19.15
Sybase Equity Investment Corp	15.37
PCD Nominee (Foreign)	6.56
Suyen Corporation	1.81
Others	0.31
Total	**100.00**

Source: List of Top 100 Stockholders (As of September 30, 2015)

Financial Highlights (Php millions)

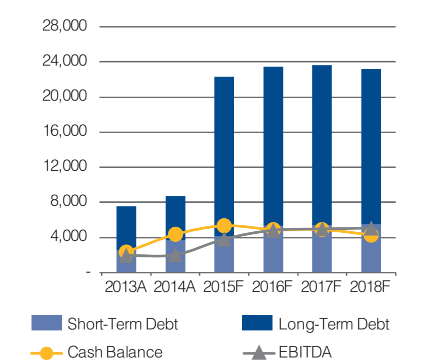
	2013	2014	2015F	2016F	2017F	2018F
Cash	2,276	4,300	5,223	4,715	4,644	4,475
Receivables – net	4,103	4,580	4,970	6,386	6,560	6,682
Total Assets	21,503	25,564	41,313	45,048	46,746	48,481
Current Liabilities	7,815	7,110	8,357	10,628	10,869	11,101
Long Term Liabilities	5,147	5,085	18,318	18,395	18,402	18,366
Total Liabilities	12,962	12,196	26,675	29,023	29,271	29,467
Total Equity	8,541	13,368	14,637	16,026	17,474	19,014
Short-term Debt	2,432	3,634	4,095	5,266	5,406	5,512
Long-term Debt	5,033	5,025	18,128	18,185	18,189	18,151
Total Debt	7,465	8,659	22,223	23,450	23,595	23,664
Debt to Equity (%)	87.4%	64.8%	151.8%	146.3%	135.0%	124.5%
Net Debt to Equity (%)	60.8%	32.6%	116.1%	116.9%	108.4%	100.9%
Debt to Assets (%)	34.7%	33.9%	53.8%	52.1%	50.5%	48.8%
Net Interest Expense	(38)	(116)	719	1,126	1,154	1,157
EBITDA	1,963	2,020	3,787	4,784	4,931	5,042
EBITDA % Increase	33.0%	2.9%	87.5%	26.3%	3.1%	2.2%

Source: MWIDE; F – BDO Private Bank Research

- **Debt surge on airport financing…** Last November 2014, the Department of Transportation and Communications (DOTC) has ceded operations of the Mactan-Cebu International Airport (MCIA) to GMR – Megawide Cebu Airport Corp (GMCAC), MWIDE's joint venture (JV) with Bangalore-based operator GMR Infrastructure Ltd. Under the government's 25-year concession agreement, GMCAC will renovate the existing terminal and build a second facility in 3 years or by 2018 that will quadruple MCIA's total annual capacity to 28 million passengers. The project has a total cost of Php31.9 billion which includes the Php14.4 billion premium GMCAC paid to DOTC last April 21 and the Php17.5 billion project cost. The substantial project costs of MCIA will cost long-term debt to surge more than 3x to about Php18 billion in 2015 from Php5 billion the previous year and effectively elevate D/E ratio more than two-folds to almost 152% in 2015 from just about 65% in 2015..

- **…as MWIDE transforms into a major infrastructure player.** After MCIA, MWIDE has actively participated in several public-private partnerships (PPP) bidding, thus expanding its construction interest to include a wide array of public works (transport terminals, bulk water, jail facilities, power plants, etc…). MWM Terminals, MWIDE's JV with WM Properties, was also awarded the Php2.5 billion Integrated Transport System (ITS) – Southwest Terminal Project which is a 35-year contract to build and operate the transport terminal where the government will pay the concession an annual fee of Php100 million. With various pending PPP bids, MWIDE intends to become one of country's leading infrastructure developers.

Debt Capacity Chart (Php millions)



Overall, since MWIDE's last credit review, it was able to maintain its lower medium grade credit rating of **"BB+" as earnings growth may be weighed down by increasing leverage and funding costs.** A credit upgrade is possible if: 1) they'll able to execute and implement their project plans effectively or according to their time table, and 2) face no delays in their construction activities along the way.

Our View and Recommendation:

Acceptable D/E ratio despite higher debt. With MCIA's project cost estimated to be at Php17.5 billion, we expect MWIDE's D/E ratio to more than double to 151.8% from just 64.8% in 2014 as it extensively borrows to finance the airport development. Despite this, D/E ratio is expected to substantially taper to 124.5% by 2018 as airport operations provide a lift to net income, which augments equity.

Sufficient resources for debt service. Meanwhile, repayment of MWIDE's maturing short-term debts that will average Php5.1 billion through 2018 can be met by its immediate cash and EBITDA that will have an average total of Php9.4 billion. And despite the projected higher financing burden from additional borrowings and preferred shares issuance, EBITDA which will average Php4.6 billion through 2018 is still able to cover 3.5x their annual interest & dividend payments.

***BB (Lower Medium Grade)** Judged to have speculative elements. The issuer's capability to pay for such issues cannot be considered as well assured. Often, the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future.

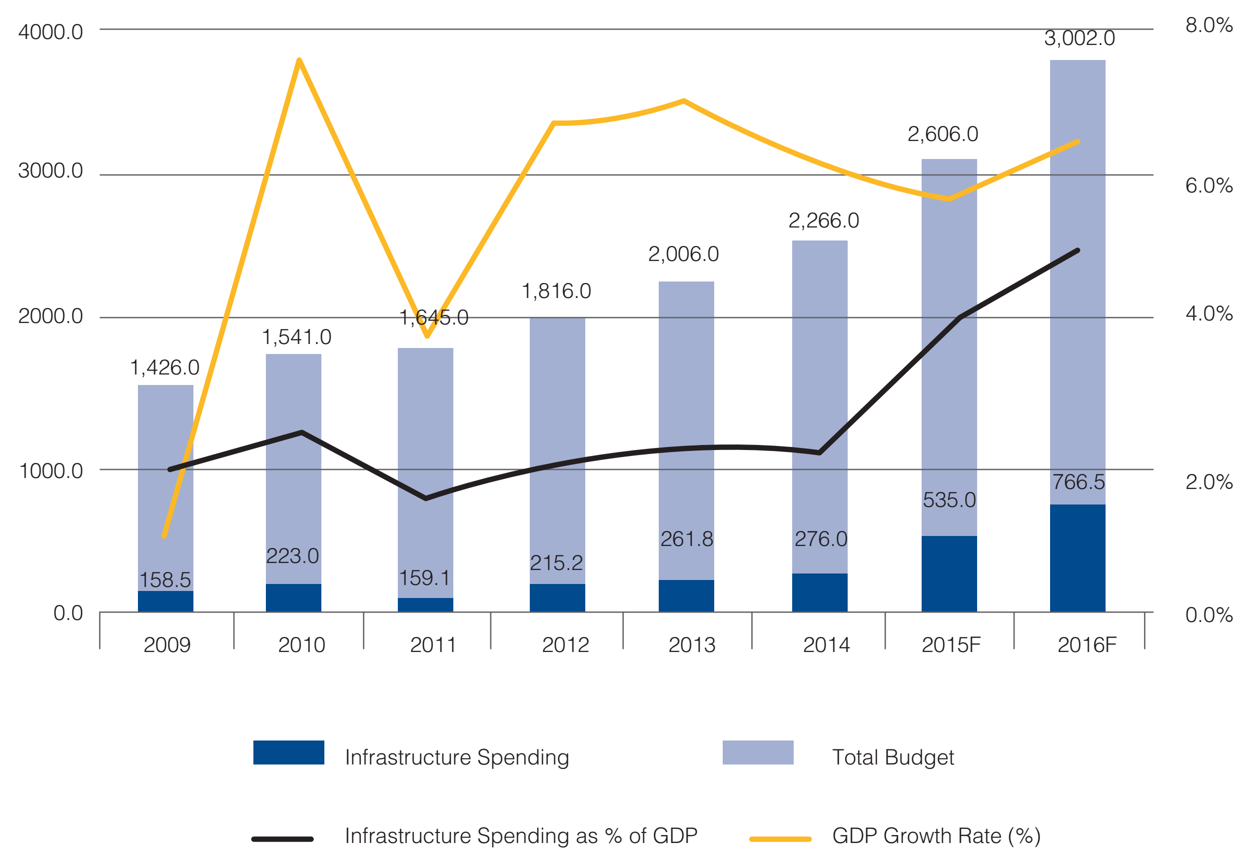
Infrastructure and PPP

By Roxanne S.C. Olanday

State infrastructure spending and capital outlay for the eight month period of January to August this year amounted to Php214 billion, over 20% above the figure logged in the same period last year. In August alone, infrastructure spending by the government rose by 29.2% year-on-year to Php25.4 billion, compared to the Php19.7 billion expenditure recorded in August last year. However, this figure is 33.7% lower than July's Php38.3 billion spend, which rose by almost 100% from the year earlier, driven by the modernization of the armed forces. In comparison, public infrastructure spending for August focused on the following: additional construction projects of the Department of Public Works and Highways (DPWH), the school building program of the Department of Education (DepEd), the farm-to-market roads construction works of the Department of Agriculture (DA) and the roads-to-tourist destinations construction builds of the Department of Tourism (DOT).

On the other hand, total government spending for the eight-month period reached Php1.444 trillion rising 11.4%y/y or Php148 billion higher over the same period in 2014. Around Php208.3 billion of the fiscal budget has yet to be released, and a significant portion of this is seen to be disbursed to the different agencies towards yearend. Note, the full-year budget for 2015 is approximately Php2.606 trillion while the proposed budget for 2016 is Php3.002 trillion, close to

Figure 1: Infrastructure Disbursements



Source: PSA, DBM, Invest Philippines, BDO estimates

Table 1: Global Infrastructure Competitiveness Ranking

	Country					
Indicator	**Philippines**	**Singapore**	**Malaysia**	**Thailand**	**Indonesia**	**Vietnam**
Quality of roads	87	7	23	42	78	102
Quality of railroad infrastructure	89	10	18	72	44	58
Quality of port infrastructure	116	2	24	56	89	98
Quality of air infrastructure	113	1	20	34	68	92
Quality of electricity supply	93	8	37	58	89	95
Fixed telephone connectivity	109	29	79	96	82	88
Mobile telephone connectivity	81	18	27	49	62	21
Overall	98	5	25	61	82	110

Source: World Economic Forum (WEF) Global Competitiveness Report 2013-2014

Table 2: Public-Private-Partnership Awarded Projects as of Oct. 15, 2015

Project	**Project Cost/Indicative Cost (PhPbn)**	**Agency**
Daang Hair-Slex Road (Muntinlupa-Cavite Expressway) Project	2.01	DPWH
PPP for School Infrastructure Project (PSIP) Phase I	16.43	DepEd
NAIA Expressway (Phase II) Project	15.86	DPWH
PPP for School Infrastructure Project (PSIP) Phase II	3.86	DepEd
Modernization of the Philippine Orthopedic Center	8.69	DOH
Automatic Fare Collection System (AFCs)	1.72	DOTC
Mactan-Cebu International Airport Passenger Terminal Building	17.52	DOTC
LRT Line 1 Cavite Extension, and O&M	64.90	DOTC
Southwest Integrated Transport System (ITS) Project	2.50	DOTC
Cavite-Laguna (CALA) Expressway	55.51	DPWH

Source: PPP Center

double the Php1.541 trillion 2010 budget at the start of the Aquino administration and approximately 15.2% above the 2015 budget.

Meanwhile, infrastructure spending as a percentage of gross domestic product (GDP) is targeted to accelerate from 3% in 2013 to 4% in 2014, and 5% for both 2015 and 2016. Take note that 5% is the international standard that the Philippines is trying to meet to become more competitive and to improve its investment climate. However, the Philippines missed this target both 2013 and 2014, making only 2.3% and 2.2%, respectively, largely due to public underspending or “slow spending” as explained by Secretary Butch Abad of the Department of Budget and Management (DBM). In particular, in 2014, there were delays for infrastructure projects due to the Supreme Court declaring major provisions of the Disbursement Acceleration Program (DAP) as illegal, and thus recorded government expense was much lower. And it seems to be the trend followed this year as well, with even the budget committee concerned that catch-up will be hard to attain for the remaining year. Furthermore, according to the 2013-2014 Global Competitiveness Report of the World Economic Forum, the Philippines ranks 98th among its Asian peers in terms of infrastructure overall quality.

In this report, the Philippines is second from the bottom after Vietnam, particularly in quality of roads and electricity supply.

The bright spot remains in upbeat investor sentiment in the country, supported by the good macroeconomic fundamental story of the Philippines: a low inflationary environment as well as low interest rates, coupled with steady or resilient foreign exchange rate. However, the shortfalls in infrastructure can translate to real costs to the economy in terms of productivity and efficiency to the everyday Filipino in relation to travel time, city congestion, pollution and poor access to basic utilities. Infrastructure development can largely boost the economy and sustain growth, especially by connecting urban and rural areas in the country and improving the logistics flow of trade and industry. Note that the 2011-2016 Philippine Development Plan pushes the country's economic growth, and in the mid-term update, it targets a 6.5% to 7.6% growth in 2014, to accelerate to 7% to 8% in 2015 and 2016. However, in 2014, the economy expanded by only 6.1%, pulled down by government underspending, coming from a record high of 7.2% in 2013. This year, first quarter GDP grew 5.0% and second quarter GDP grew by only 5.6%, also hindered by government underspending.

In order to bolster inclusive economic growth and facilitate the much needed infrastructure development, the government has tapped the private sector as a partner in infrastructure projects via the Public-Private-Partnership (PPP) program. The private sector's involvement in infrastructure projects would help ease government burden by providing financial and technical support with major projects usually entailing billions of pesos and professional expertise .

The government also established the PPP center to provide advisory services, assist development and monitoring of PPP projects and be involved in every part of the project cycle (i.e. project preparation and development, project review and approval, preparation of bid documents, PQ & bid evaluation, contract reward and implementation), ensuring that the projects are bankable, transparent and advance public interest.

The government has so far awarded up to 10 PPP deals with an aggregate amount of PhP189 billion, since the infrastructure program began five years ago, with 17 projects in the bidding stage and another 25 in the pipeline at various stages of the project stage: 5 for NEDA approval, 2 for ICC approval, 7 for procurement of transaction advisor, and 7 under conceptualization.

In summary, government spending, in particular, infrastructure outlays would help further economic growth in the country. To achieve the rather ambitious goal of the government for an economic expansion of 7% to 8%, the government needs to step-up and ramp-up public expenditure. The tandem of the government and private companies via the PPP projects, in this pre-elections and low-interest rate and low-inflationary environment could perhaps bring about the much touted inclusive growth and sustained development over the long-term.

A copy of this issue is also accessible through www.bdo.com.ph.
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