



GERMAN PHILIPPINE CHAMBER OF COMMERCE AND INDUSTRY

19 January 2012

Passion to Perform





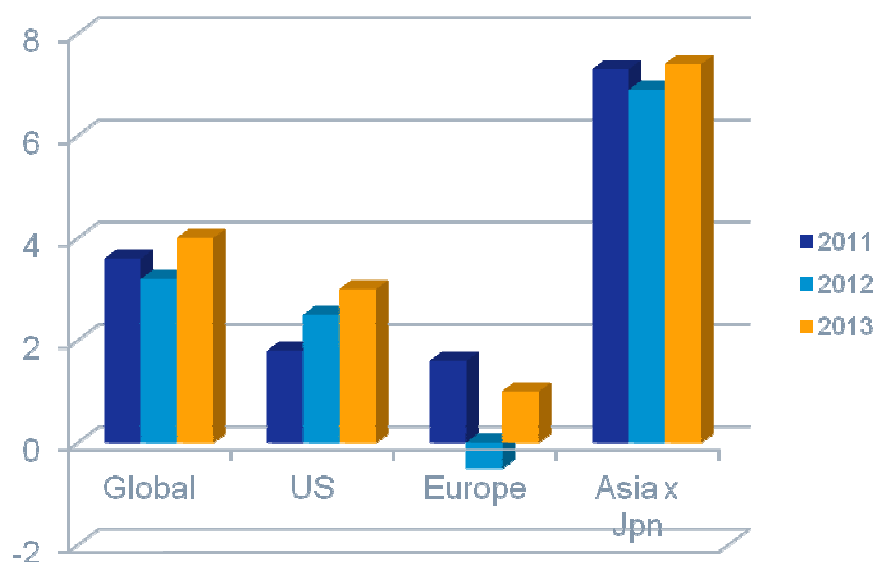
In 2011, we said...

Indicator	Forecast	Actual	Remarks
US Fed Funds	0.50%	0.25%	Fed signalled “low rates until mid-2013”
10-Yr UST	3.25%	1.877%	Fed launched \$400bn “twist op” to reduce LT rates
EUR/USD	1.20-1.40	1.2961	ECB cut refi rate to 1%, all-time low
BSP O/N Rev Repo	5.00%	4.50%	BSP only raised O/N 2x in 1H11
3 Mo T-bill	3.75%	1.375%	Liquidity-driven rally
10-Yr Note	7.00%	5.084%	Bullish curve flattening
PHP/USD	42.80	43.84	PHP was among best Asian currencies
PSEi	3,200	4,371.96	Best Asian market



In 2012, slowing global growth

Real GDP Growth (%YoY), 2010 - 2012F

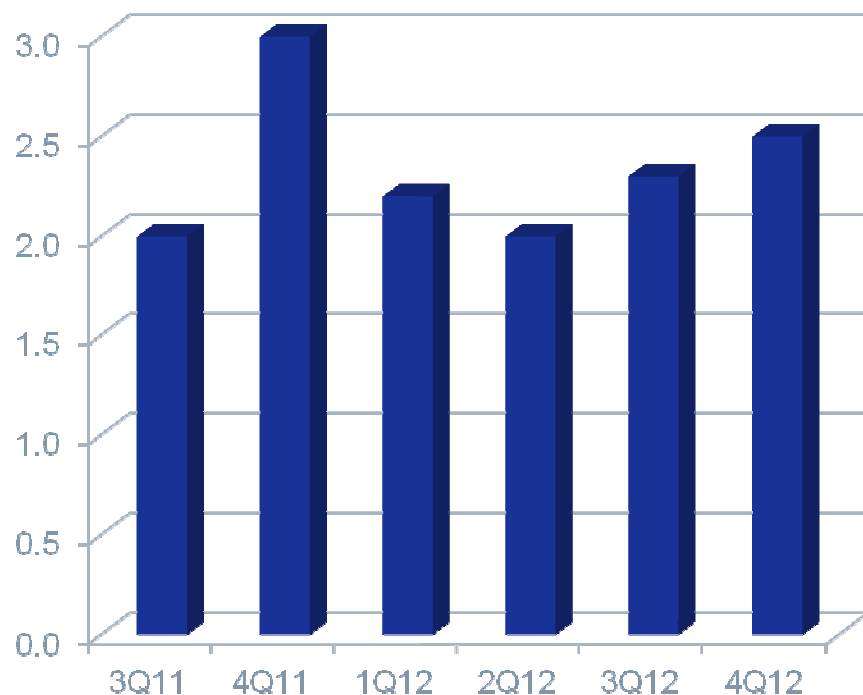


- Global growth cut to 3.2% in 2012
- Anaemic growth in Developed Markets
- Concerted CB action to shore up liquidity
- Euro debt problem to persist; downgrades
- Eurozone could drive bond markets
- Inflation to ease as commodities pullback
- Monetary easing underway
- ECB cut 50bp; Indo cut 75bp; RBA cut 50bp
- Risks: Spike in oil price; DM deteriorates



US faces anemic growth

Real GDP Growth (%QoQ), 3Q11 – 4Q12

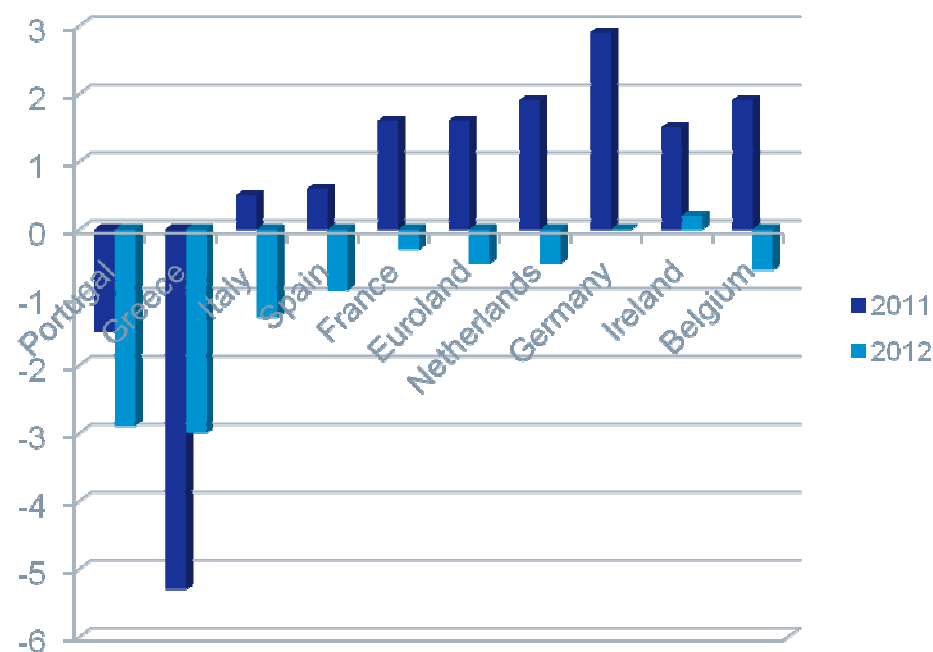


- Higher 3% GDP growth trend seen in 4Q11
- ISM Mfg rose to 53.9 in Dec, fastest in 6mos
- New orders rose, suggesting momentum to '12
- Construction spend up 1.2% in Nov, 3rd inc
- Retail sales stronger in Oct- Nov
- Strong auto sales in 4Q; 30% Nissan/Chrysler
- Consumer price inflation declined in Oct
- But, lower 2.5% GDP growth target in 2012
- Jobless remained high at 8.5% in 2011
- Delays in fiscal discipline = credit rate cut
- 10Yr UST: 2.03% to 3.00% over 12 mos
- Supported by Eurozone stress & Fed suasion
- Fed funds rate to remain low- 0.00-0.25%



Recession ongoing in Euroland

GDP Growth Outlook, (%YoY) 2011- 2012F

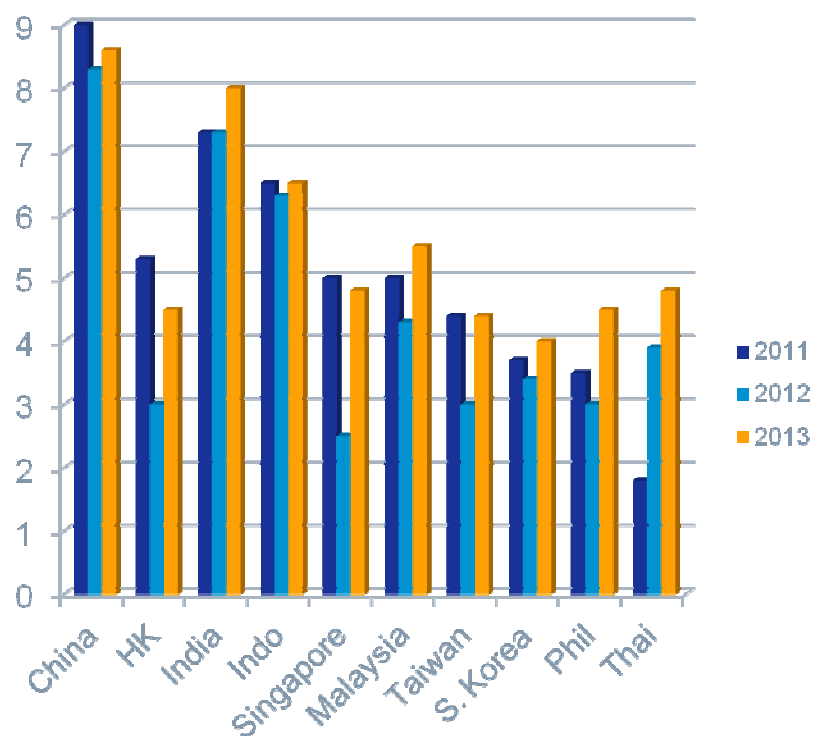


- Contraction recorded in 4Q11
- Draghi says worst may be over
- \$628bn 3-yr loans to banks injected cash
- ECB to commence bond buying ops by Jul'12
- German exports gained in Nov
- France biz senti climbed from 2-yr low
- Italy sold Eur12bn T-bills; rates falling
- But, 22.8% jobless in Spain; 6.8% in Ger
- Mfg PMI fell to 46.4 in Nov vs 47.1 in Oct
- GDP: -0.5% GDP growth in 2012
- ECB: 25bp cut to 0.75% in Mar 2012
- EUR: 1.25 over 6mos; 1.35 over 12mos



Asia surviving stress test

Real GDP Growth in Asia (%YoY), 2011-2013

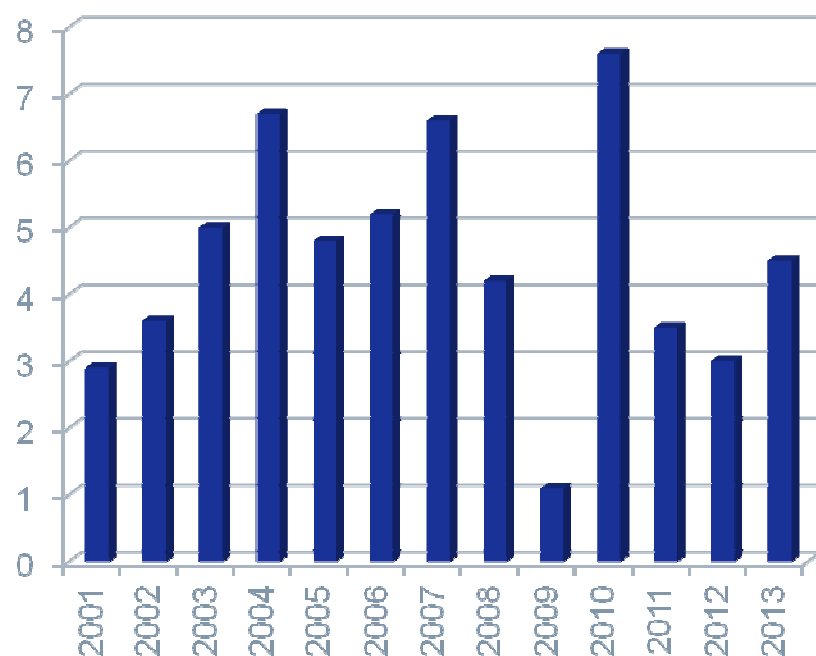


- 5.2%YoY GDP growth for Asia x Jpn in 3Q11
- \$5.2tn in int'l reserves for region
- Asian econ growth to slow in next 2 quarters
- Inflationary pressures could abate
- CB will open door to interest rate cuts
- Hi beta- Singapore, HK, TWN, Malaysia, S Kor
- Low beta- China, India, Indo, Phils, Viet
- CNY appreciation may be muted at 3.5%
- Little upside to Asian FX in 2012
- Stronger growth recovery for hi beta in 2013



Phils to continue growing

Philippine GDP Growth (%YoY), 2001 – 2013



- GDP growth to slow to 3.0% from 3.5% in '11
- C (7.1%) + I (24.5%) + G (9.4%) were robust
- Service (5.3%) lifted economy
- Agri (1.8%) & industry (-0.2%) were weak
- Exports fell 19.4% in Nov vs -14.6% Oct 2011
- 34.5% electronics fall in Nov 2011; -23.6% ytd
- **Key drivers:** Dom consumer on OFW & BPO
- 3% deficit/GDP supports Public spend on infra
- Construction sector activity has begun
- New invts in gaming, tourism, mining
- PPP in toll roads, airports, railways, power
- NEDA: 4.5-5.5% GDP in 2011; 5-6% in 2012



What are catalysts for growth?

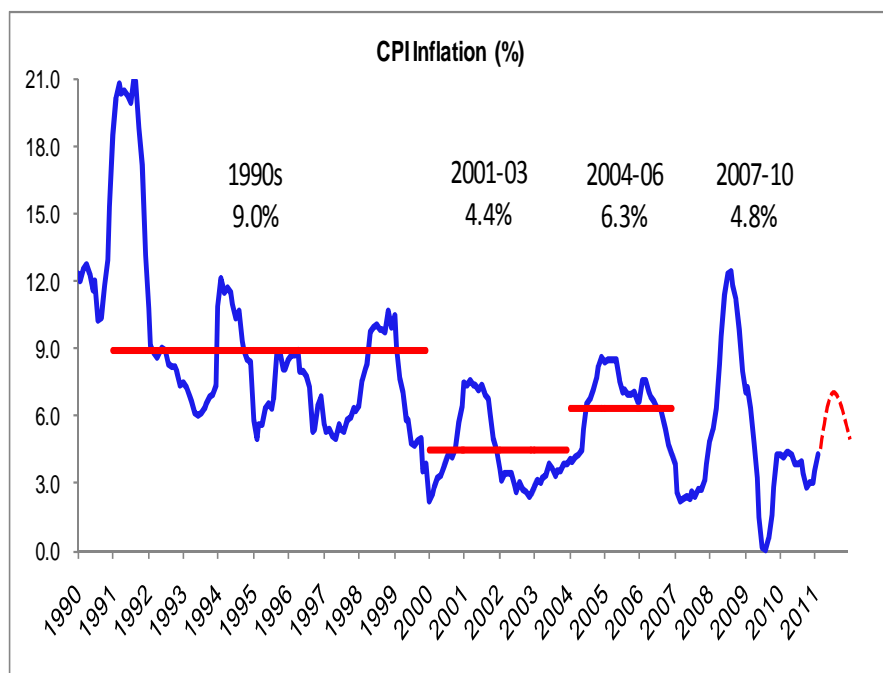
%YoY growth

Sector	9M11	2012	Catalysts
Mining	86%	46%	Higher gold price; increasing vol from higher capital
Holdings	19%	15%	Rate adjustments; growth of core business
Property	23%	14%	Rent income from malls & biz outsourcing growth
Transport	-13%	12%	Tourism growth; fee hikes
Power & Utility	-6%	11%	New revenues, rate hikes, growth in demand
Consumer	-4%	11%	Robust dom consumer supported by remittances
Banking	21%	10%	23% loan growth, fee & trading income
Broadcasting	-42%	3%	Stable market share
Telco	1%	1%	8% dividend play; stronger margins from duopoly



Inflation headed lower

Philippine Average Inflation, 1990 – 2013

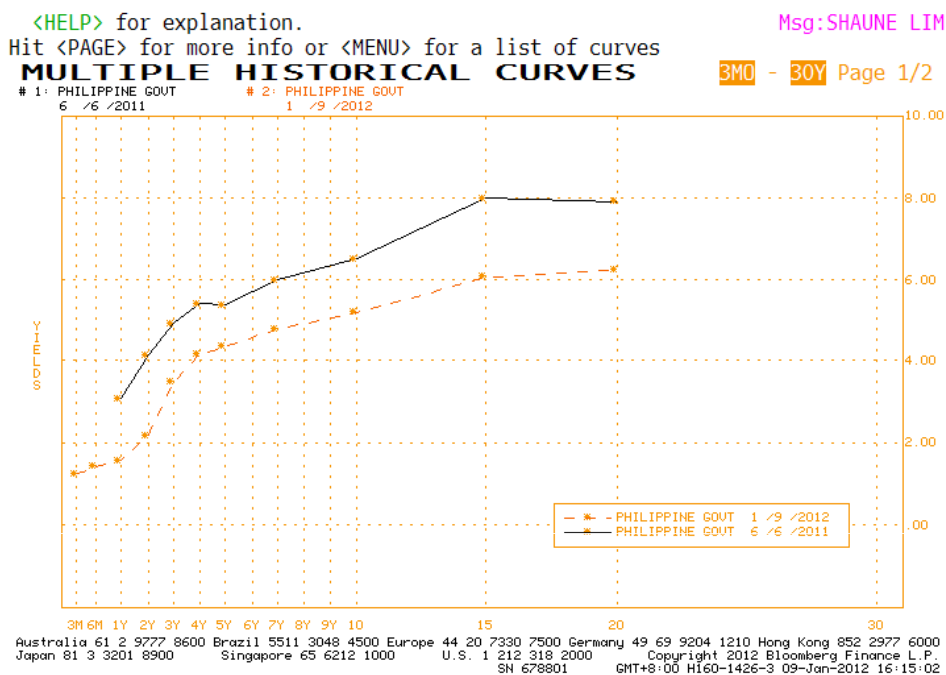


- Inflation is under control; risk seen to ease
- 4.8% average inflation in 2011
- Fell to 4.2% in Dec vs 5.2% in Oct
- Oct was due to base effect & typhoons
- Price of rice could spike due to Oct floods
- Dubai crude rose 9% from Dec 19
- Ave to fall to 4.0% in 2012-'13
- BSP target: 4.5% in '11, 3.5% in '12, 3.1% '13



PHP yields to remain low

Philippine Peso Yield Curve, June 2011 vs Jan 2012

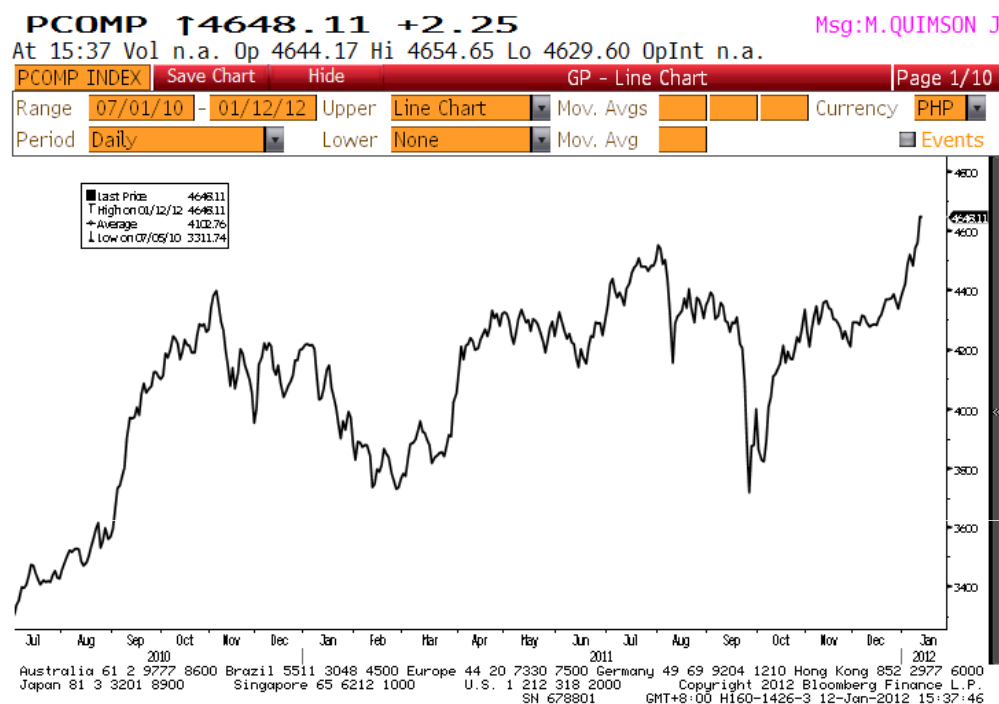


- Strong liquidity + fiscal consolidation story
- Lower inflation expectations
- 6.9% M3 growth in Oct 2011
- P140-170bn deficit in 2011 vs P260bn target
- \$1.5bn 25-yr ROP @ 5%, lowest ever
- ROP issue was 10x oversubscribed
- P110bn from 10 & 15-yr RTB in Oct 2011
- \$1.3bn USD/EUR debt swap a success
- Credit upgrade could sustain rally in 2012
- 50bp cut in BSP O/N rates to 4.0% in 12 mos
- 10-Yr Note: 5.50% over 12mos
- Negative real rates to persist in 2012-2013



PSEi to establish new highs

Philippine Composite Index, Dec 2010 – Jan 2012



- PSEi up 4.04% to 4,371 in 2011
- Very volatile; 5-15% swings every 6-8wks
- Local were 63% of daily turnover in 2011
- \$403Mio net inflow as of 11M11
- Global headwinds: Euro debt & slowdown
- New high of 4,648 on Jan 12; 14x PER
- 12% EPS growth & 2-3% div yield in 2012
- 4,900 base case, 5,400 bull case in 2012



Peso could gain anew

Philippine Peso per USD, Dec 2010 – Jan 2012



- Risk aversion reflected in peso swings
- Closed at P43.84/USD in end Dec 2011
- PHP -0.08%; rupiah -0.82%, Baht -4.44%
- \$9.9bn BOP in Oct11; \$2.8bn BOP in 2012
- \$20bn OFW inflow seen in 2011; 5% '12 gr
- \$4.0bn portfolio net inflow, 80% to bonds
- External debt fell 28.4% of GDP in Sep
- \$76.3bn GIR vs \$63bn net foreign debt
- GIR seen to rise to \$84.5bn in '12
- P42.50/ USD expected in 2012



Philippines a net lender- current account & reserves strong

The Peso is now a “semi-strong” currency

(in \$bn)	Remittances	Current account	Gross Int'l Reserves	Import cover (mths)	External Debt	GIR to ext'l debt
1991	1.6	-1.7	4.5	3.4	29.9	15%
1992	2.2	-1.7	5.3	3.4	30.8	17%
1993	2.3	-3.7	5.9	3.1	34.7	17%
1994	3.0	-3.9	7.1	3.1	37.4	19%
1995	3.9	-4.2	7.8	2.6	37.7	21%
1996	4.3	-4.5	11.7	3.2	39.9	29%
1997	5.7	-4.3	8.8	2.0	43.0	20%
1998	7.4	1.3	10.8	3.0	46.1	23%
1999	6.0	-2.9	15.1	4.5	51.0	30%
2000	6.1	-2.2	15.1	3.5	51.2	29%
2001	6.0	-1.7	15.7	4.0	51.9	30%
2002	6.9	-0.3	16.4	4.0	53.6	31%
2003	7.6	0.3	17.1	4.0	57.4	30%
2004	8.6	1.6	16.2	3.6	54.8	30%
2005	10.7	2.0	18.5	3.8	54.2	34%
2006	12.8	5.3	23.0	4.2	53.4	43%
2007	14.4	7.1	33.8	5.8	54.9	61%
2008	16.4	3.6	37.6	6.0	53.9	70%
2009	17.3	8.6	44.2	8.7	53.3	83%
2010	18.7	12.7	61.3	10.5	59.8	103%
2011F	20.0	10.3	77.7	12.0	63.0	123%

Source: Bangko Sentral ng Pilipinas, Deutsche Bank



Ripe for a sustained upturn in investment cycle

At the beginning of the cycle

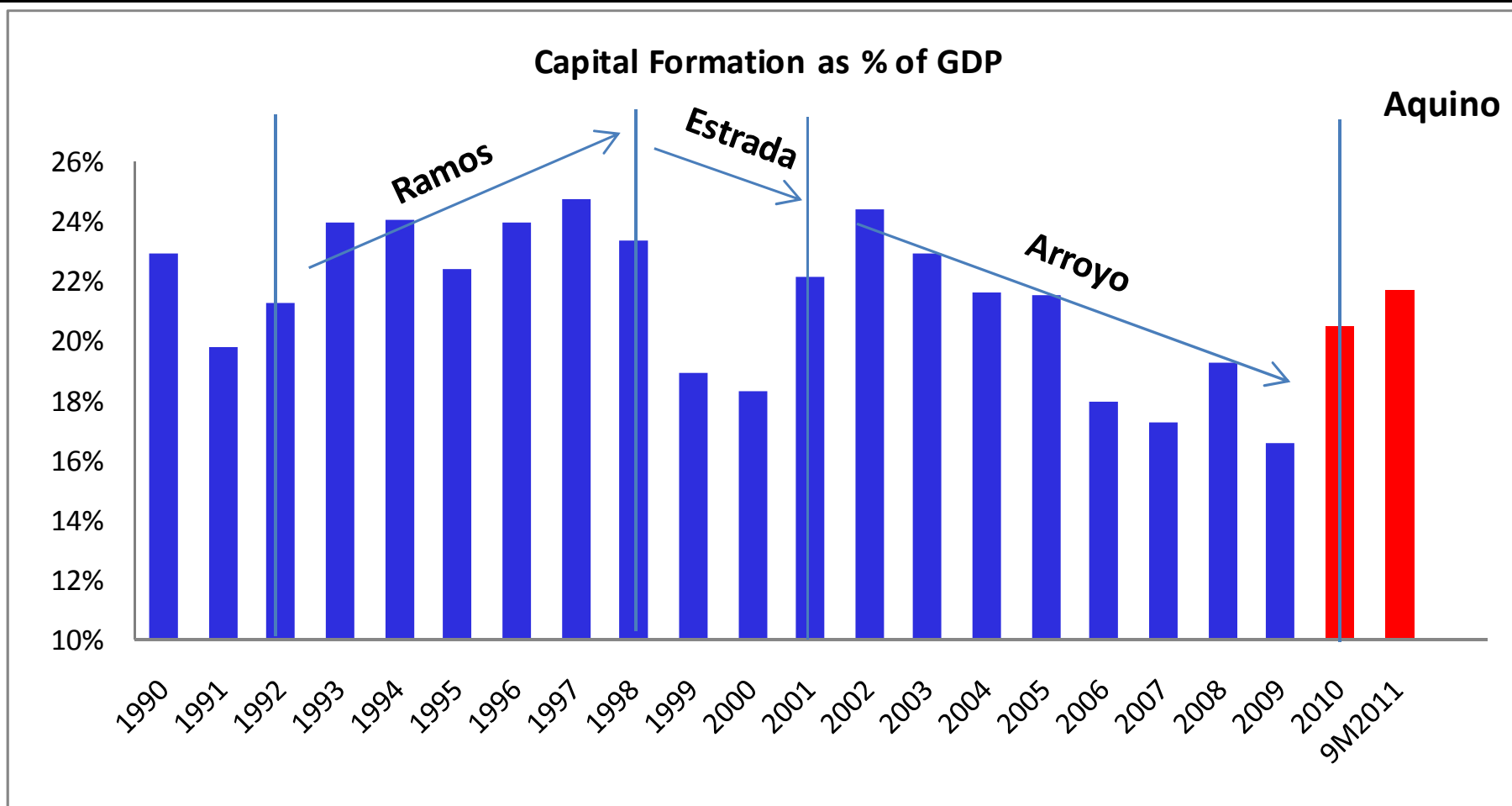
	Population (mn)	Investments to GDP (%)	Construction to GDP (%)	Cement (mn tons)	Car sales ('000 units)	Loans to GDP (%)
1997	72	25	6.4	15	144	59
1998	73	20	5.8	13	80	51
1999	75	19	5.6	12	74	45
2000	77	21	6.6	12	63	43
2001	79	19	5.0	12	77	39
2002	80	18	4.6	13	86	37
2003	82	17	4.3	12	92	35
2004	84	17	4.2	12	88	32
2005	85	15	3.8	12	97	30
2006	87	14	3.9	11	100	28
2007	89	15	4.5	13	118	31
2008	90	15	4.6	13	124	33
2009	91	14	5.0	14	132	33
2010	93	20	5.2	16	169	35
2011F	95	21	5.1	16	162	36

Source: Various government and industry sources, Deutsche Bank estimates



From anticipation to execution

Investment to GDP, per President

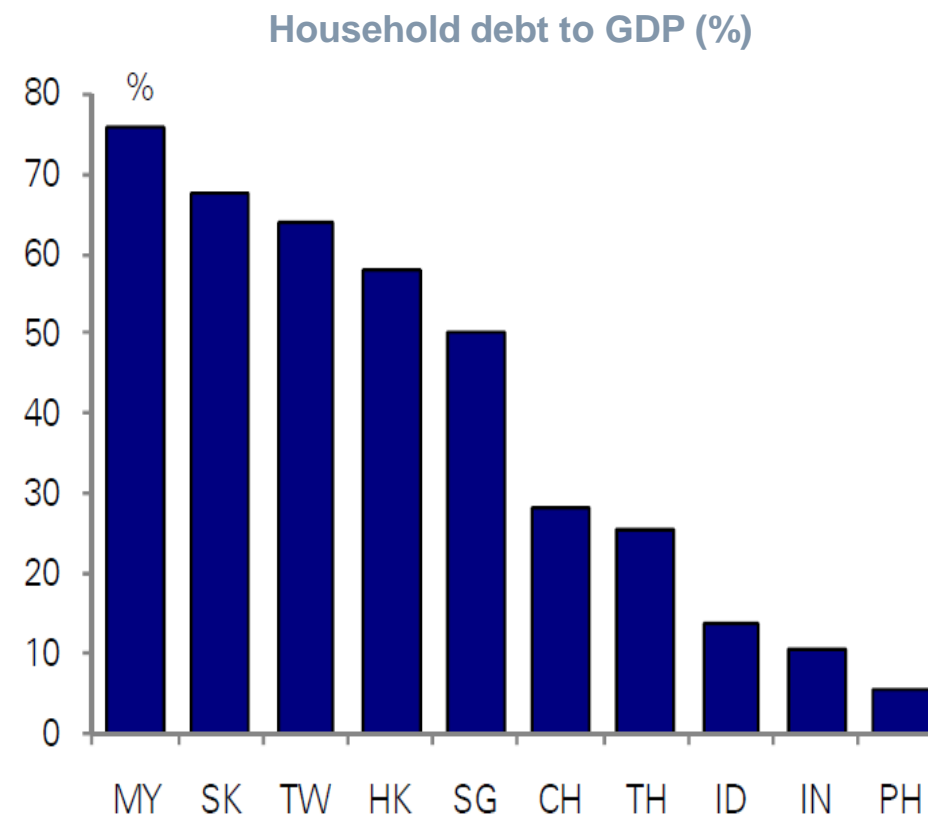
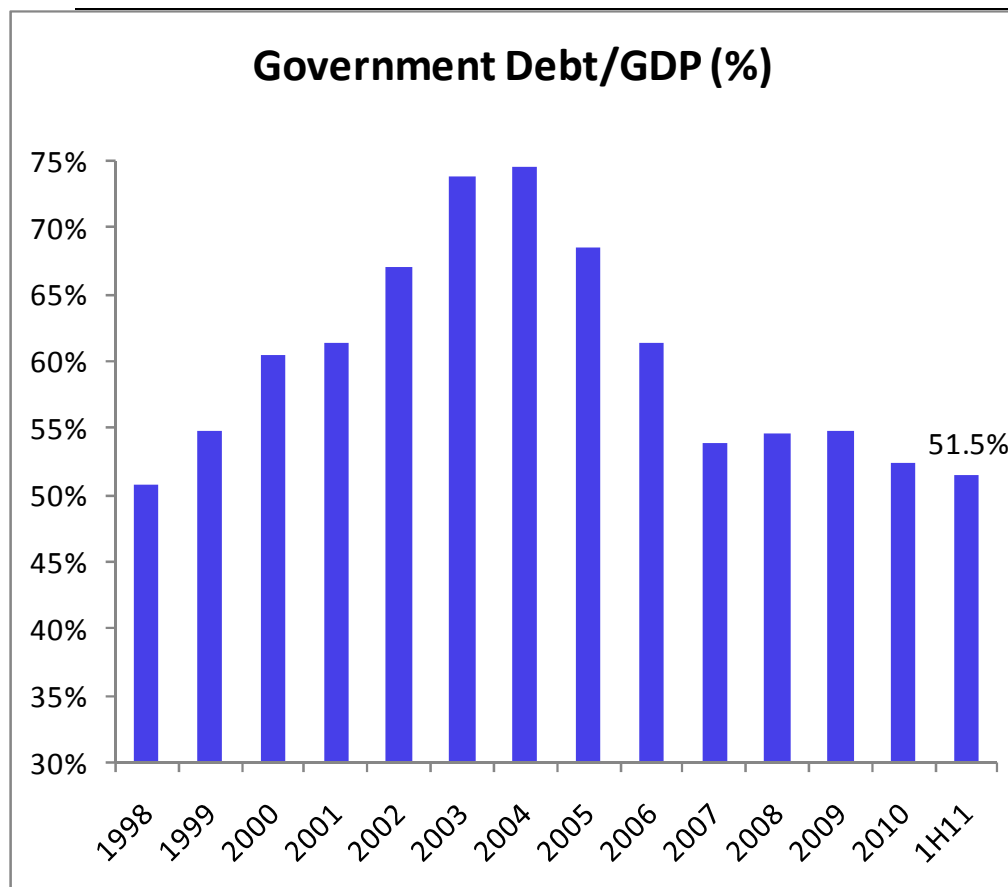


Source: Philippine Stock Exchange, Deutsche Bank



Economy is under-gearred: gov't, corps, households

No overheating

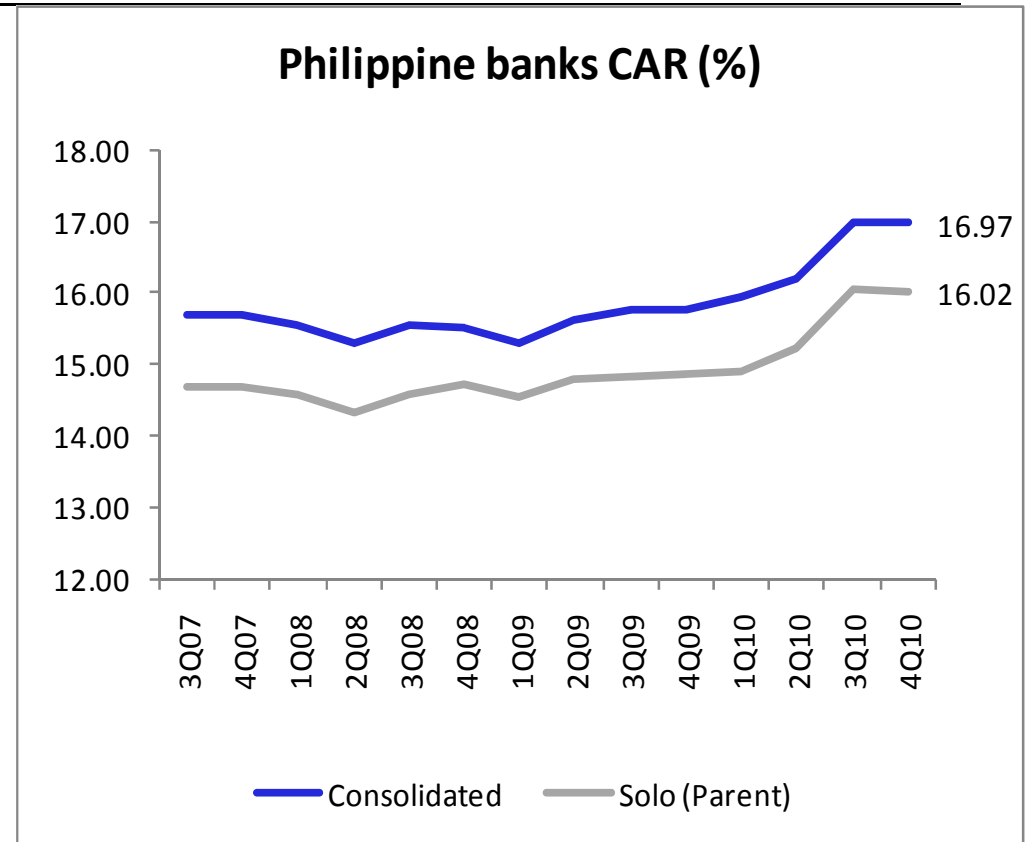
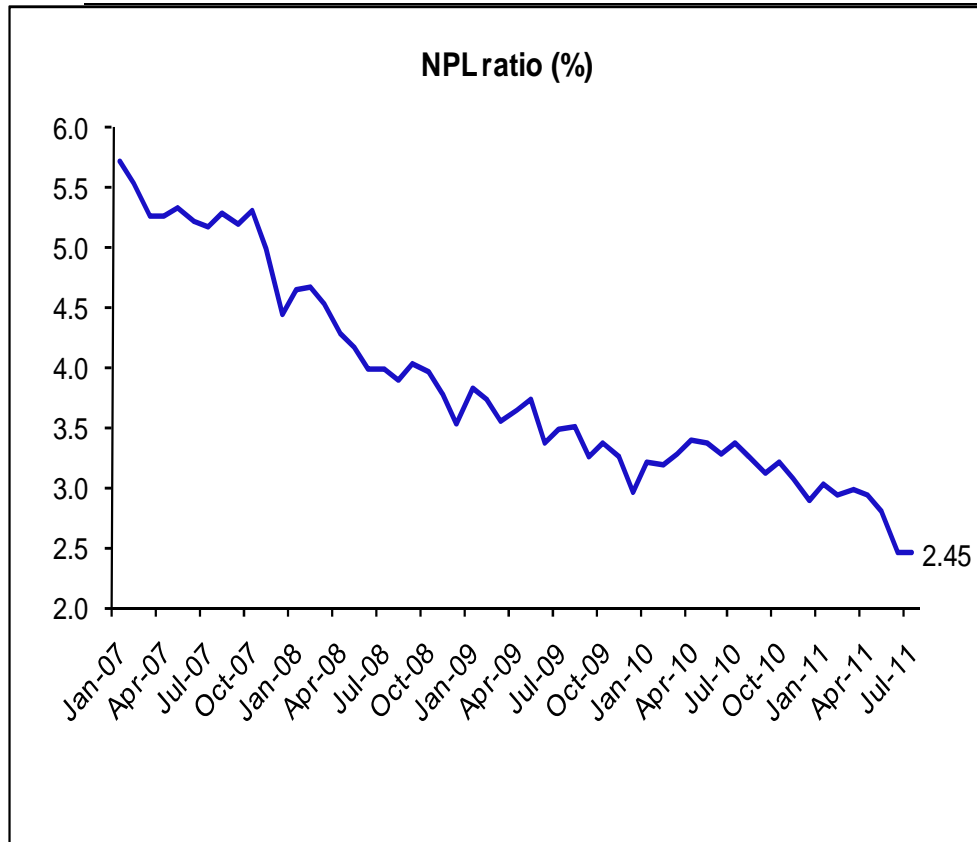


Source: Bangko Sentral ng Pilipinas, CEIC, Deutsche Bank



Healthy banking sector

Non-Performing Loans at all time lows; Sector is well capitalized



Source: Bangko Sentral ng Pilipinas, Deutsche Bank



What will drive earnings?

	Demand	Competition	Outlook
Telcos	Stable	Moderating	Neutral
TV Broadcasters	Growing	Intense	Negative
Banks	Growing	High	Positive
Property Developers	Strong	High	Neutral to Negative
Property Investors	Growing	Stable	Neutral to Positive
Cement	Strong	Moderate	Positive
Construction	Strong	Stable	Positive
Ports	Growing	Stable	Positive
Consumer	Growing	High	Positive
Casinos	Strong	Intense	Positive
Airlines	Strong	High	Neutral
Infrastructure	Strong	High	Neutral to Positive
Power	Moderate	High	Neutral
Water	Stable	Monopoly	Positive
Coal	Strong	Monopoly	Positive
Mining	Strong	N/A	Neutral

Source: Deutsche Bank



Earnings growth of 12% for 2012

Estimated EPS growth by sector

Earnings growth	2012F
Banks	10%
Property	14%
Telcos	-8%
Power & Utils	14%
Consumer	11%
Media	3%
Conglos	15%
Transport	12%
Mining	51%
DB Universe	12%

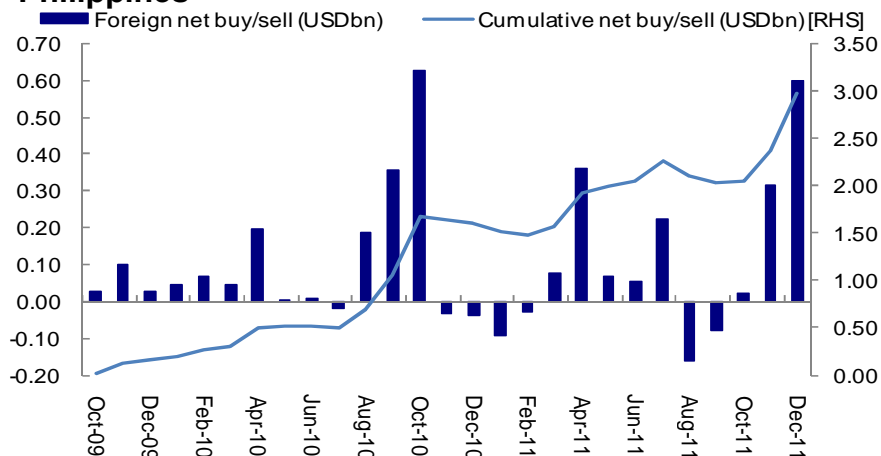
Source: Deutsche Bank



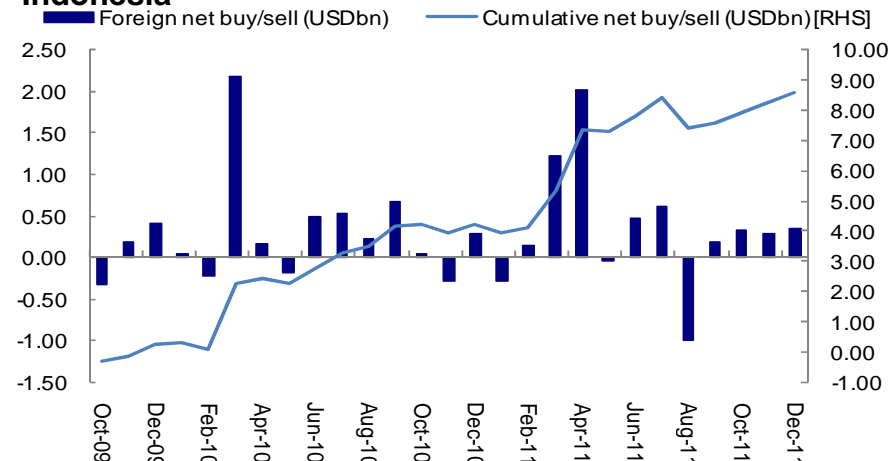
Foreign inflows into ASEAN

Look at the Philippines!

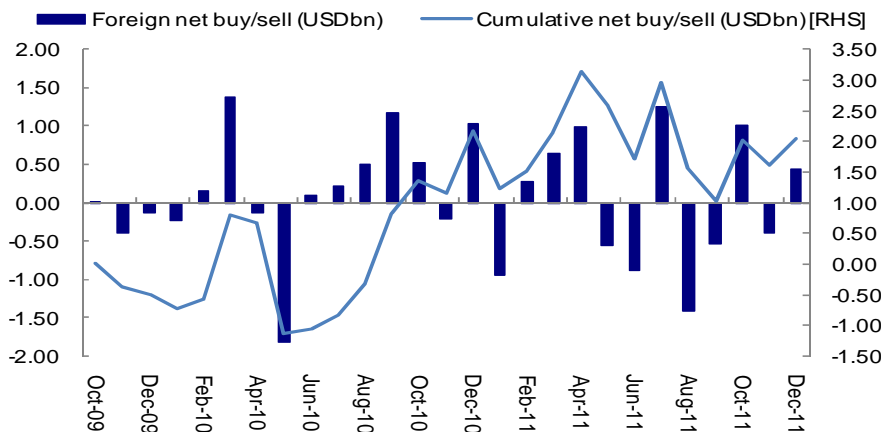
Philippines



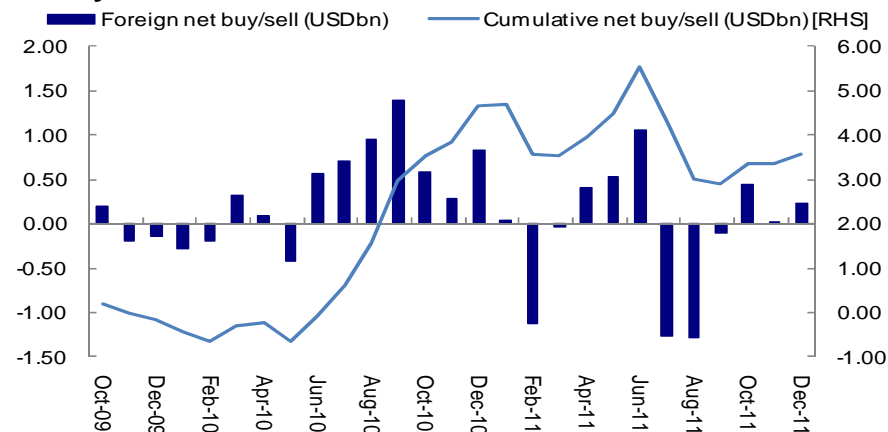
Indonesia



Thailand



Malaysia



Source: Local exchanges, Bloomberg Finance LP, Deutsche Bank



Not cheap compared to the region, on middling growth

But earnings are domestic demand driven – more stable?

2012F	PER
Malaysia	14.0
Philippines	13.9
Indonesia	13.0
India	12.9
Taiwan	12.7
Singapore	12.1
Thailand	10.6
Hong Kong	10.4
China	9.2
S Korea	8.4

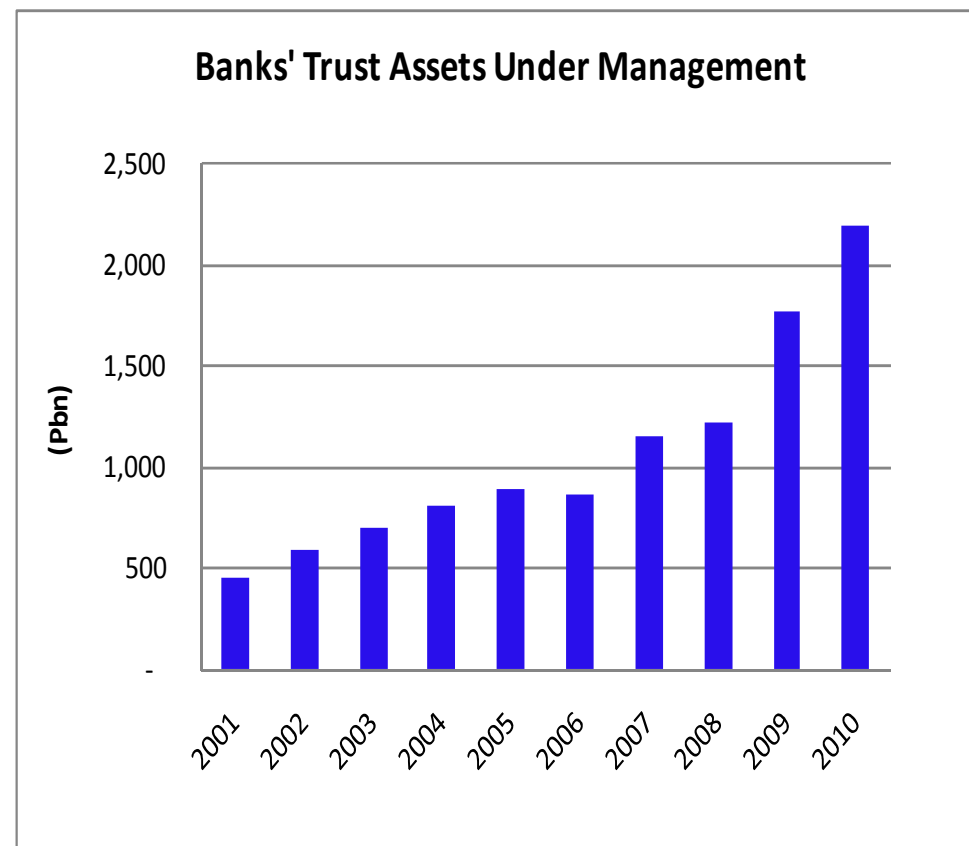
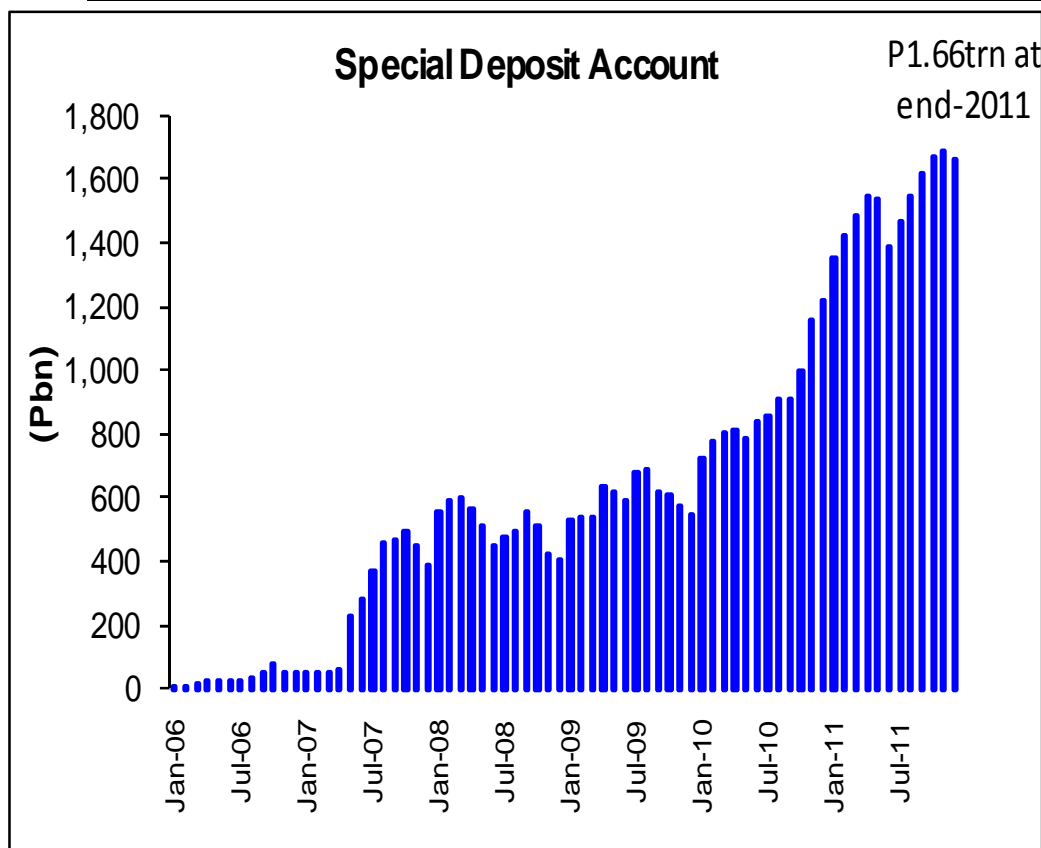
2012F	Earnings growth
Indonesia	22%
Taiwan	19%
India	15%
S Korea	17%
Thailand	14%
Philippines	12%
Malaysia	13%
Singapore	7%
Hong Kong	1%
China	-5%

Source: Deutsche Bank



Domestic liquidity high- to drive savings & investments

AUMs rising

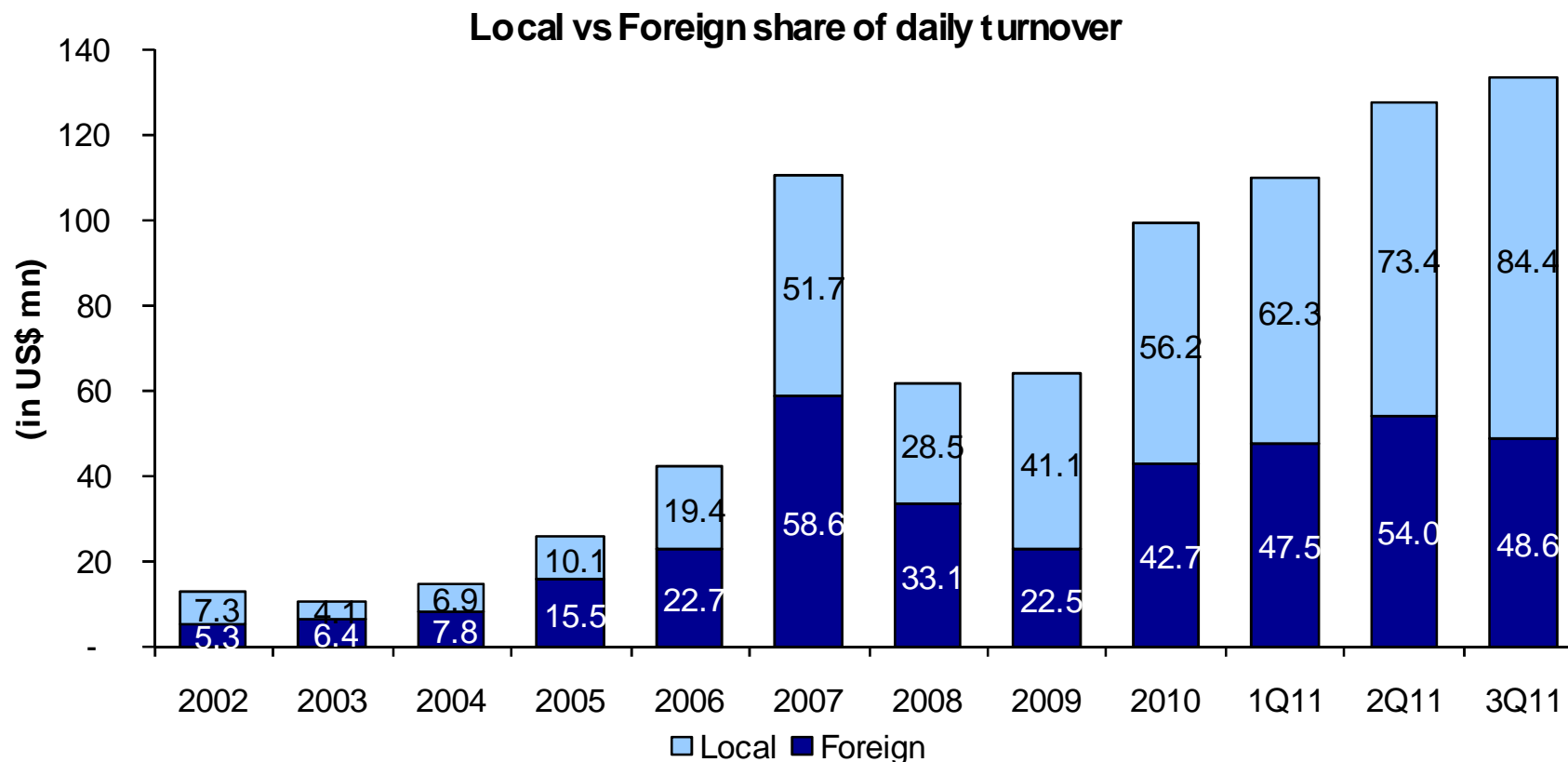


Source: *Bangko Sentral ng Pilipinas, Deutsche Bank*



Domestic investors becoming increasingly important, could drive valuations higher

Locals should continue to dominate



Source: Philippine Stock Exchange, Deutsche Bank



Index target of 4,900, +12% YoY, plus 2-3% div yield
Total return of 15%

Assuming no rerating

Year end	PCOMP	%YoY	EPS	%YoY	PER
2003	1442	42%	105	34%	14
2004	1823	26%	131	25%	14
2005	2096	15%	149	14%	14
2006	2983	42%	171	15%	17
2007	3622	21%	202	18%	18
2008	1873	-48%	160	-21%	11
2009	3052	63%	203	27%	15
2010	4202	38%	294	45%	14
2011	4372	4%	316	7%	14
2012F	???		353	12%	???

	end-2012 target		
	PER	PCOMP	change
Bull case	16	5,590	28%
Base case	14	4,891	12%
Bear case	12	4,192	-4%

Source: Philippine Stock Exchange, Deutsche Bank



Key risks for 2012

- Prolonged recession in Euroland
- Renewed weakness in US economy
- China hard landing
- Greece Euro exit
- US credit downgrade
- Ballooning US pension fund deficits
- Better than expected economic growth
- In the Phils, execution risk on the PPP



In Summary

- Expect global slowdown
- Developed Markets could hurt more
- Asian exports decline seen
- But, domestic-driven markets robust
- Inflation less of problem
- Low interest rates to persist
- PSEi to establish new highs
- Major risks are external



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