Dollar debts of Globe and SMC 'sufficiently' hedged — CreditSights

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Senior Reporter

GLOBE Telecom, Inc. and San Miguel Corp. (SMC) — on a standalone basis — have sufficiently hedged their US dollar (USD) debts, according to financial research firm CreditSights, Inc.

PLDT, Inc. has substantially hedged its 2031 USD bond, although all of its hedges are currently "out-of-the-money."

CreditSights noted that many companies fell into distress during the Asian financial crisis in 1997 "due to severe currency risks, which were largely unhedged."

"The currencies of India, Indonesia and the Philippines have depreciated sharply against the USD in the last 1-1.5 months," the research firm said in its latest currency risk exposure report on the corporations it covers in the region. Local currencies' weakness was attributed primarily to the faster pace of US Fed rate hikes as compared to the Asian benchmark rates.

"The Philippine companies... have not fallen into distress due to foreign exchange problems, since these companies are owned and supported by large, long-standing conglomerates."

According to CreditSights, Globe, whose revenues and costs are mostly in Philippine peso (PHP), has hedged 96% of its $1.1-billion debt with "cross currency swaps and call spread options."

"A 0.9% depreciation in USD/PHP would reduce profit before tax by P1.3 billion," it noted.

This means that the company has derivatives in place that "mitigate the risk of their dollar-denominated debts bloating in peso terms due to the latter's depreciation," Philstocks Financial, Inc. Senior Research Analyst Japhet Louis O. Tantiangco said in a Viber message.

"The derivatives have prearranged conditions which allow their holders to have access of the foreign currency at rates more favorable than what's going on in the market right now," he added.

Meanwhile, diversified conglomerate SMC, whose 74% of revenues are in PHP and a substantial portion of costs are in USD, has hedged 88% of its $500-millon bond with cross currency swaps and call spread options.

"A 1% depreciation in USD/PHP would reduce profit before tax by P5 billion," CreditSights said.

"However, SMC's USD debt issuing subsidiaries Petron and SMC Global Power have significantly inadequate USD debt hedging measures in place," the financial research firm also said.

Oil and gas company Petron, whose 13% of revenues and 53% of costs are in USD, has hedged 4% of its $2.2-billion debt with cross currency swaps and call spread options in the range of P47 to P57.

"A 1% depreciation in USD/PHP would reduce profit before tax by P790 million."

SMC Global Power Holdings Corp., a power generation company whose revenues are mostly in PHP and costs are mostly in USD, has hedged 3% of its $5.7-billion debt with call spread options in the range of P52.95 to P56.15.

CreditSights said a 1% depreciation in USD/PHP would reduce profit before tax by P2.1 billion.

Meanwhile, PLDT, whose revenues and costs are mostly in PHP, has hedged 50% of its $820-million debt with cross currency swaps and call spread options in the range of P48.64 to P55.28.

"Of which, it hedged 97% of its $300-million 2031 bond in the range of P49.61 to P55.28, but its $300-million 2050 bond is fully unhedged," the research firm noted.

"We have market perform recommendations on... PLDT... (and) outperform recommendations on SMC and Globe Telecom," it added.

Finance website Investopedia defines market perform as a "neutral assessment of a stock and is neither strongly positive nor negative."

"If, however, the stock has gone through a period of market underperformance, it is an indication that the stock is expected to improve its performance relative to market averages."

Meanwhile, outperform means "the company will produce a better rate of return than similar companies, but the stock may not be the best performer in the index."

CreditSights said its report is for informational purposes only. "Neither the information contained in this report, nor any opinion expressed therein is intended as an offer or solicitation with respect to the purchase or sale of any security or as personalized investment advice."

Hastings Holdings, Inc., a unit of PLDT Beneficial Trust Fund subsidiary MediaQuest Holdings, Inc., has a majority stake in *BusinessWorld* through the Philippine Star Group, which it controls.

BoI approves P2-billion solar power plant project in Naga

THE BOARD of Investments (BoI) has approved the registration application of PAVI Green Renewable Energy, Inc. for its P2-billion solar power plant project in Naga City, Camariñes Sur which is seen to help address the power demand in Luzon.

In a statement on Wednesday, the BoI said that the project is expected to begin commercial operations by February 2024.

"On the economic aspect, the project will generate 554 jobs during its construction and 21 jobs during its commercial operations. Homing in on innovative ways, the project will use the latest technology in the market through the use of monocrystalline solar panels and string inverters," the BoI said.

"The project will contribute to the required capacity addition of 73,868 megawatts (MW) that is needed to meet the National Renewable Energy Program target of 81,485 MW for the total installed capacity by 2040 under the Clean Energy Scenario," it added.

The solar power plant project was approved under Tier 1 based on the 2020 Investments Priorities Plan Listing "Special Laws" (Renewable Energy Act of 2008) of the 2022 Strategic Investment Priority Plan.

According to the BoI, the power demand in Luzon will continue to climb due to the country's sustained economic growth.

"In 2020, based on the data from the Department of Energy, Luzon contributed 67.9% share of the total installed capacity. Further, in terms of power generation and consumption, Luzon recorded 71.2% and 72.2%, respectively," the BoI said.

Meanwhile, the BoI said that the solar power plant project also helps the country's objective of pursuing green projects, as it will release less greenhouse gas emissions into the atmosphere.

"As the Philippines is heading towards a greener and modern economy, projects like this one are consequential for the attainment of the economic goals of the country," BoI Managing Head Ceferino S. Rodolfo said.

"Also, the solar power plant project of PAVI Green will play a crucial role in building up the capacity needed to sustain electricity demand in Luzon, ensuring an unhampered supply of power to consumers," he added. — **Revin Mikhael D. Ochave**

Scarring,
from S1/1

DEBT LEVEL

While there are concerns over the Philippines' debt level, AMRO said "the likelihood of the Philippine government falling into debt distress is still low."

"A lot of fiscal space has been used up during the pandemic. But we've done a debt sustainability assessment and the Philippines is still quite comfortable, notwithstanding the increase in the debt level," Mr. Khor said.

As of end-March, the country's debt-to-GDP ratio stood at 63.5%, beyond the 60% threshold prescribed by multilateral lenders to developing economies.

The government's outstanding debt stood at P12.5 trillion in May, slightly inching down by 2.1% from end-April's record high of P12.76 trillion.

AMRO noted that the interest rate on government debt is at a "moderate level," and the borrowings were mainly from domestic financial savings.

"The share of nonresident holdings of government securities is less than 2%, which makes the domestic bond market less vulnerable to a sell-off by foreign investors. Lastly, the government is mindful of potential fiscal risks from rising debt levels and continues to exercise prudence in debt management and fiscal policies," it said.

FISCAL CONSOLIDATION

As the Philippines undertakes fiscal consolidation to generate fresh revenues to pay for its debt, AMRO said the government needs to improve the efficiency of its spending programs and enhance revenue collection.

"The fiscal consolidation plan should enhance fiscal sustainability without jeopardizing economic recovery," Mr. Tsang said.

AMRO said nonessential and ineffective fiscal programs should be revamped, and resources redirected to national priorities.

"To improve the tax administration is one way, a good way. But at the same time, the tax base needs to be broadened," Mr. Yiu said.

The think tank said a hike in excise tax rates and new taxes on digital services may also be considered by the government.

However, AMRO said the proposed tax on single-use plastics may not generate enough revenue. — **Diego Gabriel C. Robles**

With 1.5 million vaccines expiring in by end-July, Concepcion presses for second boosters

With 1,516,040 vaccines expiring at the end July, members of the private sector, led by Go Negosyo founder Joey Concepcion, are appealing once again to the Health Technology Assessment Council (HTAC) to allow the private sector to allow second boosters to help in achieving President Ferdinand Marcos Jr.'s goal of administering at least 23 million booster shots within his first hundred days in office.

"If you look at these expiring vaccines, that's a lot of money," Concepcion said during the Pandesal Forum last July 19. The expiring vaccines were acquired by the private sector through the tripartite agreement A Dose of Hope. Each AstraZeneca jab is estimated to cost at least US$5 each, while Moderna shots were bought for around US$27 for each dose. The total expiring vaccines in warehouses are broken down as follows: Moderna (887,360) and AstraZeneca (628,680). Under the tripartite agreement, half of the vaccines acquired are shared with the government.

"The private sector has already proven that it is willing to get vaccinated. There is no need for mandates when it comes to the private sector. They don't want to get sick and use up their sick leaves."

"Yes we have to focus on the first boosters, but the private sector bought these vaccines," he said. "This is my frustration."

Concepcion has been asking that second boosters be allowed to protect members of the workforce who are still not allowed to take second boosters. "The sense of urgency is not there," said Concepcion. "Government is trying to do its best, but there is this body that is moving quite slow," he said. He suggested that the National Vaccination Operations Center (NVOC) should take on the role of the HTAC when it comes to vaccines.

The HTAC, a body tasked with providing guidance to the Department of Health (DOH) on the coverage of health interventions and technologies to be funded by the government, has recommended that only healthcare workers, the immunocompromised and persons above 60 years old can take second booster vaccinations against Covid-19.

"Where we are concerned, and I think everybody should be concerned, is the economy," he said. "The vaccines are our most important weapon here," he said. Resolving issues with policy on second boosters and takeup will help the private sector in its future vaccine procurement, he said.

Concepcion said that many countries around the world have already found that persons younger than 60 can benefit from second boosters, and suggested that the country follow the lead of those who have studied the merits of second boosters. These include Australia, Canada's Ontario province. US health officials are planning to allow second Covid-19 boosters for all adults, with the US Food and Drug Administration making second boosters a high priority to include those outside of their previous recommendations for persons 50 years and older and those 12 years and older who are moderately or severely immunocompromised.

"Shouldn't we follow these countries? The vaccines we are using came from these countries," he said.

"The vaccines should be used rather than left to expire," Concepcion said. "Many productive members of the workforce fall outside of the age limit set by the HTAC. Yet they also have risk factors and are exposed to the virus every day when they come to work," Concepcion said.

Second booster vaccinations using mRNA vaccines were allowed in the Philippines only in mid-May, two months after the US CDC updated its own guidelines to include even those as young as 50 years old.

BoP,
from S1/1

The trade deficit for January-May 2022 rose by 70.5% to $24.9 billion from the $14.6-billion deficit in the same period a year prior, preliminary data from the Philippine Statistics Authority's (PSA) showed.

The BoP deficit reflected the near-record trade gap as net imports have been bloated by elevated prices of imported oil and other commodities, Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said in a note.

Global prices of oil and other commodities have spiked since Russia invaded Ukraine in late February.

The central bank noted that this BoP position reflects the final gross international reserves (GIR) level of $100.9 billion, 2.6% lower than the $103.6 billion as of end-May.

"Nonetheless, the latest GIR level represents a more than adequate external liquidity buffer equivalent to 8.4 months' worth of imports of goods and payments of services and primary income," the BSP said.

"Specifically, it ensures availability of foreign exchange to meet balance of payments financing needs, such as for payment of imports and debt service, in extreme conditions when there are no export earnings or foreign loans."

The GIR can also cover up to 7.1 times the country's short-term external debt based on original maturity and 4.5 times based on residual maturity.

"Short-term debt based on residual maturity refers to outstanding external debt with original maturity of one year or less, plus principal payments on medium- and long-term loans of the public and private sectors falling due within the next 12 months," the BSP said.

China Banking Corp. Chief Economist Domini S. Velasquez said the country will likely continue to post BoP deficits in the next few months, as the current account is expected to remain in deficit.

"However, we expect more contained deficits in the next few months as import prices of major commodities such as oil and food are coming off from its highs after Russia invaded Ukraine," Ms. Velasquez said in a Viber message.

Mr. Ricafort said a prolonged Russia-Ukraine war could continue driving up the prices of oil and other commodities, which "may lead to near record-high trade deficits/net imports, thereby partly leading to weaker peso exchange rate vs. the US dollar as seen in recent weeks/months."

At the same time, Mr. Ricafort said the country's BoP could still improve as remittances from overseas Filipino workers remain high and the economy further reopens.

Ms. Velasquez also said that expectations of lower commodity prices will bring the BoP deficit "to more sustainable levels" next year.

Last month, the BSP said it expects the country to post a wider BoP deficit this year due to a weaker global growth outlook that could affect trade and capital flows.

Earlier, the Monetary Board revised its BoP deficit forecast to $6.3 billion, or equivalent to -1.5% of gross domestic product (GDP), higher than the previous projection of a $4.3-billion gap (-1% of GDP).

The BSP also projected a wider current account deficit at $19.1 billion (-4.6% of GDP) this year, from $16.3 billion (-3.8% of GDP) previously.

The country's GIR is expected to hit $105 billion by end-2022 and $106 billion by end-2023, lower than the March projections of $108 billion and $109 billion, respectively. — **Keisha B. Ta-asan**

Education,
from S1/1

Childhood undernutrition cost the Philippines $4.4 billion or 1.5% of its growth output in 2015, according to the World Bank.

"We need the president to be an education and nutrition president," Mr. Alcuaz said. "We need to declare and treat these as emergencies. Without proper nutrition, it's hard to get an educated workforce."

Even before the pandemic, the Philippine education sector faced challenges including overcrowded classrooms and a teacher shortage triggered by low wages.

Vice-President Sara Duterte-Carpio, who as Education chief has ordered full face-to-face classes by November, should address these problems.

Antonio L. Sayo, vice-president of the Employers Confederation of the Philippines (ECoP), said the government should ensure that the education sector meets the demands of emerging industries.

"The current economic structure is now dominated by the service sector at 40%, with manufacturing and agriculture making up about 30% each," he said in an e-mail.

More high schools should offer science and mathematics-oriented curricula, Mr. Sayo said. "We have dwindling students in science, technology, engineering, and mathematics and that should be addressed so we could attract investments in manufacturing where we have more value added."

'DRILL'

Mr. Sayo said the Philippine government should also push its national policy on educational qualifications, which now include the Recognition of Prior Learning, a process that assesses one's knowledge and skills — honed through formal and informal learning.

"Under the Recognition of Prior Learning, many of our overseas Filipino workers who returned can pursue their degrees by giving credit to their experience, particularly in manufacturing and construction," he said.

The government should likewise have a clear policy on the medium of instruction to be used in elementary and secondary schools, he added.

Rene E. Ofreneo, former dean of the University of the Philippines' School of Labor and Industrial Relations, said the best way to master reading, arithmetic, and science is to use the language understood by students.

"You learn English as a secondary language, not as the primary one," he said in an e-mail. "If you try to drill English immediately, the processes of understanding the basics are weakened and you produce low-quality graduates with poor understanding of science and technology."

English proficiency and a high literacy rate have made the Philippines one of the most attractive destinations for outsourcing, which accounts for a tenth of its economic output.

But Mr. Ofreneo said the Philippines can do more for multinational clients than just providing a pool of English-speaking talents with an American accent.

The government should have long recognized that the business process outsourcing sector is being subjected to automation, "making call center operators vulnerable to job displacements."

"The BPO business or offshored information and communications technology businesses are bound to have a global workforce involving different nationalities across the globe," Mr. Ofreneo said.

"The Philippines should adopt India's approach amid the changing landscape by reducing reliance on call center or customer service operations and focusing on higher value-adding programming services, which require more science and technical know-how."

Experts have been urging the government to help third-party service providers prepare their workforce for a shift to high-value demand or non-voice services.

In 2021, the information technology and business process management sector contributed $29.5 billion to the Philippine economy, higher than $26.7 billion a year earlier.

The country needs more workers who are digitally literate to boost the industry's economic contribution, Mr. Nelson said.

"Upskilling the Filipino workforce particularly to adapt to digitalization is key to addressing the threats to the Philippines' manpower."

"I hope my grandson will learn more now that he'll be going to school again," said Ms. Arago, the grandmother. "That's for his own good. I want him to have a good future."