Nike stock plunges as gloomy sales forecast fans growth concerns

NIKE'S stock slumped 20% on Friday as a forecast for a surprise drop in annual sales amplified investor concerns about the pace of the sportswear giant's efforts to stem market share losses to upstart brands such as On and Hoka.

It was the worst day ever for the stock, and the losses wiped out $28.41 billion from the company's market valuation.

The company on Thursday projected a mid-single-digit percentage fall in fiscal 2025 revenue, compared with analysts' estimates of a near 1% rise.

"Nike is at a point where they want to put out the most conservative guidance they can, such that they're setting the bar low for themselves and hopefully it's a bar they can beat," said Art Hogan, chief market strategist at B Riley Wealth.

Its forecast dragged shares of rivals and sportswear retailers across Europe, UK and the United States on Friday.

British sportswear retailer JD Sports lost 5.4% at Friday's close, while Germany's Puma fell 1%. Adidas' shares were up marginally. "Nike's been under pressure for a couple of years now. I certainly think they have an opportunity now that the valuation's been reset extremely low to start getting some sponsorship, but it's just not going to happen today or this week," Mr. Hogan added.

The company's US market share in the sports footwear category fell to 34.97% in 2023 from 35.37% in 2022, and 35.40% in 2021, according to GlobalData.

Meanwhile, other sporting goods brands such as Hoka, Asics, New Balance and On accounted for 35% of the global market share in 2023 compared to the 20% held over the 2013-2020 period, according to an RBC research report released in June.

To curb a worsening sales decline, Nike has cut back on oversupplied brands including Air Force 1, as part of a $2-billion cost-cutting plan launched late last year.

The sportswear giant is also tweaking its product lineup to roll out new $100-and-under sneakers in countries around the world to appeal to price-conscious consumers.

It will also roll out this year an Air Max version and Pegasus 41 with full-length foam midsole made from ReactX to boost sustainability.

"This is still Nike and we expect their size and scale to prove a long term competitive advantage but the burden of proof (is) on management execution at this point," said BMO Capital Markets analyst Simeon Siegel.

MANAGEMENT SHAKEOUT?

The underperformance over the past year has led to some Wall Street analysts raising the possibility of a management shake-up ahead of the company's investor day this fall.

"In retail, if you have two bad quarters, you're usually out the door," said Jessica Ramirez, senior analyst at Jane Hali & Associates. "I think it (a leadership change) is very much needed."

Chief Executive Officer John Donahoe is in his fourth year of a five-year commitment as Nike's top boss. The former eBay CEO, who succeeded Mark Parker, was hired to focus on strengthening the company's digital channel sales. — ***Reuters***

In race to regain rare earth glory, Europe falls short on mineral goals

LONDON — Four decades ago, a rare earth processing plant on France's Atlantic coast was one of the largest in the world, churning out materials used to make color televisions, arc lights and camera lenses.

Its current owner Solvay is racing to return the plant at La Rochelle to its former glory after years of diminished output as Europe seeks to boost production of the minerals fueling the green energy transition.

The factory's 76-year history is a microcosm of the challenges Europe and the United States face as they seek to reverse massive migration of rare earth processing to China that took place around 25 years ago.

China became dominant in rare earths, a group of 17 minerals, by producing them at lower prices than the West, helped by government support, and often ignoring environmental concerns in a sector that can create toxic waste.

In recent years, China has beefed up sustainability and closed polluting operations.

In the 1980s and 1990s, output from the plant at La Rochelle set the benchmark for global rare earth prices. It now supplies 4,000 metric tons a year of separated rare earth oxides, a fraction of the 298,000 tons pumped out by China last year.

Moreover, Solvay's modest output is focused on the kind of processed rare earths used for auto catalysts and electronics, not the kind needed for permanent magnets used in electric vehicles (EVs) and wind energy. Solvay says it will start producing those by next year.

"We at Solvay want to put rare earths for permanent magnets back on the map in Europe," said An Nuyttens, president of Solvay's division that produces rare earth products.

"It's not an easy one, it's going to be step by step, as the chain from mining up to magnets production needs to be built."

Eventually, the 160-year-old chemicals group aims to supply 20% to 30% of the separated rare earths demand for magnet production in Europe, but Nuyttens said meeting that target may not be possible until after 2030, giving no date.

Under a new European Union (EU) law that entered into force in May, the bloc has set ambitious 2030 targets for domestic production of critical minerals required for its green transition — 10% of annual needs mined, 25% recycled and 40% processed domestically by the end of the decade.

The bloc has zeroed in on rare earths as one of the most important critical minerals due to their use in permanent magnets that power motors in EVs and wind energy. EU demand is forecast to soar sixfold in the decade to 2030 and sevenfold by 2050.

The EU will struggle, however, to meet most of the goals in rare earths, according to production forecasts gathered by Reuters and interviews with over a dozen industry executives, consultants, EU-funded officials, industry groups and investors.

Missing targets in the Critical Raw Material Act (CRMA) may impact the bloc's zero carbon goals while opening the prospect of further dependence on China amid heightened geopolitical tension with the West, analysts say. China accounts for 98% of EU rare earth permanent magnet imports.

EU Commission spokesperson Johanna Bernsel said they could not confirm the Reuters findings, but said the bloc would do its best to promote projects that help meet the goals in the CRMA.

"Projects in Europe will benefit from a streamlined permitting process, as well as coordinated support for accessing de-risking financing tools and matchmaking with downstream users," Ms. Bernsel said.

WINDOW CLOSING FAST

There are three main steps in the rare earth supply chain before permanent magnets can be produced — mining, separating elements and producing metals/alloys (the latter two both come under the processing target). Reuters compiled production forecasts from companies and compared those with a demand forecast in a report by two EU-funded bodies to assess how the bloc is faring compared to its goals.

According to the Reuters analysis, the EU is due to have only scant output from rare earth mines by 2030; and there is similarly only one project in the metals and alloys sector, which is low margin.

The bloc, however, is likely to meet one target in its most advanced area, separation, producing 45% of needs by 2030.

The final stage of the supply chain — producing magnets from the metals — is not covered by the targets in the new law since they are a finished product, but EU output is expected to meet only 22% of expected demand by 2030, according to the Reuters analysis.

Obstacles to boosting EU rare earths output include public opposition to new mines, wary support by European industry which benefits from cheap Chinese imports, limited funding, uncertain demand as EV sales growth falters and weak prices for the metals.

"The window between now and 2030 is going to close very quickly in the context of how long it takes to get some of these projects and processing facilities off the ground," said Ryan Castilloux at consultancy Adamas Intelligence, which specializes in critical minerals.

The EU spokesperson did not comment directly on that criticism, but noted that CRMA includes several measures to increase recycling.

MINING ON ICE

The European continent has rich rare earth deposits, but there is currently no mining of them. That is unlikely to change in the near term with some projects stalled due to public opposition.

The only likely output in the EU by 2030 is re-processing waste from Sweden's LKAB iron ore mines, which would contribute about 1% of the EU's demand for oxides needed for magnets, based on the Reuters analysis.

Southern Sweden's Norra Karr project, which could supply a large portion of the region's demand, has been held up for 10 years in the government's permitting process and there has also been opposition by environmentalists who say it could pollute drinking water.

An executive of the project's owner, Leading Edge Materials, said a new application for a mining lease is underway for a redesigned project, but offered no timeline for starting production.

The company plans to apply for the project to be declared strategic under the CRMA, which in theory would make possible fast-track permitting in 27 months.

Sweden is investigating what changes are needed to comply with the CRMA, Deputy Prime Minister Ebba Busch told Reuters.

Another rare earths mining project, Sokli in Finland, also aims to be named a strategic project, but it still has to go through environmental impact assessment and permitting.

"It's not realistic to have it commissioned before 2030," said Matti Hietanen, Chief Executive Officer of the project's owner, state-owned Finnish Minerals Group. — ***Reuters***

Housing,
from S1/1

Data from the BSP showed that prices of condominium units rose by 10.2% year on year. This was faster than 4.1% a quarter earlier and 1.2% in the same period a year ago.

Duplex housing unit prices jumped by 36.2% in the first three months, a turnaround from the 33.5% contraction a quarter ago and faster than the 22.1% growth a year prior.

Prices of townhouses grew by 5.6%, faster than 4.9% in the fourth quarter and 1.8% in the same period in 2023.

Meanwhile, prices of single-detached/attached houses rose by 5.1%. This was much slower than 9.5% in the previous quarter and 17% a year ago.

Mr. Bondoc noted that horizontal projects remain attractive, especially among overseas Filipino workers (OFWs) but demand has yet to return to pre-pandemic levels.

Housing prices in the National Capital Region (NCR) went up by 2.8% in the first quarter, slower than 4.3% a quarter ago and 7.3% a year earlier.

"On a year-on-year basis, residential property prices in the NCR rose by 2.8% in the first quarter of 2024 as the growth in the prices of townhouses and condominium units outweighed the decline in the prices of single-detached/attached houses," the BSP said.

On the other hand, housing prices in areas outside NCR (AONCR) jumped by 7.4%, slower than 7.8% in the fourth quarter and 11.4% in the year prior.

"We are projecting demand growth to come from areas outside NCR, including central Luzon, Calabarzon, Western Visayas, Central Visayas, and Davao Region especially for house-and-lot and lot only developments," Mr. Bondoc said.

Meanwhile, residential and real estate loans granted for all types of new housing units rose by 8.9% in the first quarter, much slower than the 30.5% growth in the fourth quarter and 16% a year ago.

Broken down, housing loans in NCR and AONCR increased by 3.2% and 11.4%, respectively.

Majority of the loans were used to purchase single-detached/attached houses (43%), condominium units (34.7%), and townhouses (22%).

In the first quarter, the average appraised value of new housing units in the Philippines stood at P82,260 per square meter (sq.m.).

The average appraised value in NCR stood at P132,743 per sq.m., while the average appraised value in AONCR was at P61,163 per sq.m.

"Moving forward, we expect developers to be more cautious in launching pre-selling condominium units in Metro Manila given that the remaining inventory life (RIL), or the length of time needed by the market to absorb pre-selling and ready for occupancy (RFO) units, is still at about three years," Mr. Bondoc said.

He also noted the impact of elevated interest and mortgage rates.

"While horizontal (house-and-lot and lot only) projects are among their preferred properties, still elevated mortgage rates compel OFW buyers to wait-and-see," Mr. Bondoc said.

The Monetary Board has kept its benchmark rate unchanged at 6.5%, the highest in over 17 years, for a sixth straight meeting last week.

"If there is no interest rate cut for the remainder of the year, we might still see tepid demand in the residential sector. Given this, we do not see a substantial spike in demand and prices for the remainder of 2024," he added.

BSP Governor Eli M. Remolona, Jr. has said it is still on track to easing rates as soon as August, by possibly 25 basis points (bps).

The central bank could reduce rates by 25 bps again in the fourth quarter, he added. — **Luisa Maria Jacinta C. Jocson**

'Gray list,'
from S1/1

even as we remain focused on addressing remaining action plan items," AMLC Executive Director Matthew M. David said.

AMLC said it will continue to work on implementing its action plan to address remaining deficiencies.

Earlier this year, President Ferdinand R. Marcos, Jr. directed all concerned agencies to work on efforts to exit the list by October.

The FATF on Friday said that the Philippines has taken "significant steps towards improving its anti-money laundering and counter financing of terrorism (AML/CFT) regime."

FATF President T. Raja Kumar at a press briefing on Friday said that the country has "continued to demonstrate steady progress," citing increased money laundering investigations and prosecutions.

"We actually had a senior person from the Philippines present at the FATF Plenary demonstrating the Philippines' strong political commitment to essentially continue its progress on this front," he said.

Mr. Kumar said the country should "quickly address" the remaining items on its action plan. "The Philippines has actually taken action on 15 of the 18 action items that it needed to act on." — **Luisa Maria Jacinta C. Jocson**

FULL STORY

Read the full story by scanning the QR code with your smartphone or by typing the link
<tinyurl.com/2khhmhl6>

Borrowings,
from S1/1

Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort said that the spike in borrowings was due to the dollar bond issuance during the month.

In May, the government raised $2-billion issuance of the dual-tranche 10- and 25-year fixed-rate dollar bonds, its first global bond sale of the year.

"Higher interest rates and weaker peso exchange rates also increased the debt servicing costs of the NG that required more borrowings," Mr. Ricafort said.

The Monetary Board has kept its benchmark rate at 6.5%, its highest in over 17 years. The central bank raised borrowing costs by 450 basis points (bps) from May 2022 to October 2023.

In May, the peso sank to P58-per-dollar level for the first time since November 2022.

For the first five months, the NG's gross borrowings rose by 16.1% to P1.42 trillion from P1.22 trillion in the same period in 2023.

Gross domestic borrowings jumped by 32.9% to P1.17 trillion as of end-May from P880.905 billion in the year prior.

On the other hand, gross external debt declined by 26.8% to P251.712 billion as of end-May from P343.874 billion.

"Going forward, possible Fed rate cuts in 2024 and 2025 that could be matched locally would help ease the NG's interest expense," Mr. Ricafort said.

Bangko Sentral ng Pilipinas (BSP) Governor Eli M. Remolona, Jr. has signaled that the central bank can begin its policy easing cycle by August.

The BSP could cut by up to 25 bps in the third quarter and another 25 bps in the fourth quarter, he said.

This would be ahead of the US Federal Reserve, which is widely expected to begin easing by December.

The government's borrowing program is set at P2.57 trillion this year. — **Luisa Maria Jacinta C. Jocson**

Meralco full support for Alas Pilipinas

The Manila Electric Company (Meralco) recently solidified its support the Philippine women's volleyball team Alas Pilipinas as the squad prepares for the 2024 Fédération Internationale de Volleyball (FIVB) Women's Volleyball Challenger Cup from July 4 to 7.

Meralco Chairman and Chief Executive Officer Manuel V. Pangilinan (left) welcomed members of Alas Pilipinas, led by its team captain Jia de Guzman (right) and head coach Jorge Souza de Brito during a recent courtesy call at the Meralco headquarters in Ortigas, Pasig City.

Alas Pilipinas members also interacted with Meralco employees during a meet-and-greet, where they took photos and signed autographs for their employee-fans.

Meralco, a major sponsor of Alas Pilipinas, is proud to support the squad as the team brings pride to the country anew on the international stage.