

A photograph of a beach scene at sunset. A large Philippine flag flies from a tall pole on the left. In the center, two palm trees stand prominently. To the right, a decorative spherical lamp post is visible. In the foreground, a group of people are gathered on the beach, some sitting and some standing. A green traffic light with the number 36 is visible. The sky is a mix of orange, yellow, and grey clouds.

Frontier Nation: Philippines

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Source: R924 @ flickr

FOREWORD

To most people, the mention of Asia would evoke vivid images of milling crowds of the streets of India or of Chinese factories churning out cell-phones by the thousands. South East Asia on the other hand, a region with 11 countries, has mostly lived in the shadows of these two giants. That however, is now changing.

As the global economy continues to flounder, the economies of South East Asia have managed to insulate themselves from the negative environment and have continued to grow. Of these, Philippines has been one of the stars, growing at 6.4% in the first half of 2012. The Philippine Peso picked up 4.6% against the US Dollar (best performing Asian currency), the stock market is up 19% for the year and its debt has yielded returns of over 16.5%.

The dynamic new leadership of President Aquino, long-term demographic factors and a thriving Business Process Outsourcing (BPO) sector is increasingly attracting the attention of global investors. Credit rating agency Standard & Poor's upgraded Philippine government debt to BB+, just a notch below investment grade and foreign direct investments into the country continue to show strong growth.

But this is not the first time that South East Asia has caught the attention of investors. People were equally excited about South East Asia, if not more, in the 1990's. Until 1997, the region received large inflows of money. At the same time, the regional economies of Thailand, Malaysia, Indonesia, Singapore, and South Korea experienced high growth rates of 8–12%. This achievement was widely acclaimed as the "Asian Economic Miracle". But by 1997, Thailand's economy had developed into a bubble fueled by "hot money". The Thai Baht collapsed (it fell by close to 40%) and most of Southeast Asia and Japan saw slumping currencies, devalued stock markets and other asset prices. Could this current revival of interest in the region be a fore-runner of another such crisis?

In this report, we undertake a dispassionate and wide-ranging examination of Philippines as an investment destination. Apart from the standard economic metrics of GDP growth and demographic outlook, we look at its geography, its political climate and social stability, all of which, in our opinion, should have appropriate weight in an asset allocation decision. This should allow you to take an independent and informed decision on the desirability of investing in Philippines.



Source: famousdestination.com

Manila is the world's most densely populated city with 43,000 people per sq. km.



Source: PinoyGigs

INTRODUCTION

The Republic of Philippines is a sovereign state in Southeast Asia, located in the western Pacific Ocean. An archipelago comprising 7,107 islands and 94 million people, Philippines is the 12th most populous country in the world and the 7th in Asia.

Like so many countries with a colonial history, Philippines has a tumultuous past. Philippines became a Spanish colony during the early phases of colonial expansion in the 16th century and was ruled by Spain for over 300 years. After the Spanish-US war in 1898, it was annexed by the Americans who ruled it till 1935, when it became a self-governing commonwealth. The Second World War brought with it Japanese occupation in 1942. After a joint struggle with the US against the Japanese, Philippines attained its independence on July 4th, 1946 to become a Republic.

Manila is the capital city of Philippines. It is the world's most densely populated city with 43,079 Inhabitants per sq.km. New Delhi in India, by comparison, is 7th on the list with approximately

29155 inhabitants per sq.km. and Mumbai takes the 23rd spot with 22937 inhabitants per sq.km. Being the seat of political power in the Philippines, most of the government offices including the President's estate are housed in Manila. The Headquarters of the Asian Development Bank (ADB) is also located in Manila.

Philippines is a secular nation, having a constitution which separates the Church from the State. About 90% of the population is Christian with about 5% of the population being Muslim dominating the southern region of Philippines; Mindanao.

The time difference between India and Philippines is 2.5 hours, Philippines being 2.5 hours ahead of India giving it almost as much edge as India has in respect to International operations.

*Boxing is to Philippines what Cricket is to India.
Manny Pacquiao, a boxer, is the Second richest
sportsman in the world.*

M S Dhoni, India's richest, is 31st on the list.



Source: Chris & Anya @ flickr

The Mayon Volcano, also known locally as Bulkang Magayon ('Beautiful Volcano') is an active volcano and has erupted 48 times in the last 400 years.



Source: asteegabo @ flickr

GEOGRAPHY

Philippines is located in the western Pacific Ocean. The Celebes Sea separates it from Indonesia in the south; Luzon strait separates it from Taiwan in the North. It is bounded by the Philippine Sea in the east and the Sulu Sea in the Southwest separates it from the islands of Borneo.

Philippines is an archipelago comprising 7,107 islands, divided into three main divisions; Luzon, Visayas and Mindanao.

Due to its location on the Pacific Ring of Fire, Philippines is extremely prone to Earthquakes and Typhoons. A recent study found out that Philippines is affected by about 15 and struck by 5-6 Cyclonic storms each year. Given its tropical climate and location in the Pacific Ocean, Philippines has an abundant supply of natural resources and it also possesses one of the richest biodiversity in the world.

With a land area of 300,000 sq km, it is approximately one-tenth the size of India.



Source :Maps of World
(Map not to scale)

The islands have a mountainous terrain, (65% of the country is classified as mountainous) with numerous short plains that run to the coast. The region also boasts of many active volcanoes. Approximately 20% of the land is arable.



Source: Joshua Santino @ flickr

The Masskara Festival began in the city of Bacolod as the Festival of Smiles – in an attempt to raise public morale in the face of crisis in 1980.



Source: livinginthephilippines.com

SOCIETY

Culture

Philippine society resembles the traditional Indian society in several aspects. The family is at the center of the social structure. A typical Filipino household consists of about 8-10 members which may include grandparents, nephews/nieces and uncle/aunts. But of late, the Filipino household is getting smaller as more people leave the country to work abroad. (One of the most significant exports of Philippines is its people!! About 12 million Filipino's work abroad, which is close to 1/8th of the population)

Filipinos believe that family is a source of strength and stability. Fulfilling all the needs of their children and making sure that they get

34% of the population is below the age of 14, which is likely to keep dependence ratios low for decades.

good quality education is an important goal for Filipino parents. Also, children are expected to look after their parents once they grow old.

Gender roles in the Philippines are quite similar to those in India – with women having a larger role in managing the household while the men

assume the role of bread-winner. Interestingly though, women play a much larger role in household finances and have the dominant say in decisions involving the home, the family and children.

Demographics

Philippines is a relatively young country with a median age of 23.1 years. A period of high population growth between 1995 and 2000 (3.21%p.a) has led to a fairly large base of youngsters. Over 34% of the population is below the age of 14, which is likely to continue to keep dependence ratios low for decades to come.

According to a study by *The Economist*, Philippines' working age population (*those between 15 and 64 years of age*) is expected to grow by 55% between 2010 and 2035. By comparison, India's working age population is expected to grow by a little under 40% while that of China is expected to shrink over the period.

Population today is estimated at slightly over 94 million and growing at about 1.9% per annum. This is a little under 1/12th of India's population. Half of this population is believed to reside in the Luzon region. A 49% urban population compares to India's 30%.



Source: Benson Kua @ flickr

POLITICAL STRUCTURE

Philippines has a democratic government. It consists of a constitutional republic in which the President is the head of the state. It is governed as a unitary state, in which the powers of the central government are supreme. Mindanao, a Muslim state located in the south, is an exception. It is an autonomous region free from the control of the national government. The President is the Head of State and Head of Government. He is also the Commander-in-chief of the armed forces. The president is elected by popular vote for a single six-year term, during which he or she appoints and presides over the cabinet.

The judicial power is with the Supreme Court, composed of a Chief Justice as its head officer and fourteen other associate justices, all of whom are appointed by the President on the recommendations submitted by the Judicial and Bar Council.

The current President of Philippines is Benigno Aquino 3. He has been the president of Philippines since June 2010. He is a 4th generation politician, with his father being a former Governor and mother a former President of the Philippines herself. Influential people and prominent families have dominated much of Philippine politics since colonial times. It is now common in Philippines that family members of incumbent politicians run for public offices. Philippine society has always revolved around the system of extended families. It was estimated that about three quarters of the legislators were third generation politicians.

Due to the rampant nepotism in politics, there have been many bills that have been tabled in the Congress but unfortunately all these bills "have been vetoed". The reason for this failure, as many believe, is that all levels of government, from municipal to national, are being controlled by politicians who are members of these politically powerful and wealthy families.

President Aquino's first budget emphasizes education, health, cash transfers for the poor and other social spending programs. He has also announced important infrastructure projects which include the construction of 5 new airports. Benigno Aquino plans to focus on improving tax collection efficiency (weak tax collection is one of the major hindrance) - rather than imposing new taxes - as a part of his good governance platform.



Source: Embassy of Philippines

INTERNAL CONFLICTS

At the southern end of the Philippines archipelago lies Mindanao, the second largest island in the Philippines. About 95% of the population in Mindanao is Muslim. Due to extreme poverty and religious differences, Mindanao has been the site of a separatist movement by the **Moro Islamic Liberation Front (MILF)**. This on-going conflict between the MILF and the Philippine army can be traced back to 1550 AD, thereby making it the second oldest conflict in the world behind Sudan and South Sudan. In the late 1960's and early 1970's, the Moro Islamic Liberation Front started to advocate for a separate state for the Muslims. The response of the Philippine government was hostile which resulted in numerous deaths and the displacement of a vast majority of the civilian population. In the late 1970s, the Philippine government initiated peace talks and obtained a peace agreement with the MILF to stop the conflict and address the problems. But armed confrontations broke out every now and then, between the Philippine military and the MILF.

*Between 2000 and 2010
Every 4 out of 10 households
were displaced in Mindanao*

In a survey of costs that businesses suffer due to terrorism, conducted by the World Economic Forum in 2011, Philippines was ranked 131st out of a possible 142 countries- the worst in Southeast Asia. More than 50% of potential investors admitted that issues such as attacks by terrorists and local criminals are a deterrent. Mining companies such as Xstrata and Sumitomo Metal have failed to tap an estimated \$320 billion in mineral deposits in Mindanao, due to this centuries old conflict. Resolving this unrest, which has displaced more than 250,000 people in the last two decades along, and providing a favorable investing climate to investors is likely to be a major challenge for the Aquino administration in the coming years.



MILF Fighters

Source: BBC World News



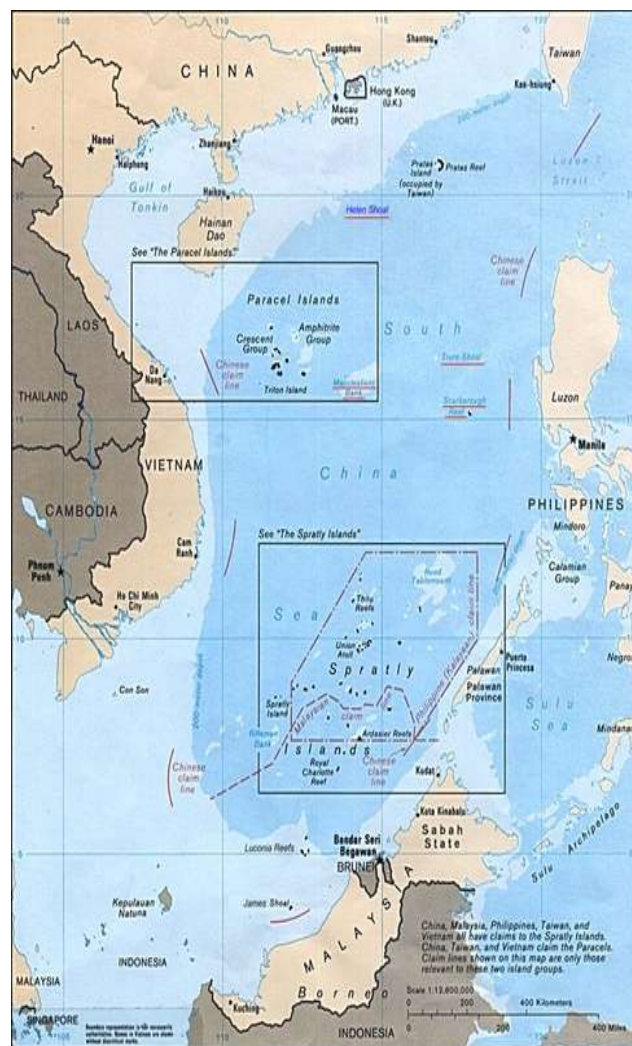
Source: junshi.com

INTERNATIONAL RELATIONS

Easily, the most important issue dominating headlines in the Philippines is the South China Sea conflict. South China Sea Islands, which collectively form an archipelago, consist of over 250 small islands, atolls, cays, shoals, reefs, and sandbars. There are several countries in South East Asia that claim sovereignty over the South China Sea and its uninhabited islands. These claims are also reflected in the variety of names used for the islands and the sea.



South China sea is an extremely important body of water. If we look at it from a geopolitical and economic point of view. In terms of usage, it is the 2nd most used sea lane in the world behind the Dover Strait. More than 25% of the world's crude oil (over 10 million barrels) pass through its waters every day.

The region has proven oil reserves of around 1.2 km³ (7.7 billion barrels), with an estimate of 4.5 km³ (28 billion barrels) in total. Natural gas reserves are estimated to total around 7500 km³ (266 trillion cubic feet). Studies done by the World Department of Environment and Natural Studies done by the World Department of Environment and Natural Resources have shown that South China Sea is home to about 35% of the entire world's Marine Biodiversity which makes it an extremely important area for our ecosystem.



Source: Maps of World
(Map not to scale)

Territorial disputes in the South China Sea involve six sovereign states within the region, namely the:

	People's Republic of China
	Republic of China (Taiwan)
	Philippines
	Vietnam
	Malaysia
	Brunei

The uninhabited islands of Paracel and Spratly, located in the South China Sea, are rich in mineral reserves. They have vast deposits of crude oil and natural gas and hence have always been subject to territorial dispute. In early 2012, there was a three way standoff between Philippines, China and Japan over the Sovereign claim of these islands. The issue, till date, is unresolved.

In addition to the territorial land claims on the islands, the disputes also involve the territorial waters of the various countries within the region. China alone claims more than 75% of the disputed waters in the South China Sea.

In 1994, China distributed a map claiming the entire South China Sea, including all the Spratly Islands as its own. This led to a conflict between the Philippines and China in 1995, which culminated in both the nations rejecting the use of force to settle their disputes. In March 2005, oil companies from China (CNOOC), Vietnam (PetroVietnam) and Philippines (PNOC) signed a deal to jointly protect oil and gas resources in the Sea.

The situation in the South China Sea has turned hostile recently. In March 2011, Philippines announced its increase in air and naval patrols and its plans to upgrade an airstrip on an island it

occupies in the South China Sea. The Chinese responded to this by doing the same, i.e., increasing their naval presence inside the Philippines Exclusive Economic Zone.

A standoff erupted in April 2012 between Chinese and Philippine ships at Scarborough Shoal, which both countries claim. The territory is called Huangyan Island in China and Bajo de Masinloc in the Philippines. President Aquino withdrew his country's ships from the area last month as tensions with Beijing escalated, but Chinese government ships have stayed.

Philippines has also invested massively to strengthen its defense. Several new treaties have been signed with the United States that provide it with more than 40 military aircraft — including attack helicopters and two newly refurbished C-130 cargo planes .

US Relations

Philippines is a major Non-NATO ally and it was awarded that status in 2003 by George W. Bush. The two countries have had a long standing alliance and Philippines continue to be one of the closest and oldest allies of US in Asia. With an estimated \$65 billion in investments, the United States is also one of the largest investors in the Philippine Economy.

In April 2012, Washington provided \$30 million to the Philippines to strengthen its military and Navy. Since the 1980's, Joint military exercises have been held annually between the two countries to boost relations.

*Philippines is a Major
Non-NATO Ally*



Source: Jun Acullador @ flickr

*Philippine Benchmark
Index is up 19% this
year*

TAX STRUCTURE

(Salient Features)

Administration of Income tax law is handled by the Bureau of Internal Revenue. As such, Philippines does not have a very elaborate income-tax law. There is an all-round feeling of inefficiency of tax collection system, which the present government proposes to handle on priority instead of increasing the tax rates.

Generally tax rates follow a slab system. Different tax rates have been provided for different types of income as also for different type of tax payer. Every individual is required to pay tax – there being no basic exemption limit. Individuals pay tax in the range of 5% to 32%. Thirty percent being payable at an income in excess of PHP 1,50,000 (~ INR 2,00,000) and 32% on income in excess of PHP 5,00, 000 (~INR 6,50,000).

Domestic companies/business entities in general pay tax @30%, apart from tax on inappropriately accumulated earnings @10%. Taxable partnerships are taxed @30%. There is also concept of minimum tax on gross earnings of corporate.

No tax is charged on interest income from long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates (long term being 5 years).

Dividends are taxable in the hands of individuals @10%, but inter-corporate dividends are exempt.

Non-resident aliens are liable to capital gains tax on disposition of real estate property in Philippines @6% and on disposal of unlisted shares & stocks @5% (up to PHP 1,00,000) and 10% (above PHP 1,00,000)

There is a Double Taxation Avoidance Agreement between India and Philippines according to which tax on dividend cannot exceed 15% in case recipient is a Company (subject to some conditions) and 20% in all other cases, and on interest payment @20%. Capital gains arising on transfer of shares of a company /share in a partnership firm (assets whereof mainly consists of immovable property) are taxable in the country where such immovable property is situated. Otherwise broadly speaking, capital gains tax is leviable in the country of residence of the alienator of the capital asset. The provisions relating to Permanent Establishment, taxation of business income, residence of the entities / individuals / professionals / sportsmen / students etc are broadly in line with DTAAs between India and other countries.

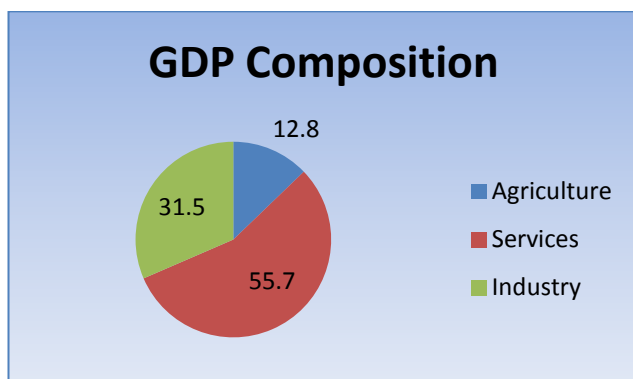
(Disclaimer: The above write up is not claimed to be exhaustive. Tax laws are subject to change from time to time and interpretation thereof by authorities. No liability, direct or indirect, is accepted because of inaccuracies therein or because of action relying on it.)



ECONOMY

Source: fleetowner.com

With a GDP of \$224.75 Billion in 2011, which is about 1/8th that of India, Philippines is the world's 33rd largest economy. It has undergone a huge transformation, from being an agriculture based economy in the 1980's to being a newly industrialized nation. The economy of the Philippines is vastly dependent on the services and the manufacturing sector. The GDP composition by sector, of the Philippines as of 2011 was as follows:-



Data: CIA World Factbook

The Philippines economy grew at 7.6% in 2010, which was mainly due to high levels of consumer demand, increase in exports and election related spending. The growth slowed down to 3.7% in 2011. The faltering economies of trade partners and investment sources, mainly the US and Eurozone, as well as the natural calamities that hit Japan and Thailand, impacted Philippine exports in 2011.

Exports are one of the country's top dollar earners. (The other key dollar earner is remittances from overseas Filipino workers.). Exports dropped 5.6% in the first 11 months of 2011. Electronics exports, which account for almost half the total exports, were affected by weak global demand, supply chain disruptions due to the earthquakes and tsunami in Japan, and the massive flooding in Thailand (a major source of input for the electronics industry).

The Aquino administration was heavily criticized for underperforming in 2011 (under spending, especially in infrastructure). Making sure that the infrastructure projects are studied and implemented based on good governance, anti-corruption efforts of the Aquino government resulted in massive delays. This led to only one road project out of the almost 10 in the list of Public-Private Partnership (PPP) program being contracted out in 2011. (The Aquino administration is relying heavily on its PPP projects for job creation).

Philippines is home to the world's second largest gold deposits after South Africa. In addition to gold, Philippines also has one of the largest copper deposits in the world. Other mineral resources include zinc, chromium and nickel. Despite having such a wide variety of resources, they largely remain untapped due to government mismanagement and red-tapism. Philippines is also the world's second biggest producer of geothermal power behind the United States, with

18% of the country's electricity needs being met by geothermal power. Remittances from Filipinos who live and work overseas play a major role in propping up household spending. These account for around 10% of the economy. One out of every nine Filipinos works overseas.

GDP- CAGR (2010/2011)	4.67%
Unemployment Rate	7%
Budget Deficit	2.1% of GDP
Inflation	5.3%
GINI Coefficient	46
GDP per capita(PPP)	\$4100
Exchange Rate	1\$=42PHP

Source: CIA World Factbook

International Bank HSBC predicts that Philippines will be the world's 16th largest Economy by 2050. The advantage that Philippines currently possesses is its favorable macroeconomic fundamentals which include demographics, sustained growth, stable inflation, stable banking system, stable fiscal position and rising education standards and also improving governance.

The benchmark equity index in Philippines is up nearly 19% this year which makes it one of the top performing nations in Asia. The lightning speed of the rally though, has left quite a few analysts surprised. The benchmark index, the Philippines PSE Composite, is trading at 16 times predicted annual earnings, making it nearly twice as pricey as South Korea's Kospi Index at 8.3 times expected earnings and more than twice as dear as Hong Kong's Hang Seng Index. Other top performing South Asian markets include Thailand, which is up 18% and Vietnam which is up 22%. The Philippine Peso has also rattled up 4.6% against the USD making it the best performing Asian currency this year.

The Philippine Debt market has been the best performing in Asia over the past decade. According to HSBC Holdings index, the securities have yielded returns of 16.5 percent in the past 12 months. There is speculation that the country will receive Investment grade status by year end.

Net FDI Inflow	\$1.26 Billion
Industrial Production Growth Rate	1.1%
Electricity Production	59.19 Bl. kWh
Electricity Consumption	59.14 Bl. kWh
Exports	\$4931 million (May 2012)
Imports	\$5386 million (May 2012)
Fiscal Year	Calendar Year

Source: CIA World Factbook

Much of the enthusiasm that the Philippines is currently generating can be attributed to some extent to the Aquino administration. President's Aquino's goals to clean up corruption, reduce the budget deficit and improve the infrastructure by increasing public spending (increased state spending to a record in 2012 to help achieve a 6 percent growth target this year and 7 percent in 2013) on the train system, airports and roads has made him extremely popular among the local Filipinos. With first-quarter growth at an annualized 6.4% rate, the second-best in Asia after China, some fund managers are sticking with their investments. The ratings companies have also rewarded the government's efforts with a string of credit-rating upgrades. Standard & Poor's in July 2012, raised its long-term rating to BB+ from BB, still in the "junk" category but just one notch below investment grade, which allows global pension funds and other large investors to buy the country's debt.



Source: Wikipedia

BPO SECTOR

Business Process Outsourcing (BPO) is one of the most rapidly growing industries in the Philippines. The majority of the BPO facilities in the Philippines are located in "first-tier" cities in Metro Manila and Metro Cebu. The Industry has grown by 46% annually since 2006. The call center sector comprises 80% of the total BPO industry in the country, with 80% of the call services provided for the US market. In 2011, Philippines surpassed India to become the top call center BPO destination in the world. Business Processing Association of the Philippines (BPAP) came out with some astonishing figures which truly demonstrate the BPO sectors performance in 2011.

24% increase in Revenue from 2010 (\$11 Billion from previous year)

22% increase in the number of people employed by the BPO sector (increase of 638,000 employees)

BPAP forecasts that by 2016, the revenues of the BPO sector will grow to \$16 billion thereby making up 9 percent of the Philippine gross domestic product (GDP), 10 percent of the sector's global market share and employing 1.3 million Filipinos.



The growth in this industry can be attributed to the fact that the workers speak English with a American accent and are somewhat familiar with the American idioms- (the Philippines is a former US colony and English is the language of instruction in schools) which is what American customers are looking for. American customers are not really fond of the Indian accent and no amount of voice neutralization/dialect coaching seems to be helping India's cause. As a result of this, Indian firms (Infosys, Wipro) have been

helping to move jobs to the Philippines by setting up call centers in Manila and other parts of the country. These firms now have substantial operations there. And they aren't drawn to Manila by cheap labor. Wages in the Philippines are slightly higher than in India since the Filipino accent commands a premium. In Philippines, working in a call center is considered a middle-class job (new recruits start at \$470 a month).



American businesses are currently the largest clients for the BPO industry in Philippines and they provide for nearly 75% of all the revenues of the BPO market. Other clients include firms from Europe, Japan and Australia.

Some local BPO operators were worried about the possible impact of US President Barack Obama's election-year pledge to close tax breaks for companies that move U.S. jobs overseas and offer incentives to firms bringing those jobs back home. However, the Philippine business process outsourcing industry can heave a sigh of relief as the US Senate has rejected the so-called "Bring Jobs Home Act."

The growth in the Philippine BPO sector was one of the main reasons that the country escaped recession during the 2008 global financial crisis. In 2009, when much of the world was reeling from the crisis, the United States invested \$1.4 billion in the Philippine BPO sector, up from \$986 million a year earlier.

According to Cesar Purisima, Finance Secretary of Philippines, *"The BPO industry is one that takes advantage of the strength of the Philippines, which is its people. It's an industry that not only offers direct employment (but) also supports the real estate industry and the service industry, and, together with remittances from*

Philippines is now the new BPO capital of the world, Overtaking India, and employing 1.3 Million People

Filipinos working abroad and tourism, will form part of the three strong legs that will be the platform for growth of the Philippines in the next years."

Although the BPO Industry has grown and has contributed to the growth of the overall economy, there are some hurdles that the industry could face in the near future. As the demand for English speaking Filipinos increases, tapping these resources could become a challenge as their supply is limited.(Majority of the English speaking Filipinos reside in cities). A formal level of training for Non English speaking Filipinos might be required in the future, which could prove to be a deterrent for the BPO sector in Philippines.



Source: Business Enquirer

MAJOR BUSINESS FAMILIES

The Philippines might still be characterized as a third-world country, but that has not stopped the archipelago in South East Asia from proving that it's fast becoming one of the fastest rising economies in the world. While other parts of the world are experiencing the crushing grip of economic recessions, the Philippines is running smoothly in the opposite direction, so much so that, according to Forbes, the 40 richest individuals in the country have seen their collective net worth grow to an impressive \$47.4 billion, up from \$13 billion in the past year.

Following are some of the prominent business families in Philippines.

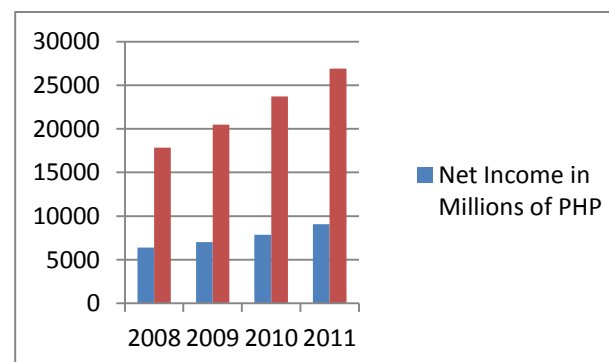
Henry Sy and Family



With a net worth of \$9.1 Billion, **Henry Sy**, aged 87, is the richest man in the Philippines and the 116th richest in the world. He controls the country's biggest retail group, which includes SM Prime, the largest mall developer in

Philippines, with 42 malls. He is often acknowledged as the country's **Retail King**. SM

Prime Holdings, Inc. (PSE: SMPH) or SM Prime is the parent company of the SM Group's shopping malls. It is the largest shopping mall and retail operator in the Philippines. It was incorporated on 6 January 1994 to develop, conduct, operate and maintain the SM commercial shopping centers and all businesses related thereto, such as the lease of commercial spaces within the compound of shopping centers. It later went public on July 5, 1994 and subsequently grew to become the largest company listed on the Philippine Stock Exchange in terms of revenue. As of 2007, SM Prime Holdings became one of the largest shopping mall chains in the world. The company's main sources of revenues include rental income from mall and food courts, cinema ticket sales and amusement income from bowling and ice-skating.



Currently, it has 43 operating malls totaling a gross floor area of 4.5 million square meters located in Metro Manila, Olongapo City, Batangas, Bulacan, Angeles City, Bacolod City,

Baguio City, Cebu City, Metro Davao, Iloilo City and Naga City. On April 2, 2008, SM Prime announced that it would participate in a \$1 billion casino project in Manila. The 40-hectare BagongNayong Pilipino-Manila Bay Integrated Tourism Project consists of a casino; hotels, shopping malls and other entertainment facilities. It posted a 15-percent year-on-year

Lucio Tan

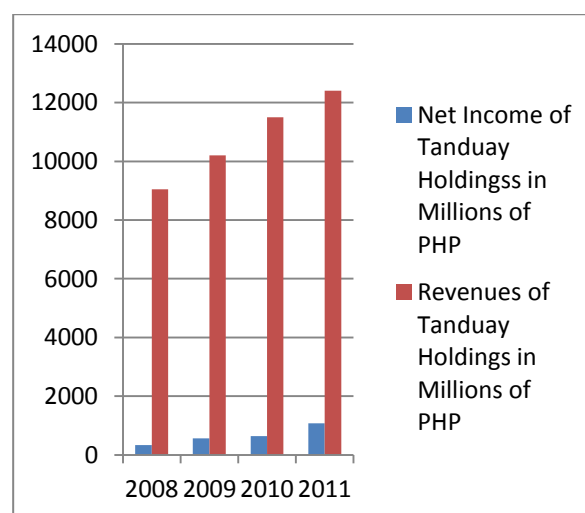


Lucio Tan, aged 78, is the second richest man in Philippines with a net worth of \$4,5 Billion. He is a prominent Chinese Filipino business magnate with interests in banking, airline, liquor, tobacco and real estate industries. Lucio Tan Group started out as a small trading firm in the late 1950s and diversified into chemicals, cigarettes and liquor, several banks, hotels, airlines, and real estate development. And today, the group has business interests in the Philippines, China and Hong Kong, Papua New Guinea, Canada, and the United States. **Asia Brewery**, the second largest brewery in the Philippines, **Tanduay Holdings**, one of the world's largest rum makers, **Fortune Tobacco**, the largest tobacco company in the country – are just some of the 300 companies which are controlled by Mr. Tan. Some of the other prominent companies which are being controlled by Lucio Tan include **Philippine National Bank**, the 5th largest bank in Philippines and **Air Philippines** – one of the fastest growing carriers in the Philippines. To date, Lucio Tan's Group of Companies provides jobs to 50,000 people.

growth in profit in the first 6 months of 2012 to P4.92 billion on the back of higher store sales, the opening of new local malls and improved performance of its malls in China. Due to Seasonality factors, SM Prime can be expected to generate the bulk of its full-year profit in the second half of 2012.

In August 2012, it was reported that Lucio Tan is consolidating all his businesses – alcohol, cigarettes, property, banking and airlines – under a single entity listed on the Philippine Stock Exchange. In a disclosure to the PSE, Tanduary Holdings Inc. said it would serve as the holding company for Lucio Tan's diverse business interests under the new name LT Group Inc.

According to Tanduary Holdings, "...The enlarged portfolio will provide the corporation with significant opportunities for synergies and business growth, including but not limited to synergies in marketing and distribution, enhanced flexibility in funding, as well as improved financial profile..." Tanduary is expected to spend about PHP5 billion for the consolidation.



LT Group will be acquiring shares in these companies:

- 90 %in Asia Brewery

- 83 % in Fortune Tobacco
- 98.1 % stake in Eton Properties
- 49.9% in PAL
- 60 % in Air Philippines
- 34.8 % in Philippines National Bank
- 27.62 % in Allied Bank.

Tanduay Holdings

Tanduay, headquartered in Makati City, constitutes a major chunk of Lucio Tan's portfolio. It engages in the manufacture and sale of liquor products primarily in the Philippines. Tanduay also manufactures refined denatured alcohol; produces fodder yeast; and markets, sells, and distributes related liquids and products. It also engages in manufacturing, distilling, importing, exporting, buying, and selling chemicals, including alcohol and molasses. The current Market Capitalization of Tanduay is PHP 45.8 Billion. The announcement by Lucio Tan to consolidate all his assets led the rum-maker's shares to breach the PHP 7 mark and close at PHP 7.65.

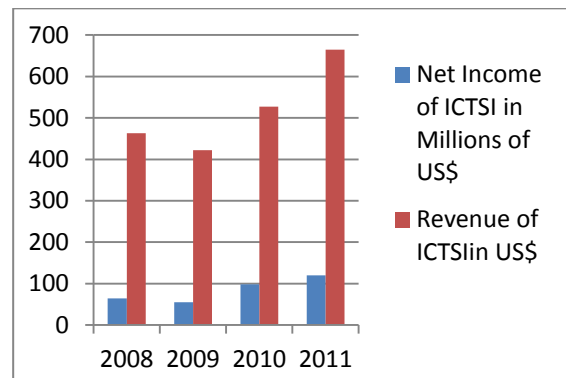
Enrique K. Razon Jr



With a net worth of \$3.8 billion, 52 year old Enrique K. Razon is the third richest man in Philippines. Razon started of his career by taking over his father's flagship port operating business, International Container Terminal Services (ICTSI). As years passed by, he transformed ICTSI into one of the biggest port operators in Asia. He then ventured into the

gambling industry and opened several casinos across Philippines.

According to the Forbes magazine, Razon's net worth jumped from \$1.6 billion last year to \$3.6 billion this year, much of which can be attributed to his role in building one of four new, state-of-the-art casino resorts in the Philippines. Razon has been upfront about the fact that he wants to turn Philippines into the world's next gambling destination.



Razon is currently on a buying spree; recently he invested close to about \$ 200 million in the Solaire Manila, a high-end resort that is expected to open at the start of 2013 with 300 gambling tables, plenty of fine dining choices, and luxurious villas that will overlook the scenic sunsets of Manila Bay. This year International Container Terminal Service (ICTSI) has bought controlling stakes in two terminal ports, one in India's Tamil Nadu and one in Croatia.

ICTSI is one of the main port operators in the Philippines. ICT manages, operates, and develops container terminals. It also offers services such as cargo handling, storage, and anchorage to international shipping lines. As of March 1, 2012, the company owned and operated 23 terminal facilities, which include 7 in the Philippines, and 1 each in China, Ecuador, Poland, Brazil, Madagascar, Syria, Georgia, Brunei, Indonesia, Japan, India, Colombia, Argentina, Croatia, Mexico, and the United States. Volume at Port of Manila, ICTSI's flagship port, surged 15% to 1.6 million TEUs (a standard container unit) in 2010. In the

Philippines its main competitor, Asian Terminals--recently bought by giant DP World of Dubai--handles only 820,000 TEUs. Its current Market Cap is PHP 138.5 Billion

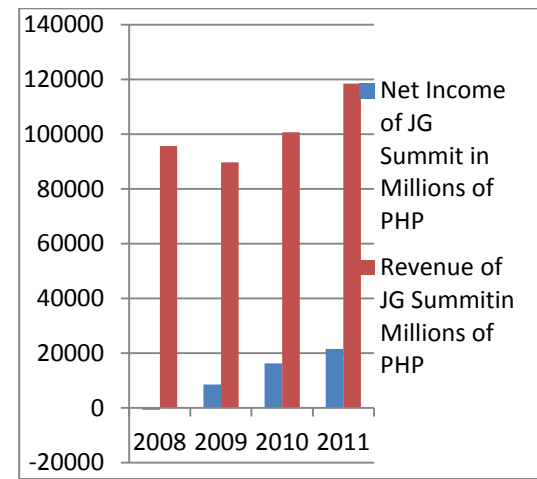
John L. Gokongwei



John L. Gokongwei, aged 85, is the fourth richest person in Philippines with a net worth of \$3.2 Billion. A Chinese Filipino, Gokongwei's source of wealth is well diversified with a presence in telecommunications, financial services, petrochemicals, power generation, aviation and livestock farming. He has literally built his business empire from precisely selling peanuts near Cebu city.

He is the current chairman of JG Summit Holdings, one of the largest conglomerates in the Philippines. JG Summit has six (6) core businesses: branded consumer, agro-industrial and commodity food products through **Universal Robina Corporation**, real estate and property development through **Robinsons Land Corporation** and **United Industrial**

Corporation (in Singapore); telecommunications through **Philippine Long Distance Telephone Company**; petrochemicals which include polyethylene, polypropylene, and other industrial chemicals through **JG Summit Petrochemicals Corporation** and **JG Summit Olefins Corporation**; air transportation services through **Cebu Air**, and financial services through **Robinsons Bank Corporation**.



Recently, JG Summit Holdings landed on Forbes Magazine's list of 50 "best" publicly traded companies in Asia-Pacific, the only company from the Philippines that made it to the Chinese-dominated list.

The Stock price of JG Summit hit a historical high in May as net income in the first quarter increased by 76%. JG Summit also announced a \$1.2 billion spending plan this year, partly to expand fleet of budget carrier Cebu Air, which is run by his son Lance, and open 3 new malls under the property arm Robinsons Land. JG Summit has a market value of \$3.9 billion and an annual turnover of \$2.7 billion.



INVESTING IN PHILIPPINES

Philippines is a relatively open market and makes it easy for foreign investors to invest in the stock markets. Unlike as in India, no special registrations have to be obtained with the central bank or the market regulator. Standard KYC procedures do apply though.

An interesting peculiarity of trading in the markets is the nature of transaction taxes. There are no capital gains taxes applicable on gains on sale of shares on a registered stock exchange. However, all sale transactions are subject to a Stock Transaction Tax. This is similar to the Securities Transaction Tax in India but is significantly higher at 0.5%.

The Philippines Stock Market has approximately 340 listed companies (although only about 250 are traded with any frequency) and a market capitalization of about \$230 billion. The benchmark index is the PSE Composite Index (PSEi) with 30 constituents, much like India's BSE Sensex, and its current level is around the 5000 mark, similar to the S&P CNX Nifty in India.

Company	Sector	%age share in Index	Mkt Cap (Bn.\$)
Philippine Long Distance Telephone Co.	Telecom	14.54	13.9
SM Investment Corpn.	Diversified	9.00	10.9
Ayala Land	Real Estate	7.11	7.1
Bank of Philippine Islands	Banking	4.82	4.6
Aboitiz Equity Ventures	Diversified	5.6	5.9
Metropolitan Bank & Trust Company	Banking	4.82	4.6
Ayala Corporation	Diversified	4.51	4.3
BDO Unibank	Banking	4.42	4.26
International Container Services	Shipping	3.22	3.1
Source: PSE			



CONCLUSION

Under the able leadership of President Aquino, Philippines is trying to make itself more business friendly by pursuing structural reforms that tend to liberalize the Filipino economy to the rest of the world. An Expat friendly country, Philippines is extremely open to different cultures and also offers a variety of round the clock entertainment. Last year, for the first time in its history, the Philippines' gross international reserves exceeded its external debt level, making it a "creditor" nation. Philippines is expected to end the year with a record \$76 billion in foreign reserves, which is part of the reason why ratings agency Fitch upgraded the country's credit rating to BB+ from BB in June, just one notch below investment grade and on par with Indonesia. With a Debt to GDP ratio of less than 50%, which is one of the lowest in Asia, (India has a Debt to GDP of 68%, highest among the BRIC nations.) the Philippines is one of the most under leveraged countries in the world, which makes it a less risky bet for investors. President Aquino's Policies which include public spending on agriculture, mining, tourism, infrastructure (11 new Infrastructure projects are lined up) and IT services have boosted the Filipino economy which recorded a 6.4% growth in the 1st Quarter of 2012. Global Companies, who want to outsource most of their labor, also regard

Philippines highly because of the ubiquitous supply of highly trainable, skilled and English-speaking labor. According to the World Competitive Yearbook 2000, a study of 50 industrialized and developing economies, Philippines was ranked the most competitive when it came to skilled labor.

Philippines also provide fiscal and tax incentives for firms located in free port and Eco-zone areas. These kinds of incentives continue to attract investors. Some of the basic rights of investors include freedom from expropriation, repatriation of investments, easy access to foreign loans and non-requisition of investments. Shipping, oil, banking and telecommunications are some of the industries that have been completely deregulated. This shows that there are ample and good business opportunities in Philippines.

However, more political and economic reforms are needed if Philippines has to become a superpower in the near future. The country has found an able leader in Aquino who is delivering on all his promises uptil now. Deregulation, Privatization, improving tax collection efficiency -

rather than imposing new taxes and reducing the power of big family-controlled corporate groups should be a priority for the Aquino

administration. Without reforms, there will always be concerns over the long-term position of the Philippines. In Asia, the competition is increasing day by day with India and China leading the race and proving to be tough rivals in the BPO and Electronics market respectively.

After considering all the pros and cons, in our opinion, Philippines indeed has a bright future. However, certain hurdles, as mentioned above, will be crucial in determining its fate in the coming years.

A recent survey by Bank of America-Merrill Lynch showed that fund managers are increasing their overweight position in Philippines, making it the third most preferred market in Asia, trailing just China and Indonesia.

An Indian investor looking to diversify his holdings should definitely keep Philippines on his mind. One can start by limiting the initial investment and then slowly increasing the allocation as and when the government starts to meet its targets.

Philippines may just become the **Dark Horse** of Asia !!

Resources & References

Major Newspapers

1- Philippines Daily Inquirer

<http://www.inquirer.net/>

2- Manila Bulletin

<http://www.mb.com.ph/>

3- Philippine Star

<http://www.philstar.com/>

Government Websites

1- Government of Philippines

<http://www.gov.ph/>

2- Philippine Finance Ministry

<http://www.dof.gov.ph/>

3- Philippine Stock Exchange

<http://www.pse.com.ph/stockMarket/home.html>

References

1. Forbes – The Philippines' Forty Richest
2. The Philippine Stock Exchange Inc. website
3. Bloomberg BusinessWeek – Company Insight Center
4. The CIA World Factbook/Philippines
5. Wikipedia/Philippines
6. The Economist
7. The World Bank

Third Wave Solutions Pvt. Ltd.

Our Belief System

A Third Wave economy refers to a Knowledge-driven economy. Therefore, we believe, the future belongs to those who have KNOWLEDGE and INFORMATION. Money may continue to generate more money, but not as much as when leveraged with Knowledge and Information.

We are much inspired by Alvin Toffler, a futurologist and Warren Buffet - an investor grounded in reality. **An eye to the future and an ear to the ground.**

With the above guiding philosophy, we are in relentless pursuit of knowledge, unmoved by smooth-talking and passing fads. As a corollary, we strive to empower our clients with relevant knowledge, information and business insights.



Our Services

Our team of professionals consisting of engineers, financial analysts, lawyers and accountants is equipped to provide a variety of services including:

- Customized wealth management services for HNIs
- Investment advice
- Business data analytics for operational efficiencies
- IT solutions for decision support functions
- Financial technology solutions – specializing in process automation and risk assessment/management tools
- Business proposal appraisals
- Enterprise structuring
- Contract negotiation assistance

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