Consumer Sector Outlook:
Favorable outlook already priced in

Growth story intact. The consumer sector was the strongest sector in 2012, with listed consumers (URC, JFC, PGOLD, PIP, and RFM) climbing by a weighted average of 78.5%, more than double the increase of the PSE index. Resilient domestic consumption brought about by the country's favourable demographics and the sustained growth of OFW remittances and the BPO sector helped fuel revenue growth. Meanwhile, lower commodity prices as compared to 2011 resulted in higher margins across the board.

Although consumer companies will have a difficult time repeating the significant gains posted in 2012, we believe that the outlook for 2013 remains positive. For 2013, we forecast EPS of consumer companies to grow by an average of 16.6%, faster than our projected 12.3% EPS growth for the PSEi. Aside from the favourable macroeconomic outlook of the country and the abundance of secular growth drivers, election spending should also help boost consumer spending. Elevated commodity prices could make it difficult for margins to improve. Moreover, valuations are no longer attractive, with consumer stocks trading at an average FY13E P/E of 23.7X, a premium relative to the market. Thus, we advise investors to buy on pullbacks. Our top pick is PGOLD.

Favourable demand drivers. Domestic consumption in the Philippines is expected to remain strong in 2013, buoyed by the continuous growth in OFW remittances and the BPO sector. The central bank is forecasting OFW remittances to rise by another 5.0% for FY13 from an estimated US$24.0Bil for FY12. The Business Processing Association of the Philippines (BPAP), meanwhile, expects revenues of the BPO industry to grow by another 17.6% to US$16.0Bil in FY13 from its FY12 target of US$13.6Bil. Midterm elections will also take place in 2013, and the funds that will be spent on campaigning is expected to boost consumer spending and economic growth. Based on a study conducted by the NSCB, election spending in 2007 added 0.34% to the country's GDP growth.

Exhibit 1: Consumer Sector Outlook

in PhpMil	Market Cap	FY13 EPS	EPS Growth	FY13 P/E
URC	188,045	3.63	10.7%	21.7
JFC	113,426	3.68	9.5%	29.1
PGOLD	89,908	1.45	38.4%	23.4
PIP*	23,492	0.28	10.0%	20.7
RFM*	15,454	0.27	22.7%	16.4
Average			**16.6%**	**23.7**
PSEi			**12.3%**	**17.0**

Source: COL estimates, Bloomberg
**Based on consensus data*

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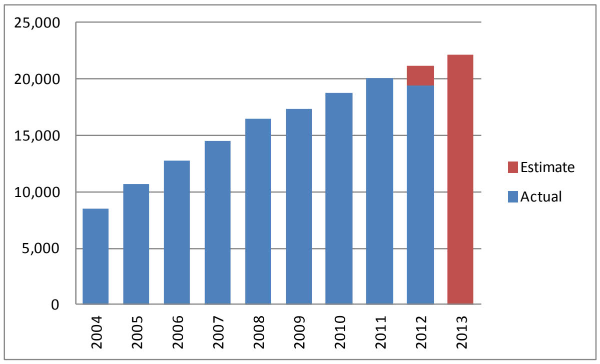
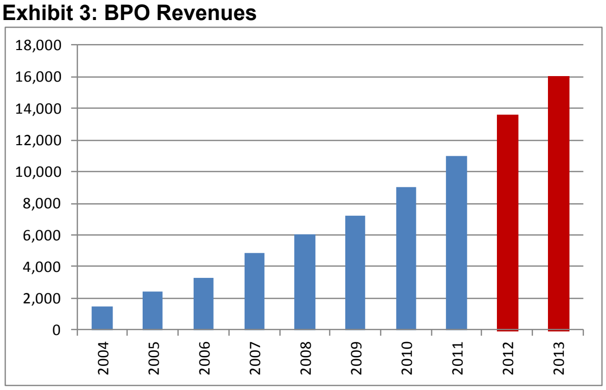
Exhibit 2: OFW Remittances



Source: Bloomberg

Exhibit 3: BPO Revenues

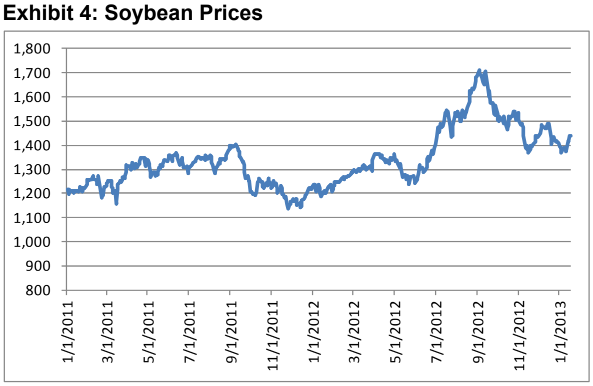


Source: BPAP

Elevated commodity prices to negatively affect margins. Recall that in the 3Q12, prices of soft commodities spiked significantly due to the worst drought in the US, and the European region. Agricultural crops such as soybean, wheat, and corn rose to record-highs. While commodity prices have declined recently after the drought in the US and Europe ended, commodity prices still remain elevated compared to their year ago levels.

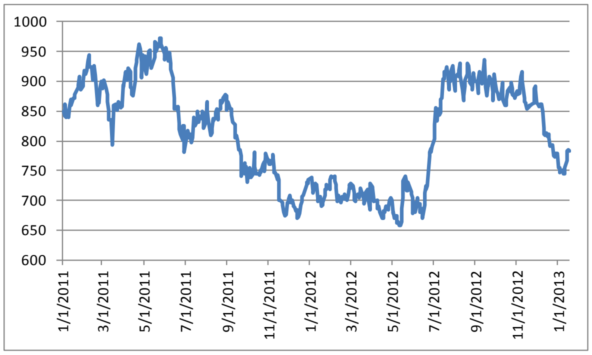
Due to the said reason, we assumed that margins of consumer companies, specifically food companies (URC and JFC) would only be flat in 2013.

Exhibit 4: Soybean Prices



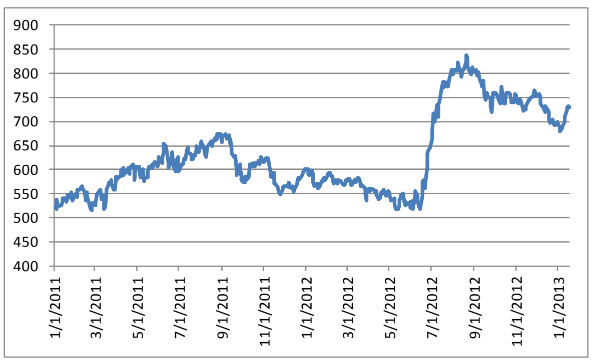
Source: Bloomberg

Exhibit 5: Wheat Prices



Source: Bloomberg

Exhibit 6: Corn Prices



Source: Bloomberg

Buy on pullbacks; top pick is PGOLD. Although consumer companies are expected to post solid earnings growth, valuations are no longer attractive, with consumer stocks trading at an average FY13E P/E of 23.8X, a 48.7% premium to the PSEi's FY13E P/E of 16.0X. As such, we advise clients to adopt a "buy on pullbacks" strategy.

Puregold is our top pick for FY13. The company is least sensitive to volatility in commodity prices. It is also well positioned to capitalize on the existing growth opportunities in the country's modern retail sector given its well-recognized brand and aggressive expansion plan. Our current FV estimate on PGOLD is Php39.50/sh, implying a capital appreciation potential of 21.5%.

Investment Rating Definitions

BUY	HOLD	SELL
Stocks that have a **BUY** rating have attractive fundamentals and valuations, based on our analysis. We expect the share price to outperform he market in the next six to twelve months.	Stocks that have a **HOLD** rating have either 1.) attractive fundamentals but expensive valuations; 2.) attractive valuations but near term earnings outlok might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely inline or underperform the market in the next six to twelve months.	We dislike both the valuations and fundamentals of stocks with a **SELL** rating. We expect the share price to underperform in the next six to twelve months.

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