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# Tetangco sees inflation in July at 4.1% to 4.9%

BY BIANCA CUARESMA

**T**HE expectation of a steady growth of consumer prices at the start of the second half of the year will not stop the Bangko Sentral ng Pilipinas (BSP) from possibly tightening monetary policies in its upcoming monetary-policy meeting on Thursday, with the intent of “protecting the government’s inflation targets,” the BSP said.

BSP Governor Amando M. Tetangco Jr. said on Wednesday that inflation in July is expected to settle within 4.1 percent to 4.9 percent, as higher prices of electricity and rice may have been offset by the lower prices in agricultural produce and fuel prices.

This means that inflation at the start of the second semester of 2014 will be within the government’s average target for the year at 3 percent to 5 percent. It will also be around the level of last month’s inflation at 4.4 percent. Compared to its level a year ago, however, it is significantly higher than the 2.5 percent in July 2013.

“The BSP’s forecast incorporates the potential impact of higher prices of rice and electricity. At the same

time, the reported decline in the prices of some agricultural products and reduction in petrol prices could somewhat partly offset the upside pressures,” Tetangco said in text message to reporters.

Despite the steady growth of consumer prices, Tetangco betrayed the BSP’s hawkish stance on policy prospects for its Thursday policy meeting, as the governor mentioned their intent to protect the government’s inflation targets.

“The BSP will continue to closely monitor price trends and their implications for future inflation,” Tetangco said.

“The BSP stands ready to implement policies to keep inflation expectations well-anchored and



**TETANGCO:** “The BSP will continue to closely monitor price trends and their implications for future inflation.”

protect the government’s inflation targets,” he added.

In the last meeting of the seven-man Monetary Board on June 19, the central bank forecasted within target average inflation for this year and the year ahead. In particular, the BSP expects inflation to average at 4.4 percent for 2014, well within the government’s target for the year.

However, for 2015, while the inflation expectation is still within the government’s 2 percent-to-4 percent target range at 3.7 percent, it is nearing the upper end of the target.

In the recent poll by the BUSINESSMIRROR, most economists are in view that the central bank will continue with its monetary-policy tightening in the fifth meeting. They shared mixed views, however, on whether the BSP will finally move the lever on the main policy rates or will still turn the knob on the special deposits account (SDA) interest rates still to tame cash-supply growth in the country.

The central bank has been keeping all its main policy rates at record-low levels since October 2012, at 3.5 per-

cent for the overnight borrowing rate and at 5.5 percent for the overnight lending rate.

Meanwhile, the BSP started its so-called tightening cycle in March, starting with a one-percentage-point hike in the banks' reserve requirement ratio. This was followed by another one-percentage-point hike in the same monetary tool in May and a 25-basis-point SDA interest-rate hike in June. All of the measures were directed at slowing the robust money-supply growth in the country.

In a recent research note, regional banking giant DBS Bank said there is room for the BSP to tighten further given its growth-inflation dynamics.

DBS said growth remains to be well-anchored despite recent bouts of slow spending. The bank also said that the inflationary trend is going up, with additional upside pressures expected during the typhoon season.

As such, the BSP is expected to "continue tightening its monetary policy" in the light of sound external balances and strong support from remittances.

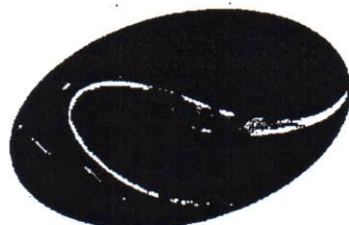
The foreign-exchange trading market also showed jitters a day before the central bank brings down its decision on its monetary policy.

The local currency slumped to end Wednesday's trading at 43.42 to a dollar, shedding 6 centavos from Monday's 43.36 against the US dollar. Volume of trading was also thinner on Wednesday at \$513 million compared to the \$579.1 million total traded volume on Monday.

# Phoenix Petroleum income up 8%

**O**IL firm Phoenix Petroleum Philippines Inc. on Wednesday reported a net income of P412 million in the first semester, up 8 percent from P372 million posted in the same period a year ago.

Revenues stood at P18.5 billion at end-June this year. The listed oil firm said the improvement in the profitability was brought about by a higher contribution of retail sales volume to overall sales volume. This was driven primarily by the expansion of its retail station network. After ending 2013 with 368 stations, the company's network reached 405 stations as of June 30. Of this number, 220 are based in Mindanao, 55 in the Visayas and 130 in Luzon.



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At the same time, sales to commercial accounts, primarily to the shipping, fishing, mining, power and transportation sectors, registered a continuous growth during the year.

Phoenix Petroleum supplies more than

50 percent of Cebu Pacific's jet fuel requirements and handles all its logistics needs in Mindanao and some parts of the Visayas. Its market share increased from 4.4 percent in 2012 to 5.9 percent in 2013.

The company continues to expand its logistics and infrastructure to support both its network expansion and its commercial and industrial clients.

Subsidiary Chelsea Shipping Corp. recently took delivery of its 11th vessel, MT *Chelsea Donatela*, which increases the company's total capacity to 44,368 MT.

Phoenix Petroleum is engaged in the business of trading refined petroleum products and lubricants, operation of oil depots and storage facilities, shipping/logistics and allied services. *Lenie Lectura*

## UK, PHL working on regulatory framework for Islamic finance

BY BIANCA CUARESMA

**A** DIPLOMATIC group is pushing for the creation of a national framework for Islamic finance in the Philippines to promote the growth of Muslim economics in the country.

In a discussion with financial reporters on Wednesday, British Embassy Economic Adviser Aaron Francis Chan said they are working on a draft policy framework with the National Commission on Muslim Filipinos (NCMF) for the regulation of Islamic financial products in the Philippines.

Chan said they aim to discuss the framework working draft with the Bangko Sentral ng Pilipinas (BSP) in the coming week.

Chan said one of the bigger hurdles in the current state of Islamic finance in the Philippines is that the different Sharia boards, which analyze business concepts if they are compliant to Sharia, or the Islamic law, are fragmented and incoherent.

"These different regulatory agents are all fragmented and in this case, the way forward, the way to reform and promote this market would be to encourage a more cohesive regulatory framework," Chan said.

Chan further said that while there is a potential for growth for Islamic finance in the country, such is often blocked by the lack of awareness on the concepts of Sharia and their implication to business and financial operations.

"If there would be interest, it is muddled by the fact that they don't know what they should do," the British economic advisor said.

The national framework initiative, Chan said, will not be incorporated under

the Bangsamoro Framework, but instead will go through the central bank for further discussions.

Chan said the framework will come up with a board of experts on the Sharia law that will decide if certain aspects of a business or financial product are consistent with the Islamic law on finance.

Islamic banking or Islamic finance are activities consistent with the principles and applications of Sharia.

One of the most salient features of this niche financing is the prohibition of interest on loans.

"For example, are credit cards Sharia-compliant or not? The reason you need a national framework for it is because the different Sharia experts may disagree on that. So you need to come up with a consensus view," Chan explained.

Asked on the prospects of Islamic banking in the country, Chan said that although the Philippines is not predominantly a Muslim nation like the United Kingdom, there is still a sizable portion of the population that Islamic banking may reach if developed.

"The fact that about 5 percent of the country is made up of Muslim Filipinos and see an untapped opportunity there," Chan said.

Latest data from the central bank showed that the Autonomous Region in Muslim Mindanao has the smallest share of the total loan portfolio of the country as of end-December 2013.

Just recently, the UK successfully issued sukuk bonds or Islamic bonds in making it the first Western government to issue Islamic bonds.

# Peso dips, shares up before BSP meeting

THE Philippine peso eased as the local shares ended higher on Wednesday as investors took profits a day before a monetary policy meeting.

The Bangko Sentral ng Pilipinas is expected to tighten policy for the fourth straight meeting today to tackle inflationary pressures, by raising either its main overnight borrowing rate or the rate on its special deposit accounts.

Traders said such expectations had been priced in to some degree.

The Philippine Stock Exchange index (PSEi), meanwhile, was up 17.12 points to 6,867.59, a 0.25 percent hike as investors took position ahead of two market moving news.

The broader all shares index was up 1.55 points to 4,110.43, a 0.04 percent hike.

Losers edged gainers 106 to 75 with 46 stocks unchanged. Trading turnover reached P8.25 billion.

Jun Calaycay, a trader at brokerage firm Accord

Capital Equities Corp., noted that two of the several market moving news—US Fed report and the BSP policy meeting.

"The US Federal Reserve post-meeting press conference is expected to announce another \$10 billion cut in the stimulus; and its decision on target policy rates which currently stands at between zero to 0.25 percent," Calaycay said.

"The odds are just slightly in favor of 'unchanged' but the growing number of bets for an upward adjustment cannot be ignored," he added.

"The Philippine overnight rates have been kept at 3.5 percent and 5.5 percent RRP and RP. Rising inflation has spawned bets for at least a 25 basis points hike. At this point, however, we are of the belief that the MB may hold such action at least until the next meeting on September 11, when July, August and September inflation data and 2Q GDP are all

out," Calacay added.

Most actively traded Metropolitan Bank and Trust Co., was down P0.35 to P85.30 while Philippine Long Distance Telephone Co., was up P48 to P3,070. SM Investments Corp. was up P1 to P798 while Universal Robina Corp. was steady at P163.

Some other emerging Asia currencies were lower on concern that the US Federal Reserve might move to a hawkish policy stance.

Malaysia's ringgit fell as offshore funds and domestic interbank speculators covered short positions in the dollar.

The greenback hit a six-month high against a basket of major currencies ahead of the Fed's policy decision and U.S. economic growth data later in the day.

The Thai baht slid as the finance ministry cut this year's growth forecast and on disappointing June factory output. —Albert Castro, Reuters

# Stocks rise; PLDT, Alliance Global up

THE stock market rose slightly Wednesday in mixed trading, with index heavyweight Philippine Long Distance Telephone Co. leading advancers amid inflation concerns.

The Philippine Stock Exchange index added 17.12 points, or 0.2 percent, to 6,867.59 on a value turnover of P8.2 billion. Losers beat gainers, 106 to 75, with 46 issues unchanged.

The Bangko Sentral ng Pilipinas is forecast today to raise its benchmark interest rate for the first time in three years.

"Now is the time to pull the trigger," said Emilio Neri, an economist at Bank of the Philippine Islands. "Rising prices

pose a real threat to the economy, and people are feeling the pinch. By raising rates, BSP will send a timely and strong signal that they are doing what is necessary to keep inflation expectations well-anchored."

Higher rates may hurt demand in the economy which expanded 5.7 percent in the three months through March from a year earlier, slipping below 6 percent for the first time in nine quarters. Bangko Sentral last month raised its inflation forecasts

for 2014 and 2015, citing risks from the El Niño weather effect, higher food prices and potential increases in power tariffs.

Philippine Long Distance Telephone Co., the biggest telecommunications firm, climbed 1.6 percent to P3,070, while BDO Unibank Inc., the largest lender by assets, gained 0.8 percent to P90.60.

Alliance Global Group Inc., which is into the property, hotel and gaming, fastfood and liquor businesses, advanced 1 percent to P26.10. Unit Megaworld Corp., the biggest lessor of office spaces, fell 2.8 percent to P4.14.

Conglomerate Ayala Corp. rose 0.8 percent to P31, while Nickel Asia Corp., the largest nickel producer, added 1.1 percent to P36.50. **With Bloomberg, AFP**

## MetroPac to increase Thailand stake

By Jenniffer B. Austria

METRO Pacific Investments Corp. plans to raise its holdings in Don Muang Tollway Public Company Ltd. and may bid for the 25.1-percent stake owned by Thailand's Ministry of Finance.

Metro Pacific chief executive Jose Ma. Lim said the company was interested in bidding for the Thai government's stake in DMT if Bangkok decided to sell it.

"We have not received formal advice of any of DMT shareholders willing to sell. But we know that Thai government still owns certain block of shares which might become available," Lim said.

"We are waiting to find out if the government will announce its de-

sire to sell it, which would probably through bidding. We will then compete for that," he added.

Metro Pacific last month announced it was increasing its ownership in DMT to 29.45 percent by acquiring the 7.36-percent stake held by parent First Pacific Co. Ltd. in the toll road company for \$101.25 million. The transaction is expected to be completed today.

Lim said the toll road project had increased its traffic and revenues and lowered costs despite the political turmoil in Thailand.

The Thai toll road is Metro Pacific's first investment outside its home market in the Philippines. It plans to increase investments in the infrastructure sector as it leverages

the experience and expertise has developed in its Philippine businesses.

Metro Pacific is one of the leading infrastructure development firms in the Philippines, with investments in water and electricity distribution, healthcare and toll roads.

DMT, which has a 27-year concession ending 2034, operates a 21.9-kilometer six-lane elevated toll road stretching from Din Daeng in central Bangkok past Don Muang Airport to the National Monument in the north of the capital.

Traffic on the toll road has risen 10 percent in 2014 since budget airlines began relocating to the airport in October 2012.

# Platinum Group investing \$100m

By Anna Leah G. Estrada

FERRONICKEL producer and smelting company MCCI Corp., a subsidiary of Platinum Group Metals Corp., said it will spend \$100 million to rehabilitate its smelting facilities and boost nickel production in the country.

MCCI said its US associate investment and management firm Trebor Resource Management Group Inc. signed an agreement with The Benchmark Company LLC, a Wall Street investment bank, to raise up to \$100 million to bring its smelters into full operation.

Part of the capital will also be used for the joint venture, acquisition and development of additional nickel mines to

ensure nickel ore supply for the smelters.

The company's smelting facilities are located in Cebu, Iligan City and Misamis Oriental.

MCCI said the smelting facilities were expected to produce around 250,000 metric tons of ferronickel and nickel pig iron by the fourth quarter of 2015.

Ferronickel and nickel pig

iron are value-added products in strong demand internationally used primarily in the production of steel products.

"MCCI has steered away from the traditional export of raw nickel ore and has been using its smelting facilities to develop ferronickel and nickel pig iron production technology over the last five years. MCCI has successfully completed initial production trials which have been tested and accepted by its China customers," the company said.

"The production of nickel metal in the form of ferronickel and nickel pig iron is a significant value addition in the utilization and optimization of the country's mineral resources and reduces the country's dependence on the shipping of low value high volume nickel ore to China," it said.

The company said the Philippines was importing steel and stainless steel products despite being rich in the basic minerals used to manufacture these products.

MCCI said it was also in the process of studying the viability of constructing a 160-megawatt power plant to ensure power supply to sustain its smelting operations in Mindanao.

MCCI is a unit of PGMC, which operates a mine in Cagdianao, Surigao del Norte. Major shareholders include Ceferino Paredes, Dante Bravo, Joseph S. Lin Ou Wen, Rafael Atayde, Peter Lin Hui and Lin Zhing.

PGMC was earlier reported to be planning to raise funds from the stock market via backdoor listing to finance the upgrade of its smelting plants.

## BSP to raise key rates by 25 bps – analysts

Analysts polled by *The Manila Times* said on Wednesday they believe that today will be the start of a tightening cycle of the Bangko Sentral ng Pilipinas (BSP) amid the inflationary impact of the recent Typhoon Glenda and second-round inflation effects caused by the energy crisis.

The analysts predict the BSP may implement a 25-basis point (bps) hike on its benchmark interest rates on overnight borrowing and lending facilities to maintain the country's financial stability.

"We expect the BSP to hike the policy rate by 25 bps to 3.75 percent at its meeting on 31 July," Jeff Ng, economist at the Standard Chartered Bank, said.

Ng pointed out that recent inflation turnouts (4.5 percent in May and 4.4 percent in June) trended toward the top end of the central bank's inflation target of 3 percent to 5 percent for the year, led by food inflation, particularly higher rice and vegetable prices.

"The impact of the recent typhoon is also likely to pose upside risks to inflation," he said.

Sharing the same view, analysts at the Bank of the Philippine Islands (BPI) also expect the Bangko Sentral to adjust its key policy rates.

BPI's lead economist Emilio Neri Jr. and associate economist Nicholas Antonio Mapa both said the central bank may adjust its policy rates on RRP (reverse repurchase facility) and RP (repurchase facility) by 25 bps in order to get a handle on inflation expectations, "which in many respects are more key to the BSP's conduct of inflation targeting than actual inflation."

"We've seen prices for food

items such as rice and other consumable spike in recent months. Although these can be argued to be supply-side induced, the prolonged prints closer to the upper end of the BSP inflation target have tilted the inflation path to the upside," Mapa said.

Asked if they expect the BSP to determine first Typhoon Glenda's impact on July inflation before factoring that in today's policy decision, Neri said: "The BSP may not be able to wait for July inflation before they act on rising prices. Glenda may very well have caused further acceleration in the price uptrend. We think the BSP would rather err on the side of caution given its mandate."

Headline inflation for the first quarter was reported at 4.1 percent, up from 3.4 percent in the first quarter of 2013.

"Skewing the inflation path to the upside raises the possibility of the emergence of second-round effects emanating from the potential protracted period of inflation at above the 4-percent levels, as the government failed to enact a timely importation of rice to make up for our shortage and deal with crop pests that have damaged our other key crops," Mapa added.

At the same time, Mapa also warned that the looming energy crisis may foment possible second-round effects, which could result in more transport fare hikes and perhaps, even wage adjustments.

Taking a conservative outlook, Justino Calaycay, analyst at the Accord Capital Equities Corp., said that the Monetary Board may not implement any policy or macroprudential measures at present, due to the timing of the releases of key data about gross

domestic product (GDP) and inflation.

"It is our view that the BSP-MB will hold in abeyance any policy changes at this time. First, the two main data entries, GDP and inflation come after the meeting. Of course they already have estimates for these but the actual numbers are still a month and a week away, respectively," he said.

Calaycay also believes that the economy has been able to rise above the disappointing 5.7 percent GDP growth rate of the first quarter while inflation remains "pretty stable" around the 4-percent mark.

"Unless surprises from either of these ends are in the offing, there is little reason for the rates to be moved in either direction. Having said this, the BSP will keep its forward guidance that it will stand ready to make adjustments as it closely monitors movements in consumer prices and the levels of liquidity in the market," he stated.

In terms of macroprudential measures the analysts said the BSP is likely to maintain the interest rate on special deposit account (SDA) at 2.25 percent and the reserve requirement ratio (RRR) at 20 percent as it still evaluates the impact of recent hikes before making further changes.

The BSP's Monetary Board adjusted the RRR in its meetings on March 27 and May 8, raising the ratio by a percent each time. In its June 19 meeting, despite analyst expectations of a benchmark rate hike, the policy-setting body kept its key rate unchanged but increased the rate on the SDA facility by 25 basis points to 2.25 percent.

## Concepcion Industrial H1 net income surges 45%

INDUSTRIAL appliance manufacturer Concepcion Industrial Corp. (CIC) said it saw midyear profits jump sharply, because of peak summer months' sales.

In a statement, CIC said its net income for the first six months of the year surged 45 percent to P346 million from P238.9 million in the first half of last year.

"This was achieved on the back of net sales of P4.8 billion for the period, a 28-percent increase from year-ago numbers," the company said.

For second quarter alone, CIC expanded its sales by 21 percent, as well

as product profitability by 54 percent compared to the same time last year.

The increase in appliance sales was due to various business segments, as well as the profitability in refrigeration business driven by high-margin products, and returns on earlier cost reductions.

The company also noted that profits were up on the acquisition of Concepcion Otis Philippines Inc. in March.

"The impressive results reflect the positive macroeconomic environment, CIC's core business gaining ground during the first half of 2014

and the boost received from contribution of our acquisitions," CIC Chief Executive Officer and Chairman Raul Joseph Concepcion was quoted as saying.

"We will continue to see growth in the second half but on a slower pace compared to the earlier part of the year as we move away from our peak months," Concepcion added.

"Our further push for cost productivity has gained traction as this discipline is shared across all our core businesses and new acquisitions. These have resulted in stronger profitability without undermining topline momentum," CIC Chief Finance and Information Officer Victoria Betita said.

Incorporated in 1997, CIC manufactures refrigerator and similar appliances under brands Kelvinator, Carrier, Condura and Toshiba.

**KRISTYN NIKA M. LAZO**

## Cirtek to meet \$100-M sales target on Remec acquisition

SEMICONDUCTOR firm Cirtek Holdings Philippines Corp. is confident it will meet its \$100-million sales target for the whole year 2014 on the back of sustained performance of the company's businesses, and the completion of the acquisition of another local semiconductor manufacturing firm.

In a statement e-mailed to media on Tuesday, Cirtek Chief Financial Officer Anthony Buyawe said the company is in strong position to reach revenue targets with the completed take over of Remec Broadband Wireless International Inc. (RBWI), in a deal valued at \$10 million to \$12 million.

Cirtek, through its US-based unit Cirtek Electronics International Corp.

(CEIC), has signed a purchase agreement with Remec Broadband Wireless Holdings to acquire its local manufacturing subsidiary RBWI to expand Cirtek's portfolio and manufacturing capacity.

Both Cirtek's and Remec's board of directors approved the acquisition on Tuesday.

"The acquisition immediately expands Cirtek's manufacturing capacity and capability, adds to Cirtek's customer base, and further increases the presence of Cirtek in high-growth end markets such as telecommunications, automotive, medical, satellite communications, aerospace and defense," Buyawe said.

"We expect the new business to make a material contribution to the Cirtek

group's business and financial performance moving forward," he added.

"Combined, we [Cirtek and Remec] are now well-positioned to provide more comprehensive and sophisticated solutions to our existing customers and to the addressable market," said Cirtek Chairman Jerry Liu.

Cirtek, which began operations in 1984 and incorporated in 2011, is involved in providing service solutions for subcontract semiconductor manufacturers and has two subsidiaries, Cirtek Electronics Corp. and offshore unit CEIC.

RWBI is primarily involved in manufacturing wireless devices for the telecommunications, satellite, aerospace, defense, and automotive sectors.

RWBI is the local unit of the RBWH, which was formed in 2005. RBWH also has two other subsidiaries, Remec Broadband Wireless, LLC and REMEC Broadband Wireless Canada Inc.

KRISTYN NIKA M. LAZO

# Phl stocks snap three-day decline

Philippine stocks snapped a three-day decline yesterday despite late selling that trimmed the gains of the local bourse.

The Philippine Stock Exchange index (PSEi) rose 0.25 percent or 17.12 points to 6,867.59, while the broader all shares index inched up 0.04 percent or 1.55 points to 4,110.43.

"Two things we learn from Wednesday's action: the presence of the bulls as evidenced by an early advance to the 6,900-mark and an overhang of the pessimism from Monday's pre-State of the Nation Address fall, this time

By NEIL JEROME C. MORALES

evidenced by the quick reversal of fortunes intraday," said Justino Calaycay Jr. of Accord Capital Equities Corp.

The main index hit an intraday high of 6,903.18. Financial markets were closed on Tuesday in celebration of the end of the Ramadan season for Muslims.

The gainers were led by service firms that added 0.89 percent or 18.71 points to 2,111.01 but the property sector led the losers as it retreated

by 0.32 percent or 8.36 points to 2,566.81.

Investor participation improved yesterday as value turnover hit P8.24 billion from P4.55 billion on Monday. Decliners outpaced advancers, 106 to 75, while 46 stocks did not change.

Most active stocks were in the green, led by index heavyweight PLDT (+1.59 percent) and SM Investments Corp. (+0.13 percent). However, top-traded Metrobank (-0.41 percent) closed lower, along with Megaworld Corp. (-2.82 percent) and SM Prime Holdings Inc. (-1.14 percent).

## RCBC plans P4.5-B stock rights offering

By TED P. TORRES

Rizal Commercial Banking Corp. (RCBC) is planning to conduct a rights offer on its common shares in a bid to raise P4.5 billion in additional capital.

The bank still has to determine the volume of common shares for offering and the specific dates involved as these are still subject to further approvals from its board of directors as well as monetary authorities.

In a report to the Philippine Stock Exchange (PSE), RCBC said proceeds from the rights offering "will allow the bank to strengthen its capital ratios under the global Basel III standards and to support its asset growth."

Last month, RCBC raised P7 billion in peso-denominated debt notes, which qualified as Tier 2 capital and Basel III-compliant to the capital adequacy ratio (CAR) framework.

Moody's Investors Service

rated the debt notes as credit positive as it increases RCBC's capital buffer for the purposes of withstanding stress conditions and, at the same time, will support the bank's business expansion.

The issuance of debt notes and the stock rights offer are part of RCBC's plan of raising at least \$200 million in capital to comply with requirements under the Basel III framework, fuel its lending activities, organic growth as well as possible acquisitions.

It would likewise increase RCBC's CAR to between 13 to 15 percent, or well above the 10-percent minimum required by the Bangko Sentral ng Pilipinas (BSP).

In its 2013 financial performance report, RCBC reported that its CAR stood at 11.71 percent and common equity Tier 1 ratio at 11.14 percent.