Shelter from Thai Storms

Philippine banks can be a haven for investors

by Steven K.C. Poh

THAILAND'S WELL-PUBLICIZED ECONOMIC WOES may mean money in the bank -- if it is a Philippine bank. Foreign institutional investors, concerned that the bust in Thailand's property and financial sectors is a harbinger of things to come in other Asian economies, have taken flight from the region's stock markets. Share prices have suffered indiscriminately. Some analysts believe individual investors can now pick up bargains among Philippine financial stocks -- without taking extraordinary risk.

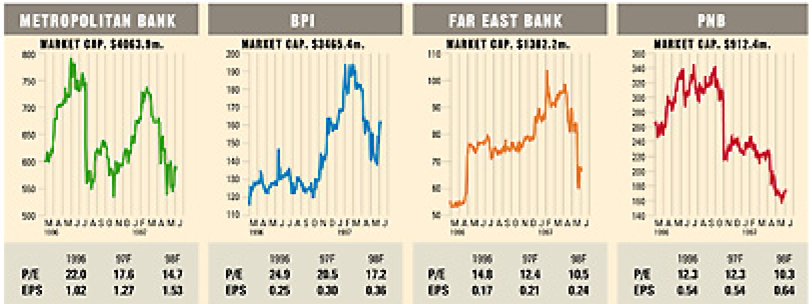
The reasons: compared to their Thai counterparts, Philippine banks are well-capitalized and less exposed to potentially bad real estate debt -- property loans account for roughly 11% of total loans. Besides, the economy is holding up. GNP grew 6.1% in the first quarter compared to the same period last year. Demand for some types of real estate, such as housing for a growing middle class, is on the rise. Still, investors must keep their guard up. The government is allowing the formation of new banks, such as Westmont Bank, and the added competition will mean pressure on profit margins.

Worth a look is Bank of the Philippine Islands. Christopher Hunt, analyst for W.I. Carr (Philippines) Securities, says BPI's profitable niche in consumer lending and prudent credit policies make it a solid bet. Net interest income is expected to grow at double-digit rates over the next three years; net earnings growth is projected to be 25% this year. BPI accounts for 60% of the country's lucrative consumer banking business, and that dominance means the bank "is less prone to a [profit margin] squeeze," Hunt says. However, Annabelle Dychiao of SocGen-Crosby UBP notes that 17% of BPI's loan portfolio is in real estate, which leaves little room for growth in that business (regulators recently capped real estate lending at 20% of total loans). The stock is trading at 25 times 1996 per-share earnings -- too rich to rate more than a "hold" recommendation from Dychiao.

Richard Tan of Peregrine Securities likes Metropolitan Bank & Trust due to its focus on manufacturing and trade. Loans increased about 30% in the first three months of the year and growth is expected to remain strong, in line with the country's economy as a whole. Metrobank is bolstering its branch network -- and thereby deposits -- by opening 35 additional outlets this year. With about 11% of its loan portfolio in real estate, there is room to book more property projects, Tan says. Dychiao also recommends Metrobank. But there are risks. Last year, 35% of lending was to foreign exchange traders. If the Philippine central bank decides to curb foreign exchange loans, profits could suffer. And Metro subsidiary Philippine Savings Bank is heavily into auto financing, an area where borrowers are defaulting in ever-greater numbers.

Hunt sees value in Far East Bank & Trust. Net profit is projected to grow 26% this year, despite additional foreign competition. He expects the share price to increase 20% over the next six months. The current price/earnings multiple is about 15.

Trading at about 12 times 1997 earnings, government-owned Philippine National Bank is a bargain among the country's large-cap financial institutions. The share price was depressed by poor performance in 1996. "We consider this a buying opportunity as [PNB's] fundamentals for 1997 and 1998 remain steady," Hunt says. "PNB represents a long-term growth story." For investors weary of hearing about the Thai crisis, that's a tale with an upbeat ending.



All money values in U.S. dollars except share prices, which are in Philippine pesos. Sources: Asiaweek Research, Datastream