



# On the Rise

Political uncertainty fails to hold back the Philippines' resilient economy, which is ready for a growth spurt.



It is only 4 o'clock in the afternoon, but already the fog is rolling into the tiny settlement in the highlands of Tampakan town in the southern Philippines. Inside the wooden houses, candles and gas lamps are no longer needed. Electric lights can finally be turned on. "The mine provides us with oil for our generator," says Juanito Malid, a leader of the Bla'an indigenous tribe. Sagittarius Mines, the company that has been granted exploration rights in Tampakan and surrounding areas, has also dug artesian wells, hired three teachers for the village school, and started livelihood projects.

Sparsely populated Tampakan is home to Christian settlers who farm the lowlands while tribal Bla'an lead hardscrabble lives in the hills. But the hard life is beginning to ease after the Philippine Supreme Court ruled in late 2004 that a 1995 mining law that opened mineral development to foreigners did not violate the constitution. Roads, schoolhouses, and commercial buildings are sprouting in Tampakan as Australian-controlled Sagittarius finalizes plans to start mining by 2009.

Tampakan could well be seen as a microcosm of the entire country. Despite two attempts to impeach her for allegedly stealing the 2004 elections, President Gloria Macapagal Arroyo has succeeded in turning on the lights and running water. The Philippines has finally put its fiscal house in order. In 2002, the national government's fiscal deficit equaled 5.4% of gross domestic product (GDP). Last year, the shortfall was just 1% of GDP. Inflation fell to 2.2% year-on-year in March this year, the lowest level since December 2002. Overall, the economy expanded by 5.4% in 2006, after growing 5% in 2005 and 6.2% in 2004.

Foreign investment in mining is giving the economy a tremendous boost. Mineral exports jumped to US\$2.1 billion in 2006, up 151% from 2005, led by copper (up 229%), nickel (105%), and gold (102%). Mining has now become

**Storm clouds hovering over the Philippines' economy are beginning to lift.**

the country's third-largest foreign-exchange earner after electronics and garments. Remittances from overseas Filipino workers (OFWs)

provide additional cushion: The estimated 8 million OFWs sent home a record-setting \$12.8 billion last year.

The target growth rate for 2007 is 6.1% to 6.7%. Socioeconomic Planning Secretary Romulo Neri explains Manila's optimism: "Our fiscal position is much improved. Inflation is on a downward trend despite oil price volatility. We are in a low-market interest-rate environment with bank lending starting to pick up. Our external position is rather healthy. The peso is strengthening due to the substantial pile of foreign exchange reserves." These recent developments, he notes, have earned the Philippines "five-credit rating outlook upgrades."

### Engines of Growth

One characteristic of the economic expansion is robust private consumption, which jumped 5.5% last year. The spending was underpinned in part by growing employment—the jobless rate fell to 7.3% in the fourth quarter of 2006, from 11.3% in the first quarter of 2005. The main driver, however, was the record high OFW remittances, which worked their way across the economy via

spending by the workers' families. For decades, economists have warned that OFW remittances were unsustainable, but so far they have been proven wrong. Inflows in January and February this year have already hit \$2.2 billion, up 23% over the same period last year.

Buoyant private consumption is good news for property companies like Ayala Land, food and beverage giant San Miguel, telecom firms PLDT and Globe, and fast-food chains like Jollibee and McDonald's. One of the biggest beneficiaries is SM Investments Corp., whose

**This year, the economy is targeted to grow over 6%, thanks in part to a boost in exports and domestic consumption.**



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various businesses span the personal-consumption spectrum from supermarkets to department

stores to shopping malls to real estate to consumer banking. The holding company reported a 64% surge in revenues last year, to 88.7 billion pesos (\$1.8 billion), and a 32% jump in net income to 10.6 billion pesos (\$220 million).

If one regards SM Investments as a proxy for the economy—as many analysts increasingly do because it has businesses in all the country's key urban and rural centers—the Philippines may yet achieve its ambitious growth targets. In a vote of confidence, the company has allocated \$2 billion in capital expenditures over the next five years. The plan is to build two to three new shopping malls a year and further develop the 60-hectare SM Bay City in Manila, which has as its centerpiece the massive SM Mall of Asia (said to be the world's third-largest shopping mall), which opened last year.

Significantly, SM Investments has also launched property projects in addition to its residential development. The company is venturing into tourism and business process outsourcing (BPO), signaling the importance of these two service-industry segments to the future economy. Tourism in the Philippines set a new record last year with 2.8 million foreign arrivals, breaking the previous mark of 2.2 million visitors set in 1999. The influx is showing up in hotel occupancy rates, which notched rates of 61% for economy hotels and 70% for both standard and deluxe hotels.

The uptick in business travel was particularly noticeable in 2006 as pledged investments to establish new or expand existing business ventures in infrastructure, mining, information and communication technology, and tourism increased 18% to 274 billion pesos (\$5.7 billion) over 2005. One prominent beneficiary is the 497-room Peninsula Manila, located in the heart of the business and financial district of Makati.

"Business travel to Manila started to pick up in mid-2005," says Rouel Guanzon, director of marketing for the 30-year-old hotel. "We are seeing sustained confidence of our corporate clientele at the onset of 2007. The hotel's renovation of public areas and guest rooms in one tower has earned substantial

### In the heart of Manila's business district: Makati



recognition and patronage from its past and current guests. We are very optimistic that the upward trend in the market will continue for the rest of this year and onward."

### Forward March

The national government is trying to do its part by budgeting a 13.5% increase in spending this year, which has been made possible by the dramatic improvement in its fiscal position. The focus is on upgrading infrastructure, where expenditures are scheduled to rise 16% to 162.9 billion pesos (\$3.4 billion). That said, Manila says it is not turning its back on fiscal prudence. It has prepaid the country's remaining \$220 million debt to the International Monetary Fund and plans to do the same with \$126 million in Brady bonds, after retiring \$411 million of the U.S.-granted concessionary debt last year. The resulting drop in interest payments should help keep the fiscal deficit below 1% of GDP. The target is to wipe it out altogether by 2009.

But a note of uncertainty has been injected into the bright economic picture, as the Philippines awaits the final results of the government elections on May 14. An opposition victory raises the possibility of yet another attempt to impeach President Arroyo. Then again, the Philippines' exuberant, if maddening, practice of democracy has not diverted the economic team from placing the nation's finances on a sound footing. For an economy so clearly on the go, the politics of the moment may not matter all that much,

**A luxurious oasis: the Peninsula Manila**

provided the arguments are confined within the halls of the legislature—not on streets and not with bullets. ■



# SM INVESTMENTS CORPORATION :

# Beyond the ORDINARY

**SM Investments Corporation (SM)** is a company that thrives on market leadership, boldness, vision, innovation, and value creation. Strongly guided and driven by these tenets, SM has gone beyond the ordinary. It has emerged into one of the Philippines' largest and most well known publicly listed conglomerates with a dominant position in Philippine retail merchandising and mall operations; among the largest in the banking sector, and is a fast emerging player in residential, commercial, and tourism real estate development.

Boldness allows SM to undertake trailblazing initiatives that dramatically set the pace for the industries it serves. Track record shows how some of its largest malls and retail stores were built at a time when it seemed least feasible. Today, these SM malls and retail stores are popular and highly profitable.

Vision enables SM to attain growth with breakthrough initiatives, thought leadership, risk management, and a thorough understanding of its market and business environment. Because of this steadfast vision, SM has experienced significant, uninterrupted growth since its birth.

In less than 50 years, SM has grown into a US\$2.5 billion company with 66 retail merchandising outlets, 28 shopping malls, the second and the tenth largest banks in the country, and a landbank that can support many decades of residential, commercial, and tourism real estate development.

Innovation allows SM to maintain its growth through strategic differentiation, and operational agility. A good number of SM's offerings are 'firsts' for the Philippines, often generating strong interest from a domestic market that has gotten used to the company's trendsetting ways.

Value creation makes it possible for SM to sustain its growth well into the future

prudent management of resources, financial discretion, methodical expansion, and its commitment to preserve its credibility and integrity towards all of its stakeholders.

In 2006, the company laid the necessary foundations for a new growth cycle that will further enhance and heighten SM's vision of excellence, governance, and transparency as SM aspires to be a globally competitive institution.

2007 marks the start of a merger process for SM's two banks, BDO and EPCIB. Furthermore, the company has already launched Hamilo Coast, a large-scale venture into tourism that will create eco-friendly, coastal resort communities in Nasugbu, Batangas. Also rising this year are two projects in SM BayCity, a 60-hectare urban development undertaking that now houses the SM Mall of Asia. One is the SMX Convention Center, which will be the country's largest trade and cultural convention center with world-class exposition amenities for major trade exhibits and conferences. The other is OneE-comCenter, SM's response to the surging demand for acceptable and appropriate office space for business process outsourcing or BPO companies.

There is also a full program to open new SM malls and expand existing ones, with corresponding plans to open new SM Department Stores, SM Supermarkets, and SM Hypermarkets. More space will be created for the millions who visit SM malls, enhancing even further their integrated shopping, dining, and entertainment experience.

As in the past, SM continues to be driven by its desire to see its vision materialize. More important, the company is also driven by its desire to create jobs, improve lifestyles, and give Filipinos a name to own and be proud of. That name is SM.



## RETAIL MERCHANDISING

SM Department Stores  
SM Supermarkets  
SM Hypermarkets

## MALL OPERATIONS

SM Prime Holdings, Inc.

## BANKING

Banco de Oro Universal Bank  
China Banking Corporation  
Equitable PCI Bank

## PROPERTY

SM Development Corporation  
SM BayCity  
Hamilo Coast  
Highlands Prime, Inc.