

**Conglomerates**

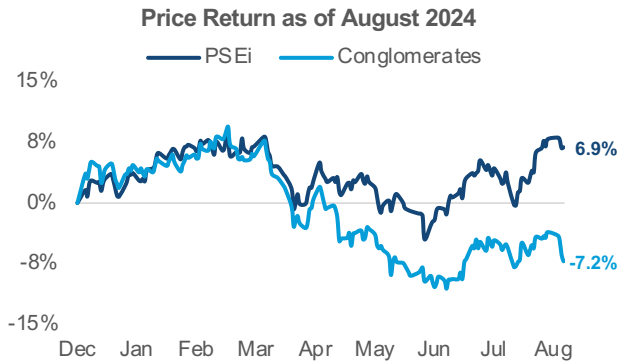
**Asset Impact**

**Positive**

**Potential winners ascend from a fretted sector as macroeconomic outlook improves**

Conglomerates – one of the sectors that were not met by optimism following the end of 2Q24 earnings season – have lagged the overall index by over 1400 bps as of end-August. This is an apt reaction to the sector's (ex-SMC) modest core earnings growth of 3.8% and 4.1% for 2Q24 and 1H24, respectively. These figures trail the PSEi's 6.3% for 2Q and 7.7% for 1H, mostly due to the high base effect from DMC last year. Excluding DMC, the sector's aggregate growth would have been much better at 8.9% and 9.1% over the same period, respectively. While the group might continue to underperform for the rest of the year, there are select names that could win the market's vote of confidence in the coming months. This can be attributed to investors' preference for companies with resilient business models and stable cash flows. Specifically, GTCAP, which recently reached its 52-week high, should be in a prime position to outperform on the back of attractive valuations and improving margins in Toyota due to the ongoing peso recovery. While GTCAP's 1H24 core profit growth was far from stellar at 5%, earnings for 2H24 should come in stronger and provide support to the share price appreciation. Additionally, SM, being a consumer proxy play, should be buoyed by easing inflation and monetary policy as disposable incomes are expected to improve in the near term.

**Figure 1: As of August 2024, conglomerates were one of the least loved sectors in the local market**



**Figure 2: GTCAP currently trades at a compelling level as its Fwd. P/E is even lower than its pandemic low**



**Figure 3: Inverse correlation between GTCAP and USD is underpinned by earnings sensitivity of Toyota**



**Figure 4: SM saw faster earnings growth in 2Q24, while GTCAP should rebound in latter part of the year**

| Index Names                     | 2Q24   | 1H24   | Vs. Consensus |
|---------------------------------|--------|--------|---------------|
| GT Capital Holdings (GTCAP)     | +2.4%  | +5.0%  | In-line       |
| SM Investments Corporation (SM) | +13.0% | +10.0% | In-line       |
| Conglos ex. SMC                 | +3.8%  | +7.7%  |               |

Sources: Bloomberg, Company briefing materials

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