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Industry Updates

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KPMG Philippines weekly Information, Communications and Entertainment news summary

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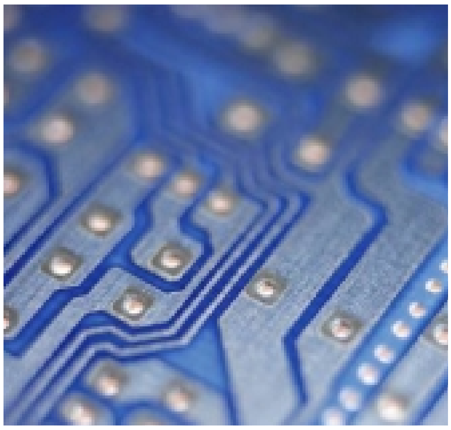
Information, Communications and Entertainment



In the news

COMMUNICATIONS

Telecom, automotive sectors to get smaller incentives under 2008 IPP

Established companies belonging to the telecommunications and the automotive industries will be enjoying smaller incentives this year "because they can afford to pay the proper fees," Trade Secretary Peter B. Favila told The STAR in an interview yesterday. Favila said telecommunications companies and the car manufacturers have high income, enough to expand their business without much government support.

According to him, the 2008 Investment Priorities Plan (IPP) will focus on start up industries and small and medium sized enterprises. Earlier, Board of Investments (BOI) Managing Head Elmer C. Hernandez said they are looking at trimming the list of priority sectors in accordance with the government's fiscal consolidation to balance fiscal consolidation and the need to attract more investments for economic development.

The six priority sectors included in the draft are: Agriculture and agri-business, infrastructure, tourism, engineered products, research and development, and strategic investments. Investments for the construction of roads, tollways, railway system and mass housing will still enjoy tax incentives under infrastructure. Investments in power specifically in renewable energy will also get income tax holidays. Logistics like airports and ports, and logistics-related IT services will also enjoy ITH (income tax holidays) provided these are part of a logistics hub. Also under the draft IPP, micro, small and medium enterprises (MSMEs) will automatically be entitled to ITH if they invest in any of the IPP-listed projects.

On the other hand, the BOI will no longer give incentives to projects qualifying under the retention and expansion and diversification scheme. The priority sectors in the 2007 IPP are steel and iron, agriculture, fishery, and support services; healthcare and wellness products and services; information and communications technology; electronics; motor vehicle; energy; infrastructure; tourism; shipbuilding/shipping; machinery and equipment, raw materials and intermediate inputs in support of the activities listed in the IPP, and R&D.
Source: Philippine Star . Ma. Elisa P. Osorio . Tuesday, March 25, 2008

Cable firms advised to bundle Net service

Local cable operators in the country have been advised to offer value added services (VAS) - particularly Internet connectivity bundled with their traditional offering - to their customers in order to increase profitability amid a saturated market, but an industry group said this may not be feasible.

On the sidelines of the two-day 9th International Cable Congress and Exhibit late last week, Technology Support Services, Inc. Managing Director and Chief Technology Officer David T. Fernando said cable operators should capitalize on the prevalence of the Internet and offer services based on this technology as VAS to clients. "Currently, the revenue capacity of [local] cable operators is very limited. Their asset is not being leveraged to the fullest," Mr. Fernando said in an interview.

Mr. Fernando explained that the infrastructure being used by cable operators is underutilized, with less than half of their capacity actually used. He said the remaining half could be used to offer internet connectivity as a bundled service. Edgardo A. Paynor, member of the Board of Directors of Federation of International Cable TV Association of the Philippines (FICAP) said Internet connectivity as VAS should allow the operators to capture a bigger share of clients amid the saturated market and the ploy of telecom firms to offer similar cable TV services.

However, the expansion of smaller firms to offer VAS is hinged on much-needed capitalization. Philippine Cable Television Association, Inc. Director Manuel Z. Dabao said offering Internet connectivity as VAS for smaller cable operators would not be viable, especially in the provinces. He said the proposed bundled service is not viable for smaller operators with less than 2,000 subscribers, since the rollout would require P20 million-P50 million investment.
Source: BusinessWorld . Marian Grace S. Ramos . March 17, 2008

Mobile TV regulations will be out soon—NTC exec

The National Telecommunications Commission (NTC) will come out soon with a draft regulation for mobile TV service in the Philippines. NTC Deputy Commissioner Jorge Sarmiento said the agency is at a stage of "finalizing" the draft guidelines, and is expected to make the guidelines public after Easter.

Asked exactly when will the guidelines be ready, Sarmiento, replied: "Soon." Smart Communications has announced plans to offer mobile TV services with broadcast firm 360media Corp., a subsidiary of MediaQuest Holdings. However, it cannot offer the service on a commercial basis until the NTC guidelines are issued.Using the European Union-backed digital video broadcasting-handheld (DVB-H) standard, Smart subscribers with mobile TV-capable handsets can now view several channels covering news, music, sports, and documentaries. The service is not transmitted through the cellular network.

Smart said last year that it has started offering mobile TV service in "Mega Manila," Cebu, Davao, Tagaytay, Batangas, and Baguio City, and later in Cagayan de Oro and Boracay. Orlando Vea, president and chief executive officer of 360media Corp., had said that 360Media will be investing $50 million in three years. The company has put in $30 million.
Source: INQUIRER.net . Erwin Oliva . March 19, 2008

Ethical issues on the right to access information

LAST week, UNESCO convened in Vietnam the Asia-Pacific Conference on Ethical Dimensions of Information Society. The forum could not have come at a more appropriate time for us in the Philippines amidst allegations of large-scale corruption attendant to the setting up of the National Broadband Network (NBN). Ramon R. Tuazon, president of the Asian Institute of Journalism and Communication (AIJC) was keynote speaker for the theme "Ethical Issues on the Right to Access Information."

Among the issues discussed in Mr. Tuazon's paper were those related to technology transfer. A major ethical issue is demand-driven vs supplydriven technology transfer. Some sectors contend that in many cases, technology is being introduced not because it is needed but for reasons that "profit" more the technology supplier. A related issue is how a particular technology being introduced stands in terms of priority needs of a country, where the common problem lies in the inability to illustrate how ICT can be used as a tool to address development issues, such as lack of classrooms, incompetent teachers, through distance education and other alternative learning schemes.

A perennial problem in international relations is tied foreign aid. Citing Filipino economists Raul Fabella and Emmanuel De Dios, the paper noted that the past years, there have been initiatives to "untie" aid especially among the least developed countries, and many OECD member countries allow competitive bidding for ODA contracting among: (a) firms from the same donor-country; (b) firms from across different developed countries; and (c) firms from both developed and developing countries. In the case of the Philippine NBN Project, the Export-Import Bank of the donor country offered a US$329-million loan to finance the NBN on condition that the project is awarded to a corporation partly owned by the donor country.

On the issue of digital divide, the AIJC president presented some highlights of the recently released United Nations Conference on Trade and Development (UNCTAD) Information Economy Report 2007-2008. The Report noted that the technology gap between rich and poor countries remains vast based on key indicators such as access to computers, Internet penetration and usage, mobile phone penetration, and availability of broadband penetrations. Citing the UNCTAD Report, Internet penetration in developed economies is 10 times higher than that in developing economies.
Source: Manila Bulletin . Florangel Rosario Braid . March 19, 2008

ELECTRONICS & SOFTWARE

Big-ticket investments expected in electronics, shipping, automotive

The government expects big-ticket investments in the electronics, shipping and automotive parts industries to enter state-owned economic zones by the first semester. Philippine Economic Zone Authority (PEZA) Director-General Lilia B. de Lima said three to four foreign investors are likely to come before the end of the month, even as she declined to name the firms. “We expect investments from heavy and some light industries. We are also looking at bringing in electronics firms as well as suppliers of autoparts. We’re also relying on expansions of existing companies,” Ms. De Lima said in an interview last week.

New investors this year are likely to come from Taiwan, South Korea, Singapore, Japan, the United States, as well as from Germany and other parts of Europe. Ms. De Lima said Korean firm Hanjin Heavy Industries and Construction Corp.’s planned expansion in Cagayan de Oro will help PEZA attract related industries that will supply Hanjin’s needs. She also said these investors continue to rely on fiscal incentives from the government, adding certain sectors such as manufacturing should continue to benefit from tax perks.

“We should continue the ones that we have now because our competitors are giving the same incentives and more,” Ms. De Lima stressed. “China, for instance, offers free land...that’s something we cannot do,” she noted. Apart from manufacturing, other areas that should continue to get fiscal incentives include medical tourism and other tourism-related activities, shipping, logistics, automotive car parts, and information and communication technology and business process outsourcing. She also cited as main deterrents to businessmen the high cost of power in the country as well as an image of instability.

Investment commitments okayed by the Board of Investments (BoI) and PEZA totalled P349.08 billion in 2007, with overseas investors accounting more than half, government data showed. The tally was a 28.67% jump from 2006’s P271.29 billion, and was a significant gain over the official 12% investment growth target. The Trade department has set another 12% growth target this year to about P391 billion. BoI accounted for 61.7% at P215.34 billion, from P187.62 billion in 2006, while the PEZA’s share was P133.73 billion, up from P83.67 billion.
Source: BusinessWorld . Bernardette S. Sto. Domingo . March 17, 2008

IPVG unit bags rights to popular online role-playing game

The online gaming subsidiary of publicly listed IPVG Corp. has partnered with EST Soft Corp., a Korean game publishing firm, to launch a new “massive multi-player online role-playing game.” IPVG told the Philippine Stock Exchange yesterday its subsidiary IP E- Games sealed the game publishing and distribution deal for CABAL Online, said to be a much-anticipated online role-playing game

Razon-led IPVG said CABAL Online is expected to be one of the biggest titles to hit the Filipino online gaming community as proven by successes in other markets. The game has been previously launched in Asia and Europe, as well as in the US and Canada, gathering 20 million registrations worldwide. “With CABAL Online, we expect to increase our existing user base by appealing to console and hard-core gamers,” CABAL Online product manager Mark Ng said. The firm said the newest game in IP E-Games’ portfolio is a unique third-person game boasting of three-dimensional graphics and a “stimulating” role-playing storyline.

IPVG also has exclusive distribution rights to other games such as RAN Online and Granado Espada, while I-Play, a joint venture firm between IPVG and GMA Network, Inc. holds rights for casual games O2Jam and Audition.
CABAL Online will be formally launched on April 6 at the SMX Convention Center in SM Mall of Asia.
Source: BusinessWorld . March 26, 2008

Subic free port woos Taiwanese developer of ‘software parks’

The government is looking to finalize by end-March a multi-million- dollar deal with Taiwanese firm Century Development Corp. to build an industrial zone for software companies in Subic. Subic Bay Metropolitan Authority Administrator Armand C. Arreza said he is leaving for Taiwan on Friday to hopefully “close the deal” with the Taiwanese company.

Century Development Corp., which developed the Nankang Cyber Park in Taiwan, is building a similar facility in Vietnam and is eyeing the Philippines as its next site. Mr. Arreza said the company is planning to infuse initial investments of $25 million-$30 million. "What's more significant is the companies that will locate in the software park and the investment they will be bringing in. It's a 10- hectare site and we expect to attract a lot of companies," he said in an interview.

The industrial park is expected to house business process outsourcing players as well as companies involved in software development and research. Philippine Chamber of Commerce and Industry Vice-President George Siy earlier said the Philippines can get a bigger slice of the yearly $100 billion in foreign direct investments from Taiwan to Southeast Asia. The Philippines normally gets Taiwanese investments of only about $1 billion a year, he noted, in contrast to $7 billion for Vietnam.

Government data showed total Taiwanese investments in the Subic Freeport Zone reached $225 million in 2006. Taiwan is the country's fifth largest trading partner, with two-way trade amounting to $7.2 billion in 2006. It is also the Philippines' seventh largest source of foreign investors and fifth largest source of tourists.
Taiwanese businessmen late last year expressed interest in investing in the information and communications technology, energy, construction and tourism industries.
Source: BusinessWorld . March 26, 2008

MEDIA

UPDATE: Media Prima To Raise $100M-$150M For Acquisitions

Malaysian media group Media Prima Bhd. (4502.KU) Tuesday said it plans to raise $100 million to $150 million for a fund that will be used to buy media assets in the region.
Media Prima said it will be the anchor investor in the fund, which will be named MPB Strategic Media Fund Limited Partnership.

The company is also in talks to secure other investors in the fund, Group Managing Director Abdul Rahman Ahmad told reporters. He said the fund is expected to invest in five regional assets, starting with an investment in the Philippines.

The company, which owns newspapers, radio and television stations in Malaysia, said it has entered into a 70:30 joint venture with SBC Markwendell Inc. in the Philippines. MPB Primedia Inc., the joint venture company, will enter into a block airtime agreement with ABC Development Corp. for content provision and to manage the sale of ABC's airtime.
Source: Serina Joon . Dow Jones International News . March 25, 2008

The wealth manager BusinessWorld Research's Stock Picks for the Week: GMA Network, Inc.

Analysts recommend investors to buy stocks of GMA Network, Inc. given the television network's performance in 2007 and its good prospects this year. The company last week reported that net income rose by 19% in 2007 to P2.33 billion from P1.96 billion in the previous year. Revenues during the period reached P12 billion, 9% higher than the P11 billion recorded the previous year.

GMA earlier attributed the better showing to good ratings, especially in the fourth quarter, and increased contributions from subsidiaries. Better ratings translate to higher revenues with advertisers. The company said it has maintained its Mega Manila ratings lead over closest rival ABS-CBN Broadcasting Corp. Based on Mega Manila TV ratings from AGB Nielsen, GMA posted an average total day rating of 17.7% in 2007 against ABS's 14.3%. I

Analysts advise investors to watch these ratings closely as the market depends greatly on how things in the broadcast industry would sway. Weighing the ups and downs, analysts believe GMA would again be profitable this year, with last year's revenues revealing an evident pattern of growth. In addition to expanding in its television network, GMA is also broadening its revenue stream by going into other businesses such as online gaming, which has an estimated market of $12.6 million for 2008.

While GMA is not the first broadcast company to go into the online gaming industry, it has caught up with rivals by forging a joint venture called I-Play with listed conglomerate of IPVG Corp. The online gaming unit has a player base of 2.5 million users or equal to that of its rival network. Rival ABS-CBN has long been in the online gaming industry through subsidiary Amped Games. The three-year-old venture wants to double its user base to five million this year as it gears up for competition. Other revenue streams for GMA are UHF channel QTV and subscription- based GMA Pinoy TV, which broadcasts the television network's shows outside the Philippines.
Source: BusinessWorld . J'ven Marc A. Makilan . March 17, 2008

OUTSOURCING

eTelecare bags deal with digital TV firm

eTelecare Global Solutions Inc., a leading provider of complex business process outsourcing (BPO) solutions, has entered into a deal to provide up to 250 seats of inbound telesales services for a digital television entertainment firm.

Under the agreement, eTelecare agents will sell new service activations from prospect inquiries originating from the service provider's website, toll-free telephone number and from customer service transfers.

"Being selected by the industry leader with a reputation for high customer satisfaction is another validation of our value-driven customer satisfaction business model," said eTelecare president and chief executive officer John Harris in a statement. "eTelecare is happy to support this customer's continued growth through this new telesales program," he added. This year, the company expects to register revenues of between $300 million to $310 million. Net profit, on the other hand, is seen to fall to $16 million to $19 million compared with $23 million in 2007 owing to the impact of the strong peso on its operations.

To remain competitive in the industry, eTelecare is keen on penetrating some of its smaller target industries such as travel, cable, healthcare and the Internet. eTelecare's commitment to the Philippines began in 2000 when it established its first contact center in Makati and became one of the first Philippine-based companies to provide voice-based BPO services to the US market. In 2004, eTelecare became one of the first Philippine-based companies to offer a multi-shore business model when it acquired Arizona-based Phase 2 Solutions, a leading US BPO provider. .
Source: Philippine Star . Zinnia B. Dela Peña . March 19, 2008

Paxys seeks to buy control of IT firm
Listed business process outsourcing firm Paxys Inc. is planning to acquire a majority stake in Ubaldo Reidenbach Solutions Inc. (URSI), a local information technology, software development, licensing and consultancy company. In a disclosure to the Philippine Stock Exchange (PSE), Paxys corporate information officer Christopher Maldia said Paxys has signed an agreement to subscribe to 27,100 shares of URSI at a total price of P6.5 million.

Maldia said the subscription is subject to satisfactory due diligence and, upon completion, Paxys' interest in URSI will amount to 51.02 percent of its outstanding capital. Paxys has also agreed to execute a further agreement to subscribe no earlier than December 31, 2008 for more URSI shares for a total price of P3.5 million although the price per share will depend on URSI achieving certain performance targets by the end of the year.

Upon completion of the second subscription, Paxys' final interest in URSI will be between 59 percent to 63 percent, said Maldia. For the nine-month period ending September 2007, Paxys reported that its consolidated revenue increased by 30 percent to P2.42 billion from P1.85 billion over the same period in 2006. Of the total revenue, P1.84 billion or 76 percent was accounted for by the Philippine call center, Advanced Contact Solutions (ACS), which increased revenues by 10 percent, from P1.66 billion at YTD September 2006.
Source: Manila Bulletin . James A. Loyola . March 21, 2008

P50-B IT hubs nationwide
To make the country more globally competitive, a lawmaker is pushing for a nationwide P50-billion information and communications technology (ICT) project, by setting up an ICT hub in every province. Pangasinan Rep. Ma. Rachel J. Arenas (3rd district) filed House Bill 2213, entitled: "One Philippines Act of 2007," which provides for a P50-billion infrastructure fund for use as seed capital and national counterpart from the national government for the establishment of the ICT hubs.

The fund will be disbursed pro-rata to provinces, based on telephone density, degree of digital divide in the population, ICT penetration ratio, presence of new alternative backbone networks, science and technology parks and industrial estates with an ICT focus, among others. Any locator to ICT hubs will be given a five-year tax break from national taxes, provided that these locators are involved in servicing outsourced services like - but not limited to - animation, customer contact, back office, software development, medical and legal transcription and other cyber services.

"The creation of ICT hubs shall minimize the so-called digital divide as well as speed up the setting up of a wireless communication infrastructure," said Ms. Arenas. She explained that with an ICT Hub, a province "can also electronically promote the province and provide a nerve center to connect the same to the various agencies of the national government."
Source: BusinessWorld . March 19, 2008

Skills shortage top business worries in RP
FOR THE SECOND year in a row, lack of skilled work force emerged as the biggest constraint to expansion among businesses in the Philippines, summarized results of the Grant Thornton International Business Report released by Grant Thornton International Ltd. member firm Punongbayan & Araullo (P&A) read. This year's survey of the attitudes and expectations of medium-sized businesses covered 7,800 respondents from 34 countries.

Fifty-eight percent of Philippine-based businessmen who responded to the survey said the growth of their business has been worst affected by the lack of skilled work force, compared to 43% last year. Globally, the figure for this constraint increased to 37% from 34%. The Philippines shares the third spot with Australia, while Thailand and New Zealand were 1st and 2nd respectively.

The study also asked businessmen if cost of finance, shortage of long-term finance, shortage of working capital, shortage of orders/reduced demand, and regulations/red tape were key constraints to expansion. Results this year show an increase in percentage of Filipino respondents saying these are major constraints. Meanwhile, Watson Wyatt Philippines, Inc. Managing Director James Matti said in a briefing yesterday that firms should offer flexible remuneration schemes if they expect to keep their young, increasingly mobile work force. He cited the need for firms to find innovative ways to cater benefits to the lifestyle and economic needs of the new generation of workers.
Source: BusinessWorld . March 18, 2008

TRAVEL, LEISURE & TOURISM

Economic Indicators Hotel occupancy in Metro Manila off to a poor start in 2008

Metro Manila hotels experienced weaker occupancy rates at the start of the year, despite a bigger rise in tourist arrivals recorded in the same period. The latest report from the Department of Tourism (DoT) shows the industry's overall average occupancy stood at 73.4%, down from last year's 75.74%. Average length of stay of guests also dipped slightly to 2.42 nights from 2.51 nights.

In January, the number of foreigners visiting the country reached 293,803 or a 7.8% growth from the comparative period's 272,525. It could be noted that all of the four hotel classes posted significant declines in occupancy rate for the month. Standard hotels booked the highest occupancy rate of 74.21% but failed to up its performance from 74.64% last year. The Hotel and Restaurant Association of the Philippines expects hotel occupancy rates in the country to rise to as much as 95% this year as more tourists consider the country a viable destination. Last year, tourist arrivals finally breached the three-million mark after staying within the two-million territory from 2004-2006.

Moreover, the tourists spent a total of $4.885 billion a significant increase from the $2.622 billion recorded in 2006. For this year, DoT expects tourist spending to jump up to $5.8 billion. Hotel occupancy is one of the indicators used in the computation of the leading economic index (LEI) — a measure that affords planners and decision-makers a glimpse of where the economy is headed in the near term. Total registered hotels for the period covered was at 83, or five more than what was counted for the same period in 2007. Average number of rooms available for occupancy increased to 14,438 rooms, with deluxe hotels garnering more than half of the total, standing at 7,852 rooms.
Source: BusinessWorld . Ma. Suzette R. Daquiz . March 26, 2008

Communities urged to maximize rural tourism

To spread the wealth generated by the massive increase in the country's tourism industry benefiting the local level through revenue and job generation, tourism industry stakeholders suggest communities to 'exploit' the vast opportunities presented by the so-called rural tourism. And providing a venue to identify community-based efforts and developments for the implementation of rural tourism, the Department of Tourism together with other decision makers and stakeholders from the tourism industry gathered in Cebu for a 3-day community-based rural tourism (CBRT) national seminar.

Rural tourism has been well-identified as a tourism product which markets existing rural culture, sights, sounds, thrills and other natural and man-made resources found in a specific rural community. Rural tourism explores, markets and 'exploits' available resources in such a way that it can create a positive growth for the holistic development of the entire community as well as its residents and its is not yet "too late" for Philippines to bank on this endeavor, said DOT undersecretary for tourism services and regional offices Oscar P. Palabyab.

Topics discussed by speakers in the seminar include trend issues, challenges and opportunities for rural tourism development and the frameworks for the development, promotion, management and sustainability of CBRT, as well as CBRT models practiced by neighboring countries in Asia such as Thailand and Nepal, Africa, and Latin America.
Source: Philippine Star . Rhia de Pablo . March 28, 2008

Feedback

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