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|  |  |
| --- | --- |
| **ABBREVIATION** | |
| **AP** | Account payables |
| **AR** | Account receivables |
| **CPI** | Corruption Perceptions Index |
| **DoA** | Department of Agriculture |
| **ER** | Exchange rate |
| **IR** | Interest rate |
| **IFD** | Inflation rate differentials |
| **MI** | Mondelez International |
| **MNC** | Monde Nissin Corporation |
| **MNCs** | Multi National Companies |
| **NPA** | New People’s Army |
| **NWC** | Net working capital |
| **OLR** | Overall lending rate |
| **PPC** | Production per cow |
| **TV** | Terminal value |
| **URC** | Universal Robina Corporation |
| **WC** | Working capital |

# **Question 1**

## **Industry**

Filipino snacks and baked goods witnessed gradual growth with rising demand due to Filipino's appeal for snacks and sweeties, considered as Filipino culture, promoted since pandemic with encouraged out-of-home snacking, rising disposable income and office, schools return (Figure 1)(Euromonitor 2024). In components, savoury snacks experienced fastest growth, being prominent packed-lunch of Filipinos. However, preference gradually changes to heathy-snacking with rising nutrient-dense and health-awareness favor(Euromonitor 2024).

With historical growth, MKD's expansion is promising with Cozy-biscuit, AFC-crackers, and mooncake being sweet, savory biscuits components in snacks and baked goods are potential with huge demand and vegetables, barley, and oats lines, fitting healthy trend(Figure 3). Nevertheless, Solite-soft cake is not expected long-term without healthy lines and sweet-tooth trend gradually passes.

**CAGR of 5.3% (Snacks), 11.9%(Baked goods)**

*Figure 1: Overall snacks sales and volume in Philippines (PHP million) (Euromonitor 2024) (Statista 2024)*

*Figure 2: Snacks sizes in Philippines by categories (PHP million) (Euromonitor 2024)*

*Figure 3: Sweet and Savoury Biscuits sales (PHP million) and income per capita ($US thousand) in Philippines (Euromonitor 2024)(Statista 2024)*

## **Country risk**

|  |  |
| --- | --- |
| **Risk** | **Explanation** |
| Political  and  Business environment | Terrorism exists from religious and ideologically motivated terrorist, between NPA and Islamist militants(DOS 2024)(Brey 2023). Corruption is pervasive, scoring 34 and ranking 115th in 2023 CPI, riskier than Asian of 45(DOS 2024). With ineffective property rights, judicial, government integrity, corruption causes PHP700 billion loss in 2019, raising MNCs concerns(EFA 2024)(Borgen 2023). |
| Economic | Challenging external environment, IR and war, caused tightening policy and reduced demand. Furthermore, Philippines' export depends on electronics(>50%), showing vulnerability to cyclical risk, currently US technology stocks slump(Asplund 2024).  However, risk is low as food inflation decreased from 4.4% to 3.3% in July-August(Yu 2024), and current account deficit is expected to narrow by Fitch to 2.3% GDP(Asan 2024). |
| Climate | Climate is serious with unfavorable geographical location, belonging to Pacific Ring of Fire, causing earthquakes and volcanic eruptions. Specifically, more than 12,600 earthquakes recorded in 2021 with magnitude 2-7(Statista 2024). Besides, with southwest monsoon, storms occur frequently, 18 in 2022 with PHP30 billion damage(Statista 2024). Furthermore, WRI(2022) rates Philippines most-disaster-prone country. |
| Financial | Debt is high with PHP15 trillion despite net redemption of domestic government(BRT 2024). Interest payments witnessed 47.78% YoY rise with additional debt and high borrowing-cost, causing 24.06% widen fiscal deficit in 5M/2024(Cervantes 2024). However, financial performancing is managed with reduced IR expectations of FED. |
| Overall | Country risk is low-to-moderate with afformentioned explanation, supported by low-to-moderate rating from institutions(Table 2). |

*Table 1: Country risk assessment for Philippines*

|  |  |
| --- | --- |
| **Institution** | **Rating** |
| Moody | Baa2 |
| Fitch | BBB |
| S&P | BBB+ |
| OECD | 3 |

*Table 2: Country risk rating for Philippines from institutions (EFA2024)*



*Figure 3: Country risk rating for Philippines from OECD (2024)*

# **Question 2**

## **Financing**

With MKD's financial report in USD, most prominent currency for international transactions, borrowing USD reduces ER risk. SBV(2024) offers USD medium-long-term loans 6.3-7.2% in April 2024. However, there is no public information about Philippines lending rate in USD. Overall rates including IR and OLR of Philippines are all higher than Vietnam(6.5>4.5)(6.75>4.59)(BPI 2024)(SBV 2024). Additionally, since Vietnamese banks remain under government-control, businesses can mitigate political instability and liquidity constraint(Gobat 2023). Then, Philippines’s is estimated proportionally to IR difference. Overall, borrowing USD from SBV is preferred with low-interests.

|  |  |  |
| --- | --- | --- |
| **Component** | **Borrowing Amount** | |
| **Vietnam** | **Philippines** |
| Office, employees, advertisement | 4,600,000 | |
| New production line | 4,700,000 | |
| Total | 9,300,000 | |
| Time | Year 2 – Year 7 | |
| Borrowing amount (42%, explained in WACC) | 3,892,394 | |
| USD Lending Rate | 6.75% | 9.75% |
| Corporate income tax | 20% | 25% |
| After tax cost of debt | 5.4% | 7.31% |
| Interest expenses per year (USD) | 262,737 | 379,508 |
| Total interest expenses (USD) | 1,576,420 | 2,277,051 |
| Number of years | 6 | |
| Bank | SBV | BSP |

*Table 3: Borrowing in Vietnam and Philippines comparison*

## **WACC**

Industry characteristics are revenue-secured, espicially in Philippine with potentitial growth; thus, MKD has advantage to leverage growth with guaranteed debt-repayments minimized when shareholders demand higher interest compared to debtholders. Especially, debt-financing is tax-deductible, preferred since Philippines tax is higher(25%>20%). However, being fresher player in competitive industry with giants, including URC or MNC with 27.7% and 9.7% market share(Euromonitor 2024), revenue risks exist. Therefore, equity-financing is higher than debt's, applied weight from industry D/E, 0.7198(Investing 2024). Besides, beta is KDC’s rate for MKD’s Vietnam listed competitor, and 10Y bond-rate is risk-free(Investing 2024)

|  |  |
| --- | --- |
| **Components** | **Value** |
| CAPM |  |
| WACC |  |
| Equity-risk premium | 7.38% (Damodaran 2024) |
| Country-risk premium | 2.78% (Damodaran 2024) |
| Risk-free rate | 6.48% |
| Beta | 0.34 |
| Cost of Equity | 11.78% |
| Equity weight | 58% |
| Debt weight | 42% |
| Cost of debt | 6.75% |
| Tax rate | 25% |
| WACC | 8.97% |

*Table 4: WACC computation*

# **Question 3**

## **Model construction**

From PPP, ER gradually fluctuates timely, accounting for IF differentiation between regions(Beirne 2010). PPP is applied for forecasting USD/PHP, since operating currency PHP need to convert to USD for report. PPP-model is constructed with annually data from 2001 to 2024 in USD/PHP spot rate and IF of US, Vietnam(23 observations). Then, lagged approach is used, diminishing autocorrelation and clarifying causal connection between inflation and ER movement, improving accuracy(Keele and Kelly 2005).

|  |  |
| --- | --- |
| **Equation** |  |
|  | USD/PHP spot rate change from time t to t-1 (%) |
|  | Lagged IFD at time t-1 (%) |
|  | Philippines inflation |
|  | US inflation |

*Table 5: PPP model equation*

|  |  |  |
| --- | --- | --- |
| **Components** | **Symbols** | **Interpretation** |
| Null hypothesis |  | Lagged IFD is statistically insignificant to ER |
| Alternative hypothesis |  | Lagged IFD is statistically significant to ER |
| P-value | 0.05 < 0.08 < 0.1 | With values lower than 0.1 significance level, ís rejected |
| Adjusted | 0.096 | Lagged IFD only explain 9.6% USD/PHP movement, while the remaining is from other omitted variables. |
| Coefficient |  | For every 1% increase in IFD, USD/PHP change decreases by 1.22%, |
| Intercept | 0.023 | If lagged IFD is 0, USD/PHP change is 0.023% |
| Conclusion | Lagged IFD has statistical relationship with USD/PHP fluctuation. Coeffcient is inconsistent with PPP; however, with requirement, it is still used for forecasting USD/PHP. | |

*Table 6: Hypothesis testing results and interpretation of PPP model*

## **Forecasting**

|  |  |  |
| --- | --- | --- |
| **Components** | **Country** | |
| **US** | **Philipines** |
| Expected Inflation  (2025-2031) | 2% | 3-2% |
| Explanation | US government targets 2% inflation level, seeming critical when US' PCE came to 0.2% on July 2024(Knightly 2024) | BSP(2024) targeted inflation of |

*Table 7: Assumptions for forecasting USD/PHP from PPP model*

*Figure 4: Forecasted USD/PHP in 2025-2031*

USD is expected appreciating against PHP with rising 1.25% YoY. Despite Fed's cut, it is still high and US has strong fundamental economy, with managed inflation(Smith 2024). Besides, Philippines have many risks such as government debt, political problems, and weak developing-country system, Hence, in long-term, USD attractiveness is reasonable.

# **Question 4**

### **Volume**

*Figure 5: Forecasted Product Volume in 2025-2031*

* **Mooncake**

Philippine mooncake market has few players, mainly ordering from Hong Kong bakeries, creating MKD advantage. Moreover, baked-food industry witnessed 6.19% growth and healthy tendency also support as MKD is focusing on lines for dieters and diabetes with natural ingredients(Thu 2023)(Euromonitor 2024). However, that also means mainstream lines with sweet flavors face loss risk. Overall, mooncake is expected rising with sector growth and disposable income.

* **Solite cake**

Growth based on mooncake’s with similar industry, adjusted with more health-trend risks, typical sweet characteristics without any healthy lines currently. Therefore, first 3Y growth is expected with Philippines sweet-tooth but gradually decrease with health-awareness rise(FMCG 2024).

* **Cosy biscuits**

Volume increased strongly with biscuits on-the-go trend, favoring packable products. Besides, Filipinos are affected by marketing, being MKD's strength with strong potential from MI(Euromonitor 2024). Besides, biscuits has oats line(Gourmet 2024), fitting promising Filipinos lifestyle, easy-to-carry and healthy, expected growing, based on historical biscuits sector growth and adjusted by market share risk of competitors(Euromonitor 2024).

* **AFC crackers**

AFC crackers, belonging to savoury snacks is expected to have the strongest upward trend of 11.14% average when Filippinos youngsters returned to school,work, demanding snacks as packed lunches(Euromonitor 2024). Besides, market is attracted by potato-containing products and marketing, potential with AFC's health-focused lines and MKD's marketing quality(AFC 2024). However, with competitor risk from URC and MNC, growth is adjusted.

### **Price**

Price and inflation witness relationship, reflected more frequently in developing regions with unstable movements(Reinsdorf 1994). Hence, price is adjusted based on inflation targets.

*Figure 6: Forecasted Product Prices (PHP) in 2025-2031*

### **Revenue**

*Figure 7: Forecasted Product Revenue (PHP) in 2025-2031*

### **COGS**

*Figure 8: Forecasted Product COGS (PHP) in 2025-2031*

Main ingredients of MKD products are wheat, sugar and milk, whose growth expectation are used for COGS forecast.

*Figure 9: Forecasted Ingredients Prices in 2025-2031, estimated from data in Trading Economics (2024)*

* **Wheat**

Prices fluctuated wildly, skyrocketing with UK-Russia war, facilitating production(Parvez 2023); however, quickly weakening with positive supply signals recovery of Ukrainian and Russian wheat exports, 5 million tons in March and Black-Sea(Ledford 2024). Besides, US DoA showed 49% of 2025 winter and spring wheat areas were good/excellent quality in June, higher than 36%, 69% last year and expectations(Roberts 2024), expecting short-term decrease.

However, long-term prices will increase with demand, rising even before war with falling reserves and tightening reserve/utilization ratios(Lyddon 2024). Moreover, weather is complicated, specifically Russian low-humidity, expected not meeting excessive demand of 4 million tons(Ahmed 2024).

* **Sugar**

In July, Indian agriculture faced fungal crop disease, “Red rot” across Uttar Pradesh, key sugarcane-growing region, while oil prices surged, shifting sugarcane crushing to ethanol production instead of sugar, limiting supply(Asplund 2024). Moreover, record hot temperatures caused sugar output fall to 13-year low in Thailand while Brazil faces early drought symptoms 2025(Del'Arco 2024); hence, expecting short-term price rise.

However, in long term, supply is expected to increase strongly, 1.5% YoY as US prediction, decreasing price when India introduces incentives to mix 20% ethanol in gasoline by 2025, boosting sugarcane, and Brazil overcome climate issues(Geldart 2024).

* **Milk**

Residual milk prices will increase with tight supply and strong demand but slightly with production increases in US. USDA raised milk production 2025 forecast with higher PPC predictions and expanding herd, however, in March experienced 98,000 cows reduction while Mexico and Texas recorded 41,000 and 21,000 cows down(Donnay 2024). Hence, quality decreased causing MPC 0.1% down in Q1/2024(Mielke 2024).

### **Depreciation**

Depreciation is determined with 10Y straight-line method fixed asset investment($4.7 million). Besides, depreciation for Year 1 is also added.

### **Tax**

Philippines’s CIT is 25%.

### **NWC**

WC mirrors revenue growth, whose increase causes higher inventory for growing demand, greater AR, AP for additional snacks reserves for sales. Damodaran(2024) estimate ratio 6.01% for food-processing industry, used for MKD’s estimation alongside $4.6 million.

### **Capex**

Capex is $US 4.7 millions.

### **Terminal value**

|  |  |
| --- | --- |
| **Components** | **Value** |
| **TV** |  |
| **g** |  |
| **WACC** | 8.97 |
| **FCF (Year 7)** | PH 91,454,798 |
| **TV** | PH 2,329,219,008 |

*Table 8: Terminal value computation and explanation*

It is important to include TV to determine future cashflows beyond explicit forecast period when estimating project’s value at ending period, capturing ongoing cashflows into perpetuity. This provides more comprehensive project estimation, accounting for future growth and profits. Besides g is from Philippines’ GDP average, biscuits, savoury snacks, cakes growth in 2010-2029(Euromonitor 2024).

### **Decision**

*Table 9: NPV, IRR, Payback Period of MKD’s project*

Discounting future cashflow with WACC, NPV reflects current value of MKD’s project cashflow return, $US 30,075,972, showing investment attractiveness(Arslan 2015). However, with sensitivity to discount rate and not capturing projects’ size effects, inaccuracy occurs(Mackevičius & Tomaševič 2010). Considering IRR and Payback Period provides better measurement with sizes valuation(Liu 2022). From results, IRR is significantly high, 76.98%, relative to WACC, meeting target and showing 76.98% return. Besides, low PBP, 2.88 witness short required period for receiving investment back(Bhandari 2011).

From methods, project should be invested with potential profitability and short payback period due to fitting Philippines consumer preference; however, also risky due to aforementioned country and competitor risk.

# **Question 5**

Due to operating in PHP, MKD face ER risk of lower remitted amount in USD for reporting when USD appreciate against PHP.

|  |  |  |
| --- | --- | --- |
| **Risk** | **Explanation** | **Recommendations** |
| Economic | Fed’s cut, may not devalue USD with strong US economic, further boosted by IR cut and controlled inflation; pulling USD to economy(Cox 2024). However, risk-probability is moderate when Philippines grew rapidly with expected 6-7% growth in 2024-2029 and excessive US growth may raise inflation again. | Borrowing PHP provides using PHP revenue to pay interest without convert requirements, reducing ER risk.  Entering future contracts for fixed convert rate or money market hedge |
| Political and Climate | There is currently Ukraine-Russia war and Israel-Hams, potentially causing uncertainty, including inflation, energy cost volatility, and supply chain disruption(Stening 2024). Besides, climate change is serious with global heating, causing economic damage; from Milman(2024), global temperature is expected to rise 3C when each C cause 12% GPD drop. Consequently, USD is investors’ safe-heaven. |

*Table 10: Risk management plan*

|  |  |  |
| --- | --- | --- |
| **Forward Hedge** | | |
| **Component** | Year 1 | Year 2 |
| **PH Receivables** | 176,820,024 | 199,410,852 |
| **Forward rate** | 55.9500 | 55.9501 |
| **Hedging** | 3,160,322 | 3,564,084 |
| **Forecasted rate** | 58.21 | 58.72 |
| **Unhedged** | 3,037,693 | 3,396,209 |

*Table 10: Forward hedging (FX Empire 2024)*

Entering long-position in USD/PHP forward contract at 1Y, 2Y rates, lower than forecasted, locks USD amount received, higher than converted USD at future. However, this creates obligation; if USD depreciate, entering contract limits profits and causes losses.

|  |  |  |
| --- | --- | --- |
| **Money Market Hedge** | | |
| **Component** | **Currency** | **Value** |
| 2025 Cashflow | PHP | 176,820,024 |
| Borrowing rate in PH | 6.50% |
| PV | 166,028,192 |
| Forecasted USD/PHP | 58.21 |
| Borrowing amount in US | USD | 2,852,294 |
| US's interest rate | 5.50% |
| Cost of borrowing | 3,009,170 |

*Table 11: Money market hedging (Trading Economics 2024)*

MKD can borrow PHP166,028,192 at Philippines then converting to $2,852,294, and depositing to US for having $3,009,170, least cost compared to forward and unhedged methods.

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