MacroAsia Corporation

Third-Quarter Revenues Grow by 21% But Income Remains Flat Due to High Costs

MacroAsia's consolidated revenues for July to September grew by 21%, from ₱744.0 million in 2017 to ₱897.0 million in 2018. Income before income taxes remained flat at ₱284.0 million though, as labor costs grew faster at 25%, while operating costs grew by 17%. The income for the quarter stood at ₱253.0 million, 4% lower than the quarterly income of ₱263.0 million in 2017, as more taxes for 2018 were booked.

The third quarter results bring MAC's 9-month net income to ₱804.3 million, 14% down compared to the same period last year. Of this amount, ₱233.3 million was recorded as first quarter (Q1) income, ₱318.01 million in the second quarter (Q2) and ₱252.98 million in the third quarter (Q3). Last year's results came from a high-base, partly marked by reversal of one-time provisions related to aircraft maintenance work, while this year, the catering and ground handling units had to contend with startup costs for new clients and new operating locations. In July and August this year, Lufthansa Technik also had to contend with costs arising from the establishment of a new line maintenance arm comprised of more than 200 mechanics to handle the line maintenance requirements for PALex.

Revenues from in-flight catering contributed about 49% of the Group's total revenue. The catering revenues for the first nine months of 2018 increased to ₱1,262.94 million, up by ₱92.70million (+8%) from last year's ₱1,170.24 million. This is mainly brought about by the increased volume of meals sold. Meanwhile, ground handling and aviation services' revenues contributed 40% to the Group's total revenue. The ground handling revenues grew by 41%, reaching ₱1,038.67 million from just from ₱735.47 million during the same period last year. The growth is due to increasing passenger and ramp services for the domestic and international flights from new clients and PAL/PAL Express. Combined, both carriers' flights serviced by MacroAsia grew by a total of 10,002 flights (+15%), to 78,683 from 68,681 last year.

Increases in costs outpaced the revenue growth, although most of these are startup costs or are one time in nature. Airline catering costs grew, as the impact of commodity shortages during the recent months and inflationary pressures were evident in several raw materials. Ground handling operations had to prepare for the start of servicing in a new area, Terminal 2 in Mactan, Cebu, aside from providing services for 8 new airline accounts. Total direct costs for the nine-month period amounted to ₱1.98 billion, posting an increase of ₱420.87 million or 27% from the same period in 2017. The increase in the current period is due to the higher labor costs of our ground-handling and catering subsidiary, driven largely by increases in manpower count due to the growth in business volume and preparation of the ground handling company for the opening of the Terminal 2 in Cebu and taking over of some clients of a ground handling company which stopped operations early this year. The group's income taxes also increased, due to the bigger contribution of catering and ground handling units.

Lufthansa Technik Philippines (LTP), the MRO-JV which is owned 49% by MAC, saw its core revenues reach ₱6.61 billion in 9M2018, a robust growth of 14% from its core revenue of ₱5.82 billion in 2017. A key revenue driver is the successful transition of PALEx line maintenance for its jets, completed by August 2018. Moving forward, LTP will also benefit from the grant of PEZA status this October 2018, to MacroAsia 5-hectare area in Mactan, Cebu airport, with LTP becoming a PEZA locator in that airport.

Outlook

Although revenues will likely grow by more than 20%, the cost pressures evidently affecting the Philippines by way of the reeling effects of inflation, wage adjustments, new taxes on certain items arising from Train Package 1 and others, pose severe challenges for MacroAsia to grow its bottom-line at a similar rate. MacroAsia's 2018 net results may likely be flat compared to 2017 (at par or slightly better). Under the prevailing operating environment, the costs incurred mostly in the first half of the year due to business volume startup are quite substantial to be effectively negated by efficiency improvements in the remaining three months of the year.

Nevertheless, management remains optimistic in the company's growth in the future. Airline catering volumes have grown by 18% due to new clients and intrinsic traffic growth in NAIA. Ground handling volumes, excluding the new operations in Mactan, Cebu, already reflect an 18% volume growth, largely attributable to traffic growth and new clients gained. Such volumes will be sustained, if not exceeded in the coming months.

LTP stands to benefit from a robust growth in its line maintenance business, as the planes for servicing from its core client which stood at 61 aircrafts at the end of last year, has currently grown to 79 aircrafts as of the quarter ended.

For catering, capacity issues which had constrained growth are set to be addressed by the opening of a new food commissary this last quarter of 2018, adding a 25,000-meal production capability for the Group. For ground handling, the continuing investments in ground handling equipment and people has positioned MacroAsia to be the biggest ground handling provider in the Philippines. For LTP, it is currently working to increase its capacity by another 21%, as a new hangar in NAIA is eyed for completion by Q1 2020. Thus, while tourism is bound to grow in the Philippines, MacroAsia is well-positioned to grow even faster, as the building blocks for such growth have been laid down this year.