MAC 2Q18 Income Grows 36% from 1Q2018,
Bringing 1H18 Core net income higher by 6%

MacroAsia Corporation (MAC) ended 1H18 with a core net income of Php572 million, 6% higher compared to last year's first half core net income of Php538 million, driven by the 36% growth in second quarter earnings to Php318M, from Php233M in the first quarter of 2018. However, the group's reported net income of Php551 million is 18% lower compared to last year's financial results of Php673 million for the first half of the year. The lower reported net income in 2018 is mainly due to one-off non-operational accounting provisions in 2018 pitted against one-off reversal of provisions for insurance items in 2017 as booked by Lufthansa Technik Philippines (LTP). Stripping away these non-operational line items, MAC's 1H18 results showcases the strong operational growth of the group. Due to substantial growth in its client portfolio in catering and ground handling in the first half of 2018, as well as a projected 24% growth in LTP's line maintenance business in the second half of 2018, MAC forecasts a stronger second half performance for its key business units, keeping its overall target of a 20% organic growth within sight.

MacroAsia's first half 2018 revenues grew 16%, from Php740 million in 2017 to Php864 million in 2018, as the ground handling business (MASCORP) topline grew by 40% and the catering arm (MACS) revenue saw a 5% increase year-on-year. MASCORP's service revenues reached Php642 million, compared to Php460 million in 2017. Meanwhile, MACS' catering revenues reached a new all-time high of Php838 million, from Php801 million during the same period in 2017. The strong topline performance of both companies is due to the acquisition of new clients, general volume increases in airline traffic, as well as a stronger USD exchange rate this 2018, as most revenues of these units are billed in USD.

The net results were impacted heavily though by a 26% rise in direct costs, from Php997 million in 2017 to Php1,256 million, largely attributable to the increase in staff numbers to cope with new clients and the temporary spiraling cost of raw materials, utilities and supplies that could be linked to the pervasive effect of inflationary pressures in the Philippines after the TRAIN became effective early this year. The group had to absorb majority of the personnel costs in the groundhandling business as it underwent a transitionary period of gaining more clients, in addition to preparing itself to start its groundhandling service in the new Terminal 2 in Mactan, Cebu. MacroAsia's preparations and investments for this expansion commenced early this year, and will bring in the desired income starting in the 2nd half of 2018.

Lufthansa Technik Philippines (LTP), the MRO-JV which is owned 49% by MAC, saw its core revenues reached Php2.4 billion in 1H2018, a robust growth of 25% from its core revenue of Php1.9 billion in 2017. At the same time, due to LTP's cost control programs, the group was able to cut down its costs and grow its margins. As a result, LTP's income from operations grew by 36% to Php1.3 billion. However, the MRO provider's net income saw a decline of 7% to Php1.1 billion from last year's Php1.2 billion. This is mainly due to a one-off reversal of insurance provisions amounting USD5.5 million last year and a USD0.8 million provision for non-operating items this 2018. Taking out the non-operating line items, LTP's operational result continues to reach new highs. MAC is reporting 49% of LTP's results in its consolidated income statements.

Financial Position
MAC's balance sheet remains robust as the company's net assets grew 13.3% to Php5.2 billion, from Php4.6 billion as of year-end 2017. In April 2018, MacroAsia received its 49% share of the USD30M cash dividends that was declared by LTP last February. The company is not significantly leveraged, as it funds its working capital requirement, capital expenditures and acquisitions thru internally generated funds.

2018 Guidance

Despite the reported net income decreasing by 18% for the first 6 months compared to 2017 that benefitted from the accounting gain from the reversal of insurance provisions, the group is confident that it will still be able to reach its initial guidance of 20% organic growth for the year. MacroAsia believes that it is still poised to grow its annual 2018 results substantially in the second half of 2018, as its ground handling company saw the servicing of 8 new airline accounts in the first half of this year, and is also starting its concessions in Terminal 2, Mactan Cebu as the terminal became operational this July. MacroAsia Catering also added 3 new clients to its rosters in the first half of this year, and is set to inaugurate its new commissary for its non-airline subsidiary by the 2nd half of 2018. The startup costs for the new accounts in both units are expected to stabilize and taper down in the coming months.

LTP is expected to significantly grow its line maintenance business due to the full takeover of line maintenance for PALExpress Airbus planes starting July 2018, bring the planes being maintained for the PAL group from 62 in the first half of 2018, to about 77 by yearend 2018. LTP's base maintenance business is also scheduled to do several A380 checks for the remainder of the year. Due to the MRO demand, LTP is set to start construction of a new wide body hangar in the MacroAsia Special Ecozone this year, for completion and operational use by late December 2019. LTP targets to create 160 more mechanic jobs for this hangar.