MAC
Ticker

Buy
Rating

P10.60
Price as of
September 05, 2017

P17.10
12-month Target
61% Upside

06 September 2017
Report Date

8,049.35
PSEi

MAC.PS
Reuters Code

MAC.PM
Bloomberg Code

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"Big MAC"

Introduction. We don't usually chase a stock that has risen by over 300% year to date but we have made an exception and it wasn't a difficult decision to make. The easy money has been had but MacroAsia still has a lot of value. Multiple avenues of growth will drive earnings going forward and a steadily improving profile should attract investors and institutional funds over the next twelve months.

Main Driver. Due to a confluence of factors, Airbus Industries last year declared the company's 49%-owned Lufthansa Technik Philippines' (LTP) facility in Manila as one of its centers of excellence for the maintenance, repair and overhaul (MRO) of its biggest aircraft. In much the same way that foreign companies have outsourced call center and back office jobs to the country, many global airlines – even those that don't operate here – are sending their planes to LTP because of lower costs and local workers' technical and English proficiency. Demand has soared, leading to the huge increase in earnings contribution from LTP in the first half of the year (reflected in the earnings from associates line). The growth appears to be sustainable as management indicated that they are already scouting sites in different parts of the country for a second MRO facility. The goal is to double capacity within two years with financing to come mostly from internally generated funds. We therefore expect LTP to be MAC's primary earnings driver over the next few years.

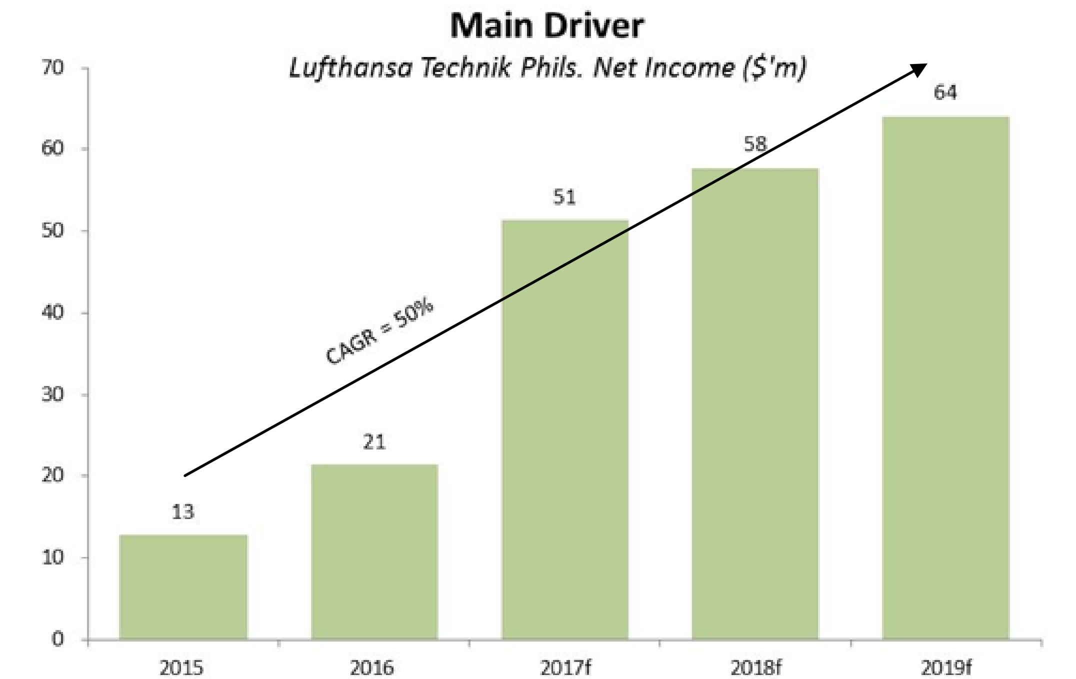
Catering. MacroAsia's in-flight catering business has received excellence awards from a number of foreign airlines. We were therefore surprised to learn that the company services none of Philippine Airlines' (PAL) catering needs. Management, however, is in the process of taking over from PAL's current caterer. According to management, this will double in-flight catering revenues over a relatively short period of time. Meanwhile, the company's non-airline catering is also growing. The diversification will help shield MAC from wild swings in the aviation industry and also provides much better margins. They recently began providing the food requirements for the Asian Development Bank's cafeteria and BPI's Executive Dining Lounge and the list of institutional clients is expected to expand over time. To accommodate the growth in this segment, MAC is already fitting out a second commissary. From under Php300 million last year, non-airline catering is projected to eventually grow to a Php1.0 billion business.

Ground Handling. It is likewise amazing that MacroAsia handles only a third of PAL's ground handling requirements. This is because the company previously operated out of Manila only and growth was stunted when PAL was sold to Ramon Ang a few years ago.

Valuation Table	2015	2016	2017f	2018f	2019f
Revenues (P'm)	1,921	2,335	2,904	3,395	3,926
Net income (P'm)	328	389	1,261	1,499	1,730
EPS (P)	0.27	0.32	1.03	1.22	1.41
EPS growth (%)	185.0%	18.7%	225.7%	18.9%	15.4%
PER (x)	39.9	33.6	10.3	8.7	7.5
EBITDA (P'm)	409	593	1,563	1,832	2,097
Ebitda margin (%)	21.3%	25.4%	53.8%	54.0%	53.4%
Yield (%)	0.7%	0.8%	0.9%	2.9%	3.5%
BV/share (P)	2.56	2.89	3.82	4.73	5.78
PBV (x)	4.1	3.7	2.8	2.2	1.8
ROE (%)	11.1%	11.6%	30.5%	28.5%	26.8%
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Share Data		
52-Week High/Low (P)		12.12 / 2.04
Relative Performance (%)	(1m)	-3.8
	(3m)	+132.1
	(6m)	+229.8
	(12m)	+347.4
Shares outstanding (m)		1,228.9
Market Cap'n (P'm)*		13,017
3mo. Ave. Daily T/O (P'm)		23.4
Major Shareholders (est.)		
LT Group		71.0%
Public		23.5%

Recently, however, management has been aggressively expanding to regional airports and eventually, it is projected that MAC will handle most, if not all, of PAL's ground handling needs. This will be the third leg of growth for the company with segment revenues expected to more than double from 2016 to 2020.



Sources: LTP, Abacus estimates

Infrastructure Boost. Although we are not optimistic about the government's "Build! Build! Build!" mantra, we believe that the infrastructure push will at least boost the tourism industry. A couple of regional airports will benefit key tourism destinations. The new airport in Palawan was opened in May while Panglao International Airport will commence operations early next year. Meanwhile, construction of one major hub is ahead of schedule (Mactan), San Miguel's Caticlan expansion should be completed next year, and several more are likely to be bid out over the next 12 months. Airlines and their attendant service companies should therefore reap the benefits over the next few years. Moreover, PAL recently projected that it would fly 20 million passengers by 2021. This is almost 50% higher compared to the 13.35 million passengers recorded last year. Given MacroAsia's dominant position in both in-flight catering and ground handling, MAC should reflect such growth prospects.

Valuation. We expect the strong growth recorded in 1H17 to be sustained for the balance of the year and forecast 2017 EPS of Php1.03, more than 200% higher compared to last year. Growth will moderate to +19% next year (EPS of Php1.22) although the upside is significant if management can fast track initiatives for its catering and ground handling businesses. The company's closest peer is Singapore-listed SATS which is trading at over 20x 2018 earnings. The broader transport support services sector (Asia Pacific) is trading at a much higher multiple of around 28x. We don't expect MAC to reach either of these lofty valuations but we believe, considering concerns on liquidity and lack of institutional following, that the stock should be valued, at least, at 14x earnings (30% discount to SATS). This would give us a TP of Php17.10 and upside of 63%. **Buy**.

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