Relative Valuation of Philippine Logistic Firms

The following analysis is a relative valuation of five logistics companies listed on the Philippine Stock Exchange(PSE) and categorized under the "transportation services" subsector. We do not hold any individual positions in these or any other companies that trade on the PSE, but we do hold a position in the iShares MSCI Philippines ETF (EPHE), which we intend to hold for more than one year.

This assessment is based on the financial statements included in each company's annual and quarterly reports, as well as press articles and third-party data and research that provide additional context. Readers should not make any investment decisions based on the following report and should understand it is a byproduct of our interpretation of the information as well as our analysis, assumptions, and valuation approach, all of which could be flawed, possibly significantly.

OVERVIEW

There are 12 companies listed under the "transportation services" subsector of the Philippine Stock Exchange (PSE), which is the country's only stock exchange. These businesses include shipping and tugboat companies, port terminal operators, airlines, and end-to-end logistic firms, as well as a food caterer that serves airlines.

We focus our analysis on the five companies most involved in the logistics sector, which we identify as Asian Terminals, 2GO Group, LBC Express Holdings, Harbor Star Shipping Services, and Lorenzo Shipping. Our analysis does not include Chelsea Logistics Holdings because the company only went public in early 2017 and therefore has too few publicly-available financial statements. We do not include International Container Terminal Services because the company is considerably larger, and its revenue base is significantly more global, than the other companies included in this analysis. We do not include Cebu Air and PAL Holdings because we view their businesses primarily as airline transportation and not logistics, although they are key nodes in air logistics. We do not include MacroAsia because the company's business, although linked to the logistics sector, primarily is in food catering. Finally, we do not include Globalport 900 and Metro Alliance Holdings and Equities because the PSE has suspended their shares.

Figure 1.1: Breakdown of Philippine companies listed on Philippine Stock Exchange and categorized under the "transportation services" subsector.[1]

Primary Service	Company
Terminal Operations	Asian Terminals, Inc.
Terminal Operations	International Container Terminal Services, Inc.
Terminal Operations	Globalport 900, Inc.
End-to-End Logistics	2GO Group, Inc.

[1] This division of the transportation services subsector is based on our analysis of each company's primary business function. As of September 2017, the Philippine Stock Exchange suspended the trading of shares for Globalport 900, Inc., and Metro Alliance Holdings & Equities Corp.

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End-to-End Logistics	LBC Express Holdings, Inc.
End-to-End Logistics	Metro Alliance Holdings & Equities Corp.
Sea-borne Shipping	Chelsea Logistics Holdings Corp.
Sea-borne Shipping	Harbor Star Shipping Services, Inc.
Sea-borne Shipping	Lorenzo Shipping Corp.
Airline Travel	Cebu Air, Inc.
Airline Travel	PAL Holdings, Inc.
Catering	MacroAsia Corp.

THESIS FOR INVESTING IN PHILIPPINE LOGISTICS SECTOR

In employing a top-down analysis, we believe the logistics sector in the Philippines has significant room to grow. This is because of three general themes: (1) the presence of multiple factors driving demand; (2) the possibility for a reduction in costs; and (3) existing regulation that benefits local logistic operators.

(1) Demand-side factors

a. Strong macro-economic trends

As the Philippine economy expands—a function of domestic, regional, and global growth—demand on logistics will increase. From 2010-2016, the Philippines was one of the fastest growing economies in Asia, averaging 6.3% growth in annual gross domestic product (GDP), according to the International Monetary Fund (IMF), and from 2017-2022, the IMF estimates the country's GDP will expand annually by approximately 7%. As of May, the IMF estimates GDP in Southeast Asian countries will grow, on average, from 5.3% in 2016 to 5.6% in 2018.[2] As of April, the IMF expects global GDP to expand from 3.1% in 2016 to 3.6% in 2018.

b. Favorable demographics

The Philippines' large population also will exert demand on the logistics sector. As of 2017, the Philippines has a total population of 103.8 million people—making it the 13th largest in the world and the second largest in Southeast Asia—and it also is very young, with almost 25% of the population under age 25, according to figures provided by Population Pyramid. As a region, Southeast Asia has a large and young population, which will present similar needs for logistic services and potentially present opportunities for Philippine logistic firms to expand regionally.

Figure 1.2: Population and percent under age 25 in Southeast Asia

Country	Total Population	% of Population Under Age 25
Indonesia	263,510,146	21.60%
Philippines	103,796,831	24.50%
Vietnam	95,414,639	18.50%
Thailand	68,297,546	14.70%
Myanmar	54,836,483	22.10%
Malaysia	31,164,177	21.00%

[2] Countries included in this forecast are: Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. We do not include Brunei in our estimate.

Cambodia	16,076,370	24.90%
Laos	7,037,521	27.10%
Singapore	5,784,537	13.70%
Region:	645,918,250	20.96%

Source: Population Pyramid

c. Consumption-led economy

Household consumption in the Philippines as a percent of gross domestic product consistently is the leading driver of the Philippine economy and is one of the highest rates in Southeast Asia, as shown in Figure 1.3. This suggests the logistics sector not only will face greater demand as the country's economy expands, but that the industry itself is a key piece in the Philippine's growth prospects because its effectiveness and efficiency, or lack thereof, will enable Filipino consumers to meet their demand requirements.

Figure 1.3: Household consumption as percent of gross domestic product

Country	2010	2011	2012	2013	2014	2015	2016
Cambodia	81.73	82.30	80.50	79.94	76.92	76.58	76.47
Indonesia	56.22	55.48	56.07	57.44	56.72	55.64	55.48
Laos	68.06	69.47	71.96	73.59	75.40	72.65	71.39
Malaysia	48.12	47.97	49.65	51.80	52.39	54.12	54.96
Philippines	71.55	73.47	74.21	73.35	72.53	73.76	73.56
Singapore	35.52	36.25	37.53	37.11	36.81	36.68	37.50
Thailand	53.12	55.03	54.57	53.33	52.27	48.86	46.17
Vietnam	66.53	68.47	63.33	65.01	63.63	65.20	64.35
Average	60.10	61.06	60.98	61.45	60.83	60.44	59.99
Global Average	57.68	57.87	58.06	58.15	58.09	58.03	N/A

Note: No data available for Myanmar.
Source: The World Bank

d. Growth in trade and pursuit of free trade agreements

Strong growth in exports and imports will require logistic companies to move these goods between suppliers, ports, and consumers. Philippine exports and imports have grown significantly year-over-year in each quarter since 2015, as evidenced in Figure 1.4, and we expect this trend to continue as the Philippine and global economy expands.

Figure 1.4: Year-over-year growth per quarter in Philippine imports and export, and as percent of GDP (constant 2000 prices, in PHP millions)

Date	Exports			Imports			Total GDP	
		% YoY	% GDP		% YoY	% GDP		% YoY
2Q2017	1,241,090	*19.7%*	*56%*	(1,353,664)	*18.7%*	*61%*	2,202,126	*6.6%*
1Q2017	1,192,498	*20.3%*	*59%*	(1,391,006)	*18.6%*	*69%*	2,027,545	*6.3%*
4Q2016	912,869	*13.4%*	*42%*	(1,154,578)	*15.4%*	*53%*	2,179,199	*6.7%*
3Q2016	1,149,286	*9.0%*	*58%*	(1,253,432)	*13.3%*	*64%*	1,973,510	*7.6%*
2Q2016	1,036,557	*10.6%*	*50%*	(1,140,527)	*25.4%*	*55%*	2,065,533	*6.1%*

1Q2016	991,425	*10.2%*	*52%*	(1,172,910)	*21.1%*	*61%*	1,908,161	*7.4%*
4Q2015	804,865	*N/A*	*39%*	(1,000,177)	*N/A*	*49%*	2,043,220	*N/A*
3Q2015	1,054,058	*N/A*	*57%*	(1,106,141)	*N/A*	*60%*	1,833,565	*N/A*
2Q2015	937,009	*N/A*	*48%*	(909,532)	*N/A*	*47%*	1,947,338	*N/A*
1Q2015	899,497	*N/A*	*51%*	(968,422)	*N/A*	*55%*	1,776,053	*N/A*

Source: Philippine Statistics Authority

Manila's participation in several pending trade agreements will, once signed, lead to an increase in its exports and imports. The Philippines is party to the Regional Comprehensive Economic Partnership (RCEP), which could be finalized in 2018, based on reporting from Business World, a Philippine news publication. The agreement includes the 10 member countries in the Association of Southeast Asian Nations (ASEAN), along with Australia, China, India, Japan, New Zealand, and South Korea; collectively, these countries represent almost 50% of the world's population, almost 30% of global trade, and more than 30% of world GDP, according to ANZ Blue Notes.

Manila also is negotiating a trade agreement with the European Union and, as party to ASEAN, an agreement with Hong Kong, according to the Philippine Department of Trade and Industry and Channel News Asia. Finally, as of June, Manila has signed but not yet ratified a free trade agreement with member states of the European Free Trade Association, which are Iceland, Liechtenstein, Norway, and Switzerland, according to the Manila Bulletin.

e. Adoption of e-commerce and mobile internet

Increased use of e-commerce will result in greater demand for efficient delivery services, as consumers will need more items shipped and expect their orders to arrive sooner, according to Business Insider. As of 2015, the e-commerce market in the Philippines generated USD 500 million in revenues, representing 0.5% of retail sales, according to a study completed by Google and Temasek, an investment company headquartered in Singapore. However, by 2025, the Philippine e-commerce market is expected to yield USD 9.7 billion in revenues, reflecting a 10-year compound annual growth rate of 34%, based on the same study. Regionally, the study estimates the e-commerce market in Southeast Asia will reach USD 88 billion by 2025.

Improved internet speeds and increased mobile internet penetration will help underpin the growth in e-commerce in the Philippines. Internet speeds in the Philippines—typically the slowest in Southeast Asia—are expected to improve because Philippine President Rodrigo Duterte has made faster internet speed a national priority, according to 2016 report from Akamai, a global leader in content delivery network services. As of January 2017, mobile internet penetration in the Philippines represented 38% of internet traffic, according to a study by We Are Social, a global leader on the role of social media.

(2) Reduction in industry costs

a. Government-led infrastructure projects

Improved infrastructure in the Philippines will enable logistic firms to deliver goods more efficiently, which will decrease their costs and improve their margins. Manila is embarking on an ambitious infrastructure plan—spending approximately PHP 9 trillion, or USD 180 billion, over the next five years—to build and upgrade roads, railways, shipping ports, and airports, along with other infrastructure, according to the Philippine Daily Inquirer and The Manila Times.

The Supply Chain Management Association of the Philippines reported in August that logistics costs as a percent of sales in the Philippines average 27%, according to a survey conducted by the Philippine Department of Trade and Industry, with assistance from the World Bank; for comparison, a study completed by Benchmarking Success, a company that concentrates on supply chain benchmarking services, found that US companies spent on average 9.8% of sales on logistics, according to the Logistics Bureau. A survey completed in early 2016 by the Institute for Development and Econometric Analysis identified poor infrastructure as one of the primary contributors to high logistic costs in the Philippines and, also in 2016, The World Bank's Logistics Performance Index ranked the Philippines' logistics infrastructure as sixth in Southeast Asia, behind Singapore, Malaysia, Thailand, Vietnam, and Indonesia.

(3) Regulation that protects local companies

a. Limited international competition

Philippine law currently limits the ability of foreign logistic companies to compete in the Philippines, which enables local firms to develop their business without pressure from large, foreign firms that might be more efficient, more experienced, and better resourced. The Philippine Foreign Investment Negative List (FINL), which promulgates the percent of local industries that foreign investors can own, limits foreign equity participation in logistics companies to less than 40%, according to the Philippine government. There is speculation, however, that a revised FINL will be published later this year that will allow for greater foreign ownership in logistics, according to Arangkada Philippines.

RISKS TO INVESTING IN PHILIPPINE LOGISTICS SECTOR

There are five main risks that could undermine investing in the Philippines logistics sector. First, a slowdown in national and global growth would temper demand for logistic services, given the industry's cyclicality. Second, if Philippine internet speed remains sluggish, the country's e-commerce industry will grow at a slower pace than forecasted, and thus reduce the potential demand for delivery services. Third, if the Duterte Administration is unable to advance its ambitious infrastructure agenda, the country's infrastructure will remain deficient and the logistics sector will remain saddled with high costs. Fourth, were Manila to remove the logistics sector from the Foreign Investment Negative List, foreign competitors probably would enter the market and reduce the market share of local firms, and possibly bring downward pressure on revenue by decreasing the fees charged to customers. Finally, companies such as Uber and Grab, which initially started as ride-sharing applications, could become more involved in the logistics business, particularly in "last mile" delivery. This particularly could upend aspects of the business model employed by end-to-end logistic companies.

BACKGROUND ON COMPANIES INCLUDED IN VALUATION

Asian Terminals, Inc. (ATI)

Asian Terminals is a Manila-based company founded in 1986 that operates and manages ports located primarily in the Philippines. ATI operates the Manila South Harbor, the Port of Batangas, Batangas Container Terminal, the Port of General Santos, and off-dock yards in Santa Mesa, Manila, and Calamba.

2GO Group, Inc. (2GO)

2GO Group is a leading end-to-end logistics provider that was founded in 1949 and is headquartered in Manila, Philippines. The company has three core business units: 2GO Freight, which handles commercial and personal shipping needs; 2GO Travel, which operates passenger ships and fast ferries; and 2GO Supply Chain, which provides logistics, distribution, warehousing, and inventory management. As of December 2016, 2GO and its subsidiaries had a total fleet of 24 operating vessels, consisting of eight fast crafts, eight Roll-on, Roll-off passenger vessels, five chartered vessels, and three freighters.

In April, SM Investments Corporation acquired a 30.47% stake in 2GO, giving it control of the company, according to The Manila Times. Shortly after this purchase, SM Investments requested an audit of 2GO's financial statements, which resulted in a restatement of the company's financial reports in 2015 and 2016. When conducting our analysis, we have used the restated reports.

LBC Express Holdings, Inc. (LBC)

LBC Express Holdings is a logistics and money transfer service company headquartered in Manila, Philippines. LBC generates approximately 87% of its revenue from logistics, which provide door-to-door service leveraging air, sea, and land transportation. The company has its own delivery vehicles but is primarily reliant on third party operators for air and sea logistics. The company's money transfer services include remittance and bill payment collection.

In January 2016, LBC disclosed a lawsuit filed by the Philippine Deposit Insurance Cooperation that sought collection for allegedly unpaid service fees totaling PHP 1.82 billion. As of July 2017, the case was to be assigned to a new judge, at which point pre-trial proceedings would begin, according to an LBC filing. LBC's auditor, SyCip Gorres Velayo & Co. (SGV), stated in March 2017 that the outcome of the case could not be determined and any liabilities could not be estimable, according to LBC's 2016 annual report.

Harbor Star Shipping Services, Inc. (TUGS)

Harbor Star Shipping Services is a tugboat operator headquartered in Manila, Philippines. The company was founded in 1998 and is a market leader in harbor assistance, towing, lighterage, salvage, maintenance, and construction services. As of December 2016, it had a fleet of 42 watercraft comprised of tugboats, barges, and specialized vessels that it operated at 67 Philippine ports and sub-ports. Increasingly, the company also is expanding into Southeast Asia, with signed or pending agreements to operate in Indonesia, Malaysia, and Myanmar, and it is pursuing business opportunities outside its core maritime function. Read our intrinsic valuation of Harbor Star here.

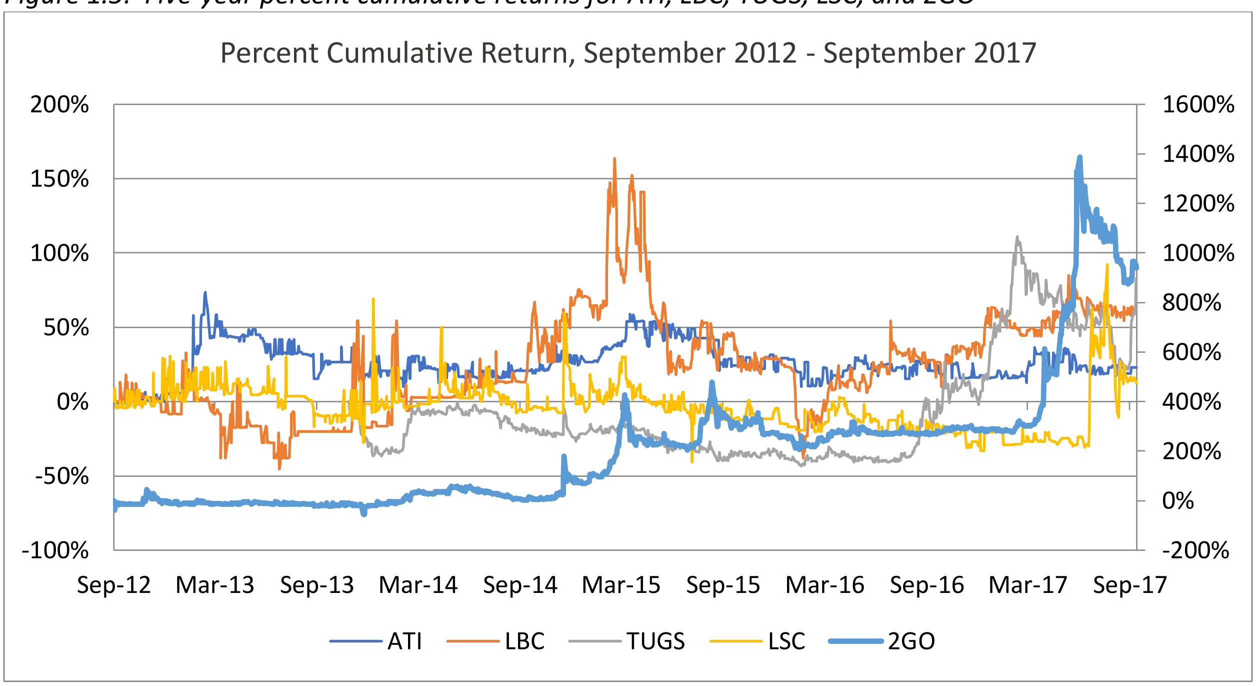
Lorenzo Shipping Corp. (LSC)

Lorenzo Shipping is a fully containerized shipping company founded in 1972 and headquartered in Manila, Philippines. It owns a fleet of six vessels, with a capacity ranging from 300 ton equivalent units (TEUs) to 797 TEUs, that provide domestic inter-island cargo liner services to the public. LSC's ships are deployed at key ports in Manila, Visayas, and Mindanao.

SHARE PERFORMANCE

From 3 September 2012 through 15 September 2017, 2GO's share price easily has outpaced those of Asian Terminals, LBC Express, Harbor Star, and Lorenzo Shipping, growing 938%. Harbor Star, which began trading in October 2013, has the second-best performance during this period, increasing 83%. LBC Express has increased 64%, followed by Asian Terminals, which has gained 23%, and lastly, Lorenzo Shipping, which has increased 12%.

Figure 1.5: Five-year percent cumulative returns for ATI, LBC, TUGS, LSC, and 2GO



Note: The percent returns of ATI, LBC, TUGS, and LSC correspond with the figures on the left axis. The percent returns of 2GO correspond with the figures on the right axis.

VALUATION

Summary of adjustments to financial statements

Operating leases

We capitalized each company's operating leases and added the corresponding portions to current and noncurrent liabilities, as well as current and noncurrent assets. In the event a company did not provide information on operating leases in their 2Q2017 report, which was the case for Asian Terminals, Harbor Star, and Lorenzo Shipping, we simply assumed the companies would maintain the same level of operating leases and thus would have the same figures as reported in their respective annual reports.

In calculating the present value of the operating leases, our discount rate is the average interest rate we identified for each company's long term debt. For Asian Terminals, this was 3.36%; for 2GO, it was 6.50%; for LBC Express, it was 4.00%; for Harbor Star, it was 9.08%; and for Lorenzo Shipping, it was 4.10%.

In adjusting the income statement to reflect the operating leases, we added the operating lease expense to earnings before interest, tax, depreciation, and amortization (EBITDA) and the imputed interest expense on operating leases to earnings before interest and tax (EBIT), which we calculated as the operating lease expense multiplied by the respective company's average interest rate for long term debt.

Adjustments to net income
To normalize net income, for each company we adjusted for gains or losses on sales of property, plant, and equipment; on the gains or losses associated with the sale of available-for-sale securities; and gains or losses stemming from foreign exchange. We then netted these adjustments to account for the Philippines' 30% corporate tax.

Research and development, preferred stock, and convertible debt
Only Harbor Star specifically identified expenses associated with research and development (R&D)—for 2016, they were less than 1% of revenue—but it is possible other companies had these costs. Therefore, we do not adjust earnings to reflect R&D. Lastly, none of these companies have preferred stock or convertible debt.

Relative Valuation
We conduct a relative valuation on these five companies using multiples derived from enterprise value to earnings before interest, tax, depreciation, and amortization (EV/EBITDA), enterprise value to earnings before interest and tax (EV/EBIT), and price to adjusted earnings (P/E).[3] We use only trailing twelve-month (1H2017 and 2H2016) data in our analysis because we have not forecasted one year or two year forward earnings for each of these companies and we do not have access to these projections from third-parties. Lastly, we use the average of all five companies—we do not remove the target company's multiple—when calculating each country's implied share price.

[3] All income statement data includes noncontrolling interest. Please see the appendix for additional details on each company's income statement calculations.

Figure 1.6: EV/EBITDA, EV/EBIT, and P/E multiples for each company, using adjusted figures

Normalized Multiples			
Company	**EV/EBITDA**	**EV/EBIT**	**P/E**
Asian Terminals	5.00x	6.87x	9.54x
2GO Group	17.08x	80.15x	N/A
LBC Express	11.20x	20.41x	26.92x
Harbor Star	4.91x	12.92x	18.62x
Lorenzo Shipping	12.27x	N/A	N/A
Average	10.09x	30.09x	18.36x

Note: "N/A" indicates negative denominator.

Figure 1.7: Implied share price based on average multiple

Implied Share Price (in PHP)				*Share price as of 15-Sep-17*
Company	**EV/EBITDA**	**EV/EBIT**	**P/E**	
Asian Terminals	23.94	53.55	21.56	*11.20*
2GO Group	11.20	6.38	N/A	*20.35*
LBC Express	14.10	24.85	10.89	*15.96*
Harbor Star	6.17	7.15	2.30	*2.33*
Lorenzo Shipping	0.75	N/A	N/A	*1.46*

Figure 1.8: Over- or undervalued based on comparison of implied share price and price as of 15-Sep-17

Over- or Undervalued Based on Implied Share Price			
Company	**EV/EBITDA**	**EV/EBIT**	**P/E**
Asian Terminals	undervalued	undervalued	undervalued
2GO Group	overvalued	overvalued	N/A
LBC Express	overvalued	undervalued	overvalued
Harbor Star	undervalued	undervalued	overvalued
Lorenzo Shipping	overvalued	N/A	N/A

As shown in figure 1.8, Asian Terminals (ATI) is undervalued based on all three metrics. However, we assess this is because the market's expected growth rate for ATI is less than the expected growth rate for the companies we selected as its peer group, and not necessarily because the stock is undervalued. Using the following formula, *P/E = (ROE-g) / ((ROE*(Re-g))*, we find the market implied growth rate for ATI to be 4.7%, which is less than the 17.51% we find implied for LBC Express and the 15.8% for Harbor Star, as shown in figure 1.9. Therefore, we find Harbor Star to be the most attractive on a relative basis because it is undervalued based on EV/EBITDA and EV/EBIT, and only slightly overvalued based on P/E.

Figure 1.9: Market-implied growth rate, based on return on equity, cost of equity, and P/E ratio[4]

[4] *For return on equity, we use normalized EBIT as the numerator and average equity as the denominator. For beta, we used the unlevered beta as provided by Aswath Damodaran—0.83 for Asian Terminals and Harbor Star, and 0.80 for LBC Express—and re-lever the beta based on each company's respective tax-adjusted debt to equity ratio. The risk-free rate is the ten year, Philippine Peso-denominated government bond, as of 15 September 2017. To calculate the market premium, we take the geometric average of US stock returns over treasury bonds from 1926 to 2000, which is 5.59%, according to*

Company	Return on Equity	Beta	Risk-free	Market Premium	Cost of Equity	P/E Ratio	Implied Growth
Asian Terminals	0.3152	1.26	0.0459	0.0715	0.1362	9.54	4.7%
LBC Express	0.5817	2.18	0.0459	0.0715	0.2017	26.92	17.51%
Harbor Star	0.1099	1.24	0.0459	0.0715	0.1345	18.62	15.8%

Damodaran, and then add the Philippine country risk premium. To calculate this premium, we take the one year standard deviation of the Philippine Stock Exchange index (15 September 2016 – 15 September 2017) and divide it by the one year standard deviation of the 10 year Philippine bond denominated in PHP. We then multiply this by the Philippine default spread, which is 2.20%, according to Damodaran. This yields a country premium of 1.56%, which produces a total market premium of 7.15%

APPENDIX – FINANCIAL STATEMENTS AND ADJUSTMENTS

Asian Terminals, Inc. (all values in PHP)

Consolidated income statement				
As reported	***1H2017***	***FY2016***	***1H2016***	***Implied 2H2016***
Revenues	4,172,744,000	7,537,611,000	3,624,656,000	3,912,955,000
COGS*	0	0	0	0
Gross profit	4,172,744,000	7,537,611,000	3,624,656,000	3,912,955,000
SG&A / Other operating expenses	(2,105,358,000)	(4,300,952,000)	(1,963,077,000)	(2,337,875,000)
Operating income	2,067,386,000	3,236,659,000	1,661,579,000	1,575,080,000
Nonoperating income / (expense)	(433,307,000)	(632,158,000)	(267,939,000)	(364,219,000)
Pretax income	1,634,079,000	2,604,501,000	1,393,640,000	1,210,861,000
Tax benefit / (expense)	(448,223,000)	(699,508,000)	(378,573,000)	(320,935,000)
Net income	1,185,856,000	1,904,993,000	1,015,067,000	889,926,000
Weighted average of diluted shares	2,000,000,00	2,000,000,000	2,000,000,000	2,000,000,000
Earnings per share	0.59	0.95	0.51	0.44
**Asian Terminals does not breakout its cost of goods sold.*				
Adjustments				
EBIT				
Operating income	2,067,386,000	3,236,659,000	1,661,579,000	1,575,080,000
Imputed interest expense on operating lease	2,728,797	5,122,958	2,544,383	2,578,575
Normalized EBIT	2,070,114,797	3,241,781,958	1,664,123,383	1,577,658,575
EBITDA				
Normalized EBIT	2,070,114,797	3,241,781,958	1,664,123,383	1,577,658,575
Reported depreciation & amortization	617,930,000	1,137,516,000	553,469,000	584,047,000
Operating lease expense	81,214,185	152,469,000	75,725,695	76,743,305
Normalized EBITDA	2,769,258,981	4,531,766,958	2,293,318,079	2,238,448,880
Net income				
Net income	1,185,856,000	1,904,993,000	1,015,067,000	889,926,000
Gain / (loss) on sale of PPE	(44,000)	(3,777,000)	(2,212,000)	(1,565,000)
Gain / (loss) on sale of AFS	0	0	0	0
Gain / (loss) from foreign exchange	(231,363,000)	(272,042,000)	(115,314,000)	(156,728,000)
Total adjustments, net of tax	(161,984,900)	(193,073,300)	(82,268,200)	(110,805,100)
Normalized net income	1,347,840,900	2,098,066,300	1,097,335,200	1,000,731,100
Weighted average of diluted shares	2,000,000,000	2,000,000,000	2,000,000,000	2,000,000,000
Normalized earnings per share	0.67	1.05	0.55	0.50
Balance sheet items				
	At 30 June 2017			
Net debt	2,659,562,387			
Shares outstanding	2,000,000,000			

Note on operating lease expense for Asian Terminals: *For FY2016, the operating lease note does not specifically identify the operating lease expense. However, in note 18, "costs and expenses excluding government share in revenue," the rental expense identifies the operating lease note as the corresponding note. Therefore, we assume that all rental expense in note 18 is the operating lease expense.*

The quarterly reports do not provide a breakdown of cost of goods sold or operating lease expenses; thus, we estimate the operating lease expense for 1H2017 and 1H2016. To do this, we take the annual rent expense from 2013-2016, which we assume reflects the operating lease expense, and divide it by the corresponding total cost and expenses, excluding the government share in revenues. We then average this percent, which comes to 3.85%. We then take the total costs and expenses for 1H2017 and 1H2016 and multiply it by 3.85% to obtain the estimate of the operating lease expense for that period.

2GO Group, Inc. (all values in PHP)

Consolidated income statement				
As reported	***1H2017***	***FY2016***	***1H2016***	***Implied 2H2016***
Revenues	11,133,797,000	19,053,875,000	9,757,923,000	9,295,952,000
COGS	(9,333,510,00)	(15,627,734,000)	(7,619,778,000)	(8,007,956,000)
Gross profit	1,800,287,000	3,426,141,000	2,138,145,000	1,287,996,000
SG&A / Other operating expenses	(1,187,789,00)	(2,340,885,000)	(1,062,635,000)	(1,278,250,000)
Operating income	612,498,000	1,085,256,000	1,075,510,000	9,746,000
Nonoperating income / (expense)	(203,307,000)	(336,744,000)	(165,685,000)	(171,059,000)
Pretax income	409,191,000	748,512,000	909,825,000	(161,313,000)
Tax benefit / (expense)	(289,116,000)	(404,477,000)	(342,781,000)	(61,696,000)
Net income	120,075,000	344,035,000	567,044,000	(223,009,000)
Weighted average of diluted shares	2,446,136,400	2,446,136,400	2,446,136,400	2,446,136,400
Earnings per share	0.05	0.14	0.23	(0.09)
Adjustments				
EBIT				
Operating income	612,498,000	1,085,256,000	1,075,510,000	9,746,000
Imputed interest expense on capitalized lease	30,906,850	57,940,740	28,490,410	29,450,330
Normalized EBIT	643,404,850	1,143,196,740	1,104,000,410	39,196,330
EBITDA				
Normalized EBIT	643,404,850	1,143,196,740	1,104,000,410	39,196,330
Reported depreciation & amortization	884,795,000	1,441,914,000	735,282,000	706,632,000
Operating lease expense	475,490,000	891,396,000	438,314,000	453,082,000
Normalized EBITDA	2,003,689,850	3,476,506,740	2,277,596,410	1,198,910,330
Net income				
Net income	120,075,000	344,035,000	567,044,000	(223,009,000)
Gain / (loss) on sale of PPE	1,577,000	(8,104,000)	2,636,000	(10,740,000)

Gain / (loss) on sale of AFS	0	8,869,000	8,869,000	0
Gain / (loss) from foreign exchange	(16,713,000)	(3,214,000)	(11,537,000)	8,323,000
Total adjustment, net of tax	(10,595,200)	(1,714,300)	(22,400)	(1,691,900)
Normalized net income	130,670,200	345,749,300	567,066,400	(221,317,100)
Weighted average of diluted shares	2,446,136,000	2,446,136,000	2,446,136,000	2,446,136,000
Normalized earnings per share	0.05	0.14	0.23	(0.09)
Balance sheet items				
	At 30 June 2017			
Net debt	4,929,850,152			
Shares outstanding	2,446,136,400			

Note on operating lease expense for 2GO Group: *Operating lease expense is captured in cost of goods sold (COGS) and selling, general, and administration (SGA) as rent expense, per the FY2016 annual report. Operating lease expense is provided in the FY2016 annual report. However, operating lease expense is not provided in the quarterly reports. Based on a review of the FY2016 report, the operating lease expense in COGS and SGA is the same as the rent expense. Therefore, we use the rent expense in COGS and SGA for the 1H2017 and 1H2016 operating lease expense for the respective periods.*

LBC Express Holdings, Inc. (all values in PHP)

Consolidated income statement				
As reported	***1H2017***	***FY2016***	***1H2016***	***Implied 2H2016***
Revenues	4,909,643,436	8,695,402,622	4,134,894,464	4,560,508,158
COGS	(3,242,670,487)	(5,590,513,089)	(2,716,004,059)	(2,874,509,030)
Gross profit	1,666,972,949	3,104,889,533	1,418,890,405	1,685,999,128
SG&A / Other operating expenses	(1,041,573,133)	(1,872,805,197)	(841,365,450)	(1,031,439,747)
Operating income	625,399,816	1,232,084,336	577,524,955	654,559,381
Nonoperating income / (expense)	8,881,480	93,006,455	24,830,065	68,176,390
Pretax income	634,281,296	1,325,090,791	602,355,020	722,735,771
Tax benefit / (expense)	(191,579,150)	(411,150,046)	(188,484,751)	(222,665,295)
Net income	442,702,146	913,940,745	413,870,269	500,070,476
Weighted average of diluted shares	1,425,865,471	1,425,865,471	1,425,865,471	1,425,865,471
Earnings per share	0.31	0.64	0.29	0.35
Adjustments				
EBIT				
Operating income	625,399,816	1,232,084,336	577,524,955	654,559,381
Imputed interest expense on capitalized lease	15,792,849	28,440,810	13,988,113	14,452,697
Normalized EBIT	641,192,665	1,260,525,146	591,513,068	669,012,078
EBITDA				

Normalized EBIT	641,192,665	1,260,525,146	591,513,068	669,012,078
Reported depreciation & amortization	153,412,737	295,345,105	127,652,035	167,693,070
Operating lease expense	394,821,233	711,020,247	349,702,817	361,317,430
Normalized EBITDA	1,189,426,635	2,266,890,498	1,068,867,920	1,198,022,578
Net income				
Net income	442,702,146	913,940,745	413,870,269	500,070,476
Gain / (loss) on sale of PPE	875,843	443,662	1,452,907	(1,009,245)
Gain / (loss) on sale of AFS	0	579,059	0	579,059
Gain / (loss) from foreign exchange	44,930,904	143,233,568	49,398,413	93,835,155
Total adjustments, net of tax	32,064,723	100,979,402	35,595,924	65,383,478
Normalized net income	410,637,423	812,961,343	378,274,345	434,686,998
Weighted average of diluted shares	1,425,865,471	1,425,865,471	1,425,865,471	1,425,865,471
Normalized earnings per share	0.29	0.57	0.27	0.30
Balance sheet items				
	At 30 June 2017			
Net debt	3,985,903,132			
Shares outstanding	1,425,865,471			

Note on operating lease expense for LBC Express: *LBC Express provides information on operating lease expense for 1H2017 and 1H2016, as well as FY2016.*

Harbor Star Shipping Services, Inc. (all values in PHP)

Consolidated income statement				
As reported	***1H2017***	***FY2016***	***1H2016***	***Implied 2H2016***
Revenues	632,166,870	1,360,830,025	678,238,912	682,591,113
COGS	(437,812,423)	(956,581,038)	(457,761,124)	(498,819,914)
Gross profit	194,354,447	404,248,987	220,477,788	183,771,199
SG&A / Other operating expenses	(104,512,388)	(205,556,511)	(101,410,977)	(104,145,534)
Operating income	89,842,059	198,692,476	119,066,811	79,625,665
Nonoperating income / (expense)	(20,293,820)	(18,283,912)	(15,758,223)	(2,525,689)
Pretax income	69,548,239	180,408,564	103,308,588	77,099,976
Tax benefit / (expense)	(20,850,457)	(79,521,348)	(35,924,212)	(43,597,136)
Net income	48,697,782	100,887,216	67,384,376	33,502,840
Weighted average of diluted shares	605,238,580	605,238,580	605,238,580	605,238,580
Earnings per share	0.08	0.17	0.11	0.06
Adjustments				
EBIT				
Operating income	89,842,059	198,692,476	119,066,811	79,625,665

Imputed interest expense on capitalized lease	335,684	918,396	762,600	155,796
Normalized EBIT	90,177,743	199,610,872	119,829,411	79,781,461
EBITDA				
Normalized EBIT	90,177,743	199,610,872	119,829,411	79,781,461
Reported depreciation & amortization	137,911,171	262,990,283	128,604,032	134,386,251
Operating lease expense	3,696,962	10,114,497	8,398,683	1,715,814
Normalized EBITDA	231,785,876	472,715,652	256,832,126	215,883,526
Net income				
Net income	48,697,782	100,887,216	67,384,376	33,502,840
Gain / (loss) on sale of PPE	0	17,859,837	8,929,919	8,929,919
Gain / (loss) on sale of AFS	0	0	0	0
Gain / (loss) from foreign exchange	(909,648)	(1,623,152)	(2,859,419)	1,236,267
Total adjustments, net of tax	(636,754)	11,365,680	4,249,350	7,116,330
Normalized net income	49,334,536	89,521,537	63,135,026	26,386,510
Weighted average of diluted shares	605,238,580	605,238,580	605,238,580	605,238,580
Normalized earnings per share	0.08	0.15	0.10	0.04
Balance sheet items				
	At 30 June 2017			
Net debt	785,725,065			
Shares outstanding	605,238,580			

Note on operating lease expense for Harbor Star: *Based on a review of the 2016 annual report, cost of goods sold (COGS) rental expense in 2015 and 2014 equals the COGS operating lease expense for those years. Therefore, for COGS 1H2017 lease expense, we use the COGS 1H2017 rent expense because it is similar to FY 2015 and 2014, thus leading us to believe that, as in those years, this sum reflects the full operating lease expense. For 2016, there is drastic jump in COGS rent expense, coupled with an increase in COGS lease expense. Therefore, to solve for 1H2016, we take the percentage of 1H2016 COGS rental expense of FY2016 COGS rental expense and multiply it by the FY2016 COGS lease expense.*

For SGA, the SGA rent expense in 2016, 2015, and 2014 equals the SGA lease expense in those years. Therefore, we simply use the SGA rent expense in 1H2017 and 1H2016 as the SGA lease expense in those periods.

Note on shares outstanding: *In December 2016, Harbor Star's board of directors approved a stock dividend of 302,619,290 shares, which is 50% of the current shares outstanding. In early September, the company announced the record date of this stock dividend as 19 September 2017, according to a Harbor Star filing.*

Lorenzo Shipping Corp. (all values in PHP)

Consolidated income statement				
As reported	***1H2017***	***FY2016***	***1H2016***	***Implied 2H2016***
Revenues	1,147,570,172	2,252,859,939	1,106,944,037	1,145,915,902
COGS	(1,150,393,851)	(2,247,700,553)	(1,118,464,721)	(1,129,235,832)
Gross profit	(2,823,679)	5,159,386	(11,520,684)	16,680,070
SG&A / Other operating expenses	(85,522,967)	(208,956,537)	(81,732,154)	(127,224,383)
Operating income	(88,346,646)	(203,797,151)	(93,252,838)	(110,544,313)
Nonoperating income / (expense)	9,899,256	(158,249,605)	(137,029,498)	(21,220,107)
Pretax income	(78,447,390)	(362,046,756)	(230,282,336)	(131,764,420)
Tax benefit / (expense)		(3,254,699)	(584,859)	(2,669,840)
Net income	(78,447,390)	(365,301,455)	(230,867,195)	(134,434,260)
Weighted average of diluted shares	555,652,251	555,652,251	555,652,251	555,652,251
Earnings per share	(0.14)	(0.66)	(0.42)	(0.24)
Adjustments				
EBIT				
Operating income as reported	(88,346,646)	(203,797,151)	(93,252,838)	(110,544,313)
Imputed interest expense on capitalized lease	2,352,373	3,497,300	2,071,454	1,425,846
Normalized EBIT	(85,994,273)	(200,299,851)	(91,181,384)	(109,118,467)
EBITDA				
Normalized EBIT	(85,994,273)	(200,299,851)	(91,181,384)	(109,118,467)
Reported depreciation & amortization	141,374,874	278,930,959	136,799,118	142,131,841
Operating lease expense	57,374,943	85,300,000	50,523,266	34,776,734
Normalized EBITDA	112,755,544	163,931,108	96,141,000	67,790,108
Net income				
Net income	(78,447,390)	(365,301,455)	(230,867,195)	(134,434,260)
Gain / (loss) on sale of PPE	(3,519,405)	(72,514,446)	62,121,076	(134,635,522)
Gain / (loss) on sale of AFS	0	0	0	0
Gain / (loss) from foreign exchange	294,948	(6,344,172)	(27,848)	(6,316,324)
Total adjustments, net of tax	(2,257,120)	(55,201,033)	43,465,260	(98,666,292)
Normalized net income	(76,190,270)	(310,100,422)	(274,332,455)	(35,767,968)
Weighted average of diluted shares	554,642,251	554,642,251	554,642,251	554,642,251
Normalized earnings per share	(0.14)	(0.56)	(0.49)	(0.06)
Balance sheet items				
	At 30 June 2017			
Net debt	1,404,304,924			
Shares outstanding	555,652,251			

Note on operating lease expense for Lorenzo Shipping: *The expenses associated with operating leases are listed in cost of goods sold (COGS), Terminal expenses, and selling, general, and administration (SGA). In FY 2016, 2015, and 2014, the rent expense in Terminal and SGA is equal to the operating lease expense for Terminal and SGA. Therefore, we simply use the Terminal and SGA rent expense in 1H2017 and 1H2016 as the operating lease expense for those periods.*

COGS, however, does not break out rental expense in any of the FYs. Therefore, we take the FY2016 COGS operating lease expense and divide it by the FY2016 total COGS expense. We do the same thing for FY2015 and FY2014. This results in the percent of COGS operating lease expense as a percent of total COGS expense. We take the average percent of the three years, which is 1.5%, and multiple it by the 1H2017 and 1H2016 total COGS expense, respectively, to estimate the COGS operating lease expense for those periods.