ACSA profits rise to R1.2bn despite pandemic, weak economy

According to Airports Company South Africa's latest financial results for the 2019/20 financial year, the company has reported revenue of R7.12bn, an EBITDA of R2.6bn and profit of R1.2bn for the financial year to 31 March 2020.

Chief Executive Officer, Mpumi Z. Mpofu says the improvement in profit is to a large extent at odds with the underlying operational performance of the company. She says the significant improvement in profit is attributable to the impact of accounting adjustments and events such as the R721, fair-value adjustment to investment properties and R157m in rates refunds.

Image source: Gallo/Getty

"The impact of Covid-19 and travel restrictions resulted in the company foregoing performance bonuses and reducing other operating expenses towards the end of the financial year in order to mitigate the liquidity challenges, but it also necessitated an increase of R270m in provision for doubtful debts," she says.

Mpofu says the 1.7% decline in aeronautical revenue reflected the impact of a tough operating environment and effect of no tariff increase which contributed to the overall 0.03% drop in revenue.

Cost pressure on earnings

"A 1.9% increase in non-aeronautical revenue offset the muted aeronautical revenue. However, earnings were eroded by significant cost pressures which saw operating costs rise by 2% to R2.6bn.

"Major components of the cost base were security services and asset maintenance costs in response to security threats, regulatory compliance, and previously anticipated growth in traffic volumes in a bid to improve passenger experience," says Mpofu.

The group generated sufficient cashflows of R2.5bn to fund its operations, investment in capital expenditure and servicing of debt. The group repaid R296m of debt and ended the financial year with cash reserves of R1.7bn.

As of 31 March 2020, the company's debt amounted to R6.4bn (2019: R6.5bn) which resulted in a gearing ratio of 17%. Debt has been reduced by R11bn since 2012 when gearing stood at 60%.

Revenue growth shows upward trend

Mpofu says that in spite of the challenging environment, the network of airports had been on track to weather the economic storm underway before Covid-19, recording 3.3% total passenger growth up to the end of February 2020. This comprised muted growth of 0.3% for cross-border traffic and 4.7% for domestic travel.

Overall, Airports Company South Africa recorded a 1% decline in departing passenger numbers to 20 924 465. Aircraft landings for the year were down 4% to 248 519 (2019: 259 169).

"Up until the end of the third quarter, we were able to withstand economic headwinds. Unfortunately, the pandemic and subsequent travel bans led to a drastic contraction in departing passengers and aircraft landings, resulting in an overall decline for the year," says Mpofu.

Leading up to the last quarter, the company's plans to grow non-aeronautical revenue were yielding good results. Compared to the previous year, commercial and retail revenues were up 4% and 1% respectively. Annual escalations pushed car rental and property revenues up by 4% and 9% respectively, while advertising recorded an increase of 10%.

"The onset of the Covid-19 pandemic caused our earnings to take a dramatic downturn and this trend is set to continue in the next financial year," says Mpofu.

Transformation targets reached

While circumstances have compelled the company to adapt its transformation agenda, in the year to end-March it met, and in many cases exceeded, its transformation targets. The share of commercial revenue generated by black businesses rose to 55.4% from 54% in the previous year.

In planning for the recovery from the pandemic, an amended corporate plan was submitted to the Department of Transport and National Treasury in August 2020 and September 2020, respectively.

Mpofu says the amended corporate plan is based on the company's assessment of the impact of Covid-19 and travel restrictions on traffic volumes, and the ramifications for the Group's financial performance and position.

Mitigatiing negative impact on operations

"We anticipate that the impact on traffic volumes and airline sustainability will be long term. Significant responses that have been introduced to mitigate the impact of the anticipated traffic volume decline include considerable reductions in operational and capital expenditure," says Mpofu.

The result of this scenario leads to a funding requirement over a five- to a six-year period of up to R11bn. Of this amount, up to R3.5bn will be required in the next three years given current assumptions.

"It is important to note that the financial position of the Group was solid prior to Covid-19 in spite of the difficult operating environment. We continue to take great pride in our standing as a well-run State-owned company that has made a profit in all but one of its 26 years."

Looking ahead, Mpofu says the only certainty is that high levels of uncertainty about the future will prevail for some time. Risks abound, including the re-emergence of new waves of Covid-19.

Working toward wider industry recovery

She says the resilience of domestic and international carriers is unclear. The future of domestic airlines is uncertain and exposure of capacity to airlines from the Middle East, which rely on oil-sourced funds, is concerning in the light of projected low oil prices.

"Capacity rationalisation is inevitable, and we are prepared to look for new ways of diversifying our revenue.

"The Covid-19 pandemic has adversely impacted our outlook for the future. Fortunately, Airports Company South Africa is a fortified and resilient company, well-positioned to weather this storm. The response of all our employees has been a source of inspiration, as I have witnessed first-hand the dedication, innovation and flexibility of each and every one of our employees who have worked tirelessly to ensure adaptation to a new normal," says Mpofu.

"The road to recovery will be difficult but we are in a good position not only to recover ourselves but to support a wider recovery across the aviation and tourism value chains."