

18/04/1998

MAS plan common practice: Analysts

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THE plan by Malaysia Airline System (MAS) to sell its aircraft to a specially-created company and later lease them from this company is not an uncommon practice within the industry, analysts say.

"It is a usual practice for airlines to sell their aircraft and lease them back for various reasons. Most Association of South-East Asian Nations airlines have sold an aircraft or two for quick refinancing under the current economic situation," said Mr Sanjeet Devgan, an analyst with Hong Kong-based Prudential Bache.

He said recently, Singapore Airlines sold some of its aircraft. But this was not to raise funds; rather, to lock in a good sales price for aircraft earmarked for sale.

What is rather unusual about the MAS' proposed restructuring is that it reportedly plans to sell all its aircraft to MAS Capital, a newly-created company to be based in Labuan.

If this was what the Malaysian carrier is planning to do, "it would be a first for the industry", Devgan said.

The Asian Wall Street Journal had reported that Malaysia Airlines executive chairman Tan Sri Tajudin Ramli was planning to borrow against the carrier's aircraft to raise funds that would be used to settle personal debts.

The report described the proposal restructuring as "complex" and "notable for its innovation" but "follows the pattern of other recent and widely-criticised corporate deals that have been benefiting Malaysian businessmen and tycoons".

Prime Minister Datuk Seri Dr Mahathir Mohamad had said he saw nothing wrong with the proposed restructuring and that the idea to sell and lease back aircraft was not a foreign practice to airlines.

According to the report, Tajudin would sell the entire aircraft fleet. MAS Capital, which he owns, will then lease the aircraft to the airline. The planes are expected to be acquired at book value, estimated at RM14 billion at the current exchange rates.

MAS Capital was expected to take on fresh loans to refinance the aircraft and will not be merely a leasing company.

Tajudin, according to analysts have hinted on a restructuring for MAS as early as January as the airline plans to raise RM3.271 billion in a restructuring exercise to part-finance the purchase of its new aircraft.

Analysts contacted by the Business Times, while reminding that the proposed restructuring is in its initial stage, said the deal looks workable on paper. But much will depend on the selling price of the aircraft and the lease agreements.

Nonetheless, the analysts said the full details of the proposal must be made transparent in order to convince shareholders and the investing public that it was not meant to bail out Tajudin.

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