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Flying different ways

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AS PART of a restructuring exercise, the Government is likely to split the international and domestic operations of Malaysian Airline System Bhd (MAS) under a new holding company.

Sources say the restructuring will be implemented to improve services and the bottomline of the company. A chief operating officer (COO), most likely sourced from a major European Union airline, will be appointed. Another representative from abroad will also join the MAS board. The sources also do not discount the possibility of experts from other regions joining the board.

Recently, Prime Minister Datuk Seri Dr Mahathir Mohamad had said that a foreigner was likely to be recruited as COO to complement the appointments of Tan Sri Azizan Zainul Abidin and Datuk Mohd Nor Yusof as chairman and managing director respectively.

According to the sources, the restructuring is likely to entail the formation of a new holding company which will control MAS Bhd (the listed entity) and the set up of a new company to operate domestic routes. In this way, the listed entity will not be burdened with the unprofitable domestic sector as is the case now.

Domestic fares have not risen since 1992. Analysts say that with higher fuel costs and refusal of the Transport Ministry to allow MAS a fare increase, the airline losses an estimated RM350 million per annum. One local broking house estimates that every 10 per cent increase in domestic fare will add at least RM100 million to MAS' bottomline. For 2000, revenue from its domestic routes accounted for just over a billion ringgit (see Table 1).

Once restructured, MAS is expected to return to profitability and analysts are expected to re-rate upwards the airline. Recently, Morgan Stanley Dean Witter in a research report said that after factoring in the market value of its aircraft, the adjusted net tangible asset (NTA) of MAS is around RM7.60 per share. Analysts note that the adjusted NTA is close to the RM8 per share the Government paid to acquire Tan Sri Tajudin Ramli's 29.4 per cent stake in MAS earlier this year.

The entry of a foreign stakeholder who is able to inject funds into it, will help MAS ease its debt burden. It was reported that four potential foreign partners for MAS were Air France, KLM, Swissair and Qantas.

On the international front, MAS is likely to rationalise its route network and may even altogether cut its unprofitable destinations. It may instead opt to team up with other airlines in complementing routes.

Currently, MAS has yet to join a major global alliance. It needs to do so soon if it wants to compete with neighbouring airlines Singapore Airlines and Thai Airways which are part of the Star Alliance comprising 15 global airlines (see table 2). Market players say MAS, which has a strong route network in Asia, should join an alliance with a strong network in Europe and the USA. One such group is OneWorld Alliance which comprises eight airlines.

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