

Tune Air keen to run MAS's local services

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KUALA LUMPUR: Tune Air Sdn Bhd, owner of Malaysia's No. 2 domestic airline, wants to run the local operations of bigger rival Malaysian Airline System (MAS) in a bid to repeat its success of turning around an-unprofitable carrier.

"That is on our mind map," Tony Fernandez, chief executive of Tune Air, said in an interview. "It's been tough for MAS to make money on its domestic operations."

Last month the government said it would split MAS into two groups to stop domestic services draining funds from its international operations.

Tune Air, which recruited a former executive of Ryanair Holdings Plc, Europe's biggest no-frills airline, turned Air Asia into a profitable discount carrier.

"The no-frills model is likely to go down well with Malaysians as I would rather pay the cheaper fare to Penang than drive my car," said Kelvin Miranda, who helps manage RM201 million at Meridian Asset Management Sdn Bhd.

Still, Tune Air "doesn't have a track record" with only three months of profit.

Tune Air bought Air Asia from DRB-Hicom Bhd, an auto and construction company, last September for RM1 and assumed RM70 million of the airline's debt.

Fernandez said Air Asia has been making between RM1.5 million and RM2 million a month since December.

"We will pay off creditors by June from positive cash flow and refinancing," he said. Air Asia's creditors include MAS and state oil company Petrolia Nasional Bhd.

er's airfares to promote tourism and integration between Peninsular Malaysia and Sabah and Sarawak.

Malaysia may invite private investors to run some of the companies because the government may not be the best entity to own them, said an economic adviser to Prime Minister Datuk Seri Dr Mahathir Mohamad.

"The government might as well allow Tune Air to try out the no-frills model for MAS's domestic operations since it has worked at Air Asia," said Azam Yahya, analyst at Straits-G.K. Goh Research.

Air Asia is offering fares that are as much as 70% lower than MAS's rates. It plans to add two more cities to its six destinations in the country. Passenger loads have risen to between 70% and 86%.

MAS shares have risen 13% since it announced plans to split its domestic and international operations on Jan 28. Bloomberg

bringing to six the number of Boeing 737-300s it will operate. It currently has three aircraft, with one to be delivered in April and another in June.

MAS loses about RM360 million a year on its domestic routes, on which it flies mostly 737-400s and some Airbus SAS A330s.

The government keeps a lid on the national carrier's

Tune Air plans to raise RM60 million by selling between 10% and 15% of the airline to local and foreign investors. Talks are being held with investors "in Singapore and Europe," Fernandez said. Babcock & Brown Inc is its adviser.

For Fernandez, who used to head the Southeast Asian music business of what is now AOL Time Warner Inc, Tune Air was his first foray into the airline business.

He and four other partners, including Ryanair's former director of operations Connor McCarthy, have poured RM15 million into the airline.

Tune Air plans to lease another aircraft in July.