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MAS may be paving way to bring in a strategic partner (HL)

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MALAYSIAN Airline System Bhd's (MAS) plan to separate its international operations from the loss-making domestic services is believed to be aimed at making a new subsidiary, that will be set up for the exercise, attractive to potential foreign partners.

The "concept" is similar to that being pursued at Malaysia Airports Holdings Bhd where non-core businesses and assets are expected to be disposed of before a foreign company comes onboard, said KAF Research Sdn Bhd analyst Noor Azwa Mohd Noor.

"But there is one difference... MAHB has a strong balance sheet. With MAS, the plan may not be as straight-forward, which should explain the lack of details provided so far," he told Business Times in Kuala Lumpur yesterday.

Earlier yesterday, Prime Minister Datuk Seri Dr Mahathir Mohamad clarified that MAS will remain a public-listed company but it will mainly focus on international operations, using aircraft leased from a new company (Newco).

"All its other functions, assets and loans as well as debts will be transferred to the new Government-owned company," he told newsmen after opening a seminar on open thinking in Kuala Lumpur.

"MAS will be like a hotel operator... which runs and manages the hotel but does not own the building," he said, adding that this way MAS can concentrate on the international routes.

"Other functions, assets and debts will be separated... and will be acquired by the Government initially.

"All loans incurred by MAS because of purchasing aircraft and so on, and all losses sustained by the national air carrier in functions like engineering, domestic operations, catering, boutique business... those will be taken away from MAS initially by the Government and then sold later.

"Anybody can buy these other functions."

However, MAS can still operate domestic routes on behalf of the Government, the Prime Minister said.

"It (MAS) will not own the domestic airline, and the company operating the domestic services will not be a MAS subsidiary."

Asked when the reorganisation of MAS will be completed, he said: "It will take a bit of time."

On whether the Government is still interested in seeing MAS take in a foreign strategic partner, Dr Mahathir said the national carrier remains keen but it will have to find out the prospective partner's plans for it.

"We are interested but we want to know what their intentions are... MAS will be a company that operates as an airline without owning assets."

In any case, upon completion of the reorganisation, MAS will be attractive to investors as all the debts will have been removed, he noted.

On the Government's golden share in MAS, Dr Mahathir said the Government already has enough say in the airline.

"The airline belongs to the Government. No need for golden share."

The Government, through the Minister of Finance Inc (MOF), owns 29.09 per cent of MAS, while Kumpulan Wang Amanah Pencen and the Employees Provident Fund (EPF) hold 20.21 per cent and 11.74 per cent, respectively.

Meanwhile, industry players and analysts alike are waiting for further details on MAS' restructuring, with some deciding to take a cautious

stance for now in respect of outlook for the company's stock.

Nonetheless, MAS streaked ahead to close 26 sen higher at RM3.52 on the Kuala Lumpur Stock Exchange yesterday.

It is proving positive enough for market players that the group has announced such a massive restructuring plan, albeit one which has yet to be fleshed out, an analyst said.

MAS announced on Monday that it would set up a new subsidiary, Newco, to take over the marketing and operation of the carrier's international flights and freight services.

It will own at least 51 per cent of Newco.

On the indication from the Prime Minister that there might not be a need for a golden share in the revamped MAS, Noor Azwa said: "It reaffirmed our optimism of foreign equity participation (in MAS) in the near future".

"We understand that concern over government influence in the national carrier via the golden share has been one of the reasons for the delay in finding a foreign partner."

The confidence expressed by MAS' group managing director Datuk Md Nor Yusof on Monday that Newco will be profitable from the outset further suggests that foreign participation is imminent, he added.

Under the proposed scheme, MAS' listing status will also be transferred to the new company.

At a briefing for the media and analysts, Md Nor said the company's current shareholders will be given an option to either stay with the parent company or transfer their interests to Newco.

An analyst from a foreign research house said the listing status transfer will mean that the new company will be valued based on projected cashflows from the concession as assets and liabilities will remain at MAS.

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