

01/08/2002

`MAS restructuring will benefit all parties involved'

Nuryushida Laily Yusof; Eirmalasare Bani

THE proposed restructuring of Malaysian Airline System Bhd (MAS) is designed in such a way that it will benefit all parties involved, says Tan Sri Nor Mohamed Yakcop, chairman of the restructuring committee.

The Government, the company, minority shareholders and the country's economy will all gain from the scheme, he said, adding that the Government will end up with a 70 per cent stake in a much more focused and profitable airline.

"Minority shareholders are also saved from a potential insolvency situation at MAS," he said in an interview with Business Times.

As for the company, there will be no balance sheet overhang and this allows the carrier to concentrate on improving operational efficiency.

Consequently, MAS will be in a better position to fulfil national objectives like promoting trade, tourism, national integration and regional, South-South and international cooperation.

"These objectives, plus the spin-off economic activities in the domestic economy, make MAS an important asset to the country... there is no bailout," said Nor Mohamed who is also financial adviser to Prime Minister Datuk Seri Dr Mahathir Mohamad.

Under the national carrier's revised restructuring plan unveiled on Tuesday, the Government will take over the company's RM6.9 billion of liabilities and RM5.1 billion in assets.

The RM1.8 billion difference will be paid through the issue of new MAS shares to the Government priced at the current market value of RM3.85 each.

The Government, with its strong holding power and ability to borrow at a lower cost, is in a better position to undertake the balance sheet repair, Nor Mohamed said.

At the same time, MAS' management can pursue strategic operational initiatives now that the right platform has been set up.

"MAS is best equipped to be the service deliverer, it is the one with the industry and customer knowledge, the custodian of the brand," he said.

Although the Government will now bear the cost of operating domestic routes, there is no such thing as a "free lunch" for MAS.

The carrier will only earn a fee if it meets certain minimum standards of efficiency, based on factors such as punctuality, he added.

Nor Mohamed noted that the Widespread Asset Unbundling (WAU) scheme proposed by MAS also overcomes complicated legal and financial issues, and is aimed at achieving the desired sharing of risk and return between the Government and the company.

"Malaysia's contribution to the international airline industry, by way of this restructuring exercise, is to introduce the WAU mechanism as an innovative tool, as well as to force a rethink on the concept of integrated airlines," he said.

"We are separating the two functions (of asset ownership and service delivery) and the risks are shared between two entities. This could be the way forward for other airlines too."

MAS is selling RM5.1 billion worth of aircraft to government-owned Penerbangan Malaysia Bhd (PMB), and lease them back for its operations.

In return, PMB will take over MAS' liabilities of RM6.9 billion and will also shoulder the cost of operating domestic flights. Any revenue generated from the sector will accrue to PMB.

MAS will keep the revenue from the international and cargo operations. The exercise is expected to result in a RM94.2 million net profit for MAS in the current financial year ending March 31 2003, instead of a forecast loss of RM357 million.

Analysts said the proposed restructuring has been "refined" to address two main issues, namely high gearing and persistent losses.

The plan will clean up MAS' balance sheet once and for all, and enable it to return to profitability after five straight years of losses.

"This is a positive restructuring. Going forward, the earnings visibility will be there but the full impact on MAS' share value could only be seen from 2004 onwards," said a senior foreign analyst.

MAS shares, suspended on the Kuala Lumpur Stock Exchange since Tuesday, will resume trading today. It was last traded at RM3.86.

AFP reports: MAS said yesterday it was still keen to find a foreign partner but this would not occur in the near future.

Managing director Datuk Md Nor Md Yusof said PMB may eventually sell some of its shares to a foreign investor.

"Certainly, there's a possibility but not now," he told reporters.

Nor Mohamed added: "Not in the near future".

On whether MAS was seeking to join an aviation alliance, Md Nor said the carrier has 26 code-sharing partners and preferred to stick to such bilateral agreements based on specific mutual needs.

"We're not a member of any clear alliance at this stage... we have been approached by several alliances and we are closely monitoring," he said.

Asked if the airline has plans to counter cheap domestic air fares offered by no-frills airline AirAsia, Md Nor said the flag carrier has the capacity to do so if it wishes.

"We have the capacity to implement a counter plan. AirAsia has done well and spurred us to think of options in the market... we have more planes and we can improve our products," he added.

He said the airline's 20,000-strong workforce would not be affected by the restructuring as the airline was still expanding its regional operations, particularly to China, Hong Kong and India.

A company official told AFP that the carrier was not threatened by AirAsia as its domestic flights were near full capacity, despite suffering losses of some RM300 million last year.