

Union official: PM to review MAS-AirAsia deal

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Prime Minister Najib Abdul Razak has promised to review a share-swap deal between Malaysian Airlines (MAS) and AirAsia, a MAS Employees Union (MASEU) official said today, signalling a tie-up may be scrapped after MAS posted record losses.

The 20,000 strong union MASEU is opposed to the US\$364 million deal that has brought AirAsia founder Tony Fernandes and his brand of aggressive cost cutting into the MAS boardroom, which they say resembles a take-over by the budget carrier.

Senior officials from the two airlines were not immediately available for comment. A government spokesperson confirmed that union officials had met the prime minister but he declined to comment on details of the meeting.

The deal, formulated by Najib, was to help both carriers compete effectively against competitors like Tiger Airways and Singapore Airlines once the South-East Asian open sky policy comes into effect in 2015.

MASEU officials met Najib in February to protest against the deal that would lead to restructuring MAS into short-haul and long-haul operations and could lead to job cuts, said MASEU secretary-general Abdul Malek Ariff.

That month, MAS reported its worst ever losses of RM2.5 billion (US\$823.86 million) for 2011, eight months after the share swap deal was signed in August, shocking analysts who expected the restructuring to limit losses.

Failing to placate the union could turn into a political hot potato for Najib as MAS operations are centred in Selangor, an important industrial state Najib wants to wrest back from the opposition in elections that could be held within months.

"The prime minister has promised to look into the matter but we've heard nothing from him," Abdul Malek told Reuters, adding the government was losing the support of union members.

"Sentiment among the unions used to be 50:50 for the government and the opposition. Now after this, 90 percent will opt for the opposition," he said.

Under the deal announced in August, Tune Air, which is controlled by AirAsia's Fernandes and Kamarudin Meranun, would take a 20.5 percent stake in MAS and two board seats.

In exchange, state investment arm Khazanah Nasional, the majority shareholder in MAS, would hold 10 percent in AirAsia.

CIMB is the adviser for both companies on the deal, which is almost completed with the exchange of warrants ongoing, said a banking source.

Khazanah also declined to comment. A government spokesperson said MASEU officials met the prime minister "some time back" but declined to comment further.

Saving MAS?

Analysts say the new structure was supposed to help MAS, which has had a tumultuous history stretching back to 1997, when unprofitable routes pushed it into the red.

It notched its worst ever financial year in 2011 because of surging fuel costs and one-off provisions for impairment of aircraft, excess capacity and redelivery of aircraft.

In total, the provisions stood at RM1.1 billion for the fourth quarter alone. Following the losses, MAS said it would do fundraising to strengthen its balance sheet.

In contrast, AirAsia has posted profits over the last four quarters, tapping strong demand for air travel in South-East Asia. It is also planning IPOs in Bangkok and Indonesia to expand in the region where carriers like Lion Air and JetStar are seeking to dominate.

Analysts said at the moment there was no meaningful partnership between AirAsia and MAS, except for the joint procurement of jet fuel cargoes.

“They are welcome to unwind the deal. But what’s key is, would this save MAS? Would previously terminated routes be restated?,” said Ahmad Maghfur Usman, a transport analyst with OSK Investment Bank.

“Definitely, AirAsia benefits in the near term because of the route cuts. It is tough to say what exactly benefits MAS because the detail of the collaboration has yet to be announced. But over the longer term, through shared resources, both carriers will benefit.”

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