



Turbulence Alert

It would seem that MAS' recent moves in its turnaround plan might just work to the contrary. Perhaps, it should find out the real reasons why its financials are in the red.

IS MALAYSIA AIRLINES (MAS), DESPITE ITS ONGOING TURNAROUND PLAN, becoming less competitive?

Going by its recent events, it could be. On Aug 1, it hiked its fuel surcharge by a hefty 33% for flights within West Malaysia and 40% for flights between West and East Malaysia.

This increase, incidentally, coincided with the domestic route rationalisation exercise, where it will operate only 22 routes and give up the rest to AirAsia Bhd and Fly Asian Xpress.

On Aug 15, it raised its domestic fares by an average of 15% for the Economy Class and 45% for the Business Class. It even introduced a new administrative fee of RM14 per person.

Although its aim must be to increase revenue through these higher fares, in reality, it is likely to lead to lower demand for domestic flights and decrease revenue. After all, it is estimated that around 35% of its passengers are leisure-based or optional passengers. In other words, they may just cancel their plans, switch airlines or use other means of transportation. Worse, of the 22 routes it will now operate, less than a quarter were profitable anyway. So, its plans to finally turnaround its domestic operations in 2007 may be a tough call, with Managing Director Idris Jala's reputation and tenure at stake. The domestic operations have been the subject of concern and criticism by many

quarters, including taxpayers, since 2002. It was in July 2002 that the government effected a domestic business unbundling scheme, whose lead adviser was Bina Fikir Sdn Bhd. Under the scheme, MAS' loss-making domestic operations were injected into its parent company Penerbangan Malaysia Bhd (PMB). The idea was to make MAS, the listed entity, profitable and thus attract foreign investors to take a stake. But the investors never came. PMB too, continued to bleed. Bina Fikir's magical wand did not work. This year, the government, in a sudden move, decided to terminate this unbundling scheme.

The financial effects on taxpayers' pockets will be devastating. PMB and the government will pay MAS a whopping RM850 million for the termination of the scheme. Of this, RM650 million will come from

PMB, which is government-owned, and the rest directly from the government to cover possible losses from the sale of assets. MAS will spend around RM500 million on its mutual separation scheme (MSS). So instead of the listed entity bearing the costs, it is PMB and the government who are paying for the MSS exercise via the RM850 million. This bailout by the government comes as a surprise. In December last year, Prime Minister Datuk Seri Abdullah Ahmad Badawi assured that the government will not bail MAS out. He said that MAS must earn its right to survive, strive and succeed. Perhaps, the government has its own reasons for its change of heart, or had

the Prime Minister spoken too soon? The worry here is that given the current economic scenario, MAS might have difficulty returning to the black. Each time the price of oil rises, is it likely to raise its taxes and other charges again? But why resort to this to raise revenue? After all, the higher jet fuel costs are mitigated by the fact that the company has hedged 75% of its fuel costs at US\$ 58 compared to the current market price of US\$ 85.

Isn't there a better way of increasing productivity and cutting down unnecessary costs? According to insiders, there is still much to cut down in terms of catering and other expenses. And the worry is not only on the domestic flights. International passengers

have also been slapped with higher fuel taxes and other charges. It is no secret that MAS fares to many international destinations are generally higher compared to its competitors. For example, an Economy Class return ticket to London costs RM5,188, while Emirates charges RM3,380 and Qatar Airways RM2,998. The Business Class tickets cost RM20,488, RM14,888 and RM12,888 respectively.

This inevitability leads to a lower load factor and revenue. A solution must be found on how to maximise its load factor. It should learn from its competitors. The best thing would be for MAS to do an independent audit on why it has slipped into the red despite hiving off its unprofitable domestic routes under PMB. It might just reveal the real reasons and measures that need to be taken. **mb**

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