

MAS mulls delaying alliance, A380s as losses mount
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KUALA LUMPUR, Aug 23 — Malaysia Airlines (MAS) is considering delaying its membership with global airline group Oneworld and deliveries of the super airliner Airbus A380 as its new management focuses on cutting losses, which spiked in the second quarter of 2011.

The Malaysian Insider understands that MAS will announce a bigger loss today for this year's second quarter, traditionally its weakest business period, from the net loss of RM242.3 million in the first quarter ended March 31. It posted a pre-tax loss of RM532.6 million for the second quarter in 2010.

"The exco met last week and are looking at their options of delaying the alliance with Oneworld because it will cost money to provide interlining services and also upgrade the lounges to their standards," a company source told The Malaysian Insider.

"They are also looking at delaying the A380 deliveries. It's already delayed since 2008 but the exco is concerned if it can make money for MAS," he added, referring to the executive committee headed by MAS chairman Tan Sri Mohd Nor Mohd Yusof now managing the airline after managing director Tengku Datuk Azmil Zahrudin resigned effective August 9.

Azmil's resignation was announced after the airline's biggest shareholder, state asset manager Khazanah Nasional Berhad, swapped 20.5 per cent of MAS stock for a 10 per cent stake in Asia's biggest budget carrier AirAsia on August 9. The swap enabled AirAsia bosses Tan Sri Tony Fernandes and his partner Datuk Seri Kamaruddin Meranun to sit on the MAS board and help turn around the loss-making flag carrier.

Another source confirmed the possibility of delays, pointing out that MAS is now just a designated member of Oneworld since June and has to go through a process that could take as long as 18 months before being a full member of the world's third biggest airline group.

It is understood that a cause of concern is MAS' sponsor to join oneworld, Qantas, which recently announced it wants to set up two new airlines in Asia with part of its US\$9 billion (RM26.81 billion) plane order from Airbus in order to salvage its loss-making international business.

Under the plan, the Australian carrier has decided to set up a Japanese budget airline with Japan Airlines and Mitsubishi Corp and a premium airline based in Southeast Asia, possibly Malaysia.

"MAS is going to be a premium airline and if Qantas goes ahead with its plans, there will be competition. An alliance might not work then, apart from the costs of meeting the alliance's standards," the source said.

When MAS announced its entry in Oneworld last June, it said that MAS passengers will gain access to the alliance's global network which covers almost 950 destinations in 150 countries. MAS Enrich frequent flyer members will be able to earn and redeem rewards on Oneworld's carriers and vice versa.

This strategy was to work with the April 2012 delivery of the first of six A380s that MAS ordered in 2003. There has been three delays for the world's biggest passenger jet from

Airbus, which were first to be delivered in January 2007 before being delayed to last January and the third delay was to this month before it was confirmed for next year.

MAS will be the seventh operator of the US\$300 million aircraft when it finally arrives but some exco officials are leery about whether it can fill up the plane on its lucrative Kuala Lumpur-London route which is now operated by the aging and fuel-guzzling Boeing 747s.

"MAS is losing out because the B747s are old and uses too much fuel. They aren't too sure about the A380s because no one has made money using it yet in the competitive routes.

"It wants to use the B777s as they are fuel-efficient but it's smaller than the B747s," one source told The Malaysian Insider.

The Malaysian carrier's main competitor in the region, Singapore Airlines, was the launch customer for the A380 and offers competitive rates for seats on that aircraft going to popular destinations such as London and Sydney.

"MAS has to compete on the premium market with Singapore Airlines while also keeping its passengers from opting for budget carriers like AirAsia X. It's a tough business so it has to see what makes money and cut what doesn't," the source added.

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