

Government interference, unions scuttled MAS-AirAsia pact, say sources
The Malaysian Insider
May 03, 2012
By Jahabar Sadiq

KUALA LUMPUR, May 3 — Government interference and unions' dissatisfaction aborted the Malaysia Airlines-AirAsia share swap just nine months after the deal was hailed as the best way to save the loss-making flag carrier, which has gone through at least two business turn-around plans in the past decade.

Sources told The Malaysian Insider Putrajaya's insistence to ensure no job cuts in MAS before the next general election and workers unhappy with AirAsia executives managing the national carrier had all but made sure the pact would not take off successfully.

"Putrajaya and the unions put a lot of pressure that the plan could not work at all," an industry source told The Malaysian Insider, saying this was told to board members of both carriers when they voted yesterday to unwind the share swap.

The unwinding of the share swap will see MAS main shareholder Khazanah Nasional Berhad transfer its 10 per cent or 277,650,600 ordinary shares in AirAsia back to Tune Air Sdn Bhd, while Tune Air will transfer its 20.5 per cent or 685,142,000 ordinary shares in MAS back to Khazanah. It will be cashless and based on the same swap ratio of 2.05 based on the prices when the share swap was announced in August 2011, where MAS was valued at RM1.60 per share and AirAsia's share at RM3.95.

But several politicians and MAS unions were up in arms against the share swap, particularly the entry of AirAsia bosses Tan Sri Tony Fernandes and Datuk Kamaruddin Meranun into the airline's board. The duo's Tune Air bought AirAsia when it was a loss-making two-plane operation in 2001 but turned it into Southeast Asia's biggest budget carrier within a decade.

"The unions bypassed the management and met with the prime minister and other influential people, including Tun Dr Mahathir Mohamad, to complain about the deal as they feared for their jobs," another source said. Dr Mahathir had supported the deal when it was first announced last year.

"MAS is an old airline with experienced management but new staff from AirAsia and instructions from Putrajaya just threw them off from working the plan," the source added, saying the management did not have the opportunity to meet the Najib administration and present their case.

"Both carriers cut some routes to rationalise their operations under the comprehensive collaborative framework (CCF) but everyone felt that AirAsia benefitted more, rather than MAS," he added, noting MAS cut its Firefly unit's foray into Sabah and Sarawak just as it was luring passengers from AirAsia, which also got its long-sought rights to Sydney as part of the deal.

Analysts from Hwang DBS Vickers pointed out that two areas of the initial collaboration

have been dropped — “cessation of focus areas, which specifies that MAS focus on being a full-service premium carrier and AirAsia on being a regional low-cost carrier, and assessment for collaboration on provision of network services”.

“The implication of the cessation of focus areas is unclear at this point. Fernandes stated in AirAsia Invest TV that he does not think Firefly will return to the low-cost segment to challenge AirAsia,” the research house said in a note today.

Fernandes was more diplomatic about the aborted pact and opposition from MAS old hands, saying in a tweet today: “I leave MAS with mixed emotions. A job not completed. Want to wish all in MAS best of luck and to thank the majority for the kind treatment I got while there.”

Khazanah itself admitted that the cross-holding of shares, which was intended to better align the economic interests of the major shareholders, Khazanah and Tune Air, had become a distraction to management’s efforts to turn around MAS which posted its largest ever annual loss of RM2.5 billion in February.

“Khazanah remains supportive of the compelling logic of proper collaboration between airlines so long as it complies with competition laws, but we also acknowledge the unintended and unfortunate confusion and distraction of the share swap arrangement that has become an impediment to the more important task of turning around the national carrier,” said Khazanah in its a statement.

The state asset manager added that it has initiated discussions with the government for a more clearly defined regulatory, policy and co-ordination environment for the aviation industry with sufficient safeguards for public and consumer interests.

Tune Air director Kamarudin said in a statement this evening that it remained supportive of the collaboration even though the share swap had been reversed. “We continue to believe in the ability of the collaboration to create value for all shareholders and ultimately to benefit passengers,” he said.

Despite AirAsia bosses’ sentiments, OSK Research said AirAsia is expected to benefit more with the unbundling of the deal.

“As Malaysia is predominantly a low-cost passenger market with a penetration rate of over 57 per cent, this gives AirAsia the upper advantage given its low-cost structure and vast route network, hence limiting the pressure from MAS in view of its ailing financial condition,” it said in a research note.

The Malaysian Insider reported as early as March that Putrajaya was having a relook at the share swap and was considering a special entity to take MAS off the hands of its then main shareholders, Khazanah and Tune Air, after the shocking losses reported earlier.

The Malaysian Insider

Copyright © 2012 The Malaysian Insider

Source: <http://www.themalaysianinsider.com/malaysia/article/government-interference-unions-scuttled-mas-airasia-pact-say-sources/>