

MAS to remain listed while seeking recovery alone
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KUALA LUMPUR, May 7 — Putrajaya will not consider privatising Malaysia Airlines (MAS) despite unwinding a share swap with AirAsia as Khazanah Nasional Berhad feels the listing status will give the loss-making flag carrier the discipline demanded for a financial turnaround, sources say.

MAS lost RM2.52 billion last year, including some RM1 billion in provisions, and is looking for RM6 billion this year to finance its new fleet that includes the Airbus A380 and the latest generation Boeing B777 and B737 aircraft. The flag carrier has said it will issue a RM3 billion Islamic bond this year.

“The government won’t consider privatising MAS despite majority control being with Khazanah because they believe being listed will give the airline financial discipline,” a source told The Malaysian Insider.

Children watch MAS aircraft at the Kuala Lumpur International Airport in Sepang. The airline is looking for RM6 billion this year to finance its new fleet. — Reuters pic
Khazanah, the state asset manager, holds 69.34 per cent of MAS stock with another 9.1 per cent held by the Employees Provident Fund (EPF), the country’s largest pension fund. MAS closed at RM1.24 a share last Friday, two days after the nine-month-old share swap was aborted.

The unwinding of the share swap saw Khazanah transfer its 10 per cent or 277,650,600 ordinary shares in AirAsia back to Tune Air Sdn Bhd, while Tune Air transferred its 20.5 per cent or 685,142,000 ordinary shares in MAS back to Khazanah. It was a cashless transaction 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.

There has been speculation that MAS could be taken private due to the huge amount required for its re-fleeting exercise and its daily burn rate of RM5 million, cited in an internal memo sighted by The Malaysian Insider.

In its audited accounts submitted to Bursa Malaysia recently, MAS said it had secured a RM1 billion short-term advance from a local financial institution, considered like a bridging loan till it gets the financing for the aircraft sorted.

“There will be a call for a capital-raising exercise but the MAS management and Khazanah are confident it can be done without privatising the airline,” another source said.

However, the source added that MAS will have to re-look its cost structure despite being among the lowest in the region with its cost per available seat kilometre (CASK) at 26 sen while its revenue per available seat kilometre (RASK) is about 20 sen, the lowest in the

region. Competitors such as Cathay Pacific and Singapore Airlines operate in a higher cost environment but have better yields as they operate from aviation hubs, unlike KLIA which is not an international aviation hub.

Cathay Pacific has a RASK of 32.2 sen while SIA is 31.8 sen due to their higher-yielding first- and business-class seats.

MAS is expected to generate better yields when the first fuel-efficient Airbus A380 enters service in July, after its business-class seats have been reconfigured from 40 to 66.

MAS chairman Tan Sri Md Nor Yusof told The Star over the weekend that the flag carrier will not compete in the low-cost market but believed it can tap the regional market by being a premium carrier as this is a catchment area. "Our middle class is growing significantly. So there is traffic," he was quoted as saying.

Md Nor also said the "cost structure is not bloated but we need to push up our sales, that is very urgent. We have to reduce our CASK and raise the RASK. We have to fill up the seats. Now our average load factor is 70 per cent and we want to push it to 80 per cent, we are getting the numbers, but we still have to push harder."

But Md Nor did say that Firefly would continue with its turboprop operations.

"We just have to re-configure what we want to do with the turboprops and fill the aircraft. Beyond that, Firefly can be re-branded. That is a consideration, and to explore if it can also fly beyond the 1.5 hours (range). All that will come under our regional network strategy," he said.

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