

Tiger Airways could pull out of Indonesia, says source
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Singapore's Tiger Airways Holdings Ltd may be forced out of Indonesia, Southeast Asia's biggest domestic airline market, as its unprofitable joint venture is squeezed out of routes dominated by big-spending local carriers.

Tiger might sell or close Tigerair Mandala in the absence of any signs of the airline turning around this year, such as a significant reduction of losses, people familiar with the matter told Reuters.

Tiger has been streamlining its business to prevent a third straight year of loss, with its latest move being the January sale of Tigerair Philippines in a market where a sharp increase in available seats pushed down ticket prices.

In Indonesia, Tigerair Mandala has a tiny share of a market overwhelmingly dominated by Lion Air group and flag-carrier Garuda Indonesia, who are adding routes and ordering more aircraft.

In contrast, Tigerair Mandala is suspending nine routes – or 40% of its capacity – between February and April to focus on more profitable routes, so Tiger avoids a repeat of the nearly S\$40 million (RM103.6 million) loss incurred through the affiliate in April-December.

Tiger owns 35.8% of Tigerair Mandala, having raised its stake from a third in September. But Tiger and Indonesian private equity firm Saratoga, which owns 51%, are unwilling to make further investment, said the sources, who are not authorised to speak publicly on the matter and so declined to be identified.

"The writing is on the wall," said one company source.

Tigerair Mandala said in July it would expand its fleet but the number of aircraft has stayed at nine.

"The more it flies, the more it loses money as nearly every route is below break-even," the source said. "Tiger is sub-scale in Indonesia. Either it gets out or grows out of trouble."

Tiger, about 40% owned by Singapore Airlines Ltd, did not respond to queries from Reuters.

A spokesman for Tigerair Mandala said Tiger and Saratoga are committed to supporting the company "for a long period to ensure business sustainability".

Depreciation of the Indonesian rupiah in recent months and increases in fuel prices have significantly pushed up operational costs for all airlines, the spokesman said.

Tiger has changed its expansion strategy under group chief executive Koay Peng Yen who joined in August 2012 from the shipping industry. Instead of significant stakes in joint ventures, it now aims to boost growth through alliances so as not to over-stretch resources.

The airline sold its majority stake in a then-unprofitable Australian venture soon after Koay assumed office, and in December said it would hold a 10% stake in Tigerair Taiwan, an alliance with China Airlines Ltd.

In Indonesia, a market with 70 million passengers, Tiger's joint venture is estimated to have a share of only 1% to 2% in 2013, according to the CAPA Centre for Aviation.

That compared with the 4% to 5% of AirAsia Bhd's unprofitable venture, which in turn paled in comparison to the 46% of Lion Air and 28% of Garuda and fast-growing subsidiary Citilink.

The trials of Tiger's overseas ventures, together with impairment charges and industry over-capacity, widened the airline's overall net loss to S\$127.5 million in April-December from S\$30 million a year earlier.

That result left shares of Tiger Airways trading near a record low of 0.41 Singapore cents. That is down 38% over the past year, making Tiger's shares among the worst performers in small and mid-tier airlines globally, data from StarMine showed.

"Tiger doesn't have the balance sheet or the ability to go back to shareholders" to pump more money into its Indonesian venture, one of the people said.

Just a year ago, Tiger highlighted its growing operations at home and ventures in Indonesia and the Philippines to raise nearly S\$300 million to fund expansion and strengthen its balance sheet. – Reuters, March 3, 2014.

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