

Struggling MAS taps banks for restructuring
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Malaysian Airlines System Bhd and its key stakeholders are in talks with banks for a strategic overhaul that could include the partial sale of its engineering unit and an upgrade of its ageing fleet, sources involved in the discussions said.

Even before the loss of its flight MH370 from Kuala Lumpur to Beijing on March 8, there was talk that loss-making MAS might need a financial rescue from state investor Khazanah Nasional Bhd, which owns 69% of the company.

"They are sending feelers to banks to test the waters," said a banking source familiar with the situation.

"The most imminent move looks to be on the engineering business, an IPO or trade sale," said the source, who declined to be identified as the talks are private.

MAS aimed to break even this year after three years of red ink, but analysts expect losses to widen as the airline cuts fares to spur demand shaken by the disappearance of its MH370 flight over the Indian Ocean.

It was already facing stiff competition from AirAsia Bhd on local and short-haul routes and from AirAsia X and Gulf carriers in the medium and long-haul market.

"The next step will be to kick off a formal auction process for the engineering unit. They wanted to cut down the stake for many years, but of all the options now, this might be one of the easier things to do," the banking source said.

In a research report in April, MayBank Investment Bank Bhd highlighted MAS Engineering as the biggest profitable business unit in MAS, valuing it at RM2 billion.

Officials from MAS, Malaysia's Ministry of Transport and Khazanah are involved in the informal talks with a handful of banks, including CIMB Group Holdings Bhd, sources said.

Despite the most intensive air, sea and underwater search in commercial aviation history, no trace of flight MH370 has been found since it vanished on a regularly scheduled flight from Kuala Lumpur to Beijing.

The airline's load factor, a measure of occupancy, fell year on year in March, potentially in response to the incident.

The shares have lost as much as 20% since MH370 went missing. It is down about 80 over the past five years, while the broader Malaysian index has surged by about 80% over the same period.

In the year ending December 2013, MAS's losses widened nearly three times to RM1.17 billion from a year ago. (<http://r.reuters.com/syz29v>)

A second banking source familiar with the discussions said the airline needs a plan to restore profitability. "They are losing money more than before. Not only is the brand beginning to get hurt, but the government is also losing patience."

MAS had been waiting for government approval to place a multi-billion dollar order for up to 100 Airbus and Boeing aircraft, sources told Reuters in February, as it looks to retire its older, less fuel-efficient jets.

A source at a northeast Asian bank said MAS's overall financing support had weakened since the MH370 incident, but it was still not offering higher pricing for aircraft financing and thus finding it tough to line up lenders.

Second-tier carriers like MAS usually have to pay up to 200 basis points on average above LIBOR in aircraft financing deals versus 150 basis points for top-tier names like Singapore Airlines Ltd. Banks are now requiring MAS to pay a higher premium, the source said.

Bankers say the government's support for the airline is the main reason they are backing it. – Reuters, May 12, 2014.

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