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Headline: Malaysia Air faces likely delisting after second disaster

Malaysia Air Faces Likely Delisting After Second Disaster

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Malaysian Airline System Bhd. (MAS), reeling from its second disaster in four months, is likely near the end of its days as a publicly traded company.

The company plans to present a revival plan to its state-run parent Khazanah Nasional Bhd. this week, people familiar with the matter said yesterday, asking not to be identified because the talks are private. The options range from Khazanah taking Malaysian Air private to bankruptcy, according to one of the people, with both routes involving a delisting.



July 21 (Bloomberg) — Two unspeakable tragedies in less than six months. The loss of Malaysia Airlines Flight 370 over the Indian Ocean and now, this... the murder of 298 innocent lives aboard MH 17. It is unprecedented and many now wonder whether Malaysia's flag carrier can survive it. Bloomberg's Zeb Eckert filed this report on Malaysia's rise to glory and its downfall. (Source: Bloomberg)

Malaysian Air says its focus is on the victims and families of Flight 17, while the loss of 537 lives and two planes since March is straining the carrier's ability to stay in business. Even a month before the latest disaster, Khazanah was estimating that the unprofitable airline only had enough funds to last it about a year.

"They don't have the luxury of time," said Mohshin Aziz, an analyst at Malayan Banking Bhd. (MAY) in Kuala Lumpur. "Malaysian Air doesn't have a huge balance sheet, it's still struggling from perception issues. We will probably see drastic measures."

Flight 17 was en route to Kuala Lumpur from Amsterdam carrying 298 passengers and crew on July 17, when it was shot down over eastern Ukraine. The disaster occurred four months after Malaysian Air Flight 370 disappeared with 239 people aboard, leading to the longest search for a missing plane in modern aviation history.

'Emergency Responders'

Asuki Abas, a spokesman for Khazanah, couldn't be reached on his mobile phone for comment. The Wall Street Journal reported July 20 that Khazanah was increasingly leaning toward taking the carrier private, citing unidentified people.

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“Our focus during this very challenging time is to work with the emergency responders and authorities and mobilize full support to provide all possible care to the family members of those onboard MH17,” Malaysian Air said in an e-mailed response to queries about the revival plan. “This is not the right time to address this question.”

Shares of Malaysian Air, rated sell by 13 of 15 analysts tracked by Bloomberg, have fallen 34 percent in Kuala Lumpur trading this year. The stock gained 2.5 percent to 20.5 sen as of 10:36 a.m. local time. Khazanah, Malaysia’s sovereign wealth fund, owns 69.4 percent of the carrier.

Rebels Deny

On the political front, President Vladimir Putin has defied international anger over Russia’s alleged role in the shooting down of MH17 as the U.S. and Europe threaten further sanctions against his increasingly isolated country. Putin has blamed the Ukrainian government, saying the crash wouldn’t have happened had it not fomented the conflict in the east.

President Barack Obama urged Putin to rein in the rebels, who he said were “Russia-backed.” Bodies gathered from the crash site have been released and the “black box” flight and data recorders handed over to Malaysian specialists. The separatists have denied they downed the plane.

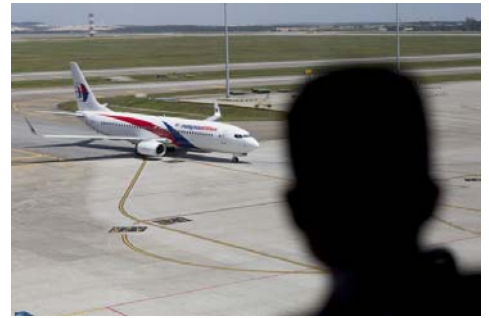
For Khazanah, privatizing Malaysian Air could mean the fund would need to buy the 31 percent it doesn’t own in the company, a stake valued at about 1 billion ringgit (\$315 million) based on the stock’s latest closing price.

“If they do go through with this privatization, they will be killing a few birds with one stone,” said Terence Fan, an assistant professor at Singapore Management University, who researches the aviation business. “They can make the cash flow, maybe have some thorough strategic change and use this as a chance to rebrand themselves.”

Mounting Losses

Should Malaysian Air choose bankruptcy, it could be the biggest for an airline in terms of assets since AMR Corp. (AXR) in 2011, according to data compiled by Bloomberg.

Malaysian Air’s Hugh Dunleavy, the airline’s director of commercial operations, had in May ruled out a bankruptcy.



Photographer: Brent Lewin/Bloomberg

Malaysian Air’s shares tumbled 11 percent the day after Flight 17 was shot down, killing all 298 people on board. The incident came four months after the disappearance of Malaysian Air Flight 370 spurred the longest search for a missing plane in modern aviation history.

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The carrier's options also include renegotiations with the labor union, according to a person familiar with the matter.

Malaysian Air employees generated an average \$220,000 of revenue in the last three years, compared with \$524,800 at Singapore Airlines Ltd. (SIA) and \$245,000 at Thai Airways International Pcl, according to data compiled by Bloomberg.

Still, taking the company private remains the preferred option, rather than a bankruptcy, with a decision coming as soon as next month, the people familiar with the matter said. Khazanah said last month the carrier had funds to last about a year.

Even before Flight 370's disappearance, Malaysian Air had racked up 4.13 billion ringgit in losses over the previous three years. The incident put the carrier under global scrutiny, jeopardizing its reputation and prompting boycotts in China, whose nationals accounted for most of the passengers in the March flight that vanished.

Capital Raising?

Losses at the Subang-based airline widened to 443.4 million ringgit in the January-to-March period, the most in nine quarters, as travel agents in China stopped selling the carrier's tickets after the disappearance of MH370 and as competition intensified.

Analysts are projecting losses to persist at least through 2016, according to data compiled by Bloomberg.

Malaysian Air had cash and cash equivalents of 3.25 billion ringgit at the end of March, down 13 percent from three months earlier. The company may need to raise funds by selling new shares to stay in business, according to Daniel Wong, an analyst at Hong Leong Investment Bank Bhd. in Kuala Lumpur.

Under Review

The airline carried 3.1 percent fewer passengers in June from a year earlier, and filled 77 percent of its seats, down from 84 percent a year earlier, Malaysian Air reported.

Malaysian Air may also modify plans for future plane orders after the disappearance of Flight 370 tarnished its reputation.

The airline had anticipated ordering as many as 100 jets and was considering a range of models from both Airbus Group NV (AIR) and Boeing Co. (BA), a person familiar with the purchase strategy said in February. The carrier needs fuel-efficient jets to cut costs amid rising competition from discount airlines such as AirAsia Bhd. (AIRA)

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Chief Executive Officer Ahmad Jauhari Yahya said in an interview last month the carrier's fleet plan was under review.

"Even the strongest airlines would be falling on their knees on these two incidents," Mohshin at Malayan Banking said.