FINANCIAL REVIEW

SE Companies and Markets

HD **Qantas may pursue split structure**

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WC 821 words
PD 23 July 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 18
LA English

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Qantas Airways is considering a split of its domestic and international arms to attract more foreign investment as part of its wide-ranging structural review.

Less than a week after the Senate passed changes to the Qantas**Sale** Act in a compromise deal, sources said the airline was studying whether it should pursue a similar structure to rival Virgin Australia Holdings.

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Qantas is due to provide an update on its structural review alongside its full-year results in August. It is also considering options such as a partial **sale** of its frequent flyer business or Jetstar as part of the review.

Analysts said a split of the domestic and international arms, which would allow for greater foreign investment in Qantas's domestic business, would be a positive for the ailing carrier.

"We are of the view that would take some work but we don't think it would be impossible to achieve," Deutsche Bank analyst Cameron McDonald said. "I do think that [Qantas] obviously are keen to have a seat at [the global airline consolidation] table if and when it becomes appropriate."

Virgin split the ownership of its domestic and international business in 2012 through an in-specie distribution of shares in its international division to its holders at the time.

Virgin's international division is an unlisted entity with a separate Australian-controlled board and ownership structure from the domestic division. Air New Zealand, Singapore Airlines, Etihad Airways and Sir Richard Branson own nearly 80 per cent of Virgin shares, but the international division is majority Australian-owned to comply with the Air Navigation Act.Foreign investment

Splitting Qantas's domestic arm from its international arm would allow for a significantly larger investment in the **company** by a foreign carrier than is achievable easily in practice even after the Qantas**Sale** Act changes passed on Friday.

The revisions agreed in a compromise with Labor allow a single foreign airline or investor to hold up to 49 per cent of Qantas, versus prior restrictions that barred any foreign investor from owning more than 25 per cent or group of foreign airlines from owning more than 35 per cent.

However, Qantas must remain 51 per cent Australian-owned to maintain its international traffic rights under the Air Navigation Act. It already has about 38 per cent foreign ownership even though there are no airlines on the register.

That means no foreign carrier would be able to buy more than 11 per cent unless it purchased the stock from other foreign shareholders or was issued shares in an **equity** placement, unless Qantas split its domestic and international arms.

Its ability to split them under the latest version of the QantasSale Act is somewhat unclear, as some of the language refers to "Qantas" rather than "Qantas International" even though most of the restrictions placed on it are of the same type that apply only to Virgin's international arm under the Air Navigation Act.

But Transport and Regional Development Minister Warren Truss in February highlighted the potential for Qantas to split its structure, meaning the government is unlikely to oppose such a move.

In March, Qantas chief executive Alan Joyce said told a Senate inquiry that talk of any such move was "hypothetical". "We have not got any plans," he said at the time.Net loss could hit $1 billion

Qantas in February froze work on a costly plan to split the Air Operator's Certificates, or licences to fly, for its domestic and international division and reintegrated some of the operating management structures for the businesses. However, Mr Joyce has said the split, if revived, could be done within six to nine months. Qantas's domestic and international businesses already report financial results separately.

Qantas is expected to report a full-year pre-tax loss of $747 million, but there is speculation that one-off costs and write-downs could lead to a net loss of more than $1 billion.

CAPA Centre for Aviation executive director Peter Harbison said Qantas should follow Virgin's lead and split its operations but he did not know if it would.

His aviation consultancy on Tuesday published a detailed report on Qantas which suggested the airline would not be able to mimic the Virgin structure without significant opposition.

"Were Qantas to make any such move, legal challenges would create uncertainty and risk significant degradation of goodwill from employees, the public and politicians," the CAPA report said. "This opposition is founded mostly on a range of intangibles and misconceptions, liberally sprinkled with vague nationalistic sentiment, but it is effective nonetheless."

Potential suitors Emirates and China Southern have denied any interest in buying an equity stake in Qantas. CAPA said interested parties were unlikely to express interest under the current structure, but if a similar one to Virgin was possible "that would almost certainly change".

CO vrbair : Virgin Australia Holdings Ltd | qntas : Qantas Airways Ltd

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AN Document AFNR000020140722ea7n0002n

