

HD AirAsia X may need more funds, say analysts

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Kuala Lumpur (The Star/ANN) - AirAsia X may need to get more capital to the tune of 200 **million** ringgit to 300 **million** ringgit in the near term to give it breathing space as its operation is restructured, say analysts.

They felt Airasia X should raise the funds through a private placement or source it from the capital markets. The proceeds, they say, will help it ride through the turbulent times given the competitive landscape in the markets where it operates in.

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¿It should get more capital, downsize the fleet and network and bring cost down," says an analyst.

As at end September, the airline¿s net operating cashflow stood at 212 **million** ringgit, with free cash of 64 **million** ringgit. Hence, the need to raise cash to meet its financial obligations, for aircraft financing to operating expenditure, unless it can generate cash quickly, they say.

Airasia X is due to take delivery of eight planes next year, of which it has sold one, plans to sell another next month, and enter into **sale** and leaseback for the remaining six.

Airasia X currently has 24 airplanes for its **operations** of which two are the A340 and one A330 aircraft while 17 are on lease.

However, RHB Research in its report says that Airasia X is confident about the outlook for its current cash level and may not need to raise cash from the market at this juncture.

If it chooses to, it has options to raise cash through debt (possibly via convertible **bonds**) and a **sale** and leaseback of two of its aircraft in FY15 to improve its cash position.

RHB Research says that Airasia X will continue the tactical redeployment of its aircraft, ie by wet-leasing some to third parties, improve overall income and maximise the utilisation of its planes. A wet lease is a leasing arrangement whereby one airline provides an aircraft, complete crew, maintenance, and insurance to another airline or other type of business and is paid by the hours.

The airline was thrust into the limelight after it reported 177 **million** ringgit core net loss for three months ending Sept 30, 2014, and its first nine months of the year net loss swelled to 340 **million** ringgit. There has been reports suggesting that AirAsia X is feeling the heat in having to pay salaries and there may be a management reshuffle. This has been denied by its co-founder Tan Sri Tony Fernandes.

¿Essentially, Airasia X¿s problem is that it is not generating enough cash to sustain its **operations**," says an analyst.

Fernandes has taken on a more hands on role of the airline since this week and has come up with a plan to turn it around. He is taking a more active role setting the direction and working with the management team.

The airline has also been dropping fares to match what Malaysia Airlines (MAS) has been offering. While lower fares are ideal for travellers, the strategy has hurt Airasia X¿s yields.

As for the **China** market, demand waned after MAS flight MH370 disappeared in March. The shooting down of MH17 further rocked the air travel market, causing all local airlines to suffer from weak demand.

¿ There has been a drop in demand for air travel as fear of flying persists. During the Hari Raya holidays the roads were choked because more people preferred to travel by road instead of flying, though the impact is lesser now," says an industry official.

MAS has been on an overdrive to win customers following the MH370 and MH17 tragedies and is seen to be dropping fares, and since 80 per cent of AirAsia X overlaps MAS¿ network, it also lowered fares to stay in the competition, a strategy that has not bode well for the airline as the dropping of fares has been at the expense of yields.

AirAsia X¿s yields fell 8 per cent for the third quarter of 2014, though load factor for the period remained decent at 80 per cent.

Officials feels AirAsia X has also been overly bullish about the Australian market, adding capacity to an overcrowded market.

The suggestion is for AirAsia X to cut its capacity to Australia by a quarter to half.

AirAsia X currently flies seven times weekly to **Gold** Coast, 14 times weekly each to Sydney, Melbourne and Perth and five times weekly to Adelaide.

They feel AirAsia X should axe Adelaide for now, cut back by half the flight frequency to Melbourne, Sydney and Perth given the over- capacity situation, and with fewer flights, the planes should be either parked, or better utilised by its Thai AirAsia X or Indonesia AirAsia X units, where demand is better than in Malaysia.

¿ This cutback in capacity is to mitigate the problem," says an analyst.

As for **China**, the industry official suggested that AirAsia X suspend routes such as Xian and Chengdu for now and reduce the frequency on some of the other routes.

¿ Scale down on the bigger routes and knock off the smaller stations and in that way they can release the aircraft," the expert says.

Affin Research believes that irrational competition could persist as MAS has yet to show signs that it will remove capacity from its longer-haul routes. If so, AirAsia X¿s yields will remain compressed.

Raising fares is an option for AirAsia X, and industry officials believe the fares may be raised in the near term to as high as 25 per cent, though drastic cost-cutting measures are more critical at this stage.

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