

FINANCIAL REVIEW

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HD **Tragedy strikes twice**
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Aviation Malaysia Airlines' future is in question after two disasters tarnish its brand and perceived safety record, writes Jamie Freed.

Lightning never strikes twice, right? The old saying was no doubt a comfort to travellers who had booked on Malaysia Airlines in the wake of the mysterious disappearance of MH370 in March.

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"A lot of people think it happened to them once, it can't happen again," says Penny Spencer, the managing director of Sydney-based corporate travel agency Spencer Travel. "That's human nature. You think it couldn't strike twice."

But it did for Malaysia Airlines. Tragically, it had the mysterious disappearance of flight MH370 in the Indian Ocean on March 7, with the loss of 239 lives. The plane has never been found. Now, less than four months later, a second Malaysia Airlines aircraft has dropped out of the sky. It was shot down by a surface-to-air missile over the Ukraine. All 298 passengers and crew were killed.

The odds of two crashes in four months – both Boeing 777-200s flown by the same airline – are no doubt infinitesimal.

But many are now wondering what it means for the fate of Malaysia Airlines, which had long enjoyed a strong safety record. Indeed, many passengers were willing to write off the MH370 disappearance as a one-off as they sought discounted fares to Asia and Europe after the incident.

"I think the travelling public's response after the disappearance of MH370 was fairly typical of what we have seen in the past," Flight Centre spokesman Hadyn Long says.

"Generally, passenger numbers fell as the uncertainty continued and we then started to see a gradual recovery."

MH17, the Malaysia Airlines flight from Amsterdam to Kuala Lumpur which ended in disaster over eastern Ukraine early on Friday morning, was reportedly overbooked to the point where some passengers were shifted onto other flights.

Once the news of the tragedy sunk in, Australian customers were ringing travel agents on Friday to cancel their reservations.

"We probably had six or seven phone calls to cancel tickets already issued," Spencer says. "I think [Malaysia Airlines] are in for a difficult time."

This is despite the fact that air safety has improved to the point where commercial jet crashes are extremely rare.

In 2013, there was the equivalent of just one accident for every 2.4 **million** flights in Western-built jets. Against the ropes

Malaysia Airlines was struggling financially long before the disappearance of MH370 in March. The government-backed legacy carrier has faced fierce competition in its home market from upstart budget airline AirAsia. In February, it reported an annual loss of 1.17 **billion** ringgit (\$392 **million**), which was nearly triple the 432.5 **million** ringgit loss a year earlier.

The losses look set to deepen following this latest accident.

After the disappearance of MH370, the airline has allowed its customers to cancel even non-refundable tickets without charge for travel until December 31 if they feel uncomfortable taking the airline.

Now some are wondering if Malaysia Airlines will go the way of Pan Am after the deadly bombing of flight 103 in 1998.

Pan Am had been struggling financially before the crash and the loss of confidence from customers was the final nail its coffin.

"We know what happened to Pan Am after Lockerbie," says Ron Bartsch, the chairman of international safety consultancy AvLaw International and a former head of safety at Qantas.

"In that case it was no fault of the airline, as is the case here, but the travelling public doesn't make that determination. I think Pan Am, the Lockerbie flight, that was the beginning of the end for Pan Am. I think there may be some similar ramifications for Malaysia Airlines."

But Richard Aboulafia, an aviation consultant at Teal Group, says that is unlikely to be the case given Malaysia Airlines, unlike Pan Am, had government backing.

"If the powers that be want to back you, you're fine," Aboulafia told USA Today. "Given the way things are shaping up, this is an airline that is the victim of nothing more than very bad luck."

Malaysia Airlines shares fell by as much as 18 per cent on Friday and are trading around 34 per cent lower than the same time last year. The question for investors is whether passengers will be willing to book on such an unlucky airline. How to survive as a **company**

Korean Air survived after a 747 carrying 269 people was shot down by Soviet fighter jets in 1983 but that incident wasn't preceded by another major event, as happened in this case.

"They have really got to handle this well if they are going to survive," says Monash University Department of Management professor Greg Bamber. He says he has flown on the airline to Europe but now, "I would think twice about it, where I didn't in the past."

Travel agent Spencer says customers had been forgiving after the MH370 disappearance, in part because Malaysia Airlines offered lower-cost business and first class fares to Europe than some of its rivals.

"It is unfortunate and sad this has happened to them because they are a good airline," she says. "I think it is going to take a long time [to restore confidence]."

But in a market where consumers are constantly seeking out bargains, Flight Centre is not willing to write off Malaysia Airlines just yet.

"I think it's too early to tell what impact this will have on Malaysia Airlines passenger numbers moving forward," Long says.

"It will probably take some time to understand exactly what happened and why. Some people will naturally be cautious but, as we have also seen in the past, others will be more than willing to fly with the airline, particularly if it was a random and tragic act and Malaysia Airlines wasn't specifically targeted."

The MH370 incident, which caused it to suspend marketing activities for two months and led to a 60 per cent fall in bookings from **Chinese** customers in March, hastened the need for the airline to restructure.

"We believe that the best way forward for Malaysia Airlines is bankruptcy and court protection for a deep reorganisation of the business, à la Japan Airlines, including a renegotiation of supplier contracts and the terms of employment for crew and pilots," CIMB analyst Raymond Yap told clients after the airline reported a large first-quarter loss in May.

"But the possibility of this move depends entirely on whether the strategic shareholder in Malaysia Airlines and its management have what it takes to repel the powerful vested interests that are against change."

Etihad Airways, which is a substantial shareholder in Virgin Australia Holdings, has invested in struggling airlines around the world – most recently Italy's Alitalia.

It's believed the Abu Dhabi-based carrier held talks with Malaysia Airlines about deepening their codeshare relationship, but Etihad has denied any plans to buy **equity** in the ailing carrier.

Earlier this month, there were reports Malaysian state-owned investor Khazanah Nasional Bhd plans to take Malaysia Airlines private to help it restructure, in a move that might **lead** to it selling off its profitable engineering, airport services or budget airline units. Malaysia Airlines said any such decisions would be up to Khazanah and the Malaysian government.

In Australia, Malaysia Airlines was the fifth-largest foreign carrier in the 12 months to April, with its 4.3 per cent market share of international passengers sitting just behind Cathay Pacific. The number of passengers flying Malaysia Airlines to and from Australia rose by 28 per cent in the month of April from a year earlier, as the airline expanded capacity. Before the MH17 crash, there were signs Malaysia Airlines was returning to a more normal state.

CO masys : Malaysia Airline Systems Bhd | khzinv : Khazanah Nasional Berhad

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