MINORITY SHAREHOLDER WATCHDOG GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia – Company No. 524989-M)

The EDGE Financial Daily – Corporate - 19 September, 2012 **(C)**

A marathon for Ahmad Jauhari

BY **Isabelle Francis**

A day before Ahmad Jauhari Yahya unveiled his turnaround plan for Malaysian Airline System Bhd (MAS), the recently appointed managing director was asked what he would name it.

His predecessor, Datuk Seri Idris Jala, was an unknown when he was appointed to the airline's top post in Dec 1, 2005. A month later, Idris produced the Business Turnaround Plan (BTP). Two years later, there was a sequel to the plan called BTP2. But Idris went on to become a cabinet minister before seeing through BTP2.

Ahmad Jauhari is a man of few words and an avid marathon runner, known to run marathons immediately after a 10-hour plane journey. He gained prominence as the person who led Malakoff Corp Bhd to becoming the biggest independent power producer (IPP) in the country. Despite heading the biggest IPP, Ahmad Jauhari hardly spoke to the media, let alone give interviews, up to his retirement.

Thus, it does not come as a surprise that the low-profile managing director had no fancy names to give his turnaround plan. No Project Omega or Alpha or anything to that effect. His plan is simply called the business turnaround plan — one that was made for an airline that has seen the most restructuring compared with any other government-linked company (GLC).

On the face of it, Ahmad Jauhari's plan looks similar to that of Idris' BTP. Like Idris, the new managing director aims to cut costs by over RM1 billion on the back of aggressive route and capacity reductions.

However, his plan to cut capacity and routes is more aggressive than his predecessor's, and will involve possibly the largest cuts in MAS' history. Ahmad Jauhari's boldness in making the hard decision to cut routes such as the Kuala Lumpur-Johannesburg line, which is seen as politically sensitive, shows he is prepared to tackle the situation that the airline faces.

"To see the new management taking such a bold — and correct — step, is refreshing. We hope we see more of this 'realist' approach," says Maybank Investment Bank in a recent note.

However, some have criticised Ahmad Jauhari's plan, contending that there is no "game changer" to improve the deteriorating passenger yields, which is a central issue for MAS.

Under the turnaround plan, there is a target to improve yields by as much as 4% to 5%, mainly on the back of the deployment of a more fuel-efficient Boeing 738-800 aircraft. But there is little said on how MAS plans to improve its revenue management.

"Apart from cost, Ahmad Jauhari needs to fix the revenue management issue to solve MAS' problem," says an old hand in the airline industry.

In 2005, most had attributed the decrease in MAS' passenger yields to differences in traffic mix. But Idris had claimed that much of the problem was due to the airline's pricing and revenue management, sales and distribution, brand presence in foreign markets and alliance base. He addressed these issues under the BTP and was able to enhance MAS' revenue per revenue passenger kilometre (RRPK) and revenue per available seat kilometre (RASK) by almost 30% to 20.5 and 26.3 sen respectively from 2005 to 2007.

LEE LAY KIN/THE EDGE

Ahmad Jauhari's turnaround plan will possibly involve the most aggressive cuts to capacity and routes in MAS' history

However, this improvement was not sustainable as passenger yields declined after the 2008 global financial crisis. In 2009, yields fell by almost 20% to 24.3 sen per RPK from 30.3 sen per RPK in the previous year.

The decreasing yields came against the backdrop of rising fuel prices that impacted costs. Yields did not return to pre-crisis levels until recently.

The present plan versus the BTPs

Under Ahmad Jauhari's plan, the target is to maintain the cost per ASK, which is about 22.4 sen, but increase RASK from the 18.7 sen estimated this year to 22.3 sen. This would allow MAS to reach break-even or incur a small loss next year.

There are no indications as to what the management forecasts for longer-term cost per ASK or RASK. However, considering that Ahmad Jauhari is expecting MAS to be profitable in 2013, it can be assumed that the RASK will outpace the unit cost.

Apart from cutting routes, other measures include setting up a new regional short-haul airline with new Boeing 737-800s.

The industry had welcomed Ahmad Jauhari as MAS' new CEO given his excellent work ethic and credentials in turning companies into profitable entities. It is worth noting that while he was the managing director and CEO of Malakoff, he had led the Shoaiba power and water plant project, which was a collaboration with Tenaga Nasional Bhd, in Saudi Arabia.

"Ahmad Jauhari should be able to pilot MAS back into the black in no time. We are talking about the guy who made Shoaiba profitable within a year," says an official close to Khazanah Nasional Bhd.

Ahmad Jauhari's initial turnaround measures at MAS are to withdraw from eight loss-making routes beginning next month.

But more is expected to come from him, given his determination to make things right again at the airline. "When [Khazanah managing director] Tan Sri Azman Mokhtar asked how Ahmad Jauhari was coping at MAS, he responded and said he was just getting 'warmed up'," says a source.

The eliminated routes will account for almost 12% of MAS' passenger capacity and generate a profit impact of up to RM302 million for next year. Currently, about 40% of MAS' 100 routes are unprofitable and its unit costs are 10% to 15% of corresponding revenues.

The RM302 million accounts for some 20% of the RM1.18 billion to RM1.51 billion in cost savings and additional income Ahmad Jauhari aims to achieve in his turnaround plan.

MAS has also set a target to narrow its net loss to a "base case" of RM165 million next year. Its stretched target is a net profit of RM238 million. All these targets, including a net profit of RM900 million by 2016, are based on a jet-fuel price assumption of US$130 per barrel.

Like Idris, Ahmad Jauhari is supportive of growing MAS' turboprop unit, Firefly.

"Idris was supportive as he had in the past backed up [Firefly managing director] Eddy Leong in getting new aircraft for Firefly during board meetings," says a source.

The source says it would have otherwise taken at least "three to four board meetings" to get the board's nod for such capital expenditure.

In a media briefing, Ahmad Jauhari said MAS would continue to grow the lucrative turboprop business and that it would soon add another two ATR aircraft to Firefly's fleet.

It is also worth noting that under the BTP, Idris had emphasised that decisions must be anchored on profit — not political favour, image, latest aircraft or technologies and MAS' stature in the international community.

But some criticised Idris' move to transform the airline into a full service-value carrier — a convergence of sorts between the premium and low-cost models — as it eroded the value of MAS.

"For instance, he should not have launched the everyday low fares campaign. That was one advice he should not have taken," says a source.

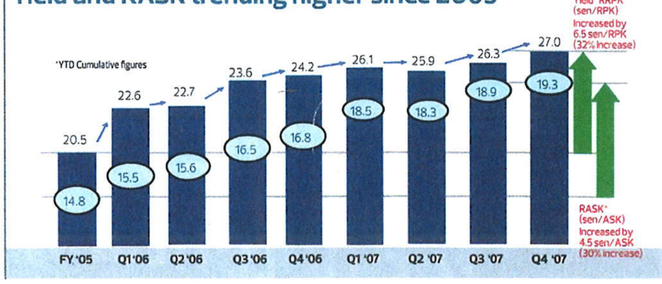
Under Ahmad Jauhari's leadership, MAS will focus on the premium model and return to the "golden days" of doing business.

It sounds like an upgrade to MAS' image, but the new management claims it is a way to get the airline "back on track" in the premium business and improve its RASK.

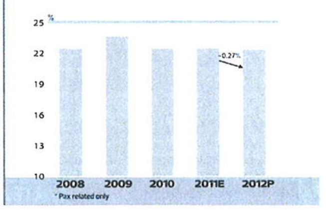
However, the caveat to such a strategy is that jet-fuel prices are currently more volatile than during the "golden days". Furthermore, the traffic at KLIA is not as high as that of Changi Airport or Hong Kong International Airport, not to mention the rising competition from other full-service and low-cost airlines.

Ahmad Jauhari has certainly seen his share of success in his previous appointment at the helm of Malakoff. It was among the biggest beneficiaries when the power generation sector was liberalised. But turning around MAS is a different ball game as the airline has legacy issues and the industry is changing in favour of low-cost carriers. Ahmad Jauhari may be warming up, but the marathon is surely going to be a long one. ■

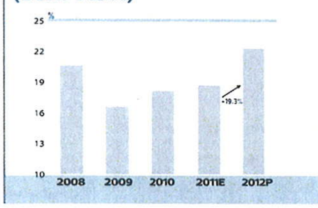
Yield and RASK trending higher since 2005



Cost per ASK (Sen/ASK)*



Revenue per ASK (sen/ASK)



AirAsia expands as MAS shrinks

AirAsia Bhd is expanding on the back of opportunities left behind by Malaysian Airline System Bhd (MAS) and its turboprop unit, Firefly.

This follows MAS' move to cut capacity by as much as 12% and withdraw from most of its loss-making routes, which make up 40% of its 100 routes.

"AirAsia will continue to garner more market share next year as it fills part of the void left behind by the capacity reductions. Its yields will also improve following the removal of Firefly as a low-cost competitor and MAS' selective withdrawal of routes to East Malaysia," says CIMB Research in a recent note.

MAS announced that effective January 2012, it would stop flying to Rome, Johannesburg, Cape Town and Dubai, to name a few cities, and withdraw some of its short-haul routes, including Langkawi-Penang-Singapore and KL-Surabaya.

CIMB says there is a possibility that the route rationalisation will open up new route opportunities for AirAsia, including flying from Kota Kinabalu to Seoul, Perth, Tokyo or Osaka.

The route rationalisation came three months after MAS and AirAsia inked a comprehensive collaboration framework (CCF) in August, which entails a share swap between the shareholders of both airlines.

Under the deal, Tune Air Sdn Bhd, controlled by Tan Sri Tony Fernandes, now owns some 20% equity interest in MAS while Khazanah Nasional Bhd owns some 10% shareholding in AirAsia.

MAS recently announced that it expects to see some RM100 million worth of savings from the CCF with AirAsia. Although this is far below the initial estimated sum of RM1 billion in annual synergy, MAS chief Ahmad Jauhari says there will be more to come.

But for now, it looks like AirAsia will be a benefactor as MAS consolidates. *—By Isabelle Francis*

Bushon clarifies

In reference to our write-up "MSWG CEO keen on closed-end fund" on page 38 of Issue 888, Rita Benoy Bushon, CEO of The Minority Shareholder Watchdog Group (MSWG), would like the watchdog to enjoy greater independence but disagrees with the view that having institutional investors among MSWG's board members could give rise to potential conflict of interests and is thus a drawback on MSWG's structure.

The latter is due to her belief that institutional investors, such as the Employees Provident Fund, are in most cases minority investors and would uphold corporate governance principles. In addition, while a nominee from Lembaga Tabung Angkatan Tentera (LTAT), one of MSWG's four founding members, is currently on MSWG's board, Bushon does not think that it is a drawback so long as the person does not hold board seats in other listed companies.

Ideally, she would like all MSWG board members to not hold any board seats in other public-listed companies, which is something she hopes the watchdog can improve on but concedes is difficult to achieve due to the need to have directors with market acumen. The alternative is to require its directors to declare their equity interests and ensure they do not participate in discussions where conflicts exist. Simply put, Bushon says the MSWG board should be an independent one where no one party has unfettered powers.