

## MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD  
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Two's a company? MAS minorities gain considerable expertise from AirAsia but the significant advantage is somewhat cancelled out by a couple of key challenges.

# MAS-AirAsia collaboration

## Are minority shareholders being given the full picture of the deal?



**Comment**  
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THE recent share swap arrangement between the major shareholders of AirAsia and Malaysia Airlines (MAS) comes with the benefit of a period of contemplation.

On Aug 9 a collaboration agreement was announced between Tune Air Sdn Bhd and Khazanah Nasional Bhd, the major shareholders of AirAsia and MAS respectively, to strengthen their collaboration to "further align their respective interests in AirAsia and MAS".

Our views are from a minority shareholder perspective on both sides of the public listed companies (plcs). Firstly, the collaboration sees two domestic competitors wanting to work together for a common good. It also seemed like a move toward acknowledging the seemingly unsolvable problems that MAS poses, and the Government allowing Tan Sri Tony Fernandes to come in and shake things up. MAS minorities gain the considerable expertise of Fernandes and Datuk Kamarudin Meranun, two of the four pioneers of what is essentially one of the best low-cost airlines in the world.

However, this significant advantage is somewhat cancelled out by a couple of key challenges.

One of them could be a new chief to handle the mindset of MAS' 20,000 employees under the old bureaucratic way, quite the opposite of AirAsia's entrepreneurial and achievements-based culture of Fernandes' team.

Another issue that further blots MAS' long-term view is an out-of-court settlement involving MAS' former executive chairman, Tan Sri Tajudin Ramli where MAS is among a number of GLCs negotiating for global settlement of all civil suits against Tajudin.

The case management has been set for Sept 29.

Our interest is centred on the following:

That the respective GLC boards, including MAS, assess the merits and demerits of the proposed global settlement, and to be transparent to their shareholders including the timelines, settlement term, the pros and cons, rationale, the ringgit amount involved, and other financial and non-financial impacts.

Interested directors should also declare their interests and abstain from participating in any discussion or voting on the proposed settlement.

The boards are responsible and accountable to all the shareholders, hence full and proper disclosures will go a long way to help to clarify the doubts of the shareholders.

As we know from recent announcements, the problems at MAS kept adding up. It reported a wider-than-expected second quarter loss

of RM530mil, bringing its year-to-date losses to a staggering RM745mil.

And what of the perspective from an AirAsia minority shareholder? Slightly negative.

Where MAS benefits from the added expertise of Fernandes and Kamarudin, it in turn could be AirAsia's loss. Shareholders would have bought into AirAsia's attention to costs management, brand-building, fleet and regional expansion. And until recently, both Fernandes and Kamarudin executed brilliantly on all these counts.

This share swap could dilute their attention.

However, this is still an arrangement that can work, since two heads are better than one – provided always that execution and absolute accountability is the order of the day. Any less, and any one of a number of externalities, such as volatile fuel costs, uncertainty over global economies and trading activity, makes this partnership of unequals an arrangement that could yet trigger the exit clause under the five-year duration of the collaboration agreement.

It is also a deal made by the parents of both airlines, and thus does not involve the buy-in of the shareholders of either airline. But given the significance from both a national as well as public-private initiative viewpoint, the interested parties must at all times make their key decisions transparent.

To recap, the announced deal saw an agreement to acquire from each other existing shares of both companies, with the result that Tune Air will hold 685,142,000 ordinary shares of MAS representing 20.5%, while Khazanah will hold 277,650,600 ordinary shares in AirAsia representing 10% equity interest in AirAsia.

In addition, a proposed warrants exchange was announced, which involved AirAsia issuing 111,060,240 free AirAsia warrants to MAS shareholders and MAS issuing 274,056,812 free MAS warrants to AirAsia shareholders. Assuming all the warrants are exercised, the total number of AirAsia shares to be issued amounts to 111,060,240 shares, or 4% of the total. And the total number of ordinary shares in MAS to be issued assuming full exercise of the MAS warrants is 274,056,812 MAS shares, representing 8.2% of the total.

Some of the stated positives are collaborating in areas where there are "substantial synergies" to be realised, either through joint procurements, increased scale, migration to best practices, lower cost, and the enhanced ability to capture non-captive third party revenues.

And the recognition that there is significant potential in areas like maintenance, repair and overhaul, ground-handling, training, catering and cargo. The plan envisaged an early focus on quickly-achievable synergies such as joint procurements.

● Rita Benoy Bushon is CEO of Minority Shareholder Watchdog Group.