



AEROFLOT-TRANSAERO DEAL, BIGGER BUT NOT BETTER: ANALYSTS

News / Airlines



By acquiring its struggling rival Transaero, Russia's largest [airline](#) Aeroflot is likely to find itself in a tight spot with an additional debt burden and a fleet of ageing aircraft, analysts said.

State-controlled Aeroflot announced this week its purchase of 75 percent plus one of Transaero's shares for the symbolic price of one ruble, citing the privately-held airline's "extremely difficult financial position."

The Russian government had backed consolidation of the two airlines, which is expected to begin on Monday.

It (Other OTC) is "undoubtedly the most important and significant decision" Aeroflot has ever taken, company chairman Kirill Androsov said in a statement.

The acquisition would take Aeroflot closer to its goal of carrying 70 million passengers a year by 2025, he added.

The incorporation of Transaero will increase Aeroflot's domination of the domestic market, controlling over half of the country's air traffic with a fleet of more than 300 aircraft -- larger than that of British Airways and Alitalia.

In any event, being 51-percent owned by the state, Aeroflot could hardly turn down the deal.

"The Russian government has decided to rescue Transaero -- Russia's second-largest airline - from bankruptcy by forcing state-owned Aeroflot to buy the carrier," analysts at Gazprombank said.

- **"Not Jumping with Joy"** -

Investors and analysts have been sceptical about the deal after the details of government talks were leaked earlier this week, with Aeroflot's shares tumbling nearly 10 percent on the Moscow exchange on Tuesday and Wednesday.

"I think that the management of Aeroflot is not jumping with joy because they have serious work ahead of them," the head of the Federal Anti-Monopoly Service, Igor Artemyev, told reporters.

Artemyev -- whose service had no major objections to the deal -- added that the authorities "could not imagine spending two to three years on a bankruptcy procedure" for Transaero.

Transaero, which began operating in 1991, was the country's biggest privately-owned carrier.

The company has been strangled with debt -- estimated at 65 billion rubles (US\$960 million) as of late 2014 -- since the ruble collapsed last year on the back of Western sanctions over the Ukraine crisis and lower energy prices.

The Russian currency's weakness increased Transaero's spending in dollars for the leasing of aircraft, technical maintenance and loan reimbursement.

Meanwhile, Russians' falling purchasing power has led Aeroflot, which flies to many popular holiday destinations in Asia and the Caribbean, to sell cut-price tickets to fill planes.

- **"Mammoth Debt Burden"** -

After having offered financial support to Transaero when the ruble crashed last year, the Russian government then turned to Aeroflot to save the carrier, instead of reaching into state coffers.

"It will be a costly and lengthy process for Aeroflot to restructure this new acquisition," Gazprombank analysts said in a note.

"Transaero suffers under a mammoth debt burden and it is unclear how this debt will be restructured."

Although Aeroflot did not suffer from the economic crisis as much as its competitors, the company lost 3.5 billion rubles (\$52.4 million) in the first half of 2015.

Its debt is now expected to skyrocket with the incorporation of Transaero.

Having modernised its fleet and revamped its image, Aeroflot will also be forced to absorb some 100 ageing aircraft from Transaero, including long-range Boeing planes.

"I am certain no one at Aeroflot is happy with this purchase," said Alexei Navalny, Russia's top opposition leader who used to sit on the company's board.

"Aeroflot's fleet is relatively young, as opposed to Transaero's. Despite being massive and state-owned, the company abided by market rules more than Transaero did." he added.

"We are creating a super monopoly... Everyone will suffer from it, the consumers first and foremost."

But other analysts defended the deal, saying it will help reduce competition for Aeroflot and lead to increased prices in the long term.

That prospect however could be limited by the ruble's depreciation and consumers' reduced purchasing power, analysts from VTB Capital noted.

07 SEPTEMBER 2015

SOURCE: AFP

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