BRAZIL AIRLINE GOL TO GET $251 MLN CASH INJECTION, TRIM ROUTES

News / Finance

Feb 27 Brazil's second biggest airline Gol Linhas Aereas Inteligentes SA said it will get a cash injection of up to 1 billion reais ($251 million) and announced cuts to its routes and aircraft fleet in an effort to trim costs amid weak demand.

Takeoffs and landings will be cut by 6 percent this year while service to seven cities is being ended, Gol said in a securities filing on Friday. It will also return five aircraft to leasing companies and slash the schedule of planned deliveries of aircraft through the end of 2017 to 1 from 15.

The cuts come as Brazil's airline industry is suffering from a recession and a decline in the value of Brazil's real that has driven up the cost of dollar-denominated debt, aircraft leases and jet fuel. Through September, Gol had suffered 15 straight quarterly losses.

Gol said earlier this month that domestic demand fell 8 percent in the fourth quarter compared with the same period a year earlier.

Gol preferred shares - the company's most-traded class of stock - surged 15.4 percent on Friday before the cash injection and cuts were announced, but have lost more than two-thirds of their value in the last 12 months.

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The stock has lost 97 percent of its value since 2006, making it the second worst-performing stock on Sao Paulo's Bovespa stock exchange in the last 10 years.

The service reductions include the end of operations to Miami and Orlando, Florida; Caracas, Venezuela, and Aruba, which were made earlier in February. It will also cease operations in the Brazilian cities of Bauru, Altamira and Imperatriz in the coming days.

Passengers with tickets to those destinations will be accommodated on other carriers or have their fares fully refunded, Gol said.

Smiles will inject the cash starting with a 376 million real early purchase of frequent-flyer award tickets as soon as contracts are signed, Gol said. The rest can be doled out in tranches through June 30, 2017 as needed.

Gol will pay interest on the money equivalent to 132 percent of Brazil's CDI overnight interbank rate, it said. At current CDI rates, the interest would be 18.7 percent a year.

U.S.-based Delta Air Lines Inc owns a 9.5 percent, non-voting, preferred-share stake in Gol, the result of an earlier effort to shore up company finances.

Gol trimmed capacity in the second half of 2015 due to weaker demand following a similar move by LATAM Airlines Group SA's TAM, Gol's biggest rival.

Gol and TAM are the most exposed to an expected reduction in air travel to Latin America due to the Zika virus, ratings agency Moody's Investor's Service said earlier this month.

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