CATHAY PACIFIC RECAPITALISATION FINANCING OF USD5BN

News / Airlines, Finance



Cathay Pacific announced a recapitalisation plan that will help it maintain its competitiveness and operations, while continuing its commitments to Hong Kong as an international aviation, financial and commercial hub. This three-part plan is designed to provide Cathay Pacific with sufficient funds to withstand the industry-wide downturn, and a stable financial platform from which it will be able to conduct the wholesale review of operations required to transform its business to reflect the new global travel market dynamics.

The recapitalisation plan comprises three tranches:

- **Tranche A: Cathay Pacific will issue HK$19.5 billion in preference shares with detachable warrants to the Hong Kong Special Administrative Region (HKSAR) Government after requisite shareholders' approval has been obtained.**

- **Tranche B: Cathay Pacific will launch a HK$11.7 billion rights issue of shares to existing shareholders after requisite shareholders' approval has been obtained.**

- **Tranche C: the HKSAR Government will provide a HK$7.8 billion bridge loan facility to Cathay Pacific, available for drawdown immediately.**

As a responsible company, we will continue to explore opportunities to improve our capital structure. If suitable market conditions arise, we may further access the equity and debt

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capital markets in order to strengthen our balance sheet.

Cathay Pacific Chairman Patrick Healy said: "We are grateful to the HKSAR Government's capital support, which allows Cathay Pacific to maintain our operations and continue to contribute to Hong Kong's international aviation hub status. We are also grateful to our shareholders for their confidence in the long-term future of Cathay Pacific and in the ability of Cathay Pacific's management team to lead our airlines through what is the most challenging period in the Group's history."

Cathay Pacific has experienced a number of challenges since 2019. Positive momentum from 2018 drove a strong first-half result in 2019. However, since mid-2019, the social situation in Hong Kong led to a sharp decline in passenger traffic and this challenging environment was exacerbated by the outbreak of the COVID-19 pandemic.

Most industry analysts are forecasting very gradual recoveries over a protracted period, and the International Air Transport Association (IATA) is forecasting that it will be 2023 at the earliest before international passenger demand returns to pre-crisis levels. Cathay Pacific is even more vulnerable than most of its global airline peers, given that its airlines have no domestic network and are wholly reliant on cross-border travel. That travel remains highly restricted and subject to quarantine constraints, with no prospects for a return to normal international travel arrangements anytime soon.

Cathay Pacific has been agile in responding to this unprecedented crisis and has remained focused on cash conservation. The many actions it has taken to preserve cash have included cutting passenger capacity by 97%, implementing executive pay cuts, deferring new aircraft orders and carrying out the early retirement of older aircraft, as well as implementation of a voluntary special leave scheme, which had an 80% employee uptake.

Mr Healy explained: "Despite all these measures, the collapse in passenger revenue to only around 1% of prior year levels has meant that we have been losing cash at a rate of approximately HK$2.5 billion to HK$3 billion per month since February, and the future remains highly uncertain.

"The infusion of new capital that we have announced today does not mean we can relax. Indeed quite the opposite. It means that we must redouble our efforts to transform our business in order to become more competitive. Today we have announced a new round of executive pay cuts, and a second voluntary special leave scheme for our employees."

By the fourth quarter of this year the Cathay Pacific management team will recommend to the board the optimum size and shape of the Cathay Pacific Group to meet the air travel needs of Hong Kong while keeping the company's financial status at a healthy level, and at the same time meeting our responsibilities to our shareholders in the coming years.

Mr Healy said: "We are in a very dynamic situation. We need to make the right decisions to adapt to the new reality of global aviation and secure our long-term future. This will require re-evaluating all aspects of our business model in light of the rapidly changing macro and industry dynamics.

"Inevitably this will involve rationalisation of future planned capacity compared to our pre-crisis plans, taking into account the market outlook and cost structure at that time."

Having said that, Cathay Pacific reiterates our commitment to our customers and we have confidence in the long-term future of the airline industry.

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Mr Healy said: “Cathay Pacific is built on great service and we remain dedicated to delivering a fantastic experience that our customers enjoy and value. We will continue to maintain this by focusing on our strengths and investing in industry-leading enhancements.

“Tough decisions will need to be made in the fourth quarter of this year to get Cathay Pacific to the right size and shape in which to compete successfully and thrive in this new environment. But once we have right-sized the airlines to adapt to our new reality, our long-term prospects remain as bright as ever, with an outstanding 70-year-old brand, a world-beating premium service offering through Cathay Pacific and Cathay Dragon, together with a newly acquired low-cost carrier in HK Express with a very exciting future, and an unrivalled position in the Greater Bay Area, a region which will be the growth engine for the world economy over the next few decades. Our short-term challenges are significant, but our long-term future remains bright.”



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