

Russia's AirUnion to buy Malev for \$208 million

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AirUnion, the Russian airline alliance, is set to reap the rewards of tenacity in the prolonged race to acquire Malev, Hungary's national carrier.

In a final stage of the investment tender, APV, the Hungarian state holding company, selected AirUnion-affiliated and locally registered firm AirBridge as a preferred bidder after removing its only rival, LAL of Lithuania, from the bidding.

APV short-listed the two contenders in a fresh effort to sell 99.95% of loss-making Malev. This came after several failed privatization attempts, the most recent of which also included a bid from AirBridge.

In a statement confirming AirBridge as the sole partner in the final round of talks, APV indicated that the Lithuanian candidate had provided additional information late and without the required content – "hence our decision not to conduct further negotiations with LAL as its bid was not backed by adequate financial guarantees", it says.

AirBridge is believed to have submitted an offer of Eu160 million (\$208 million), surpassing other bids and doubling the amount of its original proposal in the previous contest for Malev in 2005. The sum is believed to cover the value of Malev's assets, as well as obligations to increase its charter capital, pay off its debts and a waiver of sovereign guarantees.

To secure funding for the acquisition, AirBridge is understood to have concluded a tentative agreement with Russia's Vnesheconombank.

Talks between APV and AirBridge will finalize the sale purchase agreement and clarify points still in dispute. "We'll sign a contract shortly after thrashing out its details and submitting a business plan for Malev," says Petr Leonov, an AirBridge board member, who points out that changing the conditions of state guarantees for Malev's loans requires government approval. It is estimated that the carrier owes about \$200 million to creditors. "But this does not scare us off," says a spokesman for AirUnion, who adds that "most important is to gain a firm foothold in Europe".

Industry experts believe that AirUnion is seeking to take over Malev in order to gain from its relatively new fleet of 737s and access a network of lucrative services from Budapest throughout Europe.

AirUnion is moving towards operating as a single carrier. Alongside core member Krasair, it includes Domodedovo Airlines, Omskavia, Samara Airlines and Sibaviatrans. Last year their combined traffic rose 4% to 3.34 million passengers, which is way below a planned growth target and holds back its ambition of becoming the second-largest player in Russia's air transport market after Aeroflot.

Boris Abramovich, a KrasAir director and major shareholder, highlights the mutual benefits to be derived from a partnership between Malev and AirUnion. "Malev will preserve its route network with around 50 European cities and gain access to 54 destinations in Russia and the CIS," he says, adding: "Teaming up will allow both of us to boost traffic and profits before long."

Sources close to AirUnion say its management has committed to preserving the bulk of jobs at Malev, making it profitable within the next two years and tripling its passenger traffic and sales by 2015.

"We're looking at finalizing a purchase agreement by April," says Abramovich, adding that Malev will then come under the managerial control of a Russo-Hungarian company, Airbridge Zrt.

"A key element is that AirUnion assumes responsibility for settling Malev's debt of \$180 million and investing in its development. Vnesheconombank will act as our partner in carrying out debt restructuring and the investment programme."

AirUnion is seeking to penetrate into the broader international market, with the Malev acquisition being part of a long-term business development plan. n

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