

TUI buys 19.9% stake in Air Berlin

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TUI Travel has bought a 19.9% stake in Air Berlin in a cross ownership deal, which will see the German airline increase its foothold in key European markets.

The cross-ownership arrangement will see TUI subsidiary TUIfly purchase 19.9% of Air Berlin for €28.5 million (\$38.2 million), with the airline owning a corresponding 19.9% stake of TUIfly. Both sides hope the deal will bring significant cost-cutting benefits.

Air Berlin's shares rose 3.3% to 3.18 euros on news of the deal.

Air Berlin CEO Joachim Hunold said the partnership will significantly expand the carrier's European footprint. "The strategic alliance gives Air Berlin access to three economically highly important markets: Cologne, Stuttgart and Italy," he said. "In this manner, Air Berlin can expand its European as well as its domestic route network, which is especially important to our business passengers."

TUI Travel – Europe's biggest travel firm – bought its stake via a capital increase, but the price paid by the UK travel company could rise to €64.8 million euros for the new shares if minority shareholders participate in Air Berlin's capital increase.

A central part of the deal will see the city flight business of TUIfly transferred to Air Berlin. TUIfly will charter 17 aircraft to Air Berlin via a long-term wet lease from 2010. TUI Travel will also get the right to nominate one non-executive director to the board of Air Berlin. Air Berlin is Europe's second-largest airline.

Volker Bottcher, managing director Central Europe at TUI Travel, said the alliance will benefit TUIfly and cause minimal disruption. "TUI Travel keeps a majority interest in the airline and only a very few jobs will be lost. That is something that nowadays cannot be valued too highly."

TUI was established in 2007 when the tourism division of German operator TUI AG merged with First Choice. One of the reasons for the merger was to reduce TUIs' running costs and number of flights – a central aim of the alliance with Air Berlin.

The tie-up with TUI comes on the back of Turkish company ESAS Holding AS, which operates Pegasus Airlines, buying a 15% stake in Air Berlin. The company now holds the majority equity stake previously owned by US billionaire Len Blavatnik, who sold his shares in January. The deal is subject to approval from the German Federal Cartel Office. ESAS Holdings is the second-largest industrial and financial group in Turkey.

The deal between TUI and Air Berlin is the latest in a trend of increasing consolidation in the European airline industry. Lufthansa is confident the European Union will approve its planned takeover of Austrian Airlines. The European Commission is investigating whether the deal will be detrimental to competition and whether a €500 million (\$685 million) subsidy from the Austrian government constitutes illegal state aid.

Meanwhile, Air France today formally registered its interest in Czech Airline's privatisation with a view to expanding its Central and Eastern European network.

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