

Air France-KLM issue attracts different bank mix

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(Written by Aidan Gregory)

Notable banks are absent from the syndicate leading Air France-KLM's €2.25 billion rights issue.

Air France-KLM is bringing the deal to repay the state aid it received during the worst days of the Covid-19 pandemic, which caused a global collapse of passenger numbers due to travel restrictions, writes *GlobalCapital*, *Airfinance Journal's* sister publication.

The airline signed an underwriting agreement on 23 May with a syndicate of international banks to lead what is likely to be one of the biggest deals of the year in European equity capital markets.

Deutsche Bank, HSBC, Natixis, Crédit Agricole and Société Générale are global coordinators. ABN Amro, Santander, Citigroup and Rabobank are bookrunners.

Deutsche has the largest share of the underwriting commitment, *GlobalCapital* understands. The full split will be revealed in Air France-KLM's prospectus.

Not a single US bank is on the top line, though Citigroup is on the second line. This is unusual in European ECM, which has been dominated by US banks since the financial crisis.

Porsche caused a stir recently by picking an all-US top-line syndicate for its looming €5 billion-plus IPO on the Frankfurt Stock Exchange.

"Things are driven to a certain extent by lending, and the other thing as well is relationship and who has a closer relationship versus others," said a source close to the deal. "It is pretty normal for a European company to use European banks. I don't know why American banks have to be involved in everything. They are not necessarily needed and do not bring any more to the table than experienced European banks."

BNP Paribas is another notable absentee, the only major French bank not involved.

"There are two notable situations: one BNP Paribas, and then the Americans," said a second source involved in the deal. "For people who say you can't do deals without [the US banks], I guess they are wrong. It is great for us."

BNP Paribas had been on all Air France-KLM's ECM deals up to 2019. It is not on the rights issue because BNPP stepped back from financing Air France-KLM in April 2020, following the onset of the pandemic, *GlobalCapital* understands.

It has not been involved in any of the company's capital markets transactions since, including its last rights issue in April 2021, which raised €1bn.

Deutsche Bank, HSBC, Natixis, Crédit Agricole were financial advisers on the last rights issue.

"[Some] banks decided that they were not going to be supporting Air France-KLM going forward," said a source familiar with the matter. "At that time, which was over two years ago now, everyone was making choices about which airlines we were going to support, and we could not find an agreement with them. So all the banks in that deal are there with their balance sheets [lending to Air France-KLM]. If you look at the last Air France-KLM deal in April 2021, it is more or less the same group of people."

BNP Paribas has not shied away from airlines entirely. It was a global coordinator on EasyJet's £1.3 billion rights issue in September 2021 and a bookrunner on Lufthansa's €2.5 billion rights issue the following month.

"There were a number of banks where similar things happened on Lufthansa, IAG and Easy Jet, where they stepped up in moments of crisis

and were clearly going to be involved in any capital markets activity after that," said the source familiar with the matter.

Faced with demands for lending from multiple airlines during the pandemic, BNP Paribas decided it could not back all of them and chose some to support.

Its absence is nevertheless seen as highly unusual on such a high profile French deal. Electricité de France's €3.16 billion rights issue in April involved all four major French investment banks.

"You would expect on such a flagship French name that they would be involved," said the first source close to Air France-KLM. "It is very surprising."

Turnaround in motion

In the €1 billion rights issue in April 2021, the French state subscribed for 57% of the rights on offer, increasing its stake to 28.6%.

Air France-KLM intends to use the proceeds of the new €2.3bn rights offer to repay debt and exit from a multi-billion state aid package provided by the French state during the height of the pandemic.

Under a deadline set by the European Commission, Air France-KLM has until the end of June to work out how to exit its bailout. It has received approval to raise up to €4 billion of equity, convertible bonds and hybrid bonds.

Air France-KLM had €7.75 billion of net debt at the end of March. Its target is to reduce this to 2 to 2.5 times Ebitda by 2023.

Under the terms of its state aid, Air France-KLM is prevented from acquiring more than 10% of another company, a significant drag on its growth prospects amid consolidation in the airline industry.

Italy is seeking bids for ITA Airways, the successor carrier to Alitalia.

In a regulatory filing on 24 May, Air France-KLM said the offer price in the three for one recapitalisation would be €1.17 a share, a discount of 40% to the theoretical ex-rights price.

More than half of the deal is already covered at launch. The remainder, over €1 billion of stock, will be placed into the market.

Air France-KLM has secured commitments from the French and Dutch states, which will maintain their stakes by subscribing for their rights. France owns 28.6% of the airline, the Netherlands 9.3%.

China Eastern Airlines, which owns 9.6%, and Delta Airlines, with 5.8%, will participate on a cash-neutral basis.

Both will sell part of their rights to CMA CGM, the French shipping and container company that is becoming Air France's new strategic shareholder, and will use the proceeds of this exercise, known as a 'tail swallow' to fund their own participation.

The recapitalisation had been widely expected to be launched after Air France-KLM signed a strategic cooperation agreement with CMA CGM to collaborate with Air France KLM's air cargo business.

As a result of the rights issue, CMA CGM will acquire a 9% stake in Air France-KLM because of the dilution of China Eastern Airlines and Delta Airlines.

"This facilitates the whole process, the fact that CMA CGM has indicated their willingness to go up to 9%," said the first source close to the rights issue. "The freighter business is something which is very key right now, given all the logistical issues facing the global economy, and it is part of the equity story for Air France as well going forward."

Shares in Air France-KLM were trading at €3.84 as of 2.06pm in Paris on 24 May down 11.8% from the previous close, giving it a market capitalisation of €2.57 billion.

The stock is almost flat year-to-date, versus a 12.7% fall in the CAC 40 across the same period.

Air France-KLM has benefited from a huge rebound in passenger numbers following the relaxation of travel restrictions across its key markets.

In the first quarter of 2022, Air France-KLM made €221 million of Ebitda, up €849 million from the same period in 2021.

This year, the airline expects to return to net profitability despite headwinds caused by surging inflation and high oil prices.

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