Austrian Airlines struggles to find suitor
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As varied as the tailfins of their jets at Vienna Airport, a motley band of air travel groups has in recent weeks been eyeing Austrian Airlines (AUA), the domestic flag carrier.

Some groups, such as Aerpflot, Emirates and Singapore Airlines, have already communicated publicly; others have been more discreet. But all have sent the same message declining the Austrian government's invitation to become the ailing airline's strategic partner.

AUA faces the same headwinds as other small and mid-sized European carriers. Fuel prices have surged while competition from low-cost rivals has intensified. Add a small home market, high and inflexible costs and an unusually diverse fleet, and the group's figh't to maintain altitude is clear.

Losses in the first half climbed fivefold to €49m ($73m) year-on-year. Alfred Ötsch, chief executive, has predicted a shortfall of €70m-€90m for the year.

Like most airlines, AUA has cut capacity in the face of rising fuel costs. In July the carrier's passenger traffic fell by 3.8 per cent, slightly outstripping the 3.3 per cent reduction in seats. Yesterday the company announced a capital increase, without providing details as to how much it would raise.

With the outlook grim, Mr Ötsch, a former Siemens manager who once trumpeted AUA's independence, has changed course. So have the OIAG state holding company, which owns almost 43 per cent, and the government, formerly opposed to any loss of independence.

Last month Boston Consulting Group, asked by OIAG to identify AUA's options, recommended a strategic partnership and identified Lufthansa as the most likely buyer. On August 12 ministers backed a sale, prompting OIAG to mandate Merrill Lynch to conduct the process. Bidders have until tomorrow to come forward.

The easy bit ends there.

With airlines under pressure worldwide, the number of suitors is limited. So far only Turkish Airlines has openly expressed any interest.

Lufthansa is the obvious suitor. Apart from culture and language, the German group showed with Swiss International Air Lines that it could integrate a smaller counterpart without ruffling too many feathers. The acquisition in 2006 of Swiss, now producing better margins and higher load factors than its parent, is seen as an example of how airline takeovers can work.

But AUA is a tougher call. Swiss, which rose from the ashes of Swissair, had three rounds of restructuring behind it before Lufthansa moved in. Although tainted by the Swissair grounding of 2001, the fledgling airline enjoyed a stronger brand than AUA.

Lufthansa has refused to say whether it will bid, as has Air France-KLM, another potential buyer. Both are expected to participate. Lufthansa must act, given AUA's similarities and fit. The group may also be wary of letting AUA fall to a significant rival.

But Lufthansa is wary of the risks, which are political as much as commercial.

Many Austrian observers see the sale as flawed from the start. The state's holding is pooled, with 7.25 per cent owned by two Austrian banks and an insurance company, to create a narrow Austrian majority. Under the compromise "privatisation" hammered out by the grand coalition government of Social Democrats and Conservatives, any buyer of OIAG's stake will have to accept the retention of a 25.01 per cent Austrian blocking minority. Who might comprise that core group remains a mystery.

The cumbersome structure, rather than a clean sale, was dictated by the differing interests of the Social Democrats - fundamentally opposed to selling - and the privatisation-minded Conservatives. With both parties sharing power, a compromise was the only option.

Government officials say the structure can work, pointing to the arrangements for the privatisation of Voest Alpine, Austria's biggest steelmaker. But AUA, with 8,000 employees and 99 planes, is a much harder sell.

Austrian candidates to form the blocking minority have been conspicuous by their absence - suggesting OIAG may end up being obliged to retain much of its stake. The government could also face a hefty loss: OIAG's holding is on its books at €7 a share, while AUA's equity has fallen to about €4. That points to a heavy writedown, even if an acquiring airline were prepared to pay a control premium.

"If privatisation fails, we expect the share price to plummet significantly," warns Martina Valenta, an analyst at Erste Bank.

Enticing a carrier to help AUA is complicated by a commitment to maintaining the network, brand and Austrian headquarters, as well as Vienna's status as a hub, and, more loosely, a commitment to preserving jobs.

But the biggest variable of all is politics. Austria holds general elections on September 28. Another grand coalition is possible in spite of the unpopularity of the caretaker government. But if a new political constellation emerges, AUA's "privatisation" could change course again.

Fonte: Financial Times, London, August 23/August 24 2008. Primeiro Caderno. p. 9.