MAS faces rising yield pressures

by SITI RADZIAH HAMZAH

MALAYSIAN Airline System Bhd (MAS), whcih fell the most in almost three months in Kuala Lumpur trading after reporting a massive RM534.7 million loss in its second-quarter (2Q), will face a challenging financial year ending Dec 31, 2010 (FY10), due to increasing pressures on yield, according to research houses.

The stock, which fell as much as 7% in earlier trading, closed 8 sen lower at RM2.20.

The national airline's yield is considerably low compared to peers such as Cathay Pacific and Singapore Airlines possibly because it did not increase its fares much earlier in order to boost load factor, said ECMLibra Investment Research.

The lack of traction in raising fares so far has dampened the research house's expectation of revenue yield recovery in FY10.

MIDF Research said if broken down further, the yields excluding fuel surcharge and adminstration fees grew at a higher rate of 8% year-on-year (yoy) to 20.3 sen/revenue passenger kilometer (RPK).

This indicates that MAS is bearing the burden of most of the fuel price increase as evident with the lower-than-expected revenue, MIDF said.

However, the research house said MAS has to bear a risk of lower demand due to the slowing economy. Passenger growth in 2009 was 8% and this is expected to rebound to 10%. But if the world experienced a double-dip recession in 2011, passenger traffic growth may turn red again, it said.

OSK Research said MAS' failure to extract yield was due to poor load factor in some routes, which capped the quantum of increase in ticket price.

In an attempt to catch up with its full service carriers peers' double-digit yield growth, MAS is determined to enhance yield by optimising its route and is considering the possibility of implementing a higher fuel surcharge.

"This would, however, come at the expense of passenger volume and load factor if carried out too aggresively," said analyst Ahmad Maghfur Usman in the note.

MAS reported a RM534.7 million net loss in 2Q10 to June 30, 2010 mainly due to mark-to-market derivative losses of RM217.2 million on its fuel and interest rate hedging contracts. For 1H10, adjusted net loss, excluding compensation for aircraft delivery delay in 1Q10, was RM553.7 million.

See Also P10