Problems abound for SAA's new task team

By Nicky Smith

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Public Enterprises Minister Malusi Gigaba has questioned whether the response from South African Airways (SAA) management had been adequate and timeous enough to cushion the airline from the turbulent aviation environment in which the struggling company on Monday, 15 October 2012, reported an operating loss of R1.3bn.

Gigaba, the shareholder representative, said while the challenging trading conditions were understood they were the same for all airlines, yet SAA had performed worse than its peers.

The carrier reported an increase in revenue to R23.8bn for the year ended March 31 from R22.6bn a year earlier, which meant the airline recorded an operating loss of R1.3bn.

Gigaba said he was concerned about the rate of cash being burned at the national carrier, which had depleted the working capital of the airline and had exposed it to possibly defaulting on some of its contracts because of its weakened cash and balance sheet position.

SAA has been hit hard by much higher fuel prices, which rose as a percentage of operating costs from 28% to 33%, according to Gigaba.

The airline has been rocked over the past three weeks by its financial difficulties, which placed enormous pressure on the relationship between the former board members and the Department of Public Enterprises.

In late September seven board members resigned, citing a breakdown in the relationship between themselves and the ministry. Within weeks of their departure SAA chief executive Siza Mzimela and two senior managers also announced their intention to leave the airline.

Gigaba said the new board had been mandated to turn the loss-making airline business around and to contain costs and a task team, created by the minister, must present a holistic turnaround plan for the aviation assets by December 15.

SAA's chief financial officer Wolf Meyer said global volatility in aviation markets continued throughout the whole year. High fuel prices settled above US$110 a barrel for the 2012 financial year.

The airline's "cost compression" programme was "well underway" to remove R1.3bn from the airline's operating costs, Meyer said.

The airline was hit by costs, other than fuel spikes, such as airport taxes, which cost R129m for the year along with parking and landing and navigation fees which rose 18% to R99m. Stripping out the costs of the increase in fuel prices for the airline would have meant that the airline reported a net profit, Meyer said.