SAA turns again to state for survival

Hapless and helpless, South Africa's struggling national carrier awaits news on a state cash injection vital to stay in the skies, but which shows up its inability to make money.

SAA plans to close most loss-making routes but will keep the Beijing route open, even though it doesn't make money. Image: SAA

Eighty years after its creation, loss-making South African Airways (SAA) battles with an ageing fleet and a weak national currency.

"It's not a secret that our balance sheet is very weak," chief financial officer Wolf Meyer admitted. "There are currently discussions with the national Treasury, we hope that we get good news soon on the capitalisation," he said.

State intervention is key to SAA's survival and Finance Minister Pravin Gordhan is expected to shed more light on saving the airline during his annual budget speech in parliament this month.

In the meantime, the government has extended a two-year guarantee of R5bn (US$444m) issued in 2012 in exchange for a vast restructuring.

When that guarantee was first approved, irate opposition parties accused the government of wasting taxpayers' money, while some companies said it was distorting the market.

A year and a half later the turn-around strategy still has not been implemented and main opposition party the Democratic Alliance (DA) has renewed its call to privatise the carrier.

Money being wasted

"Government needs to stop throwing good money at a bad problem," the party said last week. "We simply cannot continue with 'business as usual' any longer."

Last week, SAA reported improved results for the financial year that ended in 2013, but the situation remains bleak.

Though better than the R1.3bn loss a year before, the R991m operating loss was still a glaring indicator of existing problems.

"The results were released months behind schedule because talks between the treasury and the actual shareholder, the Ministry of Public Enterprises, dragged on," said Meyer.

Despite the losses, the 13.5% increase in revenues indicates market potential even in the face of aggressive competition from companies based in the Gulf.

But the company warned of rising fuel costs and the rand's slide against the dollar, which ate into earnings. In the domestic market, low-cost subsidiary Mango cashed in on two competitors going out of business. "On the international front, SAA, which is member of the Star Alliance group, is building a name for itself," Meyer said.

"We are very proud of our Africa growth strategy, it's really working well," he said.

Loss-making routes

Air traffic across the continent is soaring and SAA has worked to build from its traditional European routes with mixed success.

"Buenos Aires route was loss-making, and the Cape Town-London, and the Beijing route, and the (Burundi capital) Bujumbura route were also loss-making routes as well," said Meyer.

Accordingly, some flights will be axed, like the Argentina route in March. But others, especially when diplomatic interests are at stake, will survive.

Ever anxious about relations with its main trading partner China, the government has insisted on keeping the Beijing route open.

SAA has halted plans to buy around 20 new aircraft, but will has ordered 20 Airbus A320s which will be delivered by 2017.

"There is an urgent need for SAA to replace its long haul fleet," said Meyer, adding that the public enterprises minister wanted the acquisitions to benefit more local companies.

Source: AFP via I-Net Bridge