KAL hits snag on road to KAI takeover

Korea Aerospace Industries shareholders vote for last-minute change in regulations governing share acquisition

Korean Air (KAL) has stalled in its plan to take over manufacturer Korea Aerospace Industries (KAI), with a move by some shareholders that could block the deal.

Late in August, KAL signed a memorandum of understanding with 28% KAI shareholder Daewoo Heavy Industries & Machinery covering the purchase of its entire stake in the company. KAL said at the time that it expected KAI shareholders to agree to issue new shares to it in a related deal, lifting its stake to more than 50%, and giving it management control. KAL does not own any shares in KAI.

But on 16 September KAI’s other shareholders approved a revision to the company’s bylaws that could block any take-over. Industry sources say these shareholders fear the value of their stakes in the business will fall after KAL gets involved, and there is speculation about due diligence. KAL says it is still focused on taking over KAI despite the moves by shareholders that could block it.

“We expected there would be several obstacles. This is the case with everything,” says the airline. “We will still pursue this takeover of KAI as planned.”

KAL is unusual as an airline in that it has an in-house aerospace manufacturing division known as KAL Aerospace. It makes parts for Airbus and Boeing aircraft as well as for US and South Korean military aircraft, in addition to performing maintenance work on military aircraft.

IN BRIEF

ASIAN ALLIANCE

Hamilton Sundstrand and China Eastern Airlines have formed a joint venture to establish an auxiliary power unit (APU) service centre in Shanghai. Hamilton Sundstrand says the “total support facility” will service APUs for Asian operators.

KLM SELLS STAKE

KLM has sold its 9% interest in TUI Nederland to the German parent TUI Group for €7.25 million ($8.19 million), earning KLM a €5.6 million profit. The Dutch flag carrier had acquired the stake in 1996, the result of a merger of Arke and Holland International, in which TUI Group held 91% stake and KLM the remainder via its interest in Holland International.

IN DENIAL

Brussels-based Virgin Express denies approaching SN Brussels Airlines or holding company SN Airholding for a second round of merger talks after the first attempt failed last year. But an investment bank linked to SN Airholding is trying to bring the airlines together, SN Brussels says. After the talks failed, SN Brussels Airlines ended the deal under which Virgin Express operated its London Heathrow service.

Alcan ups Pechiney bid to $4.5bn

Canadian aluminium producer Alcan has upped its bid for French rival Pechiney to €4 billion ($4.5 billion), winning over the French board, which rejected its previous €3.4 billion offer. The merger would bring Alcan into the European aerospace market as the largest supplier, ahead of US producer Alcoa and UK-Netherlands group Corus, and would also create a new world leader in the aluminium business.

Together Alcan and Pechiney posted $25.9 billion in sales last year, ahead of Alcoa at $20.3 billion. Alcan’s chief executive Travis Engen said last week he was “confident” the European Commission’s competition regulators would clear the deal, which would lead to Alcan’s domination of the European market. The merged company would have European sales of $12.7 billion, ahead of Alcoa, which has only $5 billion. However, Alcoa is well represented in the European aerospace market (see chart), French stock exchange regulator COB is to make a decision soon. The final decision, due on 29 September, will rest with the European Commission.

Although demand for aluminium in Europe is recovering from the slowdown last year, the European Aluminium Association says European producers face growing competition from China where refinery capacity and production are growing “exponentially”. Engen says the merger would allow Alcan to make savings of around $250 million by 2005.

Ottawa offers to lend Bombardier a helping hand

Ottawa may be willing to help Bombardier sell new aircraft to Air Canada after officials from both companies said Bombardier was at a disadvantage over other bidders because it is not eligible for government financing. Air Canada plans to buy up 100 regional jets worth around C$1.4 billion ($1 billion) from either Airbus, Boeing, Bombardier or Embraer. But Bombardier cannot line up financing for Air Canada because Ottawa’s Export Development Canada fund is for financing foreign sales.

An EDC official says Air Canada could find a third party to buy the regional jets with EDC financing and lease the aircraft from the buyer. But many commercial financial sources, such as banks, are becoming more reluctant to back aerospace deals because of the risk involved.

A Bombardier source says the aircraft manufacturer might seek financing from GE Capital Aviation Services.

An official from Industry Canada, another government agency, says Ottawa wants to support Canada’s aviation industry and that it would consider any proposal which is put forward.

Air Canada and its Star Alliance partners are planning to purchase up to 200 regional jets and Bombardier hopes to land either all or part of the order.