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## **Aeromexico, Mexicana Seek to Restructure Debt**

*by LADB Staff*

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Mexico's two largest airlines, Aeromexico and Mexicana, have initiated discussions with commercial banks to restructure their debts to avoid outright bankruptcy. Both companies expect to complete final negotiations by January 1995. As part of the restructuring negotiations, the airlines have drafted separate plans to raise capital and cut expenses.

According to El Financiero International weekly business newspaper, Aeromexico plans to raise funds by issuing a new block of stock on financial markets. In fact, at a company meeting on Nov. 15, stockholders approved a series of proposals to help rescue the airline from financial debt. The measures include approval of a plan to raise US\$527.3 million in capital, the possibility of suspending payments to foreign debt holders, and legal action against former Aeromexico officials responsible for making financial decisions detrimental to the company.

Sudhir Roc-Sennett, an aviation industry analyst with the Mexico City-based brokerage company Interacciones, told El Financiero that Aeromexico had not formally notified brokers of its plan to issue new stock on the BMV, although the move was generally expected. Roc-Sennett said the company is unlikely to issue preferred stock, since this would dilute existing shares. Therefore, the company will probably issue common stock, either held by the company or by banks.

Meantime, Mexicana has embarked on a massive cost-cutting program and is in the process of renegotiating its US\$1.3 billion debt. In August, the company had already reached an agreement with five commercial banks to restructure US\$200 million in debt owed to the institutions. According to earnings reports issued for the third quarter of the year, Aeromexico appears to be in a better financial position than Mexicana. For July-September, Mexicana reported net losses of US\$19.9 million during the period, while Aeromexico reported net profits of US\$23.8 million.

### ***Smaller airlines gain market share***

Nevertheless, both airlines are struggling financially, in part because of strong competition with international carriers and smaller domestic airlines, which have forced them to reduce fares to attract passengers (see SourceMex, 05/18/94 and 08/24/94). Even though Mexicana and Aeromexico together still control about 70% of Mexico's domestic market, they are facing strong competition from companies such as Transportes Aereos Ejecutivos (Taesa) and Servicios Aereos Rutas del Oriente (Saro), which are enticing passengers with lower fares.

Aeromar airline on Oct. 30 inaugurated service between Queretaro, a rapidly growing business center, and the northern industrial city of Monterrey, potentially taking some business from the two larger airlines on this lucrative route. Juan Ignacio Steta Gandare told the official news agency Notimex that the Queretaro-Monterrey route is also expected to attract leisure travelers.

Mexicana's new director Javier Jimenez told reporters that increased competition has shrunk the airline's share of most domestic markets to an average of 28% this year from 50% in 1989. In addition, he said the airline now services only 30% of flights between Mexico and overseas destinations, compared with 50% just five years ago. Some of the financial troubles for the two airlines are also blamed on mismanagement by Gerardo de Prevoisin, former director of the parent company for both airlines, Aerovias de Mexico.

In September, De Prevoisin was stripped of his post as president of Aeromexico and Mexicana and removed from the executive council. According to the company's executive council, the unexplained loss of US\$50 million under De Prevoisin's management has tightened the amount of working capital available to the airline, but did not endanger regular air service.

In late October, a consortium of banks filed a US\$68.7 million lawsuit against De Prevoisin. Two weeks earlier, a federal judge placed a lien against De Prevoisin's property in order to cover part of the US\$15.2 million in debt owed to Banca Serfin, which provided US\$54 million to the executive to acquire the Peruvian airline company Aeroperu. Aeromexico director Alfonso Pasquel Barcenas told La Jornada that despite legal actions taken against De Prevoisin, banks have not shut off credit access to Mexicana and Aeromexico.

In an attempt to assist the two airlines, on Nov. 3 the Finance Secretariat (Secretaria de Hacienda y Credito Publico, SHCP) extended the period allowed for Aeromexico and Mexicana to repay their overdue debt to the government for services rendered by the airport services agency (Aeropuertos y Servicios Auxiliares, ASA). ASA director Guillermo Ruiz y Teresa told reporters that the extension is intended to facilitate the debt restructuring process for the two airlines. Despite the extension, Ruiz said ASA will continue to charge interest on the overdue payments. The two airlines have overdue debt of about 240 million nuevo pesos (US\$69.7 million) to ASA. More than half of the debt is owed by Mexicana.

For his part, Aerovias de Mexico's new chairman, Jose Luis Llamosas Portillo, said every effort would be made to accommodate the banks affected by De Prevoisin's decisions, but hinted full repayment may not be possible. "All the parties are willing to do their part to support the rescue of the two airlines, given their strategic importance to our country," he said. Llamosas also said the parent company Aerovias de Mexico has asked for a study from the US-based Ernst & Young and other consulting companies to determine what other steps are needed to help restore financial health to the two airlines.

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