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## **Aeromexico Reaches Agreement to Restructure Debt Owed to Foreign Banks**

*by LADB Staff*

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In mid-July, Mexico's largest airline, Aeromexico, formalized the renegotiation of US\$137.5 million in debt with foreign banks. The debt, which matured in mid-June, had been placed in European markets via Eurobonds and other commercial paper. Under the terms of renegotiation, Aeromexico was able to extend the repayment period to five years, to June of the year 2000. Aeromexico's finance director Guillermo Quiroz Abed said the next step in the debt restructuring process is for Mexican creditors to accept conversion into capital of about US\$500 million in debt. This, in turn, would make the creditors the largest shareholders in Aeromexico. The creditors include four large banks: Serfin, Bancomer, Banamex, and Banco Mexico. "This is not a definitive solution to our financial problems," said Aeromexico general manager Alfonso Pasquel, who suggested that the airline must first make a profit. "The airline industry must reduce as much as possible the problem of oversupply and end the absurd fare wars in which we have been engaged."

According to analysts, once Aeromexico's financial health is restored, then the parent company Aerovias de Mexico is expected to turn its attention to Mexicana, the country's second largest airline. Aerovias owns about a 45% share in Mexicana. Abed raised the possibility that Aeromexico could eventually be sold in part to foreign investors, although he said this may not happen in the immediate future. He said any decision on selling the airline would ultimately rest in the hands of the company's shareholders, including the four banks.

"The banks have told us they do not want to remain shareholders in the long term, although there is no urgency in selling the airline," said Abed. "The sale will proceed according to whatever timetable and rhythm is required." According to airline industry sources, Aerovias officials would like to restore Aeromexico and Mexicana to full financial health before offering them for sale to Mexican or foreign investors. The analysts said Aerovias is considering steps to make Mexicana and Aeromexico more appealing to potential buyers, including the purchase of new equipment. They said the two airlines could become very attractive properties for foreign investors once Mexico emerges from its economic crisis.

Indeed, in an interview with the weekly US-based financial publication BusinessWeek, Grupo Serfin planning director Eduardo Garcia Lecuona said potential buyers for shares in Aeromexico and Mexicana include US-based Continental Airlines, British Airways, and Air Canada. Garcia was in a strong position to comment on the sale, since his bank owns about US\$140 million of Aeromexico's debt. Continental Airlines communications director Ray Scippa acknowledged his company has held discussions with Aerovias directors on a potential purchase of Aeromexico, but no actual offers have been discussed. However, Scippa declined to offer details on the Continental purchase proposal, saying only that negotiations are continuing.

Canadian Airlines, meantime, appeared to be a less likely buyer of shares in Aeromexico. Spokespersons for the airline denied there was any chance of a purchase in the near term. An airline industry analyst agreed that a sale was not imminent, since Canadian Airlines is expanding into the Mexican market by increasing its own service between Mexican and Canadian cities. "There are no signs that Canadian Airlines could become a buyer of Aeromexico," he said. Finally, British Airways officials have made few comments on a possible purchase of Aeromexico or Mexicana. However, according to anonymous sources cited by BusinessWeek, officials for the British airlines see a purchase of a share of Aeromexico as a way to connect passenger service from Europe to Latin America via US cities. (Sources: El Norte, 06/29/95; Reforma, 06/28/95, 07/12/95; Excelsior, La Jornada, 07/12/95; Agence-France-Presse, Notimex, Reuter, 07/13/95)

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