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Investors Show Little Interest in Airline Holding Company CINTRA

by LADB Staff
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The Mexican government has encountered very little interest from domestic or foreign buyers in its latest effort to sell the Corporacion Internacional de Transporte Aereo (CINTRA), the parent company for flagship airlines Mexicana and Aeromexico and regional carriers Aerolitoral and Click Mexicana. The government is selling CINTRA in three separate units: Mexicana-Click, Aeromexico-Aerolitoral, and the airport-support service Aeropuertos y Servicios Auxiliares (ASA).

The government assumed majority control in CINTRA in 1994, when the savings protection agency (Fondo Bancario de Proteccion al Ahorro, FOBAPROA) acquired Aeromexico and Mexicana to prevent them from falling into serious financial difficulties (see SourceMex, 1995-01-08). Since then, the government has made some attempts to sell its share in CINTRA but with little success (see SourceMex, 2001-05-02 and 2003-03-19).

Spain's Iberia submits only bid by July 22 deadline In the latest sale effort, initiated at the beginning of July, only Spain-based Iberia stepped forward to submit the necessary paperwork by the July 22 deadline. CINTRA officials would not say which unit Iberia was seeking to purchase. The scant participation forced CINTRA officials to extend the deadline until Aug. 9. Revista Expansion, a Mexico City business publication, said Iberia sees its entry into the Mexican airline market as a strategic step in its expansion into Latin America.

The Spanish airline is said to be competing for the Latin American market with European conglomerate Air France-KLM. The French-Dutch partnership had not expressed any interest in acquiring Mexicana or Aeromexico. Expansion said Iberia has already obtained financial information on Aeromexico and Mexicana and has sufficient funds to bid for at least one of the airlines. The Spanish airline may, however, end up withdrawing from the process unless it can be guaranteed sufficient operational freedom. "The freedom to make management decisions is what is most important for us," an Iberia spokesperson told the Spanish news service EFE.

A major concern for Iberia and other potential investors is the financial health of CINTRA, which reported a net loss of 296 million pesos (US$27.8 million) in the second quarter of the year. CINTRA officials pointed out that the loss is smaller than the loss during the second quarter of 2004 and that finances for all airline companies have been affected by a surge in fuel prices. Another snag for Iberia may be the lack of Mexican investors to participate in the process. Under privatization rules, Iberia must find a Mexican partner willing to own a 51% share in the CINTRA units.

The only potential major Mexican investor to express interest in the process thus far is the pilots union (Asociacion Sindical de Pilotos Aviadores, ASPA).
Entrepreneurs prefer to invest in discount airlines

The Mexican private sector, meanwhile, is finding other ways to participate in the domestic airline industry. In late July, two of the country's most powerful entrepreneurs, Emilio Azcarraga Jean and Carlos Slim Helu, said they would join former finance secretary Pedro Aspe to create a discount airline company Vuela Compania de Aviacion. The airline will be known as Vuela. Aspe is participating in the venture through his private investment fund Protego, which created a company called Discovery Americas to launch Vuela.

Slim would bring strong financial support to the airline through his bank Grupo Financiero Inbursa. Azcarraga owns media giant Grupo Televisa, which includes Mexico's leading television network Televisa. Honduran-based Transportes Aereos Centroamericanos (TACA) is also a partner in the venture. "We see tremendous growth potential," said Grupo Inbursa official Jose Heredia, who noted that the market for discount airlines is just now beginning to take off. Vuela is the latest entry in what is becoming a rapidly expanding market for discount carriers in Mexico.

The proliferation of discount carriers poses another threat to the profitability of legacy carriers Mexicana and Aeromexico, which could further discourage private investors from participating in the CINTRA privatization. "This is all very bad news for CINTRA and its carriers," airline expert Michael Roach, of Roach & Sbarra Consulting, told The Dallas Morning News. "They have little asset value, other than slots at the Mexico City airport, and their business models cannot withstand well-financed competition."

Vuela, scheduled to begin operations sometime during the first half of 2006, is expected to compete for domestic air travelers with recently created carrier Click. Click, which began operations this summer, is offering low-cost flights from Mexico City to nine destinations, mostly resorts (see SourceMex, 2005-04-13).

At least three other airlines A Volar, ABC Interject, and Lineas Aereas Mesoamericanas have set up operations in Mexico. Additionally, Brazil's successful Gol Linhas Aereas Inteligentes SA said it plans to form a partnership with Mexican entrepreneur Fernando Chico Pardo to create a discount airline in Mexico. Chico Pardo heads Empresa Promotora de Capitales (PROMECAP).

Still another discount airline, AirMadrid, has announced plans to offer discount fares between Toluca and Madrid, beginning in August. Toluca is not as congested as the Mexico City international airport, yet it is still fairly close to the capital. AirMadrid already offers low-cost flights between Spain and several countries in Central and South America. Those flights will now make a detour in Mexico to pick up passengers, the company said. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on July 28, reported at 10.61 pesos per US$1.00] (Sources: Notimex, 07/05/05; Spanish news service EFE, 07/14/05, 07/26/05; La Cronica de Hoy, The Herald-Mexico City, El Universal, The Dallas Morning News, 07/26/05; El Financiero, 07/06/05, 07/26/05, 07/27/05; Reuters, 07/26/05, 07/27/05; La Jornada, 07/26/05, 07/28/05)

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