Source: South China Morning Post

Date: 28/9/2020

JOB LOSSES INEVITABLE AT CATHAY, C.E.O. HINTS

Airline must match efficiency of rivals, Augustus Tang warns, with analysts speculating its ground support and catering services are most at risk

Danny Lee
danny.lee@scmp.com

Cathay Pacific Airways would move soon to rationalise its operations as part of a restructuring to survive the coronavirus pandemic, with non-core businesses one of its first targets, its CEO said in an interview with the *Post*.

In the biggest hint yet that redundancies were imminent, Augustus Tang Kin-wing said the airline's cost competitiveness and efficiency had to match its rivals in what he called "the new travel industry" already in the throes of shedding thousands of jobs.

The group's two main airlines, Cathay Pacific and Cathay Dragon, declined to apply for a further round of government wage subsidies earlier this month. Soon to be unfettered by the condition it must retain jobs while enjoying such grants, mass lay-offs could happen as early as next month.

"We will have to do some rationalisation of the routes and right-sizing the airline is inevitable," Tang said. "Because of the state of the industry, there is a need for us to take decisive action rapidly."

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> AUGUSTUS TANG, CATHAY C.E.O.

Tang said survival depended on whether the carrier adapted to a post-pandemic era in which fewer people would fly for years, as well as a recovery dictated by the availability of a vaccine.

He declined to reveal which non-core businesses were being reviewed and whether they would be sold. Analysts have suggested its catering and airport services businesses could be under threat.

Tang said Cathay Pacific and Cathay Dragon capacity would stay at around 10 per cent of pre-virus levels towards the end of the year. "When the major source of revenue is down, the passenger revenue is decimated, you've got to look at the cost and look at every aspect to minimise the cost," he said. "So, we will take a look at things that are non-core and the options available."

Singapore Airlines has said it will cut 4,300 jobs, British Airways has shed more than 8,000 jobs and carriers in the United States are poised to lay off thousands.

Morningstar analyst Ivan Su said Cathay's airport ground support and catering businesses could be at risk.

"I think the recapitalisation plan has provided sufficient liquidity for Cathay to survive through much of 2022, but there's no guarantee that the group turns cash-flow positive by then," he said. "For this reason, I think Cathay is considering disposing of noncore assets to raise much needed cash just in case travel recovery comes slower than expected."

Cathay avoided a collapse in June, thanks to a HK$39 billion bailout from shareholders and the government. It lost a record HK$9.87 billion in the first six-months of the year and passenger numbers dropped to 1 per cent of the 100,000 customers it flew daily before the virus.

Since 2016, the group's subsidiaries and associates have generated a combined HK$9.2 billion net profit, while the airlines racked up losses of HK$7.2 billion.

But the pandemic has hit its non-airline businesses hard and Cathay Pacific Catering, which has a two-thirds market share at Hong Kong International Airport, took a HK$526 million impairment charge in the first half.

Hong Kong Airport Services, with a 42 per cent share at the airport, was "adversely affected" according to Cathay's interim report, while its laundry business took a HK$658 million hit.

"With Covid-19 essentially dismantling previous years' of expectations and planning, it makes complete sense to dispose of the assets that no longer align with the airline's present trajectory first and foremost," Luya You, Bocom International transport analyst, said. "Even without a directly stated goal, we've seen airlines and travel companies across the world start offloading non-core assets as liquidity needs remain high."

Last month, Korean Air sold its in-flight catering and duty-free business for US$834 million.

You said it was likely lay-offs would include disposing of unwanted businesses and associated staff on top of redundancies.

The International Air Transport Association said a full recovery to pre-virus levels was not expected until 2024. Tang also said the restoration of passenger capacity and flights was far away.

He said the airline would continue to burn a significant amount of cash – it was losing up to HK$2 billion a month, down from as much as HK$3 billion.

Even if the airline filled half of its flights, You said, it would still lose money, with typical industry break-even load factor at between 60 and 70 per cent per plane.

Tang said unavoidable decisions had to be made.

"We have to take some actions and make sure we can survive and fulfil our obligations and commitments to Hong Kong, and protect as many jobs as possible," he said.

> COVID-19 TESTING CALL A3
> HARRY'S VIEW A10

Augustus Tang says unavoidable decisions loom. Photo: Dickson Lee