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Aeroflot Head Says Slow Sale Best for It

By The Moscow Times

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Russia should not sell a blocking stake in flagship carrier Aeroflot until 2014 or after its planned merger with other state aviation assets, its chief executive said.

Finance Minister Alexei Kudrin said last month that Aeroflot would be added to the state's multibillion-dollar asset disposal plan, designed to cut the budget deficit and attract foreign investment and expertise.

Russia, which has already raised $3.3 billion from the sale of a stake in lender VTB, is hoping for a second windfall from lender Sberbank later this year.

Aeroflot chief executive Vitaly Savelyev said in an interview that the airline should join the back of the line and be allowed to concentrate on integrating new acquisitions.

"The issue of privatization of all companies including Aeroflot is on the agenda. My opinion is that we need to do it," he said.

Aeroflot plans to take over aviation assets from state conglomerate Russian Technologies by year-end, a move that, if successful, could see the airline's market capitalization grow 30 percent to 40 percent, Savelyev said.

The state should wait until the transaction has been completed before selling part of its 51 percent stake, he said.

"If the project is not so successful, because of financial problems with the new assets, Aeroflot may, however, need a year or more to get them in order," he said.

Shares in Aeroflot, in which media tycoon Alexander Lebedev owns a 15 percent stake, were down 1.2 percent by 3 p.m. Moscow time Monday, in line with the broader market. They are 11 percent lower in 2011 to date.

Savelyev said debt to be taken on from Russian Technologies assets would be added to Aeroflot's consolidated borrowings of $1.5 billion — putting pressure on lending terms.

"It is not critical ... but new consolidated debt could lead to more expensive borrowing," he said.

The government had originally thought that the assets could be restructured to create a rival airline to Aeroflot, but it made a swift about turn as part of a new state strategy to create national champions.

Savelyev said the government should cut its stake in stages and keep a small shareholding to show investors that it would continue to help develop the airline.

Savelyev declined to give financial forecasts for 2011, saying Russian airlines could carry 62 million passengers this year, of which the enlarged Aeroflot would carry 20 million.

The company flew 11.3 million passengers last year, when net profit tripled to $253 million.

Savelyev pledged not to raise ticket prices for the rest of 2011, believing that crude oil prices have peaked and will cease to have an upward impact on fuel prices.

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