CEO dealing with SAA challenges, but needs more funding

Not much improvement in the profits of South African Airways (SAA) is expected for the 2017-18 financial year but recently appointed CEO Vuyani Jarana, who took up his post in November, has brought a new drive and energy to the implementation of the national airline's turnaround strategy.

Image via pixabay

The strategy will focus on a reorganisation of the route network, improved efficiencies, and cost-cutting. In 2016-17 SAA had a net loss of R5.6bn.

SAA board member Martin Kingston was full of praise for Jarana, saying on Monday that he had clearly identified the opportunities and challenges that faced the airline and was knuckling down with his team to deal with them.

The long-term turnaround strategy is expected to yield fruit in three years' time, but only on the condition that SAA gets more funding from the state to beef up its weak and overindebted balance sheet.

Recapitalisation of SAA was under discussion

Kingston said the recapitalisation of SAA was under discussion with Finance Minister Nhlanhla Nene and Treasury.

The long-delayed SAA annual meeting is set to take place in the last week of March, which means the financial statements for the 2017-18 year that should have been tabled in Parliament by the end of September will have to be tabled before then. The tabling has been held up because of technical disagreements with the auditor-general.

Jarana said in an interview some headway in stemming losses had been made in the past four months but insisted the turnaround of the airline would require additional funding from the state in addition to the R10bn it received in October 2017.

R10bn helped, but airline still suffering from negative equity

He said the R10bn had helped with the SAA balance sheet but the airline was still suffering from negative equity. By the end of March 2017 SAA's liabilities exceeded its assets by R17.8bn and it currently only managed to continue operating on the basis of R19bn in state guarantees. Jarana said the airline did not have the capacity to take on any more debt.

Among the measures that have been introduced, or are in the offing, to improve profitability are the reduction of two flights a day between London and Johannesburg to one a day from 18 April 2018, the withdrawal from unprofitable Central African routes and the withdrawal of three wide-bodied aircraft from the short-haul domestic market. Four aircraft have been shifted from SAA to Mango so it can take advantage of the strong growth in the lowcost carrier market while SAA focuses on business and a full service offering to customers.

Results of the cost-cutting measures will only become apparent at the end of April.

Source: Business Day