Conquering the Asian Skies

AirAsia continues spreading its wings in Asia, its latest venture being a budget airline for India and a stake in a Filipino carrier.

AirAsia Bhd continues to expand in Asia in sync with its plans to penetrate the continent.

Southeast Asia's largest listed low-cost carrier recently obtained approval from India's Foreign Investment Promotion Board to own a 49% stake in a joint venture to set up AirAsia India.

A few days later, AirAsia's 40% associate, Philippines' AirAsia Inc, announced that it had acquired a 49% stake in Zest Airways, a local carrier in the Philippines.

It was only two months ago that AirAsia Group CEO Tan Sri Tony Fernandes told Malaysian Business that he hoped to enter India within a year. That plan has materialised much earlier than expected.

It is understood that AirAsia will initially invest US$15 million in AirAsia India. The new airline will be based in Chennai and may be launched in the middle of this year.

The other shareholders of AirAsia India are Tata Sons Ltd, with a 30% stake, and Arun Bhatia's investment firm Telestra Tradeplace Pvt Ltd, with 21%.

Fernandes says AirAsia will avoid Delhi and Mumbai airports because of the high airport charges and also because this airports are slot-constrained.

India is one of the four countries Fernandes has been eyeing with regard to AirAsia's expansion in Asia. The others are China, Myanmar and Vietnam.

"I think... maybe a few more countries. It is worth spending time on bigger countries. If I want to fight, I'd rather fight in a big market. It's worth getting into India or China. My time is better spent," he tells Malaysian Business.

Meanwhile, Philippines' AirAsia inked a strategic alliance agreement with Ambassador Alfredo Yao, the majority shareholder of Zest Airways Inc, and Asialwide Airways Inc, in a move that will strengthen its presence in the Philippines. With the strategic alliance, Philippines' AirAsia now owns 49% of local carrier Zest Airways and allow it to fly out of Manila's international airports.

The deal also resulted in Yao holding a 15% stake in Philippines' AirAsia. Zest Air operates from Manila and the central city of Cebu.

It flies to 14 cities in the Philippines as well as 10 international destinations including cities in South Korea, China, Taiwan and Malaysia.

AirAsia currently has operations in five countries, namely Malaysia, Indonesia, Thailand, the Philippines and Japan.

Fernandes says AirAsia has no plans to set up operations in markets such as Singapore, South Korea, Laos, Cambodia and Brunei.

"These markets are not big enough for us (to set up shop in) but we have served them well. We have 15 flights a day to Singapore. We don't need to start a hub there. I've decided against a partnership in South Korea for two reasons: the market in South Korea is not too big and we have spent years fighting too many people there," he says.

Fernandes says competition has been strong since the first day he started the budget airline. Competitors have included Thai International and Malaysia Airlines (MAS).

"We might as well put that kind of effort into a bigger country. What people forget is that we have had competition from day one. We started AirAsia with two planes against MAS' 138. We
"If I want to fight, I’d rather fight in a big market. It’s worth getting into India or China. My time is better spent."

– Fernandes

AirAsia started out as Mofaz Air in 1993. Its shareholders then were government-owned conglomerate DRB-Hicom Bhd and local aviation company Mofaz Air Bhd. It began operations on Nov 18, 1996 domestically and internationally. On Dec 2, 2001, the then newly-formed Tune Air Sdn Bhd purchased DRB-Hicom’s 99.75% stake in the heavily indebted airline.

Tune Air was founded by Fernandes, Datuk Paharin Abdul Rajab, Datuk Kamaruddin Meranun and Datuk Abdul Aziz Abu Baker.

In 2002, AirAsia staged a remarkable turnaround and has since grown rapidly from its early days of operating only two Boeing 737-300s in 2001. Fernandes listed AirAsia on the main market of Bursa Malaysia on Nov 22, 2004.

Fernandes does not see the emergence of new local airline Malindo Airway as a threat to AirAsia. “I don’t lose any sleep over Malindo. I encourage it. With the increasing competition, more people are fighting for airport deals, for airport rights. I don’t have a problem with Indonesian rights because Malindo will also have to fight to ask Indonesia to give more rights to Malaysia.”

“…But Malindo sounds like it’s a MAS-type product. It wants to have a business class and serve food. It wants to start in March. We’ve been competing from day one with Singapore Airlines, MAS, Thai International, Jetstar Airways and Tiger Airways. I’m also competing with Lion Air in Indonesia and we are winning,” he adds.

He hopes that an airline company incorporated in Asean would be allowed to hold the entire equity one day. “If this happens, AirAsia can own 100% in Indonesia, 100% in Thailand and 100% in the Philippines. So, I’m encouraging it.”

“Competition has been good to us as it makes us what we are today,” he says.

Malindo, based at the KL International Airport (KLIA), is a joint venture between Malaysia’s National Aerospace Defence Industries (Nadi) Sdn Bhd and PT Lion Group, parent of Indonesia’s largest domestic carrier Lion Air. Nadi owns 51% of Malindo and PT Lion Group the rest.

Fernandes is also drawing plans for AirAsia X, the long-haul low-fare affiliate of AirAsia Group. He says more destinations will be added and frequencies to certain places increased. “We will continue to grow in Australia, South Korea and Japan. We will look at Adelaide, Busan and Nagoya. Of course, we’ve just started Jeddah,” he says.

AirAsia X is awaiting Securities Commission approval for its prospectus, which was resubmitted with its latest financial performance for the second half of 2012. The listing of AirAsia X is expected to take place after the general election.

Fernandes says the share allocation for the public will be increased to 33%. “I’d like the public to subscribe to the biggest portion of the shares. I put out this idea on Twitter and got a very good response. In the old days, a lot of people bought shares but now the institutions take them, so the public gets a very small allocation,” he says.

“AirAsia is successful because of the people, so why can’t they share the success of AirAsia X’s IPO (initial public offering)?” he says. Fernandes is confident of a successful IPO as “AirAsia X has a good business model”.

AirAsia X recorded strong growth in the fourth quarter of 2012, carrying 670,000 passengers and registering growth of 40.5% year-on-year for continuing routes. In terms of passenger traffic, AirAsia X achieved 3.3 billion revenue-passenger-kilometres (RPKs) for the quarter. Its capacity recorded four billion available-seat-kilometres (ASKs), a level similar to
Behind AirAsia

Pacific Aviation (CAPA), and World’s Best New Airline by Budget World Low Cost Airline Awards.

AirAsia X has carried over eight million passengers since it commenced long-haul operations in 2007.

Fernandes says AirAsia will move to the new low-cost carrier terminal, klia2, when the airport is ready. “We have resolved most of the issues with regard to klia2 with Malaysia Airports Holdings Bhd,” he says. **Malaysian Business**

### HOW THEY STACK UP

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<tr>
<th>AIRLINE</th>
<th>FLEET SIZE</th>
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