



BRAZIL'S AZUL AIRLINE SELLS 24% STAKE TO CHINESE GROUP

News / Airlines



Azul SA received a lifeline as **China's HNA Group Co.** agreed to pay 1.7 billion reais (\$460 million) for a stake in the Brazilian airline.

An uncertain market, a volatile currency and airfares at bargain prices mean Azul has been limited to short-term planning, President Antonoaldo Neves said Tuesday, echoing comments by other Brazilian carriers.

The agreement boosts Azul's cash position to 2.5 billion reais. The real has slumped 29 percent this year, the most among major currencies, increasing dollar-based costs. Meanwhile, growing unemployment and the country's longest recession since the Great Depression are hurting demand for air travel.

"We didn't do a roadshow to attract foreign capital," Neves said in a telephone interview. "If we hadn't met the controlling shareholder at a lunch in Brasilia in May, it might never have happened. It was serendipitous." He said he flew to China in September to begin negotiations.

“We are supercapitalized now, we have no need to raise money over the next years,” Neves said.

HNA will become the biggest individual shareholder of Azul, with a 24 percent stake, and have one seat on the board, the companies said in a statement. Founded by David Neeleman, who also helped create Jetblue Airways Corp., Azul is Brazil’s third-largest airline by market share.

Balance Sheet

The deal values closely held Azul at 7.17 billion reais. Gol Linhas Aereas Inteligentes SA, Brazil’s largest publicly traded airline, has an enterprise value of 8.3 billion reais. Gol’s market value has dropped to 1.23 billion reais as its stock has tumbled 77 percent this year, the second-worst performance in the Ibovespa benchmark index.

Azul plans to use the capital to strengthen its balance sheet, renovate its fleet and reduce debt, the company said by e-mail.

HNA Group, a financial-services-to-tourism conglomerate based on the southern Chinese island of Hainan, owns stakes in a handful of airlines at home and abroad, including Hainan Airlines Co. and Ghana’s AWA Airlines. In July, it agreed to buy airport luggage handler Swissport International Ltd. from PAI Partners SAS for \$2.8 billion.

Azul has postponed its planned initial public offering three times as the Brazilian stock market has slid. The company has considered conducting an IPO of its TudoAzul loyalty plan before making an offering for the carrier itself.

Azul also has postponed plans to fly to New York to no earlier than July, depending on market conditions. With flights to the U.S. hovering around \$400, no one is making money, Neves said. Domestic prices are also too low, he said.

“We need a big adjustment in fares,” Neves said. “They’re still very cheap.”

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