Cathay Pacific announces $5bn in recapitalization financing

By **Mary Jane Pittilla** on June, 9 2020 | Airlines & Airports

Cathay Pacific has announced an HK$39 billion (US$5 billion) recapitalization plan led by the Hong Kong government to help it maintain its competitiveness and operations, while continuing its commitments to Hong Kong as an international aviation, financial and commercial hub.

This three-part plan is designed to provide Cathay Pacific with sufficient funds to withstand the industry-wide downturn, and a stable financial platform from which it will be able to conduct the wholesale review of operations required to transform its business to reflect the new global travel market dynamics.

Cathay Pacific Chairman Patrick Healy said: “We are grateful to the HKSAR Government’s capital support, which allows Cathay Pacific to maintain our operations and continue to contribute to Hong Kong’s international aviation hub status. We are also grateful to our shareholders for their confidence in the long-term future of Cathay Pacific and in the ability of Cathay Pacific’s management team to lead our airlines through what is the most challenging period in the group’s history.”

Cathay Pacific has experienced a number of challenges since 2019. Positive momentum from 2018 drove a strong first-half result in 2019. However, since mid-2019, the social situation in Hong Kong led to a sharp decline in passenger traffic and this challenging environment was exacerbated by the outbreak of the COVID-19 pandemic.

Cash conservation

In a press release, Cathay Pacific said it is even more vulnerable than most of its global airline peers, given that its airlines have no domestic network and are wholly reliant on cross-border travel. That travel remains highly restricted and subject to quarantine constraints, with no prospects for a return to normal international travel arrangements anytime soon.

Cathay Pacific said it has remained focused on cash conservation. It has cut passenger capacity by 97%, implemented executive pay cuts, deferred new aircraft orders and carried out the early retirement of older aircraft, as well as implemented a voluntary special leave scheme, which had an 80% employee uptake.

Healy explained: “Despite all these measures, the collapse in passenger revenue to only around 1% of prior year levels has meant that we have been losing cash at a rate of approximately HK$2.5 billion to HK$3 billion per month since February, and the future remains highly uncertain.”

By the fourth quarter of this year the Cathay Pacific management team will recommend to the board the optimum size and shape of the Cathay Pacific Group to meet the air travel needs of Hong Kong while keeping the company’s financial status at a healthy level, and at the same time meeting our

responsibilities to our shareholders in the coming years.

Healy said: “We are in a very dynamic situation. We need to make the right decisions to adapt to the new reality of global aviation and secure our long-term future. This will require re-evaluating all aspects of our business model in light of the rapidly changing macro and industry dynamics.

“Inevitably this will involve rationalization of future planned capacity compared to our pre-crisis plans, taking into account the market outlook and cost structure at that time.”

Confidence in the future

Cathay Pacific reiterated its commitment to customers and said it had confidence in the long-term future of the airline industry.

Healy said: “Cathay Pacific is built on great service and we remain dedicated to delivering a fantastic experience that our customers enjoy and value. We will continue to maintain this by focusing on our strengths and investing in industry-leading enhancements.

“Tough decisions will need to be made in the fourth quarter of this year to get Cathay Pacific to the right size and shape in which to compete successfully and thrive in this new environment. But once we have right-sized the airlines to adapt to our new reality, our long-term prospects remain as bright as ever, with an outstanding 70-year-old brand, a world-beating premium service offering through Cathay Pacific and Cathay Dragon, together with a newly acquired low-cost carrier in HK Express with a very exciting future, and an unrivaled position in the Greater Bay Area, a region which will be the growth engine for the world economy over the next few decades. Our short-term challenges are significant, but our long-term future remains bright.”