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Abstract	A company profile of Malaysia Airline System Bhd, provider of airline and air cargo services, is presented. An overview of the company is given, along with key facts including contact information, and revenues. A SWOT analysis is provided which includes strengths, weaknesses, opportunities for improvement and threats.

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Malaysia Airline System Berhad

Company Profile

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COMPANY OVERVIEW

Malaysian Airline System is a public limited airline group based in Malaysia. Apart from airline services, the group is also involved in cargo and maintenance services. It has operations in six continents and covers over 100 different locations. The group is headquartered in Kuala Lumpur, Malaysia.

The company recorded revenues of MYR13,171.8* million (approximately \$3,733.7 million) during the fiscal year ended December 2006. The net loss of the company was MYR136.4 million (approximately \$38.7 million) in fiscal year ended December 2006.

* Financial year end has been changed from March to December from the fiscal year 2006.

KEY FACTS

Head Office	Malaysia Airline System Berhad 3rd Floor Administration Building 1 MAS Complex A Sultan Abdul Aziz Shah Airport Subang 47200 Selangor Darul Ehsan MYS
Phone	60 3 7846 3000
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Web Address	http://www.malaysiaairlines.com
Revenue / turnover (MYR Mn)	13,171.8
Financial Year End	December
Kuala Lumpur Ticker	MASM
Singapore Ticker	MASM

SWOT ANALYSIS

Malaysia Airline System (MAS) is Malaysia's national airline. With a fleet strength of over 100 aircrafts, the airline covers almost 104 destinations across the globe. The company has a strong brand image across the globe. The group has been leveraging its strong brand image to win the loyalty of consumers to grow its market share. However, intense competition in the airline industry might affect the group's margin adversely.

Strengths	Weaknesses
Strong brand image Improvement in yield Diversified revenue stream	Low margins Weak cash flows
Opportunities	Threats
Launch of Firefly Expanding passenger traffic in Asia Pacific Increasing cargo traffic	Increasing jet fuel prices Intense competition Foreign currency fluctuation

Strengths

Strong brand recognition

Malaysia Airline has an established brand image in the domestic as well as the international market. With a fleet strength of over 93 aircrafts, the airline covers about 82 destinations across the globe. Malaysia Airline has consistently established high standards of service across its business segments. The group has joined the most exclusive group of world airlines, being ranked as a 5-Star airline by the aviation rating organization, Skytrax, with just four other airlines in the world. The company was honored with the World's Best Cabin Staff Award for 2006.

Apart from the airline operations, the company has also established its presence in the cargo operations. MASkargo won the 'Excellence in Logistics – Air Cargo Services' award from Technology Business Review magazine during 2006. The company has recorded an increase in the number of passengers carried and cargo carried over the past couple of years. The group has been leveraging its strong brand image to win the loyalty of consumers to grow its market share.

Improvement in yield

The group has seen an increase in yield (defined as Revenue per Revenue Passenger Kilometer or RRPK.). For the passenger business, the group implemented two important projects to improve

revenue/yield namely the Route Profitability Project (RPP) and the Revenue Enhancement Project (REP). As a result of this work, the group has improved its yield or Revenue per Revenue Passenger Kilometer (RRPK) by 18% from 20.5 sen/RPK (full year 2005) to 24.2 sen/RPK (full year 2006).

Revenue per Available Seat Kilometer (RASK) has also increased by 14%, which clearly showed that despite a slight reduction in load factors, the yield improvement more than compensated for this load factor reduction. As a result of this yield improvement, the group has witnessed a strong revenue growth in 2006. This increase in RRPK indicates improvement in efficiency of the company.

Diversified revenue stream

The group has a diversified revenue stream owing to its global presence across six continents. In fiscal year 2006, Europe and Middle East; Orient and North America; Asia and Australia and New Zealand accounted for about 25.8%, 20.5%, 16.7% and 12.7% of the total revenues, respectively. As a result, the revenue risks are distributed across its geographies of operation. The risks related to a sudden regional passenger traffic downturn due to a natural disaster or an epidemic or regional political instability can be less damaging. This enables the group to maintain a consistent growth and gives it a competitive edge.

Weaknesses

Low margins

Despite a strong revenue growth, Malaysia Airline has recorded low margins. The group's operating margin has been oscillating between 1.6%-1.9% between 2003 and 2006, well below the industry average. For the trailing twelve month (TTM) period ended March 2007, the company recorded an operating margin of 2%, as compared to the industry average of 5.1%. Moreover, the net profit margin of the company was 2.3% well below the industry average of 4.9% during the same period. The below average margins might adversely affect the group's growth plans and put it at a competitive disadvantage.

Weak cash flows

The group has been reporting negative cash from operations over the past couple of years. Malaysia Airline reported net cash outflows of MYR146.9 million (approximately \$41.6 million) from the operating activities in fiscal 2006. It also recorded negative cash flows of MYR554.6 million (approximately \$157.2 million) during 2005.

Continuous negative cash flows could affect the financial health of the group. Negative cash flows tie the internal cash resources of the group, limiting the liquidity and resources for working capital needs. It also affects the solvency of the group adversely.

Opportunities

Launch of Firefly

During March 2007, Malaysian Airlines secured regulatory approval to launch Firefly, Malaysia's first community airline. Firefly is new low-cost community airline which currently offers 14 weekly flights to Kota Bahru, Kuantan, Kuala Terengganu and Langkawi and seven weekly flights to Phuket and Koh Samui from Penang. It is expected to become profitable by next year end is expected to tap into a potential customer base of 100 million in the Indonesia-Malaysia-Thailand Growth Triangle.

Firefly is also expected to capture the growing leisure travelers market in the north and east coast of the Peninsula and South Thailand, flying from Penang to six destinations that are currently not served by any other airline. It is also the only airline connecting three popular tourist destinations - Penang, Koh Samui and Phuket.

Apart from the opportunity to grow from a new market segment, Firefly will also function as a test-bed for Malaysia Airlines in managing a low-cost operation. Once it is proven successful, the group hopes to adapt Firefly's processes into the operations of the national carrier and expand its customer base further.

Expanding passenger traffic in Asia Pacific

Malaysia Airline has a strong presence in Asia. The company covers several regional destinations and various destinations in China, Japan, India and the Middle East where demand for travel is high.

The demand for air travel to the Asia Pacific is rising which is driven by increased economic activity in emerging Asian countries such as China and India. Traffic is projected to grow at 7% in China and India combined, above the world average of 5%. Further, the share of Asia Pacific region in world passenger traffic (revenue passenger kilometers) is forecast to rise from 25% in 2003 to 31% in 2023. Malaysia Airline already derives more than 15% of its revenues from the Asian region and is well positioned to benefit from increasing air travel to Asia.

Increasing cargo traffic

There has been a rise in cargo traffic in the South East Asian countries. The rise in demand is driven by growth of export related industries particularly agro-based products in Southeast Asian countries. The group has a dedicated cargo carrying subsidiary (MASkargo) and a wide global network in place. Therefore it is well poised to benefit from increasing demand for air cargo services.

Threats

Increasing jet fuel prices

In recent past, the prices of jet fuel have increased sharply, hurting the bottom lines of most airlines. For instance, the prices of jet fuel have increased from \$1.5 per gallon in May 2005 to \$2.1 per gallon

in May 2007, representing an increase of about 40%. Jet fuel accounts for a significant portion of the operating expenditure of airlines. If jet fuel prices reach higher levels, then the margins of these companies will come under pressure.

Intense competition

Malaysia Airlines having global scale of operations faces intense competition from both domestic full fare and low cost airlines. On the international competition front, the group faced stiff competition from both established airlines and new start-up operations. Competition in particular comes from the Middle East, China and India, other low cost airlines and seasonal chartered flights. This competitiveness in the market could create a margin pressures and unstable the group's overall revenues.

Foreign currency fluctuation

As an international airline, the group's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations. The use of foreign currency borrowings and currency derivatives to hedge future operating revenues is the group's strategy to manage the risk of foreign fluctuations. In addition, fluctuations in inflation and interest rates could also have some impact on the exchange rates between two currencies. In spite of risk management strategies, the group remains exposed to foreign currency risk which could lead to decline in top line growth and put pressure on the group's margins.

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