

Air China parent confirms to submit offer to China Eastern within 2 weeks

"CNAC will submit its offer in line with its promise," a company official, who declined to be identified, told XFN-Asia.

CNAC said earlier this week that it will offer at least 5.0 hkd per China Eastern share if the latter's proposed sale of a 24 pct stake to Singapore Airlines (SIA) and Temasek falls through.

State-owned CNAC is unlisted and not bound to follow through on an offer. China Eastern has complained that CNAC never made a formal offer and has never approached management to discuss its proposals directly.

CNAC's statements were sufficient to persuade China Eastern's minority shareholders to yesterday reject SIA's significantly lower bid of 3.80 hkd per share.

Over 77 pct of minority shareholders who attended the vote rejected SIA's bid.

The decision brought about an angry reaction from China Eastern chairman Li Fenghua, who said that the carrier would not consider doing a deal with its rival, Air China. Li said China Eastern's management would continue to work for a deal with SIA, its preferred choice of partner.

Shares in China Eastern were volatile today after analysts warned that CNAC's counterbid will take a long time to process, owing to the differences between the managements of both companies.

China Eastern shares were trading at 6.66 hkd this afternoon after swinging between 6.93 and 6.40 hkd earlier in the day.

Xinhua Index (FXI) said that it will add Air China to its FTSE Xinhua China 25 index, replacing CITIC Pacific.

Shares in Chinese airline operators Air China Ltd and China Eastern Airlines Corp rose in late Monday morning trade on hopes that the mainland's biggest international carrier will contest Singapore Airlines' bid to buy a stake in China Eastern.

Hopes grew on market talk that Air China's chairman, Li Jiexiang, will replace Yang Yuanyuan as the new director of the General Administration of Civil Aviation.

The appointment is expected to put Air China in a better position to quash the Singapore Airlines-Temasek bid to acquire a 24 percent stake in China Eastern, industry watchers said.

"We believe Mr Li will continue to push hard for Air China's M&A with China Eastern in this new role," said Ally Ma, analyst with Citigroup.

"Moreover, his promotion reflects senior government support of Mr Li's strategy of enhancing Chinese airlines' competitiveness through industry consolidation."

Other analysts said Li may not directly interfere with the deal in his position as a regulator but the appointment is seen as negative to investor sentiment on the China Eastern-Singapore Airlines deal.

Air China's parent, China National Aviation Corp (CNAC), a minority shareholder in China Eastern Airlines, recently increased its stake in the smaller carrier to 12 percent from 10.

Earlier CNAC and Air China's partner Cathay Pacific Airways suspended their plan to make a counter bid for China Eastern Airlines under likely pressure from the government, which is interested in forging a better relationship with Singapore authorities through the strategic sale of shares in China Eastern.

Although it has said that it is still deliberating whether to thwart the Singapore Airlines-Temasek bid, CNAC is widely expected to oppose the deal when minority shareholders vote on it on January 8.

Air China and Cathay may try to outbid Singapore Airlines-Temasek's proposal of 3.80 Hong Kong dollars a share for the China Eastern stake, and much more substantial synergies between the three parties could be expected, Citi's Ma said.

Air China's Li has been a proponent of the "super carrier" consolidation plan for Chinese airlines, which will see major carriers pool their resources to fight international competition.

About the Author

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