

Funding still tough for weak airlines despite recovery

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THE recovery in the global aviation industry has generally given airlines better access to funding – but not all carriers are benefiting.

Banks are laying out the red carpet for the big guns and market leaders but weaker players like Philippine Airlines are still having trouble getting loans for expansion, said Mr Bertrand Grabowski, from Germany's **DVB Bank**, a specialist in transport finance.

Mr Grabowski, who is on the bank's board of managing directors, told The Straits Times yesterday: "Liquidity is back, it's abundant but still very selective.

"If you are the Singapore Airlines, Cathay Pacific, Air China or Lufthansa of this world, you would have flocks of bankers willing to lend you money at cheap rates.

"But if you're not in the club or you're looking to finance used aircraft as opposed to new aircraft, it's still very difficult."

While weaker carriers have always found it more challenging to secure funding, the problem has become more pronounced, said Mr Grabowski.

Since the financial crisis, banks that have been "hammered by capital constraints and risk constraints" are reluctant to jump into what they deem risky territory, he said. More state ownership and control of lending institutions have also made the banks more cautious about who they lend to.

How long this imbalance will last is hard to say, Mr Grabowski said.

DVB, which has an aviation portfolio of US\$7.2 billion (S\$9.3 billion) and another US\$450 million of its own money invested in mainly aircraft, has a policy of being prepared to go where others fear to tread, he said.

"When nobody is looking at it, we're looking at it," he said, adding that deals struck with less sought-after carriers generate better margins for the bank.

More critical than the airline's balance sheet is its assets, Mr Grabowski

said. "The first thing I look at is your aircraft because if you default (on payments), I'll take your aircraft and I will be covered. My focus as an asset financier is the aircraft itself."

With growth projected for the aviation industry, there will be plenty of opportunities in the next few years for DVB to expand its business, especially in the Asia-Pacific.

He said: "I would love to be able to double the US\$450 million to close to US\$1 billion within the next two years."

Lending is expected to increase by another US\$2 billion.

At the company level, the aviation business accounts for about a third of DVB's total portfolio. Shipping comprises just over 50 per cent with the land sector the rest, said Mr Wolfgang Driese, chairman and chief executive of the board of managing directors.

Turnover is tipped to have hit a record high last year, busting the €119 million (S\$204 million) benchmark set in 2007. About half of the company's revenue is generated in Europe and 25 per cent in Asia, he said.

Given the strong growth projections for Asia and with Singapore as its regional headquarters, DVB also expects to grow its headcount here, Mr Driese said.

The bank employs about 560 people globally, 60 in Singapore.