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$2.1 billion Asiana Airlines takeover collapses

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A $2.1 billion takeover plan for Asiana Airlines has collapsed

A $2-billion-plus deal for a South Korean property developer to take over lossmaking Asiana Airlines collapsed Friday in the wake of the coronavirus pandemic, with state-owned banks mounting a bailout to try to save 9,000 jobs.

The global travel restrictions imposed to try to control the virus have wreaked havoc on the airline industry, but Asiana was in trouble even before it struck.

In December, a consortium led by HDC Hyundai Development agreed to buy a controlling stake in the airline from its biggest shareholder Kumho Industrial and pump in fresh cash in a deal totalling 2.5 trillion won ($2.1 billion).

But Asiana reported operating losses of 268 billion won in the first six months of this year—with its debts soaring to 11.5 trillion won.

It has cancelled most of its international flights and since April has put all its 9,000 employees on unpaid leave for 15 days a month as it tries desperately to stay airborne.

HDC repeatedly sought to carry out further rounds of due diligence on the airline, in what was widely seen as an attempt to force a price cut.

"Kumho Industrial has notified HDC of the deal termination," Choi Dae-hyun, vice president of Asiana's main creditor Korea Development Bank (KDB), announced Friday.

KDB and another state-owned lender Export-Import Bank of Korea will inject another 2.4 trillion won into the carrier to help keep it flying, he said.

They are expected to become its biggest shareholders and Choi said they would seek a new buyer after restructuring the airline.

But Asiana has already received state cash injections totalling 3.3 trillion won since the beginning of last year.

And Kim Dae-jong, a business professor at Sejong University in Seoul, said it would be hard to find a willing acquirer.

"With Asiana's debt 22 times more than its assets, it will be really difficult for any company to show interest in buying it," he told AFP.

"The government has kept it afloat with rescue funds because it doesn't want to see massive layoffs happening," he said.

"But it can't continue doing that forever," he added, suggesting the best option would be for Asiana to be merged with flag-carrier Korean Air, its biggest rival.

The ambitious chairman of Asiana's original buyer HDC, Chung Mong-gyu, is a nephew of the founder of the giant Hyundai conglomerate—and the President of the Korean Football Association—and when his firm was named the preferred bidder for Asiana he described the acquisition as a "strategic decision".

Questions were raised about the deal even at the time, with the Korea Times speaking of "hope and fears" in an editorial.

"There are concerns about risks arising from the heavy financial burden required to put the reeling airline into the black," it warned.

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