

Japan Airlines up slightly in Tokyo trading debut

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Shares in Japan Airlines Co. gained modestly in their trading debut Wednesday in Tokyo following a 663 billion yen (\$8.5 billion) initial public offering that nearly doubled the money that went into the once-bankrupt carrier's bailout.

The shares were trading at 3,830 yen (\$48.69) by the midday break, up just 1 percent from the 3,790 yen IPO price, after briefly topping 3,900 yen shortly after trading opened.

The carrier, also known as JAL, sold 175 million shares in the IPO at the top of the indicative price range, making its return to the Tokyo Stock Exchange the world's second biggest IPO this year after Facebook.

JAL was delisted after it went bankrupt in 2010. It has since carried out cost cuts and restructured, returning to solid profitability.

The 175 million shares in the IPO were only those held by the Enterprise Turnaround Initiative Corporation of Japan, which is the government-backed entity put in charge of the airline's bailout and restructuring. Its shares in the carrier accounted for 96.5 percent, with the remaining 3.5 percent still held by existing shareholders.

The ETIC put 350 billion yen into JAL's bailout and has now recouped those funds plus about \$4 billion. The bailout also included a 521.5 billion yen (6.4 billion) debt waiver, mainly from financial institutions.

The IPO was oversubscribed, but although pre-debut gray market trading levels reportedly went above 4,000 yen (\$50) a share investor enthusiasm may have been tempered by investors' previous losses and concern that JAL's recovery may not be sustainable given fierce competition from regional carriers.

Once Japan's flagship carrier and a national icon, JAL symbolized the country's economic rise and then its stagnation as it struggled with a bloated workforce, unpopular routes and safety lapses. JAL built its image on a reputation for courteous service and punctuality, but racked up mountains of debt and was forced to apply for bankruptcy.

Kazuo Inamori, one of Japan's most celebrated entrepreneurs as founder of both ceramics maker Kyocera Corp. and mobile carrier KDDI Corp., oversaw the airline's restructuring.

Since its default, JAL has trimmed a third of its payroll, investing in low-cost carriers, retiring its big jets in favor of smaller ones suitable for regional hauls and changing its routes to emphasize international routes rather than sluggish domestic ones.

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The carrier's strong comeback has drawn criticism that the government-backed bailout might have been unfair to its rival carrier in Japan, All Nippon Airways, which made gains when JAL was struggling. In addition to the bailout, JAL is getting giant tax breaks.

Japan Airlines posted a profit 187 billion yen (\$2.4 billion) profit for the fiscal year ended March 2012, an impressive feat considering the battering global carriers have been taking with price competition and surging oil prices.

ANA, in contrast, recorded a 28 billion yen (\$356 million) profit for the fiscal year through March 2012.

The industry remains highly competitive, and JAL still faces challenges as it has not widened its appeal with global flyers. Japanese are also increasingly opting for deals and are no longer as loyal as they used to be to Japanese carriers.

All Japanese carriers face a significant challenge from Chinese rivals who all have lower cost bases, the CAPA - Center for Aviation, said in a recent report.

"Its plan is a solid start, and remarkable when considering the inefficiencies in the carrier at the start of the decade," it said.

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