

PC okays 51pc PIA stake sale

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Islamabad: The Privatisation Commission (PC) board approved the transaction structure to sell a minimum of 51pc stake in Pakistan International Airlines (PIA) after cleansing its balance sheet by transferring almost three-fourths of the Rs825 billion to a new company.

Reconvening on Tuesday (Jan 9), the board by and large endorsed the “legal segregation” of PIA into good and bad PIA and approved the transaction structure, according to privatisation ministry officials. The financial advisors’ report remained incomplete and was submitted without the valuation of the assets.

Breaking from past transparency practices, the PC did not issue a press statement after the board meeting. The board proceedings remained inconclusive a day earlier after at least three members did not attend. Privatisation Minister Fawad Hasan Fawad chaired the board meeting.

The Ernst and Young-led consortium presented the transaction structure of PIA, aiming to sell the majority of its shares and divide the company's assets and liabilities. However, it emerged from the report that the government cannot sell majority stakes to any foreign buyer due to legal obstacles presented by the Pakistan Civil Aviation Authority Act, Air Service Agreements, and National Aviation Policy, according to government sources.

The board endorsed the recommendation to sell at least 51pc stakes, and the solution to the legal obstacle will be that the foreign buyer will have to have a local partner, according to the sources. The financial advisors proposed selling the shares along with management control.

During recent meetings, the privatisation minister indicated that PIA might have to be sold under a government-to-government deal.

The privatisation ministry is receiving extraordinary support to complete the PIA transaction. The interim government has so far facilitated the ministry by promulgating a Presidential Ordinance and approving new rules to transition the entity from the competitive process to a negotiated deal.

However, there is still disagreement between the finance ministry and the privatisation ministry on the fate of the Rs281 billion debt of the banks and the interest rate to be charged on it in case the payments are frozen for a period of five years.

After board approval, the matter will now be presented before the Cabinet Committee on Privatisation, also headed by Fawad Hasan Fawad. After CCOP's approval, the issue will land before the caretaker cabinet.

The advisor's report on PIA -the Avion project - remains incomplete on account of the valuation of the PIA assets, including its local and international routes.

The deadline for completion of the valuation is the third week of January. The sources said that the advisors proposed that the new buyers should have the right to fire employees after one year. There was a suggestion in the board to increase the retrenchment period to three years.

Fawad did not respond to a question whether the employees would become part of the non-core or core assets, and whether the new buyer having management control would retrench employees after three years.

The non-core assets and liabilities will be retained in a holding company, which essentially means that the federal government would be responsible for servicing and repaying the debts, said the sources.

PIA's total liabilities have been estimated at Rs825 billion, and the financial advisors have proposed transferring about three-fourths of it to the federal government, directly or indirectly.

Out of the Rs825 billion total liabilities of PIA, the financial advisors have proposed parking around Rs640 billion in a new holding company, according to the Ministry of Privatisation sources. The money proposed to be parked in the new entity includes the Rs161 billion debt of the federal government and Rs281 billion debt of the commercial banks.

It has also been proposed to transfer Rs140 billion payables of the Pakistan State Oil and the Civil Aviation Authority into the new holding company. PIA's properties and foreign hotels, the Roosevelt Hotel, New York, and Scribe Hotel Paris, are also proposed to be retained in the holding company.

Basic engineering services and international routes would be part of the core assets offered for sale to buyers.

The advisors proposed that about \$88 million should be retained as part of the core assets along with the lease agreements. The financial advisors proposed that the Rs83 billion payments to the lessors of the aircraft should be picked up by the federal government.

They also proposed that Rs64 billion debt of the CAA, Rs69 billion liabilities of PSO, and Rs6 billion tax arrears of the FBR should be separated from the core PIA to be sold to investors.

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