Air Berlin Acquires LTU to Add Long-Haul Destinations

By Susanna Ray

March 27 (Bloomberg) -- Air Berlin Plc, Europe's third- largest discount carrier, said it bought the unprofitable German charter carrier LTU for 140 million euros ($187 million) in cash to begin offering long-haul flights and expand in Germany.

The company said it started an equity and convertible bond issue worth 250 million euros to help finance the LTU purchase. The acquisition includes between 190 million euros and 200 million euros of debt, Chief Executive Officer Joachim Hunold said at a press conference in Berlin today. Combining systems and route networks will help earnings by between 70 million euros and 100 million euros through 2008.

Air Berlin, which began as a small charter carrier 29 years ago, sold shares to the public in May to fund expansion and match market growth. It bought British Airways Plc's former German unit, DBA, in August to gain routes and business travelers and has ordered 120 planes to upgrade and add to its fleet. Low-cost airlines raised their market share in Europe to 24 percent last year from 15 percent in 2005, industry figures show.

``The deal should be very attractive for Air Berlin,'' Michael Benedikt, a Commerzbank analyst in Frankfurt, who is reviewing his ``hold'' recommendation on Air Berlin, wrote in a note to investors today. ``If the DBA integration is the blueprint for the LTU integration, we think additional synergies could be achieved in 2009.''

Issue

The share and convertible bond issue will also help refinance 100 million euros of LTU's debt and 50 million euros of its own debt, the company said in a faxed statement. The issue consists of about 5.9 million shares from a capital increase and 150 million euros in proceeds from the convertible bond.

Commerzbank AG, Deutsche Bank AG and Morgan Stanley Bank AG are managing the equity placement.

Air Berlin shares rose 20 euro cents, or 1.2 percent, to 16.40 euros, the highest price in a month. The stock has fallen 0.6 percent this year, valuing the carrier at 979.8 million euros.

Expanding in Dusseldorf, Germany, where LTU is based, was one of the primary motivations for taking over the charter carrier, Hunold said. About 18 million people live within a 100- kilometer (62-mile) radius of Dusseldorf, he said.

``The catchment area of Dusseldorf airport is the most important market in Germany and the second-most important in Europe, behind London,'' said Hunold, who was LTU's sales chief in the 1980s. The takeover will give Air Berlin access to 380 takeoff and landing slots per week at the airport.

Low-Fare Airline

Ryanair Holdings Plc, Europe's largest discount carrier, is opening its 19th base at Weeze airport, 78 kilometers northwest of Dusseldorf. EasyJet Plc, the region's No. 2 low-fare airline, flies from airports in Dortmund and Cologne-Bonn, which are both in the same state.

Air Berlin has evolved since Germany's 1990 reunification from a charter carrier into an airline with scheduled flights focused on taking northern Europeans to Spain's Mediterranean and Canary Islands for vacations. Its largest base is in Palma de Mallorca. Air Berlin opened a hub at London's Stansted airport in 2005.

The DBA takeover gave Air Berlin a base in Munich, Germany's second-busiest airport.

LTU and Condor, which is owned by Lufthansa and retailer KarstadtQuelle AG's Thomas Cook unit, are the only German charter airlines providing long-haul service. LTU offers 23 routes to North America, Africa and Asia, mainly from Dusseldorf and Munich, which Air Berlin plans to keep, Chief Financial Officer Ulf Huettmeyer said at the news conference.

Regional Routes

``The LTU acquisition is a good strategic fit with the existing Air Berlin business model,'' said Christopher Kummer, the director of the Institute of Mergers, Acquisitions and Alliances at Webster University in Vienna. ``The long-distance business is probably not a growth option that Air Berlin should pursue.''

Most discount carriers, including Ryanair and EasyJet, only operate regional routes, allowing them to turn planes around more quickly and fly more passengers. Air Berlin plans to keep LTU as a separate long-haul brand, Hunold said.

``Now with LTU, we'll have a feeder network,'' he said. ``We're developing into something between a low-cost carrier and a network carrier, a sort of hybrid.''

Hans Rudolf Woehrl, a German businessman who controlled 55 percent of LTU, bought DBA from British Airways for 1 euro in 2003. He reorganized the carrier, focusing on business travelers and cutting costs to help the airline achieve its first-ever profit before selling it to Air Berlin last year. LTU's loss was less than 15 million euros last year, and the company expects a profit this year, Woehrl said today.

Merging

Air Berlin said it will offer joint flights with Condor, canceling a code-sharing agreement with the TUIFly short-haul charter airline of TUI AG, Europe's biggest travel company. Air Berlin also said it plans to buy 49 percent of Belair Airlines AG to expand in Switzerland.

LTU said March 1 it was considering cutting costs by merging with Condor. Woehrl said today he decided to sell LTU to Air Berlin instead because it's a smaller, more flexible company able to react more quickly to the offer.

Proceeds from the sale of new shares and bonds will be used to pay down about 100 million euros of LTU's debt and 50 million euros of Air Berlin's debt, the carrier said.

Earnings before interest and tax as a proportion of sales will rise to between 6 percent and 7 percent of sales this year from last year's 4.1 percent margin, or about 110 million euros to 120 million euros, Huettmeyer said.

Acquisition

Analysts have expected Air Berlin to raise 2007 Ebit to 131.4 million euros from 64.1 million euros last year, according to the average of 11 estimates compiled by Bloomberg.

Sales in 2006 rose 30 percent to 1.57 billion euros, helped by the DBA acquisition, the Berlin-based company said, reiterating preliminary figures published in February. Revenue in 2007 will be between 2.1 billion euros and 2.2 billion euros.

Net income last year totaled 50.1 million euros versus a 115.9 million-euro loss a year earlier. Profit was helped by a net tax gain of 4.9 million euros, after a 49 million-euro burden in 2005, because of a change in the law governing corporate tax credits. Measures to hedge against currency shifts also helped improve earnings, Huettmeyer said.

Net income will rise this year through cost cuts and higher fares, he said, declining to specify figures.

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