Cathay Pacific to buy budget airline HK Express for $628 mn

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Hong Kong Express is the city's sole budget carrier

Hong Kong flag carrier Cathay Pacific said on Wednesday it will buy budget airline HK Express for more than US$600 million as it moves to counter competition from the increasing number of low-cost carriers in the region.

The move is its first foray into the budget sector and will leave Cathay controlling three of the four airlines at one of Asia's busiest airports at a time of huge growth in the region's air industry.

It comes weeks after the carrier said it had swung back into the black in 2018 following two years of losses and will help ease concerns after an embarrassing data breach that dented the firm's reputation and could prove costly.

"HK Express captures a unique market segment," Cathay said in a statement. "This represents an attractive and practical way for the Cathay Group to support the long-term development and growth of our aviation business and to enhance the competitiveness of the Hong Kong hub during a time of intense regional competition."

Cathay will stump up HK$4.93 billion (US$628.15 million) for the airline in a deal that is expected to be completed by December, according to a filing announcement.

The firm said it will continue to operate HK Express as a "standalone airline using the low-cost carrier business model".

"The transaction is expected to generate synergies as the businesses and business models of Cathay Pacific and HKE are largely complementary," it added.

Cathay shares rose almost three percent after the announcement but later retreated to end the day almost 2.5 percent lower at HK$13.34.

HK Express is the city's sole budget carrier—a sector that premium-focused Cathay has struggled to compete against despite rivals such as

Singapore Airlines making inroads years ago.

'Goodbye to its worst time'

But analyst Dickie Wong of Kingston Securities said it is now rectifying its "shortcoming".

"I think Cathay has said goodbye to its worst time when it lost money from fuel-hedging contracts, faced an unclear business outlook and competition with budget airlines," he added.

Wong said the falling share price was "just a normal pullback after a recent gain".

HK Express is owned by HNA Group, a struggling Chinese conglomerate that has been looking to lower its debt pile. The group also owns Hong Kong Airlines, another Cathay competitor that has found itself in financial difficulties in recent months.

HK Express flies to several regional cities including in Japan, South Korea, mainland China, Thailand and Vietnam.

Cathay has been overhauling its business after posting its first losses for eight years in 2016, firing more than 600 workers and paring overseas offices and crew stations as it faces stiff competition from budget rivals in China.

It has also added international routes and better on-board services in a bid to compete with well-heeled Middle Eastern long-distance carriers.

The overhaul appears to have paid off. Earlier this month Cathay Pacific announced a net profit of HK$2.35 billion last year, ending two successive annual losses.

However, chairman John Slosar raised concerns about the strength of the US dollar, geopolitical uncertainty and global trade tensions, which he said could dampen passenger and cargo demand in the coming year.

It is also potentially facing a big bill after admitting in October to a massive data breach five months after hackers made off with the information of 9.4 million customers, including some passport numbers and credit card details.

UK-based law firm SPG Law has already launched a group action against the carrier over the breach to help customers seek compensation.