



Planes of Lufthansa airline stand on tarmac in Frankfurt airport. Kai Pfaffenbach / Reuters

Aviation deals likely to sit and wait out Europe's terror turbulence

Shereen El Gazzar

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The string of terror attacks across Europe will put the brakes on the recent rise in mergers and acquisitions in the continent's aviation sector.

Earlier, it appeared that airlines had regained their appetite for deals. Lufthansa's ambitions to expand its Eurowings subsidiary, Alitalia eyeing a stake in Air Malta and Qatar Airways' investments in both the Italian carrier Meridiana and IAG – the parent of British Airways and Iberia – pointed to renewed confidence in the outlook for the industry.

But after attacks such as the massacre in Nice, combined with the failed coup attempt in Turkey and Britain's vote to exit the European Union, investors are likely to hold off on any further deals until stability returns, analysts say.

"Anyone who is willing to invest in Europe now is very brave," says Addison Schonland, a founder and partner of Airlinsight, a US aviation consultancy. "Brexit is just another weird thing like the Turkey coup – so much crazy stuff at the moment. I think smart money waits for more dust to settle."

Before the bombings at Brussels airport in April, Lufthansa had, for example, been weighing a deeper collaboration between Eurowings and Brussels Airlines, in which the German carrier already has an interest.

"We have agreed with Brussels Airlines to give ourselves a further three months to conclude our negotiations on the acquisition terms and devise the migration concept required," said the Lufthansa chief executive Carsten Spohr after the attacks.

And on July 20, Lufthansa trimmed its ambitions further, saying that the chilling effect of terror attacks means the airline's operating profit will fall rather than rise this year.

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Last week, the budget carrier easyJet warned that airlines are facing one of their most challenging periods because of security issues in Europe and the Brexit uncertainty.

Europe's largest discount airline Ryanair surprised investors on Monday by reiterating its fiscal 2017 profit forecast of between €1.38 billion (Dh5.62bn) and €1.43bn. But it warned that its targets may come under pressure following the Brexit vote and as the effect of the terrorist attacks hits demand.

According to the International Air Transport Association, European international traffic grew by 2.1 per cent year-on-year in May. The association cautioned that uncertainty in the post-Brexit world is likely to hit the continent the hardest in the coming months.

Longer-term, Peter Morris, the chief economist at the UK aviation consultancy Ascend, says that further M&A would be constrained by ownership limits that negatively impact non-EU investors in the continent.

"The history of success has been patchy, and the best targets have probably gone. So my feeling is that caution will be the order of the day, unless there is a real bargain at hand," Mr Morris says.

Analysts say that as national security takes centre stage, airlines' rivalry will not be a priority as in the previous couple of years. The mood has changed from two years ago. In 2014, prompted by criticism from Lufthansa and Air France-KLM, the European Commission looked into Etihad Airways' investments in European carriers such as airberlin. Etihad has also had to fight a court battle in Germany to uphold the legality of some of its code-shares with airberlin.

"Mrs Merkel's government is far more involved with the train terror event and trying to prevent the next one," says AirInsight's Mr Schonland. "Elections are coming and terror will be a key item that voters will be concerned with. The airline fracas is not on anyone's political radar at the moment."

Reports in German media this month said that Lufthansa was looking at taking over some of airberlin's aircraft and routes and operating them under the Eurowings banner in what might be a win-win for both sides. Such a move would allow airberlin to focus on its more profitable operations while giving Lufthansa a boost against its non-German competitors easyJet and Ryanair.

selgazzar@thenational.ae

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