

Brazil's Azul mulls IPO amid consolidation crosswinds [Updated]

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[Adds analyst comments after 3rd paragraph and throughout.]

Azul, the Brazilian low-cost carrier created by JetBlue founder Neeleman, is preparing an IPO next year, daily *Vaio* *Economia* Tuesday.

Azul, Brazil's third largest domestic carrier with about 8 per cent traffic in May 2011, hired Goldman Sachs, Itaú BBA, Morgan Stanley and Santander to manage the offering, the paper said.



Source: Azul Linhas Aéreas

The move comes amid growing consolidation in Brazil's domestic air travel market. Azul is the only one of the top five carriers not involved in merger deals.

"There isn't much more room for consolidation left in the sector, because most of the most attractive companies have already been bought," Christian Majczak, a partner at the GO4! consultancy told *FT Tilt*.

Earlier this year Azul's rival, number four carrier Webjet, also drew up plans for an IPO, but ended up [pulling the deal in late May](#) citing **unfavorable market conditions**. Last Friday, the company was [bought by No.2 airline Gol](#), which will absorb all of Webjet's routes and [retire the brand](#). Once that done, Gol will command about 40 per cent of the market, according to data from Brazil's commercial aviation regulator ANAC.

Meanwhile TAM, which leads the domestic market with 44.4 per cent, [has been in talks since March](#) on a strategic alliance with low-cost carrier TRIP, which controls 3 per cent of the intra-Brazil market.

If the Gol-Webjet deal is approved by Brazil's antitrust regulator Cade -- and if TAM can ink a viable deal with TRIP -- **TAM and Gol together would**

control 88 per cent of the domestic market, according to ANAC.

The two market leaders appear set to battle for every last percentage of market share ahead of the World Cup in 2014 and the Olympic Games in 2016.

Looking abroad for new opportunities

However, logistical limitations imposed by Brazil's badly inadequate airport infrastructure mean that the most promising opportunities for growth may actually lie outside the country, said Majczak.

"With all the **infrastructure problems** in Brazil, and the lack of new routes or companies to buy, it's natural that companies will look abroad to expand, he said.

TAM, for its part, is already betting on international opportunities. The company is still awaiting antitrust approval of its \$4.1bn merger with Chilean LAN, which would create Latin America's leading carrier, and one of the largest in the world.

TAM is also betting on Asian air travel growth -- on Monday the company opened a **commercial office in Beijing** to market directly to Chinese air travelers.

Foreign airlines are also looking at Brazil, particularly since the government announced plans earlier this year to raise the cap on foreign investment in domestic airlines to as much as 49 per cent of equity.

If that happens, Azul could emerge as a choice target for acquisition, says Respício Espírito Santo, of the polytechnic school at the Federal University of Rio de Janeiro.

"I think it's more likely that Azul will stay independent and conduct the IPO than that it would be acquired by some other company," he told *FT Tilt*. The wildcards here could be Lufthansa, or one of the **Arab or Chinese groups**."