

# Singapore Airlines: In Talks to Invest in Jeju Air

[Thecasesolutions.com](http://Thecasesolutions.com)



# **Singapore Airlines: In Talks to Invest in Jeju Air**

**[Thecasesolutions.com](http://Thecasesolutions.com)**

# Singapore Air

- Incorporated May 1, 1947
- Formed from Malayan Airways Limited
- By 2015 SIA was in more than 60 cities and 30 countries.
- Wholly owned full-service SilkAir, managed short-haul mkt
- SIA offered low-cost options through Tigerair, Scott and Virgin Australia

**Thecasesolutions.com**



## SIA Recent Investment

# Thecasesolutions.com

- 2013 SIA entered joint venture with India's Tata Sons
- Venture set up TATA-SIA airlines limited.
- TATA held 51%. • Seed capital was \$100million.
- Vistara commenced operations on January 9, 2015 as premium full-service carrier.



Under Consideration

### Thecasesolutions.com

- Purchase Inje Air
- Benefits: Increase SIA's exposure to high-growth regions.
- Industry experts said potential for low-cost carriers in North-east Asia was vast.



© 2015  
Thecasesolutions.com  
All rights reserved.

Under Consideration

# Thecasesolutions.com

- Purchase Jeju Air
- Benefits: increase SIA's exposure to high-growth regions.
- Industry experts said potential for low-cost carriers in North-east Asia was vast.



Jeju Air

Thecasesolutions.com

- Began operations in June 2006
- 81% owned by Askyung Group and Jeju provincial government 4.54%
- Offered domestic services between the South Korean island of Jeju and the South Korean Mainland.
- Became South Korea's third largest airline.
- 18 Boeing 737's serving China, Guam, Hong Kong, Japan, Korea, Northern Mariana Islands, Philippines, Taiwan, Thailand and Vietnam.
- Goal to triple sales by 2020

# Jeju Air

## Thecasesolutions.com

- Began operations in June 2006
- 81% owned by Aekyung Group and Jeju provincial government 4.54%
- Offered domestic services between the South Korean island of Jeju and the South Korean Mainland.
- Became South Korea's third largest airline.
- 18 Boeing 737s serving China, Guam, Hong Kong, Japan, Korea, Northern Mariana Islands, Philippines, Taiwan, Thailand and Vietnam.
- Goal to triple sales by 2020

Jeju IPO

**Thecasesolutions.com**

- IPO was delayed until fourth quarter of the year.
- Plan was to raise \$176 Million to grow China business
- Also 5 year plan to acquire wide body aircraft



## Jeju IPO

# Thecasesolutions.com

- IPO was delayed until fourth quarter of the year.
- Plan was to raise \$176 Million to grow China business
- Also 5 year plan to acquire wide body aircraft



Photo Copyright © Wong Chi Lam

PLANESPOTTERS.NET



# 1. Compute the Unlevered Beta for LLC Industry

Thecasesolutions.com

					1				
	<u>total equity</u>	<u>total debt</u>	<u>total</u>	<u>Ws</u>	<u>Wd</u>	<u>beta</u>	<u>weight</u>		
Airasia	6261.69	11757	\$ 18,019	35%	65%	1.79	73.70%	1.32	
Asiana	1742.25	3186.95	\$ 4,929	35%	65%	0.7	20.16%	0.14	
Cebu	52.2	40.24	\$ 92	56%	44%	0.89	0.38%	0.00	
Easyjet	7.06	1.555	\$ 9	82%	18%	0.88	0.04%	0.00	
Ryanair	14.649	3.95	\$ 19	79%	21%	0.6	0.08%	0.00	
Southwest	31.24	5.05	\$ 36	86%	14%	0.43	0.15%	0.00	
Tiger	431.85	908	\$ 1,340	32%	68%	1.52	5.48%	0.08	
Virgin	1.82	4.34	\$ 6	30%	70%	1.25	0.03%	0.00	
			\$ 24,450					1.55 Beta industry	



ASSUMPTION	
Airplane Growth	35%
Operating Costs Rate	70%
Depreciation	7,000
Long term Growth Rate	5%
Discount Rate	8%
Original NPV	\$241,152,666.71
Best Case NPV	\$406,539,763.25

Worst Case	
ASSUMPTION	
Airplane Growth	20%
Operating Costs Rate	95%
Depreciation	1500
Long term Growth Rate	0%
Discount Rate	12%
Original NPV	\$241,152,666.71
Worst Case NPV	\$161,510,391.64

Southwest 8.6  
Air Asia 8.0

For Asiana, Tiger Air, and Virgin Australia ratio value since their profits are negative

## 2. Compute Weighted Average Cost Of Capital

# Thecasesolutions.com

A) Relever the Beta  
to add debt.  
 $B \times (1 + (1 - t) \times D/E)$

$$= 1.55 \times (1 + (1 - 0.2477) \times 0.011)$$

B)  
MRP 5.7498  
RF 1.5210  
B 1.5628  
CAPM = RF + B(MRP) 10.50678792

WACC

$$WACC = \frac{D}{D+E} \times r_D + \frac{E}{D+E} \times r_E$$

$$WACC = 0.11(1 - 0.242) \times 0.059 + (0.9090) \times 10.507$$

$$WACC = 10.042$$

Assumptions	
1. Airplane Growth	
2. Operating Costs Rate	
3. Depreciation	
4. Long term Growth Rate	
5. Discount Rate	
6. Original NPV	
7. Best Case NPV	
8. Worst Case NPV	

# Beta