Singapore Airlines: In Talks to Invest in Jeju Air

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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

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

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• 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

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- Began operations in June 2006
- 81% owned by Aekyung Group and Jeju provincial government 4.54%
- Offered domestic services between the Southe 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 Marianna Islands, Philippines, Taiwan, Thailand and Vietnam.
- Goal to triple sales by 2020

Jeju IPO
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- IPO was delayed until fourth quarter of the year.
- Plan was to raise $175 Million to grow China business.
- Also 5 year plan to acquire wide body aircraft.
Jeju IPO

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- Plan was to raise $176 Million to grow China business
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1. Compute the Unlevered Beta for LLC Industry

<table>
<thead>
<tr>
<th>Company</th>
<th>Total Equity</th>
<th>Total Debt</th>
<th>Total</th>
<th>Ws</th>
<th>Wd</th>
<th>Beta</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airasia</td>
<td>6261.69</td>
<td>11757</td>
<td>$18,019</td>
<td>35%</td>
<td>65%</td>
<td>1.79</td>
<td>73.70%</td>
</tr>
<tr>
<td>Asiana</td>
<td>1742.25</td>
<td>3186.95</td>
<td>$4,929</td>
<td>35%</td>
<td>65%</td>
<td>0.7</td>
<td>20.16%</td>
</tr>
<tr>
<td>Cebu</td>
<td>52.2</td>
<td>40.24</td>
<td>$92</td>
<td>56%</td>
<td>44%</td>
<td>0.89</td>
<td>0.38%</td>
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<tr>
<td>Easyjet</td>
<td>7.06</td>
<td>1.555</td>
<td>$9</td>
<td>82%</td>
<td>18%</td>
<td>0.88</td>
<td>0.04%</td>
</tr>
<tr>
<td>Ryanair</td>
<td>14.649</td>
<td>3.95</td>
<td>$19</td>
<td>79%</td>
<td>21%</td>
<td>0.6</td>
<td>0.08%</td>
</tr>
<tr>
<td>Southwest</td>
<td>31.24</td>
<td>5.05</td>
<td>$36</td>
<td>86%</td>
<td>14%</td>
<td>0.43</td>
<td>0.15%</td>
</tr>
<tr>
<td>Tiger</td>
<td>431.85</td>
<td>908</td>
<td>$1,340</td>
<td>32%</td>
<td>68%</td>
<td>1.52</td>
<td>5.48%</td>
</tr>
<tr>
<td>Virgin</td>
<td>1.82</td>
<td>4.34</td>
<td>$6</td>
<td>30%</td>
<td>70%</td>
<td>1.25</td>
<td>0.03%</td>
</tr>
</tbody>
</table>

Total: $24,450

1.55 Beta Industry
2. Compute Weighted Average Cost Of Capital

A) Relever the Beta to add debt.
Bx(1+(1-t)xD/E

=1.55*(1+(1-0.2477)*0.011)

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