

## Easy Takings for Private Equity

**F**OR YEARS, the standard playbook of aviation finance treated direct equity investment in airlines as an unhedged gamble. The consensus was straightforward: Private Equity (PE) firms could safely finance aircraft leases or fund MRO infrastructure, but they should not touch the volatile, low-margin, grubby business of actually flying passengers.

In general, when PE invested in airlines, it was as vulture capital: stepping into the wreckage of a bankruptcy to wipe out existing shareholders, clean up the balance sheet, and engineer a swift exit.

There are important aviation specialist exceptions: David Bonderman's TPG was a strong supporter of Ryanair; Bill Franke's Indigo Partners built an incubator of a family of ULCC airlines and remains heavily invested in Wizz, Frontier, jetSmart and Volaris. The latter's buying power was able to secure a long pipeline of A320s at advantageous rates, parcelling the deliveries to its ULCC carriers wherever the regional returns made most commercial sense.

Is that old PE consensus disappearing? The recent hostile takeover battle for easyJet by Apollo and Castlake may suggest a change in the way private institutional capital views commercial aviation. PE is perhaps no longer merely waiting in the corridors of the bankruptcy courts to rescue distressed carriers such as Virgin Australia, Aeroméxico or SAS, and make a quick buck; nor keeping charter carriers like Condor on government-backed life support. The bid for easyJet represents an aggressive targeting of a top-tier,

stable and profitable listed carrier; and a relatively longer investment horizon.

### Vulture financing

Castlake's previous foray into airline operations followed the vulture approach — rush in with bags of money, clean the asset and flip for a healthy return. In late 2023, SAS entered into a \$1.2bn investment agreement to exit its complex Chapter 11 and Swedish restructuring processes. Castlake had \$500m in DIP funding and took the lead with a 32% equity stake at the head of a consortium that included the Danish State (26.4%), Air France-KLM (19.9%) and

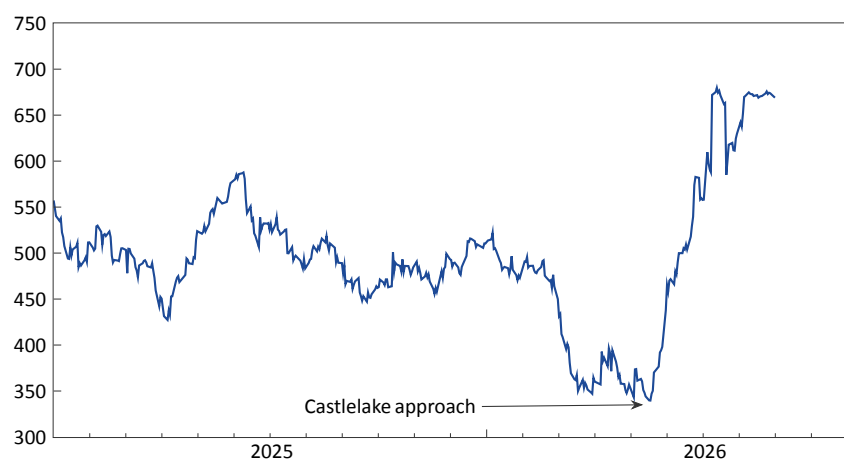
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Lind Invest (8.6%). Air France-KLM plans to acquire Castlake's and Lind Invest's shares (subject to regulatory approval) by the end of 2026.

Apollo had followed a similar route with its involvement with Aeroméxico. When the pandemic forced the Mexican flag carrier into

### EASYJET SHARE PRICE PERFORMANCE



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Chapter 11 protection in 2020, Apollo stepped in providing \$1bn in DIP loan financing. This senior position allowed them to dictate terms during the restructuring, effectively wiping out existing equity holders while renegotiating expensive widebody fleet leases and labour contracts. Aeroméxico exited Chapter 11 in 2022 a leaner and more efficient airline, refocused on booming US-Mexico nearshoring traffic; and profitable (see *Aviation Strategy*, May 2026). Apollo exited through a \$2.8bn flotation on the New York Stock Exchange.

In Australia, Bain Capital took a modified approach. In 2020 Bain acquired Virgin Australia out of voluntary administration during the pandemic for A\$3.5bn. It delisted the airline and, not bothered by the constraints of quarterly reporting, were able to make serious restructuring decisions. Long haul operations were eliminated, workforce cut, and the fleet was simplified to a single aircraft type of 737s. After setting up an alliance with Qatar Airways (cemented by a 23% equity stake), Virgin Australia was relisted in 2025 through a A\$2.3bn flotation on Sydney. But Bain retains around 40% of the equity, looking to raise its returns from long term equity growth.

### Re-engineering financing

Apollo acquired Sun Country Airlines in 2017. At the time it was a small full-service carrier that had been through several periods of bankruptcy protection since its founding by ex-Braniff pilots in 1982. Apollo parachuted in Jude Bricker as CEO, previously COO at Allegiant, who proceeded to transform the carrier into a ULCC. Antoine Munfakh, head of private equity North America at Apollo, is quoted by *PE Hub* as saying: “We had this

vision that we could fundamentally flip the business model on its head”. That vision, somewhat unusual for a ULCC, also seems to have included cargo flights — the long term business contracts for freight operations were deemed a good counterbalance to the seasonality and volatility of passenger transport. In 2019 Amazon acquired a minority stake in Sun Country from Apollo and signed a 10-year contract with the airline to provide cargo flights for Amazon Air.

Sun Country came to the public markets in 2021 in a \$1.3bn IPO. Apollo had sold down its remaining stake gradually over the next four years. During its ownership Sun Country had doubled in size: passenger numbers rising to 4.5mn from 2.5mn and revenues from \$560mn to \$1.1bn; and it was profitable. It has just been bought out by Allegiant for c\$1.5bn.

*PE Hub* mentions that Apollo considered that a major lesson it had learnt from Sun Country was how underappreciated the cargo segment is in the aviation industry. Munfakh again: “We learned that the markets value a passenger airline very similarly to a cargo airline, but the businesses have totally different characteristics. In a passenger airline, individual consumers are buying tickets every day. In a cargo airline, you may have 10-year contracts with annual pricing escalators and minimum volume guarantees.”

### Taking on a Titan

In 2022, Apollo led a consortium of investors to acquire Atlas Air Worldwide — the world’s largest operator of 747 freighters — for \$5.2bn in cash. Delisted from the NYSE, its operations since then have been conveniently hidden from view. Apollo states: “By repositioning the

## SELECT RECENT PRIVATE EQUITY AIRLINE DEALS

| Target                            | easyJet                                      | SAS                                             | Condor                                                       | Aeroméxico                                    | Sun Country Airlines                                     | Atlas Air Worldwide                                         |
|-----------------------------------|----------------------------------------------|-------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------|----------------------------------------------------------|-------------------------------------------------------------|
| <i>PE Suitor</i>                  | Apollo Global Management vs. Castlake        | Castlake (with consortium)                      | Attestor Capital                                             | Apollo Global Management                      | Apollo Global Management                                 | Apollo Global Management (with consortium)                  |
| <i>Transaction Type</i>           | Public-to-Private Takeover Battle            | Chapter 11 Reorganisation Exit                  | Distressed Rescue to Full Buyout                             | Chapter 11 Reorganisation Exit                | Private Mid-Market Acquisition                           | Public-to-Private Takeover                                  |
| <i>Deal Value</i>                 | £5.7bn (Apollo's agreed bid)                 | \$1.17bn total investment                       | €450mn total initial capital                                 | \$2.56bn exit valuation                       | Undisclosed initial buy; \$2bn IPO valuation             | \$5.2bn Enterprise Value                                    |
| <i>PE Target Stake</i>            | 100% full buyout intended                    | 32% majority share within consortium            | 100% full ownership (49% buyout in 2026)                     | Senior Debt-to-Equity conversion stake        | 100% initial buyout; trimmed over time                   | 100% full buyout (Delisted from NASDAQ)                     |
| <i>Airline Financial State</i>    | Solvent, listed, volatile because of macro   | Operational bankruptcy / Chapter 11             | Post-Thomas Cook collapse / State loan                       | Pandemic-driven Chapter 11 bankruptcy         | Privately held, low-margin leisure carrier               | Solvent, public, dominant macro cargo provider              |
| <i>Strategic Partners</i>         | Consortia with domestic/EU citizens          | Air France-KLM & Danish State                   | Seeking future strategic airline partner                     | Delta Air Lines                               | Amazon Air (Minority stakeholder in 2019)                | J.F. Lehman & Co. and Hill City Capital                     |
| <i>Core Value Driver / Asset</i>  | Secured narrowbody order book & tier-1 slots | Hub restructuring and SkyTeam transition        | Fleet modernization (A330-900) & leisure routes              | Prime North America routes and US-Mexico hubs | Scheduled leisure flying + Amazon ACMI cargo network     | Global airfreight infrastructure, Boeing 747/777 freighters |
| <i>Regulatory / Exit Playbook</i> | Complex EU ownership cap compliance required | Castlake exited early to Air France-KLM in 2025 | Repaid KfW state loan early; exit via strategic partner sale | Monetised through a \$2.8bn NYSE IPO listing  | Fully exited in Feb 2025 via 2021 IPO + secondary blocks | Targeted for a \$12bn monetisation sale                     |

company in the market and enabling reinvestment in the business, Apollo helped Atlas Air expand its capabilities, enhance its services, and solidify its role as a global leader in aviation logistics."

Ignoring the traditional PE waffle, what Apollo did was to refocus the business on pursuing long term ACMI contracts with major shipping and logistics companies and away from the more volatile spot markets.

This is intended to give the message to any future buyer that the business model represents a predictable utility in vital infrastructure. They also recently acquired a 49% stake in fellow-ACMI operator the Air Atlanta Group, in the process acquiring its 14 widebody freighters.

And in March Atlas Air Worldwide announced its largest new aircraft order: 20 A350F aircraft (plus 20 op-

tions) for delivery from 2029.

Apollo is reputed to be looking for exit options with a touted enterprise value of \$12bn.

### Battle for easyJet

Wars have many side effects. The decision President Trump to wage a short war against Iran in February sent oil prices soaring, and airline share prices plummeting. easyJet's shares, which had traded around 500p for most of 2025 slumped by 30% to 350p.

Castlake smelled a valuation anomaly (maybe they had read the article in Aviation Strategy, Sep/Oct 2025) and put forward a series of offers to acquire the company at 560p per share, 600p and then 625p. All were rejected by the easyJet board for undervaluing the company.

The US investment firm then had

to go public under the LSE takeover rules in June with a formal 625p per share offer, valuing the group at £4.7bn.

It had partnered with EU nationals and airline stalwarts Peter Bellew and Mark Breen to satisfy European ownership and control rules (see below). In early July, the group reached an agreement in principle with easyJet for an offer at 690p/share valuing the group at £5.5bn.

Apollo then flung its oar into the millrace with a superior cash proposal at 715p/share (£5.7bn) and secured unanimous recommendation from the easyJet board.

It shrewdly averred that it would continue with easyJet's existing plans and strategy; and crucially it had received Stelios Haji-loannou's approval for the deal.

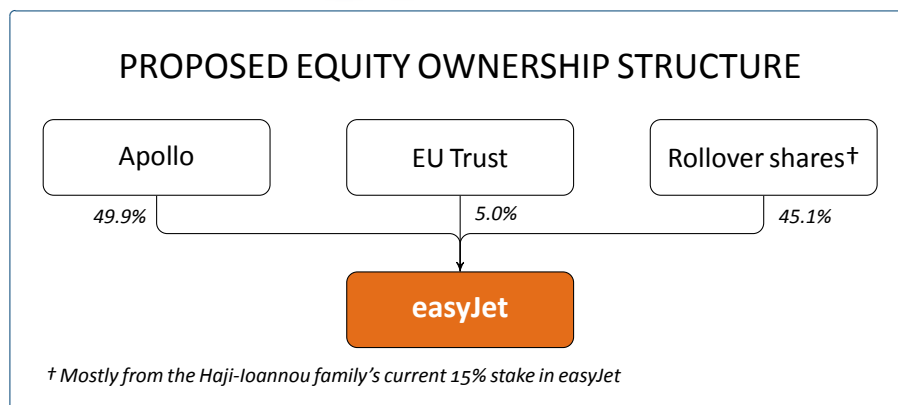
## What was so attractive?

EasyJet's market capitalisation in May had been depressed by geopolitical events to sit at £2.6bn. The stock market had also been concerned about medium term cash flow as it entered a period of high capital expenditure: it was planning to increase the book value of assets owned on its balance sheet by 60% by the end of Sept 2028 to nearly £7.5bn.

The airline is the fifth largest in Europe by the total number of passengers carried (the second largest in terms of intra-European capacity and traffic), and sits in a sweet "hybrid" spot between the ULCC point-to-point models accessing secondary and tertiary airports and the network legacy carriers flying into primary gateways. Operating over 1,000 routes across 35 countries it holds dominant positions and strong market shares at key European airports — London Gatwick, Paris CDG, Milan Malpensa, Amsterdam and Geneva. It has strong brand recognition throughout the major European markets.

Castlelake (aided by the experience of its leasing arm) clearly saw value in the fleet. A third of easyJet's 374 A320 family aircraft are fully owned and, in a market constrained by supply chain problems, could themselves be worth £4.4bn. In addition the company has orders for 280 A321 and A320neos. These will have been negotiated at very good prices and, on a rough back of the aircraft calculation, the order slots may well have an intrinsic value of an additional £1.2bn. Those eager to do sum-of-the-parts calculations could also add in another £500m for the value of its slot portfolio (particularly at Gatwick).

But easyJet has also successfully



built easyJet Holidays — in a reversal of the traditional Inclusive Tour business model this is an airline tacking on an IT operation to sell tours to its captive client base as against a holiday business operating an airline to fly its customers on holiday. It achieved a pretax profit of £250m for the EasyJet Group in its 2025 financial year — well ahead of targets — and has been a buffer to the pressures of rising fuel prices for the airline. Separated from the airline, the holiday business would probably not have much value, but within the group it is a lucrative source of income and cash flow.

## Ownership constraints

Any private equity bid for an airlines must adhere to the relevant ownership and control regulations. For many years ICAO's model template for international bilateral air service agreements was to state that a designated airline on a route must be "substantially owned and effectively controlled" by nationals of the home country. It has since moved to the concept that an airline's nationality is determined by its "principal place of business". The EU was one of the early adopters of the principle for external relationships on the establishment of the European Common Aviation Area in 2006 (while keeping ownership requirements for internal purposes). The UK adopted it following

Brexit.

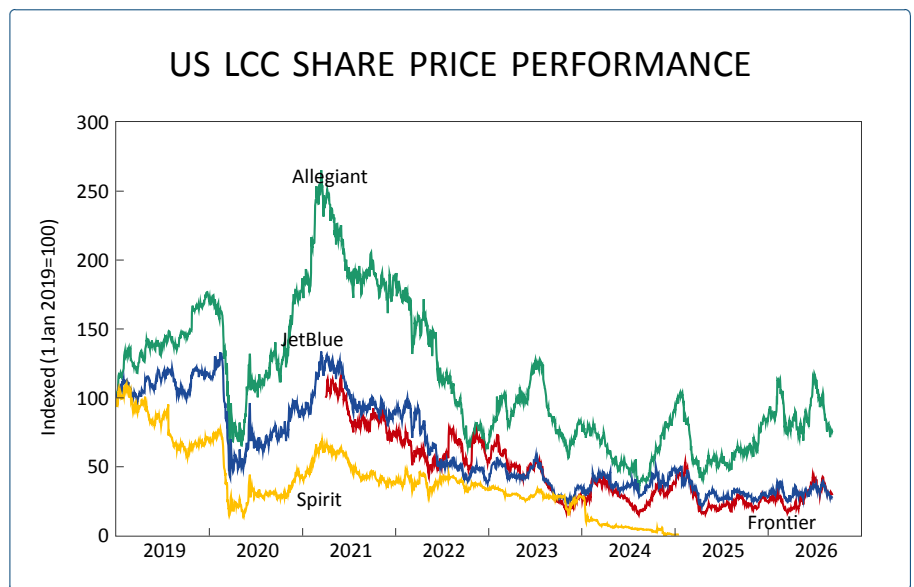
EasyJet adds a complication: its UK operations require it to be based in the UK to retain its UK Air Operator Certificate (AOC) and access UK bilateral rights to non-EU destinations; its intra-EU flights are operated under an Austrian AOC through a subsidiary, easyJet Europe, which must be based in Austria and majority owned and controlled by nationals of EU member states. The company, while listed on the LSE, got through the regulations by limiting non-EU ownership (and voting power) to 49.5% of outstanding shares.

Apollo, in its proposed acquisition will be limited to 49.9% direct investment. It has proposed the establishment of a Trust (for the benefit of EU-based senior management) to hold a 5% stake, and is offering to "rollover" existing shareholders — so far accepted by the Haji-Ioannou family holdings and the board of directors — into a group that would account for at least 45.1% of the new unlisted easyJet holding company (see graph above).

It hopes to fulfil all regulatory requirements to enable it to complete the acquisition by the first quarter of 2027.

## Allegiant: Sunseeker out, Sun Country in

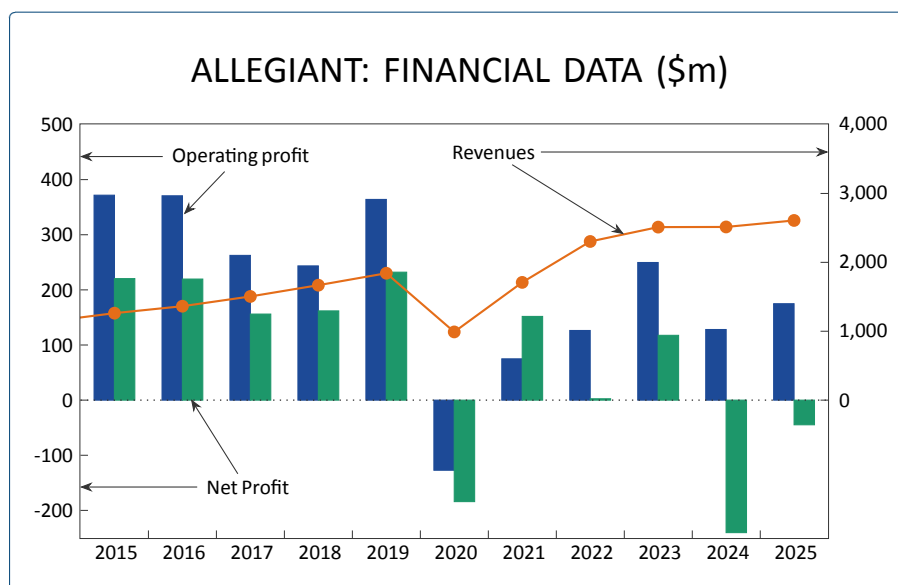
**A**LMOST by default, Allegiant has emerged as the best performing company among the US low cost airlines, the others having self-destructed to various degrees. Back in 2022 a proposed merger between Frontier and Spirit promised to create a new ULCC force in the US but that merger fell apart when JetBlue intervened with a financially generous but strategically dubious bid for Frontier, which was scuppered by the US regulatory authorities. Both JetBlue and Frontier have struggled to find new directions in a market characterised by high fuel prices and more effective competition from the Networks. Spirit went from being the most profitable airline ten years ago to Chapter 11 then to Chapter 7 bankruptcy in May this year. Southwest, now under the control of private equity firm Elliot Investment Management, is converting to a full-service type, closer to the Networks than to LCCs.



Allegiant Travel Company, the airline's parent, has a current capitalisation of \$2.05bn, less than half its 2021 peak, but it is valued more highly than JetBlue, \$1.40bn, or Frontier, \$1.35bn. The US LCC sector is now eclipsed by the Network carriers; Delta's market capitalisation is \$53bn, by contrast.

Allegiant, founded in 1997, went through various iterations and a Chapter 11 bankruptcy before finding a successful and unique strategy under CEO and major investor Maurice Gallagher, who previously led the ULCC Valujet. Gallagher now holds the chairmanship of Allegiant and is still the second largest individual shareholder, with 7.5% (Blackrock is the largest with about 13%). Since 2024 Greg Anderson, a long-time Allegiant executive, has been the CEO, charged with the immediate task of sorting out the Sunseeker fiasco.

Just before the pandemic Allegiant decided to diversify away from its core low cost travel business by developing a luxury holiday resort — Sunseeker — at Charlotte Harbor in Florida, which opened in 2023. The commercial logic was: Allegiant had unparalleled access to a mass market of affluent leisure travellers (21 million in its loyalty programme)



## ALLEGiant: FINANCIAL DATA

| \$m                 | 2021  | 2022  | 2023  | 2024  | 2025  | end June            | 2026    |
|---------------------|-------|-------|-------|-------|-------|---------------------|---------|
| Revenue             | 1,708 | 2,302 | 2,510 | 2,513 | 2,607 | Fixed Assets        | 4,229   |
| Net income          | 152   | 2     | 118   | (240) | (45)  | Right of use assets | 69      |
| Operating cash flow | 538   | 303   | 423   | 338   | 390   | Goodwill            | 486     |
| Net capex           | (300) | (525) | (808) | (191) | (115) | Other assets        | 303     |
| Free cash flow      | 838   | 828   | 1,231 | 529   | 505   | Current Assets      | 1,358   |
| Debt                | (28)  | 54    | 257   | (182) | (277) | of which Cash       | 1,090   |
| Equity              | 335   | —     | —     | —     | —     | Current Liabilities | (1,632) |
| Dividends/sbb       | —     | (30)  | (52)  | (28)  | (14)  | Debt and leases     | (2,519) |
| Total cash flow     | 1,145 | 853   | 1,436 | 319   | 215   | Other liabilities   | (516)   |
|                     |       |       |       |       |       | Equity              | 1,777   |

in Middle America, so it had unique opportunity to provide them with leisure accommodation. Allegiant set out to build Sunseeker, a facility that would offer everything an American vacationer could want — luxury hotel rooms, restaurants, bars, golf courses, tennis courts, shows, etc. Sunseeker was located on the coast of the Gulf of America (previously Gulf of Mexico) very close to Allegiant's underutilised base airport of Punta Gorda.

But real estate development proved to be a very different business from airline management. Allegiant executives failed to cope with construction delays, cost overruns and the aftermath of a hurricane. The development is estimated to have cost \$720m but didn't attract anything like

enough vacationers; occupancy rates were rarely above 50%. With losses mounting, Allegiant was forced to sell the resort to Blackstone Real Estate for \$200m in 2024, with Hilton taking over the hotel operation, booking an impairment charge of \$322m, which explains the \$240m total net loss for that year, followed by another \$100m-plus of write-offs in 2025/26.

Allegiant's airline operations actually did well in 2025, with total passengers up by 10.5% to 18.5m, though scheduled load factor dipped slightly to 82.0%, which is low by LCC standards. Airline revenues totalled \$2.54bn, up 3.7%, and generated an operating profit of \$144m. Unfortunately, Sunseeker, with revenues of \$60m, produced an operating loss of \$(107m). So, an overall operating

profit of \$37m, which translated into a net loss of \$(45m).

The balance sheet as at mid-2026, after the Sun Country merger (see above) looks reasonable, with total assets of \$6.44bn (including cash of \$1.1bn) and total liabilities of \$4.67bn, giving shareholders' equity of \$1.77bn. Fitch classifies Allegiant as just below investment grade, with a BB+ rating for the \$500m secured debt it issued this summer.

### Unusual network and operating model

As the map on page 8 indicates, Allegiant has an unusual network. It covers most of the US serving small, underserved communities, connecting them to major leisure destinations. In the first half of this year it operated to/from 126 cities on 578 routes, with another 40 routes being added throughout this year. Over half the routes serve five major leisure destinations in the Sun Belt: Orlando (MCO and SFB), Tampa/St. Petersburg, Las Vegas, Punta Gorda (Sunseeker) and Phoenix (AZA and PHX). Most of its routes are too thin and/or seasonal for traditional Network or LCC operation; Allegiant claims that 75% of its network has no nonstop competition.

The defining aspect of Allegiant's

## ALLEGiant/SUN COUNTRY FLEET

|              | In service | Avg age     | On Order  |
|--------------|------------|-------------|-----------|
| A319         | 27         | 21.1        | —         |
| A320         | 76         | 15.2        | —         |
| 737-800      | 43         | 17.6        | —         |
| 737-800BCF*  | 22         | 23.5        | —         |
| 737-900      | 3          | 11.5        | —         |
| 737MAX8      | 21         | 1.4         | 29        |
| <b>Total</b> | <b>192</b> | <b>16.0</b> | <b>29</b> |

Notes: \* Operated for Amazon Prime Air

operating plan is that, in contrast to the classic LCC strategy, it does not attempt to maximise aircraft utilisation. Rather it matches aircraft utilisation to demand, daily, weekly and seasonally, parking aircraft when demand is low, on Tuesdays for example. Also, the fleet is dispersed among 22 Origin bases in addition to the Destination bases, allowing capacity is shifted between these points in response to demand changes.

The monthly variation in aircraft utilisation is shown in the chart below below, compiled from Skilark data. Over this 15-month period aircraft utilisation varied from 4.1 to 8.0 block hours per day, with an overall average of 6.8 hours, roughly half the ULCC standard.

Such a strategy works when there is a high proportion of variable flight operating costs compared to fixed aircraft ownership costs. In 2025 Allegiant's fuel expense, the all-important variable, was 25% of total costs, compared to 6% for interest (aircraft and other debt), 1% for leases and 9% for depreciation. Station costs at 10% will contain some minor element of flight variable costs but *en route* charges in the

domestic US, unlike Europe, are not a variable cost for the airline as they are paid to the FAA via a passenger tax added to tickets. Salary costs at Allegiant account for 31% and, at least in the short term, there is no variable element.

Allegiant's core fleet, as at mid-year, comprised 103 A319s and A320s, on average 17 years old, fully depreciated aircraft and, by contemporary standards, fuel-inefficient. Up to the pandemic Allegiant was able to grow its A320-family fleet through a series of opportunistic transactions, picking up second-hand-units mostly for cash. But these opportunities have inevitably dried up, meaning that Allegiant had to change direction by ordering new types from Boeing.

One of the questions that has hovered over Allegiant is whether its model is truly scalable; what are its limits to growth? (In Europe Volotea, an airline with a similar operating model — see *Aviation Strategy*, February 2025 — has failed to grow into profitability, and its airline investor, Aegean, is having to make some hard decisions about its future.)

Allegiant management is confi-

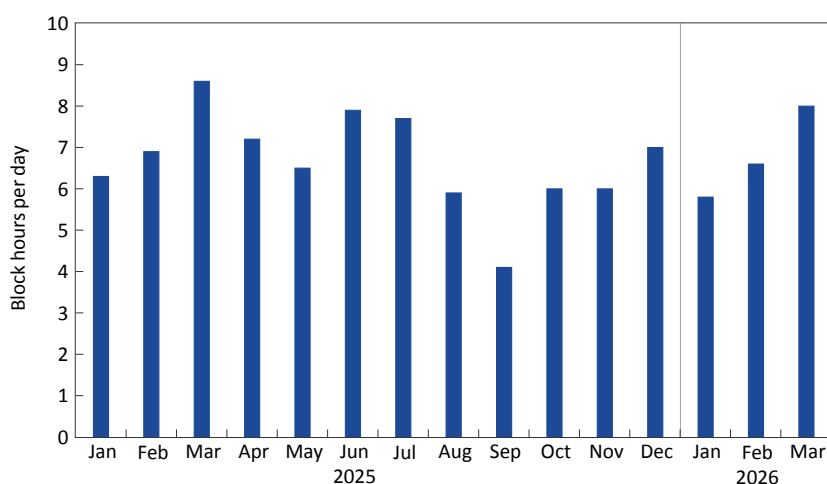
dent that the market will support growth. In a recent presentation, it stated that over 1,400 potential new routes, 75% of which have no direct service, have been identified. But while these routes might be viable with elderly, cheap A319s and A320s, using expensive, new MAXs might be a different proposition, although management emphasise the 20% operating cost improvement that the MAXs have over the older generation types.

In 2022 Allegiant ordered 50 737 MAX 7 and 8s, with options for a further 50 — a firm commitment of about \$3bn, after discounts. By September this year 21 were in service, with a further four to be delivered by year end. Consequently, the airline's capital expenditure has escalated. Management indicates that in 2026 there will be \$640-\$660m in aircraft-related capex.

Allegiant has not specified its longer-term fleet plan but it will revolve round a changing mix of MAXs and A320s (and 737-800s from Sun County). The company will seek to maximise MAX block hours by allocating them to the denser markets or by imaginative aircraft scheduling between thin markets, the aim being to get their average utilisation up to 12-plus hours a day. The A320 family will presumably continue to be operated in the traditional Allegiant fashion, flying when there is demand, parked when there is not. All this adds complexity to the Allegiant operating model.

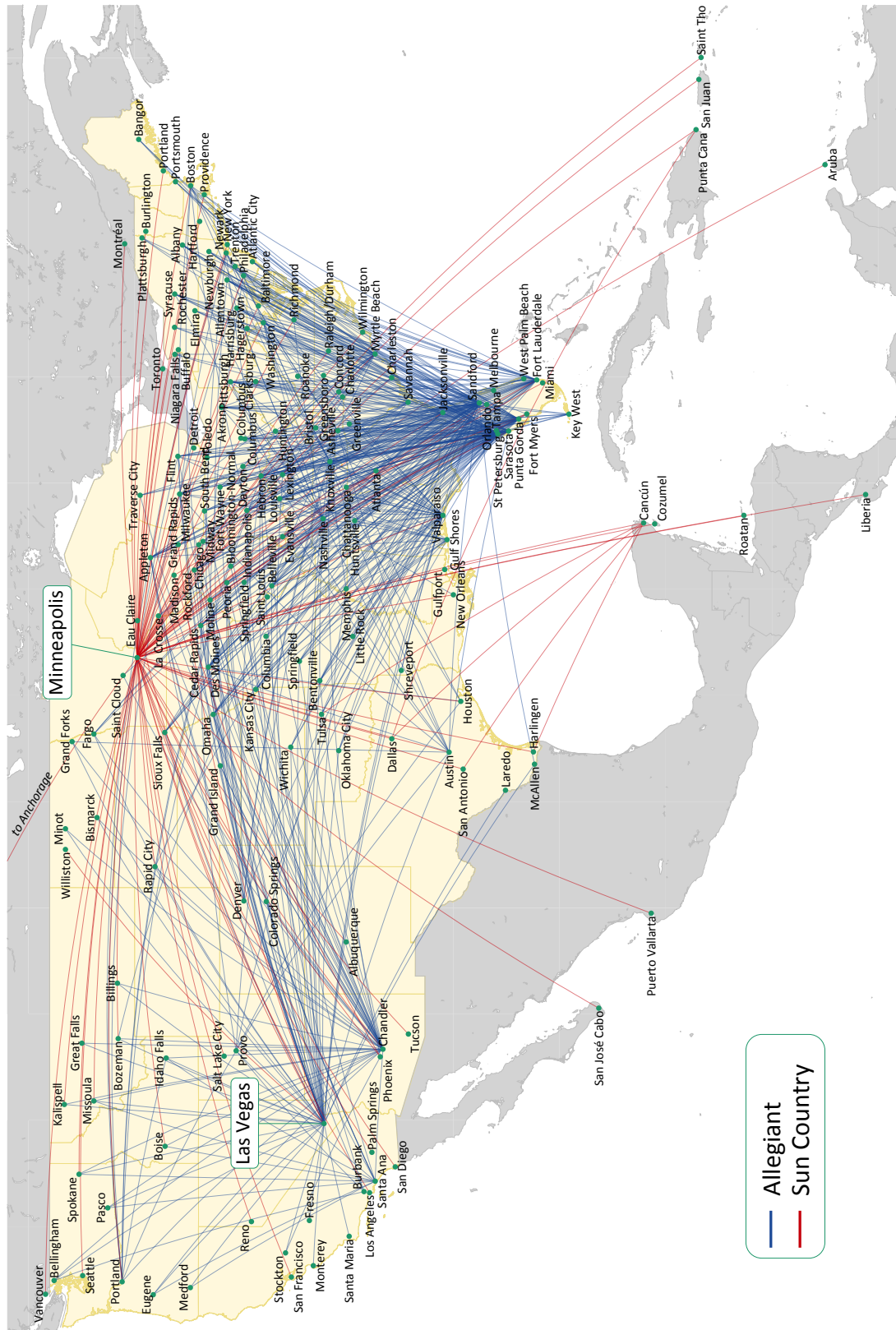
Allegiant is having to deal with other cost pressures. In August, Allegiant finally reached, after two years of negotiation, a collective agreement with its pilots' union. Pilots are in a very strong position in the US at present, and at Allegiant they have achieved salary increases

ALLEGiant: AVERAGE AIRCRAFT UTILISATION



# Aviation Strategy

## ALLEGIANT: ROUTE NETWORK



of up to 54% from existing levels, effective January 2027. Various bonuses, estimated at \$300m, that had been retained by the company will now be released as a result of the agreement. Finally, Allegiant will make a major improvement to pension and disability schemes. In return, the pilots have committed to greater flexibility in rostering and scheduling.

Allegiant is also in the process of modifying its product — more free drinks and snacks on board — and is introducing a premium class, Allegiant First, from Spring next year. Allegiant First will comprise a separate cabin of eight seats in a 2x2 configuration at the front of some aircraft (which previously had an all-Economy configuration) plus perks like priority check-in and boarding, generous baggage allowance. This innovation reflects a general trend in the US whereby travellers seem to be rejecting no frills and opting for some degree of service, but it is also adding cost to Allegiant's model.

## **Sun Country and the Amazon challenge**

After all the speculation and intrigue the only LCC merger that was actually completed in the US was Allegiant's purchase of Sun Country, finalised in May. The transaction was valued at \$1.5bn, including \$400m of Sun Country net debt, and comprised a mixture of cash and shares. Sun Country shareholders received a premium of 20% above the pre-bid stock-market price.

Sun Country is a leisure passenger/fast freight airline based at Minneapolis/St. Paul (MSP) operating a fleet of 43 elderly 737-800s, 3 737-900ERs and 20 737-800BCFs. It has been consistently profitable, apart from the Covid years, in 2025 achiev-

ing a turnover of \$1.1bn, an operating profit of \$100m and a net profit of \$53m.

The rationale given by Allegiant for the takeover, apart from Sun Country being available, was fairly predictable: additional scale, cost synergies, revenue diversification, enhanced loyalty programme and access to an international network to Mexico and the Caribbean. Equally predictable was the promise of future synergies, \$140m annually but not until three years out and mostly comprising revenue rather than cost efficiencies.

There is no doubt that the merger brings together two strong leisure brands but there are some execution issues to be resolved. Although the two brands are to remain separate for the time being, Allegiant executives have taken over at the top of Sun Country, with the former CEO, Joe Bricker, acting as integration advisor on the board of the joint airline.

The Sun Country network is the obverse of Allegiant's, concentrating operations at the traffic origin base of Minneapolis and flying Minnesotans to a wide range of destinations in Florida, California, the Southwest, the East Coast, Mexico and the Caribbean, whereas Allegiant flies from small origin bases to major leisure bases. Allegiant states that this will provide aircraft scheduling opportunities.

MSP is Delta's second hub where it controls 71% of the capacity against 12% for Sun Country. Allegiant will be facing a substantial direct competition from a Network carrier for the first time. However, the immediate problem is competition for personnel: Sun Country is rapidly losing pilots to Delta.

The integration of the Sun Country 737NGs adds further complexity

of the Allegiant fleet, though again the airline claims that this will aid aircraft scheduling.

Finally, Allegiant will again be entering a new business with new risks — managing logistics contracts with an Tech Giant. Sun Country has a cargo agreement with Amazon that runs until 2030 and has been concentrating its efforts on this while downsizing its passenger operations. In the fourth quarter of 2025, Sun Country's passenger block hours were down 8.5% on an annual basis while cargo hours were up 51%. By the end of this year they will be operating 22 737 BCFs, developing a new cargo hub at Cincinnati and will be the second most important carrier in the Amazon Air virtual airline (after ATI, a 767F operator).



## SIA Investment in Air India: Learning from Past Mistakes?

SINGAPORE Airlines (SIA) is a paragon in aviation and is regularly acknowledged as one of the world's best international airlines. Its attention to high-quality passenger service gains it many honours. It is well managed and generally profitable: in the last few years since recovering from the pandemic it has achieved some of the highest operating margins in its history.

But it has a physical limitation. The island state of Singapore has a land area of 744km<sup>2</sup> — roughly the same size as New York City, half the size of the Greater London metropolitan area, or a third the size of Tokyo. There are two airports — the main international hub gateway of Changi (which takes up 3% of the island's available land), and Selatar airport with a single 1.8km runway serving turboprops and general aviation — and (obviously) no domestic air services.

From its earliest days, after splitting from Malaysia-Singapore Airlines in 1972, SIA built a hub and spoke system at Changi to take advantage of 6th Freedom services though Singapore (particularly on the kangaroo route between the UK and Australia), and in one sense was the same archetypal disruptor to the established industry in the 1970s as the Gulf superconnectors became in the 2000s. It angered its competitors by establishing a significantly higher level of customer service at low prices, with many cheaper tickets offloaded through bucket shop travel agencies. This of course went totally against the rules as laid down by

IATA — but SIA did not join the trade association until the early 1980s.

Over the years it has tried many times to expand out of its home base by buying equity stakes in other airlines in order to create a multi-hub system. Its latest such move has given it a 25% stake in the newly privatised Air India.

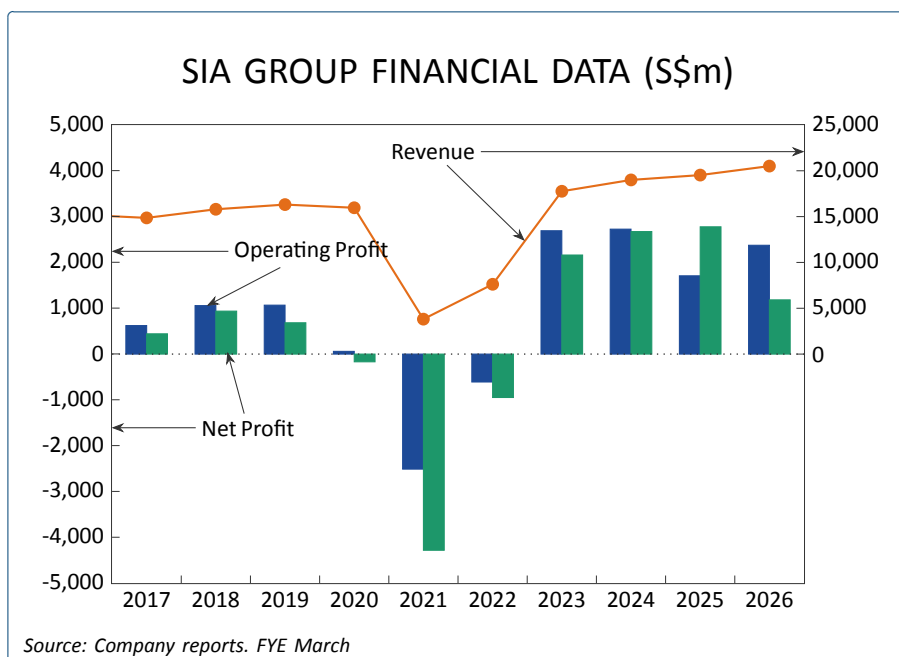
Historically however it has been constantly hindered by the ownership and control rules that underpin international airline operations. This has meant it is limited to a minority investment and a lack of board room power. None of its investments has so far been financially successful. Will Air India be different?

### A history of failed investments

✈ **Virgin Atlantic.** SIA acquired a 49% stake in Virgin Atlantic in 1999 for £600m. The idea was to enable it to access traffic on the Atlantic, hav-

ing been stymied in attempting to get 5th freedom rights from Heathrow. Through the next decade Virgin displayed little growth — passenger numbers fluctuating between 5.4m and 5.7m a year — and financial returns were minimal, with operating margins in the low single digits. And then, in the four years following the Global Financial Crisis of 2008, the airline managed to lose a total £200m at the net level. SIA offloaded its investment to Delta Airlines in 2012 for £224m having recognised total losses of S\$750m on its own balance sheet.

✈ **Air New Zealand.** Singapore took a 25% stake in Air New Zealand for NZ\$426m in 2000, having been foiled by them in an earlier attempt to acquire 50% of Ansett Australia (by then owned by ANZ). The concept behind the investment was to provide it with a pathway to broader ac-



# Aviation Strategy

SIA ROUTE MAP



## SIA'S FOREIGN AIRLINE INVESTMENT HISTORY

| Equity investment |                      |       |          | Divestment |                                                                 |         | Recognised          |
|-------------------|----------------------|-------|----------|------------|-----------------------------------------------------------------|---------|---------------------|
| Year              | Airline              | Stake | Value    | Year       | How                                                             | Value   | Gains (Losses) S\$m |
| 1999              | Virgin Atlantic      | 49%   | £600m    | 2012       | Sold to Delta                                                   | £224m   | (750)               |
| 2000              | Air New Zealand      | 25%   | NZ\$426m | 2004       | Diluted to 6% on ANZ failure following collapse of Ansett       | NZ\$62m | (221)               |
| 2007              | Tigerair Australia*  |       |          | 2014       | Offloaded to Virgin Australia                                   | A\$1    | (60)                |
| 2012              | Virgin Australia     | 23%   | A\$228m  | 2020       | Written off in COVID inspired bankruptcy                        | A\$0    | (350)               |
| 2014              | NokScoot (Thailand)† |       |          | 2020       | Liquidated, without ever returning a profit, following pandemic |         | (124)               |
| 2014              | Vistara‡             | 49%   | US\$50m  | 2025       | Merged into Air India\$                                         |         | 1,100 <sup>1</sup>  |
| 2025              | Air India            | 25%   |          |            |                                                                 |         | (945) <sup>2</sup>  |

Notes: \* Established as a subsidiary of SIA's Tiger Airways; † Formed as a LCC JV by SIA's Scoot with Nok Air; ‡ consistently loss making, having lost a total ₹9,500 crore (US\$1.2bn) over the decade; paper accounting gain of S\$1.1bn on AI merger; <sup>1</sup> Non-cash accounting gain; <sup>2</sup> Share of losses FY 2026

cess to a strategically important region in Australasia. Air New Zealand was bailed out and renationalised by the Kiwi government in 2001, significantly diluting SIA's stake. It finally exited in 2004 selling its remaining interest for NZ\$62m and having recognised losses of S\$221m.

✈ **Virgin Australia.** SIA took an initial 10% stake in Virgin Australia in 2012 as the airline tried to reposition itself as a full service competitor to Qantas. It raised its stake to 19.9% the following year, acquiring shares from Branson's Virgin Group, and then gradually further over the next few years through equity swaps in the open market to peak at a 23% holding by 2026. Virgin Australia had reported a profit for 2012, but the remainder of the decade proved consistently loss-making. Severely fiscally challenged at the start of the pandemic, Australia's second airline collapsed into bankruptcy in 2020. SIA recognised a total S\$350m losses.

✈ **LCC forays.** Tigerair Australia's story is somewhat convoluted, that

of NokScoot (a long haul low cost JV in Thailand) less so. Both failed causing writedowns of S\$184m.

SIA's investment strategy is a long way from the failed "Hunter" strategies of Swissair and Etihad, which brought those carriers to their knees. The carrier remains healthily financed (with the backing of the State's holding company Temasek).

### Will Air India break the run?

Singapore Airlines in the past decade has focused its attention to India, citing the highest growth potential in aviation. It set up a full service domestic Indian carrier, Vistara, in cahoots with Tata Group, in 2014 in which it had a 49% minority stake, nominally with an investment of \$50m. Following Tata's successful 2021 bid for Air India, Vistara was merged into Air India in 2024 providing SIA with a 25% stake in the newly privatised flag carrier. The company claims that its involvement is justified because it provides a solid "multi-hub strategy". Vistara, probably because of its high

rate of growth, had been consistently loss making having lost a total ₹9,500 crore (US\$1.2bn) over the decade. Strangely the merger resulted in a paper gain in SIA's FY2025 accounts of S\$1.1bn.

But Air India has been beset by problems since its privatisation. The fatal crash of AI171 in June 2025 claiming 260 lives was a massive disaster. It has also intensified regulatory attention and scrutiny: reports from DGAC finding aircraft being flown without valid airworthiness review certificates, errors in pilot training and crew exceeding permitted hours, while a report of a pilot flying under the influence of marijuana led to company wide drug-screening of the pilot corpus (which revealed two more miscreants).

Moreover, Air India is heavily operationally challenged by the closure of Pakistan's airspace to Indian airlines in April 2025: this forces a multi-hour diversionary route for all its flights to key destinations in the Arabian Gulf, Europe and the US.

# Aviation Strategy

On top of this the carrier is struggling in its attempts to retrofit its legacy fleet to bring the interiors up to a consistent customer service quality because of continuing supply chain constraints.

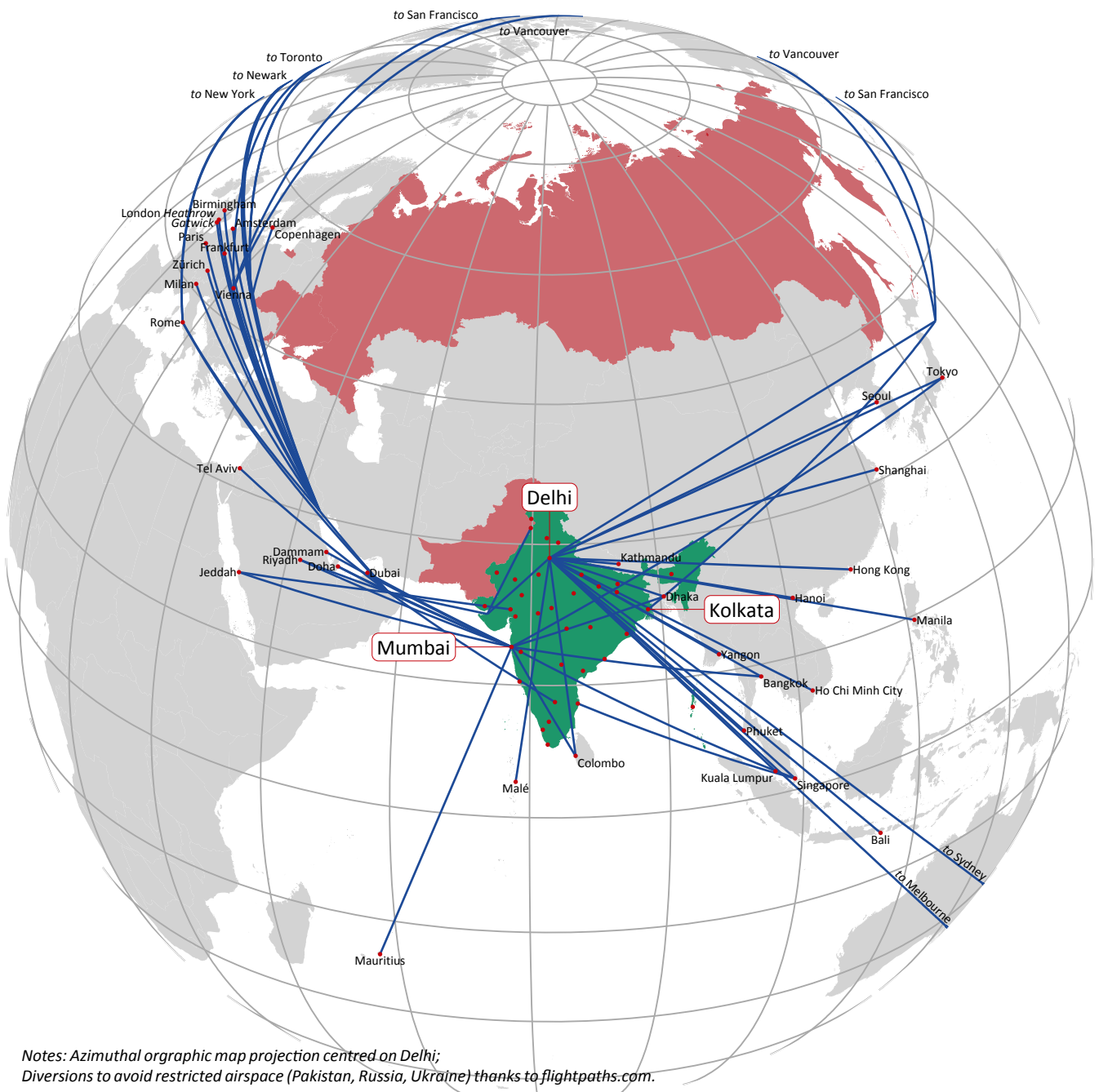
Air India is reported to have produced its first positive EBITDAR re-

sult since privatisation in the financial year to end March 2025 (the year of the merger with Vistara), but net losses still came in at ₹10,900 crore. For FY 2026 losses more than doubled to ₹22,200 crore (US\$2.8bn) representing a negative net margin of 25% of revenues. SIA recognised a hit of

S\$945m as its share of the losses.

Following the massive losses for FY2026 the Air India board requested a new capital injection from its shareholders of US\$1.5bn. Tata Group quickly agreed to allocate its \$1.1bn, but SIA's \$377m share of the requested cash caused a politi-

## AIR INDIA INTERNATIONAL ROUTE NETWORK



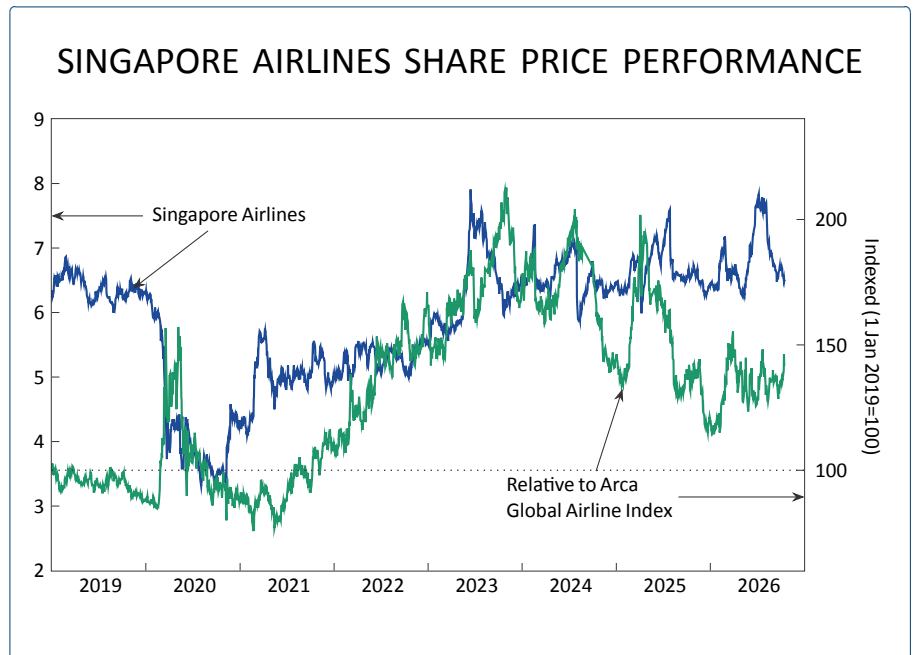
cal backlash in Singapore. Because Singapore's sovereign wealth fund, Temasek, is the majority shareholder of SIA, opposition politicians questioned why Singaporean capital was being funneled into a heavily loss-making foreign entity. The Singaporean government and Transport Ministry firmly defended the Air India partnership, emphasizing that overseas expansion is critical for SIA's long-term survival. They clarified that no taxpayer money or fresh Temasek funds are being used for this turnaround, and the money would come from SIA's internal resources.

As a 25% shareholder, SIA has limited influence. It might have had a friend at the top of the company. Campbell Wilson, a 25 year veteran of the SIA Group (and former CEO of Scoot) became the CEO of Air India following privatisation, but he resigned in April. Tewolde Gebremariam, former CEO of Ethiopian Airlines, took over the reins at the beginning of October.

But the political broohaha has emboldened SIA to add tough conditions to try to get more sway over its investment. Reports from Reuters suggest that SIA is demanding significantly tougher commercial and governance terms before approving the cash call and is focusing its demands on securing more control over how its money is spent and ensuring a clear timeline toward profitability:

- ➔ **Greater Board Voting Power:** Despite holding a 25.1% share block, SIA originally secured only a single board seat. To protect its cash injection, SIA is apparently demanding expanded voting power and more robust veto rights over major capital expenses.

- ➔ **Stronger Corporate Governance and Management Influence:** Following recent safety scandals and regulatory compliance lapses under Air In-



dia's previous leadership, SIA wants a greater say in appointing key operational executives and establishing independent oversight panels.

- ➔ **Strict Loss-Reduction Milestones:** SIA is demanding that further capital payouts be staggered or tied to hard performance targets. Air India must meet explicit, binding targets to narrow its financial losses rather than using the fresh capital as an open-ended safety net.

- ➔ **Operational Accountability under New Leadership:** The demands coincide with the appointment of the new Air India CEO, Tewolde Gebremariam. SIA expects the fresh capital to be strictly partitioned for resolving the fleet upgrade and renewal, rather than just covering day-to-day expenditure.

## What if an agreement isn't reached?

SIA holds roughly S\$8.3 billion in internal cash reserves, meaning it has the liquidity to pay its \$375 million pro-rata portion. However, because the capital request does not automatically oblige SIA to fund it, the airline

has several structural options if Tata rejects its conditions:

- ➔ **Staged Funding:** Compromising on a much smaller, phased equity roll-out that is unlocked only as Air India hits specific turnaround targets.

- ➔ **Dilution:** Holding firm and refusing to fund the call altogether. Tata (which has already approved its own US\$1.1 billion chunk) would have to cover the remainder, which would dilute SIA's equity stake below 25%.

- ➔ **Strategic Shift:** Protecting immediate cash and relying strictly on the expansive SIA-Air India Commercial Cooperation Agreement signed in early 2026 to capture passenger revenue without holding heavy equity risk.

## Qantas Project Sunrise: Brilliance or Hubris?

**I**N OCTOBER 2027, after seven years in the planning, Qantas is scheduled to inaugurate “Project Sunrise”: nonstop flights initially covering the 17,000km between Sydney and London using a fleet of highly modified A350-1000ULR aircraft in 20-22 hours.

Nearly a hundred years ago, in April 1935, Imperial Airways and Qantas Empire Airways established the original “Kangaroo Route” — a grueling 12½-day, multi-hop marathon to conquer the “tyranny of distance” for a highly exclusive cadre of the colonial elite (and premium mail). By eliminating intermediate hubs entirely, Project Sunrise is championed as the ultimate evolution of

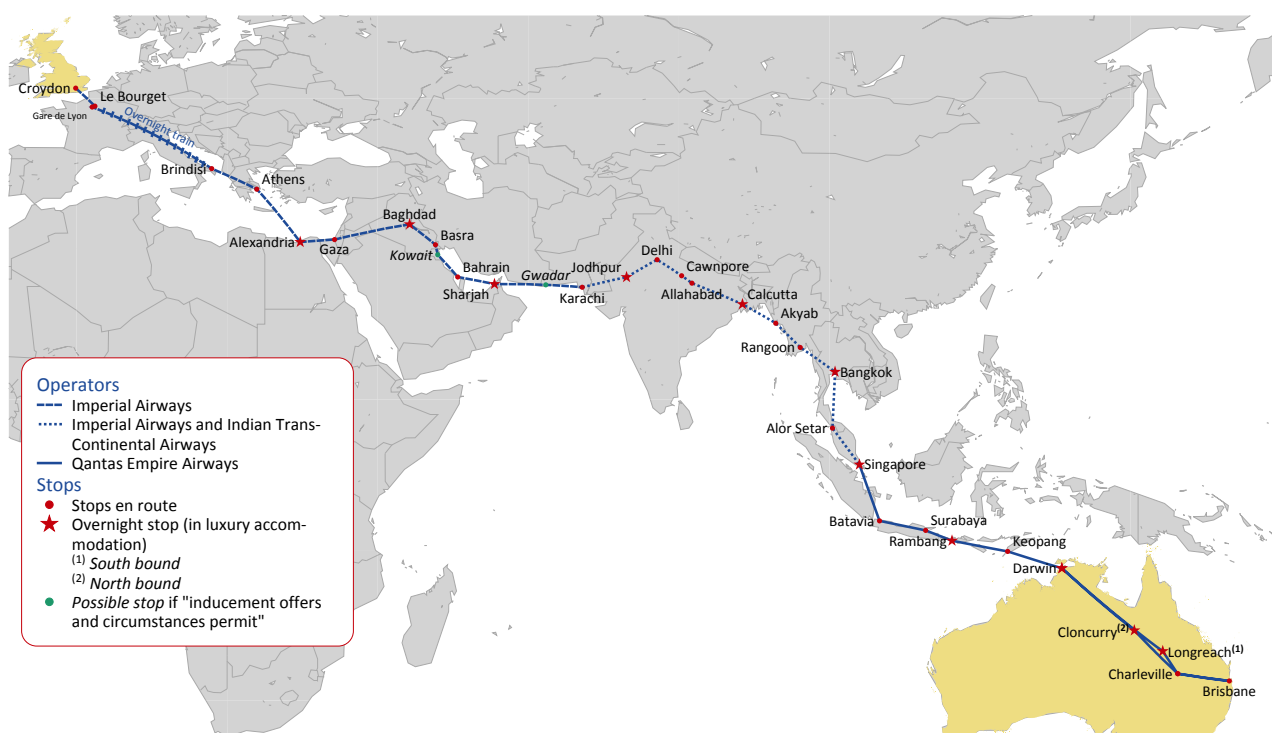
commercial flight. Yet, beneath the two triumphs lies a stark historical echo. Both the 1935 route and its 2027 successor represent an element of hubris, prioritising a low-density, hyper-premium market niche at the expense of systemic structural efficiency. Today, however, this pioneering engineering feat faces a fundamentally different boundary condition than the geopolitical challenges of the 1930s: the unforgiving atmospheric realities of a worsening climate crisis.

### Imperial Connections

The original 1935 route must have been an amazing journey. Using a mixture of Armstrong Witworth Ata-

lantas, Handley Page Heracles, and de Havilland Express aircraft (later progressing to Empire flying boats), Imperial Airways and Qantas provided the opportunity for ten wealthy passengers to fly a near 20,000km route from London to Brisbane. Leaving the central London air terminus at 11:45 (on Tuesdays and Saturdays) they would be taken to Croydon Airport, flown to Paris Le Bourget, transported to the Gare de Lyon for an overnight sleeper train to Brindisi in the south of Italy (Mussolini did not allow British aircraft to fly over the country) and then through some 30 destinations to reach the final destination sometime (unspecified) in the evening of the Thursday some twelve

### IMPERIAL AIRWAYS ROUTE TO AUSTRALIA 1935



# Aviation Strategy

or sixteen days later. There was no night flying en route, but luxury accommodation was provided at each overnight stop (that in Sharjah was a desert fort). There was strict etiquette: passengers were required to “dress for dinner”.

(The Italian restrictions of the 1930s provide a curious parallel to current geopolitical tensions and the restricted airspace over Russia, Ukraine and the Middle East demonstrating how political geography breaks the mathematical purity of

the great-circle route.)

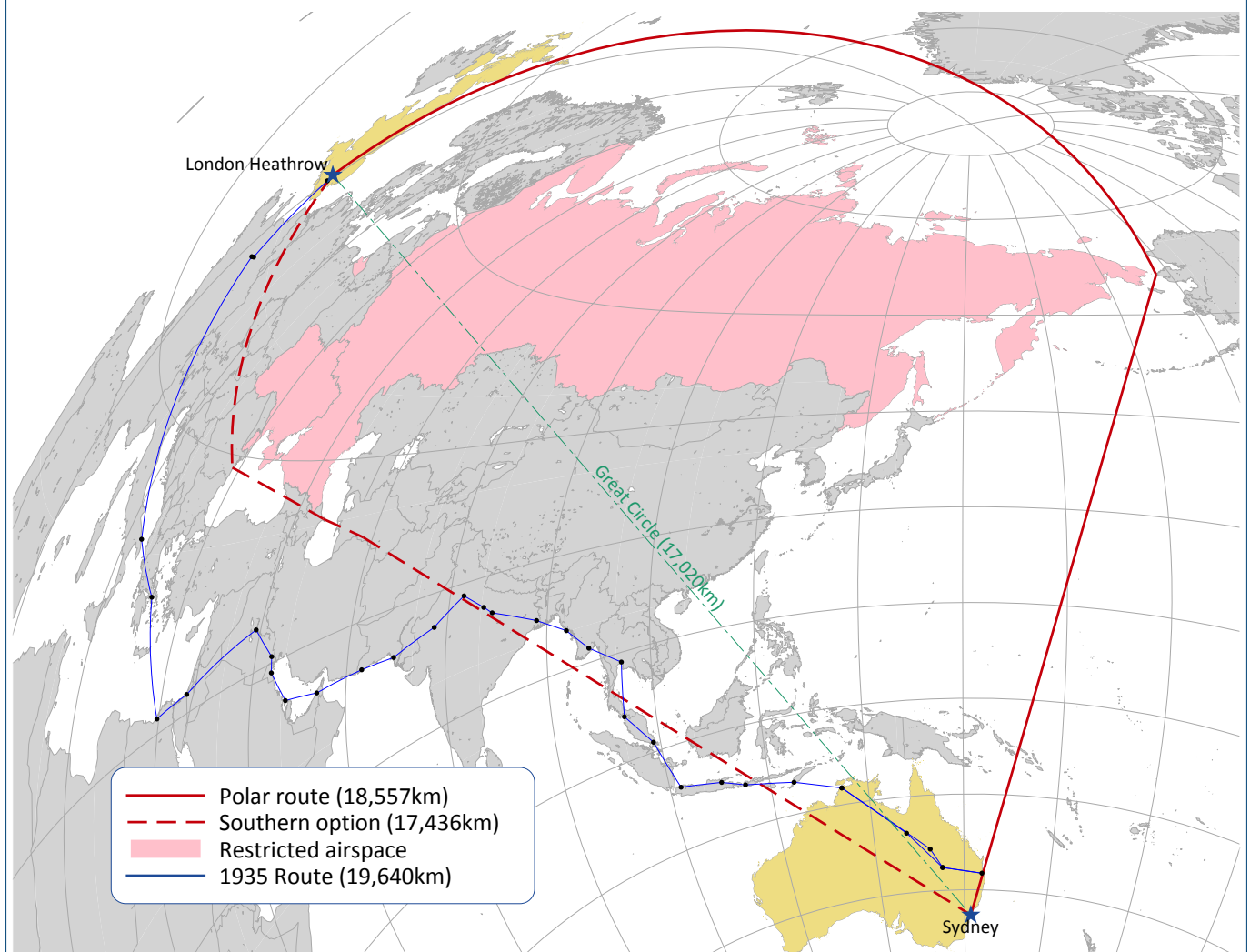
The tickets cost £195 one way (subject to exchange rate fluctuations), and £350 return — nearly three times the price of a first class berth on a steamship but saving four weeks travel time. The ticket price included all food, accommodation, tips and transfers, and a 15-25kg free luggage allowance (depending on the weight of the passenger). That sum was equivalent to the average annual salary at the time: so something over £40,000 in today’s money —

not exactly a trip for the man on the Clapham omnibus.

## Creating the world’s longest route

Project Sunrise was first mentioned in 2017 and touted by Qantas in its 2019 investor day (see *Aviation Strategy*, Feb 2020). Following the success of trialling a direct route between Perth and London using a low density 787-9, it foresaw the opportunity of ultra-long haul routes from Sydney to London, New York,

### QANTAS PROJECT SUNRISE POSSIBLE ROUTINGS SYDNEY-LONDON NON-STOP



Note: equidistant azimuthal map projection centred on Sydney (great circle routes thence appear as straight lines)

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Manchester, Frankfurt and Paris; and trans-antarctic routes to Jo'burg, Cape Town, and Rio.

A few things got in the way of the plan: not only the pandemic and its aftermath, but finding an aircraft that could actually fly the route with a meaningful payload.

In May 2022 it plumped for an offering from Airbus and ordered 12 A350-1000ULRs.

The first has recently and successfully completed a test round-trip between Toulouse and Sydney (the return took over 24 hours) and will be delivered in April 2027. The inaugural regular route between Sydney and London will commence in November 2027.

Qantas will not be able to fly the direct great circle route of 17,000km. Currently, and for the foreseeable future, there is a lot of restricted airspace on the way. The optimal routing will also depend on the seasonality of prevailing winds and position and strength of jet streams. In the map on the facing page we show a couple of options: a northbound route over the Pacific and North Pole,

skirting the Kamchatka peninsular; a southbound route avoiding Ukraine and manipulating the narrow corridor north of the problems in the Middle East.

The Polar route adds more complexities. The A350 has the highest ETOPS rating in commercial aviation, with a certification of 370 minutes (over six hours) diversion under single engine power. But there would be substantial and costly disruption if a fault made it necessary to land at Longyearbyen on Svalbard in the midst of northern hemisphere winter.

Qantas is fitting the cabin out with a premium-heavy configuration of 234 seats (compared with the "normal" three class layout of 330-370 seats and maximum single class capacity of 480 seats in the A350-1000) and has gone a long way to provide onboard "well-being" services to assuage passengers' trepidation of being stuck in a tin can for over 20 hours. The experience from the direct Perth-London route gives it confidence that passengers prefer non-stop flights and are willing to pay a

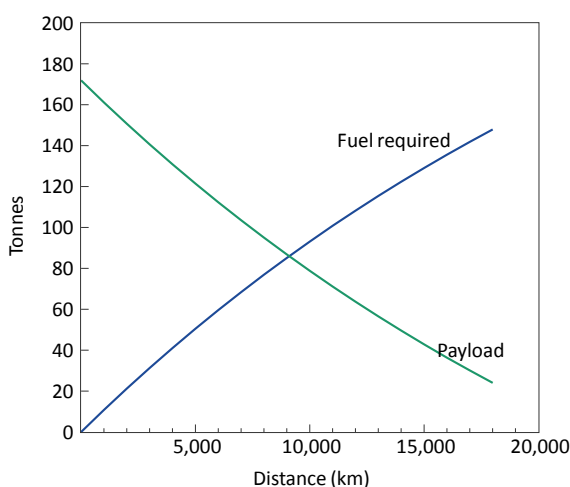
30-50% premium to save four hours travel time.

The modifications to the base model have been substantial. Airbus integrated a 20,000-litre fuel tank into the rear fuelage structure (giving it a total fuel capacity of nearly 190,000 litres (150 tonnes); re-engineered the fuel system to manage center of gravity and fuel transfer control over prolonged flight times; provided structural reinforcement and redesign of the landing gear to support the increased MTOW and spread the weight more evenly when on the ground. Rolls tweaked the Trent XWB engines to optimise fuel burn efficiency and endurance over ultra-long distances.

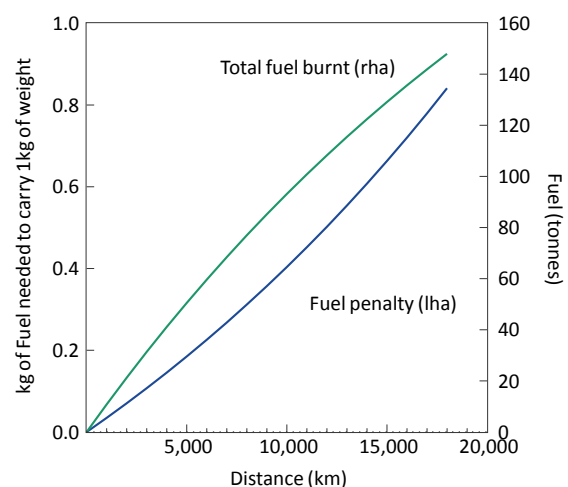
## The Payload Penalty: The Non-Linear Physics of Distance

Long haul routes account for 10% of airline passengers, but 50% of fuel used (and CO<sub>2</sub> emissions). There is a "sweet spot", at a stage length of around 6,000km, where the fuel uplifted is at its most efficient. As stage length increases the relationship between fuel burn and distance be-

A350 PAYLOAD / DISTANCE



FUEL-TO-CARRY-FUEL PENALTY



## WORLD'S TOP TEN LONGEST NON-STOP ROUTES

|       |             |             |                     | Distance (km) |        | Flight time | Seats    | Airline         |
|-------|-------------|-------------|---------------------|---------------|--------|-------------|----------|-----------------|
| Route |             | Eqpmt       | Great Circle        | Flown         |        |             |          |                 |
| 1)    | New York    | Singapore   | A350-900ULR         | 15,347        | 16,989 | 18:10       | 161      | SIA             |
| 2)    | Newark      | Singapore   | A350-900ULR         | 15,344        | 17,085 | 18:30       | 161      | SIA             |
| 3)    | Auckland    | Doha        | A350-1000/777-200LR | 14,534        | 14,720 | 17:15       | 327/272‡ | Qatar           |
| 4)    | Perth       | London      | 787-9               | 14,499        | 14,769 | 17:15       | 236      | Qantas          |
| 5)    | Dallas      | Melbourne   | 787-9               | 14,472        | 14,761 | 17:40       | 236      | Qantas          |
| 6)    | Paris       | Perth       | 787-9               | 14,264        | 14,873 | 17:20       | 236      | Qantas          |
| 7)    | Auckland    | New York    | 787-9               | 14,207        | 14,689 | 17:30       | 236      | Qantas          |
| 8)    | Auckland    | Dubai       | A380-800            | 14,200        | 14,425 | 17:10       | 484      | Air New Zealand |
| 9)    | Shenzhen    | Mexico City | A350-900            | 14,146        | 14,535 | 16:20       | 252/156+ | Emirates        |
| 10)   | Los Angeles | Singapore   | A350-900ULR         | 14,113        | 14,528 | 16:20       | 161      | China Southern  |
|       |             |             |                     |               |        |             |          | SIA             |

Notes: ‡ headwinds determine aircraft choice. † payload severely restricted on return from Mexico

comes sharply non-linear and creates a “fuel-to-carry-fuel penalty”. As the graph on the previous page shows, at a range of 18,000km the A350 needs 1.1kg of fuel to carry 1kg of payload.

The aircraft will need to take off at its MTOW which requires significantly more thrust to climb and cruise. On an 18,000km sector the upgraded A350 will get through around half of its 150t of fuel in the first ten hours: fuel burn drops progressively as the aircraft gets lighter.

As stage length increases the re-

quired level of fuel increases as a proportion of total take-off weight, as the graph below illustrates: at 18,000km fuel could account for over 40% of the take-off weight. A further complication arises in hot weather. The aircraft's fuel capacity is volumetrically limited. Energy content of fuel is determined by its mass, but its density changes with ambient temperature. There can be the risk that on a particularly hot day in Sydney or London, the A350-1000ULR could fill its tanks to the brim, but not have enough fuel

to reach its destination.

Luckily London and Sydney each are only a few metres above sea level and in temperate climates. At “hot-and-high” airports not only does the fuel volume expand but also engine thrust is reduced.

This massive fuel-load requirement directly steals from the aircraft's payload capacity and enforces the sub-240 seat restriction.

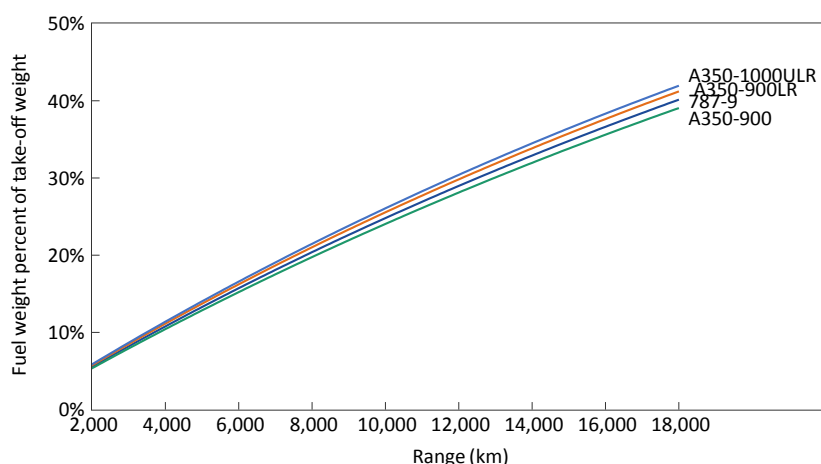
But with half the seats in premium cabins, it leaves the route exposed to premium-demand fluctuations.

This non-linear spike in fuel consumption exposes the paradox of modern ultra-long-haul: the physics of extreme range requires the aircraft to function primarily as a flying fuel tanker, compromising its economic and environmental efficiency before the wheels leave the tarmac.

But the operation is an engineering feat that others in the industry have also decided to pursue.

The table above shows the world's current top ten longest routes. It is headed by Singapore Airlines' all premium 160 seat operations to JFK and Newark (both

## FUEL TO MTOW RATIO



# Aviation Strategy

suffering a diversion penalty from airspace restrictions of 11% and 7%).

Qantas accounts for four of these top routes using low density 787-9s.

Qatar and Emirates both restrict cargo payload on their flights to Auckland, and may reduce the seats on sale to enforce the structural zero fuel weight safety constraints. Qatar also switches to a lower capacity 777-200LR when headwinds are particularly strong.

The China Southern route can only operate from Shenzhen to Mexico non-stop: the return has to touch down for refuelling at Tijuana because Mexico City, at an elevation of over 2,200m above sea level, is a classic hot-and-high airport and the A350 will not be able to get off the ground at its MTOW. Even so, while it offers 252 seats on the non-stop segment, capacity is limited to 152 seats for the return.

The airline industry is under extreme pressure to decarbonise. It has its plans to achieve “net-zero” by 2050 — the plans heavily dependent on the production of sustainable aviation fuels (SAF). And this is how former Qantas CEO Alan Joyce justified the project. Some regard SAF as a

## ULTRA-LONG HAUL EQUIPMENT SPECS

|              | Range at max payload |            | Payload at max range |           | MTOW(t) |
|--------------|----------------------|------------|----------------------|-----------|---------|
|              | Range(km)            | Payload(t) | Payload(t)           | Range(km) |         |
| 787-9        | 9,800                | 52.5       | 28-30                | 14,010    | 254     |
| A350-900     | 10,100               | 53.4       | 34-36                | 15,750    | 283     |
| A350-900ULR  | 12,000               | 43.1       | 24                   | 18,000    | 280     |
| A350-1000ULR | 10,200               | 67.5       | 22-24                | 18,500    | 319     |

dubious method — it has the same chemical formula as conventional aviation fuel and burning 1t generates 3.16t of CO<sub>2</sub> even if the SAF had been created from feedstock that was recently alive rather than buried underground for millennia. Moreover, because SAF production is severely scaling constrained, burning it to haul its own weight on a 20-hour flight yields half the putative net life-cycle carbon reduction of using that same tonnage across three short haul flights.

There will be increasing political pressure on enforcing aviation’s payment for its carbon footprint (witness the EU’s plans to extend the remit of the ETS) and this will add to the cost of fuel as more of the vastly more expensive SAF gets blended into aircraft. Flying a heavily laden, low-density air-

craft half way round the world should probably be treated as environmentally regressive, generating twice the CO<sub>2</sub> emissions per passenger than a route with an intermediate stop no matter the source of the fuel.

Ninety years after Imperial Airways chased the illusion of ultimate connectivity via the original Kangaroo Route, Project Sunrise stands as a testament to engineering brilliance of conquering distance. But may be it is being deployed against the wrong adversary. In an era defined by climate reality, the ultimate measure of aviation success may no longer be whether we can fly twenty hours non-stop, but why we still convince ourselves we should.

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