Final Offers for TAP Air Portugal

THROUGHOUT most of the past 25 years, Portugal has been trying to privatise its national flag carrier, TAP Air Portugal, while still keeping some element of influence on what its sees as a strategically important asset. In July the Government formally started another attempt.

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A history of half-hearted privatisation

TAP was founded in 1945, privatised in 1953 (albeit with majority state-ownership), and nationalised in 1974 in the wake of the collapse of the Salazar's dictatorship.

A proposal by SAirGroup (the airline formerly known as Swissair) to acquire a 35% in the early 2000s fell by the wayside as it itself collapsed into liquidation. An attempt to revive a sale in 2003 failed in the absence of any viable buyer.

In the aftermath of the 2008/9 Global Financial Crisis, Portugal virtually went bankrupt and had to be bailed out by the IMF and EU to the tune of €78bn. One of the conditions, apart from austerity packages, was that it should sell TAP Air Portugal.

Held over a financial barrel, Portugal announced it would sell 66% of its stake in the airline, reserving 5% for the carier's employees.

The sole bid in 2012 came from German Efromovich's Synergy Aerospace — the then majority, and somewhat dubious, owner of Colombia's Avianca. That failed because of a failure of trust on guarantees he offered.

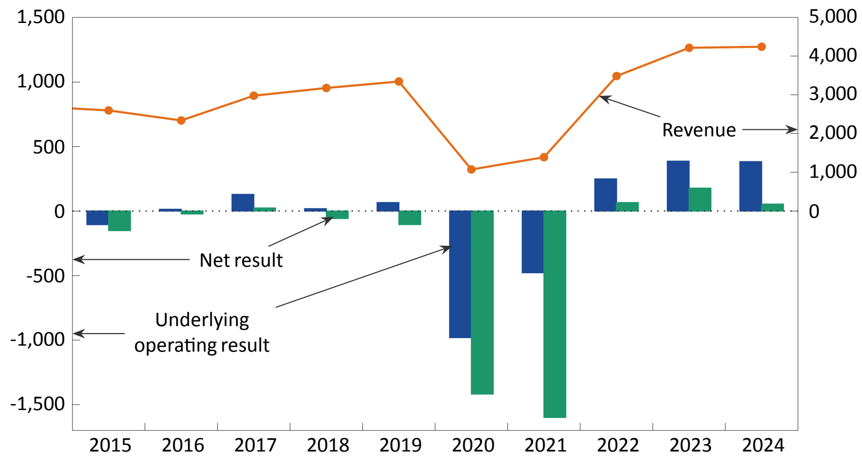
Three years later David Neeleman, then running Azul, successfully bid for a 61% stake in the airline through his Atlantic Gateway consortium for up to €360m. But then, at the beginning of 2016, a new left wing government rewrote the agreed deal to leave the consortium with a 45% stake (but 90% of the economic rights), the State with 50% (and employees 5%). Nevertheless, under the Atlantic Gateway management, the company grew strongly for four years.

It renewed the fleet, increasing the number of aircraft by 40% over the period, doubled services to North America, increased passengers carried by 50% (a 10% annual growth); and in 2017 achieved a record — at least for TAP — operating profit margin of 4%.

The Covid-19 pandemic brought TAP to its knees; and it begged the government for support as it ran out of cash in mid-2020. The onerous terms of the €1.2bn six-month loan offered forced Neeleman to bow out of the Atlantic Gateway consortium and sell his 22.5% stake back to the government.

In the end Portugal pumped in €2.6bn to bail out its flag-carrier. The restructuring aid was approved by the European Commission with some conditions: disposal of 18 slot pairs, 10% of TAP's holding at the

TAP AIR PORTUGAL: FINANCIAL RESULTS (€m)



Source: Company reports. Note: TAP Group to 2020, TAP Air Portugal SA 2021.

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congested Lisbon base (they went to Ryanair and easyJet); a cap on the fleet size; disposal of non-core activities; and, a ban on acquisitions. The approval paved the way for the full re-nationalisation of the airline.

The restructuring plan envisaged a transformation of TAP's operations "to ensure economic viability in 2023 and sustainability in 2025". It seems to have partly worked. In 2023, while passenger numbers were still 7% below the pre-pandemic peak, TAP achieved revenues 26% higher than in 2019; and it produced operating profits of €386m reflecting a record margin of 9.2%.

A plan for re-privatisation was first initiated by the centre-left government of António Costa in 2023, when financial advisers valued TAP at between €800mn and €1.1bn. The process was halted when Costa resigned over corruption allegations against government officials. It restarted when Luís Montenegro of the centre-right Social Democratic Party took power in 2024 but was suspended again earlier this year when he in turn became embroiled in an ethics scandal that forced him to call an election — the country's third in three years.

The new timetable

The latest relaunch — formally opened mid-2025 — targets a sale of 44.9% to a strategic partner while reserving an additional 5% for employees (leaving government control of the remainder). The stated government objective is explicit: find an investor capable of delivering global scale, operational know-how and strategic development of Lisbon as a genuine connecting hub. The plan imposes conditions intended to protect TAP's brand and core route network, particularly services to Brazil and other lusophone countries.

The government invited "manifestations of interest" by the end of November and set out a sequence of non-binding and binding offers designed to compress bidders into a shortlist. The public timetable envisages transaction close within roughly 12 months of the relaunch, though Lisbon has left room for political approvals and guardrails that could slow or reshape any outcome.

At the time of the announcement Luís Montenegro explained: "We took this decision because we have already spent a lot of money... We do not want to continue pouring money into a bottomless pit". He also said that the government expected TAP's privatisation to also draw interest from major airlines outside the European Union, citing the carrier's "untapped potential".

The Government has specified a minimum investment of €700m for a 44.9% stake, suggesting an equity value of €1.6bn and an enterprise value of €3.9bn. On the 2024 results, this values the TAP group at a fairly racy EV/EBITDA of 4.5x.

Strengths and weaknesses

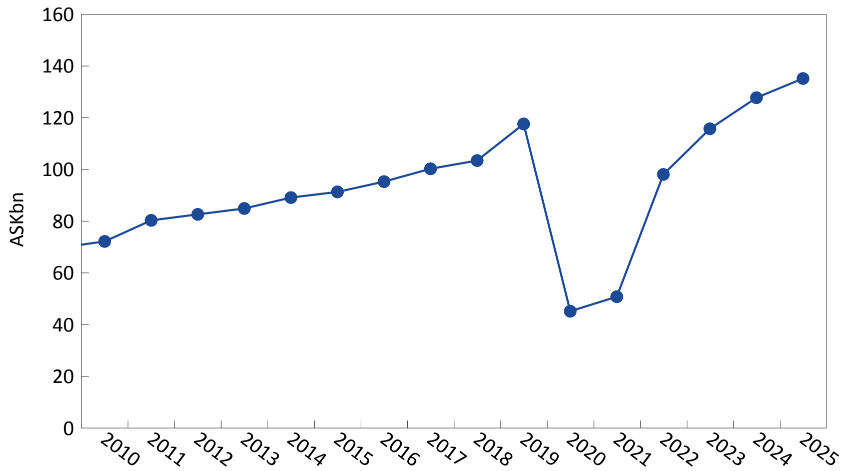
TAP is the 12th largest European airline (depending on which measures you use) with passenger traffic in 2024 of 16.1m and a fleet of 101 aircraft.

It is based at Lisbon's Humberto Delgado Airport — the twelfth busiest in Europe with 35mppa (and the busiest single runway airport on Continental Europe) — where it controls half of the slots. Lisbon is a natural geographic gateway hub to South America, and particularly Brazil where, given strong linguistic and cultural connections, there is good point-to-point O&D demand that can support hub-feed operations

TAP FLEET

Sept 2025	In service	*Avg Age*	On Order
A330	3	*17.5*	
A330neo	19	*6.4*	2
A319	3	*24.1*	
A320	14	*19.5*	
A320neo	16	*4.4*	10
A321	3	*23.7*	
A321neo	11	*5.2*	
A321neoLR	13	*5.2*	9
E190	12	*14.6*	
E195	7	*14.5*	
Total	**101**	***10.5***	**21**

SOUTH ATLANTIC CAPACITY

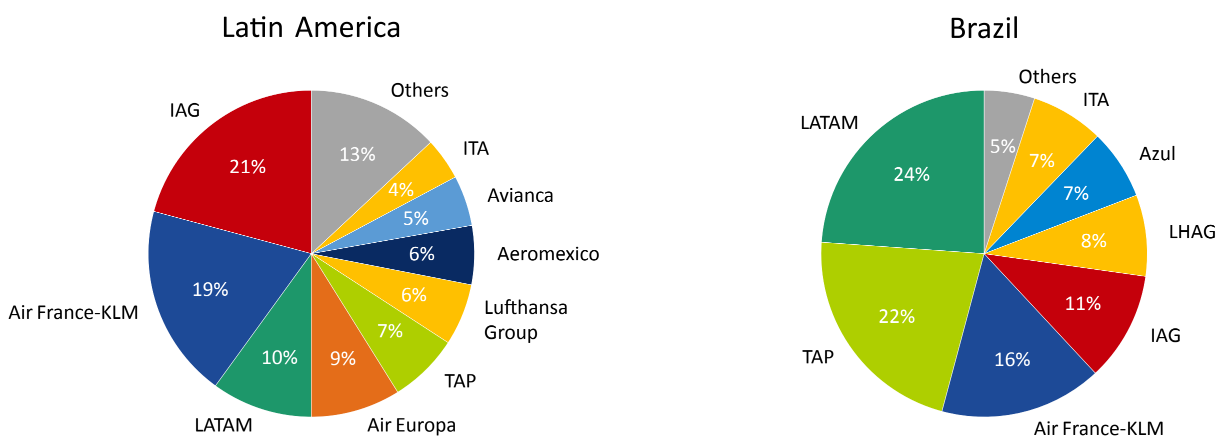


throughout its European network (50% of its Brazilian traffic transfer from or on to connecting flights). TAP is the largest European operator to Brazil serving 13 destinations in the country, and accounts for 22% of the capacity on the route (see graph below), just behind LATAM on 24%. Brazil accounts for half the airline's long haul capacity (in ASKs) and a third of the airline's total output.

During the Atlantic Gateway management period, TAP doubled its services to North America where it now serves 10 destinations. (Thanks to the delights of spherical geometry, it offers the shortest flights between Europe and the East coast of the US.) Constrained at Lisbon, it has also added flights from Oporto, Portugal's second largest city to Boston and Newark (and an intriguing route between the Azores and San Francisco). The North American routes account for 20% of its total capacity.

Seen as strategically important by the Portuguese Government are the links to the other lusophone destinations — Angola, Mozambique, Cape Verde, São Tome y Principe and Guinea Bissau — as well as the Portuguese autonomous regions in the

SOUTH ATLANTIC CAPACITY SHARE 2025

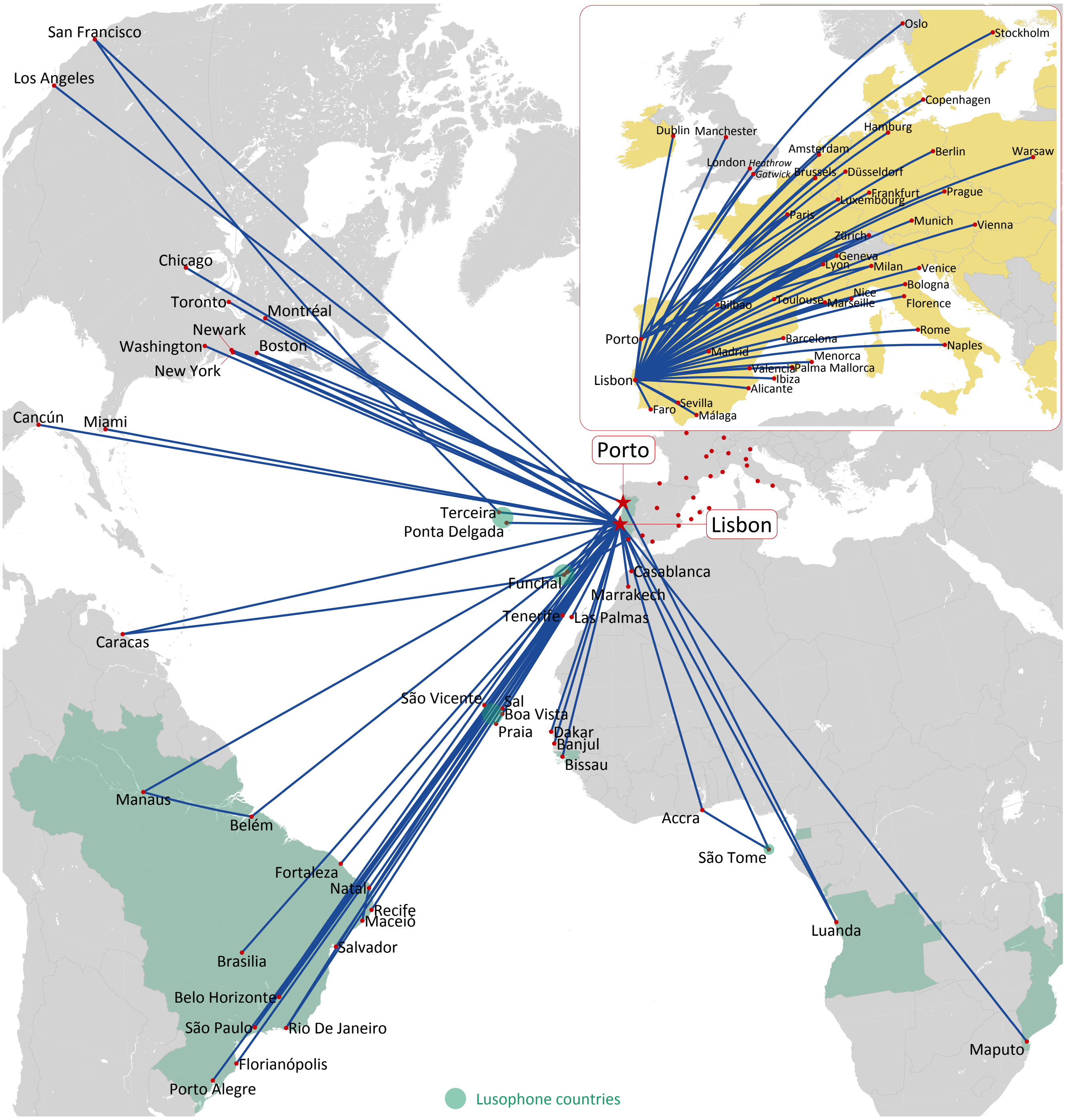


Atlantic of the Azores and Madeira. Important niche destinations they may be, but operations on these routes account for less than 10% of TAP's total capacity.

European short haul operations account for a third of total output, but TAP concentrates its services into Lisbon, to feed its hub, while offering a handful of routes from Porto.

Portugal in a European context is a favoured tourist destination: in 2024 the country, with a population of 11m, welcomed 29m non-resident visitors, with a vast influx from cold

TAP ROUTE NETWORK



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

TAP: FINANCIAL DATA (€m)

Year to end Dec	2020	2021	2022	2023	2024
Revenue	1,060	1,389	3,485	4,215	4,242
Operating result‡	(965)	(1,489)	249	386	383
Net income	**(1,230)**	**(1,599)**	**66**	**177**	**54**
Operating Cash Flow	(314)	(29)	774	1,005	649
Net capex	(62)	(24)	(148)	(175)	(352)
Investments	(94)	(85)	(93)	(50)	(37)
Free cash flow	(470)	(138)	533	781	261
Debt	573	(567)	(717)	(896)	(723)
Equity		998	294		343
Total cash flow	**103**	**293**	**110**	**(115)**	**(119)**

@ end June	2025
Aircraft∗	2,282
Other fixed assets	913
Intangible assets†	219
Other LT assets	618
Current Assets	2,138
of which Cash	*1,167*
Current liabilities	(2,239)
Net current Assets	(101)
Debt and Leases	(2,512)
Deferred tax	(138)
Pensions and provisions	(598)
Equity	**683**

Notes: ‡ underlying; ∗ Including Right of Use assets; † Including goodwill

northerners in the UK, France and Germany. And the vast majority of European tourists target the Algarve (the most convenient airport being at Faro) or the Douro valley near Porto. The low cost carriers have made huge headway: Ryanair and easyJet between them carry nearly 50% of passengers.

Lisbon airport is conveniently situated — only 7km outside the city centre — but is heavily slot-constrained. The Portuguese have been discussing a replacement for the past 35 years. A new airport had been planned to open in 2017, but was abandoned after the IMF/EU bail out in the wake of the Global Financial Crisis. The Portuguese Government finally gave the approval in 2024 for a new two-runway airport to be built at Alcochete some 40km outside the city. To be named Luís de Camões Airport, it is not expected to open until 2034.

Recent results

TAP Air Portugal achieved its best ever operating margins in 2023 and 2024. It benefited strongly from the general squeeze on capacity and ticket price inflation in the industry while keeping a tight control on costs as it restructured under government ownership.

But so far in 2025, its financial results have been under pressure. For the nine months ended September it achieved a 3% growth in capacity and 6% in traffic (3% growth in passenger numbers), but a 2% decline in unit revenues. Total revenues were on a par with those in the prior year period at €3.3bn. Benefitting from a more benign fuel price this year total unit costs grew by 1%, but underlying unit costs excluding fuel increased by 6%. Underlying operating profits fell by a third to €227m providing an operating margin of a mere 7%.

The company points out in its presentation on the results that "punctuality at its Lisbon hub remains a challenge". Affected by strikes, air traffic control and infrastructure constraints, TAP achieved an on-time performance (within 15 minutes) at Lisbon of only 52% for the nine month period. It takes some ironic satisfaction that its 46% on time performance in the third quarter was better than the 42% achieved by all airlines at the airport in the period.

And then, just before the deadline for offers, TAP's HQ was raided by police over suspicions of fraud in the 2015 privatisation involving Atlantic Gateway ten years ago. The Communist Party leader Paulo Raimundo bluntly said "we had already established that TAP was bought with TAP's money, TAP's aeroplanes were bought with TAP's assets, [there was] no investment from those who supposedly bought TAP. And so, let the investigation be carried out".

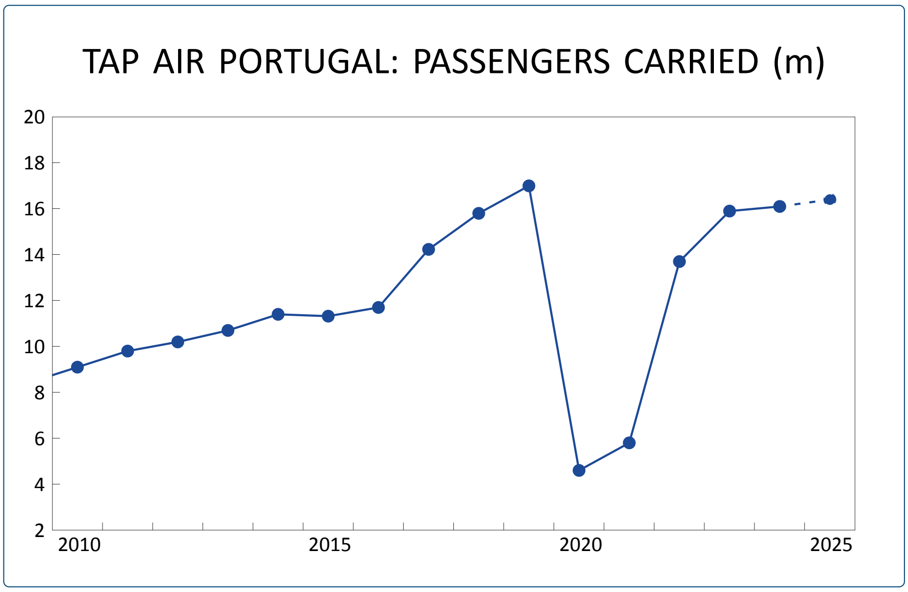
Who will get the deal?

As the deadline passed on 22 November, Portugal's state holding company Parpublica stated that it had received only three expressions of interest for the offered stake in TAP — all from the three European major network carriers, IAG, Lufthansa Group and Air France-KLM. Parpublica said in a statement it has until December 12 to assess whether the interested airlines meet the criteria, including at least one year of revenue above €5bn in the last three years and financial capacity.

IAG has said that it views TAP Air Portugal as complementary to its Iberia/Aer Lingus/BA/Vueling portfolio. IAG emphasises that a TAP investment could be used to build Lisbon as a trans-Atlantic gateway in parallel with its Iberia operations in Madrid — seeing them as complementary hubs with differentiated traffic flows (Portugal's lusophone vs. Iberia's hispanic flows). IAG's successful integration of Aer Lingus — maintaining the brand as an independent carrier, growing long-haul from Dublin without collapsing routes into London — is seen as the precedent for how TAP might be treated within IAG. A positive for IAG is its very "plug-and-play" corporate structure: common "back-office" non customer-facing functions (purchasing, planning, FFP) while keeping the individual airline brands independent, each competing for efficient use of the Group's capital. IAG has also been explicit in saying it would expand Lisbon's hub role if it were to invest.

According to *Reuters*, a spokesman for the Group stated: "TAP will have significant potential within IAG … Our track record demonstrates how we invest to strengthening our airlines, benefiting customers, employees, local economies and shareholders". However, he apprently stressed that "several issues need to be clarified before IAG can propose an investment".

It would no doubt want to bring TAP within the oneworld alliance (and hope that it could bring TAP into the transAtlantic immunised joint venture with American). IAG might largely avoid political objections by arguing that Iberia and TAP serve different national interests and markets — though the government will still insist on enforceable hub and route protections, and despite historic antipathy between Spain and Portugal. IAG has the financial strength and, following the failure of its bid to acquire Air Europa, has no ongoing integration deals.



Lufthansa Group and Air France-KLM are also evident suitors. Both cite potential network and joint-venture synergies, particularly for feed into global networks and for strengthening European connectivity. For Lufthansa, a TAP stake would strengthen connectivity into Latin America and lusophone Africa, where it is relatively weak, while giving better access to Portugal's tourist/leisure flows. Lufthansa said its aspirations as an investor took into account TAP's "great strategic importance to the European aviation industry".CEO Carsten Spohr stated: "As a long-standing partner in the Star Alliance and with our extensive investments in Portugal, we continue to see the Lufthansa Group as the best partner for TAP and for Portugal."

Air France-KLM might see TAP as a complementary feeder and a way to shore up French/Portuguese market access and increase its presence to give the Group a commanding position on the South Atlantic (and a third of the capacity into Brazil). Both groups, as in the case of IAG, would bring deep operational and alliance expertise that could extract synergies on procurement, maintenance and engineering. But neither have the clear corporate structure that IAG has; and both are in the process of ingesting new problem acquisitions: SAS for Air France-KLM and ITA for Lufthansa. The Portuguese government has voiced a preference for a partner that will not simply subsume Lisbon into a rival hub. Both Lufthansa and Air France-KLM would need to make credible guarantees to preserve Lisbon's hub status.

A minority investment is clearly not ideal: all three would want the opportunity to take a majority stake and have full control at some time.

Morocco: The LCCs and Royal Air Maroc

FOR CERTAIN travellers, of a certain age, Morocco evokes images of, say, a gin joint in "Casablanca" where Sam plays, just once, "As Time Goes By"; of Captain Renault being "shocked, shocked" as he pockets his bribe; of Rick telling Ilsa that they would "always have Paris" before she leaves on the plane with Laszlo. Then there is Crosby, Stills and Nash promising eternal sunlit freedom for the hippies boarding the "Marrakesh Express". Or even a dissipated William S Burroughs furiously typing in his hotel room in Tangier, a city of intrigue that became Interzone in his surreal novel "Naked Lunch".

Today Morocco has become a major tourist destination, and travellers are less likely to be hopeless romantics. Rather, they are attracted by the spectacular beaches and resorts of Agadir and Taghazout on the Atlantic coast or Tamuda on the Mediterranean. Marrakesh remains the main tourist destination but now has plenty of luxury and boutique hotels as well as souks. The slightly more intrepid can explore the labyrinthine medinas of Fez and Rabat. There are ski resorts in the Atlas mountains.

This year about 19m tourists are expected to visit Morocco, a record and about 46% above prepandemic 2019. Official policy is to attract 26m tourists by 2030, a key date as this is when Morocco will co-host the football World Cup along with Spain and Portugal. Politicians are generally over-optimistic about the short-term costs and long-term benefits of one-off events like the World Cup or the Olympics. But Morocco does have an established long term tourism strategy, with the aim of ultimately making the country one of the top ten global tourist destinations with 36m visitors (for comparison, Spain has about 95m visitors a year).

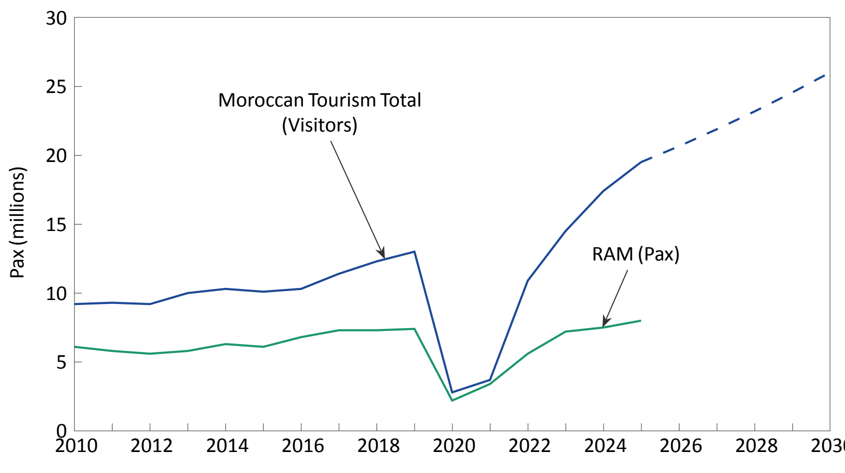
Under King Mohammed VI, a relatively enlightened but still absolute monarch, Morocco has adopted of policy of modernising the economy over the past 20 years. A recent high-profile gain was the decision by Safran to locate a new assembly line for LEAP aeroengines in Casablanca, following the completion of a MRO facility there.

Despite such successes, all is not well in the Kingdom. This year has seen widespread protests by Gen Z (born 1997-2012, the first internet generation) which has led to suppression and some deaths. The protests are about lack of prospects, inequality, corruption, and money wasted on grandiose projects. Morocco is very close geographically to the EU but economically still very far. Spain lies just 12km to the north across the Strait of Gibraltar (in fact, Morocco shares a land border with the Spanish enclaves of Ceuta and Melilla in North Africa), but GDP per capita in Morocco is €4,400 whereas it is about €35,000 in Spain.

Enlightened liberalisation and the LCC invasion

Opening up the country to tourism has been the main strand of the modernisation policy of the Moroccan government. Following a 2003 World Bank report which recommended air transport liberalisation and also highlighted the growing importance of European LCCs in delivering tourism (and which incidentally was co-authored by *Aviation Strategy* consultants), Morocco made a genuinely radical move in signing an

TOURISM AND TRAFFIC TRENDS



Note: One tourist visitor approximately equivalent to two airline passengers

Open Skies agreement with the EU in 2006, which, when fully implemented in 2018, meant that Morocco became part of the EU commercial air transport market, in the process exposing the national carrier to new intense competition.

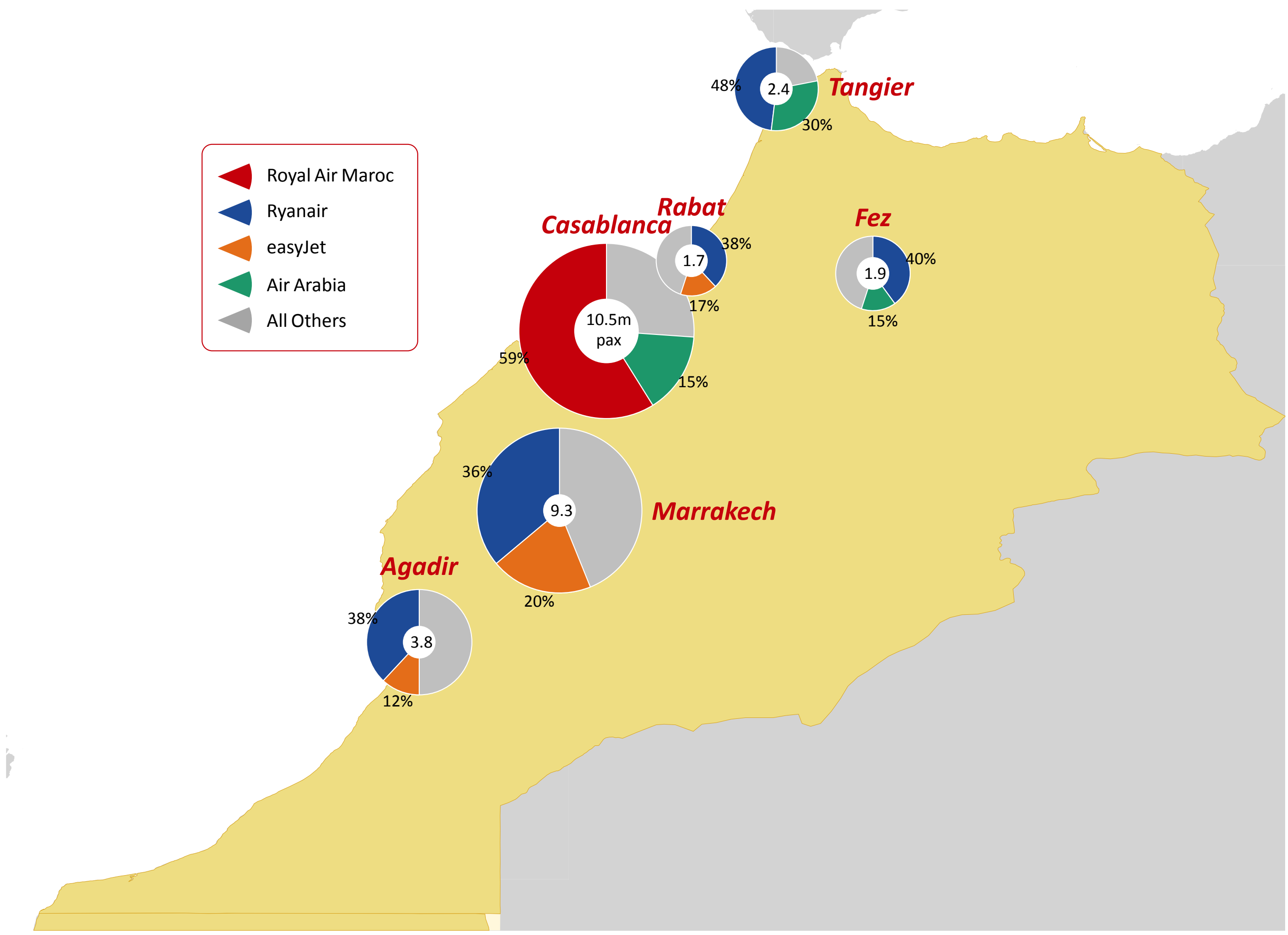
Previously the Morocco-Europe market had been dominated by a duopoly of Air France and Royal Air Maroc (RAM, pronounced *la raum*). Services to/from French regional cities and Morocco were divided up between the two carriers, while in the Parisian market Air France flights went to CDG and RAM operated to Orly.

Although France remains the most important tourism and business market for Morocco, and Casablanca-Paris is still by far the most important city-pair, RAM has thrown off its colonial dependence on Air France. Notably, in 2020 RAM joined the oneworld global alliance rather than allying with France-KLM in SkyTeam.

The continued existence of RAM, established 1953, was never in much doubt simply because it was and still is a key state asset and employer, through the commercial impact on the flag-carrier of opening the Moroccan market has probably been substantial (see below). The CEO of the airline, Abdelhamid Addou, has started to call for a revision to the open skies bilateral, complaining about a lack of access to key European airports in contrast to the expansion of LCCs in the Moroccan market. He cannot complain too much, however. as the Moroccan government has fully welcomed the surge in tourism associated with the LCCs: according to a 2023 study by Oxford Economics, tourism supported by aviation contributes $8.5bn to the country's GDP and employs 680,000 people.

Still, back in the early 2000s no one really appreciated the scale of the LCC invasion into the Moroccan mar-

MOROCCO: MAJOR AIRPORTS AND AIRLINE MARKET SHARES 2024



Source: Aviation Strategy estimates

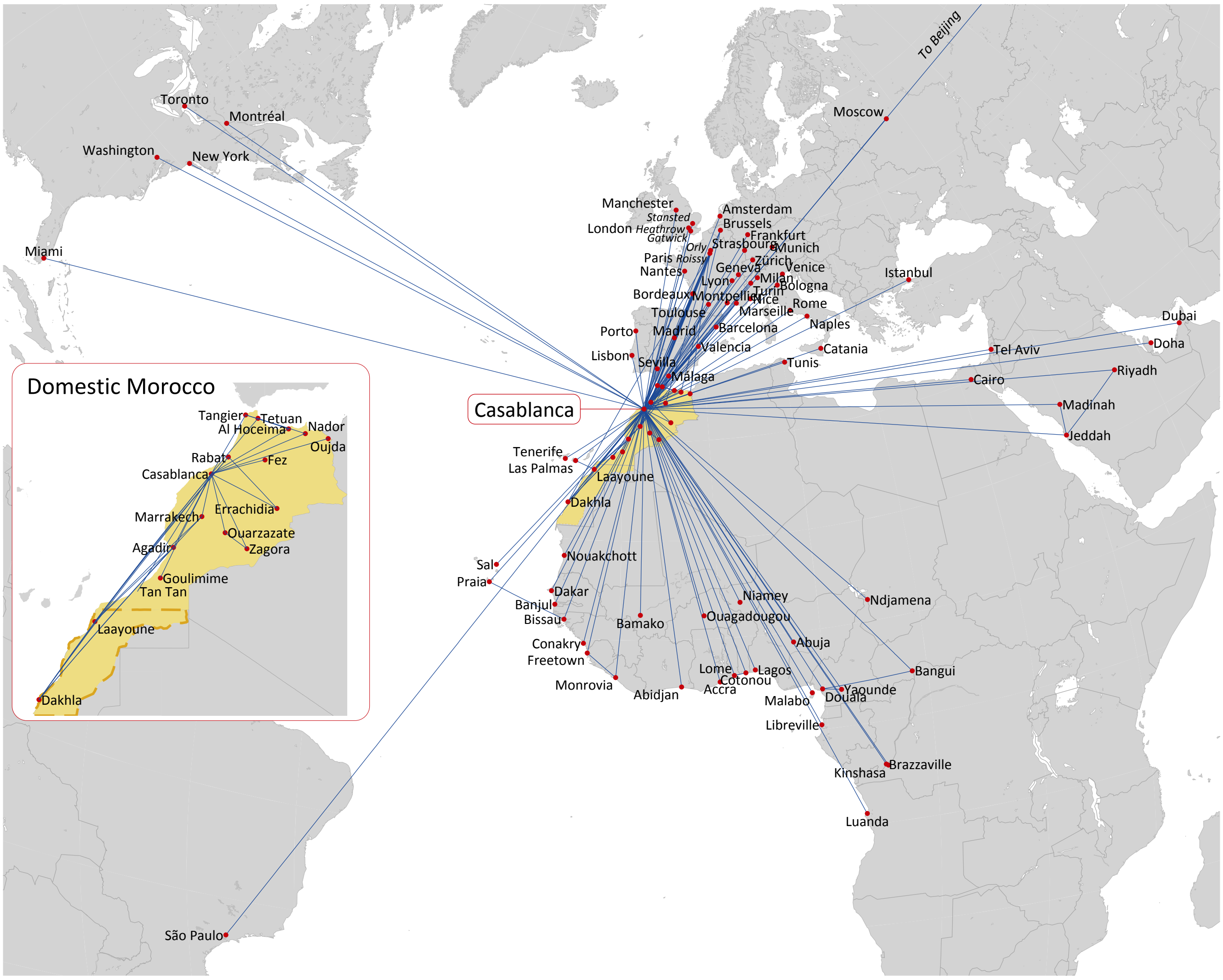
ket, yet alone the fact that an Irish airline could become a major player in an African domestic market. We estimate that the main LCCs now account for just over half of total Moroccan seat capacity, compared to about 25% for RAM and 25% for all others.

The LCCs have developed new tourism markets beyond the traditional France, notably the UK and Germany. They also tap into significant VFR flows (Moroccan nationals visiting from abroad from Europe are included in the overall tourist totals). There are about 4m Moroccans living in Europe, roughly half in France and Belgium, the rest mostly in Spain, Italy, the Netherlands and Germany.

Michael O'Leary seems to love Morocco, praising the regulatory regime and even the national airport charging policy, a sharp contrast with his views about almost every other country Ryanair operates to. For the summer of 2025 the airline based 14 737s in Morocco (seven at Marrakech, three at Fez, two at Agadir, and two at Tangier). Ryanair operates over 200 international routes to/from Morocco. Having launched in the domestic market in 2024, Ryanair has plans to rapidly expand its 11 internal routes. In terms of passengers carried Ryanair will probably reach 6m in 2025 compared to an estimated 7.8m for RAM, and it claims to have invested US$1.4bn into Morocco (we suspect that this figure is the value of its aircraft based in Morocco).

At the beginning of this year Ryanair started flying to Dakhla from

RAM: ROUTE NETWORK



Note: main map uses azimuthal equidistant projection based on Casablanca: great circle routes thence appear as straight lines.

Madrid and Lanzarote. Dakhla is a city of just over 100,000 people located 400km north of the Mauritanian border, in Western Sahara (formerly Spanish Sahara). This strip of land (in fact, it is half the size of France) is disputed territory between Morocco, Algeria and the local militia, the Polisario Front, and has been the scene of some vicious fighting. It is suspected that Ryanair and other airlines are being incentivised to fly into the Western Sahara, establishing new tourist centres there, and legitimising Morocco's claim. In any case, the USA has recently recognised Western Sahara as being *de facto* part of Morocco, apparently in return for Morocco recognising Israel.

Morocco has also become an important market for other LCCs. easyJet is setting up a three aircraft base at Marrakesh, and it has a major presence at Agadir and Rabat. Transavia operates to most cities in the country. Jet2 and TUI are expanding their Inclusive Tour packages.

Air Arabia Maroc has a base at Tangier and is the second airline at Casablanca. This airline is a joint venture between Air Arabia, based 6,000km away in Sharjah, which owns 41% of the equity and local Moroccan investors and banks which have 59%. It has a fleet of 11 A320ceos and flies primarily to western Europe but also domestically. No financial results are available but its parent airline, Air Arabia, is one of the most profitable carriers in the world, reporting a net profit of AED1.42bn (US$385), a margin on revenues of 26% for the first nine months of 2025.

RAM's finances and potential order

RAM's finances are opaque. The company does not publish an annual report nor financial results. A financial summary is supposed to be filed with the Ministry of Economy but accessing this a fruitless task — the official website has been down for at least the past six months.

The Transport Minister, Abdelssamad Kayouh, has stated in parliament that RAM achieved revenues of MAD20bn ($2.2bn) in 2024 but instead of reporting a net result the Minister continued by stating that the airline had cleared MAD935m ($100m) in tax debt. At the recent assembly of the Arab Air Carriers Organization, which was held in Rabat, RAM's CEO announced that he expected "very positive" results for 2025, but he didn't say what they might be.

RAM is a 98% state-owned company (Air France owns most of the other 2%), operating a fleet of 62 aircraft — 40 737s, 11 787, a single 767 Freighter and 10 turboprops. The 737-800 fleet is ageing, on average 15 years old, and four are parked. In 2024 7.5m passengers were carried but at a load factor only in the mid-70s.

It has retreated from the regional airports in Morocco, leaving those to the LCCs, and concentrating activities at Casablanca where it controls almost 60% of the capacity, with a smaller base at Rabat, the political capital. 737s are operated on the short/medium haul routes to Europe and medium-haul routes to West Africa, while 787s are deployed to North America where RAM serves New York, Washington, Miami, Toronto and Montreal, and there is also an operation to São Paulo in Brazil, started up last year. It has recently filed an application with the US DoT for a new service to Los Angeles. RAM is a full-service airline with business cabins on both the 737 and 787 fleets. Skytrax awards it four stars, but internet reviews of its service are a bit mixed.

RAM FLEET

	In service	*Avg Age (y)*
737-800	28	*16.9*
737 MAX 8	12	*4.2*
787-8	5	*9.9*
787-9	6	*4.9*
767F	1	*26.7*
ATR 72	6	*12.3*
ERJ 195	4	*11*
TOTAL	**62**	***12.4***

Given the scale of the fleet, the intensely competitive environment on Morocco-Europe, the unclear logic behind the long-haul network and the inevitable state control inefficiencies, it is difficult to see how RAM could be commercially successful. Indeed, in the 2010s RAM was reported to have received MAD9.3bn ($1.0bn) in restructuring aid from the government. And in 2020, the government allocated MAD6bn ($660m) in the form of equity and state-guaranteed loans to support the carrier during the pandemic. Because of the Morocco-EU open aviation agreement RAM could in theory be subject to the state same state aid rules as the European airlines, but this is not an issue at present.

However, RAM has announced plans which, if they are enacted, would greatly raise the airline's profile. In early 2024 RAM issued a call-for-tender for up to 200 aircraft to be delivered by 2037. As at the end of October 2025 details of the order were still being finalised, according to the CEO, but some details have filtered out. There will be 150 narrowbodies and 50 widebodies, with Airbus, Boeing and Embraer having been approached. Airbus would seem to be the favourite ahead of RAM's usual supplier, Boeing. No financial details have been revealed for an order worth around $15bn, the type of order normally associated with a super-connector.

RAM expects to receive an average of 15 new aircraft annually from 2028 (which seems optimistic given current backlogs) in order to achieve its official target of 32m passengers by 2037. In the meantime, it will lease in up to 13 aircraft per year. Avolon is delivering six 737MAXs this year.

The government has also a plan — Airports 2030 — to invest MAD38bn ($10bn) improve airport facilities throughout the country and in particular to develop Casablanca Mohammed V Airport where it has launched a tender for a new terminal that will increase capacity to 35m passengers by 2030 from the current 10.5m.

The key element in RAM's future strategy is to develop as a connecting carrier, funnelling traffic flows from Europe and North America through a hub at Casablanca to West and South Africa. This sounds like a Maghrebian version of the hub system that Ethiopian Airlines has successfully built at Addis Ababa with the help of the Chinese.

The African hub strategy has potential. As well has having strong local traffic demand, Casablanca is geographically well positioned between Western Europe and West Africa. The map on page 9 shows the extent of the network in Africa in terms of points served, but this is slightly illusory, as most of the seat capacity, 90%-plus, is deployed on northern routes while services to the south remain constrained by government restrictions. The 1999 Yamoussoukro Treaty and the 2018 African Union's Single African Air Transport Market (SAATM) initiative have yet to be adequately implemented. Nevertheless, RAM does market connecting flights from, for example, London through to cities like Lagos, Accra, Abuja and Kinshasa, all important markets that are woefully underserved by direct services.

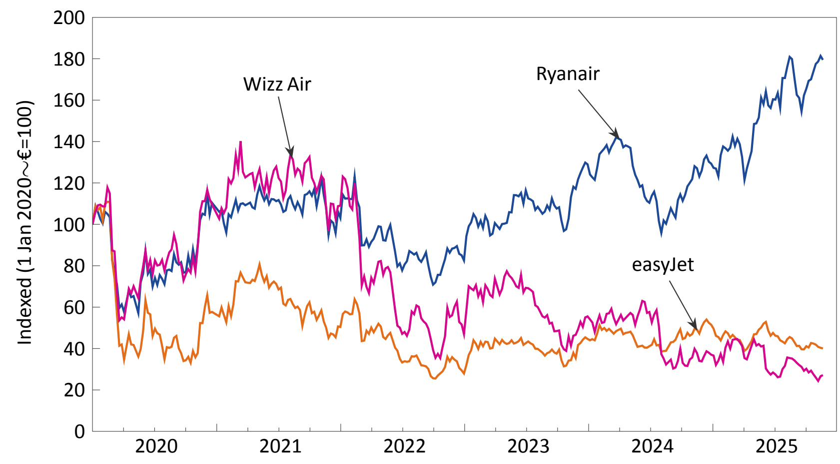
Morocco has transformed its tourist industry by adopting air transport liberalisation, in the process disturbing vested interests. It may need to continue further along this path with its flag-carrier. For the proposed Casablanca hub to work RAM needs to escape from state control and find an investor with financial resources and expertise in hub building and operations. As Captain Renault once said, "Round up the usual suspects" : THY, Emirates, Qatar?

Relative Values: Ryanair, easyJet and Wizzair

RETURNING to a familiar theme, Ryanair CEO Michael O'Leary has opined that Wizzair remains in financial trouble and could disappear while easyJet will end up as part of one of the network carrier groups, leaving Ryanair as the sole independent LCC force in Europe. To add some non-rhetorical data to the proposition we have compiled some comparisons for the three LCCs (see graphs on page 15).

Fitrst, a summary of the relative sizes, using comparable traffic data for the 12-month period up to June 2025. In terms of passengers carried, Ryanair is by far the largest with over 203m passengers, more than twice easyJet's 93m and over three times Wizzair's 65m. Ryanair is also the largest in terms of revenues (calculated from quarterly or half-year data) is not quite as dominant: €14.7bn, about 50% above easyJet and 170% above Wizzair.

LCC SHARE PRICE PERFORMANCE



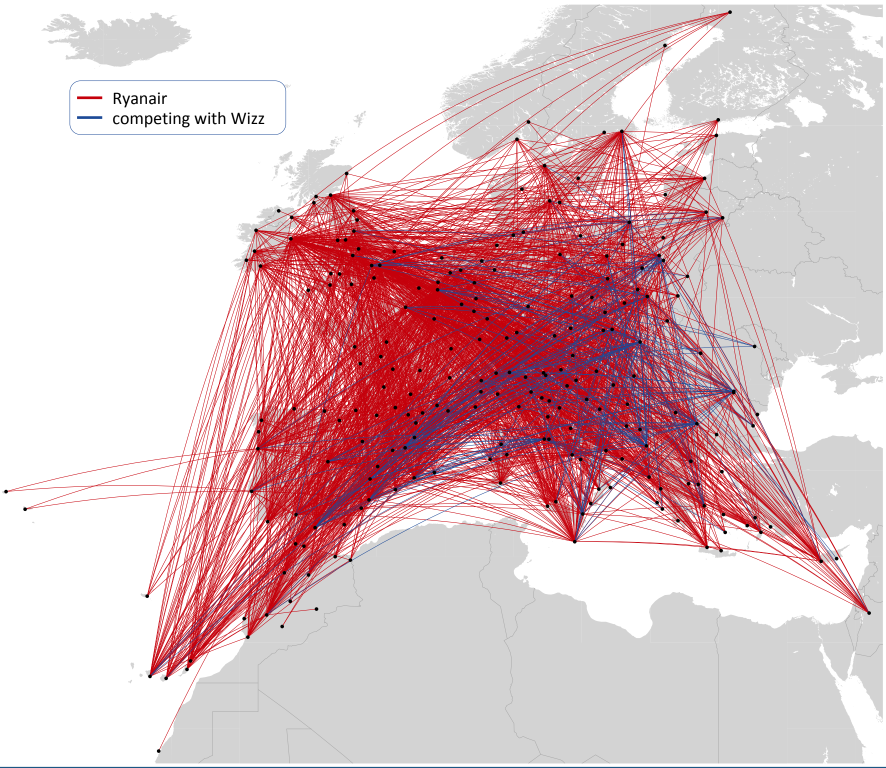
Ryanair's network (in terms of routes flown, not seat capacity) simply dominates Europe. Some 15 years ago some analysts predicted an imminent saturation point where Ryanair would be unable to find any more viable routes. Ryanair defied these forecasts and continued to add the most unlikely of points to its network. The red splodge on the map on the next page represents the current state: a total of 2,458 city-pairs and 2,555 airport-pairs. About 79% of the city-pairs have no mainstream LCC competition (there may be other regional carriers or niche carriers on some routes).

The maps also show where Ryanair comes into direct competi-

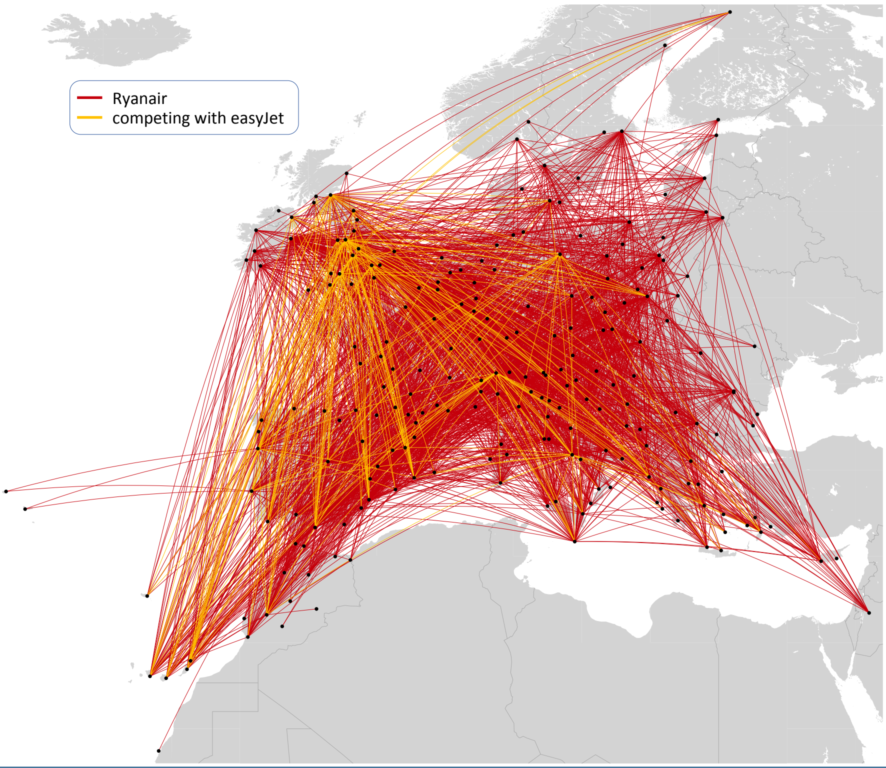
LCC FLEETS

	Ryanair			easyJet			Wizz		
	In service	**Age**	**Orders**	**In service**	**Age**	**Orders**	**In service**	**Age**	**Orders**
737NG	411	*13.4*							
737MAX	204	*2.7*	161						
A319				82	*17.0*				
A320ceo	26	*18.1*		180	*11.6*		29	*11.2*	
A320neo				75	*4.4*	125	6	*5.3*	
A321ceo							39	*8.1*	
A321neo				19	*5.0*	165	170	*2.6*	281
Bombardier Challenger 3500	3	*0.6*							
Total	**644**	***10.1***	**161**	**356**	***11.0***	**290**	**244**	***4.6***	**281**

RYANAIR OVERLAP WITH WIZZ



RYANAIR OVERLAP WITH EASYJET



tion with Wizzair or easyJet. The blue patch centred on Eastern Europe is where Wizzair and Ryanair fly the same routes — the competing routes represent just 9% of Ryanair's total but 27% of Wizzair's.

Is this degree of overlap sufficient to ensure that a Ryanair/Wizzair merger would be blocked by anti-competitive objections? Probably, but there are still some decent arguments for such a merger, at least from Ryanair's perspective.

The purchase price might be right. Wizzair's stock market capitalisation is about €1.42bn dwarfed by Ryanair's is €28bn. Expressed in terms of valuation per seat (which are similar in terms of unit revenue) Wizzair is worth €19 or 14% of Ryanair's €135.

A takeover would give Ryanair a dual Boeing/Airbus fleet, something that it has been seeking for some time in order to maximise competition between the two manufacturers. Access to Wizzair's order backlog of approximately 300 NEOs would solve most of the MAX supply problems impacting Ryanair.

On the other hand, Ryanair and its investors might find the gap between its and Wizzair's financial performances to be too wide and risky to take on. Yields in terms of passenger revenue per passenger are similar — €46 for Wizzair, €48 for Ryanair — but unit costs excluding fuel per seat are 44% higher at Wizzair, €49 against €34. And Wizzair's balance sheet is stressed: net debt including capitalised operating lease obligations is €66 per seat at Wizzair in absolute contrast to -€6 at Ryanair (it is negative because cash balances are greater than debt).

The two airlines' fleet strategies are going in opposite directions. Wizzair has just reached an agreement with Airbus to defer 88 A320 NEOs deliveries from 2026-2030 to 2033 and after. It has also converted 36 A321 XLR orders to A321 NEOs, having seemingly abandoned plans for long-haul operations following the failure of its Abu Dhabi base. The aim is to halve Wizzair's planned seat capacity growth to around 10% pa up to 2030, but this still looks too aggressive.

Ryanair currently operates 616 737 NGs and MAXs and has 161 MAXs on order, and it also has the Lauda fleet of 26 A320s. The short/medium-term plan is for 800 737s and probably 200 A321 NEOs.

This implies a resumption of the aggressive growth that characterised Ryanair's most successful periods and indicates confidence that the MAX production problems have been resolved. If achieved, this growth should allow Ryanair to maintain its distinct cost advantage. Ryanair has a total unit cost advantage of 27% over Wizzair and 70% over easyJet.

The easyJet/Ryanair overlap is mostly centred on the UK and flows south — the orange patch on the map on the preceding page represents routes flown by both carriers. 22% of easyJet's city-pairs overlap with Ryanair; for Ryanair the overlap is equivalent to 12% of its network.

The easyJet and Ryanair models have diverged over the years. Ryanair has maintained a laser-like focus on costs, and re-educating passengers as to how to fly, its latest move being to practically oblige all passengers to check in using its phone app rather than using a print-out of a boarding pass. easyJet's onboard service is not noticeably different from Ryanair's (both are usually friendly), but easyJet has been able to extract a premium by flying to/from primary airports and also by having more customer-friendly timings on some routes. So easyJet's passenger revenue per passenger at €73 is about 50% higher than Ryanair's.

Incidentally, easyJet has just celebrated its 30th birthday and produced a report proclaiming the benefits in has brought to travellers and the economy. One of the more interesting observations : when easyJet was just starting out, it advertised the fact that a flight from London to Glasgow at £32 was cheaper than a pair of jeans (it was a slightly odd comparison even at the time). Today easyJet could claim, if it wanted to, a major

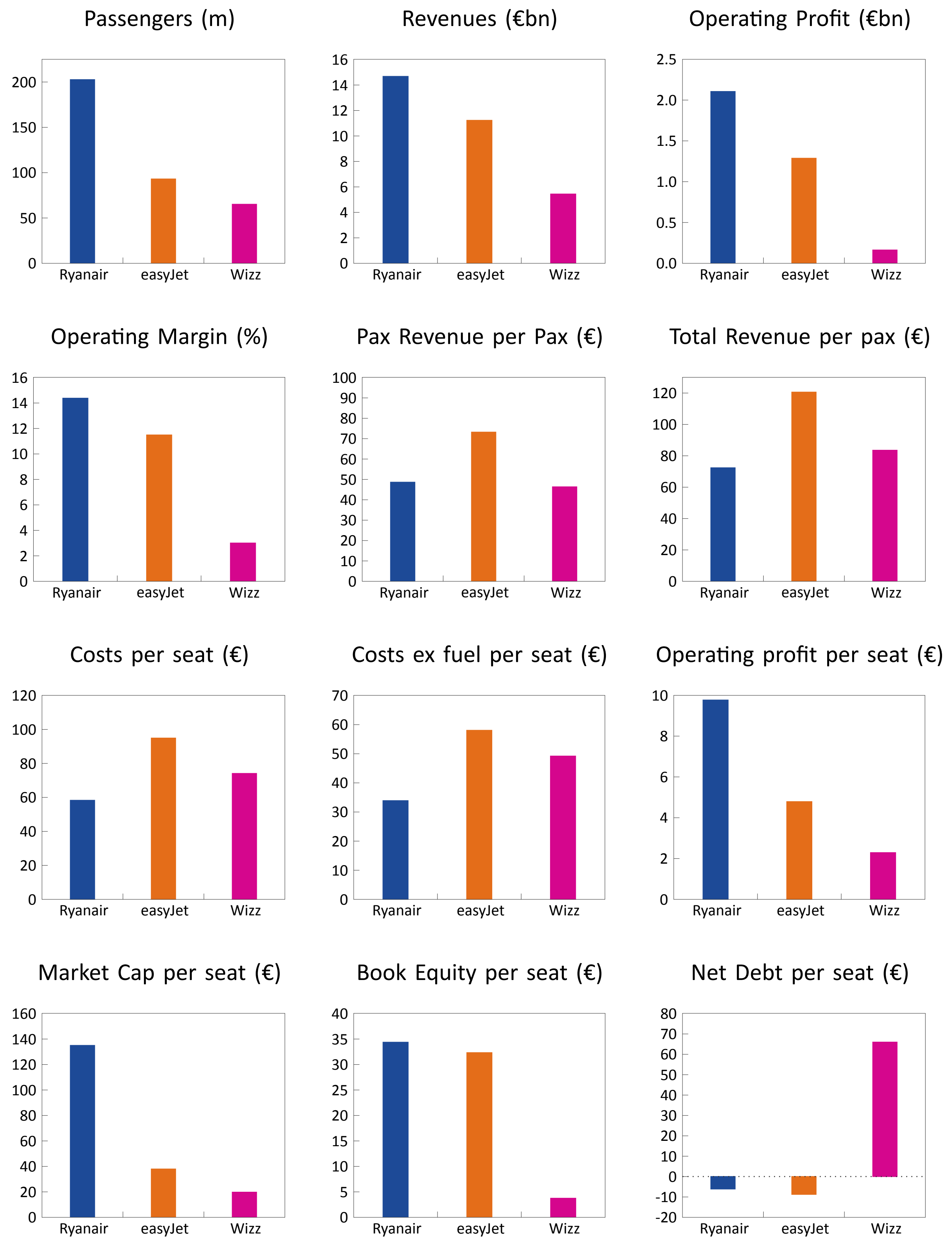
LCC AIRPORT PAIR OVERLAP

		Overlap with...				
	Unique	Ryanair	easyJet	Wizz	All	Total
Ryanair	2,195	–	207	175	14	2,555
easyJet	997	207	–	43		1,261
Wizz	697	175	43	–		929

LCC CITY PAIR OVERLAP

		Overlap with...				
	Unique	Ryanair	easyJet	Wizz	All	Total
Ryanair	1,948	–	267	213	30	2,458
easyJet	848	267	–	31		1,176
Wizz	619	213	31	–		893

LCC KPIs (12 months to June 2025)



Note: easyJet numbers (and Wizz market cap) translated at €1.137/£

cost advantage over a pair of Levis, which are now priced at about £100 whereas easyJet's starting fare is just £26.

In recent years easyJet's major initiative has been the development of its Holiday product, traditional two-week packages and city breaks, but with an emphasis on quality. It has just launched its Luxury Collection — 70 five-star hotels across Europe and North Africa. The impact on total revenue per passenger has been marked — it is now about €120 per passenger, 66% above Ryanair's €72.

Yet the stockmarkets do not appear to appreciate easyJet's strategy. Its book equity per seat is €32, close to Ryanair's €34, but the stockmarket valuation is €38 against €135. This has led to led to M&A speculation. Back in 2021 Wizzair made a tentative offer and was repulsed, and there doesn't seem it be any desire to explore this merger idea despite the fact there is minimal overlap between the two networks, and they are both have NEO fleet policies. Earlier this year there were reports that MSC, the world's largest maritime container-line was interested but nothing came of the rumours. Private equity funds are supposed to be lurking in the background. easyJet might benefit from being taken private because of the scale of its capex programme. About 80 out of its backlog of its 290 NEOs are due for delivery up to 2029, implying capex of up to €4.4bn.

Overall, profit margins for the European LCC industry have been relatively modest. In our review period, Wizzair produced an EBIT margin of 3.0%, easyJet, 6.4% while Ryanair achieved 14.4%, but even this was well below the peak in 2018 of 22.5%. Still, the European LCC sector compares very well with the US equivalent where, through a combination of self-inflicted wounds (mostly failed mergers) and a much more effective competitive response from the network carriers, the sector has slumped.

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