

Buying of Strategic Stake in Indonesia Carrier by Singapore's Tiger Airways

Gurpartap Singh*

Singapore budget airline Tiger Airways bought a 33 percent stake in the troubled Indonesian carrier PT Mandala Airlines as part of its regional expansion plans. This investment made Tiger Airways the second biggest shareholder in Mandala, which underwent financial restructuring after being grounded due to massive debts. After the restructuring, Indonesian investment company Saratoga Group holds a 51.3 percent stake while the remaining 15.7 percent is held by Mandala's previous shareholders and creditors. In statements issued to the press, Tiger said that the investment in Mandala will be held through a wholly-owned subsidiary, Roar Aviation Pte Ltd and expected the firm's air operator's certificate to be reactivated and flights to resume quickly.

Mandala Airlines—which was owned by the Indonesian military until 2006 when private investors took over—planned to adopt Tiger Airways' low-cost carrier model and use Airbus A320 aircraft in its fleet. It aimed to fly within Indonesia and to international destinations within a five-hour flying radius. The number of aircraft, and the initial routes and destinations were to be announced depending upon the granting of approvals by the regulators and authorities, as announced by Tiger Airways, which is partly owned by Singapore Airlines.

Chief Executive of Tiger Airways Holdings Ltd. said that Mandala was the first of Tiger Airways' joint venture 'cubs' and represented a significant step in their efforts to expand their 'paw print' in the region.

Tiger Airways, having domestic operations in Australia, had been looking for expansion opportunities in Asia and a year prior to this acquisition it raised more than Sg\$158 million (\$126 million) in a rights issue to fund its plans, including the purchase of aircraft.

The acquisition, however, came at a time when Tiger Airways itself was struggling to rebuild its dented reputation after aviation regulators in Australia grounded its domestic services for six weeks due to alleged safety concerns. The suspension resulted in a major management shake-up in the airline, which is partially owned by Singapore Airlines and government investment arm Temasek Holdings.

Questions:

1. Do you think that Tiger Airways took the right decision to buy stake in Mandala Airlines? Suitably support your answer.
2. Comment upon the immediate plans of Tiger Airways for Mandala Airlines?

* Associate Professor, GJIMT, Mohali. E-mail: prof.gurpartap.singh@gmail.com