

Why Buying the Most Hated Airline Stock Might Be the Smart Move

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Note: the original article is provided as a separate file (attached to the email or downloadable from the website).

1. Reading Passage

An airline that lives or dies on holiday bookings might look like the last place to park your money during an era of expensive fuel and stretched household budgets. Yet there is a long-standing pattern in markets: just as a plane gains lift by flying into the wind, betting on airline recoveries tends to pay best when the mood is darkest. EasyJet, the Luton-based budget carrier, is the latest test case.

By almost every short-term measure, easyJet is the most unloved big airline in Europe. Its shares have fallen 31 per cent this year. The stock now trades at less than 0.8 times book value – a level it has only touched twice before, during Covid and in the wake of the 9/11 attacks. Even rivals are struggling: tour operator Jet2 is down by roughly a fifth, and travel group Tui recently reported a 7 per cent drop in quarterly bookings, with tourists waiting longer than usual before committing to a holiday.

The simplest explanation is that easyJet has been in the wrong slice of the market at the wrong time. Transatlantic flying, especially in premium cabins, has held up reasonably well. So have Europe's flag carriers, which have benefited from Asia-bound travellers rerouting away from the Middle East. None of that helps a carrier whose bread and butter is ferrying budget-conscious holidaymakers to beach and luxury destinations across Europe. Add in soaring fuel costs and weakening economies, and the industry is now thick with talk of mergers or even collapses.

But here is the catch. What easyJet does have is the foundation for a comeback. The company is debt-free – no small feat for an airline, since aircraft are expensive and the industry typically runs on borrowed money. A steady stream of new, more fuel-efficient planes is due by 2030, which should let easyJet carry more passengers at lower cost. Its £2.7 billion market value looks small relative to what the company actually owns, including coveted airport slots at top European cities – slots that bigger rivals would probably be barred from acquiring on competition grounds. If revenue grows the 7 per cent analysts expect, and operating margins recover from today's fuel-squeezed level to the pre-pandemic 10 per cent, easyJet's profit would triple. Today the company's enterprise value is just four times operating profit; in 2019 it was nine.

Some investors are already moving. German billionaire Klaus-Michael Kühne added another 5 per cent stake in Lufthansa this week, building on a 15 per cent position he first took in early 2022, when that airline was still climbing out of its pandemic slump. The pattern is unmistakably contrarian: buy when others are running. For now, airlines look like a darkest-before-dawn proposition, and being early to that view can be lonely. But as the author observes, when selling airline stocks feels like the obvious trade, buying them is often the smarter one.

2. Explanation

Europe's most unloved airline has lost nearly a third of its value this year – and that, paradoxically, is exactly why some investors are starting to circle.

What's Going On?

EasyJet, the budget British airline famous for ferrying tourists to Mediterranean beaches, has had a brutal year. Its stock is down 31% in 2024, and it now trades at less than 0.8 times its book value – the kind of bargain-bin valuation it last hit during Covid lockdowns and after 9/11.

The article argues that this gloom may itself be the buy signal. Fuel costs are punishing, household budgets are stretched, and rivals like Tui and Jet2 are also struggling. But contrarian investors – including German billionaire Klaus-Michael Kühne, who just bought more Lufthansa shares – are betting that the darkest moment is precisely when airline stocks turn around.

How To Think About It

The core idea is contrarian investing: when everyone agrees a stock is doomed, the bad news is already baked into the price, so any mildly good news sends it soaring.

- Think of buying a beach house right after a hurricane – the structure is fine, but everyone's panicking, so the price collapses. The patient buyer who waits for the storm to pass gets a discount the sunny-day buyer never will.
- Or think of a band whose tour bus broke down mid-album-launch. The tickets are cheap because the moment looks awful, but the songs (the planes, the airport slots, the customer base) haven't actually gotten worse.

Key Things To Know

- EasyJet's market value has shrunk to £2.7 billion, and the company is debt-free – a rare and valuable position for an airline.
- Its enterprise value is currently only about four times operating profit, versus nine times back in 2019 – meaning investors are paying far less for each pound the company earns.
- Klaus-Michael Kühne, the German billionaire behind logistics giant Kuehne+Nagel, raised his Lufthansa stake by another 5%, building on a 15% position he first took in 2022.
- EasyJet has been stuck in the wrong corner of the market: transatlantic and Asia-bound premium flying is recovering faster than the budget beach-holiday routes it dominates.
- If revenue keeps growing 7% a year and margins return to their pre-pandemic 10%, easyJet's profit would triple – a scenario the current share price refuses to price in.

Why It Matters

If you've ever booked a £30 flight to Spain, you've used the business model under pressure here. But beyond travel plans, this article is a tiny masterclass in how stock markets actually work: prices reflect mood as much as math, and the most uncomfortable trades – buying when headlines are bleakest – are often the ones that pay. That mindset matters whether you eventually pick a career in finance, run a

small business, or just decide when to buy a used car.

The Bigger Picture

Airlines have always been a feast-or-famine industry, and consolidation tends to follow downturns — weak carriers either merge or fold, leaving survivors with more pricing power. Watch for merger talk in European aviation, for whether high oil prices ease, and for whether billionaires like Kühne keep adding to their stakes. If the contrarians are right, today's headlines about doomed airlines will look, in hindsight, like the moment to have bought.

3. Key Terms Glossary

Book value

The accounting value of a company's assets minus its liabilities. A stock trading below 1x book value means the market thinks the company is worth less than the stuff it owns on paper.

Operating margin

The percentage of revenue left as profit after paying day-to-day costs like fuel and staff, but before interest and taxes. A 10% margin means £10 of profit per £100 of sales.

Enterprise value

A measure of a company's total worth that includes both its stock-market value and its debt, minus its cash. It's what you'd theoretically pay to buy the whole business.

Contrarian investing

A strategy of deliberately buying assets when most investors hate them, on the theory that the pessimism is overdone and the price will rebound.

Airport slots

Legal permissions to take off or land at a specific airport at a specific time. At crowded hubs like London Gatwick, these are scarce, tradable, and extremely valuable.

Consolidation

When companies in an industry merge or buy each other, reducing the number of competitors and often giving survivors more power to raise prices.

Flag carrier

A country's traditional national airline, often historically state-owned, such as Lufthansa for Germany or British Airways for the UK.

4. Reading Comprehension Quiz

Circle the best answer for each question.

Q1. The passage primarily argues that:

- A) EasyJet's business model is fundamentally broken and unlikely to recover.
- B) The widespread pessimism about easyJet may itself be the reason to buy it.
- C) Airline mergers are the only way the industry can survive high fuel costs.
- D) Premium transatlantic flying will replace budget European routes by 2030.

Q2. According to the passage, easyJet's shares are trading at less than 0.8 times book value because:

- A) The airline is heavily burdened with debt from the pandemic years.
- B) Investors fear weakening economies, high fuel costs, and weak holiday demand.
- C) The company has lost its valuable airport slots to larger rivals.
- D) Regulators are forcing easyJet into a merger with a flag carrier.

Q3. Which choice best states the central idea of the passage?

- A) Budget airlines should pivot to premium transatlantic routes immediately.
- B) Klaus-Michael Kühne's investment strategy should be copied by retail investors.
- C) Airline stocks often reward investors who buy when sentiment is worst.
- D) European aviation will inevitably consolidate within the next two years.

Q4. As used in the passage, the word "forlorn" most nearly means:

- A) Abandoned and isolated.
- B) Out of favour and pitied.
- C) Bankrupt and unprofitable.
- D) Old-fashioned and outdated.

Q5. As used in the passage, the word "nadir" most nearly means:

- A) Turning point.
- B) Lowest point.
- C) Average level.
- D) Recovery phase.

Q6. It can most reasonably be inferred from the passage that being debt-free is unusual for an airline because:

- A) Airlines are legally required to borrow to fund fleet purchases.
- B) Aircraft are expensive and most airlines finance them with debt.
- C) Investors typically refuse to lend money to budget carriers.
- D) Regulators force airlines to take on debt for safety reserves.

Q7. The passage suggests that easyJet's airport slots:

- A) Are easily transferable to any potential buyer.
- B) Would be lost in a merger with a major rival on antitrust grounds.
- C) Have already been sold to fund the company's recovery.
- D) Are worth less than the company's total market capitalisation.

Q8. The author's overall tone in the passage is best described as:

- A) Alarmed and warning.
- B) Sceptical but cautiously optimistic.
- C) Detached and purely factual.
- D) Enthusiastic and unreservedly bullish.

Q9. Which of the following can most reasonably be inferred about Klaus-Michael Kühne's investment behaviour?

- A) He typically sells airline stocks during industry downturns.
- B) He tends to buy airline stocks when sentiment is bleakest.
- C) He only invests in companies that are already profitable.
- D) He is reducing his exposure to European aviation overall.

Q10. Which choice provides the BEST evidence for the answer to the previous question?

- A) "EasyJet is Europe's most unloved big airline."
- B) "Klaus-Michael Kühne bought a further 5 per cent of Lufthansa this week, after amassing a 15 per cent holding in early 2022 when the airline was still emerging from its post-pandemic share-price slump."
- C) "Merger whispers might help explain why the New York-listed shares of JetBlue are up 2 per cent this year."
- D) "EasyJet's profit would treble."

My Score: _____ / 10

5. Answer Key with Explanations

Q1. The passage primarily argues that:

Answer: B

The passage frames easyJet as 'unloved' and then argues the contrarian case – that buying when sentiment is darkest is often the smarter trade. A is the opposite of the author's view (TRAP A: right scope, wrong direction). SAT Tip: When a question asks for the central argument, look at the final paragraph – authors almost always restate their thesis at the end.

Q2. According to the passage, easyJet's shares are trading at less than 0.8 times book value because:

Answer: B

The passage links the low valuation to fuel prices, stretched household budgets, and tourists booking late or not at all. A is wrong because the passage explicitly states easyJet is debt-free (TRAP A: opposite direction). SAT Tip: When an option directly contradicts a fact stated in the passage, eliminate it immediately – don't second-guess yourself.

Q3. Which choice best states the central idea of the passage?

Answer: C

The author's thesis is that the obvious trade (selling) may be wrong, and the smarter move is buying when everyone else is fleeing. D is too absolute and is only mentioned as 'speculation' in the passage (TRAP C: plausible real-world claim, but unsupported). SAT Tip: Central-idea answers are usually moderate in tone – beware options that make sweeping predictions the author only hints at.

Q4. As used in the passage, the word "forlorn" most nearly means:

Answer: B

In the passage, 'forlorn' describes easyJet as an investment everyone has given up on – out of favour, not literally abandoned. A is the common dictionary meaning but doesn't fit the financial context (TRAP B: right vocabulary, wrong combination). SAT Tip: On vocab-in-context, reread the sentence and substitute each option for the word – the right answer leaves the sentence's meaning unchanged.

Q5. As used in the passage, the word "nadir" most nearly means:

Answer: B

The passage uses 'nadir' to describe the share-price low after the 9/11 attacks – clearly meaning the bottom. A is tempting because lows are often turning points, but that's not what the word itself means (TRAP B). SAT Tip: For technical-sounding vocabulary, focus on the literal definition, not the implication – 'nadir' means bottom, even when bottoms turn out to be buying opportunities.

Q6. It can most reasonably be inferred from the passage that being debt-free is unusual for an airline because:

Answer: B

The passage calls being debt-free 'no small feat for an airline,' implying that debt is the industry norm – most reasonably because planes are costly. A is a fabrication not supported anywhere in the text (TRAP C: real-world-sounding but unsupported). SAT Tip: 'Reasonably be inferred' means one short logical step from what's stated – if you need three steps or outside knowledge, it's probably wrong.

Q7. The passage suggests that easyJet's airport slots:

Answer: B

The passage states that much of easyJet's value lies in slots that rivals would 'risk losing for competition reasons' – i.e., antitrust regulators would block the deal. C contradicts the passage, which treats the slots as still owned (TRAP A: opposite direction). SAT Tip: When the passage uses phrases like 'risk losing for competition reasons,' translate the jargon – that's regulator-speak for antitrust blocks.

Q8. The author's overall tone in the passage is best described as:

Answer: B

The author acknowledges the gloom (high fuel, weak bookings, merger whispers) but argues the contrarian case for buying – measured optimism, not cheerleading. D overstates the author's enthusiasm (TRAP B: right direction, wrong intensity). SAT Tip: Tone questions reward calibration – extreme answers (alarmed, unreservedly bullish) are almost always traps in op-ed-style passages.

Q9. Which of the following can most reasonably be inferred about Klaus-Michael Kühne's investment behaviour?

Answer: B

Kühne first bought Lufthansa in early 2022 during its post-pandemic slump and is now adding more during another rough patch – a clear contrarian pattern. D is the opposite of his actions (TRAP A: opposite direction). SAT Tip: For inferences about a person's behaviour, look at the pattern across multiple examples in the passage, not just one data point.

Q10. Which choice provides the BEST evidence for the answer to the previous question?

Answer: B

Option B directly documents Kühne buying during two separate downturns – the textbook contrarian pattern. A, C, and D don't mention Kühne at all and so can't be evidence for an inference about him (TRAP B for option A: uses passage vocabulary in a wrong combination). SAT Tip: On evidence-pairing questions, find the passage line that supports your previous answer FIRST, then match it to one of the four quotes.