



Aviation Round Table

Economic Viability and Optimal Financing of Nigerian Aviation in 2015

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+ Audience Analysis

- Present here are industry experts and operators, financial institutions and policy makers
- The Aviation Round Table as a pressure group and Aviation watchdog has two main objectives:
 - Advocacy for a better sector and
 - Making the sector more profitable



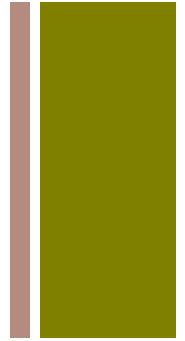
+ Objectives of Presentation

- To identify trends in the aviation industry
- Highlight the major challenges in terms of infrastructure, policy and operators
- Discuss strategies and evaluate the optimal financing options available
- Provide a summary and outlook of the sector and for the Nigerian economy



+ Outline

- Aviation Industry Today
 - Global
 - Regional
- Nigerian Aviation: Current State Assessment
 - Policy
 - Operators
 - Infrastructure
- Risks and Opportunities
- Optimal Financing Options
- Summary and Outlook





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Aviation Industry Today

- Global
- Regional



+ Aviation Industry Today

- There are 42 Aviation Mega Cities globally
- Hubs capable of handling 10,000 or more long-haul passengers per day
- Mostly in the US, Europe, Middle East and the Asia Pacific region
- Only one in Africa – South Africa (Johannesburg)
 - 8 aviation mega cities by 2031 in Africa according to Ethiopian airlines



+ World's Top Airlines

Rank	Airlines	2014 Rating
1	Qatar Airways	2
2	Singapore Airlines	3
3	Cathay Pacific Airways	1
4	Turkish Airlines	5
5	Emirates	4
6	Etihad Airways	9
12	Lufthansa	10
15	Air France	25
20	British Airways	17
77	Ethiopian Airlines	74

- Qatar Airways is now the best airline in the world
- Ethiopian Airlines (ET) is the largest and fastest growing airline in Africa
 - Won best regional airline of the year award



+ Alliances & Consolidation

- Bigger and stronger Airline alliances
 - Sky Team: Kenya Airways, Delta, KLM, Air France, Virgin, etc
 - Star Alliance: Lufthansa, SA Airways, Turkish, United, etc
 - One World: Qatar, British Airways, Iberia, etc
- Increased focus on the regulatory and standardization route
- Improving safety and security environment
 - Accident rates dropped sharply (0.23 hull losses in 2014 as against 0.41 in 2013)



*PWC

+ Global Trends – *Lower Oil Prices*

- Aviation has been one of the greatest beneficiary of the oil price shock
- Jet fuel price declined as crude oil prices weakened
- 40% of direct operating costs is jet fuel

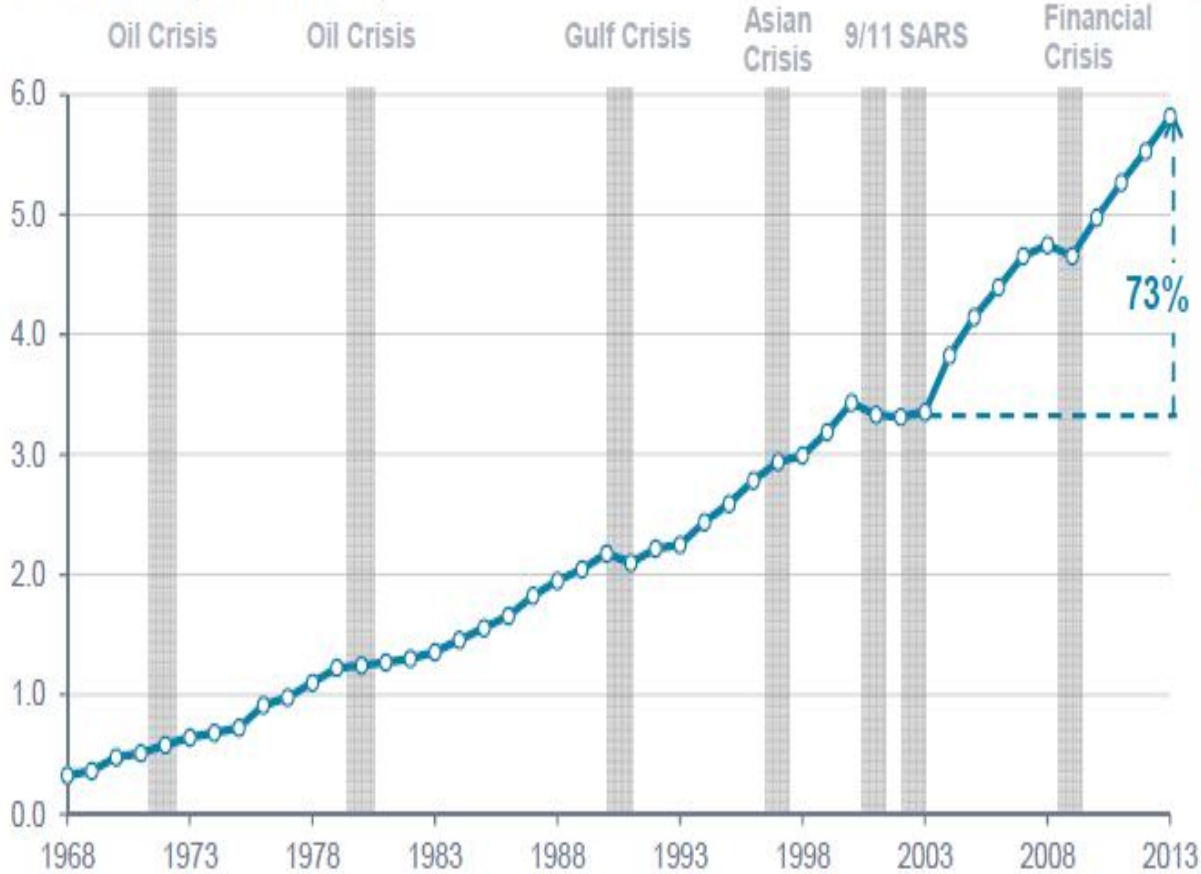


Source: Platts, Digital Look.



+ Air Travel has Proven to be Resilient to External Shocks

World annual traffic (RPKs - trillions)



World traffic
-
73%
growth through
multiple crises over
the last ten years

Source: ICAO, Airbus



+ Global Trends: *Revenues & Costs*

- Operating costs also lower due to:
 - More fuel efficient aircrafts
 - Rationalization of routes & networks
 - Hedging of aviation fuel
- Airlines profitability went up due to lower operating costs
- IATA raised global airline profit forecast to \$29.3bn for 2015 due to lower oil price



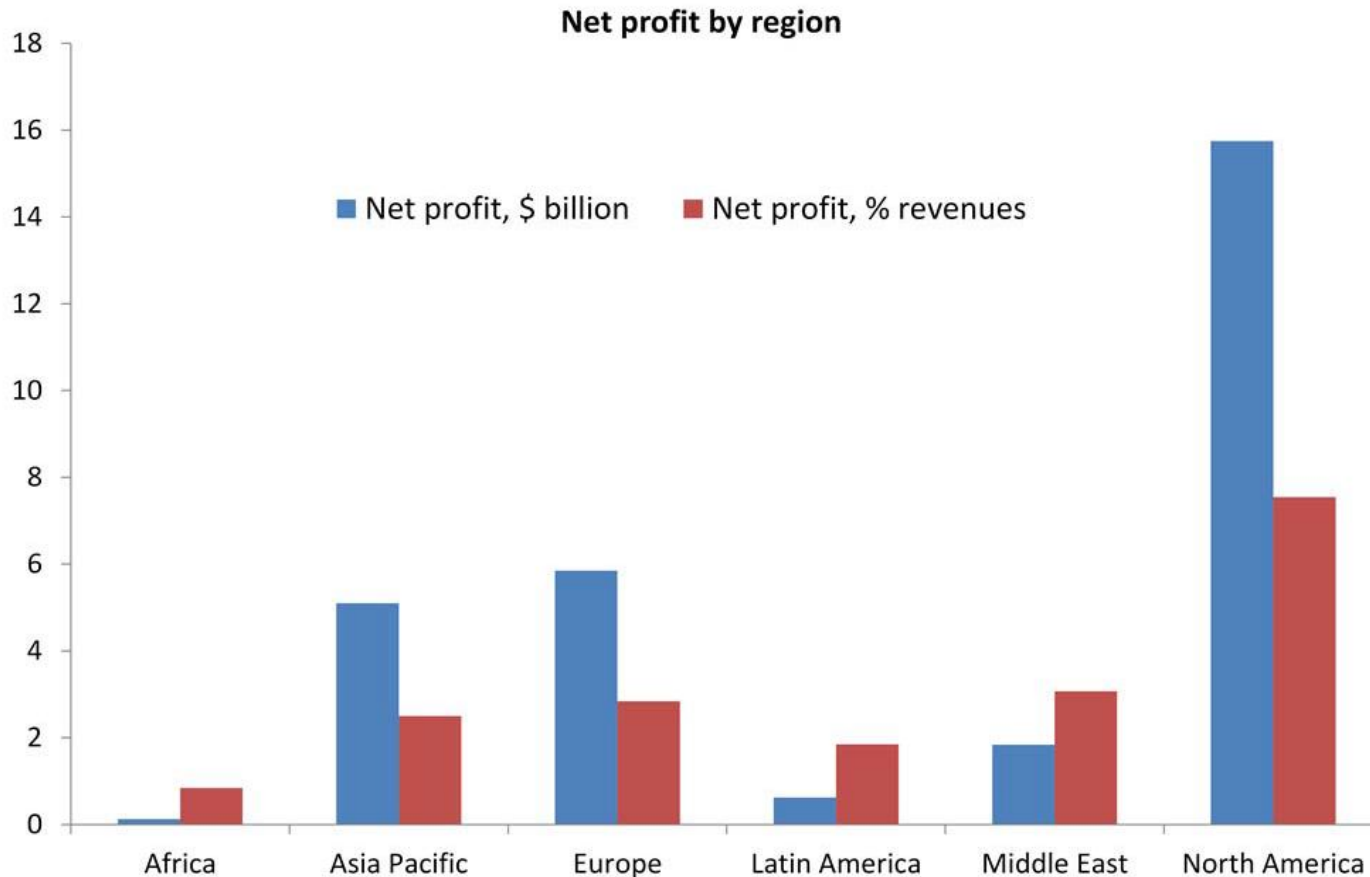
*PWC

+ Global Airlines Profit Increase

- 2014's profit of \$16.4bn owing to boom from North American airlines
- North American airlines posted profit of \$15.7bn
- Middle Eastern Airlines posted profit of \$1.8bn
- African airlines remains the weakest with \$100m profit



+ Outside the US profitability is still rather weak



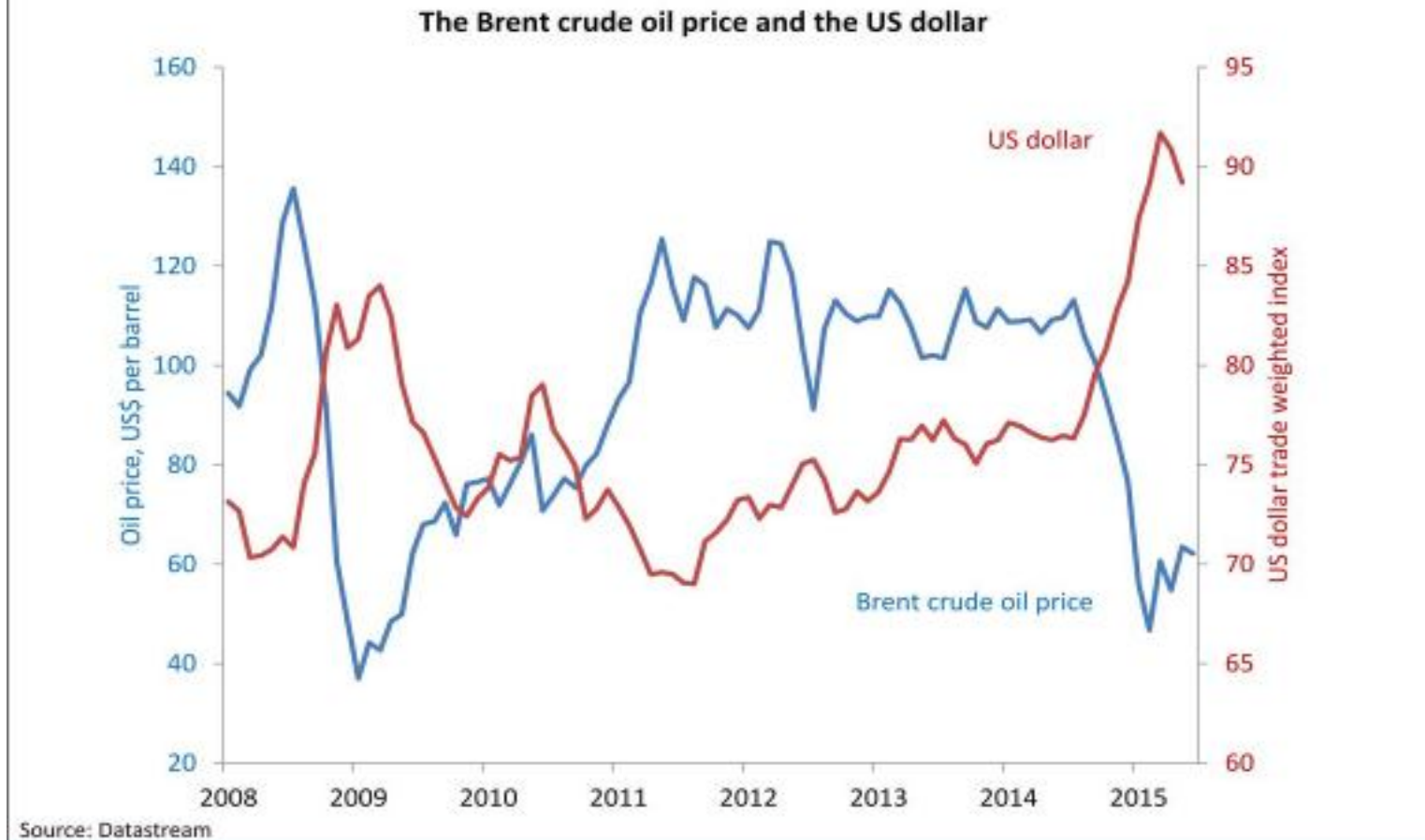
Source: IATA

- Improvement in profitability is narrowly-based, with the bulk of the gains concentrated in N America





Rise in US\$ offsets part of low fuel price benefits



- Strong USD means that non-\$-based airlines will see a much smaller gain from lower dollar jet fuel prices
- They will also face higher dollar-priced costs for aircraft, leasing etc.



+ Global Trends – *Load Factors*



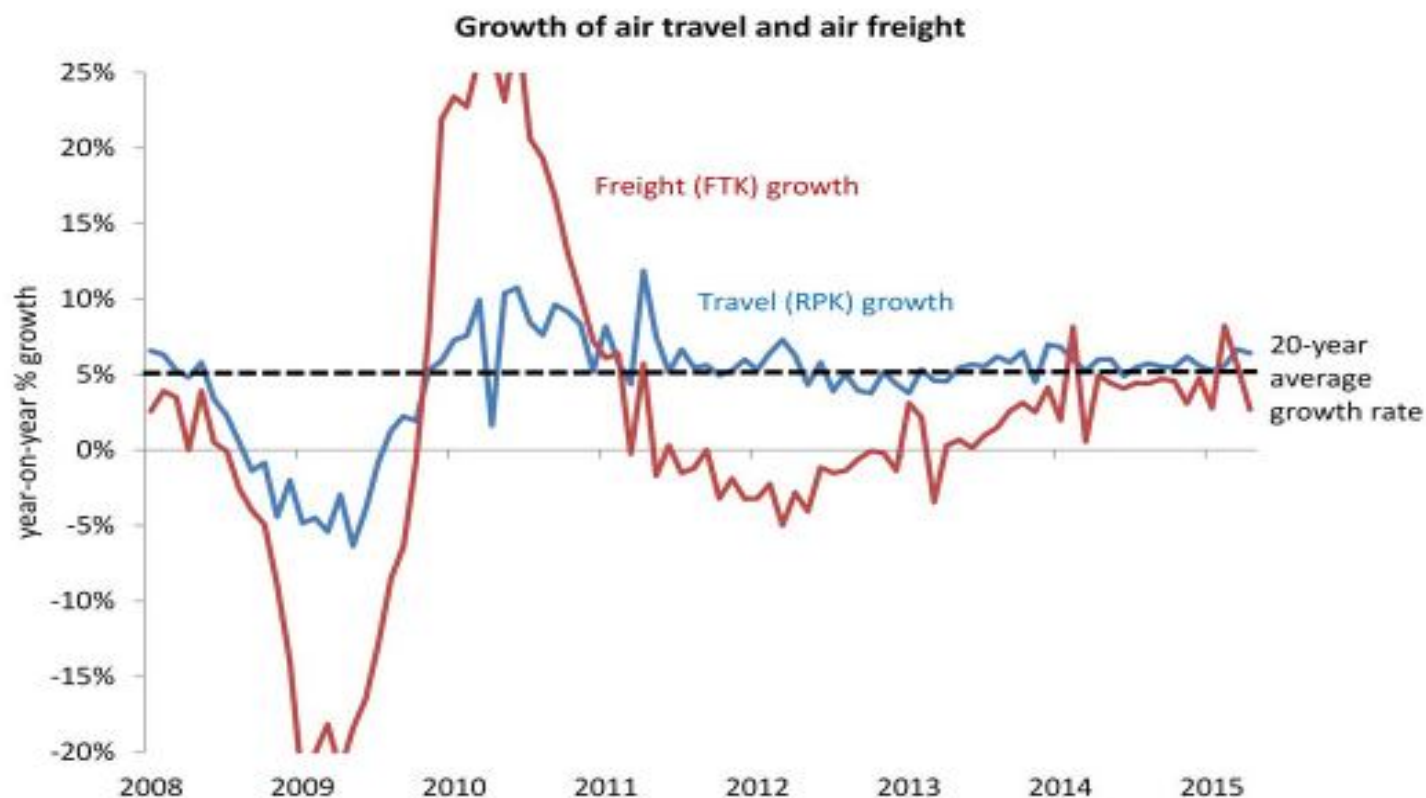
Source: IATA

	Jun-15	YTD-2015
	PLF	PLF
AFRICA	67.7%	66.9%
ASIA/PACIFIC	78.2%	78.1%
EUROPE	83.1%	79.8%
LATIN AMERICA	78.7%	79.4%
MIDDLE EAST	74.9%	77.1%
NORTH AMERICA	86.4%	83.0%
TOTAL MARKET	81.1%	79.4%

- Load factors up resulting from efficiency
 - Across domestic and international markets



+ But growth in demand for travel and cargo is solid



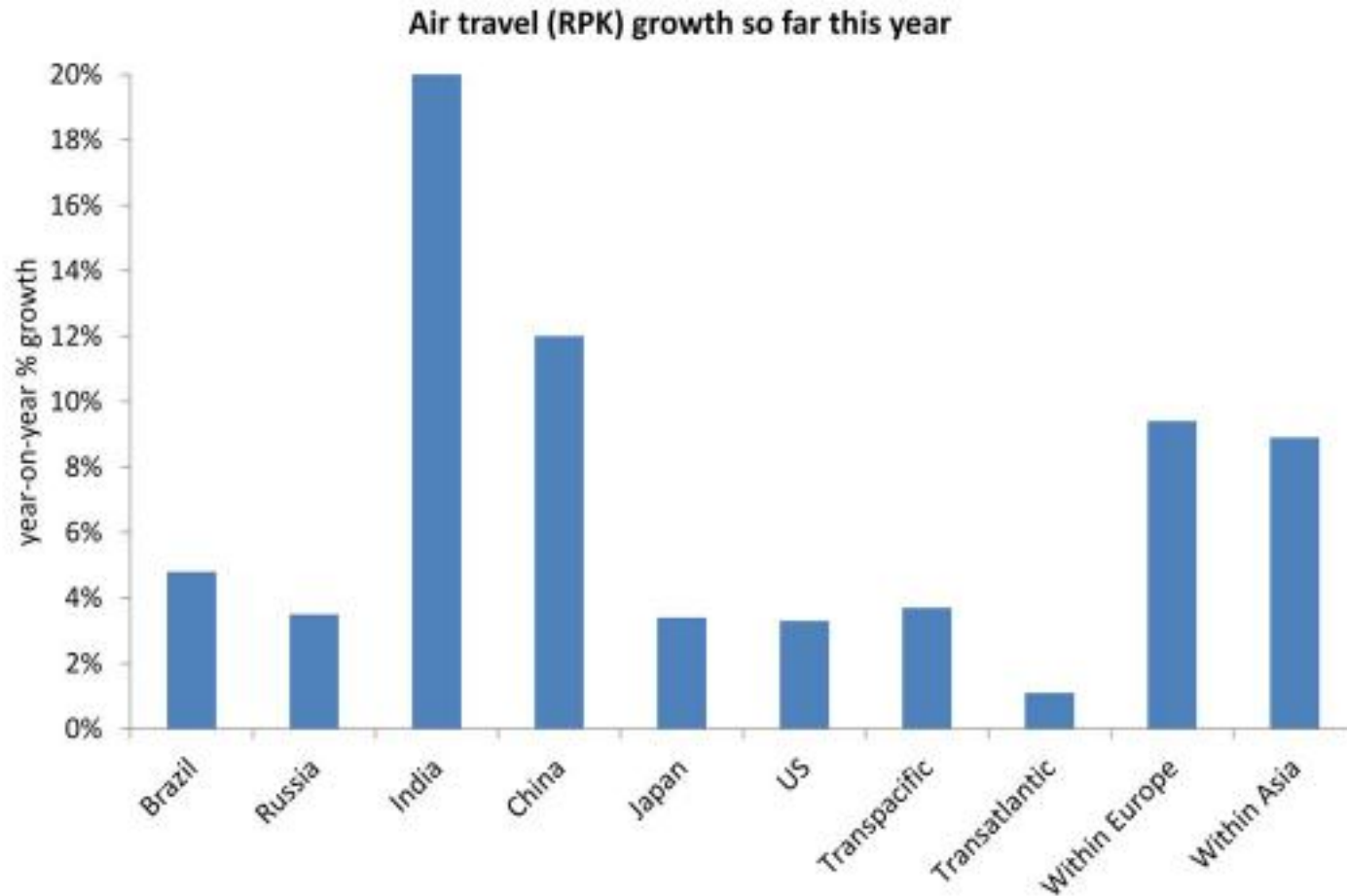
Source: IATA

- Despite lacklustre economic growth, air travel growth remains strong above the 20-year average of 5% a year
- Air cargo also experiencing renewed growth, after several years of stagnation





Air travel markets varying a lot in strength



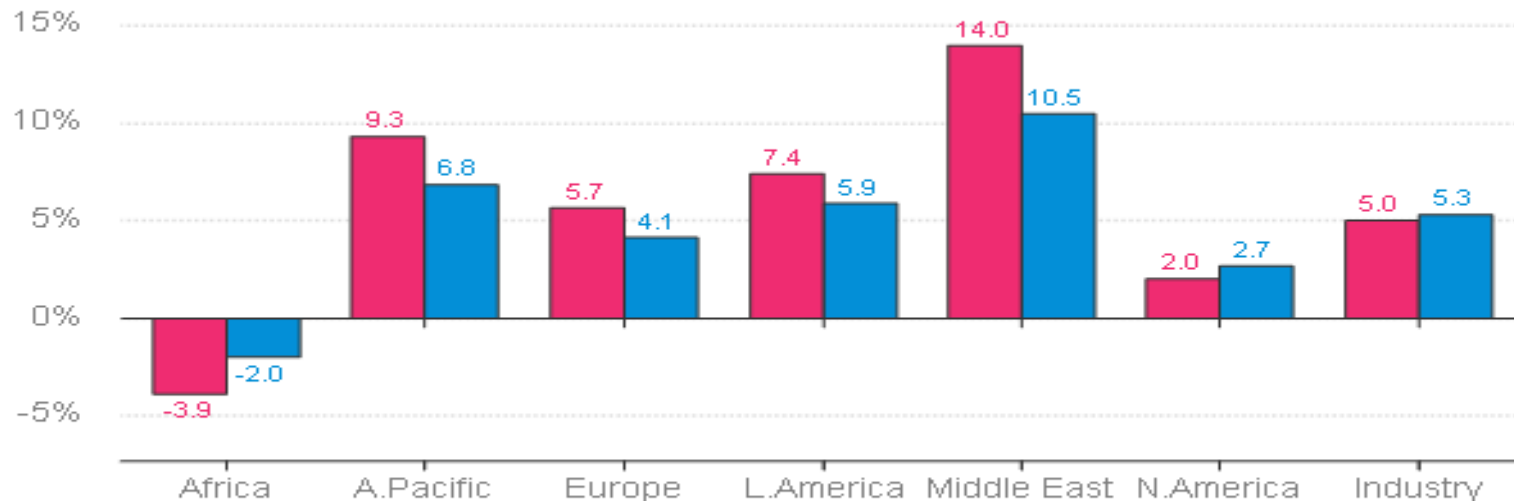
Source: IATA Statistics

- The strongest markets are in Asia with India and China's domestic markets growing at double figure rates



+ International Passenger Growth by Region

% change over year



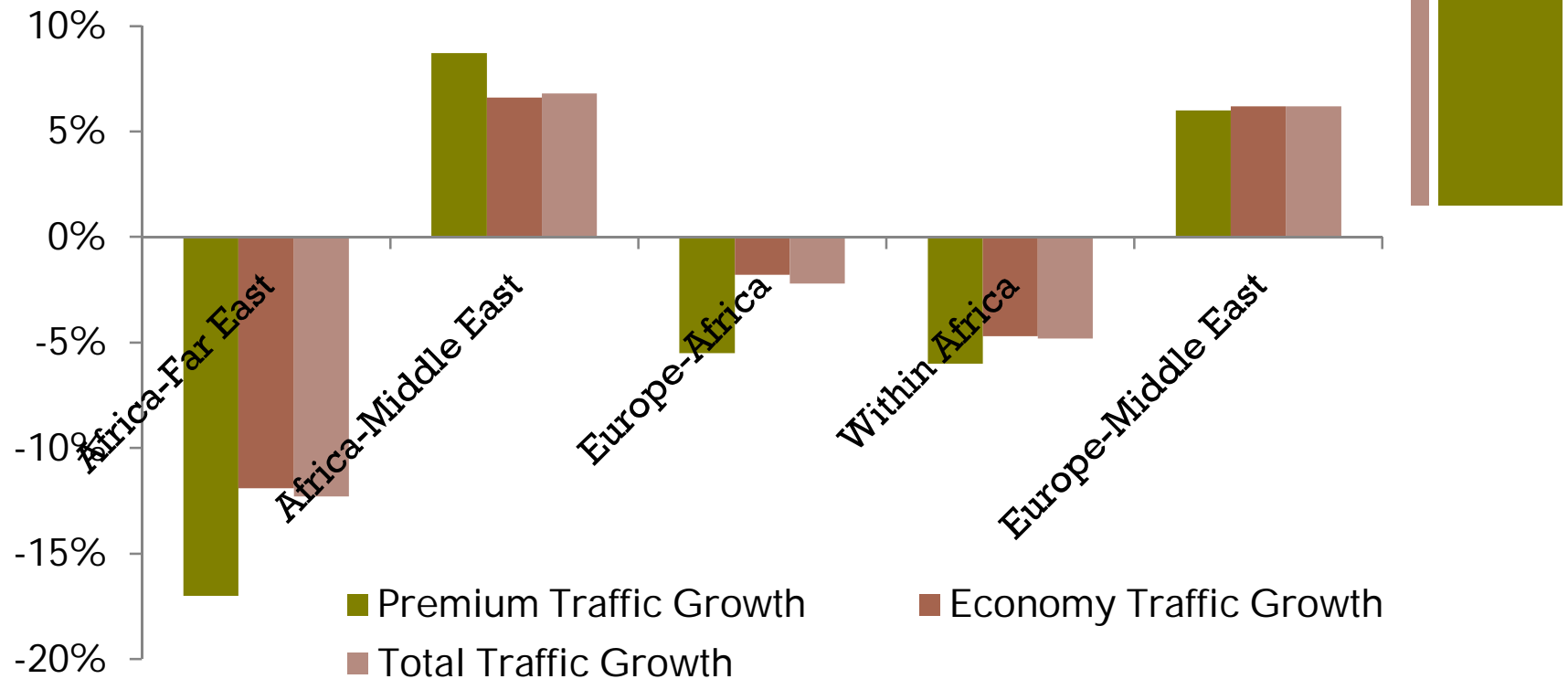
■ May 2015
■ Jun 2015

Source: IATA

- International Revenue per Kilometer (RPK) growth for African carriers was weakest among all regions, with volumes down 3.9% in May year-on-year
- Adverse economic developments in parts of the continent especially in Nigeria, which is highly reliant on oil revenues



+ Traffic Growth by Route (YTD 2015 vs. YTD 2014)



- Markets connected to the Middle East have seen solid growth, particularly in premium class
- Weakness in Far East market and Africa due to adverse economic developments



Source: IATA, FDC

+ Aviation Industry: Competitive Dynamics

- Barrier to entry is fairly high
 - Industry saturation in certain market like North America
 - Increased regulations
 - High capital requirement
- Standardized services
 - Customer service, service reliability and route destination are differentiating factor
 - Airline's workforce has a huge impact on customers' perception
 - Key to customer service and service reliability is flight arrival, baggage handling, passenger complaints



+ Aviation Industry: Competitive Dynamics

- Industry profitability is low
 - Rising security costs
 - Fluctuating oil prices
 - Depressed air fares dampens margins
 - Airlines that are able to control their cost structure will attract customers and improve overall profitability
- The aviation sector is cyclical



+ Aviation Industry: Competitive Dynamics

- Bargaining power of buyer is high
 - Customer base is fragmented – many individuals and organizations
- Supplier's bargaining power is high
 - Two main commercial aircraft supplier – Boeing and Airbus
 - Difficulty in entering commercial aircraft industry
- Increased bilateral agreements
 - Industry's globalization have opened markets to competition





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Nigerian Aviation Industry

- Operators
- Infrastructure
- Policy



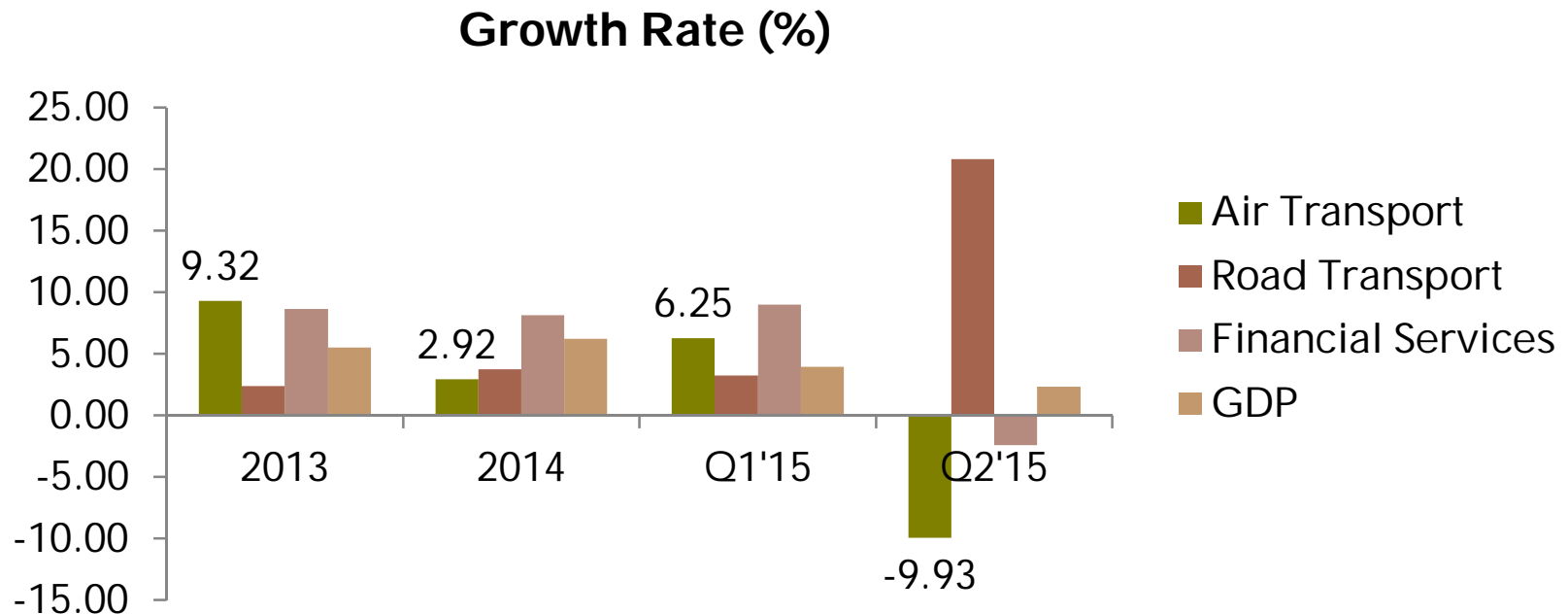
+ Background

- Nigeria has 5 international and 17 domestic airports
 - Key airlines operators: Arik Air, Dana Air, Med-View, Aero
- Has 30 international airlines operating into Nigeria
 - Multiple designated airports
- 16 million passengers using domestic, regional, and intercontinental flights
- Signatory to Chicago protocol, Yamoussoukro Declaration, and Banjul Accord



+ Background

- The profitability and size of the aviation industry in Nigeria has been suboptimal
- Sharp drop in growth in Q2'15
- Relative to the financial services industry and global peers



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Operators



+ Operators

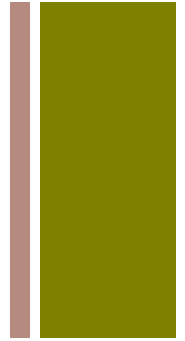
- 2 IOSA certified carriers in Nigeria
 - Arik Air and Aero Contractors

	Arik Air	Aero Contractors
Number of fleets	26	16
Route destinations	Domestic: 28 International: 12	Domestic: 10 International: 1
Passenger traffic ('million)	2.75 (2013)	
Others	Bids to be the nation's flag carrier	Was the nation's national carrier at some point



+ Factors for a successful airline operation

- Viable route network
- Strong Base
- Strategic partners
 - Star Alliance, Sky Team, One World
- Adequate financial resources
- Efficient fleet



+ EY Stress pendulum



Source: EY

- Most operating airlines in Nigeria tilt towards 'Capital Restructuring'
- Thus signifying 'Cash Burn' and 'Insolvent'



+ Financial assessment

- All Nigerian airlines are under the financial umbrella of AMCON
 - Benefited from CBN intervention fund but are still in deep financial trouble
 - Currently owes AMCON about N190bn
- Banking facilities are not available for airlines
 - Huge gap between depreciable life of aircrafts and short tenor of loans



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Policy



+ Current Actions: Nigeria Civil Aviation Policy

- Public-Private Partnership
- Human Resource Development
 - Establishment of Regional Training Center
 - Improvement of National College of Aviation Technology (NCAT)
 - Validation of foreign crew and pilot licenses
- Safety and Security
- Aviation debt profile to be redressed
- Removal of restriction and creation of enabling environment Alliances
 - Code sharing
- Bilateral Service Agreements and Multilateral Service Agreements



+ National or Flag Carrier - Better Late than Never?

- Quest for a national carrier still persists
 - Defunct Nigerian Airways, Virgin Nigeria, Air Nigeria and Aero Contractor
- The funding required for a national carrier is huge
 - Other pressing economic and social priorities
 - Tragic waste of tax payers funds
- Genuine market based reforms needed
 - As against cost of state ownership



+ National Carrier – Failed Attempts

- Nigerian Airways 1971 – 2003
- Air Nigeria 1992/1993 Capt Joji's
- New Co 1999/2001 IFC
- Air Nigeria 2001/2002 by Kema Chikwe
- Nigerian Global 2002/2003 by kema Chikwe
- Nigerian Eagle 2003/2004 by Yuguda
- Virgin Nigeria 2005/2009 Obasanjo/Branson
- Air Nigeria 2009/2010 UBA
- Nigerian Eagle 2011/2012 Jimoh Ibrahim
- Nigeria One 2012 Stella Oduah



+ National or Flag Carrier – Road Ahead

- Most countries have a flagship carrier instead of National carrier
 - Britain, China, Australia
 - Over 35 Africa countries – Egypt, Ghana, Rwanda inclusive
- A carrier necessary for national defence
 - Value capturing



+ Case Study: Singapore Airline

- Singapore Airlines is the flag carrier of Singapore
 - Singapore government owns 54.5% of the airline
- Listed on the Singapore Exchange in 1985
- SIA is known as the leader in world travel
 - Unmatched customer service
 - Cost differentiation strategy
- The Airline has not posted a loss since it commenced operations



+ Case Study: South Africa Airways

- South African Airways (SAA) is the national carrier of South Africa
 - Member of Star Alliance
 - Code-sharing agreement - Hong Kong, Brazil, UAE etc
 - Serves 56 destinations across 5 continents
 - Government owns 100% of the airline
- Mango airline is a subsidiary
 - A low cost carrier
- South African Airways began flying in 1934
 - Union Airways assets and liabilities was assumed by the South African Government
- The Airline has posted losses for the past three years



+ Selected Airlines Financials



+ Policies to Watch

- Trade Liberalization
- Passage of the Petroleum Industry Bill (PIB)
 - Investment and Production Dollars
- Customs Union and Regional Integration
 - Liberalization of travel & visa requirements
 - Nigeria will be the financial, trade, and travel hub
- Currency Convertibility & Adjustment
- Subsidy Elimination
- Power reforms
- Approval of anti-terrorism investment fund



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Infrastructure



+ Infrastructure

- Lack of dependable power and telecoms infrastructure
 - Resulting in high operating costs
- Inability of government to build befitting airports/terminals
- Available structure lacks capacity for a larger number of aircraft fleet
 - Runway not long enough
- Existing terminals lack maintenance leading to the decay of some of them
 - Old control tower
 - Weak radio communication
- Ageing fleet of airline operators



+ Infrastructure

- Effective Renovation and Remodelling?
- No Nigerian airport in 'Traffic Monitor' 2014 rankings for best airports in Africa
 - Lagos and Abuja airports listed in the Top 15 in 2013
- Huge investment still needed for navigational facilities



+ Current lack of investment interest

- Oil price movement is a mixed blessing
 - 40% of direct operating costs
 - 90% of Nigerian export revenues
- Oil prices are projected to decline below \$55 pb in 2016
 - Positive ripple effect on the profitability of airlines

Terrorism

- Reduce corporate and tourism travel
- Increase risk and insurance premium
- Reduce international flow of capital



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Strategies



+ Need for a Change in Aviation Paradigm Thinking



- Customers benefit where there is perfect competition
- New Investments will come into the aviation market between the transition from liberalization to a competitive environment
 - Government
 - Private Equity
 - Domestic Alliances (E.g Tata and Singapore Airlines)
 - Public private partnership (concession)



+ Need for Global Alliances

- Increasing liberalization of international air transport regulations
 - Unsuitable for protectionist aviation environments
- Global Alliances become more appealing to gain full market access for airlines
- Strong strategic and business case to be part of an alliance
 - However, Arik Air is in an agreement with Emirates



+ Role to play in Aviation Sector

- Restructure and renegotiate debt financing and other commitments
- Equity participation in airlines
- Provide additional financing for:
 - Purchase and/or lease of aircraft and equipment
 - Aircraft upgrades and refurbishment
 - Training and capacity building
 - Expansion and/or construction of airports
 - Expansion/strengthening of runways, taxiways and airport access roads
 - Procurement of navigational aids and safety equipment



+ Create Value: Innovation

- Understanding the customer
- Fighting for a share of the mind and a greater share of the wallet
- Consolidation of loyalty programs into
 - Retail
 - E-commerce
 - Luxury, etc
- Create the ultimate travel experience: Reduce information overload for customers doing it themselves online
 - As technology advances, so do expectations
- Focused product innovation and marketing plans are essential
 - Education, Medical, Destination shopping, etc





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Optimal Financing Options



+ Financing Options

- Infrastructure bank
- Revenue & general obligation bonds
 - Pledge the airports' revenue stream to repay the bondholders
- Factoring
- Passenger facility charges





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Summary and Outlook



+ Summary

- Aviation is mostly lucrative in countries with large domestic markets:
 - U.S., Russia, India, Brazil, France
- Strong correlation between macro-economic success and increased demand for travel
- Regional integration will play to the advantage of Nigeria
- Nigerian GDP in the next few years will be strong
- Though oil price plunge is still a major source of concern



+ Summary

- Nominal GDP estimated to reach \$525bn in 2016
 - From \$488bn in 2015
- Sectors that will drive growth: Agric, Telecom, Financial services, and Manufacturing
- Policy options are limited
- Strong correlation between internet, broadband, penetration, tele-density and passenger traffic



+ Risks in Order of Magnitude

- Escalation of insurgency and Boko Haram attacks
- Fuel subsidy removal
- Exchange rate adjustment
- Trade restrictions
- Sharp fall in the price of oil



+ Outlook for the Aviation Industry

- Liberalisation of intra-African markets
- Enhanced safety and security
- Increased efficiency in financial services sector
 - Availability of longer-term debt
- Lower operational costs
 - Expected lower oil prices (Fuel - 40% of flight cost)
 - Increased local content, cheaper cockpit and cabin crew



+ Outlook for the Aviation Industry

- Increased use of technology
- Increased job creation and capacity building
 - Revived National College of Aviation Training programs
 - New routes
- Increased investment in airport infrastructure
 - Hotels, Restaurants, etc





Thank You

