



Aviation industry: global overview

For many decades, the aviation industry has played significant roles in the development of economies around the world and it is considered the gateway to any economy aspiring to develop; the sector enables globalisation, trade facilitation and tourism development. It is crucial in promotion of foreign direct investment; therefore the industry is crucial to the growth of the economy and national development. The global aviation industry is expected to witness robust growth in the next two decades driven by sustained economic growth, expanding middle class, rising tourism and migration. Globally, Air traffic is expected to grow by 4.7% CAGR over the next twenty years, i.e. between 2013 and 2033. Also, passenger fleet will grow by 109% to 33,651 from 16,094 in 2013 and number of passengers is expected to expand by 131% to 6.7 billion people compared with 2.9 billion in the same period. This will require more than 29,000 new passenger and freight aircraft valued at c.US\$4.4 trillion. About 10,400 planes will replace existing aircraft, which means that the worldwide fleet will double to around 36,500 aircraft by 2033. Moreover, more than 24,000 business jets, 5,800 regional aircrafts and 40,000 helicopters will also be required to achieve the growth rate of 4.7% annually.

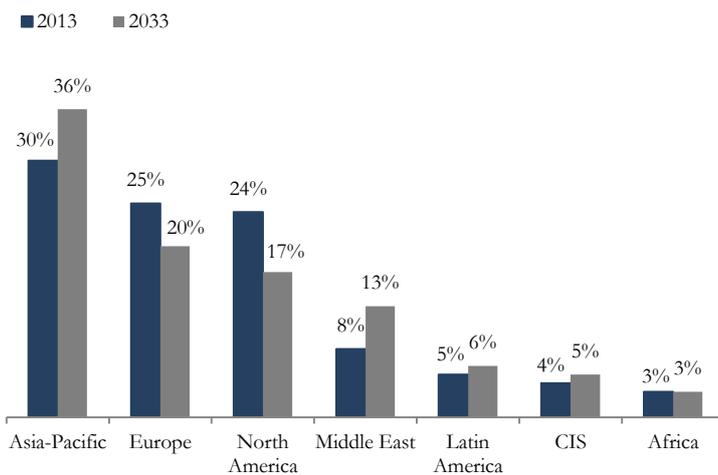
By 2033, Asia-Pacific is expected to lead the world in air traffic, overtaking Europe and North America. Presently, c.20% of population in emerging markets takes a flight annually, but this will rise to c.66% in 2033 as global air passenger number rises to 6.7 billion. Domestic demand in emerging economies will grow sharply too, for example India is forecasted to grow by 10% followed by China and Brazil with projected growth rate of 7% each and sub-Saharan Africa is expected to grow by 4.7%. In 2013, the revenue passenger kilometre (RPK) was US\$5.8 trillion, it is expected to grow by 151% to US\$14.6 trillion in 2033 and about 31,358 new aircraft are expected to be delivered in the period; comprises 22,071 single-aisle aircraft, 7,786 twin-aisle aircraft and 1,501 very large aircraft. Furthermore, dedicated freighters are expected to increase by 65% to 2,654 from 1,605 in 2013. The expansion in air passenger traffic has outperformed the global GDP growth rate in the past few years with the growth rate of 5.6% in passenger traffic in August 2014, this trend is expected to continue throughout the forecasted period. In addition, the population of the world was c.7.2 billion people in 2013, this is expected to grow by 1.3 billion, i.e.18% to 1.8 billion in 2033. Similarly, the number of middle class that stood at 2.4 billion in 2013 is expected to rise by 128% to 5.4 billion in 20 year period to 2033 and this will have positive impact on the level of air passenger traffic globally. The highest air transport growth is expected to come from emerging and developing economies of Asia, Latin America, Eastern Europe and Africa who accounted for c.86% of global population, i.e. 6.2 billion.

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While advanced nation economies of Western Europe, North America and Japan with population of 1.0 billion people represented 14% of the global population. Annual RPK growth rate in emerging and developing economies was estimated at 6% between 2013 and 2033, whereas advanced nation economies are expected to grow at 4.2% in the same period.

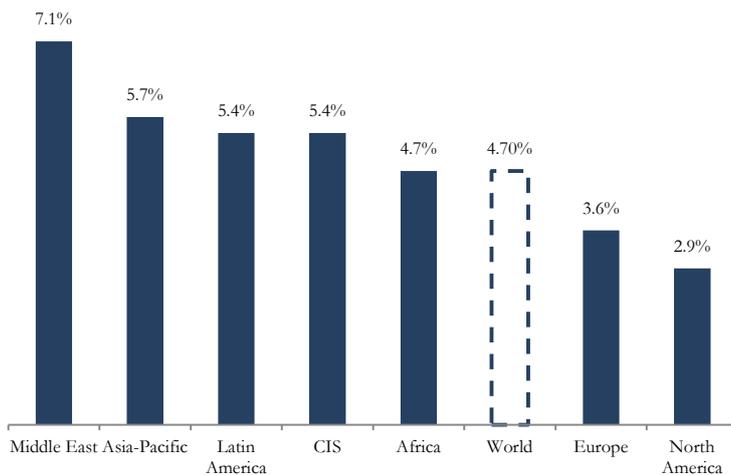
North Americans and Europeans are the most willing to fly today. Presently, the rate of air travel in some parts of the world except in the North America and Western Europe is low, due to several factors such as low level of income, unimpressive safety record of airlines operators in most of developing regions and low level of exposure. In 2013, India recorded trips per capita of 0.06 and China had 0.25 whereas Europe and North America recorded 1.0 and 1.6 respectively in the period; however, in 2033 India and China are projected to have trips per capita of 0.26 and 0.95. Therefore, c.66% of the population of the merging economy countries will take at least a trip per year in 2033. Moreover, in 2013 Asia-Pacific led the world in revenue passenger kilometre (RPK) with 30% of the global total, while Europe and North America came second and third accordingly with 25% and 24% and Africa recorded 3%. In 2033, the Asia-Pacific share of global RPK is expected to increase to 36% while Europe and North America will decline to 20% and 17% respectively; Africa was projected to remain unchanged at 3%. Similarly, Middle-east was estimated to lead the world’s air passenger traffic growth in 20-year period to 2033 with CAGR of 7.1%, closely followed by Asia-Pacific and Latin America with 5.7% and 5.4% respectively. Whereas, North America and Europe have 2.9% and 3.6% accordingly.

Fig. 1: Regional share of RPK



Source: Airbus, PAC Research

Fig. 2: Regional RPK growth rate between 2013 and 2033



Source: Airbus, PAC Research

The downside risk of the forecast and the resilience of air travel to external shocks. The downside risk to the projections are the operational challenges being faced by operators in the industry, such as high cost of aviation fuel, low cost carriers and competitive pressure on pricing. The mixture of rapidly growing emerging markets in Asia and the Middle East, evolving technologies and fiscal strains on mature markets is leading to widespread instability in the aviation industry. In the same way, declining profitability and heightened risk of air disaster are other challenges confronting the industry. In order to position themselves for the opportunities in the industry and to reduce the impact of risk inherent therein, operators are expected to accelerate their diversification into new and faster-growth markets. This entails more than a mere geographical change but the tailoring of products and services for customer segments with varying priorities and requirements. The ability to identify and anticipate demand for new products and services driven by new technologies will be a clear differentiator among operators in the industry in the years ahead. Similarly, strict adherence to international quality and safety standards will continue to provide competitive edge in the industry.

Furthermore, the resilience of the industry to external shocks has been proven over a period of time. The aviation industry has been growing steadily despite several crises that hindered the global economic growth over time. For example, the industry recorded impressive expansion despite the oil crisis shock of the early and late 1970s, the Gulf Crisis of 1991, the East Asian Crisis of 1997, the 9/11 Crisis of 2001 and the global economic meltdown of 2007. In a nutshell, the industry recorded global growth of 73% in 10 years period to 2013.

Nigerian Civil Aviation Industry

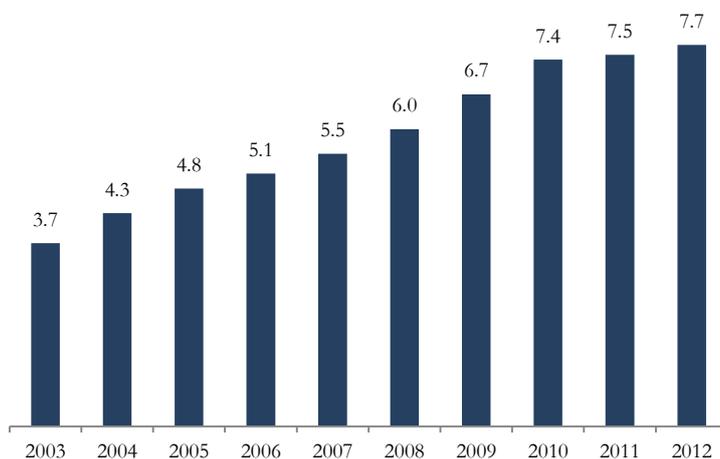
Civil aviation is a critical element in Nigeria's transportation system and indeed its economy. As at the end of 2014, the country has about 20 airports and many regulated airstrip and heliports (with plan to construct more), 23 active domestic airlines, 554 licensed pilots, 913 licensed engineers and 1,700 cabin personnel. Nigeria is an important destination for over 22 foreign carriers being the continent's most populous nation, and it has Bi-lateral Service Agreements with over 78 countries on aviation matters. Air travellers can travel to some of the world's business centres from Nigeria such as London, Paris, Frankfurt, New York, Johannesburg, Amsterdam, and Dubai among others. With the attainment of America's Federal Aviation Administration (FAA) International Aviation Safety Assessment Category One Certification, Nigerian registered carriers can fly directly into the United States. In recent years, domestic and overseas passenger traffic has risen at an average of 10% per annum and the Murtala Mohammed International Airport (MMIA) Lagos accounts for c.60% of the total passenger and aircraft movement in the country.

The consistent rise in passenger and aircraft has spun a thriving service industry, driven by the private-sector profit motives, innovation and the desire to satisfy customers. The industry is being repositioned by the Federal Government as a regional hub, this is being complemented by massive investment in the upgrade of navigational facilities including new radar and modern landing aids by the Nigeria Airspace Management Agency (NAMA). The Nigerian international airports in Lagos, Abuja, Calabar, Kano and Port Harcourt are leading cargo centres as well. An important segment of the air transport sector – the freight business – is kept alive by a combination of shippers, airlines, leading courier firms and handling companies such as NAHCO and SAHCOL.

Nigerian aviation industry contributes N137.9 billion to the gross domestic product (GDP). The domestic air transport industry is growing fast measured by the demand for its service, the growth can be attributed to the increased living standards of Nigerians. The industry has contributed c.US\$0.7 billion to the nation's GDP and additional investments of US\$12 billion is expected in the short to medium term. The industry's passenger traffic for inbound and outbound destinations stood at 21 million in 2014, i.e. an increase of c.20% compared with what it achieved in the preceding year. In addition, it was estimated that passenger traffic will grow by an average of 17 million by 2018, driven by increase in wealth and expansion of trade and business opportunities in the country. Moreover, poor road connectivity and limited infrastructure in Africa makes air travel a necessary tool for many high net-worth individuals and corporates who are involved in business activities around the continent.

The aviation market in Africa in general and in Nigeria in particular is considered to be resilient against crisis and new aircraft sales fared better in the region than in developed markets such as Europe and North America. The fleet in Africa has doubled since year 2000 and it presently accounts for c.2.4% of the total world's corporate jet and more private jets are also being acquired in the continent, therefore the long-term prospects for aviation industry in the continent remains strong. Although, about 50% of the total jets in the region are in Nigeria and South Africa, however it was projected that about 685 new business jets will be delivered in Africa between 2014 and 2033, i.e. compound annual growth rate of c.5% in the period. Moreover, commercial air transport supports c.6.9 million jobs and c.US\$80.5 billion in GDP in Africa, and the jobs supported by aviation and tourism is expected to grow to 10.5 million in the continent by 2033. While the contribution of the industry to GDP is expected to grow by 109% to US\$168.7 billion in the same period.

Fig. 3: Nigeria – Revenue of aviation industry (₦ billion)



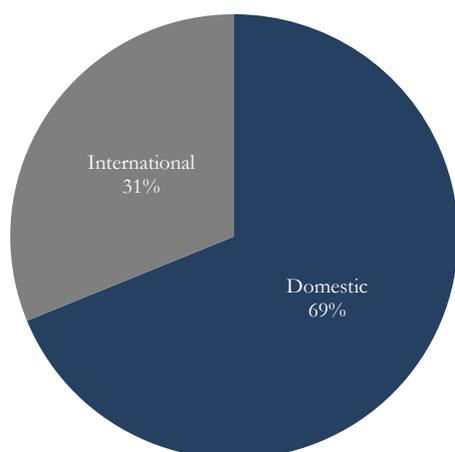
Source: NBS, PAC Research

Lagos airport leads in passenger traffic

According to the National Bureau of Statistics, Murtala Mohammed Airport in Lagos is the busiest of the entire airports in Nigeria. In 2010, about 6,273,545 passengers travelled through the airport representing 44.8% of the national total. The airport's share of total passengers expanded over the period to 45.3%, 48.7% and 49.6% in 2011, 2012 and 2013 respectively. The second most utilised airport in Nigeria is Nnamdi Azikiwe Airport in Abuja which had 28.1% of total passenger in 2010. It increased to 28.3% in 2011, but declined to 26.1% in 2012 before it recovered and stood at 27.0% in 2013. Port Harcourt is the third most utilised airport with, its share of total passenger in 2010 was 8.7% and it stood at 8.3% in 2013. However, Akure and Minna Airport recorded the lowest share of about 0.07% and 0.01% throughout the period. Lagos airport dominated the international passenger traffic with 74.6% in 2010, the performance of the airport has improved over the years however its share declined slightly to 74.1% in 2013.

The second most used airport for international trip is Abuja Airport with 561,440 passengers – 17.4% of total internal travellers in 2010 and 829,263 passengers representing 18.2% of total passengers in 2013. There are only two other airports that represents a significant portion of Nigeria’s internationally bound passengers; Port Harcourt and Kano airport. On the other hand, there is an equal split between airports in domestic traffic; in 2010 Lagos recorded 35.9% share while Abuja and Port Harcourt had 31.3% and 11.2% accordingly. Other significant contributors to domestic air traffic are Owerri, Benin, Osubi and Calabar.

Fig. 4: Nigeria – Proportion of air passenger traffic in 2013



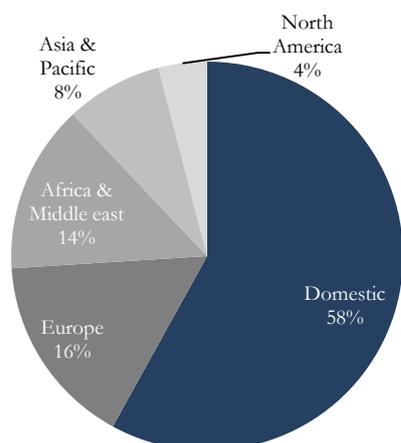
Source: NBS, PAC Research

Fig. 5: Passenger air traffic

Year	Domestic	International	Total
2010	10,753,725	3,227,952	13,981,677
2011	11,303,212	3,586,742	14,889,958
2012	9,675,860	4,440,930	14,116,790
2013	10,074,528	4,567,240	14,641,768

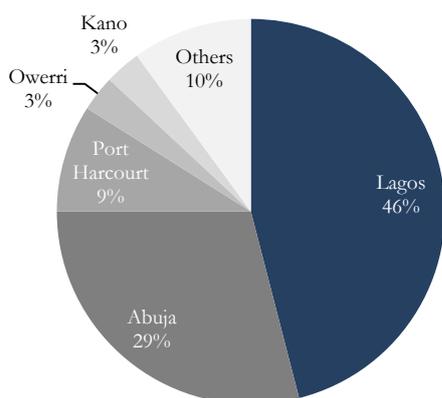
Source: NBS, PAC Research

Fig. 6: Nigeria – Regional distribution of passenger trips in 2010



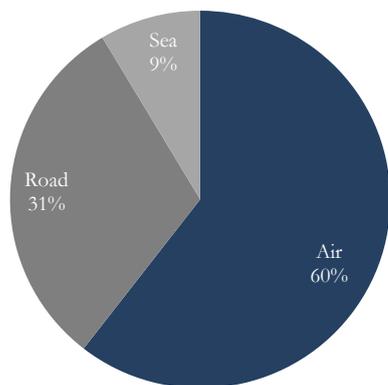
Source: LATA, PAC Research

Fig. 7: Nigeria – Regional distribution of international passenger trips by airport in 2010



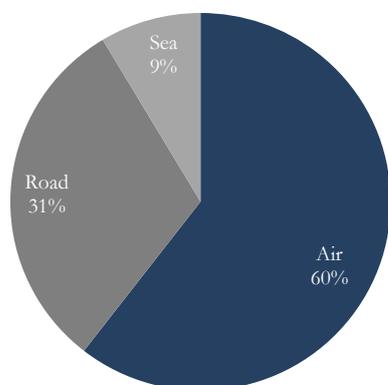
Source: LATA, PAC Research

Fig. 8: Nigeria – Foreign visitors’ arrival by mode of transportation in 2010



Source: Oxford Economics, PAC Research

Fig. 9: Nigeria – Regional distribution of air freight in 2010 (tonnes)



Source: Oxford Economics, PAC Research

Business opportunities in Nigerian aviation industry – A goldmine

Air transport to, from and within Nigeria creates various type of economic benefits; contribution to GDP, job creation and tax revenue generated by the industry and its supply chain. The principal benefits are created for customers, the passenger or shippers using the air transport service. In addition, the connections created between cities and markets represent an important infrastructure asset that generates benefits through enabling foreign direct investment, business clusters, specialisation and other spill-over impacts on the economy's productive capacity. According to the Oxford Economics, in 2010 the industry contributed N119 billion – 0.4% - to the nation's GDP which comprises:

- ✓ N59 billion directly contributed through the output of the aviation sector, i.e. airlines, airports and ground services
- ✓ N34 billion indirectly contributed through the aviation sector's supply chain
- ✓ N27 billion contributed through the spending by the employees of the aviation sector and its supply chain
- ✓ In addition, there are N78 billion in catalytic benefits through tourism which raises the overall contribution to N198 billion – 0.6% - of GDP

The sector supports about 159,000 jobs in 2010, this comprises:

- ✓ 44,000 jobs directly supported by the aviation sector
- ✓ 64,000 jobs indirectly supported through the aviation sector's supply chain
- ✓ 51,000 jobs supported through the spending by the employees of the aviation sector and its supply chains
- ✓ In addition, about 130,000 people are employed through tourism effects of aviation

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