

Africa's Airline Industry - Growth, Investment Opportunities and Risks. A Financier's Perspective

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May 2024

The Success of Ethiopian Airlines — Is it Replicable?
















Africa's Economy



Africa's Economy

15 largest GDPs

COUNTRY/ECONOMY	2022	2023	CHANGE	AFRICA	WORLD	AFRICA	WORLD
 Egypt	475.231	398.397	-76.834	13.9	0.381	1	38
 Nigeria	477.376	390.002	87.374	13.6	0.373	2	39
 South Africa	405.106	380.906	24.200	13.3	0.365	3	41
 Algeria	195.06	224.107	29.047	7.81	0.214	4	56
 Ethiopia	120.369	155.804	35.435	5.43	0.149	5	60
 Morocco	130.913	147.343	16.43	5.13	0.141	6	61
 Kenya	113.701	112.749	0.952	3.93	0.108	7	66
 Angola	122.781	93.796	28.985	3.27	0.0898	8	70
 Tanzania	77.065	84.033	6.968	2.93	0.0804	9	75
 Côte d'Ivoire	70.18	79.430	9.25	2.77	0.076	10	79
 Ghana	72.243	76.628	4.385	2.67	0.0733	11	82
 Democratic Republic of the Congo	65.784	67.512	1.728	2.35	0.0646	12	89
 Uganda	48.244	52.39	4.146	1.83	0.0501	13	90
 Tunisia	46.361	51.271	4.91	1.79	0.0491	14	91
 Cameroon	44.322	49.262	4.94	1.72	0.0471	15	93

Sub-Saharan Africa's GDP: **\$2.0 trillion**

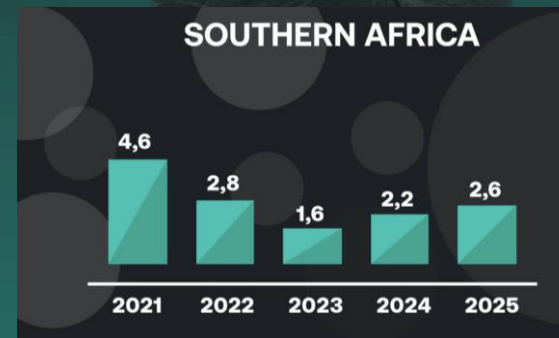
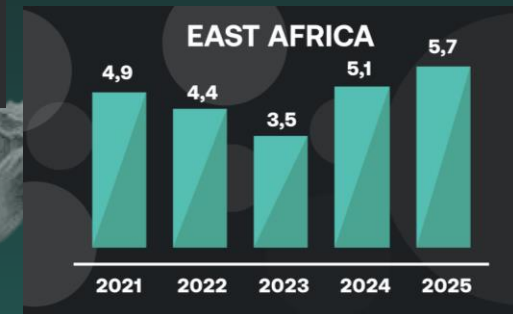
Africa's total GDP: **\$2.86 trillion**

Africa's economy has grown **3.5X**
from \$572 billion in 2023 to \$2.86
trillion.

Africa's Economy

Africa's total GDP forecast to reach **\$29 trillion** by 2050 (Source: WEF)

Africa's combined business and consumer spending forecast to be **\$6.7 trillion** by 2030. Source: Brookings.



Fastest Growing Economies in 2024

Real GDP growth projections

- Asia Pacific
- Sub-Saharan Africa
- Americas
- Middle East and North Africa

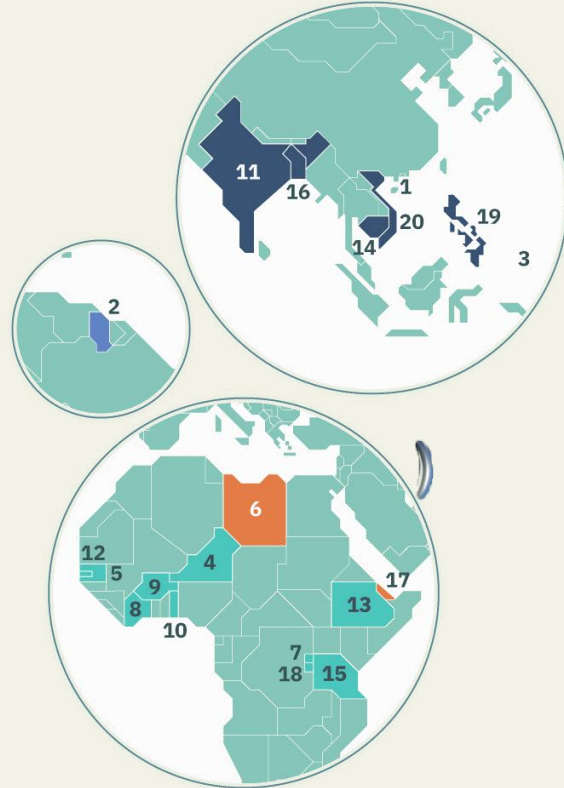
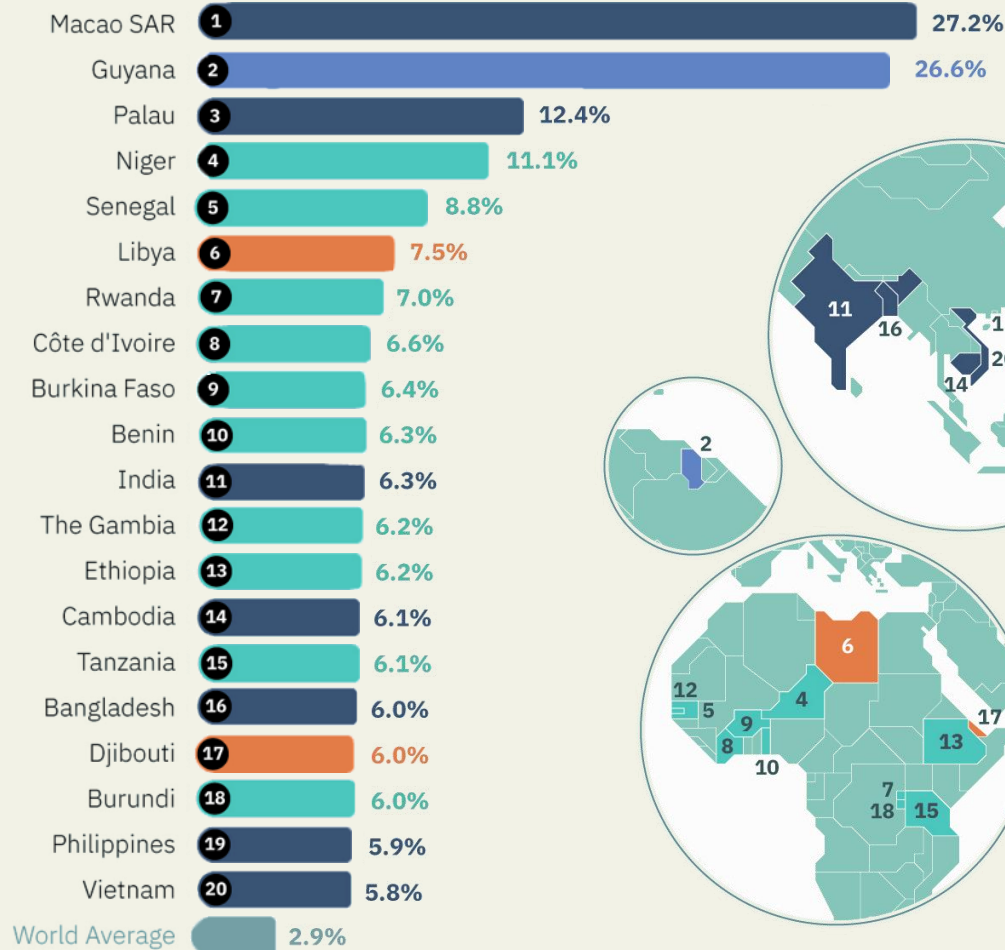
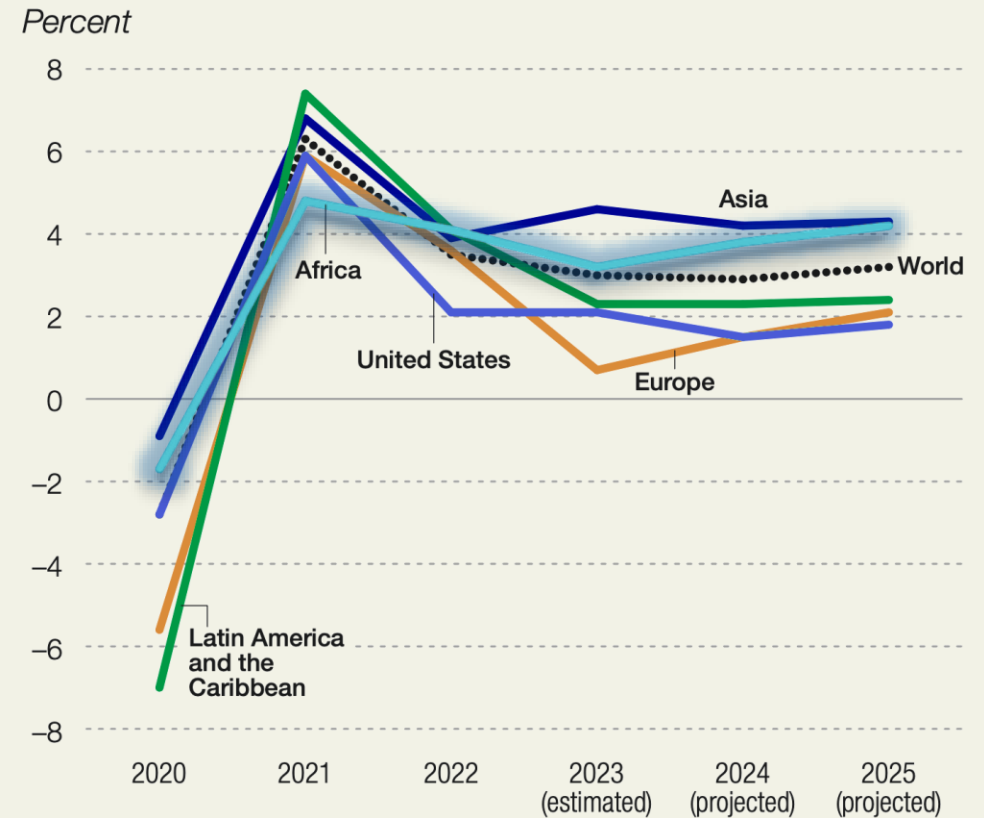


FIGURE 1.2 Real GDP growth, by world region, 2020–25



Africa will account for 11 of the world's 20 fastest-growing economies in 2024.

Source: African Development Bank Group



FDI in Africa – By Country, Capital Invested

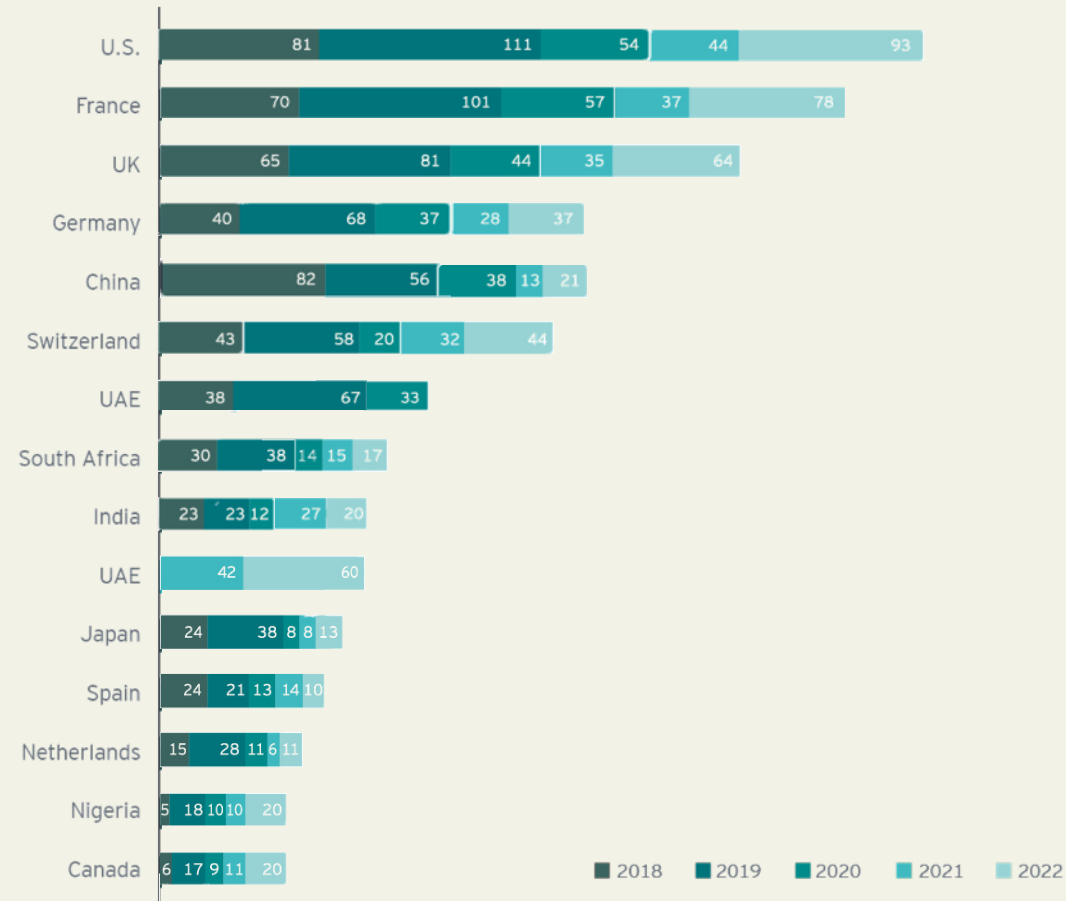
Table 1. Africa: FDI inflows and cross-border M&A sales, 2020–2022 (Millions of dollars, number and per cent)

Subregion/selected economy	FDI				Net cross-border M&A sales							
	Value				Value				Number			
	2020	2021	2022	Growth rate, 2021–2022 (%)	2020	2021	2022	Growth rate, 2021–2022 (%)	2020	2021	2022	Growth rate, 2021–2022 (%)
Africa	39 195	79 583	44 929	-44	3 334	-1 493	8 667	..	87	125	122	-2
North Africa	9 800	9 509	15 038	58	93	10	3 530	..	35	49	57	16
Algeria	1 143	870	89	-90	-8	-	-	..	-1	2	-	..
Egypt	5 852	5 122	11 400	123	135	29	3 392	..	20	26	42	62
Morocco	1 419	2 266	2 141	-6	28	-19	138	..	9	13	12	-8
Tunisia	652	660	713	8	-61	-	0.3	..	7	8	2	-75
Other Africa	29 395	70 074	29 891	-57	3 241	-1 503	5 137	..	52	76	65	-14
West Africa	8 857	12 947	8 454	-35	817	-348	273	..	14	14	12	-14
Ghana	1 333	2 414	1 473	-39	-	96	-	..	1	1	1	0
Nigeria	2 385	3 313	-187	..	417	-713	417	..	7	2	4	100
Senegal	1 846	2 588	2 586	0	400	188	-	..	2	1	3	200
Central Africa	9 338	6 488	6 006	-7	95	50	-	..	-1	5	3	-40
Congo	4 016	532	532	0	-	-	-	..	-	-	-	..
Congo, Democratic Republic of the	1 647	1 870	1 846	-1	-	-	-	..	-	-	-	..
Gabon	1 717	1 529	1 105	-28	-	50	-	..	-1	1	-	..
East Africa	6 329	8 433	8 726	3	56	609	34	-94	15	24	18	-25
Ethiopia	2 381	4 259	3 670	-14	-	-	-	..	3	-	-	..
Kenya	717	463	759	64	48	386	33	-91	7	15	10	-33
Uganda	874	1 100	1 526	39	-	37	-	..	2	2	1	-50
United Republic of Tanzania	944	1 033	1 111	8	-	1	-	..	-	2	2	0
Southern Africa	4 871	42 206	6 704	-84	2 273	-1 814	4 829	..	24	33	32	-3
Mozambique	3 035	5 102	1 975	-61	-	-	-	..	1	-1	-1	..
South Africa	3 062	40 948	9 051	-78	2 239	280	4 760	1599	19	30	30	0
<i>Memorandum</i>												
World	961 983	1 478 137	1 294 738	-12	474 864	737 452	706 572	-4	6 201	8 571	7 763	-9
Developed economies	315 461	597 243	378 320	-37	388 581	624 070	599 315	-4	5 333	7 610	6 710	-12
Developing economies	646 522	880 894	916 418	4	86 283	113 382	107 257	-5	868	961	1 053	10

Source: UNCTAD, FDI/MNE database (<https://unctad.org/fdistatistics>) and information from Refinitiv SA.
Note: Data excludes financial centres in the Caribbean and special-purpose entities in reporting countries.

FDI - Investments by Source Country

Number of projects



Source: fDi Markets (Financial Times).

Note 1: Per project, the extractives sectors remain the largest job creator, the services sectors create the least jobs

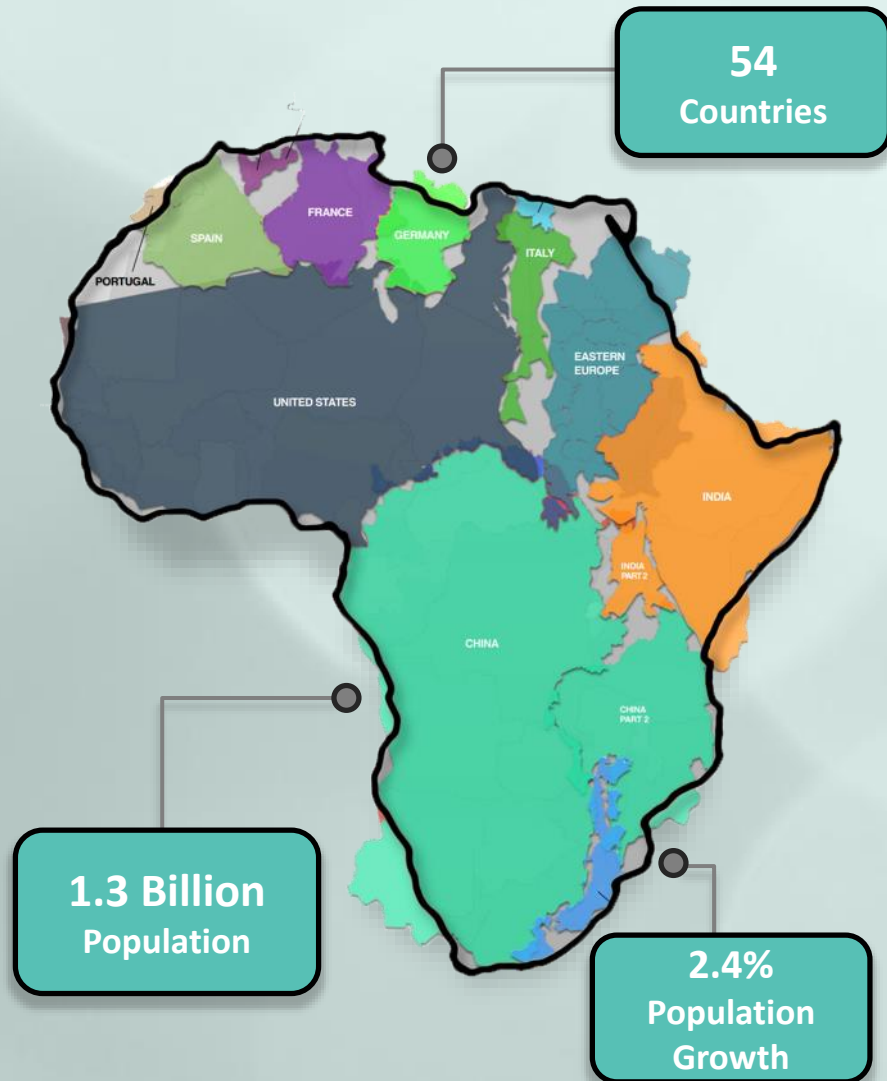
Source: FDI Intelligence and EY Africa Attractiveness Report, 2023



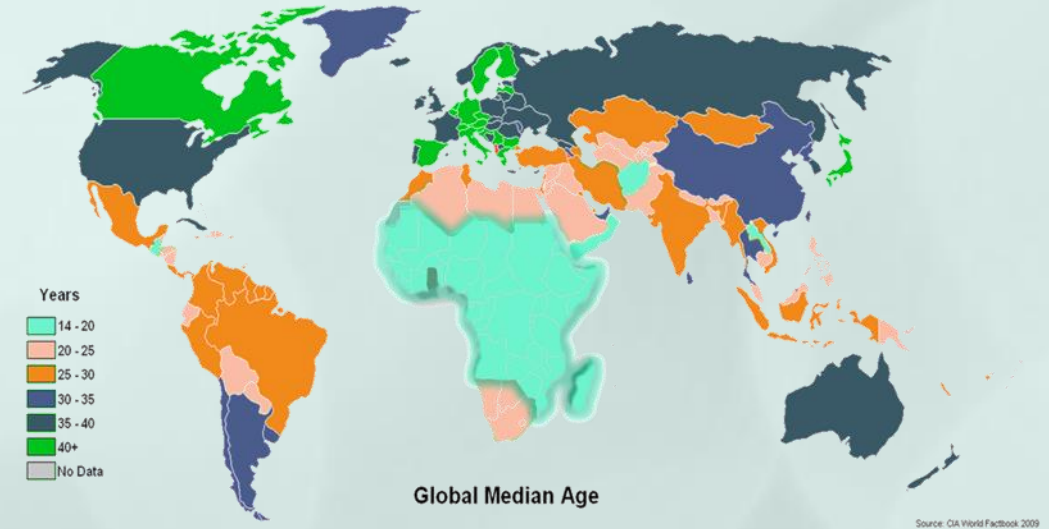
Growth Driver:
Africa's
Demographic
Advantage



Africa's Demographics Advantages – Large Young Population



Africa's Demographics Advantages - Youth



60% of Africans are Younger Than 25

1.1 billion working age Africans by 2040.

Source: WEF

With a surface area of 30.3 million sq. km., Africa is bigger than Europe, the U.S. and China combined.



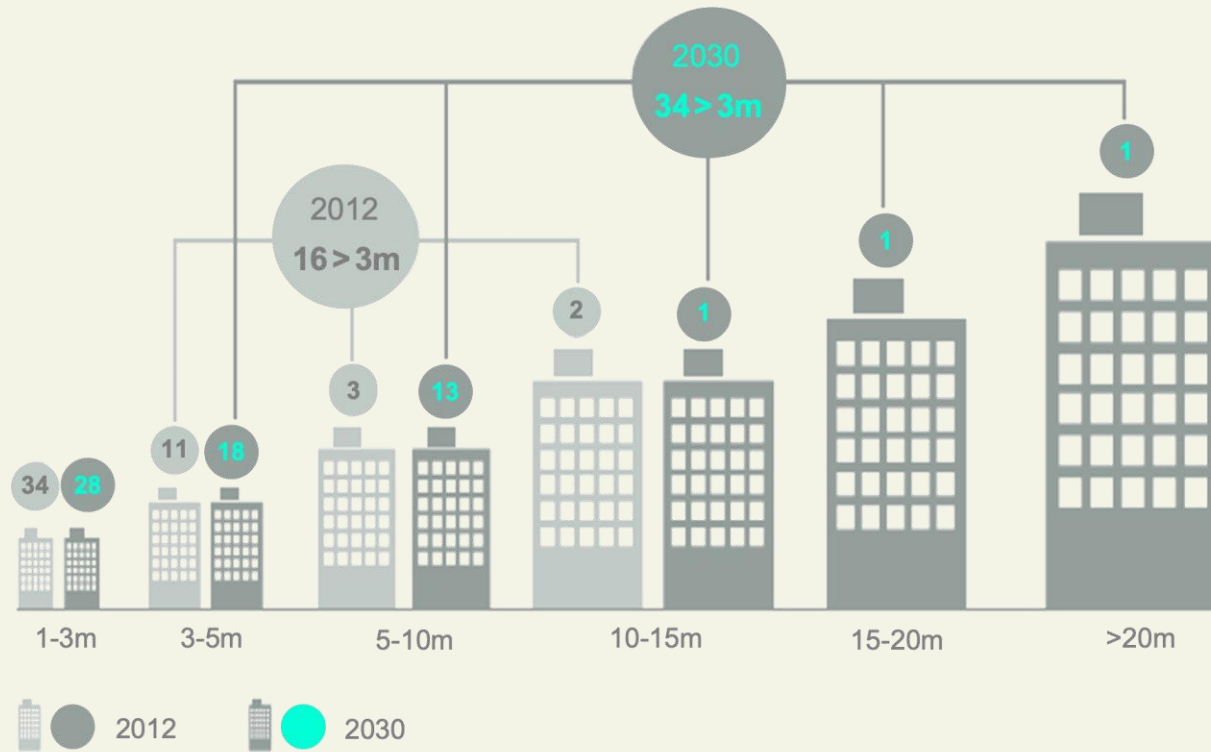


Growth Driver: Urbanization



The number of African cities with a population over 3 million is expected to more than double from 16 in 2012 to 34 in 2030

Cities with a Population Over 1 Million



Source: Oxford Economics

Africa is the fastest urbanizing continent in the world. 300 million Africans now live in cities.

18 major African cities will have a combined spending power of \$1.3 trillion over the next decade.

Source: Brookings



Growth Driver:
**Investment in
Infrastructure**

Africa's Infrastructure – Investment Opportunities

The continent's infrastructure needs are \$130—\$170 billion a year, with a financing gap of \$68—\$108 billion.

Source: AfDB



Energy



Ports



Telecom
(5G)



Railway



Social
Infrastructure

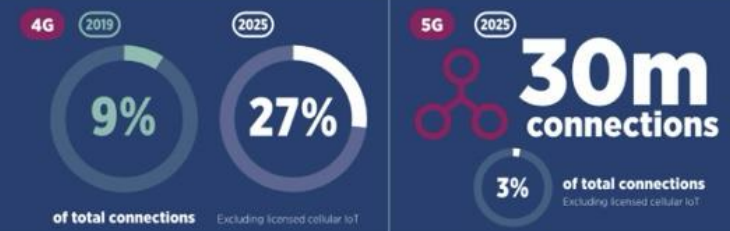


Roads



Growth Driver: ICT
Digital Revolution

Mobile Economy Sub-Saharan Africa

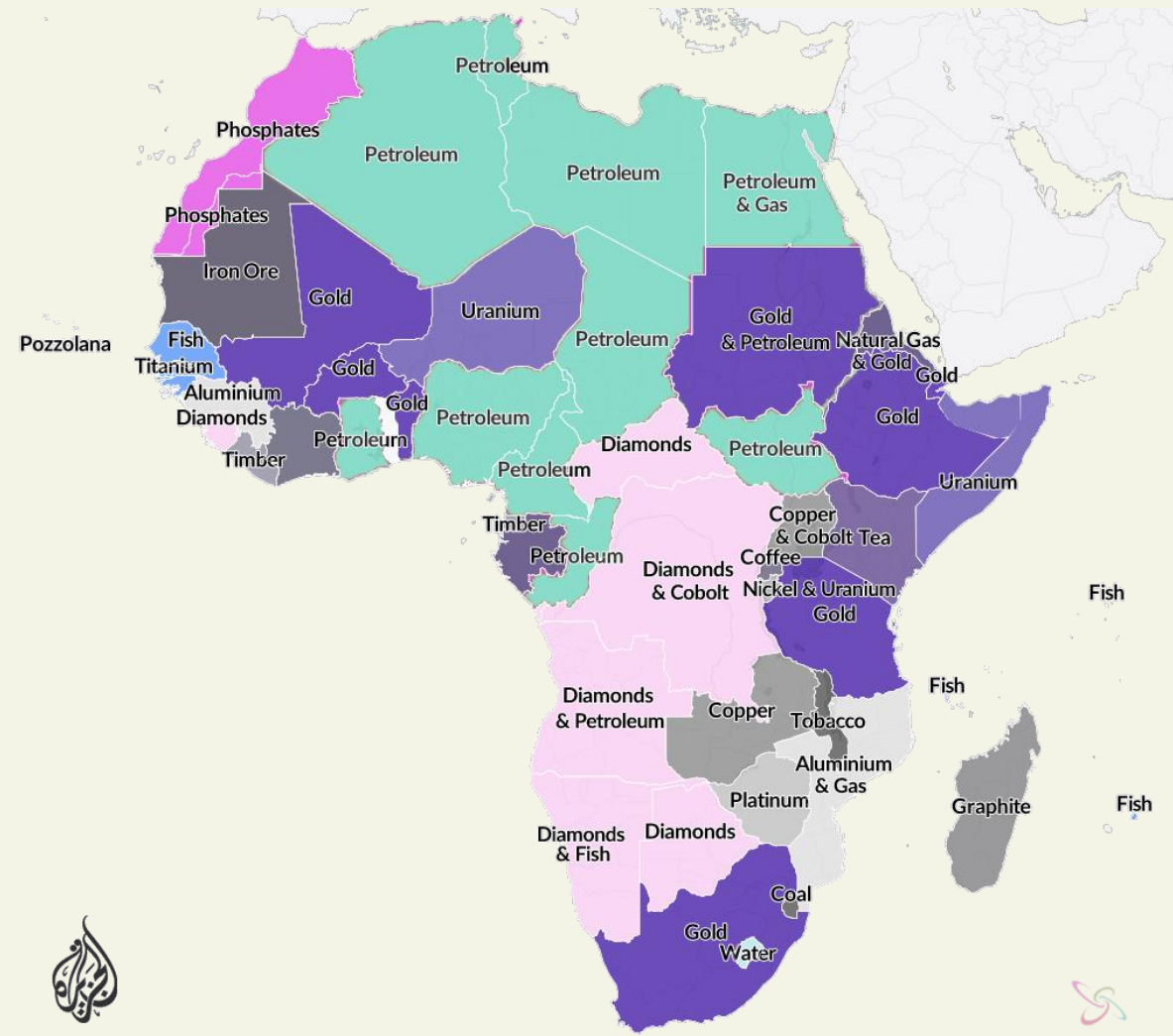




Growth Driver:
Value Addition to
Natural Resources

Africa's Natural Resources Investment Opportunity

- About **30%** of the world known reserves of minerals,
- About **10%** of oil and **8%** of gas resources,
- Largest **cobalt, diamonds, platinum** and **uranium** reserves in the world,
- But, comparably low level of exploration and even fewer beneficiation done in Africa.





Growth Driver:
Agriculture



Africa has **600 million hectares** of uncultivated arable land, roughly 60% of the global total.



And, yet,

Africa **imports \$40 billion** of food annually and will reach over \$110 billion by 2025





Growth Driver: Tourism

A Major Growth Opportunity



Tourism contributes **8.5%** to Africa's GDP and \$194 billion.

67 million

International tourist arrivals in Africa.

24.3 Million

People employed in the tourism sector.



But, Africa accounts for **only 5%** of the world's international tourist arrivals

and



Receives **only 1%** of the \$1.7 trillion of the world's tourism earnings

Source: World Tourism Organization, others



Growth Driver: Manufacturing

Manufacturing in Africa: Can it be the Next Factory of the World?

Some African Manufacturing Success Stories:

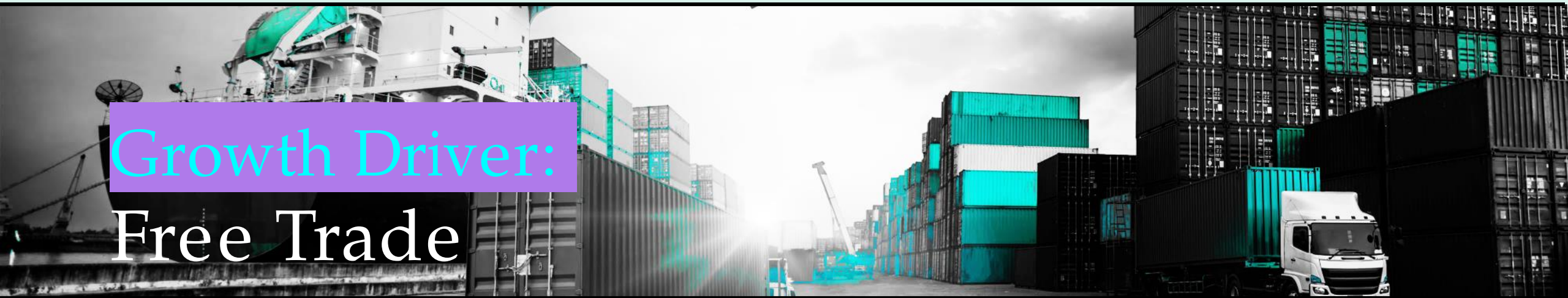
Ethiopia: Largest industrial park for cloth manufacturing in Africa, with 1.3 million sq. meters.

Nigeria: Dangote Group is the largest manufacturer of cement in Africa

South Africa: Sasol is the world's biggest producer of liquid fuel from coal.

Various Countries: industrial parks developed and/or are being developed in Kenya, Senegal, Tanzania, etc.





Growth Driver:
Free Trade



Africa's free trade advantages: AGOA and the EU's free trade access and AcFTA

Africa Continental Free Trade Area (AcFTA). The world's largest free trade area.

Intra-African trade could grow **15 to 25 percent** by 2040 due to AfCFTA.

Source: UNECA

Most African countries benefit from AGOA which aims to expand US trade and investment with Sub-Saharan Africa, to stimulate economic growth, to encourage economic integration, and to facilitate sub-Saharan Africa's integration to the global economy.

Many African countries also benefit from the EU's "Everything But Arms" quota and duty free trade agreement.



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Conclusion - Reasons for being positive about Africa

- 1 The size and dynamism of the economy
- 2 Demographic Advantage – Population
- 3 Rapid Urbanization
- 4 Manufacturing
- 5 Infrastructure
- 6 ICT
- 7 Tourism
- 8 Huge Untapped Resources
- 9 Free Trade
- 10 Agriculture



The graceful and powerful African Lion



A satellite view of the Earth at night, showing the continent of Africa and surrounding regions illuminated by city lights. The text is overlaid on this image.

Africa's Airline Industry — Key Factors for Success



Africa's Airlines — Collaborate to Succeed

“Collaborate to Succeed”

- ▶ Africa needs at least 3 major ** airlines in Sub-Saharan Africa.
- ▶ Therefore collaboration is critical

** Major is defined as airlines with over US\$5 billion annual revenue by 2030. This level of revenue size is essential for a “major” African carrier to compete effectively globally.



PPP is a must in African Aviation



PPP Investments in Aviation Infrastructure & The Supporting Institutions

- ▶ **Poor airport infrastructures** (lighting, navigation equipment, etc.) makes airline operations expensive in Africa.
- ▶ **Small airport traffic** - Very few airports in Africa have 500,000 passenger per year the level needed to make them viable.
- ▶ **Charges** - Landing fees, over flying charges, ground handling fees, etc, are high compared to the US and Europe making airline operations expensive in Africa.
- ▶ **African based financial institutions** - Capacity of African based financial institutions in PPP form should be developed to enable these institutions to serve Africa's growing aviation sector
- ▶ **Recommendations** - African governments must either invest or encourage investment (i.e. PPP model) of a sizeable percentage of their gross domestic product (GDP) in aviation infrastructure in order for their aviation sector to grow and contribute to their economies' growth.

African Open Skies



African Open Skies a Must

Accelerate implementation of SAATM which have been signed by 35 States already and account for over 85% of intra African traffic and over 800 million of African population

Single African Air Transport Market (SAATM)

23 countries have signed the solemn commitment :

Benin, Burkina Faso, Botswana, Cabo Verde, Republic of Congo, Côte d'Ivoire, Egypt, Ethiopia, Gabon, Ghana, Guinea Conakry, Kenya, Liberia, Mali, Mozambique, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Swaziland, Togo and Zimbabwe

- Total GDP (2015): 1450 Billion US Dollars
- Potential passengers greater than 200 million per year
- Cover 75% of Intra African Air Transport

Benefits of the SAATM

- Air service connectivity
- Over 25% lower fares
- Creation of jobs
- African integration
- Convenience and ease of travel
- Time saving
- Enhanced intra-African trade
- Contribution to tourism growth
- Sustainable growth of African Airlines
- Increase in National GDPs
- Reliable services
- Better utilization / reduction of cost of operations
- Enhancement of aviation down-stream sector activities



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Good Corporate Governance Key for Success

Corporate Governance

- ▶ Airlines are businesses and regardless of the ownership (government or private), they MUST be run on a business model.
- ▶ There are too many examples of African airlines going bankrupt due to bad governance (i.e. interference by governments, incompetent management, etc.)
- ▶ Many African airlines have weak balance sheets and operational performances & sub-optimal or no credit experience. These pose major challenges in the financing advisory Fairfax conducts for our clients. More reason why African airlines must be run on a commercial basis, regardless of ownership (private or state owned).

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