OPPORTUNITIES IN THE NIGERIAN AVIATION SECTOR ~ AIRLINE OPERATIONS AND AIRPORT CONCESSIONS

DIRECTOR GENERAL/ CEO
INFRASTRUCTURE CONCESSION REGULATORY COMMISSION
29th April, 2019
“.....We also have a **huge infrastructure deficit** for which we require foreign capital and expertise to supplement whatever resources we can marshal at home. In essence, we seek **public private partnerships** in our quest for enhanced capital and expertise.”
Ai Infrastructure Regulator of the Year
Infrastructure Concession Regulatory Commission of Nigeria
WINNER 2018
AMERICA HAS GOOD ROADS, NOT BECAUSE AMERICA IS RICH, BUT AMERICA IS RICH BECAUSE IT HAS GOOD ROADS ~ John F Kennedy Former US President.

The implication of this quote from the 60s is an eternal economic truism. No country can become economically buoyant without a good infrastructure network especially a good road, water and aviation network – intermodal network.
Introducing...Nigeria centre of the world

POTENTIAL HUB FOR
- Global Finance
- Global Shipping
- ICT
- Aviation
- Etc.
Africa’s Most Formidable CV – Past and Present

- Largest Economy in Africa and First TV Broadcast in Africa
- Mandela hid in Nigeria for 6 months to escape the Apartheid Regime
- Previous longest Bridge in Africa (11.8 Kms) – Egypt now
- Largest Black Country in the World – 190 – 200 Million
- Largest Entrepreneurial Population in Africa, Large Mobile Phone User Base
- Third Largest Movie Industry in the World – Now 2nd
- Diversifying Economy With Growing Non Oil Sector – 51% Services, Agric 22%, Industry 26%, Oil 15%
- Richest Man in Africa – Aliko Dangote
- Leading Destination for Investment in Africa – UNCTAD
- IF YOU ARE NOT IN NIGERIA, YOU ARE NOT IN AFRICA
PRESENTATION OUTLINE

- Case for Action
- Why Aviation Matters
- Aviation Sector Transformation Program
- Airline Opportunities/National Carrier
- Airports Plus – MRO, ALC etc
- Nigeria’s Legal and Regulatory Framework for PPPs
Case for Action
We have a huge Infrastructure Business Opportunity or Emergency or Problem – TYC Records

Government does not have all the resources government and private sector working together is not an option...its mandatory
Real GDP Growth Trends

- Real GDP growth remains weaker than pre-recession levels of 5-6% per annum

Source: NBS, Afrinvest Research
The proposed 2019 budget of ₦8.83tn ($29bn) is 3.2% lower than the ₦9.12tn budget of 2018.
Federal Government Revenue Profile

- Budgeted and estimated actual revenue consist of Oil and Gas revenue, Non-Oil revenue and Independent revenue
Domestic financial depth: Nigeria fairs poorly on domestic savings, investments and government spending vs peers

### Domestic Savings 2015, % of GDP

- **Nigeria**: 15.6%
- **Egypt**: 5.8%
- **China**: 48.9%
- **Indonesia**: 34.6%
- **Malaysia**: 32.7%
- **India**: 30.6%
- **Russia**: 30.4%
- **Saudi Arabia**: 29.7%
- **UAE**: 29.3%
- **Turkey**: 25.7%
- **South Africa**: 19.6%
- **Brazil**: 16.5%

### Investment 2015, % of GDP

- **China**: 43.8%
- **Indonesia**: 32.8%
- **Saudi Arabia**: 29.8%
- **Turkey**: 29.7%
- **India**: 29.3%
- **Malaysia**: 26.2%
- **UAE**: 23.4%
- **Russia**: 20.7%
- **South Africa**: 20.4%
- **Brazil**: 18.1%
- **Nigeria**: 14.8%
- **Egypt**: 13.7%

### Government Spending 2016, % of GDP

- **Brazil**: 41.6%
- **Saudi Arabia**: 38.9%
- **Russia**: 36.0%
- **Turkey**: 33.5%
- **South Africa**: 33.0%
- **Egypt**: 32.9%
- **China**: 32.0%
- **UAE**: 30.2%
- **India**: 27.9%
- **Malaysia**: 23.4%
- **Indonesia**: 16.8%
- **Nigeria**: 9.9%
Private Capital is Available

The world invests $2.5 trillion annually in transport, power, water, and telecom. The world needs to invest $3.3 trillion annually just to meet growth forecasts to 2030.

How can the world bridge its infrastructure gap?

Find a way to attract the $120,000,000,000,000 under management by banks and institutional investors to infrastructure finance through...

- A better pipeline of well-developed projects
- Changes to regulation and risk mitigation
- Market facilitation and standardization
- Solid cross-border investment principles
Private Capital in Lagos
Why Aviation Matters
Aviation Sector Contributions Comparison
Ethiopia GTP II - Aviation Sector to contribute 25% of GDP by Mid 2020
Dubai (2 Airports)

- In 2012: Total Passengers processed 57.7 m
- Aviation industry contribution to GDP ~ 20%; estimated to rise to 32% in 2020
- In 2013: Passengers processed rose to 65.4%
- Connects to 149 cities all over the world
- Generated revenue of $10.2 billion
- Supported 157,000 jobs
- Industry estimated contribution to GDP to rise to 32% in 2020

Nigerian Aviation Industry

- In 2015: Aviation industry supports 254,500 jobs
- Contributes US$940 million (N184.7 billion) to national GDP.
- Of this sum, 49% (i.e. US$462 million or N90.8 billion) is a direct output of the aviation sector (via airports, airlines and ground services)
- Indirectly jobs, 51% (via the supply chain).
- Additional US$464 million (N91.2 billion) is derived from tourism, which raises the overall contribution to US$1.4 billion (N275.9 billion).
- In 2010 - Total Passengers: 8.3 m (4.2m domestic passengers; Contribution to GDP – 0.4%
The Nigerian aviation industry has been facing major challenges due to high fuel prices, limited access to foreign currencies, as well as low aircraft utilisation and high maintenance costs.

- With 6.7 million passengers, Lagos Murtala Muhammed International Airport is Nigeria’s largest airport, followed by Abuja Nnamdi Azikiwe International Airport (4.2m).

- Despite the country’s higher GDP per capita, Nigeria’s propensity to fly is relatively low compared to other African countries.

- Route network out of the four airports is dominated by domestic services operated by Arik Air, Dana Air, Air Peace etc. Foreign airlines mostly focus on economic trade links, diaspora and Hajj markets.

Source: FAAN
The Aviation Industry - Nigeria

NIGERIA GROWTH POTENTIAL – PROPENSITY TO FLY CATCH UP

LARGE POTENTIAL WHEN CAPITALISING ON THE POPULATION, CURRENT PROPENSITY TO FLY WELL BELOW PEERS

[Graph showing the relationship between GDP per capita and propensity to fly for various countries, including Nigeria.]
LARGE POPULATION GROWTH HISTORICAL AND FUTURE

POPULATION HAS DOUBLED SINCE 1990 AND STILL HAS A FERTILITY RATE OF 5.07 AS OF 2017

TREND FORECAST TO CONTINUE BY UN AND WOLD BANK

Source: United Nations and World Bank
Aviation Sector Transformation Program
1. Four International Airports
- Murtala Mohammed International Airport Lagos
- Nnamdi Azikwe International Airport Abuja
- Port Harcourt International Airport Port Harcourt
- Mallam Aminu Kano International Airport Kano.

2. Aviation Leasing Company (ALC): Setting up of a PPP JV company that will provide aircrafts and engines to airlines on favourable lease financial terms over a period of time.
3. **Maintenance Repair and Overhaul (MRO):** The establishment of a facility for aircrafts maintenance that includes repairs, inspection, alteration and supply of parts

4. **Aerotropolis (Airport City):** The planning and development of supporting amenities and facilities around the airport
5. National Carrier: The establishment of national airline for the country

6. Six Cargo/Agro Allied Terminals: To be located in each of the geo-political zones: The development of specialized airports for cargo handling and agricultural products
Airline Opportunities and the National Carrier
Airlines Force Field Analysis

- Great Population
- Airport Facilities and Services Requiring Significant Upgrade – WA has left us behind
- Uncoordinated last mile service
- Cost of Financing and Aircraft Leases
- Aviation Fuel Cost and Availability
- Access to FX and Lack of MRO
- Destination Nigeria
- Airport Opening Times and Facilities – Low Utilization
- High Airport and Other Charges
- Fly Nigeria Policy or Act
Airlines face high cost of maintenance, aviation fuel on ageing aircraft

IFEOAMA OKEKE

Predominance of ageing aircraft by domestic airlines operating in Nigeria has led to high cost of aircraft maintenance and aviation fuel (JETAI) consumption.

Experts in the aviation sector say aside the absence of aircraft maintenance facilities in the country and high exchange rate, ageing aircraft is a contributory factor to high cost of aircraft maintenance.

Currently, Medview is facing difficulties in carrying out scheduled operations over insufficient aircraft. Most of its aircraft are out of the country on maintenance, while First Nation’s operation has been suspended as a result of insufficient aircraft.

There is empirical evidence that suggests that there is up to 30% difference in maintenance cost between new and old aircraft. Neuer aircraft are more fuel-efficient than older ones. The older an aircraft gets, the more intensive maintenance is required and therefore the more expensive it becomes to keep them serviced and airworthy,” Obi Mbanuzo, accountable manager of Dana Air, told BusinessDay.

Mbanuzo explained that domestic airlines use older aircraft because of financing and “due to the inability of banks and lending houses to provide long-term loans which are required to acquire newer aircraft, airlines go for cheaper used versions which they can finance themselves without the help of banks.

“For example, a brand new B737-800 costs up to $90 million and Western airlines pay over 10 to 15 years with the help of leasing and finance houses. Conversely, a used B737-300 costs about $4 million.”

Dung Pam, Nigeria Aviation Safety Initiative (NASI) coordinator, told BusinessDay that since fuel costs present approximately 15 to 25% of operating cost, “fuel efficiency comes high on the list of improvements to be expected from each new model of engines and aeroplanes.” Therefore, new types of aircraft come fitted with wings, composites materials and more fuel efficient engines and are definitely much more fuel efficient than older versions.

“The initial acquisition cost of these new aircraft is cheaper. However, they are extremely expensive to run and maintain appropriately. In the long term, this proves to be a very bad economic decision as the airlines can barely carry out three C-check cycles (four and half years) before the aircraft is abandoned due to the prohibitive cost of maintenance.”

This explains why most of our airlines have a short life expectancy of about five years,” Pam said.

A few years ago, the government imposed a 22-year-old ban on any aircraft that must be brought into the country. The move, according to NCA, was to ensure that the industry does not become a dumping ground for old aircraft.

BusinessDay’s checks show that apart from Anik Air, with the youngest airplanes of an average age of less than 5 years, other airlines parade aircraft between the ages of 12 to 18 years.

According to Boeing, a major aircraft manufacturer, many factors drive the demand for replacement of old aircraft. Age, according to the corporation, is one, but other factors include relative airplane economics, maintenance requirements and overall market environment. It said in recent years, high fuel costs have played a larger role in influencing decisions to remove airplanes from service.

Roy Ukepo Ibegbodu, CEO, Anik Air said that during C-checks, airplanes are basically stripped and almost rebuilt. It cost money; the technicians are paid with foreign exchange. Anywhere from $500,000 to $1 million is what airlines need for a C-check.

“When the airplane is going for a C-check, depending on the age of that aircraft, there are some things that the manufacturers will look at. For instance, an airplane that has flown for 10,000 hours, there are things they expect. So, based on that, the checks will be done. As airlines carry out the checks, you may find out more than what the manufacturers will have recommended. You find things like corrosion for airplanes that have operated in our region because of the moisture. When you find corrosion in an airplane, the cost of repair sometimes will double. But the good things that Anik’s airplanes are very new, so you hardly will find corrosion in airplanes that are less than 10 years old,” Ibegbodu added.

However, Igewe Francis, the Public Relations Officer, National Association of Aircraft Pilots and Engineers said that what matters is that aircraft are maintained to a minimum approval standard, and not necessarily the age of the aircraft.

A few years ago, the government imposed a 22-year-old ban on any aircraft that must be brought into the country. The move, according to NCA, was to ensure that Nigeria does not become a dumping ground for old aircraft.

“The NCA has always assisted operators to acquire new fleet. This was put in place through the Cape Town Convention, which Nigeria signed many years ago. This was what Anik benefited from. Under the programme, the NCA serves as guarantor to the operator. I can assure you that the 22-year age limit on aircraft brought into the country still stands,” a source in NCA said.

Major leap forward, clean-up project... as NDDC flags off trainee cleaning
National Carrier Project
Nigeria’s new national carrier huge PPP opportunity

The Emirates Group in Dubai started about 40 years ago with 2 old B737 leased from Pakistani International Airlines

In 2016/17 they accrued revenues of 25.8 Billion USD with 150,000 employees

In comparison, Nigeria in 2016/17 sold on average 1.4 Million Barrels per day, at a rate of 40 USD per barrel = 20.4 Billion USD per year.
Abuja and Nigeria are strategically located at the crossroads of global international trade.
ONCE UPON A TIME
Initial total funding requirement for the new airline is estimated at USD $300m.

The $300m is comprised of an estimate of $25 million for Aircraft Deposits, $30 million working capital for start-up costs before commencement of operations (salaries, other supplier deposits, interim management and consultancy).

Remainder of $300m is made up of working capital requirements emanating from funding operating cash flow, capex and deposits during the ramp-up phase of operations in the first 3 years. These total c. $242m.
Funding of USD 300m provides a contingency cushion of $58m, which represents a contingency of about 20%.

Based on the cash flow timing requirements of the business, the cash injections required over time are:

- $55m in Yr 1;
- $100m in Yr 2; and
- $145m in Yr 3
New airline ramps up to revenue of c. $1.4bn in year 5; break-even year 3, and has an EBIT margin of 10.6% in year 5

Airline Projected Revenue, 2018-2023

Airline Projected EBIT and Margin, 2018-2023

Source: AMG Analysis
## Table 15: Best Case Yearly Income Statement, 2018-2023

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<thead>
<tr>
<th>Item</th>
<th>Type</th>
<th>Unit</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
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<td>- 147,165,013</td>
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<td>-31.0%</td>
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<td>-</td>
<td>-</td>
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<td>Net margin</td>
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<td>-7.9%</td>
<td>18.9%</td>
<td>18.9%</td>
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## Table 16: Worst Case Yearly Income Statement, 2018-2023

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<th>Item</th>
<th>2018</th>
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<th>2020</th>
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<td><strong>Turnover</strong></td>
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<td>Passengers</td>
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<td>Cargo</td>
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<td>Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td><strong>Total</strong></td>
<td>-</td>
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<td><strong>Total</strong></td>
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<td>740,598,461</td>
<td>822,664,457</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>16%</td>
<td>-60.4%</td>
<td>-12.2%</td>
<td>-16.4%</td>
<td>-7.3%</td>
<td>-2.3%</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIT Margin</td>
<td>0.0%</td>
<td>-90.6%</td>
<td>-33.6%</td>
<td>-10.7%</td>
<td>-8.5%</td>
<td>-7.2%</td>
</tr>
<tr>
<td><strong>Non Operating income/(expense)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pretax earning from continuing operations</td>
<td>-</td>
<td>(109,183,008)</td>
<td>(120,276,154)</td>
<td>(82,072,669)</td>
<td>(70,633,293)</td>
<td>(81,841,412)</td>
</tr>
<tr>
<td>Taxation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net profit/(Loss)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net margin</td>
<td>0.0%</td>
<td>-90.6%</td>
<td>-33.6%</td>
<td>-10.7%</td>
<td>-8.5%</td>
<td>-7.2%</td>
</tr>
</tbody>
</table>
# SWOT Analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
</table>
| · Large population & economy  
· Central location in West Africa  
· Long history of aviation & human resources with experience  
· Government backing  
· Eagerness of Nigerians for a flag carrier they can be proud of | · High cost of fuel and airport charges  
· High taxes on aviation  
· Ageing fleet and low aircraft utilisation  
· High “mortality rate” of Nigerian airlines  
· Risk/cost premiums charges on aircraft leases & insurance  
· Under-developed links in the aviation value chain (i.e. airports/terminals, limited MRO)  
· Fluctuations/weakness of Naira  
· Corruptive authorities  
· Liabilities from former Government owned airlines |

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
</table>
| · African Open Skies  
· Under-utilised BASAs, especially long haul international  
· Substantial demand & low propensity to fly (PPTF)  
· Growing economy & middle class  
· Lack of Hubs in West Africa  
· Foreign investors | · African Open Skies  
· Growing competition from other African and international carriers  
· Elections with change in Government  
· Epidemics, terrorists and other force majeure crisis  
· International airline focus on Africa  
· Economic downturn |
For Abuja, over a 10-year period, 98 direct routes were assessed and 1,544 indirect routes
• For Abuja, 41 routes were selected of which 30 are currently unserved markets and 11 are markets with existing competition:
  – 10 domestic with narrow-body jets
  – 20 international regional under 4,000km with narrow-body jets
  – 11 international long-haul over 4,000km with wide-body jets

For Lagos, over a 10-year period, 60 direct routes were assessed and 2,087 indirect routes
• For Lagos, 44 routes were selected of which 22 are currently unserved markets and 22 are markets with existing competition:
  – 10 domestic narrow-body jets
  – 15 international regional under 4,000km with narrow-body jets
  – 19 international long-haul over 4,000km with wide-body jets

The addressable market analysis assessed thousands of routes, and identified 41 routes from Abuja and 44 from Lagos worthy of further consideration

Addressable Market derivation:
10-year historic traffic from ABV & LOS – for 000s of Origin-Destination pairs; Direct & Indirect routings Routes with some reasonable volume selected Routes assigned narrow- or wide-body aircraft Routes / market considered Addressable if imputed service frequency deemed of minimum commercial scale
Figure 13: Route Selection Rationale and Methodology

New Routes Selection
Rationale

- Abuja/Lagos – routes served by other carriers
- Top routes – direct traffic volume
- Top routes load factors and change dynamic of load factors with capacity added

Abuja/Lagos – routes unserved
- Top routes – indirect traffic volume

Routes ranking by distance for aircraft type
- Turboprop regional – West Africa
- Short haul – Wider Africa
- Medium haul – Africa continent/ME
- Long Haul – Europe/N.America/Asia
### Domestic New Routes Forecast - Passengers

<table>
<thead>
<tr>
<th>Passengers</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>CAGR 2028-2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABV-LOS</td>
<td>489,978</td>
<td>507,895</td>
<td>526,902</td>
<td>546,610</td>
<td>567,025</td>
<td>3.7%</td>
</tr>
<tr>
<td>LOS-PHC</td>
<td>250,422</td>
<td>269,010</td>
<td>268,133</td>
<td>277,578</td>
<td>287,969</td>
<td>3.5%</td>
</tr>
<tr>
<td>LOS-QOW</td>
<td>29,717</td>
<td>30,768</td>
<td>31,883</td>
<td>33,039</td>
<td>34,236</td>
<td>3.6%</td>
</tr>
<tr>
<td>LOS-BNI</td>
<td>67,803</td>
<td>70,100</td>
<td>72,540</td>
<td>75,067</td>
<td>77,686</td>
<td>3.5%</td>
</tr>
<tr>
<td>ENU-LOS</td>
<td>86,282</td>
<td>89,305</td>
<td>92,515</td>
<td>95,841</td>
<td>99,287</td>
<td>3.5%</td>
</tr>
<tr>
<td>LOS-QUO</td>
<td>59,743</td>
<td>61,760</td>
<td>63,902</td>
<td>66,120</td>
<td>68,420</td>
<td>3.4%</td>
</tr>
<tr>
<td>KAD-LOS</td>
<td>44,097</td>
<td>45,750</td>
<td>47,502</td>
<td>49,320</td>
<td>51,203</td>
<td>3.7%</td>
</tr>
<tr>
<td>KAN-LOS</td>
<td>77,124</td>
<td>79,973</td>
<td>82,994</td>
<td>86,128</td>
<td>89,374</td>
<td>3.7%</td>
</tr>
<tr>
<td>LOS-QRW</td>
<td>42,161</td>
<td>43,589</td>
<td>45,107</td>
<td>46,678</td>
<td>48,306</td>
<td>3.5%</td>
</tr>
<tr>
<td>CBQ-LOS</td>
<td>50,299</td>
<td>52,011</td>
<td>53,829</td>
<td>55,712</td>
<td>57,664</td>
<td>3.5%</td>
</tr>
<tr>
<td>ABV-PHC</td>
<td>46,236</td>
<td>47,902</td>
<td>49,670</td>
<td>51,503</td>
<td>53,402</td>
<td>3.6%</td>
</tr>
<tr>
<td>ABV-QOW</td>
<td>13,202</td>
<td>13,646</td>
<td>14,119</td>
<td>14,608</td>
<td>15,115</td>
<td>3.4%</td>
</tr>
<tr>
<td>ABV-YOL</td>
<td>10,102</td>
<td>10,535</td>
<td>10,993</td>
<td>11,469</td>
<td>11,962</td>
<td>4.2%</td>
</tr>
<tr>
<td>ABV-ILR</td>
<td>5,718</td>
<td>5,912</td>
<td>6,119</td>
<td>6,333</td>
<td>6,555</td>
<td>3.5%</td>
</tr>
<tr>
<td>ABV-QUO</td>
<td>7,943</td>
<td>8,214</td>
<td>8,601</td>
<td>8,799</td>
<td>9,108</td>
<td>3.5%</td>
</tr>
<tr>
<td>ABV-MIU</td>
<td>23,445</td>
<td>24,303</td>
<td>25,212</td>
<td>26,166</td>
<td>27,132</td>
<td>3.7%</td>
</tr>
<tr>
<td>ABV-KAN</td>
<td>29,196</td>
<td>30,770</td>
<td>32,429</td>
<td>34,161</td>
<td>35,949</td>
<td>5.0%</td>
</tr>
<tr>
<td>ABV-IBA</td>
<td>18,465</td>
<td>19,092</td>
<td>19,758</td>
<td>20,447</td>
<td>21,162</td>
<td>3.5%</td>
</tr>
<tr>
<td>ABV-ENU</td>
<td>32,444</td>
<td>33,708</td>
<td>35,046</td>
<td>36,437</td>
<td>37,876</td>
<td>3.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,384,376</strong></td>
<td><strong>1,434,241</strong></td>
<td><strong>1,487,157</strong></td>
<td><strong>1,542,006</strong></td>
<td><strong>1,598,830</strong></td>
<td><strong>3.6%</strong></td>
</tr>
</tbody>
</table>
Figure 3: Major African Economies Propensity to Fly, 2016

Major African Economies
Propensity to Fly (Trips per Capita) v GDP PPP 2016
Source: Airbus, IHS, OEF

Nigeria, 0.04t/cap
Figure 4: Major African Economies Propensity to Fly, 2036

Major African Economies
Propensity to Fly (Trips per Capita) v GDP PPP 2036
Source: Airbus, IHS, OEF

Nigeria, 0.06t/cap
The PPP is being undertaken in order to provide a fair and transparent process for attracting a Strategic Equity Partner (SEP) who will invest in the new airline and provide other resources and support. The level and form of participation in the airline will evolve over time.

The transaction process in essence is looking for a (strategic) equity partner to participate in the JV company. They would be strategic in the sense they are providing expertise, management skills, etc to help run the airline, in addition to equity (be that in the form of cash and/or in-kind contributions).
Establishment of the National Carrier

Airport Management Group
Executive Summary

- **Nigerian Air** – a new Nigerian Flag carrier needed in Nigeria for the Nigerians

- **Economics (1)** - the Transaction Advisors engaged by Federal Executive Council in March, have finalised the OBC with ICRC certification. PPP procurement to commence.

- **Economics (2)** - the new Flag Carrier meets a large addressable market unserved, will open initially 85 new routes, domestic, regional and international, break even in year 3 (2021)

- **Economics (3)** – By the year 2023 the Flag Carrier plans revenues of 1.5 Billion USD per year

- **Aircraft** – Boeing and Airbus submitted their offers, Boeing 737 vs Airbus A320 for short-haul and Boeing 787 vs Airbus 330 for long-haul, the Flag Carrier Business Plan is initially 11 short-haul and 13 long-haul until 2025

- **Name/Logo/Colours** – Campaign Amongst Young Nigerians

- **Farnborough 2018** - On 18 July the name/logo/colour unveiled

- **Funding** - Addressed
Airports Plus – Best Practice
Changi Airport Singapore
Blaise Digne Int. Dakar
New Kotoka Terminal 3 Accra
New Abuja Airport Terminal
Airports provide access to and interlink regional, national and international markets.

This makes investment in existing or new airport infrastructure essential to economic development.

Traditionally, airports were owned, managed and operated by governments but there has been a worldwide trend towards private sector involvement with varying degrees of private ownership and responsibilities, including the use of Public-Private Partnership (PPP) models.
Public Private Partnership (PPP), is a work model that is based on a concession contract between a government or statutory entity on one side and a private sector company on the other side, for delivering an infrastructure service with payments by users or the government for investment recovery.

Its goal is to combine the BEST CAPABILITIES of the public and private sectors for MUTUAL BENEFIT.

Used for BUILDING of new and/or upgrade existing PUBLIC FACILITIES.

The private sector assumes a greater role in the planning, financing, design, construction, operation and maintenance of these facilities whereas the governmental body may assume the guarantee for the revenues and controlling the concession as contract counter party.
Major Types of PPP structures

- Greenfield or Brownfield?
- O&M Contracts
- Long Term Lease Concessions
- B.T.O (Build Transfer Operate)
- B.O.T (Build Operate Transfer)
- B.O.O (Build Own Operate)
DIFFERENT SCOPES FOR PPP in AIRPORTS

*ATC: Air Traffic Control, **GTC: Ground Traffic Control, ***Pax screening and other security relevant services ex- or included
Structure of PPP Projects in Airport Business

- **Client**
  - Tendering
  - Control

- **Investor**
  - Design
  - Finance
  - Built
  - Operate
  - Transfer

- **Financial Institutions**
  - Funding
  - Control
PROJECT SUMMARY

THE FEDERAL MINISTRY OF TRANSPORTATION IS ASSESSING THE FEASIBILITY OF PUBLIC PRIVATE PARTNERSHIPS (PPP) FOR THE AIRPORTS OF ABUJA, LAGOS, KANO AND PORT HARCOURT

LEVERAGE PRIVATE SECTOR PARTICIPATION AND FOREIGN INVESTMENT TO ACHIEVE THE UPGRADE AND DEVELOPMENT OF NEW INFRASTRUCTURE AT THE AIRPORTS IN THE FASTEST AND MOST COST-EFFECTIVE MANNER.
Four International Airports

CONSTRUCTION OF 4 NEW TERMINALS ONGOING

**ABUJA**
- 56,000 sqm
- 15 mppa capacity
- 3,000 sqm Duty Free area
- 8 boarding bridges
- Recently complete major runway overhaul

**KANO**
- Relatively new existing terminal from 2011
- Advanced state of construction of new terminal
- Will multiply current capacity

**LAGOS**
- 48,000 sqm
- Remodelling of existing terminals plus new terminal doubles capacity to 30 mppa
- Boost current constraint airport facilities

**PORT HARCOURT**
- Advanced state of construction
- Will multiply current capacity
Four International Airports

Transanction Advisory Consortium

- Proserve Energy
- Infrata Limited
- Denton
- WSP Parsons Brinckerhoff
- Rebel Group
MRO - Maintenance, Repair & Overhaul is a facility where aircraft are maintained in pre-determined conditions of airworthiness according to the standards required by the International Civil Aviation Authority (ICAA). The services to be provided by the MRO include: aircraft inspection, repair, alteration, supply of spare parts, accessories, raw materials, coatings and consumables to aircraft.

The desire of FGN to establish a private sector led national carrier owing to the nation’s huge aviation market could equally support and sustain the creation of MRO based on the existing facilities in-country through PPP arrangement. MRO will not only serve the proposed national carrier but also other domestic airlines and other west and central African airlines.

The existing MRO in country could be upgraded with the state-of-art of facilities by a reputable and experienced concessionaire to be procured by Government to render requisite services as required ICAA. This proposed PPP arrangement would not only boost nation’s capacity in terms of aircraft maintenance but sustain Government’s local content policy especially in the aviation sector.

The proposed national carrier and private airlines could form a formidable market to sustain the operations of MRO and thereby saving the country huge foreign exchange hitherto spent in maintaining the nation’s fleet of aircraft.
Proposed Structure for ALC

• ALC - Aviation Leasing Company provides aircraft and engines to airlines on lease over a period. Airlines lease aircraft from other airlines or leasing companies for two main reasons: to operate aircraft without the financial burden of buying them and to provide temporary increase in capacity. The Leasing arrangement could be: Wet Lease or Dry Lease.

• The FGN as a facilitator of businesses through its various agencies could through Joint Venture (JV) arrangement establish such a company to support domestic airlines acquire an aircraft without the burden of purchasing or temporarily increase their capacity to meet market demand for their services.

• Under this proposed arrangement, the private party could take overwhelming majority shares while the Government and wealthy individuals take acquire minority shares in the JV.

• The presence of Government shares in the investments could help overcome adverse effects of policy in the business and assist in addressing business risks that could be beyond the realm of the private sector to overcome.
Aviation Leasing Company (ALC)
- Catamaran Nigeria Ltd
- ARUP
- RDC Aviation
- Aubert Business Consulting
- Olawoyin & Olawoyin

- The same consortium is also providing Transaction Advisory services for the Maintenance Repairs and Overhaul (MRO)
• Development of Aerotropolis (Airport City)

- PWO Gibbs Limited
- The Infrastructure Bank (TIB)
- Abdullahi Taiwo & Co

• The same consortium is also providing Transaction Advisory services for the development of Cargo and Agro Allied Terminals
Highlights of TOR for Transaction Advisers

• Preparation of Outline Business Case (OBC)
• Preparation of Bidding Documents (RFQ, RFP, Info Memo, Draft Contract etc)
• Guide the procurement process
• Lead Negotiation
• Preparation of Full Business Case (FBC)
Two stage PPP procurement process ie. Request for Qualification (RFQ) and Request for Proposal issued to pre qualified bidders.

This will involve the placement of an Advert requesting interested bidders to respond by downloading the Request for Qualification (RFQ) document.
Current Status of the Projects

- The Airports – The Commission received Outline Business Case (OBC) report and has been reviewed. Next step: Issue the OBC Certificate.
- MRO: Outline Business Case (OBC) has been submitted and OBC Compliance Certificate issued. Next step: Commencement of procurement process for the selection of concessionaire – RFQ Published.
- ALC: Outline Business Case (OBC) has been submitted and OBC Compliance Certificate issued. Next step: Commencement of procurement process for the selection of concessionaire – RFQ Published.
- Cargo/Agro Terminals: TIB Consortium has been procured as TAs and is currently developing an OBC.
- Aerotropolis: TIB Consortium was procured as TAs and OBC report submitted to ICRC and currently under review.
- National Carrier: Procurement process for the selection of suitable investor on hold and would be restarted.
Nigeria’s Legal and Regulatory Framework for PPPs
The Infrastructure Concession Regulatory Commission Act (Establishment Etc,) Act 2005.

In 2009, the Federal Executive Council (FEC) approved a National Policy on PPP which provides guidance on PPP project structuring.

Presidential Circular of September 2013 directing All MDAs to engage with the FMoF and ICRC PRIOR to commencing PPP projects. MDAs to establish PPP units

Annual Report to the President presented every year in June.

Transparency and Competition
ICRC’s Functions:

- Regulate Public Private Partnership (PPP) procurement by:
  - Guiding MDAs in structuring PPP transactions for both green field and brown field infrastructure – Pre Contract regulation
  - Taking custody of all executed agreements and ensuring compliance - Post Contract Regulation

- Issue PPP regulations and guidelines
- Collaborate with state governments to develop a sustainable national framework
What others do:

- Initiate PPP projects – MDA responsibility
- Develop the Projects – MDA responsibility
- Approve PPP projects – FEC approves
- Implement the Projects – MDA responsibility
The PPP Process:

• Knowledge, experience and skills required to go through PPP phases:
  1. PPP Project Initiation,
  2. PPP Project Development,
  3. PPP Project Procurement,
  4. PPP Project Implementation
  5. Asset return
PPP Lifecycle in line with National Policy

Development Phase

- Preliminaries
  - Transaction Adviser
  - Needs Analysis
  - PPP Options Appraisal
  - Value for Money
  - Affordability
  - Sustainability
  - Prelim Risk Matrix
  - Viability/Bankability
  - VGF
  - OBC
  - OBC CERT BY ICRC

Procurement Phase

- Transaction Adviser
- EoI/RFQ Phase AND RFP
- Bidding
- Bidders Conference
- Bid Evaluation
- Value for Money Test
- Preferred Bidder
- Full Business Case
- By FEC

Implementation Phase

- Independent Engineer
- Monitor Design and Construction
- Commissioning Test
- Verify Output Requirements
- Contract Management

Preparing and Implementing Efficient and Effective PPP Transactions
SOLICITED ROUTE

- Well prepared bankable projects to Market
- Transparent and Competitive Bidding
- May Require Government Funding Support
- Timely Financial Closure Required

UNSOLICITED ROUTE

- Bankable Business Case by Project Proponent
- Must be part of strategic plan of government
- Indicative Funding Available
- Negotiate or Subject to Competition via Swiss Challenge etc
- No Government Funding Support
PPPs offer Nigeria a dependable and sustainable funding option, increased accountability, accelerated infrastructure provision and faster implementation of projects.

Nigeria’s huge infrastructure deficit is an opportunity to partner on a win-win basis with the private sector in virtually all economic and social infrastructure spaces.

Project preparation and development is key – PPP also stands for Preparation Preparation Preparation Preparation.
Transportation is Critical

A developed country is not a place where the poor have cars, it's where the rich ride public transportation.

Mayor of Bogota
NIGERIA’S WORLD CLASS AIRPORT HUB
MRO in Nigeria World Class
INFRASTRUCTURE CONCESSION REGULATORY COMMISSION
Plot 1270 Ayangba Street, Near FCDA Headquarters,
Area 11, Garki, Abuja – Federal Capital City.
Phone: +234 9-4604900, E-mail: info@icrc.gov.ng
Website: www.icrc.gov.ng