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Introduction: Government’s aims

The Federal Government of Nigeria, through the Federal Ministry of Transportation (Aviation) (FMoT(A)) is keen to provide a framework for the establishment of an Aviation Leasing Company (ALC) which can also be referred to as an African Leasing Company (ALC).

To this end, the Federal Government seeks to partner with a private partner consortium in a Joint Venture, with the Government owning a minority stake which will be supported by Government guarantee for either the aircraft or lease payments.

The ALC will provide leasing opportunities for African airlines in order to boost fleet size, alleviate the problem of aircraft leasing and play a significant role in modernizing the aircraft fleet in Africa.
Introduction: Need analysis

International Aircraft Leasing companies are not currently addressing the West and Central African market due to their perceived risks, namely:

- Revenue risks
- Legal risks
- Maintenance risks
Introduction: Need analysis

Two (2) business options were considered and assessed

• Option I: Sub-lease Only

  The ALC will lease aircraft from International lessors and subsequently sub-lease them to African airlines.

• Option II: Sub-lease and Purchase

  The ALC starts by sub-leasing aircraft but from the 6th year of operation, buys 25% of the aircraft required for the leasing market.

Whatever option is preferred, the initial start-off will be to lease 10-15 year-old aircraft, with the option of adopting a more modern fleet over time, thereby reducing the average age of aircraft in Africa.

Option I was analyzed for this presentation.
### Introduction: Transaction Advisers

<table>
<thead>
<tr>
<th>Consulting Firm</th>
<th>Role</th>
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<tbody>
<tr>
<td>Arup UK</td>
<td>Technical Advisory</td>
</tr>
<tr>
<td>Catamaran Nigeria</td>
<td>Technical &amp; Commercial Advisory; Project Management &amp; Administration</td>
</tr>
<tr>
<td>Aubert Business Consulting (ABC) UK</td>
<td>Financial &amp; Economic Advisory</td>
</tr>
<tr>
<td>RDC Aviation Economics UK</td>
<td>Market Analysis</td>
</tr>
<tr>
<td>Olawoyin &amp; Olawoyin</td>
<td>Legal Advisory</td>
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</table>
**Project Objectives: Set up an ALC**

- At present there is no Aviation Leasing Company in Africa.
- The average age of the African aircraft fleet has been traditionally high compared to the rest of the world, however this situation has been improving dramatically with 45% of the fleet now less than 10 years old.
- Aircraft acquisition is an expensive proposition for most African airlines, resulting in high financing cost. It has been estimated that about 70% of commercial aircraft in Nigeria are financed with the attendant high financing costs having a negative impact on profitability.
- Aircraft leases are not easily available as most of the major international lessors are reluctant to lease aircraft to small/medium airlines in Africa due to perceived risks. Thus airlines in Nigeria generally cannot afford modern aircraft, with the average age of aircraft in operation being 20 years old.
The average age of the African aircraft fleet has been improving, with 45% of the fleet now less than 10 years old, however 33% are over 20 years old. The mean aircraft age for an African airline is 12.6 years.
In the long term (2016-2035), Nigeria passenger growth will outperform overall Africa passenger growth, at CAGR 7.5% and CAGR 5.1% respectively. Nigerian passenger traffic will increase from 8.5m in 2016 to 33.7m by 2035 with domestic traffic dominating that growth – increasing from 4.4m in 2016 to 23.8m by 2035.
Market Analysis: Trend in Aircraft Ownership

The trend towards aircraft ownership by lessors has grown steadily since the early 1980s. It is estimated that by 2023, about 50% of the global fleet will be owned by lessors.
Market Analysis: ALC Projected Aircraft Portfolio

The ALC’s portfolio is projected to reach eighty aircraft by 2038.

The fleet would be renewed every ten years, either by returning the aircraft to the international aircraft leasing company or selling the old aircraft at the estimated residual value and replaced with new aircraft (if aircraft is bought).
Financial Analysis: Assumptions

- Operations commence in 2019
- First Year of revenues - 2019
- First Year of Profit - 2019
- Period analyzed for Cash flow 50 years
- Currency US$(000)
- Inflation US$ 2% pa
- Corporate tax 0%
- Depreciation 10%
- WACC 12%
- Funding structure debt to equity ratio 60:40
- Interest rates on debt 12% p.a (nominal terms) in US$ currency denominated loan
The CAPEX is calculated by multiplying the number of the aircraft required to lease over a period of six months (a reserve account). This lease rate depends on the type and age of aircraft.
# Financial Analysis: Investment & Returns

## Investment

<table>
<thead>
<tr>
<th>Investment Years</th>
<th>No of Aircraft</th>
<th>Cumulative Portfolio</th>
<th>Investment Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>17</td>
<td>17</td>
<td>US$ 21m</td>
</tr>
<tr>
<td>6-10</td>
<td>24</td>
<td>41</td>
<td>US$ 31m</td>
</tr>
<tr>
<td>11-15</td>
<td>21</td>
<td>62</td>
<td>US$ 28m</td>
</tr>
<tr>
<td>16-20</td>
<td>18</td>
<td>80</td>
<td>US$ 25m</td>
</tr>
<tr>
<td><strong>TOTAL INVESTMENT IN 20 YEARS</strong></td>
<td></td>
<td></td>
<td><strong>US$ 105m</strong></td>
</tr>
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## Returns (50-year Period)

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<table>
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<tr>
<th></th>
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<tbody>
<tr>
<td>Project IRR</td>
<td>15.5%</td>
</tr>
<tr>
<td>Project NPV(US$ 000’s)</td>
<td>12,653</td>
</tr>
<tr>
<td>Project Payback Period (years)</td>
<td>16</td>
</tr>
<tr>
<td>Equity IRR</td>
<td>16.4%</td>
</tr>
<tr>
<td>Equity NPV(US$000’s)</td>
<td>12,171</td>
</tr>
<tr>
<td>Equity Payback Period (years)</td>
<td>19</td>
</tr>
<tr>
<td>Equity Loan Ratio</td>
<td>40%</td>
</tr>
</tbody>
</table>
Government Incentives

The Federal Government is willing to provide incentives to support the ALC, some of which are:

➢ Establishment of Free Zone at the airports which qualifies the ALC for the following:
  • Stamp Duty exemption
  • 0% Value Added Tax
  • 0% Withholding Tax
  • Custom Duty and Import Tax waivers on aircraft and spares

➢ Availability of FOREX and futures support

➢ Granting of pioneer status
Project Implementation

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Period</th>
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<tbody>
<tr>
<td>Procurement Process</td>
<td>Aug-Nov 2018</td>
</tr>
<tr>
<td>Submission of Full Business Case (FBC)</td>
<td>Nov 2018</td>
</tr>
<tr>
<td>Approval of ALC by Government</td>
<td>Nov 2018</td>
</tr>
<tr>
<td>Contract award &amp; Signing of Contractual Agreements</td>
<td>Dec 2018</td>
</tr>
<tr>
<td>Project Commences</td>
<td>Jan 2019</td>
</tr>
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</table>

The Government is working with the institutional stakeholders to remove all bottlenecks in order to ensure seamless delivery and implementation of the project.
Conclusion

• The establishment of an ALC is one of the many initiatives being supported by the Federal Government of Nigeria in accordance with the Roadmap and plans to develop the country’s aviation sector.

• There is a huge potential in the Nigerian aviation sector, with an estimated population of circa 190 million people, ranking 7th in the world’s most populous nation and the most populous in Africa [United Nations].

• The African Development Bank (AfDB) is keen to participate in the establishment of the ALC as a promoter and shareholder. This will make the ALC a Pan-African company.
Conclusion

• There is presently no leasing company in Africa. Taking opportunity of this, the ALC can be implemented to propel Nigeria to an enviable position as a leasing hub in Africa.

• The conceptualized business model will effectively enable the investor to recoup its investment, operating/financing costs and profit over this period.

• Given the significant growth trend, limited competition, and government incentives, the proposed ALC provides a great opportunity for investment in the Nigerian Aviation market.