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

Engr. Chidi K. C. Izuwah, Snr.

DIRECTOR GENERAL/ CEO

INFRASTRUCTURE CONCESSION REGULATORY COMMISSION

29th April , 2019

Leadership Commitment

EXCERPTS OF SPEECH OF PRESIDENT MUHAMMADU BUHARI ON AUGUST 23, 2015

"…..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."

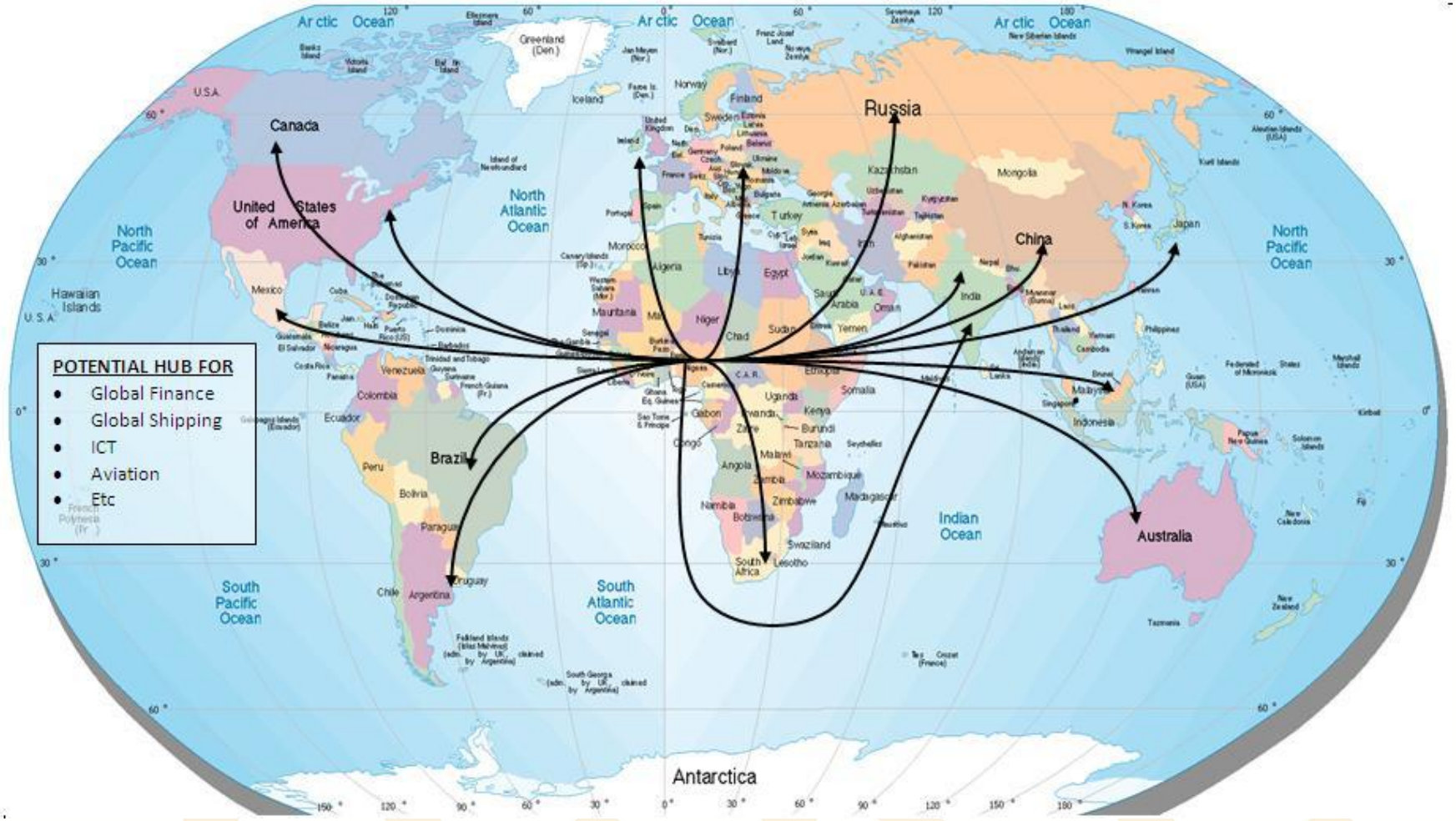

africainvestor
Infrastructure Investment Awards
Ai Infrastructure Regulator of the Year
Infrastructure Concession Regulatory Commission of Nigeria
WINNER2018

Transportation & Economic Development

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



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

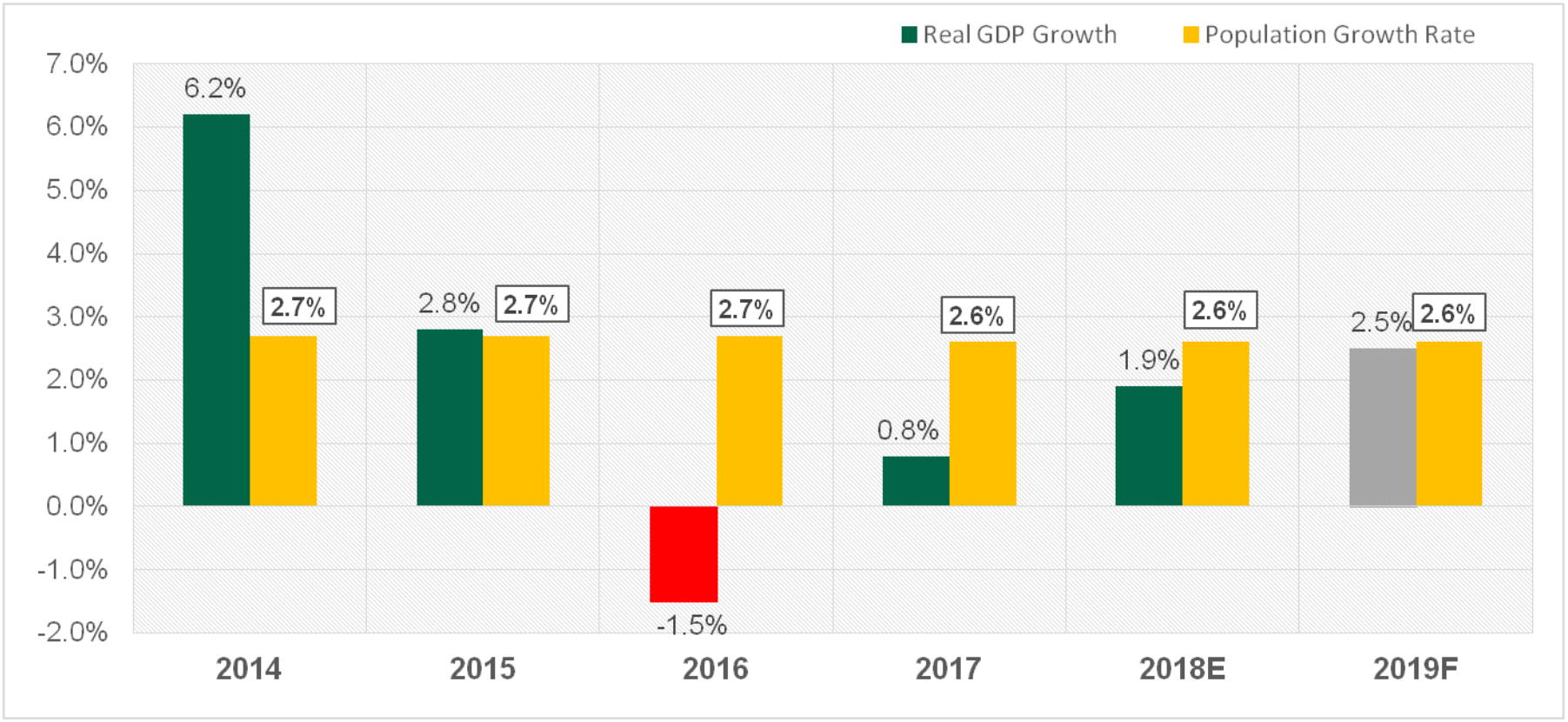
PRESENTATION OUTLINE

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

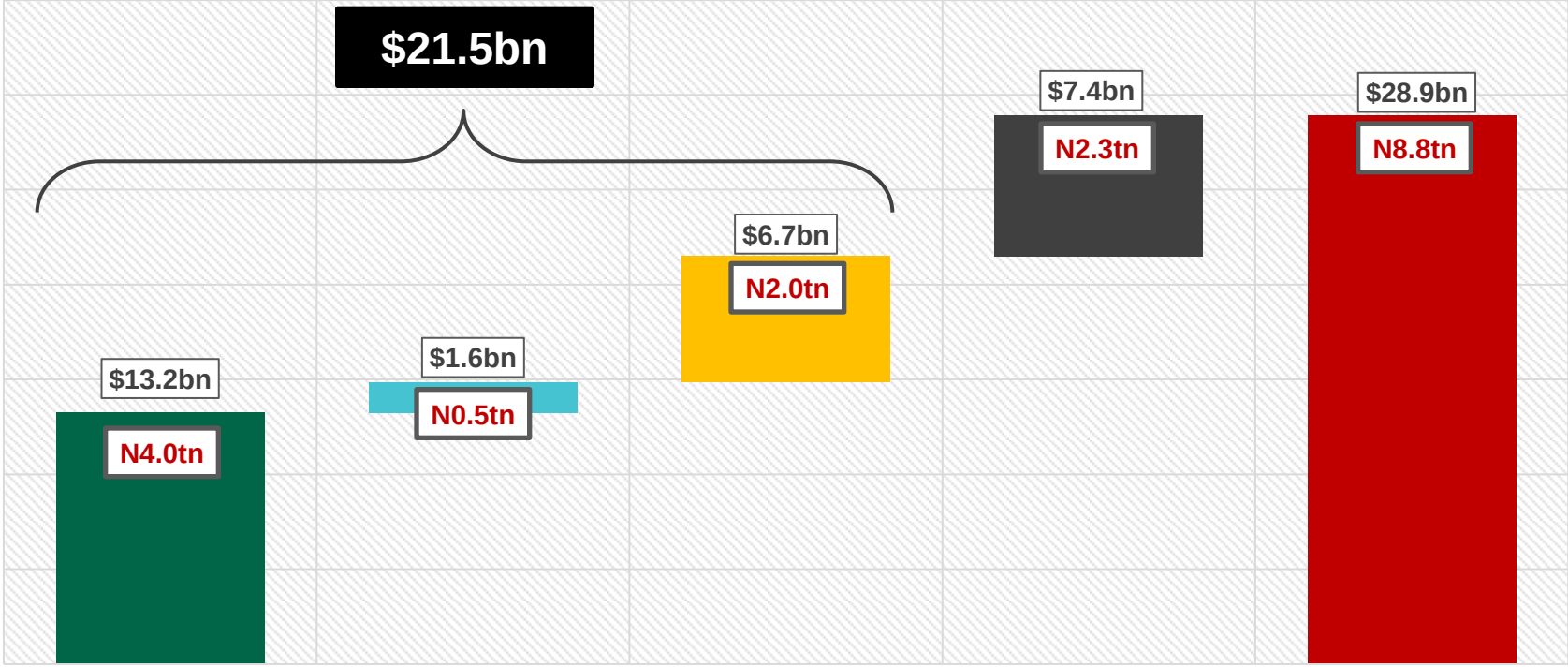
Real GDP Growth Trends

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



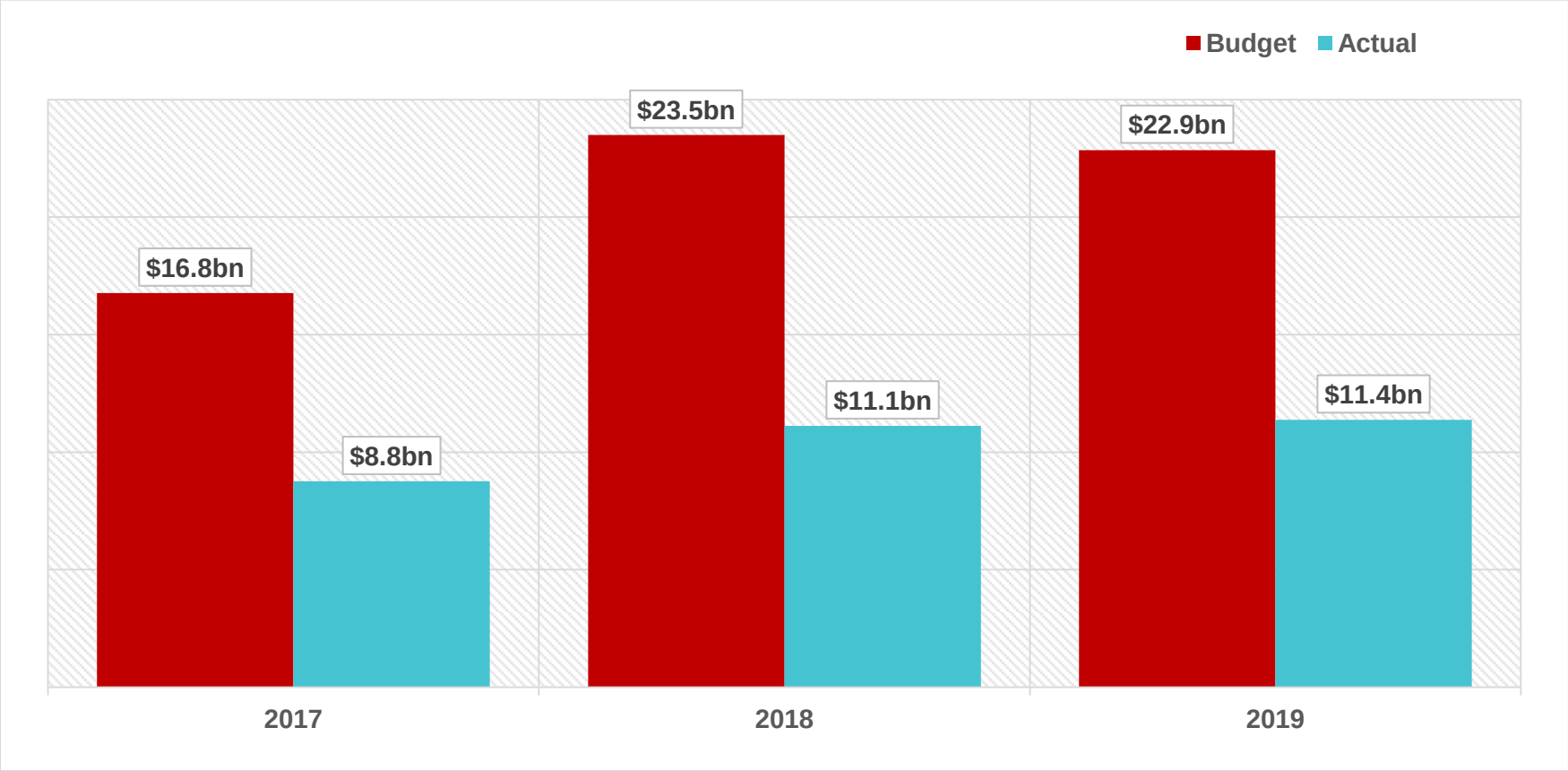
Components of Proposed 2019 Budget

- **The proposed 2019 budget of ₦8.83tn ($29bn) is 3.2% lower than the ₦9.12tn budget of 2018.**



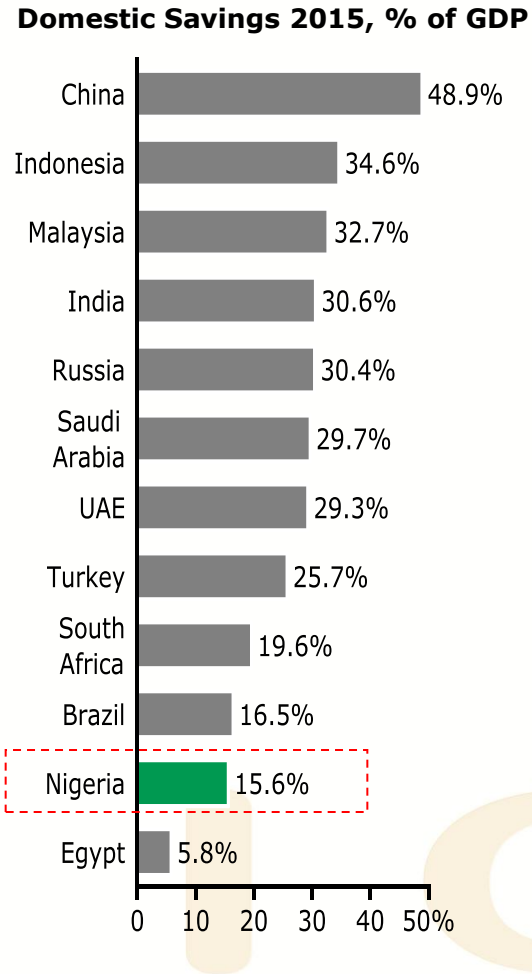
Federal Government Revenue Profile

- **Budgeted and estimated actual revenue consist of Oil and Gas revenue, Non-Oil revenue and Independent revenue**

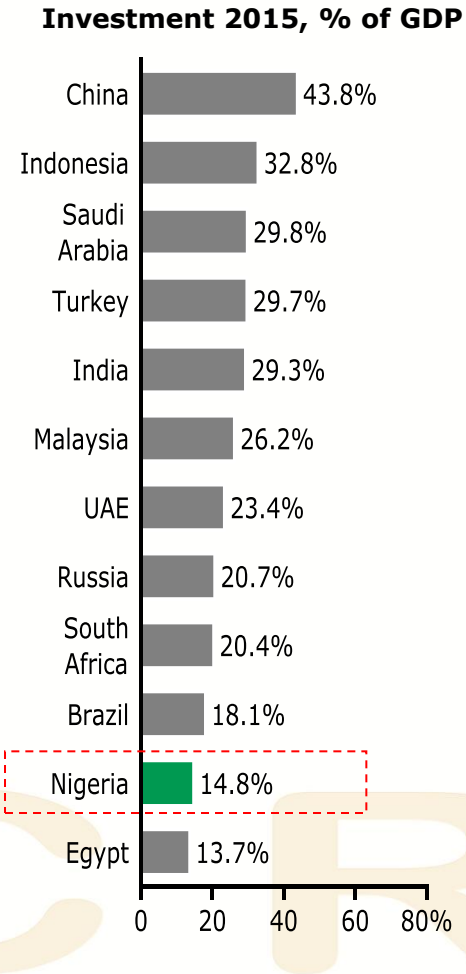


Domestic financial depth: Nigeria fairs poorly on domestic savings, investments and government spending vs peers

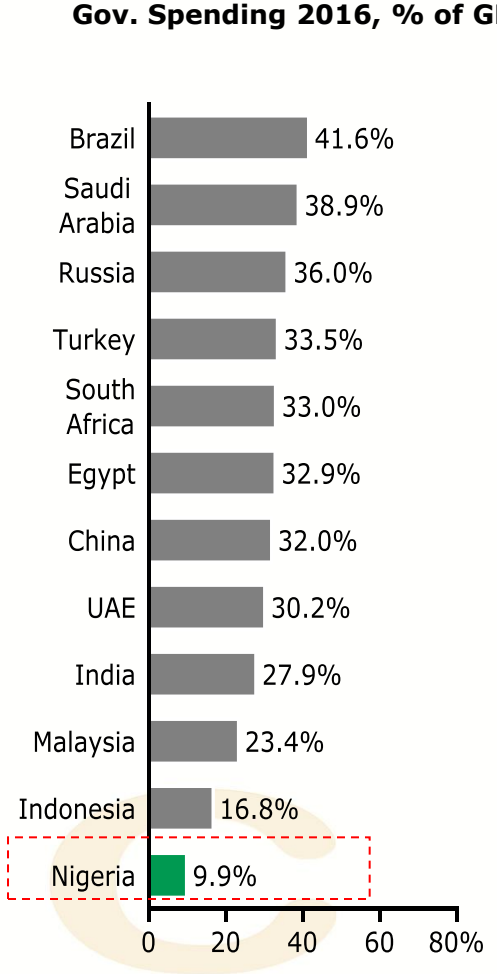
Domestic Savings



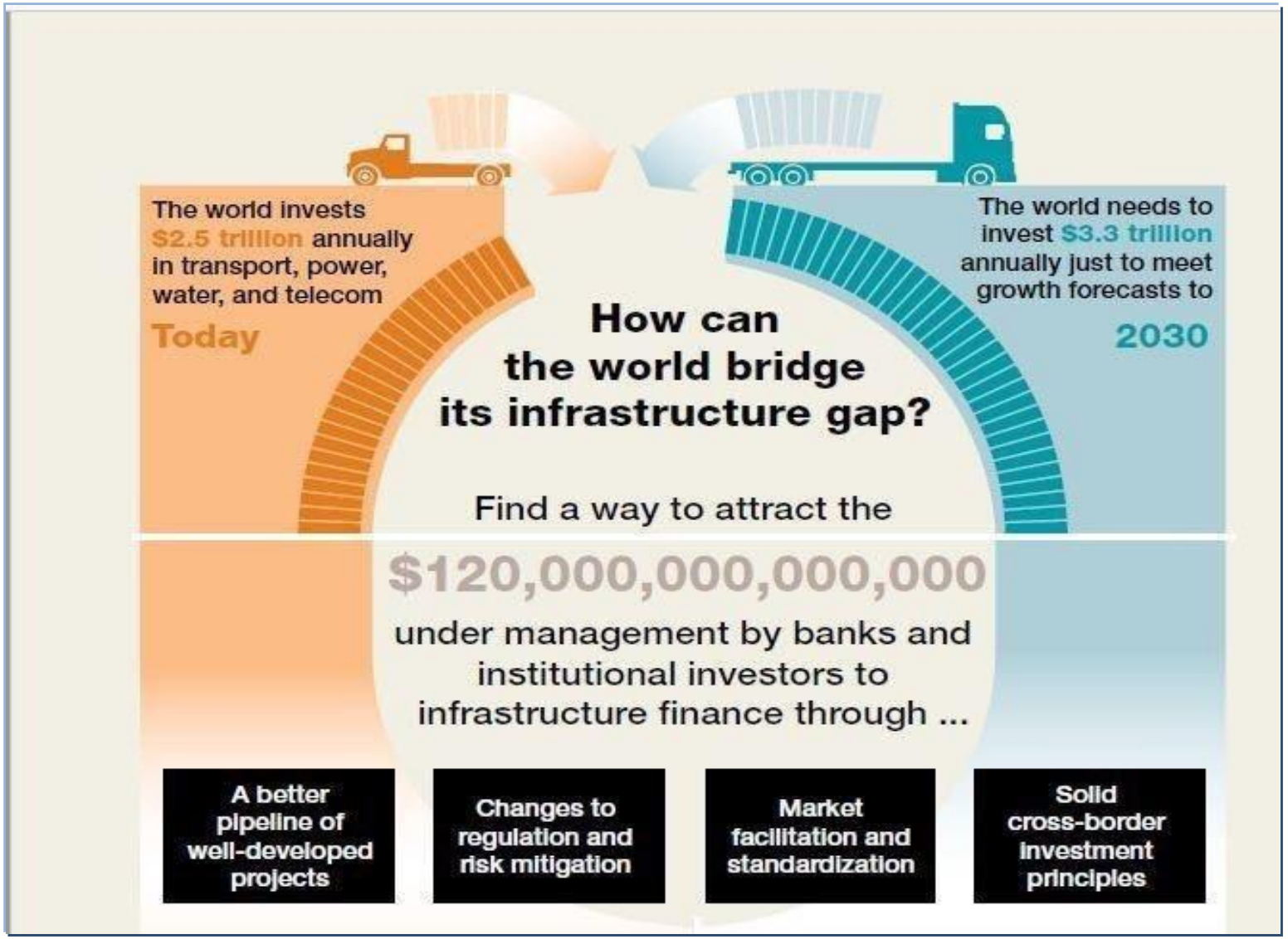
Investment



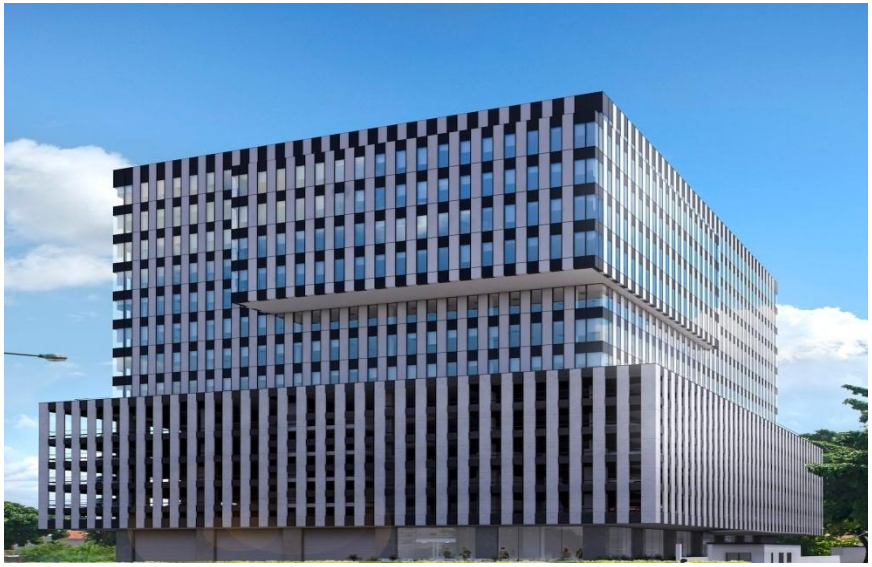
Government Spending



Private Capital is Available



Private Capital in Lagos



Why Aviation Matters

Aviation Sector Contributions Comparison

Ethiopia GTP II - Aviation Sector to contribute 25% of GDP by Mid 2020

The Aviation Industry - Dubai

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

Sources: ATAG – Aviation Benefits Beyond Borders, 2014; Oxford Economics: Economic Benefits from Air Transport in Nigeria, 2012

The Aviation Industry ~ Nigeria

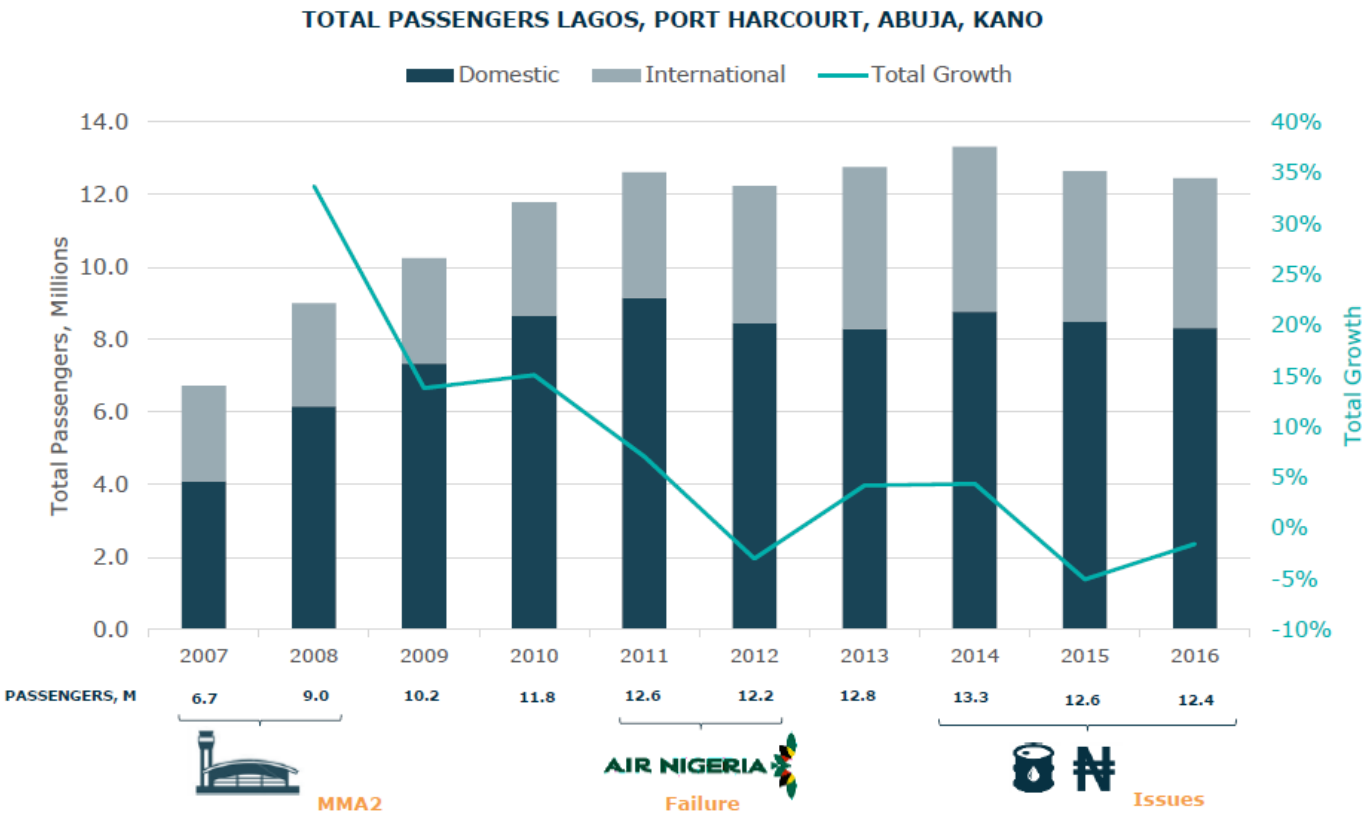
Nigerian Aviation Industry

- 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%

Sources: ATAG – Aviation Benefits Beyond Borders, 2014; Oxford Economics: Economic Benefits from Air Transport in Nigeria, 2012

The Aviation Industry ~ Nigeria

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



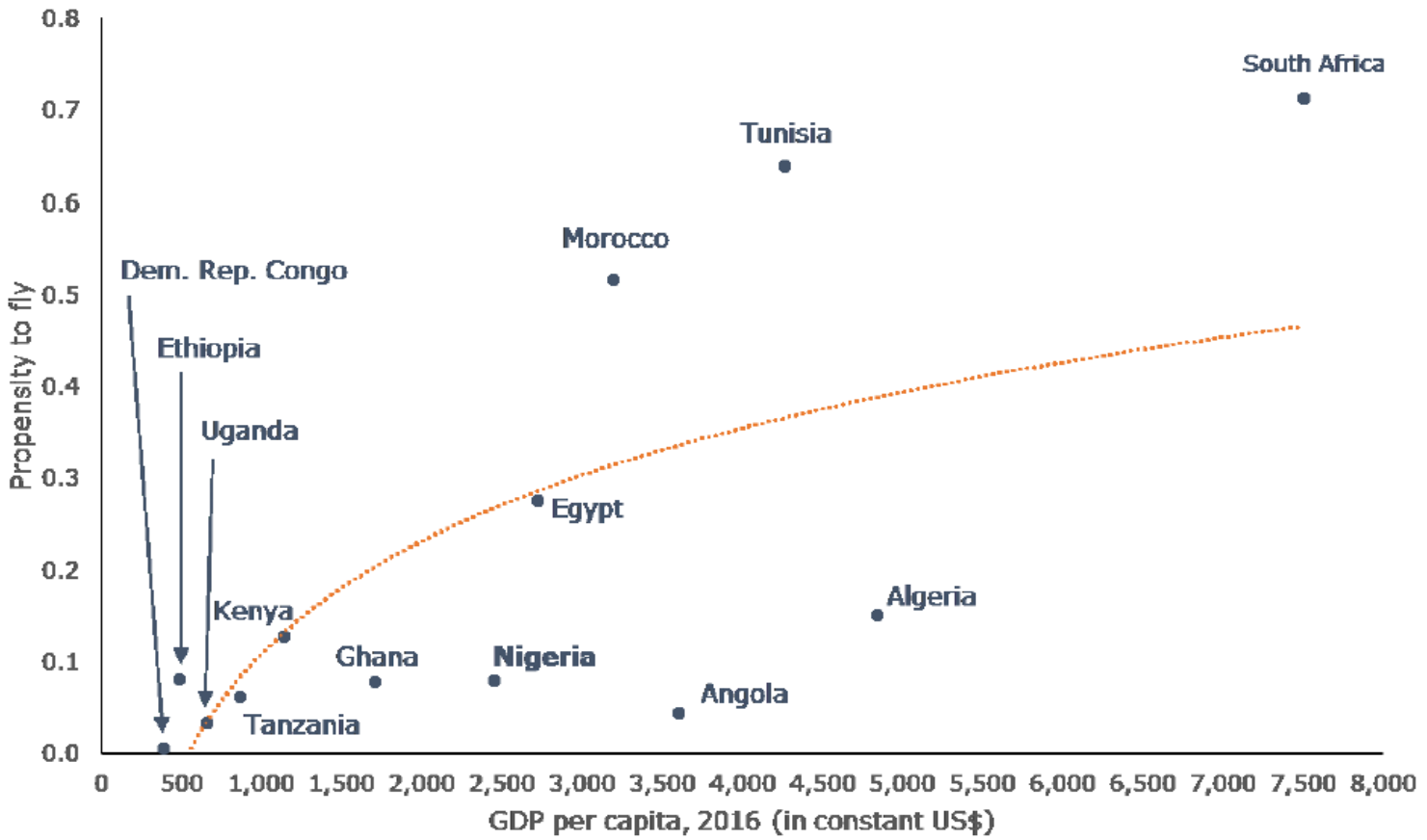
Source: FAAN

- 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.**

The Aviation Industry ~ Nigeria

NIGERIA GROWTH POTENTIAL – PROPENSITY TO FLY CATCH UP

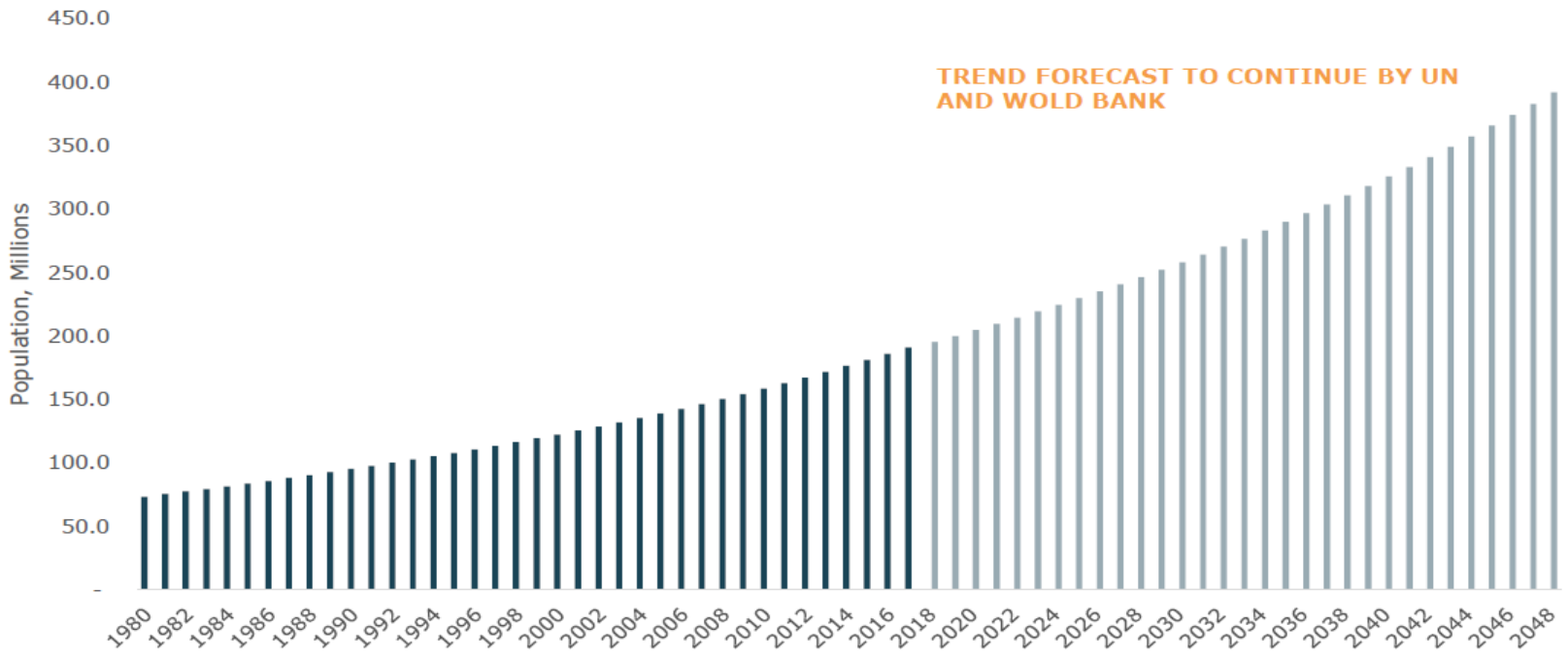
LARGE POTENTIAL WHEN CAPITALISING ON THE POPULATION, CURRENT PROPENSITY TO FLY WELL BELOW PEERS



The Aviation Industry ~ Nigeria

LARGE POPULATION GROWTH HISTORICAL AND FUTURE

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



Source: United Nations and World Bank

Aviation Sector Transformation Program

ECOSYSTEM SCOPE

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.

PROJECTS DESCRIPTION

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

PROJECTS DESCRIPTION

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

NEWS

Airlines face high cost of maintenance, aviation fuel on ageing aircraft

IFEOMA OKEKE

Predominance of ageing aircraft by domestic airlines operating in Nigeria has led to high cost of aircraft maintenance and aviation fuel (JETA1) consumption.

Experts in the aviation sector say aside the absence of aircraft maintenance facility 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 its 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. Newer 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 Mbanuzuo, accountable manager of Dana Air, told BusinessDay.

Mbanuzuo explained that domestic airlines use older airplanes 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 this 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 winglets, composite materials and more fuel efficient engines, and are definitely much more fuel efficient than older versions.

"The initial acquisition cost of acquisition for these old aircraft is cheaper. However, they are extremely expensive to run and maintain appropriately. In the long term, this proved to be a very bad economic decision as the airlines can barely carry out up to 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 NCAA, was to ensure that Nigeria does not become a dumping ground for old aircraft.

BusinessDay's checks show that apart from Arik Air, with the youngest airplanes of an average age of less than eight 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 Ukpebo Ilegbodu, CEO, Arik 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 1000 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 thing is that Arik's airplanes are very new, so you hardly will find corrosion in airplanes that are less than 10 years old," Ilegbodu added.

However, Igwe 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 Nigeria Civil Aviation Authority (NCAA) was to ensure that Nigeria does not become a dumping ground for old aircraft.

"The NCAA 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 Arik benefited from. Under the programme, the NCAA 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 NCAA said.

Major leap forwa clean-up project

... as NDDC flags off train

IGNATIUS CHUKWU

As submission of bids comes to an end and screening o viable contractor begins, another major lea forward took place in Po Harcourt on Friday, wh the technical assistants the clean up and remed tion were flagged off training.

Managing directo the Niger Delta Deve ment Commission (ND Nsima Ekere, flagged two-day training work for the technical assi at the conference hall National Oil Spill Det and Response Agency DRA) in Port Harcou

Ekere, who was sented by the NDD tor, special duties, Pr Ekanim, said the C sion would collabo Hydrocarbon Poll mediation Project (to provide the ne port in the effort the environmenta of the Ogoni pe restore their live native occupatio and fishing.

National Carrier Project


RwandAir
rwandair.com


V5-ANN
Air Namibia

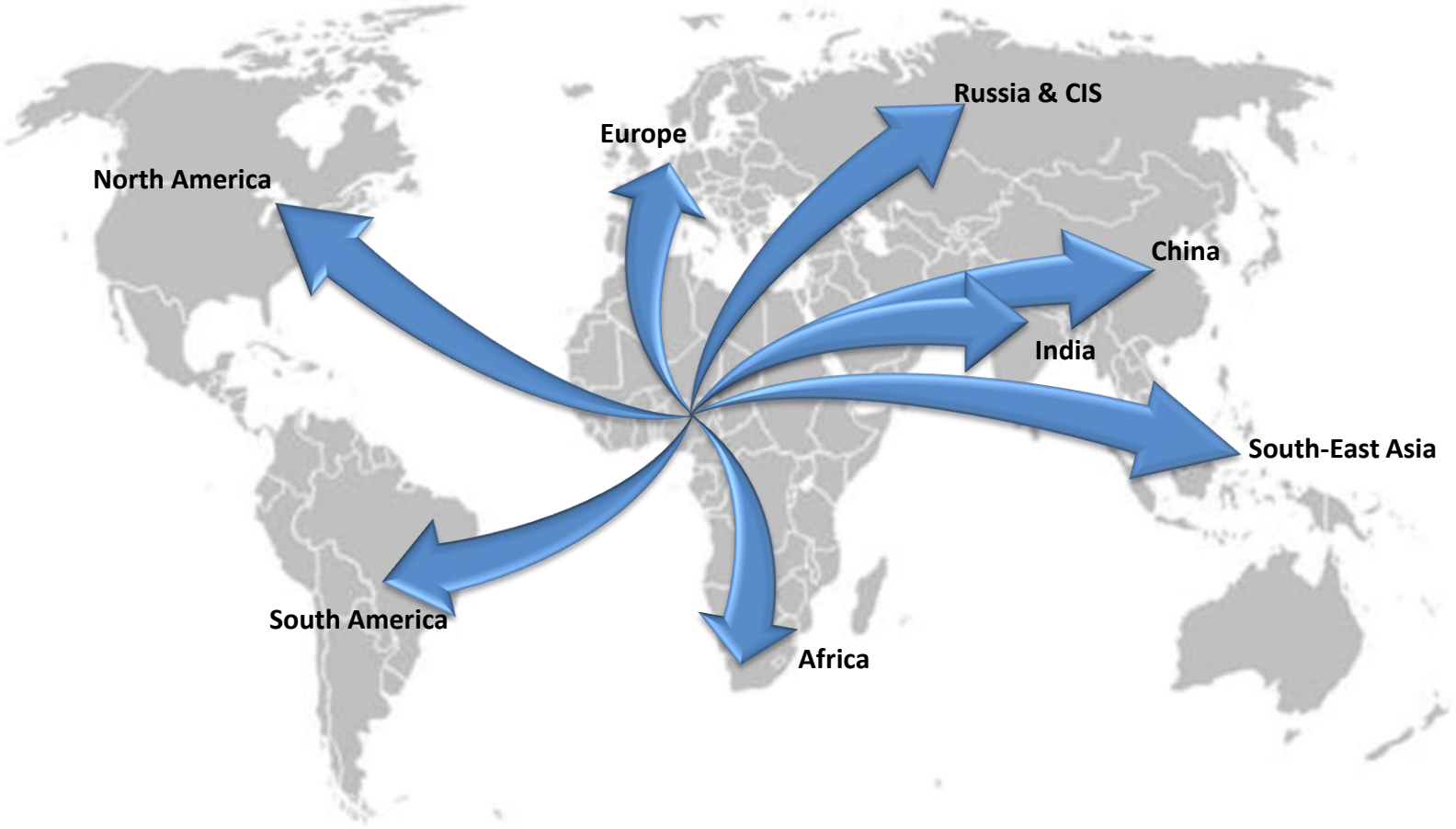
Nigeria's new national carrier huge PPP opportunity

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

Financing Requirements

- 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).

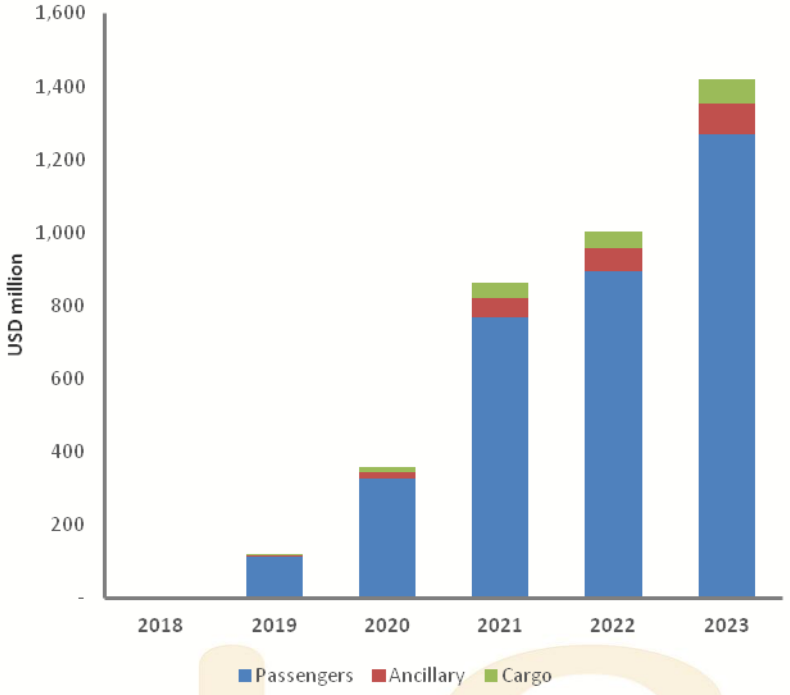
- Remainder of $300m is made up of working capital requirements emanating from funding operating cash flow, capex and deposits during the ramp-up phase of operations in the first 3 years. These total c. $242m

Financing Requirements

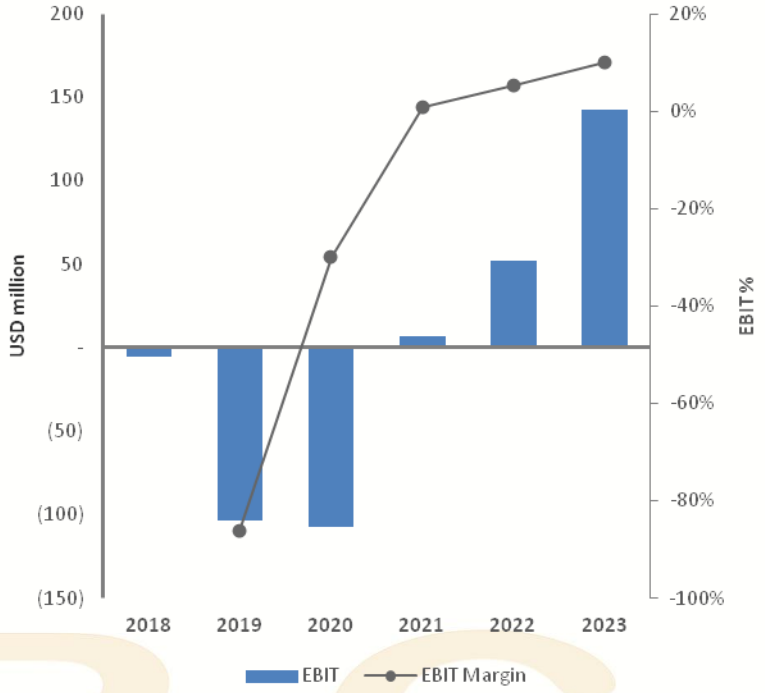
- Funding of USD 300m provides a contingency cushion of $58m, which represents a contingency of about 20%.
- Based on the cash flow timing requirements of the business, the cash injections required over time are:
  - $55m in Yr 1;
  - $100m in Yr 2; and
  - $145m in Yr 3

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

Item	Type	Unit	2018	2019	2020	2021	2022	2023
Turnover								
Passengers	Calc	USD	-	137,807,185	414,576,117	989,328,713	1,143,587,052	1,664,691,510
Ancillary revenues	Calc	USD	-	5,071,469	21,140,123	65,959,457	75,565,149	110,047,075
Cargo	Calc	USD	-	4,286,360	17,428,650	51,242,958	59,256,002	86,834,761
Other	Calc	USD	-	-	-	-	-	-
Total	**Calc**	**USD**	**-**	**147,165,013**	**453,144,890**	**1,106,531,128**	**1,278,408,203**	**1,861,573,346**
Employee costs	Calc	USD	1,666,667	27,095,847	41,740,266	81,699,655	88,373,556	111,048,356
Fuel	Calc	USD	-	51,098,795	105,790,748	220,143,827	229,414,896	307,454,277
Maintenance	Calc	USD	-	10,403,949	19,399,017	86,133,591	93,247,825	124,647,584
Passenger expenses	Calc	USD	-	9,385,345	23,296,202	43,137,681	51,316,037	70,425,426
Aircraft handling, landing & navigation	Calc	USD	-	33,896,951	73,852,094	125,725,424	149,217,305	201,423,052
En-route charges	Calc	USD	-	7,238,660	14,232,504	22,493,900	27,080,579	35,838,486
Commissions	Calc	USD	-	6,890,359	20,728,806	41,008,479	47,348,773	68,382,158
Insurance	Calc	USD	-	644,464	1,150,249	4,779,357	4,943,520	6,411,939
Sales & Marketing	Calc	USD	-	4,414,950	13,594,347	33,195,934	38,352,246	55,847,200
Distribution costs	Calc	USD	-	6,890,359	20,728,806	49,466,436	57,179,353	83,234,575
Management fee	Calc	USD	3,000,000	3,359,967	6,797,173	-	-	-
Other	Calc	USD	900,000	7,358,251	22,657,245	55,326,556	63,920,410	93,078,667
Total	Calc	USD	**5,566,667**	**168,677,896**	**363,967,456**	**763,110,839**	**850,394,500**	**1,157,791,721**
EBITDAR	**Calc**	**USD**	**(5,566,667)**	**(21,512,883)**	**89,177,434**	**343,420,289**	**428,013,703**	**703,781,626**
EBITDAR Margin	Calc	%	*0.0%*	*-14.6%*	*19.7%*	*31.0%*	*33.5%*	*37.8%*
Flight equipment rentals	Calc	USD	-	60,786,456	123,550,413	131,294,505	139,477,797	184,645,820
EBITDA	**Calc**	**USD**	**(5,566,667)**	**(82,299,340)**	**(34,372,979)**	**212,125,784**	**288,535,906**	**519,135,805**
EBITDA Margin	Calc	%	*0.0%*	*-55.9%*	*-7.6%*	*19.2%*	*22.6%*	*27.9%*
Depreciation	Calc	USD	-	259,066	1,294,832	2,825,795	4,747,503	6,888,113
EBIT	**Calc**	**USD**	**(5,566,667)**	**(82,558,406)**	**(35,667,811)**	**209,299,989**	**283,788,403**	**512,247,692**
EBIT Margin	Calc	%	*0.0%*	*-56.1%*	*-7.9%*	*18.9%*	*22.2%*	*27.5%*
Non Operating income/(expense)								
Pretax earning from continuing operatio	**Calc**	**USD**	**(5,566,667)**	**(82,558,406)**	**(35,667,811)**	**209,299,989**	**283,788,403**	**512,247,692**
Taxation	Calc	USD	-	-	-	-	(41,859,998)	(56,757,681)
Income from continuing operations	Calc	USD	(5,566,667)	(82,558,406)	(35,667,811)	209,299,989	241,928,405	455,490,012
Net profit/(Loss)	**Calc**	**USD**	**(5,566,667)**	**(82,558,406)**	**(35,667,811)**	**209,299,989**	**241,928,405**	**455,490,012**
Net margin	Calc	%	*0.0%*	*-56.1%*	*-7.9%*	*18.9%*	*18.9%*	*24.5%*

Table 16: Worst Case Yearly Income Statement, 2018-2023

Item	Type	Unit	2018	2019	2020	2021	2022	2023
Turnover								
Passengers	Calc	USD	-	112,929,778	331,009,313	704,782,436	795,947,179	1,130,881,486
Ancillary revenues	Calc	USD	-	4,268,560	17,211,349	48,455,494	54,253,741	77,348,010
Cargo	Calc	USD	-	3,515,950	13,928,826	36,582,368	41,328,043	59,118,731
Other	Calc	USD	-	-	-	-	-	-
Total	**Calc**	**USD**	**-**	**120,714,288**	**362,149,489**	**789,820,297**	**891,528,963**	**1,267,348,228**
Employee costs	Calc	USD	1,666,667	27,169,927	41,991,748	82,331,296	89,360,957	112,710,002
Fuel	Calc	USD	-	57,174,870	118,370,155	246,320,774	256,694,250	344,013,167
Maintenance	Calc	USD	-	10,403,949	19,399,017	86,133,591	93,247,825	124,647,584
Passenger expenses	Calc	USD	-	9,029,706	22,430,987	42,515,111	51,526,929	71,980,548
Aircraft handling, landing & navigation	Calc	USD	-	33,497,173	73,301,740	127,177,819	153,754,289	211,223,603
En-route charges	Calc	USD	-	7,370,272	14,754,755	23,743,283	29,104,443	39,217,178
Commissions	Calc	USD	-	5,646,489	16,550,466	29,209,721	32,952,984	46,454,829
Insurance	Calc	USD	-	634,471	1,121,696	4,742,120	4,903,104	6,364,995
Sales & Marketing	Calc	USD	-	3,621,429	10,864,485	23,694,609	26,745,869	38,020,447
Distribution costs	Calc	USD	-	5,646,489	16,550,466	35,239,122	39,797,359	56,544,074
Management fee	Calc	USD	3,000,000	2,830,952	5,432,242	-	-	-
Other	Calc	USD	900,000	6,035,714	18,107,474	39,491,015	44,576,448	63,367,411
Total	Calc	USD	**5,566,667**	**169,061,440**	**358,875,230**	**740,598,461**	**822,664,457**	**1,114,543,839**
EBITDAR	**Calc**	**USD**	**(5,566,667)**	**(48,347,152)**	**3,274,259**	**49,221,836**	**68,864,506**	**152,804,388**
EBITDAR Margin	Calc	%	*0.0%*	*-40.1%*	*0.9%*	*6.2%*	*7.7%*	*12.1%*
Flight equipment rentals	Calc	USD	-	60,786,456	123,550,413	131,294,505	139,477,797	184,645,820
EBITDA	**Calc**	**USD**	**(5,566,667)**	**(109,133,608)**	**(120,276,154)**	**(82,072,669)**	**(70,613,291)**	**(31,841,432)**
EBITDA Margin	Calc	%	*0.0%*	*-90.4%*	*-33.2%*	*-10.4%*	*-7.9%*	*-2.5%*
Depreciation	Calc	USD	-	259,066	1,294,832	2,825,795	4,747,503	6,888,113
EBIT	**Calc**	**USD**	**(5,566,667)**	**(109,392,675)**	**(121,570,985)**	**(84,898,463)**	**(75,360,794)**	**(38,729,545)**
EBIT Margin	Calc	%	*0.0%*	*-90.6%*	*-33.6%*	*-10.7%*	*-8.5%*	*-3.1%*
Non Operating income/(expense)								
Pretax earning from continuing operatio	**Calc**	**USD**	**(5,566,667)**	**(109,392,675)**	**(121,570,985)**	**(84,898,463)**	**(75,360,794)**	**(38,729,545)**
Taxation	Calc	USD	-	-	-	-	-	-
Income from continuing operations	Calc	USD	(5,566,667)	(109,392,675)	(121,570,985)	(84,898,463)	(75,360,794)	(38,729,545)
Net profit/(Loss)	**Calc**	**USD**	**(5,566,667)**	**(109,392,675)**	**(121,570,985)**	**(84,898,463)**	**(75,360,794)**	**(38,729,545)**
Net margin	Calc	%	*0.0%*	*-90.6%*	*-33.6%*	*-10.7%*	*-8.5%*	*-3.1%*

SWOT Analysis

Strengths	Weaknesses
· 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
Opportunities	**Threats**
· 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

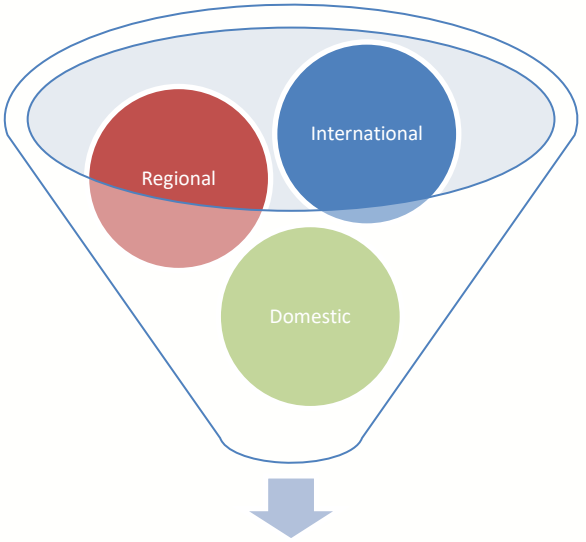
The addressable market analysis assessed thousands of routes, and identified 41 routes from Abuja and 44 from Lagos worthy of further consideration

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



Addressable Market

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

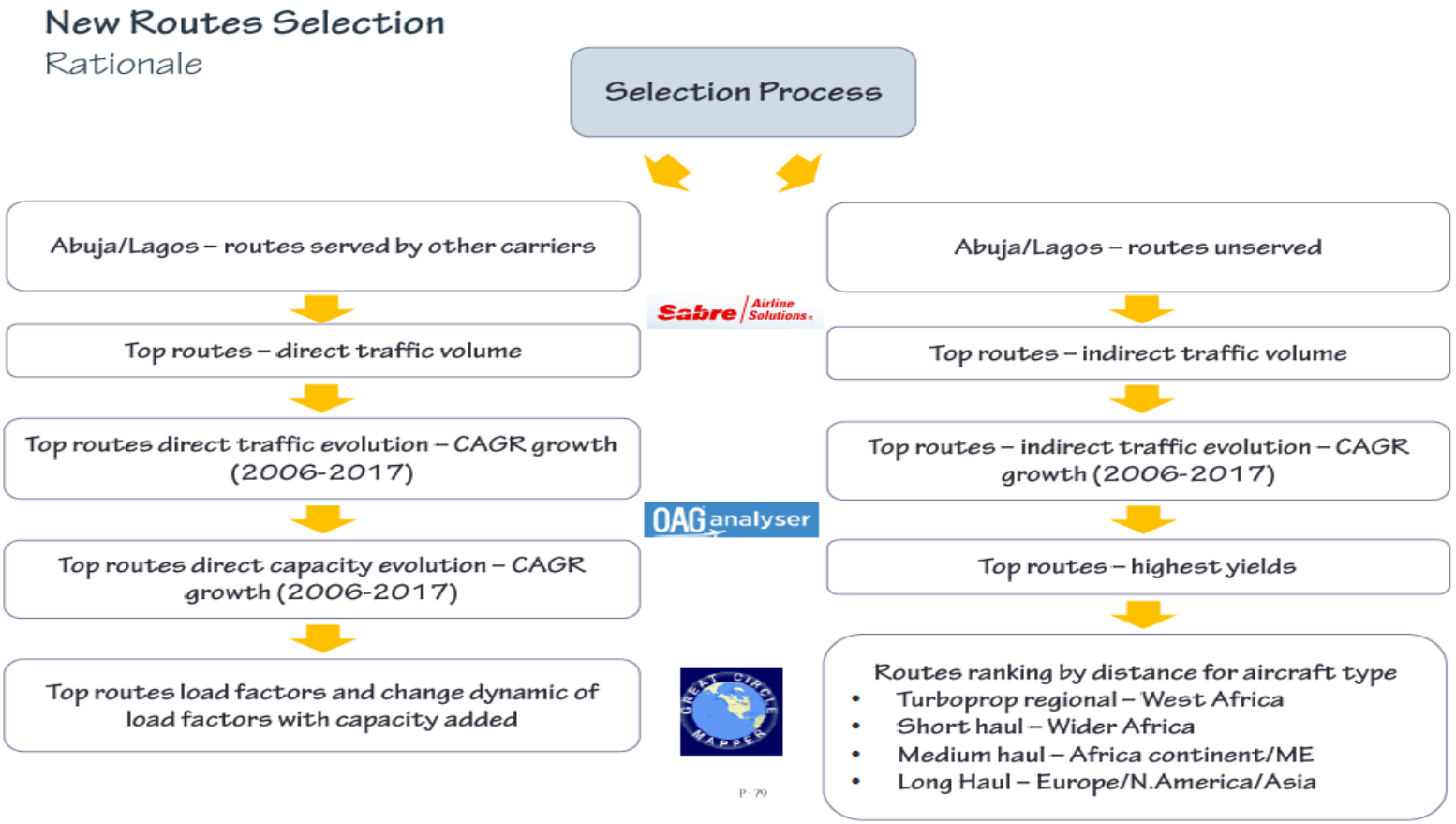


Table 2: Domestic Passengers Forecast, 2019-2023

Domestic New Routes Forecast - Passengers

Passengers	2019	2020	2021	2022	2023	CAGR 2028-2019
ABV-LOS	489,978	507,895	526,902	546,610	567,025	3.7%
LOS-PHC	250,422	259,010	268,133	277,578	287,369	3.5%
LOS-QOW	29,717	30,768	31,883	33,039	34,236	3.6%
LOS-BNI	67,803	70,100	72,540	75,067	77,685	3.5%
ENU-LOS	86,282	89,305	92,515	95,841	99,287	3.5%
LOS-QUO	59,743	61,760	63,902	66,120	68,420	3.4%
KAD-LOS	44,097	45,750	47,502	49,320	51,203	3.7%
KAN-LOS	77,124	79,973	82,994	86,128	89,374	3.7%
LOS-QRW	42,161	43,589	45,107	46,678	48,306	3.5%
CBQ-LOS	50,299	52,011	53,829	55,712	57,664	3.5%
ABV-PHC	46,236	47,902	49,670	51,503	53,402	3.6%
ABV-QOW	13,202	13,646	14,119	14,608	15,115	3.4%
ABV-YOL	10,102	10,535	10,993	11,469	11,962	4.2%
ABV-ILR	5,718	5,912	6,119	6,333	6,555	3.5%
ABV-QUO	7,943	8,214	8,501	8,799	9,108	3.5%
ABV-MIU	23,445	24,303	25,212	26,156	27,132	3.7%
ABV-KAN	29,196	30,770	32,429	34,161	35,949	5.0%
ABV-IBA	18,465	19,092	19,758	20,447	21,162	3.5%
ABV-ENU	32,444	33,708	35,046	36,437	37,876	3.9%
Total	1,384,376	1,434,241	1,487,157	1,542,006	1,598,830	3.6%

Figure 3: Major African Economies Propensity to Fly, 2016

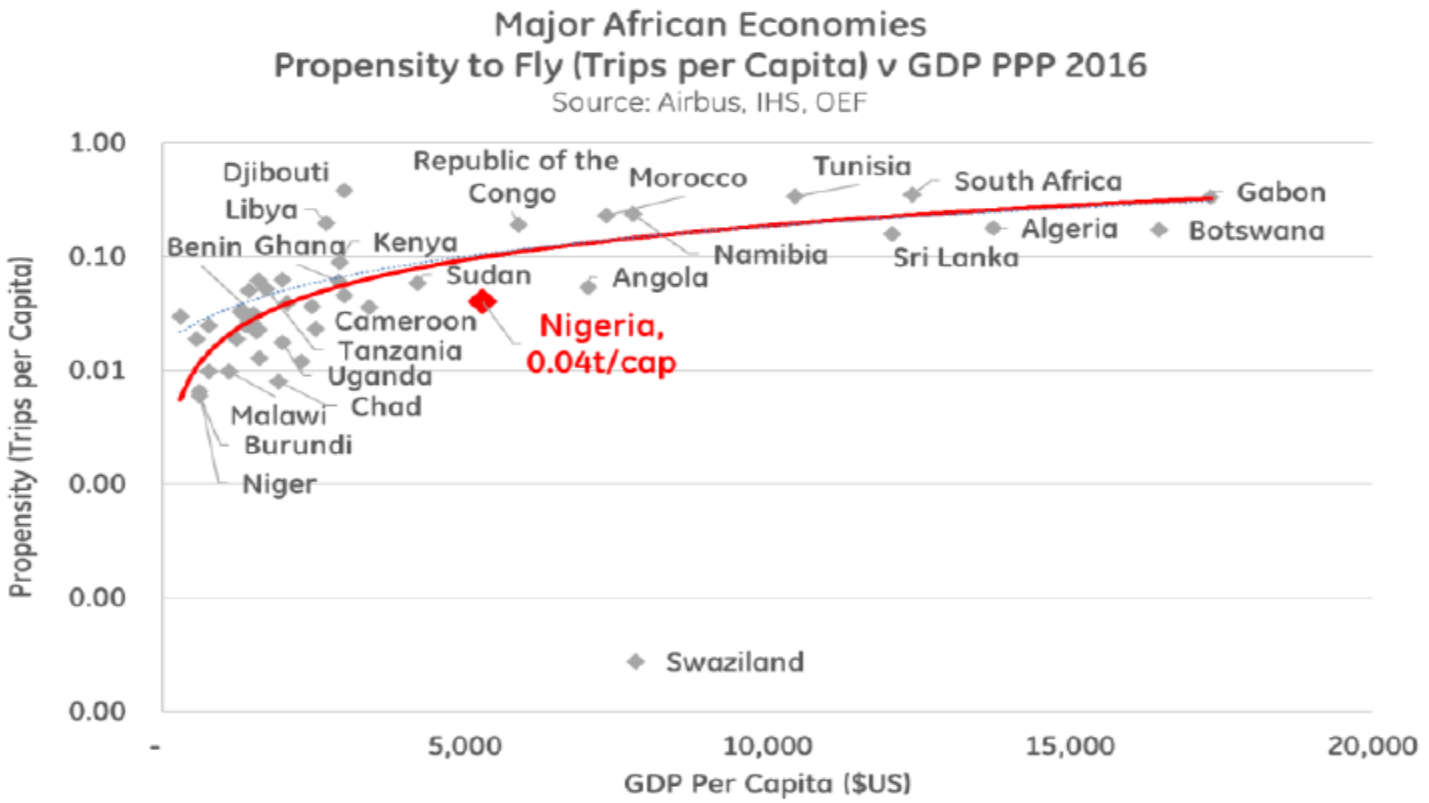
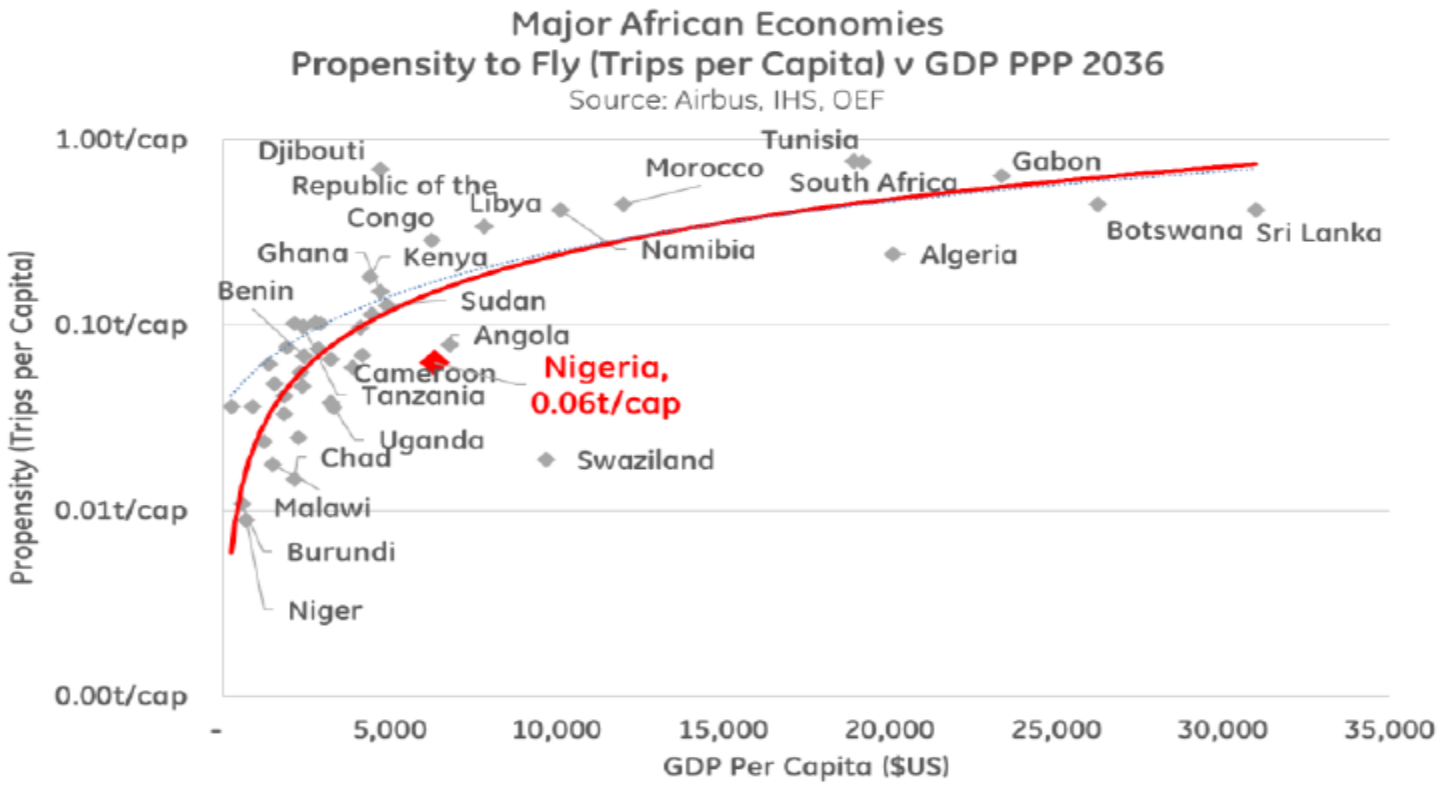


Figure 4: Major African Economies Propensity to Fly, 2036



PPP Structure

- 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).

TRANSACTION ADVISER

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

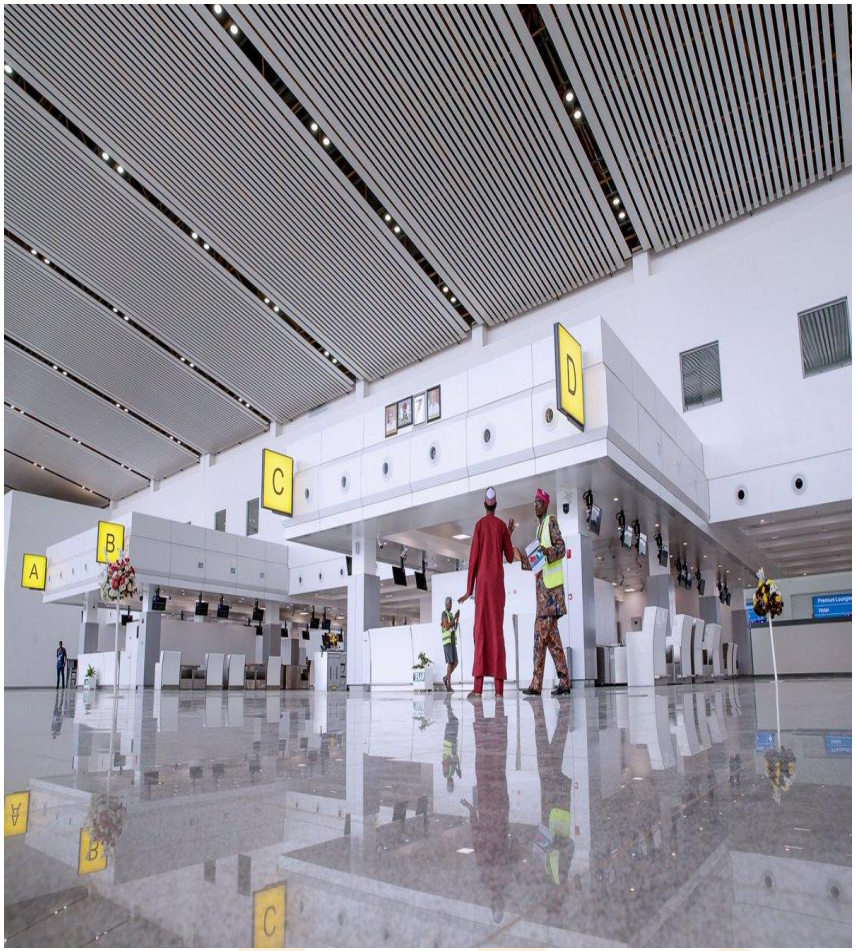
Airports Plus – Best Practice

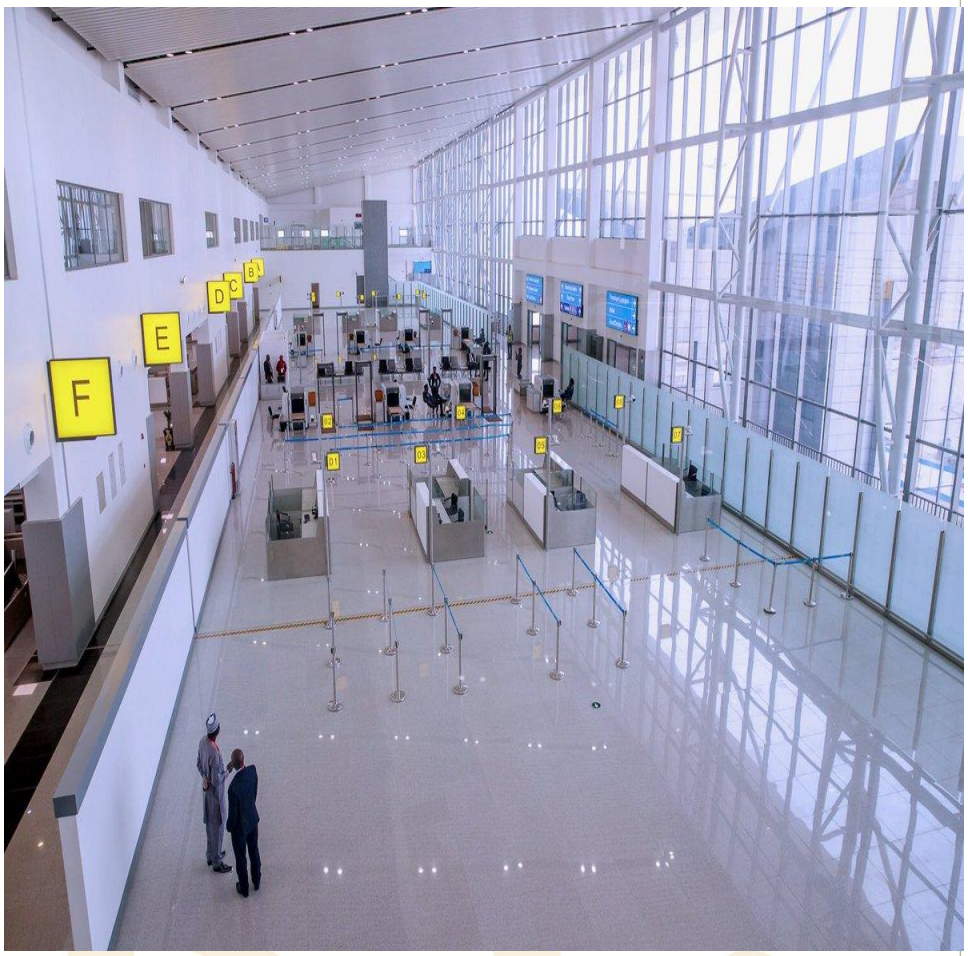
Changi Airport Singapore

Blaise Digne Int. Dakar

New Kotoka Terminal 3 Accra

New Abuja Airport Terminal





Airports Plus

BACKGROUND

- 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.

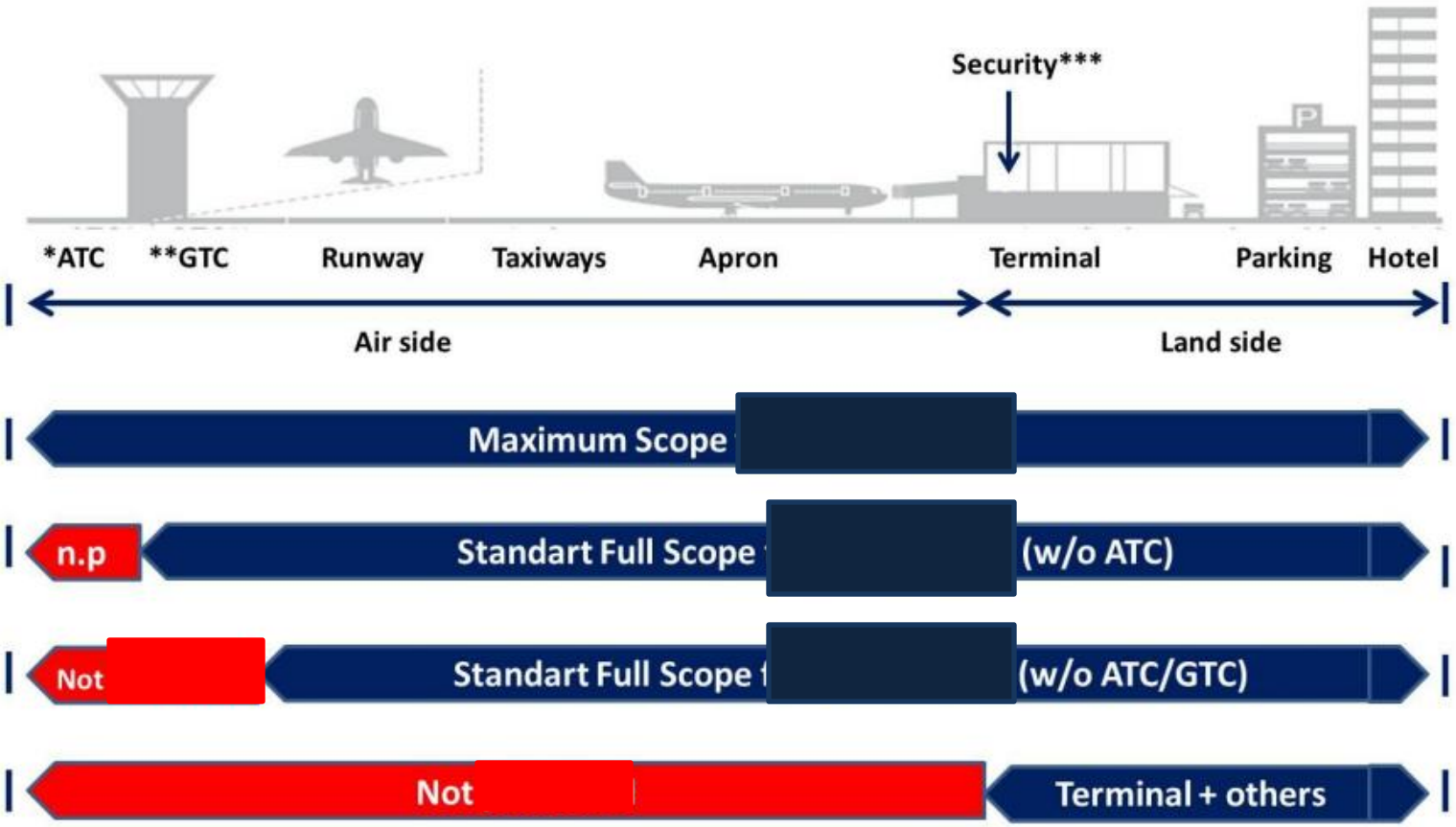
PPP in the Airport Business

- 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

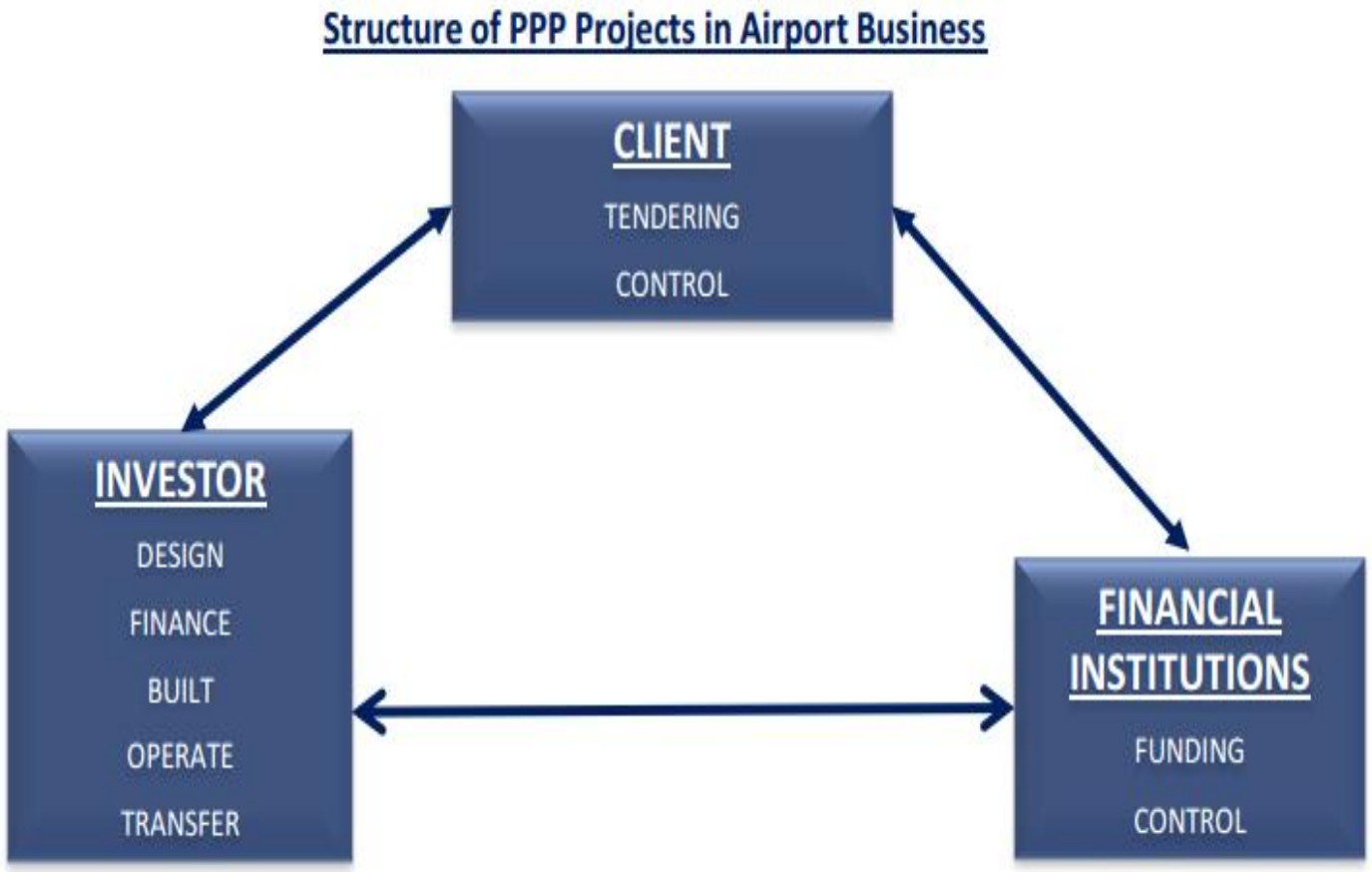
- Greenfield or Brownfield?
- O&M Contracts
- Long Term Lease Concessions
- B.T.O (Build Transfer Operate)
- B.O.T (Build Operate Transfer)
- B.O.O (Build Own Operate)

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


Structure of PPP Projects in Airport Business
CLIENT
TENDERING
CONTROL
INVESTOR
DESIGN
FINANCE
BUILT
OPERATE
TRANSFER
FINANCIAL INSTITUTIONS
FUNDING
CONTROL

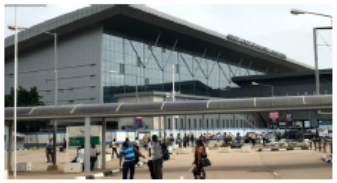
Four International Airports

PROJECT SUMMARY

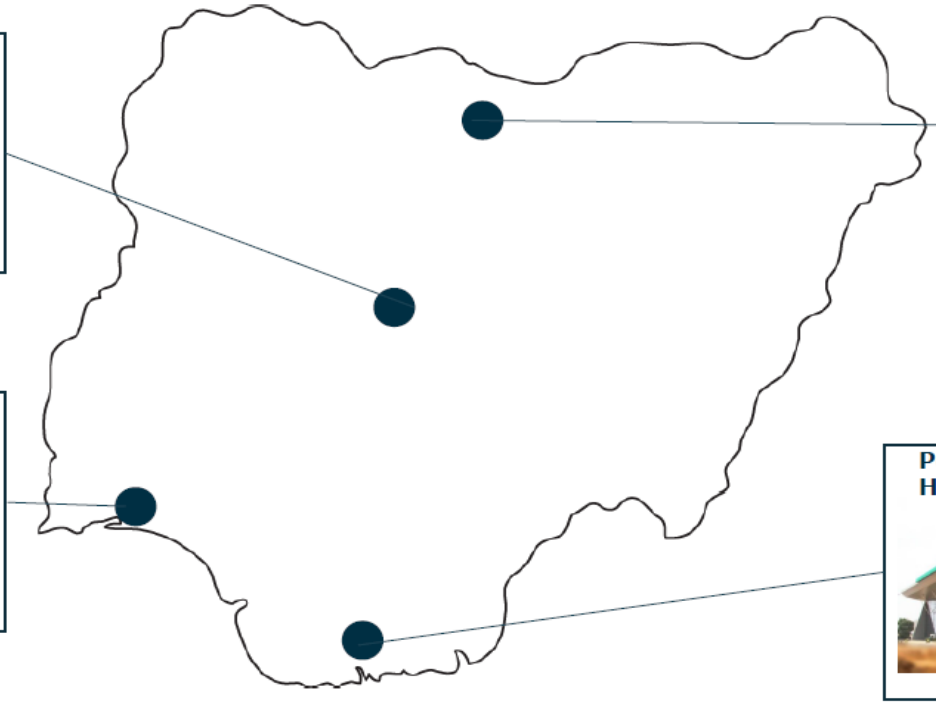
THE FEDERAL MINISTRY OF TRANSPORTATION IS ASSESSING THE FEASIBILITY OF PUBLIC PRIVATE PARTNERSHIPS (PPP) FOR THE AIRPORTS OF **ABUJA, LAGOS, KANO AND PORT HARCOURT**

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.

ABUJA 4.2 MPPA



KANO 0.5 MPPA



LAGOS 6.7 MPPA

PORT HARCOURT 1.1 MPPA

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

Proposed Structure for the MRO

- 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.

TRANSACTION ADVISER

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)

TRANSACTION ADVISER

- 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)

PPPP Procurement Process

- 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.

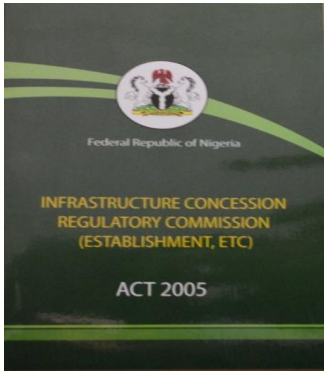
Current Status of the Projects

- 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

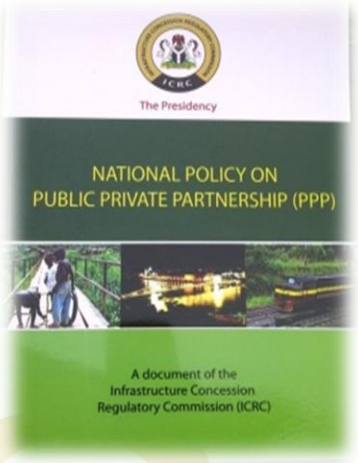
Framework for PPP

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

Framework for PPP

ICRC's Functions:

- Regulate Public Private Partnership (PPP) procurement by:
  a. Guiding MDAs in structuring PPP transactions for both **green field** and **brown field** infrastructure – Pre Contract regulation
  b. 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

Framework for PPP

What others do :

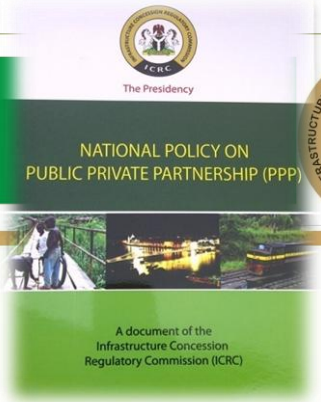
- Initiate PPP projects – **MDA responsibility**
- Develop the Projects – **MDA responsibility**
- Approve PPP projects – **FEC approves**
- Implement the Projects – **MDA responsibility**

Framework for PPP

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



Preliminaries

- *Project Identification*
- *Project Prioritization*
- *Project Selection*

Development Phase → **Procurement Phase** → **Implementation Phase**

TRANSACTION ADVISER
NEEDS ANALYSIS
PPP OPTIONS APPRAISAL
VALUE FOR MONEY
AFFORDABILITY
SUSTAINABILITY
PRELIM RISK MATRIX
VIABILITY/BANKABILITY
VGF
OBC
OBC CERT BY ICRC

TRANSACTION ADVISER
EoI/RFQ Phase AND RFP
BIDDING
BIDDERS CONFERENCE
BID EVALUATION
VALUE FOR MONEY TEST
PREFERRED BIDDER
FULL BUSINESS CASE
BY FEC

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

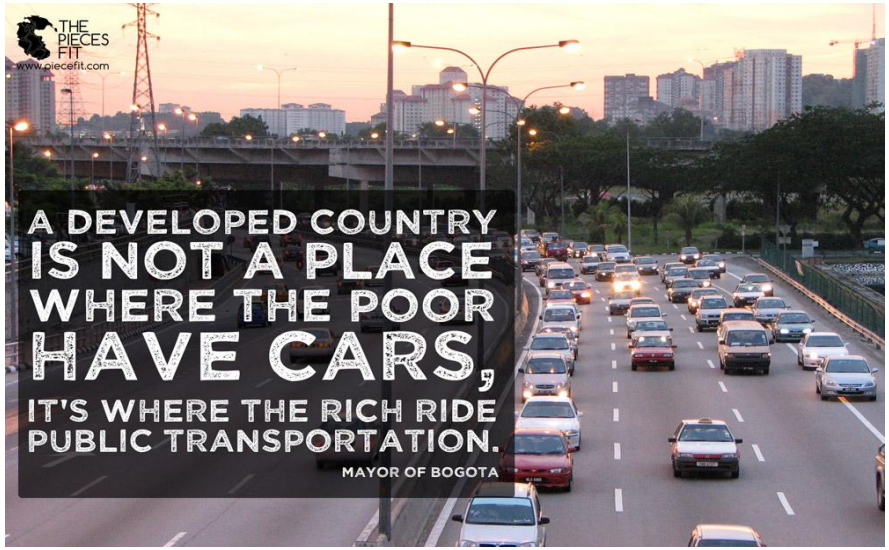
… in Conclusion

- 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

Transportation is Critical



NIGERIA'S WORLD CLASS AIRPORT HUB

ALC in Nigeria World Class

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