



## GCC Aviation Industry

March 3, 2014



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*Alpen Capital was awarded the “Best Research House” at the Banker Middle East Industry Awards 2011 and 2013*

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## Glossary

**Full Service Carrier (FSC):** It is an airline that serves a broad range of markets, based on a route network that includes connecting flights. It offers multiple classes of seats and the fare is inclusive of the food and beverages provided in-flight.

**Low-Cost Carrier (LCC):** It is an airline that provides air transportation services at fares lower compared to those of the FSCs. The LCC business model includes deploying a standardized fleet, charging for in-flight services, rapid turnaround, and point-to-point service. LCC primarily operate along the short- and medium-haul routes.

**Code-sharing agreement:** It is a reciprocal agreement between two or more airlines to list certain flights in a reservation system under each other's names. Under such an arrangement, the airlines share the two-letter code that identifies the carrier in the global distribution system used by travel agents.

**Available Seat Kilometers (ASK):** It is a measure of an aircraft's passenger carrying capacity. It is calculated by multiplying the number of seats on an aircraft by the distance it travels in kilometers.

**Available Freight Tonne Kilometers (AFTK):** It measures an aircraft's freight carrying capacity. It is calculated by multiplying the tonne of freight on an aircraft by the distance it travels in kilometers.

**Revenue Passenger Kilometers (RPK):** It is calculated by multiplying the number of revenue-paying passengers on an aircraft by the distance it travels in kilometers.

**Freight Tonne Kilometers (FTK):** It is one metric tonne of revenue load carried over one kilometer.

**Passenger Load Factor (PLF):** It is the passenger kilometers performed expressed as a percentage of seat kilometers available. It indicates the relationship between the total number of seats available and the number of paying passengers, who occupy them.

*"Everyone wants a slice of the cake and taste success and the cake is big enough for all who want to enter the industry and take a slice of it. It would be up to us to see how much of that slice we can take. I've always maintained, there is room for all. Over the years, there have been many new players like Qatar Airways, flydubai and Etihad, and all of us (are) doing well with enough of the cake left for those still eyeing a piece."*

*Dubai is investing significantly in new aircraft and airport expansion in preparation to host World Expo 2020 and I can see no threat of overcapacity. Dubai is now the world's fourth busiest airport for international passenger and cargo traffic and I expect to see more growth and recognition for Dubai. Expo 2020 is not for just two or three weeks. It's for six whole months. This will allow us to spread our wings further and sustain the (airline's) growth and profitability long after the expo is over.*

*Al Maktoum International Airport is set to become a hub by 2020, especially as infrastructure in the vicinity gains traction. Dubai has always been about growth. The core business model of Dubai remains sound. With or without a booming real estate sector, Dubai is a commercial and tourism hub for a region that encompasses the markets of emerging Africa, South Asia, Russia, Central Asia and of course, the Gulf region"*

*(Excerpts from interview published in Khaleej Times on February 12, 2014)*

**Shaikh Ahmed bin Saeed Al Maktoum**

Chairman and CEO

Emirates Airline

*"Dubai's geocentric location, high quality infrastructure, fast growing home airlines, open skies policy and business-friendly environment have combined to propel Dubai to the forefront of aviation. The combination of a booming tourism industry, Dubai's proximity to the emerging economies of the East, and our established role as the trading hub of choice in the GCC and MENA region, linking markets in the Far East, Europe, Africa and North America, will continue to drive growth and further consolidate Dubai's status as a global centre for trade, tourism and commerce."*

*Aviation contributes over 250,000 jobs and US\$ 22 billion (AED 80.8 billion) to Dubai's economy, representing 19% of total employment and 28% of the emirate's GDP. On the basis of these strengths, and continued traffic growth projected to surpass 103 million passengers by 2020, aviation's contributions to the local economy will rise to 32% of Dubai's GDP and about 22% of its employment by 2020."*

*(As quoted to Alpen Capital)*

**Paul Griffiths**

CEO

Dubai Airports

*"At a time when mature aviation markets struggle, the sector in the Middle East is widely seen as a beacon of hope for the wider industry. IATA recently cited the Gulf as a model of industry-government cooperation, and this was perhaps no more evident than during the UAE's successful bid to host Expo 2020, an achievement that further acknowledges UAE's standing as a global aviation and tourism hub. This well deserved win will encourage millions more innovators and experts to travel to the UAE and surrounding region. Although the current oil price levels are comforting, fuel price volatility remains a concern. Perhaps the single biggest challenge facing the sector is the absence of true open-skies policies and the lack of privatisation in the Arab world, which act as real barriers to progress."*

*Considering that the Arab region has a population of approximately 350 million, if we open our skies to each other and allow the free flow of passengers, the size of the aviation sector here will be equal to America. Route expansion is clearly a key trend. Air Arabia continues to implement our route expansion strategy and in 2013 we launched services to eight destinations. Going forward, we remain committed to helping passengers to reach wherever they want to travel at the best price. Of note, China has emerged as a potential growth market for Air Arabia, and we are currently finalising a route network plan which will be announced shortly. We are also focused on further strengthening our on-board*

*offerings to include a variety of in-flight television programmes showing a selection of movies, sporting adventures, world recalls, and comedy series, among others.”*

*(As quoted to Alpen Capital)*

**Adel Ali**

Group CEO

Air Arabia

*“The major shift, occurring in the global economy, is impacting significantly upon the air transport industry and will require airlines to reshape their networks and enter new partnerships in order to remain competitive. Traditional air transport hubs will also continue to decline in prominence, with growth constrained by inadequate infrastructure and ingrained political resistance to change. This will allow the Arabian Gulf – the geographic centre of the world – to further evolve as the global centre of the air transport industry, with the number of passengers passing through Gulf hubs outstripping industry growth rates.”*

*(Excerpts from interview published in Gulf Business on June 12, 2013)*

**James Hogan**

President and CEO

Etihad Airways

*“Travel by air has reached the point where it is now taken for granted in all corners of the globe. With a larger number of passengers and more choice available in the skies today, airlines looking to maintain or grow their position in the marketplace must provide high-quality service with ever-increasing efficiency.”*

*(Excerpts from CEO's message on the company's website)*

**Akbar Al Baker**

CEO

Qatar Airways

*“We are witnessing exciting times in the GCC aviation sector. Some GCC airline companies are growing at break-neck speeds showcasing the tremendous potential that exists in this region. The ever-expanding route network and acquisition of international landing slots by some of the GCC players has attracted the attention of global airline operators, who now consider their GCC peers as serious competitors. The growth along with international brand-building, awards won, record aircraft-orders, and highest-ever airport capex is propelling the GCC aviation industry to a new high. Low cost carriers are growing at an exponential pace and have captured a material market-share in a short period of time.*

*Cargo operations have also witnessed impressive growth rates over the years and the GCC has transformed itself to become a hub for cargo trans-shipment. The demographics of the region are very conducive for charter flight operators to expand their services and grow their fleet. Aircraft leasing companies play an important role in supporting GCC airline operators to meet their growth targets. All these aviation sub-sectors make financing a ready opportunity for GCC-based commercial banks to specialise-in, and support. The increase in the number of aircraft in the region has resulted in the MRO services industry to grow quickly past the nascent stage, and the opportunity to scale-up this industry is real and immediate. Our outlook on the GCC Aviation sector is very positive and we look forward to witnessing landmark transactions in this industry.”*

**Rohit Walia**

Executive Chairman

Alpen Capital





## 1. Executive Summary

The Gulf Cooperation Council (GCC) region's aviation industry is experiencing exciting times due to the combined factors of resilient inherent growth drivers and governments supporting the liberalization of the sector. As the cross-road between the West and the East, the region is enjoying its status as a global aviation hub. The commercial activity in the sector has resulted in select national airlines such as Emirates Airline, Etihad Airways, and Qatar Airways emerging successful at an international level. Over the past few years, the preference for these GCC-based carriers has increased for the international long-haul routes due to their competitive ticket prices and hospitality services that are second to none. Apart from the FSCs, the region's business and low-cost aviation markets have also seen some activity through the last decade, although still underpenetrated compared to the mature markets of the US and Europe. The MRO segment has also seen growth in the past, attracting several overseas players. Most of the GCC carriers have strong fleet expansion plans for the future, which is likely to act as a catalyst for the MRO and aircraft leasing players of the region.

### 1.1 Scope of the Report

This report provides a perspective of the GCC aviation sector by presenting the current industry status, key market dynamics, and scope for future growth. It examines the key sub-segments of the aviation market by identifying fundamental growth drivers, significant challenges, and recent trends. Based on reliable third-party estimates, the report also captures the outlook for the GCC's aviation market. The report ends with the profiles of the six GCC nations as well as those of the region's major aviation players.

### 1.2 Industry Outlook

- Growth in air passenger and air cargo traffic in the Middle East, between 2012 and 2032, is likely to outperform that across all other regions. Air passenger traffic in the Middle East, in terms of RPK, is expected to expand at a compounded annual growth rate (CAGR) of 6.7%, while air cargo traffic, in terms of FTK, is expected to grow at a 7.2% CAGR.
- Air passenger traffic on outbound routes from the Middle East is expected to outpace that on traditional routes such as Europe – Europe, Europe – North America, and North America – North America.
- Within the Middle East, air passenger traffic in the United Arab Emirates (UAE), Saudi Arabia, and Oman is expected to grow at a 6.6%, 6.9%, and 7.5% CAGR, respectively, between 2012 and 2017.
- The Middle East aviation market is expected to receive the delivery of 2,610 aircraft between 2012 and 2032, valued at US\$ 550 billion. As a result, the total fleet size in the region is expected to increase at a 4.7% CAGR during the period to reach 2,850 aircraft in 2032.
- The business jet fleet size in the Middle East is projected to grow to 1,420 from 400 between 2012 and 2032.
- The Middle East Maintenance, Repair, and Overhaul (MRO) market is expected to grow at an 8.6% CAGR between 2013 and 2022 to be valued at US\$ 8.0 billion.

### 1.3 Key Growth Drivers

- Being strategically located at approximately an eight-hour flying distance from two-third of the world's population, the Gulf acts as a central aviation hub and a key link between the eastern and the western worlds. Further abundant oil reserves in the region ensure a stable fuel supply for the region's carriers at a cost lower than their global competitors.
- An expanding population base in the Gulf particularly that of the foreign nationals who travel to their native countries frequently is likely to propel the growth of the airline operators. Additionally, growing urbanization in the region is also expected to drive the demand for aviation services.
- The demand for business and leisure travel by air is slated to rise in the wake of higher income levels across the GCC. Further, an increasing number of wealthy individuals in the region is also likely to trigger the demand for air charter services.
- The Gulf countries have embarked upon ambitious plans to develop tourism across segments such as medical, adventure, sports, religious, and business. This is likely to draw more tourists into the region, increasing air travel across the GCC.



- Most of the region's airports and allied infrastructure are undergoing significant expansion to accommodate the growth in cargo and passenger traffic carried by the Gulf carriers. Growing air traffic has triggered an aggressive fleet expansion by the Gulf carriers.
- A limited rail network and lack of any other easy and efficient mode of transport in the Gulf is also fueling the demand for aviation services.
- The GCC countries have pursued liberalized and progressive aviation policies over the past few years to enhance the transparency and competitiveness of the sector.

### 1.4 Key Challenges

- The Gulf is increasingly becoming a competitive market with the existing regional carriers competing among themselves and with the international players for a larger share of air traffic. Competition hampers the transferring of the fuel price volatility to the passengers. Also, with many players, the GCC airspace is becoming congested, resulting in increased operating costs and flight delays.
- Lack of secondary airports in the GCC has forced its budget carriers to operate out of the main airports of their respective countries, pushing them into direct competition with the FSCs.
- Robust fleet expansion plans of the major GCC-based carriers might lead to overcapacity across the sector, once the new aircraft are delivered.
- The aggressive fleet expansion by GCC carriers will require an increased number of skilled personnel and staff to maintain the new aircraft. The potential concern of a limited supply of skilled labor may be required to be addressed. Further, as the Gulf-based carriers expand their footprint internationally, securing landing slots at some international airports may become difficult.
- Some GCC-based national carriers that enjoy backing from their respective governments are resistant towards their privatization.
- Prolonged global economic uncertainty may have a negative effect on the GCC aviation sector in the medium term.
- Adhering to a myriad of environmental norms and policies stipulated by aviation regulators, across the world, may pose a challenge for airline companies in the future.

### 1.5 Key Trends

- Gulf-based carriers, particularly Emirates Airline, Etihad Airways, and Qatar Airways sponsor sports teams, events, stadiums, and cultural festivals internationally to enhance their brand image and strengthen their customer connect. These airlines have also entered into code-sharing agreements with several other global players to expedite their network expansion.
- Emirates Airline, Etihad Airways, and Qatar Airways have won several international awards in the past few years due to the excellent quality of their services.
- In the last few years, Dubai Airshow, Bahrain International Airshow, and the Abu Dhabi Air Expo have emerged as networking platforms for the global aerospace industry as a result of the higher purchasing power of the fast-growing Gulf carriers.
- To cater to the growing demand of pilots and other airline staff, Emirates Airline, Etihad Airways, and Qatar Airways are now focusing on imparting training to its staff.
- The UAE is developing its market positioning in the global MRO and leasing markets through organic and inorganic means.
- The role of the Middle East-based banks in the aviation financing sector is likely to increase in future, once they gain the required expertise with time.
- The GCC-based LCCs such as flydubai and Air Arabia, have started offering comprehensive in-flight entertainment means to their customers.

The attractiveness of the GCC aviation sector far outshines its challenges, making it the place to be in for accelerated growth. The demand for aviation services in the GCC is here to stay for the long term, benefiting all its stakeholders. As a result, the GCC aviation sector is set to become an important benchmark in the global aviation market.

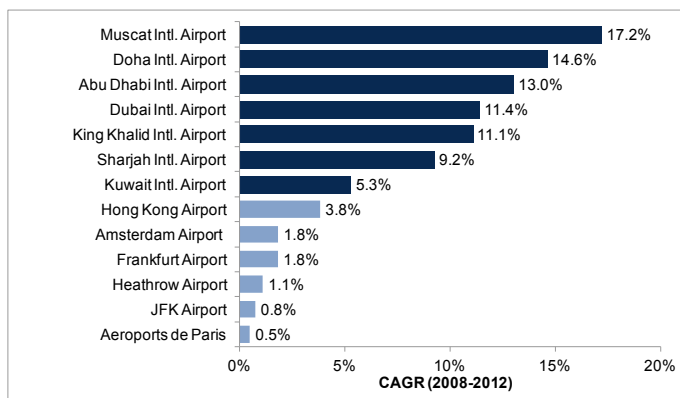
## 2. GCC Aviation Sector

### 2.1 GCC Aviation Market Overview

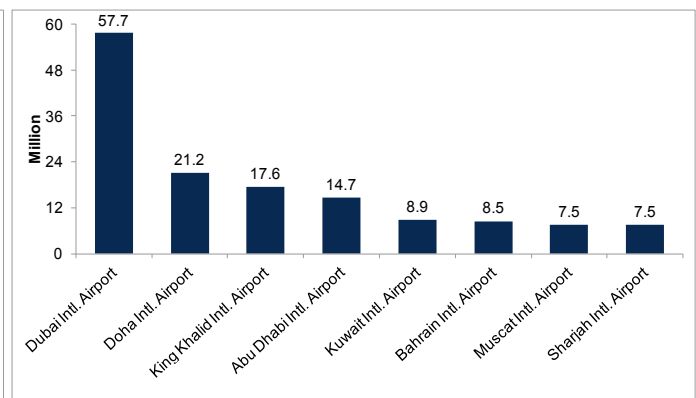
**Passenger traffic growth during 2008-2012 at the GCC's main airports has outpaced that of key global airports**

The GCC aviation industry is emerging as the cynosure of the sector worldwide, as the balance of global aviation gradually shifts away from the traditional markets such as Europe and the US. Having grown steadily over the last two decades, the GCC aviation industry has outperformed most of the other regional markets. This growth is attributed to the region's rising population with high disposable income; strong presence of expatriates who travel frequently to their native countries; favorable geographic location; a burgeoning tourism sector; and an underdeveloped railway network in the region. The sector is also enjoying the dual benefits of the liberalization measures adopted by most of the member-nation governments, on one hand, and the opening up of the global aviation market on the other. Thus, the GCC airline operators are entering into different geographies as international trade barriers blur. A combination of all the above factors has stimulated the development of airports and allied infrastructure, the entry of new players, and fleet expansion by the existing operators. Consequently, the Gulf airports are the emerging aviation hubs, as mirrored in the fact that their passenger traffic growth during 2008-2012 outpaced that at other key global airports (see Exhibit 1). The Dubai International Airport, which handled 57.7 million passengers in 2012, is the largest airport of the GCC (see Exhibit 2).

**Exhibit 1: Passenger Traffic Growth at Key Airports (2008-2012)**



**Exhibit 2: Passenger Traffic at Key Airports of the GCC in 2012**



Source: Websites of the respective airports; General Authority of Civil Aviation, Saudi Arabia; Alpen Capital

**The Gulf has been making the most of its favorable geographic location by complementing it with state-of-the-art airport infrastructure**

Over the last decade, the Gulf has been making the most of its favorable geographic location by complementing it with state-of-the-art airport infrastructure. The result is its deep-rooted standing as a global aviation hub. Particularly basking in this glory are the UAE and Qatar, with their sophisticated airports at places such as Dubai, Abu Dhabi, and Doha. It is therefore no surprise that these countries house the fastest growing carriers of the world, namely, Emirates Airline, Etihad Airways, and Qatar Airways. These airlines have carved a niche for themselves, globally, through their excellent hospitality and competitive ticket prices. Consequently, they have successfully penetrated the important long-haul routes. Over the last decade, the Gulf-based carriers have increased their traffic between the mature markets of Europe and the rapidly developing markets of Asia. As a result, the GCC-based carriers are capturing the market share of the traditional European players along these important routes, primarily in the business and the premium market

segments (see Exhibit 3). The Gulf carriers are also aggressively expanding their US route network.

**Exhibit 3: Market Share Trend of the GCC and European Carriers on Select European Routes**

Route	European carriers		Gulf carriers	
	2002	2012	2002	2012
Europe – Indian Subcontinent	32%	17%	15%	35%
Europe – Southeast Asia	22%	14%	3%	20%
Europe – Oceania	16%	12%	4%	33%

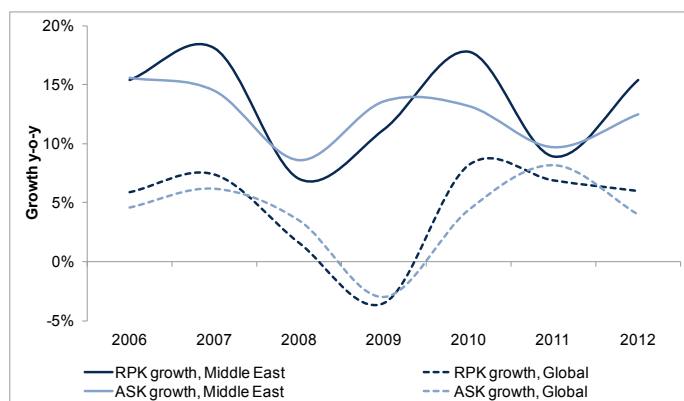
Source: "Current Market Outlook: 2013 – 2032", Boeing, 2013

**Despite weakness in most of the global aviation markets, the Middle East depicted sound growth even during the global recession**

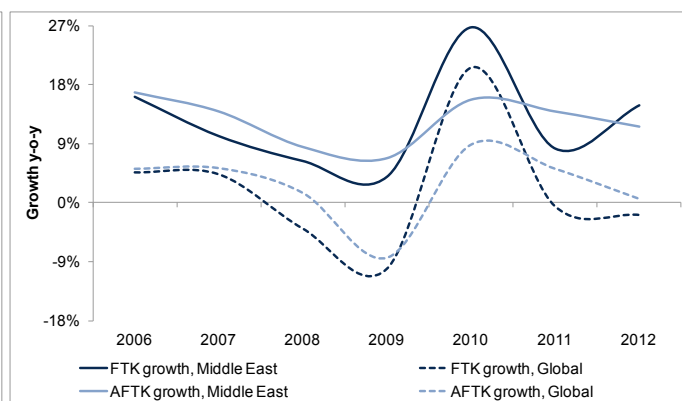
The economic meltdown of 2008-2009 that severely affected the aviation sector world over reiterated the strong position of the Gulf carriers. The global year-on-year (y-o-y) growth in RPK and ASK decelerated in 2008, before turning negative in 2009. The situation in the air cargo sector was even worse, with the global FTK witnessing a negative growth in both 2008 and 2009. However, despite weakness in most of the global aviation markets, the Middle East depicted sound growth even during the global recession. The region's RPK growth in 2007, 2008, and 2009 stood at 18.1%, 7.0%, and 11.2% y-o-y, respectively. Its ASK grew at 14.5%, 8.6%, and 13.6% y-o-y, during the same period (see Exhibit 4). The FTK growth in the air cargo segment was 10.1%, 6.3%, and 3.9% y-o-y in 2007, 2008, and 2009, respectively (see Exhibit 5).

Even in 2010, 2011, and 2012, the Middle East traffic growth in terms of RPK has outpaced the global growth by significant margins. Recovering from the effect of the global economic slowdown, the global cargo traffic witnessed sharp growth in 2010. However, the global FTK growth has again entered a negative zone in the last two years, as a result of the economic turmoil in the Euro zone. In contrast, the Middle East continues to record steady FTK growth during the same period.

**Exhibit 4: Middle East and Global Air Passenger Traffic**



**Exhibit 5: Middle East and Global Air Cargo Traffic**



Source: International Air Transport Association

During the last few years, RPK and ASK growth in the Middle East has followed a similar trend. This indicates that the region's airlines were largely able to adjust capacity in

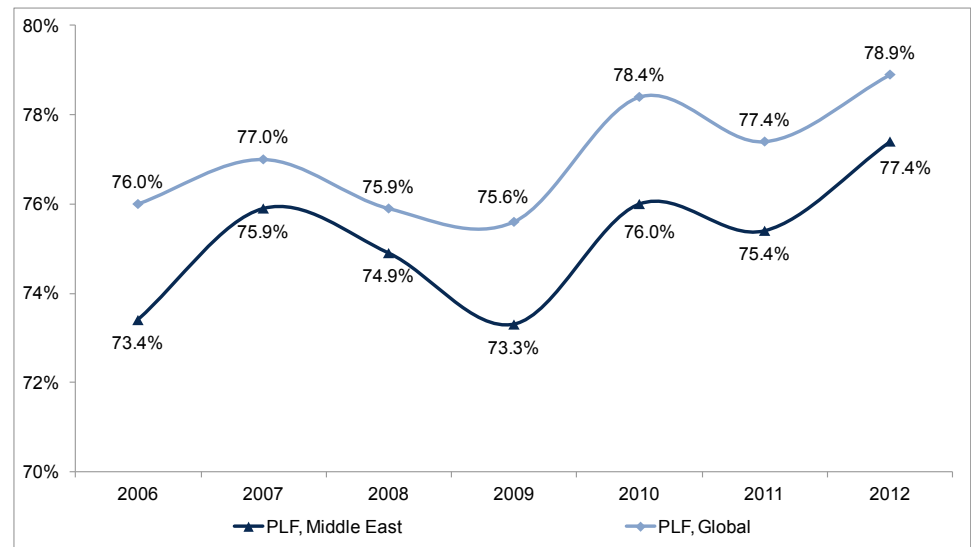


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***Despite aggressive capacity expansion by the region's carriers, there are no significant over-supply concerns***

tandem with demand. Despite the strong capacity expansion by the region's carriers, there are no significant over-supply concerns. The PLF in the Middle East has remained in the 73% to 77% range since 2006 (see Exhibit 6).

**Exhibit 6: PLF of the Middle East Region and the Rest of the World**



Source: International Air Transport Association

Major commercial airlines of the GCC region include:

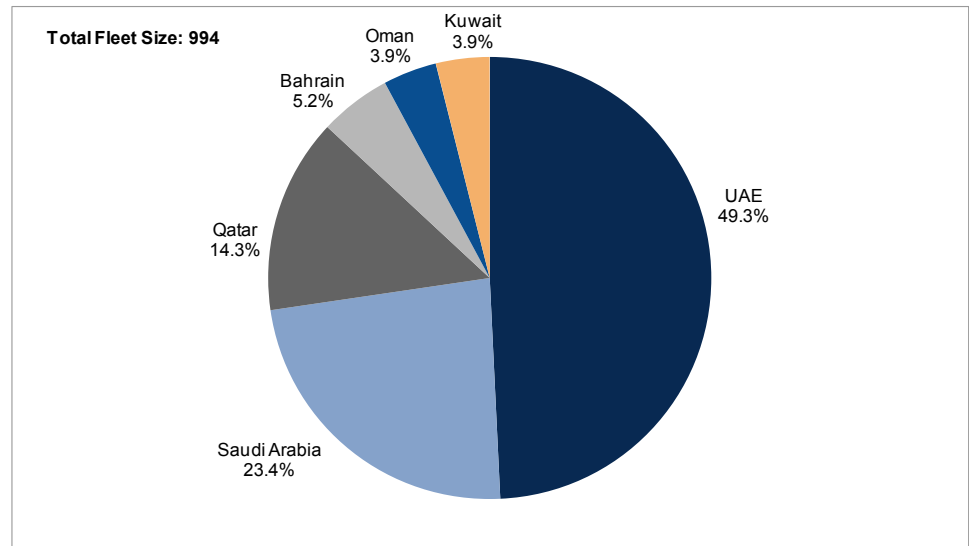
- **UAE:** Emirates Airline, Etihad Airways, Air Arabia, and flydubai
- **Qatar:** Qatar Airways
- **Saudi Arabia:** Saudi Arabian Airlines (Saudia) and flynas
- **Bahrain:** Gulf Air
- **Oman:** Oman Air
- **Kuwait:** Kuwait Airways and Jazeera Airlines

***The UAE and Saudi Arabia together constitute approximately 73% of the total fleet size of the GCC aviation sector***

Air Arabia, flydubai, flynas, and Jazeera Airlines are the LCCs of the region, while the remaining are FSCs. The FSCs are backed by their respective governments. The UAE and Saudi Arabia are the two key aviation markets in the region, together constituting approximately 73% of the total fleet size in the GCC aviation sector (see Exhibit 7).



Exhibit 7: Bifurcation of the Fleet Size across the GCC



Source: "Middle East Maintenance, Repair and Overhaul Market – 2013 Market Overview and Growth Opportunities", ICF SH&E Limited, February 2013

Notes: 1) The total fleet size of the GCC region has been back-calculated using a total fleet size of 1,290 pertaining to the Middle East

2) The GCC region accounts for approximately 77% of the total Middle East fleet size

## Full Service Carriers

**Some of the major airlines of the world are based out of the Gulf**

The strength of the GCC aviation industry is resounded in the fact that some of the major airlines of the world such as Emirates Airline, Saudia, Qatar Airways, and Etihad are based out of the Gulf. Below exhibits 8 and 9 depict the fleet size, number of destinations served, and average fleet age of the FSCs based out of the Gulf.

Exhibit 8: Fleet Size and Number of Destinations Served by the GCC-based FSCs

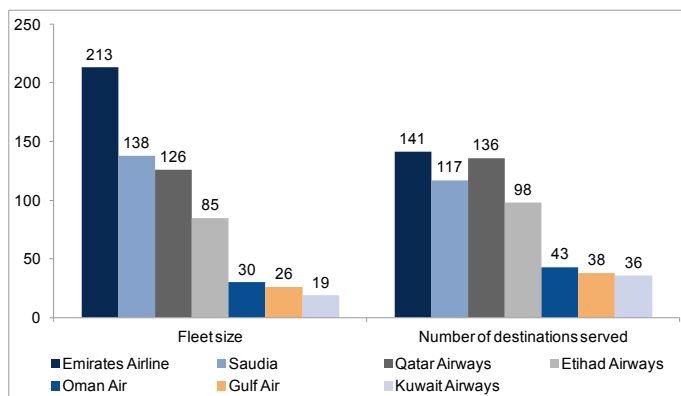
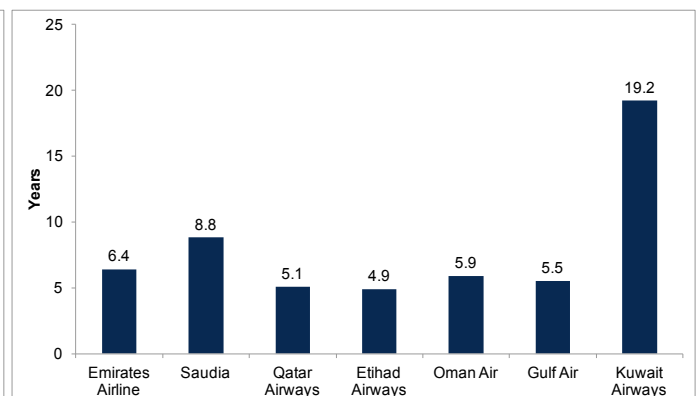


Exhibit 9: Average Fleet Age of the GCC-based FSCs



Source: Airfleets, ch-aviation

Notes: 1) Data as on January 22, 2014

2) Emirates Airline and Etihad Airways is based out of the UAE; while Saudia, Qatar Airways, Oman Air, Gulf Air, and Kuwait Airways are based out of Saudi Arabia, Qatar, Oman, Bahrain, and Kuwait, respectively

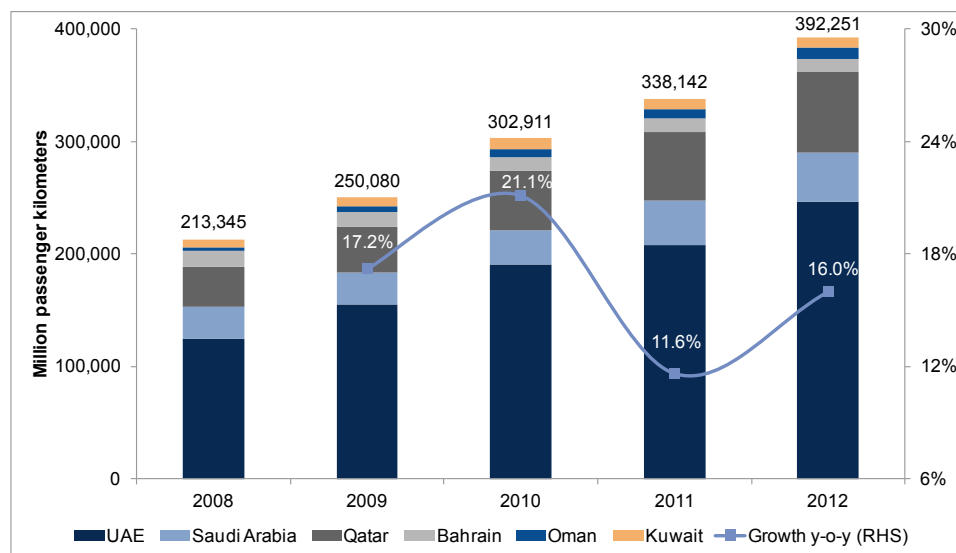


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**In 2012, the UAE- and Qatar-based carriers accounted for more than 80% of the air passenger traffic of all the GCC-based carriers**

In line with the region-wide industry trend, major GCC-based airlines such as Emirates Airline, Etihad Airways, and Qatar Airways have seen significant traffic growth and route expansion in the past few years. Propelled by the growth of the UAE- and Qatar-based airlines, passenger traffic<sup>1</sup> for Gulf carriers rose at a 16.4% CAGR between 2008 and 2012, in terms of passenger kilometers (see Exhibit 10). In 2012, carriers from the UAE and Qatar accounted for more than 80% of air passenger traffic of all the Gulf-based carriers.

**Exhibit 10: Passenger Kilometers Performed on Scheduled Services by the GCC-based Carriers**



Source: International Civil Aviation Organization, Alpen Capital

Note: The above chart also includes the data for the GCC's budget airlines. Since the penetration of LCCs in the Middle East is low (13.5%), the data in the chart is an approximate representation of FSCs in the region

**Major FSCs of the region have entered into alliances and partnerships and have acquired minority stakes in other airlines to expand their operations**

### Alliances and Code-shares

Major FSCs of the region have entered into alliances and partnerships as well as acquired stakes in other airlines to expand their global footprint. In 2012, Emirates Airline partnered with the Australian carrier, Qantas, under which, the latter has shifted its European transit hub from Singapore to Dubai. This deal marks the end of Qantas' strategic 17-year code-sharing agreement with British Airways and Cathay Pacific. Emirates Airline also plans to enter into similar alliances with the US-based American Airlines, which harbors the potential to further boost its passenger traffic and enhance traffic flow at the Dubai International Airport in the future.

Since its launch in 2004, Etihad Airways has also built an extensive portfolio of code-sharing agreements, the most recent being a joint agreement with Air France-KLM covering Europe, the Middle East, Asia, and Australia. In November 2013, Etihad Airways bought a 24% equity stake in Jet Airways, India's premier international airline, to earn a strategic advantage in expanding its foothold in the aviation market of India. In the past, the airline had acquired strategic minority stakes in foreign airlines such as Virgin Australia, airberlin, Darwin Airline, Jat Airways, Aer Lingus, and Air Seychelles to gain access into new markets without adding to its own aircraft fleet.

<sup>1</sup> Passenger traffic is measured in terms of passenger kilometers performed, respectively, on scheduled services by the GCC-based carriers





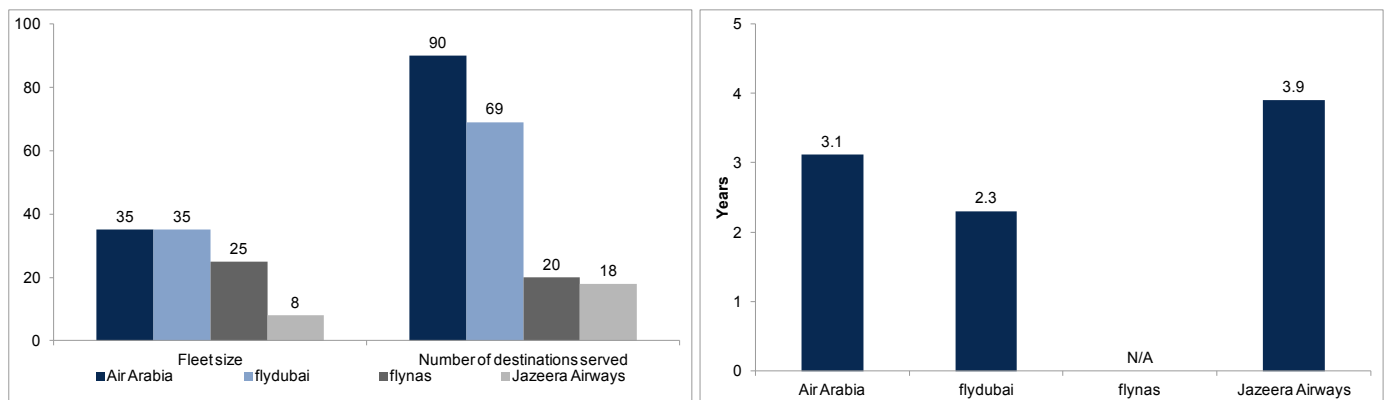
## Low-Cost Carriers

### *The last decade saw the emergence of several LCCs in the Gulf*

The Gulf region is a relatively new entrant in the low-cost aviation market. Although attractive, this segment of the aviation industry has tested the strength of its players, with only the tough surviving. As a result, today, the segment has only four players – Air Arabia and flydubai, which are UAE-based; Saudi Arabia-based flynas; and Kuwait-based Jazeera Airways. Air Arabia, the first LCC of the region, and flydubai are the market leaders of this segment, characterized by high levels of growth. After suffering losses during the early phase of its operations, Jazeera Airways has been able to deliver robust financial performance in the past few years. flynas is also expected to report profit for the first time in 2013, since its launch in 2007. While regional players are making steady progress, the GCC's LCC market is increasingly witnessing the entry of international players. In 2013, the European budget carrier Wizz Air entered the UAE aviation market, by starting its air services between Dubai and Budapest, Bucharest, Kiev, and Sofia. Several India-based budget carriers such as Spicejet and IndiGo also have a presence in the GCC market, offering flights between the key cities of the Gulf and India.

Below exhibits 11 and 12 depict the fleet size, number of destinations served, and average fleet age of the GCC-based LCCs.

**Exhibit 11: Fleet Size and Number of Destinations Served by the GCC-based LCCs**      **Exhibit 12: Average Fleet Age of the GCC-based LCCs**



Source: Airfleets, ch-aviation, Alpen Capital

Notes: 1) Data as on January 22, 2014

2) Air Arabia and flydubai are based out of the UAE; while flynas and Jazeera Airways are based out of Saudi Arabia and Kuwait, respectively

3) Air Arabia was launched in 2003, Jazeera Airways in 2005, flynas in 2007, and flydubai in 2008

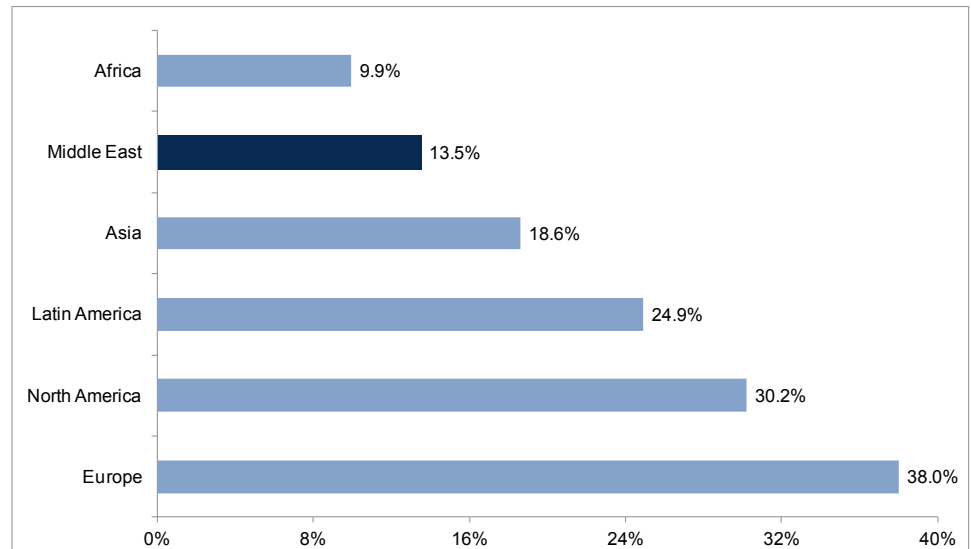
4) Average fleet age of flynas is not available

### *The current market penetration of LCCs in the Middle East is significantly lower than that in the mature markets of the US and Europe*

In addition to the existing players, carriers such as Wataniya Airways (in Kuwait) and Sama (in Saudi Arabia) had also entered the market. However, both these carriers were forced to suspend their operations because of severe financial difficulties. Wataniya Airways was plagued by financial burdens due to high expenses, driven mainly by fleet expansion. Sama faced bankruptcy due to an uneven competitive landscape and unfavorable operating conditions in Saudi Arabia.

Currently, the market penetration of LCCs in the Middle East aviation sector, in terms of the number of seats, has increased to 13.5% from negligible levels over the last decade (see Exhibit 13). However, the current penetration level is still considerably lower compared to that in Europe and the US.

Exhibit 13: LCC's Market Penetration across Various Geographies



Source: "Middle East Low Cost Carriers Strategic Outlook", Aljazira Capital, July 2013

**The LCC segment in the Middle East saw a robust average annual growth of 52% in the last decade, in terms of scheduled capacity**

Since the introduction of the LCC business model in the Middle East in 2003, the region's operators have succeeded in capturing a sizeable portion of the short and medium-haul traffic. The LCCs are gaining popularity primarily because of their relatively cheaper tickets, point-to-point service, rapid turnaround, strong value proposition, and simplified networks. As a result, the LCC segment in the Middle East saw a robust average annual growth of 52% in the last decade, compared to the 7% growth of the traditional FSCs during the same period, in terms of scheduled capacity<sup>2</sup>. The budget carriers now enjoy a significant market share on the GCC's important routes including Dubai-Doha, Dubai-Kuwait, Dubai-Riyadh, and Jeddah-Riyadh (see Exhibit 14).

Exhibit 14: Market Share of the LCCs on the GCC's Major Regional Routes

Route	Total Seats	LCC Market Share
Dubai – Doha	85,896	26.8%
Jeddah – Riyadh	77,303	24.9%
Dubai – Kuwait	62,287	50.7%
Dubai – Riyadh	54,988	32.6%
Dubai – Jeddah	49,092	29.5%
Dubai – Bahrain	35,770	25.4%
Dubai – Muscat	32,476	31.4%
Doha – Bahrain	31,399	4.2%

Source: "Middle East low cost airlines report a profitable start to 2013", CAPA – Centre for Aviation, September 2013

Note: Data pertains to the week of August 8, 2013

<sup>2</sup> Source: Middle East Low Cost Carrier Market Analysis, OAG, September 2012

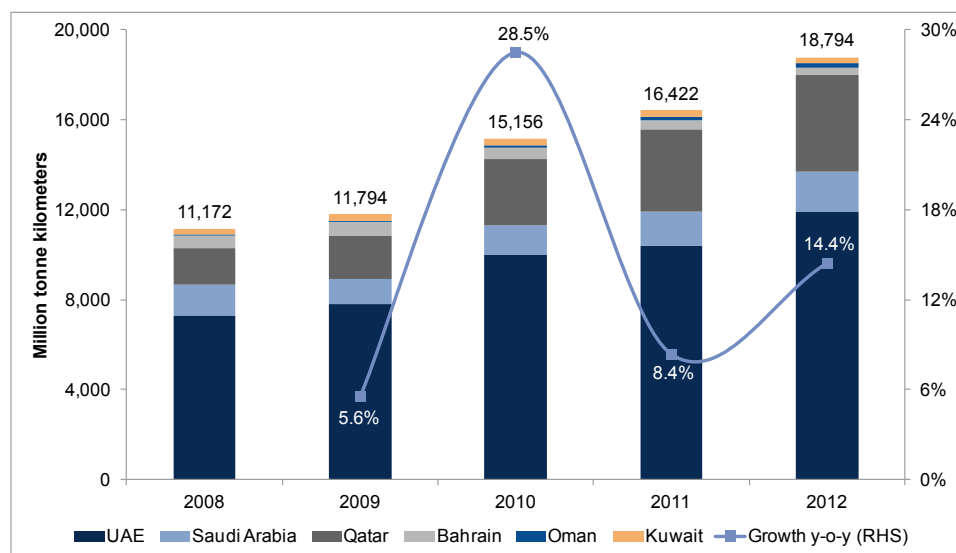
**Air cargo traffic (in FTK) carried by the GCC-based airlines grew by 13.9% CAGR between 2008 and 2012**

The demand for budget carriers is mainly fueled by the Gulf's expatriate population that seeks affordable means of traveling to their native country regularly. To cater to the expatriates' travel needs, flydubai and Air Arabia cover destinations across the Indian Subcontinent such as Karachi, Peshawar, Sialkot, Ahmadabad, Bangalore, Chennai, Delhi, Goa, Hyderabad, Mumbai, Nagpur, Trivandrum, Kathmandu, Dhaka, and Colombo. Further, a young middle class is also a regular user of budget airlines in the region.

## Cargo Carriers

In the last decade, Asian countries such as China and India have emerged as outsourced manufacturing centers for the western markets. As a result, the Gulf countries, which are nearly equidistant from Europe and Asia, have become the global transit hub for air cargo traffic. The growing prominence of the region is highlighted by the fact that even during recession, which saw a slump in the global freight demand, the air cargo business in the GCC registered growth. Air cargo traffic<sup>3</sup> carried by the GCC-based airlines grew by 13.9% CAGR between 2008 and 2012 (see Exhibit 15). In fact, the global air cargo market is still reeling under the effects of the economic slowdown, while the region's air cargo business continues to buck this trend. In the first half of 2013, global air freight traffic was flat in most regions compared to the corresponding period last year. On the other hand, the Middle East airports, following up on a strong 2012, experienced a y-o-y growth of 6.1% during the same period<sup>4</sup>.

**Exhibit 15: Freight Tonne Kilometers Performed on Scheduled Services by the GCC-based Carriers**



Source: International Civil Aviation Organization, Alpen Capital

Note: The above chart also includes the data for the GCC's budget airlines

**The GCC-based airlines are increasingly challenging the established European air cargo players**

The GCC-based airlines are increasingly challenging the established European air cargo players. Leading cargo operators of the GCC include Emirates SkyCargo, the freight division of Emirates Airline; Etihad Cargo, the cargo division of Etihad Airways; Qatar Airways Cargo, the cargo division of Qatar Airways; Saudia Cargo, the cargo business of Saudia; and Gulf Air Cargo, the cargo division of Gulf Air (see Exhibit 16). State-sponsored

<sup>3</sup> Cargo traffic is measured in terms of freight tonne kilometers performed, respectively, on scheduled services by the GCC-based carriers

<sup>4</sup> Source: "Gulf competition heats up", EVA International Ltd., 2013

fleet expansion and access to relatively cheap aviation fuel has led major airlines of the region to become dominant global players within a short time span.

Exhibit 16: **GCC-based Key Air Cargo Carriers**

Carrier Name	Country
Emirates SkyCargo	UAE
Etihad Cargo	UAE
Saudia Cargo	Saudi Arabia
Qatar Airways Cargo	Qatar
Gulf Air Cargo	Bahrain

Source: Websites of the respective companies

**In 2012, the UAE accounted for around 63% of the GCC's air freight**

To leverage the geographical advantage, the governments of the Gulf countries are making significant investments towards the improvement and expansion of their airport infrastructure. The UAE accounted for around 63% of the GCC's air freight volume in 2012, leveraging its sophisticated airport infrastructure<sup>5</sup>. The ongoing extensive expansion of key airports of the Gulf (see Exhibit 17) is expected to increase their contribution to the global air freight volume.

Exhibit 17: **Key Airport Expansion Projects in the GCC**

Country	Airport	Project Value (US\$ billion)
Qatar	Hamad International Airport	16.0
UAE	Dubai World Central	8.0
UAE	Dubai International Airport (Phase 4 development)	7.8
UAE	Abu Dhabi International Airport	6.8
Oman	Expansion of Muscat International Airport and Salalah Airport. New airports at Sohar, Duqm, Ras Al Hadd, and Adam	6.1
Kuwait	Kuwait International Airport	2.1
Saudi Arabia	King Abdulaziz International Airport (Phase 1 development) - Jeddah	1.5
Bahrain	Bahrain International Airport	0.3
<b>Total</b>		<b>48.6</b>

Source: "Middle East's lofty ambitions keeping up with the neighbours", *Orient Aviation*, November 2013; "New airport's opening is a matter of pride for Qatar", *www.gulf-times.com*, January 2014; "Oman's aviation sector set for boost in growth", *Constructionweekonline*, November 2013

**Dubai has emerged as the major air cargo hub of the Gulf region in the past few years**

Dubai has emerged as the major air cargo hub of the Gulf region, mainly due its world-class infrastructure. Both its airports, Dubai International Airport and Dubai World Central, are capable of facilitating fast transit of freight from sea to air. They harbor the capability to

<sup>5</sup> Source: International Civil Aviation Organization

**Cargo volume at the Doha International Airport witnessed a 27.3% CAGR between 2007 and 2012**

**Cargo volume at Riyadh's King Khalid International Airport registered a y-o-y growth of 15.9% to reach 305,000 tonnes in 2012**

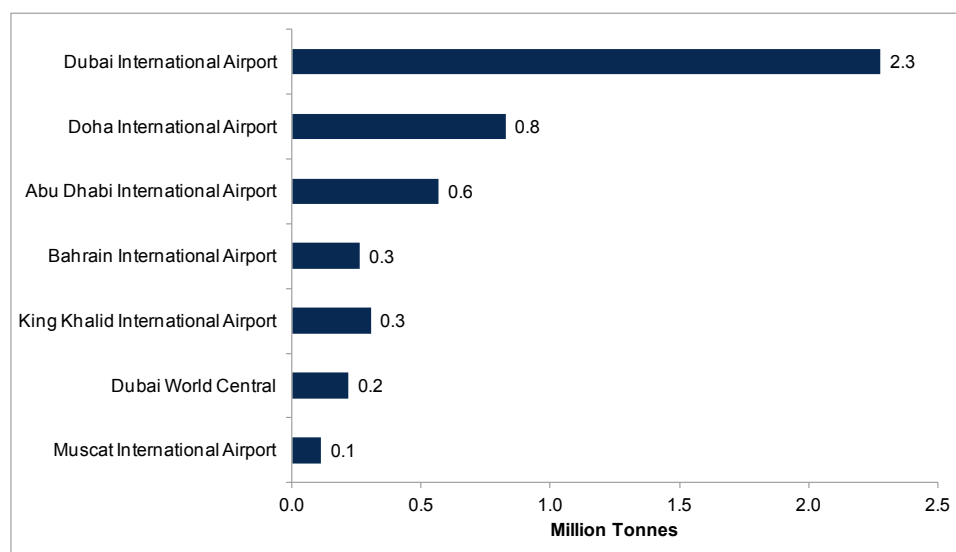
transfer full container loads between the quayside at Port Rashid or Jebel Ali to the Dubai International Airport, or vice versa, within as less as six hours. A dedicated road link between Jebel Ali Port and Dubai World Central also results in the rapid transit of cargo from sea to air and vice versa, translating into increased air cargo traffic at the airport. Consequently, freight volume at the Dubai International Airport registered a y-o-y growth of 3.9% in 2012 to reach 2.3 million tonnes (see Exhibit 18). Dubai World Central, in its second year of operations, handled 219,092 tonnes of freight in 2012, registering a y-o-y growth of 144%.

Doha International Airport is also rapidly becoming a key cargo hub in the region, backed by the success of Qatar Airways. Cargo volume at the airport witnessed a 27.3% CAGR between 2007 and 2012 to reach 826,677 tonnes in 2012<sup>6</sup>. The migration of cargo operations to Doha's new Hamad International Airport, the first phase of which is likely to be opened in 2014 after several delays, is expected to further boost the cargo volumes and help Qatar realize its aim of becoming one of the world's top five global commercial cargo hubs.

While Dubai and Doha are gaining prominence in the GCC air cargo sector, Bahrain has been a mainstay for decades. The utilization of Bahrain International Airport as its regional hub by logistics company DHL for the last 35 years has been its main growth driver. Overall cargo volumes at the airport registered a 3.8% CAGR between 2002 and 2012 to reach 262,386 tonnes in 2012. However, since 2008, global recession and political unrest has resulted in a slump in the overall cargo volume at the airport.

Cargo volume at Riyadh's King Khalid International Airport registered a y-o-y growth of 15.9% to reach 305,000 tonnes in 2012. Saudia Cargo, the cargo division of Saudi Arabian Airlines, is planning to cater to the rising domestic and international demand of pharmaceutical products by building a new pharmaceutical facility at the airport. It also plans to expand its ground facilities at the Jeddah and Dammam airports.

**Exhibit 18: Air Cargo Volumes at Key Airports of the GCC in 2012 (Total – 4.6 million tonnes)**



Source: Websites of the respective airports; General Authority of Civil Aviation, Saudi Arabia

<sup>6</sup> Source: Doha International Airport



**The demand for business aviation services has significantly increased in the recent years across the Middle East**

## Business Aviation<sup>7</sup>

The demand for business aviation services has significantly increased in the recent years across the Middle East as a result of growth across all industry segments. Businessmen may require traveling to places that are either not serviced by scheduled flights or their frequency is low, prompting them to avail of private jet services. Some of the key players in the Middle East business aviation market include global and regional players such as Gama Aviation, Private Jet Charter, Al Hajjar Aviation, Saudia Private Aviation, and Royal Wings Aviation Services (see Exhibit 19). Some affluent businessmen use self-owned jets for intra-region and cross-region travel.

Exhibit 19: **GCC-based Key Business Aviation Companies**

Carrier Name	Country
Gama Aviation*	UAE
Private Jet Charter*	UAE
Air Charter International	UAE
Al Hajjar Aviation	UAE
Eastern SkyJets	UAE
Al Jaber Aviation	UAE
Mid East Jet Saudi Arabia Limited	Saudi Arabia
Saudia Private Aviation	Saudi Arabia
Qatar Executive	Qatar
Bahrain Executive Air Services Company	Bahrain
Royal Wings Aviation Services	Kuwait

Source: Websites of the respective companies

Note: \* - Parent company is based in the UK

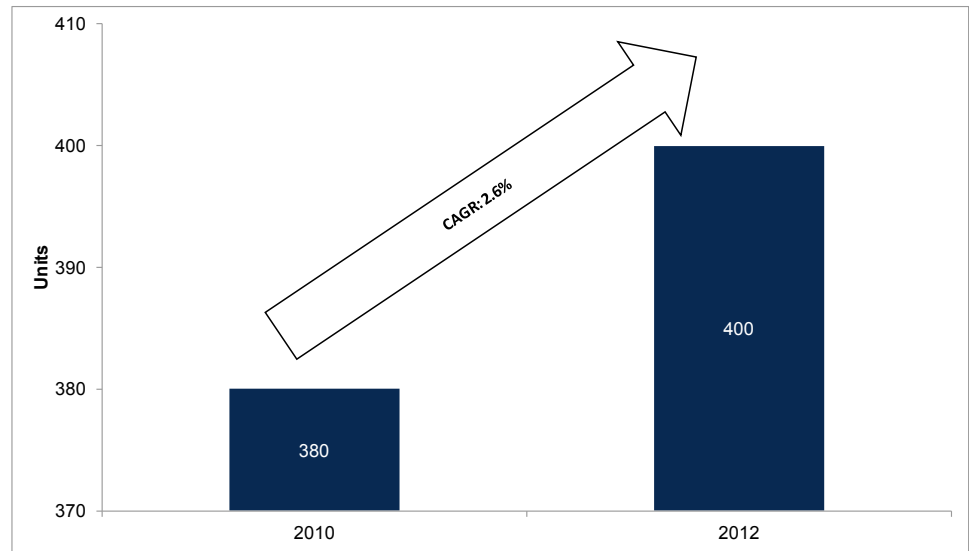
**Business jet fleet size in the Middle East increased to 400 in 2012 from 380 in 2010**

Although the business aviation market in the GCC is not at the same maturity level as that in the US or Europe, it has seen some traction in the recent past. As a result of the growing demand for business travel, several domestic and international private charter operators have entered the market in the last few years. The business jet fleet size in the Middle East increased to 400 in 2012 from 380 in 2010, reflecting a 2.6% CAGR (see Exhibit 20).

<sup>7</sup> As data on the overall private charter segment is unavailable, we have focused only on the business aviation segment



Exhibit 20: **Business Jet Fleet Growth in the Middle East**



Source: *Business Aircraft – Market Forecast, Bombardier, 2011 and 2013*

## Aircraft Leasing

**Airlines in the region are increasingly realizing the benefits of leasing and the fixed cost savings generated from it**

The demand for aircraft leasing services in the region has increased on account of a healthy growth of the air passenger and cargo operations in the GCC. Some of the region's leading players include Aviation Lease and Finance Company (ALAFCO), Al Sahaab Aircraft Leasing Company, and Dubai Aerospace Enterprise (see Exhibit 21). Some of the key customers of these aircraft leasing companies include Jazeera Airways, Emirates Airline, Saudia, Garuda Indonesia, China Southern Airlines, easyJet, Indigo, Philippine Airlines, GoAir, Ethiopian Airlines, Caribbean Airlines, and Skymark Airlines.

The acceptability of aircraft leasing as an alternative to the outright purchase of aircraft has increased over time. Airlines in the region are increasingly realizing the benefits of leasing and the fixed cost savings generated from it. Recently, in February 2014, Dubai Aerospace Enterprise has ordered 40 new aircraft (firm orders for 20 and purchasing rights for 20 additional ones) in a deal worth over US\$ 980 million from European manufacturer ATR at the Singapore Airshow. The company is in discussions with several regional and global carriers to lease the ordered aircraft.

Exhibit 21: **Key Aircraft Leasing Companies in the GCC**

Company Name	Country	Fleet Size
Aviation Lease and Finance Company (ALAFCO)	Kuwait	54
Dubai Aerospace Enterprise	UAE	53
Al Sahaab Aircraft Leasing Company	Kuwait	N/A

Source: *Websites of the respective companies; ALAFCO's 2012 annual report*

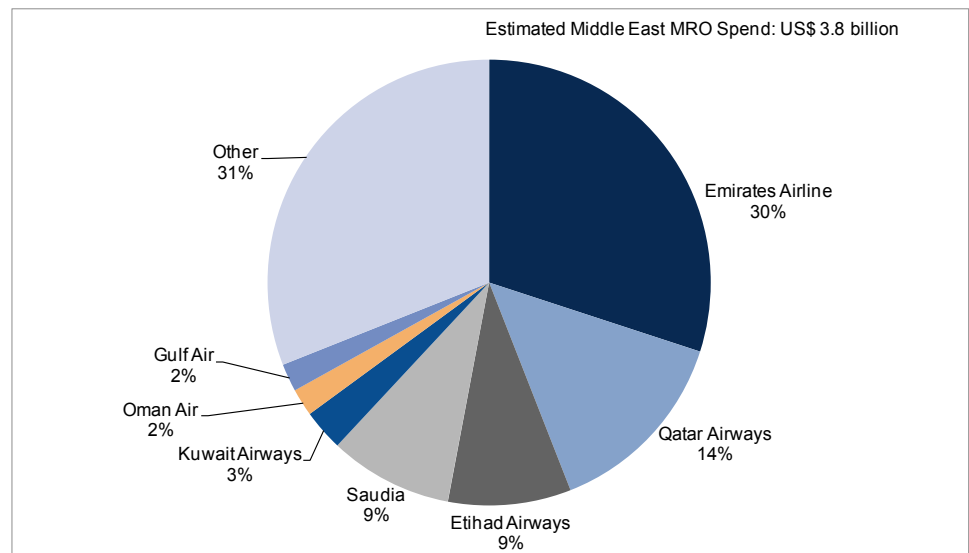


***The Middle East MRO industry size was valued at an estimated US\$ 3.8 billion in 2013***

## Maintenance, Repair, and Overhaul

The overall Middle East MRO industry size stands at an estimated US\$ 3.8 billion, accounting for approximately 6% of the global market<sup>8</sup>. Major FSCs of the Gulf, Emirates Airline, Qatar Airways, Etihad Airways, Saudia, Kuwait Airways, Oman Air, and Gulf Air, together spent around estimated US\$ 2.7 billion on MRO services to represent approximately 69% of the total amount spent by the Middle East airlines (see Exhibit 22). Engine overhaul is the main segment of the Middle East aircraft MRO market, constituting around 42% of the overall spend. Other market segments include airframe heavy maintenance (22%), component overhaul (19%), and line maintenance (17%)<sup>9</sup>.

**Exhibit 22: MRO Spend by Key Airlines**



Source: "Middle East Market Overview", ICF SH&E Limited, June 2013

***The entry of foreign players and high government investment in the sector has changed the structure of the MRO market segment***

The MRO segment of the GCC aviation sector has transformed with time. Until some years ago, there were only a few standalone MRO service providers in the region. Most line maintenance activities were performed by the in-house maintenance division of national carriers, while heavy maintenance activities were outsourced. However, the entry of foreign players and high government investment in the sector has changed the market structure significantly.

There are three main categories of service providers in the MRO market – airlines offering third-party services (such as Saudia (through Saudia Aerospace Engineering Industries), and Emirates Airline (through Emirates Engineering)), the Original Equipment Manufacturers (OEMs) (such as UTC Aerospace Systems, Rolls-Royce, Snecma, Panasonic, GE, and Thales), and independents MROs (such as Abu Dhabi Aircraft Technologies (ADAT) and Dubai Aerospace Enterprise) (see Exhibit 23).

<sup>8</sup> Source: "Middle East Market Overview", ICF SH&E Limited, June 2013

<sup>9</sup> Source: "Middle East Maintenance, Repair and Overhaul Market – 2013 Market Overview and Growth Opportunities", ICF SH&E Limited, February 2013



Exhibit 23: **GCC-based Key MRO Companies**

Company Name	Country
Abu Dhabi Aircraft Technologies (ADAT)	UAE
Emirates Engineering	UAE
Dubai Aerospace Enterprise	UAE
Alsalam Aircraft Company	Saudi Arabia
Saudia Aerospace Engineering Industries	Saudi Arabia

Source: Websites of the respective companies

**Currently, a significant proportion of engine MRO activities are outsourced**

Currently, the engine MRO activities are primarily outsourced, with only around 5% of the airlines performing them in-house because of the high cost involved in setting up maintenance capabilities. Major OEMs (including Rolls-Royce, GE, and Snecma) are active in the engine overhaul segment and they generally enter into maintenance service contracts at the time of sale of new engines. In contrast, airlines perform around 50%-60% of the airframe heavy maintenance activity in-house, as it is easy and less expensive to establish capability since most of the activities are labor-intensive. The remaining 40%-50% of the demand in this segment is served by third-party service providers such as ADAT and Dubai Aerospace Enterprise. Given the nature of line maintenance activities (being airlines' day-to-day activity), around 85%-90% of this work is conducted in-house by airlines. In the component overhaul segment, around 20% of work is conducted in-house by the Middle East carriers. The remaining 80% of the component overhaul activity is performed by the OEMs such as UTC Aerospace Systems, Honeywell, and Parker, and by non-OEM suppliers such as LH Technik.

Going forward, more OEMs are expected to enter the GCC to cater to the growing fleet size of major airline companies. However at the same time, the Gulf's major carriers are also expected to increasingly undertake maintenance activities in-house as they gain scale.



Exhibit 24: The GCC Airlines' Current MRO Activities

Airline	MRO Segments		
	Engine Overhaul	Airframe Heavy Maintenance	Component Overhaul
Emirates Airline	<ul style="list-style-type: none"> <li>Primarily outsourced to OEMs under long-term contracts</li> <li>Is building some capabilities jointly with GE and Engine Alliance</li> </ul>	<ul style="list-style-type: none"> <li>Conducted in-house</li> </ul>	<ul style="list-style-type: none"> <li>Outsourced, primarily to component OEMs</li> <li>Plans to build some internal capability in select categories</li> </ul>
Etihad Airways	<ul style="list-style-type: none"> <li>Mainly outsourced to engine OEMs</li> <li>Partly outsourced to ADAT</li> </ul>	<ul style="list-style-type: none"> <li>Mainly outsourced to its sister company, ADAT</li> </ul>	<ul style="list-style-type: none"> <li>Outsourced, primarily to component OEMs and for select types, to one-stop-shops (LH Technik and SR Technics/ADAT)</li> </ul>
Gulf Air	<ul style="list-style-type: none"> <li>Outsourced to engine OEMs</li> </ul>	<ul style="list-style-type: none"> <li>Outsourced to a variety of mostly in-region suppliers such as Joramco</li> </ul>	<ul style="list-style-type: none"> <li>Primarily outsourced, with most components covered by a Flying Hour agreement with ST Aerospace</li> </ul>
Kuwait Airways	<ul style="list-style-type: none"> <li>Outsourced, primarily to engine OEMs</li> </ul>	<ul style="list-style-type: none"> <li>Narrow body minor checks done in-house, while wide body and major checks mainly outsourced</li> </ul>	<ul style="list-style-type: none"> <li>Activities such as avionics, wheels, and cabin interiors performed in-house, while the remaining outsourced to a mix of OEMs and independent players</li> </ul>
Oman Air	<ul style="list-style-type: none"> <li>Outsourced to engine OEMs</li> </ul>	<ul style="list-style-type: none"> <li>Outsourced</li> </ul>	<ul style="list-style-type: none"> <li>Outsourced to component OEMs</li> </ul>
Qatar Airways	<ul style="list-style-type: none"> <li>Outsourced to engine OEMs, except V2500 that uses a combination of suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Outsourced</li> <li>Plans to perform the activity in-house over the next 5-10</li> </ul>	<ul style="list-style-type: none"> <li>Outsourced to component OEMs</li> </ul>
Saudia	<ul style="list-style-type: none"> <li>Performed by a combination of suppliers, including airlines offering third-party services, OEMs, and independent MROs</li> </ul>	<ul style="list-style-type: none"> <li>Performed in-house</li> </ul>	<ul style="list-style-type: none"> <li>Mostly performed in-house</li> </ul>

Source: "Middle East Maintenance, Repair and Overhaul Market – 2013 Market Overview and Growth Opportunities", ICF SH&E Limited, February 2013

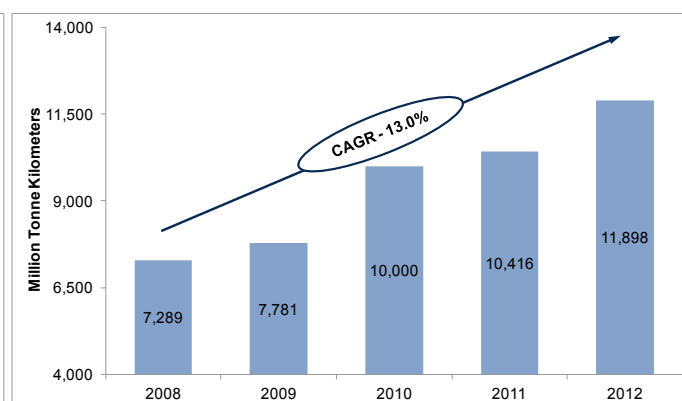
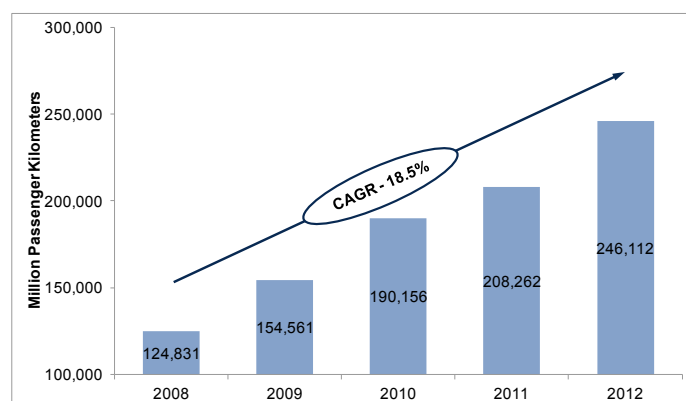
## 2.2 The UAE Aviation Market

**The UAE accounted for approximately 63% of the passenger and cargo traffic in 2012**

The UAE is at the core of the bustling aviation sector of the GCC. As the largest aviation market in the region, the UAE accounted for approximately 63% of the GCC's passenger and cargo traffic in 2012<sup>10</sup>. Passenger and cargo traffic<sup>11</sup> carried by the local airlines increased at a CAGR of 18.5% and 13.0%, respectively, between 2008 and 2012 (see Exhibits 25 and 26). The country's economic and demographic framework as well as the growing dominance of its two FSCs – Emirates Airline and Etihad Airways – on international long-haul routes makes the UAE the lynchpin of the region's aviation industry. While Emirates Airline is Dubai-based, Etihad Airways was founded in Abu Dhabi. Both the airlines enjoy local government support as well as strong brand recognition due to their high service standards and international connectivity. The leading LCCs in the Middle East, Air Arabia and flydubai, are also UAE-based and are gradually increasing their share in the short- and medium-haul passenger traffic segment.

**Exhibit 25: Passenger Kilometers Performed on Scheduled Services by the UAE's Carriers**

**Exhibit 26: Freight Tonne Kilometers Performed on Scheduled Services by the UAE's Carriers**



Source: International Civil Aviation Organization, Alpen Capital

**Over the years, Emirates Airline has grown to become one of the leading carriers in the world**

Established in 1985 with merely two aircraft, Emirates Airline is the UAE's first FSC. Over the years, the airline has grown to become one of the leading carriers in the world, and is the leader in the GCC by most industry indicators. Passenger traffic and cargo volume of Emirates Airline have witnessed a healthy annual average growth rate of 14.7% and 10.3%, respectively, between 2009 and 2013<sup>12</sup> (see Exhibits 27 and 28). During this period, its fleet size surged to 197 from 127. The current fleet size of the carrier stands at 213<sup>13</sup> and its total firm order book stood at 385 aircraft<sup>14</sup> (excluding options or purchase rights) as on November 19, 2013.

<sup>10</sup> Source: International Civil Aviation Organization

<sup>11</sup> Passenger and cargo traffic is measured in terms of passenger kilometers and freight tonne kilometers performed, respectively, on scheduled services by the UAE's carriers

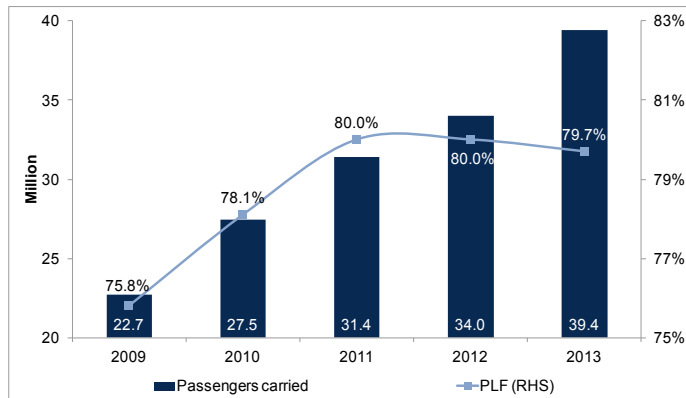
<sup>12</sup> The financial year end of Emirates Airline is March 31

<sup>13</sup> Source: Airfleets (Accessed on January 9, 2014)

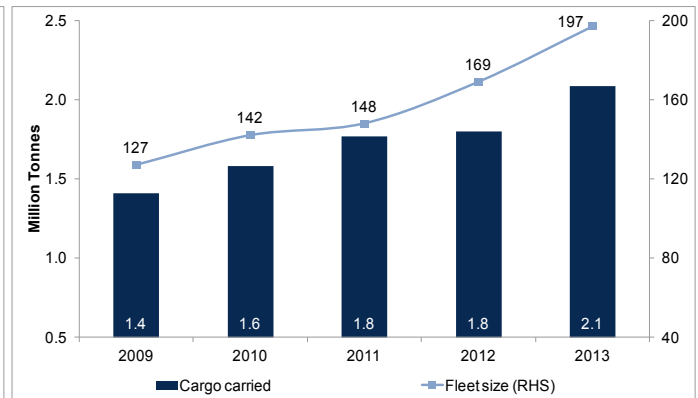
<sup>14</sup> Source: "Emirates announces largest-ever aircraft order", Arab Air Carriers Organization, November 2013



**Exhibit 27: Number of Passengers Carried and PLF of Emirates Airline**



**Exhibit 28: Volume of Cargo Carried and Fleet Size of Emirates Airline**



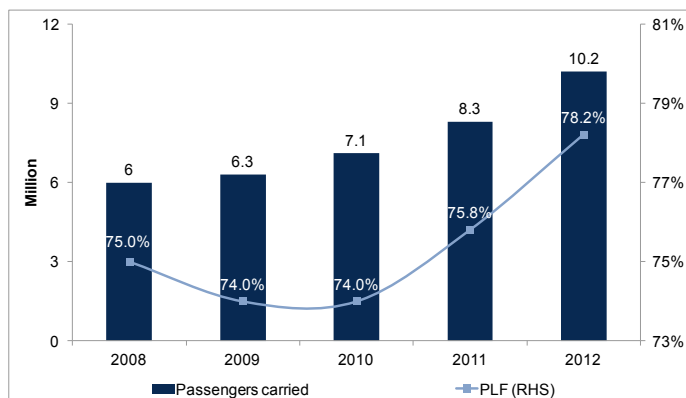
Source: Annual reports of Emirates Airline

Note: The financial year end of Emirates Airline is March 31

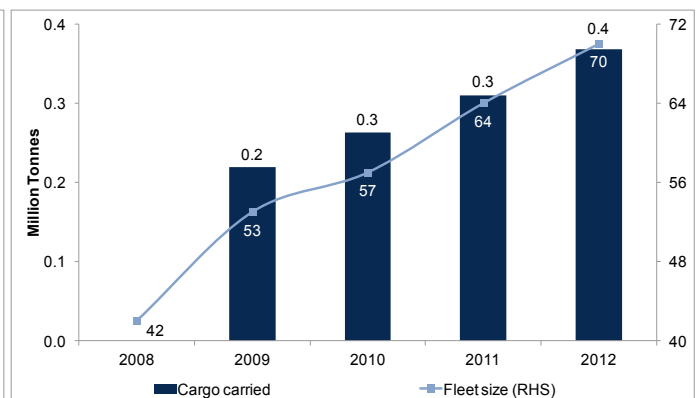
**Etihaad Airways' passenger traffic grew at a 14.2% CAGR between 2008 and 2012**

In 2003, Etihad Airways was launched as the UAE's national carrier. Although a relatively late entrant in the market, Etihad Airways has historically witnessed a robust growth in capacity and traffic. The success of the airlines is a consequence of the aggressive expansion of its regional as well as international route network. The airline's passenger traffic increased at a 14.2% CAGR between 2008 and 2012, while its cargo volume registered an annual average growth rate of 18.9% between 2009 and 2012<sup>15</sup> (see Exhibits 29 and 30). The Etihad Airways fleet expanded to 70 aircraft from 42, between 2008 and 2012. The current fleet size of the carrier stands at 85<sup>13</sup>, with more than 80<sup>16</sup> on firm order.

**Exhibit 29: Number of Passengers Carried and PLF of Etihad Airways**



**Exhibit 30: Volume of Cargo Carried and Fleet Size of Etihad Airways**



Source: Annual reports of Etihad Airways

Note: The 2008 cargo data for Etihad Airways is not available

<sup>15</sup> Source: Annual reports of Etihad Airways

<sup>16</sup> Source: "Etihad Airways announces largest ever fleet order to enable accelerated growth strategy", Arab Air Carriers Organization, November 2013



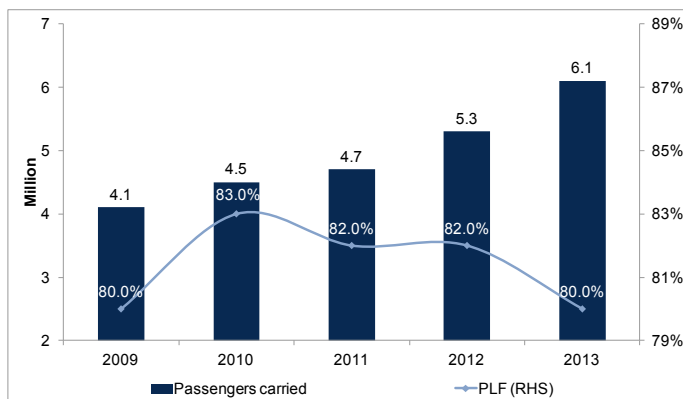


To strengthen their global presence, Emirates Airline and Etihad Airways continue to augment their flight frequency along existing routes, while embarking on new ones. Both these carriers have plans to expand their fleet size aggressively in future. As mentioned in the “Growth Drivers” section of this report, both these carriers together placed an order of 343 planes at the Dubai Airshow in November 2013. This excludes the rights to purchase more aircraft. Emirates Airline’s order of 150 Boeing 777X and 50 Airbus A380 aircraft, its largest order ever announced at any event, is also a record within the civil aviation segment. Emirates Airline is the leading customer of Airbus A380, the world’s largest passenger aircraft.

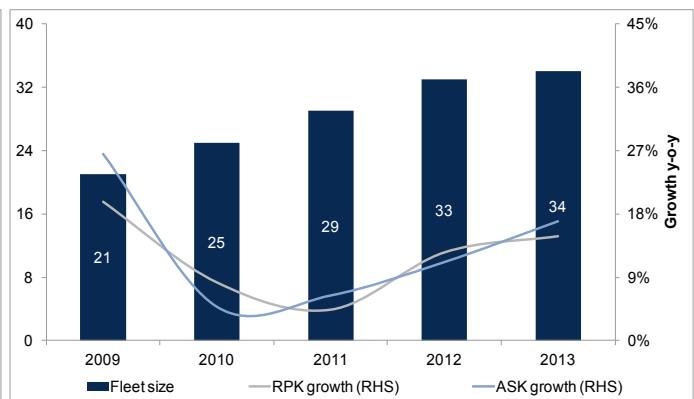
***Air Arabia’s passenger and RPK registered an annual average growth rate of 10.4% and 9.9%, respectively, between 2009 and 2013***

The liberalization of the aviation policy in the UAE over the past years, aimed at fostering competition within the sector, led to the emergence of two budget airlines. Air Arabia, launched in 2003 as the Middle East’s first LCC, managed to breakeven during its first year of operations. In 2008, Dubai-based flydubai was established. The operational performance of the country’s LCCs has been impressive in the recent past. Air Arabia’s sound market positioning in the short and medium-haul passenger traffic segment is highlighted by a robust growth in its number of passengers and RPK. The budget carrier’s passenger and RPK registered an annual average growth rate of 10.4% and 9.9%, respectively, between 2009 and 2013 (see Exhibits 31 and 32). The tough economic landscape in 2009 resulted in a sharp decline in Air Arabia’s PLF to 80% from 85% in the previous year. However, the airline’s PLF rebounded in 2010, with a recovering economy. In 2013, Air Arabia’s PLF was 80%, above that of any other airline in the Middle East. In February 2014, Ras Al Khaimah’s Department of Civil Aviation entered into a strategic partnership with Air Arabia, enabling the carrier to become the Emirate’s designated airline.

**Exhibit 31: Number of Passengers Carried and PLF of Air Arabia**



**Exhibit 32: Fleet Size, RPK, and ASK Growth of Air Arabia**



Source: Annual reports of Air Arabia

***flydubai continues to display strong growth since the commencement of its operations***

Like Air Arabia, flydubai demonstrated strong growth since the commencement of its operations. It has carried a total of 10.4 million passengers since its launch. In the last two years, the budget carrier more than doubled the number of destinations it covers. The airline came into existence with an aim of supporting the thriving commercial and tourism sectors in Dubai. Accordingly, the LCC has firmly established its standing in the Gulf region within a short time span through its strategy of offering affordable value-added

services. This is evident from the fact that flydubai's ancillary revenue<sup>17</sup> accounted for 16.5% of the total revenue of AED 2,778 million (US\$ 756 million) in 2012<sup>18</sup>.

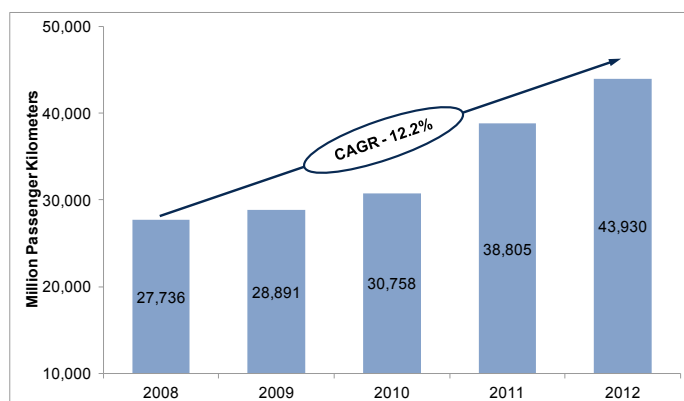
The UAE's major airports include the Dubai International Airport, the Abu Dhabi International Airport, Dubai World Central, and the Sharjah International Airport. Passenger traffic at the Abu Dhabi International Airport, the Dubai International Airport, and the Sharjah International Airport grew at a CAGR of 13%, 11.4%, and 9.2%, respectively, between 2008 and 2012<sup>19</sup>. This growth is concurrent with the expanding passenger seat capacity of local airlines, a large inflow of tourists, and the country's increasing importance as a global transit hub.

## 2.3 The Saudi Arabian Aviation Market

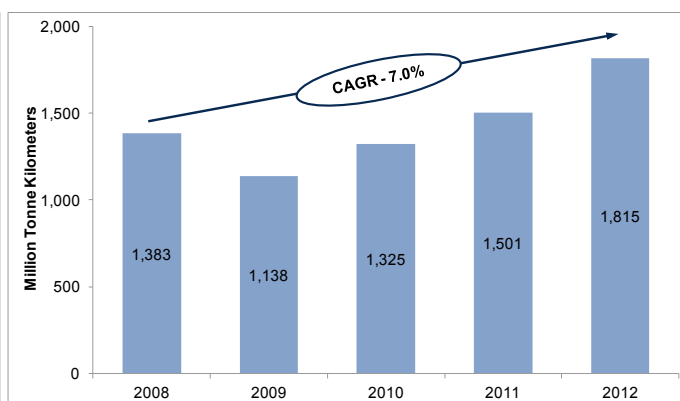
**Saudi Arabia's passenger traffic witnessed a 12.2% CAGR between 2008 and 2012**

A growing population and religious tourism have boosted the growth of Saudi Arabia's aviation sector over the years. The passenger traffic<sup>20</sup> carried by the country's local airlines increased at an annual average growth rate of 12.2% between 2008 and 2012 (see Exhibit 33). However, the air cargo traffic<sup>21</sup> was affected severely by global economic deceleration, resulting in a sharp 17.7% y-o-y decline in the air cargo volume in 2009. With improving business sentiments, the cargo volume registered a strong recovery thereafter, increasing at a 17.0% CAGR between 2010 and 2012 (see Exhibit 34).

**Exhibit 33: Passenger Kilometers Performed on Scheduled Services by Saudi Arabia's Carriers**



**Exhibit 34: Freight Tonne Kilometers Performed on Scheduled Services by Saudi Arabia's Carriers**



Source: International Civil Aviation Organization, Alpen Capital

**Historically, the Saudi Arabian aviation market has been highly regulated, with its national carrier enjoying absolute monopoly**

Historically, the Saudi Arabian aviation market has been highly regulated, with its national carrier, Saudia, enjoying absolute monopoly. The year 2007 changed the long-standing state of affairs within the sector to boost capacity, end Saudia's monopoly, and trigger growth. As a result, the Kingdom granted aviation licenses to two new players, flynas (erstwhile Nas Air) and Sama. While both the players started as domestic budget carriers, Sama ceased its operations in 2010 after declaring bankruptcy. Despite the entry of new

<sup>17</sup> Includes in-flight entertainment, seat preferences, checked baggage allowances, car rental, travel insurance, cargo, and visa facilitation services

<sup>18</sup> Source: "flydubai a success story", flydubai, February 2013

<sup>19</sup> Source: Respective websites of the airports

<sup>20</sup> Passenger traffic is measured in terms of passenger kilometers performed, respectively, on scheduled services by Saudi Arabia's carriers

<sup>21</sup> Cargo traffic is measured in terms of freight tonne kilometers performed, respectively, on scheduled services by Saudi Arabia's carriers

players, Saudia controls 94% of the country's domestic air travel market, while the remaining 6% is handled by flynas, the country's budget airline<sup>22</sup>.

Established in 1945, Saudia provides aviation services within Saudi Arabia and across the Middle East, Asia, Europe, and North America from its base, King Abdulaziz International Airport in Jeddah. Saudia receives financial and regulatory support from the government, primarily in the form of subsidized aviation fuel. Today, the airline operates with a fleet of 138 aircraft<sup>23</sup> and transports around 70,000 passengers daily<sup>24</sup>. In 2013, the carrier transported more than 25 million passengers, a 3.8% increase y-o-y. Saudia has allocated 65% of its flights to meet the local demand, in an attempt to bridge and leverage a jarring supply gap of around two million seats.

***flynas expects to report a profit for the first time in 2013***

Having started its operations with 19 aircraft, today, flynas operates with a fleet size of 25 aircraft<sup>23</sup>. The budget carrier has fared much better than its now bankrupt peer, Sama. Although flynas is yet to achieve profitability on an annual basis, the carrier's performance has improved significantly in the recent past. In 2012, the budget airline increased its revenue by 20%, trimming its losses by almost 70% y-o-y. The airline's load factor also jumped significantly to 75% in 2012 from 62% in 2011. Its aircraft utilization has increased significantly over the years to more than 13 hours per day during 2012 from 5.4 hours per day in 2009. Such turnaround is primarily because of the shift in the airline's operational focus to shorter routes. In 2012, flynas increased the number of its flights from Jeddah, Riyadh, and Dammam to deepen its domestic presence. The company expects to report a profit for the first time in 2013<sup>25</sup>.

***In 2011, Saudi Arabia opened up its domestic aviation sector to foreign airline operators and licenses were awarded to Gulf Air and Qatar Airways***

Overall, the Saudi Arabian aviation market is standing on the threshold of change. The government is bringing about positive changes within the sector to boost its growth and thereby, the ability of its carriers to compete in the global market. In 2011, Saudi Arabia's General Authority for Civil Aviation opened up the domestic sector to foreign airline operators for further liberalization. Consequently, Qatar Airways and Gulf Air have already been granted licenses to establish new airlines in Saudi Arabia. As a result, 2014 will see the launch of two new operators in the Kingdom, Al Maha and Saudi Gulf Airlines. Such measures are expected to intensify the competition in the market, translating into better services for the customers.

With new entrants in the market, the government is likely to review its policy of cap on the economy-class ticket prices. The resultant amends may allow the carriers to increase prices gradually as the date of travel approaches, a practice adopted by most countries across the globe. Such measures will not only entice the new players into the market, but will also act as a trigger in improving the financial performance of the existing players, Saudia and flynas.

***In 2013, Saudia privatized its MRO unit, Saudi Aerospace Engineering Industries***

In a bid to provide a level-playing field to the private operators in the country, in 2006, the Kingdom's Supreme Economic Council formulated a plan to privatize Saudia. The plan involved splitting Saudia into six private businesses, namely, catering, cargo, ground handling, maintenance, training, and the core airline unit. The privatization plan gained momentum in 2007, when 49% of the government stake in the catering division was sold to the Strategic Catering Company, a consortium led by the Abdulmohsen Alhokair Group. In 2008, the carrier's cargo unit was privatized, with 30% government shares sold to Tarabut Air Freight Services. In 2010, the third phase of the airline's privatization was completed, when Saudi Arabian Airline Ground Services merged with National Handling

<sup>22</sup> Source: "Saudia faces new competitive threats in 2013 as Saudi Arabia loosens the regulatory reins", CAPA – Centre for Aviation, May 2013

<sup>23</sup> Source: Airfleets (Accessed on January 9, 2014)

<sup>24</sup> Source: "Saudia to buy 35 new aircraft to meet demand", Zawya, October 2013

<sup>25</sup> Source: "NAS Air aiming for profit in 2013", CAPA – Centre for Aviation, December 2012

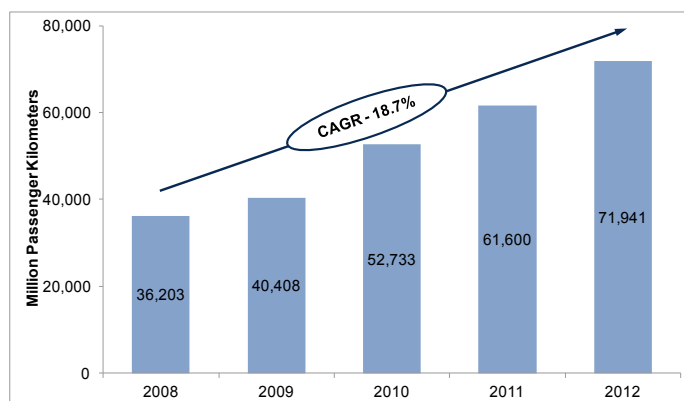
Services and Attar Ground Handling. In 2013, Saudia privatized its MRO unit, Saudi Aerospace Engineering Industries, by selling 30% of its stake to Tarabut Aircraft Maintenance Company, owned by Integrated Transport Company.

## 2.4 The Qatari Aviation Market

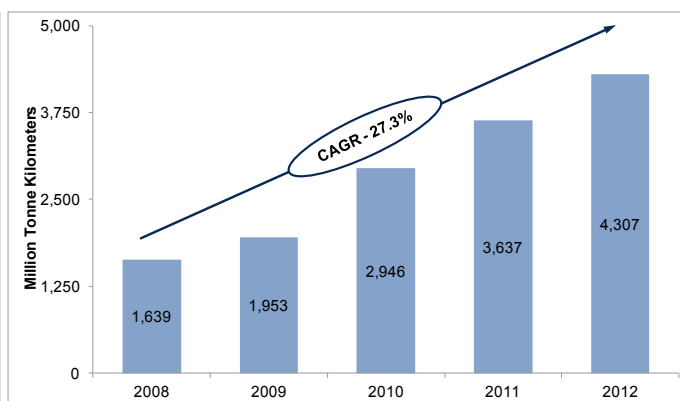
**Passenger and cargo traffic handled by Qatar Airways rose at a CAGR of 18.7% and 27.3%, respectively, between 2008 and 2012**

Qatar is one of the fastest growing aviation markets in the Middle East, with its national carrier, Qatar Airways, being at the helm of the development. Over the past few years, Qatar has seen an increase in air traffic due to its robust economic development, a rising population of foreign nationals as a result of increased job opportunities, and the country's emergence as a major destination for sporting events. Passenger and cargo traffic<sup>26</sup> handled by Qatar Airways rose at a CAGR of 18.7% and 27.3%, respectively, between 2008 and 2012 (see Exhibits 35 and 36). The surge in passenger volume was in line with the airline's route expansion policy and a growing preference for the carrier, both regionally as well as internationally, due to its brand positioning as the world's five-star airline.

**Exhibit 35: Passenger Kilometers Performed on Scheduled Services by Qatar Airways**



**Exhibit 36: Freight Tonne Kilometers Performed on Scheduled Services by Qatar Airways**



Source: International Civil Aviation Organization, Alpen Capital

**Since its re-launch in 1997, Qatar Airways has evolved into one of the aviation industry's biggest success stories**

Qatar Airways started its operations in 1994 as a small regional carrier, serving only a few routes. However, since its re-launch in 1997, the carrier has evolved into one of the aviation industry's biggest success stories. Over the years, Qatar Airways has developed a global network of more than 130 destinations, covering Europe, the Middle East, Africa, South Asia, Asia Pacific, North America, and South America. The airline's fleet size has also surged to 126 as of January 2014 from four in 1997<sup>27</sup>. Further, Qatar Airways has a huge fleet expansion plan in place, and is expecting a delivery of more than 230 new aircraft worth more than US\$ 50 billion, over the next few years. In October 2013, Qatar Airways became the first Gulf-based carrier to join oneworld, an alliance of international airlines. With this alliance, three million members of Qatar Airways' Privilege Club loyalty program can now enjoy the frequent flyer privileges, when they travel with other oneworld member airlines, including airberlin, American Airlines, British Airways, Cathay Pacific, and Qantas.

<sup>26</sup> Passenger and cargo traffic is measured in terms of passenger kilometers and freight tonne kilometers performed, respectively, on scheduled services by Qatar's carriers

<sup>27</sup> Source: "The Qatar Airways Story", Qatar Airways, November 2013



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**Passenger and air cargo traffic at the Doha International Airport expanded at a CAGR of 14.6% and 19.2%, respectively, between 2008 and 2012**

Riding on the success of Qatar Airways, the passenger and cargo traffic at the Doha International Airport rose at a CAGR of 14.6% and 19.2%, respectively, between 2008 and 2012<sup>28</sup>. In order to cater to the anticipated traffic growth, Qatar is also building a new airport, Hamad International Airport, the first phase of which is likely to be opened in 2014. Global carriers including Air India Express, Biman Bangladesh Airlines, flydubai, Iran Air, Nepal Airlines, Pakistan International Airlines, Syrian Air, and Yemen Airways are expected to use the new facility for their operations. The detailed expansion plans of the airport have been covered in the “Growth Drivers” section of the report.

The LCC segment in the country is yet to take off, evident from the fact that there are currently no budget carriers based out of Qatar. However, budget carriers of other Gulf countries are fairly active in the country.

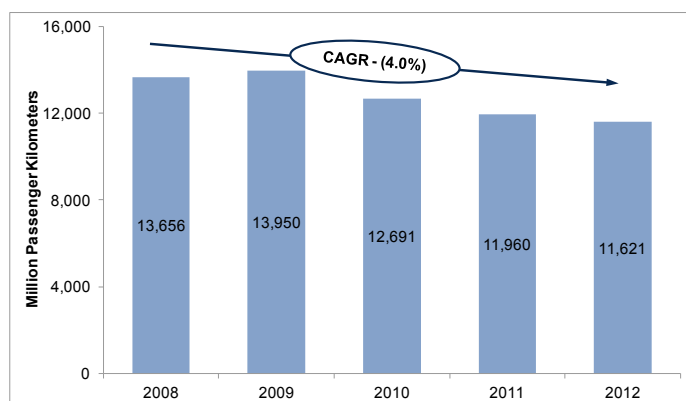
## 2.5 The Bahraini Aviation Market

**Bahrain is one of the most liberalized aviation markets in the GCC region**

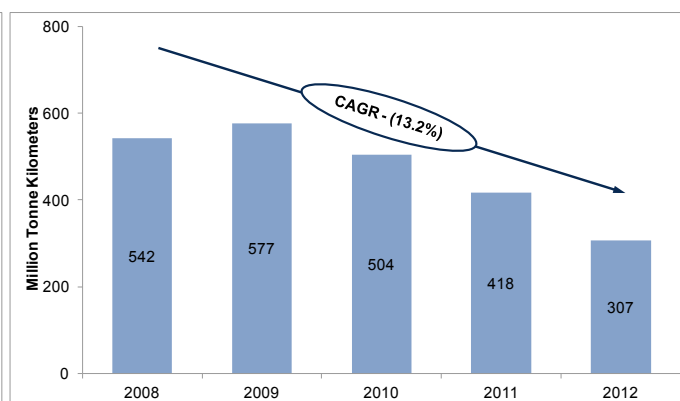
Bahrain is one of the most liberalized aviation markets in the GCC region. In 2001, Bahrain established the Open Skies policy, which seeks to encourage and develop new airline services in the country. The policy has yielded positive results, with a number of airlines using the Bahrain International Airport as their hub. The country also offers incentives to lure new carriers such as discounts on landing fees and hotel accommodation for the crew members; free parking for the first two hours; and competitive fuel prices.

In the recent past, air traffic in Bahrain has suffered due to local political unrest and the wider repercussions of the Arab Spring. Consequently, passenger and cargo traffic<sup>29</sup> carried by the local airlines registered a negative average annual growth of 4% and 13.2%, respectively, between 2008 and 2012 (see Exhibits 37 and 38). As a result, some of the country’s airlines such as Gulf Air and Bahrain Air were adversely affected.

**Exhibit 37: Passenger Kilometers Performed on Scheduled Services by Bahraini Carriers**



**Exhibit 38: Freight Tonne Kilometers Performed on Scheduled Services by Bahraini Carriers**



Source: International Civil Aviation Organization, Alpen Capital

Gulf Air, currently the only Bahrain-based operating scheduled airline, was established in 1950 by European owners and management. In its early years of operations, the airline served as the national carrier of Bahrain, Qatar, the UAE, and Oman. However, with the UAE, Qatar, and Oman establishing their own national carriers over time, Gulf Air has

<sup>28</sup> Source: Doha International Airport

<sup>29</sup> Passenger and cargo traffic is measured in terms of passenger kilometers and freight tonne kilometers performed, respectively, on scheduled services by Bahrain’s carriers



***In late 2012, the Bahraini government approved a bailout package worth BHD 185 million (US\$ 491 million) to Gulf Air***

***In February 2013, Bahrain Air suspended all its operations and filed for voluntary liquidation***

***Oman has seen healthy growth in air passenger traffic in the past, mainly due to a burgeoning tourism sector of the country***

been serving only as Bahrain's national carrier since 2007. Failing to compete with the region's leading carriers, the company has performed dismally over the last several years.

As a helping hand to Gulf Air, the Bahraini government approved a bailout package worth BHD 185 million (US\$ 491 million) in late 2012. The package was extended to the ailing carrier on the condition that it takes arduous efforts to curb its losses and turns around its operations in the future. Since then, Gulf Air has already started reducing its fleet size, closing down commercially unviable routes, and downsizing its workforce. These restructuring initiatives are yielding positive results, with the airline reducing its overall losses by more than 50% in the first two quarters of 2013, compared with the corresponding period in 2012.

Started in February 2008, Bahrain Air was another local privately-held airline operating in the country until recently. In February 2013, owing to financial difficulties, the airline suspended all its operations and filed for voluntary liquidation.

The Bahrain International Airport is also feeling the heat of the aftermath of the global economic slowdown, the Arab Spring, and the fragile political situation in Bahrain. Passenger traffic at the airport declined by a 0.8% CAGR between 2008 and 2012. However, in 2012, the total passenger traffic at the airport increased by 8.8% y-o-y<sup>30</sup>. The number of passengers traveling to other GCC countries and the Indian sub-continent registered the strongest growth of around 21% y-o-y, while traffic in the Middle East and Africa grew by 16% y-o-y. Cargo volumes (including mails) at the airport also declined by an 8.2% CAGR between 2008 and 2012. DHL is a dominant player in the market, carrying 57% of the total cargo handled at the airport.

## ***2.6 The Omani Aviation Market***

Historically, an active tourism sector in Oman has been providing fodder to its aviation market, resulting in a healthy pace of passenger traffic growth. Aviation in Oman is dominated by the government-owned Oman Air, the country's only airline. Passenger traffic<sup>31</sup> carried by the airline grew at a 28.6% CAGR between 2008 and 2012 (see Exhibit 39). Air cargo traffic<sup>32</sup> also increased significantly at a 50.3% CAGR, albeit on a much lower base (see Exhibit 40). The absolute value of cargo volume handled by the country is significantly lower than its GCC counterparts, the UAE and Qatar.

<sup>30</sup> Source: "Annual Statistics Report 2012", Ministry of Transportation – Bahrain, 2012

<sup>31</sup> Passenger traffic is measured in terms of passenger kilometers performed, respectively, on scheduled services by Oman's carriers

<sup>32</sup> Cargo traffic is measured in terms of freight tonne kilometers performed, respectively, on scheduled services by Oman's carriers





Exhibit 39: **Passenger Kilometers Performed on Scheduled Services by Oman Air**

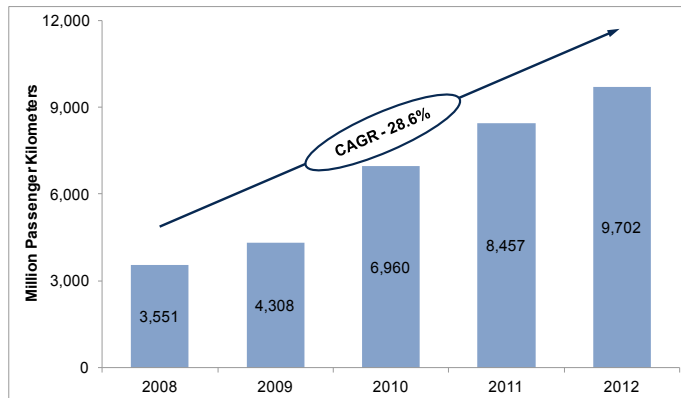
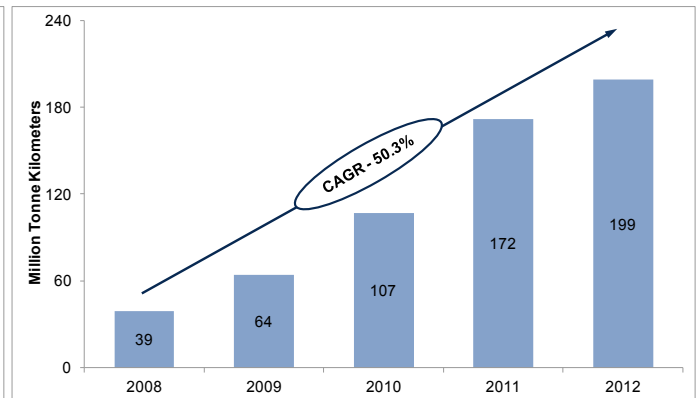


Exhibit 40: **Freight Tonne Kilometers Performed on Scheduled Services by Oman Air**



Source: International Civil Aviation Organization, Alpen Capital

Established in 1993, Oman Air initially operated regionally. Today, it connects Oman with the Middle East and key destinations in Asia, Africa, and Europe. Operating from its base at the Muscat International Airport, Oman Air has played a key role in making Muscat a major traffic hub in the GCC region, and consequently boosting commercial, industrial, and tourism activities in the city. Having started its operations with one aircraft, today, Oman Air boasts of a fleet size of 30<sup>33</sup>. Like all the national carriers of the region, the airline also receives backing from the government, despite registering losses for the past several years due to rising fuel prices and increasing operational costs.

Historically, Oman Air experienced robust growth in capacity and traffic due to active expansion of its regional and international route network. Established in March 2009 as a separate cargo division of the carrier, Oman Air Cargo is yet to receive the brand recognition enjoyed by its regional peers. In 2012, cargo carried by the airline grew by 29.4%, y-o-y, to reach 42,000 tonnes.

***Oman is mulling over the launch of its own budget carrier by the first half of 2014***

***The Omani government has budgeted US\$ 6.1 billion for aviation investment projects, both new construction and expansion, over the next five years***

Although Oman lacks its own budget carrier, the country's LCC market is served by several foreign-based carriers including flydubai, Air Arabia, and Indigo. Currently, these LCCs enjoy a 7%-10% market share in the Oman aviation market<sup>34</sup>. However, in order to leverage the growth opportunity in the LCC segment, Oman is mulling over the launch of its own budget carrier by the first half of 2014.

In recent years, the government of Oman has focused its attention towards the development of its aviation sector. The Public Authority for Civil Aviation was established in April 2012, which replaced the Directorate-General of Civil Aviation and Air Navigation. Since its establishment, the Public Authority for Civil Aviation has been actively seeking structural improvements in the Omani aviation sector, and the decision to establish a LCC is a step towards it. Further, the government has budgeted US\$ 6.1 billion for aviation investment projects, both new construction and expansion, over the next five years<sup>35</sup>. The government has allocated 8% of the above fund for the completion of four new regional airports at Sohar, Duqm, Ras Al Hadd, and Adam, while the rest will be directed towards the development of the country's two main airports at Muscat and Salalah.

<sup>33</sup> Source: Airfleets (Accessed on January 9, 2014)

<sup>34</sup> Source: "Oman could have a low-cost carrier by first half of 2014", Muscat Daily, June 2013

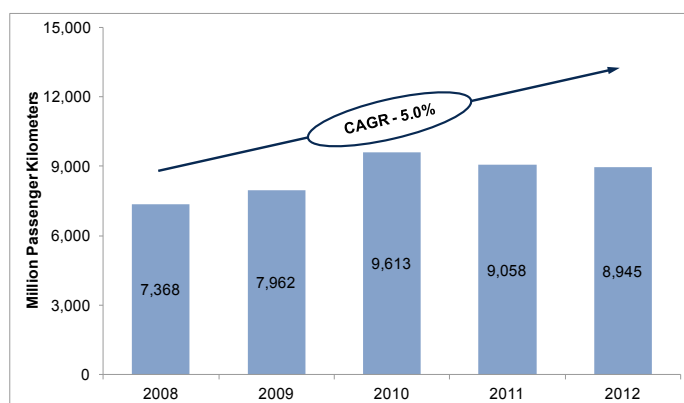
<sup>35</sup> Source: "Oman's aviation sector set for boost in growth", Constructionweekonline, November 2013

## 2.7 The Kuwaiti Aviation Market

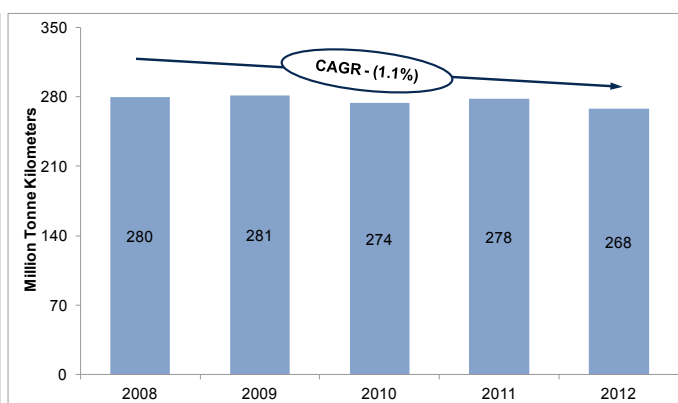
**Air passenger traffic carried by Kuwait's local airlines registered a 5% CAGR between 2008 and 2012**

The aviation sector in Kuwait is yet to see the scale of activities akin to other parts of the region due to its relatively small population base and lack of focus on developing the sector. The small size of the country's aviation market is further iterated by its airlines' passenger and cargo traffic, in absolute terms, which is lower than that of the carriers of most of other Gulf countries. Air passenger traffic<sup>36</sup> carried by Kuwait's local airlines registered a 5% CAGR between 2008 and 2012, relatively muted compared to the growth in the number of passengers carried by airlines of most GCC nations (see Exhibit 41). In line with the trend across the GCC, passenger traffic in Kuwait is largely driven by expatriates. Air cargo traffic<sup>37</sup> carried by the local airlines of Kuwait witnessed a negative CAGR of 1.1% between 2008 and 2012 (see Exhibit 42).

**Exhibit 41: Passenger Kilometers Performed on Scheduled Services by Kuwaiti Carriers**



**Exhibit 42: Freight Tonne Kilometers Performed on Scheduled Services by Kuwaiti Carriers**



Source: International Civil Aviation Organization, Alpen Capita

**The condition of Kuwait Airways has deteriorated over the years, plagued by rising debt levels and an aging fleet**

The country's national carrier, Kuwait Airways, began operations in 1954 with a regional focus. However, by the late 1970s, the carrier had expanded its operations to several international destinations. During Iraq's invasion of Kuwait in the early 1990s, the airline faced severe damage, including the destruction of 15 of its aircraft. Since the war, the state of the carrier has been deteriorating every year, plagued by rising debt levels and an aging fleet. The airline, with a current fleet size of 19 and an average fleet age of approximately 19.2 years, is one of the least efficient across the entire Middle East region<sup>38</sup>. At 5.5 years, the average fleet age of Etihad Airways, Emirates Airline, and Qatar Airways is significantly lower than that of Kuwait Airways<sup>39</sup>. Being old, the airline's fleet demands more fuel and a high maintenance, translating into increased costs and lower revenue.

**In 2013, the Kuwaiti parliament approved the privatization bill of Kuwait Airways after several amendments**

The Kuwaiti government has decided to turn to privatization to revive the carrier. Initially mooted in 2008, the plan to privatize the airline experienced several delays in its implementation. However, in mid-2013, the Kuwaiti parliament approved the privatization bill after numerous amendments. Under the aegis of the bill, the government will sell 50% stake in the airline through a public offering. Another 35% of Kuwait Airways' shares will be

<sup>36</sup> Passenger traffic is measured in terms of passenger kilometers performed, respectively, on scheduled services by Kuwait's carriers

<sup>37</sup> Cargo traffic is measured in terms of freight tonne kilometers performed, respectively, on scheduled services by Kuwait's carriers

<sup>38</sup> Airfleets (Accessed on January 9, 2014)

<sup>39</sup> Airfleets (Accessed on January 9, 2014), Alpen Capital

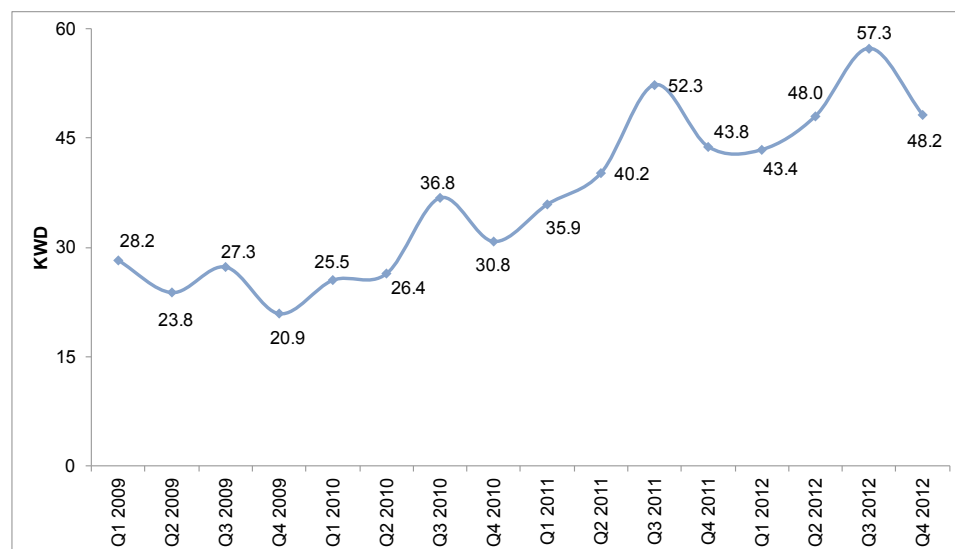
***Jazeera Airways has registered a profit in 13 straight quarters, beginning the third quarter of 2010***

sold to a local or foreign strategic investor, after the carrier becomes profitable. The Kuwaiti government will retain a 10% strategic shareholding in the carrier, while the remaining 5% will be held by the employees' share ownership fund.

In 2003, to end the monopoly of its state carrier and liberalize the country's aviation sector, the Kuwaiti government issued three new licenses. This resulted in the launch of Jazeera Airways in 2005, the country's first and only LCC thus far. The emergence of Jazeera Airways resulted in expanded capacity, increased connectivity between Kuwait and the Middle East as well as Asian countries, and price rationalization, translating into higher passenger traffic. In 2009, Wataniya Airways started its operations as a premium airline. However, owing to financial difficulties, Wataniya Airways ceased its operations completely in March 2011. The third license was issued to LoadAir Company, a cargo airline company that is yet to commence its operations due to lack of financing.

Since its launch, Jazeera Airways has carried more than 28 million passengers. Although the carrier suffered losses initially, it has delivered a robust financial performance by registering a profit in 13 straight quarters, beginning the third quarter of 2010. In 2012, despite a 2.1% y-o-y decline in passenger traffic, Jazeera Airways registered a 32.1% profit growth to reach a record KWD 13.9 million (US\$ 48.4 million). Such solid performance of the LCC is mainly attributed to its improving yield<sup>40</sup>, which has increased significantly since 2009, in line with the company's strategy of trimming its fleet size and exiting unprofitable networks (see Exhibit 43).

**Exhibit 43: Yield Trend of Jazeera Airways**



Source: "Jazeera Airways enjoys healthy growth in Middle East regional traffic", CAPA – Centre for Aviation, July 2013

***Jazeera Airways focuses on destinations that are at around a two-hour flight time from Kuwait***

According to its strategy, Jazeera Airways focuses on destinations that are at around a two-hour flight time from Kuwait. This allows the airline to increase its frequency along these routes, translating into higher aircraft utilization. Further, the carrier has also ventured into under-served routes such as those between Kuwait and Al Najaf, Assiut, Luxor, and Sharm El Sheikh. As an early entrant along these routes, Jazeera Airways has emerged a leader there (see Exhibit 44).

<sup>40</sup> Yield measures an airline's earnings on transporting revenue passengers or cargo



Exhibit 44: **Market Share of Jazeera Airways between Kuwait and Under-served Destinations**

Destination	Jazeera Airways' market share (%)	Number of airlines serving the route
Al Najaf	83	2
Luxor	74	2
Sharm El Sheikh	64	3
Assiut	51	2
Beirut	38	3
Cairo	25	3
Riyadh	12	3
Istanbul	6	3

Source: Jazeera Airways

Note: The above data pertains to the month ending September 2013

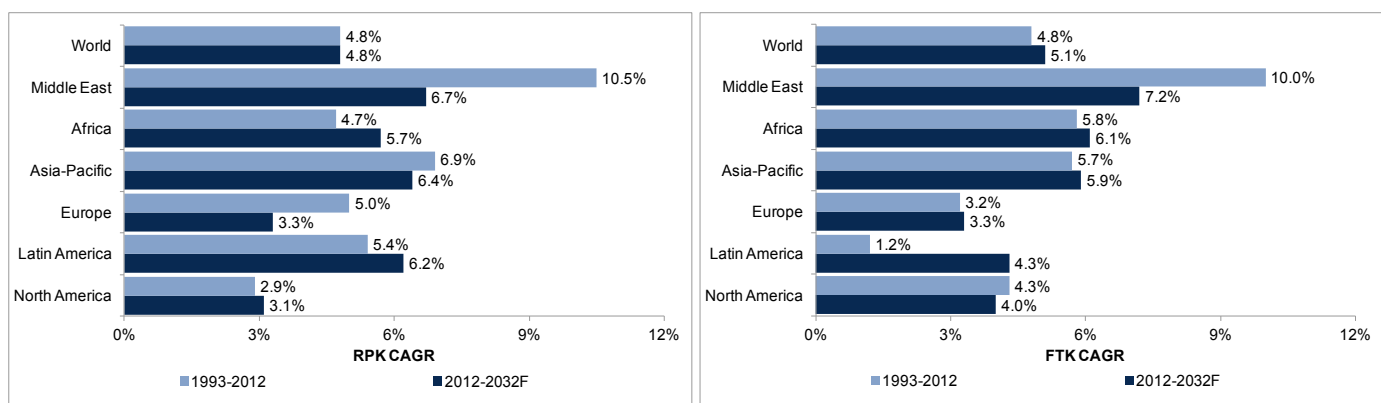


### 3. GCC Aviation Industry Outlook<sup>41</sup>

**Growth in air passenger and cargo traffic in the Middle East is expected to outperform all other regions between 2012 and 2032**

The passenger and cargo traffic in the Middle East aviation market is expected to continue expanding steadily in the future, albeit at a slower pace. An increasing number of foreign nationals, rising income levels, surging trade between the eastern and western worlds, and a large inflow of tourists in the region are the macro factors expected to drive the growth of the Middle East aviation market. Air passenger traffic in the region, in terms of RPK, is expected to register a 6.7% CAGR between 2012 and 2032 (see Exhibit 45). Air cargo traffic, in terms of FTK, is also anticipated to sustain a healthy annual average growth rate of 7.2% between 2012 and 2032 (see Exhibit 46). Growth in air passenger and cargo traffic in the Middle East is expected to outperform all other regions.

Exhibit 45: Air Passenger Traffic Forecast in Terms of RPK Exhibit 46: Air Cargo Traffic Forecast in Terms of FTK



Source: "Worldwide Market Forecast 2013 – 2032", Japan Aircraft Development Corporation, March 2013

Note: F – Forecast

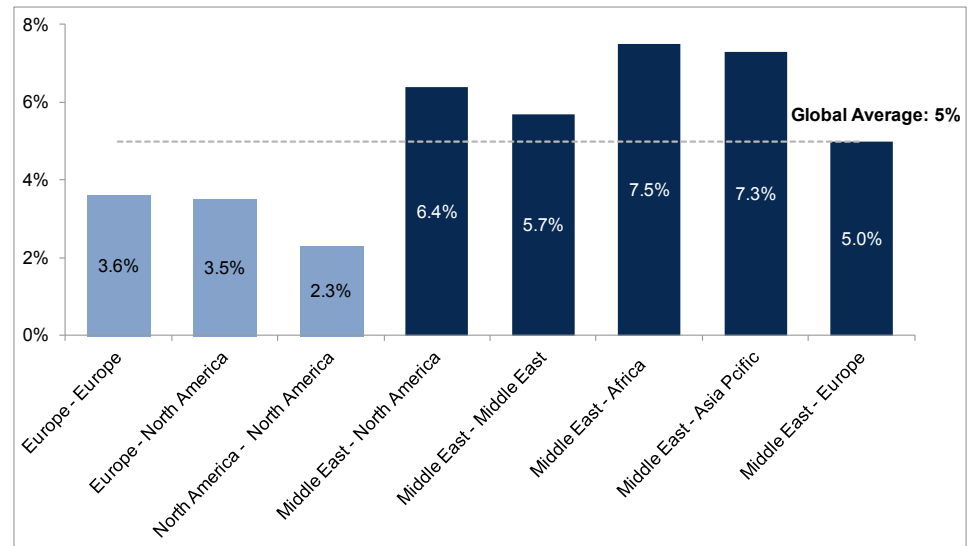
**Traffic on outbound routes from the Middle East region is likely to outpace that on traditional routes**

The Middle East is expected to reign as a transit hub for global air travel with an increasing number of international passengers and carriers using the region's airports as their stop-over point, replacing the earlier locations such as London, Paris, or Amsterdam. This trend is likely to continue, with traffic on outbound routes from the Middle East expected to outpace that on traditional routes (see Exhibit 47).

<sup>41</sup> The Middle East aviation industry forecasts have been used to present the growth potential of the GCC aviation sector. The GCC region accounts for about 77% of the total Middle East fleet size.



Exhibit 47: **Comparison of Passenger Traffic Growth on Traditional and Middle East Routes**



Source: "Current Market Outlook 2013 – 2032", Boeing, 2013

Note: The above chart indicates the CAGR in passenger traffic in terms of RPK between 2012 and 2032

**Passenger traffic in the UAE, Saudi Arabia, and Oman is expected to grow by 6.6%, 6.9%, and 7.5% CAGR, respectively, between 2012 and 2017**

**UAE:** The country is expected to reign as the main driver of air traffic in the region. Home to fast-growing FSCs and LCCs, the UAE is expected to record a 6.6% CAGR in passenger traffic, with a total addition of 29.2 million passengers between 2012 and 2017<sup>42</sup>.

**Oman and Saudi Arabia:** Oman and Saudi Arabia are expected to see a robust growth in air passenger traffic at a CAGR of 7.5% and 6.9% between 2012 and 2017, respectively<sup>42</sup>.

**Qatar:** Driven by the success of its national carrier, Qatar Airways, and an increasing presence of international operators, Qatar's aviation market is likely to grow at a healthy rate in the future. Qatar's share in the Gulf aviation sector, in terms of passenger capacity, is likely to grow from around 11% in 2013 to more than 17% in 2023, with the opening of the Hamad International Airport<sup>43</sup>. The country may have its own LCC in the next 5-10 years<sup>43</sup>.

**Kuwait:** After facing challenging times over the last two decades, the indigenous aviation sector in Kuwait could see a revival in the coming years with the government approving the privatization of Kuwait Airways. The national carrier is expected to purchase up to 21 new aircraft over the next two years to replace its current old and inefficient fleet<sup>44</sup>. Consequently, the carrier's operational performance is expected to improve. The country's LCC, Jazeera Airways, is also likely to grow steadily over the forthcoming years, in line with its focus on improving yields and generating passenger traffic from underserved routes in the Middle East.

**Bahrain:** Having faced rough times over the last five years, the indigenous aviation sector in Bahrain is anticipated to grow modestly in the future. An improving operational

**Bahrain's domestic aviation sector is anticipated to grow modestly in the future**

<sup>42</sup> Source: "Airlines expect 31% rise in passenger demand by 2017", International Air Transport Association, December 2013

<sup>43</sup> Source: "Qatar's share world aviation to increase by 5% this decade", Al Bawaba, May 2013

<sup>44</sup> Source: "Expansion plans adds weight to Kuwait's airport development forum", Arabian Aerospace, September 2013

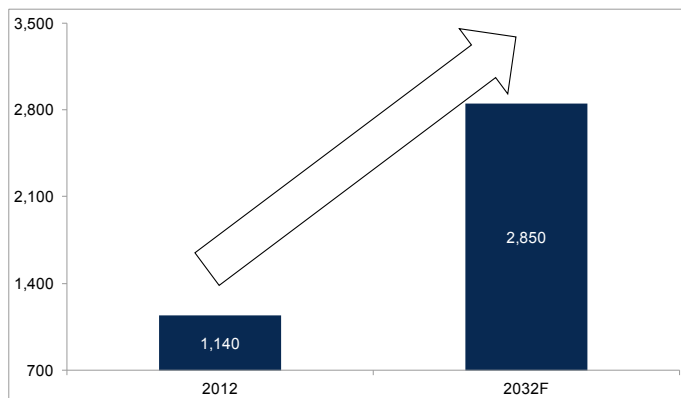


**The Middle East aviation sector is expected to receive the delivery of 2,610 aircraft between 2012 and 2032**

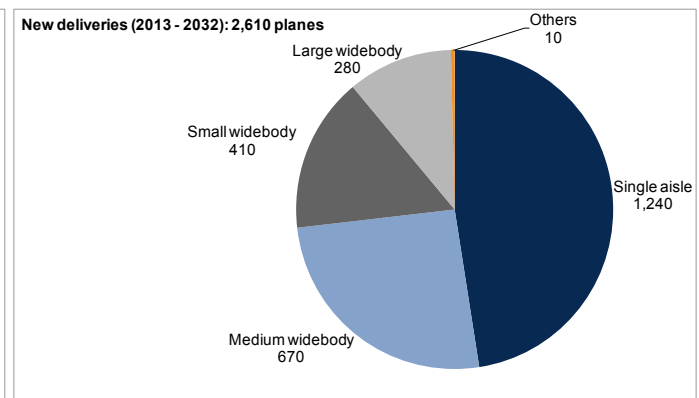
performance of Bahrain's national carrier, Gulf Air, is expected to contribute significantly to the growth.

The Middle East airlines are expected to receive the delivery of 2,610 aircraft between 2012 and 2032, valued at US\$ 550 billion, to cater to the healthy demand in the aviation sector and to replace older aircraft<sup>45</sup>. Consequently, the total fleet size in the region is expected to expand at a 4.7% CAGR during the period to reach 2,850 aircraft (see Exhibit 48). Following these new deliveries, Middle East is likely to account for 6.9% of the global aircraft fleet in 2032, up from 5.6% in 2012. Around 66% of the new deliveries are expected to be utilized for expansion plans of the region's carriers, while the remaining 34% will replace older aircraft<sup>46</sup>. Industry forecasts reveal that 1,240 single aisle aircraft, which are more suited for short- to medium- range routes, will be delivered to the Middle East by 2032 (see Exhibit 49). With that, the share of this category in the region's overall fleet may expand to 49.8% in 2032 from 43.9% in 2012. While the UAE- and Qatar-based FSCs are currently at the forefront in placing orders for new widebody aircraft, the burgeoning LCC segment is likely to contribute significantly to the fleet growth of short- and medium-haul aircraft. The aircraft leasing business in the region is also likely to get a boost from the aggressive fleet expansion plans of the GCC-based carriers. The Kuwait-based leading aircraft leasing company, ALAFCO, plans to expand its fleet to 100 aircraft by 2020 from 54 in 2012, which demonstrates the potential of the aircraft leasing market in the Middle East.

**Exhibit 48: Fleet Size Growth in the Middle East**



**Exhibit 49: New Deliveries of Aircraft in the Middle East**



Source: "Current Market Outlook 2013 – 2032", Boeing, 2013; Alpen Capital

Note: F – Forecast

**The business jet fleet size in the Middle East is likely to grow to 1,420 from 400 between 2012 and 2032**

The Middle East has been a thriving market for the business aviation segment. Going forward, the sector is likely to grow in view of high wealth concentration and healthy economic growth in the region. The Middle East is likely to receive about 1,200 business jet deliveries during the 2013-2032. During the same period, the region is expected to see the retirement of around 180 aging jets. It is expected that the business jet fleet size in the Middle East is also likely to grow to 1,420 in 2032 from 400 in 2012<sup>47</sup>, translating into an annual average growth rate of 6.5% (see Exhibit 50). With this, the business jet fleet per population of 100 million will rise to 407 from 158, during the projected period. Although

<sup>45</sup> Source: "Current Market Outlook 2013 – 2032", Boeing, 2013

<sup>46</sup> Source: "Airlines in Middle East will need 2,610 new aircraft over the next 20 years", www.thenational.ae, November 2013

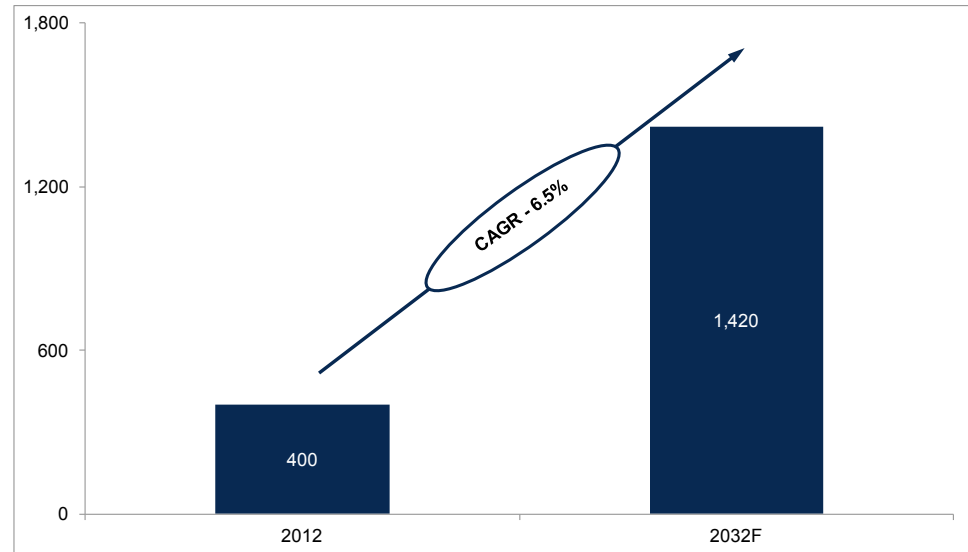
<sup>47</sup> Source: "Business Aircraft – Market Forecast 2013 – 2032", Bombardier, 2013





Saudi Arabia accounts for a major proportion of the current demand for business aviation, other GCC countries, particularly the UAE and Qatar, are also expected to catch up.

Exhibit 50: Business Jet Fleet Growth in the Middle East



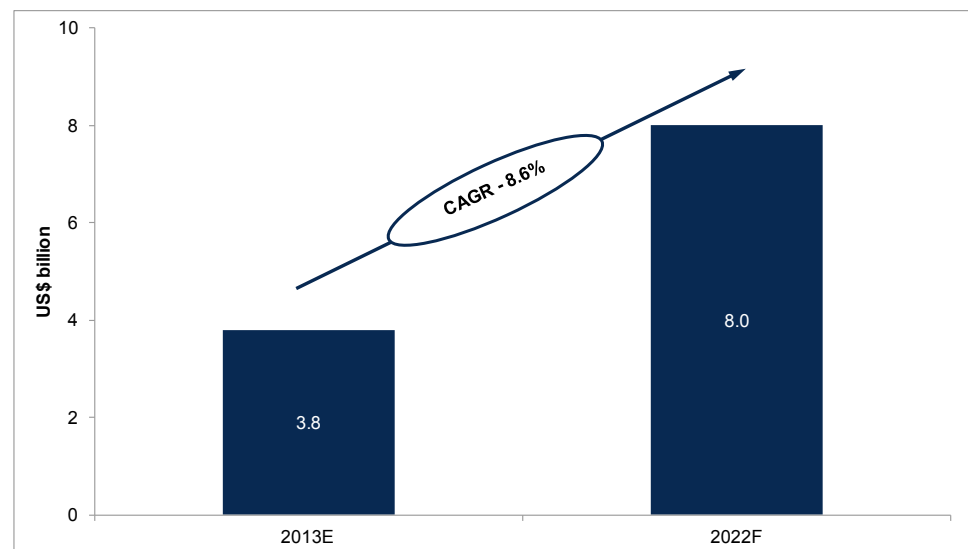
Source: "Business Aircraft – Market Forecast 2013 – 2032", Bombardier, 2013

Note: F – Forecast

**The Middle East MRO market is likely to grow to US\$ 8.0 billion in 2022, from an estimated US\$ 3.8 billion in 2013**

An increasing number of operational aircraft in the Middle East will have a cascading effect on the region's MRO market. Consequently, the Middle East MRO market is likely to grow to US\$ 8.0 billion in 2022 from an estimated US\$ 3.8 billion in 2013 (see Exhibit 51). The MRO spend on widebody aircraft, which constituted around 75% of the overall spend in 2013, is anticipated to see an 8.7% annual growth, while that on narrowbody planes and regional jets is expected to increase by 8.2% and 5.5%, respectively.

Exhibit 51: The Middle East MRO Market Forecast



Source: "Middle East Market Overview", ICF SH&E Limited, June 2013

Note: E – Estimated, F – Forecast

## 4. Growth Drivers

### Favorable Geographic Location

*The GCC region's airports are at an approximately eight-hour flying distance from two-third of the world's population*

The GCC aviation industry enjoys certain inherent advantages due to the region's strategic geographic location. The region's airports are approximately at an eight-hour flying distance from two-third of the world's population and are nearly equidistant from the northern part of Europe and the southern part of Asia. A key link between the eastern and the western parts of the world, the GCC has therefore emerged as a central aviation hub. As a result, its airports manage a sizable volume of transit air traffic and cargo resulting from the growing magnitude of trade relations between Asia, Europe, and Africa.

### Access To Cheaper Aviation Fuel

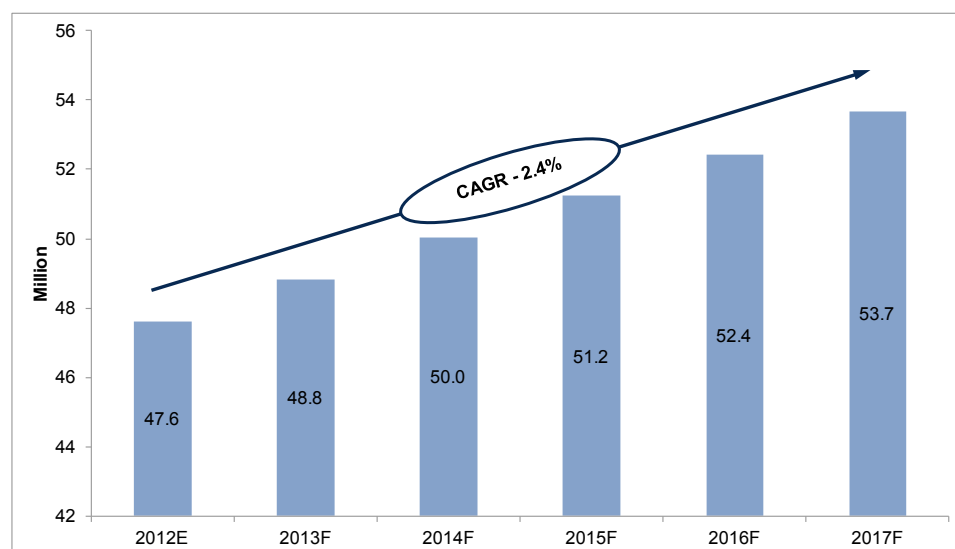
The Gulf region is replete with abundant crude oil reserves. Apart from being a major economic driver for the GCC countries, these reserves also ensure a stable fuel supply for the region's carriers at a cost lower than their global competitors. The resultant lower operating expenses of the GCC airline carriers translate into competitive ticket prices. They are therefore able to lure an increasing number of flyers and, in turn, garner market share, primarily in the international long-haul passenger segment.

### Population Growth

*The population in the Gulf region is projected to increase at a 2.4% CAGR between 2012 and 2017*

The demand for aviation services in the GCC is expected to rise due to an expanding resident base. The GCC witnessed an exponential population growth of more than 50% through the last decade to reach 47.6 million in 2012<sup>48</sup> due to rising expatriate presence and higher life expectancy. Higher standard of living, improving medical facilities, and continued economic growth are expected to fuel further population growth. The GCC population is projected to increase at a 2.4% CAGR between 2012 and 2017 to reach nearly 54 million (see Exhibit 52).

Exhibit 52: Population Growth in the GCC Region



Source: International Monetary Fund, October 2013

Note: E – Estimated, F – Forecast

<sup>48</sup> Source: "World Economic Outlook Database", International Monetary Fund, October 2013

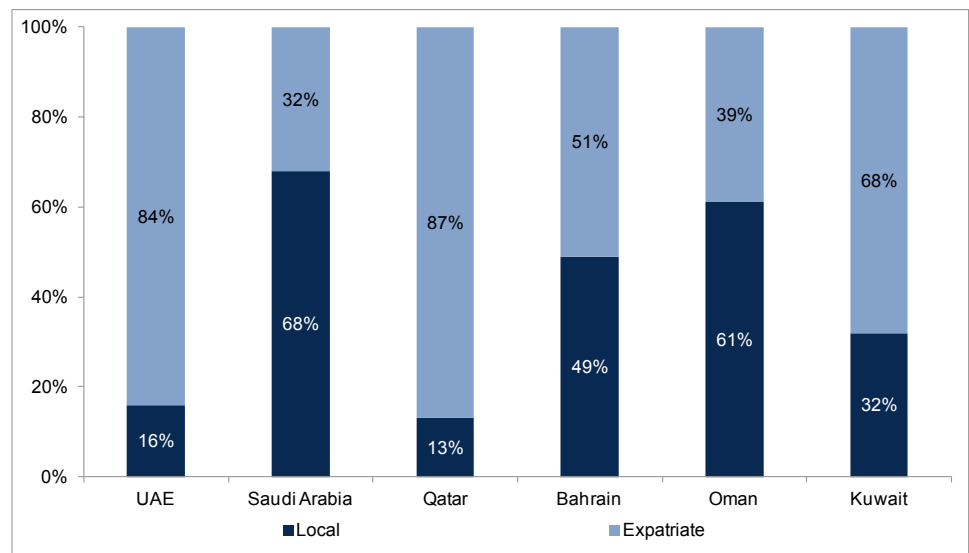


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***The Gulf's expanding population is characterized by a high rate of urbanization and expatriate presence***

The region's growing population is characterized by a high rate of urbanization and expatriate presence. Today, the Gulf is among the most urbanized regions in the world, with more than 70% of the total population residing in urban areas. Urbanization is one of the key growth drivers for the aviation industry, since urbanization and propensity to travel are correlated. Attractive employment opportunities and shortage of a local labor force have resulted in a large influx of foreigners over the years. The number of expatriates in the region has increased such that they now form a majority in Gulf countries such as the UAE, Qatar, Kuwait, and Bahrain (see Exhibit 53). Expatriates, in particular, form an attractive target market for air carriers as they travel home frequently and also host visitors from their native countries.

**Exhibit 53: Population Mix in the GCC Countries (2011)**



Source: "UAE, Qatar have highest expat ratio in GCC", Emirates 24 News, September 2013

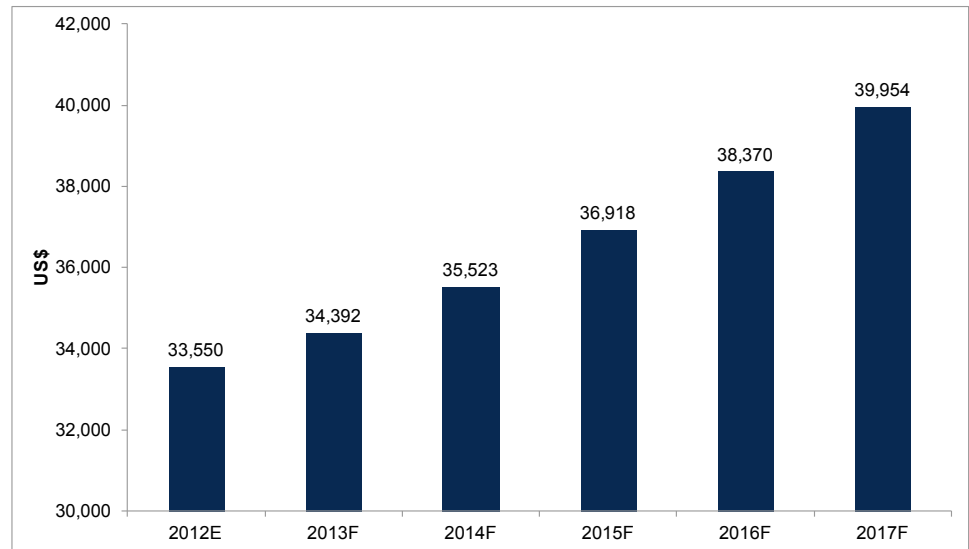
### **Rising Income Level**

***Based on PPP, the per capita GDP of the GCC is expected to register a CAGR of 3.6% between 2012 and 2017***

Higher income levels in the GCC are expected to result in a cascading effect on the middle class population's propensity to spend on traveling. Based on the Purchasing Power Parity (PPP), the per capita GDP of the GCC grew at a 4.3% CAGR between 2002 and 2012, mainly attributable to a thriving oil and gas sector. On a PPP basis, the region's GDP per capita is expected to increase to US\$ 39,954 in 2017 from US\$ 33,550 in 2012, registering an annual average growth of 3.6% during the period (see Exhibit 54). As a result, both business and leisure travel by air are likely to receive a boost.



Exhibit 54: GDP per capita in the GCC (2012-2017)



Source: International Monetary Fund, October 2013

Note: E – Estimated, F – Forecast

**Business-class and first-class passengers are expected to increase due to a growing segment of the wealthy**

The number of passengers traveling business-class and first-class is expected to increase because of the growing segment of the wealthy. Along the same lines, demand for air charter services in the Gulf is also projected to rise.

Traditionally, the GCC has been home to several high networth individuals (HNIs). According to a report released by Qatar Financial Center, in conjunction with Camden Wealth Institute for Research in London, in 2013, the GCC has more than 100,000 millionaires, with more than 3,000 of them holding US\$ 30 million or more in investable assets<sup>49</sup>. The UAE stands high up on the list, with around 53,800 rich and 775 ultra-rich individuals, while Saudi Arabia ranks second with 23,200 HNIs and 1,225 ultra-rich individuals. Qatar has among the highest per capita incomes in the world. High public spending, a relatively stable economic environment, sustained demand for oil and gas, and diversification into other sectors are likely to further drive the region's affluence, in general. According to The Wealth Report 2013 published by Knight Frank, the number of HNIs in the UAE is expected to increase by 53% over the next decade<sup>50</sup>. With the HNIs in the region largely engaged in business activities and many with needs to travel frequently, an increasing number of wealthy individuals augurs well for the aviation industry.

### Bustling Tourism Industry

**The entire GCC region has been highly focused on developing its tourism sector**

In pursuit of diversifying its economy and sourcing new revenue streams, the entire GCC region has been highly focused on developing its tourism sector. Constituent countries aim to harness tourism activities across segments such as leisure, religious, business, sports, retail, and medical.

The GCC is already a center of religious tourism, with Saudi Arabia attracting hordes of Muslim pilgrims from all around the globe. In addition, expansive malls and shopping festivals such as the Dubai Shopping Festival, Dubai Summer Surprises, the Abu Dhabi Shopping Festival, and the Doha Trade Fair are major tourist attractions for regional as

<sup>49</sup> Source: "UAE tops list of HNWIs in GCC", Arab Times, May 2013

<sup>50</sup> Source: "Millionaires in UAE set to soar by more than half: Wealth report", Gulf in the Media, March 2013



***The 2022 FIFA World Cup and Expo 2020 is likely to draw a large number of international tourists into the GCC region***

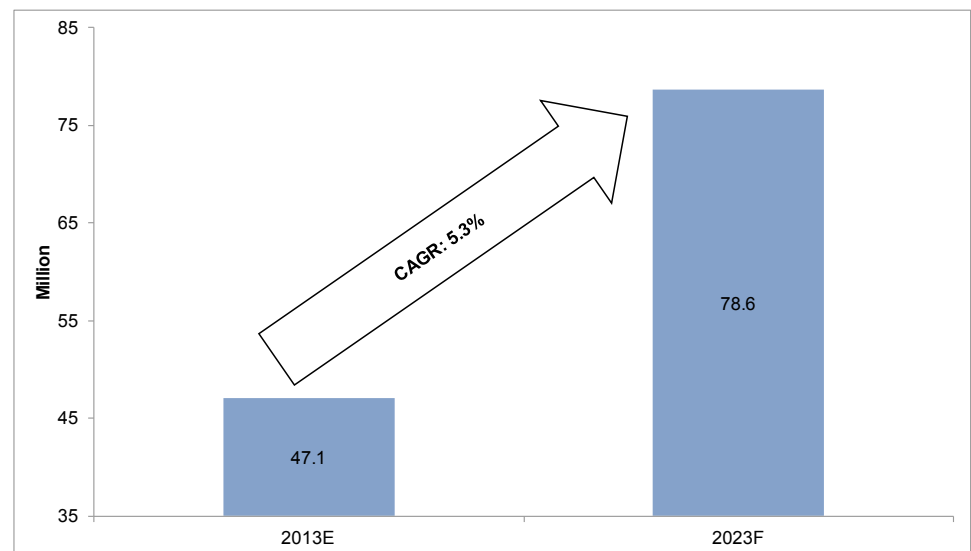
***International tourist arrivals in the GCC are expected to increase to 78.6 million in 2023 from 47.1 million in 2013***

well as international travelers. Several Gulf member countries have plans to develop world-class healthcare facilities to position themselves as leading medical tourism hubs. In addition, the emergence of the region as a center of major annual sporting events including Formula One Grand Prix, golf, and tennis is also likely to boost sports tourism in the region. Apart from annual events, major one-time events in the region are also likely to attract international tourists. The 2022 FIFA World Cup to be held in Qatar is likely to draw a large number of international sports tourists into the region. In November 2013, Dubai was selected as the host for Expo 2020, a six-month long international exhibition. This event is estimated to draw more than 25 million visitors, of which, more than 70% are expected from outside the UAE<sup>51</sup>.

Further, the GCC region, particularly the UAE, has intensified its focus on developing business tourism. In October 2013, a delegation from the Dubai Convention and Events Bureau attended two international business exhibitions in the US with an aim of showcasing Dubai as a major destination for business events. Due to its world-class infrastructure and capability to hold events such as meetings, conventions, and exhibitions, Dubai has the potential to be recognized as a global destination for business events in future.

A flourishing tourism sector within the region is a harbinger of growth for the aviation industry. International tourist arrivals in the GCC are expected to increase to 78.6 million in 2023 from an estimated 47.1 million in 2013, translating into a 5.3% CAGR (see Exhibit 55).

**Exhibit 55: International Tourist Arrivals in the GCC**



Source: World Travel & Tourism Council, Alpen Capital

Notes: 1) International tourist arrivals include same day and overnight visitors

2) E – Estimated, F – Forecast

***To simplify the travel formalities for tourists, the GCC plans to launch a unified visa scheme by mid-2014***

To simplify the travel formalities for tourists, the GCC plans to launch a unified visa scheme by mid-2014. The unified visa will permit tourists to travel across the region with ease, thereby creating further demand for various transportation modes, especially air travel.

<sup>51</sup> Source: "Expo 2020 will boost GCC tourism", Trade Arabia News Service, November 2013

## Fleet Expansion

The passenger traffic of UAE-based Emirates Airline has increased six fold to 39.4 million in 2013 from 6.8 million passengers in 2002. During the same period, the total fleet size of the airline surged from 38 to 197<sup>52</sup>. The other main airlines of the region, Qatar Airways and Etihad Airways, also witnessed similar growth in passenger traffic and fleet size.

***To support the growing traffic, the Gulf carriers have strategized a robust fleet expansion plan***

The region's leading carriers, Emirates Airline, Etihad Airways, and Qatar Airways, are likely to increase their carrying capacity to 200 million passengers per year by 2020 from around 68 million in 2012-13. To support the growing traffic, the Gulf carriers have strategized a robust fleet expansion plan. The recently concluded Dubai Airshow in November 2013 saw Emirates Airline, Etihad Airways, and Qatar Airways place large orders for new aircraft. Emirates Airline placed the largest ever aircraft order in civil aviation for 150 Boeing 777Xs (35 Boeing 777-8Xs and 115 Boeing 777-9Xs). The airline also ordered 50 Airbus A380 aircraft and secured purchase rights for 50 additional aircraft at the airshow. Together, the Boeing and Airbus orders are worth an estimated US\$ 99 billion at list prices, excluding purchase rights. As of November 19, 2013, the total firm order book of Emirates Airline stood at 385 aircraft (excluding options or purchase rights) comprising 214 Boeing 777s, 101 Airbus A380s, and 70 A350s, at a total estimated value of US\$ 166 billion<sup>53</sup>.

The airshow also saw Etihad Airways placing an order for 87 Airbus, 56 Boeing aircraft, and 294 engines, with options and purchase rights for a further 56 aircraft for an estimated US\$ 67 billion. The company plans to utilize the new fleet to support its ambitious growth strategy, venture into new markets, increase frequencies on existing routes, and replace its older, less efficient aircraft. Currently, the airline operates with a fleet of 85 aircraft, with more than 80 on firm order<sup>54</sup>.

Qatar Airways is also expanding its current fleet size and has orders worth more than US\$ 50 billion for more than 230 aircraft, including Boeing 787s, 777s, and Airbus A350s, A380s and A320<sup>55</sup>. Kuwait Airways has also entered into a contract with Airbus to purchase 25 new aircraft and lease 12 other new planes<sup>56</sup>.

***The average fleet age of major Gulf-based airlines is lower than their global peers***

The region enjoys a younger aircraft fleet compared to the other parts of the world due to an increasing number of new aircraft (see Exhibit 56). The introduction of new aircraft, with the latest technology and higher fuel efficiency standards, will positively impact the operating metrics of the overall aviation industry in the future. A young aircraft fleet will thus aid in optimizing the revenue-generating flying time. Further, an increase in fleet size will enable the GCC carriers to expand their scope of operations and enhance their services, thereby giving a major push to the aviation market.

<sup>52</sup> Source: The Emirates Airline annual reports

<sup>53</sup> Source: "Emirates announces largest-ever aircraft order", Arab Air Carriers Organization, November 2013

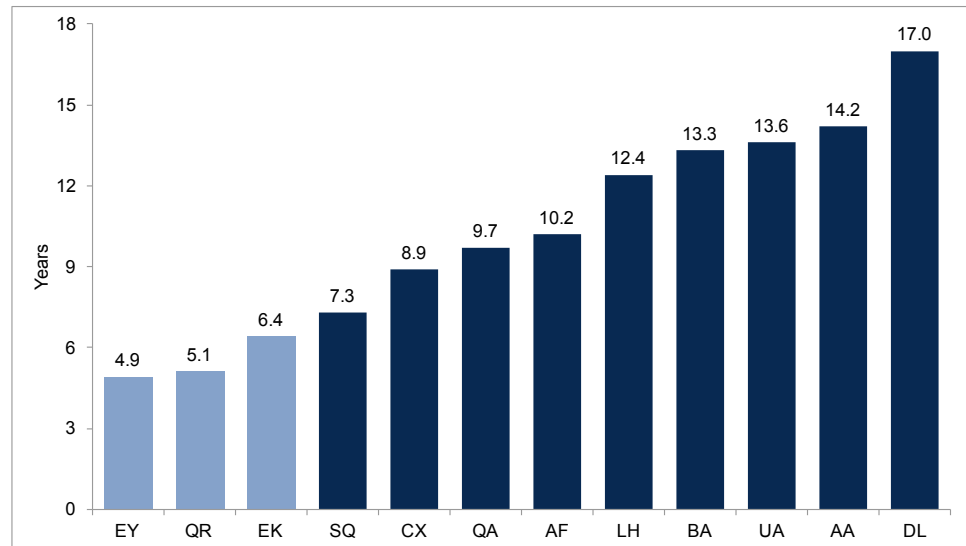
<sup>54</sup> Source: "Etihad Airways announces largest ever fleet order to enable accelerated growth strategy", Arab Air Carriers Organization, November 2013

<sup>55</sup> Source: "Qatar Airways announces increase in capacity to Colombo" Qatar Airways, November 2013

<sup>56</sup> Source: "Kuwait Airways to buy 25 new Airbus jets and lease 12 more", Reuters, December 2013



Exhibit 56: Average Fleet Age of Leading Airlines



Source: Airfleets

Notes: 1) Etihad Airways (EY), Qatar Airways (QR), Emirates Airline (EK), Singapore Airlines (SQ), Cathay Pacific (CX), Qantas (QA), Air France (AF), Lufthansa (LH), British Airways (BA), United Airlines (UA), American Airlines (AA), Delta Airlines (DL)

2) Data as on December 5, 2013

## Expanding Airport Infrastructure

**The Gulf countries have already committed US\$ 50 billion towards specific airport projects**

**According to DASP 2020, the passenger traffic at the airports in Dubai is expected to increase to 98.5 million in 2020 from 47.2 million in 2010**

The GCC carriers are expected to benefit from plans to upgrade existing key airports and construct new airports in the region. All the countries are pursuing aggressive plans to expand their airports and allied infrastructure with the target for the annual passenger traffic at the region's airports set at 450 million by 2020<sup>57</sup>. The Gulf airports registered around 10% CAGR in air traffic in the last ten years, and many of them have either already surpassed or are nearing full utilization<sup>57</sup>. They operated at an average passenger capacity utilization of 92%, with airports in Saudi Arabia touching 130%<sup>58</sup>. A growing number of business and leisure travelers as well as transit passengers continue to add pressure to the existing airport infrastructure. Several major airport projects have been launched in the region, and as reported in November 2013, the Gulf countries have already committed US\$ 50 billion towards specific airport projects<sup>59</sup>.

The UAE will account for the highest investment, with approximately US\$ 23 billion being spent towards the airport infrastructure. Dubai alone has allocated an outlay of around US\$ 15.8 billion, of which, US\$ 7.8 billion has been earmarked for the fourth-phase expansion of the Dubai International Airport. Under this phase, the airport opened up a giant 20-gate concourse in January 2013 for exclusively handling Airbus A380, resulting in a capacity increase to 75 million passengers per year from 60 million in 2012. With a brisk pace of development, the Dubai International Airport is all set to become the world's busiest airport by the end of 2015. According to Dubai Airports Strategic Plan (DASP) 2020, the passenger traffic at the airports in Dubai is expected to increase to 98.5 million in 2020 from 47.2 million in 2010, registering a CAGR of 7.6%. Further, bolstered by

<sup>57</sup> Source: "Aviation security on high with massive Middle East airports expansion", Travel Daily Media, November 2013

<sup>58</sup> Source: "GCC expansion driven by demand", Gulf Construction, July 2012

<sup>59</sup> Source: "Middle East's lofty ambitions keeping up with the neighbours", Orient Aviation, November 2013



***Dubai World Central is slated to become the world's largest airport by 2030***

increasing trade, air freight volumes will also almost double to 4.1 million tonnes in 2020 from 2.2 million tonnes in 2010, recording a 6.4% CAGR. To accommodate the rising air traffic, DASP 2020 has outlined a 10-year masterplan for the aggressive expansion of airspace, airfield, stands, and terminal areas at the airports. Under the plan, an additional 675,000 square meter of floor space will be created at the Dubai airports, nearly twice the footprint of London Heathrow Terminal 5. Cargo capacity is also likely to increase, with an additional 30,000 square meter expansion of the cargo mega terminal.

Further, around US\$ 8.0 billion will be incurred on a second airport, Dubai World Central, in Jebel Ali. Previously utilized only for cargo transport, the airport opened its door to passengers in October 2013. Based on the current construction plans, Dubai World Central is slated to become the world's largest airport by 2030, with an annual capacity of 160 million passengers and 12 million tonnes of cargo.

The Abu Dhabi Economic Vision 2030 has also recognized the need to expand the airport infrastructure at the Abu Dhabi International Airport. According to the vision, the Abu Dhabi International Airport expansion plans have been designed to increase capacity in three phases to around 30 million passengers a year by 2030 from 6.3 million per year in 2005. The Abu Dhabi Airports Company is investing approximately US\$ 6.8 billion towards the expansion of Abu Dhabi International Airport<sup>60</sup>. The center piece of the expansion plan is the Midfield Terminal Complex (MTC), which will provide a full terminal building, passenger and cargo facilities, and duty-free shops and restaurants. With the opening of MTC, the airport's passenger capacity is likely to increase from 12.5 million per year to 17 million per year by 2017<sup>60</sup>. The planned capacity of MTC is expected to reach 27-30 million passengers, gradually increasing to 40 million passengers per annum.

In line with the Qatar National Development Strategy, the country is also focused on developing its airport infrastructure and has earmarked around US\$ 16 billion for the Hamad International Airport, the first phase of which is likely to be opened in 2014<sup>61</sup>. Upon completion of all the three phases, the airport's capacity is expected to increase to around 50 million passengers per year from the current airport's existing annual capacity of approximately 4.2 million passengers.

***Saudi Arabia is also spending heavily on the expansion of its airports***

Saudi Arabia is spending heavily on the expansion of its airports, including the Airport Development Phase 1 at King Abdulaziz International Airport, Jeddah, with an investment of around US\$ 1.5 billion<sup>59</sup>. Other countries such as Kuwait, Oman, and Bahrain are also investing aggressively to improve their airport infrastructure.

Following their expansion, the state-of-the-art airport facilities will be well equipped to accommodate the increased cargo and passenger traffic carried by the Gulf airlines through their expanded aircraft fleet.

### **Limited Railway Network**

***Air carriers in the Gulf are at an advantage in the absence of any other mode of easy and efficient transport in the region***

Air carriers in the Gulf are at an advantage in the absence of any other mode of easy and efficient transport in the region. Even Saudi Arabia, with a total land area of 2.1 million square kilometers, has only one passenger line and cargo line used for domestic transportation. Moreover, the frequency along the existing long-distance routes is less and the journey duration is long. As a result, air and road transport have emerged as the most preferred modes for medium- and long-haul transportation of passengers and cargo within the region. Due to factors such as higher comfort and shorter travel time, air travel has an edge over road transportation considering the long distances involved.

<sup>60</sup> Source: Abu Dhabi Airports Company

<sup>61</sup> Source: "New airport's opening is a matter of pride for Qatar", [www.gulf-times.com](http://www.gulf-times.com), January 2014

***GCC's liberalized measures are likely to attract more players into the sector***

***For decades, the UAE has been endorsing the liberal aviation policy aimed at fostering competition within the industry***

***While the GCC Open Skies policy has been in discussion for years, its implementation has been slow***

The GCC governments have identified the need for developing a region-wide rail linkage. The construction of the 2,177-kilometer long rail network linking all the six countries is already underway. However, as the project is scheduled to be fully operational only by 2018, currently there is no better substitute to air travel for cross-country travel within the region and even from the GCC to other Middle East countries.

## **Liberalized Government Policies**

While the aviation sector in the Gulf continues to be largely government-controlled, authorities in most of the constituent countries have pursued varied liberalization measures from time to time. The member governments are aiming to attract more players into the aviation sector through the liberalization of policies, resulting in increased competition. This could subsequently lead to better services to customers at competitive prices, adding to the attractiveness of the Gulf airlines in the global aviation industry.

In 2004, the Council of Arab Transport Ministers adopted The Damascus Convention, a multilateral agreement for the liberalization of air transport within Arab countries. The convention came into effect in 2007, after being ratified by eight Arab nations, namely, Jordan, Lebanon, Morocco, Oman, Palestine, Syria, Yemen, and the UAE. The convention covers several liberalization principles including market access, ownership and control of airlines, and fair competition. The UAE, in particular, has been endorsing the liberal aviation policy aimed at fostering competition within the sector for decades. As on March 2013, the UAE had Open Skies agreement with 113 countries<sup>62</sup>. In 2003, the Kuwaiti government opened its aviation sector by offering three new licenses to airline operators. In a significant forward leap, Saudi Arabia's General Authority for Civil Aviation opened up the Kingdom's aviation industry to foreign airline operators in 2011. Qatar Airways and Gulf Air have already been granted licenses to establish new airlines in Saudi Arabia. In April 2012, with an aim of restructuring the aviation sector to meet the increasing flow of traffic into its airports, Oman established the Public Authority for Civil Aviation. In December 2012, the Middle East Business Aviation Association collaborated with 23 authorities in the region to draft a regional business aviation policy focused on simplifying the regulatory procedure and streamlining the aircraft license issuance process. The draft policies and procedures for the UAE and Saudi Arabia are expected to be introduced at the Middle East Business Aviation Conference to be held in Dubai in December 2014.

Recently, the Omani government also announced its plans of opening up the industry for increased private sector involvement and launching its own budget carrier by the first half of 2014. The Kuwaiti government has been mulling over the privatization of Kuwait Airways since 2008, with some progress in 2013. In April 2013, the Shura Council approved Bahrain's new Civil Aviation Law, with further ratification from the King being awaited. The Council is the upper house of the National Assembly, which is the main legislative body of Bahrain. This law is set to improve the aviation industry's regulatory structure and is expected to attract foreign players into the sector.

While the GCC Open Skies policy has been in discussion for years, its implementation has been slow due to a lack of economic and political integration in the region, and cautious attitude of the national carriers. The policy aims to open up new routes in the region, translating into additional revenue streams for the airline operators. Relevant liberalization measures undertaken by the member countries are significant steps towards establishing the policy across the Gulf.

Overall, progressive aviation policies will enhance the transparency of the sector, thereby attracting foreign investors.

<sup>62</sup> Source: "Worldwide Air Transport Conference", International Civil Aviation Organization, March 2013



## 5. Challenges

### Intensifying Competition

***The Middle East aviation market is less competitive compared to that of Asia, Europe, and North America***

With about 50% of its air routes served by only one or two carriers, the Middle East aviation market is less competitive compared to that of Asia, Europe, and North America<sup>63</sup>. Further, only 10% of the Middle East routes are catered to by five or more operators, compared to a global average of 18.2%. Additionally, countries such as Oman, Qatar, and Bahrain have just one carrier based out of the country. However, despite fewer local players, the Gulf is increasingly becoming a competitive market.

The existing FSCs and the LCCs in the Gulf compete among themselves and with other international carriers for a larger share of the regional and international air traffic. Regional carriers enjoy benefits in the form of lower fuel costs, and lower/nil tax rate, which gives them a competitive edge. To build customer loyalty, airline operators are trying to increasingly provide value-added services to the passengers. At the same time, they are indulging in a price-war to maintain and increase their market share. This is particularly true in case of the LCC segment, where price elasticity is high. As a result, some private LCCs of the Gulf were compelled to discontinue operations as they were unable to withstand the competition.

Governments across the region are playing their part in enhancing competition in the market to raise the service standards. In recent times, the Saudi Arabian government's decision to open up its domestic market to other airlines is expected to result in the launch of at least two new carriers in the region. Oman is also looking at launching its own LCC by the first half of 2014. The entry of new carriers is likely to intensify the competitive landscape in the short and medium-haul traffic segment in the Gulf. In the international long-haul segment, the competition between Emirates Airline, Etihad Airways, and Qatar Airways is expected to deepen further as the three carriers look to strengthen their global presence.

### Fuel Price Volatility

***Competitive nature of the aviation industry restricts the players to pass on the increased cost to passengers***

Globally, fuel cost is a key expense of the airline industry and accounts for almost 40% of the total operating costs of most of the airline carriers<sup>64</sup>. Spikes in fuel prices can severely affect the airlines of the Gulf as most of them procure fuel at market rates. Further, the competitive nature of the aviation industry restricts the players to pass on the increased cost to passengers. Most of the Gulf-based airlines, including the FSCs and the LCCs, have started hedging the increasing fuel cost risks. However, fuel price fluctuations not only make hedging difficult but also, sometimes, the cost of hedging may surpass the returns.

### Lack of Secondary Airports

***Lack of secondary airports in the GCC forces its LCCs to operate out of the main airports of their respective countries***

Secondary airports are able to maintain costs that are, on average, 20% lower than those of regular airports<sup>65</sup>. This is primarily due to lesser operating expenses resulting from lower landing and handling charges. As a result, globally, LCCs prefer to operate out of smaller and secondary airports to ride on the ensuing lower cost base. However, lack of secondary airports in the GCC forces its LCCs to operate out of the main airports of their respective countries. flydubai operates out of the UAE's premier airports, Dubai International Airport.

<sup>63</sup> Source: "MidEast aviation sector is world's least competitive", Arabian Business Publishing Ltd., April 2013

<sup>64</sup> Source: "Too many airline operators are paying lip service to fuel efficiency management, concludes industry survey", www.greenaironline.com, October 2013

<sup>65</sup> Source: "Arab Aviation and Media Summit 2012", Air Arabia and CNBC Arabia, June 2012

***The Gulf aviation market may face the challenge of overcapacity, once all the new aircraft ordered by the carriers are delivered***

***The Gulf airspace is becoming congested resulting in increased operating costs and flight delays***

***The privatization plans of Kuwait Airways and Saudia have seen several delays in the past***

Jazeera Airways operates out of the Kuwait International Airport. The budget carrier of Saudi Arabia, flynas, operates out of its hubs at the King Khalid International Airport (Riyadh) and the King Abdulaziz International Airport (Jeddah). Basing their hubs at the main airports forces LCCs to compete directly with the FSCs, which also operate out of the same airports.

## **Overcapacity Concerns**

In view of the growing passenger traffic, the major carriers of the Gulf have set forth robust fleet expansion plans. This has fueled concerns that the region's aviation market may face overcapacity problems once all the new aircraft are delivered. Although many new aircraft will replace the aging planes currently in operation, it is possible that some of the older and replaced aircraft may be sold to other operating airlines within the region rather than being scrapped completely. Accordingly, while the older airplanes are being taken out of the existing fleet of larger airlines, they will continue to remain operational and will be accounted for under the overall industry's operational aircraft fleet. Overcapacity in the sector may result in a fresh round of price competition in the market, as the airlines look to increase their load factor by slashing fares.

## **Heavy Congestion in the Skies**

Air traffic across the Gulf is on an unrelenting rise, which is expected to continue in times to come. As a result, the Gulf airspace is becoming congested. Air traffic congestion not only hinders the growth of the industry, but also results in increased operating costs and flight delays. To amplify the challenge further, about 50% of this airspace has some form of restrictions for commercial use, mainly due to military directives<sup>66</sup>. There is little cooperation between the civil and military air traffic management, resulting in the under-utilization of the available airspace. It is critical that governments of the Gulf work co-operatively to address this issue promptly to ensure a smoother aircraft movement and a more efficient industry functioning.

## **Delay in Privatization**

The GCC countries, in general, have seen several delays in the privatization of their legacy carriers. Originally conceptualized in 2008, Kuwait Airways' privatization plan still remains unimplemented. One of the key reasons for such delay has been the unsupportive attitude of its employees. The staff of government-owned carriers is averse to privatization as it would result in the loss of various benefits for them. However, after a long delay and several amendments, the Kuwaiti parliament finally approved the Privatization Bill in mid-2013, which is likely to pave the way for the airline's privatization. The complex organization structure of Saudia was the key reason for a delay in its privatization, which was formulated by the Kingdom's Supreme Economic Council in 2006. While the airline has already completed the privatization of its catering, cargo, ground services, and MRO divisions, the privatization of the core airline unit is yet to be complete. The privatization of Qatar Airways has also been in talks for several years.

As already mentioned in this report, most of the FSCs of the Gulf enjoy backing from their respective governments, providing them a major competitive advantage over peers. As a result, these carriers generally tend to resist their privatization as that would put them in direct competition with privately-owned local and international carriers.

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<sup>66</sup> Source: "Crowded skies hindering GCC airports growth", [www.qatarisbooming.com](http://www.qatarisbooming.com), February 2013

## Economic Uncertainty

Economic uncertainty remains one of the biggest threats to global aviation demand in recent times. In the last few years, the global economy has been engulfed in a slowdown, with severe repercussions on the aviation sector. Organizations and individuals, across the world have embarked on a cost-cutting spree to sustain in the challenging economic conditions, thus refraining from spending on unnecessary air travel.

***Prolonged global economic uncertainty could prove detrimental to the health of the GCC aviation market***

Today, many of the major world economies are still recovering from the global economic meltdown of 2008-09 and the subsequent Eurozone debt crisis. Although the aviation industry in the Gulf region was not as impacted by the global economic meltdown of 2008-09 and its aftermath, prolonged global economic uncertainty could prove detrimental to its health. This is especially true when the local airlines are expanding their capacities significantly.

## Skilled Labor Shortage

***The Middle East is expected to require around 36,100 new pilots and 53,700 new technical personnel over the next two decades***

A healthy expansion of the Gulf's aviation sector in the recent past has created a peculiar situation. Aggressive expansion by the GCC carriers requires a large number of skilled personnel to fly and maintain new aircraft. It also poses a need for a bigger cabin and ground handling staff. While job opportunities in the aviation sector are on a rise, so is a shortage of people equipped with the right skills. The Middle East is expected to require around 36,100 new pilots and 53,700 new technical personnel over the next two decades<sup>67</sup>. If the skilled labor shortage continues, the growth plans of the region's airlines may be affected.

## Landing Slots at International Airports

***Securing landing slots at some international airports is becoming increasingly difficult for major Gulf-based carriers***

As the Gulf-based carriers expand their footprints on the long-haul routes, securing landing slots at some international airports is becoming increasingly difficult. In the past few years, some of the European and North American airlines have lobbied their respective governments to curb the number of landing slots granted to the carriers from the Gulf.

- In the past, Germany-based Lufthansa has lobbied its government to block Emirates Airline from availing more landing slots in the country.
- In 2011, Austria's air traffic control center rejected Emirates Airline's bid to almost double its daily flights to Vienna under its planned summer flight schedule.
- In 2010 and 2011, Canada has denied additional landing rights to Emirates Airline, Etihad Airways, and Qatar Airways.

Landing slots at key international airports are crucial to carriers looking at expanding their operations internationally. As a result, failure to secure the required number of landing slots will hamper the expansion plans of major Gulf-based carriers.

## Global Environmental Norms

***By 2020, global international aviation emissions are expected to become nearly 70% more than that in 2005***

The aviation industry has a significant impact on the global environment due to its high rate of carbon emission. The industry accounts for around 2% of man-made carbon emissions<sup>68</sup>. The International Civil Aviation Organization forecasts global international aviation emissions by 2020 to become nearly 70% more than that in 2005, despite a 2% fuel efficiency improvement annually. Many initiatives are being undertaken to control the emissions of the aviation sector and reduce its environmental impact. The aviation

<sup>67</sup> Source: "Analysis of Middle East Aviation talent pool", [www.arabianindustry.com](http://www.arabianindustry.com), April 2013

<sup>68</sup> Source: "Annual Report", Arab Air Carriers Organization, 2013



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regulatory authorities of the UAE and Saudi Arabia have declared policies pertaining to engine emissions. Adhering to such environmental norms and policies is a challenge for the airline companies.



## 6. Trends

### International Branding and Sponsorship

***Emirates Airline, Etihad Airways, and Qatar Airways, sponsor several international sports and cultural events***

Gulf-based carriers, particularly Emirates Airline, Etihad Airways, and Qatar Airways, sponsor international sports and cultural events as a key marketing strategy to enhance their brand image and deepen their customer connect. These three leading airlines have sponsorship deals with some of the most visible and prominent sports teams, events, stadiums, and cultural festivals in the world. Emirates Airline has emerged as one of the leading brands within the football landscape, in light of its sponsorship of FIFA events such as the FIFA World Cup, the FIFA Women's World Cup, and the FIFA Club World Cup. The carrier also has a portfolio of sponsorships with various European soccer clubs including AC Milan, Real Madrid, Paris Saint-Germain, and Arsenal. As a part of the sponsorship deal, Arsenal's stadium has been re-named as Emirates Stadium until 2028. Emirates Airline also sponsors several other sporting events such as rugby, tennis, cricket, motorsports, and golf.

Similarly, Etihad Airways also sponsors several sporting events and clubs including Manchester City Football Club, Al Ain Football Club, the Etihad Stadium in Melbourne, Abu Dhabi Grand Prix, and Abu Dhabi Golf Championship. The carrier is also a key partner of Australia's premier cultural destination, Sydney Opera House. The Gulf's other dominant carrier, Qatar Airways has a sponsorship deal with Barcelona FC, the renowned soccer club of Barcelona, Spain. Oman Air is also a sponsor of Oman's national football team.

### Entering into International Alliances and Code-sharing Agreements

***Qatar Airways and Saudia have become members of oneworld and SkyTeam, respectively***

To improve their brand recognition, Qatar Airways and Saudia have become members of oneworld and SkyTeam, respectively. oneworld is a common networking ground for some of the world's leading airlines and around 30 affiliated carriers, together operating more than 10,000 daily flights to nearly 900 destinations across the globe. SkyTeam is a group of 19 airlines offering approximately 15,000 daily flights to 1,024 destinations across the world. Apart from gaining brand recognition, these memberships assist the carriers in expanding their operations globally, garnering code-sharing agreements, and sharing knowledge with other global airlines. Further, over the past few years, most of the Gulf carriers have entered into code-sharing agreements with several other global airlines to expedite their network expansion.

### Industry Awards for Emirates Airline, Etihad Airways, and Qatar Airways

***In the past few years, Emirates Airline, Etihad Airways, and Qatar Airways have received several awards***

Over the years, Emirates Airline, Etihad Airways, and Qatar Airways have affirmed their sturdy standing internationally as leading operators. Their excellent hospitality and competitive ticket prices have made air travel more enjoyable. As a result, these three carriers have received several awards in the past from Skytrax, the UK-based consultancy firm, which organizes prestigious airline awards, World Airline Awards and World Airport Awards. Skytrax voted Qatar Airways as the world's best airline in 2011 and 2012. In 2013, the same award went to Emirates Airline, with Qatar Airways holding the second position. Further, Emirates Airline also won the award for world's best airline in-flight entertainment at the Skytrax World Airline Awards, 2013. At the same event, Etihad Airways won the award for the world's best first-class carrier, world's best first-class onboard catering, and world's best first-class seats. The event also awarded Qatar Airways as the world's best business-class airline, world's best business-class lounge, and the best airline staff service in the Middle East. Qatar Airways is the only GCC-based



*The Dubai Airshow has emerged as the meeting place for the global aerospace industry*

*Emirates Airline, Etihad Airways, and Qatar Airways are focusing on imparting training to its staff*

airline with a five-star rating by Skytrax. Etihad Airways received the world's leading airline award at the World Travel Awards in 2013 for the fifth consecutive year.

The awards received by these carriers are a testimony of their position as leading premium airline brands in the world.

### **Growing Prominence of the International Airshows Hosted by the GCC-region**

Since the global economic meltdown in 2008-2009 and the subsequent Euro zone crisis, the focus of the aircraft manufacturers has shifted from Europe and the US to the emerging markets of Asia and the Middle East. Thus, airshows in the Gulf, particularly the Dubai Airshow has emerged as the meeting place for the global aerospace industry.

The UAE has been hosting the Dubai Airshow since 1989. The biennial airshow has seen significant activity at its past few editions, depicting the growing importance of the Gulf region in the global aviation market. The 13<sup>th</sup> edition of the show held in November 2013, saw participation from as many as 1,046 exhibitors, up from the 960 participating exhibitors in the 12<sup>th</sup> edition held in 2011. Total orders placed at the airshow also surged to US\$ 206.1 billion in the 13<sup>th</sup> edition from US\$ 63 billion in the previous edition. Apart from the Dubai Airshow, the Bahrain International Airshow is also drawing the attention of the global aviation sector. The third edition of the biennial Bahrain International Airshow held in January 2014 witnessed a three-fold increase in values of business agreements, compared with the previous edition. Total business deals at the airshow reached around US\$ 3 billion. Similarly, the Abu Dhabi Air Expo has also gained popularity among exhibitors. In 2013, the three-day second edition of the Abu Dhabi Air Expo attracted more than 13,000 visitors and 160 exhibitors. The third edition of the air expo is scheduled to take place in February 2014. These airshows have gained prominence in the past few years mainly due to the higher purchasing power of the fast-growing Gulf carriers, Emirates Airline, Etihad Airways, and Qatar Airways.

### **In-house Training Facilities for Staff by the GCC-based Carriers**

The aggressive fleet expansion plan of the Emirates Airline, Etihad Airways, and Qatar Airways will result in an increase in demand for pilots and other airline staff, following the delivery of new aircraft. To cater to this demand, all the three carriers are now focusing on imparting training to its staff. Emirates Aviation College, a part of Emirates Airline, offers multiple professional training courses in the aviation sector including pilot training, flight dispatch course, airport cargo management, and aviation security management. Similarly, Etihad Airways has also developed several training programs for pilots and cabin crew members. In January 2014, Etihad Airways and College Ireland Aviation Services entered into a memorandum of understanding aimed at offering a series of specialized aviation and executive development programs to the UAE nationals. Qatar Airways has joined hands with CTC Aviation and the Qatar Civil Aviation Authority to provide the cadet pilot program "Qatar Wings" to international applicants. These initiatives by the region's leading carriers are expected to help in bridging the demand-supply gap of aviation personnel across the GCC. In addition to the leading airlines, the Mubadala Development Company-owned firms such as Horizon Flight Academy and SR Technics also provide training services in the aviation sector to bridge the demand-supply gap of aviation personnel in the region.

## Growing Expertise of the UAE in the MRO and Aircraft Leasing Segment

***The UAE enjoys sound market positioning in the global MRO and aircraft leasing market***

The UAE-based MRO companies have successfully forged a significant presence across the world through the acquisition of renowned global players. This started in 2006, when the UAE-based investors - Mubadala Development Company, Dubai Aerospace Enterprise, and Istithmar World together acquired shares in SR Technics, a Switzerland-based MRO company. In 2009, Mubadala Development Company acquired the majority control of SR Technics by purchasing Istithmar World's shares in the company. Thereafter, in 2011, Mubadala Development Company became the sole owner of SR Technics. Other global MRO companies under the portfolio of Mubadala Development Company include Italy-based Piaggio Aero Industries and Switzerland-based Sanad Aero Solutions. Mubadala Development Company also owns Abu Dhabi Aircraft Technologies, a leading UAE-based MRO player.

In the past, Dubai Aerospace Enterprise has also charted the inorganic route to enter the MRO segment. In 2007, Dubai Aerospace Enterprise acquired StandardAero, a US-based MRO company with operations across the world. Currently, through StandardAero, Dubai Aerospace Enterprise provides MRO services across 80 countries.

***The GCC-based aircraft leasing companies have gained significant expertise in the past and currently serve several global customers***

The GCC-based aircraft leasing companies such as ALAFCO and Dubai Aerospace Enterprise have also gained significant expertise in the past and currently serve several global customers including Emirates Airline, Saudia, Garuda Indonesia, China Southern Airlines, easyJet, Indigo, Philippine Airlines, GoAir, Ethiopian Airlines, Caribbean Airlines, and Skymark Airlines. Waha Capital, a leading Abu Dhabi-based investment company, has adopted the inorganic route to expand its aircraft leasing business. In 2010, Waha Capital exchanged its aircraft leasing portfolio for a 20% stake in AerCap Holdings N.V., one of the largest independent aircraft leasing companies based out of The Netherlands. Currently, Waha Capital holds 26.3% stake in AerCap Holdings N.V.

## Increasing Role of the Middle East-Based Banks in the Aviation Financing Sector

***Over the next few years, financing the deliveries of new aircraft at a low cost will be a key focus area of the GCC-based carriers.***

Over the next few years, financing the deliveries of new aircraft at a low cost will be a key focus area of the GCC-based carriers. This provides significant opportunities to banks and other investors who are looking to deploy their funds in physical assets. In November 2013, flydubai financed its six new aircraft worth US\$ 228 million from five regional and international financial institutions, Norddeutsche Landesbank Girozentrale (Germany), Crédit Agricole Corporate & Investment Bank (France), Gulf International Bank B.S.C. (Bahrain), PK AirFinance Japan (Japan), and Landesbank Hessen-Thüringen Girozentrale (Germany). In December 2013, Emirates Airline entered into a finance lease agreement with Novus Aviation Capital to secure finance for its two A380-800s. The deal was structured through Tamweel Aviation Finance, a joint venture between Novus Aviation Capital, Airbus, and the Development Bank of Japan. As a part of the deal, senior financing was provided by a consortium of regional and international banks, including the National Bank of Abu Dhabi (UAE), Union National Bank (UAE), Samba (Saudi Arabia), and the Korean Development Bank (South Korea).

***Currently, the Middle East-based banks and financial institutions contribute around US\$ 4-5 billion a year to the aviation financing sector***

Historically, European banks have played a key role in financing the deliveries of new aircraft across the world. However, post the European sovereign debt crisis, many European banks are now looking to reduce their exposure to the sector. This has provided an opportunity for banks from Asia, mainly from Japan and China, to increase their footprint in the aviation financing sector. Banks based out of the Middle East, particularly the UAE, are also increasingly funding the purchase of new aircraft. Currently, the Middle East-based banks and financial institutions contribute around US\$ 4-5 billion a year to the



***The Gulf-based LCCs such as flydubai and Air Arabia, focus on providing a superior travel experience through number of value-added services***

aviation financing sector, from merely a few hundred million dollars five years ago<sup>69</sup>. Since these banks are less familiar with sophisticated aviation finance structures, they have partnered with experienced European banks in many of the recent deals. However, banks in the region are expected to independently handle aviation financing deals in the future, once they gain the required expertise with time.

Aviation financing is also seen as an attractive avenue for institutional investors such as sovereign wealth funds, insurance companies, pension funds, and private equity funds in the future.

### **In-flight Entertainment Services Provided by the LCCs**

Despite operating on a low-cost model, the Gulf-based LCCs such as flydubai and Air Arabia, focus on providing a superior travel experience through number of value-added services. These airlines are offering comprehensive in-flight entertainment means including music, movies, television programs, and games to customers. In 2010, flydubai became the first LCC in the region to introduce on-demand in-flight entertainment for fliers. Air Arabia's "Fun Onboard" program is a unique initiative which encourages its passengers to share their talents like singing and dancing while flying with the airline. For child passengers, Air Arabia has a variety of fun activities such as drawing, face-painting, and young cabin crew training. The airline encourages participation in these activities by offering special Air Arabia giveaways.

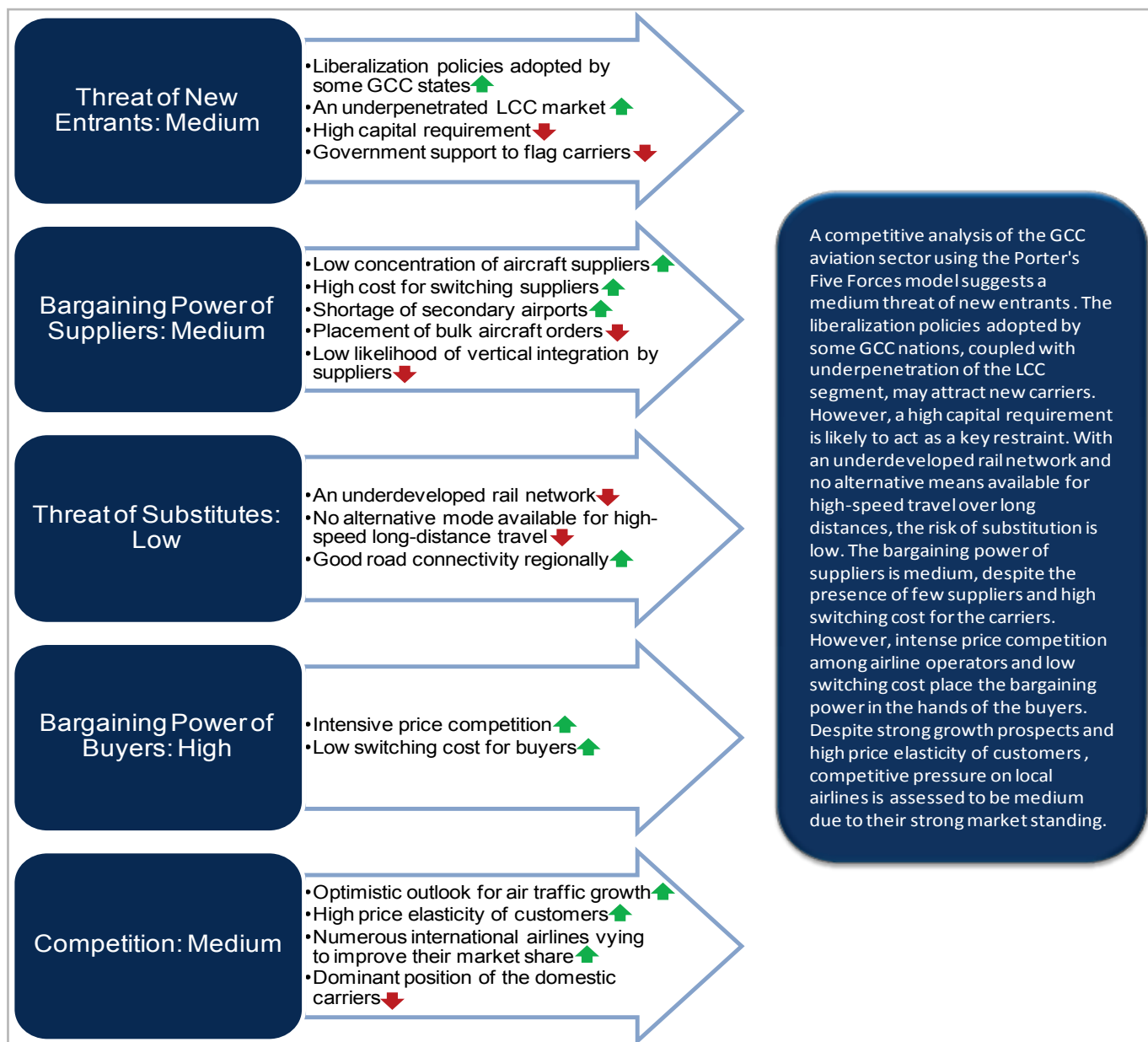
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<sup>69</sup> Source: "Aircraft financing secure in 2014, experts say", [www.gulfnews.com](http://www.gulfnews.com), December 2013

## 7. Porter's Five Forces Model

Using the Porter's Five Forces Model, we have aimed at evaluating the industry's competitiveness from the Gulf airlines' point of view. Further, although MROs have been considered a part of the overall aviation sector throughout the report, they fall under the supplier category for the Model. Other suppliers to the FSCs and LCCs include aircraft manufacturers and airport operators (see Exhibit 57).

Exhibit 57: Competitiveness of the GCC Aviation Sector



Source: Alpen Capital

Note: - Indicates that the factor is increasing the intensity of a particular force

- Indicates that the factor is decreasing the intensity of a particular force



## 8. M&A Activities

***To expand its footprint globally, Etihad Airways has acquired minority stakes in several international carriers in the recent past***

The Gulf aviation sector has been fairly active in the M&A arena in recent years, with Etihad Airways being at the helm. A relatively late entrant to the GCC aviation market, Etihad Airways has been expanding its footprint aggressively on the global landscape through the inorganic route. Since 2011, the carrier has acquired a minority stake in a number of international carriers including Jet Airways, airberlin, Air Seychelles, the Aer Lingus Group, Darwin Airline, and Virgin Australia (see Exhibit 58). During this period, Etihad Airways also acquired a 70% stake in airberlin's frequent flyer program, Topbonus, and a 100% interest in Etihad Airport Services, Abu Dhabi In-Flight Catering Company, and Abu Dhabi Cargo Company. The airline also featured in the largest M&A transaction in the GCC aviation sector since 2011, following its recent acquisition of a 24% minority stake in India-based Jet Airways.

**Exhibit 58: Major M&A Deals in the GCC Aviation Sector**

Acquirer	Acquirer's Country	Target Company	Target's Country	Target's Line of Business	% Acquired	Announcement Year	Consideration (US\$ million)
Etihad Airways	UAE	Jet Airways India Ltd.	India	FSC/LCC	24.0	2013	328.9
Etihad Airways	UAE	Topbonus Ltd.	Germany	airberlin's frequent flyer program	70.0	2012	264.6
PWC Aviation Services Company	Kuwait	United Projects Company for Aviation Services	Kuwait	Airline support services	88.4	2012	132.3
Qatar Airways	Qatar	Cargolux	Luxembourg	Cargo airline	35.0	2011	117.5
Etihad Airways	UAE	airberlin	Germany	FSC	26.2	2012	95.0
Air Works India Engineering Private Ltd.	India	Empire Aviation Group	UAE	Aircraft charter services	N/A	2012	21.5
Etihad Airways	UAE	Air Seychelles Ltd.	Seychelles	FSC	40.0	2012	20.0
Etihad Airways	UAE	Jet Privilege Private Ltd	India	Jet Airways' frequent flyer program	50.1	2014	N/A
Etihad Airways	UAE	Etihad Airport Services, Abu Dhabi In-Flight Catering Company, and Abu Dhabi Cargo Company	UAE	Airline and airport support services	100.0	2013	N/A
Etihad Airways*	UAE	Jat Airways	Serbia	FSC	49.0	2013	N/A
Integrated Transport Company*	Saudi Arabia	Saudi Aerospace Engineering Industries	Saudi Arabia	MRO	30.0	2013	N/A
Etihad Airways	UAE	Darwin Airline	Switzerland	FSC	N/A	2013	N/A
Etihad Airways	UAE	Virgin Australia	Australia	FSC	19.4	2012/2013	N/A
Etihad Airways	UAE	Aer Lingus Group Plc	Ireland	FSC	3.0	2012	N/A
Lockheed Martin	US	Advanced Military Maintenance, Repair and Overhaul Center	UAE	MRO	20.0	2011	N/A

Source: Zawya, Bloomberg, media reports

Note: \* - Deal pending completion (status as on February 28, 2014)

# Country Profiles

## UAE

### Key Driving Factors

- **Favorable demography:** A population growth of around 3% between 2013 and 2018 coupled with high proportion of expatriates, who travel frequently to their native country, are likely to be key drivers for the UAE aviation sector.
- **Rising income levels:** The UAE has one of the highest levels of GDP per capita in the Middle East. In future, the income levels are likely to grow, resulting in the expansion of the HNI segment. This augurs well for both business and leisure segments.
- **Growing reputation as a global aviation hub:** With its strategic location and unmatched airport infrastructure, the UAE is poised to take advantage of growing air traffic between the eastern and western parts of the world.
- **Tourist influx:** The UAE's growing recognition as a leading destination for leisure and business travelers will continue to draw a large number of visitors to the country. This augurs well for country's aviation sector.
- **Expansion initiatives:** The UAE's key airlines as well as airports are undergoing substantial expansion aimed at increasing the overall capacity. Following the expansion, the country's carriers will become better equipped at accommodating increased cargo and passenger traffic.

### Recent Industry News

- In December 2013, the monthly passenger traffic at the Dubai International Airport grew at 13.6% y-o-y to 6.0 million. Further, the annual passenger traffic at the Dubai International Airport grew at 15.2% y-o-y to reach 66.4 million in 2013.
- In November 2013, Dubai was selected as the host for Expo 2020, a six-month long international exhibition.
- In November 2013, Dubai World Central entered into a strategic alliance with global MRO firms, Tempus Jets and Rotocraft Service Group, who will open new facilities at the airport.
- In November 2013, UAE hosted the Dubai Airshow, at which, deals worth US\$ 206.1 billion were signed between the carriers and the aircraft manufacturers.
- In October 2013, the Dubai World Central Airport was open to passenger traffic, while cargo operations began in 2010.

### Sector Synopsis

The UAE constitutes around 49% of the total fleet size of the GCC aviation sector. Major carriers of the country include Emirates Airline, Etihad Airways, Air Arabia, and flydubai. The three major airports of the UAE, Dubai International Airport, Abu Dhabi International Airport, and Sharjah International Airport together handled approximately 80 million passengers in 2012, registering a CAGR of 11.5% between 2008 and 2012. The country is expected to record a 6.6% CAGR in passenger traffic between 2012 and 2017, mainly on the back of traffic growth at Emirates Airline and Etihad Airways.

### Macro-economic Indicators

Indicators	Unit	2010	2011	2012
Total GDP, constant prices	AED bn	946.0	982.7	1,025.6
Real GDP growth	%	1.7	3.9	4.4
GDP per capita, current prices	US\$	34,778	40,951	43,774
Population	mn	8.3	8.5	8.8
Passenger Kilometers performed	mn passenger km	190,156	208,262	246,112
Freight Kilometers performed	Tonne mn tonne km	10,000	10,416	11,898

Source: International Monetary Fund (WEO Database, October 2013), International Civil Aviation Organisation

### Key Players

Company	Type
Emirates Airline	FSC
Etihad Airways	FSC
Air Arabia	LCC
flydubai	LCC
United Aviation Services	Air cargo
Gama Aviation	Business aviation
Private Jet Charter	Charter airline
Dubai Aerospace Enterprise Limited	Aircraft leasing and MRO
Abu Dhabi Aircraft Technologies LLC	MRO



## Saudi Arabia

### Key Driving Factors

- **Large and growing population base:** Population in the most inhabited country of the GCC, Saudi Arabia, is likely to grow at 2%-3% until 2018, thereby providing a large potential customer base to the aviation companies.
- **Religious tourism:** Saudi Arabia is the hub of religious tourism in the Middle East, with the country being the most visited in the region. Tourism in the nation is driven by a growing number of pilgrims visiting the holy Islamic cities of Makkah and Medina. It is expected that religious tourism will continue to drive the Saudi Arabian aviation sector in the future, with visitors for Hajj and Umrah expected to reach 13.7 million by 2019. To cater to the growing traffic, Saudi Arabia is spending heavily on the expansion of its airports.
- **Liberalization:** The Saudi Arabian government's decision to open up the domestic aviation market to private players will result in the launch of two new carriers in the sector in 2014, adding to the competition.
- **Privatization of Saudia:** The privatization of the core airline unit of Saudia in the near future will make the sector more competitive, transforming into enhanced services for customers.

### Recent Industry News

- In December 2013, Qatar Airways named its forthcoming carrier in Saudi Arabia as Al Maha Airways, which is expected to start operating in the first half of 2014.
- In November 2013, Saudi Gulf Airlines announced its decision to commence domestic operations during the winter of 2014.
- In November 2013, Prince Fahd bin Abdullah announced that Saudi Arabia will invest more than US\$ 10.6 billion over the coming few years on developing new airports and expanding existing ones.
- In May 2013, Prince Khaled Al-Faisal, the governor of Makkah province, announced the completion of 45% of the construction of new terminal building at the King Abdulaziz International Airport.

### Sector Synopsis

Saudi Arabia constitutes around 24% of the total fleet size of the GCC aviation sector, with Saudia and flynas being the two operating airlines based out of the country. The Kingdom will see the launch of two new airlines, Al Maha Airways and Saudi Gulf Airlines, following the opening up of the domestic aviation market to foreign operators. Major airports of the country include King Abdulaziz International Airport at Jeddah, King Khalid International Airport Air at Riyadh, King Fahd International Airport at Dammam, and Prince Mohammed Bin Abdulaziz International Airport at Medina. The passenger traffic in Saudi Arabia is expected grow at a 6.9% CAGR between 2012 and 2017 due to the country's expanding population base and increasing religious tourism. The country's major airports are undergoing expansion to cater to the growing air passenger traffic.

### Macro-economic Indicators

Indicators	Unit	2010	2011	2012
Total GDP, constant prices	SAR bn	1,067.1	1,158.5	1,217.9
Real GDP growth	%	7.4	8.6	5.1
GDP per capita, current prices	US\$	19,413	23,599	24,524
Population	mn	27.1	28.4	29.0
Passenger-Kilometers performed	mn passenger km	30,758	38,805	43,930
Freight Kilometers performed	Tonne mn tonne km	1,325	1,501	1,815

Source: International Monetary Fund (WEO Database, October 2013), International Civil Aviation Organisation

### Key Players

Company	Type
Saudi Arabian Airlines (Saudia)	FSC
flynas	LCC
Alsalam Aircraft Company	MRO

## Qatar

### Key Driving Factors

- **Demography:** Population in Qatar is expected to grow at a healthy annual rate of 4.0% between 2013 and 2018, which bodes well for the country's aviation sector. Further, the country's population base is characterized by a large proportion of expatriates, which form an attractive target market for the national carrier.
- **Prosperity:** Qatar has among the highest per capita incomes in the world. The country's economy has registered healthy growth in the past few years and is likely to continue to do so in future, driven mainly by the oil and gas sector. A high number of wealthy individuals and a thriving economy present strong growth potential for the country's aviation market.
- **Tourism:** Qatar is likely to see an increase in tourist arrivals, mainly backed by government efforts on promoting business/leisure tourism. Sports tourism, in particular, will continue to flourish in future, with the country winning the right to host the 2022 World Cup. The country also hosts annual sporting events such as tennis and golf tournaments, which attract a large number of international tourists.
- **Development of a new airport:** To enhance its passenger and cargo handling capacity, Qatar is developing a new airport at Doha, Hamad International Airport, the first phase of which is likely to be opened in 2014.
- **Positioning of Qatar Airways:** Backed by an expanding fleet and good service quality, Qatar Airways is expected to play a material role in the GCC aviation market. To expand its operations, the carrier is expecting the delivery of over 230 aircraft, in the next few years.

### Recent Industry News

- In November 2013, Qatar hosted the 2013 ACI Airport Exchange conference and exhibition.
- In November 2013, the monthly passenger traffic at the Doha International Airport grew at 9.3% y-o-y to 1.9 million. Year-to-date (till November 2013) passenger traffic grew at 9.6% y-o-y to reach 21.2 million.
- In October 2013, Qatar Airways became the first Gulf-based carrier to join oneworld, an alliance of international airlines.

### Sector Synopsis

Qatar accounts for around 14% of the total fleet size of the GCC aviation sector. The country is one of the fastest growing aviation markets in the Middle East, mainly on the back of healthy economic development, high expatriate population, and its emergence as a destination for sporting events. The FIFA World Cup 2022, which will be hosted in Qatar is likely to attract a large number of tourists in the country, thereby auguring well for the nation's aviation sector. The country's only carrier, Qatar Airways has a sound market position in the GCC aviation market, backed by its fleet expansion plans and the high quality of services it provides. To cater to the expected growth in air traffic in the country, Qatar is building a new airport, Hamad International Airport.

### Macro-economic Indicators

Indicators	Unit	2010	2011	2012
Total GDP, constant prices	QAR bn	284.2	321.1	341.1
Real GDP growth	%	16.7	13.0	6.2
GDP per capita, current prices	US\$	74,210	100,410	104,756
Population	mn	1.7	1.7	1.8
Passenger Kilometers performed	mn passenger km	52,733	61,600	71,941
Freight Kilometers performed	Tonne mn tonne km	2,946	3,637	4,307

Source: International Monetary Fund (WEO Database, October 2013), International Civil Aviation Organisation

### Key Players

Company	Type
Qatar Airways	FSC

## Bahrain

### Key Driving Factors

- **Tourist arrivals:** Political unrest in Bahrain, over the last three years, has had an adverse effect on its tourism sector. However, tourism activities are expected to gather pace in the future, with international tourist arrivals likely to grow at a 3.4% CAGR between 2013 and 2023. Bahrain hosts tourists across categories such as business travelers, leisure visitors, and sports enthusiasts. An increasing influx of tourists in Bahrain augurs well for the country's aviation sector.
- **Policy reforms:** Enforcement of the new Civil Aviation Law in the future, which is presently awaiting ratification from the Ruler's Court, is expected to improve the regulatory framework of Bahrain's aviation sector. Consequently, major international airlines are expected to expand their operations in the country.
- **Revival of Gulf Air:** In the recent past, Bahrain's national carrier, Gulf Air has undertaken arduous efforts to curb its losses and turns its operations around. As a result, the carrier was able to reduce its losses by more than 50% in the first two quarters of 2013 compared to the corresponding period in the previous year. Gulf Air's improving operational performance is paving the way for its future growth.

### Recent Industry News

- In November 2013, Bahraini lawmakers announced their decision to adopt the principle of reciprocal treatment with countries that impose strict regulations on granting visas to Bahrainis.
- In November 2013, the Bahraini parliament chose to withdraw a vote, which could have led Gulf Air to repay the US\$ 491 million bailout it received in the previous year.
- In May 2013, Bahrain and the UAE added three new airways to the existing four to cater to the air traffic between the Flight Information Regions (FIR) of Bahrain and the UAE. This has led to an over 40% rise in capacity between the FIRs of both the countries.
- In February 2013, the privately-held Bahrain Air announced that it was shutting down its operations due to financial difficulties.

### Sector Synopsis

Accounting for around 5% of the total GCC fleet size, the Bahraini aviation sector has seen tough times in the past few years due to local political unrest and the wider repercussions of the Arab Spring. This has resulted in the deteriorating financial performance of Gulf Air. Owing to extreme financial difficulties, the privately-held Bahrain Air filed for voluntary liquidation in February 2013, while the country's national carrier Gulf Air was bailed out by the Bahraini government on certain preconditions. Gulf Air is now undertaking pro-active measures to curb its losses.

### Macro-economic Indicators

Indicators	Unit	2010	2011	2012
Total GDP, constant prices	BHD bn	5.1	5.2	5.5
Real GDP growth	%	4.7	2.1	4.8
GDP per capita, current prices	US\$	19,420	22,918	23,555
Population	mn	1.1	1.1	1.2
Passenger Kilometers performed	mn passenger km	12,691	11,960	11,621
Freight Tonne Kilometers performed	mn tonne km	504	418	307

Source: International Monetary Fund (WEO Database, October 2013), International Civil Aviation Organisation

### Key Players

Company	Type
Gulf Air	FSC

## Oman

### Key Driving Factors

- **Economic growth:** Over the years, Oman has seen significant economic growth that has resulted in higher personal income levels. This has propelled the demand for aviation services in the country.
- **Flourishing tourism sector:** The country has been increasingly attracting global tourists with its multiple scenic spots, adventure tourism, and ecotourism. International tourist arrivals in the country are likely to grow at a 6.8% CAGR between 2013 and 2023, benefitting the country's aviation sector in the future.
- **Structural improvements in the sector:** The Omani government is seeking structural improvements in its aviation sector. Recently, the government announced plans to increase private sector involvement and to launch a budget carrier by the first half of 2014.
- **Infrastructure development:** The Omani government has budgeted US\$ 6.1 billion towards the construction and expansion of the country's airports, over the next five years. Around 8% of this allocation is expected to be deployed towards the completion of four new regional airports at Sohar, Duqm, Ras Al Hadd, and Adam. The remaining 92% will be directed towards the development of the country's two main airports at Muscat and Salalah.

### Recent Industry News

- In July 2013, Salim Nasser Said Al Auqi, the chief executive officer of the Public Authority for Civil Aviation, announced the launch of at least one LCC in Oman by the first half of 2014, with the possibility of more licences being awarded subsequently.
- In February 2013, a state-of-the-art testing and training center was launched to cater to the needs of the Muscat International and Salalah airports. The primary objective of the center is to train all the stakeholders in matters related to airport operations and consequently, reduce operational risks.
- In February 2013, Oman Airports Management Company and DHL announced the launch of new cargo flights linking the Muscat International Airport with airports in Dubai.

### Sector Synopsis

Constituting around 4% of the total GCC fleet size, the Omani aviation sector is dominated by the state-owned Oman Air, the nation's only airline. Historically, an active tourism sector and healthy economic growth had fueled the rise in passenger traffic of the country's aviation sector. In the recent past, the government has undertaken several reform measures to restructure the sector and attract more private players. As a result of such measures and the increasing influx of tourists, passenger traffic in Oman is expected to grow at 7.5% CAGR, between 2012 and 2017.

### Macro-economic Indicators

Indicators	Unit	2010	2011	2012
Total GDP, constant prices	OMR bn	12.1	12.6	13.3
Real GDP growth	%	5.6	4.5	5.0
GDP per capita, current prices	US\$	23,351	23,380	25,356
Population	mn	2.5	3.0	3.1
Passenger Kilometers performed	mn passenger km	6,960	8,457	9,702
Freight Kilometers performed	Tonne mn tonne km	107	172	199

Source: International Monetary Fund (WEO Database, October 2013), International Civil Aviation Organisation

### Key Players

Company	Type
Oman Air	FSC

## Kuwait

### Key Driving Factors

- **Population:** A significant presence of expatriates and high income levels in Kuwait translate into a strong growth outlook for carriers.
- **Revival of Kuwait Airways:** The Kuwaiti government plans to revive its ailing national carrier, Kuwait Airways, by privatizing it in the future. The carrier also has plans to turn-around by replacing its aging and inefficient fleet. The national carrier is expected to purchase up to 21 new aircraft over the next two years. The revival of Kuwait Airways is expected to be seen as a positive step for the country's aviation sector.
- **Strong performance of Jazeera Airways:** In line with its focus on improving yields and generating passenger traffic from underserved routes in the Middle East, Kuwait-based LCC, Jazeera Airways is likely to continue its growth momentum over the forthcoming years. This augurs well for the country's aviation market.
- **Airport infrastructure development:** In order to enhance the capacity and services at Kuwait International Airport, the government is planning to invest US\$ 6 billion towards its expansion in the medium term.

### Recent Industry News

- In December 2013, the Directorate General of Civil Aviation, Kuwait, announced the expansion plan of Kuwait International Airport. The plan includes the new expansion project of terminal 2, the construction of a third 5.4 km-long runway, and the extension of the current east and west runways.
- In November 2013, Kuwait Airways resumed its flights to Iraq for the first time since the Iraq-Kuwait war in 1990.
- In October 2013, Jazeera Airways, announced that it has been granted the government approval to build its own terminal at the Kuwait International Airport.
- In February 2013, Iraq resumed flights to Kuwait since the Iraq-Kuwait war in 1990.

### Sector Synopsis

Kuwait constitutes around 4% of the total fleet size of the GCC aviation sector. Kuwait Airways operates as the national carrier of the country, with Jazeera Airways as its LCC. The financial condition of the national carrier has been deteriorating every year since Iraq's invasion of Kuwait. The Kuwaiti government has decided to turn to privatization to revive the carrier. Contrarily, Jazeera Airways has registered solid financial performance in the last few years, after suffering losses in the initial years of its operations.

### Macro-economic Indicators

Indicators	Unit	2010	2011	2012
Total GDP, constant prices	KWD bn	18.1	19.2	20.4
Real GDP growth	%	-2.4	6.3	6.2
GDP per capita, current prices	US\$	33,481	43,638	48,761
Population	mn	3.6	3.7	3.8
Passenger Kilometers performed	mn passenger km	9,613	9,058	8,945
Freight Kilometers performed	Tonne mn tonne km	274	278	268

Source: International Monetary Fund (WEO Database, October 2013)  
International Civil Aviation Organisation

### Key Players

Company	Type
Kuwait Airways	FSC
Jazeera Airways	LCC



# Company Profiles



## Abu Dhabi Aircraft Technologies (Government Owned)

UAE

### Company Description

Abu Dhabi Aircraft Technologies (ADAT) is a UAE-based MRO company, established in 1987 as Gulf Aircraft Maintenance Company and rechristened to its new name in November 2007. The company is a subsidiary of Mubadala Development Company, a government-owned strategic investment firm. ADAT provides a wide range of services including airframe, engine, and component repair and overhaul services, and technical support surrounding engineering, planning, and material services. The company's aircraft hangars are spread over an area of around 42,000 square meters. ADAT maintains its line stations at the Abu Dhabi International Airport, Dubai International Airport, Dubai World Central, Sharjah International Airport, Al Ain International Airport, and RAK International Airport. The company provides MRO services to the UAE armed forces and other military operators in the Middle East and North African region through Advanced Military Maintenance, Repair and Overhaul Center (AMMROC), which is a joint venture between ADAT and Sikorsky Aerospace Services.

### Business Segments/Product Portfolio

The company's service portfolio includes:

- **Airframe services:** Under this segment, the company offers line and light maintenance, cabin maintenance, production planning, and heavy maintenance services.
- **Component services:** Through this, ADAT offers an array of aircraft component repair and overhaul services, ranging from single ad-hoc repair orders to multi-year, fully-integrated components and logistics services.
- **Engine services:** The company has over 23 years of experience in providing overhaul services for a variety of aircraft gas turbine engines, ranging from turboprop/turboshaft to medium and high thrust turbofans.
- **Other services:** Other services offered by ADAT include material management and supply, project management services for the complete lifecycle of aircraft ownership, and training services in various disciplines.

### Key Strengths

- Rich experience of more than 26 years.
- Strong footprint in the Middle East aviation market.
- A wide range of service offerings.
- Strong working relationship with SR Technics, the other MRO company of Mubadala Development Company.

### Recent News

- In May 2013, the company received the 'Best Airframe MRO Provider – Middle East & Africa' award at the Aircraft Technology Engineering & Maintenance Awards. ADAT won this award for the fourth consecutive time.
- In July 2012, ADAT entered into an integrated engine solutions agreement with Onur Air, which is Turkey's largest private airline company.
- In June 2012, ADAT signed a seven-year contract to provide integrated component solutions to Ethiopian Airlines' fleet of Boeing 737NG aircraft.

## Air Arabia (Publicly Listed)

UAE

### Company Description

Established in 2003, Air Arabia is the first LCC of the Middle East. The company provides low-cost air transportation services for passengers and cargo. The company has operations in more than 90 destinations across the Middle East, North Africa, Europe and Asia. Air Arabia is based in Sharjah, UAE, with secondary hubs located at Casablanca in Morocco, and at Cairo in Egypt. According to Airfleets, the carrier currently operates with a fleet size of 35 aircraft.

### Business Segments/Product Portfolio

- Passenger revenue of Air Arabia witnessed a 7.9% y-o-y growth in 2013 to reach AED 2,766.8 million (US\$ 753.3 million), accounting for 86.9% of the company's 2013 revenue.
- Cargo carried by the airline includes general goods, perishable goods, courier, post box mail, company material, and human remains. The carrier generated AED 79.6 million (US\$ 21.7 million) from transporting cargo in 2013, accounting for 2.5% of the company's 2013 revenue.
- The LCC also provides MRO services for its entire fleet while also serving other airlines and aircraft.
- Other services and solutions provided by Air Arabia include ground handling, catering, travel agency, IT solutions, training, and operate two hotels in the UAE.

### Key Strengths

- Largest LCC in the Middle East region.
- Sound market positioning.
- Profitable since the first year of its operations.

### Recent News

- In February 2014, Ras Al Khaimah's Department of Civil Aviation entered into a strategic partnership with Air Arabia, enabling the carrier to become the Emirate's designated airline, operating services from Ras Al Khaimah International Airport.
- In January 2014, Air Arabia launched its third daily service to Doha, Qatar.
- In November 2013, the carrier launched its four weekly flights to Hofuf, Saudi Arabia.
- In November 2013, Adel Ali, CEO of Air Arabia, stated that the airline is poised to start its first flights to China and is prepared to include at least 50 new routes over the next ten years.
- In May 2013, the company signed a US\$ 350 million finance deal with a two GCC banks to purchase 10 new aircraft from Airbus.

Current price (US\$) 0.42

Price as on February 27, 2014

#### Stock Details

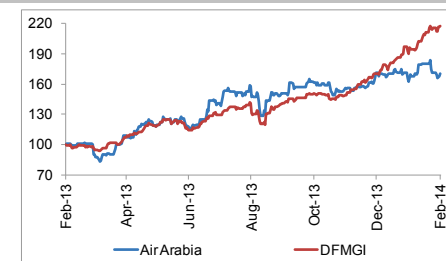
Bloomberg ticker	AIRARABI UH
52 week high/low	0.45/0.21
Market cap (US\$ mn)	1,969.3
Enterprise value (US\$ mn)	2,185.7
Shares outstanding (mn)	4,666.7

Source: Bloomberg

#### Average Daily Turnover (000's)

	AED	US\$
3M	55,880.0	15,216.1
6M	45,097.7	12,280.1

#### Share Price Chart



#### Valuation Multiples

	2013	Current	2014E
P/E (x)	17.2	17.1	14.5
P/B (x)	N/A	1.3	1.3
EV/EBITDA (x)	13.8	13.2	11.7
Dividend Yield (%)	N/A	N/A	4.4

Source: Bloomberg

#### Shareholding Structure

Public	67.18%
Department of Civil Aviation – Sharjah	17.40%
Al Maha Holding Company	8.99%
Infrastructure and Growth capital Fund (managed by Abraaj Capital)	6.43%
<b>Total</b>	<b>100.00%</b>

Source: Zawya



Financial Performance				
US\$ Million	2012	2013	Change (%)	
Revenue	771.2	866.8	12.4	<ul style="list-style-type: none"> <li>Revenue increased by 12.4% y-o-y to US\$ 866.8 million in FY2013 driven by growth in the number of passengers carried. Passengers carried by Air Arabia increased by 15.1% y-o-y to reach 6.1 million in 2013. Consequently, RPK also registered an increase of 14.8% y-o-y.</li> <li>However, a 13.4% y-o-y increase in operating expenses partially offset the rise in revenue, resulting in only 4.9% y-o-y growth in operating income during FY2013.</li> <li>Increase in operating income was partially offset by higher finance costs in FY2013, translating into a 2.4% y-o-y growth in net income during the year.</li> </ul>
Operating Expenses	682.1	773.3	13.4	
Operating Income	89.1	93.5	4.9	
Operating Margin (%)	11.6	10.8		
Net Income	115.7	118.5	2.4	
Net Income Margin (%)	15.0	13.7		
Return on Average Equity (%)	7.9	7.7		
Return on Average Assets (%)	5.5	4.8		

Source: Zawya, Company filings

## Alsalam Aircraft Company (Privately Owned)

Saudi Arabia

### Company Description

Established in 1988, Alsalam Aircraft Company (Alsalam) is one of the leading MRO companies in the Middle East. The company provides maintenance, modification, and technical services to commercial, corporate, VIP, and military clients around the world. Alsalam's services include civil aircraft maintenance, military aircraft maintenance, programmed depot maintenance, technical support programs, manufacturing and assembly, and VIP interior fit-outs. Besides, Alsalam provides specialized technical and non-technical aviation training to airlines, private operators, and maintenance companies. It is the only designated warranty center for Boeing Business Jets in the Middle East and North Africa region. Boeing holds the majority stake in Alsalam.

### Business Segments/Product Portfolio

Alsalam's service portfolio includes:

- **Maintenance services:** It provides maintenance, repair, and modification of civil and military aircraft. Some of the engineering and maintenance activities performed by the company include heavy maintenance and modification, aging aircraft inspection, corrosion prevention and control program, avionics & communication upgrades, and aircraft painting.
- **Training:** The company offers various training programs for new graduates, encompassing a wide range of subjects across aviation, engineering, and maintenance. Alsalam also offers training in non-technical subjects such as administration, management, and finance.
- **VIP interior fit-outs:** The company provides VIP interior fit-out services, with a variety of themes such as classic and contemporary.
- **Manufacturing:** Alsalam manufactures and fabricates a variety of aircraft parts, components, and tools. It has entered into partnerships with various institutions to encourage the study of aircraft manufacturing and assembly.
- **Technical support:** The company offers aircraft maintenance support to the aviation arm of the Saudi Arabian military. Alsalam maintains a close relationship with the Royal Saudi Armed Forces (RSAF) and provides technical support services and programmed depot maintenance to RSAF aircraft.

### Key Strengths

- A dominant player in the Middle East MRO market.
- Rich experience of around 25 years in providing MRO services.
- A wide range of service portfolio.
- Close relations with the Saudi Arabian defense forces.

### Recent News

- In July 2013, the company started manufacturing spare parts for the F-15 jet fighters.

## Dubai Aerospace Enterprise (Government Owned)

UAE

### Company Description

Established in 2006, Dubai Aerospace Enterprise (DAE) provides MRO and aircraft leasing services to its customers across the globe. Operating through its two divisions, DAE Capital and DAE Engineering, the company has its facilities located in Europe, Asia, North America, the Middle East, and Australia. DAE has an aircraft portfolio worth around US\$ 3.3 billion. In 2012, the company generated annual revenue of US\$ 2.0 billion, an increase of 8% y-o-y.

### Business Segments/Product Portfolio

DAE operates through two divisions:

- **DAE Engineering:** In 2007, DAE ventured into the MRO business through the acquisition of StandardAero, one of the biggest independent MRO providers in the global aerospace industry. Through this subsidiary, the company provides MRO services including engine, airframe, avionics, and component repair for commercial aviation, business aviation, military and industrial power customers in over 80 countries worldwide.
- **DAE Capital:** Established in 2007, this is the aircraft leasing division of DAE. It provides operating leases, sale and leaseback of aircraft, aircraft sales, aircraft purchases, and aircraft re-marketing services. DAE has a fleet size of 53 aircraft, comprising 22 widebody and 31 single-aisle aircraft. DAE Capital's clientele is spread across 16 countries. Some of the airlines to which DAE's aircraft are leased include Emirates Airline, Garuda Indonesia, China Southern Airlines, easyJet, Indigo, Philippine Airlines, and Skymark Airlines.

### Key Strengths

- Sound market positioning in both the aircraft leasing and MRO businesses across the globe.
- Solid customer base comprising renowned players in the aviation sector.
- Low risk due to business diversification.

### Recent News

- In February 2014, DAE ordered 40 ATR 72-600 aircraft (firm orders for 20 and purchasing rights for 20 additional ones) in a deal worth over US\$ 980 million from European manufacturer ATR at the Singapore Airshow.
- In November 2013, StandardAero's Helicopters business in Canada invested around US\$ 3 million towards the purchase of new Rolls-Royce M250 and RR300 engines for use in its rental pool of engines. This deal pushes the total investment in the rental pool to more than US\$ 10 million. After the purchase, the pool contains 25 engines and an additional 20 engine equivalents separated into turbine, compressor, and gearbox modules, and a RR300 engine.
- In November 2013, StandardAero signed an auxiliary power unit maintenance deal with Air Nostrum. The company had announced a similar agreement with Air Nostrum for 31 Honeywell RE220RJ auxiliary power units in October 2013.
- In November 2013, DAE announced its purchase of three new Boeing 777-200 freighters, which have been provided to Emirates Airline under long-term lease agreements.
- In October 2013, StandardAero was awarded a contract from Dyncorp International to provide MRO services for PT6A-68 engines that power Beechcraft, the T-6 trainer aircraft deployed by the US Air Force and the US Navy.
- In October 2013, StandardAero announced that it has expanded its list of engine MRO capabilities by adding several key, strategic, authorizations and engine test certification, the most recent being the authorization to perform line services on the Honeywell RE100 and RE220 auxiliary power units.

## Emirates Airline (Government Owned)

UAE

### Company Description

Formed in 1985, Emirates Airline is mainly engaged in providing commercial air transportation services including passenger and cargo services. Operating from its base at Dubai International Airport, the carrier is one of the fastest growing airlines in the world. Airfleets estimates the company's current fleet size at 213 aircraft, with an average age of 6.4 years. According to CAPA – Centre for Aviation, the carrier has code-sharing agreements with numerous global players including Air Mauritius, Japan Airlines, Jet Airways, JetBlue Airways, Korean Air, Oman Air, and Qantas Airways. In FY2013, the company recorded revenue of AED 71,159 million (US\$ 19,373.5 million), mirroring a 15.7% y-o-y growth.

### Business Segments/Product Portfolio

Emirates Airline operates through the following divisions:

- **Airline:** The carrier provides air transportation services for passengers to 141 destinations in more than 70 countries. In FY2013, the airline carried 39.4 million passengers, registering revenue of AED 57,477.0 million (US\$ 15,648.5 million).
- **Emirates SkyCargo:** This division offers cargo services for general freight, dangerous goods, courier, cool chain, and live animals and pets. The company also provides customized cargo services to its clients. As of October 2013, the carrier operated with a fleet of 12 freighters, serving 44 destinations in 38 countries. In FY2013, the airline carried 2.1 million tonnes of cargo across its network, generating revenue of AED 10,346 million (US\$ 2,816.8 million).
- **Emirates Engineering:** This division of Emirates Airline offers aircraft maintenance services to its own fleet and 30 other airlines through third-party contracts.
- **Other divisions:** Other operations of the carrier include destination and leisure management, catering, ownership and operations of an aviation college, wholesale and retail of consumer goods, and hotel operations.

### Key Strengths

- Large network covering 141 destinations across six continents.
- Sound market positioning in both air passenger and cargo business.
- Highly reputed among flyers due to excellent quality of services at competitive ticket prices.
- Robust capacity expansion plan for future.

### Recent News

- In December 2013, Emirates Airline finalized the paperwork on its US\$ 23 billion order for 50 Airbus A380s that was announced at the Dubai Airshow. Earlier in November 2013, the carrier announced its biggest aircraft order at the Dubai Airshow by placing an order of 150 Boeing 777X aircraft and 50 Airbus A380 aircraft.
- In November 2013, Emirates SkyCargo expanded its operations in the Indian Subcontinent by introducing services to Sialkot, Pakistan (the airline's fifth route in Pakistan).
- In November 2013, Emirates developed its own aircraft, a two-seater RV 12.
- In October 2013, the company announced its plans of developing a fleet of more than 250 aircraft by 2020, which will serve around 70 million passengers. This will make it the biggest airline, globally, in terms of passenger traffic.



Financial Performance				
US\$ Million	2012	2013	Change (%)	
Revenue	16,746.0	19,373.5	15.7	<ul style="list-style-type: none"><li>• A 17.4% y-o-y growth in passenger revenue resulted in total revenue expanding 15.7% to US\$ 19,373.5 million in FY2013. The number of passengers carried during the year increased by 15.9% y-o-y to 39.4 million.</li><li>• Operating income increased by 56.6% y-o-y, primarily as a result of higher revenue and other operating income. Other operating income, which included income from liquidated damages and other compensation received in connection with aircraft; gain on sale and leaseback of aircraft, aircraft engines and parts; and ancillary income, increased to US\$ 532.0 million in FY2013 from US\$212.1 million in FY2012.</li><li>• Increase in operating income translated into a 52% y-o-y rise in net income to US\$ 621.6 million in FY2013.</li></ul>
Operating Expenses	16,252.4	18,600.6	14.4	
Operating Income	493.6	772.9	56.6	
Operating Margin (%)	2.9	4.0		
Net Income	408.9	621.6	52.0	
Net Income Margin (%)	2.4	3.2		
Return on Average Equity (%)	7.2	10.4		
Return on Average Assets (%)	2.1	2.7		

Source: Zawya, Company filings

Note: The financial year end of Emirates Airline is March 31



## Etihad Airways (Government Owned)

UAE

### Company Description

Founded in 2003, Etihad Airways is the national carrier of the UAE, primarily engaged in air transportation of passengers and cargo across the world. Within a short time span since it came into being, the carrier has emerged to become globally recognized as one of the fastest growing airlines in the world. Etihad Airways has expanded globally by acquiring strategic minority stakes in foreign airlines such as Jet Airways, Virgin Australia, airberlin, Aer Lingus, and Air Seychelles. According to Airfleets, the carrier currently operates with a fleet size of 85, with an average age of 4.9 years. As on September 30, 2013, Etihad Airways had entered into 46 code-sharing agreements with other regional and global airlines. The carrier registered revenue of US\$ 4.8 billion in 2012, a 17.1% y-o-y increase.

### Business Segments/Product Portfolio

Etihad Airways' service portfolio comprises:

- **Passenger air transportation services:** Operating out of its base at Abu Dhabi, Etihad Airways serves 98 international destinations in around 60 countries across the Middle East, Africa, Europe, Asia, Australia, and North America. In 2013, Etihad Airways' passenger traffic was around 12 million compared to 10.2 million in the previous year.
- **Cargo transportation:** Etihad Cargo, a division of Etihad Airways, caters to numerous sectors by offering products and services that cover the transportation of general and valuable goods. Etihad Cargo also offers cargo charter services to its clients. As on September 30, 2013, Etihad Cargo operated with a fleet of nine dedicated cargo aircraft flying on 26 of the airline's passenger destinations in Europe, the Middle East, Asia, and Africa. Additionally, Etihad Cargo also operates cargo freighters to a further 14 freighter-only destinations. In 2013, 486,753 tonnes of freight and mail were flown by the carrier, registering a 32% y-o-y increase.
- **Etihad Holidays:** It offers a range of holiday packages to more than 140 destinations across 45 countries.
- **Other services:** Other services provided by the carrier include ground handling, in-flight catering, event and leisure planning, call centers, e-commerce, aviation training, and travel management.

### Key Strengths

- Wide-spread network spanning 98 international destinations across the world.
- Large fleet size with average age of less than 5 years.
- Strong brand recognition due to excellent services offered by the carrier.
- Strong support of the UAE government.
- Extensive portfolio of code-sharing agreements with global carriers.

### Recent News

- In January 2014, Etihad Airways and airberlin announced the expansion of their commercial partnership. The scope of expansion includes joint sales operations, building on the current services provided by the joint sales offices located across the world, and representation across more than 50 international markets.
- In January 2014, Etihad Airways and College Ireland Aviation Services signed a memorandum of understanding aimed at collaborating to develop and offer a series of specialized aviation and executive development programs to the UAE nationals.
- In December 2013, Etihad Airways and VisitBritain signed a three-year contract worth GBP 2 million to increase tourism and encourage more visitors to fly with Etihad Airways.

## Gama Aviation (Privately Owned)

UAE

### Company Description

Founded in 1983, Gama Aviation is engaged in providing business aviation services globally. The company's global headquarters are located in the UK, while its American, Middle East and North Africa, and Asian headquarters are located at Connecticut, Sharjah, and Hong Kong, respectively. Gama Aviation provides business aircraft management, charter, maintenance and design, cleaning, Fixed Base Operation (FBO), executive handling, and aviation software services to its clients. The company's staff strength of over 500 works at 25 locations across four continents. In 2007, the company obtained an equity investment from GrowthGate Capital Corporation and Crescent Enterprises.

### Business Segments/Product Portfolio

Gama Aviation offers the following services:

- **Aircraft charter services:** The company provides air charter services to its clients with 80 aircraft operating from more than 25 bases worldwide.
- **Aircraft management:** Gama Aviation helps its clients in sourcing new aircraft. The company's services in this area also encompass other aspects of aircraft management including management of crew personnel, navigation, hangar space, inspections and insurance cover, and maintenance.
- **Engineering and support services:** Gama Aviation offers various engineering support services including aircraft maintenance, helicopter maintenance, and engine overhaul. It has a dedicated aircraft maintenance facility at Sharjah International Airport, UAE, offering comprehensive maintenance services for all series of jet and turboprop aircraft.
- **FBO:** Gama Aviation has undertaken the responsibility of managing all business and general aviation aircraft at Sharjah International Airport since January 2012.
- **Specialist services:** The company offers specialist services such as air ambulance and aircraft valet.

### Key Strengths

- Over 30 years of experience in providing business aviation services.
- Diverse service offerings.

### Recent News

- In November 2013, Gama Aviation unveiled its 2,480 square meter maintenance hangar, offices and an executive aircraft handling facility in Glasgow, Scotland, involving an investment of GBP 3.8 million.
- In May 2013, the company announced its appointment as a Beechcraft authorized service center to offer maintenance services for King Air, Baron, and Bonanza aircraft.
- In March 2013, the company expanded its Middle East fleet with the addition of an Embraer Legacy 600. The aircraft will be based at Al Bateen Executive Airport in Abu Dhabi, UAE.

## Gulf Air (Government Owned)

## Bahrain

### Company Description

Gulf Air was established in 1950 as Gulf Aviation Company by European owners and management. In 1973, the Abu Dhabi, Bahrain, Oman, and Qatar governments purchased the shares of the company and subsequently in 1974, the carrier acquired the new identity of Gulf Air. It was now the national carrier of four countries, Bahrain, Qatar, the UAE, and Oman. However, with the UAE, Qatar, and Oman establishing their own national carriers over time, Gulf Air has been serving only as Bahrain's national carrier since 2007. Operating out of its base, Bahrain International Airport, the carrier serves 38 destinations globally. Gulf Air also provides professional cargo services, with round-the-clock customer support. According to CAPA – Centre for Aviation, the carrier has code-sharing agreements with several international airlines including American Airlines, Cyprus Airways, EgyptAir, Malaysia Airlines, Royal Jordanian, and Saudia. According to Airfleets, currently, Gulf Air operates with a fleet of 26 aircraft, with an average age at 5.5 years. In 2012, the Bahraini government bailed Gulf Air out of its financial difficulties by disbursing a package worth BHD 185 million (US\$ 491 million).

### Business Segments/Product Portfolio

Gulf Air is engaged in the following businesses:

- **Passenger airlines:** Being the national carrier of Bahrain, the airline provides scheduled air transportation services from its hub, Bahrain International Airport.
- **Cargo services:** The company provides the following air cargo services to its customers across the world:
  - **Courier service:** It provides courier services to its global customers such as FedEx, Aramex, DHL, UPS, and TNT.
  - **Express airfreight service:** Gulf Air was the first airline in the Middle East to offer this service.
  - **General and special cargo services:** Apart from regular goods, Gulf Air also transports animals, perishable goods, valuable goods, and other commodities such as automobiles.

### Key Strengths

- Rich experience of more than 63 years of operating in the Middle East and other global markets.
- Strong support of the Bahraini government.
- Code-sharing agreements with several global carriers.

### Recent News

- In December 2013, Gulf Air successfully completed the Oracle E-Business suite upgrade to R12 using its in-house IT capabilities.
- In December 2013, Gulf Air launched its first flight to Trivandrum International Airport to expand its operations to India.
- In December 2013, Gulf Air started its first flight to the new Al Maktoum International Airport at Dubai World Central, becoming the first FSC to do so.
- In November 2013, the company announced that its Q3 FY2013 operating results were better than expected. This helped the carrier reduce its losses by over 50% y-o-y.

## Kuwait Airways (Government Owned)

Kuwait

### Company Description

Established in 1954, Kuwait Airways is the national carrier of Kuwait that provides passenger and cargo air transportation services from its base at Kuwait International Airport. Initially, the carrier served a limited route comprising Abadan, Beirut, Damascus, and Jerusalem. However, in the 1960s, 1970s, and 1980s, the airline expanded to add important destinations such as London and New York to its route map. Currently, apart from operating an extensive network within the Middle East, Kuwait Airways operates scheduled international services to the Indian Subcontinent, Africa, Asia, Europe, and North America. During Iraq's invasion of Kuwait, the airline suffered severe damage, resulting in the wreckage of its premises and 15 of its aircraft. Though the airline was re-launched after the war, the state of the carrier has been deteriorating every year, plagued by rising debt levels and an aging fleet. Aiming to revive the ailing carrier, the Kuwaiti government has decided to privatize it. In 2013, the Kuwaiti parliament approved the privatization bill after numerous amendments. According to Airfleets, Kuwait Airways operates with a current fleet size of 19 and an average fleet age of approximately 19.2 years. According to CAPA – Centre for Aviation, the carrier has code-sharing agreements with several international carriers including Air India, Ethiopian Airlines, Saudia, and Turkish Airlines.

### Business Segments/Product Portfolio

Kuwait Airways provides the following services:

- **Passenger and cargo air transportation service:** Through a fleet of 19 aircraft, Kuwait Airways provides both passenger and air cargo services to multiple destinations across the world.
- **Other services:** Some of the other services offered by the carrier include in-flight catering, engineering, training, and maraheb. Maraheb is a specialized service offered by the airline to its customers for additional charges.

### Key Strengths

- Rich experience of more than 59 years of operating in the Middle East and other global markets.
- Strong government support.

### Recent News

- In March 2013, Kuwait-based LCC, Jazeera Airways announced its interest in picking up an equity stake in Kuwait Airways.
- In January 2013, the Kuwaiti National Assembly approved an Amiri decree, which seeks to transform Kuwait Airways into a shareholding company operating on a commercial basis.

## Oman Air (Government Owned)

Oman

### Company Description

Founded in 1993, Oman Air is a national carrier of Oman offering air transport services for passengers and cargo. Besides, the company provides other aviation related services such as ground handling, catering, cargo handling, and engineering and maintenance services. The airline operates a network of services within the Middle East, the Indian Subcontinent, Asia, and Europe from its hub at the Muscat International Airport. Airfleets reveals Oman Air's current fleet size at 30, with an average age of 5.9 years. According to CAPA – Centre for Aviation, the carrier has code-sharing agreements with several international airlines including Emirates Airline, Qatar Airways, Ethiopian Airlines, Malaysia Airlines, Royal Jordanian, and Turkish Airlines.

### Business Segments/Product Portfolio

Oman Air provides the following services:

- **Scheduled air services:** In addition to the passenger transportation services, some of the cargo services provided by the airline include air freight services, courier, road feeder services, and sea-air services.
- **Air charter services:** The carrier also provides air charter services to its corporate clients.
- **Engineering and maintenance services:** Oman Air offers its in-house engineering and maintenance services such as base maintenance, development engineering, planning and production control, and line maintenance to third party airlines.
- **Other services:** As a sole handling operator at both the Muscat International and Salalah airports, Oman Air provides various support services including ground handling, passenger services, airport lounges, and catering.

### Key Strengths

- Experience of more than 20 years.
- Good growth in passenger and cargo traffic in the past.
- Has code-sharing agreements in place with leading carriers in the GCC region such as Emirates Airline, and Qatar Airways.
- Diversified service offerings.

### Recent News

- In December 2013, Oman Air announced its signing of an eight-year repair agreement with Bombardier Aerospace. The contract will see Bombardier perform all repair work on Rolls-Royce Trent 700 inlet cowls for Oman Air's fleet of Airbus A330 aircraft.
- In November 2013, Oman Air entered into a free sale code-sharing agreement with Royal Jordanian to offer seven weekly flights between Amman and Muscat.
- In September 2013, Oman Air and Oman Airport Management Company signed a joint venture agreement with Singapore Airport Terminal Services Limited to develop advanced cargo facilities in Oman.
- In June 2013, Oman Air launched a new service between Jeddah and Salalah.
- In April 2013, the company signed a code-sharing partnership with Ethiopian Airlines to provide more choices to their customers.



Financial Performance				
US\$ Million	2011	2012	Change (%)	
Revenue	746.8	901.4	20.7	<ul style="list-style-type: none"> <li>Revenue increased by 20.7% y-o-y to US\$ 901.4 million in FY2012 due to growth in the number of passengers carried. During the year, the airline carried 4.4 million passengers, an increase of 16.7% y-o-y.</li> <li>Oman Air reported an operating loss of US\$ 218.3 million in FY2012, which was US\$ 32.6 million lower than the previous year. Fuel and employee costs were the major overheads, constituting 35.7% and 22.5% of total operating expenses, respectively.</li> <li>In line with the operating loss, Oman Air's net loss declined to US\$ 253.2 million in FY2012, from US\$ 285.3 million in FY2011.</li> </ul>
Operating Expenses	997.7	1,120.2	12.3	
Operating Income	(250.9)	(218.3)	13.0	
Operating Margin (%)	(33.6)	(24.2)		
Net Income	(285.3)	(253.2)	11.3	
Net Income Margin (%)	(38.2)	(28.1)		
Return on Average Equity (%)	(93.2)	(103.4)		
Return on Average Assets (%)	(22.3)	(18.2)		

Source: Bloomberg, Company filings

## Private Jet Charter (Privately Owned)

UAE

### Company Description

Established in 1991, Private Jet Charter offers charter services for business and personal air travel across the world. The company operates from its offices across countries including the UAE, the UK, the US, Russia, France, Germany, and Spain. The company provides its services through a wide range of planes, turboprops, and helicopters from global aircraft manufacturers such as Boeing, Bombardier, Learjet, and Airbus. Private Jet Charter caters to a high-profile clientele comprising actors, ambassadors, musicians, and moguls.

### Business Segments/Product Portfolio

Under its charter services, the company offers:

- **Helicopters:** For business meetings, sporting, or social events
- **Turboprop aircraft charter:** For a short to mid-range flight
- **Private jet charter**
- **VIP jet charter**
- **Business jet charter**
- **Commercial jet charter**
- **Medical aircraft charter**

### Key Strengths

- Extensive experience in providing private jet charter services.
- Presence across multiple geographies.

### Recent News

- In February 2012, the company appointed Ross Kelly as the managing director for its Middle East operations.



## Qatar Airways (Government Owned)

Qatar

### Company Description

Established in 1993 as a small regional player, Qatar Airways originally served only a few routes. However since its re-launch in 1997, the airline has seen significant expansion in its route network and has emerged as one of the fastest growing carriers in the world. Currently, the airline caters to a global network of 136 destinations across the world. Apart from passenger and cargo transportation, the carrier also provides other services including catering services, ground services, and private jet charter. As per Airfleets, the company's current fleet size stands at 126, with average fleet age at around 5.1 years. The number of passengers carried by Qatar Airways has increased, rising to over 18 million in 2012-2013 from 3.3 million in 2003-2004. According to CAPA – Centre for aviation, some of the code-sharing partners of Qatar Airways include American Airlines, Bangkok Airways, Japan Airlines, Middle East Airlines, and Oman Air. The carrier has been given a five-star rating by Skytrax for its excellent service. In October 2013, Qatar Airways became a member of Oneworld, an alliance of international airlines.

### Business Segments/Product Portfolio

Qatar Airways service portfolio includes:

- **Passenger and cargo air transportation services:** Qatar Airways transports passengers and cargo to 136 destinations, covering Europe, the Middle East, Africa, South Asia, Asia Pacific, North America, and South America. In the air cargo segment, the carrier provides customized solutions based on the nature of the products to be carried.
- **Qatar Executive:** Launched in 2009, Qatar Executive provides luxurious and private jets for business and leisure travel.
- **Qatar Duty Free:** Based at Doha International Airport, Qatar Duty Free is a subsidiary of Qatar Airways. It offers products such as liquor and tobacco, fashion and accessories, perfumes, cosmetics and skincare, and sunglasses.
- **Other services:** Through its various subsidiaries and affiliates, Qatar Airways provides other services such as catering, ground handling services, retail distribution of wines and spirits, and advertising at Doha International Airport.

### Key Strengths

- Large network covering 136 destinations.
- A large fleet size with low average age.
- Competitive ticket prices offered by the airline has resulted in higher passenger traffic in the international long-haul routes.
- High preference for the airline among travelers owing to excellent quality of services offered.
- Strong support of the government.

### Recent News

- In December 2013, Qatar Airways launched its first flight to Hangzhou, the company's seventh destination in China.
- In November, 2013, Rolls-Royce secured a US\$ 300 million order from Qatar Airways to supply Trent 700 engines.
- In November, 2013, the company placed an order of 50 GE9X-powered Boeing 777X aircraft to expand its operations.

## Saudi Arabian Airlines (Government Owned)

Saudi Arabia

### Company Description

Saudi Arabian Airlines (Saudia), established in 1945, is the national carrier of Saudi Arabia. The carrier provides aviation services within Saudi Arabia and across the Middle East, Asia, Europe, and North America, from its base, King Abdulaziz International Airport in Jeddah. Apart from carrying air passenger and cargo, Saudia also provides catering services and ground handling services. The company is a member of SkyTeam, the second biggest alliance of airlines with 19 members. According to Airfleets, Saudia currently operates with a fleet of 138 aircraft, with average age of 8.8 years. According to CAPA – Centre for aviation, some of the code-sharing partners of Saudia include Air France, Etihad Airways, Gulf Air, KLM Royal Dutch Airline, and Kuwait Airways. In 2013, Saudia transported more than 25 million passengers, a 3.8% increase y-o-y. Based on the ongoing privatization process, the government has already privatized various divisions of the carrier including catering, cargo, ground handling services, and MRO.

### Business Segments/Product Portfolio

Saudia offers the following services:

- **Passenger and cargo air transportation services:** The carrier provides passenger and cargo air transportation services to 117 locations in Saudi Arabia, the Middle East, Asia, Europe and North America.
- **Luxury flight services:** Through Saudi Private Aviation, which was formed in 2009, the carrier provides luxury flight services to the members of the royal family, celebrities, and business leaders.
- **Other services:** Through separate divisions, Saudia provides other aviation services including engineering and maintenance; catering; ground handling; in-flight shopping; travel and accommodation for business, leisure or recreational purposes; and training.

### Key Strengths

- Rich experience of several decades in operating scheduled air passenger and air cargo services.
- Strong presence in the high-potential domestic market.
- A large fleet size.
- Strong support of the Saudi Arabian government.

### Recent News

- In January 2014, Saudia started direct flights from Abha Regional Airport in Saudi Arabia to Cairo International Airport in Egypt.
- In January 2014, Saudia announced that in 2013, the carrier increased its flights by 6,095 trips, registering a growth of 3.6% y-o-y, to a record 177,435 domestic and international flights.
- In October 2013, Saudia announced that it will buy 35 new aircraft to expand its domestic and international operations.
- In October 2013, the company launched its first flight to Toronto in Canada, with a view to increase its operations worldwide.
- In August 2013, the company entered into an agreement with Tarabut Aircraft Maintenance Company to sell 30% of its stake in its aircraft maintenance company, Saudi Aerospace Engineering Industries.
- In May 2013, Saudia signed a memorandum of understanding with Amadeus, a leading technology partner in the global travel industry, to develop e-commerce and mobile solutions for its customers.

## United Aviation Services (Privately Owned)

UAE

### Company Description

Formed in 2000, Dubai-based United Aviation Services (UAS) is one of the leading international trip support company. It provides an array of aviation services ranging from the pre-trip planning stages to the scheduled flight stages and beyond, through consultation, details on the flight operation, weather brief, fuel and travel scheduling. Through its subsidiary, United Aviation Charter (UAC), UAS provides various kinds of charter services to its clients including private jet charter, group jet charter, cargo air charter, and helicopter charter.

### Business Segments/Product Portfolio

The company is engaged in the following businesses:

- **Trip support services:** Through this business, UAS provides trip planning and support services including flight planning and weather services, ground handling services, landing/overflight permits, fuel supply, crew and VIP airport assistance, and hotel accommodations and transportation arrangements.
- **Travel & tours:** This business provides travel and tour solutions such as hotel accommodation and events packages, ground transportation, airport meet & assistance, security, travel insurance, airline ticket bookings, and concierge services.
- **Charter services:** UAS provides charter solutions in the form of private jets, group jets, air cargo, luxury helicopters, and ambulance aircraft.

### Key Strengths

- A wide range of product and service offerings.
- Strong global footprint.
- Partnerships with several fuel suppliers and fixed-base operators across the world.

### Recent News

- In December 2013, UAS appointed additional regional business development managers across Europe.
- In June 2013, UAS implemented the web-based trip management system UAS TMS<sup>®</sup>, which is accessible on Android phones, iPhone, and Blackberry.



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## For any query regarding this report, please contact:

Sameena Ahmad	Sanjay Bhatia	Latika Dhingra	Navin Dayaldasani
Managing Director	Managing Director	Vice President	Director
sameena.ahmad@alpencapital.com	s.bhatia@alpencapital.com	latika.dhingra@alpencapital.com	navin.dayaldasani@alpencapital.com
+971 (0) 4 363 4345	+974 (0) 4 496 8001	+971 (0) 4 363 4380	+974 (0) 4 496 8003

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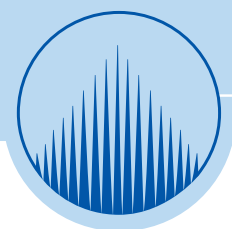
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