



September 2019

# Kuwait Aviation

*The beginning of a new era*

## Research Highlights:

Examining and analyzing the status of Kuwait Aviation sector, highlighting the key player profiles. The report also presents growth drivers, challenges and key trends in the aviation industry.



# About Marmore



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Kuwait aviation industry broadly consists of two national airlines – Kuwait airways and Jazeera Airways and an international airport. Kuwait is only about an eight-hour flight for two-thirds of the world's population and less than 4 hours for one-third. Thus benefitting from its geographical location it has witnessed a surge in passenger and cargo traffic over the years.

Over the past five years between 2014 and 2018, passenger numbers at Kuwait International airport have increased to 14.8mn at a CAGR of 9.6%. To cater the growing traffic, airport expansion plans are underway which targets to increase the handling capacity of passengers by up to 25mn by 2023. The expatriate population has increased at a CAGR of 3.5% between 2013 and 2018, an addition of 607.2 thousand. The increase in number of expatriates has a direct impact on the passenger air traffic.

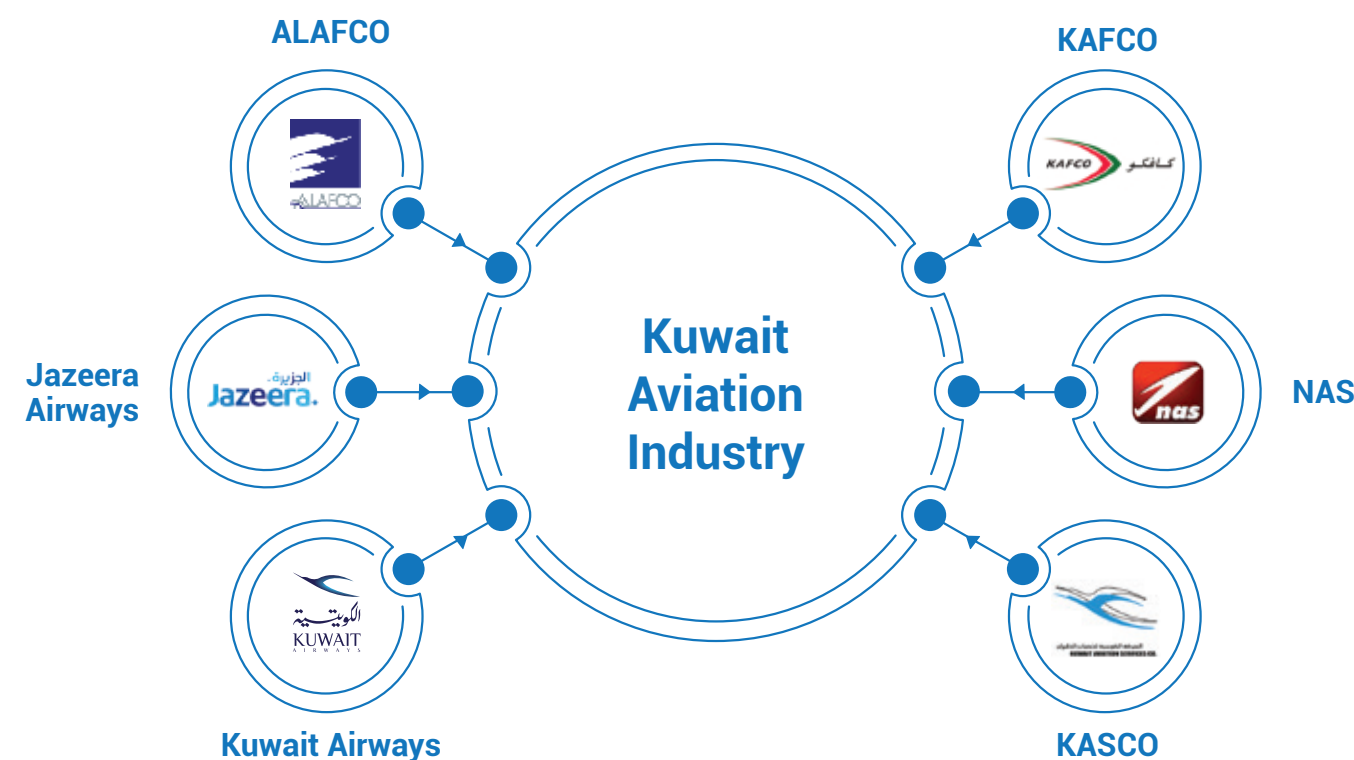
Several factors like favorable lower fuel cost, geographical location, continued inflow of expatriates and high-income levels are rooting for the aviation industry. The lower fuel costs reduces the overall operating cost for the Kuwaiti airlines. Kuwait government provides fuel subsidy of 10% to airlines flying over 5,000 flights in a year. Further, both the national carriers i.e. Kuwait and Jazeera airways receive cash subsidy from Ministry of Finance of 10% on purchase of fuel, thus receiving a total subsidy of 20%. The lower fuel cost in essence offers competitive advantage to national carriers by lowering the total operating costs.

To liberalize the air transport between the nations the DGCA has implemented the “Open skies policy” and signed open skies treaty with nations like Cyprus, Singapore, Senegal, and Brunei. This is expected to ensure the future growth of passenger as well cargo traffic at the Kuwait International Airport.

Kuwait government offers visa on arrivals to tourist passengers who are citizen of GCC nations including foreign nationals residing in GCC countries and citizens of 51 other countries across globe. The tourist visa is available at a fees of KD 3. The simplified e-visa and visa on arrival augurs well for the passenger growth in aviation industry.

The recent trends in the market include the coming up of low cost carriers along with the value added services and loyalty program schemes to retain the customers, the new airport terminals and latest technologies and services such as self-check in kiosks among others.

# Industry Overview



Source: Marmore Research

The Kuwaiti Aviation sector is relatively small compared to its other GCC counterparts. It broadly consists of the two domestic airline carriers – state run Kuwait Airways and Jazeera Airways, one aviation leasing company – ALAFCO, one aviation fueling company - KAFCO and two aviation service company – NAS and KASCO. All the flights operate from the Kuwait International Airport. While all international airlines operate through common terminal, Kuwait and Jazeera airways have exclusive terminals to operate their respective air fleets. The sector hasn't been able to reach its complete potential in previous years due to the lack of focus on its development. Due to the lack of infrastructure in terms of runways and terminals at the Kuwait International Airport in the past, Kuwait lost its position as regional hub for the airlines. However, in recent years the airport expansion plans to accommodate the rising passenger traffic is slowly increasing the importance of the Kuwait aviation sector in the region.

Passenger traffic through Kuwait International Airport has grown a staggering 9.6% between 2014 and 2018, much higher than compared to 4.8% for Dubai, UAE during the same period. Airport in Jeddah and Doha also handle much more passengers as compared to Kuwait, however the growth in passenger traffic is much higher at the Kuwait airport.

Although Dubai International Airport holds greater capacity of passengers, Kuwait International Airport maintained its position as one of the fastest growing airports in the GCC area.

Table 2.1: Growth in Passenger and Freight Traffic (in CAGR), 2013-2018

| Airport  | No. of passengers in million (2018) | Passenger Traffic (CAGR, 2014-18) |
|--|-------------------------------------|-----------------------------------|
| Kuwait International Airport                   | 14.8                                | 9.6%                              |
| King Abdul Aziz International Airport (Jeddah) | 41.2                                | 9.1%                              |
| Hamad International Airport (Doha)             | 34.5                                | 8.2%                              |
| Dubai International Airport                    | 89.1                                | 4.8%                              |

Source: DGCA, Jazeera airways, Kuna, Dubai International airport, GACA, Gulf news

The Directorate General of Civil Aviation is the regulatory body for civil aviation in Kuwait. The DGCA's main activity includes management and operation of the Kuwait International Airport and the regulation of all services and facilities extended to air transport traffic at the airport. Kuwait has been ahead of global average in implementing various guidelines and regulations. It has secured excellent implementation of above 90% in licensing and operations.



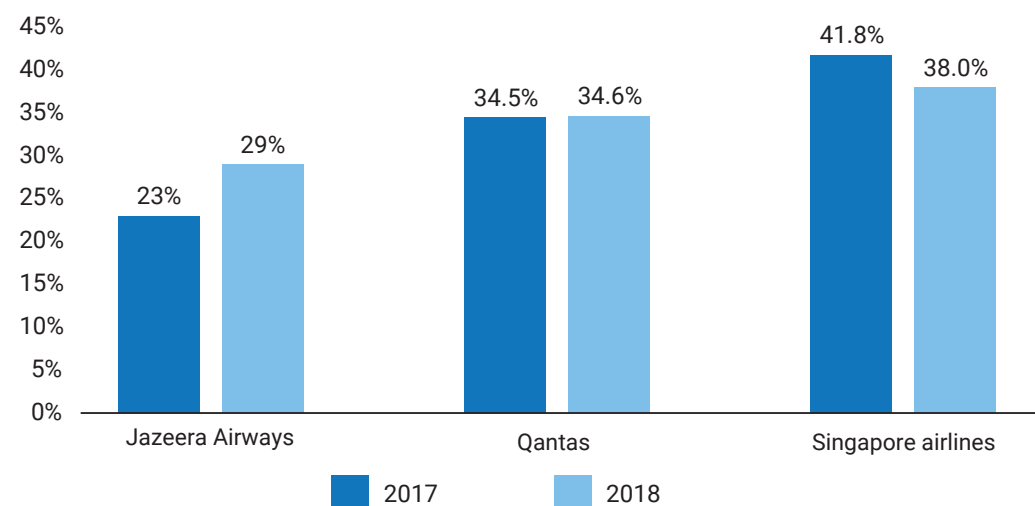
# Kuwait Growth Drivers

Kuwait aviation industry is growing in popularity and it continues to offer tremendous growth potential. There are several reasons that will drive the growth of the industry in Kuwait. Some of these include growing affluent population, strategically advantageous geographical location, and abundance of fuel at relatively cheaper cost.

## Cheaper Aviation Fuel

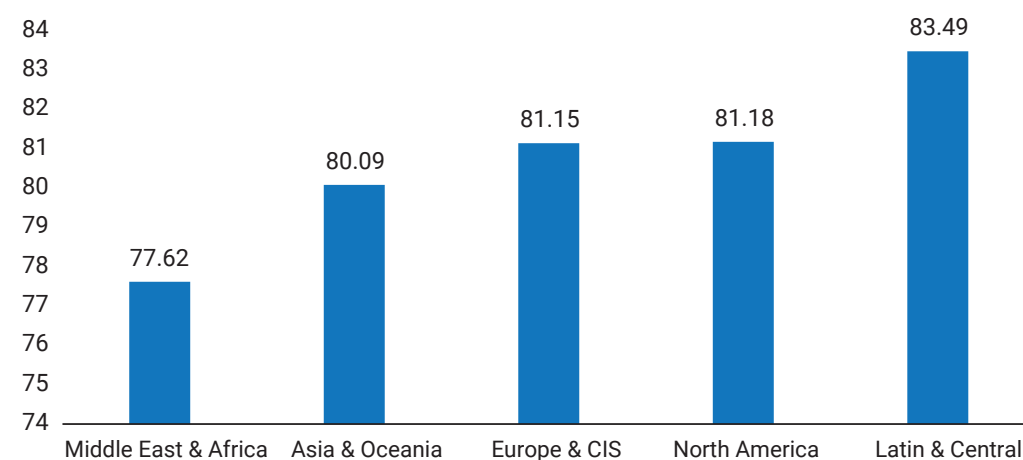
Airlines operating from Kuwait benefit from Kuwait being an oil-producing nation. For instance, Jazeera airways has a significantly lower fuel cost as a percentage of direct cost compared to other leading airlines. This provides local airlines a competitive edge over other airline operators. Kuwait government provides fuel subsidy of 10% to airlines flying over 5,000 flights in a year. Further, both the national carriers i.e. Kuwait and Jazeera airways receive cash subsidy from Ministry of Finance of 10% on purchase of fuel, thus receiving a total subsidy of 20%. The lower fuel cost in essence offers competitive advantage to national carriers by lowering the total operating costs.

**Figure 3.1: Fuel cost as a % of Direct costs**



Source: Respective websites

**Figure 3.2: Global Jet Fuel Prices (USD/bbl)<sup>1</sup>**



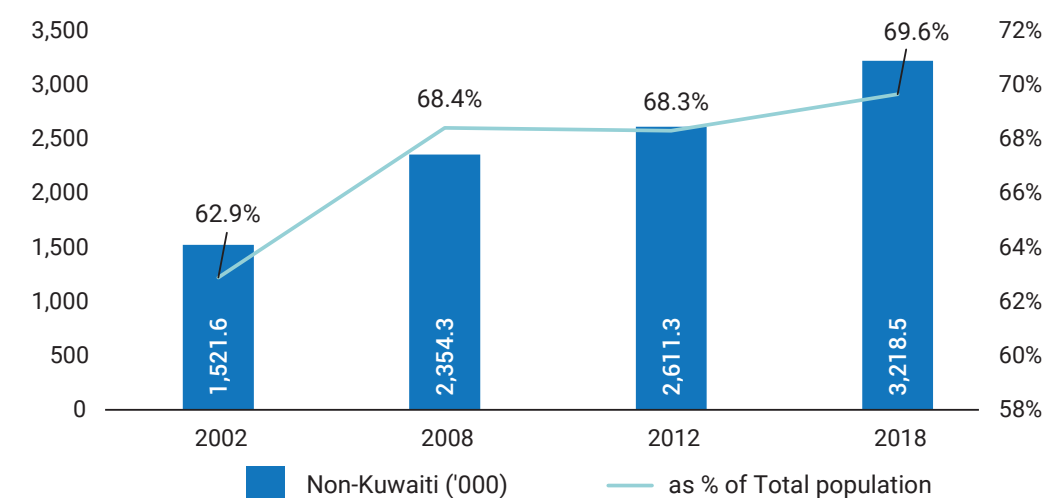
Source: IATA

<sup>1</sup> As of April 08, 2019

## Favorable Geographic Location

Like the other GCC countries, Kuwait should also take advantage of its strategic geographical location. Being equidistant from the north Europe and south Asia, and approximately at 8 hours flying distance from two-thirds of the World's population, it could be a favored destination that caters to a large volume of passengers and freights. To liberalize the air transport between the nations the DGCA has implemented the "Open skies policy" and signed open skies treaty with nations like Cyprus, Singapore, Senegal, and Brunei. This is expected to ensure the future growth of passenger as well cargo traffic at the Kuwait International Airport. Kuwait is already expanding its international airport and building new terminals to accommodate a surging passenger traffic that stood at nearly 15mn for 2018. In contrast, it only managed 9.3mn passengers in 2013. The growth in passenger traffic is mainly due to increase in Non-Kuwaiti population and a surge in transit passengers. The expatriate population has increased at a CAGR of 3.5% between 2013 and 2018, an addition of 607.2 thousand. The increase in number of expatriates has a direct impact on the passenger traffic. In terms of transit passengers, Jazeera airways for instance, one of the domestic air carrier in Kuwait has a passenger base of 1.9mn out of which 13% are on transit equivalent to 258 thousand annually. Further, Kuwait's Civil Aviation is planning the construction of a new airport with an investment of nearly USD 12bn as Kuwait is expected to see a rapid increase in passenger and freight traffic over the next decade.

**Figure 3.3 Kuwait expatriate population composition**



Source: PACI

The main growth in traffic will continue to come from expatriates majorly from Indian subcontinent travelling to Kuwait in addition to a significant growth in connecting traffic to other destinations. In addition to current expansion plan of the airport, construction of a new airport would cater the expected growth in passenger and cargo movement expected over next 20 years.

## High Income Individuals

Kuwait is considered one of the wealthiest countries in the world. According to the Boston Consulting Group (BCG), Kuwait is ranked fifth in the world by proportion of millionaires. About 90 out of 1,000 households in Kuwait hold private wealth over USD 1mn. Private wealth is expected to reach USD 0.4tn by 2021.

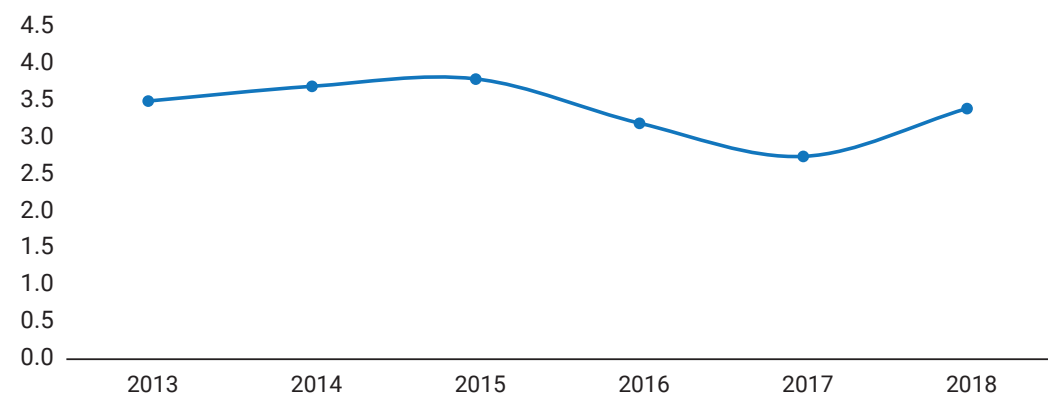
The number of millionaires in Kuwait has been rising over the years and has reached 31,941 in 2018. Since many of them are businesspersons with constant travel needs, it is expected to increase the number of passengers travelling by business or first class air travel.

Tourism

Tourism in Kuwait has been on a rise since 2013. The government has taken an initiative to increase tourism by adding more entertainment venues within Kuwait. As part of the vision 2035, Kuwait hopes to develop a new plan that will transform Kuwait into a regional financial and commercial hub by 2035. Kuwait is planning to spend USD 1bn towards promotion of tourism over the next six years as it aims to increase visitor numbers to 440,000 a year by 2024. Certain projects included as a part of this vision are the Opera house (Sheikh Jaber Cultural Center), the airport expansion, and South Al Mutlaa city project. The Kuwait Opera House project has been successfully completed with an investment of USD 775mn. The Al Mutlaa city project that will accommodate 400,000 residents in 30,000 homes is currently under progress with an estimated investment of USD 20bn and is expected to be completed by 2020<sup>2</sup>. Kuwait has also planned mega projects namely development of the northern region and the islands. The development of the islands is likely to transform Kuwait into a more favored destination for leisure as ancient relics on some of the islands would be particularly attractive for tourists and visitors. These ventures will have an estimated investment of USD 400bn. Kuwait has laid out plans for its silk city project - Madinat Al-Hareer with an investment costs of USD 132 bn. It is planned to have a new international airport, sports complex, convention centers and a port to handle increasing traffic. The city will also include the Burj Mubarak al-kabir, which is expected to be among the tallest building at 1,001 meters high.

Corporate travelers account for nearly 70% of the visitors in Kuwait while the leisure industry account for meagre 6% according to Colliers. This is set to gradually improve with more investments towards leisure and pilgrimage tourism attractions. The World Travel and Tourism Council estimates that travel and tourism investment in Kuwait is set to rise by 1.5% to USD 445mn annually in 2027.

Figure 3.4 Foreign Tourist Arrivals (mn)



Source: World Travel & Tourism Council

Airport Expansion Plans

The Kuwait airport expansion projects combined have estimated investments worth USD 8.2bn. Directorate General of Civil Aviation, the regulatory body in Kuwait, announced the expansion plans that involves the expansion of the

<sup>2</sup> Reuters

new terminal (2), construction of a third runway and another watchtower, and the completion of the second phase of the Kuwait Cargo City. The government is investing as much as USD 6bn in this project .

The Kuwait airport expansion project was first initiated in 2003 with an investment of USD 3.3bn. It included development of The Cargo City constructed on an area measuring 3mn sqm with an aim to become the biggest cargo and logistic area in the region. The expansion project also involves the construction of a new 140,000 sqm terminal building that will be connected to the existing terminal building via a tunnel. The two existing runways will be extended up to 600m and a third runway will be constructed. The electrical infrastructure of the airport will also be upgraded to include a new control and communication system. A new airspace system plan will be developed consisting of a control center and national meteorology center to improve the airport's operating performance and to meet international standards.

With the construction of terminal 2 that is expected to be completed by 2023, the capacity of Kuwait International Airport will reach 25mn passenger per year . The project covers the construction of a 130,000 sqm airport terminal over an area of 504 thousand sqm including a multi storey car park, with a minimum of 4,500 car lots and a 400 bed transit hotel.

Table 3.1 Various airport projects and investments

| Project name   | Expected completion | USD Bn |
|--|---------------------|--------|
| Kuwait MPW - Kuwait International Airport Passenger Terminal 2                 | 2023                | 4.30   |
| Kuwait DGCA - Kuwait International Airport Pavement Works                      | -                   | 0.04   |
| Kuwait DGCA - Kuwait International Airport Expansion - Airfield Infrastructure | 2022                | 0.55   |
| Kuwait DGCA - Kuwait International Airport Expansion                           | 2022                | 3.30   |
| Total  |                     | 8.20   |

Source: Reuters

Table 3.2: Kuwait International Airport Infrastructure

|                         | Pre-Development (2003) | Current Status (2018) | Post-Development (2023) |
|-------------------------|------------------------|-----------------------|-------------------------|
| Passenger Capacity (Mn) | 7                      | 15                    | 25                      |
| Runways                 | 2                      | 2                     | 3                       |
| Air Cargo City          | Phase 1                | Phase 1               | Phase 2                 |
| Watch towers            | 1                      | 1                     | 2                       |
| Terminal                | 2                      | 4                     | 5                       |

Source: DGCA

<sup>2</sup> DGCA

<sup>3</sup> <https://www.protenders.com/projects/kuwait-international-airport-expansion-terminal-2>

Kuwait has significant expansion plans, which upon completion will place the airport infrastructure comparable with other larger regional airports such as Dubai and Qatar airport. Increasing the runway to 3 will boost the probability of on time performance for aircrafts operating from and to Kuwait international airport.

Table 3.3: Infrastructure at Dubai International Airport and Frankfurt Airport

| Project name  | Dubai | Frankfurt |
|---------------|-------|-----------|
| Capacity (Mn) | 80    | 65        |
| Runways       | 2     | 4         |
| Terminals     | 3     | 2         |

Source: Dubai International Airport and Frankfurt Airport

Fleet Expansion

The Gulf airlines are gaining prominence among the aircraft manufacturers due to their rapid fleet expansion plans. They are getting into strategic partnerships with manufacturers such as Airbus and Boeing to receive customized aircrafts suited to their needs.

To support the growing passenger traffic in Kuwait, carriers have strategized a robust fleet expansion plan. The introduction of these new aircrafts with the latest technology and better fuel efficiency should positively affect the operating margins of the operators. In addition, this increase in fleet may help the carriers to expand their operations to more markets around the world.

Kuwait Airways in-service fleet size is 17 aircrafts including five A300-605Rs, four A340-300s, three A320-200s, three A310-300s and two Boeing B777s. They discontinued old aircrafts and ordered new ones, making the average fleet age 7 years. The delivery of new airbus will begin from 2019 and end in 2026. Starting from 2019 until 2022 airbus will deliver 25 aircrafts to Kuwait airways according to the agreement made in 2012<sup>5</sup>. The original order was reduced to 20 as Kuwait Airways' signed a new purchase agreement with airbus for eight A330-800 aircraft in 2018.

Jazeera is planning to expand its fleet to 16 leased A320 jets in 2019 and up to 18 by the end of 2020, from the current fleet size of nine aircrafts. Jazeera airways has already signed contracts for three new A320neos in 2018 that will be added to the fleet in 2019.

Table 3.4 Jazeera vs Kuwait airways comparison

| Parameters      | Jazeera airways   | Kuwait airways    |
|-----------------|-------------------|-------------------|
| Type            | Scheduled Carrier | Scheduled Carrier |
| Base            | Kuwait            | Kuwait, Asia      |
| Aircraft        | 9                 | 17                |
| Destinations    | 27                | 48                |
| Routes          | 25                | 49                |
| Fleet age (yrs) | 7                 | 7                 |

Source: Ch-aviation, Airfleets, as of latest available

<sup>5</sup> Airbus

DUBAI INTERNATIONAL AIRPORT SUCCESS STORY

Dubai international airport welcomed more than 89 million passengers in 2018, surpassing the likes of USA's Los Angeles and London's Heathrow airport on its way to climb to the third busiest airport position across globe. The success can be largely credited to the Emirate's timely realization of the importance of aviation sector in its economic development thus leading to mammoth investment over the years in the Dubai airport's in-frastructure and expansion. Open-skies policies and a foreign investor-friendly business environment has also spurred the development of the aviation industry. Aviation is estimated to account for 37.5% of Dubai's GDP by 2020 and about 45% by 2030 according to Oxford Economics.

The authorities have also been proactive in anticipating growth and have timely executed the projects such as construction of a new terminal, runways, air traffic control tower, an extended terminal building and major equipment upgrade to accommodate the robust traffic growth. One remarkable development has been the construction of Terminal 3 built for the exclusive use of Emirates airways that boosted the airport's capacity by 26mn to a staggering 60mn passengers in 2008.

Dubai International airports (DXB) handles over 250,000 travelers and 1,200 flights per day and is a hub for transit passengers with connections for travelers to 240 destinations. Dubai is only an eight-hour flight for two-thirds of the world's population and less than 4 hours for one-third. Thus benefitting from its geographical location it has swiftly become a perfect air hub for travelers across geographies. Matching the Dubai's reputa-tion as one of the shopping capitals of the world, the DXB has been named as the Most Supportive Approach to Travel-Re-tail by DFNI Global Awards. Over the years, Dubai invested in expanding and improving the facilities at airport through key development projects. One such development is the establishment of Concourse A in 2013 with an investment of USD 3.3bn and an annual capacity of 19mn passengers. Further in 2016 Concourse D was built with a cost of USD 0.9bn and ability to handle 18mn passengers a year.

In tandem with investment on aviation industry, Dubai government has spent billions on new attractions and easing visa restrictions to expand its tourist base. Dubai was the fourth most preferred choice of travelers for a fourth consecutive year, according to MasterCard.

According to IATA, the Middle East's total passenger traffic will continue to grow at a CAGR of 4.4% by 2037 to reach 501mn passengers thus presenting an opportunity for all regional nations to take advantage of the strong growth and become a hub for leisure and business travelers. Dubai's rise as a global hub presents a foot map for other nations in the region to follow and become a connecting hub for East and the West.

However considering the recent data, the growth in passenger traffic in 2018 at Dubai airport was only 1% compared to previous year, indicating the possibility of airport nearing critical mass. Overall, slowdown in Dubai economy is also playing its part in reducing passenger demand in UAE aviation industry. This could be an opportunity for other airports in the region such as Kuwait international airport to target a larger share in passenger traffic in the region.

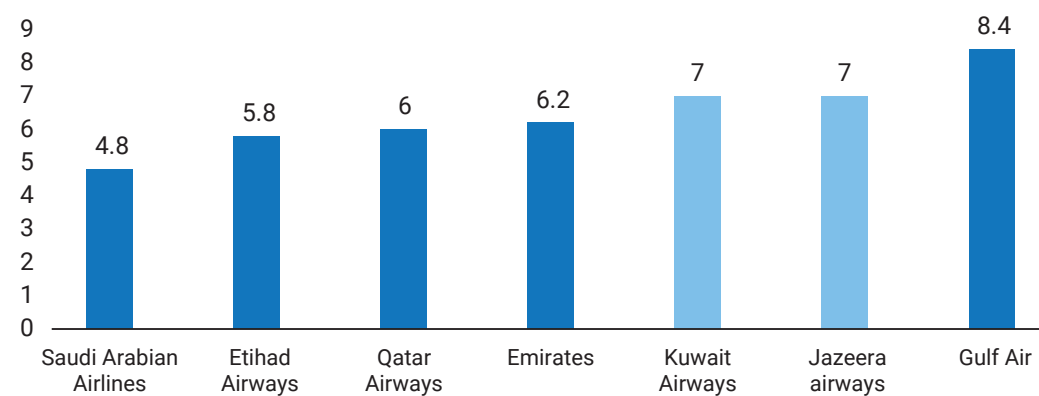


# Major Kuwait Airlines

## Kuwait Airways Corporation

Kuwait Airways, the country's national carrier, began its operations in 1954. Over the years, it has shifted its focus from the regional areas to international destinations. Currently it has a fleet size of 17 aircrafts with an average fleet age of 7 years. This is slightly on the higher side against its regional competitors who have maintained the average fleet age close to six or below.

**Figure 4.1: Fleet age (years) of the Middle East Airlines**



Source: Airfleets / as of latest available

Kuwait Airways currently covers 48 international destinations in different countries across Africa, Asia, Europe and North America. Compared to the other full service carriers in the region it ranks lower in terms of number of destinations covered, with Emirates at the top covering 140 destinations with its fleet size of 270 aircrafts.

**Table 4.1: Destinations comparison with other Middle East airlines**

| Airlines               | Number of Destinations | Fleet Size |
|------------------------|------------------------|------------|
| Emirates               | 140                    | 270        |
| Qatar Airways          | 160                    | 224        |
| Saudi Arabian Airlines | 95                     | 154        |
| Etihad Airways         | 84                     | 102        |
| Kuwait Airways         | 48                     | 17         |
| Jazeera Airways        | 27                     | 9          |

Source: Respective websites, Airfleets

**Figure 4.2: Kuwait Airways Route Map**



Source: Kuwait Airways

## Privatization Developments

The government of Kuwait had been planning the privatization of Kuwait Airways since the mid-1990s, which is why it was turned into a corporation in 2003.

The first order of its privatization was launched in 2008 with the motive of completing the privatization by 2010 but the project was plagued by delays such as the valuation of the company, transferring the government employees from private to public enterprise, which pushed the deadline to March 2011. In Oct 2011, Kuwait's council of ministers approved a request from the privatization committee that the airline needed to go through a reorganization process.

In 2013, the Kuwait Parliament passed the law for privatization of the Kuwait Airways Corporation. Under this law, the government would retain 20% of the strategic holding, 35% of the airline would go to long-term local or a foreign investor, 5% would go to an employee share ownership fund and the remaining 40% would be allotted to the public through an IPO.

However, the privatization process is yet to see the light of the day. The high cost of labor was one of the major reasons for the airline's lack of profits, new human capital requirements were determined as part of the cost cutting measures. As part of this process, 2600 Kuwaiti nationals employed were approached to choose any of the three available options: retire, transfer to another government entity, or continue working for the new company. The employees were approached through a survey and those who have elected to either retire or transfer will be released at the conclusion of the privatization process. According to Capital Standards, this brought down the cost by almost 30% of the revenues.

Ever since the relaunch of Kuwait airways, subsequent to the Iraqi invasion of Kuwait that destructed 15 of its aircrafts along with severe damage to its premises, the airline has been struggling to overcome its losses. The sluggish recovery in losses could also be attributed to the high maintenance costs of its ageing fleet, stiff competition from its gulf peers like Emirates, Etihad Airways and Qatar Airways, and losing its local monopoly to the low cost carrier, Jazeera Airways. The airlines however continue to register strong growth in the revenues that stood at KD 120mn in 2018, a growth of 35% from 2017. The number of travel agencies and ticketing offices grew by 41% y-o-y to reach 170 in 2018 and four times compared to three years ago. Kuwait airways achieved 95% on time performance during 2018.

Dedicated Terminal, T4

The Kuwait airways inaugurated a dedicated new passenger Terminal, T4 in July 2018. The passenger terminal building covers an area of about 55,000 sqm. There are 14 departure gates divided into nine bridges in the terminal building. The building that is designed to reduce congestion at the airport currently accommodates about 4.6mn passengers per year. It also provides over 2,000 parking spaces and 50 baggage counters. The new T4 project will provide employment opportunities to the tune of 2,000 jobs for engineers and trained personnel and is estimated to generate additional revenues of up to USD 60mn annually.

Fleet expansion plans

Kuwait airways has plan to develop its fleet into 38 aircrafts including five A350-900, eight A330-800, fifteen A320 neo and ten 777-300ER. During 2018, Kuwait Airways' signed a purchase agreement with airbus for eight A330-800 aircraft that supports more optimal operating economics, performance and fuel efficiency. The delivery of new airbus will begin from 2019 and end in 2026. Between 2019-2022 airbus will deliver 25 aircrafts to Kuwait airways according to the agreement between the two in 2012 worth USD 4.4bn. The carrier is also planning to retire 11 planes out of its current fleet once the new planes arrive. The contracts also includes maintenance and training to technical personnel. Kuwait airways plans to gradually replace the currently leased aircraft fleet by its own aircrafts. One of the reason could be that leasing can be a costly affair over the long run. The ownership of the aircraft also reassures stockholders and customers and opens the door to raise funds through collateral. Although the company is still recovering from the damage caused to its fleet a decade ago, it has improved its revenue stream over the years and may afford to purchase few planes over the years and gradually build its fully owned fleet. The company is planning to launch new services and destinations and receive new aircraft as part of its expansion plan.

<sup>6</sup> Kuwait airways website

KUWAIT AIRWAYS - A CASE STUDY

The aviation sector in Kuwait was always dominated by its national carrier, Kuwait Airways Corporation, up until 2003 when the Kuwaiti government transformed the airlines into a corporation and issued three new licenses. First license resulted in Middle East's first fully privately owned airline, Jazeera Airways. Second was issued to Wataniya Airways, which was launched in 2009 but had to shut down its operation in 2011 due to financial difficulties. The third was issued to a cargo airline company, Load Air Cargo.

For decades, Kuwait airways has been suffering from losses and has accumulated sizeable debt, primarily because of its on-time performance issues, offering services which were lower compared to its neighboring competitors and also because of the destruction and theft of 10 of its aircrafts and parts during Iraq's invasion of Kuwait in 1990.

Kuwait Airways had been seeking a compensation of USD 1.3bn from Iraq in damages over that issue and after two decades of legal proceedings, the two countries reached a settlement where Iraq agreed to pay a compensation of USD 500mn in reparations. The ties were further bolstered when a Kuwait Airways flight carrying 100 passengers landed in Najaf for the first time in 23 years.

Jazeera Airways

Overview

Jazeera Airways was established in 2004 and is the first private airline in the Middle East region. Jazeera owns and operates its own dedicated terminal (T5) at Kuwait International Airport with dedicated check-in, fast immigration and short transfer distances. It has a fleet size of nine aircrafts as of 2018 with an average age of 7 years.

Table 4.2: Salient features of dedicated terminal 5

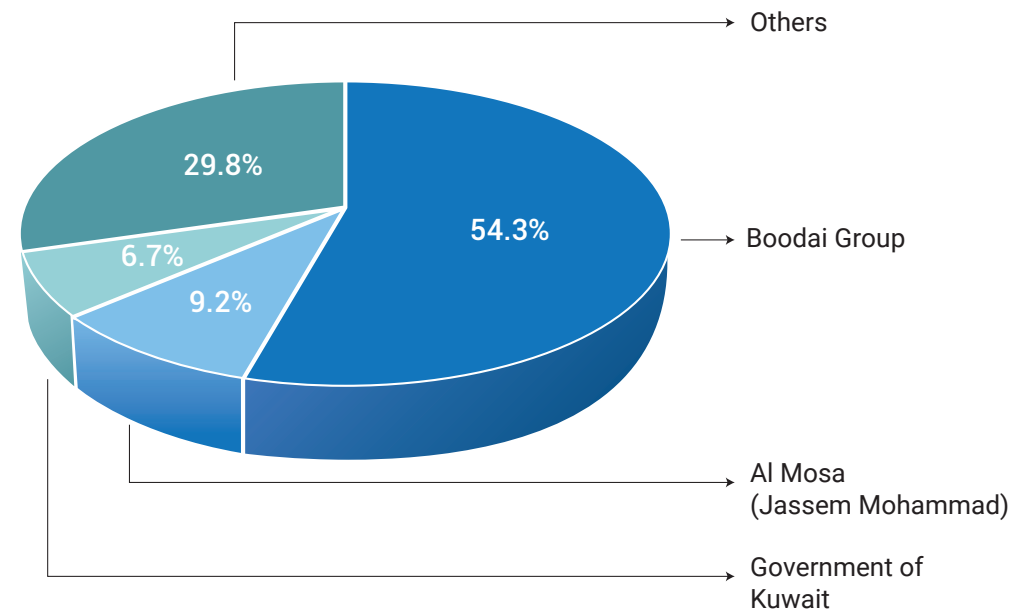
| Features                 | Figures   |
|--------------------------|-----------|
| No. of check-in counters | 12        |
| Self-check-in kiosk      | 8         |
| Total area               | 4,750 sqm |
| Retail & Duty free       | 2,500 sqm |
| Passenger capacity       | 3.5 mn    |
| Baggage handled per hour | 1,200     |
| Parking space            | 350       |
| Boarding gates           | 4         |

Source: Jazeera airways

## Ownership

Boodai group continues to hold the majority ownership in Jazeera Airways. Government of Kuwait through Public Institution for Social security holds approx. 6.7% stake in the airlines.

**Figure 4.3: Ownership structure of Jazeera Airways, 2018**

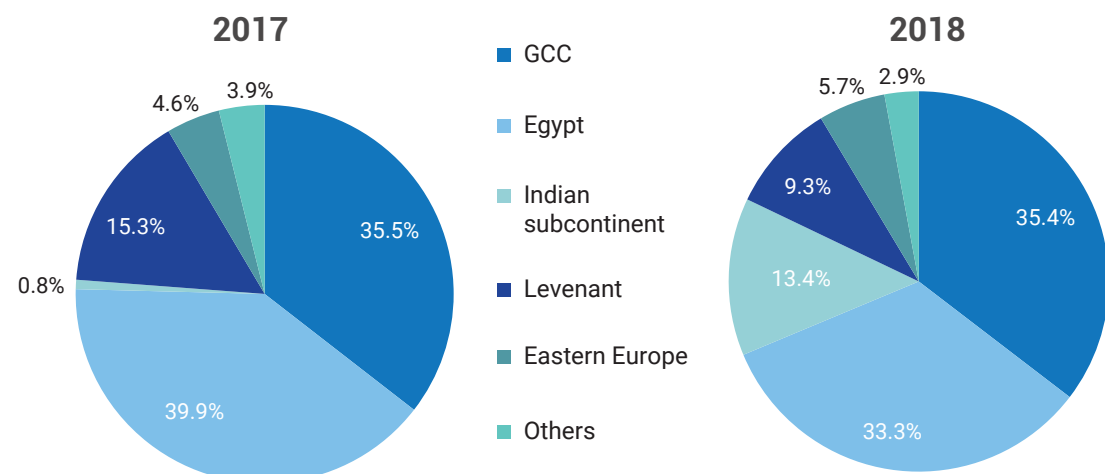


Source: Boursa Kuwait, Reuters

## Passenger Destinations

The airline added 7 new destinations in 2018, majorly into Indian sub-continent including Mumbai, Delhi, and Lahore etc. The below chart depicts the passenger destinations by region. As evident from the graph, the higher penetration into Indian subcontinent in 2018 has reduced the dependency on passengers traveling within MENA region particularly Egypt. The airline is set to add six new destinations in 2019, including a daily flight to London Gatwick thus expanding its network to 33 airports. The carrier is targeting to carry more than 2.6mn passengers in 2019, an estimated growth of 31%.

**Figure 4.4: Passenger breakdown by destination**

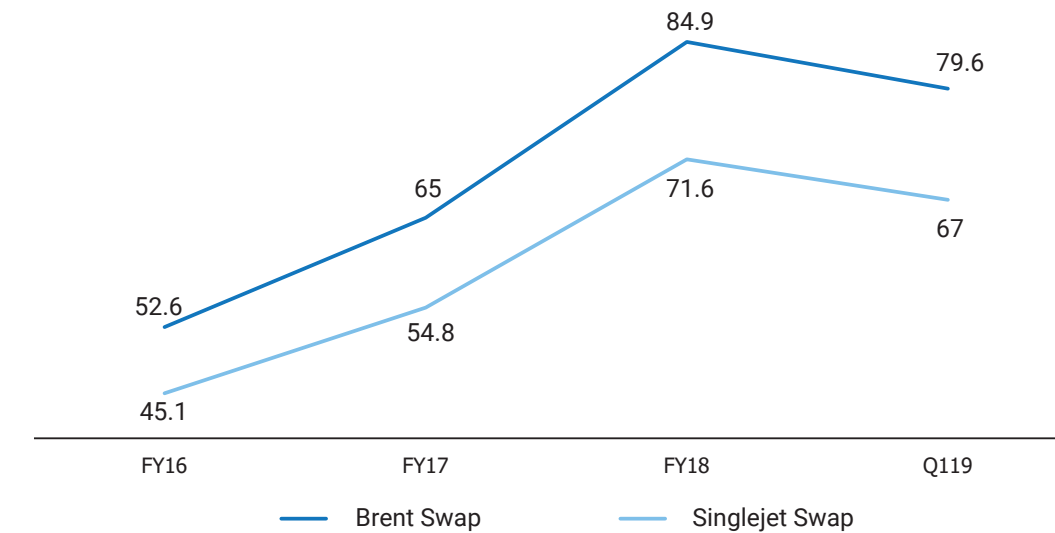


Source: Jazeera Airways website

## Fuel price

Fuel prices continued their upward trend since late 2017. The fuel cost doubled to KD 20mn in 2018 compared to previous year. The airline industry is subject to volatility in the prices of jet fuel. The Jazeera Airways continuously monitors the actual and forecasted jet fuel cost and is planning to use jet fuel commodity rate swaps to achieve a level of control over jet fuel costs thereby avoiding any adverse impact on profitability due to the rise in jet fuel prices.

**Figure 4.5: Jazeera Airways fuel prices (USD/bbl)**



Source: Jazeera Airways presentation

## Turnaround Plan

After incurring losses in 2009 and the first quarter of 2010, the company launched a turn-around-plan (TAP), which included cutting costs by downsizing staff by 30% and choosing only those networks that took less than 3 hours of fly time from Kuwait. Also as part of that plan, the leasing unit 'Sahaab' was acquired by investing KWD 25.6mn. The merger allowed Sahaab to take six of the 12 Jazeera Airways aircrafts and lease it out to several carriers including Virgin America and Sri Lankan Airlines. The airlines subsequently returned to profitability and gradually divested from aircraft leasing business in 2014 by selling 15 Airbus A320 aircrafts owned by the group's Sahaab Aircraft Leasing for USD 507mn. The transaction resulted in additional cash surplus of USD 81.8mn and making it debt-free in 2015. The sale was a part of strategic move towards a leased aircraft operation with the aim to enhance the airline's business model, focus on future growth opportunities and boost shareholder's value with a focus solely on the passenger airline business.



Figure 4.6: Jazeera Airways Route Map



Source: Jazeera Airways

Jazeera's Unique Business Model

Jazeera Airways, though similar to a low cost carrier, offers a unique value proposition to the customers through a hybrid business model to target wider range of market segments. The modifications that Jazeera Airways offers over the typical LCC model are as follows:

- A multi class aircraft – The fleet of A320 aircrafts, that the airline operates, has been specifically configured for Jazeera Airways to include 12 premium and 147 economy seats. This strategy is generally less followed by the LCCs and helps the carrier attract business travellers.
- A multiple fare system – It charges different fares for the different class of services offered:
  - » Jazeera Easy –The most basic fare in which flight changes, cancellation or refund, access to the airport lounge are not allowed. Only 20kg of baggage is allowed.
  - » Jazeera Light – Flight changes up until three hours prior to scheduled departure are allowed for a fee or the fare difference if any.
  - » Jazeera Freedom – Flight changes up until three hours prior to scheduled departure are allowed for no additional fees.
  - » Jazeera Plus (J+) – Along with the same ticket flexibility as the Jazeera Freedom it also offers dedicated check-in counters, an extra 10 kg baggage allowance (total 30 kg), J+ lounge access, and a range of in-flight amenities.
- Indirect and direct distribution – Jazeera Airways allows both direct paperless and agent bookings. The direct bookings are done through internet or call centres whereas for agent bookings it signed an agreement with Kuwait's Boodai Aviation Group to act as the carrier's ticketing agent.

Recent Developments

- Jazeera Airways opened its own new terminal in May, 2018.
- First in the Middle East to purchase A320 neo, the fuel-efficient aircraft. Three more scheduled for delivery in 2019.

Jazeera airways has business plans for 2018-2020 to ramp up Jazeera terminal and streamline its operations, seek further expansions to add more capacity and continuously evaluate other potential opportunities in the supply chain. In addition, it has laid down below targets for 2020. Jazeera airways is further targeting to increase the fleet size to 20 aircrafts by 2022.

Table 4.3: FY 2018-2020 Business plan

| Parameters   | 2017  | 2018  | 2020f | Remarks  |
|--------------|-------|-------|-------|--|
| Fleet        | 7     | 9     | 18    | Fleet to comprise only of leased A320 aircrafts that create 18% fuel savings                               |
| Destinations | 20    | 27    | 40    | Further penetrate European and Indian sub-continent, expand and increase frequency in existing markets     |
| Load Factor  | 73.9% | 75.2% | 75%   | Diversify customer base  |
| Utilization  | 10.9  | 13.06 | 14    | Focus on efficient asset utilization, supporting growth and cost efficiencies by maximizing aircraft usage |

Source: Jazeera Airways investor presentation

Jazeera airways registered a sharp increase in aircraft utilization by 25.3% in 2018 to reach 13:06hrs and an increase in number of scheduled departures to 16,194, an increment of nearly 40%. Yield declined to KD 40.8, mainly due to launch of new routes at a discounted rates. Overcapacity in the region market and introduction of low cost carrier also affected the yields in 2018.

Table 4.4: Key Performance Indicators

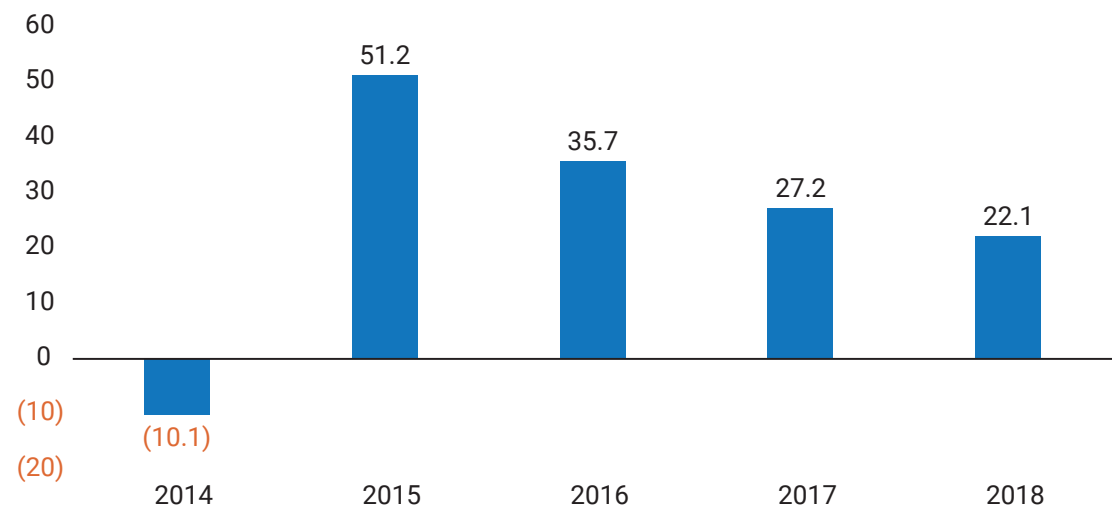
| Parameters        | 2014  | 2014  | 2014  | 2014  | 2014  |
|-------------------|-------|-------|-------|-------|-------|
| Fleet Size        | 7     | 7     | 7     | 7     | 9     |
| Load Factor       | 68.3% | 69.0% | 69.3% | 73.9% | 75.2% |
| Passengers ('000) | 1,165 | 1,218 | 1,221 | 1,358 | 1,987 |
| RPK (bn)          | 1.5   | 1.6   | 1.6   | 1.7   | 2.9   |
| ASK (bn)          | 2.2   | 2.2   | 2.2   | 2.4   | 3.9   |
| Yield (KD)        | 52.32 | 48.12 | 43.18 | 41.65 | 40.8  |
| OTP               | 0.95  | 0.95  | 0.94  | 0.93  | -     |
| Employees         | 424   | 430   | 482   | 540   | 645   |

Source: Jazeera Airways | OTP - On time performance

<sup>7</sup> RPK- Revenue passenger kilometers is measured by multiplying the number of revenue-paying passengers aboard by the distance traveled.  
<sup>8</sup> Available seat kilometers is measured by multiplying the total number of seats available for scheduled passengers and the total number of kilometers in which those seats were flown.  
<sup>9</sup> Yield - Average fare per passenger per mile. It is usually high during peak season due to higher demand.

Because of the TAP, the carrier has a great run of positive results. According to annual report, the shutdown of Kuwait International Airport due to adverse weather costed the airlines USD 4.9mn, which significantly lowered its bottom line in 2018. Decline in Turkish and Indian currency resulted in lower earning numbers. Despite lower earnings, the board of directors have recommended a cash dividend of KD 7mn.

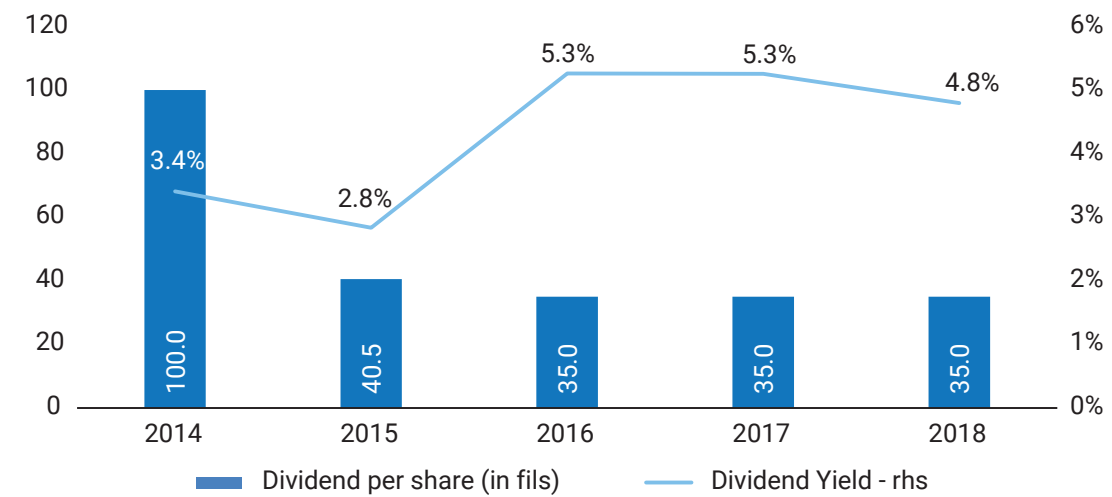
Figure 4.7: Net Income (USD mn), Jazeera Airways, 2014-2018



Source: Reuters

Jazeera airways have been consistently paying dividends to its shareholders over the years. The payout ratio has historically remained high with 2018 payout ratio of 105%, in line with 5 year average.

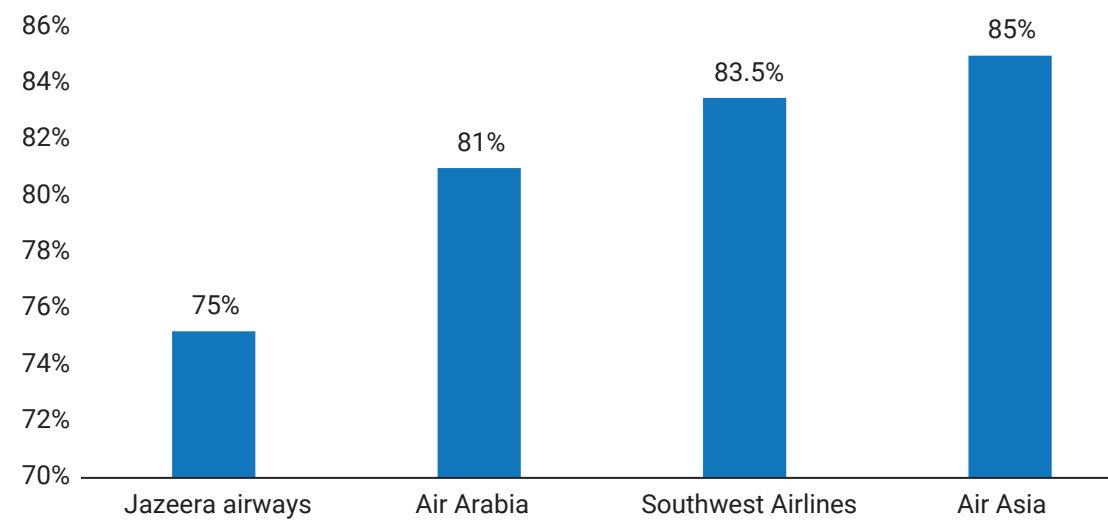
Figure 4.8: Dividends paid to shareholders



Source: Reuters

After the success of TAP, Jazeera Airways launched the Strategic Master Plan (STAMP), which aims to keep equal number of destinations but adding more frequency on its most profitable routes and gradually building load factors.

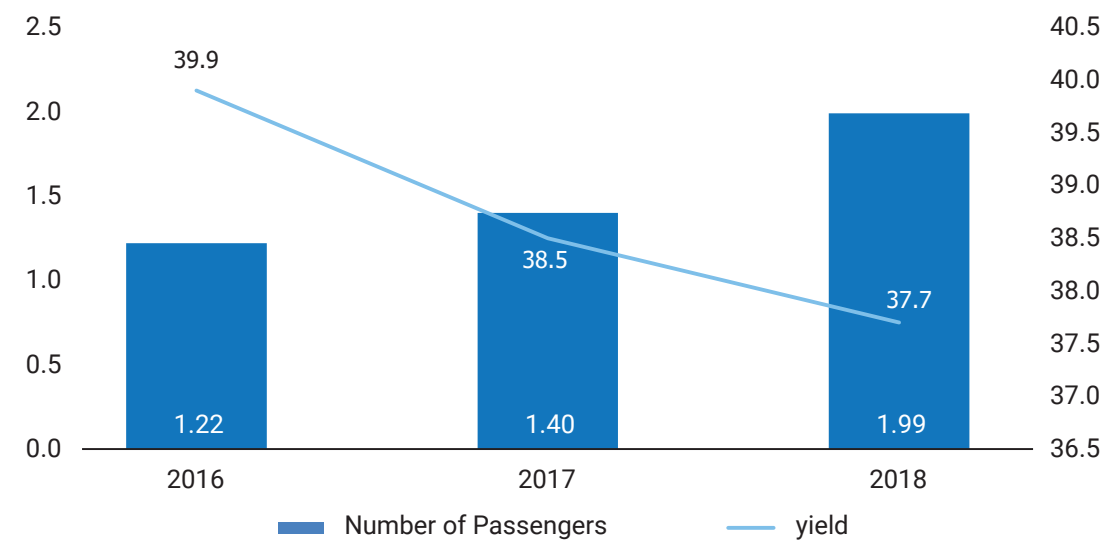
Figure 4.9: Passenger load factor of Jazeera Airways compared with other LCCs, 2018



Source: Annual reports of respective Airlines | Load factor measures the capacity utilization | Note: Only Jazeera and Air Arabia operate in Kuwait, Southwest airlines operate only in USA

Although the lowest PLF in the region, the number of passengers travelling by the carrier and the capacity is increasing. The airline has been able to maintain the profitability of the company while maintaining good yields through its low cost-high revenue approach. It provides certain frills meals, extra baggage and ancillary services for extra cost wherever possible to increase revenue from passengers. Its route selection is also focused on higher yielding destinations.

Figure 4.10: Number of passengers (Mn) and passenger yield (KD fils)

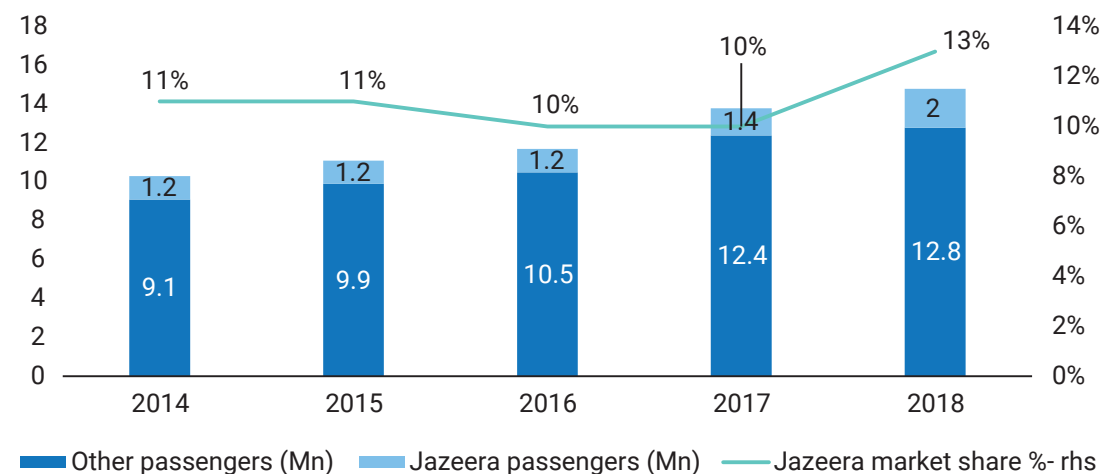


Source: Jazeera airways



In 2018, the passengers travelled between Kuwait and Ahmedabad increased by one-third. Jazeera Airways accounted for 42% of the market share on this route. Other Indian cities such as Hyderabad, Kochi and Mumbai also registered a growth in passenger traffic by 343%, 23% and 15% respectively. Jazeera airways market share on these routes stood at 87%, 27% and 13% respectively. Jazeera airways was able to capture the market share effectively due to its direct route approach as compared to layover/connecting flights by majority of other carriers. Jazeera also launched flights to Georgia and now holds a market share of 43% on the route between Kuwait and Tbilisi (Georgia). Jazeera also provided wider connecting facility as its connecting traffic (as a percentage of total passengers) increased to 18% in 2018 from 3% in 2017.

**Figure 4.11: Jazeera market share out of Kuwait international airport passenger traffic**



Source: Jazeera corporate presentation

**Table 4.5: Key Financials – Jazeera Airways (USD million)**

|               | 2015  | 2016  | 2017  | 2018  |
|---------------|-------|-------|-------|-------|
| Total Revenue | 194.9 | 173.5 | 186.3 | 272.9 |
| Gross Profit  | 56.7  | 41.0  | 38.7  | 43.6  |
| Net Income    | 51.2  | 35.5  | 27.1  | 22.1  |
| Total Equity  | 104.2 | 121.6 | 125.7 | 124.8 |
| Total Assets  | 174.8 | 175.9 | 186.3 | 207.4 |

Source: Jazeera Airways, Reuters

The company has seen a decline in margins since 2015. The airlines has however managed to become debt free in 2015 post divesting from leasing business.

**Table 4.6: Ratios – Jazeera Airways**

|                                | 2015  | 2016    | 2017   | 2018    |
|--------------------------------|-------|---------|--------|---------|
| <b>Profitability</b>           |       |         |        |         |
| Gross Margin                   | 29.1% | 23.6%   | 20.8%  | 16.0%   |
| EBITDA Margin                  | 26.3% | 21.2%   | 16.4%  | 10.9%   |
| Operating Margin               | 25.5% | 20.0%   | 15.0%  | 8.9%    |
| Net Margin                     | 24.2% | 20.5%   | 14.5%  | 8.1%    |
| <b>Liquidity</b>               |       |         |        |         |
| Quick Ratio                    | 2.12  | 2.68    | 1.92   | 1.12    |
| Current Ratio                  | 2.13  | 2.69    | 1.94   | 1.13    |
| Cash Cycle (Days)              | 2.5   | 12.9    | 4.6    | 12.0    |
| <b>Leverage</b>                |       |         |        |         |
| Assets/Equity                  | 1.68  | 1.45    | 1.47   | 1.66    |
| Debt/Equity                    | 0.0   | 0.0     | 0.0    | 0.0     |
| <b>Operating</b>               |       |         |        |         |
| Avg. A/R Days                  | 18.1  | 32.3    | 25.0   | 39.2    |
| Avg. Inventory Days            | 1.9   | 2.1     | 1.9    | 1.3     |
| Avg. A/P Days                  | 17.5  | 21.5    | 22.3   | 28.5    |
| Fixed Asset Turnover           | 16.52 | 9.82    | 5.84   | 4.61    |
| WC / Sales Growth              | 14.5% | (26.6%) | (8.1%) | (21.5%) |
| Bad Debt Allowancte (% of A/R) | 3.2%  | 3.3%    | 4.9%   | 0.9%    |
| ROIC                           | 26.8% | 28.2%   | 19.9%  | 15.9%   |

Source: Reuters

The EV/EBITDA multiple for Jazeera airways has increased over the years due to the decline in earnings as the airlines faced stiff competition from rivals. The P/E multiple has also increased since 2015. This is despite the decline in share price since Oct-2016.

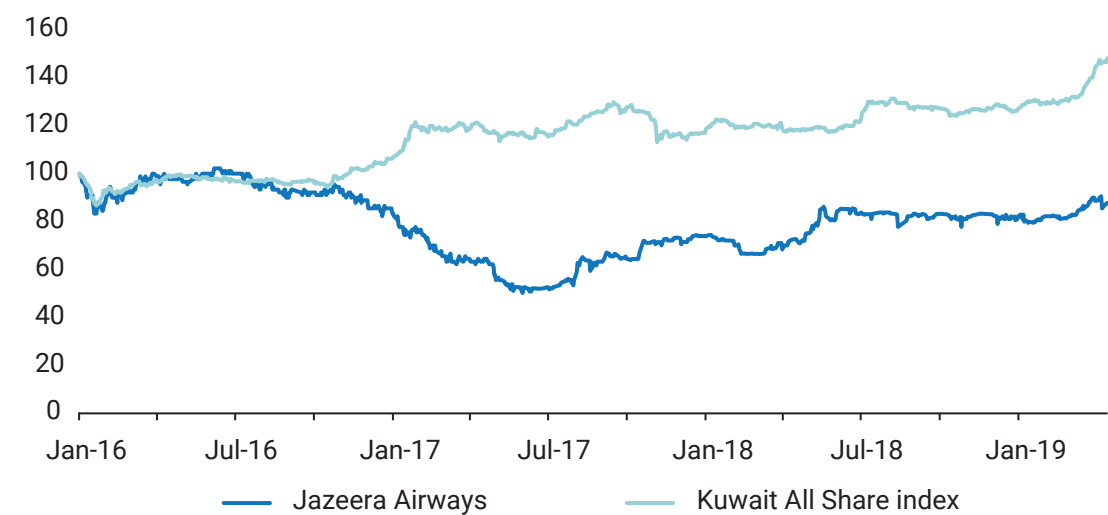
**Table 4.7: Valuation Ratios – Jazeera Airways**

| Valuation Ratios | 2015 | 2016 | 2017 | 2018 |
|------------------|------|------|------|------|
| EV/EBITDA        | 10.0 | 11.8 | 13.0 | 18.7 |
| P/E              | 12.3 | 14.3 | 16.2 | 21.9 |
| P/B              | 2.8  | 4.0  | 3.4  | 3.7  |

Source: Reuters

The gradual decline in net income is reflected on the share price, which has underperformed the benchmark. The Kuwait index has yielded 47% returns in absolute terms since 2016 while Jazeera airways' share price declined by 12% during the same period as of mid-April 2019.

Figure 4.12: Jazeera Airways share price vs Kuwait All share index (Rebased to 100)



Source: Reuters, Marmore research

Failure of Wataniya Airways

Wataniya Airways was the third Kuwaiti carrier that operated out of the Kuwait International Airport. It commenced its operations in 2009 from its own private terminal, Sheikh Saad Terminal. However, due to financial difficulties it finally ceased its operations in 2011. By then it was serving 14 destinations with its fleet size of seven A320 aircrafts.

The Wataniya Airways' plan was to differentiate itself from other carriers by offering a 'luxury service'. To do that they configured their A320 aircraft to a 122-seat configuration, which included 26 passengers in the business first class, compared to 180-seat high-density layout adopted by other airlines. However, the airline could not sustain such a model financially as people preferred a LCC to a luxury airline during the time of financial crisis. Moreover, operating out of a private terminal without really establishing the airline in the local market increased operating costs for the company and thus adding to the financial problems.

Aviation services companies

National Aviation Services

National Aviation Services (NAS) started its operations in Kuwait in 2003. It has now presence in 17 countries across the MENA region with an employee base of over 8,000. NAS provides Ramp and Passenger Services, Cargo Handling, Engineering Services and Line Maintenance, Airport Technologies, Fixed Base Operations, Aviation Training Center, Travel Agency and the Pearl Assist product which includes lounges among others.

Table 4.8: NAS key statistics

|                              |         |
|------------------------------|---------|
| Stations                     | 30      |
| Flights handled              | 85*     |
| Passengers handled ('000)    | 14,000* |
| Tons of Cargo handled ('000) | 370*    |

Source: NAS | \* Annual figures as mentioned on website

Latest developments

- NAS recently launched Pearl Lounge at the Terminal 5 in Kuwait International Airport. The lounge caters to all business class passengers of Jazeera Airways. It now operates 40 airport lounges.
- NAS will start providing ground handling and cargo services in Mozambique from July 2019. This will include ramp, passenger and engineering services as well as import and export cargo handling and storage for airlines at all airports in Mozambique. NAS has also entered into a joint venture agreement with Linhas Aéreas de Moçambique, the Mozambique flag carrier, to provide management services of the six Flamingo lounges in Mozambique with plans for further expansion. NAS has investment plans of worth USD 50mn in Africa over the next three years.

Kuwait Aviation Fueling Company

Kuwait Aviation Fueling Company (KAFCO) was formed in 1963. In 2017, KAFCO became a subsidiary of Kuwait National Petroleum Company (KNPC). KAFCO's expansion started in the early 1970's with the completion of a new fuel depot and storage facilities providing a total of 4.5mn litres' storage capacity. Most recently it has constructed a 140,000 sqm depot that is equipped with six storage tanks with a capacity of over 54mn litres. The storage capacity is sufficient to service the airlines requirement for more than 12 days.

Kuwait Aviation Services Company

Established in 1981, Kuwait Aviation Services Company (KASCO) is a wholly owned subsidiary of Kuwait Airways that provides many ground handling functions including flight kitchen, restaurants and cafeterias at Kuwait international airport, supervision of the First Class and Business Class Lounges (ex: Dasman), managing the food and beverage operation of the airport transit hotel. The company currently has a production capacity of 25,000 meals per day<sup>10</sup>. KASCO caters to 22 major airlines in addition to a range of different private jets, V.I.P. and V.V.I.P. charters. KASCO has produced over 65mn meals over the years. KASCO also established the Hospital catering services in 2003 and caters to many hospitals such as Al Seef, Dar Al Shifa, New Mowasat and Taiba hospitals.

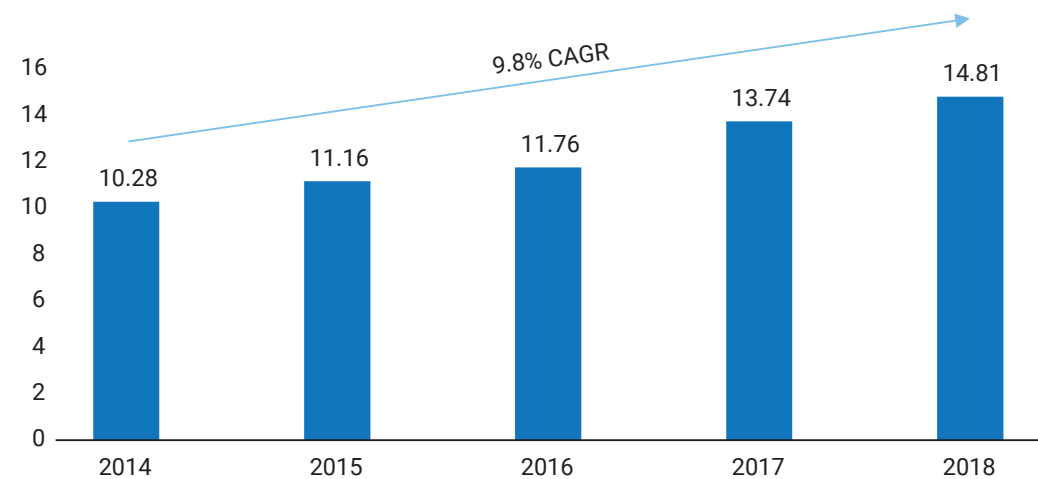
<sup>10</sup> As mentioned on company's website

# Kuwait Airports

Kuwait International Airport (KIA) acts as the hub for all international travels. It also houses the Al Mubarak Air Base as well as the Kuwait Air Force Museum.

The passenger traffic, in terms of number of passengers, at the Kuwait International Airport rose to approximately 14.8mn in 2018, a growth of almost 7.8% from 13.7mn in 2017.

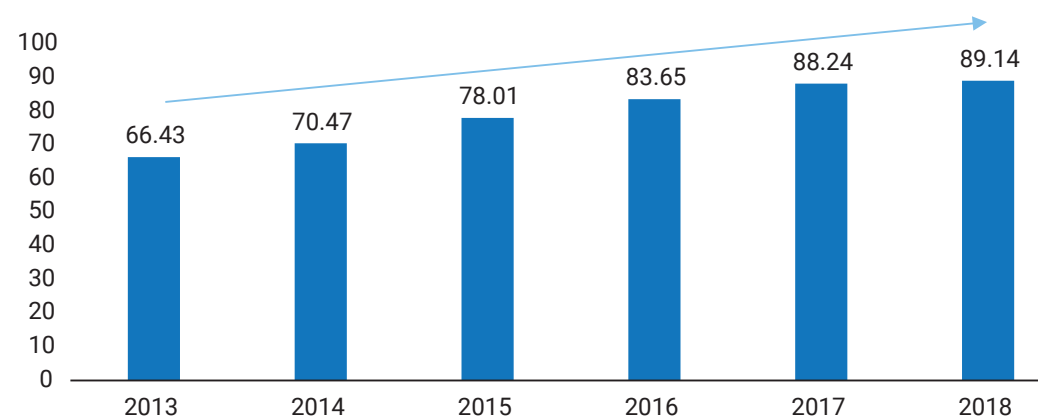
**Figure 5.1: Number of passengers at the KIA (in mn)**



Source: Jazeera investor presentation

Though the number of passengers at the Kuwait International Airport has been on a rise, the number still looks small compared to the number of passengers at the Dubai International Airport, the regional leader with more than 89mn passengers in 2018.

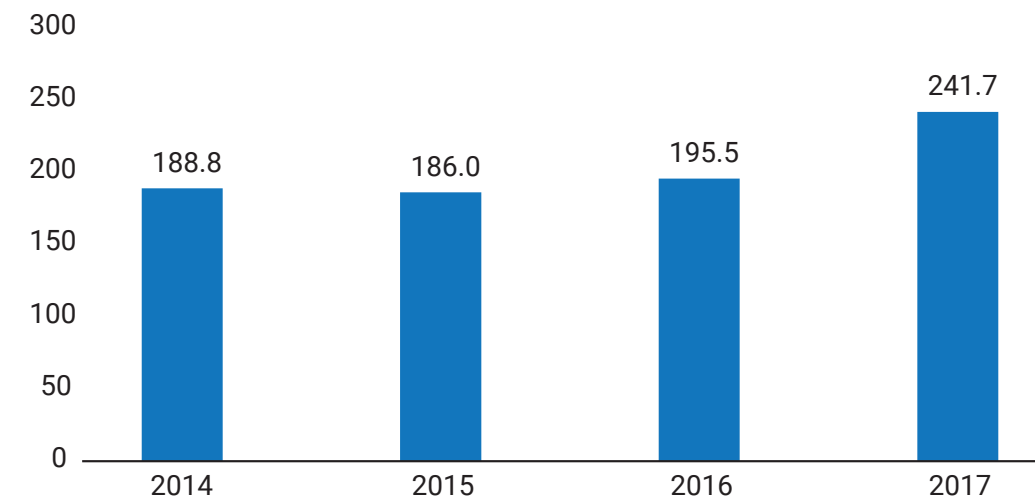
**Figure 5.2: Number of passengers at the Dubai International Airport (in mn), 2013-2018**



Source: Dubai International Airport

The Freight traffic has increased to 241.7 thousand metric tons in 2017. This can be attributed to the rising economic activity which is resulting in higher trade.

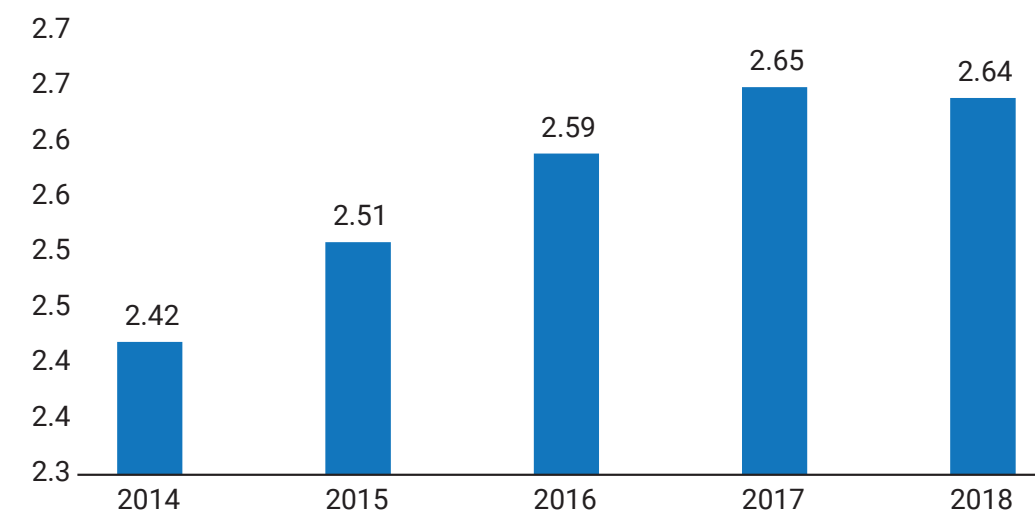
**Figure 5.3: Freight traffic at the KIA (in '000 metric tons)**



Source: DGCA, Statista

The freight traffic at the Dubai International Airport was around 2.6mn tons in 2018. In comparison to Kuwait airport, Dubai airport handles 100 times more freight.

**Figure 5.4: Freight traffic at the Dubai International Airport (in mn metric tonnes)**



Source: Dubai International Airport

The DGCA's plan for the improvement and expansion of the Kuwait International Airport targets the development of civil aviation services in Kuwait.

The most important projects in that plan include:

- The expansion project of Terminal (2)
- New Terminal 4 (Kuwait Airways)
- New Terminal 5 (Jazeera Airways)
- The construction of 5.4 km long runway

# Directorate General of Civil Aviation

- The extension of current east and west runways
- The construction of another watchtower
- The completion of the second phase of air cargo city.

The other projects include development of navigational aids and weather meteorology devices, modernization of air navigation systems and improvement of roads and paths at the airport.

The first phase of the expansion plan of the airport is expected to increase the airport capacity from 7mn to 20mn and to 25mn at a later stage by 2023. This plan is in line with the expected growth in air traffic in the next 10 years. This investment plan was unveiled by the DGCA in May 2012.

**Table 5.1: Airport Expansion Projects at Kuwait International Airport**

| Project Name   | Project Value (USD mn) | Project Status | Passenger capacity (Mn) | Completion Date |
|--|------------------------|----------------|-------------------------|-----------------|
| Kuwait International Airport Terminal 2                    | 4,200                  | Ongoing        | 25                      | 2023            |
| Kuwait International Airport-Terminal 4                    | 198.5                  | Completed      | 4.5                     | 2018            |
| Kuwait International Airport- Terminal 5 (Jazeera Airways) | -                      | Completed      | 2.5                     | 2018            |

Source: Zawya

Sheikh Saad Terminal, operated by Royal Aviation Company caters majorly to the executive aviation market and handles private aircraft, business jets, helicopters and charter operations. The terminal is equipped to handle up to 40 flights daily.

## Private leasing out of airport, a good alternative?

Across the globe, the privatization of airport have been looked up as an effective way to increase airport efficiency and enhance competitiveness. While buying airports is increasingly becoming popular, the buyer usually pays a fixed airport charges per passenger to the government which is recovered by passenger spending at the airport. Given the growing passenger traffic over the last few years at the Kuwait international airport and huge growth potential over the next decade, it could be a sweet deal as airports also hold up huge amount of capital. The airports also require huge capital and is therefore a lucrative opportunity for the governments to divest and free up capital. It can be listed on stock exchanges or sold to private investors. For instance, Airport Authority of India has been selling its stake to private players and receiving a fixed charges per passenger. France also sold its stake in Toulouse airport to a Chinese-led consortium.

The DGCA is the regulatory body for civil aviation in Kuwait. The Kuwait Civil Aviation department was established in 1956 that was renamed as the Directorate General of Civil Aviation in 1975.

The DGCA's main operation is the management and operation of the Kuwait International Airport and the regulation of all services and facilities extended to air transport traffic at the airport. It provides necessary services for international air navigation along with taking care of the civil aviation safety matters. Its other responsibilities include supervision of construction and maintenance of associated facilities, handling the air transport affairs including international conventions and agreements regarding civil aviation, and organization of air transport market in Kuwait.

It is currently headed by Mr. Sheikh Sabah Al Humoud Al Sabah, the President of Civil Aviation, and consists of 16 departments including administrative affairs, aviation safety, information systems and navigational equipment.

## Peer Comparison

Unlike the DGCA, the General Authority of Civil Aviation (GACA), Saudi Arabia, which was established in 1934, performs the function of ensuring the safety and comfort of the pilgrims during Haj services. GACA has formed a specialized committee to closely monitor the transportation of pilgrims during Haj services and take penal action against erring carriers.

**Table 6.1: Country-wise regulators with establishment date**

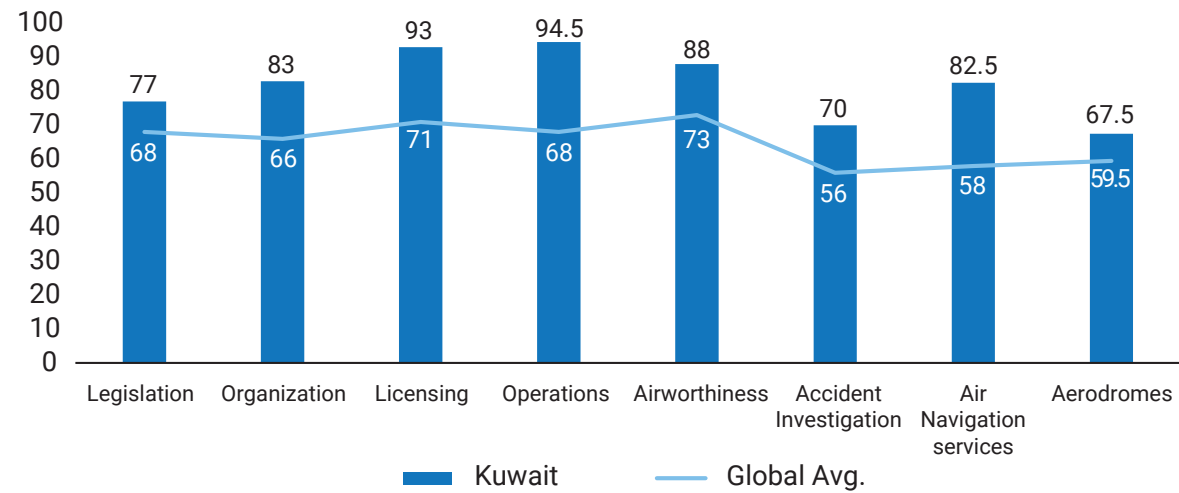
| Regulator   | Year of Establishment |
|---|-----------------------|
| Directorate General of Civil Aviation, Kuwait     | 1956                  |
| General Authority of Civil Aviation, Saudi Arabia | 1934                  |
| General Civil Aviation Authority, UAE             | 1966                  |
| Civil Aviation Authority of Qatar                 | 2001                  |

Source: Respective websites

Kuwait has been ahead of global average in implementing various guidelines and regulations. It has secured excellent implementation of above 90% in licensing and operations.

## Challenges for Kuwait Aviation

Figure 6.1: Effective implementation (%)



Source: DGCA, ICAO

Dubai Civil Aviation Authority (DCAA) was formed as an autonomous body in 2007. It has a special International Affairs Section, which plays a key role by preparing groundwork for conducting negotiations for Air Services Agreements, by establishing links with other states and provides a necessary platform for the successful implementation, of an international air transport system. The section also serves as a point of contact for international and national aviation authorities and looks after aero-political rights of Dubai. Considering that Kuwait has an open skies policy, the DGCA could benefit from such a specialized department.

Kuwait hosted first ever aviation show in 2018 with the participation of 125 local and international aviation companies. The Kuwait Aviation Show is a biennial event, implying that the second edition will happen in 2020. The event presented organisations to discuss ideas and services and explore opportunities in the Kuwait aviation industry. The event spanned over four days with each day allotted to VIPs, government bodies and companies and the public.

### Kuwait airways Privatization Challenges

Kuwait airways has been unsuccessful in its plans to privatize the business, plagued by delays over the years. Though the first order of the plan came out in 2008, it remains unimplemented. The staff of Kuwait Airways is still reluctant towards privatization, as they believe that it would result in loss of benefits for them.

Though the Kuwaiti privatization committee has tried to sweeten the deal by offering discounts and incentives, investors have been hard to come by. One of the reasons might be the unattractive ageing fleet of Kuwait Airways with significantly higher average fleet age in the past. However, to counter this issue the Kuwait Airways Corporation had ordered 25 new airbus aircrafts that might help make the deal more attractive. The average age of fleet is now reduced to 7 years.

With more than 6,000 employees and almost 353 employees per fleet the airline carrier is overstaffed compared to only around 72 employees per fleet for Jazeera Airways or 204 employees per fleet for the government owned Qatar Airways, amongst its regional peers. To control its heavy losses and to create the investment opportunity, the state-owned carrier needs to optimize their employees to fleet ratio. Lufthansa airlines has a significantly higher number of employees as compared to other air carriers. This could have a negative impact on profit margins. For instance, the staff cost for Lufthansa as a percentage of operating cost stood at 24.8% compared to 13.6% for Jazeera airways.

Table 7.1: Comparison with number of employees and fleet size as of latest available

| Airlines           | Number of Employees* | Fleet size | Employees/Fleet |
|--------------------|----------------------|------------|-----------------|
| Kuwait Airways     | 6,000                | 17         | 353             |
| Jazeera Airways    | 645                  | 9          | 72              |
| Emirates           | 64,768               | 270        | 240             |
| Etihad Airways     | 24,558               | 112        | 219             |
| Qatar Airways      | 45,633               | 224        | 204             |
| Singapore Airlines | 14,729               | 126        | 117             |
| Lufthansa          | 135,534              | 304        | 426             |
| Southwest Airlines | 58,803               | 752        | 78              |

Source: Airfleets, respective websites, Markaz Research



# Trends

## Intense Competition

The two air carriers face tough competition within themselves and from the other carriers in the GCC region. Kuwait Airways has an uphill task to perform if it needs to compete with the other Full Service Carriers (FSCs) like Emirates Airlines, Etihad Airways, and Qatar Airways, who are currently trying to strengthen their global presence.

The regional market is highly volatile and is vulnerable to geopolitical risks. Jazeera Airways also face stiff competition from government-owned and other LCCs in the region like Air Arabia, Gulf air, Flydubai, Nas Air and Bahrain Air. This kind of competition often results in players indulging into price wars in order to increase or just to maintain their market share. This has in the past contributed in the closure of carriers such as Wataniya Airways. While the competition played its part, the airline was also facing operating difficulties with frequent flight delays and lack of effective planning to improve its financial condition. Ultimately, a combination of multiple factors resulted in the complete shutdown of operations.

## Overcapacity Concerns

Both the national carriers in Kuwait have aggressive fleet expansion plans over the next five years. While Kuwait Airways is planning to expand its fleet from 17 to 38 by 2025, Jazeera has its own ambitious plans to double its fleet by 2020. This has raised concerns of overcapacity at Kuwait airport. Although the new planes ordered by Kuwait airways will replace the ageing fleet, they may not be scrapped completely and might be sold or leased out to other carriers. This might cause overcapacity in the whole sector thus resulting in price competition in the market.

## Outdated Airport

The infrastructure of Kuwait airport is still outdated compared to other international airports. This is evident from Kuwait airport's poor ranking at 131 out of a total 132 airports by AirHelp study conducted in 2019 that rates an airport based on three factors including; on-time performance, service quality, and food and shopping options. Lack of modern technology has been one of the major issues at the airport.

The government has been trying to improve the speed and efficiency of the ground operation at the KIA through a new baggage reconciliation system, new air bridges, and the building of new terminals among others. Though the plans to improve the infrastructure at Kuwait International Airport has been put into motion it will take time and will require a continued flow of investments to upgrade the airport at par with top ranked airports such as Hamad International Airport, Qatar.

## Low Capacity Runways

The capacity of KIA, in terms of number of runways, is very low compared to the other international airports such as Frankfurt, which already has four runways. However, more runways are being created as part of the government expansion plans.

## Low Cost Carriers

LCC is still a relatively less popular concept for the Gulf region but Jazeera Airways brought that trend in the Kuwaiti market with its launch in 2004. Since its launch, it faced a few loss-incurring years in the beginning but has been in a growth trajectory since then. The success of Jazeera Airways can encourage the other LCCs to come up in the market and boost the LCC market penetration not just in Kuwait but also in the Middle East that still has only few low cost carriers.

To maintain their low-ticket prices the LCCs are adopting steps like point-to-point service, rapid turnaround and charging for in-flight services.

The other recent trends include the loyalty programs which the carriers offer like frequent flyer programs. Jazeera Airways offers the Jazeeraati program in which it offers a free flight for every 10 boarding pass the customer collects.

## New Airport terminals

### Amiri Airport Terminal

The Amiri terminal was constructed in 2009 for the exclusive use of the Amir of Kuwait and his guests. It is also used as a welcoming site to receive the Heads of State from all over the world, which puts an end to the open-air receptions. The three-storey terminal is built up on an area measuring 181,000 square meters and comprises of six buildings.

### Sheikh Saad Terminal

The Sheikh Saad Terminal was completed in 2008 with the main responsibility of handling private aircrafts, business jets, helicopters and air ambulances but was later modified to handle the operations of Wataniya Airways.

The terminal is built on area measuring 130,000 square meters and is operated by the Royal Aviation Company.

### Jazeera Airways Terminal T5

Jazeera Airways Terminal is built across an area of 4,750 sqm and is capable of handling an average of 1,200 bags per hour. The terminal can hold a capacity of 2.5mn passengers. It is also equipped with self-service kiosks, a major service that main building Kuwait International Airport does not have.

### Kuwait Airways Terminal T4

The Kuwait Airways terminal is 55,000 square meters and includes 14 gates for departure and 10 gates for arrival. This terminal was created in order to reduce the pressure on terminal 1 due to overcapacity.

## Terminal 2 expansion

The construction of the new terminal 2 upon completion will replace the existing Terminal and will provide passenger capacity of 25mn initially on completion in 2023 which can be further increased to up to 50mn based upon requirement. The New Terminal Building components includes, Terminal Building with basement, ground plus two floors, multi-storey car parks with a minimum of 4,500 car spaces, taxiways and Aprons adjacent to the Terminal, 28 Terminal Gates featuring 51 gates, transit hotel etc. The structure of the new airport terminal is currently 35% completed and is on schedule as per latest available data. The building will be spread over an area of 6.8mn square meters.

Limak Holding which is a Turkish construction company signed a credit agreement worth USD 830.6mn with NBK and KFH to finance the expansion of Kuwait International Airport that will be worth USD 4.2bn. NBK and KFH banks will also provide USD 411.2mn funds each towards the terminal's construction.

## Plans for a new Kuwait Airport

In addition to the ongoing expansion of Kuwait international airport, Kuwait is planning to build a new airport in the Northern part of the country with an estimated cost of USD 12bn. According to the Civil Aviation Chief, Sheikh Salman Sabah Salem Al-Hamoud Al-Sabah, Kuwait is expected to register a remarkable growth in passenger and cargo traffic over the next 20 years that warrants the construction of a new airport. The new airport will include passenger building, runways, aircraft control, cargo area and will have a capacity to handle 25mn passenger annually. The project which could be a public-private partnership, will generate employment for nearly 15,000 people.

## Chartered Plane Market

The traditional belief among the people is that flying in a private jet is only available for the upper class or UHNWI. However, as the private air traveling become more accessible business class travelers are considering and relying on private jet travel. Even though business class travelers get many privileges over economy travelers they still have to spend time for security checks. Further, there is unavoidable dependency on fellow travelers in the airlines. A private air travel eliminates all such factors of dependency that may sometimes adversely impact the sleep and productivity. Private jet gives the passenger complete control over the flight time. Small Private jets doesn't require large runways and have more flexibility in schedule and route.

Kuwait commands 5% of the charter business in the Middle East<sup>11</sup>. The charter business is picking up again after the recession, which forced some of the companies to shut down their operations. Currently, according to Air Charter International, businesspersons in Kuwait make 4 to 5 charter trips a year on an average.

The demand for air charters is more in the gulf compared to the other developed markets such as the UK, as the availability of commercial options on domestic routes is sparse in the Gulf. A Gulf businessperson, who on an average flies about 100-200 hours per year against 50-100 hours/year by a European businessperson, believes that using a charter is more financially feasible than buying a jet<sup>12</sup>. According to the air charter companies, the primary reasons for private jet travel include speed, security and privacy.

<sup>10</sup> Air Charter International

<sup>11</sup> Private Jet Charter, Arabian Business

## Aviation Leasing

About 40% of the planes globally are leased by airline. The trend is picking up pace in the Middle East as well. There are often situations where airline can be short of planes to meet the demand for new routes due to a time lag between the order and delivery. Renting a plane therefore can be an effective way to tap into the growing market at the right time. It can also reduce risks associated with old fleet as they have flexibility in selecting the newer and more efficient ones. The aircraft leasing industry is expected to see growing appetite for aircraft leasing over the next decade.

Aviation Lease and Finance Company (ALAFCO) is an aircraft leasing company that is headquartered in Kuwait. It was founded in 1992. ALAFCO's portfolio comprises of 69 Airbus and Boeing aircraft, leased to 22 different airlines across 14 countries globally. ALAFCO's current order book comprises of 83 new technology aircraft from Airbus and Boeing including 37 A320neo, 10 A321neo, 4 A350XWB and 32 B737 MAX which are known for their fuel efficiency. The leasing company has deliveries that are scheduled to take place between 2019 and 2023.

ALAFCO's revenue for 2018 reached KD 126.4mn, increasing by 11.1% from 2017. The net profit for 2018 stood at KD 33.17mn, a growth of 1.1% over previous year. The increase in income was driven by the growth in income from lease revenue, and sale of new and used aircraft with lease attached. Total assets of the company grew by 4.4% to reach KD 1,123.4mn driven by the unwinding of the aircraft order book. Consistent to previous year, dividend of 10 fils per share was distributed to the shareholders.

High interest rates environment and volatile oil price are the leading risk factors that can adversely affect the fleet delivery commitments. Higher competition in the aviation leasing space, particularly from China will continue to squeeze margins. However, with recent signs of an economic slowdown in China, several entities are expected to scale back their operations, thus creating opportunities in the market.

## Strategy

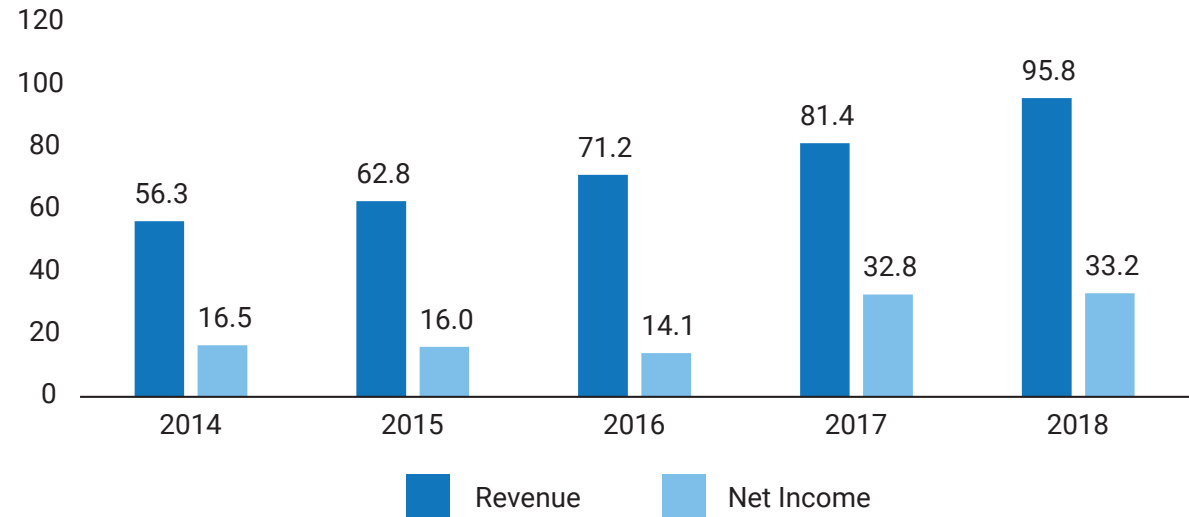
Market expectations for aircraft deliveries by 2037 are expected to surpass 39,000 aircraft, with over 75% of the demand comprising of narrow body aircraft, namely, A320Neo and B737Max. ALAFCO's strategy is focused on the placement of narrow body aircraft, as they expect to see huge growth potential in demand for single-aisle aircraft. The order book of ALAFCO therefore primarily consists of narrow body aircraft that is due to deliver over the period of next five years.

## Financials

The revenue for ALFCO grew by a CAGR of 12.9% from 2014 to 2018, while the CAGR in Net profit for the same period stood at a 10%. The increase in profitability was primarily due to growing demand for aircraft leasing and successful deliveries. During the year 2018, ALAFCO placed deliveries of latest fuel efficient A 320 neo aircraft to Sky airways thus expanding its client base to Latin America for the first time. ALAFCO also has a divestment strategy which has enabled it to maintain a young and high yielding aircraft fleet. In 2018, it divested 16 aircrafts from the portfolio that directly impacted the company's bottom line. Asia, Middle east and European market continue to be the most profitable market for ALAFCO.

# SWOT Analysis

Figure 8.1: Financial performance (KD Mn)



Source: Reuters

## SWOT

### Strengths

- Favourable Geographic location
- Cheaper Aviation Fuel
- High percentage of expatriates
- Affluent population base.
- Profitable Jazeera Airways
- Absence of other long distance mode of transportation. (Negligible rail connectivity)

### Weaknesses

- Lack of secondary airports
- Inefficient and ageing fleet
- Overstaffed Kuwait Airways.
- Underdeveloped infrastructure in terms of runways and terminals at the KIA.

### Opportunities

- Airport Expansion plans to accommodate increase in passenger traffic.
- Privatization of Kuwait Airways
- Adoption of open skies policy by other nations.
- Fleet expansion strategy of Kuwait airways.

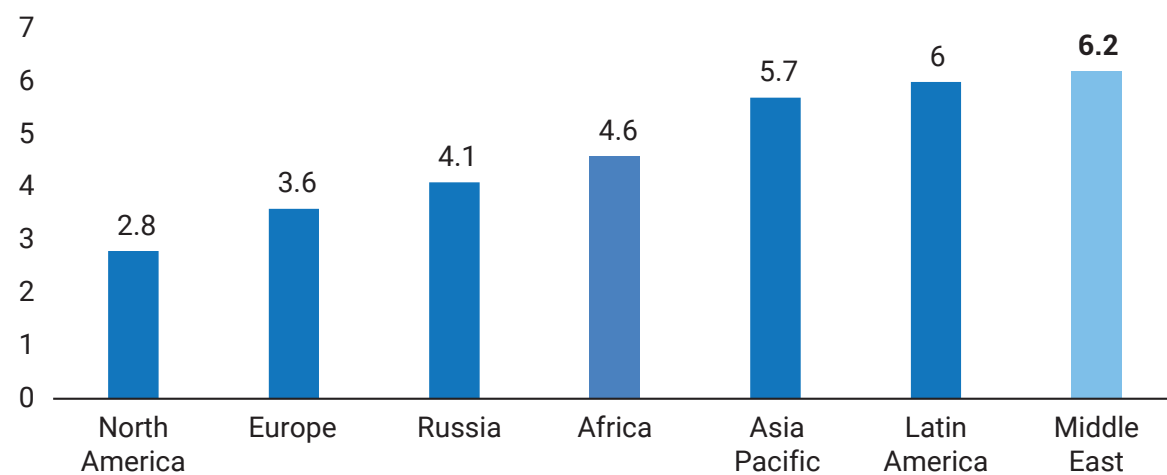
### Threats

- Political instability in the region
- Volatile fuel prices
- Competition from other low cost carriers in the GCC, Indian sub-continent.
- Overcapacity concerns due to the fleet expansion plans.

## Conclusion

The airport infrastructure development, the strong financial performance of Jazeera along with growing revenues for Kuwait Airways are promising factors, which are expected to drive the growth of Kuwait Aviation. The airline traffic in the Middle East is expected to grow at the rate of 4.4% CAGR between 2018 and 2037; one of the highest in the world.

**Figure 10.1: Growth in airline traffic (in %) by country/region, 2018 -2037**



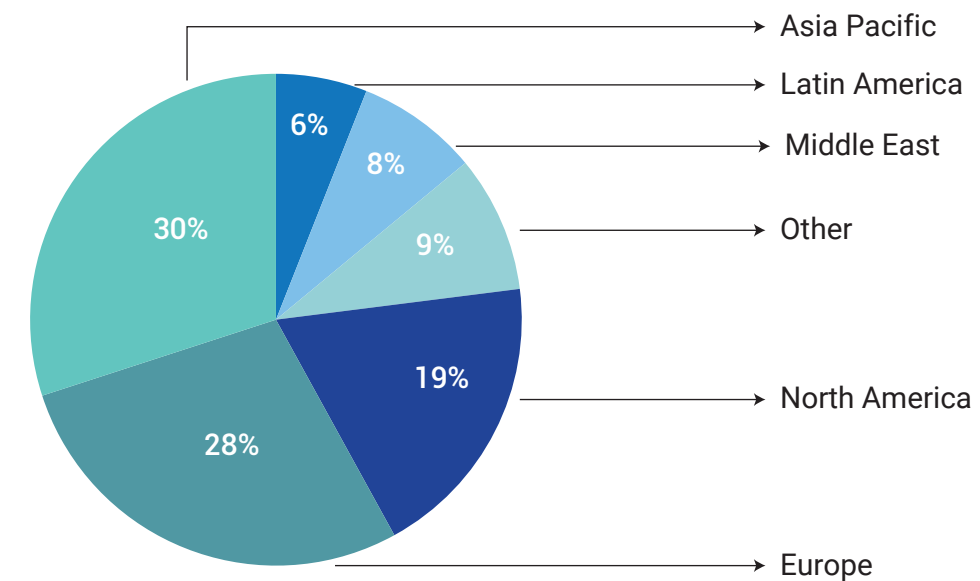
Source: Boeing Outlook report 2018

According to World travel and tourism council, international tourist arrivals are forecast to total 3,734,000 by 2028 in Kuwait. In addition to the expected surge in the tourists, Kuwait is witnessing rapid growth in connecting traffic to various destinations due to its favorable geographical location. The fleet and the airport expansion plans, comes at the right time to cover this growing demand suggesting a positive market outlook for Kuwait Aviation industry and become a hub for leisure and business travelers.

Over the years, the competition in the Kuwait aviation industry has grown with various international carriers trying to capture the growing market. Although the home grown carriers have an edge due to fuel subsidies they get from the government, with the number of choices available in the sky today increasing, Kuwait airlines will have to continuously strive and provide high-quality service with ever-increasing efficiency in order to maintain or expand their position in the marketplace.

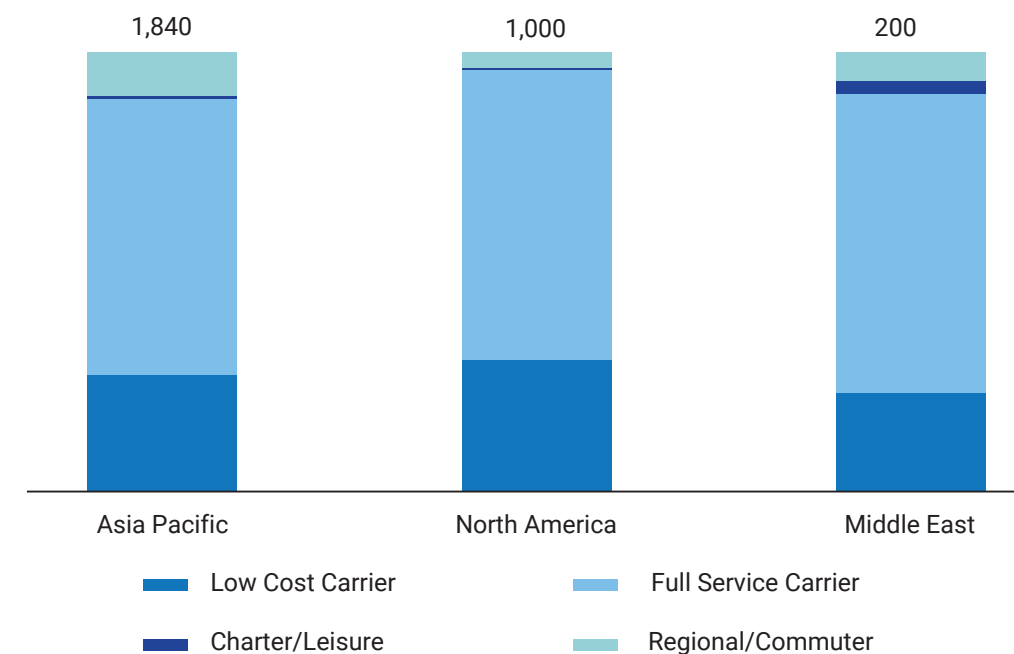
## Appendix

**Airbus order book value by region, 2018 (USD 516bn)**



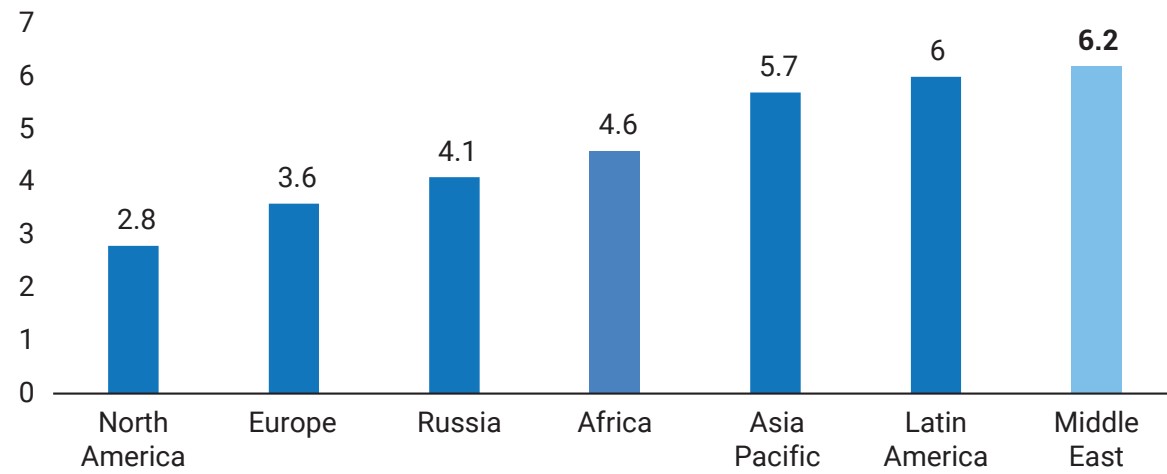
Source: Airbus investor presentation

**Share of each business model on Domestic and Intra-regional flights, 2017 – (Mn seats offered)**



Source: OAG, Airbus GMF 2018, Business models defined based on 2017 operations

### Growth in airline traffic (in %) by country/region, 2018 -2037



Source: Boeing Outlook report 2018

### Revenue passenger kilometers

| % change y-o-y                | 2017 | 2018 |
|-------------------------------|------|------|
| Middle east                   | 6.4  | 4    |
| Africa                        | 6.4  | 2.3  |
| World                         | 7.6  | 6.5  |
| <b>Routes (segment basis)</b> |      |      |
| Middle East - Asia            | 7.3  | 4.4  |
| Middle East - Europe          | 6.6  | 4.9  |
| Middle East - North America   | -1.4 | 1.2  |
| Africa - Middle East          | 4.4  | 3.3  |

Source: IATA

### Passenger yields

| % change y-o-y              | 2017 | 2018 |
|-----------------------------|------|------|
| Middle East - Asia          | -3.5 | -0.4 |
| Middle East - Europe        | -2.7 | 3.7  |
| Middle East - North America | -2.5 | 6.0  |
| Middle East - South America | 4.8  | 3.2  |
| Africa - Middle East        | -5.8 | 4.3  |
| Within Middle East          | -6.0 | 8.2  |

Source: IATA

### Jazeera Airways Financials

| Income Statement (KD Mn)               | 2014  | 2015  | 2016  | 2017  | 2018  |
|--|-------|-------|-------|-------|-------|
| Revenue                                | 219.6 | 194.9 | 174.7 | 186.8 | 272.9 |
| Cost of Revenue                        | 158.2 | 138.2 | 133.4 | 148.0 | 229.3 |
| Gross Profit                           | 61.4  | 56.7  | 41.3  | 38.8  | 43.6  |
| Selling/General/Admin. Expenses, Total | 13.3  | 10.8  | 11.5  | 12.2  | 18.7  |
| Selling/General/Administrative Expense | 2.2   | 4.5   | 5.0   | 5.3   | 10.3  |
| Labor & Related Expense                | 8.4   | 6.3   | 6.5   | 7.0   | 8.5   |
| Advertising Expense                    | 2.6   | --    | --    | --    | --    |
| Depreciation                           | 1.3   | 0.8   | 0.7   | 1.1   | 2.4   |
| Other Operating Expenses, Total        | -4.4  | -4.7  | -5.8  | -2.5  | -1.9  |
| Total Operating Expense                | 168.4 | 145.1 | 139.8 | 158.8 | 248.7 |
| Operating Income                       | 51.2  | 49.8  | 34.9  | 28.0  | 24.2  |
| Interest/Invest Income - Non-Operating | -2.1  | -0.5  | 2.5   | 0.5   | -1.1  |
| Net Income Before Taxes                | 49.1  | 49.2  | 37.4  | 28.4  | 23.1  |
| Provision for Income Taxes             | 0.0   | 2.1   | 1.6   | 1.2   | 1.0   |
| Net Income                             | -10.1 | 51.2  | 35.7  | 27.2  | 22.1  |

Source: Reuters

| Balance sheet (KD Mn)              | 2014  | 2015  | 2016  | 2017 | 2018 |
|------------------------------------|-------|-------|-------|------|------|
| Cash and Short Term Investments    | 221.4 | 101.7 | 96.4  | 75.5 | 27.6 |
| Cash                               | 42.2  | 8.7   | 8.5   | 12.1 | 11   |
| Cash & Equivalents                 | 179.3 | 93    | 87.9  | 63.4 | 16.6 |
| Accounts Receivable - Trade, Gross | 2.1   | 1.5   | 1.8   | 2.2  | 5.7  |
| Provision for Doubtful Accounts    | -0.5  | -0.5  | -0.5  | -0.5 | -0.4 |
| Total Receivables, Net             | 3.7   | 15.5  | 15.1  | 10.4 | 47.8 |
| Total Inventory                    | 0.7   | 0.8   | 0.7   | 0.8  | 0.8  |
| Prepaid Expenses                   | 3.7   | 1.5   | 3     | 2.7  | 3.3  |
| Other Current Assets, Total        | 507.3 | --    | --    | --   | --   |
| Total Current Assets               | 736.8 | 119.5 | 115.2 | 89.3 | 79.6 |



| Balance sheet (KD Mn)                               | 2014         | 2015         | 2016         | 2017         | 2018         |
|---|--------------|--------------|--------------|--------------|--------------|
| Property/Plant/Equipment, Total - Gross             | 16.9         | 28.2         | 31.8         | 61.9         | 93.9         |
| Buildings - Gross                                   | 4.2          | 4.3          | 7            | 7            | 45           |
| Machinery/Equipment - Gross                         | 5.3          | 16.9         | 16.9         | 28.4         | 33.7         |
| Construction in Progress - Gross                    | 0.3          | 0.2          | 1            | 19.3         | 5.4          |
| Other Property/Plant/Equipment - Gross              | 7.1          | 6.9          | 7            | 7.2          | 9.9          |
| Property/Plant/Equipment, Total - Net               | 6.7          | 16.9         | 18.4         | 45.6         | 72.5         |
| Accumulated Depreciation, Total                     | -10.2        | -11.3        | -13.4        | -16.3        | -21.4        |
| Long Term Investments                               | 4.2          | --           | --           | --           | --           |
| Other Long Term Assets, Total                       | 29.7         | 38.4         | 42.3         | 51.3         | 55.3         |
| Restricted Cash - Long Term                         | 4.9          | 9.8          | 8.1          | 8.8          | 8.6          |
| Other Long Term Assets                              | 24.9         | 28.6         | 34.2         | 42.6         | 46.7         |
| <b>Total Assets</b>                                 | <b>777.5</b> | <b>174.8</b> | <b>175.9</b> | <b>186.3</b> | <b>207.4</b> |
| Accounts Payable                                    | 5.2          | 8.1          | 7.4          | 10.6         | 25           |
| Accrued Expenses                                    | 23.8         | 20.3         | 15.4         | 14.5         | 22.9         |
| Notes Payable/Short Term Debt                       | 398.4        | 0            | 0            | 0            | 0            |
| Other Current liabilities, Total                    | 111.6        | 27.6         | 19.9         | 21           | 22.6         |
| Total Current Liabilities                           | 538.9        | 56.1         | 42.8         | 46           | 70.4         |
| Reserves  | 8            | 14.5         | 12.1         | 13.7         | 12.1         |
| <b>Total Liabilities</b>                            | <b>547</b>   | <b>70.6</b>  | <b>54.9</b>  | <b>59.7</b>  | <b>82.6</b>  |
| Common Stock, Total                                 | 143.5        | 65.9         | 65.5         | 66.3         | 66           |
| Retained Earnings (Accumulated Deficit)             | 83.7         | 30.2         | 55.5         | 60.3         | 58.8         |
| <b>Total Equity</b>                                 | <b>230.5</b> | <b>104.2</b> | <b>121</b>   | <b>126.6</b> | <b>124.8</b> |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>777.5</b> | <b>174.8</b> | <b>175.9</b> | <b>186.3</b> | <b>207.4</b> |

Source: Reuters

| Cash Flow (KD Mn)                       | 2014         | 2015          | 2016        | 2017        | 2018        |
|---|--------------|---------------|-------------|-------------|-------------|
| Net Income/Starting Line                | -2.9         | 15.4          | 10.8        | 8.2         | 6.7         |
| Depreciation/Depletion                  | 8.0          | 0.5           | 0.6         | 0.8         | 1.6         |
| Non-Cash Items                          | 19.6         | 1.5           | -0.5        | -2.1        | -0.5        |
| Changes in Working Capital              | -1.3         | -0.6          | -6.9        | -0.5        | -7.3        |
| <b>Cash from Operating Activities</b>   | <b>23.4</b>  | <b>16.7</b>   | <b>4.0</b>  | <b>6.5</b>  | <b>0.5</b>  |
| Capital Expenditures                    | -12.0        | -3.6          | -1.1        | -6.1        | -9.8        |
| Other Investing Cash Flow Items - Total | 0.9          | 138.4         | -1.3        | -2.6        | -           |
| <b>Cash from Investing Activities</b>   | <b>-11.1</b> | <b>134.8</b>  | <b>-2.4</b> | <b>-6.1</b> | <b>-9.8</b> |
| Total Cash Dividends Paid               | -1.4         | -5.3          | 0.0         | 0.0         | 0.0         |
| Issuance (Retirement) of Stock - Net    | -6.3         | -30.7         | -3.0        | -7.0        | -7.0        |
| Issuance (Retirement) of Debt - Net     | -            | -22.0         | 0.0         | -           | -           |
| <b>Cash from Financing Activities</b>   | <b>14.6</b>  | <b>-116.6</b> | <b>0.0</b>  | <b>-</b>    | <b>-</b>    |
| Foreign Exchange Effects                | 6.8          | -174.6        | -3.0        | -7.0        | -7.0        |
| <b>Net Change in Cash</b>               | <b>-3.6</b>  | <b>1.5</b>    | <b>0.0</b>  | <b>-</b>    | <b>-</b>    |
| Cash Interest Paid                      | 15.5         | -21.6         | -1.4        | -6.7        | -16.3       |

Source: Boursa Kuwait

### ALAFCO Financials

| Income Statement (KD Mn)                            | 2014 | 2015 | 2016  | 2017  | 2018  |
|---|------|------|-------|-------|-------|
| Revenue   | 56.3 | 62.8 | 71.2  | 81.4  | 95.8  |
| Selling/General/Admin. Expenses, Total              | 2.1  | 2.4  | 2.8   | 3.4   | 3.2   |
| Depreciation/Amortization                           | 27.6 | 30.5 | 35.6  | 38.4  | 43.9  |
| Unusual Expense (Income)                            | 0.0  | 1.9  | 2.3   | 7.7   | 0.0   |
| Other Operating Expenses, Total                     | 1.6  | 3.0  | 5.3   | 14.3  | 21.9  |
| Total Operating Expense                             | 31.4 | 37.7 | 46.0  | 63.8  | 69.0  |
| Operating Income                                    | 24.9 | 25.1 | 25.2  | 17.6  | 26.8  |
| Interest Income (Expense), Net-Non-Operating, Total | -7.7 | -8.3 | -11.7 | -14.7 | -21.3 |
| Gain (Loss) on Sale of Assets                       | -    | -    | 1.3   | 31.9  | 29.8  |
| Net Income Before Taxes                             | 17.3 | 16.8 | 14.7  | 34.8  | 35.3  |
| Provision for Income Taxes                          | 0.8  | 0.7  | 0.7   | 1.9   | 2.1   |
| Net Income  | 16.5 | 16.0 | 14.1  | 32.8  | 33.2  |

Source: Boursa Kuwait

| Balance sheet (KD Mn)                               | 2014         | 2015         | 2016         | 2017           | 2018           |
|---|--------------|--------------|--------------|----------------|----------------|
| Cash and Short Term Investments                     | 1.8          | 1.1          | 2.5          | 11.0           | 11.2           |
| Total Receivables, Net                              | 14.9         | 12.8         | 1.7          | 3.2            | 8.9            |
| Property/Plant/Equipment - Total - Gross            | 681.0        | 757.5        | 921.4        | 1103.4         | 1029.5         |
| Accumulated Depreciation - Total                    | -145.2       | -178.4       | -204.4       | -219.9         | -200.0         |
| Property/Plant/Equipment - Total - Net              | 535.8        | 579.1        | 717.0        | 883.5          | 829.5          |
| Long Term Investments                               | 68.8         | 66.6         | 50.9         | 51.0           | 36.3           |
| Other Assets - Total                                | 38.8         | 44.2         | 80.6         | 127.6          | 237.5          |
| <b>Total Assets</b>                                 | <b>660.0</b> | <b>703.8</b> | <b>852.6</b> | <b>1,076.3</b> | <b>1,123.4</b> |
| Accrued Expenses                                    | -            | -            | -            | 3.6            | 4.4            |
| Other Current liabilities - Total                   | 14.8         | 15.8         | 16.1         | 20.4           | 16.2           |
| Long Term Debt                                      | 360.7        | 363.3        | 449.1        | 611.8          | 631.2          |
| Other Liabilities - Total                           | 87.5         | 105.8        | 129.3        | 153.8          | 160.2          |
| <b>Total Liabilities</b>                            | <b>463.0</b> | <b>484.8</b> | <b>594.5</b> | <b>789.6</b>   | <b>812.0</b>   |
| Common Stock - Total                                | 78.0         | 81.9         | 95.2         | 95.2           | 95.2           |
| Additional Paid-In Capital                          | 1.2          | 1.2          | 17.8         | 17.8           | 17.8           |
| Retained Earnings (Accumulated Deficit)             | 114.5        | 122.7        | 132.7        | 160.8          | 184.4          |
| Other Equity - Total                                | 3.4          | 13.2         | 12.4         | 12.9           | 14.0           |
| <b>Total Equity</b>                                 | <b>197.1</b> | <b>218.9</b> | <b>258.1</b> | <b>286.7</b>   | <b>311.4</b>   |
| <b>Total Liabilities &amp; Shareholders' Equity</b> | <b>660.0</b> | <b>703.8</b> | <b>852.6</b> | <b>1,076.3</b> | <b>1,123.4</b> |

Source: Boursa Kuwait

| Cash Flow (KD Mn)                       | 2014         | 2015         | 2016          | 2017          | 2018         |
|---|--------------|--------------|---------------|---------------|--------------|
| Net Income/Starting Line                | 16.5         | 16.8         | 14.7          | 32.8          | 33.2         |
| Depreciation/Depletion                  | 27.6         | 30.5         | 35.6          | 38.4          | 43.9         |
| Non-Cash Items                          | 7.7          | 11.4         | 14.7          | 2.0           | 8.9          |
| Changes in Working Capital              | 9.5          | 5.6          | 21.7          | 15.6          | -31.9        |
| <b>Cash from Operating Activities</b>   | <b>61.3</b>  | <b>64.2</b>  | <b>86.8</b>   | <b>88.8</b>   | <b>54.0</b>  |
| Capital Expenditures                    | -17.7        | -58.0        | -222.9        | -297.0        | -271.2       |
| Other Investing Cash Flow Items - Total | 14.6         | -11.4        | 22.9          | 56.0          | 192.9        |
| <b>Cash from Investing Activities</b>   | <b>-3.0</b>  | <b>-69.4</b> | <b>-200.1</b> | <b>-240.9</b> | <b>-78.3</b> |
| Total Cash Dividends Paid               | -3.9         | -3.9         | -4.1          | -4.8          | -9.5         |
| Issuance (Retirement) of Stock - Net    | -            | 0.0          | 30.0          | 0.0           | -            |
| Issuance (Retirement) of Debt - Net     | -48.6        | -15.0        | 86.7          | 169.8         | 18.6         |
| <b>Cash from Financing Activities</b>   | <b>-52.5</b> | <b>-18.9</b> | <b>112.6</b>  | <b>165.1</b>  | <b>9.1</b>   |
| Foreign Exchange Effects                | 1.9          | 4.0          | -0.5          | -0.3          | 0.7          |
| <b>Net Change in Cash</b>               | <b>7.7</b>   | <b>-20.1</b> | <b>-1.1</b>   | <b>12.6</b>   | <b>-14.5</b> |
| Cash Interest Paid                      | 9.3          | 9.8          | 12.4          | -             | -            |

Source: Boursa Kuwait

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