STATE OF THE REGION: AFRICA & MIDDLE EAST

FEB. 2018

Economy

GDP growth, selected countries

%change on a yr ago	2016	2017Q2	2017Q3	2017Q4
Saudi Arabia	1.7	-1.0	-0.4	--
Nigeria	-1.6	0.8	1.4	--
Egypt	2.3	4.8	5.2	--
South Africa	0.5	0.6	1.0	--
UAE	2.7†	--	--	--
Kenya	6.0†	4.8	4.2	--
Jordan	2.4	2.6	2.3	--
World*	**2.4**	**2.9**	**3.2**	**3.2**

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US$	2017	Nov-17	Dec-17	Jan-18
US$ broad index	120.0	120.3	120.0	117.2
Saudi Arabian riyal (SAR)	3.74	3.75	3.74	3.74
Nigerian naira (NGN)	360.0	359.5	360.0	360.0
Egyptian pound (EGP)	17.8	17.7	17.8	17.7
Sth African rand (ZAR)	12.4	13.7	12.4	11.9
UAE dirham (AED)	3.66	3.67	3.66	3.67
Kenyan shilling (KES)	103.2	103.1	103.2	102.0
Jordanian dinar (JOD)	0.71	0.71	0.71	0.71

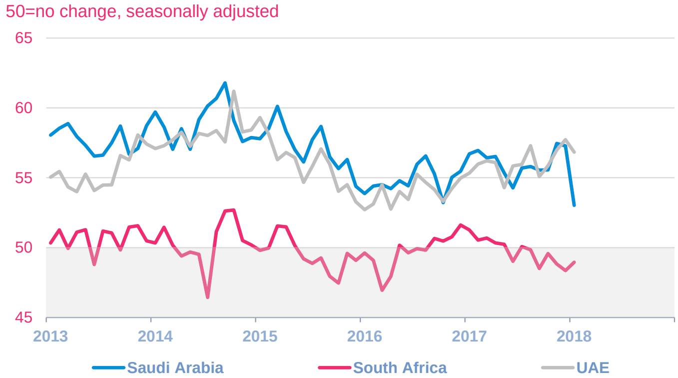
Source: Datastream, XE

World oil and jet fuel price

US$/barrel (period ave.)	2017	Nov-17	Dec-17	Jan-18
Crude oil (Brent)	54.2	62.7	64.4	69.1
Jet fuel	65.6	73.9	76.3	82.0

Source: Platts, EIA Monthly average data

Business confidence - economy-wide PMIs



Source: Markit

- Business confidence fell sharply in Saudi Arabia this month as fuel subsidy cuts & the VAT introduction took their toll. A slight recovery in confidence was seen in Sth Africa, but the index remains at a low level, with businesses remaining cautious about the outlook.
- On a trade-weighted basis, the US$ eased again in Jan, down 2.3% in the month. The ZAR was again the key mover of the regional currencies, with a 4th consecutive mom rise, buoyed by political developments. The ZAR gained 4% in Jan & is up ~15% in the past 4mths.
- Brent crude oil prices reached a 3yr high in Jan, supported by OPEC-led production cuts and a weaker US dollar. Oil & jet fuel prices both rose by ~7.5% in the month, to around US$70 & US$80 respectively.

Market

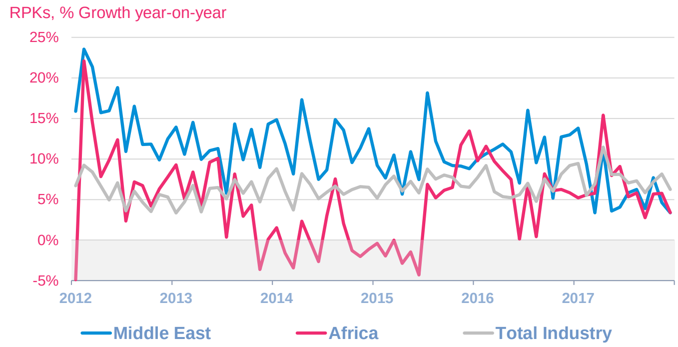
Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	Oct-17	Nov-17	Dec-17
Region (registration basis)				
Middle East	6.4	7.7	4.6	3.4
Africa	6.3	5.7	5.8	3.4
World	7.6	7.2	8.2	6.2
Routes (segment basis)				
Middle East - Asia	7.4	9.2	9.3	4.0
Middle East - Europe	6.6	6.5	3.1	3.6
Africa - Europe	6.8	6.5	9.6	6.9
Middle East - Nth America	-1.3	-1.1	-4.1	-3.0
Africa - Middle East	4.5	1.7	1.3	3.0
Africa - Asia	4.1	4.7	2.0	7.3

Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide RPKs grew by 7.6% in 2017; another year of above-trend passenger growth, well ahead of the 10yr average pace of 5.5%. Growth was supported by a broad-based lift in global economic conditions as well as stimulus from lower airfares (mainly earlier in the year).
- At the regional level, a solid, albeit more modest increase in pax volumes was recorded, with RPKs rising 6.4% & 6.3%, respectively, for the ME & African carriers.
- Amongst the main international markets for the region, ME-Asia was the strongest performer in 2017, with RPKs increasing by 7.4%, followed by Africa-Europe & ME-Europe at 6.8% & 6.6%, respectively.
- In contrast, RPKs for the ME-NthAm market *fell* by 1.3% in 2017, having faced headwinds including the now-lifted ban on personal electronic devices & the proposed travel bans to the US. In Dec, pax volumes in this market were still down an even 3% on their year-ago level.

Growth in air passenger volumes



Source: IATA Statistics

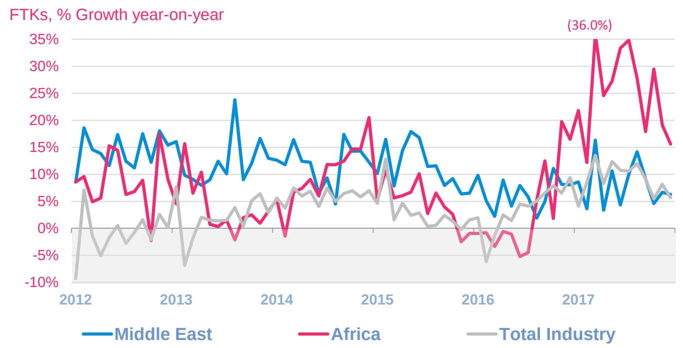
Freight tonne kilometers (FTKs)

% change on a yr ago	2017	Oct-17	Nov-17	Dec-17
Region (registration basis)				
Middle East	8.1	4.6	6.7	6.3
Africa	24.8	29.5	19.1	15.6
World	9.0	5.4	8.2	5.7
Routes (segment basis)				
Middle East - Asia	6.3	3.1	6.9	12.9
Middle East - Europe	11.0	8.9	1.8	-0.1
Africa - Europe	2.4	3.6	6.3	6.6
Middle East - Nth America	6.8	12.8	16.8	15.8
Africa - Middle East	1.2	5.8	8.0	-4.2
Africa - Asia	58.6	63.3	45.8	22.5

Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide FTKs grew by 9.0% in 2017, up from 3.6% in 2016 & the strongest annual result since 2010. Air freight outperformed global goods trade by the widest margin since 2010, driven by the inventory restocking cycle & buoyant demand for manufactured exports.
- The African carriers topped the FTK growth chart in 2017, with a ~25% increase. ME carriers grew FTKs by a solid 8.1%, a little below the industry average pace.
- For the ME carriers, Europe was the standout market, with annual FTK growth of 11.0%. Freight volumes to/from Nth America grew by a robust 6.8%, with the Asian market growing by 6.3% in 2017.
- For African carriers, FTKs for the key European market, grew by a modest 2.4% last year. In contrast, the smaller Asia market grew by ~60%, with investment flows into Africa helping to generate demand for new direct air services between the two continents.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2017	Oct-17	Nov-17	Dec-17
Passenger					
Middle East	ASK	6.5	5.1	4.4	5.7
	PLF	*74.5*	*70.2*	*70.1*	*75.5*
Africa	ASK	2.9	2.2	2.5	2.6
	PLF	*70.9*	*71.9*	*69.2*	*72.1*
World	ASK	6.3	6.0	6.3	5.8
	PLF	*81.4*	*80.9*	*80.3*	*80.7*
Freight					
Middle East	AFTK	2.6	3.4	3.1	4.7
	FLF	*44.9*	*47.2*	*49.2*	*44.3*
Africa	AFTK	9.9	9.5	25.2	7.9
	FLF	*25.7*	*26.6*	*26.0*	*31.9*
World	AFTK	3.0	2.7	4.2	3.3
	FLF	*45.5*	*47.1*	*48.7*	*46.8*

Source: IATA Statistics. Note: LF=seasonally adjusted load factor. ASK=available seat kilometers. AFTK=available freight tonne kilometers

- The industry-wide pax load factor increased by 0.9% in 2017, taking it to a record calendar-year high of 81.4%. The PLF for both African & ME carriers was below the industry figure, at 70.9% & 74.5%, respectively.
- With air freight demand growing 3x faster than capacity in 2017, the freight load factor for the industry increased by a sizeable 2.5pp in 2017. The FLF performance of the region's carriers was mixed; the ME airlines broadly matched the industry outcome, at 44.9%, while the FLF for African carriers was considerably lower, at 25.7%.

Airline operating (EBIT) margins*

% revenues	2015	2016	2016Q3	2017Q3
Africa & Middle East	2.2	2.0	14.7	17.0
Industry	8.5	8.8	15.0	14.7

Source: Airline Analyst * constant sample basis, not seasonally adjusted

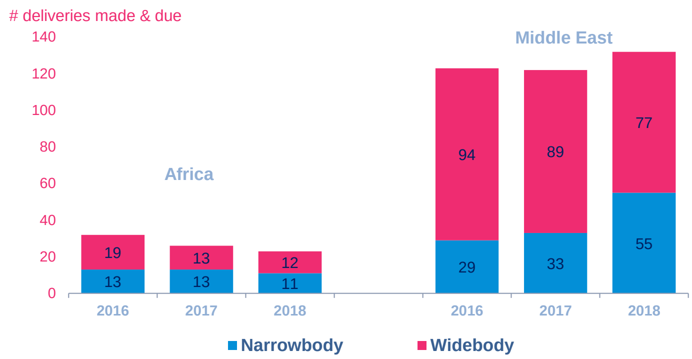
- With no Q4 data available for the region's carriers at the time of writing, the final Q3 data confirms an improved EBIT margin performance vs Q3 2016 (17% vs 14.7%).
- Industry-wide passenger yields remain broadly unchanged compared with a year ago. For the region's key markets, most yields have risen over the past year; Within ME is the exception with yields still down 6%yoy.

Passenger yields (US$, excl. surcharges & ancillaries)

% change on a yr ago	2016	Oct-17	Nov-17	Dec-17
Middle East - Asia	-10.7	-2.1	-1.8	0.5
Middle East - Europe	-12.5	-2.2	-0.1	2.5
Africa - Europe	-8.9	-1.2	-0.5	2.2
Middle East - Nth America	-7.6	3.8	-1.9	3.2
Middle East - Sth America	-13.7	17.6	13.5	26.0
Africa - Middle East	-13.0	-0.2	2.1	8.4
Africa - Nth America	-6.9	5.9	2.5	3.6
Within Middle East	-4.6	-7.3	-6.9	-6.1
Within Africa	-12.4	2.2	5.6	8.6

Source: IATA PaxIS   Note: historical data may be subject to revision

Aircraft deliveries to Africa & the Middle East (1Q18 data)



Source: Ascend