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Tough times as global aviation industry hits a loss making streak

BY LOLA OKULO

THE aviation industry is facing turbulent times going by Kenya Airways' half-year results indicating the airline lost Sh10 billion in six months.

Though major, this appears not to be an isolated case in the industry.

Though massive, this is not an isolated case the industry as witnessed

KQ on Thursday reported a loss for the first six months ending September 2014 despite a revenue increase of 4.5 per cent to Sh56 billion.

The performance seems to be in line with a report issued by, International Air Transport Authority CEO Tony Tyler in June which projected weak profits for the industry. Tyler said airlines are facing a daily struggle to keep revenues ahead of costs as competition intensifies, Europe recession bites and China's weak growth affects business.

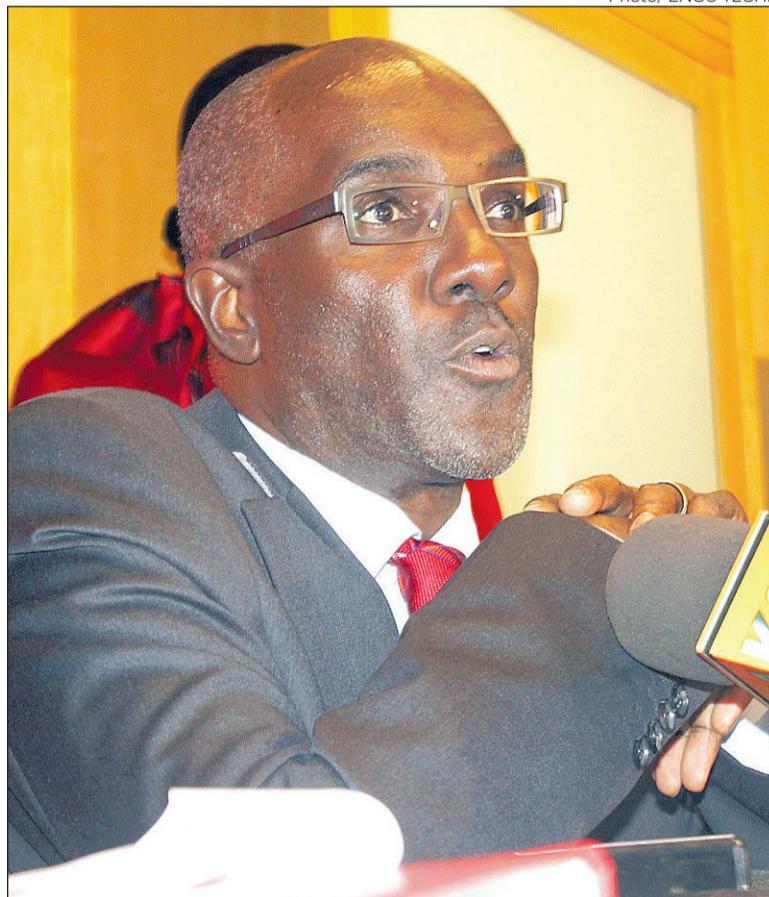
IATA in its outlook report for 2014 further noted that African airlines will in particular have a tough journey in the quest for profitability because in addition to challenges facing airlines globally, the region has its unique problems such as high tax, air freedom rights constraints and the Ebola menace.

IATA said Africa will be the weakest performer in earnings with a projection of \$100 million (Sh9.02 billion) as profits for the year.

"Barriers to development of intra-Africa connectivity remain high. The region's airlines also suffer from high taxation, high infrastructure costs, and high fuel costs, which are often related to taxation," said IATA in the report.

While the global net margin for airlines as calculated by IATA is 2.4 per cent translating to less than \$6(Sh541.2) per passenger, in Africa the projected regional profits would represent a margin of only 0.8 per cent on revenues, or \$1.64(Sh147.9) per passenger.

The weak results cut across the airlines considered the best (as per the World Travel Awards 2014) regionally echoing Tyler's remarks that



TURBULENCE: Kenya Airways CEO Mbuvi Ngunze address during an investor briefing in Nairobi on Thursday. The airline posted a historic half year loss.

"as a global industry, our financial performance does not yet match the value that we deliver."

South African Airways, ranked first in WTA has delayed release of its financial results for year ended March 2014, let alone the first half.

SAA has been termed "technically bankrupt" and is surviving on loans guaranteed by the state. Last Tuesday the airline was ordered by the government to complete preparation and release its financial reports which are overdue.

The loss making airline has been unable to replace ageing fleet because it cannot afford. It has had four CEOs over the last two years and in its meeting with government officials

last week it was directed to appoint turnaround specialists to map its profit path.

Air Mauritius- ranked second among Africa's best - reported on Friday that its loss for first half widened to €6.15 million(Sh690 million) from €3.07 million(Sh344.4 million) previously attributing it to depression of the euro. Air Uganda on the other hand remains suspended since June due to licensing matters and even if it were to resume today, lost business time will drag it to a loss.

Globally Qantas Australia said it will cut 5,000 jobs after losses in first quarter and last financial year while British Airways plans 1,200 job cuts to reduce costs after losses.

Kenya wins bid to host world tourism congress

BY STAR REPORTER

KENYA has won the bid to host the Association of Tourism world congress next year, Tourism Cabinet secretary Phylis Kandie has said.

She said the event will bring close to 500 delegates from over 20 countries across the globe add-

ing that it will spur business in the local tourism sector.

"We have also won another bid to host the World Public Relations Forum and SKAL international congress next year. This is definitely good news as these international events are a show of confidence in the country," she said yesterday

during the 39th Africa Travel Association congress in Kampala, Uganda.

She lauded ATA for its effort in marketing Africa as a tourism destination and highlighting the challenges that needed to be addressed by the member States for the growth of the tourism business.

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DWINDLING OIL FORTUNES NOT GOOD FOR KENYA

In 'Scarface' a 1983 film directed by Brian De Palma, Tony Montana (Al Pacino) says to his Boss, Frank Lopez:

You short a couple of million,
I go on the street for you.
I make a couple of moves...
...a million here, a million there,
you got it.

The availability of cash as evidenced by the more than four times oversubscription of our Eurobond and by the news last week of a \$750m (Sh675 billion) facility availed by the IMF ("This arrangement would serve an insurance purpose, providing Kenya with access to IMF resources in the event of exogenous shocks" said the IMF) confirms that. The IMF's positive imprimatur also improved the shilling, when it bounced back below 90.

The IMF said this about the shilling;

"A gradual depreciation of the Kenyan shilling mostly reflects developments in international currency markets."

Today, the National Treasury is surely considering a Sukuk bond, a Samurai (issued in yen) bond and a Diaspora bond amongst others. Its not a golden flood of liquidity but its a post-independence sweet spot. This remains an important development.

Now as we leverage Kenya Inc's balance sheet, the new challenge is execution (interestingly this shape of challenge applies to Kenya Airways).

Execution is all about making sure the money is spent on what it was meant to be spent on and that there is reduced "slippage"

I am a big believer in the resourcefulness of our human capital like the Swiss professor Urs Wiesmann who was the prime author behind Kenya's Socio-Economic Atlas released last week.

My concern at this moment is this: We are necessarily placing a big bet on oil and gas and cementing our position as the pivot (the energy conduit and route to the sea) state for this region. Now go take a look at the price of oil. Its been slammed from above a \$100 a barrel to below \$80. There is an outside chance that we can break down to \$50 a barrel. The share prices of the oil companies (Tullow Oil is down 45.84 per cent since the start of the year and Africa Oil is negative 60.67 per cent over the same period) have cratered. The markets are signaling loud and clear that the economics have changed and how. Both Tullow Oil and Africa Oil are exploration companies. They find the oil and then they typically go and find a big major with deep pockets to exploit the oil. It is imperative that we see the majors step in, otherwise the can will get kicked down the road.

The consequential effects on our economy of the can being kicked down the road are not good, not good at all.

Our policy-makers need to react real quick to the new normal. The right signal at this point in time would be to slash the proposed capital gains tax. It is always better to tax something rather than nothing.

Shares go up and down and readers are advised that this column represents Satchu's personal opinions.