

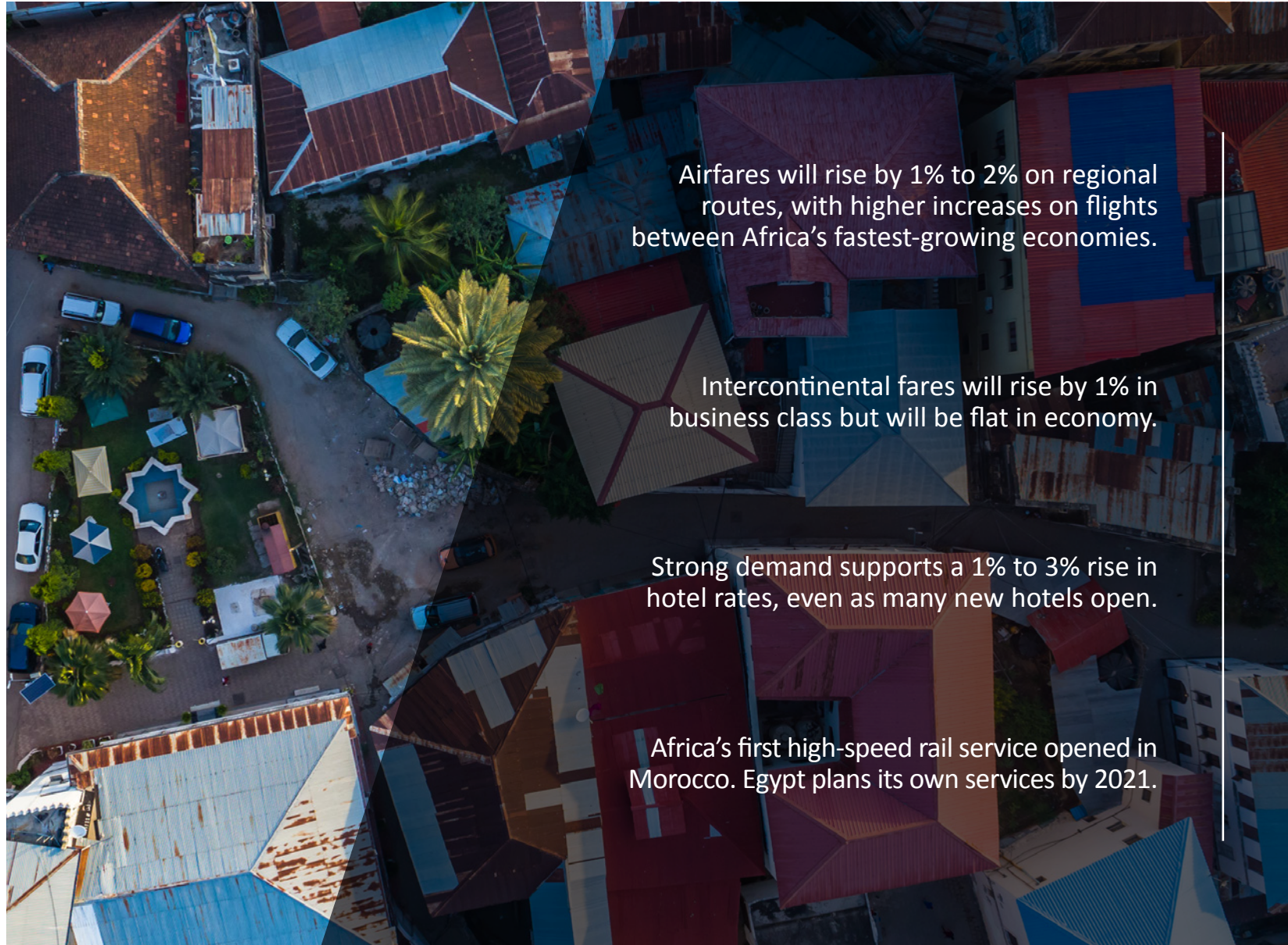
Africa

2020 Industry Forecast

from BCD Travel Research & Innovation



2020
Industry Forecast
Africa



Airfares will rise by 1% to 2% on regional routes, with higher increases on flights between Africa's fastest-growing economies.

Intercontinental fares will rise by 1% in business class but will be flat in economy.

Strong demand supports a 1% to 3% rise in hotel rates, even as many new hotels open.

Africa's first high-speed rail service opened in Morocco. Egypt plans its own services by 2021.

2020 Industry Forecast

Africa

Air

Current situation

Solid economic development, greater political stability and increasing foreign direct investment all point to a boom in African business travel. The African Union wants to boost the continent's prospects by promoting regional travel through increased air services and fewer border controls and visa requirements.

In anticipation, airlines are expanding their fleets, but the surge in demand has yet to materialize. In the first half of 2019, African airline traffic increased by 4.4%, just below the 4.7% growth in global traffic.¹ Demand is being held back by high fares, resistance in some countries to market liberalization and mixed fortunes among the region's carriers.

Demand is growing faster in eastern African countries such as Tanzania, Malawi and oil-rich Mozambique (where most travelers must still fly via South Africa). Fares on indirect flights via Johannesburg and Africa's other major hubs—Addis Ababa, Ethiopia; Lagos, Nigeria; and Nairobi, Kenya—are normally lower than on direct flights.

South Africa remains the region's largest air travel market. The country accounts for 26% of all seats flown to, from and within Africa, reflecting the size of its domestic network. Its influence on the rest of Africa cannot be ignored.

Demand for air travel in South Africa was weak during Jacob Zuma's presidency. The transition of power to Cyril Ramaphosa in 2018 resulted in a modest rise in air travel of 1% to 2%, as confidence returned. However, businesses are still waiting to see what direction the new administration will take before making investment decisions that could fuel an increase in corporate travel.

On the supply side, non-African carriers, including British Airways, TAP Portugal, Qatar Airways and Turkish Airlines, have been largely responsible for the launch of new long-haul services. China's airlines are also expanding their African connections as Chinese investment pours into the continent.

Ethiopian Airlines is the fastest-growing African carrier. It has increased service to Chicago and added new flights to Washington, D.C., via Abidjan, Côte D'Ivoire, and to Houston via Lomé, Togo. It will fly to Bangalore, India, starting in October 2019.

South African Airways (SAA) faces an uncertain future because the government has warned it cannot support the airline indefinitely.

Travelers have a growing choice of airlines when flying within Africa. Air Tanzania and Kenya Airways are expanding; startup carrier Uganda Airlines will reestablish direct links from Entebbe to Kenya, Tanzania and Somalia; and Zambia plans to relaunch its national airline. Yet established supply remains unstable: SAA is restructuring once again to shrink its network; South African low-cost carrier CemAir was grounded over safety concerns; and Air Zimbabwe has reduced operations, although Airlink replaced some of the lost capacity.

SAATM struggles to deliver liberalization and more flights

Since 2014, intra-African flights have increased by more than a third. But with inadequate roads and vast distances to cover, air services still aren't sufficient to help boost the continent's development. Business travelers inside Africa often have to fly via a third airport outside the region, in the Gulf or Istanbul, to reach another destination on the continent because direct flights are so limited.

The Single African Air Transport Market (SAATM) agreement, signed in 2018, aims to boost intra-

African air traffic by lifting market access and ownership restrictions. But these goals remain more an aspiration than a reality. In fact, the number of seats available for intra-African flights in summer 2019 was below summer 2018.²

Progress on liberalization has been curbed by protectionist resistance to SAATM in some countries, including Nigeria and Zimbabwe. High taxes and airport fees, along with endemic bureaucracy, continue to restrict development of intra-African air services.

¹ IATA, Air Passenger Market Analysis, June 2019

² OAG

2020 Industry Forecast

Africa

Fares, already some of the highest in the world, have risen by 2% to 4% in 2019 in markets south of Zambia. They have climbed even faster in parts of West Africa, including Nigeria, Côte d'Ivoire and Ghana, where demand is up 6%.

The cost of air travel also is higher on nonstop flights to key European cities, including Amsterdam, Frankfurt and London. But fares are lower on services via the Gulf and, especially when flying with Emirates.

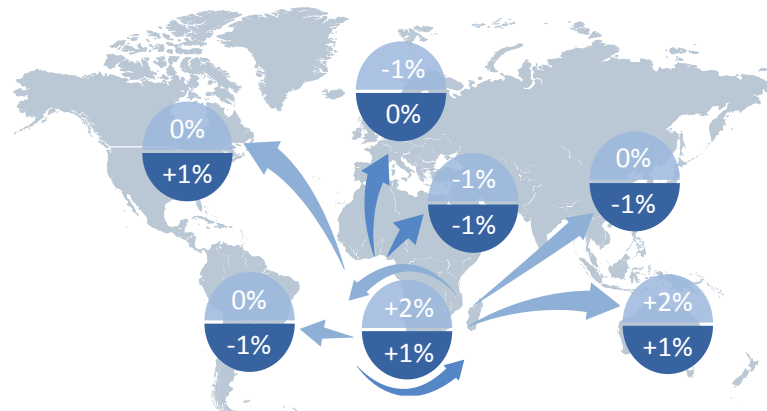
African airlines rarely agree to corporate discounts. But to rebuild its market share, Kenya Airways is enhancing its corporate deals by including more complimentary amenities, such as lounge access.

Airfare forecasts

Average ticket prices
% change YoY

| Africa | Intercontinental | | Regional | |
|--------|------------------|---------|----------|---------|
| | Business | Economy | Business | Economy |
| | 1% | 0% | 2% | 1% |

● Business class
● Economy class



Source: BCD Travel

Airlines to watch

Ethiopian Airlines

Its reputation as Africa's strongest airline remains intact, despite the controversy surrounding the loss of one its Boeing 737 Max 8 aircraft. With flights from Addis Ababa to more than 120 destinations, it is already Africa's best-connected airline.

Ethiopian Airlines has grown by 90% in five years; the strong performance of the Ethiopian economy and the prospect of deregulation should ensure that Ethiopian Airlines continues to expand.

RwandAir

RwandAir has benefited from political stability and strong economic growth in its home market. Operating out of Kigali's modern, efficient airport, it has expanded its network, creating a new hub for eastern Africa. Guangzhou, China and Tel Aviv, Israel are among the destinations RwandAir has recently added to its schedule.

Ceiba Intercontinental

Based in Equatorial Guinea, Ceiba Intercontinental already flies to eight other African countries, as well as Madrid.

Outlook for 2020

Demand for business travel will increase as the region's economic growth accelerates. Nigeria, Ghana (currently the world's fastest-growing economy)³ and Côte d'Ivoire will be among Africa's strongest performers, as the expansion of the mining and resources sector drives growth.

Much depends on the political direction South Africa's new government takes, because its economy influences the fortunes of the whole continent. If investor confidence improves, the return of capital will stimulate business travel.

2020 Industry Forecast

Africa

Abidjan—West Africa's new hub

Three years of stability have boosted direct investment in Côte D'Ivoire, especially from Europe. Businesses are relocating to the country's commercial capital, Abidjan, from neighboring Francophone countries like Senegal. The city is emerging as both an economic and air transport hub, helping to attract even more investment. Travelers can now fly direct to Abidjan from a number of African countries, including Benin, Burkina Faso, Cameroon, the Democratic Republic of Congo, Guinea, Mali, Niger and Togo.

Local carrier Air Côte D'Ivoire is the largest airline operating at Abidjan's Felix Houphouet-Boigny International Airport, with a 42% share of flight departures. While it serves 22 destinations in West Africa, travelers wishing to fly outside the region have a limited choice of carriers, including Air France, Brussels Airlines, Ethiopian Airlines, Kenya Airways and SAA.



Political events outside Africa may also have an impact. A disruptive U.K. exit (Brexit) from the European Union would affect travel to and from South Africa, as the U.K. is its largest European trading partner. South Africa's neighbors, Botswana, Namibia and Zimbabwe also could feel the effects.

Regional airfares will rise by 1% to 2% in 2020. Expect slightly higher increases for travel between African countries with the fastest-growing economies. Fares for intercontinental travel will rise by 1% in business class but remain flat in economy. Travelers taking indirect routes, especially via the Middle East, may see fares fall.

Our air recommendations

- Flying indirect can reduce airfares, but any savings must be measured against the cost to travelers of long waits for connecting flights.
- If smaller African carriers with growing regional and intercontinental networks—such as RwandAir and Ceiba International—meet the safety demands of your travel program, consider adding them to your carrier mix.
- African carriers are reluctant to offer generous corporate discounts, so focus negotiations on amenities, such as lounge access.

2020
Industry Forecast

Africa

Hotel

Current situation

Major hotel chains are in a new scramble for Africa, where demand is growing 7% to 9% annually. Once one chain commits to a market, its competitors usually follow. Abidjan, Addis Ababa, Johannesburg and Lagos are among the cities attracting most new supply. Openings in Accra, Ghana, recently slowed down after a period of strong growth.

An increasingly business-friendly environment on the continent has boosted hoteliers' confidence in investing in new properties. The new hotels give travelers far more choice than they had just five years ago. And the competition is prompting refurbishments and better pricing among existing hotels.

Many of the newer hotels are positioned in service tiers below the top-end properties that have dominated the market. As a result, the average rate is falling, and established hotels are finding it hard to raise their prices in the face of new competition. Corporate buyers are also negotiating extra benefits for their travelers, such as complimentary meals or laundry.

Apartment-style hotels are growing fast because of longer-than-average stays and millennials' desire for more flexibility and better rates than five-star hotels. They're a good alternative to Airbnb because they often must adhere to brand standards.

There remains, however, a limit to the choices companies will offer their travelers. Safety is the main concern, and companies must ensure travelers stay in secure hotels in good locations with wide-ranging amenities that ensure guests rarely need to venture outside. To secure corporate business, hotels are adhering to recognized safety accreditations.

The prioritization of security makes it easier to convince travelers to use preferred hotels in Africa than in some other regions. Yet a relative lack of choice, even allowing for the recent surge in hotel building, makes shopping for a good deal difficult.



2020
Industry Forecast

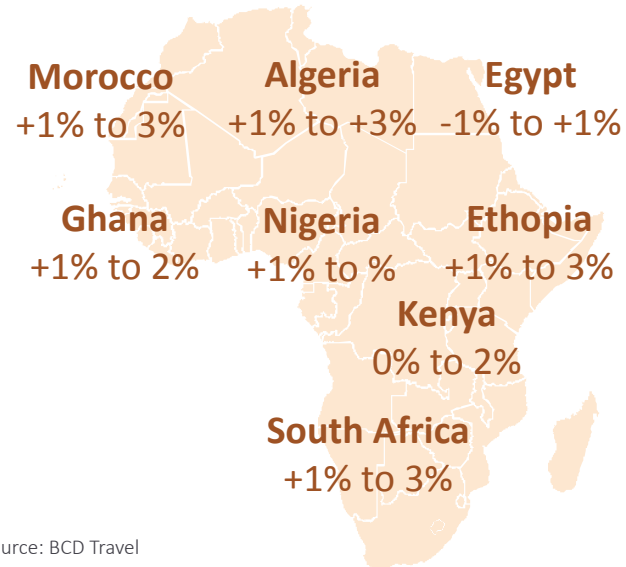
Africa



Hotel forecasts

Average daily rates % change YoY

| | |
|--------|---------|
| Africa | 1% – 3% |
|--------|---------|



Source: BCD Travel

Outlook for 2020

Hotels will continue to open across the region, with Addis Ababa attracting significant development. Brands scheduled to open in the Ethiopian capital in 2020 include BON Hotel, Hilton, Mercure, Park Inn, Radisson Blu, Wyndham and TRYP By Wyndham.

New supply will help prevent rapid rate rises in 2020. Chains will try to retain existing customers by offering limited or even zero rate increases. Nonetheless, travelers can expect to pay 1% to 3% more for a hotel room than in 2019.

Our hotel recommendations

- Ask hotels to include extras in your hotel agreements, like complimentary food and laundry.
- For safety, insist travelers stay only in approved properties in your preferred hotel program.

2020
Industry Forecast

Africa

Ground transportation

Ride-hailing

Technology-based ride-hailing services are travelers' preferred ground transportation choice in Africa. But they're not well-regulated in all markets, so travelers should use them with care.

Uber is Africa's most popular ride-hailing service, although it faces competition from Estonia's Bolt (formerly Taxify) in many cities. Uber already operates across much of sub-Saharan Africa, where it has 36,000 active drivers.⁴ With the exception of Nigeria and Ghana, it has yet to establish a similar presence in West Africa. But the company is talking to regulators about expanding to Senegal and Côte d'Ivoire. It's also looking at introducing boat rides in Lagos to alleviate street traffic.

Travelers also have more than 50 smaller operators to choose from, including Safaricom-backed Little Cabs in Kenya. New entrants continue to launch, such as Russian operator inDriver. After launching in Arusha in Tanzania in 2018, it now also operates in Cape Town, Johannesburg and Nairobi and plans to expand to Nigeria, Ghana, Zimbabwe, Uganda and Namibia.⁵ It differentiates itself from established players by allowing riders to propose fares up front for their trips.

Uber's deal to acquire rival operator Careem will reduce competition, particularly across North Africa, where the United Arab Emirates-based ride-hailing company is often the first choice for travelers. Authorities in Egypt, a market where ride-hailing already faces a legal challenge from taxi drivers, have promised to block any merger between Careem and Uber, saying it would create a ride-hailing monopoly.⁶

High-speed rail

The Al Boraq, Africa's first high-speed rail line, opened in Morocco in November 2018. An initial phase connects Tangier to Kenitra, with trains operating at speeds up to 320 kilometers per hour (kph). Existing lines from Kenitra to Rabat and Casablanca also were upgraded to speeds of 220 kph. This halves the journey between Tangier and Casablanca to just over two hours. During the first three years of operation, rail company ONCF expects more than 6 million passengers to use its high-speed services.

Egypt has announced its own plans for its first high-speed railway linking Ain Sokhna, the country's new administrative capital, with cities 6th of October, Alexandria and New El Alamein City.



⁴ Markets Insider, June 27, 2019

⁵ Quartz Africa, June 18, 2019

⁶ Medium.com, March 28, 2019

2020 Industry Forecast

Africa

Methodology

Assumptions

We have assumed, as working hypotheses, that:

- The price of oil (Brent crude) per barrel will average US\$67 in 2020.
- World economic growth will be 2.7% in 2019, holding steady at 2.8% in 2020.

Approach to analysis

Our ongoing research and in-depth interviews with experts in corporate travel and meetings management form the basis for our discussion of broader industry developments and trends.

We base our category-specific predictions on our analysis of aggregated transaction data for BCD Travel's corporate clients worldwide.

We analyze and forecast on dynamic baskets using actual air segments, room nights and car rental bookings to reflect potential shifts in travel patterns and booking behavior. The level of aggregation for each measure is determined by the validity of the relevant pool of data.

We weight monthly averages by category transactions for each unit. Regional averages for hotels are calculated using total room nights to weight the forecasts for all countries in that region. Quarterly averages are weighted averages of the months in that quarter. Unless stated differently, we base price developments on local currencies; these developments are therefore subject to foreign exchange fluctuations. We normalize local currency transaction data into leading world currencies, using the daily average conversion rate on the date of travel.

Hotel market tier assignments follow our proprietary classification scheme. We designate luxury and upper upscale hotels as upper tier and all other hotels as lower tier. Air cabin classes are based on our master table of airline booking classes.

When applying economic growth in our regional forecasts, we use figures aggregated at market exchange rates rather

than at purchasing power parity (PPP). The PPP approach risks overstating the contribution of emerging markets.

Sources

In addition to aggregated BCD Travel client data, we use the following sources:

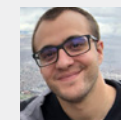
- International Air Transport Association (IATA) for airline capacity and traffic
- Oxford Economics for historic and forecast macroeconomic data
- Tourism Economics for room nights by region
- International Monetary Fund (IMF) for macroeconomic projections
- Economist Intelligence Unit (EIU) for macroeconomic projections and oil prices
- Oanda Currency Converter for foreign currency exchange rates
- Official Airline Guide (OAG) for airline capacity
- U.S. Energy Information Administration (EIA) for historic and forecasted oil prices
- Flightglobal.com for airline industry news and analysis

The estimates and projections are based on data available through March and April 2019, respectively, for air and hotel transactions, and through July 2019 for macroeconomic and industry indicators.

Meet the team behind the Industry Forecast



Mike Eggleton
Director, Research
and Intelligence,
primary author



Jaume Bellaescusa
Data Scientist, data
analysis