

MARKET OVERVIEW

Air Astana operates at the heart of the fastest-growing aviation markets in the world, which are driving continued momentum in an aviation industry that is doubling in size every 20 years.

Global airline market

Key industry developments

2018 was another strong year for the global aviation industry, with passenger traffic increasing in RPK terms by 6.5% year-on-year, according to IATA. International passenger traffic growth did however slow by 2.3% year-on-year. Over half of the world's 1.4 billion tourists who travelled across international borders last year were transported by air. Air transport now carries some 35% of world trade by value. Worldwide capacity increased by 6.1%, resulting in growth of overall passenger load factors by 0.6 percentage points, reaching a record high of 81.9%.

In 2018, all regions posted slower growth than in 2017, with the exception of an improvement in North America driven by a stronger US economy and the continued international expansion of Canadian carriers. Asia Pacific was the fastest growing market in 2018, with passenger traffic up by 7.3% year-on-year. The Middle East and Latin America were ranked second in terms of growth, with passenger turnover growing by 6.9% in both regions. The slowdown in the Middle East reflects the impact of geopolitical tensions and travel restrictions, while in Latin America, traffic was affected by the mid-year general strikes in Brazil and political and economic developments. The European international traffic market saw a 6.6% increase in 2018, down from 9.4% growth in 2017, with traffic dynamics partially affected by uncertainty over the economic backdrop and Brexit. All markets reported an increase in demand for domestic travel, led once again by double-digit gains in India and China.

Growth of low-cost carrier activity

In 2018, LCCs carried an estimated 1.3 billion passengers, and accounted for approximately 31% of the world's total scheduled passengers. LCC market share is the highest in Europe, representing 36% of total passengers carried in the region. This is closely followed by Latin America/Caribbean, North America, and Asia Pacific with 35%, 30% and 29%, respectively. Based on airline order books, LCCs are growing in prominence in Asian markets and almost half of the world's LCC orders originate from the region.

Fuel costs

Average jet fuel prices increased by approximately 31% in 2018 compared to 2017. Jet fuel prices are expected to decrease in 2019, by an average of USD 81.3/barrel, according to IATA. Despite the recent fall in jet fuel costs, it remains a key concern for the majority of airlines. The global airline industry's fuel bill is estimated to total USD 180 billion in 2018 and account for around 23.5% of operating expenses at USD 73.0/barrel Brent in 2018, having increased by 20.5% over 2017. In 2019 the fuel bill is forecast to be USD 200 billion, accounting for around 24.2% of operating expenses at USD 65/barrel Brent.

Economic environment

Despite the threat of trade barriers, debates on immigration, tariff disputes and efforts to replace multilateralism with bilateral arrangements, the demand for air connectivity continues to increase, with international transfer traffic remaining the key driver for growth. Despite its highly volatile financial track record, the industry demonstrated a consistently high net profit over the last year, however, IATA's pre-estimated net profit of commercial airlines worldwide decreased from USD 34.5 billion in 2017 to USD 32.3 billion in 2018. IATA expects that the global airline industry's profitability will rise to USD 35.5 billion in 2019 thanks to a sharp fall in oil prices and solid expectations of global GDP growth, which is forecast to be a key driver of bottom line performance by expanding in 2019 by 3.1%.



The Kazakh aviation market

Growth drivers

With half of Central Asia’s commercial passenger aircraft fleet currently based in Kazakhstan, according to CAPA, Centre for Aviation, the local market accounts for over one third of total seat capacity. Last year Kazakh airlines saw their traffic grow by 6.8% to 7.9 million passengers, which is impressive due to the impact the Expo world fair had on passenger traffic as a one-off event in 2017.

According to the Civil Aviation Committee, Kazakhstan’s airports handled 14 million passengers in 2018, with the number of transfer passengers growing by 40%. The propensity to fly among the Kazakh population remains low, with the country’s airports continuing to see relatively low traffic. However, local demand is expected to grow significantly, driven by the new share of population who will be able to afford air travel at lower cost. Passenger traffic is expected to grow by 35% by 2020, with transit traffic increasing 2.5-fold and freight traffic doubling.

Significant potential can be realised as international transfer traffic continues to show unprecedented growth, according to the Civil Aviation Committee. In 2018 some 900,000 transfer passengers travelled through Kazakhstan, a number that is expected to reach 1.6 million in 2020. The increase in transfer numbers were also driven by three-day visa grace period for Chinese citizens travelling through Kazakhstan, which has been in force for a few years, and a visa-friendly regime for Indian citizens introduced last year.

Outlook

Local demand

The current market environment continues to provide an opportunity for Air Astana to build and strengthen its network and customer experience for the long term. With GDP growth forecast at 3.8%, Kazakhstan’s domestic air travel market has potential to grow by 2023. With low costs and a strong financial position, we are confident in our ability to capitalise on this opportunity via FlyArystan in addition to existing Air Astana flag carrier operations.

Transit traffic

Air Astana will remain focused on the international market, and we intend to almost double our fleet by 2026. Our annual passenger transit traffic grew by 48% in 2018, now accounting for 32% of our international traffic. We are looking to further expand the target base with transit traffic from surrounding markets that are substantially bigger than Kazakhstan, such as China, India and Russia. Connecting services is our fastest growing segment, as we operate at the heart of fast-growing Central Asian markets and are perfectly positioned to provide a crucial hub along the Silk Road.

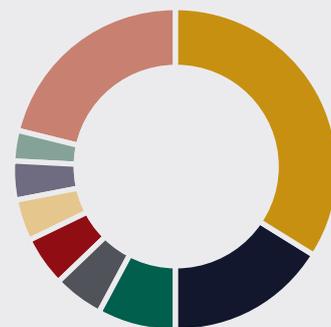
With the increasing economic ties and focus on tourism, we expect traffic from China to increase in the next 3-4 years. Significant sixth freedom traffic is also projected to grow to and from Urumqi thanks to its beneficial geographical location as a gateway to Central Asia and other Silk Road countries.

CIS traffic also remains a key area of focus, with Russia, Georgia and Ukraine contributing significantly to passenger flows. In 2018 we added new routes to Kazan and Tyumen, and are looking to accelerate network expansion in 2019, while increasing capacity to existing destinations.

Number of Air Astana’s 6th freedom passengers (thousand)



Air Astana’s market share in Kazakhstan international market



Source: Company’s internal data

Air Astana	34%
Aeroflot	16%
SCAT	8%
S7	5%
Turkish Airlines	5%
Ukraine International Airlines	4%
FlyDubai	4%
Lufthansa	3%
Other	21%