Lessors eye African rebound

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The Covid-19 crisis exacerbated an already difficult financing situation for African carriers, but as the effects of the pandemic recede and air travel demand returns, aircraft lessors are bullish on placement opportunities given the continent's growth potential.

According to International Air Transport Association (IATA) data, Africa, together with Asia-Pacific and Latin America, is one of the regions that will remain loss-making in 2023, with losses amounting to $213 million.

Nevertheless, the longer-term potential of the continent remains clear, especially for lessors that have built up deep experience in the region.

"Africa has the fastest growing population in the world with a population expected to grow to two billion people by 2050," Aergo Capital's chief executive officer, Fred Browne, tells *Airfinance Journal* in an interview.

"It's the second largest continent in the world right now and it is going to explode over the next few decades in terms of population which means that air demand will only continue to grow.

"There are still infrastructure and GDP problems, and Africa is more exposed to macroeconomic headwinds like we've seen with the invasion of Ukraine blocking grain exports into the continent.

"But the region is expected to at least be back to pre-crisis levels by the end of the year. A feeling of normalcy is returning, and airlines have been very good at honouring contracts compared to some other airlines we have come across in the world," Browne continues.

He recalls Aergo's expansion into the market via the acquisition of Safair in 2008, which comprised nearly 50 aircraft with leases attached as well as its cargo operations and maintenance facilities. That business was gradually sold off in the years that followed but created a strong presence in Africa for the lessor.

Today, Aergo has 21 aircraft, including those under letters of intent, placed in nine different countries in Africa with 11 airlines, and is looking to grow that exposure to around 50 aircraft in the next five years, Browne reveals, including narrowbodies and widebodies.

"We've always had strong roots in Africa, and we continue to expand our footprint as we see niche opportunities," Browne explains.

Acia Aero's chief executive officer, Mick Mooney, tells *Airfinance Journal* that it aims to proportionately grow its Africa exposure in line with the rest of its business.

He notes that four years ago, 90% of the business was in Africa, a share that has been reduced to around 50% as the lessor expanded in other markets.

"We want to grow with lessees that are there because there are a lot of opportunities for different aircraft types," Mooney says.

Acia's Africa portfolio is roughly evenly split between passenger, ACMI and cargo operations.

He says the segment mix of its portfolio is an important differentiator, with all three of these segments seeing "huge" demand across Africa.

"Even during Covid we saw a lot of demand for our aircraft in each segment. Our portfolio, which comprises a large turboprop variety, is made for that whereas other lessors may not necessarily focus on ACMI or cargo, they're focusing on scheduled traffic because that is more reliable.

"Our focus is more on the ACMI and cargo segments," Mooney explains. "We look for the right operator, but we also look at what the underlying contracts are and how reliable they have been in operating and maintaining those contracts over the years.

He notes that African operators that struggled during the pandemic have gotten back on their feet, right-sized their fleet and are now looking to grow their businesses through new contracts with companies and agencies in Africa.

"A lot of the underlying contracts realised that they couldn't rely on scheduled services to transport their employees. We saw our customers keep a lot of business and win a lot of business because of that fracture in scheduled traffic.

"It's about finding the diamonds in the rough and picking the operators that might be in difficult jurisdictions but have contracts with large multinationals, humanitarian agencies or NGOs. Understanding the real risk rather than perceived risk is a big part of what we do and what differentiates us from our competitors."

Maarten Grift, Truenoord's sales manager for Africa, Middle East and CIS, says the Dutch-headquartered regional lessor is also looking to expand its footprint in Africa to support the regional fleet plans of African airlines.

"Passenger demand for air travel in Africa continues to recover and is expected to reach pre-pandemic levels this year," Grift says.

"Regional aircraft play a key role in developing domestic and regional connectivity and have demonstrated their capabilities and success on the African continent. Over the past few months, we have witnessed a growing demand for regional aircraft in Africa and we expect this trend to continue going forward."

Credit watch

Lessors still agree that financing has been and will continue to be difficult in Africa, with credit risk still limiting the inflow of capital into the region despite a strong recovery.

Browne points out good credits are limited to household names which restricts bank lending and ultimately placement opportunities.

"For conventional debt structures, with the exception of the likes of Ethiopian Airlines, LAM, RAM or Egyptair among others, there are only a handful that you could structure debt into," he says.

"Outside of those it tends to smaller, opportunistic deals with carriers that perhaps don't have as strong balance sheets. You can count on one hand the number of placement opportunities in terms of really scaling up exposure in the region."

Mooney agrees that the banking community has to do more to back lessors in the space if the region is to scale up.

"Without the likes of our partner Investec and one or two other banks who are active in aviation in Africa, it would be difficult even for us to continue what we do," he says.

"We do need that support from the banking community. If there is to be significant upgauging of aircraft types deployed into Africa, the banks will need to follow through otherwise it will be difficult for any lessor.

"It also comes back to airline credits – we're always trying to find the best opportunities with the capital we have rather than every opportunity because the flipside to trying to find the diamond in the rough is finding a lot of dirt.

"If we're to expand in Africa beyond the pace we're already growing, we'd need the banks to get behind us and any other lessor would need the same," Mooney continues.

Still, he rules out seeking funding from other lenders active in Africa in the near term.

"Our facility with Investec is very flexible and long-term and easy to draw down for new aircraft acquisitions, so it wouldn't make sense to go bilaterally to another bank unless there was a specific reason to, or for a distressed situation on their side where they want us to step in between them and an operator.

"We have a great partner in Investec who has been lending with us for 15 years and hopefully for the next 15 years as well."

Lessee recovery

Mooney explains that given Acia's ACMI focus, the pandemic created a situation where airlines were resizing aircraft rather than handing them back during Covid-19, meaning a lot of the support came from juggling aircraft around within the portfolio.

"When scheduled traffic was closed off, a lot of our operators needed bigger aircraft because there simply was no other option for people to move around."

Conversely, other operators needed smaller aircraft due to otherwise low traffic levels. "We did a lot of swaps in our portfolio between operators, taking planes back and immediately delivering them back to other carriers so they could resize their fleets," he recalls.

"That worked quite well and meant that operators weren't being punished for flying an aircraft they couldn't fill and didn't have a contract for, and gave them the opportunity to grow."

"We've had one or two customers come to us because of deflated passenger demand during Covid," Aergo's Browne says.

"We were definitely supportive of these lessees and that has paid off because they are still around and have still pretty much caught up again in terms of their commitments."

He notes that apart from De Havilland Canada Dash 8-400s placed with Ethiopian Airlines that are export credit-financed, all of its placements in Africa have been financed through cash.

"That gives us a lot of flexibility compared with our competitors. We have a good African book at the moment with very few delinquencies. They tend to be higher yielding deals as well, so we feel we're satisfactorily remunerated for the risk we're taking."

Mooney also says there has been a "significant uplift" in lease rate factors and aircraft values in the last 12-18 months, which fortunately has coincided with airlines' ability to begin to repair their balance sheets.

"A lot of that is down to the availability of aircraft. We were probably the biggest buyers of second-hand ATRs last year, but we can't find any nowadays.

"That dry-up in aircraft means that lease rates are only going in one direction. It's good for us. It may not be so good for our customers, but we've seen they've been able to absorb it. Whether they can continue to do so remains to be seen."

Mooney also notes that the Embraer 190 could be the next aircraft to have a big impact in Africa.

"We estimate there are roughly 170 of these aircraft that are coming off lease in the next 24-36 months. That will put a lot of pressure on pricing of these assets which creates opportunities for us such as leasing them into Africa taking advantage of that better lease rate."

Grift says that stronger than expected passenger levels are encouraging African airlines to re-evaluate their fleets, with carriers increasingly considering replacing or expanding their current fleet of regional aircraft with, predominantly, larger regional aircraft.

"We saw this process being initiated earlier on in other regions such as Europe, North- and South America," he tells *Airfinance Journal.*

He also points out that limited availability of well-maintained regional aircraft, as well as supply chain constraints causing delivery delays for new aircraft, is pushing up lease rate factors and values for both new and used aircraft.

"We believe the market for regional aircraft in Africa will continue to grow as will the appetite to finance these aircraft through leasing," he concludes.