



## A CONTRACT TO EXPAND

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Since its formation in 1993, Airports Company South Africa has grown into a widely admired airport management company. Keith Mwanalushi reports from Johannesburg that growth in Africa is high on the company's agenda.

Although **Airports Company South Africa (ACSA)** is majority-owned by the South African Government through the Department of Transport, the company is legally and financially autonomous, which means it operates under commercial law.

By 2010, it had completed what was its most ambitious infrastructure capacity development and improvement programme.

“Basically, we went through quite an infrastructure investment period leading up to the World Cup,” explained ACSA chief operating officer Tebogo Mekgoe.

All of South Africa's airports used to be owned and operated by the state until 1993, when nine were reassigned to ACSA. Mekgoe recalled that prior to the World Cup most emerging markets (before economic growth came) had underinvested in infrastructure. “But when economic growth came, they started to invest in infrastructure and they were in exactly the same position as South Africa before 1994.”

ACSA operates South Africa's nine principle airports, as well as airport management and operating concessions in India and Brazil. “Our success overseas came from governments being very decisive on how they are modernising their infrastructure,” Mekgoe said, adding that the Indian and Brazilian governments structured proper private public partnerships that allowed people to bid for concessions.

In 2006, ACSA and a consortium comprising the Indian company GVK and South African-listed company Bidvest, won a concession to manage Chhatrapati Shivaji International Airport in Mumbai. Six years later a landmark 20-year concession agreement was signed in Brazil to

manage São Paulo- Guarulhos International Airport.

“We asked ourselves how we could take our experience here to go into developing markets, particularly in the African continent,” said Mekgoe. “What we are finding in Africa is you probably have to move away from thinking that governments will take on these concessions.”

The growth strategy is centred on strengthening and expanding existing footprints in India and Brazil through new opportunities. The company also intends to focus on developing the African continent’s aeronautical infrastructure landscape.

In March 2014, the strategy did turn to Africa with an agreement in Ghana.

“In Ghana what we intend to do is to explore areas of possible collaboration first; we then get into a memorandum of understanding (MoU) in terms of assistance, and that’s how we are pretty much approaching the continent,” Mekgoe explained. “We are looking at areas where governments have decided that they want private funding.

“So in Ghana we are talking with them around, strategically, how they can position themselves to be a West African hub.”

In fact Accra [Ghana] is looking increasingly attractive. For instance, South African Airways (SAA) initiated new A340-600 services to Accra then on to Washington in the US from Johannesburg in August this year. The new route substantially strengthens SAA’s presence in West Africa.

“I think they (SAA) have decided Accra is a better stopover than Dakar for whatever reason,” Mekgoe added.

The airline said in a statement that the decision to route some of its North American-bound flights to Ghana was based on “sound business principles” as there was considerable demand for passengers wanting to fly from Ghana to the US.

Interestingly, besides celebrating the inaugural flight between Accra and Washington, SAA has also concluded a long- term strategic commercial cooperation agreement with Africa World Airlines (AWA), offering travellers more travel options within the West African region. Mekgoe confirmed that, aside from Ghana, the company was in talks with a few other governments in West Africa.

“We are engaging with Togo right now and also Benin.”

He added that Uganda also had a couple of requests for proposals around modernising some of its airports.

“Basically what we look at on the African continent is taking an approach that says let’s talk about where we can help.”

Currently ACSA does not operate any airports in Africa outside those it owns in South Africa. “But we are consulting a lot in terms of technical advice and also helping with some training aspects,” Mekgoe said.

Speaking about the possibility of having a financial stake in other African airports Mekgoe ruled nothing out. “We take any opportunity as it comes and evaluate it.”

Some developmental finance institutions that actually finance airport projects insist that ACSA’s involvement goes further than just the initial consulting phase. “Some of them will insist that we should consider having a stake in the operation and we will consider that,” he added.

“In our current model we don’t go for majority stakes, we go for minority stakes. We don’t have the balance sheet to own, say, 50% of Sao Paulo.”

Recent financial figures from ACSA show that numbers are looking positive. The company has reported an 8.9% increase in revenue in the year ended March 2015.

The group achieved after-tax profits of R1.6 billion (\$114,786), albeit a slight decline from R1.7 billion (\$121,903) in 2014.

The company has indicated that, in the next three years, it plans to develop a model to secure new business in Africa and other emerging markets, accelerate its sustainability and transformation programme, roll out an information technology strategy and engage with industry players and

legislators on the company's regulatory and funding framework.

Looking ahead, Mekgoe said there were no defined aspirations between ownership and just providing services. He stressed that each opportunity would get considered on its own merits. "But we are looking at making a significant portion of our revenue come from outside of what we currently own in the next 10 years or so. I think we can diversify quite a bit through advisory services and through business outside South Africa."

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