VIDEC's

Middle East Air Market Opportunity

Overview and analysis of Middle East's total, addressable and OTA opportunity for airline category from 2019-2025, comprising of seven countries - Bahrain, Egypt, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE.

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About VIDEC

VIDEC is a boutique research and analytics firm focused on the travel, tourism and hospitality industry.

Our services include research & data analysis, consulting, due diligence and industry thought leadership.

VIDEC's clients benefit from its founding partners' decades of travel industry experience in consumer and B2B research, business development, education and media.

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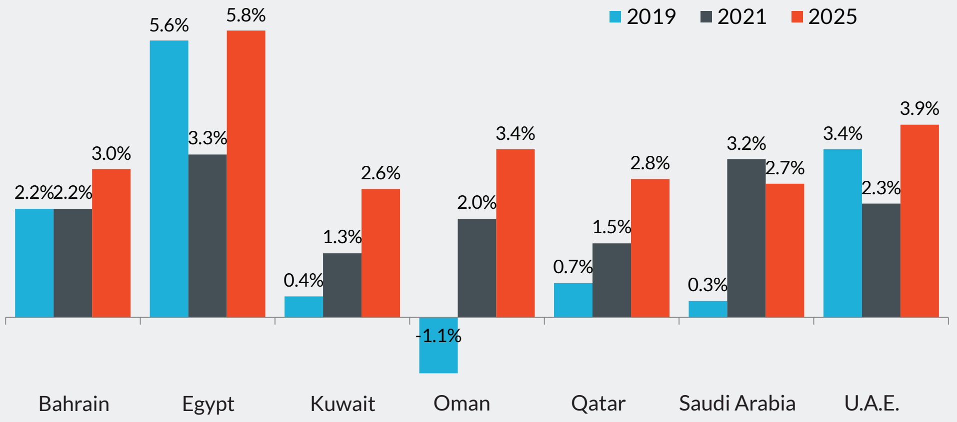
Market Overview

The Middle Eastern region (Bahrain, Egypt, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE) is uniquely poised to lead the global travel industry's growth story, driven by a combination of a young demographic, a thriving population of nearly 160 million, and a thrust on big-ticket domestic and regional investments. Plus, the region's proven ability to leverage its location to connect the East and the West are some triggers that will further expedite travel. The interplay of these factors is enabling the GCC countries (The Cooperation Council for the Arab States of the Gulf, also known as the Gulf Cooperation Council, consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) and Egypt to position themselves as one of the genuinely last untapped markets with abundant growth opportunities.

Economic activities have gained momentum in the region after COVID-19 brought business to naught. The World Bank projects that the GCC countries will grow at 5.9% per annum in 2022. A highly successful vaccine rollout that helped ease travel restrictions, the revival of global oil demand, and an increase in international oil prices have enabled this notable rebound (See figure 1). Geopolitical churns such as the Russia-Ukraine war have also brought the limelight firmly back onto the region, as crude oil prices have skyrocketed, strengthening the region's balance of payments with increased exports of petroleum and related products.

Middle East Gross Domestic Product Growth (%) by Market

Figure 1a



Note: 2025 projected.
Source: World Economic Outlook April 2022, International Monetary Fund

Furthermore, the region is witnessing wholesome policy-level changes, with a focus on IT services and shopping, and hosting of mega sporting events. A case in point is Saudi Arabia's ambitious VISION 2030 and the soon-to-be-held FIFA World Cup Qatar 2022. These endeavors underline a visible drive to develop infrastructure that will ultimately bolster the travel and tourism economy. The tailwinds in the economy will also benefit home-grown and international travel and tourism stakeholders in the region, who are building solutions from the ground up to cater to the growing domestic and regional demand.

Exceptionally high Internet penetration is another factor tipping the balance in favor of the region. The GCC region led the world in Internet penetration numbers, with more than 98% of pop having access to Internet in 2021. Meanwhile, regional mobile subscribers accounted for 138% of its total population. Considering the region's young demographic, this potent combination makes it a fertile ground for the online travel category.

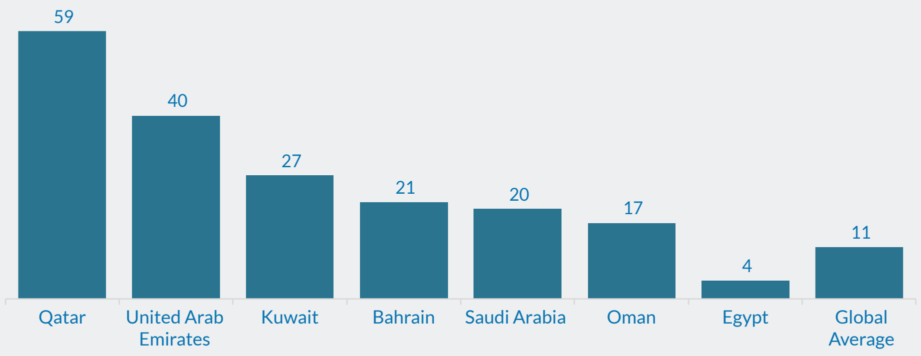
The Kingdom of Saudi Arabia: One of the dominant regional and international player, with a population of 36 million, Saudi Arabia has embarked on an ambitious plan to create diverse business opportunities, eyeing well-rounded growth in education, employment and career development, leading to sustainable economic growth. More so, these measures have helped create a robust domestic travel market that has helped the Kingdom recover faster from the downturn. Even before the pandemic, the Kingdom had improved its ranking from 39 in 2018 to 36 in 2019 in the World Economic Forum's Global Competitiveness Report, highlighting the government-led and private sector-enabled effort to boost the domestic financial market. Saudi Arabia's sovereign wealth fund, the Public Investment Fund (PIF), recently inked a non-binding deal with Seera Group Holding to acquire a SR3.75 billion (US$1 billion) stake in its travel unit, Almosafer. The Kingdom is also mulling listing more shares in Aramco, targeting a stake sale of more than $50 billion. These developments showcase Saudi Arabia's desire to diversify its economy and augment its non-oil-based earnings, propelled by domestic and sovereign investments.

United Arab Emirates: With a population of 10 million, the UAE has long been one of the key hubs for global travel and looks poised to contribute to the Middle Eastern opportunity. The Emirati economy exhibited tremendous resilience to bounce back from the pandemic-induced crisis. The UAE's GDP at constant prices grew by 17.8% in the second quarter of 2021, while the GDP grew by 6.3% in the third quarter, compared to the same period in 2020. Government programs that enhanced the business sector's ability to respond and recover from the pandemic's impact on the global economy contributed immensely in this swift turnaround.

Qatar: This peninsular nation may be a small country, but punches much above its weight. It registered a GDP per capita of over $59,000, which is almost five times the global average (See Figure 1b). Plus, the nation has almost 100% Internet penetration. The combination of a young population — 32% of its population is in the 25-34 age group — high disposable incomes, and high Internet penetration is helping create a vibrant travel market. Qatar also emerged as a bright spot of connectivity when major global hubs such as Hong Kong, Singapore and Dubai closed international travel owing to stringent pandemic regulations. Qatar Airways led the nation's recovery. It has been one of the most prominent airline to have operated throughout the pandemic.

Middle East GDP per Capita (Constant 2015$, '000) by Market, 2019

Figure 1b



Source: The World Bank, VIDEC's Middle East Air Market Opportunity Report

Egypt: It is the most populous country in the region, with a population of over 100 million. The nation was expected to grow consistently on the back of macroeconomic reforms and steady improvement in the business environment. However, revenue from its two key sources, gas and tourism, nose-dived during the pandemic. But, the economy has recovered considerably since. Egypt is well on course to grow upward of 5.5% in FY 2021/22.

The region's coordinated effort to boost investments by liberalizing foreign investment, along with steps such as enhancing visa regimes via Premium Residency or Golden Visa programs and business environment reforms, have established the Middle Eastern region as the hot bed for the next giant leap in economic development and, consequently, a hub for travel and tourism, mandating a closer examination of the travel opportunities here.

This report takes stock of seven key markets in the Middle East that present tremendous business opportunities because of their positive macro-economic indicators and business-friendly policies and programs.

Methodology

VIDEC's Middle East Air Market Opportunity Report presents market sizing and projections for the Middle East air market opportunity. The seven markets in scope are Saudi Arabia, United Arab Emirates, Bahrain, Egypt, Kuwait, Oman, and Qatar. This report represents the later five markets — Bahrain, Egypt, Kuwait, Oman, and Qatar — in aggregation, which are collectively referred to as "Rest of the Middle East".

VIDEC conducted executive interviews with airlines, traditional and online travel agencies, and travel technology providers operating in the region, to better understand the evolution, current dynamics, and growth outlook for the region.

The sizing and forecast estimates are created leveraging available seat capacity, load factor and average fares for top routes and destinations. All financial information has been sourced from publicly available financial reports or company interviews. Estimates and projections are based on a variety of third-party data sources, executive interviews, economic indicators, market trends and VIDEC analysis. Data is actual for 2019-2021 and projected for 2022-2025. Market sizing is presented in US dollars (US$), using applicable average currency exchange rates for respective years. None of the sizing data is adjusted for inflation.

The report examines an extraordinary region where some of the constituent markets are world's biggest aviation hubs. They offer excellent international connectivity and air lift, serving as a bridge between the East and the West. Only two of these markets, namely Saudi Arabia and Egypt, have a sizeable domestic travel opportunity. The remaining five predominantly cater to international demand — inbound, outbound and transit.

Need for Addressable Air Opportunity (AO):

To take a deep dive that is truly representative of the Middle Eastern air market opportunity, this research has taken a two-tiered approach:

1. **Total Air Market (TAM):** TAM represents the total size of the region's air market. It includes the dollar value of all arrivals and departures — domestic, outbound, inbound and transit — booked from **any point of sale** on both local and international airlines operating in the markets in scope.

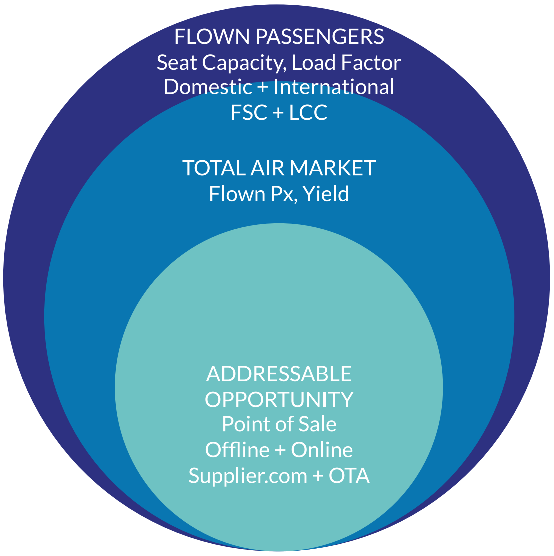
Examples:

- Passengers flying Lufthansa from Frankfurt to Dubai are included in TAM.
- Passengers flying AirAsia from Kuala Lumpur to Riyadh are included in TAM.
- Passengers flying from Sydney to London transiting via Dubai are included in TAM.

2. Addressable Air Opportunity (AO): AO is a subset of TAM. It includes the dollar value of all arrivals and departures — domestic, outbound, inbound and transit — booked from the **local point** of sale on both local and international airlines operating in the market in scope.

Examples:

- Passengers flying Lufthansa from Frankfurt to Dubai will be included in UAE AO, only if the booking was made from a UAE POS.
- Passengers on Saudia flying from Jakarta to Jeddah are excluded, if they booked from an Indonesian POS.
- Passengers on a Dubai-Jeddah-Dubai itinerary are accounted in Saudi Arabia's AO, if the booking was made from a Saudi Arabia POS.



Typically, the market sizing exercise takes a supply side approach. For example, this methodology attributes the gross booking value (GBV) of all bookings made anywhere in the world on Emirates to UAE, the market it is headquartered in. The Emirates GBV in 2019 was AED 76.1 billion. The Gulf and Middle East accounted for only 8% of the said GBV, **thus inflating the UAE air market size and markedly diminishing the relative share of the local travel retailers. This peculiarity is specifically notable for regions like Middle East that have low domestic demand and high share of international airlift.** It also excludes the gross booking value generated by all international carriers flying passengers to and from UAE which should ideally be a part of the UAE air market size.

A correct representation of the local market opportunity and the role of the online travel distributors catering to the local demand mandates the assessment of the addressable air opportunity (AO).

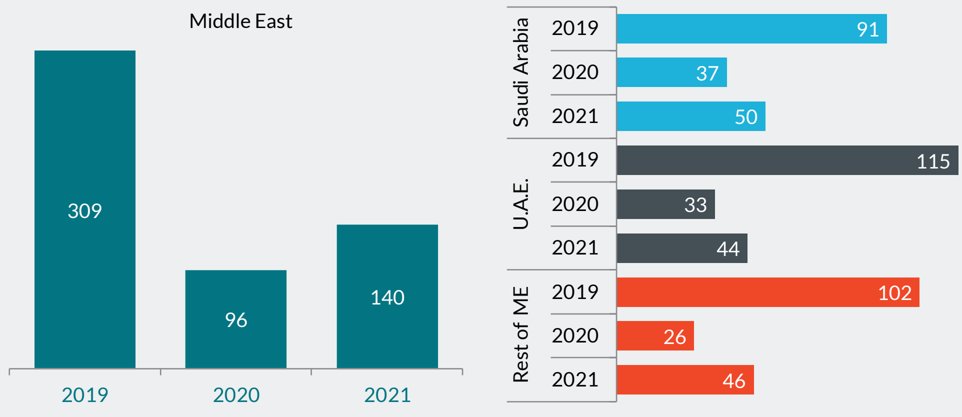
Total Air Market (TAM)

The Middle East air market roared in 2019 with 309 million flown passengers (See Figure 2). Pandemic-induced cross border restrictions had a negative impact, and the number of flown passengers plunged to 96 million in 2020. The overall market recovered to 140 million passengers in 2021.

Saudi Arabia managed to regain substantial lost ground after its passenger count dropped dramatically from 91 million in 2019 to 37 million in 2020. The Umrah market, one of the key contributors to the inbound traffic, declined by 70% to 5.8 million in 2020 from 19.2 million in 2019. The Kingdom's strong domestic demand helped the air market rebound from this steep downturn and the near absence of international traffic, to cross 50 million in 2021, emerging as the fastest recovering regional market, reaching 55% of the pre-pandemic level.

Middle East Total Flown Passengers (millions) by Market, 2019-2021

Figure 2



Note: Rest of Middle East includes Bahrain, Egypt, Kuwait, Oman and Qatar.
Source: VIDEC's Middle East Air Market Opportunity Report

The UAE was the flagbearer of the Middle Eastern aviation market before the pandemic. It was the biggest aviation market in terms of passengers flown in 2019, with 115 million passengers. However, the passenger count dipped dramatically in 2020, registering a 70% decline. With the skies opening, the UAE air market recovered considerably in 2021, reaching 44 million passengers, at 38% of its pre-pandemic level.

In 2019, the rest of the Middle East (Bahrain, Egypt, Kuwait, Oman, and Qatar) cumulatively accounted for 102 million flown passengers, approximately 33% of the region's total, underlining the heft of the UAE and the Saudi markets in elevating the region's status as a global aviation hub. The air markets in these countries also underwent significant tumult in 2020, declining by over 75%, compared to 2019. The number of flown passengers increased to 46 million in 2021, growing substantially over the 26 million passengers in 2020.

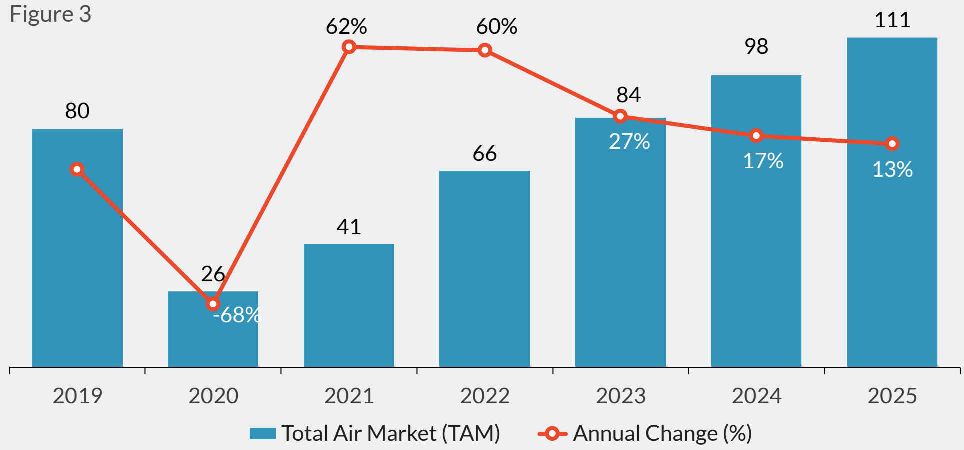
The Middle Eastern Total Air Market (TAM) stood at US$80 billion in 2019, before the pandemic caused a 68% decline (See Figure 3). It recovered to $41 billion in 2021 and is projected to reach $111 billion by 2025, witnessing a stellar CAGR of 28% between 2021 and 2025.

The UAE cornered the lion's share, accounting for 45% of the region's TAM at $36 billion in 2019, followed by Saudi Arabia at $17.6 billion, or a share of 22%. In 2021, riding on its domestic demand, Saudi Arabia's share of TAM climbed to one-third of the region and is projected to reach $27.8 billion by 2025 (See Figure 4). Despite heady growth in the aviation market in Saudi Arabia, UAE will regain its pole position with a share of 45% of TAM and is projected to reach $50 billion in 2025. The rest of the Middle East accounted for $26.4 billion in 2019 and is projected to reach $33.3 billion by 2025. Qatar and Kuwait are expected to play an important role in this anticipated tailwind.

It's important to note that these numbers are an outcome of the supply-side approach, which clubs all arrivals and departures from the region, booked from any point of sale.

Middle East Total Air Market (TAM)(US$B) and Annual Change (%), 2019-2025

Figure 3



Note: Total air market is based on all arrivals and departures of all airlines operating to a certain market. Estimates are based on available seat capacity in respective countries, flown passengers and airline ticket revenues. 2022-2025 projected.
Source: VIDEC's Middle East Air Market Opportunity Report

As part of Vision 2030, Saudi Arabia plans to increase the number of tourists to 100 million a year, and the number of religious visitors to 30 million a year by 2030. In June 2021, Saudi Arabia announced the setting up of a new flag carrier alongside Saudia, to compete with the might of Emirates and Qatar Airways. The Kingdom seeks to raise the economic contribution of the tourism sector from the current three percent of the GDP to 10% by 2030.

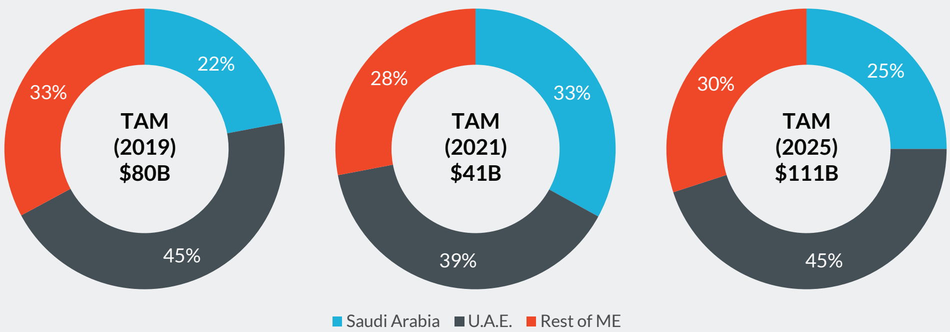
At World Expo 2022, Dubai recorded over 24 million passengers between October 2021 and March 2022. The biggest carrier in the region, Emirates expects to return to 100 per cent of operations and network capacity in 2023, as demand for travel and tourism recovers. Air Arabia, the homegrown LCC, added 16 new routes across its hubs in the UAE, Morocco, and Egypt during the first six months of 2022.

The government launched the 'UAE Strategy for Domestic Tourism' with the aim of unifying local and federal efforts to harness its tourism resources and reinforce the role of domestic tourism in national economy. Major events such as the FIFA World Cup, Formula 1 Grand Prix, NBA and UAE T20 Cricket League, between October 2022 and early 2023 will give regional tourism a boost. Thanks to the emphasis on travel and tourism, extensive global network and large fleet, UAE will continue its position as the most prominent regional market through 2025.

Qatar stepped up as an aviation hub when other regional hubs curtailed operations amid the pandemic. The country's flag carrier, Qatar Airways, has the distinction of doubling its gross booking number in FY2022. It flew 18.5 million passengers during FY2022 (April'21 - March'22), three times more than in FY2021. The carrier has also recently inked a strategic partnership with Virgin Australia. Qatar will soon host the much-awaited FIFA World Cup 2022. The mega sporting event will add impetus to travel in the country and garner global media attention.

Middle East Total Air Market (TAM), Share by Market (%)

Figure 4



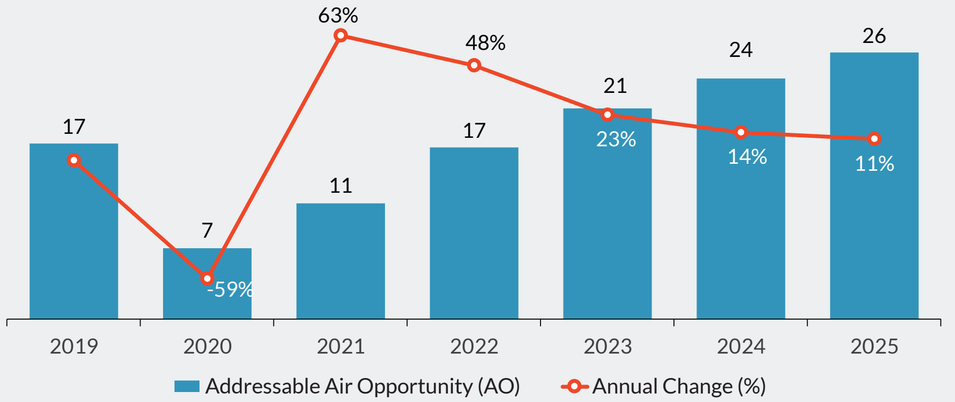
Note: Rest of Middle East includes Bahrain, Egypt, Kuwait, Oman and Qatar.
2022-2025 projected. Totals may not add to 100%.
Source: VIDEC's Middle East Air Market Opportunity Report

Addressable Air Opportunity (AO)

The Middle Eastern addressable air opportunity (AO) stood at US$17 billion in 2019, 21% of TAM (See Figure 5). Mimicking the global trend, the COVID-19 pandemic drastically impacted local demand in 2020, resulting in a decline of 59% in AO to account for $7 billion. The AO — addressable air opportunity which refers to market sizing based on **local point of sale** — recovered to $11 billion in 2021 and is projected to reach $26 billion in 2025, witnessing a resounding CAGR of 24% between 2021 and 2025.

Middle East Addressable Air Opportunity (AO) (US$B) and Annual Change (%), 2019-2025

Figure 5



Note: Addressable air opportunity refers to the market in which the air ticket sale was fulfilled. 2022-2025 projected.
Source: VIDEC's Middle East Air Market Opportunity Report

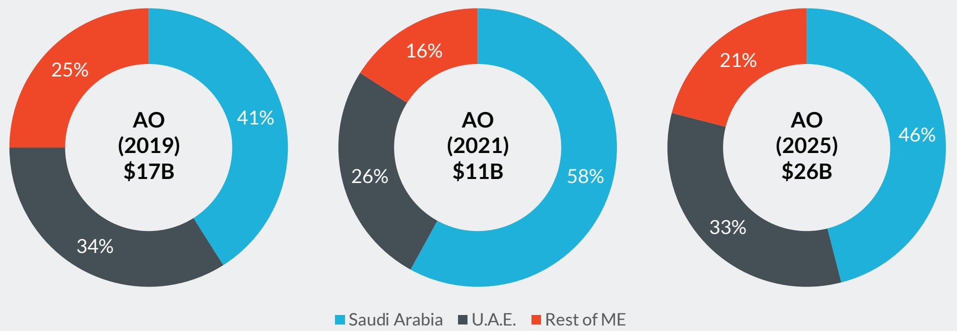
In contrast to TAM, where it stood second to UAE, Saudi Arabia had the biggest share in air AO in 2019 at $7 billion or 41% of the region. With its domestic demand playing anchor, the share of Saudi Arabia's AO in the region rose to 58% or $6.4 billion in 2021. As the region's international air traffic normalises, the share of Saudi Arabia's AO will decline to 46% by 2025. However, in absolute dollar terms, the Kingdom's AO will grow to $12 billion, almost doubling from its base in 2021. Saudi Arabia's AO as a share of its TAM peaked in 2021 at almost half and will hover around mid-forties through 2025.

While UAE had a commanding share in TAM, it stood second to Saudi Arabia when it comes to AO. In 2019, UAE's AO stood at $5.8 billion, at 16% of its TAM of $36 billion. The AO declined to $2.9 billion in 2021 and is projected to treble to reach $8.6 billion by 2025. UAE will regain its pre-pandemic share in the regional AO by 2025.

The AO for the rest of the Middle East accounted for $4.3 billion in 2019 and is projected to reach $5.5 billion by 2025, or 21% of TAM of $26.4 billion. Barring Egypt, because of the lack of domestic demand in the other four markets in the rest of the Middle East, the share of AO declined to 16% in 2021, as against 25% in 2019. It is expected to climb back to 21% by 2025 underscoring the dominance of Saudi Arabia and UAE.

Middle East Addressable Air Opportunity (AO), Share by Market (%)

Figure 6

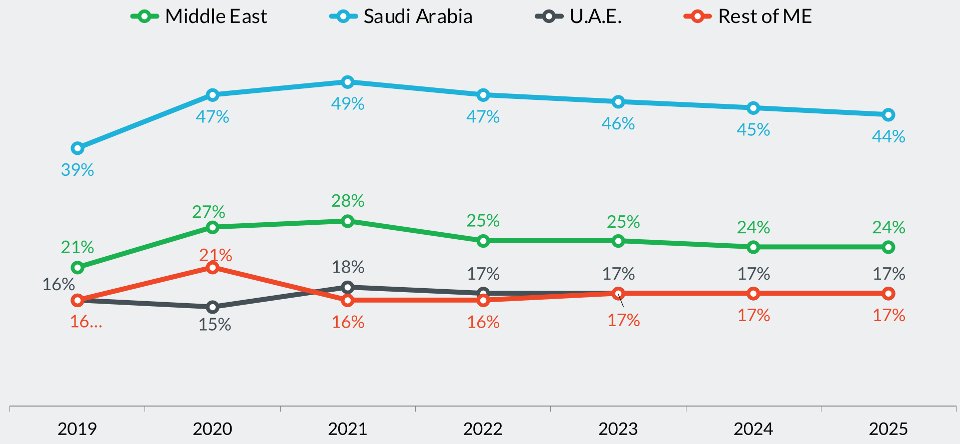


Note: Rest of Middle East includes Bahrain, Egypt, Kuwait, Oman and Qatar.
2022-2025 projected. Totals may not add to 100%.
Source: VIDEC's Middle East Air Market Opportunity Report

Most Middle Eastern countries have mooted their tourism strategies, eyeing a higher domestic tourism share from the Gulf member countries and other countries in the neighborhood. Some key focus areas include family tourism, beaches, and shopping malls. Plus, the region has seen a rise in resorts, hotels, and entertainment centers more attuned to the local culture and ethos. The aviation sector will gain the most from this incremental growth in regional travel and tourism.

Middle East Addressable Air Opportunity (AO) as a Share of Total Air Market (TAM), by Market (%)

Figure 7



Note: Rest of Middle East includes Bahrain, Egypt, Kuwait, Oman and Qatar.
2022-2025 projected.
Source: VIDEC's Middle East Air Market Opportunity Report

Online Travel Agencies (OTA) Landscape

The Middle East region offers a unique combination of enablers that are creating a near-perfect alignment to boost the OTA growth story. The region is home to over 160 million people, with a predominantly young population. Add to this, the frequent-traveling, tech-savvy populace which has access to high-speed Internet and a high disposable income. The Middle East is also one of the densest regions when it comes to the expat population. Working at both ends of the spectrum, they are either driven by comfort or price sensitivity.

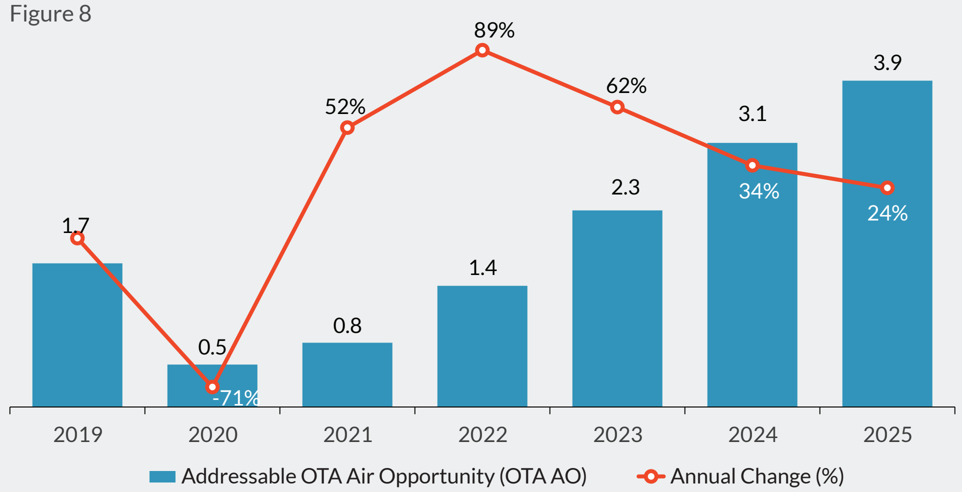
Besides, with dozens of full service and low-cost airlines operating in the region, there's a plethora of choice in product and price. This fragmentation in the air category creates a ripe opportunity for home-grown and international players with products that tend to the subtle cultural and linguistic nuances. Discounts, cashbacks, and high engagement will further fuel the OTA adoption. At the cusp of rapid transformation to an online consumer behavior, OTAs are ideally positioned to lead the growth and acquire market share.

The Middle East OTA air AO was estimated at US$1.7 billion in 2019. It accounted for nearly 10% of air AO as against two percent of TAM. Ergo, the need for air AO — demand side analysis taking into account bookings made from local point of sale — for a real representation of the current share and projections for the air market and the relative share of the players.

The pandemic stymied the OTA growth story as passengers preferred to book directly with the suppliers because of limited options to choose from, negating the need for comparisons. They also wanted flexibility and assurance, to be able to communicate directly and quickly with the supplier in case of any flight disruptions or changes in travel plans. Travelers also opted for supplier channels over OTAs for cancellation and refund policies, more from a psychological perspective.

Middle East Addressable OTA Air Opportunity (OTA AO) (US$B) and Annual Change (%), 2019-2025

Figure 8



Note: 2022-2025 projected.
Source: VIDEC's Middle East Air Market Opportunity Report

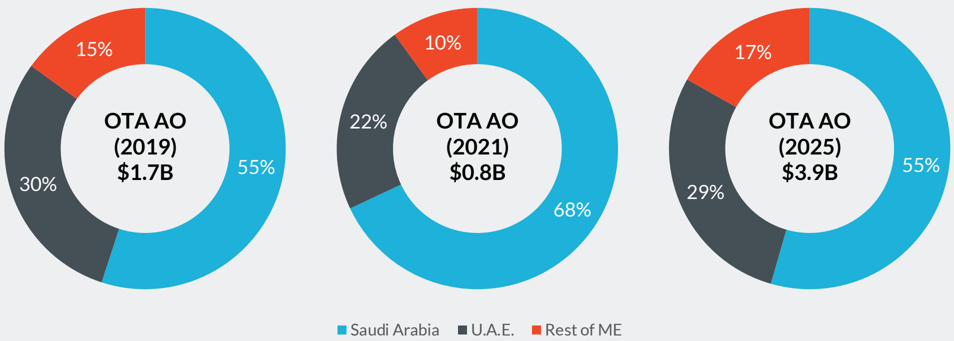
The OTA air AO shrunk by 71% in 2020 (See Figure 8) as routes froze, and airlines had to drastically cut back capacity amid the pandemic. However, it rebounded quickly as the air market recovery began. The OTA air AO is expected to surpass the pre-pandemic level in 2023 to account for $2.3 billion, and close to $4 billion in 2025, a five time growth from the lows of 2021. The pandemic has transformed traveler behavior fundamentally in many ways, including the adoption of DIY and digital channels in shopping and booking. This, coupled with the pent-up travel demand, led the rapid OTA recovery in 2021 and will fuel the growth going forward.

Going by the learnings from other emerging and matured markets worldwide, as consumers get comfortable with the idea and experience of online channels, they are unlikely to go back to the traditional model, at least for off-the-shelf products. The role of travel advisors, as well as the hybrid model, will co-exist, especially for complex and high value bookings.

In 2019, Saudi Arabia accounted for over half of the region's OTA air AO bookings, followed by UAE. While other markets in the Middle East were reeling during the pandemic, Saudi Arabia sauntered along owing to the strength of its domestic demand, thereby increasing its share to 68% in 2021. As the international capacity recovers to pre-pandemic levels, and additional supply comes into the mix, the UAE and the rest of the Middle East will regain their respective pre-pandemic share in region's OTA air AO. While the respective mix of share in the overall pie appears to be stagnant, the Saudi Arabia OTA air AO will grow from $0.9 billion in 2019 to $2.1 billion in 2025.

Middle East Addressable OTA Air Opportunity (OTA AO), Share by Market (%)

Figure 9



Note: Rest of Middle East includes Bahrain, Egypt, Kuwait, Oman and Qatar.
2022-2025 projected. Totals may not add to 100%.
Source: VIDEC's Middle East Air Market Opportunity Report

In many ways 2012 was the transformational year for the Middle Eastern online travel space. The online travel story had played out in India and Southeast Asia, and some of these OTA upstarts were looking for other emerging travel market opportunities for expansion. Wego from Singapore and Cleartrip from India, both forayed in the Middle East in 2012.

Wego began as a marketplace in Middle East with the launch of www.wego.ae, an Arabic-language version of their platform. Middle East Venture Partners (MEVP) invested in Wego in 2017. Soon, more than half of its revenue was coming from the region.

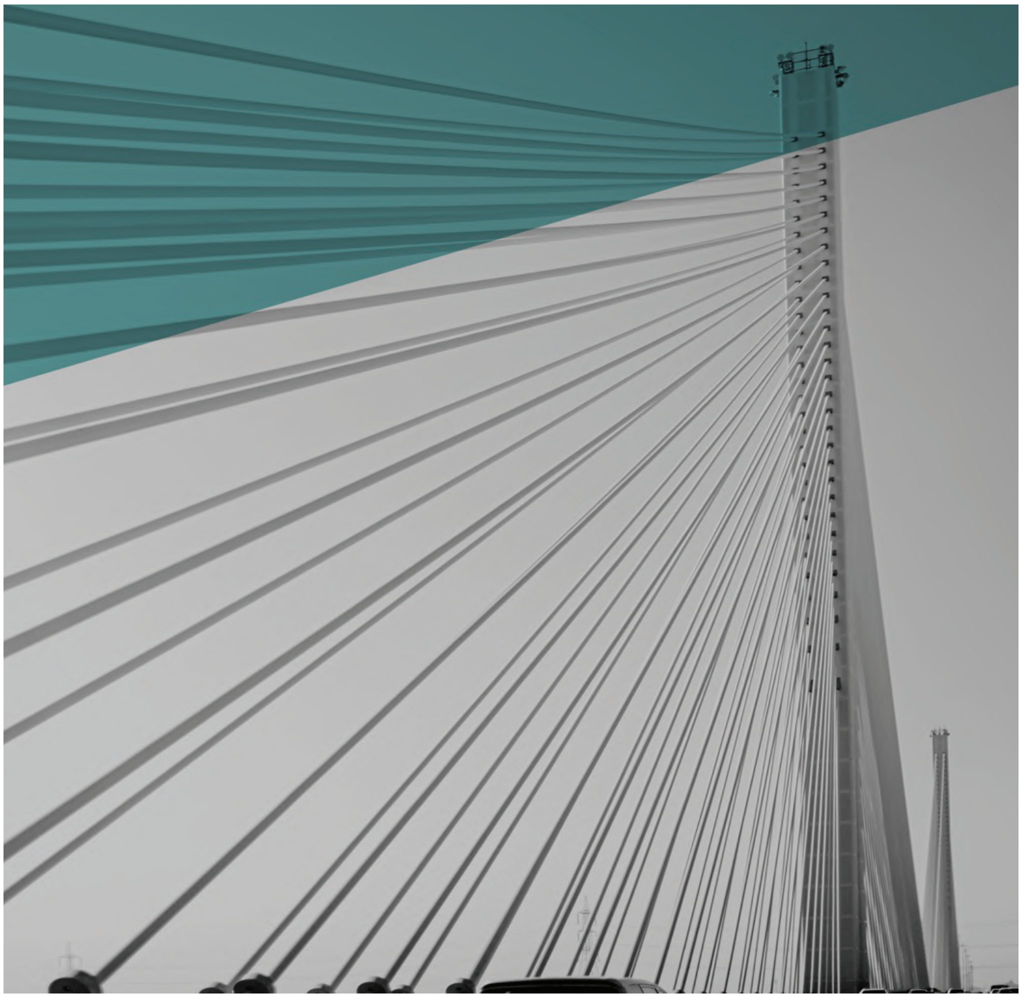
Cleartrip started its OTA operations in UAE in 2012 and became the top air OTA in quick succession. It went onto acquire Flyin in 2018, Saudi Arabia's leading online travel agency, to strengthen its footprint in the region. Wego acquired Cleartrip's Middle Eastern business in 2022, including Flyin.

In 2015, Saudi Arabia-based Al Tayyar Travel Group (rebranded as Seera Group in 2019), created a digital travel brand, Tajawal, as a corporate travel offering. Around the same time, it acquired Almosafer. As of today, all of Seera's consumer and business travel units are rebranded under Almosafer. Saudi Arabia's sovereign wealth fund, the Public Investment Fund (PIF) invested Saudi Riyal 1.55 billion in Almosafer in September 2022.

MakeMyTrip, the leading Indian OTA, announced its foray in the Middle East region beginning with a full-service product offering in Saudi Arabia in 2020. A large Indian expat population in the region will be to its advantage.

There are several other OTAs active in the region. Kuwait-based Rehlat was founded in 2014. After building its presence in its home market and Saudi Arabia, it's now expanding to the broader Middle East region. Musafir was founded in the UAE in 2007, later expanding to India and Qatar. It has since also built upon its business travel division. HolidayMe, another UAE-based OTA founded in 2013, is primarily focused on servicing the travel and tourism demand for Saudi Arabia.

Following trends from the US, Europe, China and broadly Asia, the next five to 10 years in the Middle Eastern region will witness significant consolidation in online travel distribution. This report consciously touches the OTA landscape superficially, to keep the emphasis on the region's air market TAM, AO and OTA air AO analysis. We will be delving into greater detail in the upcoming country-specific reports for Saudi Arabia, UAE and Rest of the Middle East.



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