VIDEC's

UAE Air Market Opportunity

Overview and analysis of UAE's total, addressable and OTA opportunity for airline category from 2019-2025.

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December 2022

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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

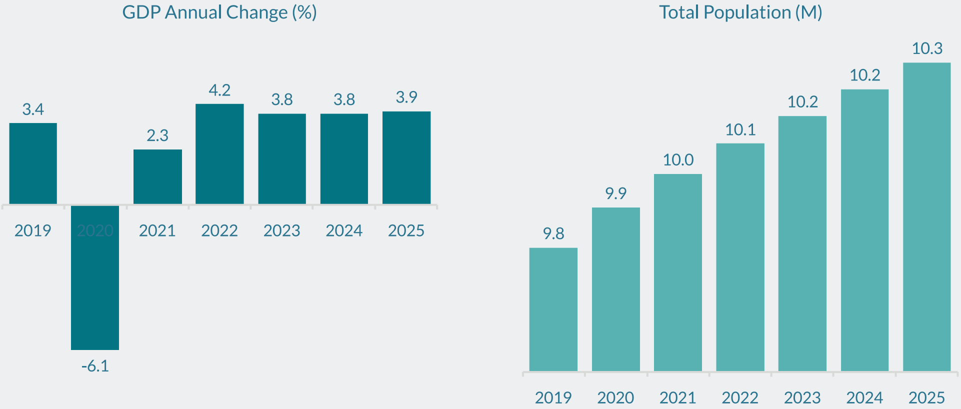
The adoption of a liberalized economic system by the United Arab Emirates (UAE) soon after its foundation in 1971, allowed the country to become one of the favorable business destinations globally. UAE was the first Middle Eastern power to diversify its economy beyond oil, and lay enormous emphasis on sectors such as tourism and aviation. The contribution of non-oil sectors in the GDP rose from less than 30% in 1971 to almost two-thirds in 2001[1] and further to 72.3% in 2021[2]. An outcome of this economic vision, that has been in place for more than three decades now, is the making of UAE as the foremost aviation hub, not only in the region, but the entire world.

UAE enjoys a unique strategic location on the global air transport map. On one hand, it connects two-thirds of the world population living in the Asia-Pacific region with Europe and Africa. Moreover, due to the first mover advantage, it also serves as a node for the world to connect with other Middle Eastern markets.

Spearheading the transformation from a traditional oil-based economy to a cosmopolitan global connector, was the Emirate of Dubai. This model is being emulated by not only the other UAE emirates, but also other countries in the Gulf region. The early start enabled UAE to gain a strong head start in the commercial aviation space.

UAE: GDP change (%) and Population (M), 2019-2025

Figure 1a



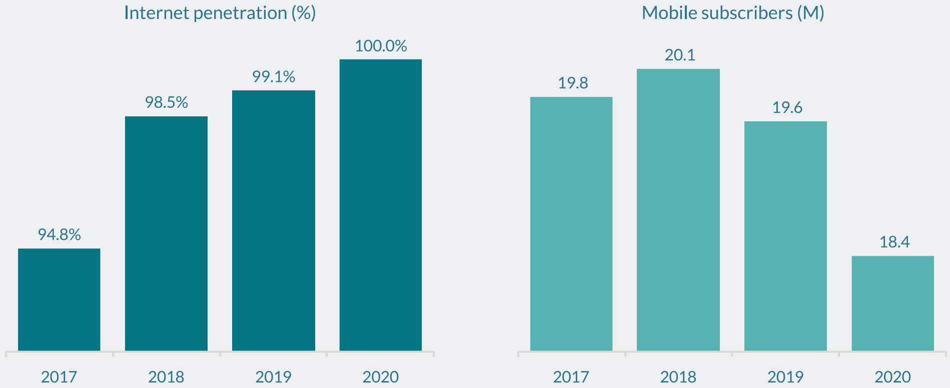
Note: 2022-2025 estimated.
Source: World Economic Outlook April 2022, International Monetary Fund, The World Bank

The country's aviation sector has blossomed, and will continue to do so, fueled by strong demand-side factors. Ninety percent of the country's population of 10 million is estimated to be expats[3]. This makes it natural for the country to expect significant demand for air travel for a variety of purposes including leisure, business, VFR and religious tourism. Moreover, the second highest per-capita income in the GCC region allows its people to spend higher proportions on discretionary items, a significant component of which is travel. The UAE is the second largest economy of the Arab world with a GDP of $507 billion and a GDP per capita upwards of $51,000 in 2022[4]. The real GDP growth rate for 2022 is projected to be 6.5%[5].

1. UAE Economy 36 times bigger since 1971 union
2. Non-oil Contribution to UAE's GDP reaches 72.3% in 2021
3. UAE Population and Demographic mix
4. International Monetary Fund (IMF)
5. Central Bank of The U.A.E. Quarterly Economic Review: 2022 Q2

UAE: Internet Penetration (%) and Mobile Subscribers (M), 2017-2020

Figure 1b



Note: Internet penetration refers to the portion of the population that has access to the Internet.
Source: International Telecommunication Union

The UAE has one of the most promising demographic profiles in the region with 73% of the population between 15 and 49 years of age. The country also enjoys an impressive digital footprint. Internet penetration reached 100% in 2020 and the number of mobile subscribers stood at more than 18 million in 2021. To sum up, the UAE market represents an aspirational youth, with high purchasing power and access to the Internet, making it a fertile retail consumer opportunity.

The key tailwinds for the economy this year were the global surge in crude oil prices, an active government policy with respect to the COVID-19 vaccination program and resumption of domestic demand due to fiscal and monetary stimulus. In 2023, the growth rate is projected to be 4.2%, according to the Central Bank of UAE. This dilution in growth is a consequence of global tightening of liquidity and the entailing economic uncertainties. On the flip side, the resurgence of the non-oil sector along with continuing effort to green the economy are expected to induce growth in the medium term.

The country has gone through a series of economic reforms with the objective of ensuring sustainability of economic progress and aligning itself with the global markets. The introduction of a federal corporate tax is a continuation of the tax reform agenda that began with the implementation of value added tax (VAT) in January 2018. 'We the UAE 2031' Vision launched in November 2022 represents the national plan through which the country will continue its development path. It aims to almost double the country's GDP to $816 billion and increase its non-oil exports to $217 billion.

The country also aims to raise the contribution of tourism sector to the GDP to 15% (about $120 billion)[6]. According to the World Travel and Tourism Council (WTTC), the total contribution of travel and tourism to UAE's GDP was 11.9% in 2019, which declined to 4.6% in 2020, owing to the pandemic. In 2021, this contribution bounced back to 6.4%[7].

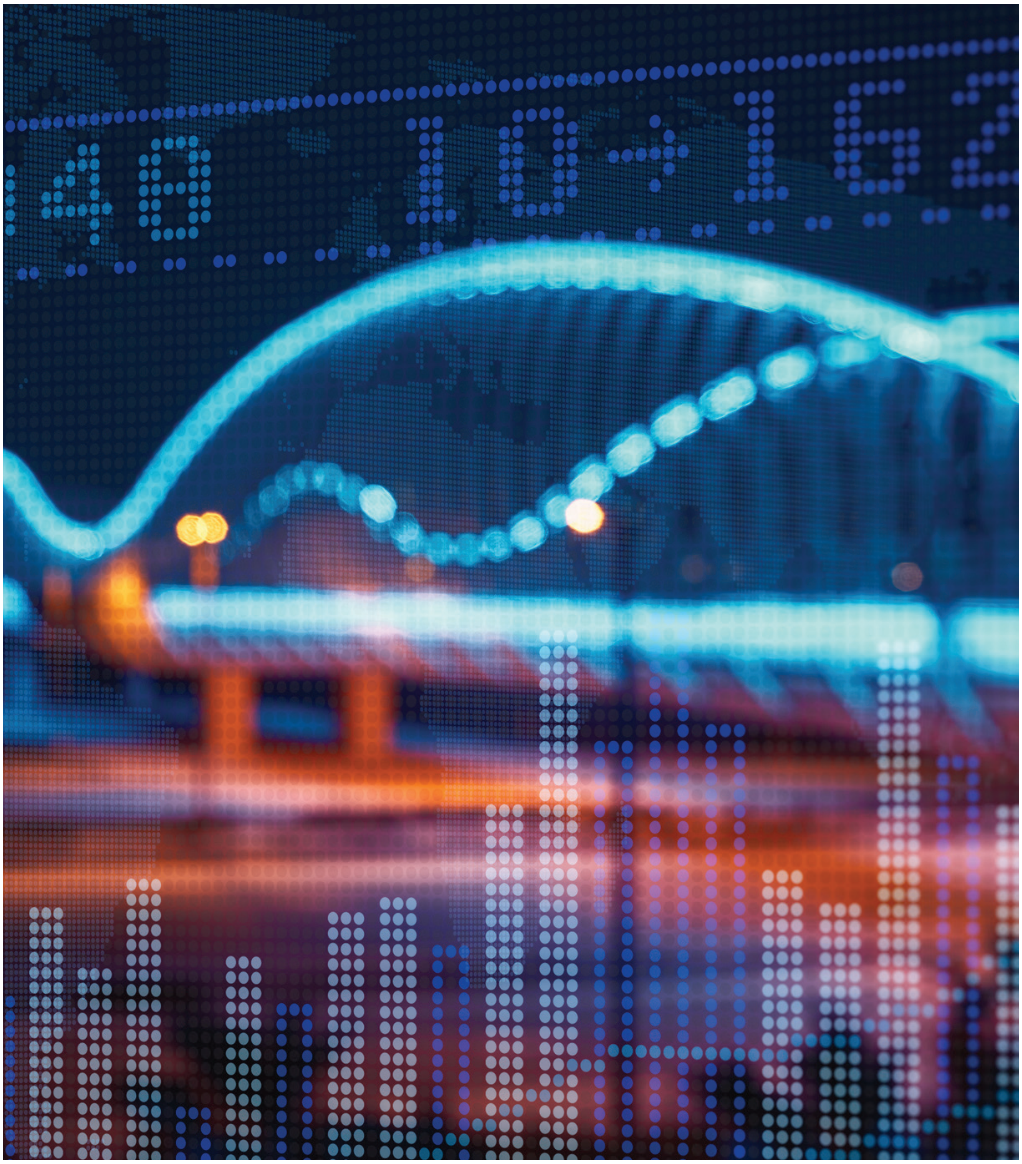
The strong recovery in travel and tourism sector in 2022 is attributable to the easing of COVID-19 restrictions along with the success of Dubai Expo 2020. The six-month mega event, that ended on March 31, 2022, spurred international travel activity, having recorded over 24 million visits from 192 countries.

6. 'We the UAE 2031' vision
7. World Travel and Tourism Council: UAE Economic Impact Report 2021

As an integral part of the Dubai 2040 Urban Master Plan, the government has approved the Hatta Master Development Plan, which aims to transform the town into an attractive destination for business, investment and tourism. The country will be hosting COP28 in December 2023, welcoming over 140 heads of state and 80,000 delegates. This will not only give impetus to the tourism sector but will also raise the spirits of the economy.

In 2022, international visitors to Dubai are expected to cross 14 million, almost twice that compared to 2021. In 2019, 16.7 million international travelers visited Dubai. Dubai, accounting for about two-thirds of the total visitors to UAE, can be considered a fair proxy to gauge the recovery in inbound tourism to the UAE. The GCC region, along with Western Europe, is the largest source market for UAE, each accounting for one-fifth, followed by South Asia at 17%.

Dubai International Airport (DXB) continues to be the world's busiest international airport, witnessing passenger traffic of 28 million in the first half of 2022, up more than 160% from the same period in 2021. The annual traffic at DXB is forecasted to reach 64 million for 2022, up from 29 million in 2021. Abu Dhabi Airport on the other hand, is expected to record more than 10 million passengers in 2022, nearly 2x of 5.3 million in 2021.



Methodology

VIDEC's UAE Air Market Opportunity Report presents UAE's air market sizing and projections. VIDEC conducted executive interviews with airlines, traditional and online travel agencies, and travel technology providers operating in the country to better understand its evolution, current dynamics, and growth outlook.

The sizing and forecast estimates have been created by 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.

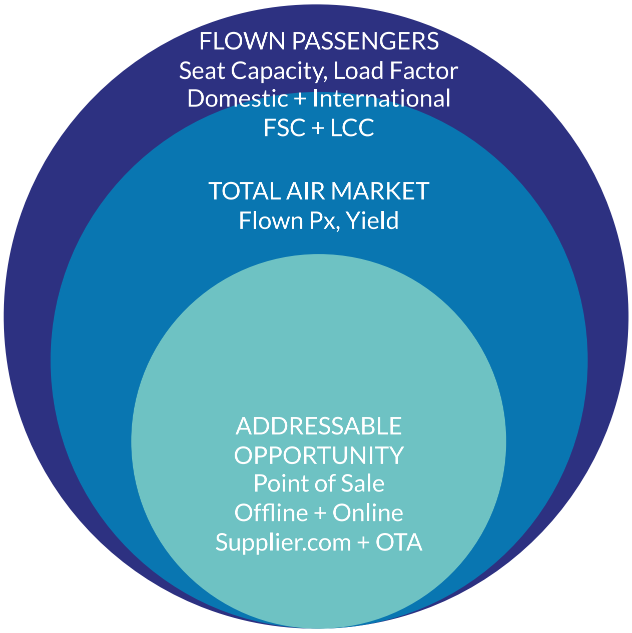
Need for Addressable Air Opportunity (AO):

This research has taken a two-tiered approach to deep-dive into what is truly representative of UAE's air market opportunity.

1. Total Air Market (TAM): TAM represents the total size of UAE'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 UAE market.

   Examples:

   - TAM includes passengers flying Emirates from London to Sydney.
   - TAM includes passengers flying from Kochi to Sharjah on Indigo.
   - TAM includes passengers flying from Abu Dhabi to New York on KLM.



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 (POS) on both local and international airlines operating in UAE market.

   Examples:

   - Passengers flying Etihad from Frankfurt to Abu Dhabi would be included in UAE AO only if the booking was made from a UAE POS.
   - Passengers on Air Arabia flying from Dubai to Riyadh are excluded if they booked from a Saudi Arabia POS.

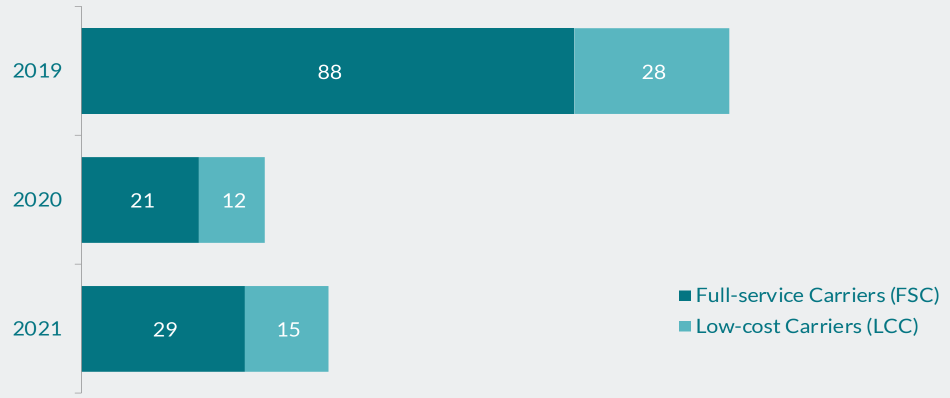
The demand size approach takes into account all airlift—domestic, inbound, and outbound—available from a market in consideration, thereby presenting a holistic picture of the air market opportunity. A correct representation of the local market opportunity and the role of online travel distributors catering to local demand, mandates an assessment of the addressable air opportunity (AO).

Total Passengers Flown

In 2019, the flown passengers in UAE totaled 115 million, highest in the Middle East region. The pandemic caused it to decline by 71% to 33 million in 2020. In 2021, the air traffic recovered slightly to 44 million, accounting for about 38% of the pre-pandemic levels.

UAE: Total Flown Passengers (Millions), 2019-2021

Figure 2



Note: Total flown passengers includes on all arrivals and departures of all scheduled airlines operating in the UAE. Estimates are based on available seat capacity and load factors.
Source: VIDEC's UAE Air Market Opportunity Report

In 2019, the full-service carriers (FSCs) carried 88 million passengers, contributing more than 75% of the total traffic, while low-cost carriers (LCCs) flew the remaining 28 million passengers. Due to the pandemic, the FSCs took a strong hit as international travel came to a near halt, resulting in a decrease in flown passengers to 21 million. In 2021, the FSCs marginally improved their share in total traffic to around 66%, up from 64% in 2020.

Emirates, the flagship carrier of Dubai, carried 19.6 million passengers in the financial year ended March 31, 2022, (FY22), 3x of 6.6 million in the FY21. In all, it is still a long way to recovery, considering the passenger traffic of Emirates in FY20 was 56 million.

Etihad, UAE's national carrier, carried four million passengers in 1H22, which is a decent recovery over the full-year passenger traffic in 2021 of 3.5 million. The airline is projected to carry over eight million passengers in 2022. The Government of Abu Dhabi has transferred the ownership of Etihad Aviation Group, the parent company of Etihad Airlines to sovereign wealth fund ADQ. This will create significant synergies for the industry as a whole, as the fund already has Abu Dhabi Airports, Wizz Air Abu Dhabi and ADQ Aviation & Aerospace Services Company in its aviation portfolio. This step will further the aim of making Abu Dhabi an integrated aviation hub.

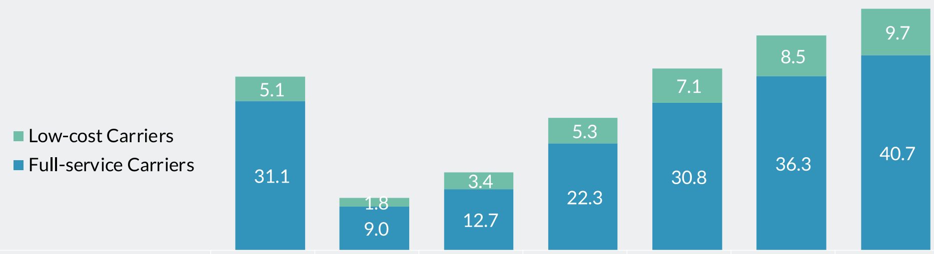
Low-cost carrier Air Arabia witnessed a passenger traffic of 3.6 million in the first half of 2022 and is expected to carry 12 million passengers by the year end, almost double the 6.7 million in 2021. Dubai based flydubai carried 2.3 million passengers in the first quarter of 2022, up 114% from 2021, and is expected to carry about 10 million passengers in 2022.

Total Air Market (TAM)

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 UAE, referred to as TAM, totaled $36 billion in 2019. The UAE TAM declined to $11 billion in 2020, down 70% compared to the previous year.

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

Figure 3



		2019	2020	2021	2022	2023	2024	2025
Indexed to 2019 (%)	FSC	-	29%	41%	72%	99%	117%	131%
	LCC	-	36%	68%	105%	139%	167%	191%

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

In 2021, TAM increased by 50% YoY to reach $16 billion or 44% of the pre-pandemic level. TAM is projected to cross $28 billion in 2022 and is expected to exceed the pre-pandemic level in 2023. By 2025, the total air market for UAE is projected to reach $50 billion.

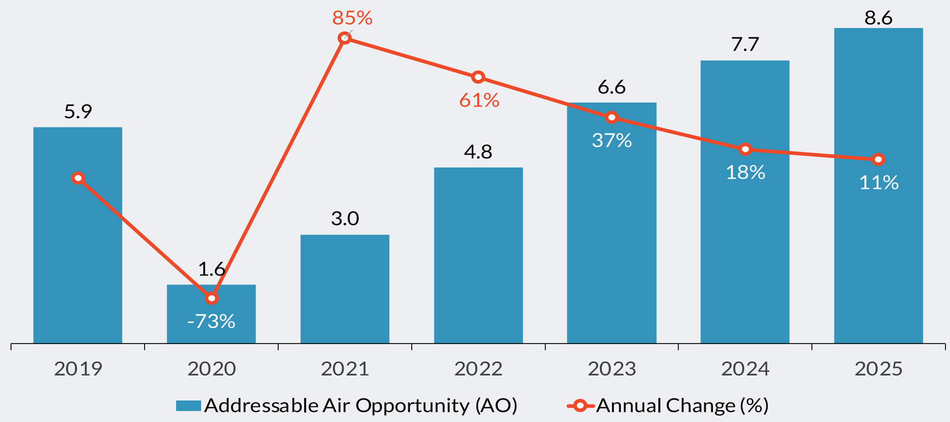
The FSCs accounted for 86% of the TAM in 2019, which declined marginally to 83% in 2020 and further to 79% in 2021. On the other hand, owing to the pandemic induced restrictions on long-haul travel, the LCCs gained the share of TAM—from 14% in 2019 to 17% in 2020, and then 21% in 2021. The FSCs are expected to attain the pre-pandemic levels of TAM by 2023, while the LCCs are expected to reach that mark this year itself, in 2022.

Addressable Air Opportunity (AO)

The dollar value of all arrivals and departures—domestic, outbound, inbound and transit—booked from the local point of sale (POS) on both local and international airlines operating in U.A.E, referred to as the addressable air opportunity (AO) amounted to $5.9 billion in 2019.

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

Figure 4



Note: Addressable air opportunity refers all air tickets booked from a UAE point of sale (POS). 2022-2025 projected.
Source: VIDEC's UAE Air Market Opportunity Report

The UAE AO declined by 73% to $1.6 billion in 2020 and reached $3 billion in 2021. Indexed to 2019, the AO amounted to 50% of the pre-pandemic level in 2021. This indicates a slightly faster recovery of AO as compared to TAM. This can be interpreted as a stronger rebound in local demand verses the international demand, considering geo-political issues such as the Russia-Ukraine war[8] and further COVID-19 restrictions taking into consideration new variants.

The addressable air opportunity is projected to reach $8.6 billion by 2025, a near 50% rise from the pre-pandemic level in 2019.

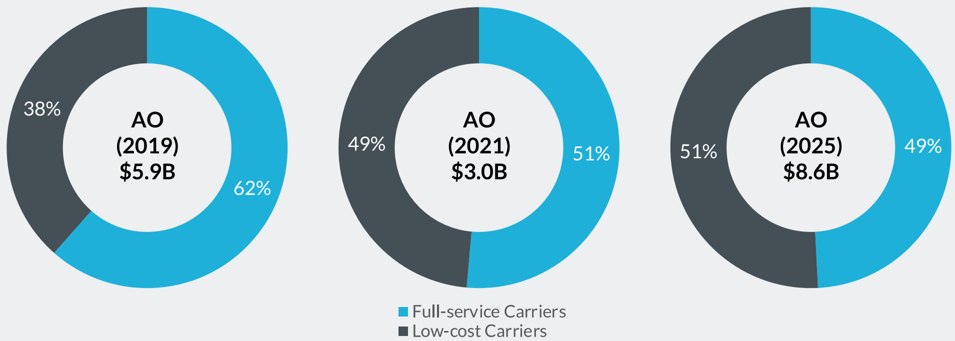
8. IATA Factsheet: The impact of the war in Ukraine on the aviation industry

Addressable Air Opportunity (AO) Share by FSCs vs. LCCs

While the contribution of FSCs in the $5.9 billion addressable air opportunity (AO) was $3.7 billion, or 62%, in 2019, this share reduced significantly to 51% in 2020. This is contrary to the trend witnessed in Saudi Arabia, wherein the FSCs gained share in AO, owing to a robust domestic demand (refer VIDEC's Saudi Arabia Air Market Opportunity Report 2022 for more details).

UAE: Addressable Air Opportunity (AO), Share by Full-service vs. Low-cost Carriers (%)

Figure 5



Note: Addressable air opportunity refers all air tickets booked from a UAE point of sale (POS). 2022-2025 projected.
Source: VIDEC's UAE Air Market Opportunity Report

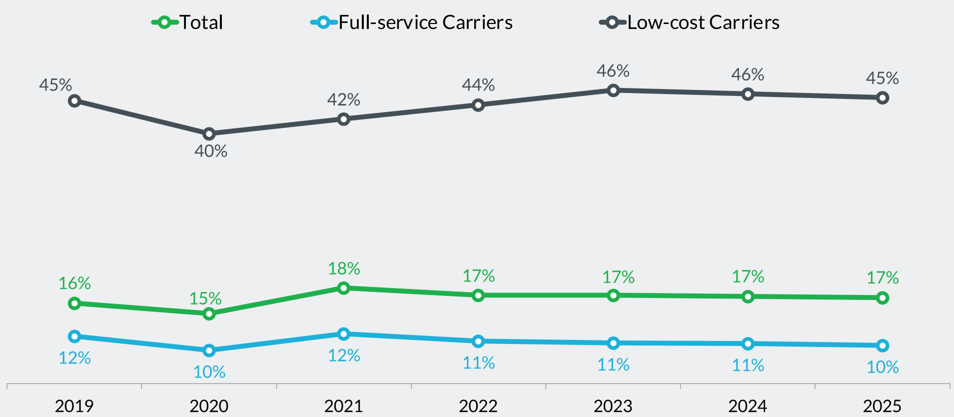
LCCs on the other hand have increased their share in AO from 38% in 2019 to 49% in 2020. Benefitting from the short-haul routes connecting the broader Gulf region as well as South and Southeast Asia, the LCCs are expected to reach $4.4 billion or 51% of UAE AO in 2025, surpassing the FSC share of AO.

Addressable Air Opportunity (AO) as a Share of the TAM

Overall, the share of the addressable air opportunity (AO) in total air market (TAM) stood at 16% in 2019. It declined to 15% in 2020, highlighting the significance of international traffic in UAE air market. This decline is contrary to Saudi Arabia, wherein the AO share in TAM rose from 39% in 2019 to 47% in 2020 (refer VIDEC's Saudi Arabia Air Market Opportunity Report 2022 for more details), owing to a strong domestic demand. This contrast is the major reason why VIDEC undertook the entire analysis of AO vs. TAM. While AO reveals the local market opportunity, TAM highlights the global airlift serviced to/from UAE.

UAE: Addressable Air Opportunity (AO) as a Share of Total Air Market (TAM)(%)

Figure 6



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

In UAE, both LCC and FSC AO as a share of TAM reduced in 2020. LCC's AO share of TAM dropped from 45% in 2019 to 40% in 2020. This ratio for FSCs fell marginally from 12% to 10%, demonstrating the significant role played by the Emirati FSCs in international travel during the pandemic.

In 2021, the overall AO as a share of TAM bounced back to 18%, backed by both LCCs and FSCs. The overall AO as a share of TAM is expected to remain stable at 17% during 2022-2025.

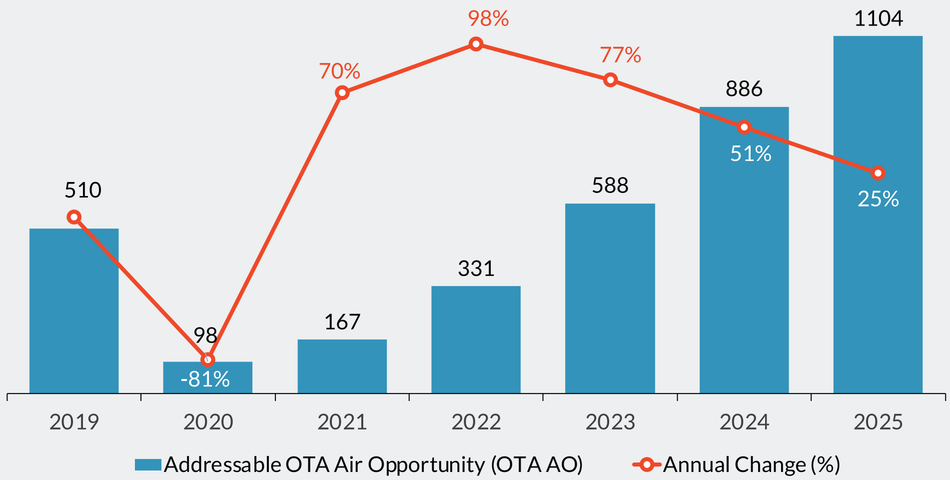
Online Travel Agency (OTA) Addressable Air Opportunity (AO)

The UAE OTA AO was worth $510 million in 2019, which nosedived by 81% to $98 million in 2020, thus becoming the most severely hit channel of air distribution. At the peak of the pandemic, consumers tended to deal directly with the suppliers because of brand assurance and psychological safety. As traveler anxiety recedes, deals and one-stop delivery of travel services regain importance among consumers, the worst is likely over for the OTAs.

This is evident by the OTA AO growing by 70% in 2021 and is further projected to double in 2022. The channel will continue to grow in the light of greater adoption of online channels by consumers. It is estimated that OTA AO will surpass the pre-pandemic level in 2023 and cross $1.1 billion by 2025, more than twice that in 2019.

UAE: Addressable OTA Air Opportunity (OTA AO) (US$M) and Annual Change (%), 2019-2025

Figure 7



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

Online Air Intermediaries Landscape

Wego Group, the leading online travel intermediary in the Middle East, has a strong foothold in the UAE market. With the acquisition of Cleartrip's Middle East business (including Flyin), the group is set to become the leading player in the online distribution space.

Almosafer, part of Seera Group, operates the consumer and business travel segments as well as the destination management company. Seera is working with the Saudi Arabia's Air Connectivity Program to partner with airlines to boost air capacity from Dubai to Riyadh and Jeddah, among other routes. Kuwait-based Rehlat, one of the only self-funded Middle Eastern OTAs, is looking at expanding beyond its home market and setting up a pan-GCC business.

Just before the pandemic hit, MakeMyTrip, the leader of the Indian OTA segment, had started expanding its offerings outside India, with UAE as the first focus market in the Middle East. A dedicated UAE app was launched along with an Arabic-language website to cater to the local demand, besides servicing the Indian diaspora. EaseMyTrip, another India-based OTA started to penetrate the UAE market. The company has opened a retail office in Dubai to cater to the growing B2C retail segment under its international expansion strategy. The interest of Indian OTAs in the UAE market is not surprising, considering that the Indian expatriate community is the largest ethnic community in the country, constituting roughly 30 per cent of its population[9], and UAE's proximity to Indian subcontinent.

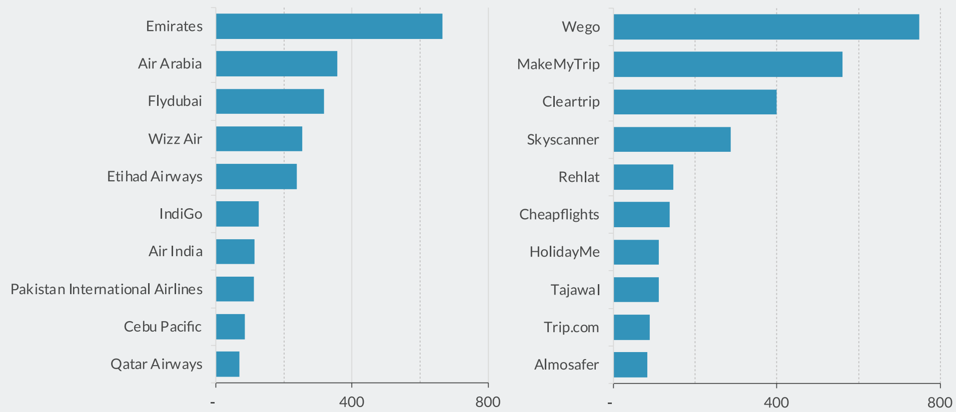
9. Indian Community in UAE

Digital Landscape: App and Web Traffic

In the period from January 2019 to September 2022, the cumulative app downloads of 9.2 million points towards a robust digital landscape in UAE travel marketplace. While the online travel intermediaries cornered a majority share (65%) at six million app downloads, the remainder was contributed by airline apps.

UAE: Cumulative App Downloads for Top Airlines and Online Air Distributors ('000), Jan 2019-Sep 2022

Figure 8



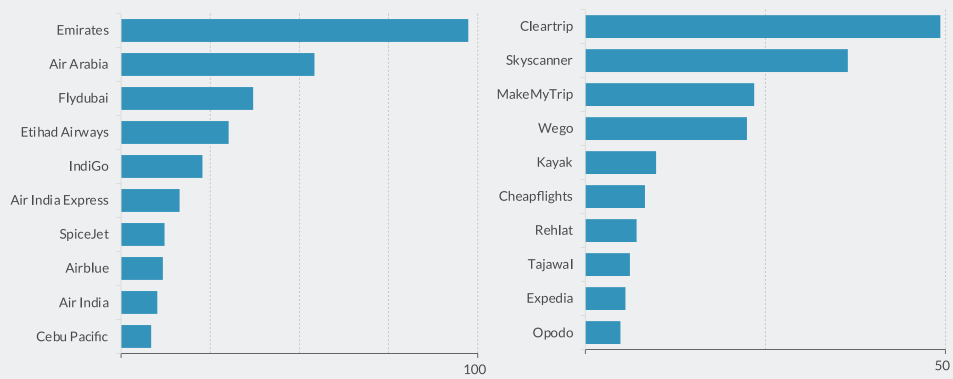
Source: data.ai (App Annie), VIDEC's UAE Air Market Opportunity Report

The 10 most downloaded airline apps amount to 2.3 million cumulative downloads during the 45-month period. Emirates was the most popular airline app with 665,000 downloads, followed by Air Arabia with 356,000 downloads and flydubai with 317,000 downloads (see figure 8). On the other hand, the top 10 online air distributors, including OTAs and Metasearch, witnessed a total of 2.7 million downloads. The top 10 airlines constitute over 70% of the total airline app downloads, whereas the same share stands at less than 50% for online air distributors. The online air distribution segment is much more fragmented than the suppliers in terms of app downloads, indicating a long tail in indirect online distribution.

Wego stands as the most popular online air intermediary in the country with 748,000 downloads while MakeMyTrip and Cleartrip come next with 561,000 and 400,000 downloads respectively. This further highlights the increasing role of Indian OTA players in the UAE online air distribution segment.

UAE: Cumulative Website Traffic for Top Airlines and Online Air Distributors (Millions), Jan 2019-Sep 2022

Figure 9



Source: Similar Web, VIDEC's UAE Air Market Opportunity Report

In terms of cumulative web traffic in the period between January 2019 to September 2022, UAE witnessed 610 million web visits in the air category. Among the suppliers, Emirates came right on top with 97 million web visits, while in the online distribution category, Cleartrip was the leader with 49 million web visits (see figure 9).

Conclusion

What online travel agencies (OTAs) bring to the table is at the core of their adoption among consumers. The key features that OTAs provide include great products, better consumer engagement, customer service, technological prowess, deals, fintech services such as insurance, book-now-pay-later, price lock etc. These features not only enhance consumer experience in travel searching, shopping, and booking, but also play an important role in post-booking support.

The playbook that the global OTAs have followed in their home markets will largely be executed by the local OTAs as well. The UAE OTAs are trying to replicate what Trip.com, MakeMyTrip, Traveloka achieved in their respective home markets.

All said and done, UAE will remain the bright spot for international air travel in the near future. While UAE enjoyed a head start in being the largest aviation hub in the region, other Gulf compatriots are eyeing this sizeable opportunity. Qatar and Saudi Arabia are the most prominent among the potential rivals to UAE in terms of capturing the international air traffic. While Qatar Airways has already started catching up, the second flag carrier planned by Saudi Arabia—Riyadh Air—is likely to change the competitive dynamics of the region.

The best opportunity that competition provides is to allow one to re-strategize and grow. This then becomes a good time for the airport authorities, airlines as well as air distributors in UAE to build a new plan that consolidates its current market share and also expand, while taking these new realities into consideration.

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