THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

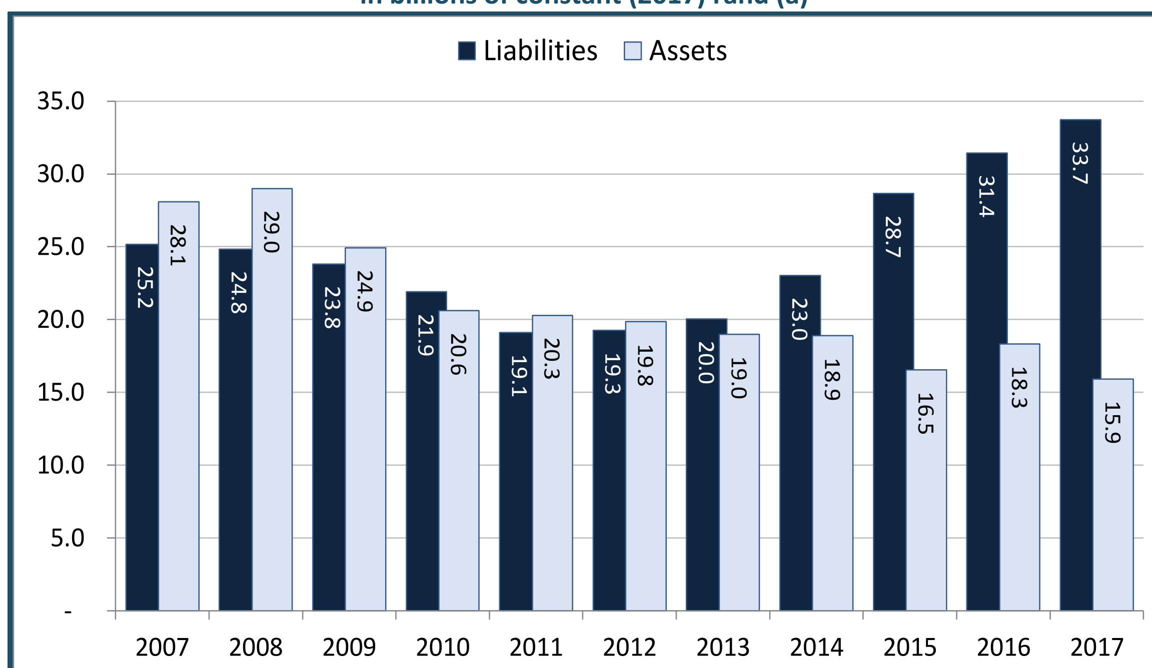
THIRD QUARTER 2019

Briefing Note: SAA by the numbers

In the first week of December 2019, South African Airways (SAA) was put into business rescue. This briefing note provides an overview of its financial position, which left government with no other realistic option.

As the following graph shows, as of 2017 SAA's liabilities far exceeded its assets. (It has not published a financial statement since then.) That is, it was no longer a going concern in the normal sense of the term.

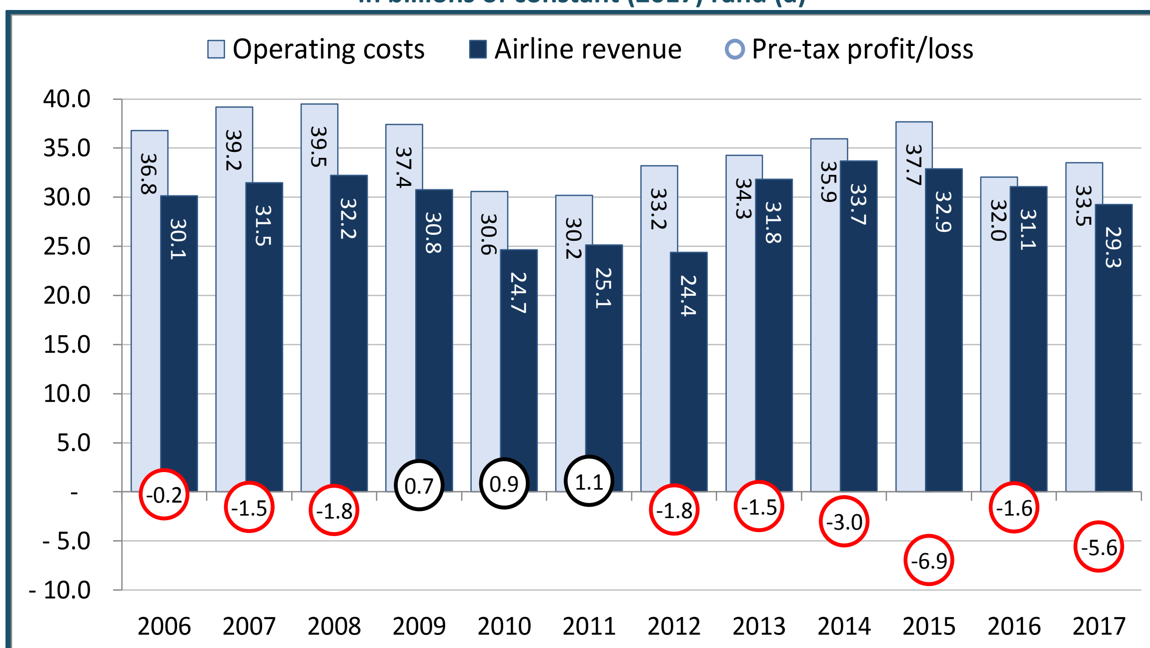
Graph 21. SAA's assets and liabilities, year to March, 2007 to 2017, in billions of constant (2017) rand (a)



Source: Calculated from SAA, Annual Reports for relevant years. Note: (a) Deflated with CPI for March rebased to 2019.

The immediate reason for SAA's declining assets and rising liabilities was its failure to make a profit since 2011. In 2017, its losses approached R6 billion. Since 2006, its operating costs have exceeded its airline revenue in every year.

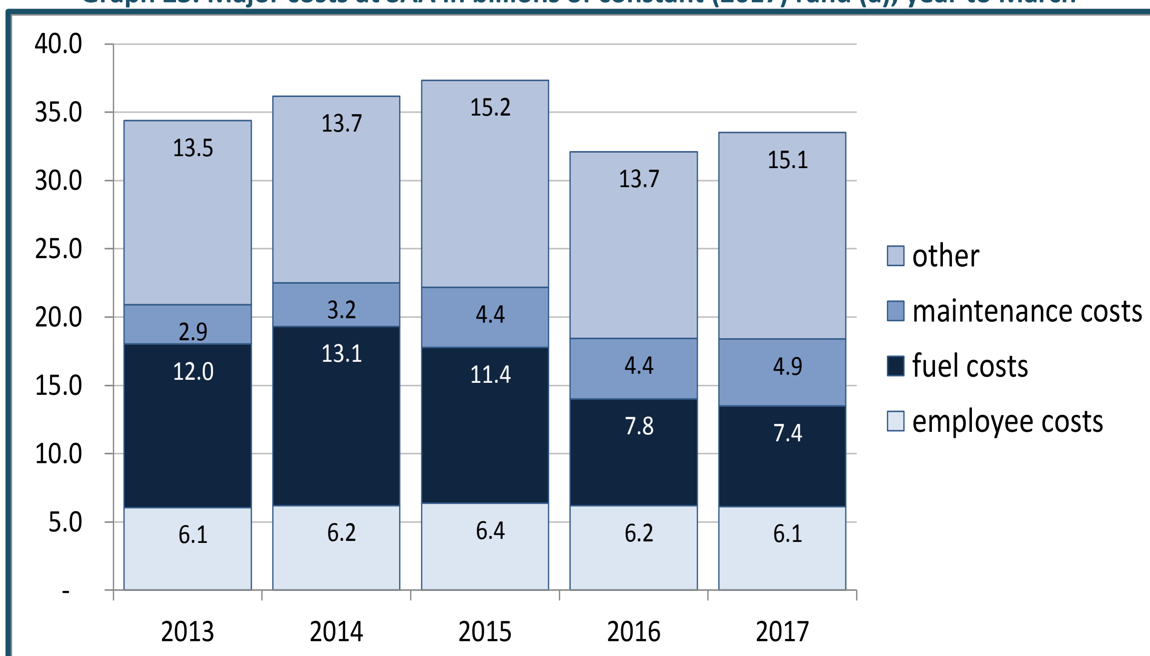
Graph 22. SAA's operating costs, airline revenue and pre-tax profits, year to March, in billions of constant (2017) rand (a)



Source: Calculated from SAA, Annual Reports for relevant years. Note: (a) Deflated with CPI for March rebased to 2019.

SAA does not provide much detail on its costs. Still, the information it provides shows that the main cost drivers were neither fuel nor labour, at least through 2017. Fuel costs fell sharply in 2016 (although they have since partly recovered). Labour costs have been completely flat in real terms, although SAA cut its labour force from 11 500 in 2013 to 9 750 in 2019. Maintenance costs climbed steeply, but SAA's annual reports do not explain why.

Graph 23. Major costs at SAA in billions of constant (2017) rand (a), year to March

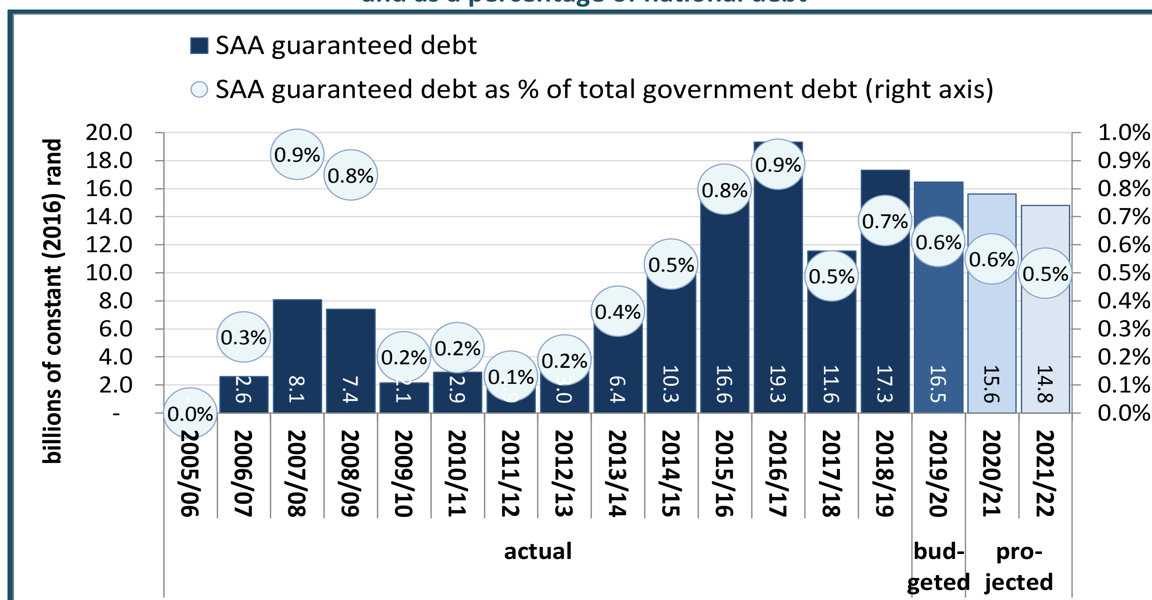


Source: Calculated from SAA, Annual Reports for relevant years. *Note:* (a) Deflated with CPI for March rebased to 2019.

SAA's financing costs ballooned from 2012, rising from R200 million in constant 2017 rand to R1.6 billion five years later.

As the following graph shows, in constant terms SAA's government-guaranteed debt soared from R2 billion in 2012 to R19 billion in 2016, then declined to R17 billion in 2018. Treasury, somewhat wistfully, projected a significant fall in its debt thereafter.

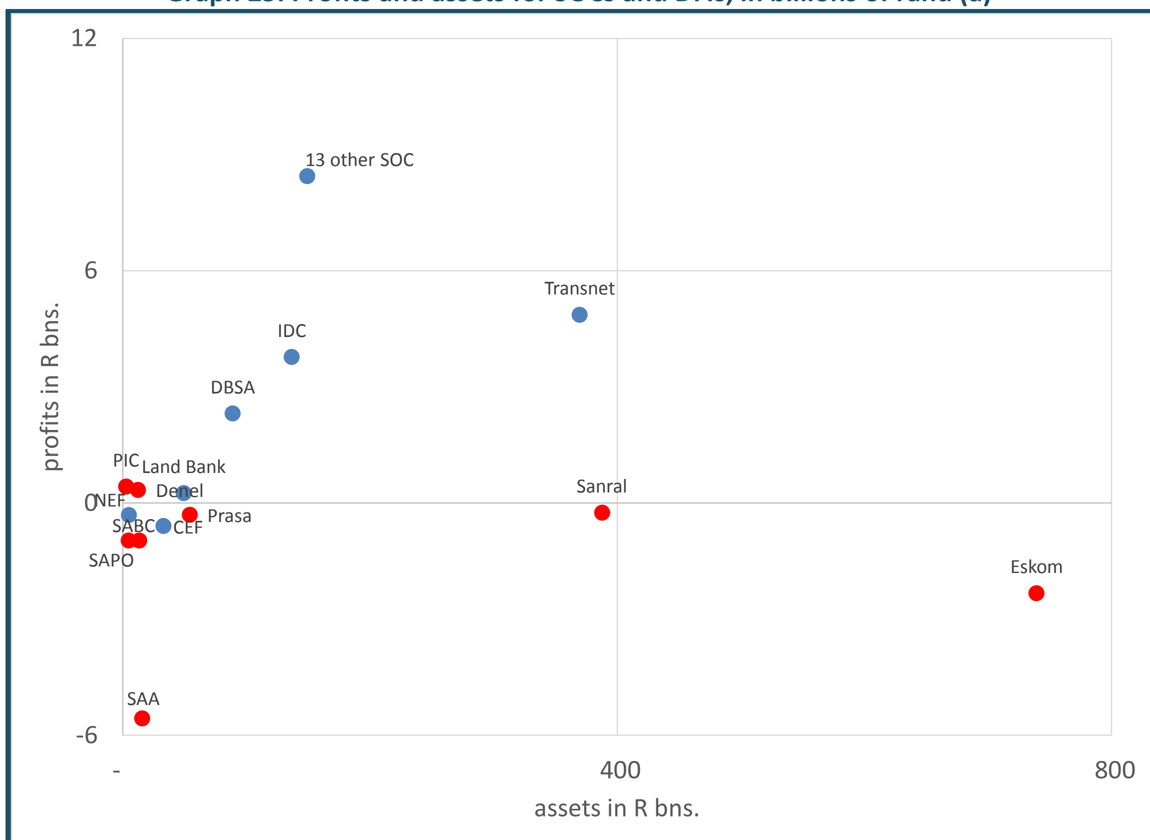
Graph 24. SAA government guaranteed debt in billions of constant (2019) rand and as a percentage of national debt



Source: Calculated from National Treasury. Table 11 – Net loan debt, provisions and contingent liabilities. Excel spreadsheet. Downloaded from national budget page at www.treasury.gov.za.

SAA was substantially more profligate with public resources than other SOCs. As the following graph shows, its losses were far larger compared to its size than any other SOC.

Graph 25. Profits and assets for SOCs and DFIs, in billions of rand (a)

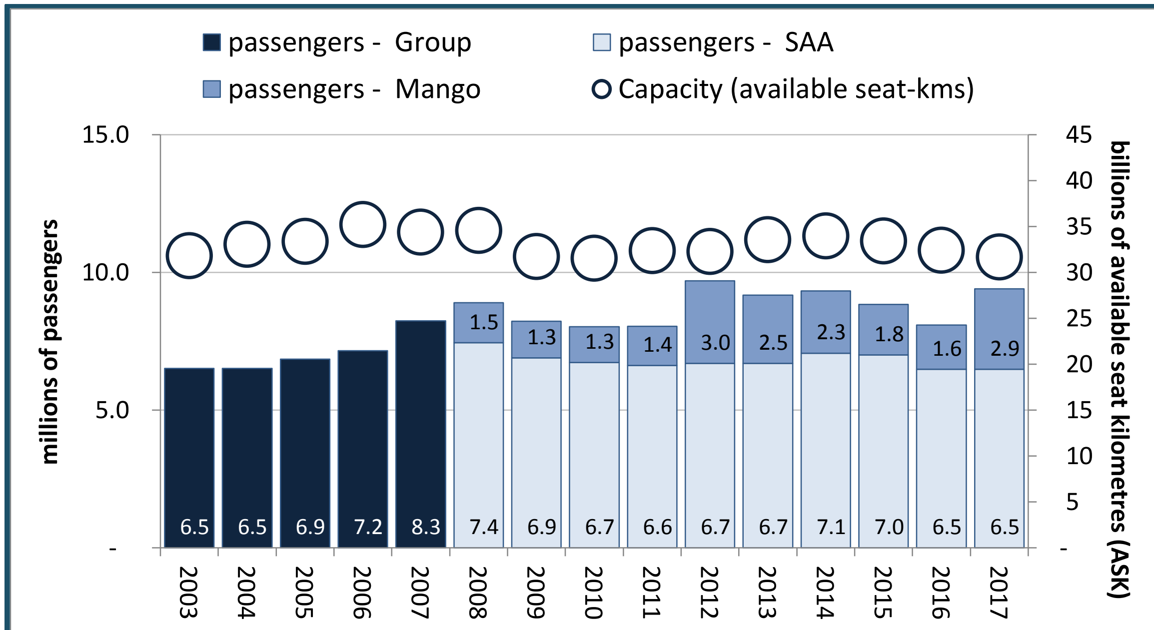


Note: (a) 2016/7 reports for Broadband Infraco, SAPO, SAA, SABC, CEF, Denel, Alexkor, NECSA, NEF, Safcol and State Diamond Trader; 2017/8 for all others. Source: Latest published Annual Report for each enterprise.

While its costs were rising steadily, SAA's ability to attract passengers proved limited. The number of travellers using SAA fluctuated at just under seven million from 2008 to 2015, fell to 6.5 million for the next two years, and reportedly dropped 30% in 2018/19. In 2019, SAA carried 13% of travellers in and out of South Africa.

Low loads meant that it made losses on most overseas routes; profited from flights from Johannesburg to most, but not all, South African metros; and generally made money on flights within Africa. As the following graph shows, its own low-cost carrier, Mango, generally enjoyed faster growth than SAA in numbers carried.

Graph 26. Passengers carried on SAA and Mango and SAA's available seat kilometres



Source: Calculated from SAA, Annual Reports for relevant years.

SAA itself argued that it could not compete with low-cost carriers while remaining a full-service airline. That argument was validated by its inability to grow its passenger base. At the same time, its costs also seemed out of control. That makes sense since, at least until this year, it could always fall back on the fiscus. Even now, as part of the business rescue process, the budget will provide another R4 billion to SAA this year.

Ultimately, SAA exemplified a central problem with many of South Africa's SOCs. On the one hand, it had no obvious social mandate that would justify receiving government support. True, in theory a national airline could earn its subsidies by providing more affordable transport for tourists and citizens, and by serving smaller towns. However, SAA never claimed to meet these or any other socio-economic objectives. At the same time, it apparently felt little pressure to develop a more sustainable financial model because for most of the past decade it could count on bailouts. Ultimately, SAA ended in business rescue because it could neither define a socio-economic objective that would justify continued subsidies nor a business model that made economic sense.