CORPORATE

Jambojet eyes more routes in spite of dollar shortage headwinds

Low-cost carrier says the current crisis has driven up operating costs by 12.4 per cent.

By Graham Kajilwa
gkajilwa@standardmedia.co.ke

Low-cost carrier, Jambojet has not been spared from the current difficult business environment compounded by the weakening of the Kenyan shilling against the US dollar amid a biting shortage of the greenback.

As a result, operating costs have gone up 12.4 per cent.

But Jambojet has set sights on 1.2 million passengers this year, an additional aircraft and more regional routes.

Financial Standard spoke with Jambojet Managing Director Karanja Ndegwa on how the carrier is navigating through the current economic downturn and plans for the future.

The cost of dollars in the market has been a challenge to many businesses. As a low-cost carrier, how has this affected your operations?

One of the effects the USD rate has had on Jambojet is that you find about 90 per cent of our sales are in Kenyan shillings because we are a domestic carrier, but 80 per cent of our suppliers are paid in USD. With the USD rate going up, you get more Kenya shillings running after the same USD and that pushes the cost up. That makes the cost of doing business more expensive.

Is there a silver lining in this?

The advantage we have is that because of the late booking culture of the market that we operate in, we are able to pass some of those costs to the customer, but we can't pass on everything. Before Covid, the dollar rate was about Sh101, and our lowest fare was Sh5,200. As of today, our lowest fare is Sh6,500. If we were to pass on everything, that would be Sh7,400. We have to look at what else can we do internally; you can only pass on so much to the customer. We have had to bring in things like the Approved Maintenance Organisation (AMO) whereby maintenance that used to be done externally, we do internally, which lowers our costs. When you have the dollar moving up by 39 per cent in a span of two years and your fuel prices move up by 28 per cent that I also huge.

How does this affect your growth?

We end up growing slower. Growing also requires some capital. We end up slowing our growth. We also end up being very calculative because each route is not making us as much because of the increased cost. It becomes a balancing act. You can only go now to places where you are making a return. Some of the routes were making a positive return, but with increased costs, those that were making a small margin tilt to loss-making, so you end up slowing. It hampers growth. You end up investing and following areas where you can make a shilling or two or where the market is willing to pay more.

You have a plan of growing to 1.2 million passengers from a million last year. Such growth means probably additional frequencies, new routes and also more aircraft. What is the plan towards achieving this?

Last year, we had six aircraft, and in December we onboarded additional equipment. What that did is we were able to increase Mombasa by 11 flights, Eldoret by five, Kisumu by four Diani by three and also Malinda by four. With that increase, we believe it will be able to push us from one million to 1.2 million. Towards the third quarter, we are likely also to be onboarding additional equipment. That way, we will also increase the additional passenger numbers. There are days we are literally full, so we have to add capacity. I am an economics student, and we were taught the law of demand and supply that when there is a high demand, what is to be done is increase prices but for us, that is not the low-cost model. Whenever find the demand is more, what you do is increase supply, and keep adding capacity without really pushing the prices.

It appears more profitable in the short term to add more frequencies in the existing routes in the local market compared to investing to activate new ones. What is your approach?

When you look at Zanzibar, it becomes the low-hanging fruit because of the connection between Zanzibar and Mombasa, and there are quite a number of charters that are asking for that. We are working on a platform with them, and with that, we are able to move tourists and also connect the Kenyan market to Tanzania. Currently, that market is highly underserved so that gives us an opportunity. Growth a route can be expensive. Whenever you start a new route, you find there is a lot of marketing, and you have to put Sh50 million aside and carry out surveys to understand the market. I am left with an opportunity where on Monday, Eldoret is at 94 per cent, Mombasa at 92 per cent, and Malindi at 94 per cent. Come Friday, passengers are not getting seats. The same with Sunday. It is cheaper to add frequency these days and grow these markets. Whenever flights are full, you send customers away.

Jambojet Managing Director Karanja Ndegwa. [Wilberforce Okwiri, Standard]

> "With the USD rate going up, you get more Kenya shillings running after the same USD and that pushes the cost up."

80 PER CENT
PORTION of Jambojet suppliers who are paid in US dollars.

Considering the current economic situation in the country and the macroeconomics, what would your exposure be if you choose to add regional routes?

Given the current economic position in Kenya, there is an advantage because 90 per cent of our sales are in Kenya shillings but when you go regional, your sales are in US dollars. As we move into the region, the dollar exposure is cleared. There is an advantage to the longer routes. When the aircraft is on cruise for long, the consumption is less as most fuel is used on taking off and landing. Like going to Goma, Democratic Republic of Congo, we consume 810 litres per hour compared to coming to Mombasa where your consumption is 940 litres. The longer routes are cheaper and so is your maintenance.

Published by: The Standard Group Plc; **Editor-in-Chief:** Ochieng Rapuro; **Print Editor:** John Bundotich; **Quality Assurance Editor:** Sam Njogu; **Sub-Editor:** Mwangi Maina; **Writers:** Macharia Kamau, Frankline Sunday, Brian Ngugi, Graham Kajilwa; **Deputy Chief Graphic Designer:** Dan Weloba; **Graphic Designer:** Tracy Bett Facebook: FS; **E-mail:** financial@standardmedia.co.ke; **Website:** www.standardmedia.co.ke. All correspondence to Financial Standard is assumed to be intended for publication.