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CORE PRINCIPLES OF FINANCING AND INVESTMENT ATTRACTIVENESS OF AVIATION COMPANIES

Abstract

The article considers the concept and choice of sources of financing for investment activities of aviation companies. The article represents main types of sources using for investment and financing as well as the concept and measures to improve the investment attractiveness of an aviation company. In the current situation, the problem of mobilization and efficient use of investments is particularly important for the effective implementation of aviation companies' activities. Stimulation of investment activity, development of a clear investment strategy, defining main priorities in the mobilization of investment resources become the most important conditions for the sustainable growth and high-quality development of the aviation business. Among key incentives for financing of investment activities are the state guarantee system of investors' rights, investment protection mechanism, and the provision of tax and customs benefits for investment organizations. Sources and methods of financing investment projects of aviation companies, in accordance with the experience of world business practice, in most cases, if not primarily, are determined by a set of factors. In addition, the level of effectiveness of sources of financing for an investment project depends to a greater extent on the competence of the investor or managers. This particularly affects competencies in the market sectors, as well as factors such as technological features and awareness of the properties of each investment financing tool.

Key words: aviation company, investment, financing, investment company, sources of financing, implementation, attractiveness, mobilization.

Introduction

Sources of financing for aviation companies are classified according to certain criteria, that are represented by ownership relations, ownership levels, and property type.

Depending on the level of ownership, sources of financing for aviation companies are divided into state-owned and corporate.

It is important to notice that the new state investment policy is characterized by a transition from the distribution of a limited amount budget funds used for capital construction between industries or regions, to selective partial financing of specific investment projects based on a competition.

This situation also affects on private investors, who need state support when their investment project is recognized as the best according to the results of the competition. In order to implement this provision, special commissions are created in the field of development investment competitions. In addition, special working groups as well as an expert council are organized in order to select the most effective projects from the considered ones [2, p. 108]. Aviation industry plays a great role in globalization process and interconnection between regions within the country and with foreign states.

In pandemic this industry has faced with urgent needs and risks connected to financing. These factors specify the relevance of the research and its importance.

Main provisions

It is worth noting that over the past quarter of a century project financing has become more characterized by new features, following along with innovative business technologies, the emergence of new markets, and a fundamental change in the paradigm of consumer demand. In general, for purely educational purposes, sources of investment financing can be divided into two categories: external and internal [3, p. 78].

In modern conditions, enterprises independently distribute the profits that remain at their disposal. Rational use of profits involves considering such factors as the implementation of plans for further enterprise development, as well as compliance with the owner's interests, investors and employees. As a rule, the more profit is directed to the expansion of economic activity, the less need for additional financing. The amount of retained earnings depends on the profitability of business operations, as well as on the company's dividend policy.

Corporate financial resources are classified into:

- (i) internal financing;
- (ii) external financing.

Internal financing involves the use of those financial resources, sources which are formed in the process of financial and economic activities in the organization. An example of such sources are net profit, depreciation, accounts payable, reserves for future expenses and payments, and deferred income. For aviation industry both types are very important aiming to ensure well-balanced policy of financing. The country is actively working to reform the transport complex of the republic.

In order to accelerate the integration processes of Kazakhstan's transport complex into the global transport system and to develop the country's transit potential, we need to promote airlines support and improve of their competitive advantages including infrastructure and technical development of the air companies. Investment attractiveness of this industry plays key role for forming stable financial inflows for the decision of actual problems.

Economic growth of any country requires the rapid development of transport services. World practice shows that an increase in industrial production by 1% causes an increase in traffic volumes by 1.5–1.7% [13].

Literature review

Investments is the use of financial resources that are classified, from one hand, on short-term or long-term ones, from other hand, on investments made by legal entities or individuals. As noted by Ryan P.A., «by types of investments are divided into risk (venture), direct, portfolio and annuities» [3, p. 105].

Venture capital is a form of investments based on new equity issue and refer to new areas of activity; venture capital is associated with a high-risk level. Usually investors invest venture capital into projects that are not interconnected with each other in the expectation of a quick payback period for these funds. Venture capital is represented by a combination of various forms of capital: loan, equity, and entrepreneurial capital.

These types of projects are evaluated based on viability. A realistic investment project will offer an attractive interest rate. The suitability of a project often depends on its ability to consistently generate positive cash flows to meet these obligations [6, p. 87].

In some cases, S.L. Blau points out, that «the return on allocating resources to an investment project is not in money, but in profit» [7, p. 45]. For example, a typical investment project is a real estate investment. Real estate is estimated based on the rent it can generate, and the return on investment is expected in the form of money. Investing in a person's education or training, on the contrary, provides a benefit, rather than a direct return on cash. This type of human resources investment project is designed to have different types of returns that relate to the non-monetary goals and objectives of the investor.

The investment policy of a modern airline is a complex of interrelated and interdependent set of activities aimed at its own further development, generating income and other favorable effects as a result of investment [8, p. 56].

The development investment policy of the airline involves specific actions that are presented including: the definition of long-term goals, the selection of the most promising and profitable investment, development priorities in the development of the company, the evaluation of alternative investment projects, development of technological, marketing, financial projections, assessing consequences of implementation of investment projects [9, p. 90].

There are certain principles of investment policymaking as follows:

- 1) legal principle (legal protection of investments);
- 2) the principle of independence (characterized by freedom of choice the investment project, its development and implementation);
- 3) the principle of a systematic approach;
- 4) the principle of efficiency (represented by the choice of such an investment project that provides the greatest effectiveness) [1, p. 106].

The formation of an airline's investment strategy also depends on the company's marketing policy – cost leadership; differentiation strategy; concentration on the segment [11, p. 355].

The initial point of justification the company's investment strategy is represented by an analysis of the market for products already produced by the production company, or planned for release. When choosing a corporate investment strategy, it is necessary to determine the total amount of investments, including possible combinations of various sources for financing and borrowings.

Materials and methods

Sources and methods of financing used for investment aviation companies' projects, in accordance with the experience of world business practice, in most cases, if not primarily, depend on a set of factors that are presented by following:

- ◆ set goals that are clear not only for the project owners, business and its top management, but also for the direct performers and society (the social environment as a consumer and investor);
- ◆ the technological (industry) business cycle, as well as its characteristics, represented by duration, periods of renewal fixed assets, prospects for innovation, etc.;
- ◆ periods (cycles) of internal and external financial flows that generally determine the level of enterprise financial stability that implements the investment project and the level of enterprise credit worthiness;
- ◆ the general situation on the market, future development prospects, especially changes in products (services) demand of the investment project not only in the short term, but also in the long term (the ability to see the future of the business beyond the time horizon);
- ◆ the risk presence, structure and nature, losses acceptable levels and volumes, risk management methods, protection tools (insurance, hedging).

Results and discussion

Nowadays, 44 airlines are registered in Kazakhstan, of which 5 airlines are involved in regular transportation (97% of western-made aircraft), 14 carry out irregular transportation (63% of western-made aircraft), 3 airlines are engaged in cargo transportation (20% of western-made aircraft), 22 operators perform aviation work (52% of western-made aircraft).

32 airlines operate on the market of regular international flights, where the share of Kazakhstan's companies is 52%, European 25%, Asian carriers 13% and other 10%. Domestic routes are operated by 5 regular airlines: Air Astana JSC, SCAT Airlines JSC, Bek Air JSC, Zhetysu JSC, Zhezkazgan JSC. About 75% of domestic passenger traffic is carried out by Air Astana JSC, 20% by SCAT Airlines, and 5% by other air carriers – Figure 1 (p. 288).

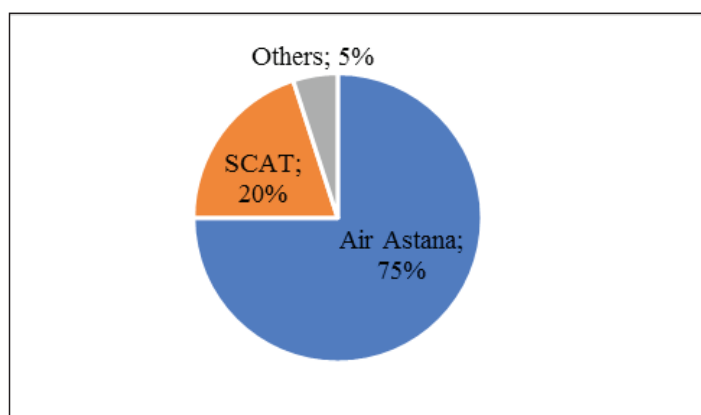


Figure 1 – Market Volumes of Air Companies in Kazakhstan, %

Note – Compiled by authors.

The passengers number carried by airlines of the Republic of Kazakhstan in 2021 compared to 2020 increased by 9.5%, reaching 5 million people. The share of passenger traffic by air was 4.2%. In 2021, the airports of the Republic of Kazakhstan served about 9 million passengers. At the end of 2021, cargo transportation by air amounted to 24 thousand tons. The number of people employed in the civil aviation industry is about 16,500. The significance of this industry arises actual concern on the future development what is actually depends on the volumes of financing to be attracted for further growth.

Following global practice sources of external financing can be capital of founders, savings formed by households, state funds, financial and credit organizations, capital of non-financial institutions. The grouping of financial resources of organizations by sources of their formation is presented in Figure 2 below.

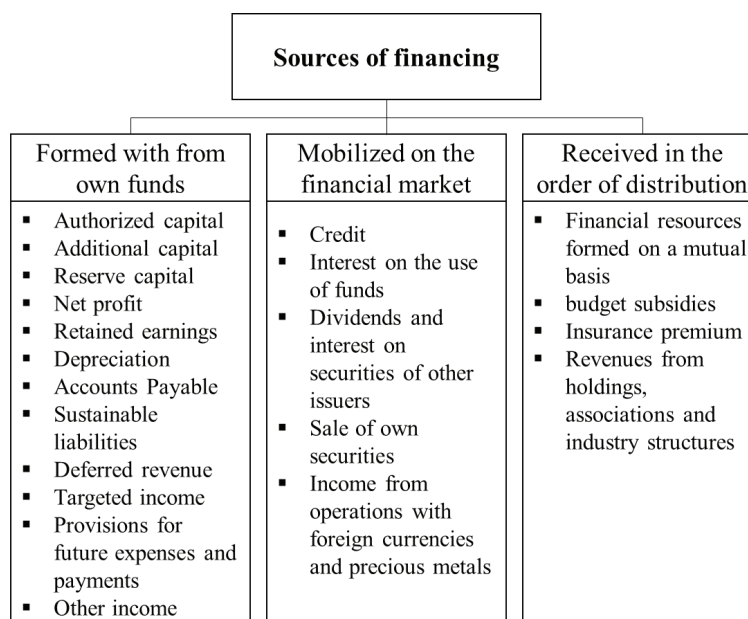


Figure 2 – Financing of organizations

Note – Compiled by authors.

On may 1, the first flights took place. On the first day of the resumption of flights between Nursultan and Almaty, where the country’s largest airports are located, about 700 people used the services of airlines.

According to the Ministry of industry and infrastructure development, 7.2 million passengers used the services of Almaty airport in 2021, which is 40% of the entire aviation market of Kazakhstan. Recall that in early May, the Turkish holding TAV Airports Holding signed an agreement to acquire 100% of the shares of Almaty international airport together with its partner in the VPE Capital consortium. The agreement provides for the acquisition of the airport for \$ 415 million [3].

The reports of Kazakhstan airlines were also studied. Data on reporting indicators are presented in table 1 below [4].

Table 1 – Revenues of Kazakhstan airlines in 2020 according to reporting data

№	Indicators	Air Astana	QAZAQ AIR	Scat
1	Revenue, million US dollars	745,7	12,7	221
2	Net profit, million US dollars	27,03	-13,5	4,7
3	Current liquidity ratio	1,76	0,4	1,3

Note – Compiled by authors.

The table shows that the largest revenue in 2020 was received by Air Astana [5] in the amount of 898.7 million US dollars, the next company is Scat airline with revenue of 230 million us dollars. And QAZAQ AIR has the lowest revenue at \$ 18.7 million. The net profit of QAZAQ AIR [6] is negative – 14.6 million US dollars, this is due to the fact that the company is actively supported by the state and is not yet able to compete with major players in the market. Air Astana’s net profit in 2020 was 30.03 million rubles. Scat [7] amounted to us \$ 3.9 million. The current liquidity ratio is most significant for Scat (2.2) and Air Astana (1.91) (Figure 3).

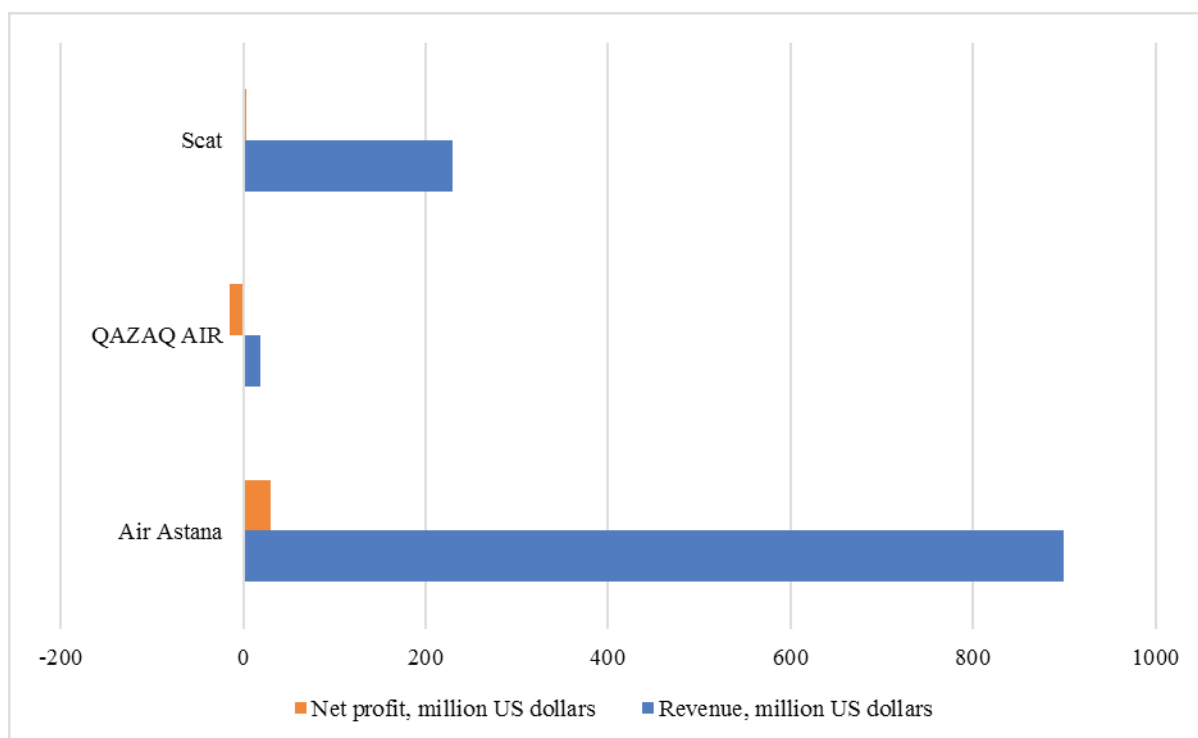


Figure 3 – Revenues of Kazakhstan airlines in 2020 according to the reporting data

Note – Compiled by authors.

Table 2 below shows data on the obligations of Kazakhstan airlines.

Table 2 – Obligations of Kazakhstan airlines in 2020 according to the reporting data, mln. tenge

№	Показатель	Air Astana	QAZAQ AIR	Scat
1	Long term liabilities	17483	31263	243798
2	Short term liabilities	22638	1563	126787
3	Long term loans	2253	30428	12638
4	Short term loans	3837	-	6286
5	Retained earnings	44727	1048	8573
6	The debt burden ratio	0,1	0,573	0,847

Note – Compiled by authors.

The table shows that the debt burden ratio is the highest for Air Astana (0.109) and Scat (0.923). The largest amount of retained earnings in the amount of 49,981 million tenge in Air Astana. Scat has the largest long term liabilities in the amount of 217,902 million tenge, as well as short term liabilities in the amount of 122,377 million tenge. QAZAQ AIR has the largest amount of long term liabilities (Figure 4).

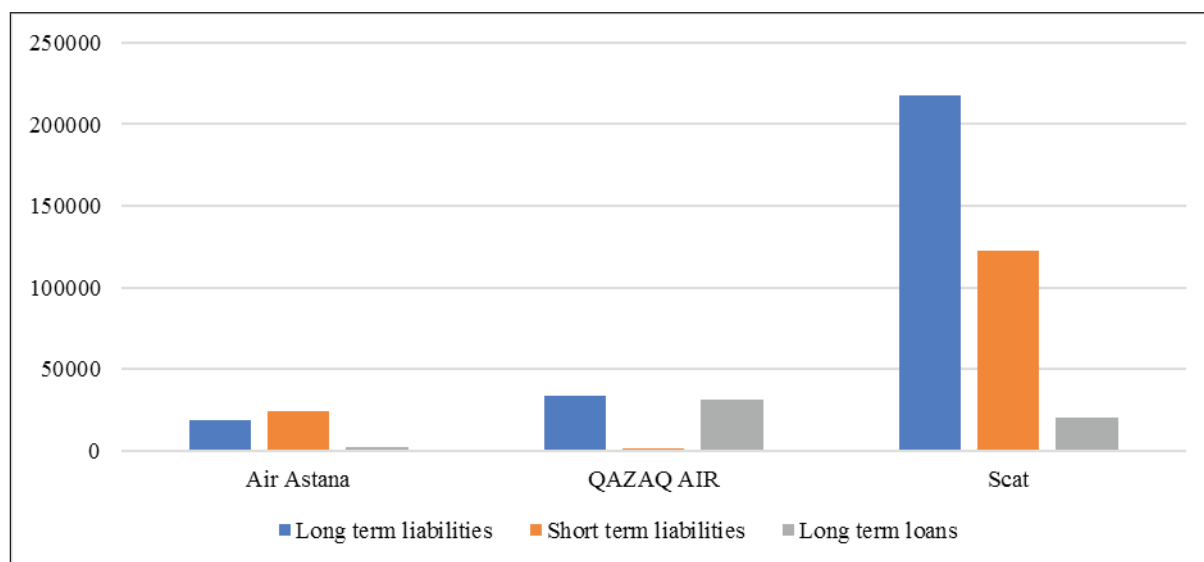


Figure 4 – Obligations of Kazakhstan airlines in 2020 according to the reporting data, mln tenge

Note – Compiled by authors.

By the end of 2021, domestic passenger traffic of Kazakhstan airlines amounted to more than 8.6 million passengers, which is 9% more than in 2020 (7.9 million passengers). The number of passengers served at airports in Kazakhstan reached 17.7 million people – 12% more than in the previous year. This demonstrates the low activity of the Kazakh population in using air transport services within the country, which contributed to the decision to launch a low-budget company FlyArystan in may 2021. The launch of the air carrier played a key role in stimulating the growth of the domestic market of Kazakhstan and the development of local airports. Kazakhstan is already one of the fastest growing domestic air transport markets in the world, and we expect it to continue its growth trajectory in the coming years. To realize the full potential for growth, it is necessary to significantly increase investment in the infrastructure of Kazakhstan’s airports. The modernization of the air transport infrastructure carried out for this purpose can be considered almost complete today after the reconstruction of 16 runways and 13 terminals at airports in Kazakhstan.

Figure 5 below shows the structure of domestic air transport in Kazakhstan.

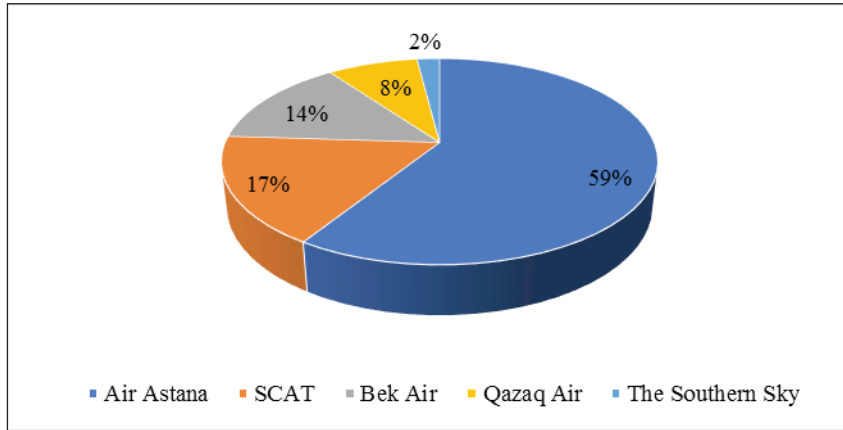


Figure 5 – Domestic transport

Note – Compiled by authors.

As you can see, the undisputed leader of domestic transportation is Air Astana.

Figure 6 below shows international transportation in Kazakhstan by air transportation market leaders.

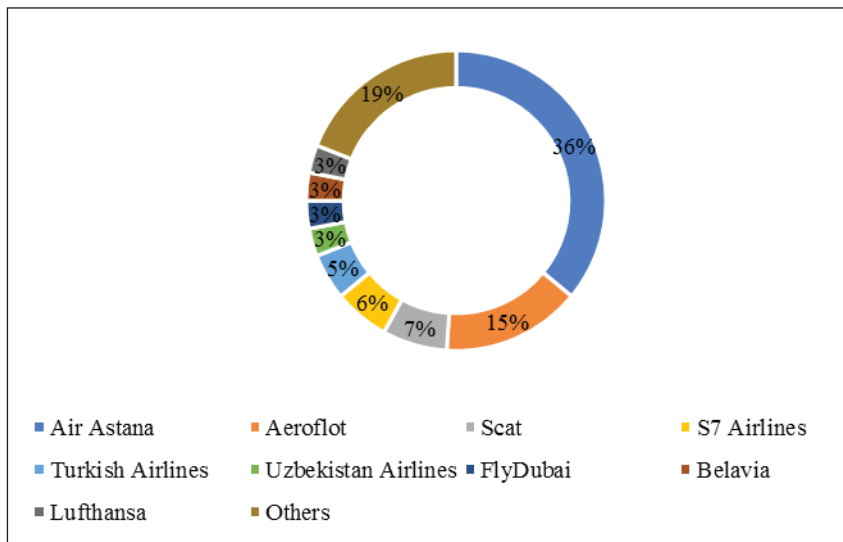


Figure 6 – International air transportation

Note – Compiled by authors.

In the field of international transportation, the market leaders are Air Astana – 36%, Aeroflot – 15%, Scat – 7%, S7 Airlines – 6%, Turkish Airlines – 5%. 3% each from companies such as Uzbekistan Airlines, FlyDubai, Belavia, Lufthansa. Other companies own 19% of international transportation.

According to a report by IATA (International Air Transport Association), at the beginning of the second quarter of 2021, the number of flights worldwide decreased by 70%, and a further decrease is possible due to increasing restrictions in a number of regions. The situation is critical not only for airlines, but also for the 25 million employees employed in this field around the world. About 300 airlines of the world, members of IATA, are waiting for support in the amount of 61 billion US dollars in the second quarter, which are also needed to reimburse passengers.

Conclusion

Assessing the investment attractiveness of large aviation companies and groups, it is necessary to use slightly different mechanisms than for small businesses, since they have more open economic and political opportunities, but at the same time they largely depend on decisions taken at the state level. As a result, the following factors are most important for large aviation companies: the company's image (both for consumers and contractors); the reputation of the company's actual owner; the presence and stability of relations (formal and informal) with other aviation companies; the company's activities in improving its reputation and image; the nature of interaction with government agencies; corporate governance; transparency of reporting; changes in the structure of the group that includes the joint-stock company.

Thus, the financing investment activities of the aviation company is accompanied by a choice of sources for financial resources. Investment attractiveness plays an important role in the search for investments to improve the activities of an aviation company.

Commercial banks currently finance approximately 33% of new aircraft deliveries, but recently such financing has become more restrained as a result of the credit crisis. Despite the growing demand for commercial flights and the growing demand for passengers, commercial carriers are still suffering due to high taxes and strict government regulation.

Aviation finance is an asset class that can offer attractive returns secured by an underlying asset. Reasons for investing in aviation finance: effectively uses large amounts of capital; relatively predictable returns, although the residual value, especially for older aircraft, can be volatile; the aircraft-the underlying asset – is truly global in its recognition and use; investments, as a rule, secured by a “solid asset” supported by International rules, such as the Cape Town Treaty; a highly mobile asset helps to recover and reuse an asset in case of default.

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ОСНОВНЫЕ ПРИНЦИПЫ ФИНАНСИРОВАНИЯ И ИНВЕСТИЦИОННОЙ ПРИВЛЕКАТЕЛЬНОСТИ АВИАЦИОННЫХ КОМПАНИЙ

Аннотация

В статье рассматривается понятие и выбор источников финансирования инвестиционной деятельности авиационных компаний. Представлены основные виды источников финансирования инвестиций. Рассмотрены концепция и мероприятия по повышению инвестиционной привлекательности авиационной компании. В современных условиях проблема мобилизации и эффективного использования инвестиций приобретает особую актуальность для эффективного осуществления деятельности авиационных компаний. Стимулирование инвестиционной активности, выработка четкой инвестиционной стратегии, определение ее приоритетов, мобилизация всех источников инвестиций – важнейшее условие устойчивого и качественного развития авиационного бизнеса. Важнейшими стимулами для финансирования инвестиционной деятельности являются государственная гарантия прав инвесторов, защита инвестиций, предоставление налоговых и таможенных льгот инвестиционным организациям. Источники и методы финансирования инвестиционных проектов авиационных компаний в соответствии с опытом мировой деловой практики в большинстве случаев, если не в первую очередь, определяются совокупностью факторов. Кроме того, уровень эффективности источников финансирования инвестиционного проекта в большей степени зависит от компетентности инвестора или менеджеров. Это особенно сказывается на компетенциях в рыночных секторах, а также на таких факторах, как технологические особенности и осведомленность о свойствах каждого инструмента финансирования инвестиций.

Ключевые слова: авиационная компания, инвестиции, финансирование, инвестиционная компания, источники финансирования, внедрение, привлекательность, мобилизация.

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АВИАЦИЯЛЫҚ КОМПАНИЯЛАРДЫ ҚАРЖЫЛАНДЫРУДЫҢ ЖӘНЕ ИНВЕСТИЦИЯЛЫҚ ТАРТЫМДЫЛЫҚТЫҢ НЕГІЗГІ ҚАҒИДАТТАРЫ

Андатпа

Мақалада авиациялық компаниялардың инвестициялық қызметін қаржыландыру көздерінің түсінігі мен таңдауы қарастырылады. Инвестицияларды қаржыландыру көздерінің негізгі түрлері ұсынылған. Авиациялық

компанияның инвестициялық тартымдылығын арттыру жөніндегі тұжырымдама мен іс-шаралар қаралды. Қазіргі жағдайда инвестицияларды жұмылдыру және тиімді пайдалану мәселесі авиациялық компаниялардың қызметін тиімді жүзеге асыру үшін ерекше өзектілікке ие болады. Инвестициялық белсенділікті ынталандыру, нақты инвестициялық стратегияны әзірлеу, оның басымдықтарын айқындау, инвестицияның барлық көздерін жұмылдыру авиациялық бизнестің тұрақты және сапалы дамуының ең маңызды шарты болып табылады. Инвестициялық қызметті қаржыландыру үшін инвесторлар құқықтарының мемлекеттік кепілдігі, инвестицияларды қорғау, инвестициялық ұйымдарға салықтық және кедендік жеңілдіктер беру маңызды ынталандырулар болып табылады. Көптеген жағдайларда, егер бірінші кезекте болмаса, әлемдік іскерлік тәжірибе тәжірибесіне сәйкес авиациялық компаниялардың инвестициялық жобаларын қаржыландыру көздері мен әдістері факторлардың жиынтығымен айқындалады. Сонымен қатар, инвестициялық жобаны қаржыландыру көздерінің тиімділік деңгейі көбінесе инвестордың немесе менеджерлердің құзыретіне байланысты. Бұл әсіресе нарықтық секторлардағы құзыреттерге, сондай-ақ технологиялық ерекшеліктер мен инвестицияларды қаржыландырудың әрбір құралының қасиеттері туралы хабардар болу сияқты факторларға әсер етеді.

Тірек сөздер: авиациялық компания, инвестициялар, қаржыландыру, инвестициялық компания, қаржыландыру көздері, енгізу, тарту, жұмылдыру.