

BOC Aviation (2588 HK)

The 5th largest global aircraft operating leasing company

- ❖ **BOC Aviation is the world's top five aircraft lessors.** As of 31 Dec 2017, the Company's aircraft Net Book Value (NBV) was US\$13,667mn (including held-for-sale aircraft), ranking No.5 in the industry. The Company's fleet size (owned and managed, excluding on-order aircraft) reached 318, with an average fleet age (weighted by NBV of owned fleet) of 3.0 years, the youngest among comparable peers. Fleet growth underpinned lift in revenues. In 2017, the Company's lease rental income increased 22.4% yoy to US\$1,284mn. Net profit increased 40.3% yoy to US\$587mn.
- ❖ **Low cost of debt and easy notes issuance.** Benefiting from higher credit ratings (A- by Fitch, and A- by S&P), the Company's average cost of debt was 2.8% in 2017 (up from 2.5% in 2016 as a result of rising USD LIBOR), being the lowest among comparable peers (peer average is 3.9%). The Company's debt consisted of 54% notes, 36% loans, and 10% export credit. The Company is able to issue notes of a US\$10bn Global Medium Term Note (GMTN) Program. This program facilitates quick execution, easy large scale issuance, and access to multiple currencies and different pools of investors. In 2017, the Company issued US\$2bn notes through this program.
- ❖ **Stable net lease yield over the past 5 years.** Since 2013, the Company has maintained a stable net lease yield around 8.2%. In 2017, net lease yield increased 0.2ppt yoy to 8.4%. To protect net lease yield and operating margin from interest rate risk, the Company actively hedges by matching debt structure to fixed/floating lease structure. The Company hedges by issuance of fixed rate debt, and plain vanilla interest rate swaps.
- ❖ **Experienced management team.** The Company's senior management team has an average of 28 years of aviation, leasing, and banking experience. Its CEO, Robert Martin, has been with BOC Aviation for 20 years, being the industry's longest-serving CEO with any company. Experienced management team helps the Company make investment and divestment decisions throughout business cycles. During low liquidity periods, namely 2008/09/11, the Company invested 26/48/28 aircraft to expand its fleet, while in high liquidity periods (2013 - 2017), the Company divested 188 older aircraft to maintain a young and competitive fleet.
- ❖ **Valuation.** The Company has a strong record of ROE. For the past 5 years, ROE has been stable around 15%. In 2017, ROE increased to 16.3%. ROE is forecasted to be 14.39% in 2018E, according to Bloomberg consensus estimates, higher than peer average of 13.01%. It is currently trading at 1.05x 2018E P/B, close to peer average of 0.99x.

Earnings summary

(YE Dec 31)	FY15A	FY16A	FY17A
Revenues (US\$ mn)	1,091	1,193	1,401
Net profit (US\$ mn)	343	418	587
EPS (US\$)	0.58	0.64	0.85
EPS CHG (%)	11.5%	10.3%	32.8%
PBR (x)	1.53	1.29	1.15
PER (x)	10.88	9.86	7.42
Yield (%)	-	2.85	4.69
ROE (%)	15.14	14.36	16.29
Gearing (%)	352.98	249.67	279.73

Source: Company, CMBIS

Not Rated

Current Price HK\$49.5

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China Leasing Sector

Mkt. Cap. (HK\$m)	34,354
Avg. 3mths t/o (HK\$m)	84.55
52W High/Low (HK\$)	49.95/39
Total Issued Shares (mn)	694.01

Source: Bloomberg

Shareholding Structure

Bank of China Group Investment	70%
Public float	30%

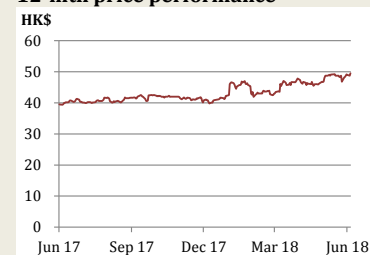
Source: HKEX

Share performance

	Absolute	Relative
1-mth	0.1%	0.3%
3-mth	11.7%	13.6%
6-mth	18.8%	10.7%

Source: Bloomberg

12-mth price performance

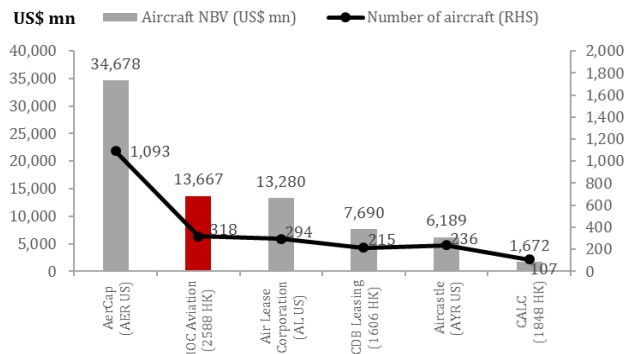


Source: Bloomberg

Auditor: Ernst & Young

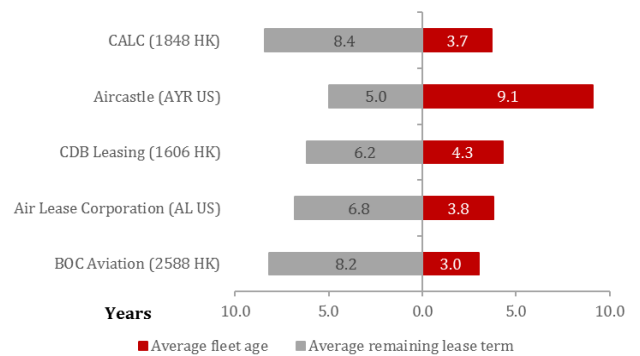
Web-site: www.bocaviation.com

Figure 1: Aircraft NBV and fleet size comparison



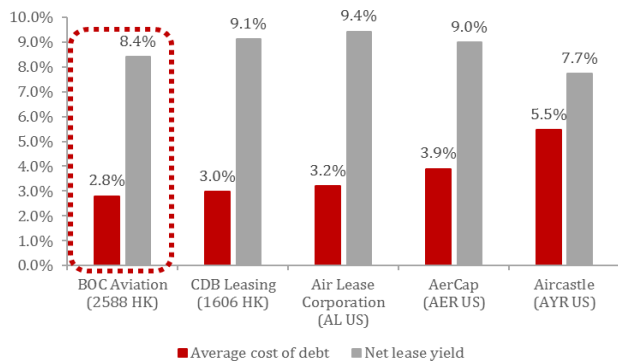
Source: Companies, CMBIS

Figure 2: Fleet age and remaining lease term comparison



Source: Companies, CMBIS

Figure 3: Cost and yield comparison



Source: Companies, CMBIS

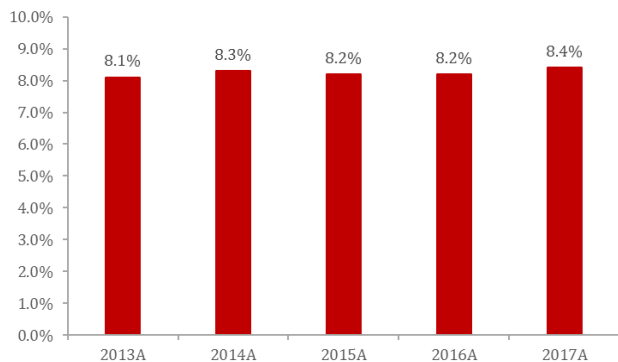
Note: Net lease yield = (lease rental income - operating lease related finance expenses) / average NBV

Figure 4: Credit ratings comparison

	Fitch	S&P	Moody's
BOC Aviation (2588 HK)	A-	A-	NR
CDB Leasing (1606 HK)	A+	A	A1
Air Lease Corporation (AL US)	BBB	BBB	NR
AerCap (AER US)	BBB-	BBB-	Baa3
Aircastle (AYR US)	BBB-	BBB-	Ba1

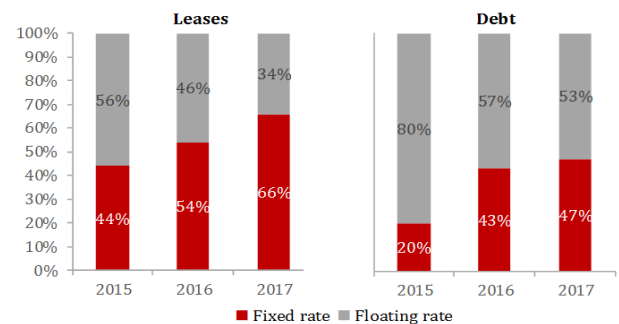
Source: Companies, CMBIS

Figure 5: The Company's net lease yield remained stable over the past 5 years



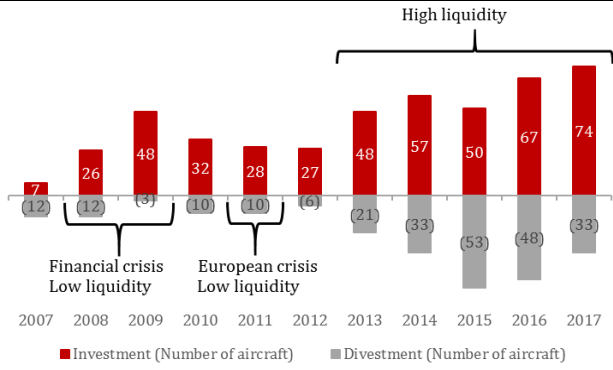
Source: Company, CMBIS

Figure 6: The Company matches debt structure to lease structure



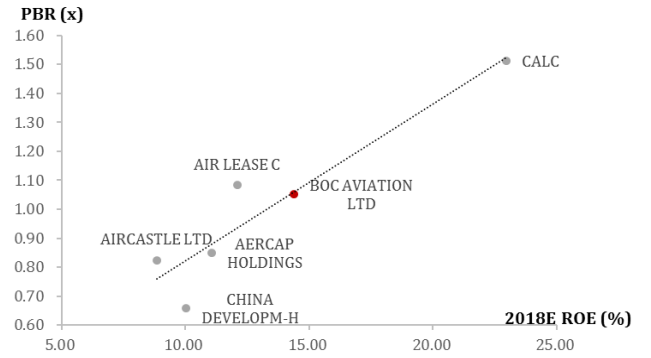
Source: Company, CMBIS

Figure 7: Company investment/divestment throughout business cycles



Source: Company, CMBIS

Figure 8: Valuation



Source: Bloomberg, CMBIS

Financial statements

Income statement

YE 31 Dec (US\$ mn)	2015A	2016A	2017A
Lease rental income	975	1,048	1,284
Interest and fee income	40	48	30
Other income:	75	97	88
Revenues	1,091	1,193	1,401
Depreciation of plant and equipment	(382)	(378)	(460)
Finance expenses	(169)	(216)	(260)
Staff costs	(59)	(75)	(72)
Other costs and expenses	(80)	(51)	(57)
Costs and expenses	(689)	(719)	(850)
Income tax credit/(expense)	(58)	(56)	36
Profit for the year attributable to owners of the Company	343	418	587

Source: Company, CMBIS

Balance statement

YE 31 Dec (US\$ mn)	2015A	2016A	2017A
Plant and equipment	11,717	12,605	15,434
Other non-current assets	3	20	34
Non-current assets	11,720	12,625	15,468
Fixed deposits	237	353	162
Cash and bank balances	269	206	143
Assets held for sale	222	251	239
Other current assets	25	11	28
Current assets	754	820	572
Total assets	12,474	13,445	16,040
Trade and other payables	106	119	137
Deferred income	62	90	67
Loans and borrowings	963	902	1,419
Other current liabilities	84	79	101
Current liabilities	1,215	1,190	1,724
Loans and borrowings	7,649	7,542	9,263
Other non-current liabilities	1,170	1,331	1,234
Non-current liabilities	8,819	8,873	10,497
Total liabilities	10,034	10,062	12,221
Share capital	608	1,158	1,158
Reserves and retained earnings	1,832	2,224	2,661
Total equity	2,440	3,382	3,819

Source: Company, CMBIS

Cash flow statement

YE 31 Dec (US\$ mn)	2015A	2016A	2017A
Profit before income tax	401	474	551
Adjustments for:			
Depreciation of plant and equipment	382	378	460
Finance expenses	169	216	260
Working capital changes	161	84	29
Net cash flows from operating activities	1,112	1,106	1,271
Purchase of plant and equipment	(3,410)	(2,895)	(4,433)
Net cash flows used in investing activities	(1,318)	(1,200)	(3,194)
Proceeds from shares issuance	0	563	0
Proceeds from loans and borrowings	1,999	1,950	2,626
Repayment of loans and borrowings	(1,578)	(1,851)	(1,318)
Increase/(decrease) in borrowings from revolving credit facilities, net	115	(220)	795
Finance expenses paid	(171)	(218)	(258)
Dividends paid	0	(42)	(155)
Net cash flows from financing activities	344	117	1,771
Net (decrease)/increase in cash and cash equivalents	139	22	(152)
Cash and cash equivalents at beginning of year	232	371	394
Cash and cash equivalents at end of year	371	394	242

Source: Company, CMBIS

Key ratios

YE 31 Dec (US\$ mn)	2015A	2016A	2017A
Revenue mix			
Lease rental income	89.4%	87.9%	91.6%
Interest and fee income	3.7%	4.0%	2.1%
Other income:	6.9%	8.1%	6.2%
Growth			
Lease rental income	4.1%	7.5%	22.4%
Interest and fee income	243.3%	19.7%	-37.9%
Revenues	10.3%	9.4%	17.4%
Profit for the year attributable to owners of the Company	11.3%	21.8%	40.3%
Balance sheet ratios			
Gearing (x)	3.5	2.5	2.8
Returns			
ROAE	15.1%	14.4%	16.3%
ROAA	2.9%	3.2%	4.0%
Per share			
EPS (US\$)	0.58	0.64	0.85
DPS (US\$)	-	0.18	0.30
BVPS (US\$)	4.14	4.87	5.50

Source: Company, CMBIS

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HOLD	: Stock with potential return of +15% to -10% over next 12 months
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NOT RATED	: Stock is not rated by CMBIS

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