



Rating
Buy

Asia
Singapore

Banking / Finance
Other Financial Services

Company
BOC Aviation

Reuters 2588.HK Bloomberg 2588 HK Exchange HSI Ticker 2588

Date
11 July 2018

Forecast Change

Price at 11 Jul 2018 (HKD)	48.20
Price target - 12mth (HKD)	57.50
52-week range (HKD)	50.80 - 39.80
HANG SENG INDEX	28,682

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A defensive play amid market turbulence

Resilient business backed by USD aircraft assets; Buy with new TP of HK\$57.5

BOC Aviation (BOCA)'s share price has risen 16% YTD, outperforming the overall market (HSI down 5% YTD). As a global top-5 aircraft lessor, BOCA has demonstrated faster-than-peers growth and stable profitability, with average ROE of 15% in the past 10 years (16% ROE in 2009 financial crisis). The resilient business nature is rooted in: 1) stable global air travel demand, 2) only dealing with the top 145 airline customers, and 3) strong aircraft trading ability, backed by competitive funding (BOC as parent). Given the current trade war concerns, we also see BOCA as a way to hedge RMB depreciation, given 100% USD assets/revenue. BOCA trades at 1.1x 2018E P/B with 5% dividend yield.

High quality fleet with global operation; stable ROE of 15% even in crisis period

Aircraft are movable assets – lessors can easily redeploy aircraft to regions with a better outlook unless there's a global recession. Meantime, lessors are counting on the credit soundness of airline customers and inherently see less earnings volatility than airlines themselves, whose earnings fluctuate with FX and oil prices. BOCA saw resilient business operations and even recorded 16% ROE in the 2008-2009 crisis time. BOCA maintained a young and popular fleet (three years on average) with a 12% premium over net book value, and was subject to fewer asset value risks. With abundant funding (US\$3.4bn unutilized revolving credit line), BOCA is able to purchase aircraft at a discount price during a crisis and dispose at a premium when the market recovers (17% PBT from trading gains in the past five years).

1H18 results preview & operating data

We expect BOCA to record US\$271mn net profit in 1H18E, up 13% yoy or 6% hoh, driven by resilient net lease yield and stable fleet portfolio growth. The lessor released operating data for 1H18 recently, reporting 26 new deliveries and 18 aircraft sold; fleet number increase by eight as a result, compared to 15 in 1H17. As of June 2018, BOCA scheduled 58 aircraft to be delivered for the full year (including six attached to a customer purchase option) vs. 71 total deliveries in 2017. We expect BOCA to ramp up delivery numbers in 2H18 by signing more purchase-and-lease-back deals.

TP up 8% to HK\$57.5; introducing 2020E forecast; valuation and risks

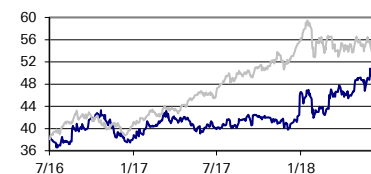
We maintain our earnings forecast for 2018E/19E and introduce 2020E forecasts, looking for 15%/13%/12% net profit growth in 2018E-20E. We estimate company leverage (debt/equity) will reach 3.5x by 2019E with ROE recovering to 15%. We lift our target price by 8% to HK\$57.5 by seeing better long-term profitability. We derive our target price using a three-stage GGM valuation model. Key downside risks include lower-than-expected growth, intensifying competition, and aircraft oversupply.

Key changes

TP	53.50 to 57.50	↑	7.5%
Net profit (FYE)	568.0 to 570.2	↑	0.4%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.1	4.0	20.7
HANG SENG INDEX	-7.7	-7.2	10.8

Source: Deutsche Bank



Model updated: 11 July 2018

Running the numbers

Asia
Singapore
Other Financial Services

BOC Aviation

Reuters: 2588.HK Bloomberg: 2588 HK

Buy

Price (11 Jul 18)	HKD 48.20
Target Price	HKD 57.50
52 Week range	HKD 39.80 - 50.80
Market Cap (m)	HKDm 33,451 USDm 4,262

Company Profile

BOC Aviation is a leading global aircraft lessor headquartered in Singapore founded in 1993, and the company ranked No.1 in Asia and No.5 globally in terms of value of owned aircraft in 2015. The company (originally called Singapore Aircraft Leasing Enterprise) was 100% acquired by Bank of China (BOC) in December 2006, and went publicly listed in Hong Kong in June 2016. BOC remains the controlling shareholder of the company with 70% stake. BOC Aviation mainly acquires aircraft from OEMs and places aircraft on long-term operating lease

Fiscal year end 31-Dec

Data Per Share

	2015	2016	2017	2018E	2019E	2020E
EPS (stated) (USD)	0.58	0.65	0.85	0.82	0.93	1.04
EPS FD (stated) (USD)	0.58	0.65	0.85	0.82	0.93	1.04
EPS FD (DB adj.) (USD)	0.58	0.65	0.71	0.82	0.93	1.04
Growth rate - EPS (stated) (%)	11.26	11.91	29.80	-2.80	13.20	11.65
DPS (USD)	0.00	0.18	0.30	0.29	0.33	0.36
BVPS (stated) (USD)	4.14	4.87	5.50	6.01	6.61	7.29
BVPS (DB adj.) (USD)	4.14	4.87	5.50	6.01	6.61	7.29
Average market cap	0	3,539	3,640	4,262	4,262	4,262
Shares in Issue (m)	590	694	694	694	694	694

Valuation Ratios & Profitability Measures

P/E (stated)	na	7.8	6.2	7.5	6.6	5.9
P/E FD (stated)	na	7.8	6.2	7.5	6.6	5.9
P/E FD (DB adj.)	na	7.8	7.4	7.5	6.6	5.9
P/B (stated)	na	1.0	1.0	1.0	0.9	0.8
P/B (DB adj.)	na	1.0	1.0	1.0	0.9	0.8
ROE (stated.) (%)	15.1	14.4	16.3	14.3	14.7	14.9
ROA (adj.) (%)	2.9	3.2	4.0	3.3	3.1	3.1
Dividend yield(%)	na	3.5	5.6	4.7	5.3	5.9
Dividend cover(x)	nm	3.6	2.9	2.9	2.9	2.9
Payout ratio (%)	0.0	29.9	35.0	35.0	35.0	35.0

Profit & Loss (USDm)

Net interest revenue	807	833	1,024	1,241	1,471	1,706
Non interest income	115	145	117	110	99	92
Fees and Commissions	40	48	30	40	38	36
Trading Revenue	0	0	0	0	0	0
Insurance revenue	0	0	0	0	0	0
Dividend income	0	0	0	0	0	0
Other revenue	75	97	88	70	61	56
Total revenue	922	977	1,141	1,351	1,570	1,799
Total operating costs	477	499	579	709	844	988
Pre-provision profit/(loss)	445	479	562	642	726	810
Bad debt expense	44	5	11	5	5	5
Operating Profit	401	474	551	637	721	805
Goodwill	0	0	0	0	0	0
Pre-tax associates	0	0	0	0	0	0
Extraordinary and Other Items	0	0	102	0	0	0
Pre-tax profit	401	474	653	637	721	805
Tax	58	56	67	67	76	85
Minorities	0	0	0	0	0	0
Preference dividends	0	0	0	0	0	0
Stated net profit	343	418	587	570	645	721
DB adj. core earnings	343	418	495	570	645	721

Key Balance Sheet Items (USDm) & Capital Ratios

Risk-weighted assets	0	0	0	0	0	0
Interest-earning assets	9,476	10,437	13,428	16,215	19,031	21,713
Total loans	na	na	na	na	na	na
Total deposits	0	0	0	0	0	0
Stated shareholders equity	2,440	3,382	3,819	4,168	4,588	5,056
Preference share capital	na	na	na	na	na	na
Tier 1 capital	0	0	0	0	0	0
Tier 1 ratio (%)	0	0	0	0	0	0
Tangible equity/ total assets (%)	20	25	24	22	21	20

Credit Quality

Gross NPLs / Total loans (%)	na	na	na	na	na	na
Provisions / NPLs (%)	nm	nm	nm	nm	nm	nm
Bad debt exp/ Avg loans (%)	-	-	-	-	-	-

Growth Rates & Key Ratios

Growth in net interest income (%)	2.6	3.2	23.0	21.2	18.6	15.9
Growth in fee income (%)	243.3	19.7	-37.9	35.0	-5.0	-5.0
Growth in non-interest income (%)	123.7	25.5	-19.0	-6.1	-10.0	-6.6
Growth in revenues (%)	10.1	6.0	16.7	18.4	16.2	14.5
Growth in costs (%)	3.2	4.6	16.2	22.4	19.1	17.1
Pre-provision earnings growth (%)	18.5	7.5	17.4	14.3	13.1	11.6
Growth in bad debts (%)	90.0	-89.1	120.8	-52.8	0.0	0.0
Growth in RWA (%)	nm	nm	nm	nm	nm	nm
Growth in loans (%)	na	na	na	na	na	na
Growth in deposits (%)	nm	nm	nm	nm	nm	nm
Loan-to-deposits ratio (%)	nm	nm	nm	nm	nm	nm
Net int. margin (%)	8.3	8.4	8.6	8.4	8.3	8.4
Cost income ratio (%)	51.7	51.0	50.8	52.5	53.8	55.0
Cost asset ratio (%)	4.0	3.8	3.9	4.0	4.1	4.2
Trading income/ Total Rev (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, Deutsche Bank estimates

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1H18 results preview & 1H18 operating data

We expect 1H18 net profit up 13% yoy

Figure 1: BOCA 1H18 earnings (up 13% yoy/6% hoh) to be driven by resilient net lease yield and stable portfolio growth

US\$ mn						1H18E	1H18E	As % of 2018					2018E
	1H16	2H16	1H17	2H17	1H18E	HoH Change	YoY Change		2015	2016	2017	2018E	YoY Change
P&L													
Total revenues	579	614	670	730	813	11%	21%	47%	1,091	1,193	1,401	1,740	24%
Lease rental income	516	533	607	676	748	11%	23%	46%	975	1,048	1,284	1,630	27%
Interest and fee income	26	22	14	16	25	59%	80%	63%	40	48	30	40	35%
Net gain on sale of aircraft	37	54	48	30	38	27%	-20%	59%	70	91	78	65	-16%
Other income	1	6	2	8	3	-69%	57%	50%	5	6	10	5	-49%
Total cost and expenses	(340)	(380)	(402)	(448)	(510)	14%	27%	46%	(689)	(719)	(850)	(1,103)	30%
Depreciation of plant and equipment	(186)	(192)	(218)	(243)	(263)	8%	21%	46%	(382)	(378)	(460)	(569)	24%
Finance expenses	(101)	(114)	(120)	(140)	(180)	29%	50%	46%	(169)	(216)	(260)	(389)	50%
Staff costs	(32)	(43)	(32)	(40)	(42)	3%	30%	44%	(59)	(75)	(72)	(94)	30%
Impairment of aircraft	-	(5)	(11)	-	(3)	na	-76%	50%	(44)	(5)	(11)	(5)	-53%
Other operating costs and expenses	(20)	(26)	(22)	(25)	(23)	-8%	5%	50%	(36)	(46)	(47)	(46)	-2%
Profit before income tax	240	234	269	283	303	7%	13%	48%	401	474	551	637	16%
Income tax expense	(27)	(28)	(28)	(27)	(32)	17%	12%	48%	(58)	(56)	(55)	(67)	21%
One-off tax gains	-	-	-	91	-	-	-	-	-	-	91	-	-
Net profit	212	206	240	347	271	-22%	13%	48%	343	418	587	570	-3%
Net profit - recurrent	212	206	240	256	271	6%	13%	48%	343	418	496	570	15%
Balance Sheet													
Plant and equipment	11,667	12,605	14,018	15,434	16,563	7%	18%	89%	11,717	12,605	15,434	18,614	21%
- Aircraft net book value	10,760	10,437	13,632	13,428	14,262	6%	5%	88%	9,476	10,437	13,428	16,215	21%
- Aircraft progress payments	2,167	2,167	1,927	2,004	2,300	15%	19%	96%	2,240	2,167	2,004	2,400	20%
Assets held for sale	194	251	25	239	-	-100%	-100%	na	222	251	239	-	-100%
Cash and fixed deposits	1,706	558	333	305	343	12%	3%	100%	507	558	305	344	13%
Other assets	26	31	30	62	62	0%	108%	100%	27	31	62	62	0%
Total assets	13,593	13,445	14,405	16,040	16,968	6%	18%	89%	12,474	13,445	16,040	19,020	19%
Loans and borrowings	8,993	8,444	9,308	10,682	11,356	6%	22%	86%	8,612	8,444	10,682	13,139	23%
Finance lease payables	72	68	63	58	58	0%	-8%	100%	77	68	58	58	0%
Maintenance reserves	425	470	497	559	597	7%	20%	94%	433	470	559	636	14%
Security deposits	243	219	233	229	244	6%	5%	94%	221	219	229	258	13%
Deferred income tax liabilities	304	332	360	296	328	11%	-9%	90%	277	332	296	363	23%
Liabilities associated with assets held for sale	1	19	-	-	-	na	na	na	36	19	-	-	na
Other current liabilities	355	510	407	397	397	0%	-3%	100%	379	510	397	397	0%
Total liabilities	10,393	10,062	10,869	12,221	12,980	6%	19%	87%	10,034	10,062	12,221	14,852	22%
Share capital	1,158	1,158	1,158	1,158	1,158	0%	0%	100%	608	1,158	1,158	1,158	0%
Retained earnings	2,044	2,208	2,365	2,640	2,830	7%	20%	94%	1,832	2,208	2,640	3,011	14%
Hedging reserve	(2)	17	13	21	-	-100%	-100%	na	-	17	21	-	-100%
Total equity	3,200	3,382	3,537	3,819	3,987	4%	13%	96%	2,440	3,382	3,819	4,168	9%
Key ratios													
ROAE - recurrent	15.0%	12.5%	13.9%	13.9%	13.9%	0.0%	0.0%	na	15.1%	14.4%	13.8%	14.3%	0.5%
ROAA - recurrent	3.3%	3.0%	3.4%	3.4%	3.3%	-0.1%	-0.2%	na	2.9%	3.2%	3.4%	3.3%	-0.1%
Number of shares (mn)	590	694	694	694	694	0%	0%	na	590	694	694	694	0%
BVPS (USD/shr)	4.61	4.87	5.10	5.50	5.75	4%	13%	na	4.14	4.87	5.50	6.01	9%
EPS (USD/shr)	0.31	0.30	0.35	0.50	0.39	-22%	13%	na	0.58	0.60	0.85	0.82	-3%
DPS (USD/shr)	0.06	0.12	0.10	0.19	0.12	-39%	13%	na	0.00	0.18	0.30	0.29	-3%
Payout ratio	20%	40%	30%	38%	30%	-8%	0%	na	0%	30%	35%	35%	0%
Lease rate factor / gross yield	10.2%	10.4%	10.7%	10.3%	10.8%	0.5%	0.1%	na	9.9%	10.3%	10.5%	11.0%	0.5%
Average cost of funds	2.3%	2.6%	2.8%	2.8%	3.2%	0.4%	0.4%	na	2.0%	2.5%	2.8%	3.3%	0.5%
Net lease yield	8.2%	8.2%	8.5%	8.3%	8.2%	-0.1%	-0.3%	na	8.2%	8.2%	8.4%	8.3%	-0.1%
Pre-tax profit margin	41%	38%	40%	39%	37%	-1.5%	-2.8%	na	37%	40%	39%	37%	-2.7%
CIR	59%	62%	60%	61%	63%	1%	3%	na	63%	60%	61%	63%	3%
Tax rate	11.4%	12.1%	10.6%	9.6%	10.5%	1%	0%	na	14.5%	11.8%	10.1%	10.5%	0%
Gross leverage (A/E)	4.2x	4.0x	4.1x	4.2x	4.3x	0.1x	0.2x	na	5.1x	4.0x	4.2x	4.6x	0.4x
Net leverage (gross debt/equity)	2.9x	2.6x	2.7x	2.9x	2.9x	0.0x	0.2x	na	3.7x	2.6x	2.9x	3.2x	0.3x
Average fleet age (yrs)	3.3	3.2	3.0	3.2	3.0	-0.2	0.0	na	3.3	3.2	3.0	3.2	0.2
Average remaining lease term (yrs)	7.2	7.3	7.8	8.2	8.3	0.1	0.5	na	7.4	7.3	8.2	8.2	0.0

Source: Deutsche Bank estimates, company data



BOCA took 26 new deliveries and sold 18 aircraft in 1H18

Figure 2: BOCA quarterly & semi-half operational data

BOCA Operational Data	2Q17	3Q17	4Q17	1Q18	2Q18	1H17	2H17	1H18
Total fleet number (owned + managed)	297	302	318	321	324	297	318	324
Aircraft owned	261	268	287	291	295	261	287	295
- net increase	4	7	19	4	4	15	26	8
Aircraft managed	36	34	31	30	29	36	31	29
Avg aircraft age (yr)	3.1	3.2	3.0	3.1	3.0	3.1	3	3.0
Avg remaining lease term (yr)	7.8	7.8	8.2	8.1	8.3	7.8	8.2	8.3
Order book	196	197	173	167	163	196	173	163
Aircraft delivered	18	9	28	12	15	37	37	27
- added onto own fleet	17	9	28	12	14	34	37	26
- acquired by customers	1	0	0	0	1	3	0	1
Aircraft sold in the period (owned)	13	2	9	8	10	19	11	18
No. of lease signed in the period	22	26	22	14	16	53	48	30
Aircraft utilization rate	99.9%	100.0%	99.8%	100.0%	100.0%	99.6%	99.9%	100.0%
No. of airline customer	75	76	80	82	88	75	80	88
No. of operating countries	34	33	33	33	35	34	33	35
Placement progress for aircraft on order	95% for 2017 (80 to be delivered); 60% for 2018	100% for 2017 (78 to be delivered); 90% for 2018 (48 scheduled now)	100% for 2018	total 54 to be delivered in 2018	58 to be delivered in 2018	95% for 2017 (80 to be delivered); 60% for 2018	100% for 2018	58 to be delivered in 2018
Net aircraft book value breakdown by region						Net BV breakdown	Net BV breakdown	Net BV breakdown
Asia Pacific (ex China)	25.9%	26.4%	23.3%	23.1%	22.6%	25.9%	23.3%	22.6%
China (incl. HK, Macau and Taiwan)	30.7%	30.8%	30.3%	31.5%	29.0%	30.7%	30.3%	29.0%
Americas	13.9%	14.2%	13.1%	12.5%	11.1%	13.9%	13.1%	11.1%
Europe	25.3%	24.5%	24.2%	24.1%	24.6%	25.3%	24.2%	24.6%
Middle East & Africa	4.2%	4.1%	9.1%	8.8%	12.7%	4.2%	9.1%	12.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Number of Owned Aircraft Breakdown								
Airbus A320CEO family	126	128	135	135	130	126	135	130
Airbus A320NEO family	1	4	5	8	12	1	5	12
Airbus A330CEO family	12	11	12	12	12	12	12	12
Airbus A330NEO family	0	0	0	0	0	0	0	0
Airbus A350-900	0	0	2	2	6	0	2	6
Boeing 737NG family	91	94	99	105	106	91	99	106
Boeing 737 MAX	0	0	0	0	2	0	0	2
Boeing 777-300ER	21	21	23	23	21	21	23	21
Boeing 777-300	0	0	0	0	0	0	0	0
Boeing 787	1	1	1	1	1	1	1	1
Embraer E190 family	5	5	5	0	0	5	5	0
Freighters	4	4	5	5	5	4	5	5
Total	261	268	287	291	295	261	287	295
Narrowbody %	85%	86%	85%	85%	85%	85%	85%	85%
A320/B737 %	84%	84%	83%	85%	85%	84%	83%	85%
Number of Aircraft on Order Breakdown								
Airbus A320CEO family	17	15	3	0	3	17	3	3
Airbus A320NEO family	65	62	61	58	58	65	61	58
Airbus A330CEO family	1	1	0	0	0	1	0	0
Airbus A330NEO family	2	2	2	2	2	2	2	2
Airbus A350-900	6	6	4	4	0	6	4	0
Boeing 737NG family	27	23	15	9	5	27	15	5
Boeing 737 MAX	74	84	84	84	82	74	84	82
Boeing 777-300ER	0	0	0	0	0	0	0	0
Boeing 777-300	0	0	0	0	0	0	0	0
Boeing 787	4	4	4	10	13	4	4	13
Embraer E190 family	0	0	0	0	0	0	0	0
Freighters	0	0	0	0	0	0	0	0
Total	196	197	173	167	163	196	173	163
Narrowbody %	93%	93%	94%	90%	91%	93%	94%	91%

Source: Deutsche Bank, company data



Introducing 2020E forecast

Figure 3: We estimate BOCA's leverage (debt/equity) should reach 3.5x by 2019E and ROE should recover to 15%

US\$ mn	2014	2015	2016	2017A	2018E	2019E	2020E	2017A	2018E	2019E	2020E
								YoY	YoY	YoY	YoY
								Change	Change	Change	Change
P&L											
Total revenues	988	1,091	1,193	1,401	1,740	2,090	2,425	17%	24%	20%	16%
Lease rental income	937	975	1,048	1,284	1,630	1,991	2,333	22%	27%	22%	17%
Interest and fee income	12	40	48	30	40	38	36	-38%	35%	-5%	-5%
Net gain on sale of aircraft	30	70	91	78	65	56	51	-14%	-16%	-14%	-8%
Other income	10	5	6	10	5	5	5	61%	-49%	0%	0%
Total cost and expenses	(636)	(689)	(719)	(850)	(1,103)	(1,369)	(1,620)	18%	30%	24%	18%
Depreciation of plant and equipment	(381)	(382)	(378)	(460)	(569)	(680)	(792)	22%	24%	19%	17%
Finance expenses	(151)	(169)	(216)	(260)	(389)	(520)	(627)	20%	50%	34%	21%
Staff costs	(51)	(59)	(75)	(72)	(94)	(117)	(147)	-3%	30%	25%	25%
Impairment of aircraft	(23)	(44)	(5)	(11)	(5)	(5)	(5)	121%	-53%	0%	0%
Other operating costs and expenses	(29)	(36)	(46)	(47)	(46)	(47)	(49)	1%	-2%	3%	4%
Profit before income tax	353	401	474	551	637	721	805	16%	16%	13%	12%
Income tax expense	(44)	(58)	(56)	(55)	(67)	(76)	(85)	0%	21%	13%	12%
Net profit - reported	309	343	418	587	570	645	721	40%	-3%	13%	12%
Net profit - recurrent	309	343	418	496	570	645	721	19%	15%	13%	12%
Balance Sheet											
Plant and equipment	11,015	11,717	12,605	15,434	18,614	21,627	24,305	22%	21%	16%	12%
- Aircraft net book value	9,923	9,476	10,437	13,428	16,215	19,031	21,713	29%	21%	17%	14%
- Aircraft progress payments	1,089	2,240	2,167	2,004	2,400	2,600	2,600	-7%	20%	8%	0%
Assets held for sale	-	222	251	239	-	-	-	-5%	-100%	na	na
Cash and fixed deposits	367	507	558	305	344	453	491	-45%	13%	31%	8%
Other assets	20	27	31	62	62	62	62	100%	0%	0%	0%
Total assets	11,403	12,474	13,445	16,040	19,020	22,142	24,858	19%	19%	16%	12%
Loans and borrowings	8,162	8,612	8,444	10,682	13,139	15,636	17,668	27%	23%	19%	13%
Finance lease payables	86	77	68	58	58	58	58	-14%	0%	0%	0%
Maintenance reserves	384	433	470	559	636	732	828	19%	14%	15%	13%
Security deposits	214	221	219	229	258	293	327	5%	13%	13%	12%
Deferred income tax liabilities	220	277	332	296	363	439	524	-11%	23%	21%	19%
Liabilities associated with assets held for sale	-	36	19	-	-	-	-	-100%	na	na	na
Other current liabilities	242	379	510	397	397	397	397	-22%	0%	0%	0%
Total liabilities	9,307	10,034	10,062	12,221	14,852	17,554	19,802	21%	22%	18%	13%
Share capital	608	608	1,158	1,158	1,158	1,158	1,158	0%	0%	0%	0%
Retained earnings	1,489	1,832	2,208	2,640	3,011	3,430	3,898	20%	14%	14%	14%
Hedging reserve	-	-	17	21	-	-	-	28%	-100%	na	na
Total equity	2,096	2,440	3,382	3,819	4,168	4,588	5,056	13%	9%	10%	10%
Key ratios											
ROAE	15.3%	15.1%	14.4%	13.8%	14.3%	14.7%	14.9%	-0.6%	0.5%	0.5%	0.2%
ROAA	2.9%	2.9%	3.2%	3.4%	3.3%	3.1%	3.1%	0.1%	-0.1%	-0.1%	-0.1%
Number of shares (mn)	590	590	694	694	694	694	694	0%	0%	0%	0%
BVPS (USD/shr)	3.55	4.14	4.87	5.50	6.01	6.61	7.29	13%	9%	10%	10%
EPS (USD/shr)	0.52	0.58	0.60	0.85	0.82	0.93	1.04	40%	-3%	13%	12%
DPS (USD/shr)	0.24	0.00	0.18	0.30	0.29	0.33	0.36	64%	-3%	13%	12%
Payout ratio	46%	0%	30%	35%	35%	35%	35%	5%	0%	0%	0%
Lease rate factor / gross yield	9.8%	9.9%	10.3%	10.5%	11.0%	11.3%	11.5%	0.2%	0.5%	0.3%	0.2%
Average cost of funds	1.9%	2.0%	2.5%	2.8%	3.3%	3.7%	3.9%	0.3%	0.5%	0.4%	0.1%
Net lease yield	8.3%	8.2%	8.2%	8.4%	8.3%	8.3%	8.3%	0.2%	-0.1%	0.0%	0.0%
Pre-tax profit margin	35.7%	36.8%	39.7%	39.3%	36.6%	34.5%	33.2%	-0.4%	-2.7%	-2.1%	-1.3%
CIR	64%	63%	60%	61%	63%	66%	67%	0%	3%	2%	1%
Tax rate	12.5%	14.5%	11.8%	10.1%	10.5%	10.5%	10.5%	-2%	0%	0%	0%
Gross leverage (A/E)	5.4x	5.1x	4.0x	4.2x	4.6x	4.8x	4.9x	0.2x	0.4x	0.3x	0.1x
Net leverage (gross debt/equity)	4.0x	3.7x	2.6x	2.9x	3.2x	3.5x	3.5x	0.3x	0.3x	0.3x	0.1x
Average fleet age (yrs)	3.2	3.3	3.2	3.0	3.2	3.4	3.7	-0.2	0.2	0.3	0.3
Average remaining lease term (yrs)	7.5	7.4	7.3	8.2	8.2	8.2	8.2	0.9	0.0	0.0	0.0

Source: Deutsche Bank estimates, company data



Valuation and risks

New TP of HK\$57.5 based on 1.24x 2018E P/B

We derive our target price based on a three-stage Gordon Growth Model (GGM) on 2018E target P/B. We lift our TP by 8% to HK\$57.5 by seeing better long-term profitability. We assume ROE for 1st stage/2nd stage/terminal stage to be 14.7%/13.0%/12.0%, with COE of 11.5%. Its COE is at the low end of the 11.5%-14.0% range we assume for Chinese banks due to BOCA's low-leverage business model with no imminent asset value risks (appraised portfolio value has 12% premium to net book value). We assume a payout ratio of 35%/40%/70% under the three stages respectively to reflect different growths. We summarize our valuation methodology in the table below.

Figure 4: Three-stage GGM valuation for BOCA – TP HK\$57.5

BOCA Valuation

3-Stage Gordon Growth Model			
	Inputs		
	First Stage	Second Stage	Terminal
ROE	14.7%	13.0%	12.0%
Growth	9.5%	7.8%	3.6%
CoE	11.5%	11.5%	11.5%
Payout Ratio	35.0%	40.0%	70.0%
No. of Years	3	3	
Target P/B	1.24		
Net assets 2018E (US\$ m)	4,168		
Valuation (US\$ m)	5,151		
Target price (USD)	7.4		
Target price (HKD)	57.5		

	2016	2017	2018E	2019E	2020E
EPS (USD)	0.60	0.85	0.82	0.93	1.04
EPS (HKD)	4.67	6.55	6.37	7.21	8.05
Target P/E	12.3	8.8	9.0	8.0	7.1
BVPS (USD)	4.87	5.50	6.01	6.61	7.29
BVPS (HKD)	37.8	42.6	46.5	51.2	56.5
Target P/B	1.52	1.35	1.24	1.12	1.02
USD/HKD	7.75	7.75	7.75	7.75	7.75
No. of shares	694	694	694	694	694

Source: Deutsche Bank estimates



Figure 5: Valuation comp of listed US aircraft peers and Chinese leasing peers

Ticker	Name	DB Rating	TP LCY	Price LCY	Upside %	Cmcy	Market cap (US\$ m)	PE Ratio			PB Ratio			Return on Equity (%)			Return on Asset (%)			Dividend Yield (%)		
								FY16A	FY17A	FY18E	FY16A	FY17A	FY18E	FY16A	FY17A	FY18E	FY16A	FY17A	FY18E	FY16A	FY17A	FY18E
CHINA-RELATED LISTED LESSORS																						
3360 HK Equity	Far East Horizon	Buy	10.4	7.1	46%	HKD	3,580	8.5	7.1	6.1	1.09	0.93	0.84	13.0	13.8	14.5	1.9	1.8	1.8	3.2	4.2	4.9
2666 HK Equity	Universal Medicial	Buy	9.4	6.2	51%	HKD	1,362	6.8	5.4	5.4	1.45	1.23	1.08	13.9	15.7	17.3	3.2	3.5	3.4	2.6	3.6	4.3
000415 CH Equity	Bohai Leasing	NR	NA	5.8	NA	CNY	5,414	10.1	8.5	8.5	1.19	1.16	1.03	7.5	8.9	10.8	3.6	2.2	1.1	0.9	0.0	1.0
5871 TT Equity	Challease Holding	NR	NA	98.1	NA	TWD	4,057	10.4	9.3	9.3	2.76	2.45	2.16	17.6	21.5	20.3	2.5	3.3	3.4	2.9	4.0	4.9
1848 HK Equity	China Aircraft Leasing Group	NR	NA	7.9	NA	HKD	683	6.5	5.7	5.7	1.84	1.61	1.42	25.3	20.7	23.0	2.5	2.1	2.1	4.5	6.1	8.5
Average								9.3	8.1	7.6	1.52	1.37	1.22	12.3	13.7	14.6	2.6	2.3	2.0	2.6	3.0	4.0
AIRCRAFT LESSORS																						
2588 HK Equity	BOC Aviation	Buy	57.5	48.2	19%	HKD	4,262	9.5	8.7	7.6	1.28	1.17	1.06	14.4	13.8	14.3	3.2	3.4	3.3	2.9	4.8	4.6
AER US Equity	AerCap Holdings N.V.	Buy	71	55.1	29%	USD	8,101	8.7	8.0	8.0	1.18	1.00	0.86	11.1	12.2	11.4	2.2	2.5	2.9	0.0	0.0	0.0
AL US Equity	Air Lease Corporation	Buy	58	43.0	35%	USD	4,472	9.2	7.5	7.5	1.32	1.17	1.02	12.6	12.1	12.1	3.2	3.3	4.1	0.5	0.6	0.7
AYR US Equity	Aircaste Limited	Hold	24	20.8	16%	USD	1,624	8.7	8.2	8.2	0.90	0.86	0.81	7.3	8.4	9.3	1.8	1.9	2.4	4.7	5.5	5.5
FLY US Equity	Fly Leasing Limited	Buy	18	14.1	27%	USD	395	6.3	5.3	5.3	0.69	0.75	0.64	9.9	1.2	12.1	1.8	0.2	1.9	0.3	0.0	0.0
1848 HK Equity	China Aircraft Leasing Group	NR	NA	7.9	NA	HKD	683	6.5	5.7	5.7	1.84	1.61	1.42	25.3	20.7	23.0	2.5	2.1	2.1	4.5	6.1	8.5
Average								8.9	8.0	7.7	1.22	1.08	0.95	12.3	12.3	12.5	2.6	2.8	3.1	1.3	1.7	1.9

Closing price of: Jul 11, 2018

Note: Forecasts are using Bloomberg consensus unless under DB coverage or DB estimates are available

Source: Deutsche Bank estimates, Bloomberg Finance LP

Risks

Sector-wise:

- Aircraft oversupply due to slowing of the global economy;
- Worsening operating trend of airline customers;
- Depreciation of aircraft value;
- Regional unrest and geopolitical concerns.

Company-specific:

- Faster pace of US rate hikes and failure to pass through higher funding cost to airline customers;
- Severe delay of aircraft delivery from OEM to affect lease income growth;
- Failure to source sufficient PBL deals to sustain growth;
- Intensifying competition, particularly from Chinese aircraft lessors.



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
BOC Aviation	2588.HK	48.20 (HKD) 11 Jul 18	7,14

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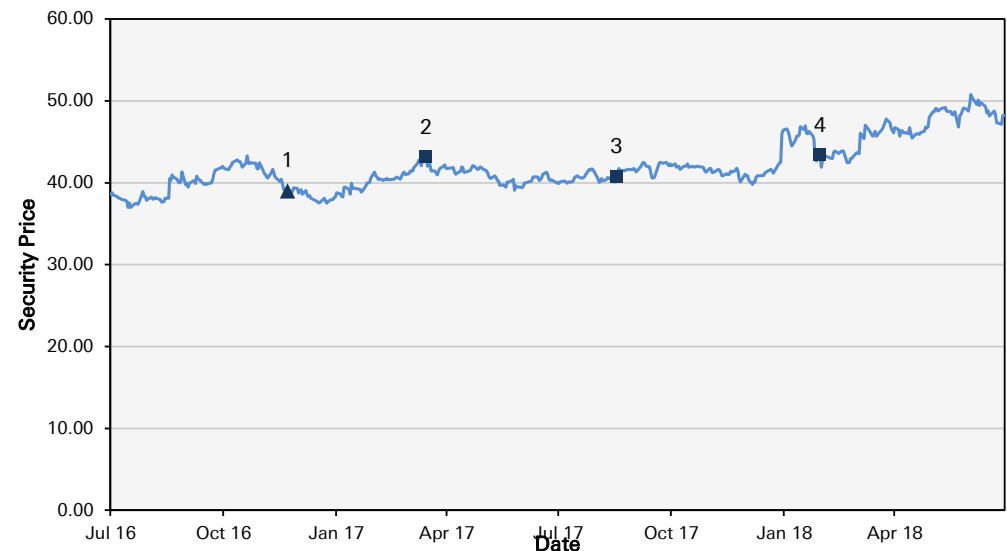
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Historical recommendations and target price: BOC Aviation (2588.HK)

(as of 7/11/2018)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

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1. 04/12/2016:	Upgrade to Buy, Target Price Change HKD48.50	Jacky Zuo, CFA	3. 29/08/2017:	Buy, Target Price Change HKD49.00	Jacky Zuo, CFA
2. 27/03/2017:	Buy, Target Price Change HKD48.00	Jacky Zuo, CFA	4. 11/02/2018:	Buy, Target Price Change HKD53.50	Jacky Zuo, CFA

Equity rating key

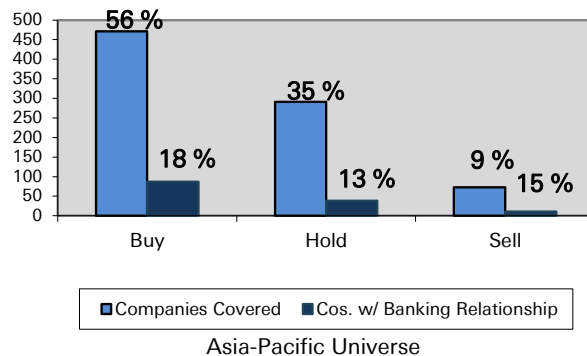
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