

## BOC Aviation (2588 HK)

### 1H18 results inline; positive future outlook

- ❖ **1H18 results inline.** Lease rental income increased 24% yoy, reaching US\$753mn, in line with our full-year forecast of 20%. Total revenues and net profit increased 23% and 24% respectively, to US\$825mn and US\$297mn, in line with our full-year net profit growth forecast of 22% (excluding one-off tax adjustment).
- ❖ **Net lease yield remained stable at 8.5%.** In 1H18, average cost of debt increased 0.3ppt from YE17 to 3.1%, reflecting rising USD Libor. Lease rate factor responded to increasing cost of funds by also rising 0.3ppt from YE17 to 10.8%. As a result, net lease yield remained stable at 8.5%. The 3-month USD Libor has risen 0.62ppt YTD. Thus we revise FY18E average interest rate up 0.1ppt to 2.9%, lease rate factor up 0.2ppt to 10.8%, and net lease yield up 0.1ppt to 8.5%. As a result, we forecast FY18E net profit to increase 5% to US\$615mn (24% excluding one-off tax adjustment), up 2% compared with our previous forecast.
- ❖ **Fleet owned and managed increased to 324.** During 1H18, the Company took delivery of 27 aircraft, and sold 19, bringing total fleet owned and managed to 324 aircraft. Although 27 deliveries in 1H18 is in line with guidance on full-year delivery of 58, management expressed concerns over delayed delivery of Airbus due to engine shortage. Airbus CEO confirmed full-year outlook earlier in a statement, but deliveries in 2H18 may be concentrated in 4Q, putting pressure on the Company's liquidity. The Company steps into 2H18 with cash and undrawn credit facilities totaling US\$3.9bn, which may provide a cushion for the above situation.
- ❖ **Reaffirmed minimal impact from US-China trade war.** Management reaffirmed little impact seen from US-China trade war, because 1) the Company does not have any Boeing aircraft scheduled for delivery to China (including private jets and Boeing 737-800NG that may be subject to tariffs); 2) compared with US public peers, the Company is incorporated and based in Singapore, giving it a neutral position.
- ❖ **Valuation.** IATA reported 7% passenger traffic growth for 1H18, and projected 7% growth for the full year, above long-term trend of 5%. We remain positive on the Company's future outlook. We value the Company at 1.2x P/B. It is currently trading at 1.1x 2018E P/B. Raise TP to HK\$56.8, upside potential is 15.1%, maintain BUY.

#### Earnings summary

(YE Dec 31)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenues (US\$ mn)	1,193	1,401	1,672	1,839	1,951
Net profit (US\$ mn)	418	587	615	659	676
EPS (US\$)	0.64	0.85	0.89	0.95	0.97
EPS CHG (%)	10.0	32.1	4.8	7.2	2.6
PBR (x)	1.35	1.20	1.08	0.99	0.91
PER (x)	10.3	7.8	7.4	6.9	6.8
Yield (%)	2.7	4.5	4.7	5.0	5.2
ROE (%)	14.4	16.3	15.3	14.9	14.0
Gearing (x)	2.6	2.9	2.8	2.8	2.6

Source: Company, CMBIS

### BUY (Maintain)

Target Price	HK\$56.8
(Previous TP)	HK\$56.7)
Up/downside	+15.1%
Current Price	HK\$51.5

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#### China Leasing Sector

Mkt. Cap. (HK\$m)	35,707
Avg. 3mths t/o (HK\$m)	73.2
52W High/Low (HK\$)	52.3/ 39.8
Total Issued Shares (mn)	694

Source: Bloomberg

#### Shareholding Structure

Bank of China Group	70%
Public float	27.3%

Source: HKEX

#### Share performance

	Absolute	Relative
1-mth	2.6%	7.2%
3-mth	1.0%	14.4%
6-mth	13.7%	27.0%

Source: Bloomberg

#### 12-mth price performance



Source: Bloomberg

Auditor: Ernst & Young

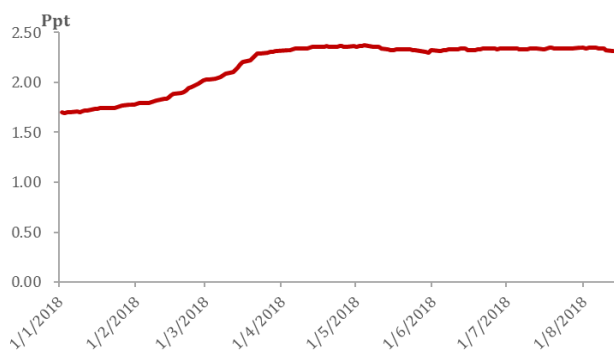
Web-site: [www.bocaviation.com](http://www.bocaviation.com)

**Figure 1: 1H18 results review**

US\$ mn	1H18	1H17	Yoy
Lease rental income	753	607	24%
Interest and fee income	29	14	108%
Net gain on sale of aircraft	37	48	-23%
<b>Revenues</b>	<b>825</b>	<b>670</b>	<b>23%</b>
Depreciation of plant and equipment	(267)	(218)	23%
Finance expenses	(162)	(120)	35%
Staff costs	(41)	(32)	28%
<b>Costs and expenses</b>	<b>(495)</b>	<b>(402)</b>	<b>23%</b>
<b>Profit before income tax</b>	<b>329</b>	<b>269</b>	<b>23%</b>
Income tax credit/(expense)	(32)	(28)	13%
<b>Net Profit</b>	<b>297</b>	<b>240</b>	<b>24%</b>
<b>Basic earnings per share (US\$)</b>	<b>0.43</b>	<b>0.35</b>	<b>23%</b>
<b>Interim dividend</b>	<b>0.13</b>	<b>0.10</b>	<b>24%</b>

US\$ mn	1H18	YE17	Change
Net book value of aircraft	14,302	13,667	5%
Annualized net lease yield	8.5%	8.4%	+0.1ppt
Annualized lease rate factor	10.8%	10.5%	+0.3ppt
Total indebtedness	11,698	10,939	7%
Annualized cost of debt	3.1%	2.8%	+0.3ppt

Source: Company, CMBIS

**Figure 2: 3-month USD Libor has risen 0.62ppt YTD**

Source: Bloomberg, CMBIS

**Figure 3: Forward P/B**

Source: Bloomberg, CMBIS

**Figure 4: Peer valuation**

Stock Code	Stock Name	Price	P/B		ROE		P/E	
			17A	18E	17A	18E	17A	18E
AER US EQUITY	AERCAP HOLDINGS	56.19	0.13	0.88	12.51	11.45	1.08	8.48
AL US EQUITY	AIR LEASE C	44.69	0.14	1.08	18.27	12.11	0.78	9.74
1606 HK Equity	CHINA DEVELOPM-H	1.51	0.68	0.67	8.72	10.05	7.69	7.27
AYR US EQUITY	AIRCASTLE LTD	20.54	0.11	0.81	7.68	9.43	1.40	8.58
FLY US EQUITY	FLY LEASING-ADR	13.53	0.09	0.61	0.48	12.08	19.29	6.04
1848 HK Equity	CALC	7.68	1.52	1.38	21.44	23.48	7.06	6.22
2588 HK Equity	BOC AVIATION LTD	51.45	1.20	1.09	15.32	14.88	7.77	7.61
<b>Average</b>			<b>0.55</b>	<b>0.93</b>	<b>12.06</b>	<b>13.35</b>	<b>6.44</b>	<b>7.71</b>

Source: Bloomberg, CMBIS

## Financial statements

### Income statement

YE 31 Dec (US\$ mn)	2016A	2017A	2018E	2019E	2020E
Lease rental income	1,048	1,284	1,556	1,723	1,834
Interest and fee income	48	30	48	48	48
Net gain on sale of aircraft	91	78	59	59	59
Other income	6	10	10	10	10
<b>Revenues</b>	<b>1,193</b>	<b>1,401</b>	<b>1,672</b>	<b>1,839</b>	<b>1,951</b>
Depreciation of plant and equipment	(378)	(460)	(511)	(581)	(641)
Finance expenses	(216)	(260)	(326)	(365)	(392)
Staff costs	(75)	(72)	(86)	(95)	(101)
Other costs and expenses	(51)	(57)	(57)	(57)	(57)
<b>Costs and expenses</b>	<b>(719)</b>	<b>(850)</b>	<b>(981)</b>	<b>(1,099)</b>	<b>(1,191)</b>
Income tax credit/(expense)	(56)	36	(76)	(81)	(84)
<b>Profit for the year attributable to owners of the Company</b>	<b>418</b>	<b>587</b>	<b>615</b>	<b>659</b>	<b>676</b>

Source: Company, CMBIS

### Balance statement

YE 31 Dec (US\$ mn)	2016A	2017A	2018E	2019E	2020E
Plant and equipment	12,605	15,434	17,862	19,478	19,979
Other non-current assets	20	34	34	34	34
<b>Non-current assets</b>	<b>12,625</b>	<b>15,468</b>	<b>17,896</b>	<b>19,512</b>	<b>20,012</b>
Cash and bank balances	206	143	379	437	790
Other current assets	11	28	484	614	429
<b>Current assets</b>	<b>820</b>	<b>572</b>	<b>808</b>	<b>866</b>	<b>1,219</b>
<b>Total assets</b>	<b>13,445</b>	<b>16,040</b>	<b>18,704</b>	<b>20,377</b>	<b>21,231</b>
Loans and borrowings	902	1,419	1,405	1,768	1,768
Other current liabilities	288	305	305	305	305
<b>Current liabilities</b>	<b>1,190</b>	<b>1,724</b>	<b>1,710</b>	<b>2,073</b>	<b>2,073</b>
Loans and borrowings	7,542	9,263	11,535	12,441	12,885
Other non-current liabilities	1,331	1,234	1,234	1,234	1,234
<b>Non-current liabilities</b>	<b>8,873</b>	<b>10,497</b>	<b>12,769</b>	<b>13,675</b>	<b>14,119</b>
<b>Total liabilities</b>	<b>10,062</b>	<b>12,221</b>	<b>14,479</b>	<b>15,747</b>	<b>16,191</b>
Share capital	1,158	1,158	1,158	1,158	1,158
Reserves and retained earnings	2,224	2,661	3,067	3,472	3,882
<b>Total equity</b>	<b>3,382</b>	<b>3,819</b>	<b>4,225</b>	<b>4,630</b>	<b>5,040</b>

Source: Company, CMBIS

### Cash flow statement

YE 31 Dec (US\$ mn)	2016A	2017A	2018E	2019E	2020E
Profit before income tax	474	551	691	740	760
Depreciation of plant and equipment	378	460	511	581	641
Finance expenses	216	260	326	365	392
Other adjustments	(46)	(29)	(103)	(109)	(111)
Working capital changes	84	29	-	-	-
<b>Net cash flows from operating activities</b>	<b>1,106</b>	<b>1,271</b>	<b>1,426</b>	<b>1,578</b>	<b>1,682</b>
Capital expenditure	(2,895)	(4,433)	(4,000)	(3,256)	(2,200)
<b>Free cash flow</b>	<b>(1,789)</b>	<b>(3,162)</b>	<b>(2,574)</b>	<b>(1,677)</b>	<b>(518)</b>
Proceeds from sale of plant and equipment	1,695	1,239	1,086	1,086	1,086
<b>Net cash flows from financing activities</b>	<b>117</b>	<b>1,771</b>	<b>1,689</b>	<b>649</b>	<b>(214)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>22</b>	<b>(152)</b>	<b>201</b>	<b>58</b>	<b>354</b>
Cash and cash equivalents at beginning of year	371	394	242	442	500
<b>Cash and cash equivalents at end of year</b>	<b>394</b>	<b>242</b>	<b>442</b>	<b>500</b>	<b>854</b>

Source: Company, CMBIS

### Key ratios

YE 31 Dec (US\$ mn)	2016A	2017A	2018E	2019E	2020E
<b>Revenue mix</b>					
Lease rental income	87.9%	91.6%	93.0%	93.7%	94.0%
Interest and fee income	4.0%	2.1%	2.9%	2.6%	2.4%
Net gain on sale of aircraft	7.6%	5.6%	3.5%	3.2%	3.0%
Other income	0.5%	0.7%	0.6%	0.5%	0.5%
<b>Growth</b>					
Lease rental income	7.5%	22.4%	21.2%	10.7%	6.5%
Revenues	9.4%	17.4%	19.4%	10.0%	6.1%
Profit for the year attributable to owners of the Company	21.8%	40.3%	4.8%	7.2%	2.6%
<b>Balance sheet ratios</b>					
Gearing (x)	2.6	2.9	2.8	2.8	2.6
<b>Returns</b>					
ROAE	14.4%	16.3%	15.3%	14.9%	14.0%
ROAA	3.2%	4.0%	3.5%	3.4%	3.2%
<b>Per share</b>					
EPS (US\$)	0.64	0.85	0.89	0.95	0.97
DPS (US\$)	0.18	0.30	0.31	0.33	0.34
BVPS (US\$)	4.87	5.50	6.09	6.67	7.26

Source: Company, CMBIS

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