



Rating
Buy

Asia
Singapore

Banking / Finance
Other Financial Services

Company
BOC Aviation

Reuters	Bloomberg	Exchange	Ticker
2588.HK	2588 HK	HSI	2588

Date
16 October 2018

Company Update

Price at 15 Oct 2018 (HKD)	55.10
Price target - 12mth (HKD)	61.00
52-week range (HKD)	62.10 - 39.80
HANG SENG INDEX	25,445

3Q18 update - Sound operating trend despite delay of aircraft delivery; Buy

An outperformer this year with a defensive business & USD assets

BOC Aviation (BOCA) stock rose 33% YTD (vs. HSI down 15%), thanks to a highly visible business model with a diversified global footprint, continuing strong aircraft/air traffic demand, and 100% USD assets/revenue to hedge against RMB weakness (see report: [A defensive play amid market turbulence](#)). We met management today for a company update. Despite the recent stock pullback with concerns around expansion slowdown in 3Q18 (6 aircraft deliveries this year deferred into 1H19), management is still pushing for a US\$4bn full year Capex target and expects 2019 to be a record year in terms of aircraft deliveries. The stock is trading at 1.2x 2018E P/B vs 15% ROE and ~5% dividend yield. Buy rating maintained.

3Q18 operating data highlights & management meeting takeaways

- Aircraft fleet number (down 1 qoq):** Total owned fleet was 294, down 1 from 2Q18 with 8 deliveries and 9 aircraft sales during the third quarter. See Figure 1.
- Aircraft delivery pipeline (16 in 4Q18) and Capex:** 52 total deliveries scheduled in 2018 so far (36 delivered) with 6 scheduled earlier deferring into 1H19 due to ongoing engine supply issues. This posts downside risks to US\$4bn full year Capex target (vs. US\$3.5bn committed Capex as of 2Q18 for 58 deliveries and this number has been reduced in 3Q18 from our understanding). Anyway, management still looks for double digit aircraft NBV growth for the full year, and expects 72 total deliveries in 2019, being a record year in company history (71 in 2016).
- PLB deals (no additions in 3Q18):** We have not seen new purchase-and-lease back (PLB) deals added for 2H18 so far and management explained airlines usually look for PLB agreements 12-18 months beforehand (BOCA added PLBs for 2019). Management does see PLB deals and overall leasing demand to increase in a rate hike/tightening cycle and a higher oil price may trigger early retirement of less oil efficient aircraft models (i.e. more replacement demand).
- Widebody exposure remained healthy** and management sees weakness in older widebody aircraft models for which it does not have any on balance sheet.
- Net lease yield:** management is confident to maintain a stable net yield (8.5% in 1H18) with a strong funding advantage and abilities to pass

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-8.3	13.6	30.3
HANG SENG INDEX	-6.7	-10.8	-10.6

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	14.6
Price/book (x)	1.2
Net int margin (%)	8.49

Source: Deutsche Bank

16 October 2018
 Other Financial Services
 BOC Aviation



through a rate hike impact to airline customers. BOCA just did its largest unsecured syndicated loan of US\$750mn in October (size up from US \$500mn due to strong demand), with a floating rate spread narrowed from similar lending facilities 2 years ago.

- **Average aircraft age** remained young at 3.1 years with 8.2 years average remaining lease term. Aircraft utilization remained 100%.
- **Geographical exposure** is limited to India, Turkey and other weak currency EM countries. In fact, for Turkish Airlines (top 10 customer of BOCA), it is a beneficiary of weakening local currency as most of its revenue is from International routes.
- **Leverage target and payout:** it still targets 3.5x-4.0x debt to equity leverage, up from 2.9x in 1H18. It commits to 35% annual payout ratio.

Forecasts and ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Net profit (USDm)	418.1	586.6	585.5	659.8	735.8
EPS (USD)	0.65	0.85	0.84	0.95	1.06
EPS growth	11.9	29.8	-0.2	12.7	11.5
PER (x)	7.8	6.2	8.3	7.4	6.6
Price/book (x)	1.0	1.0	1.2	1.1	1.0
DPS (net) (USD)	0.18	0.30	0.30	0.33	0.37
Yield (net) (%)	3.5	5.6	4.2	4.7	5.3
ROE (%)	14.4	16.3	14.6	15.0	15.2

Source: Deutsche Bank estimates, company data

16 October 2018

Other Financial Services

BOC Aviation



Figure 1: BOCA quarterly operational data

BOCA Operational Data	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18
Total fleet number (owned + managed)	297	302	318	321	324	320
Aircraft owned	261	268	287	291	295	294
- net increase	4	7	19	4	4	-1
Aircraft managed	36	34	31	30	29	26
Avg aircraft age (yr)	3.1	3.2	3.0	3.1	3.0	3.1
Avg remaining lease term (yr)	7.8	7.8	8.2	8.1	8.3	8.2
Order book	196	197	173	167	163	179
Aircraft delivered	18	9	28	12	15	9
- added onto own fleet	17	9	28	12	14	8
- acquired by customers	1	0	0	0	1	1
Aircraft sold in the period (owned)	13	2	9	8	10	9
No. of lease signed in the period	22	26	22	14	16	35
Aircraft utilization rate	99.9%	100.0%	99.8%	100.0%	100.0%	100.0%
No. of airline customer	75	76	80	82	88	89
No. of operating countries	34	33	33	33	35	34
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 (100% for 2018)	52 to be delivered in 2018 (100% for 2018) including 6 acquired by airline; another 6 will be deferred to 2019
Net aircraft book value breakdown by region						
Asia Pacific (ex China)	25.9%	26.4%	23.3%	23.1%	22.6%	23.6%
China (incl. HK, Macau and Taiwan)	30.7%	30.8%	30.3%	31.5%	29.0%	29.8%
Americas	13.9%	14.2%	13.1%	12.5%	11.1%	9.8%
Europe	25.3%	24.5%	24.2%	24.1%	24.6%	24.5%
Middle East & Africa	4.2%	4.1%	9.1%	8.8%	12.7%	12.3%
Total	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	130
Airbus A320NEO family	1	4	5	8	12	17
Airbus A330CEO family	12	11	12	12	12	12
Airbus A330NEO family	0	0	0	0	0	0
Airbus A350-900	0	0	2	2	6	6
Boeing 737NG family	91	94	99	105	106	100
Boeing 737 MAX	0	0	0	0	2	2
Boeing 777-300ER	21	21	23	23	21	21
Boeing 777-300	0	0	0	0	0	0
Boeing 787	1	1	1	1	1	1
Embraer E190 family	5	5	5	0	0	0
Freighters	4	4	5	5	5	5
Total	261	268	287	291	295	294
Narrowbody %	85%	86%	85%	85%	85%	85%
A320/B737 %	84%	84%	83%	85%	85%	85%
Number of Aircraft on Order Breakdown						
Airbus A320CEO family	17	15	3	0	3	3
Airbus A320NEO family	65	62	61	58	58	69
Airbus A330CEO family	1	1	0	0	0	0
Airbus A330NEO family	2	2	2	2	2	10
Airbus A350-900	6	6	4	4	0	0
Boeing 737NG family	27	23	15	9	5	2
Boeing 737 MAX	74	84	84	84	82	82
Boeing 777-300ER	0	0	0	0	0	0
Boeing 777-300	0	0	0	0	0	0
Boeing 787	4	4	4	10	13	13
Freighters	0	0	0	0	0	0
Total	196	197	173	167	163	179
Narrowbody %	93%	93%	94%	90%	91%	87%

Source: Deutsche Bank, company data

16 October 2018

Other Financial Services
BOC Aviation



Model updated: 15 August 2018

Running the numbers

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Other Financial Services

BOC Aviation

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Bloomberg: 2588 HK

Buy

Price (15 Oct 18) HKD 55.10

Target Price HKD 61.00

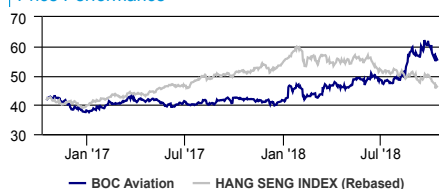
52 Week range HKD 39.80 - 62.10

Market cap (m) HKDm 38,240
USDm 4,879.6

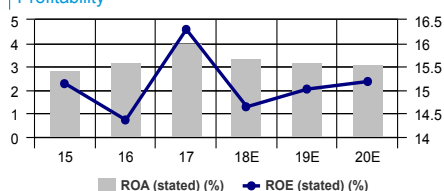
Company Profile

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 contracts.

Price Performance



Profitability



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Fiscal year end 31-Dec

Data Per Share

	2015	2016	2017	2018E	2019E	2020E
EPS (stated) (USD)	0.58	0.65	0.85	0.84	0.95	1.06
EPS FD (stated) (USD)	0.58	0.65	0.85	0.84	0.95	1.06
EPS FD (DB adj.) (USD)	0.58	0.65	0.71	0.84	0.95	1.06
Growth rate - EPS (stated) (%)	11.26	11.91	29.80	-0.19	12.69	11.51
DPS (USD)	0.00	0.18	0.30	0.30	0.33	0.37
BVPS (stated) (USD)	4.14	4.87	5.50	6.02	6.64	7.33
BVPS (DB adj.) (USD)	4.14	4.87	5.50	6.02	6.64	7.33
Average market cap	0	3,539	3,640	4,880	4,880	4,880
Shares in Issue (m)	590	694	694	694	694	694

Valuation Ratios & Profitability Measures

	2015	2016	2017	2018E	2019E	2020E
P/E (stated)	na	7.8	6.2	8.3	7.4	6.6
P/E FD (stated)	na	7.8	6.2	8.3	7.4	6.6
P/E FD (DB adj.)	na	7.8	7.4	8.3	7.4	6.6
P/B (stated)	na	1.0	1.0	1.2	1.1	1.0
P/B (DB adj.)	na	1.0	1.0	1.2	1.1	1.0
ROE (stated.) (%)	15.1	14.4	16.3	14.6	15.0	15.2
ROA (adj.) (%)	2.9	3.2	4.0	3.3	3.2	3.1
Dividend yield(%)	na	3.5	5.6	4.2	4.7	5.3
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)

	2015	2016	2017	2018E	2019E	2020E
Net interest revenue	807	833	1,024	1,252	1,479	1,714
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	1,362	1,578	1,806
Total operating costs	477	499	579	707	840	984
Pre-provision profit/(loss)	445	479	562	656	738	823
Bad debt expense	44	5	11	5	5	5
Operating Profit	401	474	551	651	733	818
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	651	733	818
Tax	58	56	67	65	73	82
Minorities	0	0	0	0	0	0
Preference dividends	0	0	0	0	0	0
Stated net profit	343	418	587	586	660	736
DB adj. core earnings	343	418	495	586	660	736

Key Balance Sheet Items (USDm) & Capital Ratios

	2015	2016	2017	2018E	2019E	2020E
Risk-weighted assets	0	0	0	0	0	0
Interest-earning assets	9,476	10,437	13,428	16,087	18,908	21,594
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	4,178	4,607	5,085
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

	2015	2016	2017	2018E	2019E	2020E
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

	2015	2016	2017	2018E	2019E	2020E
Growth in net interest income (%)	2.6	3.2	23.0	22.3	18.1	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	19.4	15.8	14.5
Growth in costs (%)	3.2	4.6	16.2	22.0	18.8	17.1
Pre-provision earnings growth (%)	18.5	7.5	17.4	16.7	12.6	11.4
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	8.5	8.5	8.5
Cost income ratio (%)	51.7	51.0	50.8	51.9	53.2	54.5
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

16 October 2018

Other Financial Services

BOC Aviation



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
BOC Aviation	2588.HK	55.10 (HKD) 15 Oct 2018	7, 14

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

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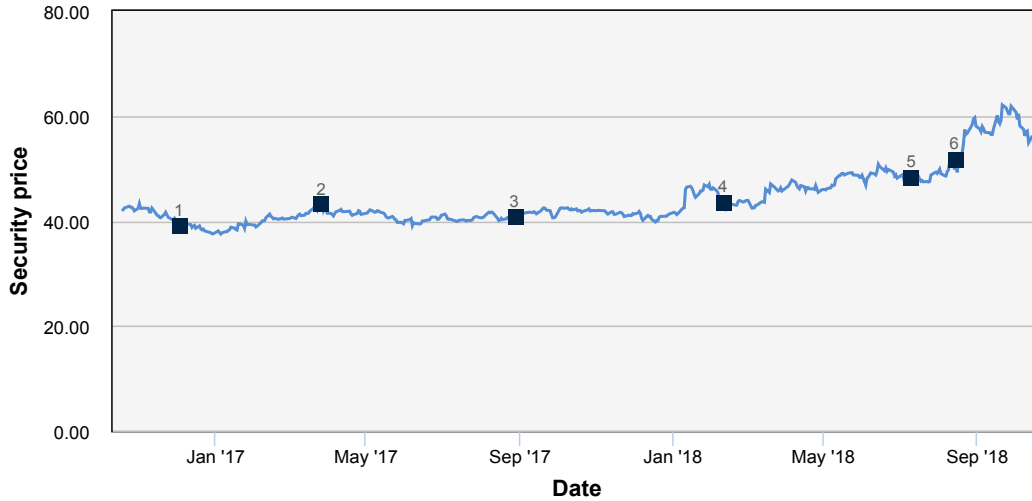
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The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Jacky Zuo



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

(as of 10/15/2018)



Current Recommendations

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

** Analyst is no longer at Deutsche Bank

1.	12/04/2016	Buy, Target Price Change HKD 48.50	Jacky Zuo, CFA	4.	02/11/2018	Buy, Target Price Change HKD 53.50	Jacky Zuo, CFA
2.	03/27/2017	Buy, Target Price Change HKD 48.00	Jacky Zuo, CFA	5.	07/11/2018	Buy, Target Price Change HKD 57.50	Jacky Zuo, CFA
3.	08/29/2017	Buy, Target Price Change HKD 49.00	Jacky Zuo, CFA	6.	08/15/2018	Buy, Target Price Change HKD 61.00	Jacky Zuo, CFA

Equity Rating Key

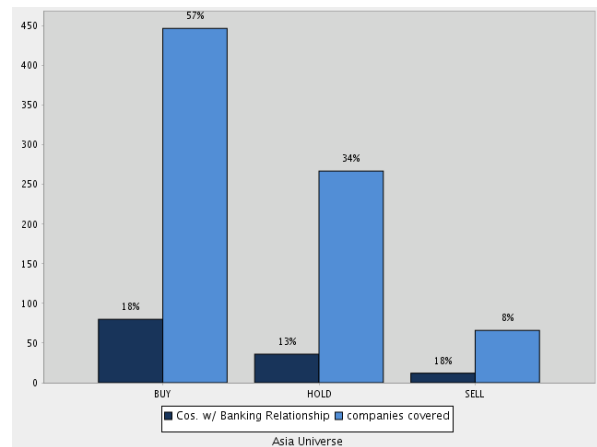
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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Equity rating dispersion and banking relationships



16 October 2018

Other Financial Services

BOC Aviation



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16 October 2018
Other Financial Services
BOC Aviation



Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor who is long fixed-rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or liquidation of positions), and settlement issues related to local clearing houses are also important risk factors. The sensitivity of fixed-income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. The index fixings may – by construction – lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. Funding in a currency that differs from the currency in which coupons are denominated carries FX risk. Options on swaps (swaptions) the risks typical to options in addition to the risks related to rates movements.

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16 October 2018

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16 October 2018
Other Financial Services
BOC Aviation



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