

# BOC Aviation (2588.HK)

## Leader of Regional Aircraft Leasing Business

Hong Kong | Aviation | Company report

19 MAY 2016

### Leader of Regional Aircraft Leasing Business

As of the end of 2015, BOC Aviation was the largest aircraft leasing operator in Asia-Pacific as well as the fifth largest aircraft leasing operator around the world (as measured by owned aircraft). The company owns a new, fuel-efficient and on-demand fleet that encompasses 270 aircraft, among which 227 were owned by the company and 43 by third party under the company's custody. These aircraft have been leased out to 62 airlines in 30 countries.

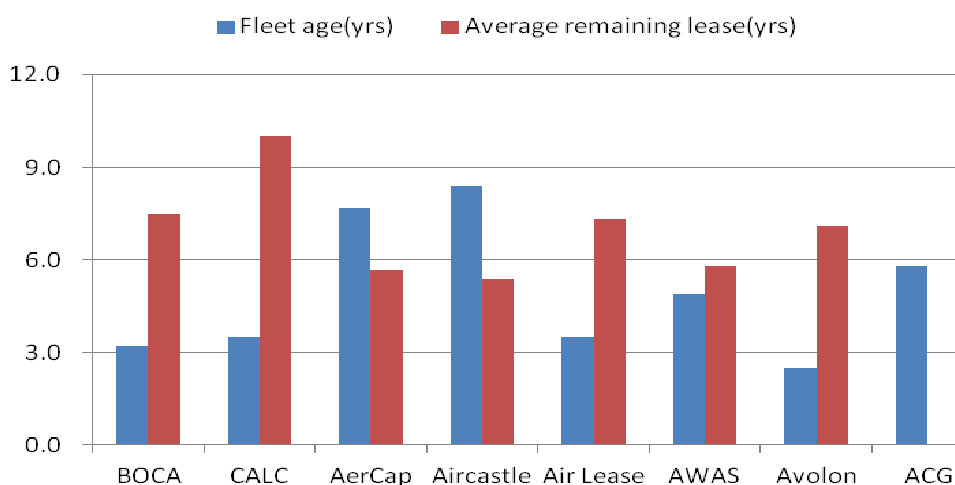
#### Top Five Asia-Pacific Based Operating Lessors by Fleet Size (as at 31 Dec 2015)

Lessor	Rank	Single-Aisle Fleet	Twin-Aisle Fleet	Firm Order Backlog	Fleet Total(Including Backlog)	Fleet Value(\$m; excludng Backlog)	ASP(\$m)
BOC Aviation	1	225	45	241	511	9943	36.83
Avolon Aerospace Leasing Lim	2	190	39	136	365	8473	37.00
ICBC Leasing Co	3	174	25	50	249	7287	36.62
China Aircraft Leasing Limited	4	59	4	107	170	2111	33.51
CDB Leasing Company	5	119	32	0	151	5289	35.03

Source: Company report, Phillip Securities (HK) Research

Additionally, the company's portfolio of owned aircraft has an average age of 3.3 years, making it one of the youngest in the aircraft leasing industry. The average remaining lease term on the owned portfolio was 7.4 years and it is therefore one of the operators with the longest average lease term in the industry.

#### Average Remaining Lease term of the Selected Aircraft Operating Lessors as at 31 Dec 2014



Source: Company report, Phillip Securities (HK) Research

### Subscribe

CMP: HKD 42.00

(Closing price as at 18 May 2016)

TARGET: N/A

#### COMPANY DATA

O/S SHARES (MN) :	694
MARKET CAP (HKDMN) :	29,148
52 - WK HI/LO (HKD):	-

#### SHARE HOLDING PATTERN, %

BOC :	70
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#### PRICE PERFORMANCE, %

	1M	3M	1Y
BOC Aviation	-	-	-
HSI	-	-	-

#### KEY FINANCIALS

US\$ mn	FY12	FY13	FY14	FY15
Net Sales	-	919	988	1091
Net Profit	-	277	309	343
EPS, US\$	-	0.47	0.52	0.58
PER, x	-	11.5	10.4	9.3
BVPS, US\$	-	3.26	3.54	4.12
P/BV, x	-	1.65	1.52	1.31
ROE, %	-	15.0	15.3	15.1
Debt/Equity	-	3.9	4.0	3.7

Source: Company reports, Phillip Securities Est.

Research Analyst

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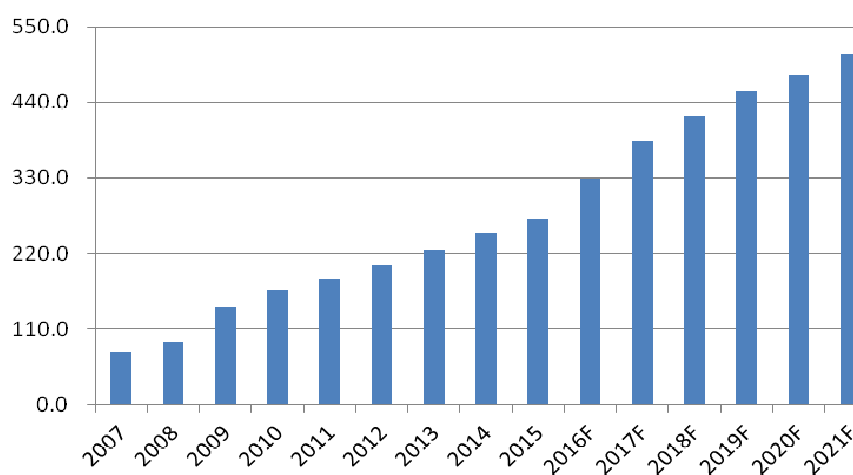
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## Optimistic Outlook of BOC Aviation

Thanks to the robust growth of the passenger volume and strong momentum of air travel (especially in Asia-Pacific), the outlook aircraft operating lease industry remains optimistic. Since 1990, the annual growth of passenger demand has been 1.5 times of the GDP growth rate. In addition, airlines tend to lease aircraft in recent years. Now, over 40% aircraft in the market was leased ones. During the past 30 years, the number of aircraft owned by operating lessors reported a compound annual growth rate of 11%, about twice as that of the commercial jet fleet in service. Moreover, it is forecasted that the industry will maintain a fast growth rate in the future.

With regard to BOC Aviation, the company also recorded a rapid growth rate. In 2015, the company's revenue was USD1.091 billion, a y-o-y increase of 10.4% and the net profit amounted to USD343 million, a y-o-y increase of 11.3%. At present, the company has 241 aircraft on order. Also, about 40 new aircraft will be put in to the leasing business every year in the future. Therefore, it is on the path of steady growth.

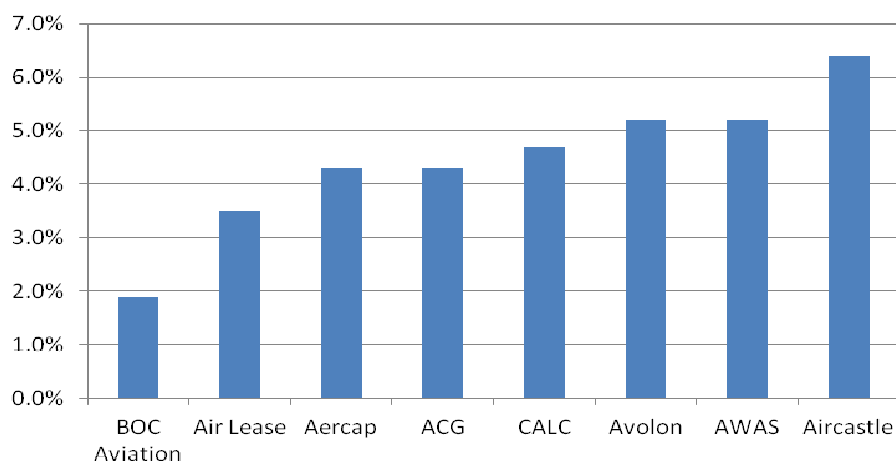
### Total craft of BOCA



Source: Phillip Securities (HK) Research

## Low Cost of Capital

Thanks to the generous support by the BOC, BOC Aviation enjoys a variety of financing channels. With the stable credit rating, it is granted Rating A- by both Standard & Poor's and Fitch Group. Hence, the company enjoys a comparatively low average cost of capital. In 2015, its cost of capital was only 2.0%, far lower than those of other companies, like the China Aircraft Leasing Group (CALC), whose cost of capital was around 4.7% in 2015. At the same time, the company's financial structure is more conservative, with only 3.7x Debt to equity ratio, far lower than that of CALC, which is nearly 10X. Based on the above-mentioned factors, the main cost including depreciation and interest of the company, which was merely 50.5%, is lower than those of its competitors, as 54.55% of CALC. BOC Aviation is expected to maintain its edge in cost of capital.

**Interest cost/Average gross debt comparison**


Source: Company report, Phillip Securities (HK) Research

**Current Credit Ratings for Selected Aircraft Operating Lessors**

	BOCA	Aercap	Aircastle	Air Lease	AWAS	Avolon	ACG
Moody's	NA	Ba1	Ba1	NA	Ba3	NA	NA
Standard & Poor's	A-	BBB-	BB+	BBB-	BB+	NA	BBB-
Fitch	A-	BB+	NA	NA	NA	NA	BBB-

Source: Company report, Phillip Securities (HK) Research

**Recommend Subscribing due to Prominent Advantages**

In general, BOC Aviation has significant advantages in its business scale. In combination of its promising and steady growth, the low cost of capital and the stable financial structure, it shows sharp competitive edge. The offered price is HKD42 per share, with the PBR of about 1.1X, which was lower than that of the CALC, more than 2X. Therefore, we regard it worth subscribing.

**Peer comparison**

Ticker	Name	P/E	P/B	ROE(%)	Dvd Yld(%)
1848 HK Equity	CHINA AIRCRAFT LEASING GROUP	12.15	2.14	19.25	2.59
ALAFCO KK Equity	AVIATION LEASE AND FINANCE C	10.41	0.76	7.71	2.45
683721Z US Equity	AWAS AVIATION CAPITAL LTD	9.23	0.92	7.59	2.55
AER US Equity	AERCAP HOLDINGS NV	6.65	0.87	13.65	-
AL US Equity	AIR LEASE CORP	10.29	0.96	10.47	0.62
AYR US Equity	AIRCASTLE LTD	-	-	-2.46	-
2588 HK Equity	BOC AVIATION LTD	9.30	1.07	15.10	0.00

Source: Bloomberg, Phillip Securities (HK) Research

**Risks**

The company fails to maintain its advantage of low cost of capital;  
 The market price or lease rate of aircraft decreases;  
 Aviation accidents happen and cost of fuel increases dramatically, etc.;;  
 The USD interest rate increases significantly.

## Financials

Periodicity:	2013	2014	2015
<b>Valuation Ratios</b>			
Price Earnings	11.5x	10.4x	9.3x
Price to Book	1.65	1.52	1.31
Dividend Yield	3.6%	4.4%	0.0%
<b>Per share data(US\$)</b>			
EPS Adjusted	0.47	0.52	0.58
Book Value Per Share	3.26	3.54	4.12
DPS	0.19	0.24	0.00
<b>Growth &amp; Margin</b>			
Revenue growth	-	7.5%	10.4%
Pretax profit growth	-	13.5%	13.6%
Net profit growth	-	11.6%	11.0%
<b>Key ratios</b>			
Return on Assets	2.9%	2.9%	2.9%
Return on Equity	15.0%	15.3%	15.1%
Debt-to-equity	3.9	4.0	3.7
Effective Tax Rate	10.9%	12.5%	14.5%
<b>Income Statement(US\$: mn)</b>			
<b>Revenue and other income</b>	919	988	1,091
- Lease Rental Income	804	937	975
- Interest and Fee Income	28	12	40
<b>Costs and expenses</b>	608	636	689
- Depreciation of plant and equipment	336	381	382
- Finance expenses	136	151	169
- Staff costs	41	51	59
- Impairment of aircraft	43	23	44
<b>Pretax Income</b>	311	353	401
- Income Tax Expense	34	44	58
<b>Net Profit</b>	277	309	343

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 18 May 2016)

**PHILLIP RESEARCH STOCK SELECTION SYSTEMS**

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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