

BOC Aviation (2588.HK)

Satisfactory operation performance in third quarter

Hong Kong | Transportation | Company Report

27 November 2018

Investment Summary

BOC aviation (BOCA) is a leading global aircraft operating leasing company in Asia, currently with a portfolio of 294 owned and 26 managed aircrafts. We remain an “Accumulate” rating based on a Price-to-book ratio vs. Return on Equity method, deriving a target price of HK\$70.5, 18.5% potential upside. (Closing price at 23 November 2018)

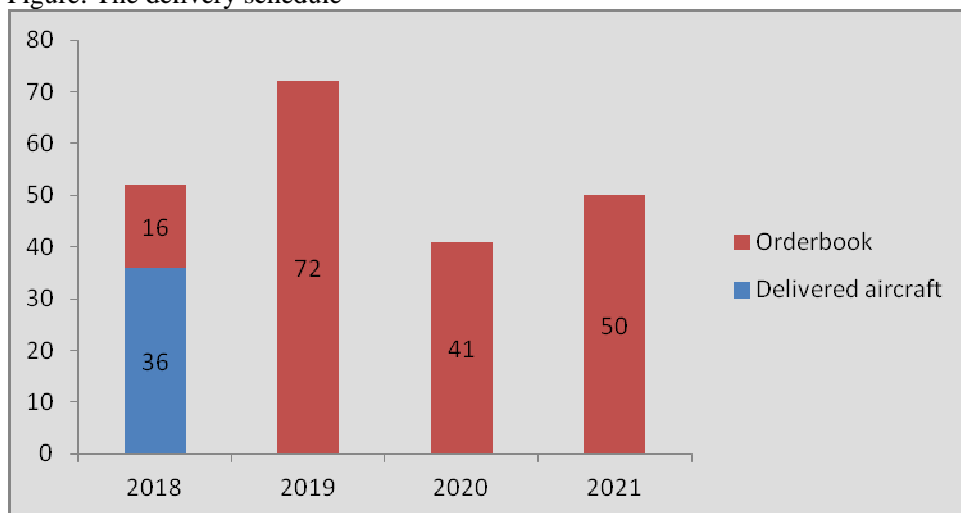
Aircraft fleet

The total fleet of owned aircraft in 3Q18 was 294, dropped by 1 compared to 1H18. That of managed aircrafts was also down by 3 to 26, while the aircraft on order increased by 16 to 179, resulting in an increase in the total fleet of aircrafts of 12 to 499. BOCA sold 12 aircrafts in 3Q18, where 9 are owned and 3 are managed.

Aircraft delivery

In 3Q18, BOCA has delivered 9 aircrafts, where they delivered their first A321 NEO aircraft in August 2018. Meanwhile, it added three new airline customers to its customer portfolio. The Group expects there will be 16 aircrafts to be delivered in 4Q18, making a total delivery of 52 aircrafts in 2018. The delivery was six less than expected in 1H18, because of the manufacturer production delays. And, BOCA expects the problem takes 2-5 months to be resolved, meaning those have been deferred to 2019. However, the management believes there will be no significant influence in the 2018 bottom line, because a delay in the delivery will not bring any penalties. Meanwhile, BOCA has signed 35 lease commitments in 3Q18, further securing the portfolio utilization in the future.

Figure: The delivery schedule



Source: Company report, Phillip Securities (HK) Ltd.

Accumulate

CMP HKD 59.50

(Closing price at 23 Nov 2018)

TARGET HKD 70.50 (+18.5%)

COMPANY DATA

O/S SHARES (MN)	:	694
MARKET CAP (HKDMN)	:	41,294
52 - WK HI/LO (HKD):		39.8 / 64.2

SHARE HOLDING PATTERN, %

Bank of China	70.00
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PRICE PERFORMANCE, %

	1M	3M	1Y
BOC Aviation	8.18	4.94	45.48
HSI	-3.60	9.04	15.19

RETURN VS. HSI



Source: Aastocks, Phillip Securities (HK) Research

KEY FINANCIALS

USD mn	FY16	FY17	FY18E	FY19E
Revenue	1,193	1,401	1,628	1,890
Net Profit	418	587	549	639
EPS, USD	0.602	0.845	0.791	0.920
PER, x	12.66	9.02	9.65	8.29
BVPS, USD	4.87	5.50	6.02	6.63
P/BV, x	1.57	1.39	1.27	1.15
ROE, %	14.4	16.3	13.7	14.6

Source: Company reports, Phillip Securities Est.

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PLB deals

There was no additional Purchase and lease back (PLB) deals in 3Q18, as the management claimed that airlines usually seek for PLB 12-18 months earlier before the aircraft delivery, implying that the PLB agreed now will be reflected in 2019.

Capex and Aircraft NBV

BOCA sees an increase of USD 2.5 billion in aircraft NBV, expecting a capex of USD 4 billion in 2018 and an offset of USD 0.5 billion in depreciation and 1 billion in aircraft disposal. Meanwhile, the capex will peak in 2019, and drop in 2020.

Average aircraft age and lease term

Based on the weighted net book value of owned fleet, the average fleet age rose by 0.1 to 3.1 years, and the average lease term dropped by 0.1 to 8.2 years.

Leverage target & proportion and dividend payout

BOCA still remains its target on leverage ratio to be 3.5x-4.0x, and continue to increase in the proportion of fixed rate loan, as it expects more fixed rate term coming up. Moreover, the Group has signed a single tranche unsecured term loan facility of USD 750 million in October 2018. Besides, it will cling to 35% annual payout ratio.

Figure: Order book (as of 31 August 2018)

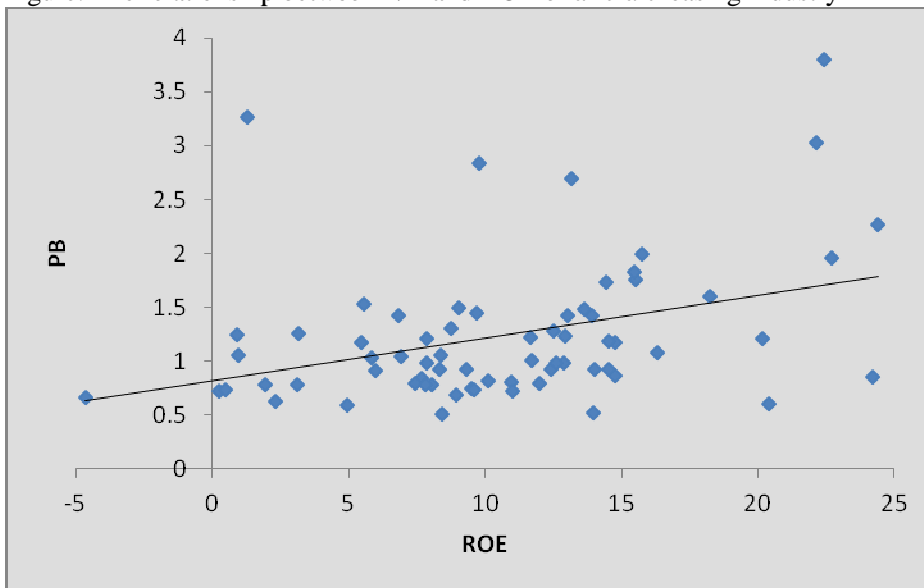
Aircraft Type	Owned Aircraft	Managed Aircraft	Aircraft on Order	Total
Airbus A320CEO family	130	9	3	142
Airbus A320NEO family	17	0	69	86
Airbus A330CEO family	12	6	0	18
Airbus A330NEO family	0	0	10	10
Airbus A350 family	6	0	0	6
Boeing 737NG family	100	8	2	110
Boeing 737 MAX family	2	0	82	84
Boeing 777-300ER	21	1	0	22
Boeing 777-300	0	1	0	1
Boeing 787 family	1	0	13	14
Freighters	5	1	0	6
Total	294	26	179	499

Source: Company report, Phillip Securities (HK) Ltd.

Valuation

We see the 3Q18 performance generally in line with our forecast, so we remain our target price to be HK\$70.5 based on the NAV in 2019F, implying P/B 1.50x/1.36x/1.25x in 2018/19/20F respectively and maintain an “accumulate” rating. (HKD/USD: 7.8)

Figure: The relationship between P/B and ROE of aircraft leasing industry*



Source: Bloomberg, Phillip Securities (HK) Ltd.

* Date from AerCap (AER.US), Air Lease (AL.US), Airastle (AYR.US), China Aircraft Leasing Group (1848.HK), CDB Leasing (1606.HK), and etc.

Risk

1. Higher-than-expected increase in interest rate
2. The demand for traveling and aircrafts slow down
3. Delayed aircrafts deliveries
4. Depreciating value for aircrafts in secondary markets

Financials

FYE DEC	FY14	FY15	FY16	FY17	FY18F	FY19F
Valuation Ratios						
P/E (X), adj	17.16	15.42	12.66	9.02	9.65	8.29
P/B (X)	2.53	2.17	1.57	1.39	1.27	1.15
Dividend Yield (%)	N/A	N/A	2.4%	3.9%	3.6%	4.2%
Per share data (USD)						
EPS, (Basic)	0.445	0.495	0.602	0.845	0.791	0.920
EPS, (Diluted)	0.445	0.495	0.602	0.845	0.791	0.920
DPS (HKD)	N/A	N/A	0.180	0.296	0.277	0.322
BVPS	3.02	3.52	4.87	5.50	6.02	6.63
Growth & Margins (%)						
Grwoth						
Revenue	7.6%	10.3%	9.4%	17.4%	16.0%	16.3%
EBT	13.5%	13.8%	18.0%	16.3%	13.2%	16.4%
Net Income	11.4%	11.3%	21.8%	40.3%	-6.4%	16.4%
Margins						
EBT margin	37.7%	41.2%	45.2%	42.9%	40.7%	40.8%
Net Profit Margin	32.9%	35.2%	39.9%	45.7%	35.8%	35.9%
Key Ratios						
ROA	2.9%	2.9%	3.2%	4.0%	3.2%	3.3%
ROE	15.3%	15.1%	14.4%	16.3%	13.7%	14.6%
Income statement (USD mn)						
Revenue	988	1,091	1,193	1,401	1,625	1,890
Lease rental income	937	975	1,048	1,284	1,531	1,780
Interest and fee income	12	40	48	30	31	33
Net gain on sale of aircraft	30	70	91	78	58	72
Others	10	5	6	10	5	5
Expense	636	689	719	850	1,001	1,164
Depreciation	381	382	378	460	533	611
Interest expense	151	169	216	260	331	405
SG&A	66	76	102	98	105	114
Others	38	62	24	32	33	34
EBT	353	401	474	551	624	726
Net profit	309	343	418	587	549	639

Source: Company, Phillip Securities (HK) Research
 (Financial figures as at 23 November 2018)

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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