

# BOC Aviation (2588.HK)

## 2018 result beat expectations; concerning 737 MAX issue

Hong Kong | Finance | Company Report

31 July 2019

### Investment Summary

BOC aviation (BOCA) is a leading global aircraft operating leasing company in Asia, currently with a portfolio of 310 owned and 25 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\$74.8, 10.5% potential upside. (Closing price at 29 July 2019)

### 2018 result beat our expectations

BOCA reported its 2018 result with revenue of US\$1725.5mn, up by 23.2%. The net profit reached US\$620.4mn, increased by 5.8%. The increase in profit was lower than that in revenue, due to its positive tax effective rate. The revenue/net profit beat our estimate about 6.2%/13%, due mainly to the strong growth in interest and fee income and net gain on sale on aircraft. The lease rate factor in 2018 was 10.8%, 0.1% higher than our expectation and cost of funds was 3.3%, 0.4% higher than estimate, due to the rising share of fixed rate debt, making the net lease yield dropping to 8.3%, 0.1% lower than estimate. The total number of aircraft delivered or scheduled to be delivered in 2019 is 79.

BOCA released the operating performance in 1Q19. The aircraft owned, managed and on order was 310, 25 and 172, in total of 507. The average aircraft age and average remaining lease term was 3.1 /8.2 years respectively. As of the first quarter, there are 11 aircraft to be delivered and signed 7 lease commitments, with aircraft utilization rate at 99.9%.

### 737 MAX issue

The 737 MAX only accounts for 1.9% of its owned aircraft, and BOCA could still receive rental income even though it were suspended for flight. As a result, there is no significant impact on the current aircraft fleet. However, there are still 87 to be delivered in the next few years. If the issue remains, it may delay or even cancel the remaining deliveries, slowing the growth in lease rental income.

### Capex and Aircraft NBV

BOCA stated that the committed Capex from 2019 to 2021 was US\$9.217bn. We expect the committed Capex in 2019 should be US\$3.0-3.5bn. Due to 737 Max issue, we believe the committed Capex in 2019 could be 2.5-3.0bn. Historically, it will have a US\$1-1.5bn additional Capex, implying a total Capex of US\$4.0-4.5bn. We expect the aircraft NBV will boost by around US\$2.0-2.5bn after considering an aircraft disposal of around US\$1.4bn and depreciation of around US\$0.6bn.

### Accumulate

CMP HKD 67.70

(Closing price at 29 Jul 2019)

TARGET HKD 74.80 (+10.5%)

#### COMPANY DATA

O/S SHARES (MN) :	694
MARKET CAP (HKDMN) :	46,984
52 - WK HI/LO (HKD):	48.15 / 70.4

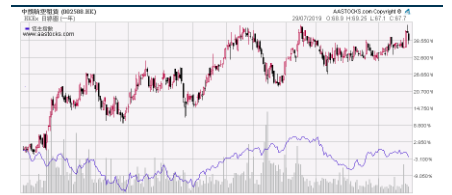
#### SHARE HOLDING PATTERN • %

Bank of China	70.00
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#### PRICE PERFORMANCE • %

	1M	3M	1Y
BOC Aviation	3.2	0.0	37.32
HSI	0.75	-3.90	-1.81

#### RETURN VS. HSI



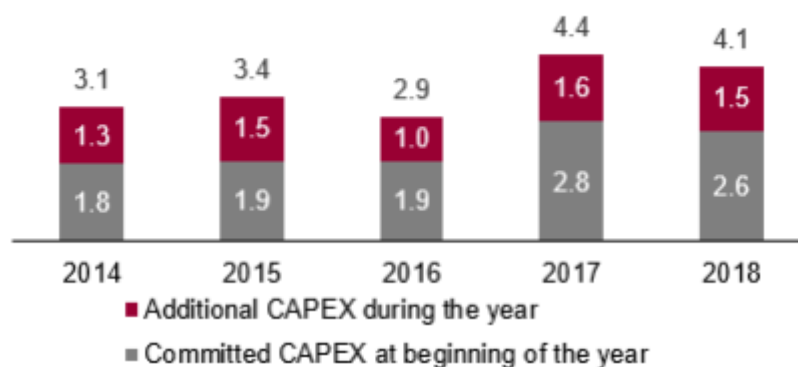
Source: Aastocks, Phillip Securities (HK) Research

#### KEY FINANCIALS

USD mn	FY16	FY17	FY18E	FY19E
Revenue	1,401	1,726	1,956	2,199
Net Profit	587	620	687	756
EPS, USD	0.845	0.894	0.990	1.089
PER, x	10.27	9.71	8.77	7.97
BVPS, USD	5.50	6.05	6.70	7.41
P/BV, x	1.58	1.43	1.29	1.17
ROE, %	16.3	15.5	15.5	15.4

Source: Company reports, Phillip Securities Est.

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Figure: Capex  
 US\$ billion


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

Figure: Order book (as of 31 March 2019)

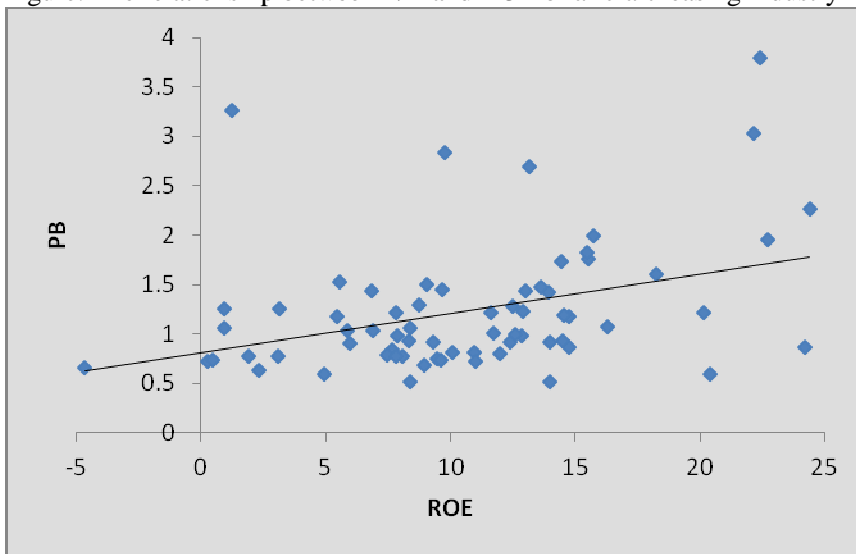
Aircraft Type	Owned Aircraft	Managed Aircraft	Aircraft on Order	Total
Airbus A320CEO family	129	8	0	137
Airbus A320NEO family	29	0	56	85
Airbus A330CEO family	12	4	0	16
Airbus A330NEO family	0	0	12	12
Airbus A350 family	6	0	2	8
Boeing 737NG family	98	8	2	108
Boeing 737 MAX family	6	0	87	93
Boeing 777-300ER	19	3	3	25
Boeing 777-300	0	1	0	1
Boeing 787 family	6	0	10	16
Freighters	5	1	0	6
<b>Total</b>	<b>310</b>	<b>25</b>	<b>172</b>	<b>507</b>

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

## Valuation

The result in 2018 beat the estimate and development goes well. Although the 737 MAX issue may adversely affect the growth in lease rental income in short term, we believe the competitive advantage of BOCA still remains in long term. We derived our target price to be HK\$74.8 based on the book value per share in 2019F, implying P/B 1.43/1.29x in 2019/20F respectively and maintain an “accumulate” rating, with 9.7% potential upside. (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), Aircastle (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	FY15	FY16	FY17	FY18	FY19F	FY20F
<b>Valuation Ratios</b>						
P/E (X), adj	17.55	14.41	10.27	9.71	8.77	7.97
P/B (X)	2.47	1.78	1.58	1.43	1.29	1.17
Dividend Yield (%)	N/A	2.1%	3.4%	3.6%	4.0%	4.4%
<b>Per share data (USD)</b>						
EPS, (Basic)	0.495	0.602	0.845	0.894	0.990	1.089
EPS, (Diluted)	0.495	0.602	0.845	0.894	0.990	1.089
DPS (HKD)	N/A	1.397	2.315	2.451	2.702	2.974
BVPS	3.52	4.87	5.50	6.05	6.70	7.41
<b>Growth &amp; Margins (%)</b>						
<b>Growth</b>						
Revenue	10.3%	9.4%	17.4%	23.2%	13.3%	12.4%
EBT	13.8%	18.0%	16.3%	24.3%	10.2%	10.0%
Net Income	11.3%	21.8%	40.3%	5.8%	10.7%	10.0%
<b>Margins</b>						
EBT margin	41.2%	45.2%	42.9%	44.4%	42.7%	41.0%
Net Profit Margin	35.2%	39.9%	45.7%	40.2%	38.9%	37.3%
<b>Key Ratios</b>						
ROA	2.9%	3.2%	4.0%	3.6%	3.5%	3.5%
ROE	15.1%	14.4%	16.3%	15.5%	15.5%	15.4%
<b>Income statement (USD mn)</b>						
Revenue	1,091	1,193	1,401	1,726	1,956	2,199
Lease rental income	975	1,048	1,284	1,543	1,767	2,027
Interest and fee income	40	48	30	81	89	98
Net gain on sale of aircraft	70	91	78	91	88	62
Others	5	6	10	11	12	12
Expense	689	719	850	1,040	1,201	1,368
Drepreciation	382	378	460	543	621	711
Interest expense	169	216	260	353	410	470
SG&A	76	102	98	121	134	149
Others	62	24	32	23	36	38
EBT	401	474	551	685	755	831
Net profit	343	418	587	620	687	756

Source: Company, Phillip Securities (HK) Research  
(Financial figures as at 29 July 2019)

**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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