Timothy Ross

Thank you operator and welcome everybody to BOC Aviation's earnings call to discuss our interim results for the six months ended 30 June 2017. With me today are our Managing Director and Chief Executive Officer, Robert Martin, our Deputy Managing Director and Chief Financial Officer Phang Thim Fatt and our Chief Operating Officer, David Walton.

Please note that some of the information you'll hear during our discussion today may consist of forward-looking statements, which are subject to risks and uncertainties that may cause actual results to differ materially from statements made today. You should not place undue reliance on any forward-looking statements and you should review our results announcement for full details. Please also note that all currency references are in USD only.

A copy of our earnings announcement is available both via the Hong Kong Stock Exchange and in the Investor's section of our website at www.bocaviation.com, and a conference call presentation is also available in the Investor section of our website. This call is being recorded and will be available for replay from our website within the next 24 hours as is a transcript of today's management presentation.

I'll now turn over the call to Robert Martin.

Robert Martin

Thanks, Tim and good evening to everyone on the line. Thank you for joining us for our 2017 interim earnings call.

Today we are presenting our second interim result since the IPO in June 2016 and have produced another record earnings, achieving the highest profit in any six month period in our company's history.

We are delighted to report a net profit after tax of $240 million for the first half of this year, up 13% on last year's first half and equivalent to earnings per share of 35 cents based on the number of shares outstanding at 30 June 2017. This was achieved on total revenues and other income of $670 million that rose 16% compared to the first half of last year.

In light of our strong performance our Board has decided to declare a dividend of 10.38 cents per share, compared with the 6.1 cents per share paid for 1H 2016 and which will be payable to shareholders who own shares on 25 September. This represents an increase in the pay-out ratio of the interim dividend to 30% of first half Net Profit After Tax, compared to 20% in 1H 2016. We are also delighted to report that our Board has changed our dividend policy to give the Board flexibility to increase the dividend pay-out to up to 35% of net profit after tax for the full year. These changes demonstrate the Board's confidence in the profit and cash flow generation of the business and the Board's commitment to deliver a combination of earnings growth and dividend yield to our shareholders.

We ended the first half with total assets of $14.4 billion, which reflected our sustained efforts to grow our balance sheet through investment in aircraft. Net book value of our fleet rose by 25% to US$12.1 billion compared with June 2016 and is up over 13% since the end of 2016. We funded this through a combination of retained earnings and increased leverage, which saw gross debt to equity rise to 2.7 times from 2.6 times at the end of last year.

Our cash and fixed deposits at the end of the period totalled over $330 million, down from $558 million at the end of last year as we deployed proceeds from our successful debt and equity capital raises into our delivery pipeline. We have additional committed liquidity of over $4 billion in undrawn and committed credit facilities. This positions the company well to fund both our contracted investments in aircraft and to finance further growth in the portfolio. During the period, S&P Global Ratings and Fitch Ratings both reaffirmed our industry leading corporate credit ratings of A minus and both rated our recent unsecured debt offering as A minus.

We are pleased to announce that we had another half-year with strong portfolio utilization, and we ended the period with zero overdue trade receivables. As at the half year, the average appraised value of our fleet was $13.7 billion dollars on a full life, current market value basis, representing a 13% premium to the fleet's net book value of $12.1 billion.

Our aircraft portfolio remains one of the youngest in the industry and the weighted average age of our owned portfolio is now 3.1 years, with no aircraft in the fleet older than 10 years.

Turning to the market backdrop, macro conditions remain supportive of the aircraft leasing industry. On the airline demand side, the industry continues to perform ahead of long run growth expectations, with air travel demand remaining robust. Airline passenger traffic as measured by IATA, rose 7.9% for the first six months - above the long term trend growth of 5%. This saw IATA lift its earnings estimates for 2017 for the airline industry in June by 5% to $31.4 billion. Geopolitical issues may have some short term effect on pockets of regional demand for air travel, however the fundamentally robust growth characteristics of our business are expected to remain unchanged. We have also seen a pick-up in freight activity over the past year, with IATA reporting freight traffic growth of 10.4% for its members during the first half of 2017.

We have a regular dialogue with our customers regarding their appetite for the most popular modern Airbus and Boeing models, and we are seeing good demand for both aircraft types. In the first half, we generated 56% of our lease revenues out of Asia-Pacific, reflecting the more rapid rates of air traffic growth in this region relative to more mature economies.

The Americas and Europe still accounted for around 16% and 23% of lease revenue, respectively and recent transactions with new and existing customers such as TAP, LatAm, Monarch and Air Europa underpin our confidence in our revenue growth in these regions

The availability of US Dollar liquidity remains high. This is partly driving the strong demand for purchases of aircraft with leases attached that we continue to see from aircraft investors. Growing demand has supported our aircraft sales programme as more new investors continue to enter the market. Greater liquidity is also good for the funding side of the business. Long-term interest rates remain low in a historical context and we took advantage of that in the first half of the year, closing a 5-year, $500 million bond deal at the lowest spreads above benchmark rates in our history.

We did see LIBOR rates move up for our floating rates leases in the six months to 30 June, with LIBOR movements flowing though both sides of our P&L. Our funding costs also increased, but because of our active liability management and hedging policy, there was no impact on our net lease yield. Net lease yield – which captures both the effects of rising interest rates and the revenue environment – remained at 8.5% in the first half of 2017, similar to last year's levels.

The supply of new aircraft to the market is tracking demand for both the narrowbodies that account for the majority of our fleet and the new technology widebodies. Supply chain issues are limiting production ramp up as pressures are evident in a number of areas of the manufacturer supply chain such as seats and engines.

Elsewhere, we have been actively investing in new technology aircraft. Additions to our fleet and next five years' delivery pipeline include A320 NEOs, A350s, A330NEOs, Boeing 787s and, recently, 10 Boeing 737 MAX 10s.

At management level, we are pleased to welcome Mr. Wang Jian, who succeeds Mr. Wang Genshan as Deputy Managing Director and Vice Chairman of the Board. The Board has also implemented a Long Term Incentive Scheme for management from 2017, where 50% of future long-term incentives are to be invested in BOC Aviation shares, which will be purchased by a trustee in the secondary market. These shares will vest after the third year following their grant. This will further increase alignment between our shareholders and our management team.

I'll now hand the call over to David to speak to our operations and business development and then Thim Fatt will take over for a more detailed review of our P&L and balance sheet.

David Walton

Thank you, Robert and let me add my thanks to you all for joining us this evening.

In the first half of 2017, we delivered 37 new aircraft from our orderbook to airline customers, including three where the customer exercised purchase options at delivery, giving us 34 new aircraft added to our owned portfolio. This compared with 21 new aircraft added to the owned portfolio in the first half of 2016.

Our core lease rental contribution, which is defined as lease revenue less finance expenses and depreciation and amortisation of debt issuance and lease transaction closing costs, continues to be the principal component of our pre-tax earnings. This rose over 18% in the first half of the year and represents a sustainable long-term income stream that recurs across the cycle, which is highly visible, given our remaining average lease life of nearly eight years - and which should grow in line with our balance sheet.

We have almost $15 bn in contracted future lease revenues. We are confident of collecting these based on strong airline cashflows.

During the first half, we extended our average remaining lease term to 7.8 years, we signed 55 leases with airline customers and have also placed all of our 2017 scheduled deliveries with airline customers. As of today, we have also placed over two-thirds of scheduled deliveries in 2018, providing us with a strong near-term pipeline of core lease rental contributions.

Turning to used aircraft, we have placed all remaining aircraft coming off lease in 2017.

We sold 19 aircraft from the owned fleet during the first half of 2017, compared to 22 aircraft sold in the first half of last year as we continue to improve the quality of our portfolio.

Gains on sale of aircraft accounted for close to 18% of pre-tax earnings – consistent with our long term average and ahead of last year’s 16%. We sell aircraft – generally with leases attached - across the cycle, although the volume of our transactions typically increases during such high periods of US dollar liquidity as we are seeing right now.

Our total fleet as at 30 June stood at 493 aircraft, comprising 261 owned and 36 managed aircraft and an orderbook of 196 aircraft delivering between now and end-2021. Since the end of June, we have committed to a further 10 737 MAX 10 aircraft for delivery in 2021. The second half of this year will be the most active in terms of orderbook deliveries in the company's history, with 41 aircraft scheduled for delivery into our owned portfolio and we continue to source good opportunities to further increase our aircraft investments.

With that, I'll turn it over to Thim Fatt.

Phang Thim Fatt

Thank you, David. Our reported net profit after tax of $240 million for the six months ended 30 June 2017 rose 13% compared to the same period last year.

The principal drivers of the growth in earnings were a 16% increase in total revenues and other income. This drove our core lease rental contributions up by 18% to $259 million, which net of costs represented 76% of net profit before tax.

Our lease rental income rose 18% compared to 1H 2016 as higher interest rates lifted our floating rate lease revenues and as new leases signed on higher fixed rates also contributed to the increase. This was partially offset by the reduction of rental from aircraft sold with leases attached.

Pre-tax gains on aircraft sales rose 28% from the same period last year, as we were active sellers of aircraft. Interest and fee-related income, which comprise 5% of our NPBT fell 45% compared to the same period last year, on account of a decline in fees for advancing aircraft progress payments and lower interest income on account of last year's high cash levels, reflecting proceeds from our IPO and debt offerings.

Depreciation was up 16.8% in 1H 2017 compared to 1H 2016, reflecting the growth in the size and value of our fleet.

Finance charges increased by $19 million driven primarily by an increase in LIBOR– the same LIBOR increase that positively impacted our floating rate lease revenue. Our long-term funding strategy, under which we increased the proportion of fixed rate debt during the first half, also contributed to the increase, lifting our average cost of funds to 2.8% in 1H 2017 from 2.3% in the same period last year.

Staff costs were largely flat and represented approximately 4.8% of our total revenues and other income in the first half of 2017, slightly down from 5.5% in 1H 2016. Flat headcount and changes to the accounting for management incentive plans offset the effect of annual salary adjustments.

Other operating costs increased 8% from 1H 2016 to $22 million, lower than the growth rate of our fleet and reflecting management efforts to reduce controllable costs. Our average tax rate fell to 10.6% in 1H 2017 from 11.4% in 1H 2016.

Our earnings per share was 35 cents per share for 1H 2017 increasing from 31 cents in 1H 2016 based on shares outstanding at 30 June in each year. Net assets per share, meanwhile, rose 5% to $5.10/share as at 30 June 2017 from $4.87/share as at the end of last year.

At the end of this half year, our total assets had increased 7% - or about $1 billion - to $14.4 billion from the end of 2016.

For the first half of the year we had capital expenditure of $2.1 billion related to our aircraft deliveries and as at 30 June we had committed capital expenditure of $1.9 bn for the second half of this year.

Our indebtedness also increased, rising 9% to $9.6 billion as at 30 June 2017 compared to end 2016, reflecting the borrowing activity including our successful $500 million bond raised under our GMTN program.

BOC Aviation's funding resources and balance sheet structure position it to both grow the business soundly in the prevailing operating climate and to capitalise upon any opportunistic investments that may arise in the future. Now back to Robert for his final comments.

Robert Martin

The first half of 2017 has been the most profitable and most active six months in our history and with 41 aircraft scheduled for delivery in the second half this promises to be equally as exciting. Our balance sheet strength and committed future revenue position us as never before and we look forward delivering another robust performance over the balance of this year. The 70% increase in first half dividend payment of $72 million compared with $42 million last year further demonstrates our confidence in BOC Aviation's earnings and cashflow power.

This wraps up our review of the industry, our company's financials and our outlook and I'll pass the call back to Timothy.

Timothy Ross

Thanks, Robert. This concludes management's formal commentary. We now have time for Q&A and request that each participant restrict themselves to one question and one follow up, unless time permits for additional queries.

I'll now hand the call back to the operator for the Q&A session.