Timothy Ross

Thank you operator and welcome everybody to BOC Aviation's earnings call to discuss our final results for the year ended 31 December 2019. 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 in today's call are in USD only.

A copy of our earnings announcement is available both via the Hong Kong Stock Exchange and in the Investors' 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 for his comments.

Robert Martin

Thanks, Tim and good evening to everyone on the line. Thank you for joining us for our 2019 full year results earnings call.

We are delighted with the results that we present to you today, which represent earnings growth of 105% and net tangible assets growth of 88% over the last four years since 2015 – the year immediately prior to our IPO in June 2016.

We are pleased to report a net profit after tax of $702 million for 2019, up 13% on last year. This is our 15th year of consecutive record earnings. We generated double-digit growth in all three of our major revenue activities, validating the portfolio approach we take to our business and this helped to drive a post-tax return on equity for 2019 of 16%, above the long-term average of 15%. 2019's ROE was one of our best years ever.

Our total revenues and other income rose 15% compared to 2018, approaching $2 billion. We ended 2019 with total assets of $20 billion, which reflected our sustained efforts to grow our balance sheet through investment in aircraft. Net book value of our aircraft over the year grew by 12% to US$16.8 billion, with a weighted average remaining lease term of 8.4 years, which provides a stable base for future revenue growth.

Reflecting the strength of our financial performance in 2019, our Board has recommended declaring a final dividend of 21.53 cents per share, payable to shareholders of record on 4 June. This final dividend brings the total dividend for 2019 to 35.41 cents per share and represents a pay-out ratio for the full year of 35% of Net Profit after Tax. This is in line with the Board's policy of paying up to 35% of Net Profit after Tax to shareholders in the form of dividends. The full year dividend is equivalent to a dividend yield of 4.8%, based on our opening stock price at the beginning of 2019 vs. 3.5% for the Hang Seng Index.

During the year in review, both S&P Global Ratings and Fitch Ratings reaffirmed our industry-leading corporate credit ratings of A minus.

In terms of operating environment, the relatively benign market backdrop that prevailed for much of 2019 has changed so far in the first quarter of 2020. Airline passenger traffic as measured by IATA – the trade association for the world's airlines - rose 4.2% in 2019, below the long term trend rate of 5% for the first time in seven years as trade frictions and delays of aircraft deliveries impacted growth. The airline industry continued its recent run of profitability and IATA expects it to have generated around $26 billion in profits for 2019.

Travel demand in the airline sector has deteriorated since the start of the Lunar New Year travel period in January, as the impact of Covid-19 has made itself felt. While its effects were initially concentrated in Asia, it has recently become more global in its reach. As we enter this more challenging period for our customers, we would like to remind you of our positioning and strategy in such periods. First, we are a senior creditor of airlines and do not take equity positions in airlines. Second, we have a globally diversified portfolio of airline credits, third, we see times like this as opportunities to support our customers with well secured liquidity in the form of purchase and leasebacks and finally we have already placed all of our new aircraft delivering this year and we have no unplaced scheduled lease expiries.

We have been through similar crises over the last 26 years, such as 9/11, SARS, and the Global Financial Crisis, many of which have provided us with opportunities to deepen our customer relationships whilst providing good investment opportunities. Based on our experience, we expect to emerge even stronger from the current period of volatility.

Manufacturer production issues dominated headlines in 2019, with the grounding of the Boeing MAX programme affecting both airlines and lessors with MAX aircraft on order. We took delivery of only one of the 28 737 MAX aircraft scheduled for delivery to us in 2019. This was further exacerbated by Airbus A320NEO family delays that resulted in the postponement of five of our A320NEO aircraft from 2019 to 2020 and we expect continued new aircraft delivery delays throughout the current year. At present, we are only scheduled to take delivery of four Boeing MAX aircraft in the fourth quarter of 2020 and anticipate delays in the other MAX aircraft scheduled for delivery this year into 2021 and beyond.

As part of our company's ESG enhancements, the Board implemented a long term incentive plan for management in 2017, where 50% of long-term performance bonuses are used to purchase BOC Aviation shares in the secondary market. A total of 2.4 million shares have been purchased by a trustee in March and April of both 2018 and 2019 after the announcement of our full year results, and will vest after the third year following their grant. A third tranche will be purchased along similar lines this year, further strengthening management's alignment with shareholders.

At the beginning of January this year, we have welcomed Mdm. Zhang Xiaolu as Vice Chairman and Deputy Managing Director, following the retirement of Mr. Wang Jian. We also welcome Mr Deng Lei as Chief Commercial Officer (Asia Pacific and the Middle East) to the senior management team following the retirement of Mr. Gao Jinyue. We would like to thank Mr Wang and Mr Gao for their contributions to the Company. We also announced the forthcoming transition of our other Chief Commercial Officer, Mr. Steven Townend, into the Chief Financial Officer role from October 2020 to replace Thim Fatt who will retire in the fourth quarter of this year. This is in line with our succession plan and we are pleased to have such a diverse and global board and 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 all of you for joining us this evening.

In 2019, we delivered 54 new aircraft to airline customers from our orderbook, including 12 where the customer exercised purchase options at delivery, giving us 42 new aircraft added to our owned portfolio. Our total fleet stood at 523 aircraft at the end of 2019, comprising 317 owned and 40 managed aircraft and an orderbook of 166 aircraft. Our owned aircraft portfolio remains one of the youngest in the industry, at three years.

Some of the highlights of 2019 included:

- Signing a commitment to lease ten Airbus A320NEO aircraft to our existing customer Air China.
- Closing a purchase and lease transaction with our largest customer, Qatar Airways, for three Airbus A350-900s.

- Signing a financing arrangement with our existing customer, Azul Brazilian Airlines for 18 A320NEO family aircraft, scheduled for delivery in 2021-2023.
- The portfolio sale of 17 aircraft to the SLVRR-2019 ABS platform, which contributed to our bottom line in the second half of 2019.

We continue to actively invest in the latest generation aircraft. As at 11th March our orderbook of 205 aircraft is 100% latest technology, including 787, A330NEO, 737 MAX and A320NEO families of aircraft.

Our long-term lease contracts, which have a weighted average remaining lease term of 8.4 years, provides us with significant revenue visibility. As of today, our committed future rentals under these contracts total more than $18 billion.

Due to our active liability management and hedging policy, our net lease yield – which captures both the effects of interest rate fluctuations and the competitive lease rental environment – remained stable at 8.4% in 2019.

We had another year with robust portfolio utilization of 99.6%, and a collection rate of more than 96%. Over the past 12 years, we have averaged utilisation of 99.8% and collections of 99.5% - near perfect on both measures across industry cycles. To achieve this, we focus on good customer selection and we monitor our customers carefully, with a focus in particular on their cash flow.

In 1H 2020 we are receiving requests from customers for assistance as passenger demand and therefore airline revenue is affected by COVID 19. We are a long-term partner to our airline customers and will evaluate any such requests carefully, in light of their cashflow forecasts and in light of the support provided by other stakeholders. We will work with affected customers to find solutions, which we believe will likely involve partial deferrals of rent for three months or less with interest payable on overdue amounts or more purchase and leaseback transactions.

In this context I would like to remind everyone that we are the owner of the aircraft, a senior unsecured creditor of our airline customers and our operating lease contracts are well structured. We are paid rent monthly or quarterly in advance, we collect security deposits in the form of cash or letters of credit, and for many of our customers we collect security to provide protection against future major maintenance events.

At the same time we are also looking for opportunities to provide liquidity for our customers and to put good new business on our balance sheet. Since the beginning of 2020 we have added another 42 aircraft to our orderbook, comprising 20 A320NEO delivery positions, 10 of which we have already placed with an airline customer. We have also executed our largest ever purchase and lease transaction for 22 Boeing 787s, which are scheduled for delivery to American Airlines in 2020 and 2021.

These transactions illustrate the strength of our global customer reach. It also highlights the way our team continues to build good, long-term business on the strength of our capital structure and our available liquidity. Having over US$5 billion in available liquidity as at today's date and A- credit ratings positions us well to work with our global customer base and execute new investment opportunities.

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

Phang Thim Fatt

Thank you, David. Our post tax earnings per share was one dollar and one cent per share, up 13% over 2018 EPS. Net assets per share, meanwhile, rose 9% to $6.60 in 2019.

Net Profit before Tax also rose by 13% to $775 million, driving a pre-tax ROE of 17.7%. The principal driver of the growth in earnings was a 15% increase in total revenues and other income. Our core lease rental contribution was $695 million, which - net of operating costs - represented 72% of net profit before tax.

Our lease rental income rose 11% compared to 2018 as we increased the size of our fleet, while retaining a stable lease rate factor. At the same time, depreciation increased 12% compared to 2018, rising at the same pace as investment in our fleet

We sold 28 aircraft from the owned fleet during 2019, compared to 34 aircraft sold in 2018 as we capitalised on robust investor demand for aircraft with leases attached.   Gains on aircraft sales were $134 million and accounted for 17% of pre-tax earnings.

Interest, fee-related and other income amounted to $137 million – almost 50% more than 2018 levels as we generated more fee income from pre-delivery payment financing. These activities comprised 11% of our Net Profit before Tax after deduction of associated interest expense.

Finance charges increased by $75 million, driven primarily by an increase in our borrowings as we invested in more aircraft. Our average cost of funds rose to 3.6% in 2019 from 3.3% in 2018.

Staff costs declined $12 million and represented approximately 4% of our total revenues and other income in 2019, below 2018 when staff costs represented 5.3% of our total revenues and other income.

During 2019 we recognised impairment costs related to financial assets of $25 million as compared with no charge the previous year. These related to trade receivables that were past due and in excess of security deposits held under the leases to which the payments related. Of the US$43 million total receivables, an amount of $33 million has since been collected or secured by additional collateral.

Other operating costs in 2019 were $59 million, 11% higher than 2018, but lower than the growth in our revenues. Our average tax rate was stable at 9.4%.

At the end of the year, our total assets had increased 8% - or around $2 billion - to $20 billion from the end of 2018.

We had capital expenditure of $3.2 billion in 2019 primarily related to our aircraft deliveries and pre-delivery payments. We now expect total capex of $11 billion between 2020 and 2024, of which $5 billion is expected in 2020.

Our indebtedness increased, rising 8% to $13.5 billion at the end of 2019, with our Gross Debt to Equity ending the year at 2.9:1. Capitalising on our own industry-leading ratings we identified investor demand to raise $3.9 billion in total debt during 2019. This borrowing activity included our successful bond offerings that raised $2.1 billion under our GMTN program, with the balance raised from our banking group of over 70 banks.

Now back to Robert for his final comments.

Robert Martin

2020 marks the start of our 27th year as a company and I would like to thank all of our team for achieving a 15th year of consecutive record profits. As a management team, we focus on the long term with an emphasis on long term sustainable earnings. We have continuously proved ourselves in the face of adversity during this period, producing profits in every year since our inception. While there are headwinds presented by Covid-19, we expect to capitalise on the superior structure of our balance sheet with low debt to equity, strong investment grade credit ratings and our access to liquidity with over $5 billion of cash and undrawn backstop credit lines at today’s date. Our business plan remains growth focused, our sights are set higher than 2019 and we have started in a manner that is consistent with our targets, adding a further US$2 billion in contracted future revenues so far in 2020.

This concludes our review of the industry, our company’s financials and our outlook and I’ll pass the call back to Tim.

Timothy Ross

Thanks, Robert. This wraps up 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 hand the call back now to the operator for the Q&A session.