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 2020. With me today are our Managing Director and Chief Executive Officer, Robert Martin, our Deputy Managing Director and Chief Financial Officer, Steven Townend and our Deputy Managing Director and 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 2020 full year results earnings call.

2020 was the most challenging year in our 27-year history and I must thank all of our colleagues for their hard work as we navigated it. The whole aviation industry had to rapidly adapt to a new environment when Covid arrived. This impacted airline customers, suppliers of aircraft and finance, and investors. It also affected their employees directly as most of the industry had to switch to work from home and undergo painful furloughs and cuts. Governments played a much larger role than ever before as they supported the airlines and supply chains to protect jobs. They also introduced new health and safety regulations including lockdowns to protect people and their health generally and imposed cross border entry and exit restrictions. These impacted our airline customers and the ability to deliver aircraft from manufacturers which pushed deliveries into the fourth quarter. The good news is that in 2021, we can now see the arrival of vaccines, intergovernmental initiatives on cross border health visas and signs that lockdown restrictions will gradually be lifted. The speed of all of this will depend upon individual governments and so it won't be uniform. Navigating through this will require careful research and identification of opportunities and risks and then acting with agility, as we did in 2020

Since establishment in 1993, we have built a company with resilience to weather storms such as this one by taking a long-term view and planning for downturns as part of our strategy. We were already planning for a downturn in 2020, but the magnitude of the first truly global downturn was greater than those previously. We took additional steps during the year to enhance our capabilities such as increasing the Bank of China debt facility and further diversifying our customer base. Over our history, we have committed to acquire 888 aircraft, have leased over 1,000 aircraft, raised over $34 billion in debt and sold over 370 aircraft.

In 2020, we passed the milestone of $2 billion in revenue for the first time and continued our 27-year record of unbroken profitability delivering a Net Profit After Tax of $510 million, equivalent to Earnings per Share of 73 cents. During 2020 we increased both our cashflow and our liquidity, while at the same time investing more in aircraft than at any time during our history, as we identified attractive long-term business opportunities to drive long term earnings and finished the year with $23.6 billion in assets. We ended the year with over $5 billion of cash and undrawn committed credit facilities that reflected a 13% growth in operating cashflow net of interest paid compared with 2019.

Our Board has recommended a full year dividend pay-out equivalent to 35% of our Net Profit after Tax, consistent with the last three years. The Board has recommended declaring a final dividend of

11.73 cents per share, payable to shareholders of record on 11 June, bringing the total dividend for 2020 to 25.71 cents per share. The full year dividend is equivalent to a dividend yield of 3%, based on our stock price at the beginning of 2020.

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

During the year we celebrated the delivery of our 300th Boeing aircraft and, just after year-end, our 400th Airbus aircraft.

While Covid dominated headlines in 2020, manufacturer production issues exerted a significant influence on our deliveries and revenues. Whilst the 737 MAX programme remained grounded for most of the year, I am pleased to inform that we have taken delivery of 18 737 MAX from Boeing since deliveries recommenced in fourth quarter 2020, all on purchase and leasebacks.

The progressive return to service of the 737 MAX from December sounded a positive note, with 73 aircraft having been delivered globally since the ungrounding order. Production, however, continues at low levels. We also face delivery delays from Airbus related to travel restrictions and production issues. All of this combined to slow our delivery stream in 2020 and into first quarter of 2021.

Our Chairman, Mr Sun Yu, stepped down at the end of 2020, moving to another senior role within the Bank of China Group. We would like to thank Mr Sun for his active stewardship whilst chairing our Board and we look forward to welcoming our new chairman shortly. During the year, Mr. Steven Townend assumed the Chief Financial Officer role In October, replacing Mr. Phang Thim Fatt who retired to whom we also extend our thanks and best wishes.

I'll now hand the call over to Steven who will take over for a more detailed review of our Profit and Loss, balance sheet and cashflow and then to David to speak to our operations and business development

With that, I'll turn it over to Steven.

Steven Townend

Thanks Robert.

In 2020, we delivered 54 new aircraft to airline customers from our orderbook, including one where the customer exercised a purchase option at delivery, equating to a net addition of 53 aircraft to our owned portfolio. Our total fleet stood at 553 aircraft at the end of 2020, comprising 358 owned and 40 managed aircraft and an orderbook of 155 aircraft. Our owned aircraft portfolio remains one of the youngest in the industry, with an average age of three and a half years.

This fleet growth enabled us to end 2020 with total assets increasing 19% to $23.6 billion. Net book value of our aircraft grew over the year by 12% to US$18.9 billion, with a weighted average remaining lease term of 8.6 years, which provides a solid base for future revenue growth.

Our total revenues and other income rose 4% year on year to $2.1 billion. Our lease rental income increased 5% compared to 2019 as we grew the size of our fleet. Our core lease rental contribution was $715 million, which - net of operating costs - represented 72% of net profit before tax and exceptional items. Our net lease yield – which captures both the effects of interest rate fluctuations and the competitive lease rental environment – declined to 7.9% in 2020 from 8.4% in 2019. However, this also reflected the late delivery of many of our aircraft that eventually delivered in fourth quarter; these contributed little revenue on account of their late arrival but were included in our aircraft net book value totals.

Interest, fees and other income amounted to $225 million – almost two-thirds more than 2019 levels as we generated more fee income from pre-delivery payment financing and booked first time contributions from six finance-leased aircraft. These activities comprised 21% of our Net Profit before Tax after deduction of associated interest expense.

Finance charges rose by only 6% or $27 million. Our borrowings rose as we invested in more aircraft, but this was partially offset by a decline in our average cost of funds, which fell to 3.2% in 2020 from 3.6% in 2019.

Staff costs dropped 15% in 2020 to $68 million on lower performance-related bonus payments and represented approximately 3% of our total revenues and other income. This was down from 2019 when staff costs represented around 4% of the same measure.

Profit before tax was US$563 million and net profit after tax was US$510 million, both of which declined 27% from 2019

The key reasons for this reduction in profitability were:

First, we recorded $109 million in aircraft impairments in 2020, focused mainly on widebody aircraft.

Second, we sold 12 aircraft from the owned fleet during 2020, compared to 28 aircraft sold in 2019 leading to a drop in net gain on aircraft sales to $44 million from $134 million in 2019. This reflected the lack of an ABS market last year – either for our own transaction as in 2019 or to support the buyers of our aircraft.

Third, we recognised impairment costs related to financial assets of $43 million, compared with $25 million 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.

And finally, we registered a $79 million loss on investment in equity instruments, which relates to the sale of all the Norwegian shares held by the Company prior to year-end. After taking into account the rental revenue income recognised for NAS of $56m, the net impact on profit before tax was a net loss of $23m in 2020. In the balance sheet, there is an additional $21m of deferred income to be recognised as income in the next 12 months and $25m thereafter.

Our average tax rate was stable at 9.4%.

We brought our financial gearing back to the level targeted following our IPO as our indebtedness increased by $3.3 billion to $16.8 billion at the end of 2020, with our Gross Debt to Equity ending the year at 3.5:1. We leveraged our industry-leading ratings of A- and robust investor demand to raise $5.5 billion in total debt during 2020. This borrowing activity included our successful bond offerings that raised a record $2.9 billion under our GMTN program, an increase in our revolving credit facility with Bank of China from $2 billion to $3.5 billion, with the balance raised from our more than 70-strong banking group. This investor support has continued into 2021 where we have already raised $500 million in five-year notes at the lowest coupon in our company's history.

With that I will now hand the call over to David to speak to our operations and business development

David Walton

Thank you, Steven.

In 2020, employee health and safety and business continuity were top priorities, with most of our employees in lock down for large parts of the year. Before the pandemic we already adopted a business continuity strategy based on remote working and online collaboration, and that turned out to be a wise decision heading into 2020 as everyone in the Company already had the IT equipment and training to work from home. We changed our way of working to enhance communication and collaboration during the year, for example, with every single department in the Company doing daily "check in" video calls, and with more all-company townhall meetings or business briefing sessions. I'm really proud of what our team accomplished last year. With all of our aircraft deliveries, leases signed, aircraft sold and transitions completed, we closed more than 165 aircraft transactions in 2020 – mostly working remotely.

From the outset of Covid, we began working with the manufacturers and our airline customers to resculpt our orderbook, as we pivoted to support our customers, switching investments from our own aircraft orders to purchase and lease backs. During the year we cancelled 52 aircraft orders, mostly scheduled for delivery in 2020-2022, deferred more than 30 deliveries into 2023 and beyond, and replaced this Capex with 77 purchase and leasebacks scheduled for delivery mainly in 2020 and 2021. These aircraft are all placed on long term leases with well-established airlines, have been paying 100% on time and provide a base for long-term, sustainable earnings going forward. Highlights included:

- The largest purchase and lease transaction in our history of 22 787 to be leased to American Airlines
- A purchase and leaseback with Southwest Airlines for 10 737 MAX aircraft
- A purchase and leaseback with United Airlines for 16 737 MAX and 6 787 aircraft.
- A purchase and lease back of six A321NEO aircraft with Wizz Air
- A purchase and lease back with IndiGo Airlines for four A321 NEO aircraft

We ended the year with a weighted average remaining lease term for our owned portfolio of 8.6 years, and with committed future lease rentals of nearly $19 billion.

In addition to providing liquidity to airlines through purchase and leaseback transactions, we developed solutions for our customers through payment deferral programmes, documenting 40 deferral agreements covering roughly half of the fleet. Deferred rent payments amounted to $104 million at the end of 2020, or around 2% of our total available liquidity. Our collection rate for 2020 was 94% and has averaged 99% over the last 13 years.

During 2020 we repossessed two aircraft in our owned portfolio from an airline in the Americas, and successfully put the aircraft back on lease to a customer in China, with one delivery in December and the other in the first few days of January 2021. As a reminder, we started 2020 with no scheduled lease expiries in the owned portfolio, which put us in a good position going into the downturn. For 2021, we have six scheduled lease expirations in the owned portfolio. Portfolio utilisation was unchanged in 2020 at 99.6%, close to our 13-year average of 99.8%.

Our management-level ESG Committee and the Board Risk Committee had an active year for environmental, social and governance development in 2020. We made a positive impact on our communities with corporate and employee donations to global and local organisations, including Airlink, a non-profit that connects pre-qualified charities and aviation logistics partners, transporting relief supplies in a crisis. Where social distancing permitted, our team also participated in food packing for a local charity called Food from the Heart and waterway clean-ups with Waterways Watch Society, both here in Singapore.

On the governance side, we stepped up our stakeholder engagement, with more than 1,300 investor and analyst calls and virtual meetings. We also surveyed our investors on ESG matters, reported the results to the Board, and we adjusted our efforts and our disclosures to address the comments we received. We surveyed our top suppliers for their ESG compliance, and that will now be an annual process going forward and will influence our procurement decisions.

We have a diverse group of colleagues, with women making up more than half of our employee base. Our senior management team is made up of three different nationalities and our Board also comprises a diverse group with a broad range of experience. We have two female Board directors, one of whom is the Vice Chairman.

Our business is run very efficiently, and we have a low direct carbon footprint, but we know we can still do more. Therefore, in 2020 we set goals to reduce absolute, direct carbon emissions, electricity consumption and waste production by 5-10% over the next three years and we are well on our way to exceeding those goals. We also became 100% carbon neutral for our direct emissions through offsets, purchasing carbon credits from two accredited projects, a wind farm in China and a reforestation project in Cambodia.

We are accelerating our digital transformation, both to reduce our carbon footprint and to make our business more agile and efficient. Projects in 2020 included a new lease contract management system with increased functionality and a mobile aircraft inspection app that allows us to upload information about the condition of our aircraft more quickly. The winner of our annual "innovation challenge" was a project to collect and use global aircraft operational information in our business, including the specific movements of aircraft in our portfolio, using satellite data, and we've already rolled that functionality out and are using the data regularly. During the year we invested more than US$2.5 million in digital transformation projects to make our business more efficient and more resilient.

Looking ahead, we are currently scheduled to deliver 68 aircraft to customers in 2021 and, as Robert mentioned, while we expect there to be some manufacturing delays, we also anticipate more purchase and leaseback opportunities. We're working to add good, additional balance sheet, and since the beginning of 2021 we've announced an eight A320NEO purchase and leaseback with Indigo Airlines.

Now back to Robert for his final comments.

Robert Martin

2020 presented our company, our industry and our colleagues with challenges of a scale never encountered before. The effects of Covid will last longer than originally anticipated and the unravelling of government restrictions will be uneven and take time. However, we have no unplaced new aircraft scheduled for delivery before 2023, only $1.8 billion of debt maturing in 2021 and retain over $5 billion in cash and undrawn committed credit lines, which position us well for 2021. The strategic and proactive management of our orderbook combined with high levels of liquidity mean that we are well positioned for the recovery when it comes. Finally, my thanks go to our stakeholders, directors and colleagues, whose diligence and flexibility have helped our company remain resilient and forward looking throughout these most demanding of times. With industry-leading credit ratings and substantial available liquidity, we are well positioned to build profitably on our current portfolio and earnings growth targets.

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.