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 2023. With me today are our Deputy Managing Director and Chief Financial Officer, Steven Townend, and our Chief Operating Officer, Tom Chandler.

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.

A copy of our earnings announcement is available both via the Hong Kong Stock Exchange and in the Investors' section of our website at 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 discussion.

I'll now turn over the call to Steven Townend for his comments.

Steven Townend

Thanks Tim, and good evening to everyone on the line. Thank you for joining us for our 2023 half year results earnings call, where a recovery in demand for leased aircraft underpinned a strong first half performance. Our Chief Executive Officer, Robert Martin, is currently enjoying a well-earned vacation after celebrating his 25th year as CEO and won't be joining us today.

We are delighted to report a net profit after tax of $262 million for the first half of 2023, equivalent to earnings per share of 38 cents. This compared with core net profit after tax of $206 million in 1H 2022, and a reported net loss after tax of $313 million, reflecting the Russia-related writedowns. Net assets per share at period-end were $7.72.

Our Board has declared an interim dividend of 11.31 cents per share, payable to shareholders of record on 29 September, an increase of 27% on the interim dividend paid for 2022 and is consistent with our practise of distributing 30% of net profit after tax for the first half. The Company's policy remains to make a total annual dividend payment of up to 35% of full year net profit after tax.

Adjusted for non-recurring lease termination income, our total revenues and other income rose 9% to more than $1.1 billion for the first half, which we ended with total assets at $22.9 billion as our fleet returned to growth.

Our collection rate remained over 100%, reflecting the continued recovery of airline customer payments from previous years, and this lifted our operating cash flow net of interest expense to a first half record of $721 million. We finished the half year with cash and undrawn committed liquidity of over $5.7 billion.

Looking at the industry more generally, the health of our airline customers has continued to improve, driven by growth in their passenger businesses and rising ticket prices. The International Air Transport Association recorded 47% growth in passenger traffic for the first six months of 2023 compared with the prior year.

On the back of better than anticipated traffic volumes, IATA doubled its net profit estimates in June for its member airlines to $9.8 billion from the $4.7 billion anticipated at the end of 2022. It upgraded earnings expectations for all regions, with the biggest increases evident in Europe and the Middle East.

Some of the macro influences that have been earnings headwinds for the airline sector in previous periods appear to have eased in first half of 2023. The average price for Singapore jet kerosene fell 21% to just under $100/barrel in the first half of 2023 compared with the previous year, helped further by a drop in the US Dollar Index of 10% from its 3Q 2022 high. Interest rates, however, remain elevated and have increased the cost burden for both our airline customers and ourselves, although the rate of change appears to be easing and is being offset at the revenue line. For our airline customers this has been driven by higher airfares and for ourselves it has been passed through in higher lease rates for recent deliveries.

Airline profitability is improving around the world. In the United States, Delta Air Lines generated the highest revenue and profit of any quarter in its history in June and United Airlines also reported a record profit. Across the Atlantic, Ryanair produced earnings at an all-time high and almost four times greater than last year's June quarter, while here in Asia, Cathay Pacific generated a 1H 2023 profit of HK$4.3 billion - its first semi-annual profit in over three years.

Higher rates of inflation have influenced airfares and airline results and - for lessors – they have fed through into the value of aircraft, which for the most part have regained long-term trend values. Aircraft values have also been supported by a growing shortage of new supply relative to the rate of demand growth. Airbus and Boeing produced a combined 582 aircraft in 1H 2023, 14% more than the same time last year, while passenger traffic grew at more than three times that rate. This has coincided with the level of parked aircraft returning to traditional normalised levels to put upward pressure, not just on aircraft values, but also on lease rates.

We sounded our optimism in respect of the Indian market on our last call and this has materialised in Air India and IndiGo having placed the two largest aircraft orders in airline history, totalling almost 1,000 aircraft.

While rebounding more slowly than originally anticipated, growth in China's outbound passenger flows should sustain the Asia-Pacific market's impetus over the balance of this year and into 2024. The number of domestic flights now exceed 2019 levels, while international and regional flight numbers were at 53% of those as at end-July – up from less than 10% at the beginning of the year. We expect this renewed activity to be reflected in Chinese airlines' aircraft orders and their demand for leased aircraft, especially following the expansion of permissible countries to which Chinese can travel from 60 to 138, announced last week.

Just turning briefly to our Board and management, we welcomed our new Chairman, Mr. Liu Jin, in April as he took over from Mr. Chen Huaiyu. In July, Tom Chandler was appointed Chief Operating Officer, replacing David Walton who retired at the end of 1H 2023 and whom we thank for his many years of service.

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

Tom Chandler

Thank you, Steven. Our operational report for 1H 2023 is as follows:

We delivered 16 aircraft to seven different airline customers, of which one was purchased by the customer at delivery, giving us 15 net new aircraft deliveries for the half and taking us past the 400 owned aircraft milestone. We also signed lease commitments for 45 aircraft during the period. As at 30 June, our total fleet stood at 652 aircraft, comprising 404 owned, 35 managed and an orderbook of 213.

These 213 aircraft represent a record high committed capex of $11 billion. This strong pipeline underpins our future growth and comprises the most popular new technology aircraft types, predominantly Airbus A320NEO family and Boeing 737-8. These committed deliveries give us an excellent baseload of capex each year and are valuable positions given the supply issues that the industry faces and the high demand environment described earlier by Steven.

Our new deliveries in the first half of the year were primarily narrowbody aircraft, although we also added another four Boeing 787 deliveries to our balance sheet. All of our new deliveries were fuel-efficient, latest technology aircraft, and included our maiden delivery of five A220 family aircraft as well as three 737-8 and four A320NEO aircraft.

We continued to see the impact of manufacturer delivery delays with twelve aircraft, which were scheduled for delivery in 1H 2023 being delayed into the second half. Of the deliveries that did occur in the first half a significant number occurred in June, delaying our revenue. We believe that supply chain and labour issues will continue to impact our OEM partners at least for the remainder of this year and may take another one or two years to recover but once the delays have stabilised then the net effect will abate. To offset the effects of delays, we have made considerable progress in sourcing replacement capex and have increased committed deliveries for 2023 to 41 from the 24 reported in March. Adding new positions to our 2023 and 2024 delivery skylines has been a key focus and in 1H 2023 we transacted for:

- Seven A320NEO, scheduled for delivery in 2H 2023,
- Six 737-8 aircraft, four of which deliver this year, with a further two next year, and
- Two A321NEO and five A220-300, scheduled for delivery this year.

While we continued to deliver new and used aircraft around the globe in 1H 2023, our new aircraft deliveries were concentrated in the Americas. This reflects the demand and earnings growth that this region is enjoying, with deliveries to American Airlines, JetBlue, Lynx and Viva Aerobus. Looking ahead, with the exception of five recently sourced A320NEOs, all of our 2023 orderbook deliveries are placed with airline customers, with around 70% of 2024 deliveries also placed.

During the half, we transitioned eight used aircraft to airline customers, with only two owned single-aisle aircraft off-lease at the end of the period, one of which is already committed for lease. This compares with 17 aircraft at the same point last year and reflects the robust demand that currently exists for the young aircraft of which our fleet comprises.

The weighted average age of our owned portfolio was 4.7 years at the end of June, remaining one of the youngest in the aircraft operating leasing industry. We also continue to have one of the industry's longest weighted average remaining lease terms for our owned portfolio, at eight years. 71% of our fleet is latest technology, as is 100% of our orderbook. The average appraised value of our fleet was $20.3 billion dollars, representing a 5% premium to the fleet's net book value of $19.3 billion.

We sold three aircraft from the owned fleet during the first half of 2023, but have letters of intent already signed for 11 aircraft sales in the second half, suggesting a full year sales pattern similar to that of 2022.

Moving on to ESG, having exceeded our Stock Exchange ESG KPIs for the three years ended 2022, we have set ourselves new targets for 2025. When compared with 2019, we aim to reduce our CO2 emissions per average headcount by 20%, cut our paper usage per average headcount by 65%, and reduce electricity consumed per headcount by 55%, and we are implementing strategies to achieve these.

During 1H 2023 we lifted the number of community-focused events for which our colleagues volunteered, completing nine as compared with six events in the first half of 2022. In Singapore, we worked again with regular partners Food From The Heart and Waterways Watch, as well as The Red Cross and donated used monitors to TOUCH Community Services. Elsewhere, we worked with the homeless and the hungry in London and New York, respectively, and collected litter in Tianjin.

We also continue to deliver on our previously announced governance and diversity commitments. That concludes the overview of our operations and business performance for the 1H of 2023 and with that, I'll now turn it back to Steven for a deeper review of our financial performance and outlook.

Steven Townend

Thank you, Tom.

As I mentioned earlier, we reported net profit after tax of $262 million for the first half of 2023, equivalent to earnings of 38 cents per share and our best first half performance since 2020.

Total revenue was $1.1 billion and continues to be well-diversified. This represented an increase of 9% when adjusted for the $223 million in non-recurring income arising from termination of leases that we recognised in first half last year.

Lease rental income rose 7% to $940 million as we grew the fleet and as our lease rate factor improved.

Our gains on aircraft sales of $14 million were in line with 1H 2022, with sales timings expected to be concentrated into the second half of the year as Tom mentioned.

Other income rose to $46 million primarily due to the release of unutilised maintenance reserves collected in prior years and tax rebates.

Interest and fee income was down $12 million to $40 million in 1H 2023 because of lower contributions from pre-delivery payment financing.

From a cost perspective, our two largest expenses continue to account for 90% of the total. Depreciation, which remains our largest expense, was flat at $393 million compared to 1H 2022 reflecting the pace of aircraft deliveries that occurred towards the end of the half. Finance expenses – our second largest item - rose by 30% to $297 million. This was mainly due to a higher cost of debt of 3.9% per annum in 1H2023 compared with 2.9% for the same period last year.

Lease rate factor increased to 9.8% from 8.9%, reflecting the effects of improved lease pricing and interest rate adjustment mechanisms in our leases. Net lease yield rose to 7.0% from 6.8% in 1H 2022. This was slower than the improvement in lease rate factor, primarily explained by the higher cost of funds recorded during the period.

Impairment of aircraft declined to $3 million compared to last year's $47 million, excluding the effects of the Russia-related write-downs that featured in 2022's first half results. Impairment losses on financial assets of $3 million compared favourably with $6 million in 1H 2022.

Looking at the balance sheet, we ended the half with total assets of $22.9 billion, funded by debt of $15.8 billion.

Total equity increased to $5.4 billion compared with $5.2 billion at the end of 2022. This was mainly attributable to profit for the period and partially offset by the payment of dividends amounting to $123 million.

Our debt level increased to $15.8 billion compared to end-2022 as we funded our fleet growth, with gross debt to equity stable at 3.0 times as compared with 2.9 in December last year. Rating agencies S&P and Fitch both reaffirmed our A- credit rating and stable outlook during 1H 2023.

We raised $1.7 billion in new financing, comprising $1 billion from the debt capital markets with a further $660 million drawn from banks. Cashflow generated from our financing and operating activities allowed us to fund our capex and repay $1 billion in maturing bonds and loans. We have $1.4 billion in debt obligations scheduled for repayment in 2H 2023, which – together with our anticipated capex - can be funded from our cashflow and our committed liquidity of $5.7 billion.

Finally, excluding the effects of the write-down of aircraft in Russia, our effective tax rate was up slightly at 11.4% in 1H 2023, compared with 1H 2022's 9.9%.

To close, our operating environment is the strongest that is has been for almost four years, as we move on from the effects of a pandemic and Russia-related write-downs, and we are grateful for the support of our Board, our staff and our other stakeholders throughout this period. Passenger traffic growth remains robust, underpinning everything from airline cashflows to aircraft values. This positive backdrop is once more allowing our team to focus on growing the balance sheet and regaining the momentum that has always characterised our industry and our company.

We remain well-positioned to capitalise on growth opportunities given our strong liquidity and valuable pipeline of committed deliveries, to which we are continuing to add through selective purchase and lease-back and finance lease investments.

We are confident that the progress that we have recorded so far in 2023 will continue to translate into returns for our stakeholders and are excited about our prospects for the future.

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, Steve. This wraps up management's formal commentary.

We now have time for Q&A and - out of fairness to others - request that each participant restricts themselves to one question and a follow up, unless time permits for additional queries.

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