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INTERVIEW

ROBERT MARTIN

BOC Aviation's banker on the rise in leasing

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REPORT
ELLIS TAYLOR
SINGAPORE

PHOTOGRAPHY
BRYAN V PHOTOGRAPHY

CHINA IN HIS HAND

BOC Aviation managing director Robert Martin is looking to capitalise on opportunities emerging in the home country of the lessor's banking parent as the local market begins to open up

One piece of advice that is regularly bandied around Asia's aircraft leasing and finance sector is: "You've got to speak to Robert Martin."

When *Airline Business* did that, it soon became apparent why he is held in such high regard by airlines, banks, manufacturers and other lessors.

Since becoming managing director of Singapore Aircraft Leasing Enterprise in 1998, Martin has guided it through its transformation into BOC Aviation, with a portfolio of 250 aircraft spread around the globe.

"We think about ourselves as a provider of both capital and aircraft to our customers, and the important thing is to satisfy those customer needs at all points of the cycle," he says.

"You tend to find that when an airline needs aircraft, we have aircraft on order. If times are bad and maybe they want capital from sale and leasebacks or delivery financing, we have capital for them."

According to the latest *Airline Business* leasing survey, BOC Aviation is the fifth-largest lessor by fleet value, and eighth largest by fleet size.

"You tend to find that when an airline needs aircraft, we have aircraft on order"

The catalyst that catapulted the company forward was the December 2006 acquisition by Bank of China, which led to its rebranding as BOC Aviation in 2007. Under BOC's wing, the lessor has grown its portfolio from \$3.1 billion to over \$10.2 billion at the end of the last financial year.

That said, the marriage of a small and nimble company with a banking leviathan has not always been easy.

"When this happened, we were bringing together what had been a small, dynamic, fast-moving operating lease company, and we had to combine that with the business of a huge banking icon and everything that brings," says Martin.

"In today's world, that brings a huge amount of compliance."

Initially, BOC Aviation's senior management was inundated with requests from Beijing. This was eventually addressed by setting up a dedicated department just to handle the enquiries.

On a more positive note, BOC Aviation has now taken to creating five-year plans, in line with its parent company, which gives certainty to key executives throughout the organisation.

"We always plan for two scenarios – one is markets continuing to grow, and the other is what happens if a downturn comes, and how do we position our-

selves to be able to switch in terms of putting a greater proportion of our capital into play in terms of supporting airline deliveries in that situation."

Having BOC behind the company has also helped with credit, although Martin says turning to its parent company is one of its "rainy day" options. BOC Aviation's preferred sources of finance are commercial bank debt and capital markets.

BOC's backing has also resulted in investment-grade credit ratings of "A-" by Fitch and "BBB" by Standard & Poor's, driving down borrowing costs.

Martin says that in his time leading the company, it has been through four downturns where it has been able to leverage its financial resources to support airline deliveries. It has also participated in Asia's low-cost carrier boom by supplying aircraft from its orderbook.

"You have downturns come more often than people probably think, but there are two types," says Martin.

"One is a liquidity-based downturn, such as the Asian financial crisis and the global financial crisis. If you're someone with deep pockets at a time like that, then you can grow when others can't.

"The second type is the more basic revenue-driven downturn. In this type of downturn it is a matter of being able to move aircraft around to different parts of the world," he says.

Martin says that the company looks at four cycles when it assesses its market outlook: airline demand, credit liquidity, manufacturers and the lessors.

"If you combine those four cycles, I would say that the airline demand cycle is very positive, we are in a positive part of the liquidity cycle, and manufacturers are positive – but we've got to make sure we don't get to a point of oversupply."

The lessor cycle has also been positive, largely thanks to the significant amount of financial liquidity in the market. That has, however, led to more competition from new lessors.

"The sale-and-leaseback side of the business: that has been very, very competitive," says Martin. "This will continue until liquidity gets squeezed in some way."

With airline profits high globally, opportunities for new aircraft placement are also still strong, but Martin explains that this year, there will be particular focus on China and North America.

FAMILY FORTUNES

As well as providing a big aircraft lease footprint, BOC Aviation's deep links to airlines, manufacturers and other members of the aerospace supply chain has opened up new opportunities for Bank of China.

Robert Martin says it reflects a "holistic approach" that helps to differentiate the lessor within the market.

"We start off the discussion in our core [leasing] business, and gradually broaden it out to ask what else can the bank to do help that customer," he explains.

"It also means that when you go to meet with an airline, it doesn't just mean that we're talking about leasing an aircraft."

As an example, Martin points out that BOC's London office last year completed British Airways' first Chinese yuan financing on an Airbus A380. In addition, the bank has worked with other suppliers to the industry.

"BOC has helped support not only the airframe manufacturers but also the engine manufacturers and guys like galley suppliers, seat manufacturers and those further down the supply chain," says Martin. This has had other benefits for the wider group, he adds.

"It deepens our relationship with the manufacturers, and gives us good information on what happens in the marketplace," says Martin. BOC has also pursued other opportunities outside the aviation industry.

Martin cites General Electric as a particular example. Having worked closely with GE Aviation's aircraft engines business opened the way for the bank to take over the entire GE group's cash management accounts in China last year.

"China is definitely opening up, as there are a number of new carriers opening up there in addition to the general market growth of the existing carriers," he says. "In the case of North America, it is fleet replacement."

A crucial element of BOC Aviation's strategy is its focus on new aircraft acquisitions. This has made it a significant client for both Airbus and Boeing.

"We want to always have a core orderbook with the two manufacturers, because once we have that core orderbook in place, we effectively play off that orderbook, and we normally end up bringing planes earlier than we originally ordered by picking up excess deliveries that may appear as 'pop-ups' in the marketplace," he says.

Such opportunities kept the lessor busy last year, when it moved to buy a number of new aircraft from the likes of Lion Air, AirAsia X and AirAsia – in some cases at short notice.

BOC Aviation's orderbook is predominantly for Airbus A320s and Boeing 737s – including a mix of current-generation A320ceos and 737NGs, as well as the Neo and Max variants. It also has ordered Embraer 190s in the past, and holds an order for 20 Comac C919s.

Martin says that on the 737 and A320 series, customers are moving towards the larger variants, thanks to their better operating economics, and growing airport congestion in some regions.

"We're starting to see a greater level of 737-900ERs on the Boeing side and A321s on the Airbus side being required. We think that's going to continue," says Martin.

Despite the recent fall in fuel prices, which has made some of BOC Aviation's mid-life aircraft more attractive, Martin says that "over time" airlines will still gravitate toward more efficient aircraft.

Martin also sees a need for a replacement aircraft for the venerable 757, and expects that Boeing will be forced to respond.

"Airbus have gone very strongly after that market with the A321neo and the potential upgrade of that," says Martin. "We believe Boeing will not lose sight of a 1,000-aircraft market, they will look for ways to cover that as well."

While the company continues to hold a strong backlog of narrowbodies, on the widebody front it is much more conservative.

"We limit the amount [of widebodies] to 30% in the overall portfolio value by net book value," he says.

"They are less liquid and you may have to hold them in the portfolio longer during times of distress."

As a result, the company chooses specific airframe and engine combinations, and tends to work with its stronger-credit airlines, such as Cathay Pacific and Thai Airways.

Martin says that as a policy, BOC Aviation does not place speculative orders for new widebodies, and when it does, prefers to wait for later delivery positions.

"Wait until the technology is matured and then we will invest in the type," he says. "In the widebody market, you tend to see more iterative shifts in terms of a single airframe/engine combination over time."

As it has grown and increased the scope of its business, BOC Aviation has become particularly adept at tapping a range of finance options.

Martin says that in a "normal scenario", it primarily seeks funding from commercial banks and the capital markets, while its "rainy day funds" come from export credit agencies and credit from BOC.

Since 2000, the company has tapped the global bond market through a $5 billion medium-term note programme. Increasingly, that has led it to conduct offerings in a range of Asia-Pacific currencies, including Singapore and Australian dollars, as well as Chinese yuan.

"There are a lot of investors who want to invest, but they don't necessarily want to invest in US dollars," explains Martin.

"We work together with one of the banks in our banking group to make sure that we have cross-currency lines in place before we go to market, so then, as we see good opportunities there, we can execute very quickly."

Martin is keen to tap Asia's growing wealth base as a source of equity for the industry.

"We spent five years getting the debt markets right on the capital-markets side. Now we're moving to the next stage of thinking of opening up Asian capital on the equity side."

Asian investors are already jumping on board the aircraft equity bandwagon. Martin notes that two examples of this were China Aircraft Leasing Group's successful listing in Hong Kong last year and Cheung Kong's move into aircraft leasing.

"Now is a time to move into aircraft, number one because they are a US dollar asset and we're moving into a strong US dollar period in the marketplace, and also it is a source of diversification," he adds.

With no plans to list the company, BOC Aviation's focus will be on tapping the asset-backed securities market. Last year, it set up an office in London with a mandate to build up its ABS capabilities, initially seeking investors in the USA and Europe before then "reversing the technology back into Asia-Pacific".

"We have only just nibbled at the mountain of capital available here in Asia-Pacific," he says. "With the growth that we're seeing in the aviation industry here, there are lots of potential opportunities to find some interesting things to do."

As a man who keeps a gruelling work schedule with frequent work travel, Martin says that he values time away from the office, spending time with family, swimming and playing tennis when they are in Singapore.

When the chance arises, Martin likes to escape with the family to a holiday home in Queenstown, New Zealand, where they enjoy the wide open spaces and cool mountain air – a reminder, he says, of his childhood growing up on a farm in the UK.

Nevertheless, when he is in the office, he remains as enthusiastic as ever about his role at BOC Aviation.

"The thing that keeps me going is, basically, the 'thrill of the kill'. It is the thrill of finding a new project, solving a problem for a customer and executing on transaction, so that's what keeps me interested."

He also pays tribute to the team around him, many of whom are long-time veterans of the firm.

"I've been here 17 years, and it's very gratifying to have worked together with a great team of people to build it up," he says. "It's been basically the same group of people who were here when I arrived [or] joined in the one or two years after that."

Martin delights in helping nurture young talent in the organisation, and actively invites junior employees to engage in different areas of the business through what he calls the "CEO's circle".

"I'm a firm believer that you have to give your people and the future leaders the opportunity to grow," he says.

With the backing of one of the world's largest banks, and a dynamic and innovative culture within the company, he sees a bright future ahead – but only if it continues to innovate and stay ahead of the pack.

"The key thing is you have to make it happen," he says. "If you sit back and wait, your competitors will overtake you. You can't allow that to happen." ■

BANKING FOR GOOD

While spending many of his work days signing off on multimillion dollar deals for aircraft and finance, Robert Martin has taken those skills into helping to run a microfinance venture in Mongolia.

He says the idea started 10 years ago when he was approached by a former banking colleague interested in getting it up and running.

"I was a banker for many years and saw all the good things that come out of banking, but one part of the population that wasn't catered for was the guy who needs to borrow $50," explains Martin.

The enterprise loans small amounts to women, who use the cash to buy raw materials, usually to make artisan goods.

It also helps educate them on business basics such as cashflow management to help grow their businesses.

"Now we've seen a phenomenal number of small businesses set up there, which is very gratifying," says Martin.

BOC AVIATION AT A GLANCE

Fleet value $m*	9,445
Fleet* (aircraft)	246
Orders (aircraft)	209
Lessees	62
Revenue $m 2014	988
Net margin	31%
AB 2014 ranking* (fleet value)	5
AB 2014 ranking* (fleet size)	8

*Airline Business Top 50 leasing survey
Fleet/value data: Flightglobal's Ascend Fleets/Values databases

For more on BOC Aviation and to watch a video interview with Robert Martin, visit: flightglobal.com/interviews