



>> Above from left: Robert Martin (third from left) ordered 20 next-generation Boeing 737s, which was the first deal made with the US company in 2005; at the listing ceremony last year; at a signing ceremony for a customer agreement with COMAC for 20 C919 aircraft; announced an additional order of 43 Airbus A320 aircraft in 2014.

# FLEET-FOOTED AND FULLY LOADED

## BRIDGING BUSINESS

"Money Glitz is a bridge between the business world and readers, giving valuable insights into fast-changing market trends as well as updates on new products and services," says business news editor Bonnie Chen.



BOC Aviation (2588) managing director and chief executive Robert Martin reveals the company is to receive more than US\$12 billion (HK\$93.6 billion) in committed lease rental from airline customers, while the fleet of 300 aircraft has a utilization rate of nearly 100 percent.

There has been a recent trend of lessors purchasing aircraft from either airlines or manufacturers, and lease to the carriers, which favor fewer assets and debts.

Global aviation passenger numbers grow at more than 5 percent annually, according to the International Air Transport Association, creating aircraft demand.

Martin assures that the largest listed Asia-based aircraft lessor would have sustainable profit growth after 23 years of continuous earnings since establishment.

The industry has enticed many new investors such as mainland Chinese banks, local tycoons including Li Ka-shing and Henry Cheng Kar-shun.

Cathay Pacific Airways (0293), Air China (0753), China Southern Airlines (1055), Turkish Airlines, and Qatar Airways are among the 73 airline customers of the firm.

Having led the company for nearly two decades, Martin explains the business model offers a consistent return based on long-term leasing contracts of 6-10 years. BOC Aviation has average leasing age of 7.4 years.

Airlines usually pay an amount equivalent to 2-12 months as deposit depending on their credit rating, and they then pay rent and maintenance fee each month, thus it is very secured, says Martin. He adds that among the 700 aircraft leases the firm did in the past 23 years, only 30 were repossessed.

When the lessor buys aircraft, it usually

puts down an amount equivalent to 1 percent of the bill, which is then settled gradually. Discounts are offered by the manufacturer depending on the relationship and whether the aircraft are in excess. BOC Aviation was the largest customer of Airbus by number of deliveries in 2016.

With BOC (3988) as its parent, Martin says the lessor also represents the bank to do cross-selling as aircraft manufacturers and parts suppliers also use BOC for financing and they see the lessor as a partner rather than a buyer.

"We have taken delivery of over 500 of the more than 700 aircraft that we have ordered in our 23-year history. 201 were due to deliver between now and 2021, as at 31 March 2017." This year it will receive 80 aircraft, the largest ever in a year for the company, as compared with 67 in 2016.

Specializing in aircraft with 100 seats or more, the majority in the fleet are A320 and Boeing 737 that usually carry between 150 and 168 passengers. The average age of the 300-aircraft fleet is 3.2 years.

A Memorandum of Understanding has been signed with COMAC, the maker of the C919, the first China-made passenger jet.

Also, Martin says aircraft are a good asset class for investment. BOC Aviation trades aircraft of more than 10 years old to lessors and airlines which take aircraft between 10-20 years old. He adds at the end of an aircraft's life, its parts can be sold.

"BOC Aviation is a pure aircraft leasing company that makes us different from other firms including Chinese banking institutions that have ventured into the business mainly in the past 10 years. They have multi-asset classes including shipping, port, even property, and they are domestically focused."

As such, he says China Aircraft Leasing Group (1848) of China Everbright Group and China Development Bank Financial Leasing (1606) cannot be compared with the firm.

Martin says there are some 350 aircraft lessors in the world but they are not necessarily competitors, for instance, BOC

Aviation manages aircraft for some of them.

The top 10 firms take up 53 percent of market share, according to Flight Ascend Consultancy. Among the top six aircraft lessors, BOC Aviation is the only Asia-based one. Nearly 60 percent of its customers are from Greater China and Asia Pacific, while Europe takes up one-fifth and America accounts for 15.9 percent as of end of 2016.

He believes Asia will remain the largest market although he sees opportunities in Latin America and Eastern Europe.

The company was listed on June 1, 2016 at HK\$42 apiece with a price to book value of 1.25 times. The shares were traded between HK\$36.6 and HK\$43.3 and closed at HK\$40.7 last Friday.

"BOC Aviation is one of the lessors in Asia that has a global presence and people tend to benchmark it against those listed in the US, which are trading on a price to book value between 0.9 and 1.1 times. BOC Aviation is trading on a P/B of 1 times."

As earnings growth will continue, stresses Martin, it is only a matter of time before the share price rises.

Interest rate increases may weigh on the capital intensive industry. However, on average, its cost of funds is 2.5 percent as of December 2016 due to its high credit rating.

Although BOC holds a 70 percent stake, he says the state-owned bank does not finance the lessor, whose funds are raised from the capital market and it can access credit facilities from more than 80 financial institutions. It also has interest rate hedges.

Although the Hong Kong government has proposed tax incentives to attract aircraft leasing companies, Martin says it is difficult for BOC Aviation to move its headquarters from Singapore to the SAR. But, he believes, the SAR can attract newcomers.

Despite a business that involves huge transactions, BOC Aviation only has a team of 150 people.

"You may be placing an order for aircraft this minute and then raising debt to pay the other minute," says Martin.

## CRISES DEALS SEAL PAYBACK

Robert Martin remembers the financial crisis being the best opportunity to buy aircraft for BOC Aviation (2588).

Martin joined the company in 1998, when the Asian financial crisis hit the region. Since then, he has experienced several financial crises.

He recalls spending more than US\$2 billion (HK\$15.6 billion) during the 2008 financial tsunami to buy aircraft.

"Everyone in the airline industry was worried and more calls came to us everyday. Many airlines were called by banks and some smaller airlines went bankrupt."

Thanks to BOC's acquisition of the company in 2006, he says while others were struggling in 2008-2009, BOC (3988), with a strong balance sheet, helped the lessor to grow.

Before that, he says during the September 11 terrorist attacks, it was the large airlines that faced problems. Manufacturers could not deliver the orders and airplanes were in excess.

Martin says the company could buy aircraft at good prices during the financial crises and allowed it to lock in profitability. "We have a more than US\$4 billion credit line, so we will have the fire power to buy when opportunities come."

In addition to buying aircraft, he says other challenges include whether they can be traded for profit and whether the capital raised can be reinvested well. So far, the company has sold 260 aircraft.

The Cambridge graduate used to be a banker. He was approached in 1998 to lead the company, which only had 10 aircraft and 10 people.

The lessor was set up by Singapore Airlines and US-based lessor Boullion Aviation Services in 1993. Temasek and Singapore sovereign wealth fund GIC invested in 1997. The company was sold to BOC in December 2006 for US\$3.25 billion.



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