

# Daiwa Auto and Industrials Leaders Conference 2018

Hong Kong

June 2018



25  
YEARS  
OF EXCELLENCE

 **BOC AVIATION**

# Disclaimer

This presentation contains general background information about the activities of BOC Aviation Limited ("BOC Aviation"), current as at the date hereof. This document does not constitute or form part of and should not be construed as, an offer to sell or issue or the solicitation of an offer to buy or acquire securities of BOC Aviation or any of its subsidiaries or affiliates in any jurisdiction or an inducement to enter into investment activity.

The information contained in this document has not been independently verified and no representation or warranty, expressed or implied, is made as to, and no reliance should be placed on, the information or opinions contained herein. The information set out herein may be subject to revision and may change materially. BOC Aviation is not under any obligation to keep current the information contained in this document and any opinions expressed in it are subject to change without notice. None of BOC Aviation or any of its affiliates, advisers or representatives (including directors, officers and employees) shall have any liability whatsoever for any loss whatsoever arising from any use of this document or its contents or otherwise arising in connection with this document (whether direct, indirect, consequential or other).

No part of this document, nor the fact of its distribution, should form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever. No representation, warranty or undertaking, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information or the opinions contained herein. None of BOC Aviation or any of its affiliates, advisers, agents or representatives including directors, officers and employees shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with the document. This document is highly confidential and is being given solely for your information and for your use and may not be shared, copied, reproduced or redistributed to any other person in any manner.

This document may contain "forward-looking statements", which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "will", "would", "aim", "aimed", "will likely result", "is likely", "are likely", "believe", "expect", "expected to", "will continue", "will achieve", "anticipate", "estimate", "estimating", "intend", "plan", "contemplate", "seek to", "seeking to", "trying to", "target", "propose to", "future", "objective", "goal", "project", "should", "can", "could", "may", "will pursue" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond BOC Aviation's control that could cause the actual results, performance or achievements of BOC Aviation to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Neither BOC Aviation nor any of its affiliates, agents, advisers or representatives (including directors, officers and employees) intends or has any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this document.

Any securities or strategies mentioned herein (if any) may not be suitable for all investors. Recipients of this document are required to make their own independent investigation and appraisal of the business and financial condition of BOC Aviation, and any tax, legal, accounting and economic considerations that may be relevant. This document contains data sourced from and the views of independent third parties. In replicating such data in this document, BOC Aviation does not make any representation, whether express or implied, as to the accuracy of such data. The replication of any views in this document should not be treated as an indication that BOC Aviation agrees with or concurs with such views.

The information contained in this document is provided as at the date of this document and is subject to change without notice.



# An Excellent 2017

## Record earnings

**US\$587 million**

Net profit after tax

↑ 40%

**US\$0.85**

Earnings per share<sup>1</sup>

↑ 40%

### Driven by:

**US\$1,401 million**

Total revenues and other income

↑ 17%

**US\$542 million**

Core lease rental contribution<sup>2</sup>

↑ 24%

**8.4%**

Net lease yield<sup>3</sup>

↑ 0.2% pt

## Robust balance sheet

**US\$16.0 billion**

Total assets

↑ 19%

**US\$3.8 billion**

Total equity

↑ 13%

**US\$5.50**

Net assets per share<sup>1</sup>

↑ 13%

## Increasing dividend payout

**Payout ratio 35%**

↑ 5.0% pts

**US\$0.2958**

Total dividend per share<sup>4</sup>

↑ 64%<sup>5</sup>

All data as at 31 December 2017

Notes:

1. Based on the number of shares outstanding as at year end
2. Calculated as lease rental income less depreciation and finance expenses, amortization of debt issue costs and lease transaction closing costs
3. Calculated as lease rental income less finance expenses divided by average net book value of aircraft
4. Includes interim dividend of US\$0.1038 per share paid on 25 September 2017. The final dividend of US\$0.192 per share will be payable to shareholders registered at the close of business on the record date, being 7 June 2018
5. Compared to US\$0.18 paid for FY2016



# Strong Operational Performance Sustained into 2018

- Ended March 2018 with total fleet of 488<sup>1</sup>
  - Portfolio utilization of 100%
  - Average fleet age of 3.1 years<sup>2</sup>
  - Average lease term of 8.1 years<sup>2</sup>
- Took delivery of 12 aircraft in 1Q18
  - Our first Boeing 737 MAX 8 aircraft was delivered on 17 May 2018
- Signed 14 lease commitments in 1Q18
- Sold eight owned aircraft in 1Q18
  - Announced the sale of 15 aircraft with aggregate current market value of US\$551 million on 23 May 2018
- Total future committed CAPEX of c.US\$8 billion<sup>3</sup>
- Further diversified funding mix
  - Issued US\$500 million of 3Y floating rate notes at 3M LIBOR + 105bps in May 2018
  - Issued another US\$350 million of 7Y floating rate notes at 3M LIBOR + 130bps
    - First corporate in Asia to issue 7Y floating rate notes

## Strong start to the year

All data as at 31 March 2018 unless otherwise indicated

Notes:

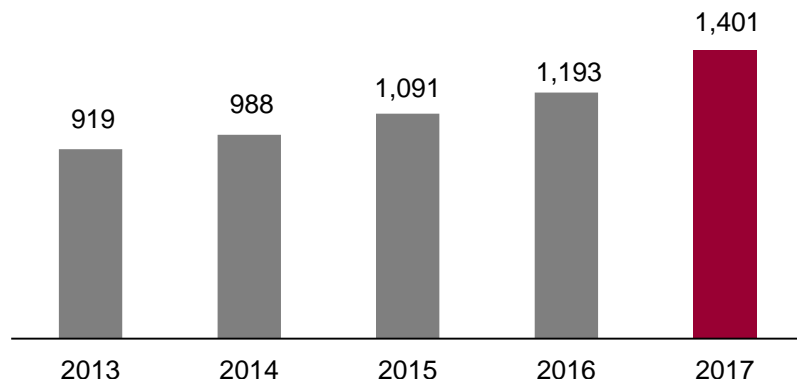
1. Included owned, managed and aircraft on order
2. Weighted by net book value of owned fleet
3. As at 31 December 2017



# Record Financials

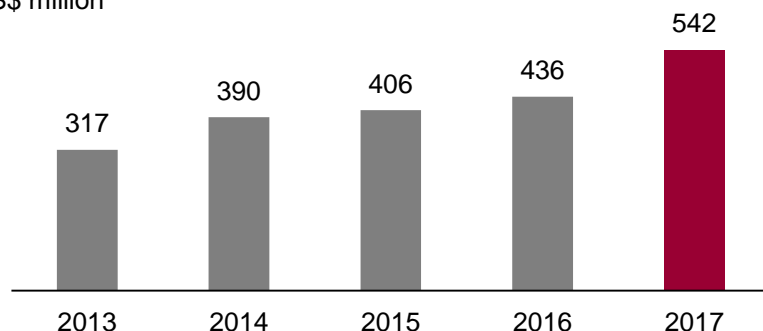
## Fleet growth underpins lift in revenues

US\$ million



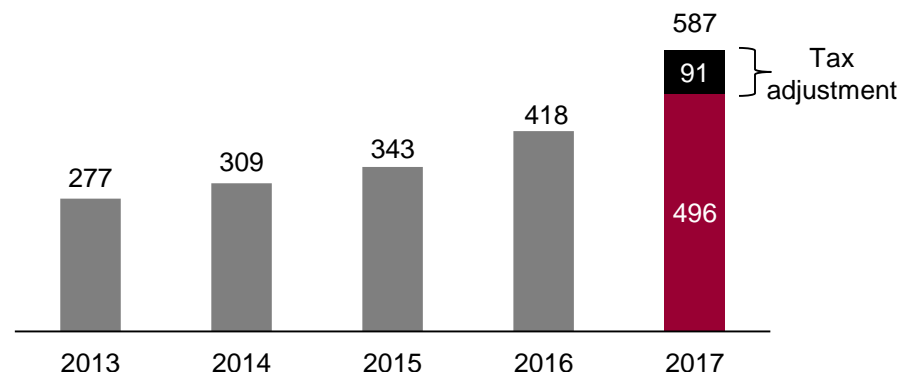
## Continued growth in core lease rental contribution<sup>1</sup>

US\$ million

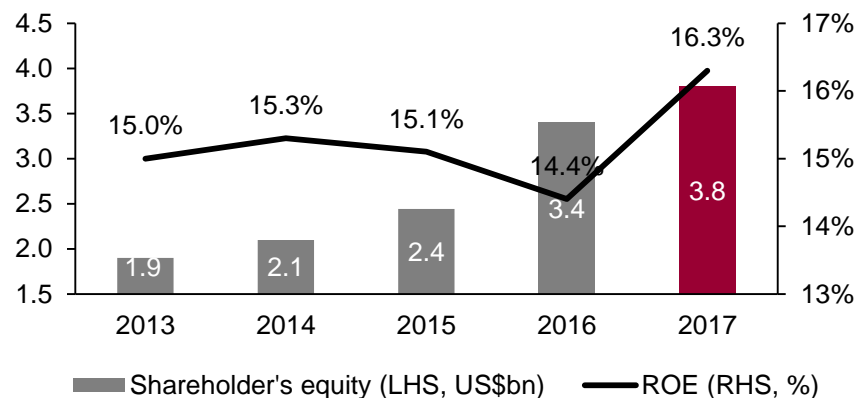


## NPAT growth driven by growth in leasing portfolio and adjustment of US tax provision

US\$ million



## Consistently strong returns on equity



All data as at 31 December 2017

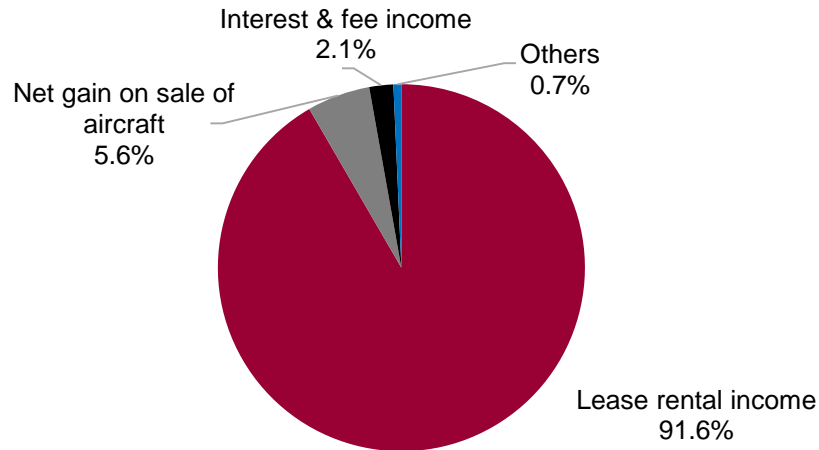
Note:

1. Calculated as lease rental income less depreciation and finance expenses, amortization of debt issue costs and lease transaction closing costs

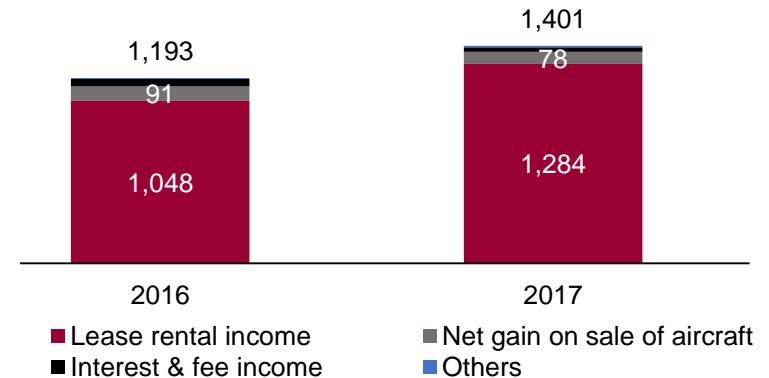


# Lease Rental Income Dominates P&L

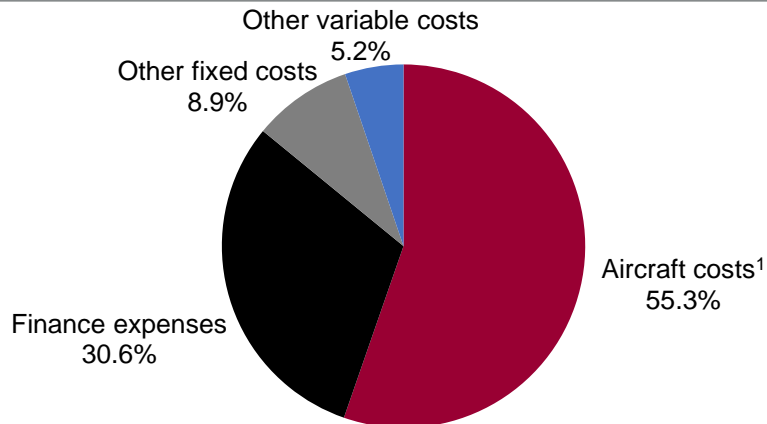
Lease rental income consistently c.90% of total revenue and other income



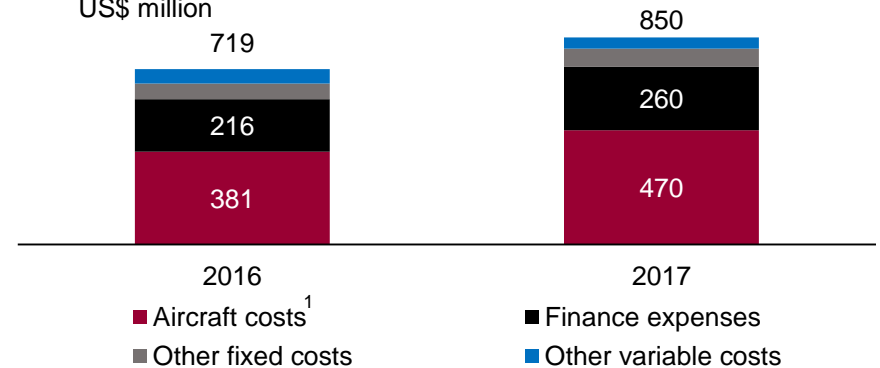
US\$ million



Depreciation of aircraft plus financing costs make up >85% of total costs



US\$ million



All data as at 31 December 2017

Note:

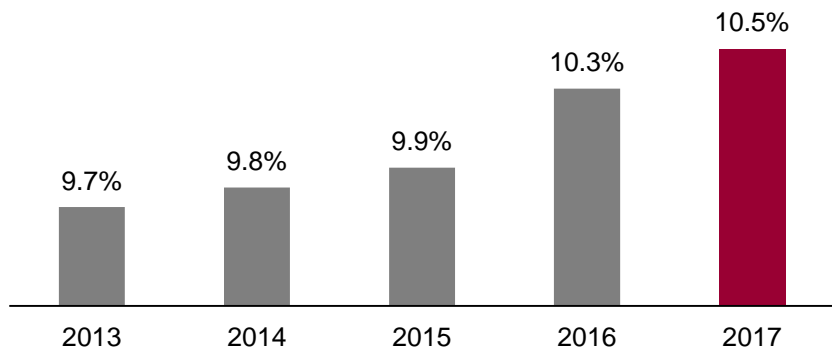
1. Comprise aircraft depreciation and impairment charges



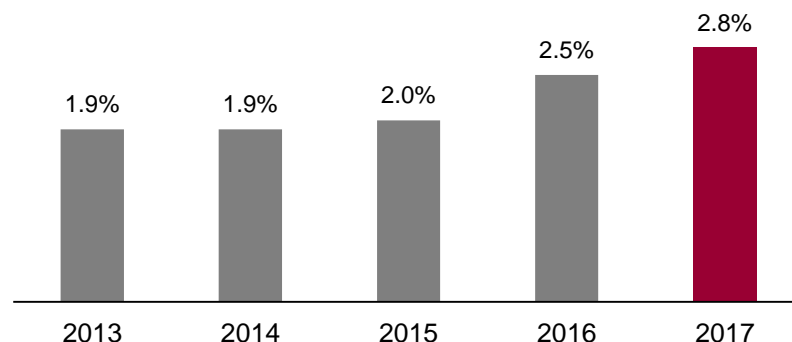
**BOC AVIATION**

# Consistently High Net Lease Yield Drives Profitability

Higher lease rate factor<sup>1</sup> reflects increased fixed rate leases

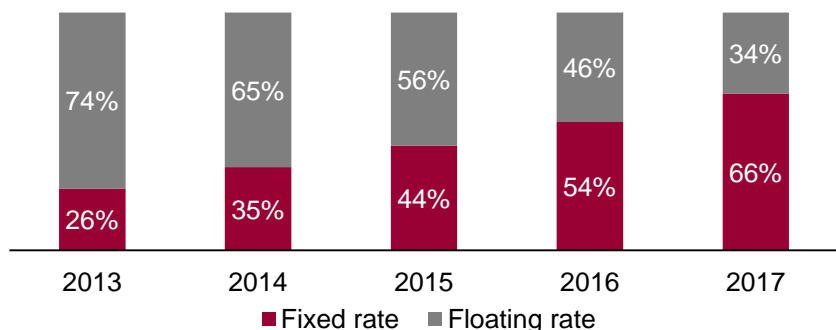


... with a higher proportion of fixed rate debt affecting finance expenses<sup>4</sup>

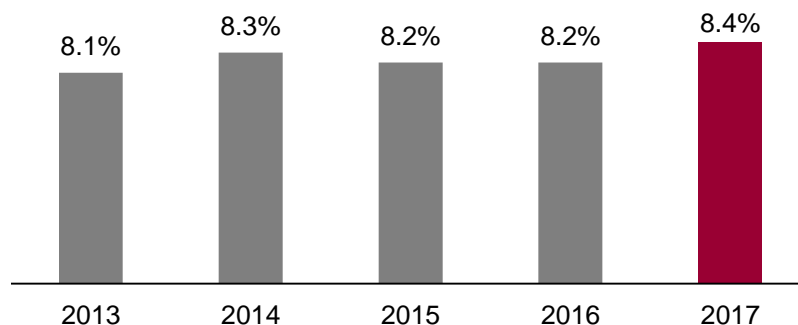


Proportion of fixed rate leases rising steadily<sup>2,3</sup>

By net book value



Maintaining net lease yield<sup>5</sup> > 8%



All data as at 31 December 2017

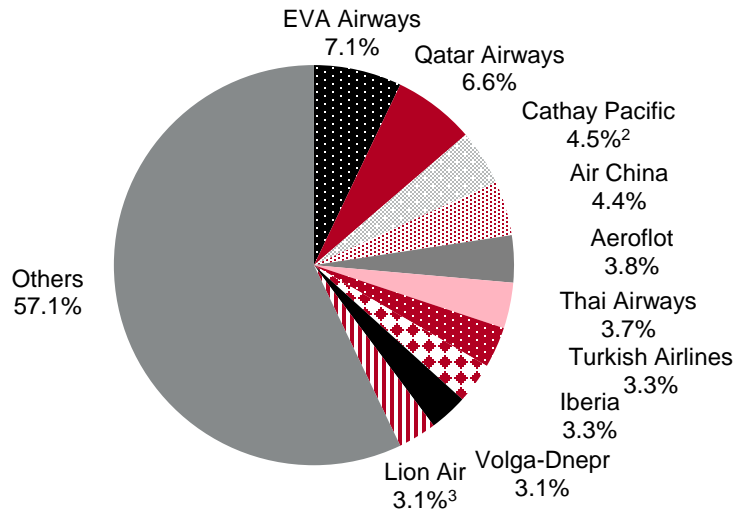
Notes:

1. Calculated as lease rental income divided by average net book value of aircraft and multiplied by 100%
2. By net book value including aircraft held for sale
3. Excluded aircraft off lease
4. Calculated as the sum of finance expenses and capitalized interest, divided by average total indebtedness. Total indebtedness represents loans and borrowings and finance lease payables before adjustments for debt issue costs, fair values and discounts/premiums to medium term notes
5. Calculated as lease rental income less finance expenses divided by average net book value of aircraft

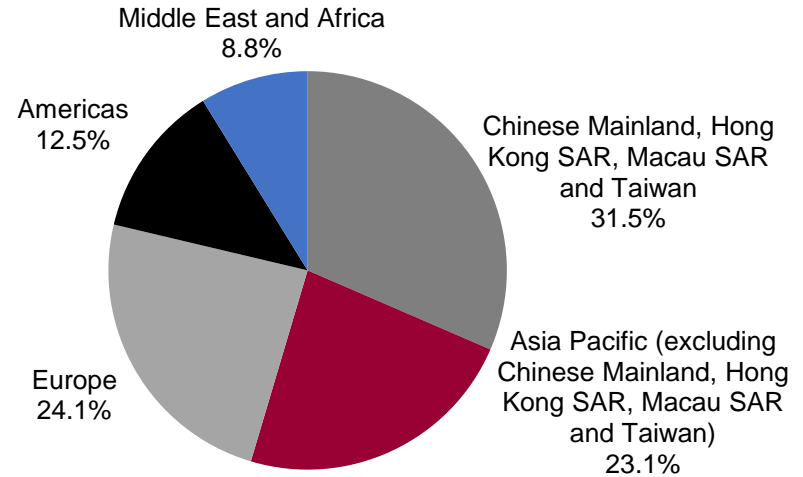


# Diversified Portfolio Delivers High Utilization, High Collection Rate

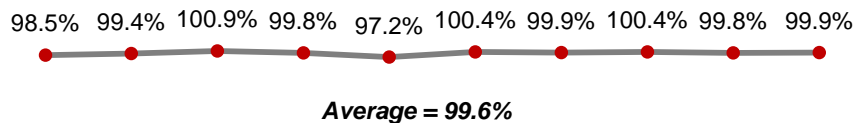
## Lease portfolio diversified by customer<sup>1,4</sup>



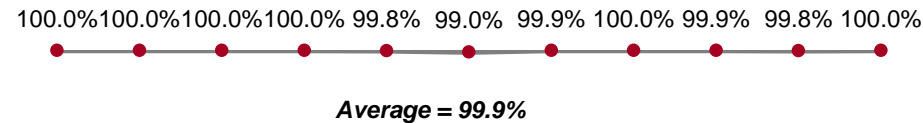
## ...and diversified by geography<sup>1,4</sup>



## High collection rate<sup>5</sup>



## High fleet utilization<sup>6</sup>



2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

All data as at 31 March 2018 unless otherwise indicated

Notes:

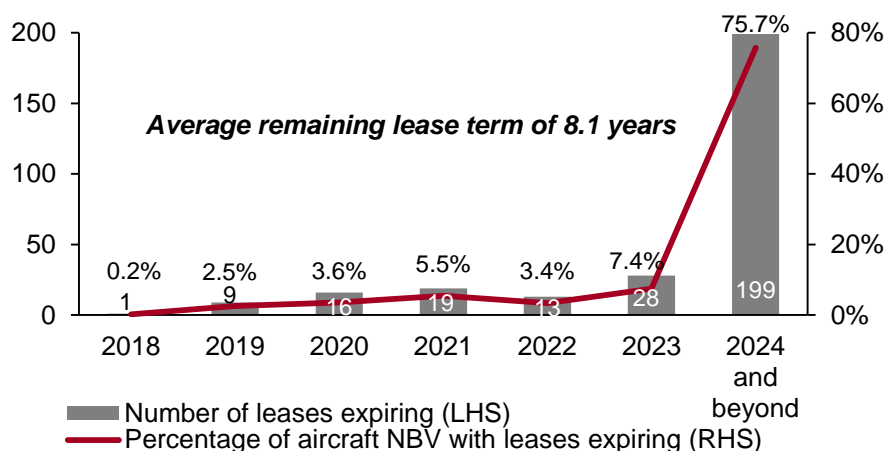
- Based on net book value as at 31 March 2018. Includes aircraft held for sale and excludes one aircraft subject to finance lease
- Includes our leases with Cathay Pacific (Hong Kong) and Cathay Dragon (Hong Kong)
- Includes our leases with Lion Air (Indonesia), Thai Lion Air (Thailand), Malindo Air (Malaysia) and Batik Air (Indonesia)
- Based on the jurisdiction of the primary obligor under the relevant operating lease. Includes aircraft held for sale and excludes one aircraft subject to finance lease
- As at 31 December 2017
- Fleet utilization is the total days on-lease in the period as a percentage of total available lease days in the period

2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 Mar-2018



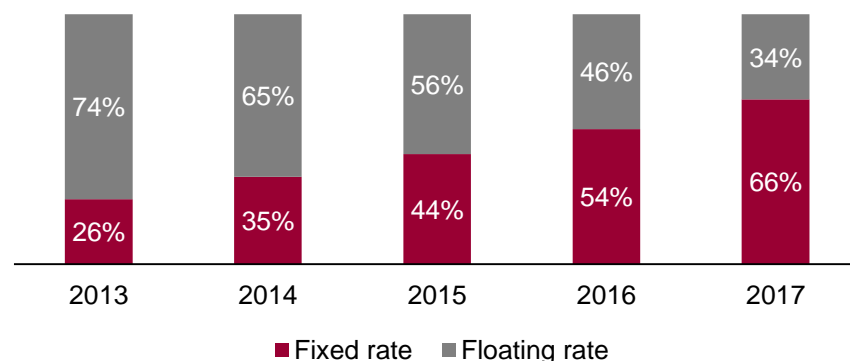
# Long-term, Stable and Contracted USD Cash Flows

## Well-dispersed lease expiries<sup>1,2</sup>



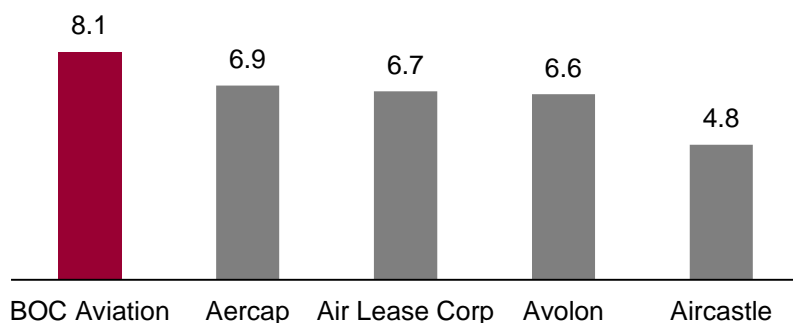
## Proportion of fixed rate leases rising steadily<sup>3,4</sup>

By net book value



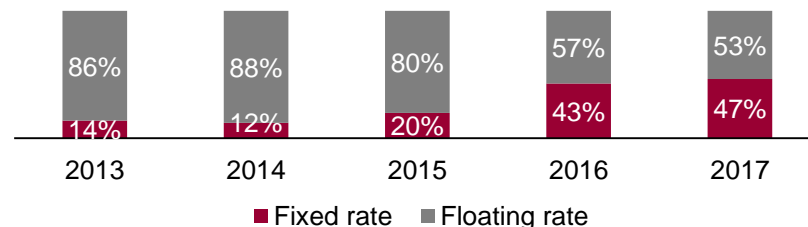
## A long average remaining lease term<sup>2</sup>

Number of years



## Proportion of fixed rate debt also rising<sup>5</sup>

- Hedged c.70% of mismatched interest rate exposure
- A 25 basis points increase in interest rates on our floating rate leases, deposits and debt, holding all other variables constant, could decrease our annual NPAT by c.US\$2.6 million based on the lease portfolio, deposits and debt composition as at 31 December 2017



Source: Respective company websites

All data as at 31 December 2017 unless otherwise indicated

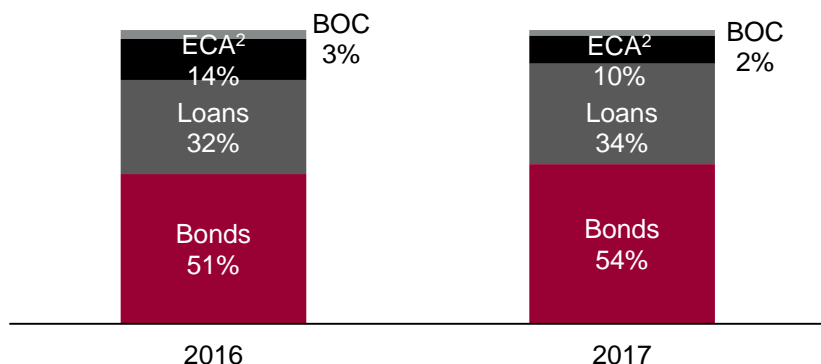
Notes:

- Owned aircraft with lease expiring in each calendar year adjusted for any aircraft for which BOC Aviation has sale or lease commitments, weighted by net book value including book value of assets held for sale
- Weighted by net book value of owned fleet as at 31 March 2018
- By net book value including aircraft held for sale and excludes one aircraft subject to finance lease
- Excluded aircraft off lease
- Fixed rate debt included floating rate debt swapped to fixed rate liabilities

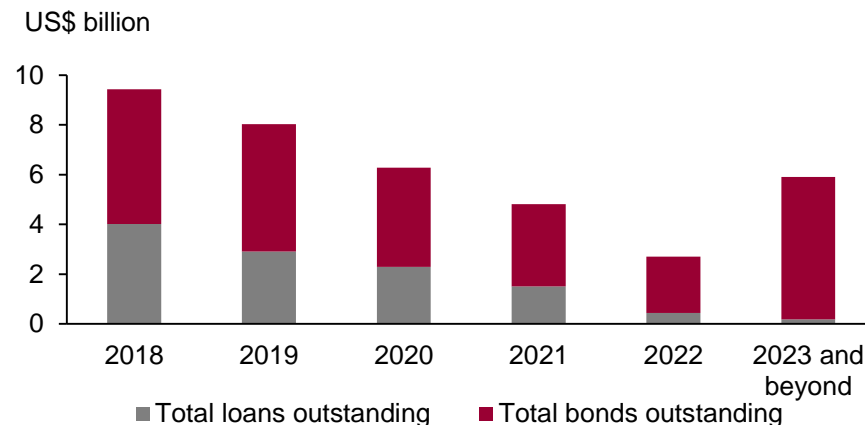


# Flexible and Well-Funded Capital Structure

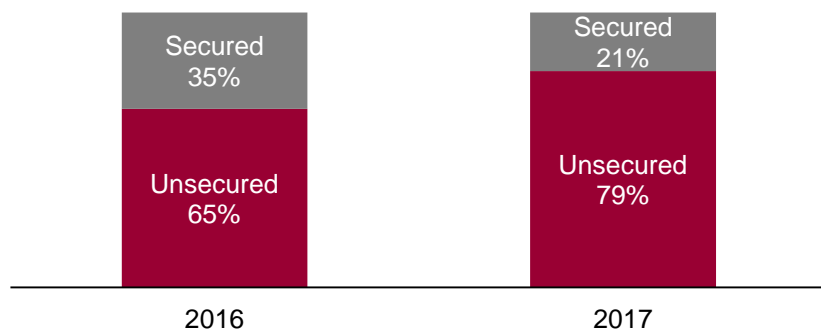
## Sources of debt<sup>1</sup>



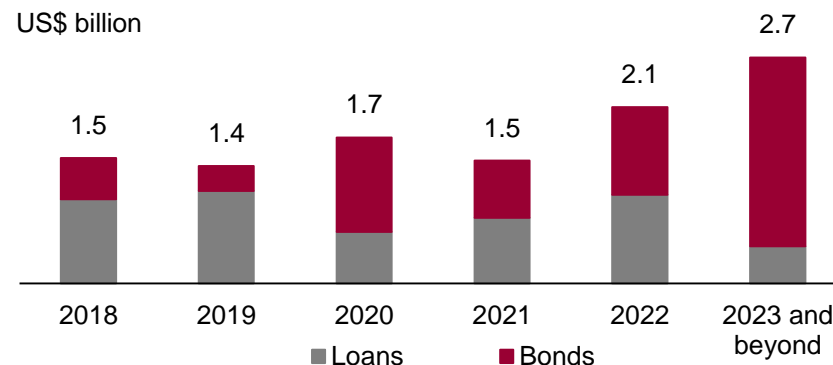
## Outstanding debt amortises over nine years



## Increasing unsecured funding



## Debt repayment by year



**Undrawn committed credit lines of US\$3.7 billion as at 31 December 2017**

All data as at 31 December 2017

Notes:

1. Drawn debt only
2. ECA refers to debt guaranteed by the export credit agencies of France, Germany, the United Kingdom or the United States



# Popular and Fuel-Efficient Fleet

## Our Aircraft Portfolio

Aircraft Type	Owned Aircraft <sup>1</sup>	Managed Aircraft	Aircraft on Order <sup>2</sup>	Total
Airbus A320CEO family	135	11	0	146
Airbus A320NEO family	8	0	58	66
Airbus A330CEO family	12	7	0	19
Airbus A330NEO family	0	0	2	2
Airbus A350 family	2	0	4	6
Boeing 737NG family	105	9	9	123
Boeing 737 MAX family	0	0	84	84
Boeing 777-300ER	23	1	0	24
Boeing 777-300	0	1	0	1
Boeing 787 family	1	0	10	11
Freighters	5	1	0	6
<b>Total</b>	<b>291</b>	<b>30</b>	<b>167</b>	<b>488</b>

All data as at 31 March 2018

Notes:

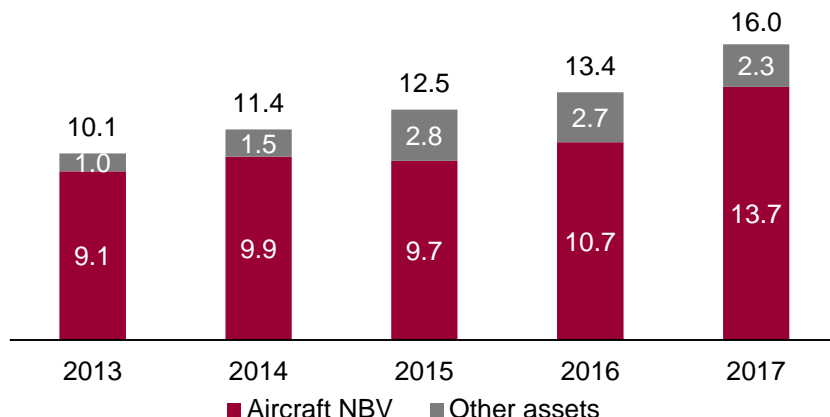
1. Includes one aircraft subject to finance lease
2. Includes all commitments to purchase aircraft including those where an airline customer has the right to acquire the relevant aircraft on delivery



# Orderbook Underpins Future Balance Sheet Growth

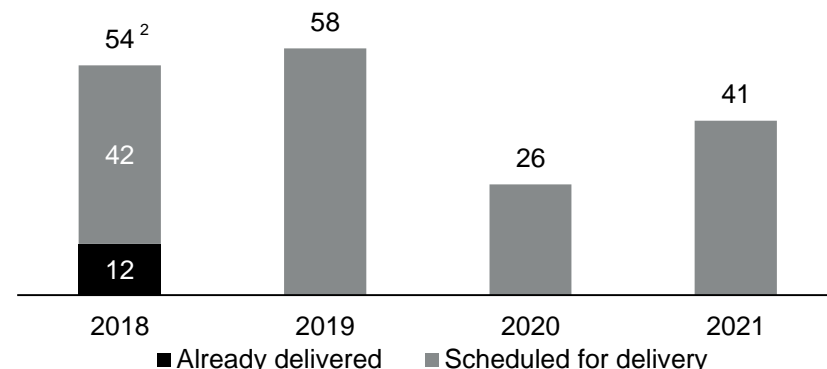
## Growing balance sheet

US\$ billion



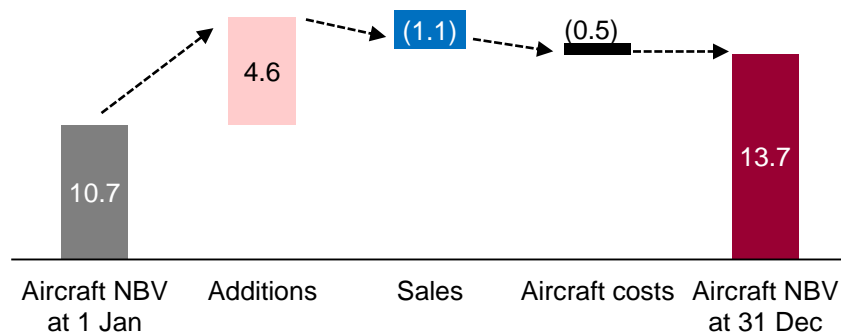
## Committed deliveries of 167 aircraft until 2021<sup>1</sup>

Number of aircraft



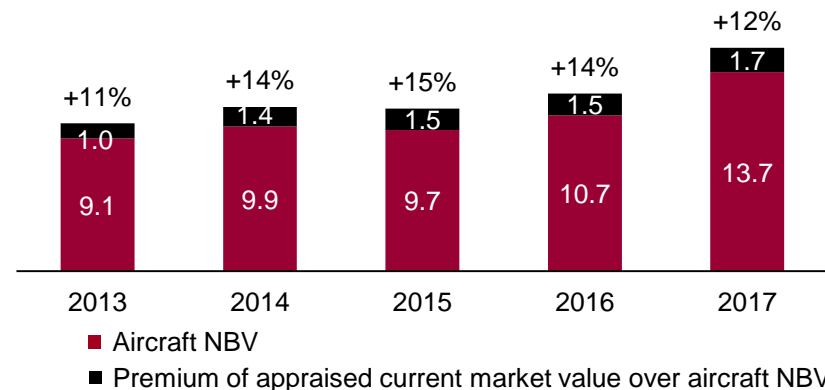
## Fleet NBV evolution

US\$ billion



## Premium over aircraft NBV<sup>3,4</sup>

US\$ billion



All data as at 31 December 2017 unless otherwise indicated

Notes:

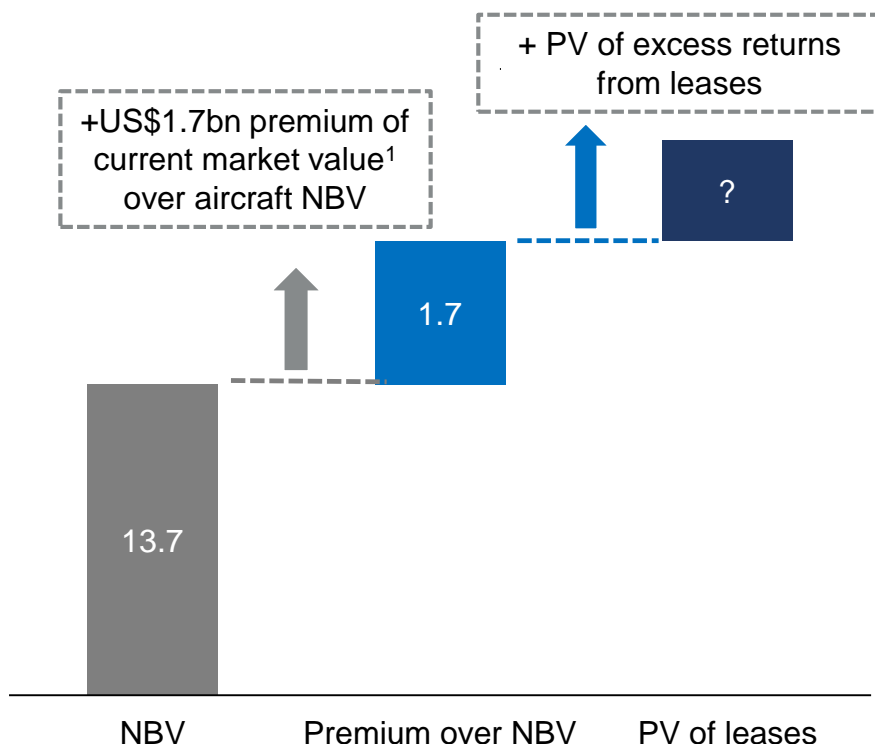
- As at 31 March 2018
- Excludes three A320CEO family aircraft ordered subsequent to 31 March 2018 and scheduled for delivery in December 2018
- Average of five appraisers
- Percentages refer to premium of appraised current market value over aircraft NBV



# Value Driven by Fleet and Committed Lease Revenues

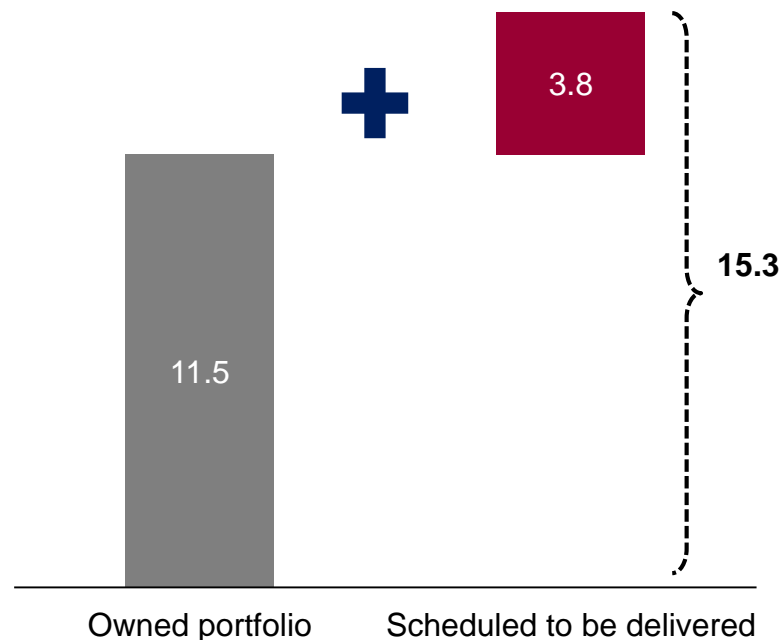
Net Book Value understates business value

US\$ billion



Committed future revenues of > US\$15 billion

US\$ billion



Committed future lease revenues create additional value

All data as at 31 December 2017

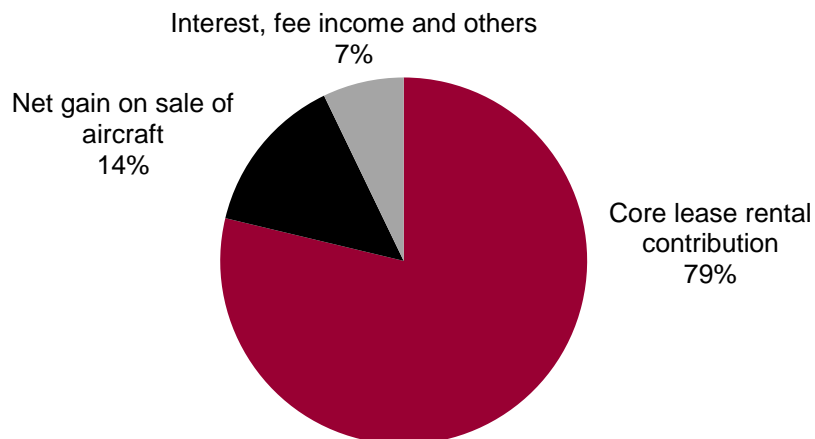
Note:

1. Based on an average of five independent appraisers' aggregate value for our owned fleet at US\$15.3 billion, on a full-life, current market value basis, which compared with a net book value of US\$13.7 billion

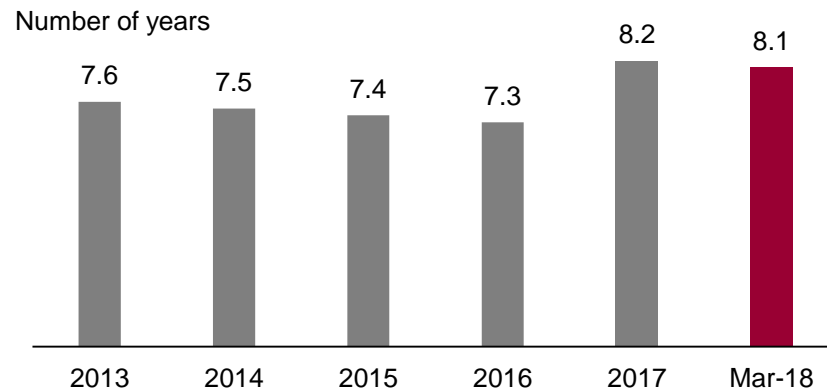


# Core Leasing Business Anchors Earnings Growth

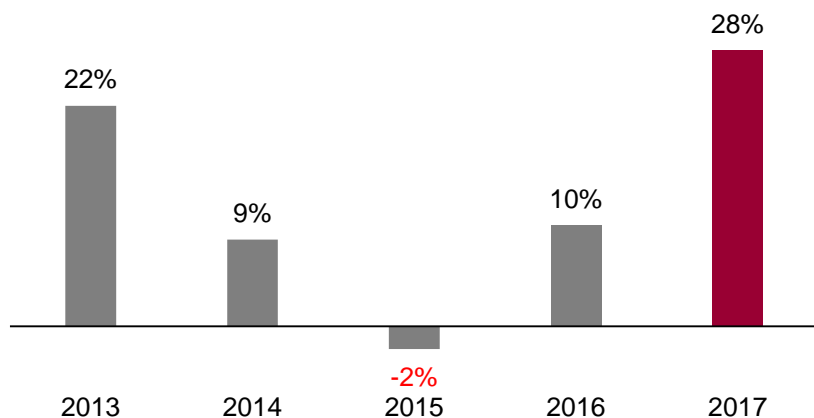
c.80% of PBT is from core lease rental contribution<sup>1</sup>



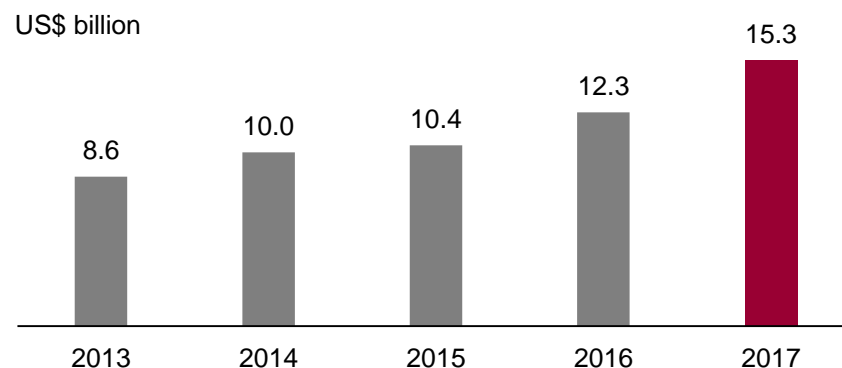
We have a longer average remaining lease term<sup>2</sup>



... and rises with fleet NBV



... and steady increases in future committed lease revenue



All data as at 31 December 2017 unless otherwise indicated

Notes:

1. Calculated as lease rental income less depreciation and finance expenses, amortization of debt issue costs and lease transaction closing costs
2. Weighted by net book value of owned fleet as at 31 March 2018



# Conclusion

- Attractively valued on any metric
- Leading player in a growth market and located at that market's epicentre
- Committed to increasing shareholder value
  - US\$15.3 billion pipeline of future committed revenue
  - Best in class funding costs
- Management team experience amongst the best in the world
  - Average 28 years of aviation, leasing and banking experience for senior management
  - Industry's longest-serving CEO with any one company
  - Management now even more aligned with investors through share ownership
- Established track record of operational and financial excellence as Asia's only major specialized aircraft operating leasing company

**BOC Aviation - a Company worth investing in**



# APPENDICES



# BOC Aviation – Who Are We?

- One of the world's top five aircraft lessors
  - The largest in Asia
  - Listed on HKEX
  - Bank of China owns 70%
- Total assets of US\$16.0 billion
  - 488 aircraft<sup>1</sup>
- 24 years of unbroken profitability
- Industry-leading financial metrics – average ROE of 15% over the last ten years
- Investment grade credit ratings of A- from S&P Global Ratings and Fitch Ratings

**An established lessor with deep management experience**

All data as at 31 December 2017 unless otherwise indicated

Note:

1. Includes owned, managed and aircraft on order as at 31 March 2018



# Core Competencies – a Reminder

## Since inception in 1993:

- |              |   |
|--------------|---|
| • Purchasing | 750 aircraft purchased totalling more than US\$39 billion                 |
| • Leasing    | 790 leases executed with > 150 airlines in 52 countries and regions       |
| • Financing  | More than US\$22 billion in debt raised since 1 January 2007 <sup>1</sup> |
- 
- |                 |  |
|-----------------|--|
| • Sales         | More than 290 aircraft sold                  |
| • Transitions   | More than 70 transitions                     |
| • Repossessions | 36 aircraft in 13 jurisdictions <sup>2</sup> |

All data as at 31 March 2018, since inception unless otherwise indicated

Notes:

1. As at 31 December 2017

2. Includes repossessions and consensual early returns



# The BOC Aviation Journey

## Ownership

- 1993 SALE established with 50:50 joint ownership between Singapore Airlines and Boullion Aviation Services
- 1997 Temasek and GIC each became 14.5% shareholders
- 2006 Bank of China acquired 100% of SALE on 15 Dec 2006
- 2016 Listed on HKEx on 1 June
  - 70% by Bank of China
  - 30% by public float

## Total Assets

- 1997 >US\$0.3B
- 2000 >US\$1B
- 2006 >US\$3B
- 2009 >US\$5B
- 2013 >US\$10B
- 2017 US\$16B

**BOC Aviation will be celebrating our 25th Anniversary in November 2018!**

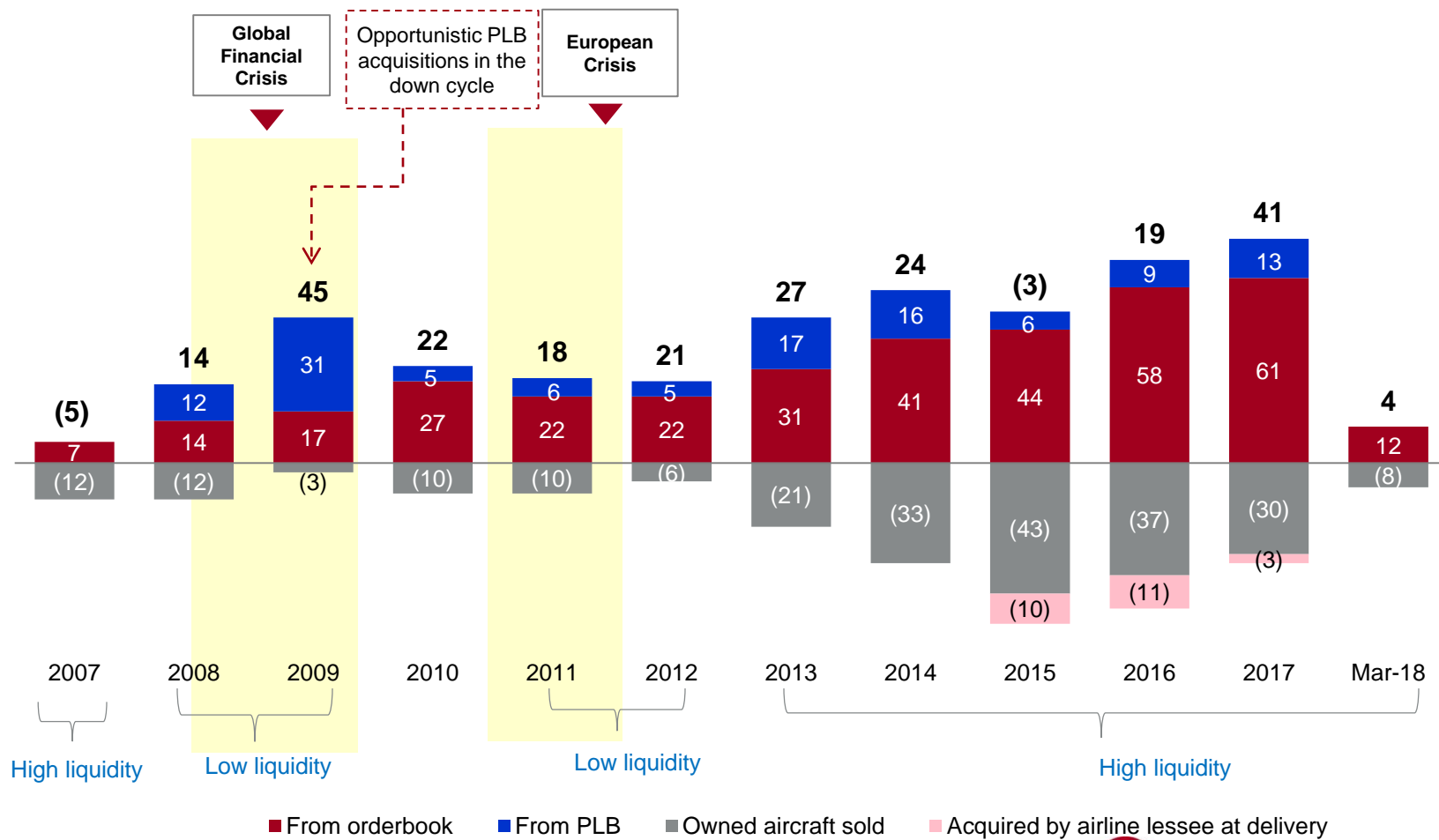
All data as at 31 December 2017 unless otherwise indicated



**BOC AVIATION**

# How We Invest

## Number of aircraft delivered, purchased and sold



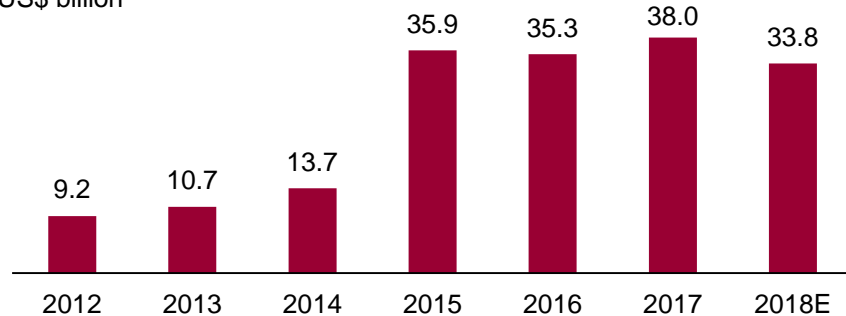
All data as at 31 December of relevant year unless otherwise indicated



# Positive Environment with Airline Profitability near Records

## Elevated airline profitability sustained

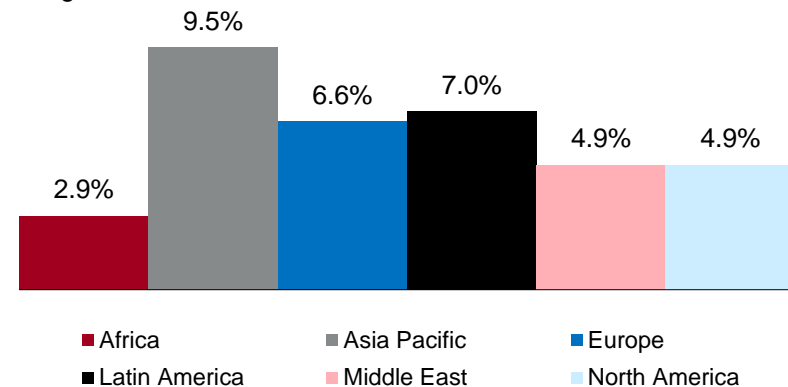
Aggregate net profit  
US\$ billion



Source: IATA (June 2018)

## Emerging markets continue to record high air traffic growth

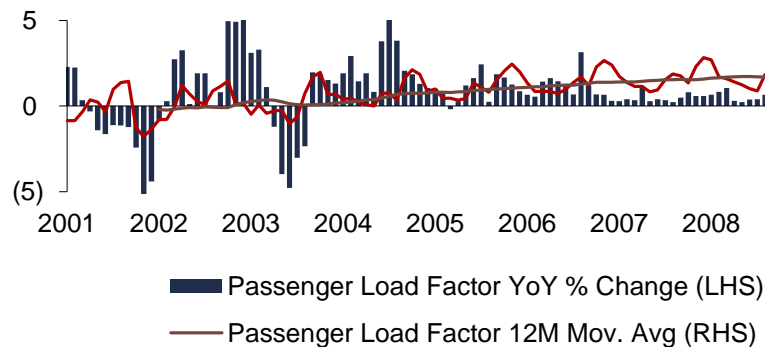
RPK growth, YTD



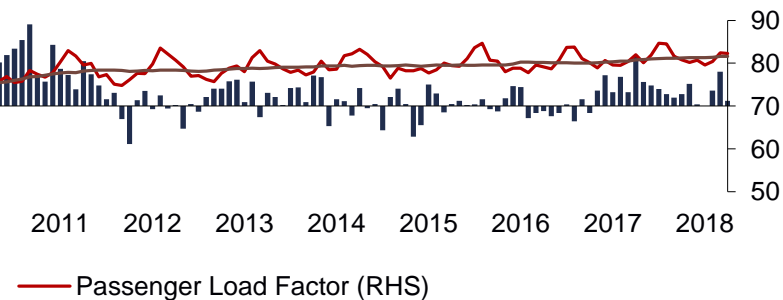
Source: IATA (April 2018)

## High load factors suggest well-managed capacity

Passenger Load Factor  
YoY change, %



Passenger Load Factor  
%

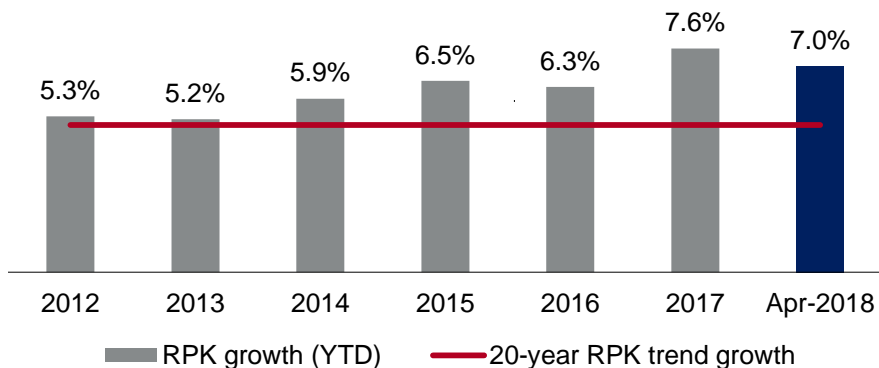


Source: IATA (April 2018)



# Underlying Traffic Growth Positive for Core Leasing Business

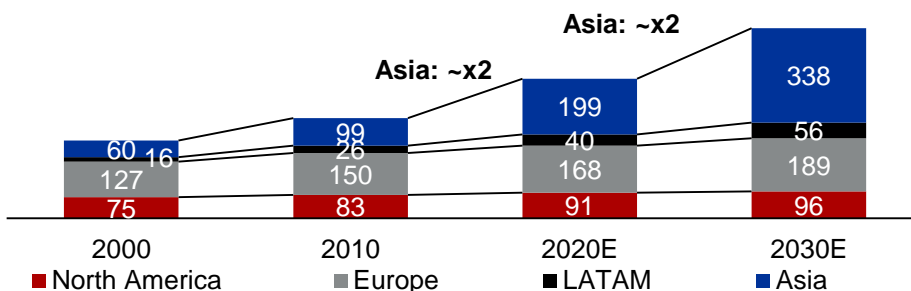
## Above-trend passenger demand growth



Source: IATA (April 2018)

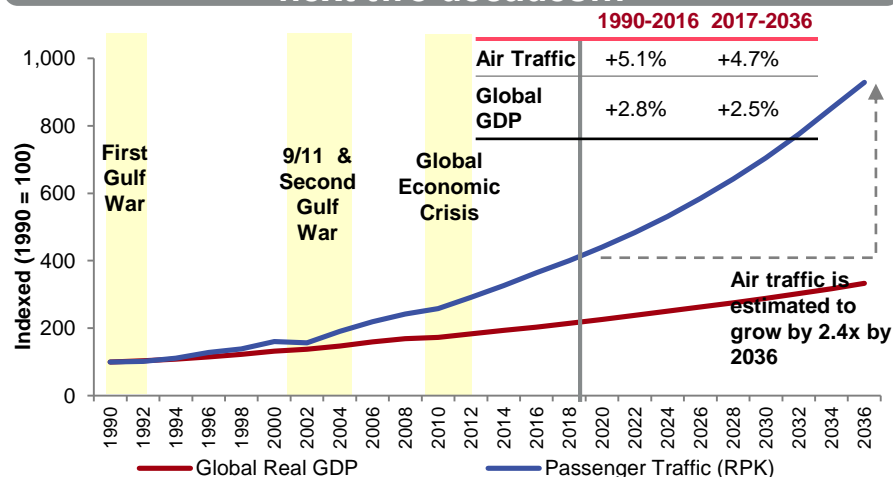
## Growth in the middle classes<sup>1</sup> to be driven by emerging economies

Middle class households (million)



Source: Euromonitor

## Air traffic estimated to grow by c.150% in the next two decades...



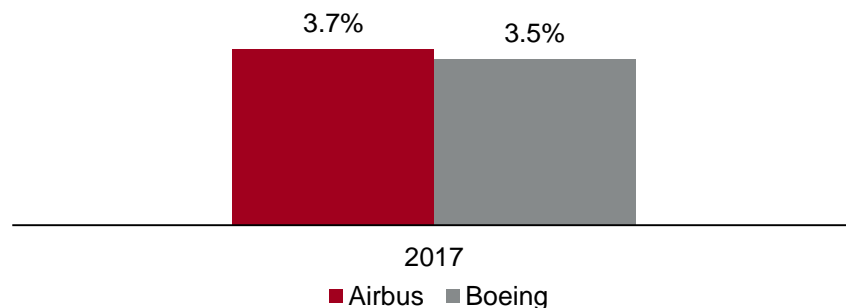
Source: Ascend Flightglobal Fleet Forecast 2015, Oxford Economics, Boeing Current Market Interactive Forecast 2017-2036

Note:

1. Defined as number of households with yearly income between US\$25,000 and US\$150,000

## Fleet expected to double in the next 20 years

20-year fleet growth rate, %

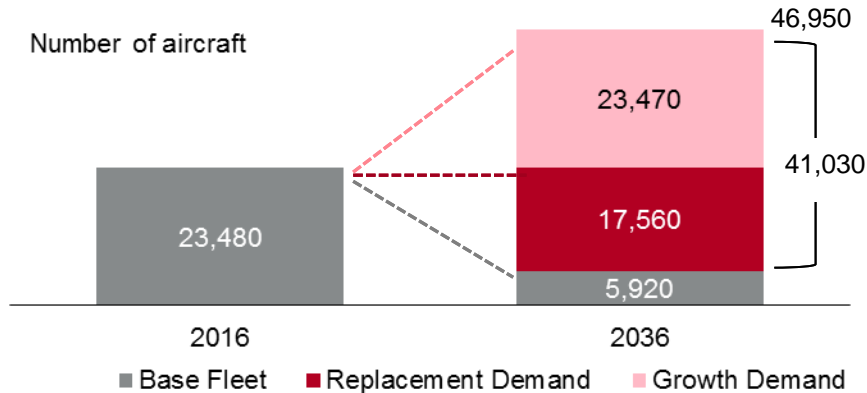


Source: Airbus Global Market Forecast, Boeing Capital Market Outlook



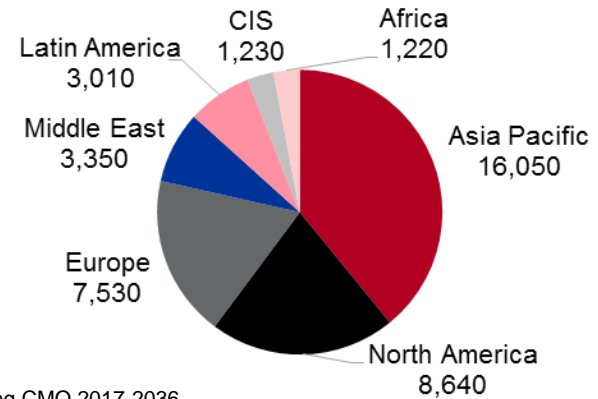
# Aircraft Operating Leasing Drivers

## Demand driven by market growth and replacement of old aircraft



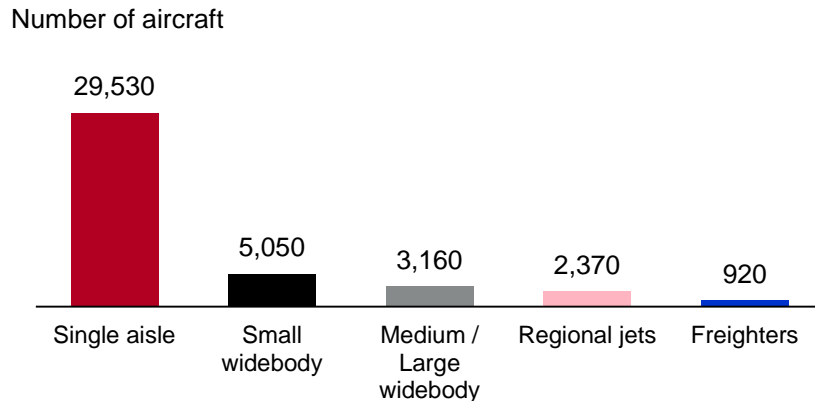
Source: Boeing CMO 2017-2036

## New aircraft demand led by Asia Pacific



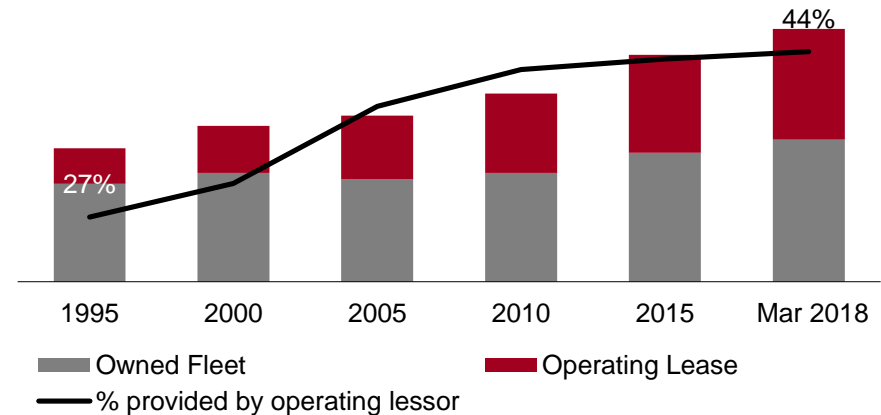
Source: Boeing CMO 2017-2036

## Predominantly single aisle aircraft



Source: Boeing CMO 2017-2036

## Share of operating lessors now stable



Source: Ascend, 31 March 2018

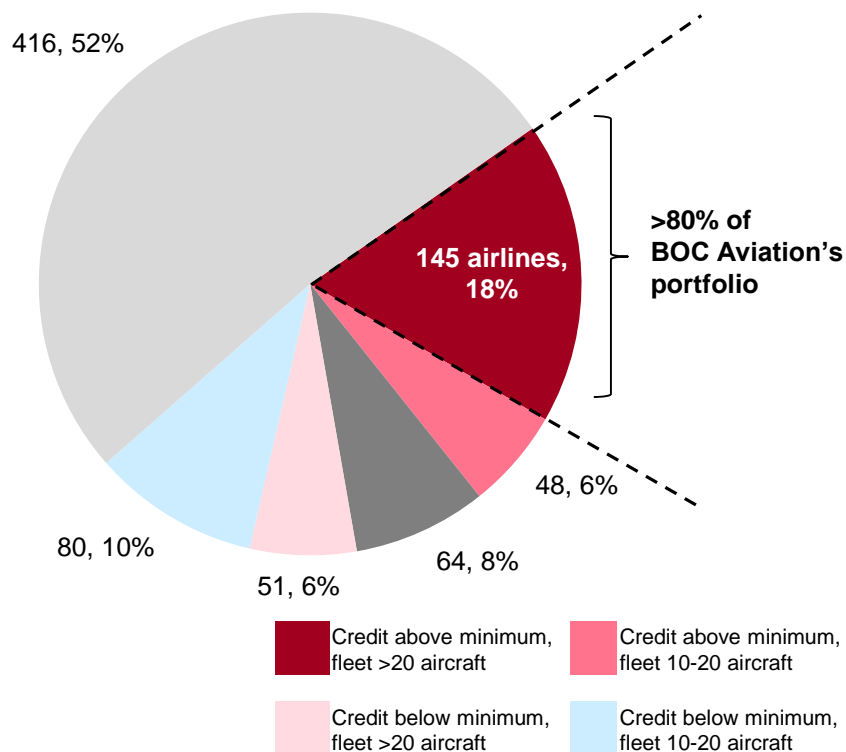


**BOC AVIATION**

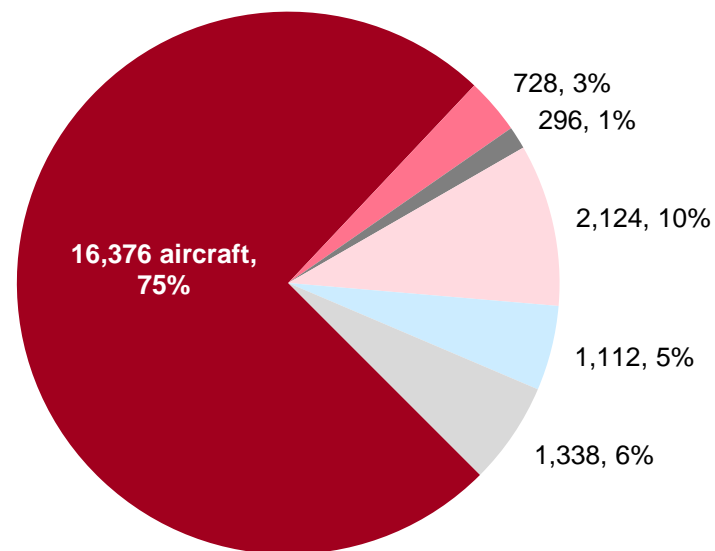
# Leasing: Customer Segmentation

- 804 airlines in service today
- Focus on 145 airlines or only 18% of the airlines in the market – minimum credit score, above 20 aircraft

**Airline Segmentation by Credit Score and Fleet Size**



**Our Target 145 Airlines Operate 75% of the Current In-service Aircraft**





[www.bocaviation.com](http://www.bocaviation.com)