

# UBS Business Services, Leisure and Transport Conference 2018

London

September 2018



25  
YEARS  
OF EXCELLENCE

 **BOC AVIATION**

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# 1H18 OVERVIEW



# 1H18 - Another Record Performance

## Strong earnings growth<sup>1</sup>

**US\$297 million**

Net profit after tax

 **24%**

**US\$0.43**

Earnings per share<sup>2</sup>

 **24%**

### Driven by:

**US\$825 million**

Total revenues and other income

 **23%**

**US\$312 million**

Core lease rental contribution<sup>3</sup>

 **20%**

**8.5%**

Net lease yield<sup>4</sup>

 **Stable**

## Robust balance sheet<sup>5</sup>

**US\$17.1 billion**

Total assets

 **7%**

**US\$4.0 billion**

Total equity

 **4%**

**US\$5.75**

Net assets per share<sup>2</sup>

 **4%**

## Higher dividend per share

**US\$0.1284**

Interim dividend per share<sup>6</sup>

 **24%<sup>7</sup>**

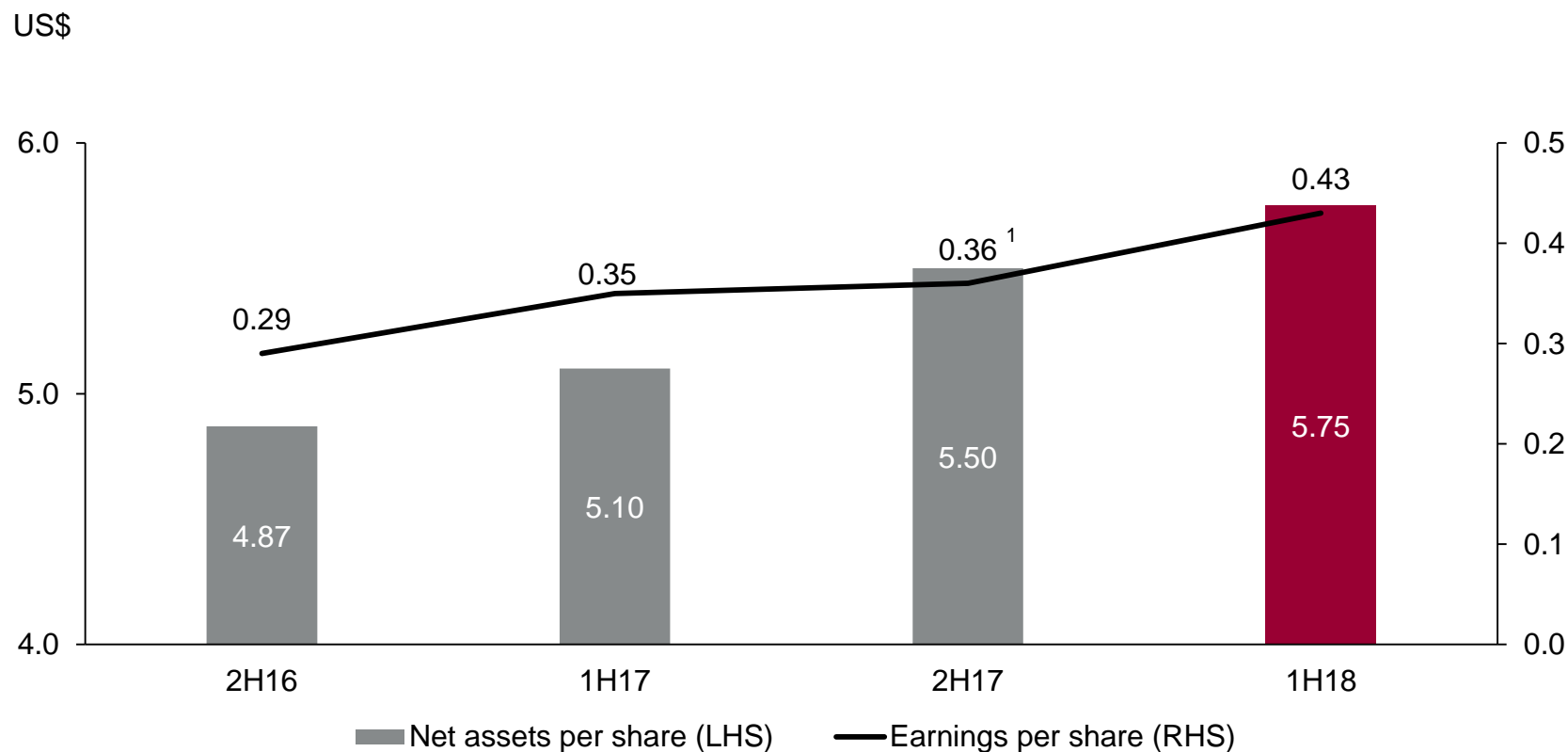
All data as at 30 June 2018

Notes:

1. Compared to the first six months of 2017
2. Based on the number of shares outstanding as at the end of the relevant period
3. Calculated as lease rental income less depreciation and finance expenses, amortization of debt issue costs and lease transaction closing costs
4. Calculated as lease rental income less finance expenses divided by average net book value of aircraft
5. Compared to 31 December 2017
6. Payable to shareholders registered at the close of business on the record date, being 5 October 2018
7. Compared to US\$0.1038 paid for 1H17



# Continued Growth in Net Assets and Earnings Per Share



**18% EPS CAGR since IPO**

All data as at the end of the relevant period

Note:

1. Excludes the adjustment for net deferred tax liabilities in the USA



# Strong Operational Performance

- Ended June 2018 with total fleet of 487<sup>1</sup>
  - Portfolio utilization of 100% and cash collection rate of 99.5%
  - Average fleet age of 3.0 years<sup>2</sup>
  - Average lease term of 8.3 years<sup>2</sup>
- Took delivery of 27 aircraft in 1H18<sup>3</sup>
  - Delivered our 250<sup>th</sup> Boeing and first Boeing 737 MAX 8 aircraft
  - Added ten new airline customers
- Signed 30 lease commitments in 1H18
- Sold 18 owned and one managed aircraft in 1H18
- Increased 2018 CAPEX by US\$0.9 billion to US\$3.5 billion
  - 31 deliveries from our orderbook scheduled for delivery in 2H18
  - Announced the purchase of eight<sup>4</sup> new Airbus A330NEO family aircraft in August 2018, scheduled for delivery to Lion Air Group in 2019/20

**Strong momentum from 1H18 sustained into 2H18**

All data as at 30 June 2018 unless otherwise indicated

Notes:

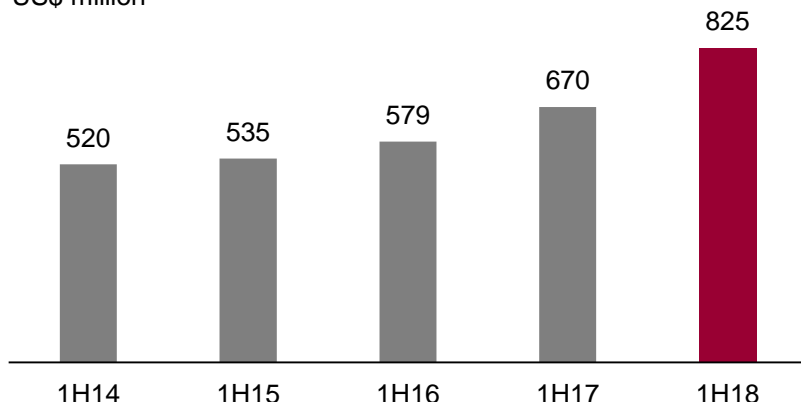
1. Included owned, managed and aircraft on order
2. Weighted by net book value of owned fleet
3. Including one acquired by an airline customer on delivery
4. Including four where the airline customer has the right to acquire the relevant aircraft on delivery



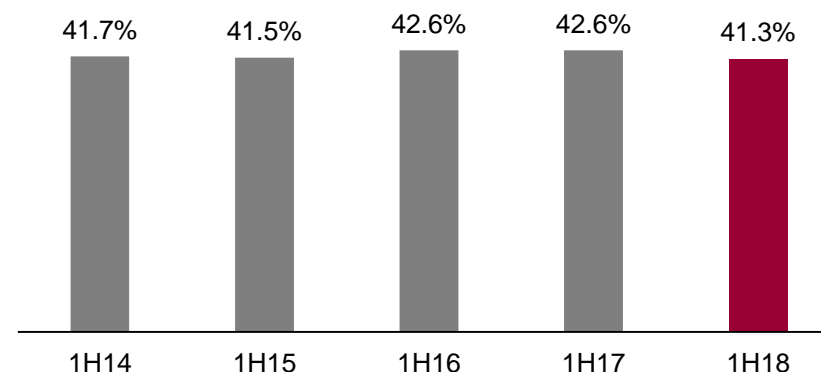
# 1H18 Revenue and NPAT Growth

## Fleet growth underpins lift in revenues

US\$ million

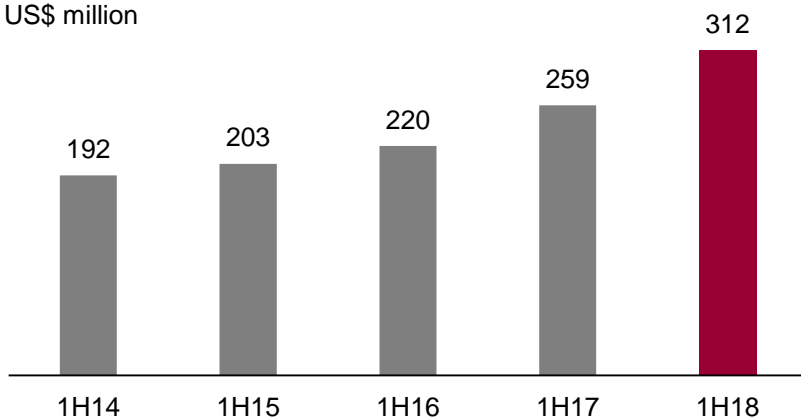


## Operating margin > 40%<sup>2</sup>



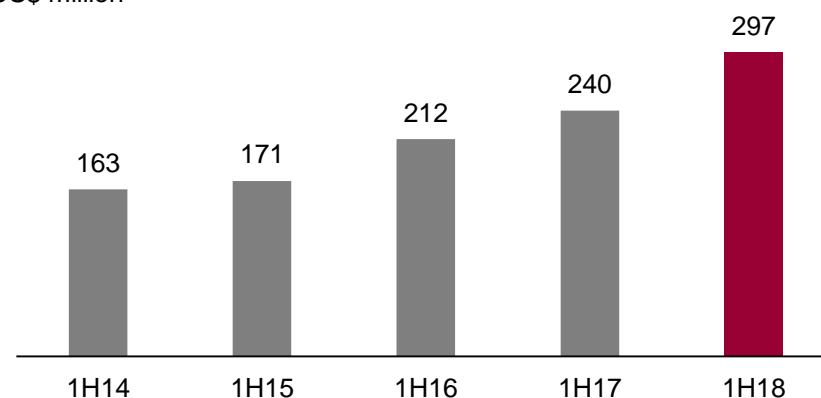
## Higher core lease rental contribution<sup>1</sup>

US\$ million



## Strong NPAT growth

US\$ million



All data as at 30 June 2018

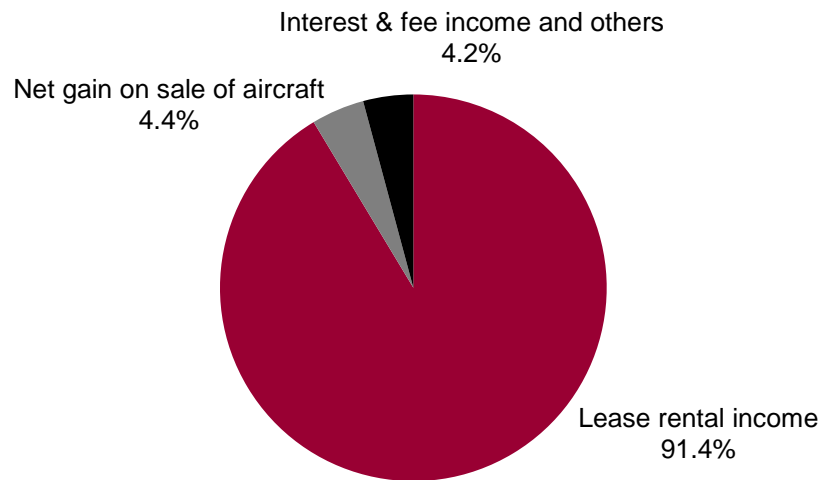
Notes:

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

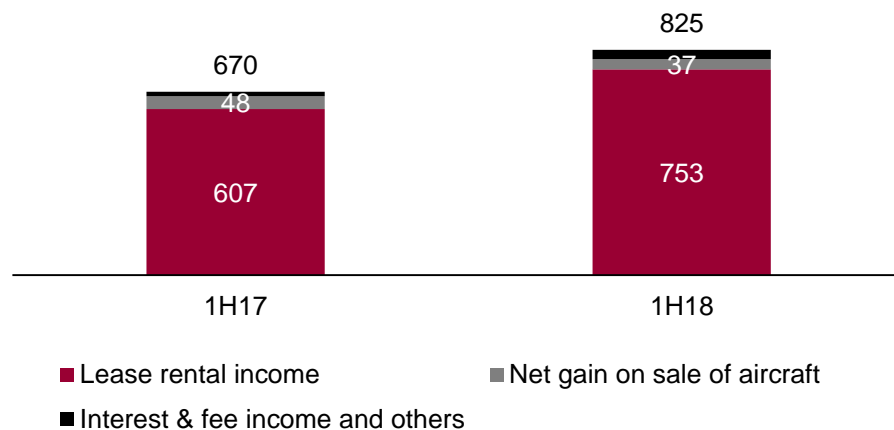


# Lease Rental Income Dominates P&L

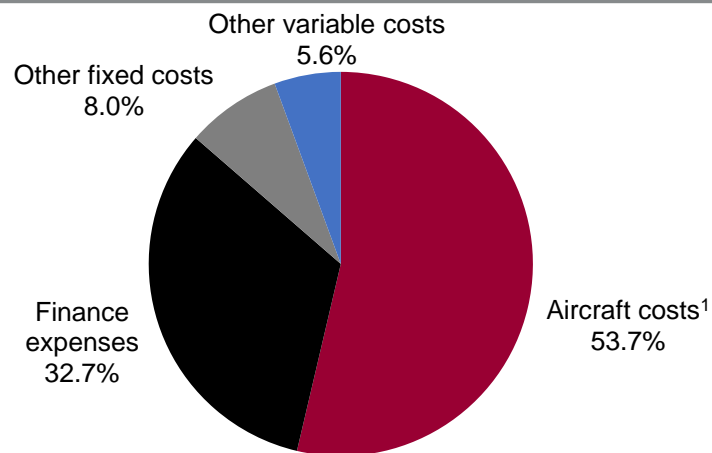
Lease rental income consistently c.90% of total revenue and other income



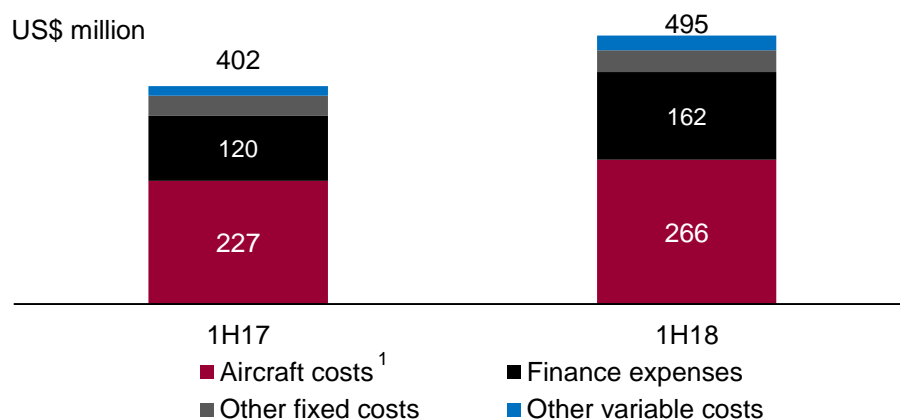
US\$ million



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



US\$ million



All data as at 30 June 2018

Note:

1. Comprises aircraft depreciation and impairment charges

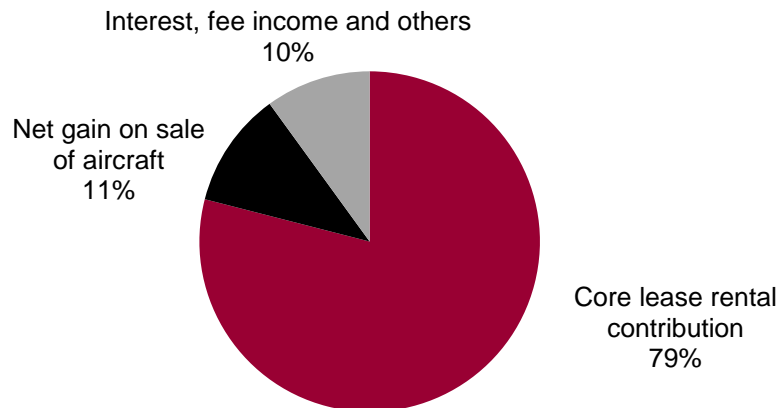


**BOC AVIATION**



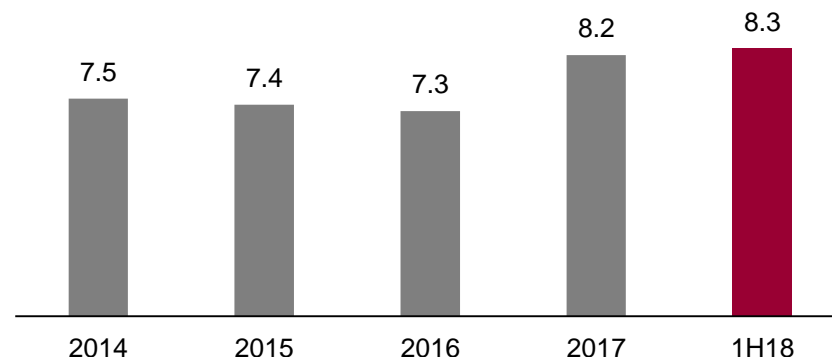
# Core Leasing Business Anchors Earnings Growth

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

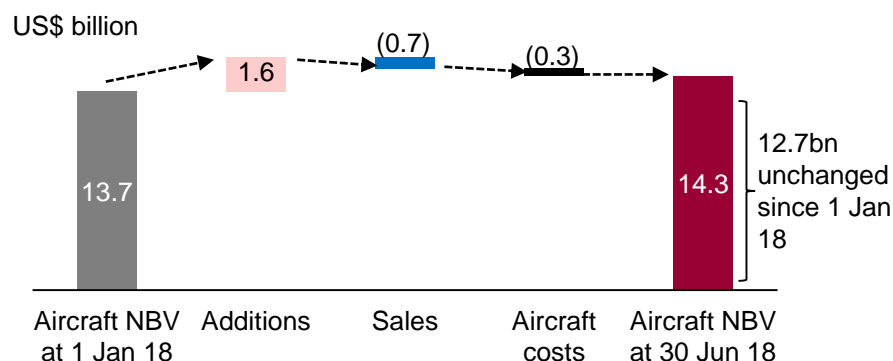


We have a longer average remaining lease term<sup>2</sup>

Number of years

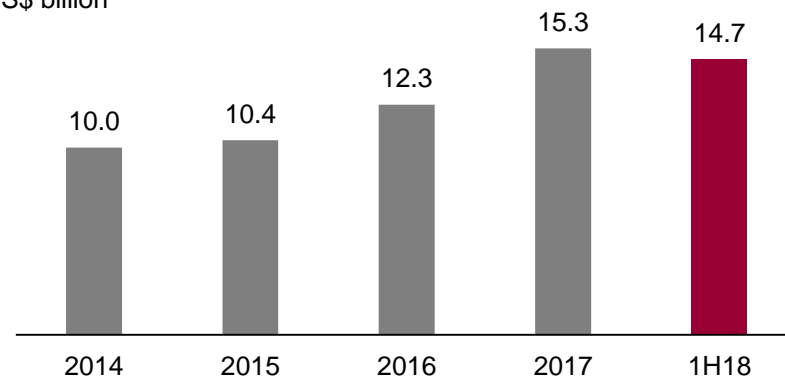


...and reflects rising investment in our fleet



... and high future committed lease revenue

US\$ billion



All data as at 30 June 2018 unless otherwise indicated

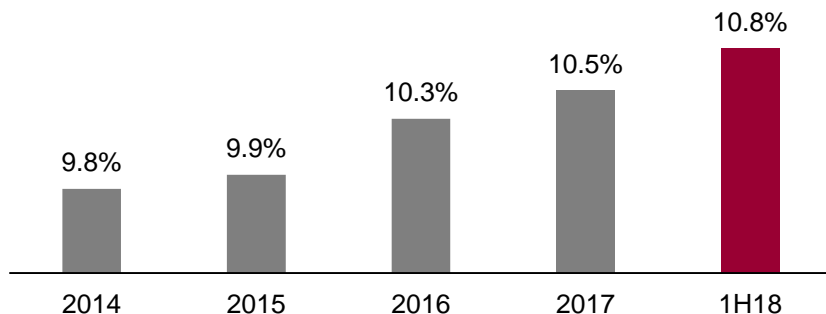
Notes:

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

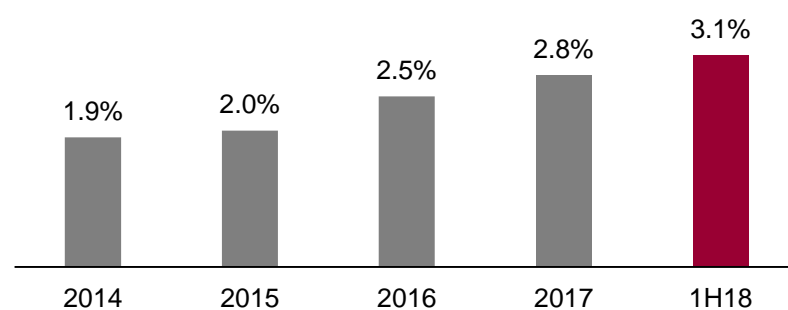


# Consistently High Net Lease Yield Drives Profitability

Higher lease rate factor<sup>1,5</sup> reflects increased proportion of fixed rate leases

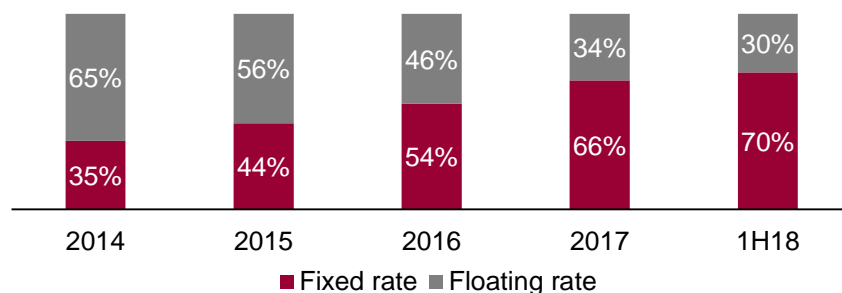


... with a higher proportion of fixed rate debt affecting finance expenses<sup>3,5</sup>

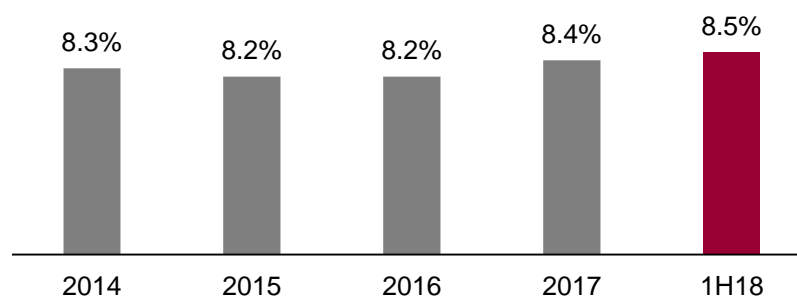


Proportion of fixed rate leases rising steadily<sup>2</sup>

By net book value



Maintaining net lease yield > 8%<sup>4,5</sup>



All data as at 30 June 2018

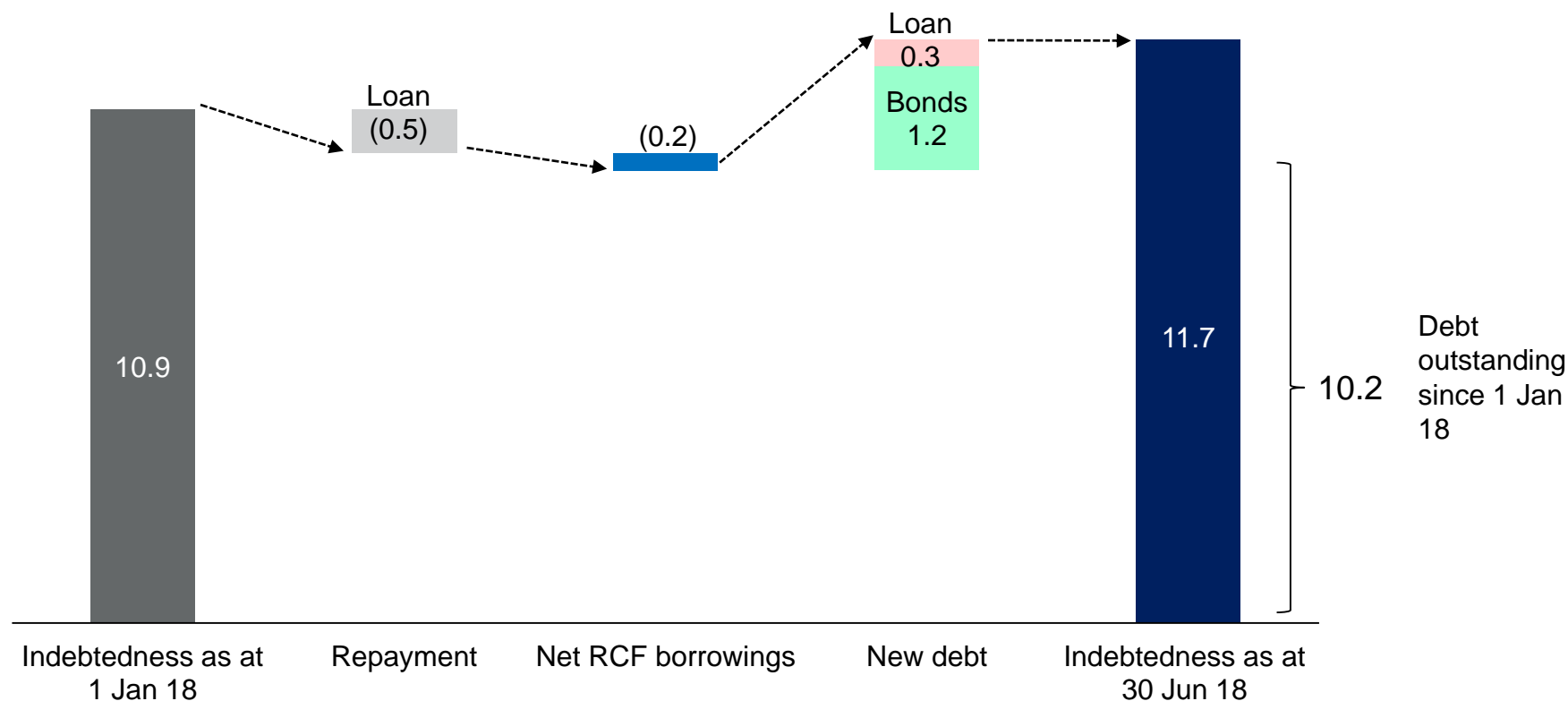
Notes:

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 and excluding aircraft subject to finance lease as well as aircraft off lease
3. 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, revaluations and discounts/premiums to medium term notes
4. Calculated as lease rental income less finance expenses divided by average net book value of aircraft
5. 1H18 calculated on annualised basis



# Debt Stability Reduces Finance Expense Volatility

US\$ billion



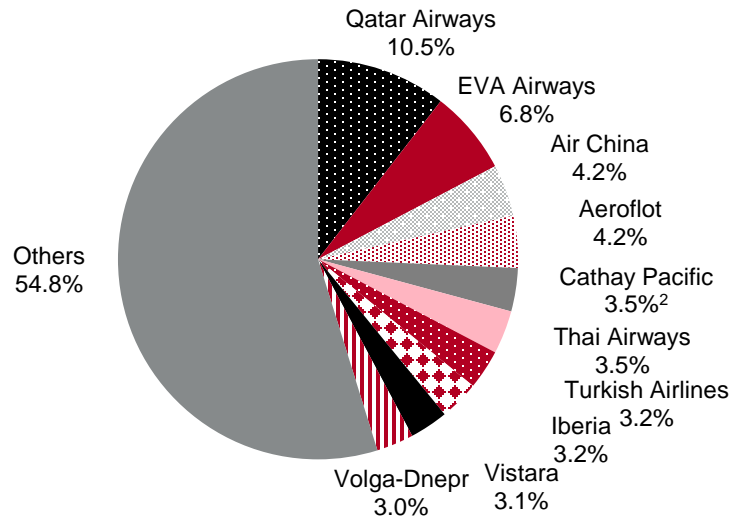
**Over 90% of debt unchanged from 1 January 2018**

All data as at 30 June 2018

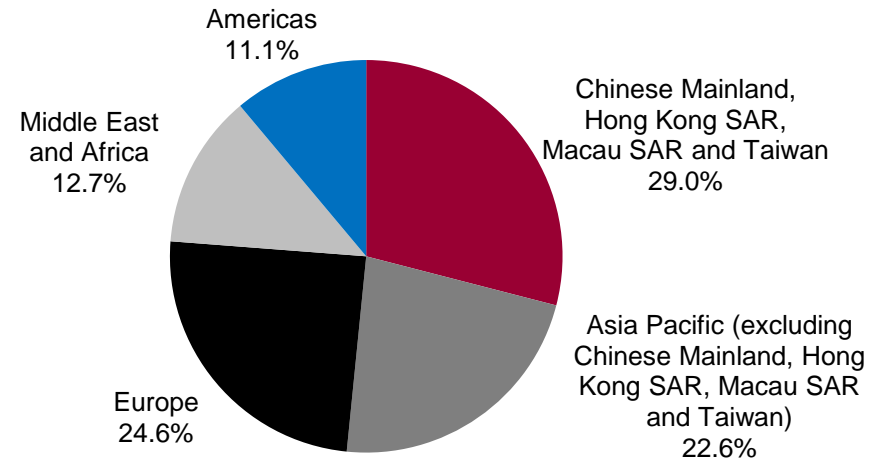


# Diversified Portfolio Delivers High Utilization, High Collection Rate

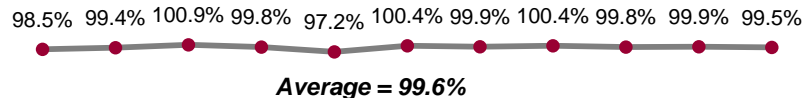
## Lease portfolio diversified by customer<sup>1,3</sup>



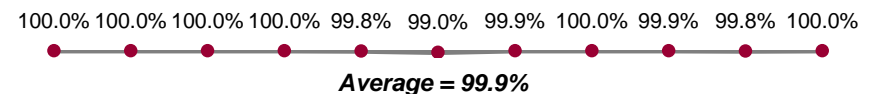
## ...and diversified by geography<sup>1,3</sup>



## High collection rate



## High fleet utilization<sup>4</sup>



All data as at 30 June 2018 unless otherwise indicated

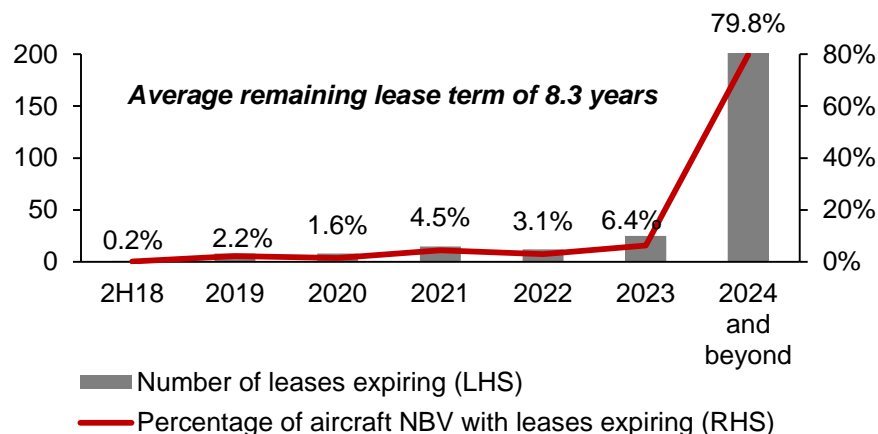
Notes:

1. Based on net book value as at 30 June 2018
2. Includes our leases with Cathay Pacific (Hong Kong) and Cathay Dragon (Hong Kong)
3. 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
4. Fleet utilization is the total days on-lease in the period as a percentage of total available lease days in the period



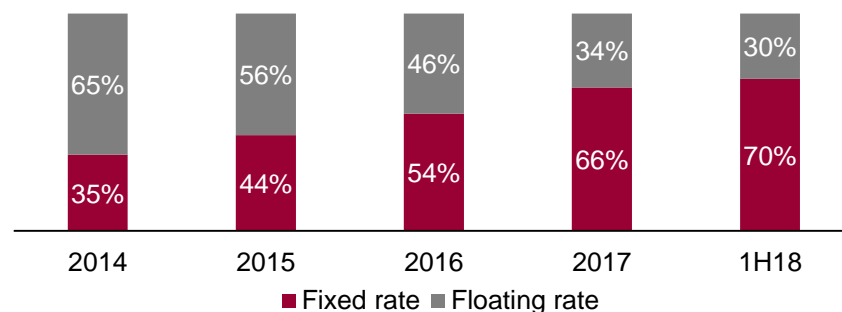
# Long-term Contracted USD Cash Flows

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



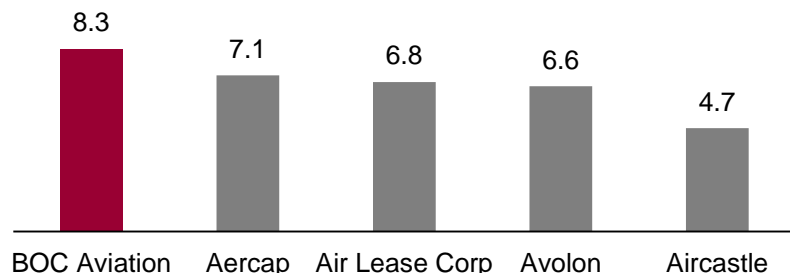
## Proportion of fixed rate leases rising steadily<sup>3</sup>

By net book value



## Long average remaining lease term<sup>2</sup>

Number of years



Source: Respective company websites

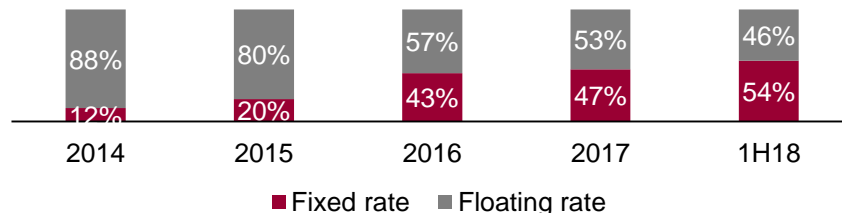
All data as at 30 June 2018 unless otherwise indicated

Notes:

1. 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 and excluding aircraft subject to finance lease
2. Weighted by net book value of owned fleet as at 30 June 2018
3. By net book value including aircraft held for sale, as well as excluding aircraft subject to finance lease and aircraft off lease
4. Fixed rate debt included floating rate debt swapped to fixed rate liabilities

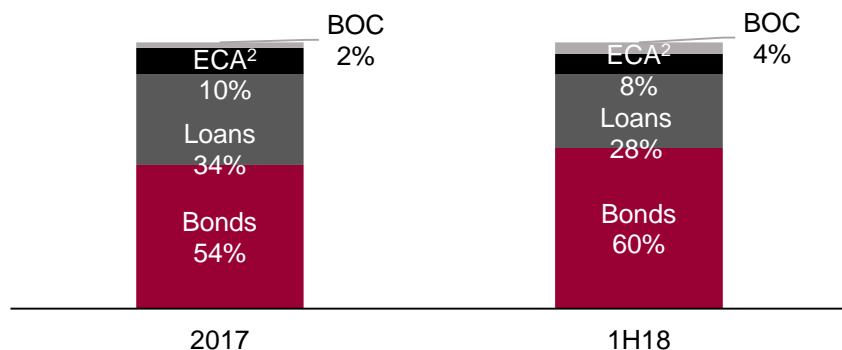
## Proportion of fixed rate debt also rising<sup>4</sup>

- Hedged c.80% 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\$1.8 million based on the lease portfolio, deposits and debt composition as at 30 Jun 18

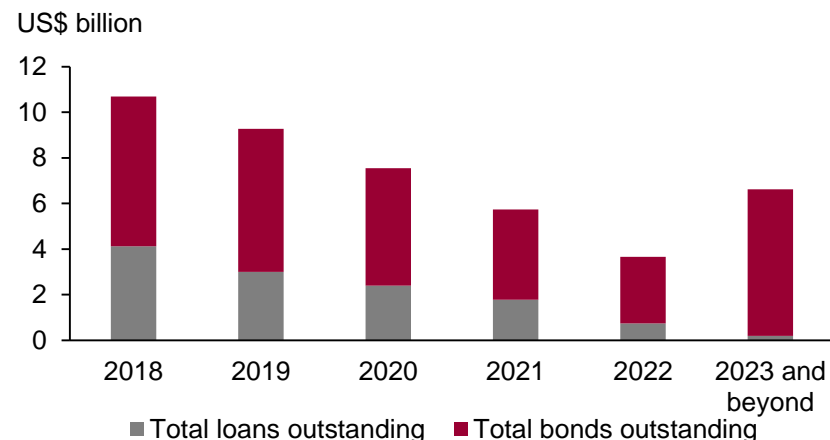


# Flexible Capital Structure and Ample Backstop Liquidity

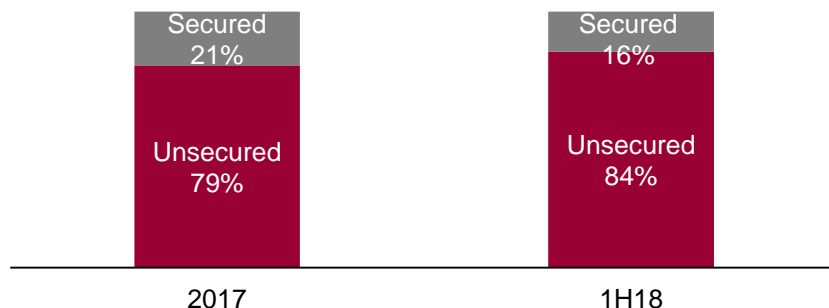
## Sources of debt<sup>1</sup>



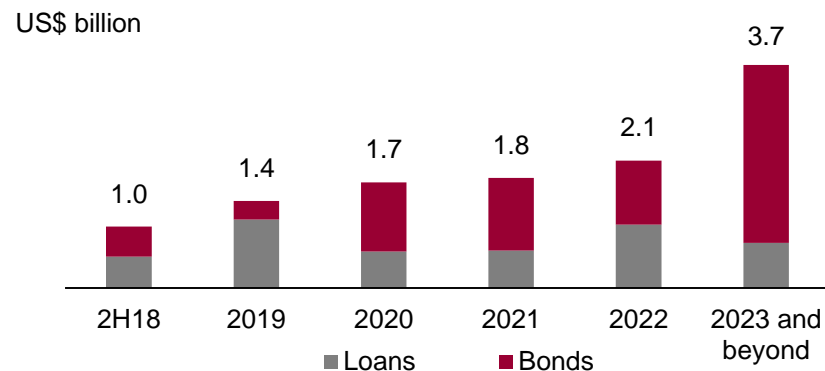
## Outstanding debt amortises over a long term



## Increasing unsecured funding



## Debt repayment by year



## Undrawn committed credit lines and cash of US\$3.9 billion

All data as at 30 June 2018 unless otherwise indicated

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	130	11	3	144
Airbus A320NEO family	12	0	58	70
Airbus A330CEO family	12	6	0	18
Airbus A330NEO family	0	0	2	2
Airbus A350 family	6	0	0	6
Boeing 737NG family	106	9	5	120
Boeing 737 MAX family	2	0	82	84
Boeing 777-300ER	21	1	0	22
Boeing 777-300	0	1	0	1
Boeing 787 family	1	0	13	14
Freighters	5	1	0	6
<b>Total</b>	<b>295</b>	<b>29</b>	<b>163</b>	<b>487</b>

All data as at 30 June 2018

Notes:

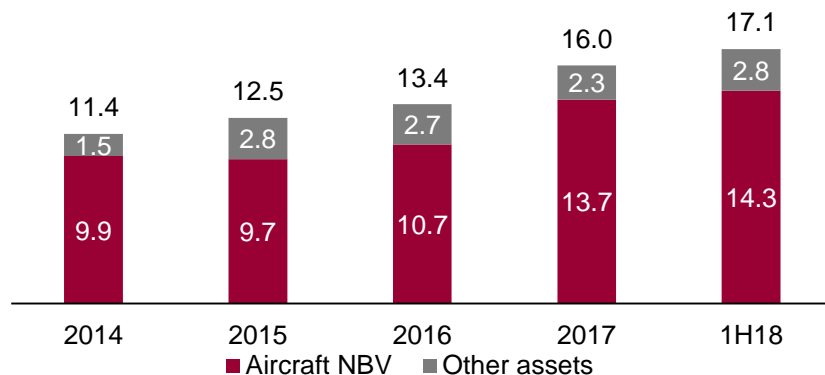
1. Includes one aircraft subject to finance lease
2. Includes all commitments to purchase aircraft including those where an airline customer has the right to acquire the relevant aircraft on delivery. Certain airline customers notified us of their intention to acquire on delivery a total of 14 of our aircraft on order, including five scheduled for delivery in the second half of 2018, comprising six Airbus A320NEO family aircraft, two Airbus A330NEO family aircraft and six Boeing 787 family aircraft.



# Orderbook Underpins Future Balance Sheet Growth

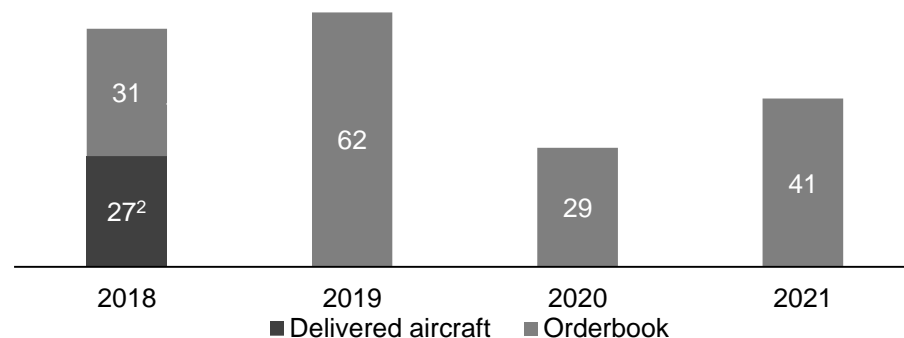
## Growing balance sheet

US\$ billion



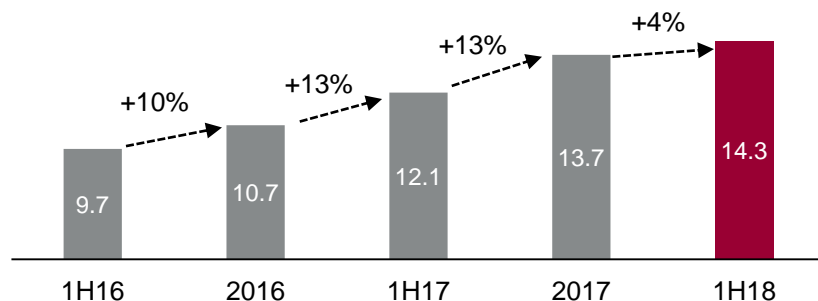
## Committed deliveries of 163 aircraft until 2021<sup>1</sup>

Number of aircraft



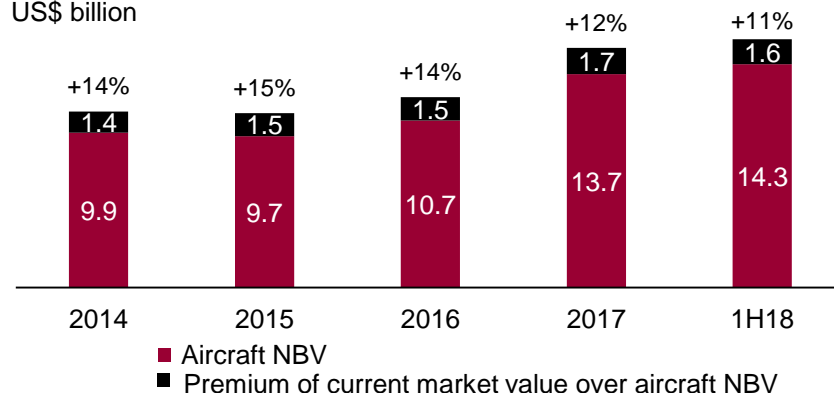
## NBV growth since IPO

US\$ billion



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

US\$ billion



**Aircraft net book value grew 18% in the last 12 months**

All data as at 30 June 2018 unless otherwise indicated

Notes:

- Includes all commitments to purchase aircraft including those where an airline customer has the right to acquire the relevant aircraft on delivery
- Includes one acquired by an airline customer on delivery
- Average of five appraisers
- Percentages refer to premium of appraised current market value over aircraft NBV

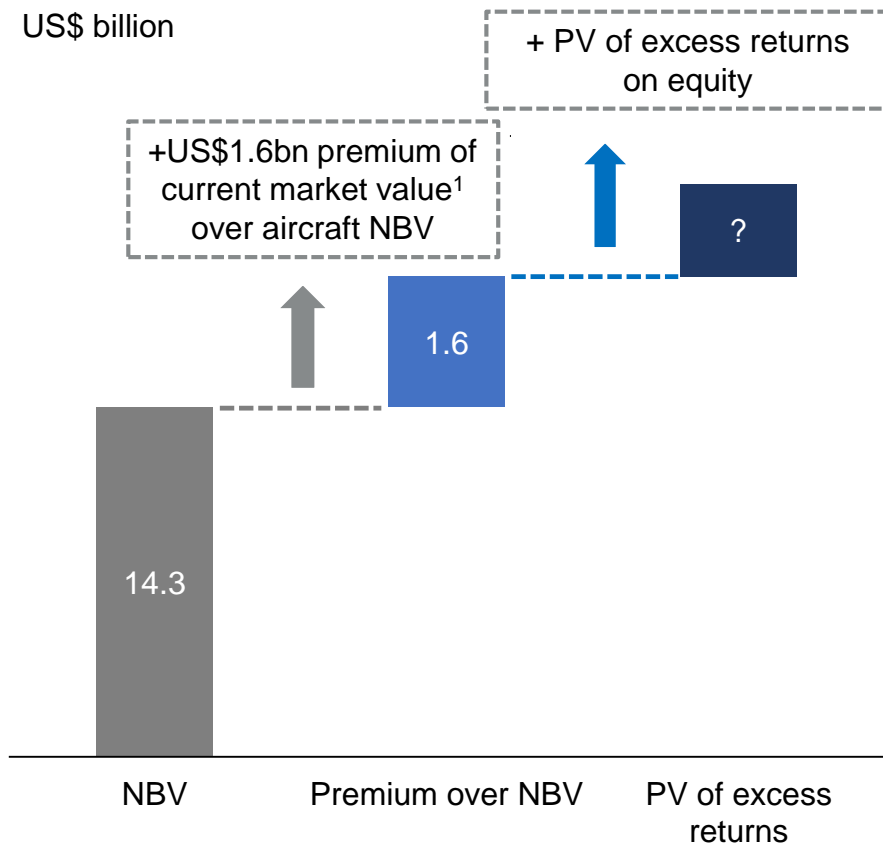




# Value Driven by Fleet and Committed Lease Revenues

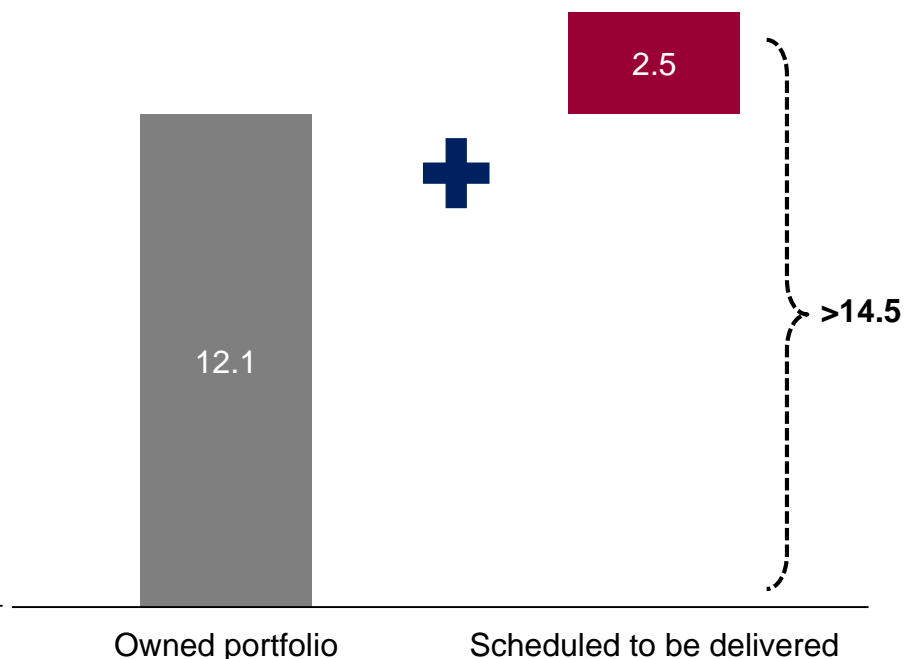
## Net book value understates business value

US\$ billion



## Committed future revenues of US\$14.7 billion

US\$ billion



## Committed future lease revenues underpin value creation

All data as at 30 June 2018

Note:

1. Based on an average of five independent appraisers' aggregate value for our owned fleet at US\$15.9 billion, on a full-life, current market value basis, which compared with a net book value of US\$14.3 billion



# Conclusion

- Another record performance
  - 1H18 NPAT increased 24% to US\$297 million
  - Interim dividend also increased 24% year-on-year to US\$0.1284/share
  - Net assets and earnings per share have grown consistently since our IPO
- Long-term revenue visibility and sustainability
  - Committed lease revenues of approximately US\$15 billion
  - Orderbook of 163 aircraft through 2021 provides future balance sheet growth
    - Added another eight Airbus A330NEO family aircraft in August 2018<sup>1</sup>
- Strong corporate governance and management team
  - Mr. Chen Siqing stepped down after six years of leadership as our Chairman
  - Mr. Liu Qiang was appointed as the new Chairman of our Board of Directors
    - He is also an Executive Vice President of Bank of China and a non-executive director of BOC HK
  - Our senior management team has an average industry experience of > 25 years each
    - Mr. Robert Martin has just celebrated his 20<sup>th</sup> year as the CEO
- 2018 marks another milestone in the Company's history
  - 25th anniversary in November
  - Delivered/scheduled to deliver 58 aircraft

**Strong first half: record earnings in a landmark year**

All data as at 30 June 2018 unless otherwise indicated

Note:

1. Including four where the airline customer has the right to acquire the relevant aircraft on delivery

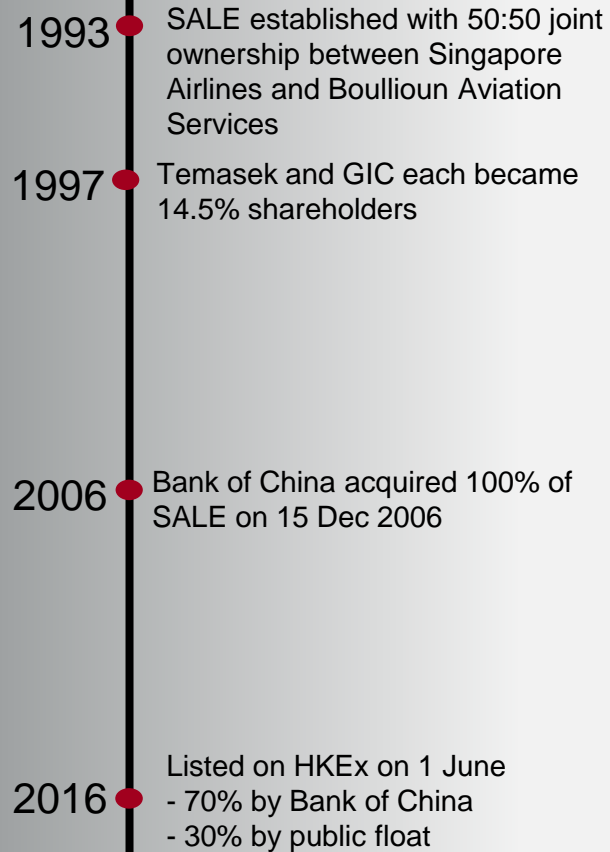


# APPENDICES



# The BOC Aviation Journey

## Ownership



## Total assets

US\$ billion



All data as at the end of the relevant period



**BOC AVIATION**

# 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\$17.1 billion
  - 487 aircraft<sup>1</sup>
- Consistent profitable performance into our 25th year
- Industry-leading financial metrics – average ROE of 15% over the last 11 years
- Investment grade credit ratings of A- from S&P Global Ratings and Fitch Ratings
- Airbus' and Boeing's largest customer by combined deliveries in 2017

**An established lessor with deep management experience**

All data as at 30 June 2018 unless otherwise indicated

Note:

1. Includes owned, managed and aircraft on order



# Core Competencies – a Reminder

## Since inception in 1993:

- |              |   |
|--------------|---|
| • Purchasing | More than 760 aircraft purchased totaling more than US\$40 billion            |
| • Leasing    | More than 800 leases executed with > 150 airlines in 54 countries and regions |
| • Financing  | More than US\$23 billion in debt raised since 1 January 2007                  |
- 
- |                 |  |
|-----------------|--|
| • Sales         | More than 300 aircraft sold                  |
| • Transitions   | More than 70 transitions                     |
| • Repossessions | 36 aircraft in 13 jurisdictions <sup>1</sup> |

All data as at 30 June 2018, since inception unless otherwise indicated

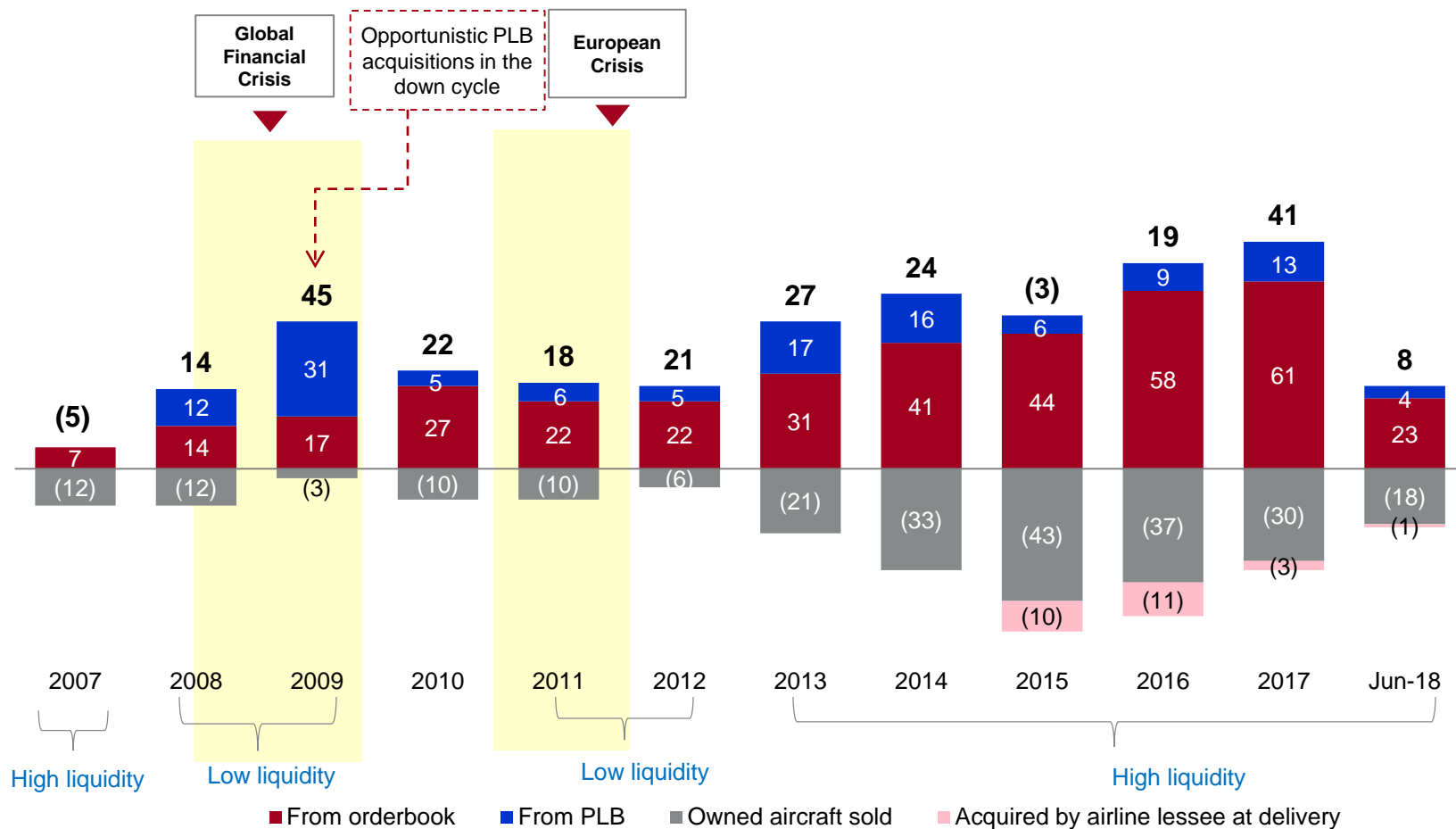
Note:

1. Includes repossessions and consensual early returns



# How We Invest

## Number of aircraft delivered, purchased and sold



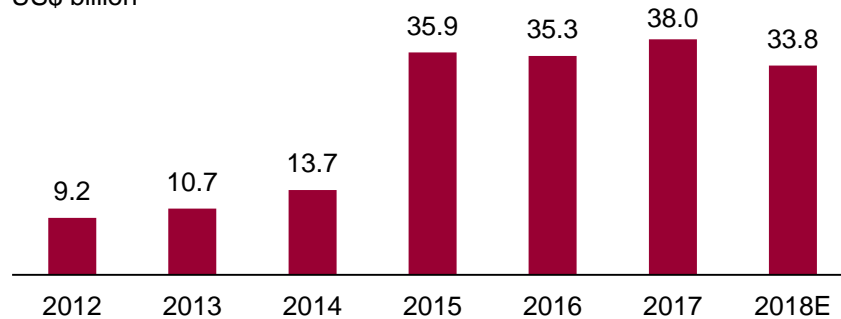
All data as the end of the relevant period



# Positive Environment with Airline Profitability near Records

## Elevated airline profitability sustained

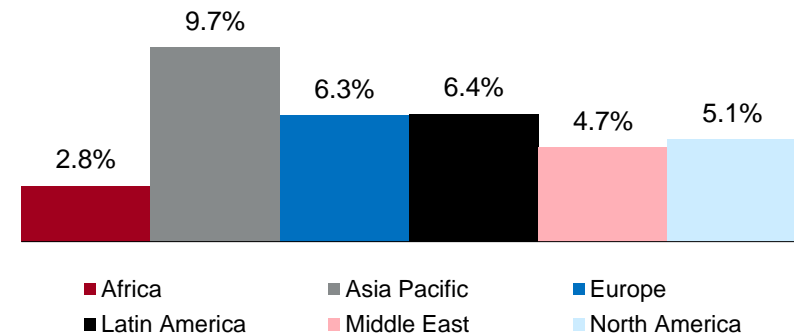
Aggregate net profit  
US\$ billion



Source: IATA (June 2018)

## Emerging markets continue to record high air traffic growth

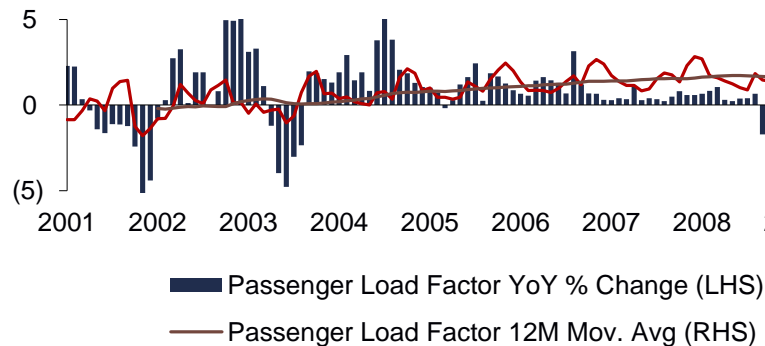
RPK growth, YTD



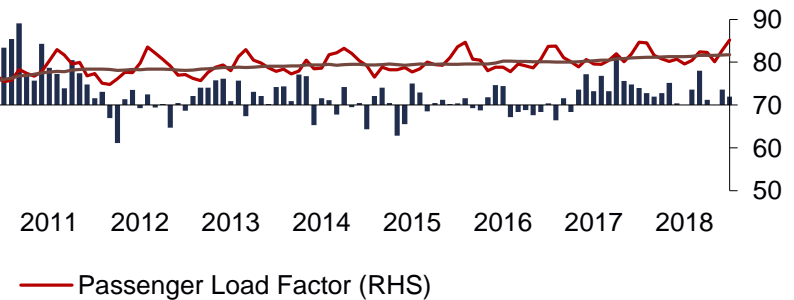
Source: IATA (July 2018)

## High load factors suggest well-managed capacity

Passenger Load Factor  
YoY change, %



Passenger Load Factor  
%



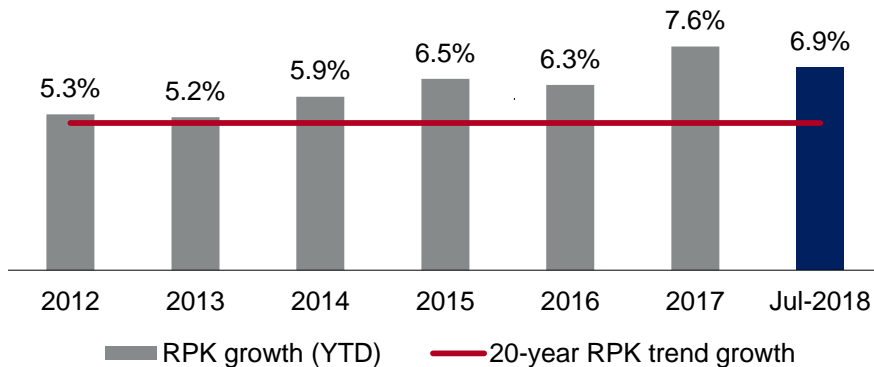
Source: IATA (July 2018)





# Underlying Traffic Growth Positive for Core Leasing Business

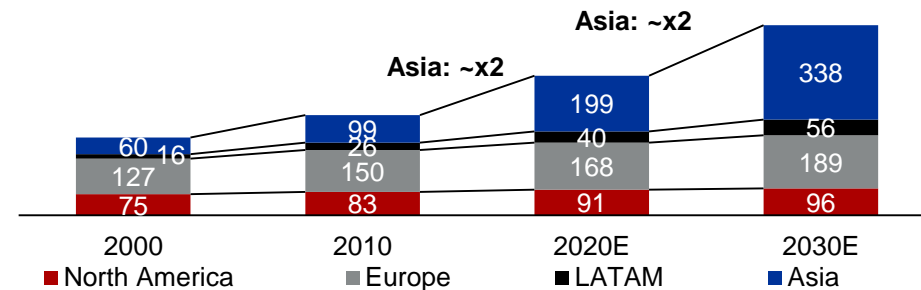
## Above-trend passenger demand growth



Source: IATA (July 2018)

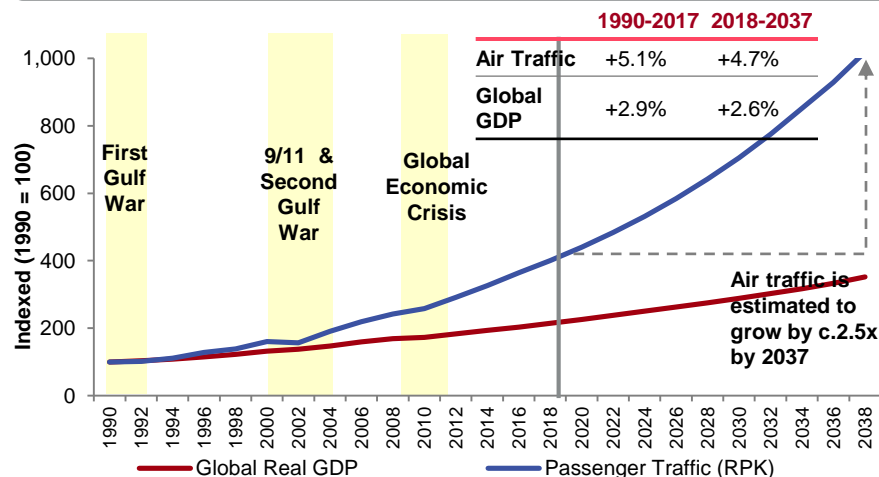
## Growth in the middle classes<sup>1</sup> to be driven by emerging economies

Middle class households (million)



Source: Euromonitor

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



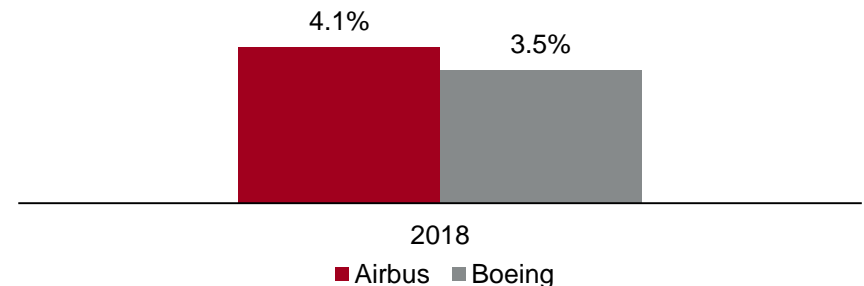
Source: Ascend Flightglobal Fleet Forecast 2015, Oxford Economics, Boeing Current Market Interactive Forecast 2018-2037

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, %

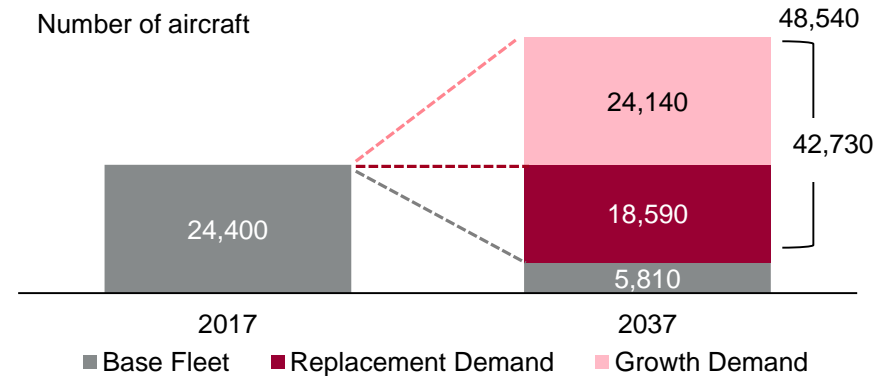


Source: Airbus Global Market Forecast, Boeing Capital Market Outlook



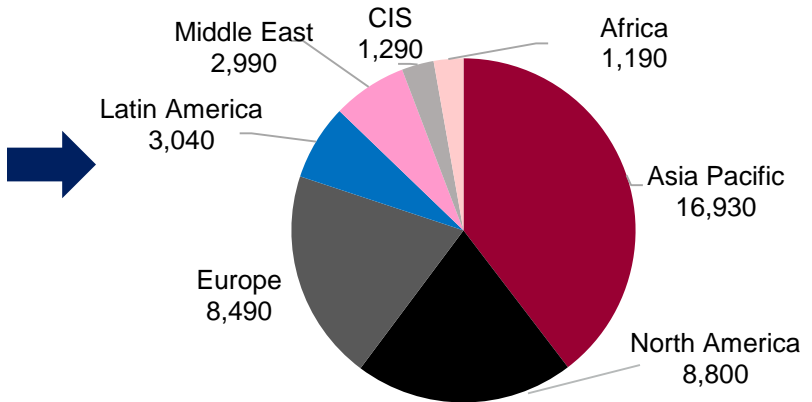
# Aircraft Operating Leasing Drivers

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



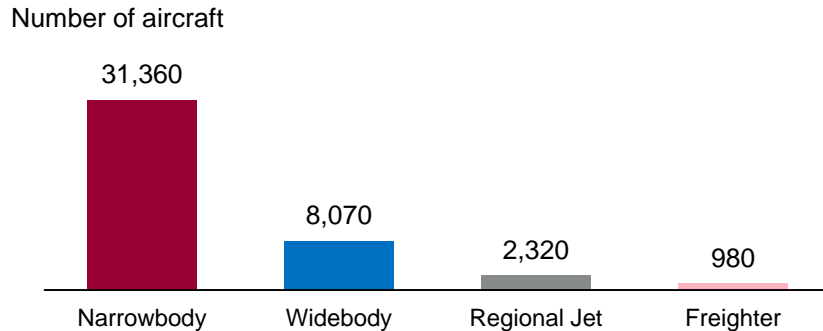
Source: Boeing CMO 2018-2037

## New aircraft demand led by Asia Pacific



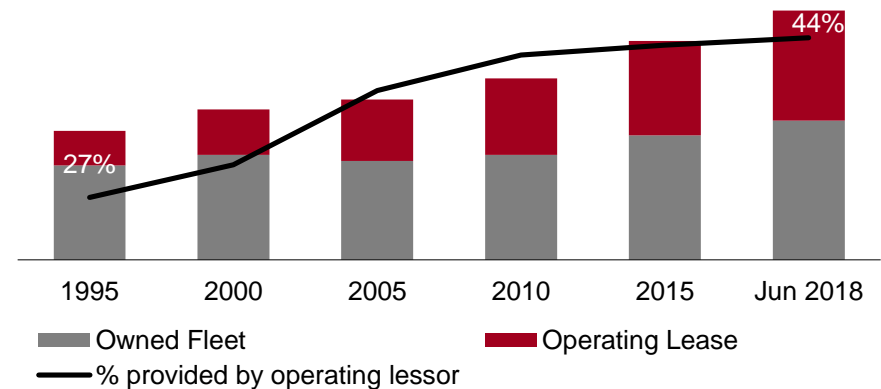
Source: Boeing CMO 2018-2037

## Predominantly single aisle aircraft



Source: Boeing CMO 2018-2037

## Share of operating lessors now stable



Source: Ascend, 30 June 2018

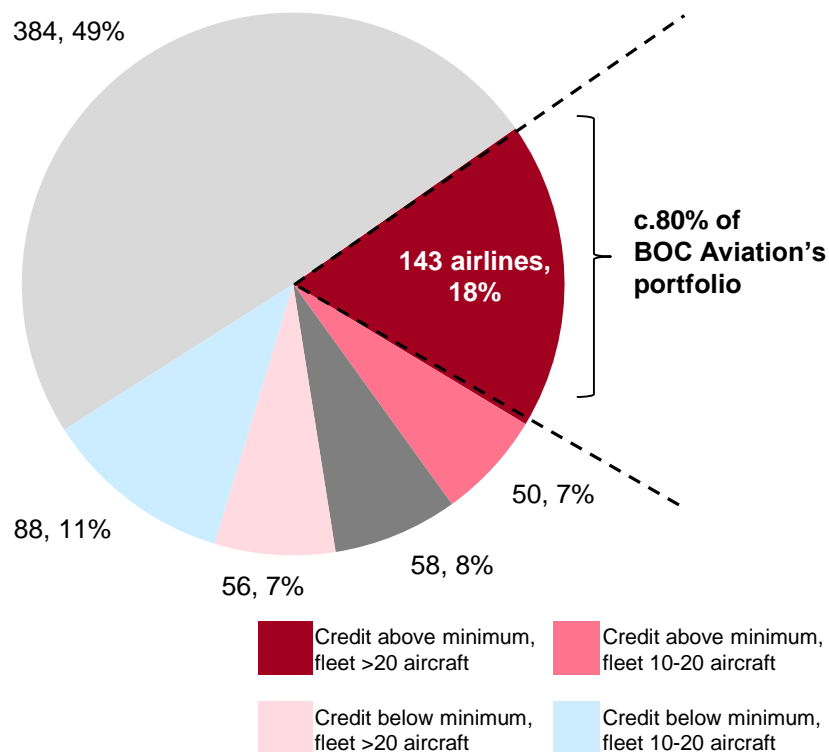


**BOC AVIATION**

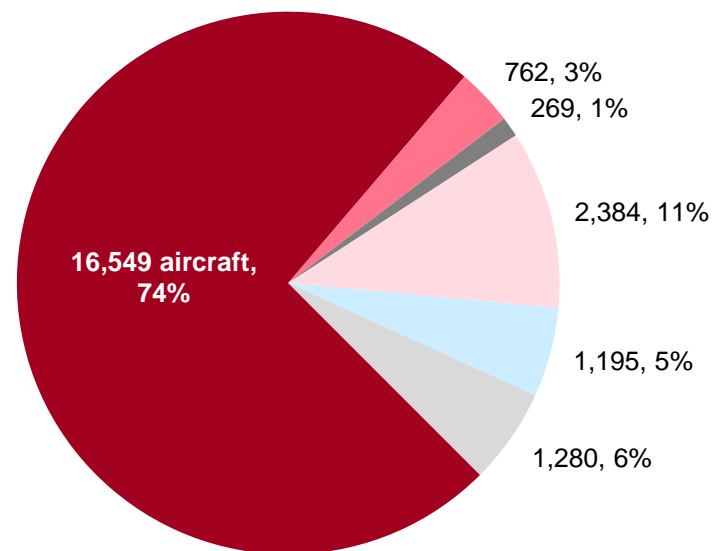
# Leasing: Customer Segmentation

- 779 airlines in service today
- Focus on 143 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 143 airlines operate 74% of the current in-service aircraft**





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