Timothy Ross

Thank you operator and welcome everybody to BOC Aviation's earnings call to discuss our final results for the year ended 31 December 2018. With me today are our Managing Director and Chief Executive Officer, Robert Martin, our Deputy Managing Director and Chief Financial Officer Phang Thim Fatt and our Chief Operating Officer, David Walton.

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 only.

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

I'll now turn over the call to Robert Martin for his comments.

Robert Martin

Thanks, Tim and good evening to everyone on the line. Thank you for joining us for our 2018 full year results earnings call.

The results that we are presenting today continues our unbroken record of 25 years of profitability and 14 consecutive years of increasing profits. Our 2018 results also build on a foundation that was initially laid over 25 years ago when we were formed as Singapore Aircraft Leasing Enterprise in November 1993. Over this period we have generated cumulative earnings of $3.7 billion for our shareholders and we have distributed more than $670 million of this to our investors.

We are delighted to report a net profit after tax of $620 million for 2018, up 6% on last year and equivalent to earnings per share of 89 cents, based on the number of shares outstanding at year end. We are pleased to report that our return on equity for 2018 was 15.5%, above the long-term average of 15%.

Net Profit before Tax rose by 24% to $685 million, a number more representative of our year on year growth given the $91 million adjustment in 2017 of net deferred tax liabilities as a consequence of changes in the US tax code. This resulted in a positive tax provision for 2017 and thus impacted NPAT for that year.

We saw good growth in our core leasing business where our total revenues and other income were up 23% compared to 2017, to $1.7 billion. Our core lease rental contribution continues to be the principal revenue component of our pre-tax earnings. This rose 15% in 2018 and represents a sustainable long-term income stream that recurs across the cycle. We started this year with $15 billion of Net Book Value of aircraft, which – given a weighted average remaining lease term of 8.3 years – provides a stable base for future revenue growth.

Reflecting the strength of our financial performance in 2018, our Board has recommended declaring a final dividend of 18.45 cents per share, payable to shareholders of record on 6 June. This final dividend brings the total dividend for 2018 to 31.29 cents per share and represents a pay-out ratio for the full year of 35% of Net Profit after Tax. This is in line with the Board's policy of paying up to 35% of Net Profit after Tax to shareholders in the form of dividends. The full year dividend is equivalent to a dividend yield of 4.2%, based on our opening stock price at the beginning of 2018 vs. 3.4% for the Hang Seng Index.

We ended 2018 with total assets of $18 billion, which reflected our sustained efforts to grow our balance sheet through investment in aircraft. Net book value of our fleet over the year grew by 10% to US$15 billion.

We finished 2018 with cash and committed liquidity of $3.8 billion. This positions the company well to fund both our contracted investments in aircraft and to finance further growth in the portfolio. During the year in review, both S&P Global Ratings and Fitch Ratings reaffirmed our industry-leading corporate credit ratings of A minus.

Turning to the market backdrop, macro conditions remain supportive of the aircraft leasing industry. On the airline demand side, the industry continues to perform ahead of long term growth expectations, with air travel demand remaining robust. Airline passenger traffic as measured by IATA – the trade association for the world's airlines - rose 6.5% in 2018, above the long term trend rate of 5%. This underpins IATA's earnings estimates for 2018 for the airline industry of over $32 billion – its fourth year of over US$30 billion in profits in a row. With lower oil prices and passenger traffic growth of 6% anticipated in 2019, IATA is projecting the airline industry's earnings will rise to almost $35 billion this year.

On the aircraft sales side of the business, the availability of US Dollar liquidity and the investor market remains strong. This continues to drive the healthy demand by aircraft investors for purchases of aircraft with leases attached.

The supply chain issues affecting manufacturer production remained a feature of 2018. These issues have delayed deliveries to airlines and leasing companies and resulted in the postponement of six of our A320NEO aircraft from 2018 to 2019. We expect continued new aircraft delivery delays throughout the current year.

US-China trade friction has impacted decision making for new Boeing aircraft by Chinese airlines. Demand for Airbus models in China was affected by in-service issues for P&W-powered aircraft and certification delays for CFM-powered aircraft. We continue to successfully place our aircraft in other markets given the strength of our global footprint. However, any positive resolution to US-China trade talks would likely see the Chinese market reopen for new aircraft demand.

We have continued to actively invest in the latest generation aircraft. As at end-2018 our orderbook of 183 aircraft is 97% new technology, including A350, 787, A330NEO, 737 MAX and A320NEO families of aircraft.

Back in 2017, the Board implemented the long term incentive plan for management, where 50% of long-term performance bonuses were to be used to purchase BOC Aviation shares. Roughly 1.3 million shares were purchased by a trustee in the secondary market in March and April 2018 after the announcement of our results, and will vest after the third year following their grant. A second tranche will be purchased along similar lines this year, further strengthening management's alignment with shareholders.

In February this year, we have welcomed a new chairman who has been appointed to lead our Board. We welcome Mr. Sun Yu, EVP of Bank of China as the new Chairman. Mr Sun was previously Chief Overseas Business Officer of Bank of China and prior to that General Manager of Bank of China's London Branch.

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

David Walton

Thank you, Robert and let me add my thanks to you all for joining us this evening.

In 2018, we delivered 55 new aircraft to airline customers from our orderbook, including five where the customer exercised purchase options at delivery, giving us 50 new aircraft added to our owned portfolio. Our total fleet stood at 511 aircraft at the end of 2018, comprising 303 owned and 25 managed aircraft and an orderbook of 183 aircraft.

Some of the highlights of 2018 included:

- Signing a commitment to lease three Boeing 777-300ER aircraft to our existing customer Thai Airways, and a back-to-back purchase agreement with Boeing. These aircraft are scheduled to deliver in late 2020,
- Signing lease commitments with our oldest customer, China Southern, and its affiliate Chongqing Airlines, for A320NEOs, and
- Adding Saudia as a new airline customer to whom we delivered three A320CEO aircraft towards the end of 2018.

These transactions illustrate the strength of our global customer reach, and the way our team is working to build good, long-term business as we signed 92 lease commitments with airline customers in 2018.

During the year we generated 53% of our lease revenues out of Asia-Pacific, reflecting the region's rapid rates of air traffic growth. The Americas and Europe accounted for around 12% and 25%, respectively, of lease revenue while we developed our business with Middle Eastern carriers who represented over 9% of lease revenue in 2018.

Our leases with airlines are a mixture of fixed and floating rates. We saw LIBOR rates move up in 2018, especially during the first half of the year, and this increased both our floating rate revenue and our LIBOR-based funding costs. However, because of our active liability management and hedging policy, our net lease yield – which captures both the effects of interest rate fluctuations and the competitive lease rental environment – remained stable at 8.3% in 2018.

We are pleased to announce that we had another year with strong portfolio utilization of 99.9%, and our collection rate was over 100%. To achieve this, we focus on good customer selection. As a reminder, there are just under 800 airlines in the world, but we are focused on the 150 airlines that have a minimum fleet size of 20 aircraft and that meet our minimum credit criteria. We do our credit analysis, both before we sign the lease and on an ongoing basis thereafter.

With that, I'll turn it over to Thim Fatt.

Phang Thim Fatt

Thank you, David. Our post tax earnings were 89 cents per share, up 6% over 2017 EPS based on shares outstanding at 31 December in each year. Net assets per share, meanwhile, rose 10% to $6.05 in 2018.

The principal driver of the growth in earnings was a 23% increase in total revenues and other income. This drove our core lease rental contributions up by 15% to $623 million, which - net of operating costs - represented 74% of net profit before tax.

Our lease rental income rose 20% compared to 2017 as we increased the size of our fleet, as higher interest rates lifted our floating rate lease revenues and as new leases signed on higher fixed rates also contributed to the rise. At the same time, depreciation only increased 18% compared to 2017, also driven by the growth in the size of our fleet

We sold 34 aircraft from the owned fleet during 2018, compared to 30 aircraft sold in 2017 as we continue to improve the quality of our portfolio and capitalised on robust investor demand for aircraft with leases attached. Gains on aircraft sales were $91 million and accounted for 13% of pre-tax earnings – consistent with our long term average. Our aircraft portfolio remains one of the youngest in the industry and we have kept the weighted average age of our owned portfolio at three years.

Interest, fee-related and other income amounted to $92 million - more than twice 2017 levels as we generated more fee income from pre-delivery payment financing – which comprised 13% of our Net Profit before Tax.

Finance charges increased by $93 million, driven primarily by an increase in our borrowings as we invested in more aircraft and as LIBOR rose. As the proportion of fixed rate leases have increased, we lifted the proportion of our fixed rate debt during the year, which also contributed to the increase, taking our average cost of funds to 3.3% in 2018 from 2.8% the previous year.

Staff costs rose US$19 million and represented approximately 5.3% of our total revenues and other income in 2018, in line with 2017. This was driven by an increase in staff numbers from 151 to 169 and a rise in variable compensation, which was linked to financial performance indicators.

Other operating costs in 2018 were $53 million, 14% ahead of 2017, but lower than the growth in our revenues. Our average tax rate fell to 9.5% from 10.1% in 2017, excluding the $91 million adjustment to deferred tax liabilities in the US in December 2017.

At the end of the year, our total assets had increased 14% - or over $2 billion - to $18 billion from the end of 2017.

We had capital expenditure of $4.1 billion in 2018 primarily related to our aircraft deliveries and pre-delivery payments. As at end-2018, we were committed to US$9.2 billion of future aircraft capex, with $3.4 billion already identified in 2019. As in previous years, we expect to build on this number over the course of the year.

Our indebtedness increased, rising 14% to $12.5 billion at the end of 2018, with our Gross Debt to Equity ending the year at 3:1. Capitalising on our own industry-leading ratings we identified investor demand to raise $2.7 billion in total debt during 2018. This borrowing activity included our successful bond offerings that raised $1.7 billion under our GMTN program. Appetite among fixed income investors for lessor bonds has supported the funding side of the business and projections for US$ interest rate rises have moderated significantly in 2019.

Now back to Robert for his final comments.

Robert Martin

We set ourselves an ambitious target in 2018 of beating the previous year's stellar earnings and are delighted to have celebrated our 25th year anniversary with another strong performance. I would like to thank directors and colleagues for their continued hard work and our investors for their ongoing support.

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, Robert. This wraps up management's formal commentary. We now have time for Q&A and request that each participant restrict themselves to one question and one follow up, unless time permits for additional queries.

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