

BOC Aviation (2588 HK)

1H20 earnings weighed on by surged impairment

BOCA's 1H20 net profit was up 0.7% YoY to US\$ 323mn, weaker than market expectation (accounting for 46% of FY20E consensus est.), as robust top-line growth (+11% YoY) was dragged by impairment on lease receivables and aircrafts (~ 6% of revenue). Interim payout ratio remained at 30%. We revise down earnings forecast by avg. 21% for FY20E-FY22E to factor in continued impact from COVID-19 on delivery, lease factor and rental deferrals. We then **cut TP to HK\$ 65.3; maintain BUY** as we see the Company's PLB-focused strategy shift could drive growth ahead to weather pandemic uncertainty.

- 1H20 strong revenue growth eroded by impairment.** Total revenue was underpinned by 7% YoY growth in lease rental revenue though with a lower lease factor, as well as higher-than-expected PDP income (+15% YoY) and other income (+1x YoY). BOCA incurred surging impairment (+11x YoY) on deferred rental receivables exceeding security deposits and US\$ 12mn aircraft impairment on aircrafts due to five grounded MAX that had been delivered. Reported net lease yield was 8.2%, down 0.2ppt YoY, with FY20E guidance further down towards 8.0%.
- 2H20E still challenging, but we think BOCA is in better position.** On one side, BOCA **maintained a robust CAPEX plan**, guiding another US\$ 3bn for 2H20E (vs. US\$ 3bn in 1H20), and mgmt.'s **strategy focus shifting to PLB** (buying 71 aircrafts from 6 airline customers YTD) could better support future lease rental inflows. On the flip side, though mgmt. mentioned the industry troughed out in mid-Apr, we think the resurgence of COVID-19 in several countries has delayed a thorough global recovery, which will continue to put **lease factor under pressure**, and **may cause further rental impairment** as some airline customers' operations deteriorate.
- Cut earnings est. by 21% on avg. for FY20E-FY22E; trim TP to HK\$ 65.30; Maintain BUY.** We cut earnings estimates by an avg. 21% over FY20E-FY22E and trim TP by 13% to HK\$ 65.30, as we apply a lower target P/B ratio of 1.2x (vs. prev. 1.3x) to reflect extending pandemic uncertainty. BOCA now trades at 0.87x 1-year forward P/B, lower than its historical average of 0.98x. We maintain long-term positive stance on BOCA, and current 4.8% FY20E dividend yield should provide it with limited downside.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (US\$ mn)	1,726	1,976	2,060	2,263	2,558
Net profit (US\$ mn)	620	702	606	707	829
EPS (US\$)	0.89	1.01	0.87	1.02	1.19
EPS CHG (%)	6	13	(14)	17	17
Consensus EPS (US\$)	N/A	N/A	1.05	1.19	1.32
P/E (x)	7.1	6.3	7.3	6.2	5.3
P/B (x)	1.0	1.0	0.9	0.8	0.8
Yield (%)	4.9	5.6	4.8	5.6	6.6
ROE (%)	15.5	16.0	12.8	14.0	15.2
Gearing (x)	2.9	2.9	3.2	3.3	3.3

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 65.30
(Previous TP)	HK\$ 73.50
Up/Downside	+28.1%
Current Price	HK\$ 49.40

China Leasing Sector

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Stock Data

Mkt Cap (HK\$ mn)	34,284
Avg 3 mths t/o (HK\$ mn)	80.66
52w High/Low (HK\$)	82.25/ 33.00
Total Issued Shares (mn)	694

Source: Bloomberg

Shareholding Structure

Bank of China Group	70.0%
Public float	27.3%

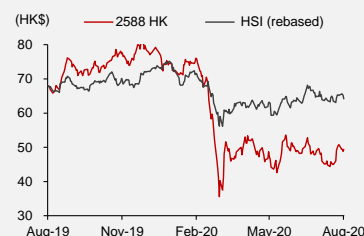
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.3%	-0.7%
3-mth	0.2%	-2.9%
6-mth	-35.9%	-29.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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Figure 1: BOCA's 1H20 results summary

(US\$ mn)	1H19	1H20	YoY change	Note
I/S				
Lease rental income	832	888	7%	
Interest and fee income	57	75	32%	
Net gain on sale of aircraft	22	26	17%	
FV gains on equity instrument investments	0	7	N/A	MTM FV gains from debt-to-equity swap of holding equity stake in Norwegian Air
Others	19	39	106%	
Total revenue	930	1,035	11%	
Depreciation	(298)	(329)	10%	
Finance costs	(213)	(220)	3%	
Staff costs	(37)	(45)	21%	
Impairment on aircraft assets	0	(12)	N/A	For five 737-8 MAXs delivered in 2018 and grounded on-lease since Mar 2019, causing recoverable values lower than their NBV
Impairment on lease receivables	(4)	(47)	1114%	From airline clients whose deferrals were exceeding their security deposits held by BOCA
Other opex	(27)	(29)	7%	
Total costs	(579)	(681)	18%	
Operating profit/PBT	352	354	1%	
Income tax	(30)	(30)	0%	
Net profit	321	323	1%	
Key ratios				
Net lease yield (cal.)	8.1%	7.9%	-0.2ppt	
Avg. cost of debt (cal.)	3.1%	2.9%	-0.2ppt	
Gearing ratio	3.1x	3.5x	0.4x	
ROE	15.1%	14.0%	-1.1ppt	

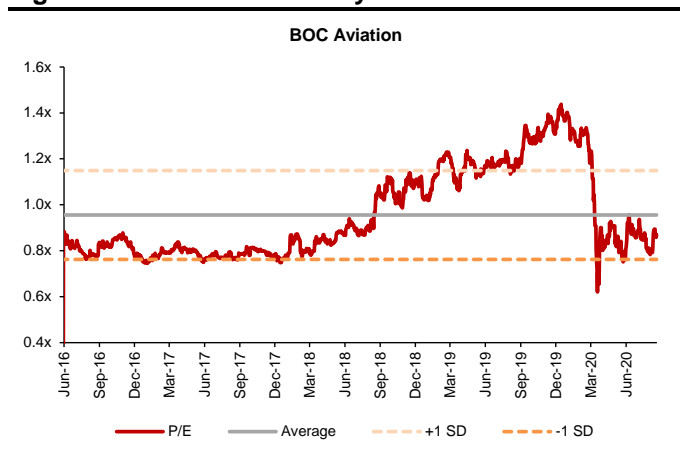
Source: Company data, CMBIS

Figure 2: Earnings revision

(US\$)	New			Old			Diff		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Total income (mn)	2,060	2,263	2,558	2,237	2,532	2,671	-8%	-11%	-4%
Incl: lease rental income	1,754	1,951	2,289	1,994	2,273	2,397	-12%	-14%	-4%
Net profit (mn)	606	707	829	812	910	989	-25%	-22%	-16%
EPS	0.87	1.02	1.19	1.17	1.31	1.42	-25%	-22%	-16%
BVPS	6.99	7.54	8.20	7.25	7.98	8.79	-4%	-6%	-7%
ROE	12.8%	14.0%	15.2%	16.9%	17.2%	17.0%	-4.1ppt	-3.2ppt	-1.8ppt

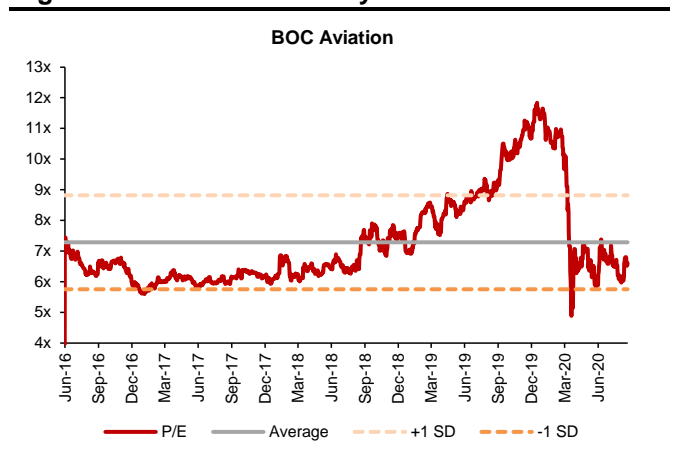
Source: CMBIS estimates

Figure 3: BOC Aviation's 1-year forward P/B



Source: Bloomberg, CMBIS estimates

Figure 4: BOC Aviation's 1-year forward P/E



Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

US\$ mn (YE 31 Dec)	2018A	2019A	2020E	2021E	2022E
Operating revenue	1,726	1,976	2,060	2,263	2,558
Lease rental income	1,543	1,704	1,754	1,951	2,289
Interest and fee income	81	99	176	198	139
Net gain on sale of aircraft	91	134	66	50	66
Other income	11	38	64	64	64
Operating expenses	(1,040)	(1,201)	(1,392)	(1,483)	(1,643)
Depreciation	(543)	(610)	(705)	(784)	(897)
Finance expenses	(353)	(428)	(429)	(466)	(522)
Staff costs	(92)	(80)	(93)	(109)	(128)
Impairment	0	(25)	(107)	(64)	(34)
Other operating expenses	(53)	(59)	(59)	(60)	(63)
Pre-tax profit	685	775	669	780	915
Income tax	(65)	(73)	(63)	(73)	(86)
Minority interest	-	-	-	-	-
Net profit	620	702	606	707	829

Cash flow summary

US\$ mn (YE 31 Dec)	2018A	2019A	2020E	2021E	2022E
Pre-tax profit	685	775	669	780	915
D&A	543	610	705	784	897
Finance expenses	353	428	429	466	522
Others	142	(312)	(823)	(73)	(160)
Operating activities	1,723	1,500	979	1,957	2,174
Capex	(4,170)	(3,233)	(5,199)	(4,149)	(3,556)
Other investing activities	1,449	1,301	824	630	824
Investing activities	(2,722)	(1,932)	(4,375)	(3,518)	(2,732)
Changes in borrowings	1,159	599	3,935	1,882	1,330
Others	(179)	(240)	(233)	(226)	(264)
Financing activities	980	360	3,702	1,656	1,066
Net change in cash	(19)	29	306	95	507
Cash at period beginning	242	223	252	558	653
Cash at period end	223	252	558	653	1,160

Balance sheet

US\$ mn (YE 31 Dec)	2018A	2019A	2020E	2021E	2022E
Non-current assets	17,999	19,025	24,113	27,463	30,066
Plant and equipment	17,973	19,003	23,379	26,725	29,325
Other non-current assets	26	22	734	737	741
Current assets	257	739	788	843	888
Cash and cash equivalents	90	84	89	94	99
Other current assets	167	655	699	749	789
Total assets	18,256	19,764	24,901	28,306	30,954
Current liabilities	1,709	2,141	2,406	3,230	3,536
Loans and borrowings	1,438	1,715	1,900	2,500	2,800
Other current liabilities	270	426	506	730	736
Non-current liabilities	12,349	13,043	17,643	19,844	21,724
Loans and borrowings	10,840	11,591	15,767	17,514	19,063
Other non-current liabilities	1,508	1,452	1,876	2,331	2,660
Total liabilities	14,057	15,184	20,049	23,075	25,260
Share capital	1,158	1,158	1,158	1,158	1,158
Reserves	3,041	3,423	3,694	4,073	4,536
Total equity	4,199	4,581	4,852	5,231	5,694

Key ratios

YE Dec 31	2018A	2019A	2020E	2021E	2022E
Operating metrics (%)					
Lease rental income YoY	20.2	10.5	2.9	11.2	17.4
Operating revenue YoY	23.2	14.5	4.3	9.8	13.0
Net profit YoY	5.8	13.2	-13.7	16.7	17.3
Net lease yield	8.3	8.0	7.6	7.7	7.9
Average cost of debt	3.3	3.3	2.9	2.8	2.8
B/S ratios (x)					
Total debt/Total equity	292	290	325	335	335
Net debt/Total equity	290	289	323	333	333
Returns (%)					
ROE	15.5	16.0	12.8	14.0	15.2
ROA	3.6	3.7	2.7	2.7	2.8
Per share (US\$)					
EPS	0.89	1.01	0.87	1.02	1.19
DPS	0.31	0.35	0.31	0.36	0.42
BVPS	6.05	6.60	6.99	7.54	8.20

Source: Company data, CMBIS estimates

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