

BOC Aviation (2588 HK)

FY20 results in-line; PLBs to provide better yield outlook

BOCA reported in-line FY20 earnings of US\$ 510mn, down 27% YoY, mainly on impairment charges for aircrafts and deferred rentals as well as investment losses. Looking into FY21E, we think BOCA's robust CAPEX, ample liquidity and its active participation into PLB market will lead it to better profitability in the post-pandemic recovery. We fine-tune FY21E-22E earnings forecast by 2-3% and maintain our TP unchanged at HK\$ 90.0. **Maintain BUY.**

■ **FY20 results in-line.** BOCA reported FY20 net profit of US\$510mn (-27% YoY), in-line with profit warning. Lease rental income came in at US\$ 1.8bn (+5% YoY) also in-line with our est., while interest and fee income was above expectation on higher PDP fees. On cost side, impairment losses and losses from sale of NAS shares were the main drags as expected. Impairment losses on aircraft assets was mainly charged for widebodies (US\$ 97mn in 2H20) while impairment for financial assets saw a reversal of US\$ 3mn in 2H20. Reported net lease yield was 7.9%, in-line. BOCA retained a payout ratio of 35% in FY20.

■ **Key takeaways from results briefing: 1) CAPEX plan remains robust with ample liquidity.** Mgmt. guided ~US\$ 4.5bn CAPEX for FY21E (vs. our prev. est. US\$ 4.6bn), similar to that in FY20. Meanwhile, the Company held US\$ 5.1bn cash and undrawn committed credit lines with US\$ 1.8bn debt maturing within FY21E. **2) PLBs have better lease yields and could support long-term earnings.** BOCA signed 77 PLBs with a total commitment of US\$ 6bn in FY20 and ~50% of these aircrafts will be delivered in FY21E. All these PLBs are placed on long-term leases and being paid on time. Mgmt. sees currently PLBs provides 20%-30% higher lease yields than direct operating leases during industry downturn. We estimate net lease yield to pick up 0.2ppt YoY in FY21E to 8.1%. **3) Regarding AerCap (AER US, NR)'s acquisition of GECAS,** which will form the world's largest aircraft lessor with >2,000 owned fleet, BOCA mgmt. believe the Company is better positioned on lower funding costs and younger fleet age. Besides, at current size, BOCA is able to selectively work with airlines that have better credits, while the merged AER and GECAS have to deal with the whole market.

■ **Valuation.** We fine tune our FY21E-22E earnings forecasts by 2-3% after the release of FY20 results. We maintain our TP at HK\$ 90.0 based on unchanged 1.45x FY21E P/B and 12.5x FY21E P/E. Maintain BUY. **Key risks:** 1) slower-than-expected vaccine rollout or border reopening; 2) deteriorating financial position of major clients.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (US\$ mn)	1,976	2,054	2,320	2,579	2,793
Net profit (US\$ mn)	702	510	732	860	957
EPS (US\$)	1.01	0.73	1.05	1.24	1.38
EPS CHG (%)	13	(27)	44	18	11
Consensus EPS (US\$)	N/A	N/A	1.07	1.22	N/A
P/E (x)	9.4	12.9	9.0	7.7	6.9
P/B (x)	1.4	1.4	1.3	1.2	1.1
Yield (%)	3.7	2.7	3.9	4.6	5.1
ROE (%)	16.0	10.9	14.7	15.8	16.1
Net gearing (x)	2.8	3.4	3.4	3.2	3.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 90.00
(Previous TP)	HK\$ 90.00)
Up/Downside	+22.3%
Current Price	HK\$ 73.60

China Leasing Sector

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Stock Data

Mkt Cap (HK\$ mn)	51,079
Avg 3 mths t/o (HK\$ mn)	63.05
52w High/Low (HK\$)	80.8/33.55
Total Issued Shares (mn)	694

Source: Wind

Shareholding Structure

Bank of China Group	70.0%
The Capital Group	6.0%
FIL Limited	5.0%

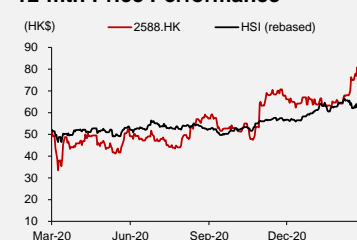
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	14.7%	17.8%
3-mth	11.2%	0.3%
6-mth	28.5%	7.1%

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: Ernst & Young

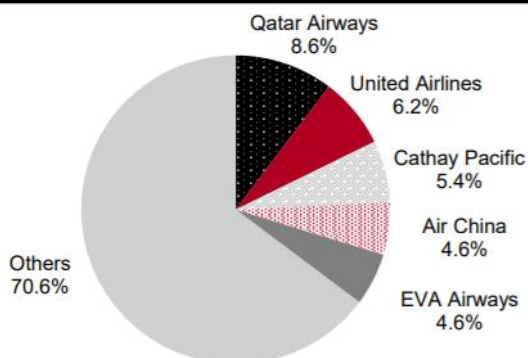
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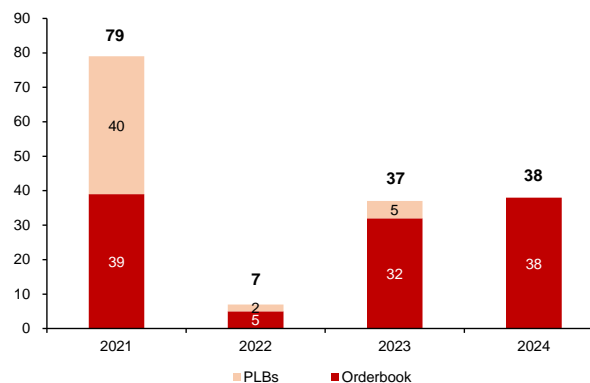
Figure 1: BOCA's FY20 results summary

(US\$ mn)	FY19	FY20	YoY	CMBIS est.	Diff
I/S					
Lease rental income	1,704	1,784	5%	1,773	1%
Interest and fee income	99	177	79%	138	28%
Net gain on sale of aircraft	134	44	-67%	39	14%
Others	38	48	25%	(1)	-3852%
Total revenue	1,976	2,054	4%	1,949	5%
Depreciation	(610)	(676)	11%	(649)	4%
Finance costs	(428)	(455)	6%	(419)	9%
Staff costs	(80)	(68)	-15%	(84)	-19%
Impairment on aircraft assets	0	(109)	N/A	(93)	17%
Impairment on lease receivables	(43)	(26)	-40%	(46)	-43%
Loss on investment in equity instruments	0	(79)	N/A	0	N/A
Other opex	(40)	(79)	95%	(104)	-24%
Total costs	(1,201)	(1,491)	24%	(1,394)	7%
Operating profit/PBT	775	563	-27%	555	2%
Income tax	(73)	(53)	-27%	(52)	2%
Net profit	702	510	-27%	503	1%
Key ratios					
Net lease yield (cal.)	8.0%	7.5%	-0.6ppt	7.6%	-0.2ppt
Avg. cost of debt (cal.)	3.3%	3.0%	-0.3ppt	2.8%	0.2ppt
Net gearing	2.9x	3.5x	0.6x	3.6x	0.1x
ROE	16.0%	10.9%	-5.1ppt	10.8%	0.1ppt

Source: Company data, CMBIS estimates

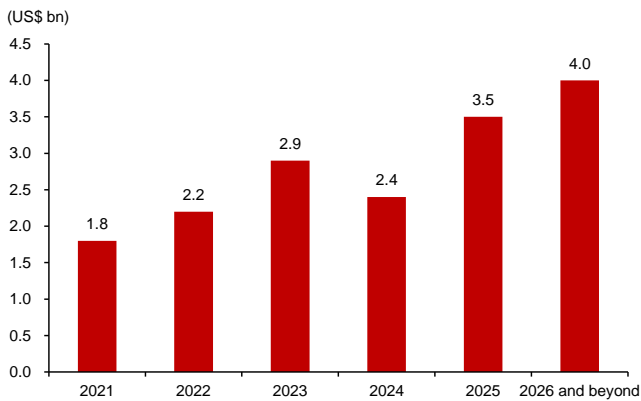
Figure 2: BOCA diversified its customer portfolio during FY20

Source: Company data

Figure 3: BOCA's delivery schedule by orderbook vs. PLBs as at 11 March 2021

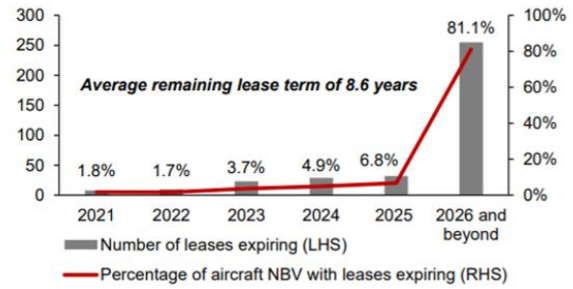
Source: Company data, CMBIS

Figure 4: BOCA's debt maturity



Source: Company data, CMBIS

Figure 5: BOCA's lease expiries



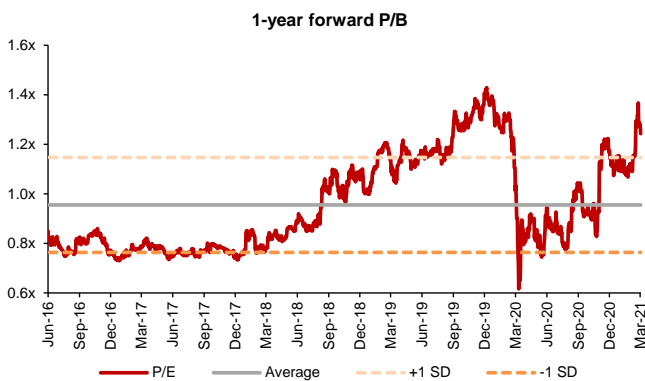
Source: Company data

Figure 6: Earnings revision

(US\$)	New		Old		New vs. Old	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Total income (mn)	2,320	2,579	2,264	2,505	2%	3%
Incl: lease rental income	2,091	2,351	2,066	2,290	1%	3%
Net profit (mn)	732	860	720	835	2%	3%
EPS	1.05	1.24	1.04	1.20	1%	3%
BVPS	7.50	8.17	7.46	8.20	1%	0%
ROE	14.66%	15.82%	14.60%	15.40%	0.1ppt	0.4ppt

Source: CMBIS estimates

Figure 7: BOCA's 1-year forward P/B



Source: Bloomberg, CMBIS estimates

Figure 8: BOCA's 1-year forward P/E



Source: Bloomberg, CMBIS estimates

Financial Summary

Income statement

US\$ mn (YE 31 Dec)	2019A	2020A	2021E	2022E	2023E
Operating revenue	1,976	2,054	2,320	2,579	2,793
Lease rental income	1,704	1,784	2,091	2,351	2,561
Interest and fee income	99	177	174	166	155
Net gain on sale of aircraft	134	44	55	61	78
Other income	38	48	0	0	0
Operating expenses	(1,201)	(1,491)	(1,512)	(1,629)	(1,736)
Depreciation	(610)	(676)	(731)	(852)	(944)
Finance expenses	(428)	(455)	(510)	(562)	(601)
Staff costs	(80)	(68)	(93)	(103)	(112)
Impairment	(25)	(152)	(102)	(38)	(15)
Other operating expenses	(59)	(140)	(76)	(74)	(64)
Pre-tax profit	775	563	808	950	1,057
Income tax	(73)	(53)	(76)	(90)	(100)
Minority interest	-	-	-	-	-
Net profit	702	510	732	860	957

Cash flow summary

US\$ mn (YE 31 Dec)	2019A	2020A	2021E	2022E	2023E
Pre-tax profit	775	563	808	950	1,057
D&A	610	676	731	852	944
Finance expenses	428	455	510	562	601
Others	(167)	132	(196)	(292)	(313)
Operating activities	1,645	1,826	1,853	2,073	2,289
Capex	(3,197)	(3,937)	(4,524)	(3,240)	(3,312)
Other investing activities	1,266	(317)	682	468	771
Investing activities	(1,932)	(4,255)	(3,842)	(2,772)	(2,541)
Changes in borrowings	1,038	3,297	2,751	1,592	1,260
Others	(723)	(713)	(657)	(801)	(879)
Financing activities	315	2,584	2,095	792	380
Net change in cash	29	156	107	92	128
Cash at period beginning	223	252	408	514	606
Cash at period end	252	408	514	606	735

Balance sheet

US\$ mn (YE 31 Dec)	2019A	2020A	2021E	2022E	2023E
Cash and cash equivalents	252	408	514	606	735
PP&E	19,003	22,161	24,233	25,730	27,324
Other assets	510	1,000	849	790	737
Total assets	19,764	23,568	25,596	27,126	28,795
Loans and borrowings	13,306	16,698	18,200	18,992	20,132
Security deposits	285	277	341	395	440
Maintenance reserves	593	698	780	844	908
Other liabilities	1,000	1,118	1,068	1,222	1,119
Total liabilities	15,184	18,792	20,389	21,453	22,600
Share capital	1,158	1,158	1,158	1,158	1,158
Reserves	3,423	3,619	4,049	4,515	5,038
Shareholders' Equity	4,581	4,777	5,206	5,673	6,195
Minority interest	-	-	-	-	-
Total equity	4,581	4,777	5,206	5,673	6,195

Key ratios

YE 31 Dec	2019A	2020A	2021E	2022E	2023E
Operating metrics (%)					
Lease rental income YoY	10.5	4.7	17.2	12.4	8.9
Operating revenue YoY	14.5	3.9	13.0	11.2	8.3
Net profit YoY	13.2	-27.4	43.5	17.6	11.3
Net lease yield	8.0	7.5	7.8	7.9	8.1
Aircraft NBV growth	12.0	12.5	15.0	8.2	7.5
Net debt / Total equity	2.8	3.4	3.4	3.2	3.1
Returns (%)					
ROE	16.0	10.9	14.7	15.8	16.1
ROA	3.7	2.4	3.0	3.3	3.4
Per share (US\$)					
EPS	1.01	0.73	1.05	1.24	1.38
DPS	0.35	0.26	0.37	0.43	0.48
BVPS	6.60	6.88	7.50	8.17	8.93

Source: Company data, CMBIS estimates

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