

BOC Aviation (2588 HK)

Get ready to be back on track

We think the recent strong performance of BOCA is attributable to optimism over air transport recovery as vaccine steadily rolled out and investors' chasing value names. Despite FY20E profit warning on impairment charges, we remain positive on BOCA's long-term outlook, as we believe airlines will rely more on lessors for liquidity at early stage of post-pandemic recovery. Besides, BOCA's strong liquidity position, activeness in PLB market and younger fleet with longer lease terms makes it able to gain share in current situation and secure longer-term growth. We lift our TP to HK\$ 90.0 as we roll over valuation base to FY21E and apply higher multiples (implying 1.6x FY21E P/B). Maintain BUY.

■ Lessors' importance is expected to enhance in post-pandemic era.

IATA's latest estimates show that despite sequential improvement, global airlines' cash burn will continue throughout 2021. We believe airlines' reliance on lessors will grow for liquidity needs through PLB transactions. Though the risks of further rental deferrals and aircraft impairment still exist, low production rate of OEMs and airlines' accelerating retirement of older and less-efficient aircrafts could help balance the supply and demand.

■ **BOCA's strength stays intact for long-term growth.** 1) BOCA kept an active presence in the PLB market throughout 2020, and signed PLB transactions of 73 aircrafts with 6 airline customers; a new transaction of 8 aircrafts was just announced in Mar 2021. The robust CAPEX despite OEM's delivery delays can well support the Company to expand its fleet for longer-term growth. 2) BOCA held a younger-than-peers fleet with a weighted average age of 3.5 years and weighted average remaining lease of 8.6 years, and all aircrafts scheduled for delivery before 2023 are placed, providing relatively high visibility. 3) BOCA has obtained enhanced liquidity support from its parent company BOC, who increased revolving credit facility for it from US\$ 2bn to US\$ 3.5bn, and extended the maturity to year end of 2026.

■ FY20E profit warning on impairment charges and investment losses.

BOCA expected 25-30% PAT YoY decline for FY20E. We see the drop mainly came from 1) aircraft impairment esp. for wide body aircrafts leased with distressed customers; 2) impairment on rental deferrals and defaults; 3) investment losses by holding and selling shareholding in Norwegian Air Shuttle (share price down ~80% since equity-debt swap). We also expect net lease yield to fall below guidance (8-8.5%) as 16 out of 54 aircrafts deliveries came in in Dec 2020 that contributed limited revenue for FY20E.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (US\$ mn)	1,726	1,976	1,949	2,264	2,505
Net profit (US\$ mn)	620	702	503	720	835
EPS (US\$)	0.89	1.01	0.72	1.04	1.20
EPS CHG (%)	6	13	(28)	43	16
Consensus EPS (US\$)	N/A	N/A	0.85	1.08	1.21
P/E (x)	11.7	10.3	14.4	10.1	8.7
P/B (x)	1.7	1.6	1.5	1.4	1.3
Yield (%)	3.0	3.4	2.4	3.5	4.0
ROE (%)	15.5	16.0	10.8	14.6	15.4
Net gearing (x)	2.9	2.8	3.4	3.4	3.3

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 90.00
(Previous TP)	HK\$ 65.30)
Up/Downside	+11.4%
Current Price	HK\$ 80.80

China Leasing Sector

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Stock Data

Mkt Cap (HK\$ mn)	56,076
Avg 3 mths t/o (HK\$ mn)	64.58
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%

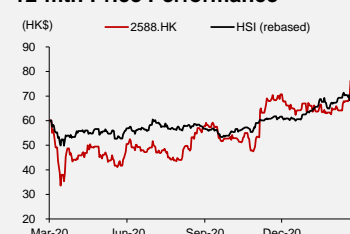
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	25.0%	25.2%
3-mth	14.3%	4.9%
6-mth	40.1%	18.3%

Source: Bloomberg

12-mth Price Performance



Source: Wind

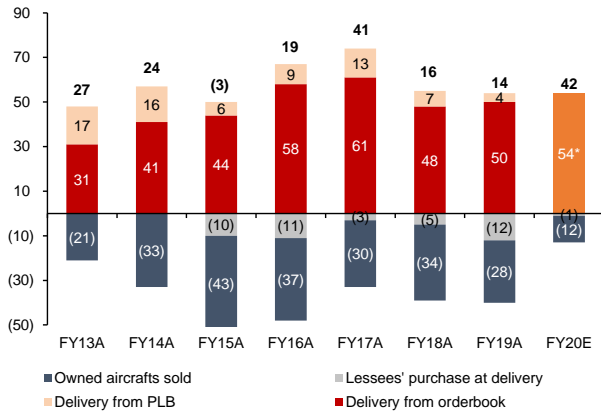
Auditor: Ernst & Young

Related Reports

1. "1H20 earnings weighted by surged impairment" – 20 Aug 2020
2. "A defensive play against industry threat" – 18 Mar 2020

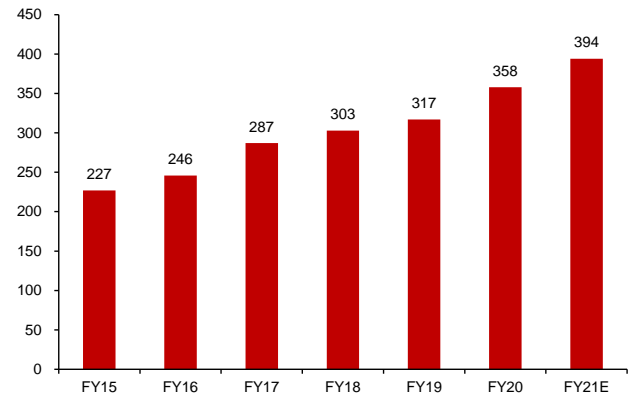
- Valuation.** We factored in profit warning in FY20E forecasts and fine-tune FY21E-22E earnings by average 1%. We roll over valuation base to FY21E and generate our new TP of HK\$ 90.0 by applying 1.45x FY21E P/B and 12.5x FY21E P/E, equivalent to BOCA's pre-pandemic valuation in early 2020. With a 3.5% FY21E dividend yield, our new TP implies a total return of 14.9%. Maintain BUY.
- Key risk:** 1) slower-than-expected vaccine rollout or border reopening; 2) deteriorating financial position of major clients.

Figure 1: BOCA's aircraft delivered, purchased and sold



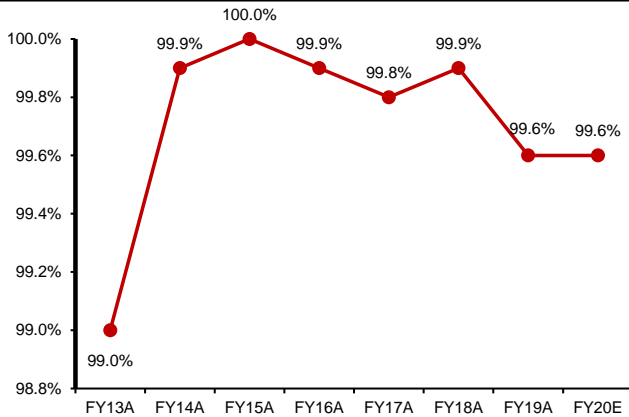
Source: Company data, CMBIS estimates
* including delivery from both PLB and orderbook.

Figure 2: BOCA's owned fleet size



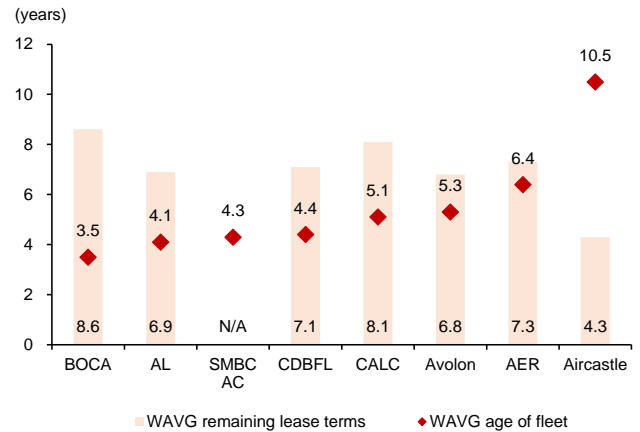
Source: Company data, CMBIS estimates

Figure 3: BOCA's aircraft utilization rate



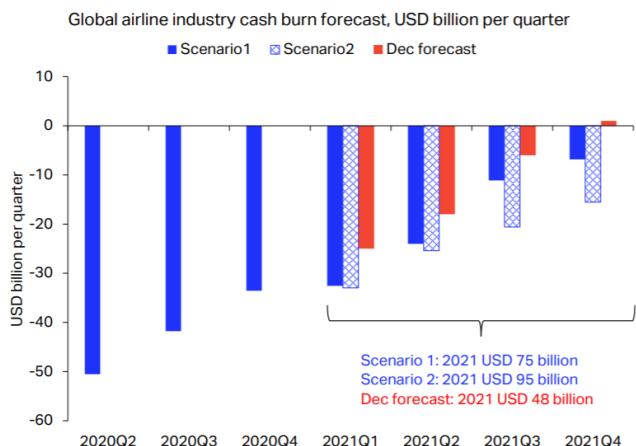
Source: Company data, CMBIS
Note: as of 31 Dec 2020, one owned aircraft was off lease while committed for lease.

Figure 4: BOCA owns one of the youngest fleets and longest remaining lease terms in the industry



Source: Company data, CMBIS
Note: CDBFL and CALC as of Jun-20, SMBC as of Sep-20, Aircastle as of Nov-20, and others as of Dec-20.

Figure 5: IATA expects airlines to remain cash burn throughout 2021



Source: IATA

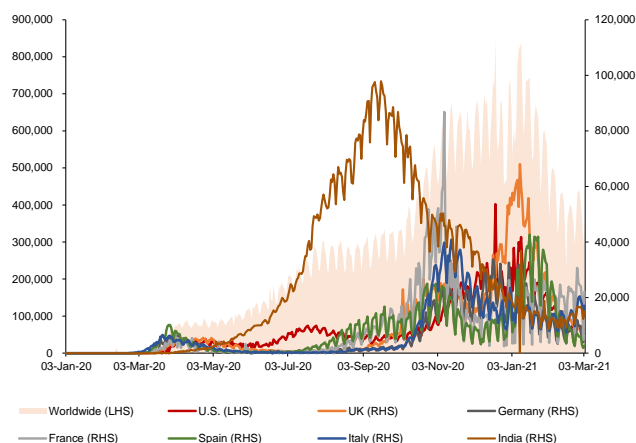
Note: 1) Scenario 1: Travel restrictions lifted in developed economies once vulnerable vaccinated; 2) Governments more cautious to relax travel restrictions.

Figure 6: Global airline bookings showed marginal improvement since 2021 though was still weak



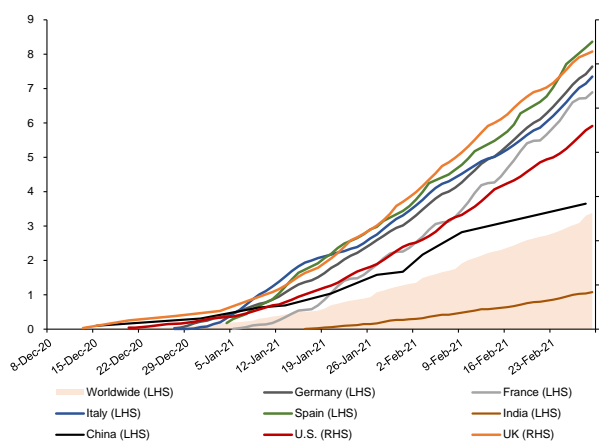
Source: IATA, DDS, CMBIS

Figure 7: Daily new cases of COVID-19 worldwide greatly declined in 1Q21 vs. 4Q20



Source: Wind, CMBIS

Figure 8: Daily number of COVID-19 vaccinations administered per 100 people kept rising

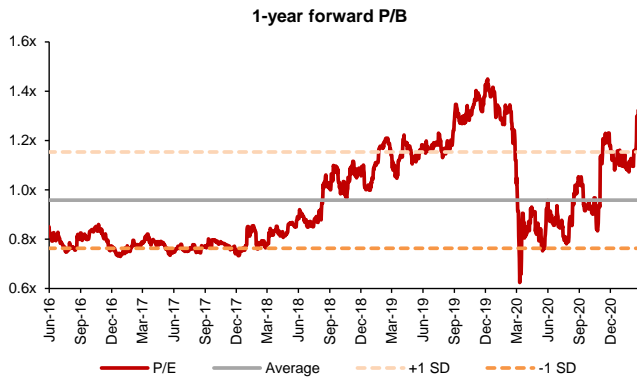


Source: Wind, CMBIS

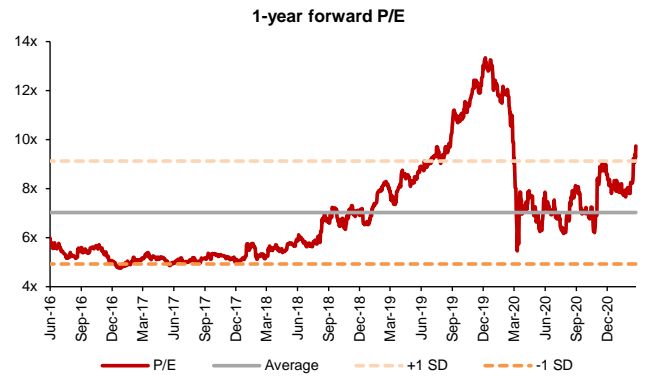
Figure 9: Earnings revision

(US\$)	New			Old			Diff		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Total income (mn)	1,949	2,264	2,505	2,060	2,263	2,558	-5%	0%	-2%
Incl: lease rental income	1,773	2,066	2,297	1,754	1,951	2,289	1%	6%	0%
Net profit (mn)	503	720	835	606	707	829	-17%	2%	1%
EPS	0.72	1.04	1.20	0.87	1.02	1.19	-17%	2%	1%
BVPS	6.78	7.46	8.20	6.99	7.54	8.20	-3%	-1%	0%
ROE	10.83%	14.57%	15.36%	12.80%	14.00%	15.20%	-2.0ppt	0.6ppt	0.2ppt

Source: CMBIS estimates

Figure 10: BOCA's 1-year forward P/B

Source: Bloomberg, CMBIS estimates

Figure 11: BOCA'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	1,949	2,264	2,505
Lease rental income	1,543	1,704	1,773	2,066	2,297
Interest and fee income	81	99	138	150	153
Net gain on sale of aircraft	91	134	39	48	54
Other income	11	38	(1)	0	0
Operating expenses	(1,040)	(1,201)	(1,394)	(1,469)	(1,584)
Depreciation	(543)	(610)	(649)	(727)	(840)
Finance expenses	(353)	(428)	(419)	(487)	(546)
Staff costs	(92)	(80)	(84)	(93)	(100)
Impairment	-	(25)	(184)	(101)	(34)
Other operating expenses	(53)	(59)	(58)	(62)	(64)
Pre-tax profit	685	775	555	794	921
Income tax	(65)	(73)	(52)	(74)	(86)
Minority interest	-	-	-	-	-
Net profit	620	702	503	720	835

Cash flow summary

US\$ mn (YE 31 Dec)	2018A	2019A	2020E	2021E	2022E
Pre-tax profit	685	775	555	794	921
D&A	543	610	649	727	840
Finance expenses	353	428	419	487	546
Others	142	(167)	(40)	(164)	(261)
Operating activities	1,723	1,645	1,582	1,844	2,046
Capex	(4,143)	(3,197)	(4,644)	(4,680)	(3,510)
Other investing activities	1,422	1,266	488	600	675
Investing activities	(2,722)	(1,932)	(4,157)	(4,080)	(2,835)
Changes in borrowings	1,537	1,038	3,264	2,937	1,659
Others	(557)	(723)	(670)	(669)	(819)
Financing activities	980	315	2,594	2,267	841
Net change in cash	(19)	29	19	31	51
Cash at period beginning	242	223	252	271	303
Cash at period end	223	252	271	303	354

Balance sheet

US\$ mn (YE 31 Dec)	2018A	2019A	2020E	2021E	2022E
Cash and cash equivalents	223	252	271	303	354
PP&E	17,973	19,003	21,766	24,085	26,910
Other assets	60	510	1,094	1,106	1,119
Total assets	18,256	19,764	23,131	25,494	28,383
Loans and borrowings	12,279	13,306	16,450	18,097	19,056
Security deposits	269	285	285	335	379
Maintenance reserves	732	593	692	764	823
Other liabilities	777	1,000	998	1,121	2,433
Total liabilities	14,057	15,184	18,426	20,317	22,691
Share capital	1,158	1,158	1,158	1,158	1,158
Reserves	3,041	3,423	3,548	4,019	4,534
Shareholders' Equity	4,199	4,581	4,706	5,177	5,692
Minority interest	-	-	-	-	-
Total equity	4,199	4,581	4,706	5,177	5,692

Key ratios

YE Dec 31	2018A	2019A	2020E	2021E	2022E
Operating metrics (%)					
Lease rental income YoY	20.2	10.5	4.0	16.5	11.2
Operating revenue YoY	23.2	14.5	-1.4	16.2	10.6
Net profit YoY	5.8	13.2	-28.4	43.2	15.9
Net lease yield	8.6	8.0	7.6	7.9	7.9
PP&E growth	33.9	5.7	14.5	10.7	11.7
Net debt / Total equity (x)	2.9	2.8	3.4	3.4	3.3
Returns (%)					
ROE	15.5	16.0	10.8	14.6	15.4
ROA	3.6	3.7	2.3	3.0	3.1
Per share (US\$)					
EPS	0.89	1.01	0.72	1.04	1.20
DPS	0.31	0.35	0.25	0.36	0.42
BVPS	6.05	6.60	6.78	7.46	8.20

Source: Company data, CMBIS estimates

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