

# BOC Aviation (2588 HK)

## Demonstrated resilience in industry headwind

**SUMMARY.** 1H19 lease rental income increased 10.5% YoY to US\$ 832mn. Net profit increased 8.1% YoY to US\$ 321mn. Despite delivery delays from Boeing and Airbus, we believe the Company will achieve target 2019E capital expenditure of US\$ 3bn to US\$ 3.5bn, by PLB and other transactions. We cut 2019E lease rental income by 0.7% to US\$ 1,718mn. Also, we factor in rising finance expenses and trim 2019E net profit by 2.3% to US\$ 688mn. The Company is trading at 1.3x 2019E P/B ratio, higher than its 5-year historical average of 1.2x. Our TP corresponds to 1.4x 2019E P/B ratio, maintain HOLD.

- **1H19 results inline.** The Company announced 1H19 results. Lease rental income increased 10.5% YoY to US\$ 832mn, representing 48% of our full-year estimate. Finance expenses increased 31.1% YoY to US\$ 213mn, due to the combined effect of increase in total indebtedness and increase in average cost of debt from 3.1% in 1H18 to 3.6% in 1H19. Net lease yield remained stable at 8.4%, in line with our full-year estimate of 8.4%. Net profit increased 8.1% YoY to US\$ 321mn, representing 46% of our full-year estimate, and 3% below consensus of US\$ 331mn. The Company announced interim dividend of US\$0.1388 per share, payout ratio remained at 30%.
- **Delivery delays from not only Boeing, but also Airbus.** The Company took delivery of 25 aircraft in 1H19, bringing total number of owned aircraft to 314, from 303 as of YE18. 18 aircraft scheduled for delivery in 1H19 were delayed, comprising 12 Airbus aircraft delayed primarily due to industrial constraints, and six Boeing aircraft delayed primarily due to the 737 MAX grounding. The Company adjusted 2019E deliveries guidance from 79 down to 74, and warned that deliveries in 2019 is likely to be lower than 74, and up to 30 aircraft could be delayed out of 2019.
- **Replacing delayed Capex by PLB transactions.** The Company has been focusing on replacing the capital expenditure represented by the delayed aircraft by PLB and other transactions. Since 30 Jun 2019, it has already announced purchase and leaseback transactions for three A350 aircraft for delivery in 2019. 1H19 actual capital expenditure was US\$ 1.5bn, and capex guidance for 2H19 is US\$ 2.6bn. Management expected capital expenditure for the whole year to range between US\$ 3bn and US\$ 3.5bn.
- **Positive 2H19 outlook.** Management showed professionalism in tackling industry headwinds. We believe the Company will achieve target 2019E capital expenditure. We adjust 2019/20E lease rental income -0.7%/0.4% to US\$ 1,718/1,987mn. Also, we factor in rising finance expenses and adjust 2019/20E net profit -2.3%/0.7% to US\$ 688/773mn. The Company is trading at 1.3x 2019E P/B ratio, higher than its 5-year historical average of 1.2x. Our TP corresponds to 1.4x 2019E P/B ratio, maintain HOLD.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenues (US\$ mn)	1,401	1,726	1,919	2,103	2,334
Net profit (US\$ mn)	587	620	688	773	825
EPS (US\$)	0.85	0.89	0.99	1.11	1.19
EPS CHG (%)	32.1	5.8	10.9	12.4	6.7
PBR (x)	1.5	1.4	1.3	1.2	1.2
PER (x)	10.0	9.4	8.5	7.6	7.1
Yield (%)	3.5	3.7	4.1	4.6	4.9
ROE (%)	16.3	15.5	15.9	16.8	16.8
Gearing (x)	2.9	3.0	3.1	3.0	3.0

Source: Company data, CMBIS estimates

**HOLD (Maintain)**

**Target Price** HK\$72.0  
**(Previous TP)** HK\$56.8)  
**Up/Downside** +9.4%  
**Current Price** HK\$65.75

### China Leasing Sector

**Hanbo Xu**  
 (852) 3761 8725  
 xuhanbo@cmbi.com.hk

**Wenjie Ding, PhD**  
 (852) 3900 0856  
 dingwenjie@cmbi.com.hk

**Stock Data**

Mkt Cap (HK\$ mn)	45,631
Avg 3 mths t/o (HK\$ mn)	43.0
52w High/Low (HK\$)	70.40/ 48.90
Total Issued Shares (mn)	694

Source: Bloomberg

**Shareholding Structure**

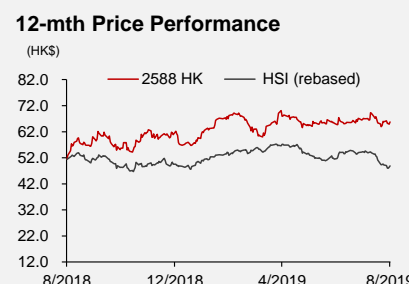
Bank of China Group	70.0%
Public float	27.3%

Source: HKEx

**Share Performance**

	Absolute	Relative
1-mth	-2.5%	9.2%
3-mth	0.2%	11.1%
6-mth	-4.9%	4.1%

Source: Bloomberg



Source: Bloomberg

**Auditor: Ernst & Young**

### Related Reports

1. "2018 results inline; Beware of downward pressure" – 15 Mar 2019
2. "1H18 results inline; positive future outlook" – 17 Aug 2018
3. "A top 5 lessor worth investing in; Initiate with BUY" – 30 Jul 2018

## Earnings revision

Figure 1: 1H19 result

US\$ mn	1H19	1H18	YoY
Lease rental income	832	753	10.5%
Interest and fee income	57	29	97.5%
Other income:			
Net gain on sale of aircraft	22	37	-39.6%
Others	19	6	234.4%
<b>Revenues</b>	<b>930</b>	<b>825</b>	<b>12.8%</b>
Depreciation of plant and equipment	(298)	(267)	11.4%
Finance expenses	(213)	(162)	31.1%
Amortisation of deferred debt issue costs	(12)	(13)	-2.3%
Amortisation of lease transaction closing costs	(0)	(0)	1.3%
Staff costs	(37)	(41)	-8.9%
Marketing and travelling expenses	(3)	(3)	4.5%
Impairment losses on financial assets	(4)	0	NA
Other operating expenses	(12)	(10)	25.0%
<b>Costs and expenses</b>	<b>(579)</b>	<b>(495)</b>	<b>16.9%</b>
<b>Profit before income tax</b>	<b>352</b>	<b>329</b>	<b>6.8%</b>
Income tax credit/(expense)	(30)	(32)	-5.2%
<b>Net profit</b>	<b>321</b>	<b>297</b>	<b>8.1%</b>

Source: Company data, CMBIS

Figure 2: Earnings revision

US\$ mn	New			Old			Diff		
	CY19E	CY20E	CY21E	CY19E	CY20E	CY21E	CY19E	CY20E	CY21E
Lease rental income	1,718	1,987	2,218	1,731	1,979	2,204	-0.7%	0.4%	0.6%
Operating revenue	1,919	2,103	2,334	1,893	2,095	2,320	1.4%	0.4%	0.6%
Pre-tax profit	764	859	917	782	853	922	-2.3%	0.7%	-0.6%
Net profit	688	773	825	704	768	830	-2.3%	0.7%	-0.6%

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

US\$ mn (YE 31 Dec)	2017A	2018A	2019E	2020E	2021E
<b>Operating revenue</b>	<b>1,401</b>	<b>1,726</b>	<b>1,919</b>	<b>2,103</b>	<b>2,334</b>
Lease rental income	1,284	1,543	1,718	1,987	2,218
Interest and fee income	30	81	114	35	35
Net gain on sale of aircraft	78	91	49	70	70
Other income	10	11	38	11	11
<b>Operating expenses</b>	<b>(850)</b>	<b>(1,040)</b>	<b>(1,155)</b>	<b>(1,244)</b>	<b>(1,418)</b>
Depreciation of plant and equipment	(460)	(543)	(570)	(649)	(763)
Finance expenses	(260)	(353)	(422)	(430)	(478)
Staff costs	(72)	(92)	(102)	(112)	(124)
Other operating expenses	(57)	(53)	(61)	(53)	(53)
<b>Pre-tax profit</b>	<b>551</b>	<b>685</b>	<b>764</b>	<b>859</b>	<b>917</b>
Income tax	36	(65)	(76)	(86)	(92)
<b>Net profit</b>	<b>587</b>	<b>620</b>	<b>688</b>	<b>773</b>	<b>825</b>

### Cash flow summary

US\$ mn (YE 31 Dec)	2017A	2018A	2019E	2020E	2021E
<b>Pre-tax profit</b>	<b>551</b>	<b>685</b>	<b>764</b>	<b>859</b>	<b>917</b>
Depreciation and amortization	460	543	570	649	763
Finance expenses	260	353	422	430	478
Others	0	142	(25)	(132)	(138)
<b>Operating activities</b>	<b>1,271</b>	<b>1,723</b>	<b>1,731</b>	<b>1,806</b>	<b>2,019</b>
Capital expenditure	(4,446)	(4,170)	(3,250)	(3,900)	(2,800)
Other investing activities	1,251	1,449	700	1,000	1,000
<b>Investing activities</b>	<b>(3,194)</b>	<b>(2,722)</b>	<b>(2,550)</b>	<b>(2,900)</b>	<b>(1,800)</b>
Changes in borrowings	1,824	1,159	2,571	36	505
Dividends paid	(155)	(222)	(227)	(253)	(278)
Others	101	43	-	-	-
<b>Financing activities</b>	<b>1,771</b>	<b>980</b>	<b>2,345</b>	<b>(217)</b>	<b>227</b>
<b>Net change in cash</b>	<b>(152)</b>	<b>(19)</b>	<b>1,526</b>	<b>(1,311)</b>	<b>447</b>
Cash at the beginning of the year	394	242	144	1,669	359
<b>Cash at the end of the year</b>	<b>242</b>	<b>223</b>	<b>1,669</b>	<b>359</b>	<b>805</b>

### Balance sheet

US\$ mn (YE 31 Dec)	2017A	2018A	2019E	2020E	2021E
<b>Non-current assets</b>	<b>15,468</b>	<b>17,999</b>	<b>19,923</b>	<b>22,100</b>	<b>23,062</b>
Plant and equipment	15,434	17,973	19,897	22,074	23,036
Other non-current assets	34	26	26	26	26
<b>Current assets</b>	<b>572</b>	<b>257</b>	<b>1,836</b>	<b>525</b>	<b>972</b>
Cash and cash equivalents	143	90	1,669	359	805
Other current assets	429	167	167	167	167
<b>Total assets</b>	<b>16,040</b>	<b>18,256</b>	<b>21,759</b>	<b>22,625</b>	<b>24,034</b>
<b>Current liabilities</b>	<b>1,724</b>	<b>1,709</b>	<b>1,991</b>	<b>2,055</b>	<b>1,895</b>
Loans and borrowings	1,419	1,438	1,707	1,707	1,707
Other current liabilities	305	270	284	348	188
<b>Non-current liabilities</b>	<b>10,497</b>	<b>12,349</b>	<b>15,322</b>	<b>15,817</b>	<b>17,054</b>
Loans and borrowings	9,263	10,840	13,565	14,032	15,014
Other non-current liabilities	1,234	1,508	1,757	1,786	2,039
<b>Total liabilities</b>	<b>12,221</b>	<b>14,057</b>	<b>17,313</b>	<b>17,873</b>	<b>18,949</b>
Share capital	1,158	1,158	1,158	1,158	1,158
Reserves	2,661	3,041	3,288	3,594	3,927
<b>Shareholders' Equity</b>	<b>3,819</b>	<b>4,199</b>	<b>4,446</b>	<b>4,752</b>	<b>5,085</b>

### Key ratios

YE Dec 31	2017A	2018A	2019E	2020E	2021E
<b>Operating metrics (%)</b>					
Lease rental income	22.4	20.2	11.4	15.6	11.6
Operating revenue	17.4	23.2	11.2	9.6	11.0
Net profit	40.3	5.8	10.9	12.4	6.7
Net lease yield	8.4	8.3	8.1	8.4	8.5
Average cost of debt	2.8	3.3	3.2	3.1	3.2
<b>B/S ratios (%)</b>					
Total debt / Total equity	281.2	292.4	305.1	295.3	295.3
Net debt / Total equity	277.5	290.3	267.6	287.7	279.4
<b>Returns (%)</b>					
ROE	16.3	15.5	15.9	16.8	16.8
ROA	4.0	3.6	3.4	3.5	3.5
<b>Per share (US\$)</b>					
EPS	0.85	0.89	0.99	1.11	1.19
DPS	0.30	0.31	0.35	0.39	0.42
BVPS	5.50	6.05	6.41	6.85	7.33

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.