

Wednesday, 27 January, 2016

Bringing China to the World

Company Visit

Not rated

China Aircraft Leasing Group Holdings Ltd

Sector: Industrials

Industry: Trading Companies & Distributors

Sub-industry: Trading Companies & Distributors

Key data

Price (HK\$)	5.91
52wk High (HK\$)	14.78
52wk Low (HK\$)	5.91
Market Cap (HK\$m)	3,581
Market Cap (US\$m)	459
Shares outstanding (m)	586
Free float	27.0%
1M Return	-20.7%
6M Return	-41.0%
52wk Return	-45.5%
YTD Return	-26.1%
Dividend yield (FY14)	3.38%
S&P	-
HSCEI	7,895

Inst Ownership (Top 5)

CHINA EVERBRIGHT AER	34.27%
FRIEDMANN PACIFIC AS	29.98%
EASY SMART LTD	4.83%
NEW CAPITAL FUND MAN	1.91%
WANTING LIU	1.65%

Source: Bloomberg

中国飞机租赁集团 (1848:HK)

向前飞跃

最近我们与中国飞机租赁集团（CALC）管理层举行了一次电话会议。公司于 2006 年创立，现主要控股股东中国光大控股和富泰资产管理分别持有 35% 和 30% 的股份。目前公司的总资产达到了 25.9 亿美元，并于 2014 年 7 月在 H 股市场成功上市，成为唯一在亚洲上市的飞机租赁公司。中国飞机租赁在巩固飞机租赁作为核心业务的同时，也将触角延伸到了飞机的全产业链，包括公司刚刚引入的飞机拆解项目和机队扩充计划。在实施全球化战略的过程中，公司丰富了融资渠道，着重控制汇率及利率风险和负债比率。目前公司的高 ROE 和快速增长的收入使得公司具备了投资价值。

飞机的全产业链。2014 年 12 月，公司开始在哈尔滨建立占地为 300000 平方米的飞机拆解基地，主要目的是从市场上收购旧的、退役的飞机，把高价值的部分拆解下来，通过回收用作储备库。这样一种退旧换新的一揽子交易模式，将会增加公司的收入来源，并将飞机的残值最大化，短期目标是到 2018 年建立 20 架飞机的年拆解能力。同时，公司有着一份清晰的机队扩充计划，2015 年年底将达到 63 架，2016 年计划交付 12 架，2017 年 20 架，主要是由空客的生产能力决定。目前机队的构成以空客 A320 为主，该系列从运营、驾驶、产值管理等角度都有很大价值，其 5 小时左右的可航行距离能覆盖大中华、亚洲、美洲、欧洲范围，由于供需的不平衡，市场价值也很高。

多样化的融资手段。除了将银行贷款作为主要的融资来源，公司创新地采用了变现融资租赁应收款项的方式（租赁证券化），把应收账款直接卖断给银行、保险等对美元产品有高需求的金融机构，提前拿到现金去偿还银行贷款，至 14 年底已成功完成 5 单交易。公司也在积极建立中国航空环球基金（CAG），以增加收入来源，减轻融资压力。值得一提的是，公司于 2015 年 8 月成功获得了欧洲出口信贷融资担保（ECA），使公司在海外的融资成本下降，提升了海外债券的信用评级。通过一系列手段，公司的负债比率有所下降，从 2012 年的 0.88 降低至 2015 年的 0.87，目标定于 2015 年底降为 0.85。

潜在风险的控制。为了避免潜在的风险，公司倾向于选择通过了信用分析、最好是具有政府支持的航空公司。面对金融市场的利率风险，公司将每架飞机独立融资，截至 2015 年 6 月底的 50 架中，有 35 架飞机（70%）已经利用利率掉期交易做了对冲安排，其余的 15 架飞机（30%）没有做对冲，它们的固定租金和浮动利率的设置，是为了未来证券化的灵活安排。针对汇率风险，公司安排 45 架飞机的租金与贷款的币种相匹配，其中的 41 架以美元计价，通过租赁证券化将 5 架飞机变现，使得人民币贬值对公司的影响有限。

估值机会。公司通过租赁证券化把利润提前变现，加上公司中资客户的高信用使得融资成本的降低，公司的 ROE 连续 3 年都维持在 20% 以上，其中 14 年达到 22.4%，位居行业第一，超过了同类平均的 9.34%。对比国外同行业企业平均 1.0 倍的市净率和 11.19 倍的市盈率，公司当前的市净率和市盈率分别是 1.42 倍和 6.17 倍，低于历史平均的 3.40 倍和 17.84 倍。



Source: Bloomberg

Financial Table

	11A	12A	13A	14A
Revenue (m)	448	623	897	1,588
YoY (%)	100.6%	39.3%	43.9%	77.0%
Net income (m)	95	173	303	424
YoY (%)	84.8%	81.3%	75.5%	40.2%
Diluted EPS	0.25	0.38	0.55	0.68
YoY (%)	65.4%	48.6%	44.9%	24.0%
ROE (%)	20.5%	21.1%	22.4%	22.0%
Dividend yield (%)	0.0%	-	1.4%	3.5%
Free cashflow per share	-7.57	-6.31	-6.96	-
PE (x)	-	-	19.9	8.7
PB (x)	-	-	3.8	1.7
EV/Ebitda	-	-	25.6	22.1
Debt/Equity	8.76	12.10	8.98	-

Source: SWS Research, Bloomberg

Please also find SWS Research on your Bloomberg terminal at SWSE <GO>, Thomson Reuters, FactSet and S&P Capital IQ.

China Aircraft Leasing Group Holdings, established in 2006 by state-owned financial services conglomerate China Everbright (165:HK, holding 35.6%) and Hong Kong-based investment firm Friedmann Pacific Asset Management (30.8%), is Asia's only aircraft leasing services firm and holds assets worth HK\$2.59bn. The company, listed in July 2014, was an early entrant to the capital-intensive industry, and had a fleet of 50 aircraft in hand by mid-2015. It is now looking to sustain high growth (revenue grew at a 52.5% Cagr in 2011-14; profit at 64.6%; while assets expanded 4.5x) with a shift from its early China-focus to a more balanced global customer-base. Among its competitive advantages are its strong relationship with manufacturer Airbus (AIR:FP) and with domestic carriers, as well as its access to financing through its parent companies.

Financing. Noteworthy is the company's innovative financing products based on leasing receivables to help generate sufficient upfront cash flow. The products have been marketed on leases for five of its aircraft as of end-2014. CALC, which sources financing from around the world to control exchange rate and interest rate risk, also obtained European Credit Association (ECA) guarantees, lowering its financing cost and upgrading its overseas credit rating. It targets a gearing ratio of 0.85 by end-2015 (2014: 0.88x).

Top dog in the skies. The market remains capital-intensive and relationships with both airlines and manufacturers are key to maintaining a competitive edge. CALC's relationship with Airbus (its fleet primarily consists of A320s) helps it take delivery of new aircraft more rapidly than airlines can; the company has 108 new planes on order as of end-2015 (12 in 2016, 20 in 2017), with its order book tied to its customers' three-year expansion schedules. In addition to expanding to more airlines overseas, the company notes that the domestic airline industry has a relatively low leasing ratio of just 40% (vs c.60% in developed markets).

Outside the fuselage. Beyond leasing, CALC is building ancillary services such as aircraft disassembly, fleet management consulting and asset management. CALC broke ground on its Heilongjiang Province-based disassembly centre in December 2014 to supply parts from retired aircraft.

Risk control. CALC finances each aircraft independently with 35 (70%) hedged through use of interest rate swaps and 15 (30%) unhedged. Meanwhile, insulating itself against forex risk, CALC borrows for 45 of its planes in the currency in which it leases.

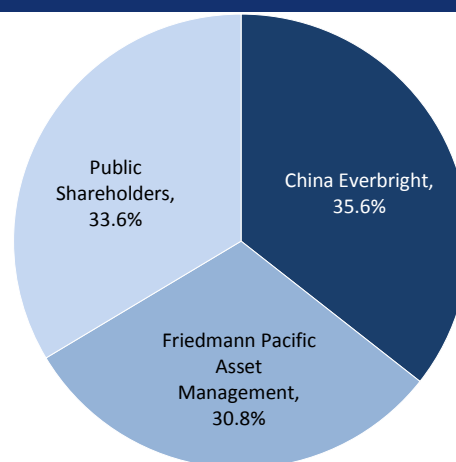
Valuation. CALC recorded stable ROE over 20% for the past three years (2014: 22.4%), outperforming global comps (2014: 9.3%). The company is currently trading at 1.4x PB and 6.2x PE, compared to global peers average of 1.0x PB and 11.2x PE, but below its historical average of 3.4x PB and 17.8x PE.

Fly ahead

Recently we held a conference call with China Aircraft Leasing Group Holdings (CALC) and related investors. CALC was established in 2006, with its major controlling shareholders China Everbright and Friedmann Pacific Asset Management owning 35.60% and 30.80% collectively. The firm, which itself listed on the Hong Kong market in July 2014 to be the only company in the industry in Asia, holds total asset of \$2.59bn. Besides aircraft leasing as the core business, CALC expands its business arm to full industry chain with aircraft disassembly project and its larger fleet size plan. Within the globalization strategy, CALC has enriched financing channels with the focus on controlling exchange rate, interest rate and gearing. Nowadays, CALC is of investment value with its high ROE and rapid-growing revenue.

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Fig 1: Shareholding structure



Source: SWS Research, Company data

Aircraft full industry chain

Beyond leasing, CALC is building ancillary services such as aircraft disassembly, fleet management consulting and asset management. CALC broke ground on its 300,000sqm Harbin, Heilongjiang Province-based disassembly centre in December 2014 to supply parts from retired aircraft. Such a package deal of trade-in transaction will open up new sources of income and maximize aircrafts' salvage value, with a short-term target of dismantling 20 aircraft per year until 2018.

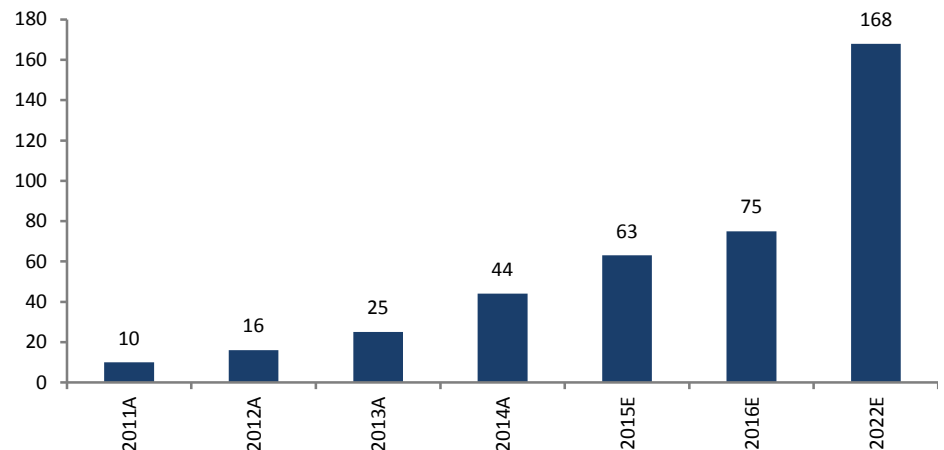
Meanwhile, CALC plans to develop a larger overseas customer base to drive accelerated fleet expansion. By end-2015, the company had a fleet of 63 aircraft, planning to add 12 in 2016 and another 20 in 2017, depending on the production capacity of Airbus. CALC's current fleet mainly consists of the series of Airbus A320s.

Fig 2: Aircraft delivery timetable

	2015	2016	2017
Delivered	16	0	0
Undelivered	3	12	20
Total	19	12	20

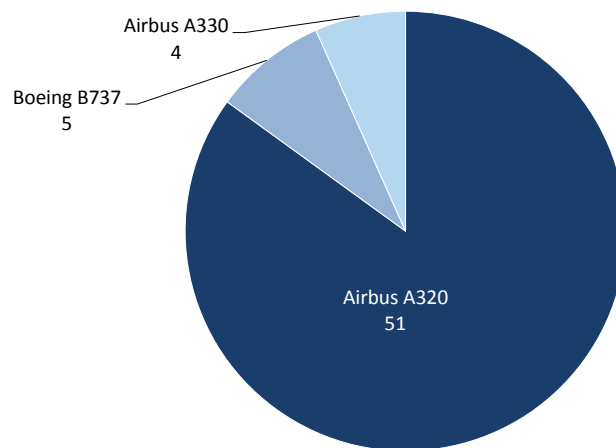
Source: SWS Research, Company data

Fig 3: CALC fleet size



Source: SWS Research, Company data

Fig 4: Category of fleet (No. of aircraft by end-Nov 2015)

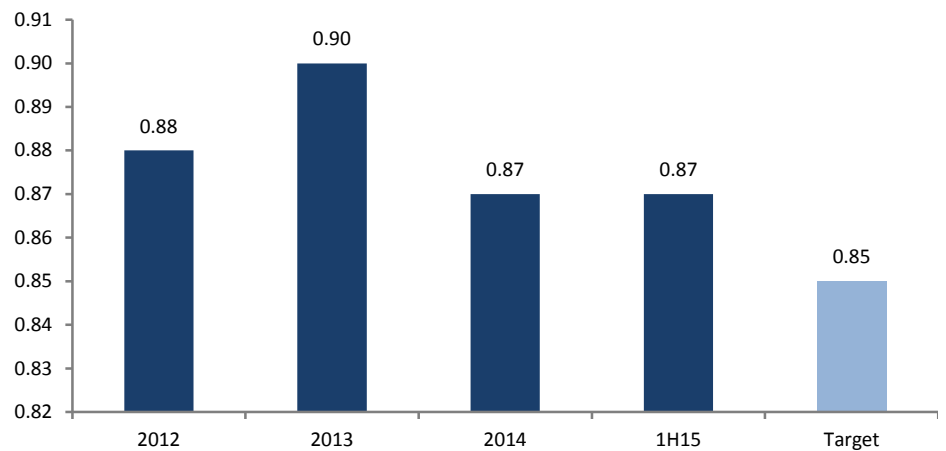


Source: SWS Research, Company data

Diversified financing channels

Besides bank loans as major financing resource, CALC innovatively adopted the way of packaging receivables through realization (lease securitization), with 5 successful deals by the end of 2014, which could bring in cash in advance to pay back its bank loans by realizing receivables to banks or insurance firms in need of products in dollar. To accelerate growth by using less capital, CALC invites investors to set up China Aircraft Global Fund (CAG) in the form of shares to ease financing stresses. It is also worth noting that CALC obtained the financing guarantee of European Credit Association (ECA) in August 2015, resulting in the decrease of financing costs and upgrade of its overseas bonds' credit rating. As a result, CALC has lowered its gearing from 0.88 in 2012 to 0.87 in 2015, with the target of 0.85 by the end of 2015.

Fig 5: Gearing

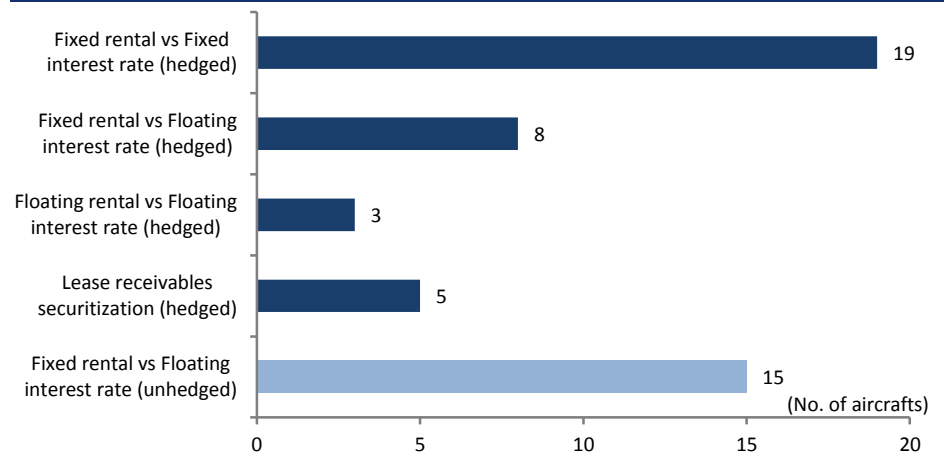


Source: SWS Research, Company data

Potential risks under control

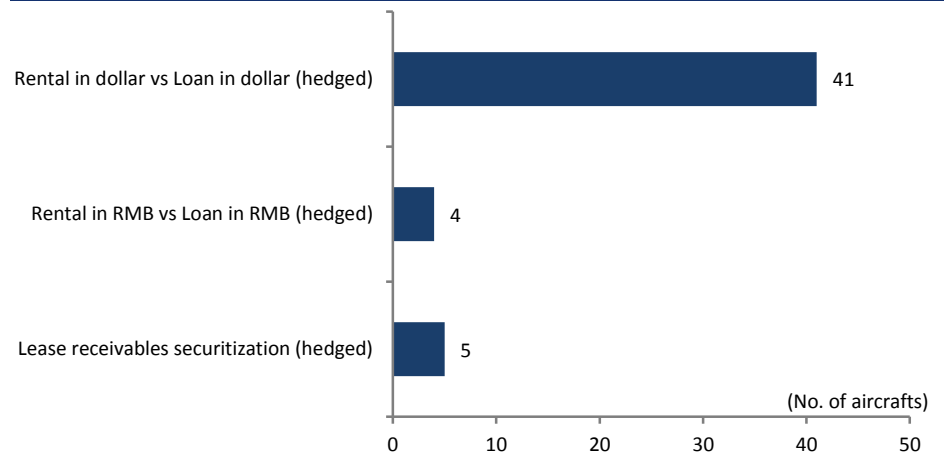
To get rid of potential risks, airline companies, which passed the credit analysis, preferably with government support, are to be chosen by CALC. In terms of the risk of interest rate, CALC financed each aircraft independently with 35 (70%) hedged by interest rate swaps and 15 (30%) unhedged in fixed rental and floating interest rate to adapt to further securitization, of total 50 aircraft by end-June 2015. In terms of the risk of FX rate, 45 of 50 have the natural match in the same currency of rental and loan with 41 in dollar, and the remaining 5 have been realized through packaging receivables, which enables CALC to suffer the limited effect of RMB depreciation.

Fig 6: Control of interest rate (by end-June 2015)



Source: SWS Research, Company data

Fig 7: Control of FX rate (by end-June 2015)

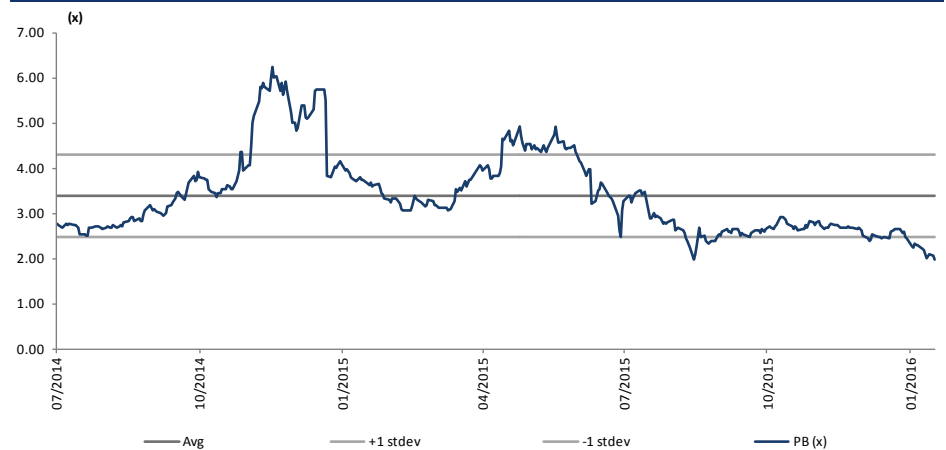


Source: SWS Research

Valuation

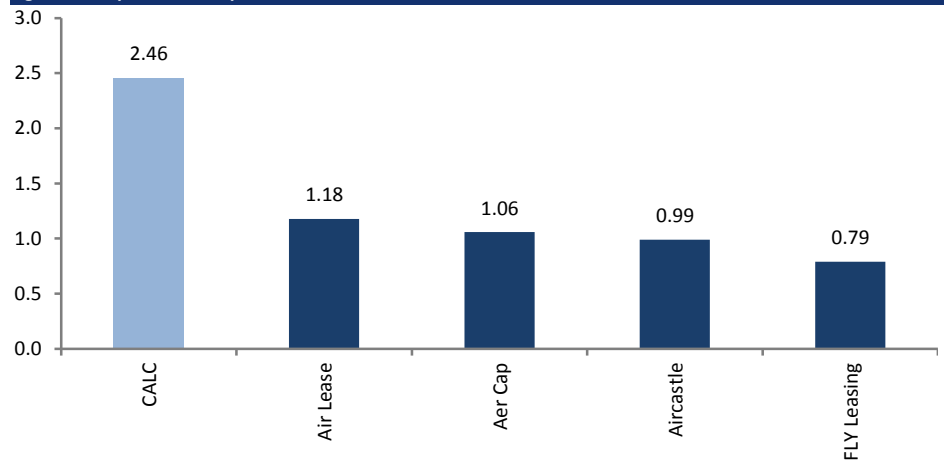
Thanks to the procedure of realization through lease securitization and the decreasing financing costs brought by high credit rating of Chinese corporate clients, CALC's ROE remains above 20% in the consecutive 3 years with 22.4% in 2014 ranking first among peers, vs peers average of 9.34%. CALC is currently trading at 2.46x PB and 14.02x PE, compared to global peers average of 1.0x PB and 11.19x PE, but below its historical average of 3.40x PB and 17.84x PE collectively.

Fig 8: PB band



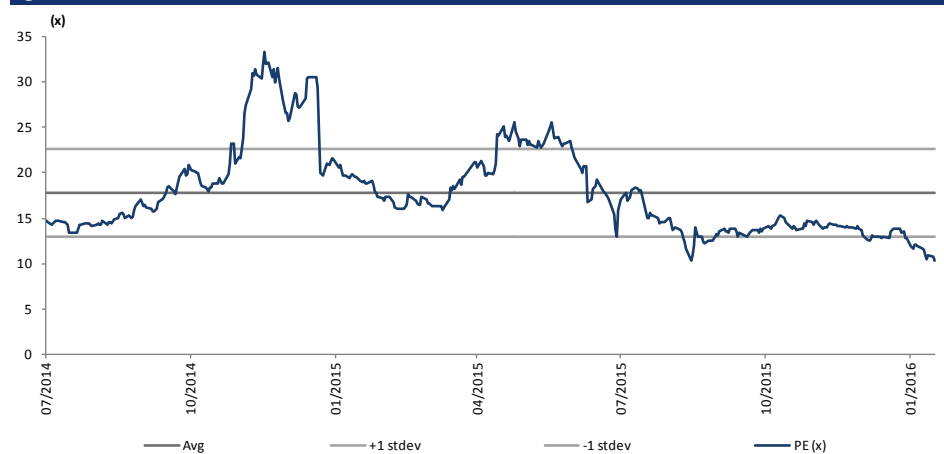
Source: SWS Research, Bloomberg

Fig 9: Global peers PB comparison



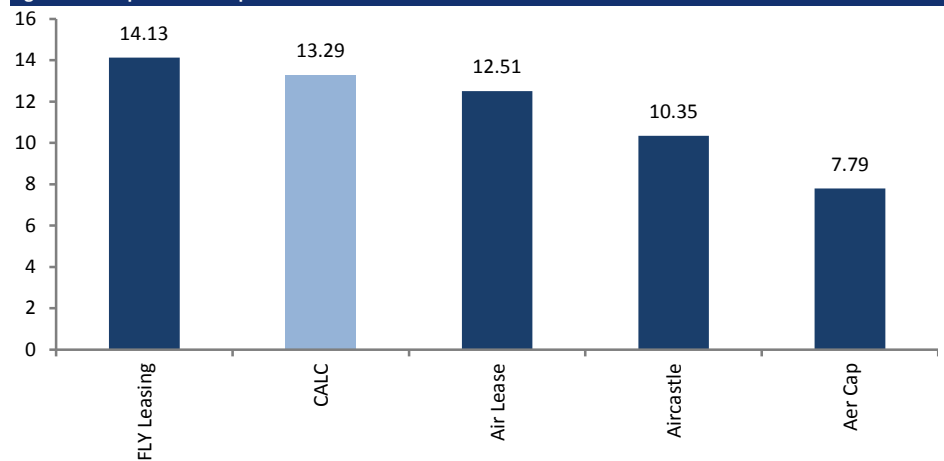
Source: SWS Research, Bloomberg

Fig 10: PE band



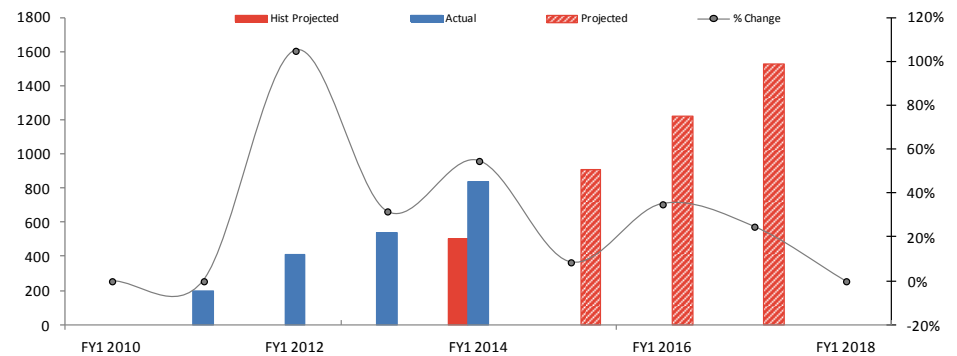
Source: SWS Research, Bloomberg

Fig 11: Global peers PE comparison



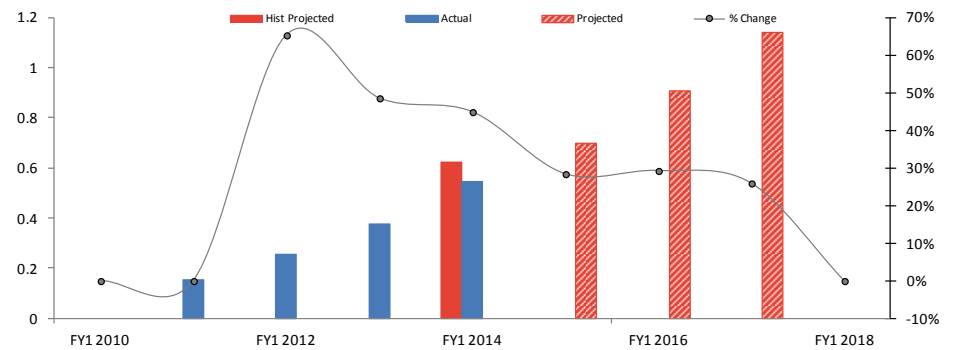
Source: SWS Research, Bloomberg

EBITDA



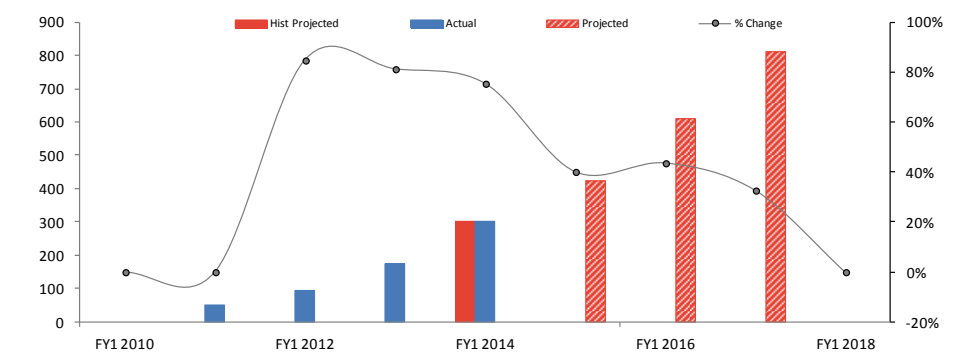
Source: SWS Research, Bloomberg

Diluted EPS Bef XO Items



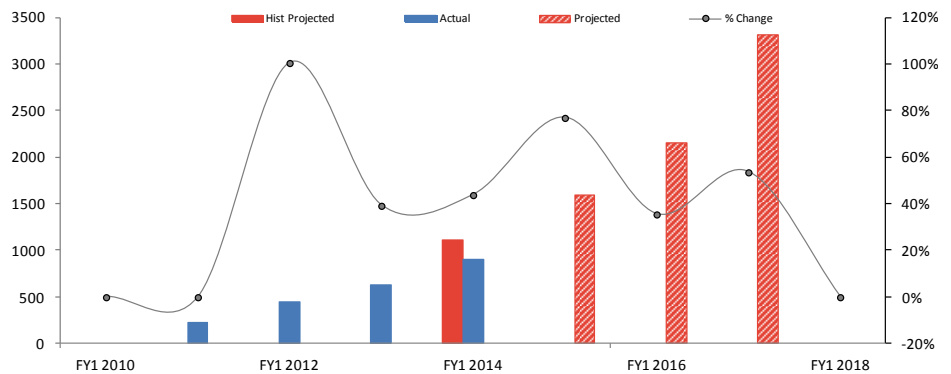
Source: SWS Research, Bloomberg

Net Income/Net Profit (Losses)



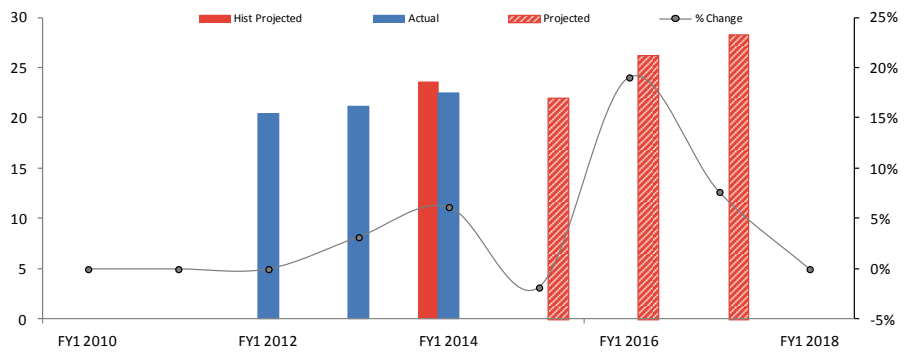
Source: SWS Research, Bloomberg

Sales/Revenue/Turnover



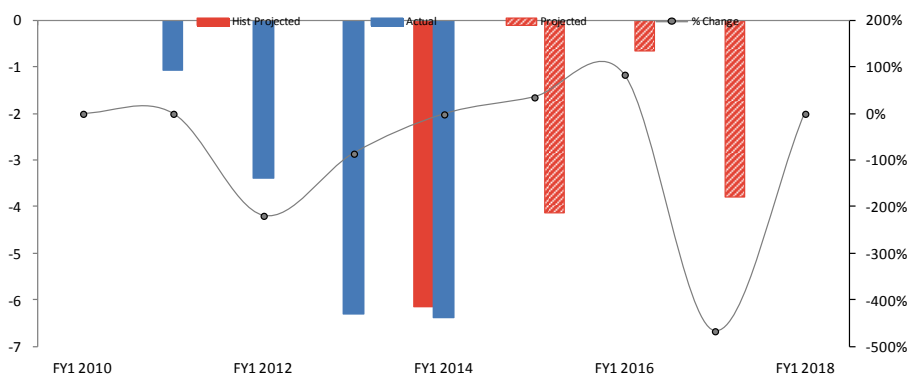
Source: SWS Research, Bloomberg

Return on Equity



Source: SWS Research, Bloomberg

Cash Flow per Share



Source: SWS Research, Bloomberg

Appendix

Income Statement

HK\$m	2011	2012	2013	2014
Revenue	223.1	447.6	623.3	896.9
Operating Income	199.1	377.4	484.3	762.3
Pretax Income	78.3	128.3	210.0	380.7
Income bef XO Items	51.5	95.1	172.5	302.7
Net Income	51.5	95.1	172.5	302.8
Basic EPS Before XO Items	0.2	0.3	0.3	0.4
Basic EPS	0.2	0.3	0.4	0.6
Diluted EPS Before XO Items	0.2	0.3	0.3	0.4
Diluted EPS	0.2	0.3	0.4	0.5
Dividends per Share	0.0	0.0	0.0	0.2
Ebitda	199.2	408.5	538.5	833.6
Return on Common Equity	0.0	20.5	21.1	22.4

Source: Bloomberg

Balance Sheet

HK\$m	2011	2012	2013	2014
Total Current Assets	203.2	960.0	3653.2	5162.9
Total Long-Term Assets	3136.6	5929.2	9179.6	13150.2
Total Assets	3339.8	6889.2	12832.9	18313.0
Total Current Liabilities	608.6	467.5	4077.9	480.4
Total Long-Term Liabilities	2496.5	5727.1	7796.8	16051.9
Total Liabilities	3105.1	6194.5	11874.8	16532.3
Total Shareholders' Equity	234.7	694.7	958.1	1780.7
Shares Outstanding	469.0	469.0	469.0	585.8
Book Value per Share	0.5	1.5	2.0	3.0
Tangible Book Value / Sh	0.5	1.5	2.0	3.0
Shareholder Equity/Total Liab	7.0	10.1	7.5	9.7

Source: Bloomberg

Cash Flow Statement

HK\$m	2011	2012	2013	2014
Net Income	51.5	95.1	172.5	302.8
Depreciation and Amortisation	0.1	31.1	54.1	71.3
Change in Working Capital	0.0	898.0	-917.3	5107.1
Cash - Operating Activities	-357.6	-1279.6	-2896.1	-3351.5
Capital Expenditures	-0.9	-1571.0	-0.4	-299.0
Cash - Investing Activities	-6.2	-2356.9	-1387.4	-1590.2
Cash - Financing Activities	437.1	3620.1	5577.4	4999.9
Net Changes in Cash	73.4	-16.5	1293.8	58.2
Free Cash Flow	-358.5	-2850.6	-2896.6	-3650.6
Free Cash Flow / Basic Sh	-1.1	-7.6	-6.3	-7.0
Free Cash Flow / Diluted Sh	-1.1	-7.6	-6.3	-6.6
Cashflow per Share	-1.1	-3.4	-6.3	-6.4

Source: Bloomberg

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BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

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HSCEI is the benchmark employed in this report.

Wednesday, 27 January, 2016

Bringing China to the World

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