

BOC Aviation Ltd

Bloomberg: 2588 HK Equity | Reuters: 2588.HK

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DBS Group Research . Equity

2 Mar 2022

BUY

Last Traded Price (1 Mar 2022): HK\$65.20 (HSI : 22,762)

Price Target 12-mth: HK\$84.00 (29% upside)

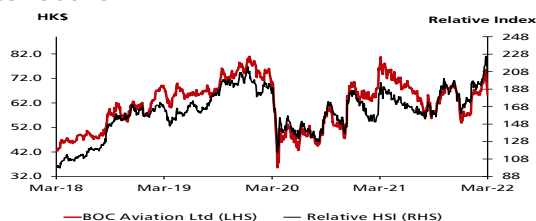
Analyst

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What's New

- Cutting FY22F net profit estimate by 20% to reflect challenges surrounding recent sanctions on Russia
- Project earnings to still grow at a solid 21% CAGR between FY21-23F
- Valuations remain attractive at 1.1x P/BV, 0.5 standard deviation below its five-year average
- Maintain BUY with unchanged TP of HK\$84.0

Price Relative



Forecasts and Valuation

FY Dec (US\$m)	2020A	2021F	2022F	2023F
Turnover	2,054	2,162	2,187	2,529
EBITDA	1,802	1,868	2,044	2,415
Pre-tax Profit	563	593	624	868
Net Profit	510	522	549	764
Net Pft (Pre Ex) (core profit)	589	522	549	764
Net Profit Gth (Pre-ex) (%)	(16.2)	(11.3)	5.2	39.0
EPS (US\$)	0.73	0.75	0.79	1.10
EPS (HK\$)	5.74	5.88	6.19	8.60
Core EPS (US\$)	0.85	0.75	0.79	1.10
Core EPS (HK\$)	6.63	5.88	6.19	8.60
EPS Gth (%)	(27.4)	2.4	5.2	39.0
Core EPS Gth (%)	(16.2)	(11.3)	5.2	39.0
Diluted EPS (HK\$)	6.63	5.88	6.19	8.60
DPS (HK\$)	2.01	2.06	2.16	3.01
BV Per Share (HK\$)	53.78	57.60	61.62	67.21
PE (X)	11.4	11.1	10.5	7.6
CorePE (X)	9.8	11.1	10.5	7.6
P/Cash Flow (X)	4.4	3.6	3.9	3.3
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	12.3	12.7	12.0	10.9
Net Div Yield (%)	3.1	3.2	3.3	4.6
P/Book Value (X)	1.2	1.1	1.1	1.0
Net Debt/Equity (X)	3.4	3.5	3.4	3.5
ROAE(%)	10.9	10.6	10.4	13.3
Earnings Rev (%)		0	(20)	New
Consensus EPS (US\$)		0.80	1.06	1.25
Other Broker Recs:		B:14	S:0	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Russian sanctions are a near-term setback; still primed for long-term growth

Investment Thesis

Solid portfolio quality and strategy underpin long-term outperformance. We like BOCA as it has the longest weighted average lease expiry, along with the youngest fleet with a relatively higher proportion of new generation narrowbody aircraft than peers. Additionally, BOCA has an excellent track record in capital management throughout the cycle.

Set up for 2023 and beyond appears promising. While BOCA's earnings will take a hit from Russian sanctions in FY22F, we project the lessor's net profit will grow by an impressive 21% CAGR between FY21-23, underpinned by its robust orderbook and strong pipeline of purchase-and-leaseback transactions. Cash collections should improve as the financial health of airlines improve, and aircraft impairments appear less probable going forward. Over the longer term, we expect positive trends in the sector to drive a structural shift towards leasing, which bodes well for a lessor with a global presence like BOCA.

Valuation remains undemanding. BOCA is currently trading at 1.1x P/BV (FY22F), which is 0.5 standard deviation (SD) below its five-year average, and this does not adequately reflect the lessor's positive business outlook, in our view.

Valuation:

Our target price (TP) of HK\$84 is based on a 1.4x blended FY22F book value, which is around +1SD of its five-year average.

Where we differ:

While our FY22/23F earnings' projections are below consensus, our TP for BOCA is above consensus, as we anticipate multiple expansions as sector dynamics turn more favourable over the medium term.

Key Risks to Our View:

Protracted Ukraine-Russia conflict or a prolonged decline in demand for air travel globally could lead to further impairments on receivables or on the asset values of the company's aircraft.

At A Glance

Issued Capital (m shrs)	694
Mkt Cap (HK\$/US\$m)	45,249 / 5,789
Major Shareholders (%)	
Central Huijin Investment Ltd.	70.0
Free Float (%)	30.0
3m Avg. Daily Val. (US\$m)	7.03
GICS Industry: Industrials / Capital Goods	



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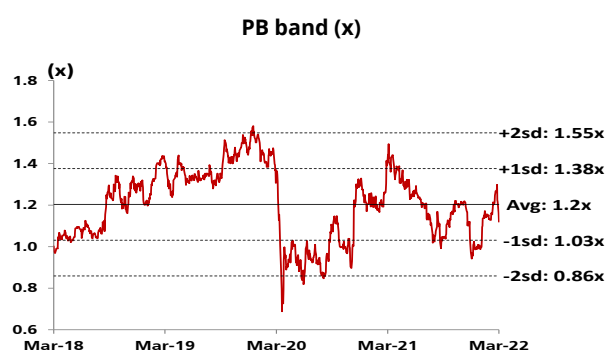
Live more, Bank less

BOC Aviation Ltd

Company Background

BOC Aviation (BOCA) is the largest Asia-headquartered aircraft operating lessor, as measured by the value of owned aircraft. Founded in 1993, BOCA had aircraft assets with a net book value of US\$19.6bn at the end of June-21 and has recorded 26 consecutive years of profit in excess of US\$5.0bn in cumulative profits since inception. The company is also among the world’s top five operating lessors by value of owned aircraft.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

BOC Aviation Ltd

Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
Net book value of aircraft (US\$ m)	16,760.0	18,850.4	20,442.8	21,312.7	22,903.8
Lease rate factor (%)	10.6	10.0	9.7	9.5	10.3
Sale of aircraft at net book value (US\$ m)	1,182.8	267.4	500.0	750.0	1,000.0
Trading gain margin (%)	11.4	16.6	2.0	4.0	8.0
Cost of Debt (%)	3.3	3.0	2.8	2.9	3.2

Source: Company, DBS HK

Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (US\$ m)					
Lease Rental Income	1,704	1,784	1,906	1,983	2,277
Interest and Fee Income	99	177	156	133	132
Net gain on sale of aircraft	134	44	10	30	80
Others	38	48	90	40	40
Total	1,976	2,054	2,162	2,187	2,529

Source: Company, DBS HK

BOC Aviation Ltd
Income Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	1,976	2,054	2,162	2,187	2,529
Cost of Goods Sold	(610)	(677)	(761)	(843)	(872)
Gross Profit	1,366	1,377	1,401	1,344	1,657
Other Opg (Exp)/Inc	(138)	(252)	(293)	(143)	(114)
Operating Profit	1,228	1,125	1,108	1,201	1,543
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(453)	(483)	(514)	(576)	(676)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	(79)	0	0	0
Pre-tax Profit	775	563	593	624	868
Tax	(73)	(53)	(71)	(75)	(104)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	702	510	522	549	764
Net Profit before Except.	702	589	522	549	764
EBITDA	1,837	1,802	1,868	2,044	2,415
Growth					
Revenue Gth (%)	14.5	3.9	5.3	1.2	15.7
EBITDA Gth (%)	14.5	(2.0)	3.7	9.4	18.2
Opg Profit Gth (%)	15.7	(8.4)	(1.5)	8.4	28.5
Net Profit Gth (%)	13.2	(27.4)	2.4	5.2	39.0
Margins & Ratio					
Gross Margins (%)	69.1	67.1	64.8	61.4	65.5
Opg Profit Margin (%)	62.1	54.8	51.2	54.9	61.0
Net Profit Margin (%)	35.5	24.8	24.2	25.1	30.2
ROAE (%)	16.0	10.9	10.6	10.4	13.3
ROA (%)	3.7	2.4	2.1	2.1	2.7
ROCE (%)	6.0	4.8	4.0	4.1	4.9
Div Payout Ratio (%)	35.0	35.0	35.0	35.0	35.0
Net Interest Cover (x)	2.7	2.3	2.2	2.1	2.3

Source: Company, DBS HK

BOC Aviation Ltd

Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	19,003	22,161	24,292	25,701	28,330
Invt in Associates	0	0	0	0	0
Other LT Assets	22	752	752	752	752
Cash & ST Invt	612	408	437	328	271
Inventory	0	0	0	0	0
Debtors	125	130	57	37	37
Other Current	3	119	119	119	119
Total Assets	19,764	23,568	25,656	26,937	29,509
ST Debt	1,715	1,746	1,746	1,746	1,746
Creditors	208	189	218	221	255
Other Current Liab	217	222	233	243	253
LT Debt	11,591	14,953	16,553	17,353	19,153
Other LT Liabilities	1,452	1,682	1,790	1,901	2,132
Shareholder's	4,581	4,777	5,116	5,473	5,970
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	19,764	23,568	25,656	26,937	29,509

Source: Company, DBS HK

Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	775	563	593	624	868
Dep. & Amort.	610	676	761	843	872
Tax Paid	(32)	(1)	(5)	(5)	(5)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(150)	(131)	112	32	44
Other Operating CF	(38)	219	138	1	(23)
Net Operating CF	1,164	1,326	1,599	1,496	1,756
Capital Exp.(net)	(1,932)	(4,255)	(2,992)	(2,222)	(3,422)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(1,932)	(4,255)	(2,992)	(2,222)	(3,422)
Div Paid	(224)	(246)	(178)	(183)	(192)
Chg in Gross Debt	1,036	3,295	1,600	800	1,800
Capital Issues	0	0	0	0	0
Other Financing CF	(15)	35	0	0	0
Net Financing CF	796	3,084	1,422	617	1,608
Currency Adjustments	0	0	0	0	0
Chg in Cash	29	156	29	(108)	(58)
Opg CFPS (US\$)	1.89	2.10	2.14	2.11	2.47
Free CFPS (US\$)	(1.11)	(4.22)	(2.01)	(1.05)	(2.40)

Source: Company, DBS HK

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	8-Mar-21	HK\$76.20	HK\$85.00	Buy
2:	24-Mar-21	HK\$73.70	HK\$85.00	Buy
3:	20-Aug-21	HK\$60.60	HK\$84.00	Buy

Source: DBS HK

Analyst: Paul YONG, CFA

BOC Aviation Ltd

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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