Timothy Ross

Thank you operator and welcome everybody to BOC Aviation's earnings call to discuss our interim results for the six months ended 30 June 2019. With me today are our Managing Director and Chief Executive Officer, Robert Martin, our Deputy Managing Director and Chief Financial Officer Phang Thim Fatt and our Chief Operating Officer, David Walton.

Please note that some of the information you'll hear during our discussion today may consist of forward-looking statements, which are subject to risks and uncertainties that may cause actual results to differ materially from statements made today. You should not place undue reliance on any forward-looking statements and you should review our results announcement for full details. Please also note that all currency references in today's call are in USD only.

A copy of our earnings announcement is available both via the Hong Kong Stock Exchange and in the Investors' section of our website at www.bocaviation.com, and a conference call presentation is also available in the Investor section of our website. This call is being recorded and will be available for replay from our website within the next 24 hours as is a transcript of today's management presentation.

I'll now turn over the call to Robert Martin for his comments.

Robert Martin

Thanks, Tim and good afternoon to everyone on the line. Thank you for joining us for our 2019 half year results earnings call. We are pleased to have just achieved a major milestone during this period, having earned $4bn of cumulative profit since inception.

We are also delighted to report a net profit after tax of $321 million for the first half of 2019, up 8% on the same period last year and equivalent to earnings per share of 46 cents.

We saw sustained growth in our total revenues and other income, up 13% to $930 million. Our core lease rental contribution continues to be the principal revenue component of our pre-tax earnings.

This held steady in 1H 2019 and represents a sustainable long-term income stream that recurs across the cycle. We ended 1H 2019 with total assets of $19.2 billion and grew the net book value of our aircraft to $15.9 billion. Given a weighted average remaining lease term of 8.2 years, this provides a solid base for our future earnings.

Reflecting the ongoing growth in our financial performance in the first half of 2019, our Board has declared an interim dividend of 13.88 cents per share, payable to shareholders of record on 3 October. This represents a pay-out ratio for the half year of 30% of Net Profit after Tax and is consistent with previous interim distributions. The Board's policy continues to be to pay up to 35% of full year Net Profit after Tax to shareholders in the form of dividends.

We finished the first half with cash and committed liquidity of $3.8 billion. This positions the company well to fund both our contracted investments in aircraft and to finance further growth in the portfolio.

Turning to the market backdrop, macro conditions remain generally positive for our industry. On the demand side, the airline industry continues to match long term growth expectations, with air travel demand remaining robust. Airline passenger traffic as measured by IATA – the trade association for the world's airlines - rose 4.7% in 1H 2019, in line with the long term trend rate. This underpins IATA's earnings estimates for 2019 for the airline industry of over $28 billion – its fifth year of substantial industry profits in a row. These are underpinned by oil prices that are on average 8% lower than in 2018 and anticipated passenger traffic growth of 5% in 2019.

On the aircraft sales side of the business, the availability of US Dollar liquidity and the investor market remains strong. This continues to drive the healthy demand by aircraft investors for purchases of our aircraft with leases attached. We signed an agreement to sell an aircraft portfolio to Silver Aircraft Investment Ltd in mid-July. Sales of the 17 aircraft with leases attached are expected to close in the second half of the year and we will continue to provide management services for the portfolio. We expect to hit our sales guidance for the full year of around 30 aircraft.

Obviously manufacturer delivery delays have been a key challenge for the first half of 2019 and will continue to be for the balance of the year. By the end of the first half of this year, we encountered delays over the half year of a total of 18 aircraft comprising 12 Airbus and six Boeing, of which 12 were due to come onto our balance sheet. We continue to see delays in Airbus deliveries arising from industrial constraints that will affect up to seven Airbus aircraft in the second half, delaying these into 2020.

With regards to Boeing, in its latest second quarter earnings call, it acknowledged that the return to service date for the 737 MAX aircraft has been further delayed, to October 2019 earliest, but subject to regulatory approvals. Therefore, we expect that some or all of our 23 remaining 737 MAX aircraft that were scheduled for delivery in 2019 will now occur later and we are working with Boeing and our customers on a revised delivery timeframe.

As a result, we expect delays could result in delivery of up to 30 aircraft currently scheduled before the end of 2019 now occurring in 2020 or beyond. We are working hard to replace the delayed CAPEX.

The total number of aircraft already delivered or scheduled for delivery onto our balance sheet in 2019 is currently expected to be 39.

I'll now hand the call over to David to speak to our operations and business development and then Thim Fatt will take over for a more detailed review of our P&L and balance sheet.

David Walton

Thank you, Robert and let me add my thanks to you all for joining us this afternoon.

In the first half of 2019, we delivered 25 new aircraft to airline customers from our orderbook, including five where the customer exercised purchase options at delivery, giving us 20 new aircraft added to our owned portfolio. Our total fleet stood at 499 aircraft at the end of June, comprising 314 owned and 23 managed aircraft and an orderbook of 162 aircraft.

Some of the highlights of the first six months included:

- Delivering our 350th Airbus aircraft, an A320NEO to our long-standing customer TAP Air Portugal,
- Delivering the first three A320NEO aircraft on lease to Air Macau , and
- The delivery of the first of seven Boeing 787-9 to Air Europa.

After the period end, we announced three significant transactions:

- We signed leases for 10 new Airbus A320NEO aircraft placed to Air China, scheduled for delivery in 2019 and 2020,
- We signed a purchase-and-leaseback agreement with Qatar Airways for three Airbus A350-900 aircraft, which are expected to deliver in the third quarter of 2019, and
- We signed leases for four new Airbus A321NEO aircraft placed with Scoot, a subsidiary of Singapore Airlines

These transactions illustrate the strength of our global customer reach, the longevity of our manufacturer relationships, the speed with which we can capitalise on opportunities and the benefits of our scale. Our team continues to build good, long-term business as we signed 39 lease commitments with airline customers in the first half of 2019.

Also during the first half, we generated nearly 54% of our lease revenues out of Asia-Pacific, reflecting the region's growth and we delivered our first new Airbus A330-900 aircraft to Lion Air.

Our net lease yield was stable at 8.4% for the first half of this year.

During the first half, we had ten aircraft to redeploy, due to customers that eventually ceased operations. Seven of these were owned aircraft and three were managed. We rapidly put these aircraft back on revenue, relying on our fully in-house technical, legal, risk and portfolio management teams who were well prepared and who acted quickly, and on our leasing team which found good redeployment opportunities. Due to these efforts, the aircraft we redeployed were off-lease for less than one month on average, and we had another period with strong portfolio utilization of 99.6%.

With that, I'll turn it over to Thim Fatt.

Phang Thim Fatt

Thank you, David. Our post tax earnings were 46 cents per share, up 8% over first half 2018. Net assets per share, meanwhile, rose 2% to $6.18 from 31 December 2018.

The principal driver of the growth in earnings was a 13% increase in total revenues and other income. This was supported by rising core lease rental contributions of $341 million, which - net of costs - represented 80% of profit before tax.

Our lease rental income rose 11% compared to 1H 2018 as we increased the size of our fleet. Depreciation – our largest expense item - increased by a similar amount relative to first half 2018, also driven by the growth in the size of our fleet.

We sold nine aircraft from the owned fleet during 1H 2019, compared to 18 aircraft sold in the first half of 2018. Gains on aircraft sales were $22 million and accounted for 6% of pre-tax earnings. We expect a greater contribution in the second half as we are now focused on concluding a portfolio sale of 17 aircraft with leases attached that was signed in July. Our aircraft portfolio remains one of the youngest in the industry and we have kept the weighted average age of our owned portfolio at 3.1 years.

Interest and fee income amounted to $57 million - almost twice 1H 2018 levels - as we generated more fee income from pre-delivery payment transactions. After deducting apportioned interest expenses these items comprised 8% of our Profit before Tax.

Finance expenses increased by $50 million, driven primarily by an increase in our borrowings as we invested in more aircraft. As the proportion of fixed rate leases have increased, we have lifted the proportion of our fixed rate debt during the first half, which also contributed to the increase in our average cost of funds to 3.6% in the first half of 2019 from 3.3% for full year 2018.

At the end of the period, our total assets had increased 5% to $19.2 billion from the end of 2018.

We had capital expenditure of $1.5 billion in 1H 2019 primarily related to our aircraft deliveries and pre-delivery payments. We have committed CAPEX of US$1.5.bn for the second half and would expect to grow total capex for 2019 to $3-3.5 billion.

Our indebtedness increased, rising 5% to $13.1 billion as at 30 June compared with end-2018, with our Gross Debt to Equity ending the period at 3.1. S&P Global Ratings and Fitch Ratings have reaffirmed our industry-leading A- credit ratings, which we continued to leverage to raise more than $1.3 billion under our GMTN program.

Now back to Robert for his final comments.

Robert Martin

We are proud of the results that we have delivered in the first half and believe that they demonstrate the benefits of our disciplined approach to fleet growth, our financial strength and our dedicated team of employees. We are pleased to note that the annualised first half total return for our shareholders according to Bloomberg was 35%.

This concludes our review of the industry, our company's financials and our outlook and I'll pass the call back to Tim.

Timothy Ross

Thanks, Robert. This wraps up management's formal commentary. We now have time for Q&A and request that each participant restrict themselves to one question and one follow up, unless time permits for additional queries.

I'll hand the call back now to the operator for the Q&A session.