Timothy Ross

Thank you operator and welcome everybody to BOC Aviation's earnings call to discuss our final results for the year ended 31 December 2021. With me today are our Managing Director and Chief Executive Officer, Robert Martin, our Deputy Managing Director and Chief Financial Officer Steven Townend and our Deputy Managing Director and 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.

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 discussion.

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

Robert Martin

Thanks, Tim and good evening to everyone on the line. Thank you for joining us for our 2021 full year results earnings call. During this period, we surpassed $5.5 billion in cumulative earnings and celebrated our fifth year as a publicly listed company. We have now paid dividends of more than $1 billion to shareholders.

We have reported a net profit after tax of $561 million for full year 2021, equivalent to earnings per share of 81 cents. This was up 10% on 2020, with our 2H2021 earnings rising 64% compared with the same period in 2020. Net assets per share, meanwhile, also rose by 10% from the end of 2020 to $7.59.

Our Board has recommended a final dividend of 17.33 cents per share, payable to shareholders of record on 17 June, up 48% on the final dividend paid for 2020. This takes the full-year dividend for 2021 to 28.31 cents per share and represents a pay-out ratio for the year of 35% of Net Profit after Tax, in line with the Board's distribution policy.

Our total revenues and other income continued to rise, increasing 6% to more than $2.1 billion for the year. We ended 2021 with total assets at $24 billion.

Operating cash flow net of interest expense was stable at $1.3 billion for the full year. We finished the year with cash and undrawn committed liquidity of $6 billion and remain well-supported by capital markets and the banking market. In 2021, we issued $1.5 billion in bonds and raised $2 billion in term loans. We continued to utilise the $3.5 billion revolving credit facility from Bank of China with $90 million drawn at the end of the year.

Manufacturer delivery delays continued to impact our business in 2021. Twenty-nine aircraft were delayed that were scheduled for delivery in 2021, including 16 Boeing 787 aircraft. Late deliveries from this programme will continue to remain an issue in 2022 with further delays anticipated.

The path to recovery for the global aviation industry is now clearer as the effects of vaccinations, new treatments and herd immunity mitigate the harmful effects of the covid pandemic.

Regions such as Europe, the Americas, and South and Southeast Asia are progressively opening their borders and the travelling public is responding robustly by booking future travel. This pattern was observable when the US opened its borders in November 2021 and when Australia began welcoming tourists again in February of this year. International bookings to the US rose close to 50% following the announcement that it would reopen its borders to foreign visitors. Over 90 international flights landed on a single day in Australia by late February, up 61% on the previous year as borders were reopened following a 23-month closure.

The airline industry has shown signs of recuperation, which commenced with strong cargo demand in 2020, expanded to include solid domestic passenger activity in 2021 and – since the end of last year – international travel statistics in all areas except North Asia.

The confidence that we detected amongst our customer airlines when we reported our interim results appears to have firmed. According to the International Air Transport Association's Airline Business Confidence Index for February 2022, 91% of airline CFOs surveyed expect better passenger traffic over the next 12 months.

Airframe manufacturers clearly share this optimism. Airbus is lifting production of the A320 NEO family from 45/month to 64 by the second quarter of 2023. Boeing's 737 MAX family has now been recertified in 188 countries, with over 300 aircraft having been delivered to airline customers since December 2020. Boeing currently produces 27 of these a month and is targeting an increase to 47 by late 2023. We have seen a resurgence in aircraft orders placed with the two main manufacturers as well as a marked recovery in demand from investors for aircraft with leases attached.

Funding markets remain receptive to aviation bond issuance. In the debt markets alone, airlines and aircraft lessors raised a total of US$140 billion in 2021 compared with US$117 billion the previous year, according to Dealogic, as institutional debt capital replaced government funding as the largest source, year on year. These were supplemented by a robust year for aircraft ABS debt offerings, which hit US$8.4 billion, the second highest year ever and more than four times 2020's issuance levels.

As we emerge from the travel downturn, rising interest rates and inflation are macro concerns in the year ahead. In addition, the price of jet fuel has become very volatile since the beginning of the year, trading between $85 and over $150/barrel for Singapore Jet Kerosene.

We spent a lot of the last two years navigating around new government rules relating to health and travel restrictions that are now diminishing. Now we have a new challenge. Conflict between Russia and Ukraine has led to sanctions imposed by the governments of the US, UK and EU that will impact our ability to lease aircraft to Russian airlines. At the end of February, we had 18 aircraft representing a net book value of $935 million, equivalent to 4.8% of our owned fleet on lease with four Russian airlines, with no aircraft either leased or based in Ukraine, Belarus or Moldova. Rentals from our Russian customers were fully up to date as at end of February.

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

David Walton

Thank you, Robert.

We delivered 52 aircraft to airline customers during 2021, of which seven were purchased by the customer at delivery, giving us 45 net new aircraft deliveries. Of these 45 deliveries, 16 were from our manufacturer orderbook and 29 were purchase and leasebacks with airlines. Our total fleet stood at 521 aircraft at the end of 2021, comprising 380 owned and 37 managed aircraft, with an orderbook of 104 aircraft.

Our 2021 deliveries were primarily narrowbody aircraft and were all latest technology aircraft, including:

- 31 A320 NEO family aircraft
- 18 737 MAX aircraft

In 2021 we delivered aircraft to a diverse group of customers, including Air China, United Airlines, Indigo, TUI, American Airlines, and closer to home here in Singapore, Scoot, which is part of the Singapore Airlines group.

Investor demand for aircraft with leases attached was robust in 2021, and we sold 23 aircraft from the owned fleet during the year, compared to 12 aircraft sold in 2020. The sales programme in 2021 included four widebody aircraft.

We continue to build the Capex pipeline, as demonstrated by the recently signed purchase and lease transaction for 11 Boeing MAX 8 aircraft with Lynx Air of Canada.

During 2021, we transitioned nine used aircraft to airline customers, and our aircraft utilisation rate for the year was strong at 98.5%.

The weighted average age of our owned portfolio was 3.9 years at the end of December, once again one of the youngest in the aircraft operating leasing industry. We also continue to have one of the industry's longest weighted average remaining lease term for our owned portfolio, at 8.3 years at the end of 2021.

As Robert mentioned, the past two weeks have seen a new challenge for the aircraft leasing industry, as we address the impact of sanctions affecting aircraft lease transactions with airline customers in Russia. To put some context around this, at 28 February 2022, Russian airlines represented 4.8% of our owned aircraft portfolio, comprising 18 aircraft, which were a mix of 15 narrowbody passenger aircraft and three widebody freighters, the strongest parts of the market. In addition to the owned portfolio, we presently have one managed narrowbody passenger aircraft on lease to a Russian customer.

Sanctions will require that we recover our aircraft from Russian airlines, and as a consequence we have been actively discussing logistics and planning with our customers. We will of course comply with sanctions and other laws applicable to us. The EU and UK sanctions set, effectively, a deadline of 28 March for termination of aircraft leases, which is frankly an unrealistic timetable for a fleet of approximately 500 aircraft leased into Russia by operating lessors.

Our operations in 2021 were 100% carbon neutral as we offset our direct emissions and at the same time worked hard to reduce our energy usage, direct carbon emissions and waste, the areas where we have set hard targets for ourselves. We also improved our fleet by taking delivery onto our balance sheet of 45 new technology, highly fuel-efficient aircraft and selling 20 previous technology aircraft. Our owned fleet is now 66% latest technology, by net book value of aircraft.

We continue to have one of our sector's most gender diverse Boards, which features three female board directors out of a total of eleven directors. We also have three different nationalities on our Board, and 20 nationalities across our five global offices. Cybersecurity was a top priority for us in 2021, with upgrades to our cyber threat prevention and detection capabilities, where we strengthened our hardware, our applications and our training.

We also continued to contribute positively to our local communities, with teams from each of our five offices globally actively participating. We supported Airlink's aid to India and, more recently, Tonga following the tsunami. We cleaned up coastal waterways in Singapore and Dublin, we helped beautify parks in New York, collected litter along the River Thames and we tidied shared bike parks in Tianjin. Participation in the Orbis Virtual Race4Sight was another major pillar of our corporate social responsibility activities, with half of our 186 employees taking part, logging almost 62,000 kilometres of running, biking or walking to raise money for the fight against avoidable blindness.

With that, I'll turn it over to Steven.

Steven Townend

Thank you, David.

As Robert outlined, we have reported a net profit after tax of $561 million for the full year 2021, equivalent to earnings of 81 US cents per share, a 10% improvement on 2020.

A 4.5% year-on-year rise in lease revenue reflected the growth in the average net book value of our fleet.

Looking at our other sources of revenue.

Interest and fee income amounted to $177 million – in line with 2020's level - as we generated levels of fee income similar to last year from pre-delivery payment transactions and $97 million of other income was predominantly derived from recoveries following previously terminated leases, with most of this already recorded in our 2021 interim accounts.

Gains on aircraft sales were $44 million, $41 million of which was generated in the second half of 2021 as demand returned to the aircraft trading market. This reflected the improved liquidity environment to which Robert previously referred.

Turning now to our two largest expenses, which together account for 88% of the total, depreciation – our largest expense item - increased by 13% relative to 2020. Finance expenses – our second largest item - increased only 2% to $465 million, reflecting lower interest rates.

The combined effect of all of this was a reduction in our net lease yield from 7.9% in 2020 to 7.6% in 2021.

For the full year we recorded a $146 million asset impairment, this is effectively accelerated depreciation, related to the carrying value of 32 aircraft. 94% of that dollar number related to widebody aircraft. This compared with aircraft impairment of $109 million in 2020. Partially offsetting this, we were able to write back $8 million of impairment losses on financial assets as collections improved to 96.6% from 94% last year and some leases were restructured. This compared with a charge for impairment on financial assets of US$43 million in 2020.

We had capital expenditure of over $2 billion in 2021, primarily related to our aircraft deliveries and pre-delivery payments. This fell short of the $4 billion target that we had set ourselves, primarily – as Robert mentioned – because of the manufacturer delays in delivering our aircraft. We have over $5 billion in committed capex between now and December 2024 and will add to that as we continue to invest in our fleet.

Our debt level was unchanged compared to end-2020 and our average cost of funds for 2021 improved to 2.9% per annum from 3.2% in 2020.

We previously noted that S&P Global Ratings and Fitch Ratings reaffirmed our A- credit ratings, with S&P lifting our outlook from negative to stable in April 2021. We raised $1.5 billion in the debt capital markets, with a further $2 billion raised from banks. Our indebtedness was flat at $16.8 billion compared with end-2020, while our Gross Debt to Equity fell to 3.2 to 1 from 3.5 to 1 at the end of the previous year. Funds raised from external sources, together with robust internally generated cashflows saw us repay almost $2 billion in debt maturities, with a further $1.9 billion scheduled for repayment in 2022. These obligations and our target capex can be funded from our cashflow and committed liquidity of $6 billion.

Finally, our tax rate increased to 12.1% in 2021 up from 9.4 % in 2020. This was predominantly due to more assets being booked in our US subsidiary plus the future increase in UK tax from 2023 that was enacted in June.

Now back to Robert for his final comments.

Robert Martin

Our thanks go out once more to our colleagues, our directors and our stakeholders, who contributed to resilient results in another challenging year. We appreciate your focus and tenacity as the market now rebounds from the worst downturn in aviation history.

We are optimistic about the potential for traffic growth in 2022 in most parts of the world as well as rising demand for the aircraft that support it as more countries treat covid as endemic and border restrictions are lowered. The release of pent-up desire for international travel should be material in the year ahead and we anticipate this becoming visible in our customers' cashflows and demand for leased aircraft

With our balance sheet strength and strong liquidity we are well positioned for the upturn that has commenced.

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 - out of fairness to others - request that each participant restricts themselves to one question, unless time permits for additional queries.

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