Timothy Ross

Thank you operator and welcome everybody to BOC Aviation's call to discuss our interim results for the six months ended 30 June 2022. 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 2022 interim results earnings call.

We have reported a net loss after tax of $313 million for first half of 2022, at the better end of the range that we provided at the beginning of July and equivalent to a loss per share of 45 cents. This compares with a net profit after tax of $254 million in 1H 2021. Net assets per share as at end of June were $7.09.

The loss was caused by the write-down of the net book value of the 17 aircraft that remain in Russia, as detailed in our profit warning, and contributed a net after-tax charge of $518 million. Absent the effects of the write-down, our net profit after tax was $206 million, which we will describe as our core net profit after tax.

Our Board has declared an interim dividend of 8.89 cents per share, payable to shareholders of record on 30 September. The dividend represents a pay-out ratio of 30% of the core net profit after tax. The decision to pay a dividend, despite recording a loss for the first half, reflects the one-off nature of this charge and the company's strong cash-flow generation, robust liquidity position and the Board's confidence in its outlook.

Our total revenues and other income increased 8% to $1.2 billion for the first half of 2022. We ended the period with total assets at $23 billion.

In April we placed a landmark order with Airbus for 80 A320NEO family aircraft, the largest in our company's history and one that ensures a strong future delivery pipeline. Today we have committed capex of $9.3 billion and we aim to augment this with additional aircraft investment.

The external environment has broadly been driven by three themes in the first half covering first, demand for travel, second, supply side issues for airlines and aircraft manufacturers driving wage inflation and delays and third, the ever-changing role of governments impacting our industry.

First, the demand environment for our airlines across most of the world has significantly improved with China and Japan lagging the rest of the market.

Rising levels of passenger traffic and a strong fare-setting environment are allowing airlines particularly in North America, the Middle East and parts of Europe to offset the impact of higher jet fuel prices, wages and interest rates to report better earnings. In recent results announcements, a number of US carriers including the "Big Four" have reported record second quarter revenues, eclipsing even 2019 levels. Others such as our largest customer, Qatar Airways, have announced record profits supported by a recovery in business class demand and a cargo market that remains substantially ahead of 2019 revenue contribution levels.

This is evident in the data supplied by the International Air Transport Association ("IATA"), which recorded an 83% rise in total passenger demand for the first half of 2022 compared with the first half last year and total global passenger traffic is now at 71% of 2019's levels.

Significantly, all of this recovery has been achieved with limited contribution from China, the world's second largest passenger market, whose borders remain largely closed to international travellers and where domestic activity remained volatile during the first half. However, we know that China has great potential. In 2019, China recorded 74 million international passenger journeys; in 2021 that number was less than 1.5 million. We are confident of a rapid recovery in Chinese outbound travel as border controls are relaxed, which should then ripple across Asia, the Pacific and to Europe.

Second, supply side challenges remain widespread in the aviation sector today. There are broadly two types: one hitting the airlines themselves, where due to the rapid ramp up of demand, airlines, airports and air traffic control authorities are having labour difficulties as they gear up skilled workforces and face wage inflation in doing that. This is one of the greatest obstacles to the full return of air traffic to 2019 levels.

The second is at the aircraft supply chain, hitting timely deliveries of aircraft with delays in engines, parts and shortages of labour. In reflection of this, airframe manufacturers have modified their production targets, especially for the single aisle aircraft that dominate their skylines. Airbus has extended by six months the time frame for its production ramp up of the A320NEO family from 45 to 65/month to the first quarter of 2024. Boeing currently produces 31 737 MAX family a month but has delayed to an unspecified future date previously announced increases to 47 deliveries a month.

Our capital expenditure in the first half continued to be frustrated by these manufacturer delivery delays. These resulted in the slippage of nine aircraft deliveries into later periods that were originally scheduled for delivery in the first half, as supply chain and regulatory issues hampered manufacturer production and delivery. On a positive note, the B787 is delivering again as we took the first on 10 August, with a second on 15 August, both delivered to American Airlines. These aircraft are the fifth and sixth deliveries in our 22 aircraft transaction.

Third, we yet again encountered the impact of governments, both positive and negative, on our industry in the first half. We were pleased to see the rolling back of border controls and regulations on testing procedures for travel. This accounts for the optimism noted in my demand section above. We very much appreciate that the Singapore Government renewed the Aircraft Leasing Incentive Scheme by another five years and thank the Economic Development Board for its support. The Russia – Ukraine situation produced a flurry of controls in the form of different sanctions from multiple governments. These sanctions were rushed through approval by governments, particularly in the EU and UK. These have impacted both lessors and our insurers and will keep lawyers busy for many years. This may require a complete rethinking of aviation insurance. David will speak about our own insurance situation shortly.

At the Board level, we welcome two new directors, Mr. Dong Zonglin and Mdm. Chen Jing and thank Mr. Liu Chenggang and Mdm. Zhu Lin, who left the Board, for their contributions.

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, cashflow and balance sheet.

David Walton

Thank you, Robert.

During the first half of this year, the world's aviation sector continued to build momentum and this was evident in our own activity levels. We executed 168 transactions covering the purchasing, leasing, transitioning and selling of aircraft. This was more than double the activity level of 1H 2021 and we see this sustaining into the second half of this year.

We delivered 20 new aircraft to airline customers during the first half of 2022, of which five were purchased by the customer at delivery, giving us 15 net new aircraft deliveries onto the balance sheet. Of these 15 deliveries, 10 were from our manufacturer orderbook. Our total fleet stood at 608 aircraft as at the end of June, comprising 390 owned and 37 managed aircraft, with an orderbook of 181 aircraft.

Airline customers taking delivery in the first half of the year included Turkish Airlines, Flair Airlines, Azul Brazilian Airlines and Scoot, a Singapore Airlines' subsidiary. As Robert indicated earlier, our capex has been constrained by manufacturer delays, however, we were pleased to see the re-start of Boeing 787 aircraft deliveries. We've now taken the first two of nine 787s that we expect to deliver over the balance of this year.

Investor demand for aircraft with leases attached remained solid in 1H 2022, during which we sold five aircraft from the owned fleet.

We continue to build the capex pipeline, as demonstrated not just by our 80 A320NEO family order, but by the recently signed purchase and lease transaction for six A320NEO aircraft with JetSmart, an Indigo Partners portfolio company based in South America.

During the first half, we transitioned six used aircraft to airline customers, with our aircraft utilisation rate of 96.1% impacted by the number of aircraft in transition maintenance during the period.

The weighted average age of our owned portfolio was 4.1 years at the end of June and our fleet remains 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 terms for our owned portfolio, at 8.4 years at the end of 1H 2022.

No operational review of 1H 2022 would be complete without some discussion of the impact that the conflict between Russia and Ukraine has had on our business:

- At the outset of hostilities, we had 18 aircraft in the owned fleet and three in the managed fleet on lease to Russian airlines. By the time that government sanctions on leases to Russia went into effect at the end of March and all foreign lessors were obliged to terminate leases to Russian airlines, we had repossessed one owned and two managed aircraft. These three aircraft are now placed with airline customers.
- We also successfully drew 100% of the letters of credit that we held as collateral, contributing to the US$223m in cash collateral that we were able to offset against the write-down of the net book value of the owned aircraft that remained in Russia at 30 June 2022. The cash collateral we held represented 28% of the net book value of those aircraft, which we believe was the highest cash recovery against Russia-related write-downs for our peer group.
- We filed insurance claims on the relevant policies in order to recover our losses and we intend to continue to vigorously pursue those claims. As we're sure you'll understand, this is a complex and sensitive matter and we won't be able to comment further on it for the time being.

Turning to ESG, we continue working to achieve our targets, which include reducing our energy usage, direct carbon emissions and waste. The proportion of our owned fleet that is latest technology continues to rise, increasing to 69% by aircraft net book value, and all future orders are latest technology as well.

During the first half we moved our Singapore head office into new premises accredited Greenmark Platinum by the Singapore Building and Construction Authority. This will positively impact our direct carbon emissions and already provides an enhanced working environment for our employees. Elsewhere, we continued to contribute positively to our local communities. In Singapore, we cleared litter from rivers and coastlines, donated toys and packed food parcels for needy families, while colleagues in our London and Dublin offices also removed rubbish from waterways. We remained supporters of Airlink's humanitarian initiatives, making donations in response to disasters in Tonga and Afghanistan.

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

Steven Townend

Thank you, David.

As already discussed, we were negatively impacted by the Russia-Ukraine conflict during 1H 2022 and reported a net loss after tax of $313 million, equivalent to a loss of 45 cents per share. Excluding the impact of this one-off event, our core net profit after tax was $206 million.

Lease rental income dropped by 5% compared with the first half of 2021, reflecting the 3% decline in the net book value of our fleet related to the write-down of aircraft that remain in Russia and the absence of $31 million in revenue from the second quarter related to these aircraft. Lease income was also affected by the number of aircraft that were in transition during the period.

Revenue generated elsewhere included $74 million of interest and fee income, which was down around $20 million on the previous year, primarily because of lower fees from funding our airline customers' pre-delivery payments. Other sources of income rose as we recognised the cash collateral held as security against the aircraft remaining in Russia, which alone accounted for $223 million.

Gains on aircraft sales were $13 million, up $10 million on 1H 2021 reflecting the age and number of aircraft sold.

Our two largest expenses are depreciation and interest and together they accounted for 90% of the 1H 2022 total when the effects of the one-time write-down are excluded. Depreciation – our largest expense item - increased by 4% relative to 1H 2021, in line with our steady fleet growth. Finance expenses – our second largest item - declined 3% to $229 million, reflecting lower debt balances and stable cost of funds at an average of 2.9%, the same as in 2021.

The combined effect of all of this was a reduction in our net lease yield to 7.0% in 1H 2022 from 7.5% the previous year. Lower production rates and the rapid recovery in passenger demand are, however, having a positive effect on lease yields and values for modern technology single-aisle aircraft, especially those with leases attached. The average price of Singapore jet kerosene rose 89% to $125/barrel in 1H 2022, also lifting the relative attraction of modern fuel-efficient aircraft. We have seen this reflected in demand for the aircraft we sell.

For the first six months of the year, we recorded an impairment of $47 million for aircraft other than those that remain in Russia, related to the carrying value of eight B777 and A330 aircraft. This compared with aircraft impairment of $84 million in 1H 2021. We also incurred a $6 million charge for impairment of financial assets, a substantial reduction on last year's $63 million.

Operating cash flow net of interest expense rose strongly to $717 million, up 29% on 1H 2021 as collections improved to 97% from 96% over the same time frame. We finished the half year with cash and undrawn committed liquidity of $6 billion and remained active in the capital markets and the banking markets. During the first half of 2022, we issued $300 million in bonds and drew $885 million in term loans.

Our debt level declined to $16.3 billion compared to $16.8 billion at end-2021. We ended the first half of 2022 with 76% of our borrowings on fixed rate terms, which has allowed us to resist the upward pressure on global interest rates in our blended funding costs.

Both S&P and Fitch reaffirmed our A- credit ratings in July of this year, after the release of our updated earnings guidance. Our Gross Debt to Equity was stable at 3.3 to 1. Funds raised from external sources, together with robust internally generated cashflows saw us repay $1.7 billion in debt, with a further $1.1 billion scheduled for repayment in the second half of 2022. These obligations and our capital expenditure can be funded from our cashflow and committed liquidity of $6 billion.

We had capital expenditure of over $600 million in 1H 2022, primarily related to our aircraft deliveries and pre-delivery payments. This fell short of our expectations, mostly because of the manufacturer delays in delivering our aircraft. We have over $9 billion in committed capex between now and December 2029, which gives us a solid base for future earnings growth.

Finally, on the tax side, we benefitted from tax credits of $63 million in 1H 2022 as a result of the losses related to aircraft remaining in Russia. Excluding these write-downs, our tax rate on core earnings was 12.1%, up from 11.7 % last year. This continued to reflect more assets being booked in higher tax jurisdictions, including the US and the UK.

Now back to Robert for his final comments.

Robert Martin

The extraordinary external events during the period since the start of 2020 have tested the fundamentals of our business, but we have come through them and demonstrated the resilience of our cashflows and earnings. As a reminder, we have generated over $5 billion in cumulative earnings since our inception.

The aircraft operating leasing industry typically trails the profit trajectory of its airline customers coming out of a downturn. With our customers' recovery now clearly progressing and our exposure to aircraft that remain in Russia written down to zero, we are confident about future growth that will get a further boost as Chinese and Japanese borders reopen fully.

We would like to express our gratitude for the continuous efforts of our colleagues, who we thank for their diligence and persistence, to our Board of Directors for their support and guidance and we appreciate the ongoing support of our other stakeholders.

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.