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 2023. With me today are our Chief Executive Officer and Managing Director, Steven Townend, our Chief Operating Officer, Tom Chandler and our Chief Financial Officer, Wu Jianguang.

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 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 Steven Townend for his comments.

Steven Townend

Thanks Tim, and good evening to everyone on the call. Thank you for joining us for our 2023 final results earnings call, where growth in our aircraft leasing business and recoveries related to aircraft in Russia have combined to produce a record result.

We are delighted to report net profit after tax of $764 million for 2023, equivalent to earnings per share of one dollar and 10 cents. This compared with net profit after tax of $20 million in 2022 reflecting the Russia-related write-downs incurred that year. Adjusted for impairments and recoveries related to Russia, core net profit after tax rose to $547 million from $527 million in 2022, while net assets per share at end-2023 had risen 11% to eight dollars and 28 cents.

Our Board has recommended a final dividend of 27.21 cents per share, payable to shareholders of record on 7 June, taking the total dividend paid for the year to 38.52 cents per share, an increase of 45% on the total dividend paid for 2022. This is consistent with our policy of distributing 35% of net profit after tax for the full year. As a reminder, last year's dividend was based on core net profit after tax rather than the statutory number.

Our total revenues and other income rose 7% to $2.5 billion for 2023, which we ended with total assets at $24.2 billion as we increased our investment in new aircraft.

For a second year, our collection rate remained over 100%, reflecting the continued receipt of airline customer payments deferred from previous periods, and this helped to lift our operating cash flow net of interest to a full year record of $1.6 billion. We finished the year with cash and undrawn committed liquidity of $5.6 billion.

For the year ended December 2023, IATA expects global airline profitability to hit $23 billion. This will have been achieved on sustained growth in passenger demand, which has expanded faster than capacity and has enabled airlines to maintain fares at current levels. Passenger demand rose 37% for full year 2023 and passenger load factor of above 82%, matched 2019's utilisation levels. While all markets recorded double-digit demand growth, the strongest was recorded in our home markets of Asia-Pacific. Passenger traffic rose by over 96% in 2023 as the region's carriers restored long-haul services and the Chinese market continued to recover.

We see Asia-Pacific again at the forefront of growth in 2024. Chinese international passenger capacity has now returned close to 70% of 2019 levels and total market demand during the recent Lunar New Year exceeded the number of passengers flying in 2019 by 18%. India's continued growth should also provide further impetus. The Asia-Pacific region will continue to provide plenty of both placement and financing opportunities for well-capitalised lessors such as ourselves, especially those with substantial orderbooks

Capacity growth remains a challenge for us and our airline customers and is constraining the growth opportunities of airlines and lessors alike. This has been a multi-year problem and today obstacles including supply chain, lack of experienced labour and engine availability continue to dampen rates of aircraft production.

The effects of this supply-side shortage have been - intensified competition for aircraft, rising lease rates and improving valuations for both new and used aircraft. All of our 2024 lease maturities are placed or subject to sale agreements, while all of our 2024 orderbook deliveries have been placed at attractive rates against this backdrop.

We expect to see demand for leasing remain strong over the next 12 months as airline financing requirements for new aircraft deliveries exceed $100 billion, approaching 2018's record level. Funding markets, however, have not returned fully for the airline industry, which should continue to positively affect the volume of new deliveries financed by lessors.

Since we last spoke in August, the macro-economic environment has stabilised. Singapore jet fuel has averaged $107/barrel for the last three months, down 9% on the same period last year, while the value of the US Dollar against a basket of currencies is unchanged compared with this time last year. Long term interest rates, while down from their fourth quarter 2023 peaks, remain higher than they were this time last year, with five-year US Treasuries averaging 30 points higher so far in 2024. We have been successfully passing these increases onto our customers, as Tom will discuss shortly.

Insurance settlements in respect of 11 aircraft in Russia contributed $217 million in NPAT to 2023's total, a partial recovery of the $507 million post-tax writedown for 17 aircraft that we recorded in 2022. We are encouraged by this and continue to pursue all possible avenues for further recovery. However, we are unable to provide guidance on what form this may take, when it might occur or the value of any future settlements.

During our first half review in August, we welcomed Tom as our new COO and Liu Jin as our Chairman. Towards the end of the year, we announced the retirement of our long-standing Managing Director and CEO, Robert Martin. We also announced the promotion of Wu Jianguang to Chief Financial Officer as my replacement. Our thanks go to Robert for his 25 years of leadership as we built a business that has earned cumulative Net Profit After Tax of over $6 billion since inception.

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

Tom Chandler

Thank you, Steven. Our operational and business development report is as follows:

We delivered 67 aircraft to 11 different airline customers, of which two were purchased by the customer at delivery, giving us 65 net new aircraft deliveries for the year, the highest since 2017. We also signed a record number of lease commitments for 142 aircraft. As at end-December, our total fleet stood at 684 aircraft, comprising 426 owned, 34 managed and an orderbook of 224, representing committed capex of $12 billion.

Our orderbook continued to grow, with 95 aircraft added during 2023. This strong pipeline underpins our future growth and comprises the most popular new technology aircraft types, predominantly Airbus A320NEO family and Boeing 737-8. Our committed deliveries give us an excellent baseload of capex each year and are valuable positions given the supply issues that the industry faces and the high demand environment described earlier by Steven.

Our new deliveries during the year were primarily narrowbody aircraft, although we also added another four Boeing 787 deliveries to our balance sheet. All of our new deliveries were fuel-efficient, latest technology aircraft, and included 18 A220 as well as 10 737 and 33 A320NEO family aircraft.

We continued to see the impact of manufacturer delivery delays with five aircraft that were scheduled for delivery in 2023 being delayed into 2024. Of the deliveries that did occur in 2023 a significant number occurred in the fourth quarter, delaying our revenue. We believe that supply chain and labour issues will continue to impact our OEM partners as they endeavour to increase production rates but the delays will stabilise once the planned production rate increases are achieved. To offset the effects of delays, we have made considerable progress in sourcing replacement capex and have increased committed deliveries for 2024 to 58 from the 39 that we guided towards when we last reported in August. Adding new positions to our delivery skyline has been a key focus and of the 95 aircraft added we delivered 48 of these in 2023, with the balance scheduled for delivery before the end of 2025.

During the year, we transitioned 13 used owned and managed aircraft to airline customers, with only one freighter aircraft and three owned single-aisle aircraft off-lease at the end of the period, two of which are already committed for onward lease. This compares with seven aircraft at the same point last year and reflects the robust demand that currently exists for the young aircraft of which our fleet comprises.

The weighted average age of our owned portfolio was 4.6 years at the end of December, remaining 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 8.1 years. 77% of our fleet is latest technology, as is 100% of our orderbook. The average appraised value of our operating leased fleet was $20.6 billion dollars, representing an 8% premium to the fleet's net book value of $19.1 billion.

We sold 20 aircraft from the owned fleet in 2023, improving on 2022 levels and achieving our targets. Firmer aircraft values meant gain on sale margin improved to 10.6% from 5.1% in 2022.

Lease rate factor increased to 10.0% from 9.2%, reflecting the effects of improved lease pricing and interest rate adjustment mechanisms in our leases. Net lease yield rose to 7.1% from 7.0% in 2022. This was slower than the improvement in lease rate factor, primarily explained by the higher cost of funds recorded during the period and the delivery of 10 operating leased aircraft in 4Q 2023.

In terms of funding, we raised $4.1 billion in new financing, comprising $1.7 billion from the debt capital markets across a range of tenors with a further $2.5 billion drawn from facilities with our banking group of over 50 banks. Cashflow generated from our financing and operating activities allowed us to fund our capex and repay $2.4 billion in maturing bonds and loans. We have $3.1 billion in debt obligations scheduled for repayment in 2024, which – together with our anticipated capex - can be funded from our cashflow and our committed liquidity of $5.6 billion.

Having set ourselves new three-year ESG targets at the end of 2022 as part of our Hong Kong Stock Exchange listing requirements, we are on track to meet or exceed these. In recognition of our continuous efforts to improve our ESG performance, MSCI lifted our rating from BBB to A towards the end of the year.

Our commitment to robust governance and diversity at board and management level remains unchanged, with three of our board directors and 26% of management being female.

During 2023 we lifted the number of community-focused events for which our colleagues volunteered, completing 18 events as compared with 15 in 2022, split evenly between the first and second halves. In Singapore, we increased the frequency of our volunteering with Food From The Heart, continued cleaning our rivers with Waterways Watch and maintained wheelchairs for The Red Cross. Elsewhere, our Tianjin and New York offices participated in coat donation programmes and the London and Dublin offices jointly volunteered with Save the Children.

That concludes the overview of our operations and business development performance for 2023 and with that, I'll now turn it to Jianguang for a deeper review of our financial performance.

Wu Jianguang

Thank you, Tom.

As Steven mentioned earlier, we reported a net profit after tax of $764 million for 2023, equivalent to earnings of one dollar and 10 cents per share and the best profit reported in our history.

Total revenue was $2.5 billion and continues to be well-diversified. This represented a 7% increase on 2022 when Russia-related revenue is included in both years.

Lease rental income rose 7% to $1.9 billion as we grew the fleet and as our lease rate factor improved. Finance lease revenue increased markedly – up 69% to $69 million – reflecting the almost four-fold increase in finance lease receivables to $2.5 billion.

Our gains on aircraft sales of $78 million were ahead by 22% on 2022, as we delivered on our sales target of 20 aircraft sold in 2023.

Other income rose over 220% to $317 million, primarily due to receipt of Russian insurance settlements totalling $258 million.

Interest and fee income was down $10 million to $86 million in 2023 because of lower contributions from pre-delivery payment financing.

From a cost perspective, our two largest expenses continue to account for 90% of the total. Depreciation, which remains our largest expense, was largely flat at $795 million compared to 2022, reflecting sales activities and the pace of aircraft deliveries that occurred towards the end of the year.

Finance expenses – our second largest item - rose by 32% to $636 million. This was mainly due to a higher cost of debt of 4.1% per annum in 2023 compared with 3.1% the previous year and an extra $1.4 billion in gross debt as at December 2023.

Excluding Russia effects, impairment of aircraft declined to $9 million compared to last year's $65 million.

Looking at the balance sheet, we ended the year with total assets of $24.2 billion, funded by debt of $16.5 billion.

Total equity increased to $5.7 billion compared with $5.2 billion at the end of 2022. This was mainly attributable to profit for the period and partially offset by the payment of dividends amounting to $201 million.

Loans and borrowings increased to $16.5 billion as we funded our fleet growth, with gross debt to equity stable at 2.9 times, unchanged from December last year. Rating agencies S&P and Fitch both reaffirmed our A- credit rating and stable outlook during 2023.

Finally, our effective tax rate was little changed at 11.2% in 2023, compared with 2022's rate of 11.8%, excluding the effects of Russia.

I'll now hand the call back to Steven for his closing remarks.

Steven Townend

Thanks, Jianguang. To close, we remain grateful to our Board, our staff, investors and our other stakeholders for their ongoing support over the past year as earnings and balance sheet growth have regained momentum. Our airline customers' financial health continues to improve on the back of strong travel demand and despite the limited supply of aircraft. This supports an environment of greater aircraft utilisation and higher lease rates, allowing our business to further improve its profitability. Our increased distributions for 2023 are testament to our level of confidence in the outlook.

I am positive about 2024. The year has started strongly as we continue to see opportunities for our financing products, deliver aircraft from our orderbook and evaluate further growth opportunities. Funding markets remain supportive and falling interest rates later in 2024 should remove pressures on our leasing margins.

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

Timothy Ross

Thanks, Steve. 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 and a follow up, unless time permits for additional queries.

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