



# STRATOS

**Ascend Asia: Finance Forum**

Singapore, May 2015

**An analysis of future opportunities & requirements for Airlines in Asia**



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# Stratos: Company Background

- Stratos consists of experienced aircraft leasing & financing professionals. We provide independent aviation finance services & advice
- Headquartered in Monaco, with team members located across the world
- Our key focus is working with airlines, investors & banks to assist with aircraft lease-related opportunities, optimise lease structures and identify the most efficient sources of finance (debt, leaseback etc) and manage investment opportunities
- Stratos sources & remarkets aircraft, negotiates aircraft transactions from origination to delivery & provides lease management services
- Arranged over \$400m of Aircraft Transactions since inception:
  - 6 aircraft financed, 6 sourced for an airline, 3 sold, 4 leased, 4 more under LOI
  - Exclusive placement mandates on a further 9 aircraft



# Stratos: Our Team



Gary Fitzgerald  
Managing Director  
Monaco



Aisling McCarthy  
Commercial Director  
Dublin



Mark Shaw  
Marketing Director  
Monaco



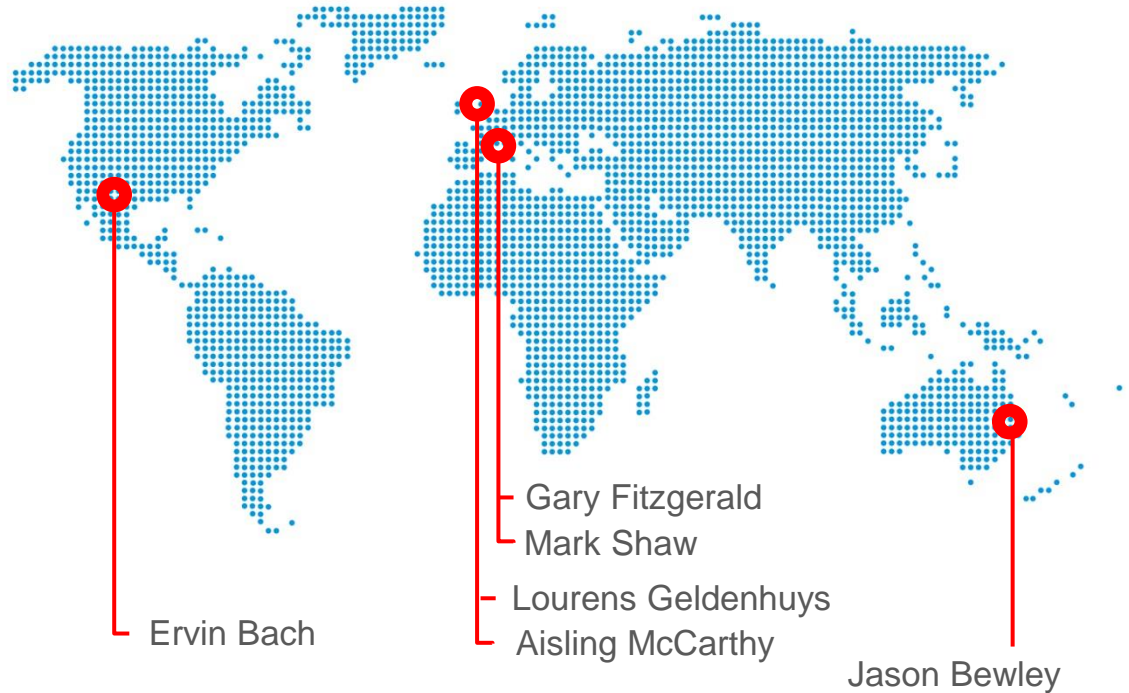
Jason Bewley  
Commercial Director  
Brisbane



Lourens Geldenhuys  
Project Director  
London



Ervin Bach  
Technical Director  
Phoenix

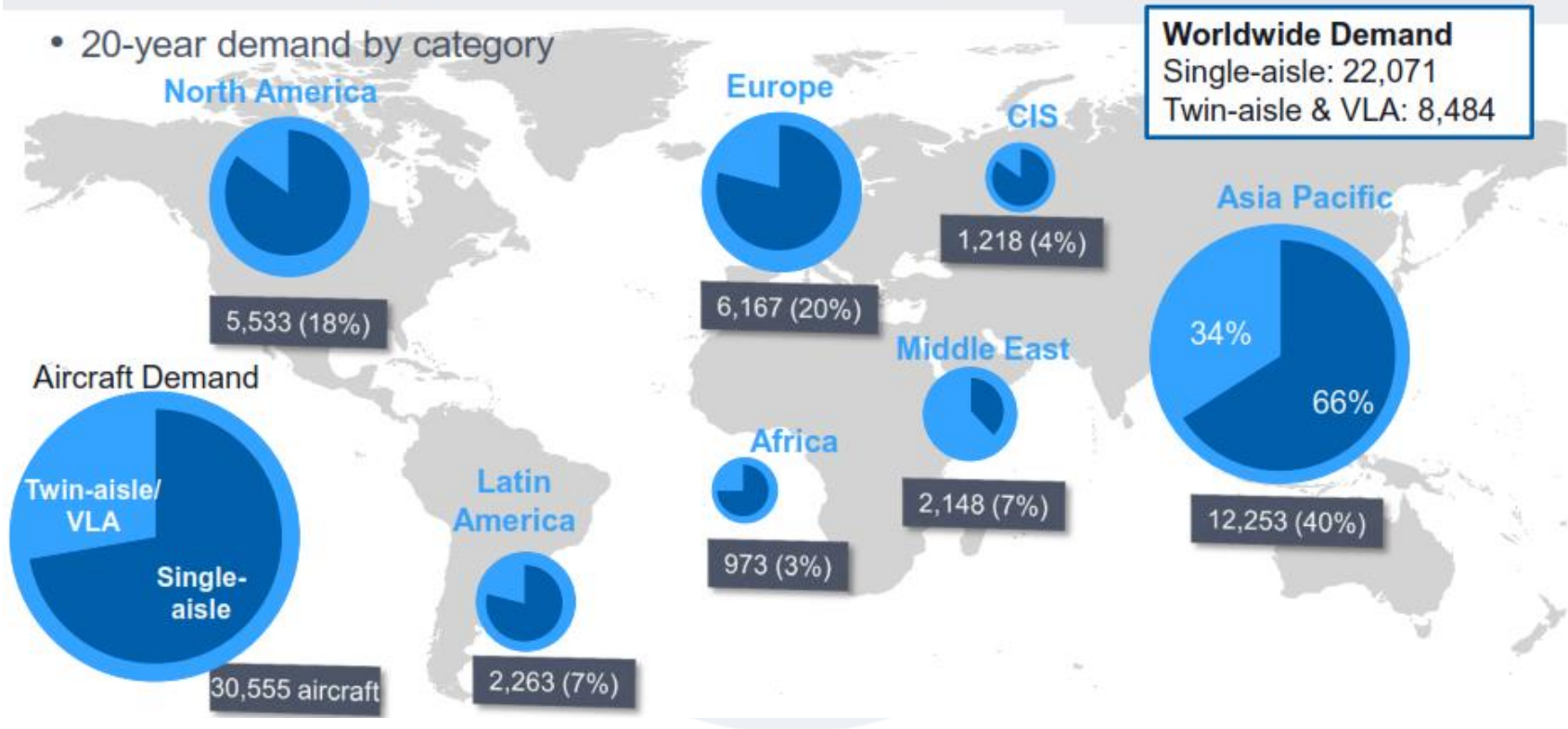




# Asia-Pacific: Potential Market

Forecast demand by region: Asia/Pacific remains the biggest market

- 20-year demand by category



Source: Airbus GMF 2014

In Strict Confidence



# Asia-Pacific: Top 10 Orders, Relative to Current Fleets

Airline/Group	A320	737	787/777	A330/A350/A380	Value*	/Fleet CMV
Lion	227	266			\$25	660%
Air Asia	314			87	\$24.5	500%
Singapore		44	30	75	\$15.7	160%
ANA	37		75		\$11	125%
Indigo	180				\$9	300%
Cathay			24	46	\$9	80%
Qantas /JS	99			8	\$8	85%
JAL			25	31	\$7	110%
Korean			37		\$5	60%
GO	72				\$3.6	580%
Total			\$120bn, >50% LCCs			

The above legacy carriers have orders equal to their current fleet values

The above 'LCCs' are on average committed to grow 5 fold

Sources: Boeing (May15); Airbus (May15) & Stratos Market Research.

\* Estimated Delivery Pricing in USD\$b



# Asia-Pacific: The 5 Big Questions From Financiers

- ❏ How to fund an enormous orderbook
- ❏ How will global (inc E.M.) slowdown affect ASK growth projections in the region?
- ❏ What will be the impact of fuel price IF it stays low?
  - Unlikely to lead to aircraft order cancellations (backlog ~7yrs), probably deferrals
  - BUT may have massive impact on airline competitiveness & profitability:
    - Plans based on \$100-120 / barrel justify \$100-140k\* rental delta in N/B
    - Competing against much cheaper (> \$200k) used narrowbodies
- ❏ Have we seen / will we see 'Over-Ordering'?
  - Certainly: but up to now it has been managed..
  - Deferrals: Escalation can often make this unattractive
- ❏ How can legacy carriers dispose of used widebodies without incurring huge losses?

\* Source: Airbus



# Current Market: Financing & Leasing

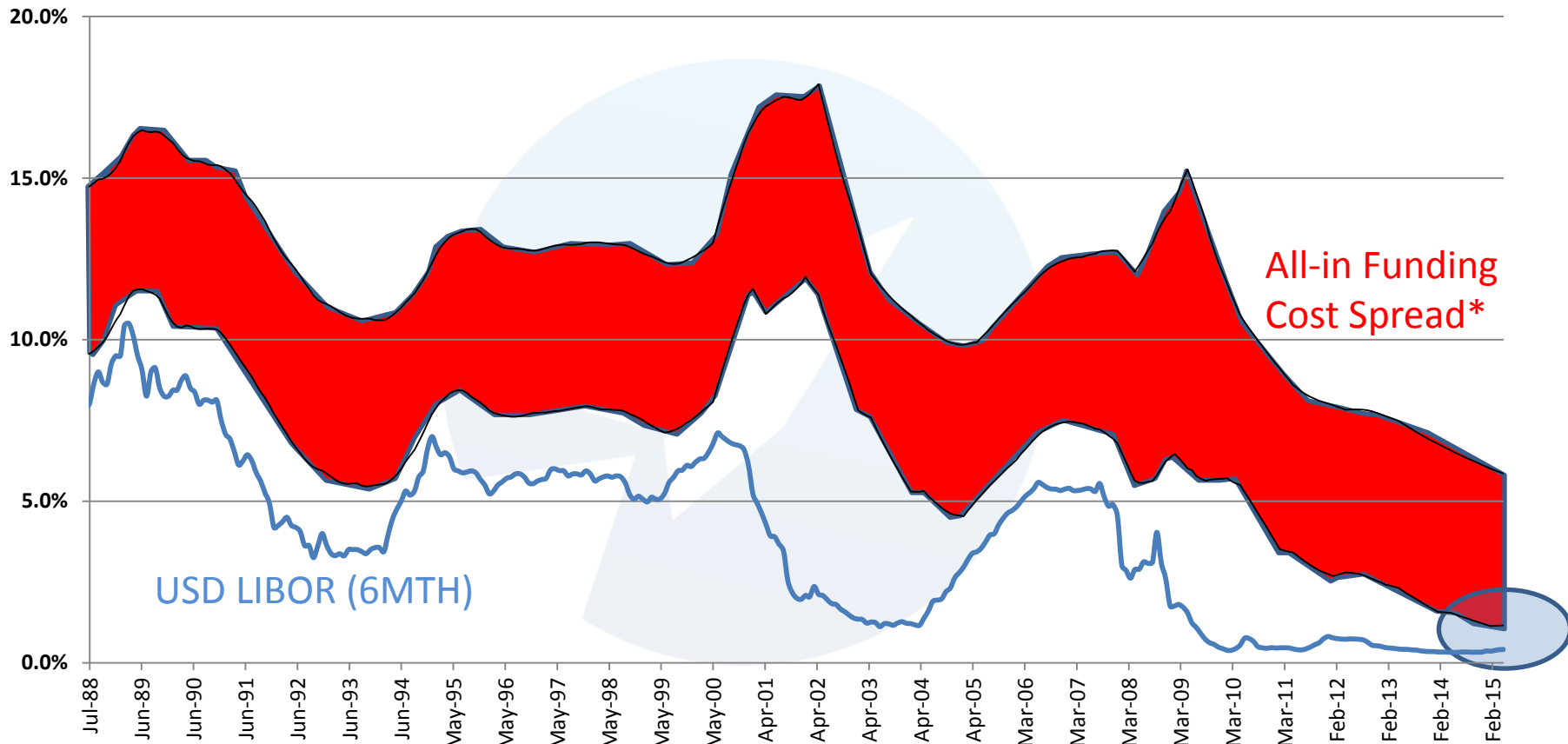
- It has never been cheaper to raise aircraft debt
  - Avolon just raised full-recourse \$675m facility at just **165bps** over
  - Etihad recently raised 100%, full-payout financing on an A380!
  - Lessors increasingly using their balance sheets to secure lower cost funding
  - Banks have recaptured massive funding marketshare via cheap commercial loans: supply exceeds demand, lessor lending dominates
- There has never been more equity seeking aircraft asset exposure
  - Cheung Kong (MCAP & solo - 2014) [\$5bn]
  - Century Tokyo (CIT – 2014) [\$2bn]
  - NWS Holdings (Investec – 2014) [\$2bn]
  - Napier Park (ALC – 2014) [\$2bn]
  - Ontario Teachers Fund (Aircastle - 2013) [\$1bn]
  - Wells Fargo (Avolon – 2013) [>\$500m]
- Lessors are tending towards increasing lease terms & thereby gradually increasing their exposure to credit and reducing their asset risk.





# Current Market: Funding Costs in Context

## Aircraft Senior Funding Costs (all-in)



Source: Boeing, Stratos Market Research

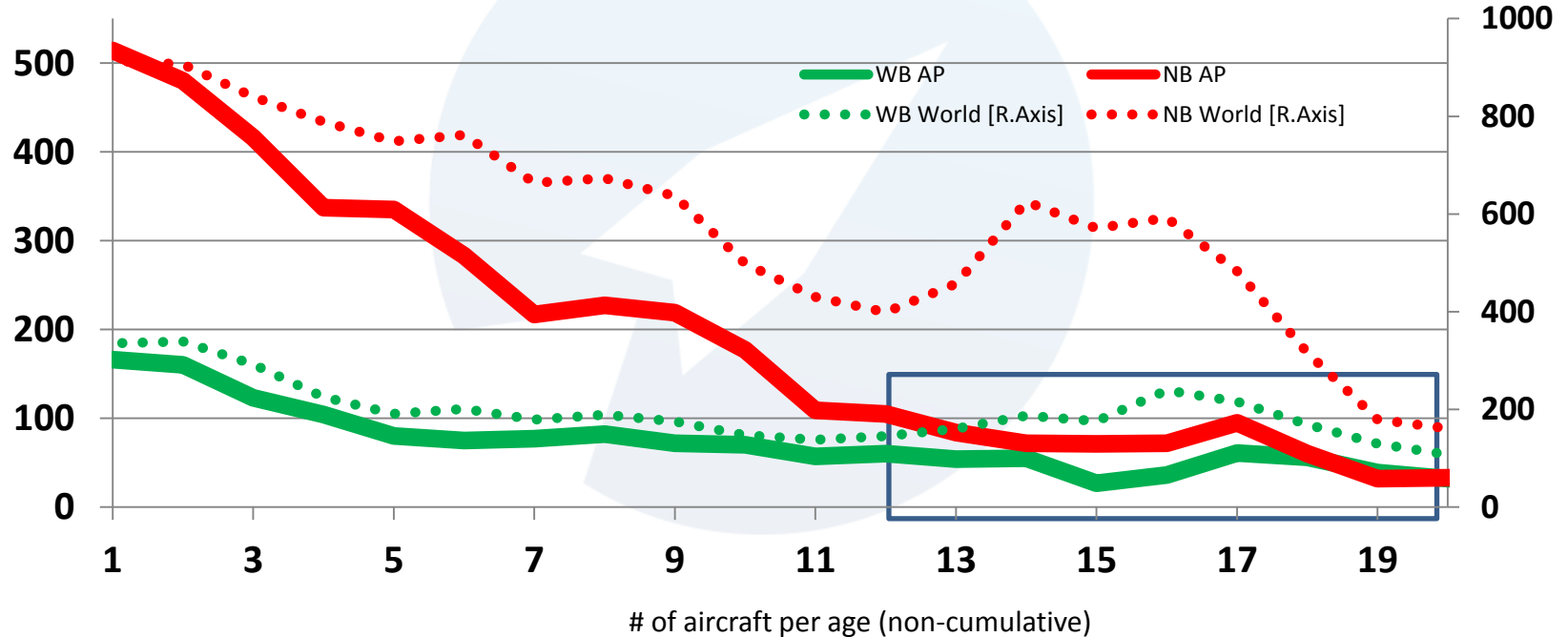
\*Lowest & Highest Margins witnessed in market, 12mth moving avg

In Strict Confidence



# Future Trends: Asia-Pacific Fleet Age Profile

	Widebody	Narrowbody
● Total CMV	\$105b	\$112b
● # >14yrs Old	390	580
● CMV >14yrs	\$6.3b	\$4.3b



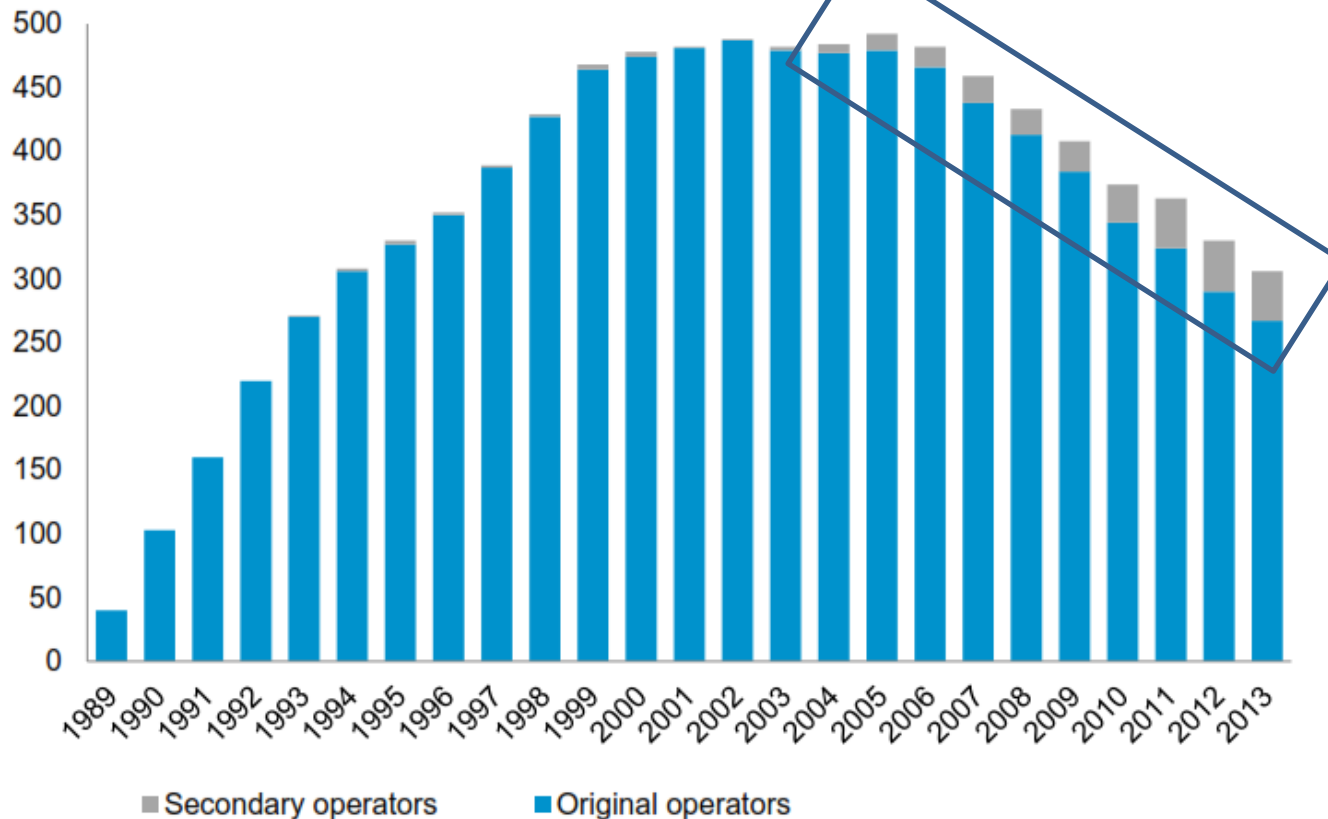
Source: Stratos Market Research, Ascend

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# Future Trends: Are Large Widebodies so Liquid?

## 747-400 In Service Fleet Evolution



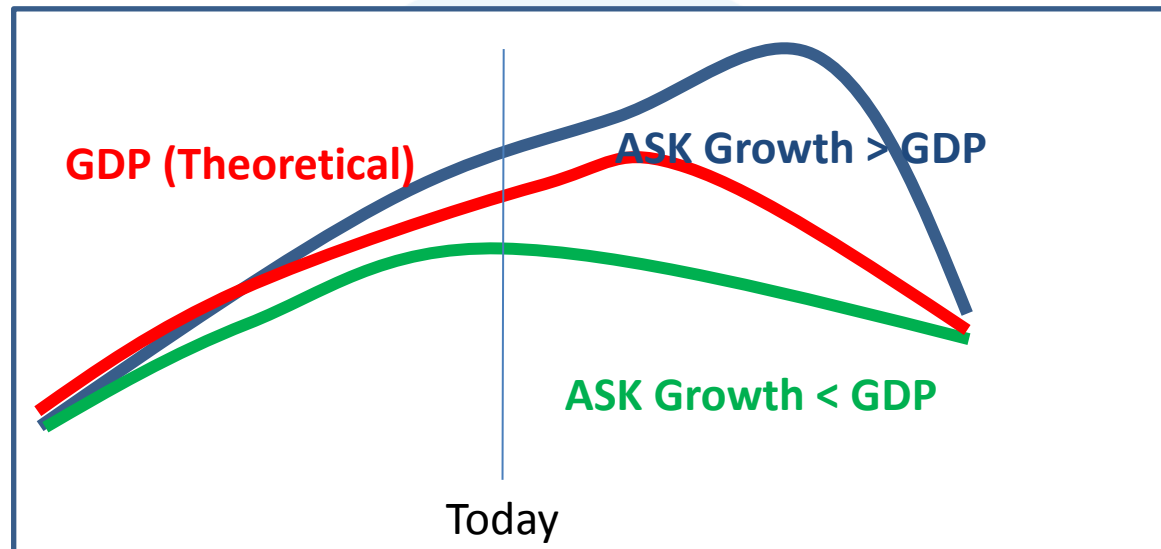
- **62%** remain in service.
- **87%** operated by original operators.
- Average fleet age in 2013 of more than **18 years**.
- **260** passenger aircraft still in service.

Source: Nimrod, Feb 15



# Future Trends: Clouds on the Horizon

- Macro : Growth Slowing (inc. EM), Huge Debts in USD, Weakening Currencies
- Air travel growth now “ahead of the curve”.. Potential for severe re-correction



Graph is Illustrative Only

- Continued & increasing threat from M.East Carriers: Profitability Badly Affected
- Future engine SFC performance



# Conclusion

- 🚀 Fill your boots with cheap funding NOW but “Mind the Gap”:
  - Banks only commit to funding 6-12mths out & have MAC clauses
  - Few lessors can commit SLBs further than 18mths ahead (funding uncertainty)
- 🚀 Beware of competitors extending older aircraft & not exercising options
- 🚀 Longer planning horizon can reap substantial savings, particularly for widebodies
- 🚀 Any major glitches in new engine developments & fuel price drop will affect relative competitiveness