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EDITOR'S LETTER

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A US political battle over the future of the Export Import Bank highlights the startlingly different attitudes between Europe and the US towards the role of export credit agencies.

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Since the start of July the export credit agency can still service its existing portfolio but it can no longer work on any new deals until Congress agrees a new charter for the bank. The charter being proposed by the Democrats includes a new four-year mandate combined with a $135 billion cap.

Sources among the bank's supporters confirm that Democrats plan to combine Ex-Im's reauthorisation with a priority US highways funding bill. Worryingly the bill is only two weeks away and Ex-Im's reauthorisation is not yet attached to it.

Supporters of the bank are confident that if, or when, the export credit agency's (ECA) mandate is attached to the bill it will pick up enough votes across the house to pass. This confidence has been inspired by a test vote put out by the Senate in May in which 66 Senators, including 22 Republicans, voted in favour of US Ex-Im authorisation. However, US Speaker John Boehner said he will open the bill to the amendment process, a deliberate ploy to either encourage enough Republicans to vote against the bank, or failing that, to simply derail the bill through inaction in order to keep the bank shut longer.

"It will be a pretty tough fight", confides one Washington aviation insider. Those in favour of Ex-Im appear to have underestimated the strength of the bank's opponents which have already managed to close the ECA and so far have been effective at blocking reauthorisation. Conservatives are being helped by a tight timetable. By the first week of August both the Senate and the House of Congress will be on their summer recess. This means that any further delays will ensure the bank is shut till September. The danger is that the longer the bank remains closed, and Boeing and GE appear to be still conducting healthy levels of business, it will undermine the core argument that these exporters need the bank's reauthorisation.

In stark contrast, the European ECAs this year have been granting their ECAs more powers to support aviation. The UK export credit agency (ECA), UK Export Finance (UKEF), can now offer supply chain financing guarantees. Little detail exists on the new products but what is known is that the new powers will allow the UK ECA to support, for the first time, financing provided on behalf of UK buyers to foreign suppliers. This support would then assist UK buyers to produce goods or services within the UK for export. *Airfinance Journal* understands that the first deals under the new powers will be aimed at aviation firms and are expected to close later this year.

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The Highway Bill is not the only opportunity to push for a new Ex-Im mandate. Democrats could link the bank's authorisation to the FAA's reauthorisation in September. For now the bank appears to have enough support to ensure its survival, but the longer the delay the harder the political fight for the ECA's survival will be. Several of the most vocal opponents were Republican Presidential candidates which places pressure

on the 22 Republicans that are favour of the bank.

ECA-backed financings only account for about 10%-15% of aircraft deliveries in today's market because liquidity is plentiful. But markets change. Only six years ago ECAs were financing nearly a third of all new aircraft. Boeing cannot afford to lose Ex-Im. ECAs ensure difficult-to-fund airlines can access debt for new aircraft. Airframers fight tooth and claw over each airline campaign. In a world without Ex-Im Boeing will have to hunt for expensive alternatives for its more challenging customers, and in the process could cede market share to its European rival.

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Printed in the UK by Wyndeham Grange Ltd
Southwick, East Sussex.
 The Airfinance Journal Ltd. Registered in the United Kingdom 1432333 (ISSN 0143-2257).
Airfinance Journal (USPS No: 022-554) is a full service business website and e-news facility with printed supplements for $1,850/€1,395/£1,085* a year by Euromoney Institutional Investor PLC . (*£ and € prices are subject to VAT)

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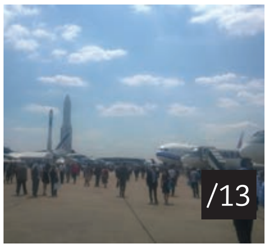

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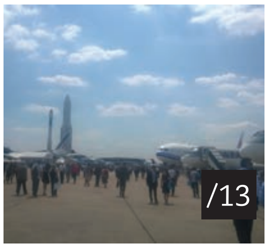

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NEWS

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Sisson leaves Awas

Ray Sisson has resigned as president and chief executive officer (CEO) of Awas.

Sisson joined the lessor in 2010 after serving as chief commercial officer at SR Technics and president and CEO of Titan Aviation Leasing. Before that, he was a senior vice-president at Gecas.

A statement released by Awas states: "Ray Sisson wants to take his career into a different direction, having achieved the business's goals since he took on the role of president and CEO in 2010. The board of Awas thanks Ray Sisson for his leadership, and wishes him all the best for his future."

Lam is ABL's Asia-Pacific boss

US aircraft investment management firm ABL Aviation has appointed a new executive vice-president, Asia-Pacific.

Vincent Lam began his new role on June 15. He will head ABL's new Singapore office and will be the main contact for the company's customers in Asia.

His most recent role before joining ABL was senior vice-president, Asia-Pacific, at Cabot Aviation. Lam helped set up the aircraft broker's Singapore office.

Lam previously worked at Macquarie Airfinance, where he was vice-president of marketing for Asia-Pacific.

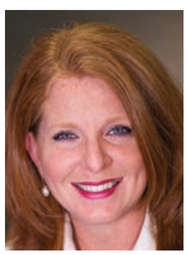
Goshawk names management team

Aircraft lessor Goshawk Aviation, which was previously managed by Investec Bank, has appointed a new management team.

Eight former Investec employees have joined Goshawk, including Ruth Kelly, the chief executive officer, and Peter Watson, the chief commercial officer. Additionally, Goshawk has appointed Andy Carlisle as chief operations officer and Anand Ramachandran as head of corporate finance, treasury and tax.

Goshawk Aviation is a leasing platform owned by Investec Bank, NWS Holdings and Chow Tai Fook Enterprises. Hong Kong-based private investment company Chow Tai Fook Enterprises and NWS Holdings, the infrastructure and services flagship of New World Development Company, each own a 40% stake in the company.

Goshawk is hiring additional staff for its management team. The lessor has a portfolio of 56 aircraft, most of which have been delivered. The portfolio is mainly made up of young and in-production aircraft.



Gecas parts unit appoints COO

GE Capital Aviation Services (Gecas) has named Sharon Green as chief operating officer (COO) of its spare parts business.

Green has served as interim COO of Gecas Asset Management Services (AMS) since December 2014, after Cathy Williams' retirement.

AMS was previously called the Memphis Group, before Gecas acquired it in 2006 to move into the spare parts business. Green joined Memphis in 1992 as chief financial officer and led the integration in 2006.

Pillsbury gets new partner

Law firm Pillsbury Winthrop Shaw Pittman has hired Barry Biggar as a new finance partner. He will be based in the firm's main office in New York.

Biggar was a partner at McGuire Woods before joining Pillsbury. He has more than 25 years' experience working in corporate law, representing companies in structured debt and tax-advantaged financings in the US domestic and cross-border markets.

Biggar has also represented issuers, underwriters and placement agents and privately placed debt securities issued to finance such assets.

"Barry's rich history of serving clients across a number of industries, including transportation, heavy industry and energy (traditional and renewables) will be an excellent complement to the range of services we offer our global clients," says finance section leader Jon Whitney.

He adds: "Barry is a welcome addition to our finance practice in New York, and will add a wealth of experience to our international cross-border finance team."

Freeman becomes Gecas regional manager

Gecas has appointed a new regional manager for the Middle East, Africa and Russia and CIS regions.

Todd Freeman, who was previously senior vice-president of the regional aircraft group, has worked at Gecas for almost 15 years. In his former role, he managed the lessor's' regional aircraft portfolio.

Freeman has also held down finance and marketing roles at Airbus and JP Morgan.

He will be based in Dubai and will oversee five regional sales offices, which are responsible for more than 50 airline customers with over 300 aircraft leased to them.

Freeman is a board member of the Istat Foundation.

Jetlines announces new directors

Jetlines, a Canadian ultra-low-cost carrier set to begin operations, has appointed Stan Gadek as chairman and Mike Harris as a new director.

Gadek is the former president, chief executive officer and chief financial officer of US charter airline Sun Country Airlines.

Harris is a former politician who serves on the boards of firms, including EnerTech Capital, Beringer Capital and Sterling Financial Group.

In February, Jetlines cancelled a C$50 million ($40 million) initial public offering agreement with capital pool company Inovent Capital.

>>>

NEWS ANALYSIS

Calc's disappearing CEO

There is still no sign of the founder and former head of the Hong Kong leasing company since his disappearance in May.

Mike Poon Ho Man, the chief executive officer (CEO) of Hong Kong lessor China Aircraft Leasing Company (Calc), did a disappearing act in May, tendering his resignation and making no further contact with the company. His whereabouts is still officially unknown.

After the disappearance, two Hong Kong newspapers quoted online forums saying Poon had been on sick leave for a month to evade a corruption investigation related to China Southern Airlines.

In a separate announcement, the company said chief financial officer Yu Tai Tei tendered his resignation on May 22 "to pursue other personal goals".

Calc's chairman Chen Shuang has taken over as chief executive officer, while Barry Mok Chung Tat has become chief financial officer.

Calc has said it has no knowledge of where Poon is and has not been able to contact him.

The company issued a statement saying it had reviewed its transaction documents and "relevant records" with China Southern, including a "comprehensive" review of the meeting minutes of the strategy committee. It added that it has not found any irregularities in its dealings with the airline.

"The company further confirms that it has sufficient internal control systems in place, and each aircraft lease transaction has to be approved by the strategy committee, taking into account the terms of the transaction, the return and risk," said the statement.

In June, newswire Bloomberg quoted unnamed sources confirming that Poon was being probed as part of a corruption investigation involving officials at China Southern Airlines. Airfinance Journal has not yet been able to confirm the accuracy of this report.

According to a stock exchange filing, one day after Chen Shuang's appointment as CEO, an unknown party gave instructions for an option owned by Poon on 5.38 million shares at $0.161 (HK$1.25) apiece – an almost 90% discount to the market price – to be exercised. This was on the same day Calc issued 5.4 million shares at that price "pursuant to exercise of share options under pre-IPO share option scheme other than by directors of the company".

Friedmann Pacific Asset Management, Poon's company – which is 10% owned by his wife, Christina Ng – through which he controls Calc as the second-largest shareholder, exercised an option to 429,000 shares.

To add to the mystery, Inception Aviation's chief executive officer Tasos Michael told Airfinance Journal in an exclusive interview that Calc had approached him with an offer of the CEO position in Hong Kong. However, Calc denied having offered Michael the position, though admitted it had spoken to him about other positions.

Michael said that Calc first reached out to recruit him more than a year ago in 2014. At the time, he met with Poon in Paris to discuss the opportunity.

"We had a pleasant meeting, albeit a short one," said Michael. "Then we started discussing money – and we were poles apart. I said, 'I don't get out of bed for that much money in the morning'."

At this time, Calc discussed a sister operation out of Dublin that would be headed up by Michael. Poon would have remained the CEO in Hong Kong.

"There were a lot of discussions over titles," said Michael. "Effectively, I would have been the CEO… Maybe I would have been the CEO for everywhere outside of China."

The talks then resumed about six months ago, with Calc asking him for "off-the-cuff and off-the-record advice".

Michael added: "I was summoned to another meeting in Paris which I attended. Mike [Poon] said, 'Look, we've decided that we really want someone and we're a bit more flexible on money now', and we started negotiating an agreement between us."

However, Michael was not satisfied with the terms Calc offered and wanted more clarification on the company's plans.

"I think the difference between me and the others was I was willing to do it on a success basis," he said.

"There was a basic salary that would cover my overheads. Everyone else they've approached wants to be working for salary regardless of whatever happens.

"They've been looking for somebody who is recognized in the industry to help take the company to the next level. They haven't really been able to recruit anyone because the package they've been offering has been unacceptable to anybody that could really do the job. I've come along and said I'll work on a success basis, with some guaranteed expense covering minimums. That's what's really been of interest to them, [but] even in those discussions we haven't been able to agree final terms."

It is not known whether Calc has approached other people besides Michael for the CEO position, but Michael said the company had been approaching people "the whole time" he had been in discussions with them.

The alleged graft investigation into Poon and China Southern is not the first time Chinese president Xi Jinping's anti-corruption crackdown has veered into the aviation industry. The president of China Minsheng Banking Corporation, which operates an aircraft-leasing arm, resigned in January and was reported to be "helping" China's Central Commission for Discipline Inspection with an investigation.

NEWS

People

Piedmont appoints Hogg as president

Piedmont Airlines, a regional subsidiary of American Airlines, has appointed Lyle Hogg as its president.

Hogg will report to chief executive officer Steve Farrow, who previously held the positions of both president and CEO. Farrow will retire from the airline in early 2016 and will continue as CEO until then.

Hogg began his aviation career in 1981 as a regional airline pilot. He became a US Airways pilot in 1984 and was most recently vice-president of flight operations.

Clifford Chance Singapore hires senior associate

Clifford Chance Singapore has hired Chapman Tripp senior associate Chad Morgan.

Originally from New Zealand, Morgan worked for Clifford Chance as a senior associate in the firm's Bangkok office between 2011 and 2013, before returning to Chapman Tripp in New Zealand for family reasons. He has now been rehired by Clifford Chance to work in its Singapore office as a senior associate reporting to partner Simon Briscoe. He replaces Mark Adams, who recently left the firm to return to the Caribbean and work for law firm Campbells.

New CEO for GoAir

Indian low-cost carrier GoAir has appointed Wolfgang Prock-Schauer as its new chief executive officer (CEO), according to local media reports.

Prock-Schauer will take the place of Giorgio De Roni, who quit GoAir as its chief executive on March 31 because of health reasons after working at the carrier for nearly four years, according to The Times of India.

Boeing opts for Muilenburg as CEO

Boeing's board of directors has named Dennis Muilenburg as the company's chief executive officer.

Muilenburg, who has served as president and chief operating officer since 2013, replaces James McNerney, who has held the position for the past 10 years.

McNerney continues as chairman and will remain an employee until next February.

Raymond Conner remains chief executive officer of Boeing Commercial Airplanes.

K&L Gates hires White & Case lawyer

A former Tokyo-based White & Case associate has been hired by rival firm K&L Gates to work in its office in Orange County, California.

Amanda Darling is joining K&L Gates' banking and asset finance team. Darling worked in White & Case's asset finance and project finance team under partner Simon Collins.

Airfinance Journal understands that White & Case expects to fill the vacant position through an internal move.

GA Telesis appoints head of component sales

GA Telesis has appointed Jason Reed as president of its Component Solutions Group (CSG).

Reed joins GA Telesis from Airbus, where he worked as vice-president and head of operations for North America and Latin America.

Reed will manage the group's sale teams and distribution centres.

Chris Rauch, the current senior vice-president of global sales, has been promoted to chief operating officer of CSG.

Malaysia Airlines gets Ryanair executive

Malaysia Airlines (MAS) has appointed Peter Bellew as its new chief operations officer.

Bellew will join MAS from Ryanair, where he was director of flight operations. He was also previously head of sales and marketing and deputy director, flight operations.

His new position at MAS will be effective as of September 1.

New general manager for Etihad in Oman

Abu-Dhabi-based airline Etihad Airways has appointed a new general manager for Oman.

Yarub Mohamed Obaidalla will lead Etihad's commercial strategy in the country and will be based in Muscat, the Omani capital.

Obaidalla joined Etihad in 2009 as business development manager for Hala Abu Dhabi. He later was government sales manager for Abu Dhabi. His most recent role was Etihad's sales manager for Sharjah and Northern Emirates.

Yarub will report to Maen Abdul Halim, Etihad Airways' area general manager.

NEWS

Airlines

Lisbon sells TAP Portugal stake

The Portuguese government has selected Gateway, an investor group led by JetBlue Airways and Azul Linhas Aéreas Brasileiras founder David Neeleman, to buy a 61% stake in its flag carrier, TAP Portugal, according to local media reports.

Neeleman, along with Avianca owner Germán Efromovich, were in the final bidding stage for the Portuguese airline. According to the Associated Press, Neeleman's Gateway consortium will pay €354 million ($397 million) for the 61% stake in the carrier.

The value of the deal could rise to €488 million if TAP performs well in 2015, adds the report.

TAP is in the process of modernizing its fleet. It has 12 A350-900 XWB aircraft on order that will deliver in 2017. Negotiations on how the aircraft will be financed stalled amid acquisition talks.

RwandAir in talks to lease 737-800

Rwandan flag carrier RwandAir is in talks to lease an additional 737-800.

John Mirenge, the carrier's chief executive officer, tells *Airfinance Journal* the jet will be "between three and four years old" and that the aircraft is likely to arrive in 2017.

Rwandair has a fleet of two Boeing 737-700s, two 737-800s, two Bombardier CRJ900s and one Bombardier Dash 8.

The Rwandan flag carrier signed a memorandum of understanding for two new A330s in March and plans to fly one of the A330s to China from 2017.

Mirenge adds that the carrier also plans to operate flights to Europe and has been mulling the prospect of 787s, but no orders or commitments have been made yet.

Shandong Airlines to sell CRJs and issue RFP

Chinese carrier Shandong Airlines plans to sell two CRJ-700 aircraft, according to a company source.

Airfinance Journal understands the Bombardier jets are more than 10 years old and that the airline originally acquired them

Lufthansa leases seven A330-200s for Wings

German flag carrier Lufthansa has leased seven A330-200s for a planned subsidiary airline, which is due to launch at the end of 2015.

The new airline, which will operate under the name Wings, will begin operating seven midlife A330-200s. A Lufthansa spokesman told *Airfinance Journal* the carrier will lease the aircraft from Gecas and that the first jet will deliver in November.

Another market source told *Airfinance Journal* the aircraft will be between 10 and 12 years old and will be on long-term lease.

Wings will begin operations at the end of the year, and will fly from Cologne to destinations including Bangkok, Dubai, Phucket and Punta Cana in the Dominican Republic.

Iata urges action on Venezuelan debt to airlines

The International Air Transport Association (Iata) has called on the Venezuelan government to create a payment plan to airlines for $3.7 billion-worth of unpaid ticket revenues. About 24 carriers have been affected by the payment delays, including American Airlines, Delta Airlines and Copa Airlines.

The Latin American country held about $3.5 billion of unpaid airline revenues in October 2014. An Iata spokesman told *Airfinance Journal* that the government has made no payments to airlines since December and the total has since risen.

Airlines that fly to Venezuela are not getting paid their ticket revenues because of strict currency controls introduced by the Venezuelan government. The country is struggling to repay the debt because of its dwindling foreign exchange reserves.

The trapped airline cash comes from international airlines' ticket sales in the country, which Venezuelan regulations require to be made in the local bolivar currency. But because of the country's restrictive foreign exchange regime, airlines have to apply for the repatriation of this revenue.

Iata called on Venezuela to establish a single exchange rate for the sale of tickets in the country and for the payment of airline fees. The airline trade association has also asked the authorities to set out a realistic payment schedule and to consult with airlines before imposing any new taxes or fees.

NEWS

Airlines

from the manufacturer.

The sell-off is part of Shandong Airlines' goal of operating an all-737 NG fleet.

"It will reduce the operational cost significantly," says the source, adding that the transition would save money on maintenance, crew costs and spare parts.

The airline has 78 Boeing 737 NG aircraft. It will add 10 more by the end of 2015, bringing its total NG fleet to 88.

Most of these incoming aircraft will be financed through sale/leaseback transactions with Chinese leasing companies. Shandong Airlines is in talks with "five to eight" different companies, according to the source, and will issue a request for proposal (RFP) for these aircraft in one to two months' time.

The source adds that the carrier prefers to work with Chinese leasing companies because they offer more competitive pricing than international lessors.

Shenzhen to lease eight aircraft this year

Chinese carrier Shenzhen Airlines plans to lease at least eight jets this year, *Airfinance Journal* learns.

In June, the airline received two 737-800s on finance lease from CMB Leasing.

In July, it will take two 737-800s on finance lease from Avic Leasing, as well as one A320-200 on operating lease from ICBC Leasing. One further A320-200 will be delivered in August, September and December.

All of the aircraft will be on 10- to 12-year leases.

Solaseed Air posts record financial results

Solaseed Air has reported record net income and operating revenue for fiscal year (FY) 2014. The Japanese hybrid carrier posted a net income of ¥1.536 billion ($12.38 million) and an operating revenue of ¥35.624 billion. While reported operating profits are down by ¥500 million on last year's results, the net income and operating revenue results are the highest recorded by the airline, beating the ¥1.101 billion reported for 2012. The previous highest operating revenue was ¥34.937 billion for 2013. An airline source attributes the unusual fact of 2014's operating profit being lower than the net profit to the carrier having some currency appreciation in its maintenance reserves. "We didn't deduct some expenses from the operating profit to count net profit, but we added up currency appreciation… thus the net profit is bigger than the operating profit," says the source. "We secured a record net profit mainly due to the Japanese yen's depreciation against the US dollar's currency exchange." The airline operates a fleet of 12 737-800 aircraft with an average age of two years. The source says: "We are expecting to improve the profit margin using young and fuel-saving aircraft in FY 2015."

Irish government agrees to sell Aer Lingus to IAG

The Irish government has agreed to sell its 25.11% stake in Aer Lingus to International Airlines Group (IAG), according to a statement released by Ireland's Department of Transport, Tourism and Sport.

IAG's offer for the Irish airline was made on January 27. It valued Aer Lingus at €1.36 billion ($1.55 billion), with each share at €2.55 ($2.90), comprising of a cash offer of €2.50 and a dividend of €0.05 per share.

Aer Lingus' board recommended the offer to the Irish government, which sought some guarantees from the British and Spanish airline conglomerate, including an assurance that Aer Lingus would retain its existing slots at Heathrow and keep its headquarters in Ireland.

The Irish parliament needs to approve the deal and Ryanair has to accept the offer if the sale is to go ahead. Ryanair, which owns a 29.8% stake in Aer Lingus, has not yet disclosed whether it will accept or reject the IAG offer.

IAG says the offer is final and would not be increased.

Wizz Air more than doubles profit

Hungarian airline Wizz Air increased its profit from €88 million ($96 million) for fiscal year 2014 to €183 million for 2015.

The company's total revenues increased by 21%, from €1.012 billion in 2104 to €1.227 billion in 2015.

The carrier attributed its increase in profits and revenues to a number of factors, including unit costs falling and higher aircraft utilization.

Wizz Air also attributed the increases to all of its aircraft deliveries between November 2015 and December 2017 being changed from A320s to A321s, which can serve larger and denser routes.

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NEWS

Airlines

Fastjet to sell Fly540 Ghana

African low-cost carrier fastjet has agreed to sell one of its subsidiaries, Fly540 Ghana, for a nominal consideration of $1 in cash.

Fly540 Ghana was acquired by fastjet as part of Lonrho Aviation in July 2012.

The sale is part of fastjet's plan to leave some areas of Africa before establishing itself in Tanzania, Kenya, South Africa, Uganda, Zambia and Zimbabwe.

United to take 5% stake in Azul

United Airlines is set to take a 5% stake in Brazilian carrier Azul. The $100 million agreement is intended to lead to greater cooperation between the airlines, including codesharing of flights and a joint loyalty programme for customers.

David Neeleman, Azul's founder and chief executive, who also founded jetBlue Airways, announced the deal in São Paulo.

EU removes Philippines from aviation blacklist

The European Union has removed all Filipino airlines from its aviation blacklist.

Violeta Bulc, EU commissioner for transport, said in a statement: "After five years of hard work we are finally able to clear the airlines certified in the Philippines from the European Air Safety List."

She added: "Today's result can serve as an example for other countries which have difficulty to match their safety oversight capabilities with the growth of their industry."

DELIVERIES ROUNDUP

Russian state lessor delivers 777s to Aeroflot

Russian flag carrier Aeroflot has taken delivery of the last of three 777-300ERs from Russia's State Transport Leasing Company (STLC). Aeroflot is taking all the aircraft on 12-year operating lease.

Airfinance Journal understands that STLC originally acquired the aircraft on 12-year finance leases from Chinese lessor ICBC Leasing.

Myanmar receives first new Boeing

Myanmar National Airways has leased a new 737-800 aircraft from lessor Gecas.

The deal is the first brand new Boeing aircraft to be delivered to any Myanmar-based airline, according to a statement from the manufacturer.

The aircraft is part of Gecas' existing order book with Boeing.

Myanmar National Airlines was previously called Myanma Airways. The airline serves more than 25 domestic destinations and has its headquarters in Yangon.

Lion Group gets 50th ATR

Lion Group has received its 50th ATR aircraft. The latest addition, an ATR 72-600, will be operated by Wings Air, a subsidiary of the Indonesian airline group.

In November, Lion Group signed a purchase agreement with the manufacturer for an additional 40 ATR aircraft, bringing its firm order total to 100 ATRs.

China Eastern receives A320-family jet

China Eastern Airlines has taken delivery of an A320-family aircraft. The jet is being financed by a 10-year commercial loan from China Development Bank and was manufactured at Airbus's facility in Tianjin.

China Eastern used in-house counsel on the deal.

Aeroflot puts 20th SSJ100 into service

Russian flag carrier Aeroflot's 20th Sukhoi Superjet 100 has entered service.

Sukhoi expects to deliver a further eight jets to the airline by the end of 2015.

Airfinance Journal understands the aircraft is on a 12-year finance lease from Russian lessor Sberbank.

Qingdao Airlines takes fifth Calc A320

Chinese start-up Qingdao Airlines has completed its complement of A320-200s from China Aircraft Leasing Company (Calc).

The lessor and airline entered into a lease agreement in August 2013 for five aircraft.

Manufacturers

Boeing set to benefit from Delta pilot agreement

US carrier Delta Airlines has announced it is planning to order 40 more Boeing 737-900ERs and buy 20 used Embraer E190s the US manufacturer has acquired. The deal is, however, dependent on the agreement of Delta's pilots.

The Delta branch of the Air Line Pilots Association (Alpa) reached a tentative agreement with the carrier in early June. The agreement, which has been submitted for membership approval, covers more than 12,000 pilots.

Among other features, the proposal provides increases to basic pay.

If the proposal is accepted, Delta will acquire 20 used E190s that are held by Boeing. The aircraft will enter Delta's mainline fleet in the fourth quarter of 2016.

The carrier will also order 40 more 737-900ER aircraft from the manufacturer. The order is in addition to the 100 737-900ERs Delta ordered in August 2011.

Embraer prices $1bn notes

Embraer has priced a $1 billion issuance of notes due 2025 at 99.682% of the principal amount.

The notes will carry a yield of 5.091%. They are issued through Embraer Netherlands Finance, a subsidiary of the Brazilian manufacturer and carry a coupon rate of 5.050% a year payable semi-annually.

Citigroup and Morgan Stanley are the joint bookrunners for the offering.

According to a company statement, Embraer will use some of the issuance to pay down existing debt and the remainder for general corporate purposes. The notes are expected to be listed on the New York Stock Exchange.

UAC may increase Ilyushin stake

United Aircraft Company (UAC), the Russian state-owned aircraft manufacturing conglomerate, is considering raising its stake in Ilyushin Finance, according to the

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Udvar-Hazy: long-range A321neo not a niche aircraft

Airbus's long-range (LR) A321neo is highly compatible with the regular version of the aircraft, according to Steven Udvar-Hazy, chief executive officer of Air Lease Corporation.

Speaking at the North America Airfinance Conference 2015, the leasing head praised the aircraft's capabilities and said it will integrate well with the regular-range version of the jet, because of the small number of mechanical differences between them.

He added that airlines are up-gauging to the A321 from the A320 because of capacity restrictions at certain airports.

"So we see the A321LR as a natural evolution of that, with additional range capability, so the airplane can go from virtually the western part of central Europe to the east coast [of the US]. So for the first time we have an airplane that can replace a significant portion of the 757 flying.

"We see it as a real important factor. In fact, we see the A321 reaching about 50% of all Airbus narrowbodies being produced," said Udvar-Hazy.

After being asked by JP Morgan's Mark Streeter about the remarketing potential of the long-range version, Udvar-Hazy pointed to the commonality with the A321neo.

"The LR really has only a small number of mechanical changes to the 93-tonne A321neo. There are new fuel tanks, which are easily removable, and there is also a small change to the nose landing gear structure, to make it a little stronger, but other than that, it is compatible with the A321neo."

He added: "So I think by 2020, from a production point of view, they will be totally integrated. There will be a lot of commonality."

(See Long-range A321neo pitched as 757 replacement, Airfinance Journal February 2015, page 23)

NEWS

Manufacturers

lessor's chief executive officer Alexander Rubtsov.

He tells *Airfinance Journal* that UAC, which holds a 49% stake in the lessor, might increase its equity holding to about 75%. A spokesman for UAC did not comment on the matter when contacted by *Airfinance Journal*.

Ilyushin Finance is an aircraft lessor specializing in aircraft manufactured by Antonov, Sukhoi, Tupolev and Ilyushin. It is in the process of remarketing four Tu-204 aircraft that it repossessed from bankrupt Russian carrier Vladivostok Avia.

Loss-making low-cost carriers eye E-Jets

Brazilian manufacturer Embraer believes low-cost carriers (LCCs) that are losing money could turn to E-Jets.

Paulo Cesar Silva, president and chief executive officer of commercial aviation at Embraer, spoke about the increased LCC appetite for E-Jets at the Embraer plant in Evora, Portugal, during a press briefing in June.

He said: "LCCs will have a look at E-jets, especially in Asia. They are losing money and a lot are going for a market share. I think we have a strong case to help them make money again."

Silva also said that Embraer still sees great potential in the US. He claimed that one of the main reasons Embraer has been successful in the US was that the current-generation E-Jets have 6.4% less fuel burn than the CRJ-900.

Speaking to *Airfinance Journal,* Silva says: "In the Asia-Pacific market our jets are not yet well represented. The 100-seat aircraft in the Russia and CIS region is very well received and there is a huge need for this size of aircraft. However, Russia is in crisis now, and it is hard to tell when airlines will be strong enough to get additional aircraft."

At the briefing Silva also said that lessors will be essential to help support Embraer aircraft sales as he predicted that lessor market share of the world's fleet will continue to increase.

"Leasing companies duplicate our sales for us. We work together to look for new airlines to place our aircraft with. It's key for us," he said.

Despite the importance of lessors to the manufacturer, the company has kept the number of lessor orders for its aircraft under control.

Silva tells *Airfinance Journal*: "We believe that one-third of our deliveries should be going to lessors. That fits our business model."

MRO NEWS

Gecas to start 737 freighter conversions

Aircraft lessor GE Capital Aviation Services (Gecas) says it will convert up to 20 737-800 passenger aircraft into freighters.

The first aircraft is scheduled for conversion starting in 2016, ready to enter service after it earns Federal Aviation Administration certification in 2017.

AEI Aeronautical Engineers will carry out the conversions at facilities in the US and China.

Gecas' cargo division leases almost 100 aircraft – including 737s, 767s, 747s and 777s – to airline customers.

Azul signs deal with Pratt & Whitney

Brazilian low-cost carrier Azul has signed a memorandum of understanding with Pratt & Whitney for the off-wing maintenance of engines for 30 E195-E2s.

Cathay delivers three jets to AerFin

Cathay Pacific Airways has delivered three A340-300s to British MRO company AerFin.

The Hong Kong flag carrier signed an agreement with the Wales-based company in March to purchase 11 of the jets for part-out.

AerFin said in a statement that it will disassemble the aircraft to provide its customers with serviceable used material to support their continued A340-300 operations.

Veling parts out SriLankan jets

Mauritius-based lessor and part-out company Veling is parting out two former SriLankan Airlines jets.

The jets are A340-300s and will be completely parted out.

Hitesh Patel, chief executive officer, Veling, tells *Airfinance Journal* that all of the parts of the jets are for sale.

NEWS

Paris Airshow highlights

Wizz Air signs MoU for 110 A321neos
Hungarian carrier Wizz Air signed a memorandum of understanding (MoU) for 110 A321s. The aircraft are all new engine option (neo) models.

Airbus says this is the biggest single order for the A321neo and is worth $13.7 billion at list prices.

AerCap orders 100 737 Max 8s
Aircraft lessor AerCap announced an order with Boeing for 100 737 Max 8 aircraft, valued at $10.7 billion at current list prices.

Peach makes first direct Airbus order
Japanese low-cost carrier Peach signed a firm contract with Airbus for three A320-200s.

The deal is Peach's first direct order from Airbus. All of its current 14 A320s are on lease.

Minsheng enters 30-aircraft deal with Boeing
Chinese lessor Minsheng Financial Leasing signed a memorandum of understanding to purchase 30 Boeing aircraft. They are a mix of next-generation 737s and 737 Maxs.

SMBC increases 737 Max 8 order
SMBC Aviation Capital has increased its order for 737 Max 8 aircraft from 80 to 90.

The Dublin-based lessor announced an order for 10 more of the aircraft at the Paris Air Show, adding to a 2014 order for 80 of the type.

Eva Air signs on for A330s and 777s
Taiwanese carrier Eva Air signed a memorandum of understanding with Airbus for the purchase of four A330-300s.

General Electric CF6-80 engines will power the aircraft.

The carrier also announced it intends to purchase five 777 freighters.

According to a statement from Boeing, Eva operates more than 35 Boeing aircraft in its fleet, including 20 777-300ERs. The airline has unfilled orders for 14 777-300ERs – both directly purchased and leased.

Yakutia Airlines orders SSJ100s
Russia's Yakutia Airlines placed an order with Sukhoi Civil Aircraft Company for an additional three SSJ100 aircraft.

The airline has been operating two SSJ100s on domestic and international routes since 2013. The additional aircraft are scheduled for delivery from 2017.

Garuda orders Airbus and Boeing aircraft
Both Airbus and Boeing struck deals with Indonesian flag carrier Garuda.

The carrier announced it is to purchase 30 787-9 and 30 737 Max 8 aircraft from Boeing on the same day it signed a letter of intent for 30 Airbus A350 XWB aircraft.

Gecas orders 60 A320neos
GE Capital Aviation Services (Gecas) announced a firm order with Airbus for 60 A320neo-family aircraft.
The lessor has selected CFM's Leap-1A engine as the powerplant for the narrowbodies.

The new order brings the Gecas A320neo order book with Airbus to 120.

Japan Air Commuter buys eight ATRs
Japan Air Commuter signed a firm purchase contract for eight ATR 42-600s. The deal is the first contract signed by the manufacturer and a Japanese airline.

The airline will start operating the 50-seat aircraft in 2017.

ALC boosts Airbus backlog
Air Lease Corporation (ALC) announced a firm order with Airbus for one A350-900, one current-engine option (Ceo) A321 and three A320ceos.

In March, ALC firmed up an order for 55 Airbus aircraft: 25 A330-900s and 30 A321 LR models.

Frontier orders 12 Airbus single-aisle aircraft
US carrier Frontier Airlines placed a firm order with Airbus for 10 A321s and two A320s.

All 12 aircraft are current-engine option (Ceo) models. The airline also placed an order for nine A321ceos last November.

Frontier operates a fleet of 55 A319s and 21 A320s.

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NEWS

Paris Airshow highlights

IBA ANALYSIS OF 2015 PARIS AIR SHOW ORDERS

Aircraft Manufacturer	Aircraft Model	Customer	Order Status	Orders /Commitments	Options	Current Market Value ($ Millions)
Airbus	A350-900 XWB	Air Lease Corporation	Firm	1		143.9
Airbus	A321ceo	Air Lease Corporation	Firm	1		52.4
Airbus	A320ceo	Air Lease Corporation	Firm	3		131.5
Airbus	A350 XWB*	Garuda Indonesia	Commitment	30		4,316.30
Airbus	A320neo	GECAS	Firm	60		2,929.90
Airbus	A330-300 Regional	Saudi Arabian Airlines	Unknown	20		2,180.90
Airbus	A320ceo	Saudi Arabian Airlines	Unknown	30		1,314.90
Airbus	ACJ319neo	Alpha Star Aviation	Commitment	1		n/a
Airbus	A320(ceo assumed)	Peach Aviation	Firm	3		131.5
Airbus	A330-300	EVA Air	MOU	4		436.2
Airbus	A321neo	Korean Air	MOU	30	20	1,732.60
Airbus	A321ceo	VietJetAir	Firm	6		314.1
Airbus	A320neo	Undisclosed (Asia)	MOU	60		2,929.90
Airbus	A320neo	Synergy Aerospace Corporation	MOU	62		3,027.60
Airbus	A321neo	Wizz Air	MOU	110		6,352.90
ATR	ATR 42-600	Japan Air Commuter	Firm	8	15	128.4
ATR	ATR 72-600	Binter	Firm	6		125
ATR	ATR 72-600	Cebu Pacific	Firm	16	10	333.3
ATR	ATR 72-600	Braathens Aviation	Firm	5	10	104.2
ATR	ATR 72-600	Air New Zealand	Firm	1		20.8
ATR	ATR 42-600	Bahamas Air	Firm	3		48.2
ATR	ATR 72-600	Bahamas Air	Firm	2		41.7
ATR	ATR 72-600	Air Madagascar	Firm	3		62.5
ATR	ATR 72-600	Undisclosed	Firm	2		41.7
Boeing	787-9	Garuda Indonesia	Commitment	30		4,015.10
Boeing	737 MAX 8	Garuda Indonesia	Commitment	30		1,540.80
Boeing	777F	EVA Airways	Commitment	5		843.4
Boeing	777-8X	Qatar Airways	Firm	10		1,710.20
Boeing	777F	Qatar Airways	Firm	4		674.7
Boeing	C-17	Qatar	Firm	4		n/a
Boeing	737 MAX 8	AerCap	Firm	100		5,135.90
Boeing	737 MAX 8	SMBC Aviation Capital	Firm	10		513.6
Boeing	737-900ER	Sriwijaya Air	Firm	2	20	102.6
Boeing	737 MAX*	Ruili Airlines	Commitment	30		1,540.80
Boeing	737NG/MAX*	Minsheng Financial Leasing	Commitment	30		1,472.80
Boeing	737 MAX*	Korean Air	Commitment	30	20	1,540.80
Boeing	777-300ER	Korean Air	Commitment	2		330
Boeing	747-8F	Volga Dnepr Group	Commitment	20		3,737.00
Boeing	787-8	Ethiopian Airlines	Firm	6		696
Boeing	BBJ MAX 9	Undisclosed (Europe)	Firm	1		n/a
Boeing	737-800	Undisclosed	Firm	17		796.1
Boeing	737-900ER	Undisclosed	Firm	4		205.2
Bombardier	CS300	Swiss	Conversion from CS100	10		n/a
Bombardier	Q400	WestJet Encore	Firm	5		109.3
Comac	C919	Ping An Leasing	LOI	50		n/a
Comac	C919	Puren Group	LOI	7		n/a
Comac	ARJ21	Puren Group	LOI	7		n/a
Embraer	E190-E2	Aircastle	Firm	15	15	499.9
Embraer	E195-E2	Aircastle	Firm	10	10	351.7
Embraer	E190	Colorful Guizhou Airlines	Firm	7	10	226.3
Embraer	E175	SkyWest	Firm	8		231.4
Embraer	E175	United Express	Firm	10		289.3
Sukhoi	Superjet 100	Yakutia Airlines	Firm	3		72.7

Paris Airshow engine highlights

AerCap places $2.7bn CFM order
AerCap has announced an order for 200 CFM Leap-1B engines to power 100 Boeing 737 Max aircraft that the lessor confirmed at the Paris Air Show. The order is valued at $2.7 billion at list prices. The order expands AerCap's CFM portfolio to more than 860 engines.

Gecas confirms Leap power for A320neos
Gecas announced it has selected CFM International's Leap-1A engine to power the 60 new Airbus A320neo orders that were announced in Paris. The firm engine order is valued at $1.77 billion at list prices.

SMBC selects two CFM types

CFM president and chief executive officer Jean-Paul Ebanga and Peter Barrett, SMBC Aviation's chief executive officer, made public the lessor's orders for 60 Leap-1A and 20 Leap-1B engines.

The firm engine order is valued at $885 million at list prices.

Minsheng Financial gets power for 737NGs and Maxs
Minsheng Financial Leasing announced an order for CFM56-7B and Leap-1B engines to power 10 Boeing next-generation 737 and 20 737 Max aircraft respectively. The order is valued at $775 million at list prices.

Avolon decides on CFM-powered Neos
Ireland-based aircraft leasing company Avolon selected CFM International's Leap-1A engine to power 20 new Airbus A320neo aircraft. The order is valued at $590 million at list prices.

SMBC selects PurePower for A320neos
SMBC Aviation Capital, the world's third-largest aircraft lessor, has chosen Pratt & Whitney's PW1100G-JM engine to power 30 of its Airbus A320neo aircraft. Deliveries are scheduled to begin in 2017.

The PurePower engine family has completed 19,000 hours and 34,000 cycles of full engine testing, including 5,000 hours of flight time.

Calc orders Pratt & Whitney engines for A320neos
China Aircraft Leasing (Calc), the largest independent operating aircraft lessor in China, has signed a memorandum of understanding to power 18 Airbus A320neo aircraft with Pratt & Whitney PurePower engines. Deliveries are scheduled to begin in 2017.

BOC Aviation Chooses V2500 engine for A320ceos
BOC Aviation has selected the V2500 engine to power an additional 14 Airbus A320ceo-family aircraft. The V2500 is offered through IAE International Aero Engines, a multinational aero engine consortium whose shareholders comprise Pratt & Whitney, Japanese Aero Engines and MTU Aero Engines.

CIT selects V2500 for A321ceos
CIT has chosen the V2500 engine to power the five Airbus A321ceo aircraft it ordered in March.

P&W signs Aircastle deal to support E-Jet E2s
Pratt & Whitney (P&W) and Aircastle have signed a memorandum of understanding for an engine support agreement supporting off-wing maintenance for up to 25 Embraer E-Jet E2s, powered by PurePower engines.

The PurePower PW1900G engine is the sole source powerplant on the E190-E2 and the E195-E2 jets.

PARIS ENGINE ORDERS

Company	Manufacturer	Engine type	Quantity
AerCap	CFM	Leap-1B	200
Gecas	CFM	Leap-1A	120
SMBC	CFM	Leap-1A	60
SMBC	CFM	Leap-1B	20
Korean Air	CFM	Leap-1B	60
Minsheng	CFM	Leap-1B	40
Minsheng	CFM	CFM56-7B	20
Avolon	CFM	Leap-1A	40
Ruili Airlines	CFM	Leap-1B	60
Qatar Airways	CFM	CFM56-5B	16
Peach Aviation	CFM	CFM56-5B	6
Sriwijaya Air	CFM	CFM56-5B	4
Turkish Airlines	Pratt & Whitney	PW1100G-JM	72
SMBC	Pratt & Whitney	PW1100G-JM	60
Wizz Air	IAE	V2500	34
Calc	Pratt & Whitney	PW1100G-JM	36
Korean Air	Pratt & Whitney	PW1100G-JM	60
BOC Aviation	IAE	V2500	28
CIT	IAE	V2500	10
Aircastle	Pratt & Whitney	PW1900G	50

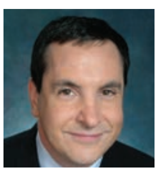
THE BIG QUESTION

Paris Air Show highlights

As the CSeries nears certification, does its prospects look likely to improve?

Peter Barrett, chief executive officer, SMBC Aviation Capital

I think as a programme it is always easier to sell an airplane that is flying and that is real. If you look at any programme, once the aircraft gets into production, and people can see it, touch it and feel it, it makes it a more credible prospect for customers. So yes, having the aircraft in production, and having it certified, will be a good benefit for any manufacturer trying to sell their product.



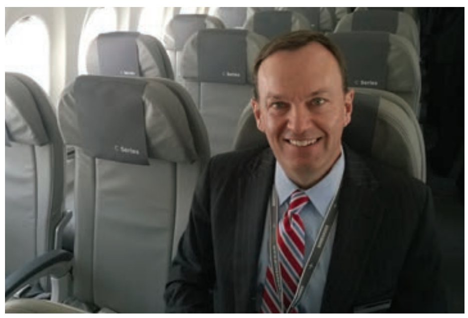
Richard Aboulafia vice-president, analysis, Teal Group

The Bombardier management has gone from doing everything wrong to everything right. The big question is: is it too late? It could go either way. It's a good jet, management is finally doing the right thing, but the opposition has gone away with the keys for the kingdom. But Bombardier has seven years of bad management to undo. That's a lot of work.

The old management completely neglected the importance of the strategic sale and did not prepare a balance sheet to do strategic deals. They let themselves go badly into debt and because of that, they did not have enough cash to do the deals. The first thing the new management did was clear the balance sheet. That's exactly what they needed to do.

The old team assumed that the aircraft would sell on its merits, they wouldn't have to do much and that people would love the plane. That, of course, is complete nonsense. That was the previous attitude. It's a really good jet, but it's up against people who have less optimized products, but have all the critical merits in the world.

But the new management team are really good and are doing all the right things. Is it too late? It's too soon to know, but this is a question that will be resolved in the next year and a half.



Fred Cromer, president, Bombardier Commercial Aircraft

On the heels of our announcement in June that the CSeries aircraft's performance is achieving better than advertised results, we are certainly seeing more interest. In fact, with all the advancements made in the programme development, testing and certification, we now find ourselves at an inflection point. Our all-new CS100 and CS300 aircraft are exceeding their original targets for fuel burn, payload, range and airfield performance and are on track to meet noise performance targets – making them the quietest commercial jets in production, while offering a best-in-class cabin and carrying up to 15 passengers more than initially promised.

> "The big question is: is it too late? It could go either way. It's a good jet, management is finally doing the right thing, but the opposition has gone away with the keys for the kingdom."

Customers, both existing and potential, are watching closely because they know this provides opportunities for their businesses. Increased profitability, market access for operators, convenience and comfort for their passengers are all important factors for running a successful airline operation.

Bombardier has long noted how important the leasing community is for expanding an aircraft's market appeal because lessors carefully consider pairing the right aircraft in the right carrier's network. I'm hearing from this community that the CSeries will be the right choice and an asset in any aircraft portfolio. I would therefore say that the CSeries aircraft's prospects are looking very good indeed.

Robert Martin, chief executive officer, BOC Aviation

With the new management team, it's a new Bombardier. I think this new team they have brought in is very different to what we've seen over the last five years. They're dynamic, they're on the side of business and working on the airline's side, so a good combination of people. I think they'll give Boeing and Airbus a good run for their money now.

LESSOR PROFILE: : ILYUSHIN FINANCE COMPANY

Ilyushin negotiates CSeries order

The Russian aircraft lessor's relationship with Bombardier hangs in the balance after repeated delays and financing worries. Alexander Rubtsov, its chief executive officer, speaks to Joe Kavanagh during the negotiations.

Alexander Rubtsov is speaking to *Airfinance Journal* on his cell phone from an airport departure lounge. Some of his fellow passengers are no doubt looking forward to a week or two of holiday. Ilyushin Finance Company's chief executive officer, however, is on his way to Canada to negotiate the future of the company's order with Bombardier.

Established in 1999, Russia's state-backed aircraft leasing company is the third-biggest customer by order book for the CSeries. Ilyushin put the Canadian manufacturer at the centre of its plans to diversify its portfolio when it placed a firm order for 32 CS300 aircraft, with options for a further 10, in June 2013.

However, Ilyushin has encountered more than a few problems with the programme. First, delays to the entry into service of the all-new aircraft type have seen the first delivery date of the CS100 pushed back to the second half of this year and the CS300 about six months later.

Ilyushin's second problem is financing. The lessor is set apart from other CSeries order customers because it will be unable to access export credit guarantees if international policies do not change. After western countries

introduced sanctions against Russian companies in 2014, there are fears that the lessor will not be able to secure competitive financing for the aircraft.

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REMARKETING AIRCRAFT

Ilyushin has had to remarket several aircraft over the past year after some of its lessees went bankrupt. The Russian market has been an extremely difficult operating environment for airlines, after banks reined in their lending following the sanctions, and after the rouble's rapid devaluation stung carriers with fixed dollar costs.

Even UTair, which was Russia's third-largest carrier by passenger numbers in 2014, was forced to take drastic action in the face of mounting debt. The airline plans to ground 40% of its fleet in order to save on lease payments. It will stop operating a wide range of aircraft, including A321-200s, 757-200s and six 737-800s.

As a result of the tough operating environment, Ilyushin Finance Company had to remarket aircraft. For example, it was forced to repossess four Tupolev-204s from regional carrier Vladivostok Avia last year, after the airline went bankrupt.

As Alexander Rubtsov, Ilyushin Finance Company's chief executive officer, notes, the Russian airline industry had to streamline in order to respond to dwindling demand. By his calculations, more than 120 aircraft have been returned to lessors or cancelled by Russian airlines since the sanctions were introduced.

There is more stability in the Russian market than there was six months ago, but carriers are still struggling and Ilyushin may find itself in a similar situation again.

Rubtsov adds: "It's a challenging time for everybody working in the Russian market, not only ourselves."

“We have been in the industry for a long time and know that you could probably only find one or two [aircraft] programmes that went exactly to schedule.”

The future of the order

Many new aircraft models enter the market behind schedule, and it is not surprising that an all-new aircraft design like the CSeries has run into problems. However, the delays on Bombardier’s programmes are substantial.

“Delays, of course, are not really pleasant, because that’s money. We have paid PDPs [predelivery payments] and we have to keep the interest of airlines alive,” says Rubtsov.

He adds that there are financial costs for Ilyushin. “It’s affecting the expectations [of airlines] and costing us money,” he says.

Rubstov accepts, on the other hand, that delays are an industry hazard. “We have been in the industry for a long time and know that you could probably only find one or two [aircraft] programmes that went exactly to schedule. Ninety percent of all programmes are suffering from a minimum delay of one year and a maximum delay of four or five years. In certain cases it’s even more than that,” he adds.

What really threatens the future of the order, however, is that the financing options for Ilyushin are more limited than they were when it placed the order. The Canadian export credit agency cannot offer export credit guarantees for Ilyushin because of the economic sanctions placed on Russia after the annexation of Crimea. Unless the parties involved can find a solution, this means that Ilyushin will have to pay heavily for the jet.

Rubtsov explains:

As a result, Ilyushin and Bombardier are exploring what financing could be made available for the lessor. For both parties, the stakes are high; Rubtsov has publicly stated that the very future of the Russian-Canadian relationship is at stake. At the time of writing, the negotiations were continuing.

When asked by *Airfinance Journal* about the future of the Ilyushin order, a Bombardier spokesperson said: “IFC is a solid, valued customer with a firm order in place. It is our understanding that the C Series aircraft makes up an important component of IFC’s expansion plans and as such we are confident we can work together to overcome any concerns”.

There is already a precedent of a potential airline customer ruling out the CSeries because of the programme delays. In March, Qatar Airways chief executive officer Akbar Al Baker ruled out an order for 20 CSeries aircraft, citing the long wait for the aircraft. He told reporters: “You cannot wait for the CSeries indefinitely.”

As Ilyushin’s Rubstov says, the lessor chose the Canadian aircraft because its seat ranges work well with those offered by the other new aircraft on its order book, the Sukhoi Superjet 100 and the MC21. These Russian-built aircraft provide 78 to 98 seats and 160 to 211 seats respectively. The CS300, with its 135-seat layout, would allow Ilyushin to offer its customers an aircraft in between the seat ranges of the Russian-built jets in its portfolio.

However, the fact that the aircraft works for Ilyushin will count for little if the negotiations do not conclude with a deal.

HOW DOES ILYUSHIN FINANCE ITS AIRCRAFT?

Ilyushin tends to finance its aircraft deliveries with commercial loans from Russian banks. These typically have a maturity of between 10 and 14 years, and have been supplied by banks such as VEB, Sberbank and VTB.

Like many Russian companies, the lessor has recently struggled to access capital. When western countries imposed economic sanctions on Russia, certain companies and individuals were prevented from accessing capital from western banks.

Fortunately for Ilyushin, the leasing company was helped by the fact that much of its equipment is Russian-manufactured. All of the aircraft in its portfolio are manufactured in Russia and Ukraine. Bombardier’s CSeries aircraft would be the first aircraft to have been manufactured elsewhere.

Speaking about the company’s sources of financing, Alexander Rubtsov, Ilyushin Finance Company’s chief executive officer, says: “We don’t have too much dollar-denominated equipment so far, but we do have a lot of commitments for future deliveries. Of course, we do have dollar-denominated loans, but they are not as big as the rouble-denominated ones.”

The sanctions hit Russian banks by reducing their liquidity. The result was that Russian companies, such as airlines and leasing companies, struggled to access debt. Rubtsov says, however, that the situation is returning to its normal levels. “Banks are coming back to life, but this has only happened in the last few weeks. But the middle of last year, and December especially, was very challenging,” he says.

In addition, the Russian authorities are introducing a series of subsidies for leasing companies to boost the aviation sector. In March, for example, the Ministry of Industry and Trade introduced subsidies on interest payments from Russian lessors to Russian creditors for the purchase of jets such as the Sukhoi Superjet 100. These will result in savings of up to 12.6% on interest payments.

NEWS

Lessors

Rolls-Royce
Rolls-Royce & Partners Finance

AerCap prices $1bn senior unsecured notes

AERCAP Aviation Solutions

Dutch lessor AerCap has priced an offering of $1 billion aggregate senior notes, which include two tranches of $500 million senior notes.

The first tranche is due in 2020 and has a coupon of 4.250%, with an equivalent spread to treasury of 260 basis points. The second tranche of $500 million senior notes is due in 2022, and has a coupon of 4.625% and a spread over treasuries of 254 basis points.

AerCap originally offered $800 million of notes but increased the amount to $1 billion.

The notes are guaranteed on a senior unsecured basis by AerCap and some of its subsidiaries.

Credit Suisse Securities (USA), Deutsche Bank and Goldman Sachs are joint bookrunners for the deal.

Barclays Capital, Merrill Lynch, Pierce, Fenner & Smith, Citi, Crédit Agricole Corporate & Investment Bank, JP Morgan, Mizuho Securities, Morgan Stanley, RBC, UBS, Wells Fargo, BNP Paribas, Fifth Third Securities, HSBC and SunTrust Robinson Humphrey are the other underwriters on the deal.

Fly Leasing sells $985m portfolio

Aircraft lessor Fly Leasing is selling a 33-aircraft portfolio for almost $1 billion.

The $985 million sale will generate $425 million of unrestricted cash that Fly Leasing will use to acquire aircraft, according to a company announcement.

The portfolio consists of 31 in-production narrowbodies and two widebodies. It includes 14 737-800s, 10 A320s, five A319s, two A321s, one A330-300 and one 777-300ER.

(See Fly Leasing's portfolio sale to fund aircraft purchases, page 26)

Sichuan Airlines leases A320

Chinese carrier Sichuan Airlines has taken delivery of a new A320-200 from China Aircraft Leasing Company (Calc). The aircraft is Calc's 50th delivery.

The landmark was overshadowed by news of the disappearance of the lessor's chief executive officer. The South China Morning Post reported that 42-year-old Mike Poon Ho Man, who is also the company's second-biggest shareholder, has been reported missing. Chief financial officer Yu Tai Tei has left the company.

Calc has subsequently signed a memorandum of understanding with China's Tianjin Dongjiang Free Trade Zone.

BOC Aviation extends $2bn revolving credit facility

Singapore-based lessor BOC Aviation has extended the maturity date on its $2 billion revolving credit facility.

The amended facility now matures in 2022, and replaces two existing unsecured revolving credit facilities, each totalling $1 billion, with earlier maturity dates of December 2017 and April 2019.

Airfinance Journal understands that Bank of China, BOC Aviation's parent company, is the overall arranger of the facility.

New Chinese lessor in talks to purchase portfolio

Chinese leasing company Rongzhong International Financial Leasing is in discussions with Chinese and international leasing companies to acquire a portfolio of about five aircraft, according to a company source.

Wuhan-based Rongzhong has been active as a company for more than 80 years and founded its general leasing business in 2008. The company started its aviation leasing business in February, with the goal of acquiring commercial aircraft, cargo aircraft and business jets.

On the commercial and cargo side, the lessor prefers narrowbodies, but also has the capability to lease widebodies.

The five aircraft the lessor hopes to acquire will ideally be about four years of age or younger.

Rongzhong is focusing on domestic cargo airlines as possible lessees.

"We think it's a blue ocean market in the Chinese aviation market and we can provide a one-stop service for the newly founded cargo airlines," says the source.

"From the very beginning when they get their licence from the CAAC [Civil Aviation Administration of China] we can help them to find their fleet and change their airplanes from commercial to cargo configuration."

Obalc teams up with McLarens Aviation

Oman Brunei Aviation Leasing Company (Obalc), a new lessor based in Muscat, Oman, has signed a technical services contact with UK-based risk and asset management firm McLarens Aviation.

McLarens Aviation will help with aircraft inspections, technical monitoring and advice on the technical aspects of Obalc's transportation and investment documentation.

Obalc is Oman's first aircraft lessor, and is owned by Oman Brunei Investment Company and the State General Reserve Fund of the Sultanate of Oman. McLarens Aviation is based at London's Heathrow Airport.

NEWS

Lessors

ALC increases revolving credit by $350m

Aircraft lessor Air Lease Corporation (ALC) has increased the size of its unsecured revolving credit facility by $350 million, from $2.31 billion to $2.66 billion.

The lessor also extended the maturity date from May 5 2018 to May 2019.

The price remains unchanged at 125 basis points above Libor, with a 25-basis point facility fee. It is subject to reductions based on improvements in ALC's credit ratings.

TruJet leases two ATR 72-500s

Indian carrier TruJet is leasing two ATR 72-500s from Dublin-based lessor Elix Aviation Capital.

A source close to the deal tells *Airfinance Journal* that the aircraft are on lease for eight or more years.

TruJet was formerly known as Turbo Megha Airways. The airline is based in Hyderabad, Telangana, India.

The source adds that the Irish lessor is in talks with Air Pegasus, another Indian start-up airline, to lease them a second ATR 72-500.

CDB Leasing seeks ECA financing

China Development Bank (CDB) Leasing is in preliminary talks with export credit agencies (ECAs) to secure their backing for some of its upcoming narrowbody deliveries, *Airfinance Journal* learns.

A source says the Chinese lessor is seeking ECA-backed financing for 12 aircraft and is likely to issue mandates in the next few months.

CDB Leasing appointed French bank Natixis as ECA adviser to support the lessor in its first ECA application, as well as in its request for proposal process to secure ECA-backed commercial loans for these 12 aircraft deliveries.

The bidding process is on-going and the exact composition of the 12 aircraft package is yet to be confirmed.

ALC leases Boeing and Airbus narrowbodies

Air Astana has announced long-term lease agreements for seven A320neo-family aircraft with Air Lease Corporation (ALC).

Two of the aircraft will be A320neos and the remaining five will be A321neos or long-range versions. One A320neo is scheduled for delivery in spring 2016. The remaining six aircraft will deliver in 2018 and 2019.

Airfinance Journal understands that Watson Farley & Williams' Asia practice, in Singapore, acted for the airline on the deal.

All the aircraft come from ALC's order book with Airbus.

The US lessor has also placed aircraft from its order book with Boeing because China Eastern Airlines has agreed to lease three new 737-800s. The aircraft are scheduled for delivery in 2016.

Pembroke to sell up to 15 aircraft this year

Standard Chartered Bank intends selling between 10 to 15 narrowbodies and widebodies this year, according to a company source.

The bank offers aviation services through its wholly owned Dublin-based subsidiary Pembroke, which has a fleet of 101 Boeing and Airbus jets.

Airfinance Journal understands the aircraft will be sold to lessors, not airlines.

The bank has a $6.6 billion book portfolio that has been developed over the past seven years. About $4.9 billion of this is in operating leases and $1.7 billion in debt financing, including predelivery payment financings.

Thomas Cook leases A321

UK airline Thomas Cook has taken delivery of a new A321 on lease from US lessor Gecas.

The aircraft is on a 12-year operating lease.

The delivery is the last of nine new A321s delivered to Thomas Cook over 2014 and 2015 that are leased from Gecas.

The first six aircraft were on sale/leaseback; the remaining three jets are on operating lease.

IBA sold to Hockley Investments Limited

Aircraft appraiser, the International Bureau of Aviation (IBA), has been acquired by Hockley Investments Limited.

Airfinance Journal understands that IBA's previous two shareholders, Laurie Hatcher, chairman and founder of the company, and Phil Seymour, president at the firm, sold their stake in the company to Hockley.

Hockley is a small UK family investment firm which has previously made other aviation investments.

Hatcher will retire from IBA, while Seymour will retain a stake in the new company and has become chief executive officer.

IBA will be led by Seymour and Steve Fisk, now chief operating officer, Owen Geach, now chief commercial officer, and Stuart Hatcher, now chief intelligence officer.

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Comair mandates bank for Ex-Im financing

South African low-cost carrier Comair has mandated South African bank Nedbank to finance four new 737-800s, after issuing a request for proposals (RFP) on March 6.

A source with knowledge of the deal told *Airfinance Journal* that the Export-Import Bank of the United States (Ex-Im Bank) provided a guarantee on 85% of the financing (senior debt).

Investec advised the airline on the RFP process, and provided financing for the predelivery payments for the aircraft.

Vedder Price represented US Exim, while Clyde and Co represented Nedbank. South African law firm ENSafrica acted as legal counsel for Comair.

Johannesburg-based law firm Webber Wentzel acted as South African counsel to Ex-Im Bank and Nedbank locally.

The first of the four Boeing jets will deliver in August. The second jet will deliver in October, the third will arrive next February and the fourth in November 2016.

Flydubai takes 737-800 on sale/leaseback

United Arab Emirates carrier flydubai has taken delivery of a new 737-800 as part of a sale/leaseback transaction.

The jet is on an eight-year lease with Irish lessor Avolon.

Arab Banking Corporation financed the delivery of the aircraft.

Airfinance Journal understands that Pillsbury Winthrop Shaw Pittman acted for flydubai, while SNR Denton represented Avolon.

Aircastle closes debt financing for A330s

US lessor Aircastle has closed a debt financing with two Japanese banks to finance delivery of two A330-300s, according to sources close to the deal.

Bank of Tokyo Mitsubishi and Development Bank of Japan provided a US dollar-denominated loan to Aircastle, with each bank providing 50% of the financing. The deal closed on June 5.

Aircastle is sub-leasing the jets to AirAsia X on a sale/leaseback basis.

The aircraft were originally delivered new to the airline in March 2014 and November 2014 respectively.

The tenor of the financing is 11 years, which corresponds to the tenor of the loan. *Airfinance Journal* understands that the tenor is 11 years instead of the typical 12 years because the aircraft were about one year old when the sale/leaseback transaction was entered into.

Allen & Overy acted for the lenders. Freshfields acted for Aircastle.

Air Europa taps KG fund for 737-800s

Air Europa Líneas Aéreas has signed financing for two 737-800s. The airline has agreed an operating lease with KGAL's Aircraft Portfolio Fund 1 (APF1), a Kommanditgesellschaft (KG) fund aimed at German institutional investors.

The airline has agreed a finance lease with Crédit Agricole Corporate & Investment Bank as the senior lender and German Operating Aircraft Leasing (Goal) as the junior lender and remarketing agent. Both aircraft will be delivered to Air Europa in mid-2016.

Goal arranged both financings.

China Eastern signs French lease for A330

China Eastern Airlines has closed the financing of one A330-300. The aircraft was financed on June 19 using a French lease combined with a commercial loan. Crédit Agricole Corporate & Investment Bank (CA-CIB) acted as mandated lead arranger, lease arranger, security trustee and facility agent. CA-CIB, China Construction Bank Corporation and DBS Bank acted as commercial lenders.

Norton Rose Fulbright advised the various finance parties, while Freshfields advised the airline.

Qatar agrees French lease for A380

Qatari flag carrier Qatar Airways has signed a French tax lease for a new Airbus A380-800. The aircraft was delivered on June 11 in Toulouse and is the airline's fifth A380.

The financing was structured as a French lease with Crédit Agricole Corporate & Investment Bank (CA-CIB) acting as arranger, equity provider, security trustee and facility agent.

KfW Ipex-Bank acted as debt arranger alongside CA-CIB and supports the facility by providing a commercial loan. Norton Rose Fulbright Paris advised the banks, while Dentons in London advised Qatar Airways.

THY funds A330s with Swiss francs

Turkish Airlines has used ECA-backed loans, denominated in Swiss francs, to finance the deliveries of three new A330s.

Natixis and Deutsche Pfandbriefbank arranged the loans. According to an announcement by Natixis, the loans totalled SFr260 million ($280 million).

Euler Hermes is providing export credit guarantees for the deal to support the 12-year loans. Two of the jets are A330-300 models and one is an A330-200F.

An airline source told *Airfinance Journal* that THY chose to denominate the loans in Swiss francs because it is long in the currency, so the

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Deals

structure allows it to hedge its risk by matching its excess Swiss franc revenues.

The Swiss franc-denominated loans were also attractive to THY because the Swiss National Bank lowered its interest rate to -0.75% in January. The negative interest rate further improved the cost for Turkish Airlines.

The source added that the carrier still has excess Swiss franc revenues and may carry out more Swiss franc-denominated financings, depending on how attractive the pricing is.

Gide Loyrette Nouel represented THY, while Norton Rose Fulbright represented the banks and export credit agency.

Kuwait Airways signs loan for five A330-200s

Kuwait Airways has signed a $400 million eight-year senior secured Murabaha loan to finance five A330-200 aircraft on operating leases.

A Murabaha loan is a type of Islamic financing. To comply with sharia law, Murabaha loans do not bear interest.

Airfinance Journal understands the loan will finance the lease rental payments for the aircraft.

The leasing of these A330s, along with a previously agreed deal for seven A320-200 aircraft, is managed by Airbus Financial Services, but *Airfinance Journal* understands that the aircraft are owned by leasing company Awas.

International AirFinance Corporation (IAFC), a joint venture between Airbus and Jeddah-based Islamic Development Bank, has mandated National Bank of Abu Dhabi and Arab Banking Corporation as the joint underwriters, bookrunners and lead arrangers on the Murabaha loan.

The loan has a tenor of eight years, and is IAFC's first syndicated deal.

Airline secures first Myanmar-Japan financing

Myanmar carrier FMI Air has closed the first Myanmar-Japan cross-border financing for aircraft.

The airline financed four Bombardier CRJ200s through a private Japanese lender, understood not to be a traditional aircraft financier.

The deal was signed at the end of November 2014, but remained confidential until the middle of June this year. The financing is a "standard aircraft financing security package", according to a source on the deal.

One of the aircraft has already been delivered and is registered and operational in Myanmar. The other three aircraft are undergoing maintenance with Avionco in Canada and are expected to deliver in the third quarter of this year.

Airfinance Journal understands that this is the first cross-border financing facility arranged between Japan and Myanmar. Previously, only lessors have financed aircraft in Myanmar through structures such as finance leases.

Berwin Leighton Paisner advised FMI Air. Mori Hamada & Matsumoto and Stephenson Harwood jointly advised the lender.

SunExpress signs term sheet for 737s

Turkish airline SunExpress has signed a term sheet with Natixis to finance five 737-800 aircraft with US Ex-Im-backed debt.

The aircraft are scheduled for delivery in August, September and October 2015 and March and April 2016.

The 12-year loan will be denominated in euros.

Natixis is mandated lead arranger on the deal. Pillsbury Winthrop Shaw Pittman is acting for SunExpress, while Clifford Chance is representing Natixis.

VietJet secures $60m financing for six A320s

Vietnamese carrier VietJet has concluded an agreement with French bank BNP Paribas to arrange predelivery payment (PDP) financing for six new A320-family aircraft.

The PDP financing, which is for up to $60 million, has a tenor of one year, according to a source with knowledge of the deal.

An airline spokesman told *Airfinance Journal* that the airline intends owning the aircraft, and is in negotiations with banks.

The spokesman added that the airline is considering issuing a request for proposal in the coming weeks for the six aircraft, which will start delivery in January 2016 and will finish in 2017.

Airfinance Journal understands that US law firm Kaye Scholer advised the airline on the PDP financing.

The Vietnamese carrier previously arranged PDP financing for an A321, which arrived in March. BNP Paribas also arranged the financing on the transaction.

Cebu Pacific to own ATRs

Filipino airline Cebu Pacific has placed an order for 16 ATR 72-600 turboprops, including 10 options.

The deal is valued at $323.2 million (or $525.2 million with options) at current market values, according to *Airfinance Journal* research.

Speaking to *Airfinance Journal*, Lance Y Gokongwei, president and chief executive officer of Cebu Pacific, said he was "unlikely" to use leasing companies to fund the new ATRs because the

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SECONDARY MARKET NEWS

AELS parts out Iberia jets

Dutch part-out company Aircraft End-of-Life Solutions (AELS) has purchased two A320-200 airframes from Spanish airline Iberia.

The first aircraft is a 1991 vintage, while the second dates from 1992.

AELS has removed all parts of the aircraft and is selling them to airlines, brokers and to maintenance, repair and overhaul companies.

A company source told *Airfinance Journal* that 10% of the parts have already been sold.

Avion Express seeks A320s

Lithuania-based airline Avion Express is looking to acquire an additional two A320s from next year. The carrier is looking for 12- to 15-year-old A320 aircraft with CFM56 engines.

The carrier states it hopes to acquire the aircraft before March 2016.

Aergo buys A320s

Aergo Capital, an aircraft lessor based in Dublin, has acquired two used A320-200s on lease to European airlines.

The first aircraft is a 2001-vintage jet on lease to Avion Express, a Lithuanian airline. Aergo acquired the aircraft from UK lessor Plane Business Leasing. The lease expires in 2019.

The second aircraft is a 1997-vintage jet on lease to Latvian carrier SmartLynx. Aergo bought the jet from AAR's aircraft leasing division. The lease expires in 2018.

Blake Morgan acted for Aergo on the transactions.

GA Telesis does 747-400 and A340 deals

GA Telesis is seeking buyers for two 747-400s it has acquired from Thai Airways.

The first aircraft is a 1991 vintage, while the second is a 1992 model. General Electric CF6 engines power both aircraft.

In another deal, the US company has signed a letter of intent for two A340-200s.

Ilyushin remarkets four aircraft

Ilyushin Finance Company is remarketing four Tu-204s that it repossessed from bankrupt Russian carrier Vladivostok Avia.

Speaking to *Airfinance Journal*, chief executive officer Alexander Rubstov said that Ilyushin is remarketing the Russian-built aircraft and will place them "hopefully by the end of this summer".

The lessor began repossessing six aircraft last year because of financial problems at the airline.

It sold two of the aircraft to the Russian Federal Space Agency, which uses them to transport astronauts to their launch centres in Russia and Kazakhstan.

BlueSky seeks Q400s

Caribbean start-up carrier BlueSky Airlines is looking for two Q400s on operating lease.

An airline source told *Airfinance Journal* the carrier is in discussions with two lessors. The source added that BlueSky is looking at Q400s of newer vintage, and is in talks with one lessor offering "aircraft straight off the production line".

Airfinance Journal understands the Caymen Islands-based carrier was in talks to lease two of Eurolot's Q400s, but discussions fell through because of the Polish airline going into insolvency.

airline preferred to own its aircraft.

The order is part of Cebu Pacific's fleet-renewal programme. The airline operates a fleet of eight ATR 72-500 aircraft, which will be sold as the new aircraft enter service.

The airline chief added that he had not identified any buyers yet for the older ATR aircraft.

He said: "The oldest of these ATRs is 2007 so we hope to extract some value. I am anticipating as soon as we make this announcement to have quite a few knocks on the door as the ATR backlog is quite large."

AirAsia X to take four A330s on sale/leaseback

Malaysian carrier AirAsia X will take four new A330-300 aircraft on sale/leaseback by the end of 2015.

Benyamin Ismail, the carrier's chief executive officer, told *Airfinance Journal* that the aircraft are on 12-year lease from Singaporean lessor BOC Aviation.

He added that the aircraft will deliver in August, September, October and November.

Ismail said: "Until the first half of next year, all of our aircraft will be on sale/leaseback, but as you know, we are going through some financial strain, so we may look at owning aircraft towards the end of next year or the year after."

Earlier this year, the Malaysian carrier received four new A330-300s on a 12-year sale/leaseback from Macquarie Airfinance. Those aircraft delivered in February, April, May and June, according to Ismail.

Sriwijaya Air orders two 737-900ERs

Indonesian carrier Sriwijaya Air has ordered two 737-900ERs. The order includes options for 10 more 737 aircraft.

The options are a mixture of 737-800s and 737 Maxs, according to a Boeing source.

Jefferson Jauwena, corporate planning and business director of Sriwijaya Air, told *Airfinance Journal* that the aircraft are on 12-year sale/leaseback with Aergo Capital.

NEWS

Deals

Cathay Pacific issues A350XWB request

Cathay Pacific Airways has issued a request for proposal (RFP) to finance five A350XWB aircraft.

The Hong Kong carrier is looking for "very, very diverse financing", including commercial loans and debt capital markets, according to a source who plans to bid on the RFP.

The aircraft are scheduled to deliver in 2016.

Qatar Airways closes A320 deal

Qatari flag carrier Qatar Airways has agreed to lease eight A320-200s from Pembroke, Standard Chartered's Dublin-based aviation finance arm.

The first four aircraft delivered on April 28. The remaining four will be delivered by November.

This is the second sale/leaseback transaction entered into between Qatar Airways and Standard Chartered.

Korean mandates Kexim-backed aircraft bond

Korean Air Lines has mandated three banks on a bond issuance guaranteed by Export-Import Bank of Korea (Kexim) to finance two 777-300ER aircraft, according to sources close to the deal.

BNP Paribas is one of the banks on the deal. *Airfinance Journal* understands there are two other undisclosed banks.

Law firm Clifford Chance is acting for BNP. A source close to the deal said Lee & Ko is acting for KAL and Cleary Gottlieb Steen & Hamilton for Kexim.

Etihad signs Jolco for 787-9

UAE carrier Etihad Airways has signed a Japanese operating lease with call option (Jolco) for one new 787-9 Dreamliner, *Airfinance Journal* has learned.

A source linked to the deal told *Airfinance Journal* that Australia and New Zealand Banking Group acted as the debt provider. Japanese investment firm Nomura Babcock & Brown acted as the equity arranger.

Allen & Overy acted as legal counsel for Etihad. Clifford Chance was the equity arranger.

The Abu Dhabi-based airline expects 68 more Dreamliners from its order of 71 to arrive by 2023. The overall order includes 41 787-9s and 30 787-10s.

SunExpress closes Jolco

SunExpress has closed its first Japanese operating lease with call option (Jolco) to finance a new 737-800.

The airline closed the 10-year, euro-denominated deal after mandating banks in May. The banks on the deal are Commerzbank, Standard Chartered and Yamasa.

Gide is representing SunExpress, while Clifford Chance is acting for the banks.

SunExpress is a 50-50 joint venture between Lufthansa and Turkish Airlines.

Air Cote D'Ivoire plans RFP

Ivory Coast flag carrier Air Cote D'Ivoire plans to issue a request for proposal (RFP) to fund the acquisition of narrowbody aircraft.

Airfinance Journal understands that the RFP will be used to finance five A319s and that DVB Bank is advising the airline on the process.

Etihad Airways receives 787-9 Dreamliner

UAE carrier Etihad Airways has taken delivery of a new 787-9 from Boeing.

Abu Dhabi-based bank First Gulf Bank (FGB) and The National Commercial Bank (NCB) of Saudi Arabia financed the aircraft through a sharia-compliant facility.

The airline confirmed that it is the third 787-9 delivery from a total of 41 on order. Etihad also has 30 787-10s on order. All 71 jets are scheduled to deliver by 2023.

Last year FGB and NCB won a mandate to finance the delivery of all 71 aircraft using sharia-compliant facilities, after a request for proposal was issued in May 2014.

Clifford Chance represented Etihad, NCB and FGB on the deal.

China Eastern uses Jolco and Ex-Im finance

China Eastern Airlines is taking delivery of five narrowbodies leased through Japanese operating lease with call option (Jolco) structures.

A source close to the deal said the aircraft are a mix of A320-200s and 737NGs.

Commerzbank is acting as security trustee and debt provider. Yamasa is acting as equity provider.

Airfinance Journal understands that other banks are involved, but the source did not disclose their names.

Baker & McKenzie acted for China Eastern. Clifford Chance acted for Yamasa and Commerzbank.

In a separate deal, the carrier has agreed a 12-year commercial loan with HSBC to fund the delivery of a new 777-300ER.

The loan is guaranteed by US Export-Import Bank, the export credit agency.

DEAL OF THE MONTH

Fly Leasing's portfolio sale

The US leasing company aims to raise $425 million of unrestricted cash with its recent portfolio sale, and use the proceeds to purchase aircraft. Joe Kavanagh reports.

In June, Fly Leasing announced a 33-aircraft portfolio sale that it said would generate $425 million of unrestricted cash.

Fly Leasing will use the proceeds to purchase widebodies and popular narrowbodies, according to Colm Barrington, its chief executive officer.

Speaking to *Airfinance Journal*, Barrington says the lessor is looking potentially to acquire A330s and A350s, as well as popular in-production narrowbodies. He adds that BBAM, the manager and servicer of Fly Leasing's portfolio, is in the market for sale/leaseback deals on behalf of the US leasing company.

Asked which widebody aircraft offer good returns for lessors, Barrington says the A330 and A350 programmes represented "good opportunities".

He adds: "The main thing about those aircraft is that you can very often get a long-term lease to a good credit, and you can finance it attractively. It's very good for cash generation from our point of view."

In May, Fly Leasing stated it would target $750 million of aircraft acquisitions in 2015. The $750 million target has not changed despite the sale, but Barrington says: "[Fly Leasing] can spend the money that this deal has generated plus leverage over the next 24 months quite happily."

He adds: "They're out in the market all the time; they've got the people, they've got the locations, they've got the experience, they've got the reputation of being closers. So BBAM is out looking for additional aircraft for Fly." Barrington says that Fly will consider selling more of its widebody fleet if opportunities arise: "We might be selling a few more along the way."

Fly's portfolio

The 33 aircraft in Fly's portfolio sale mainly consist of A320-family and 737 aircraft. The aircraft will deliver individually throughout 2015.

They consist of 31 in-production narrowbodies, as well as two widebodies. They are 14 737-800s, 10 A320s, five A319s, two A321s, one A330-300 and one 777-300ER.

The lessor says the sale will result in a $35 million pre-tax gain over approximate net book values, as of June 2015. By shedding these aircraft, Fly also stands to save about $5 million a year in its management fee to BBAM.

The sale is an important step for Fly as it seeks to reduce the average age of its fleet. After the sale, the number of aircraft in Fly Leasing's portfolio that are 10 years or older will reduce from 61 to 33. The average age of the lessor's aircraft will also reduce from 8.1 years to 7.7 years. The lessor is also able to reduce its exposure to some lessees thanks to the sale.

Fly Leasing has stated publicly that the percentage of widebody aircraft by value in its portfolio will not exceed 25%. After the 33-aircraft portfolio sale, the percentage of twin-aisle aircraft by value will be about 15%, says Barrington. This means that, once all the aircraft in the portfolio have delivered to the buyer, Fly will have the opportunity to take on more widebodies without exceeding its stated limit.

BBAM's ABS deal

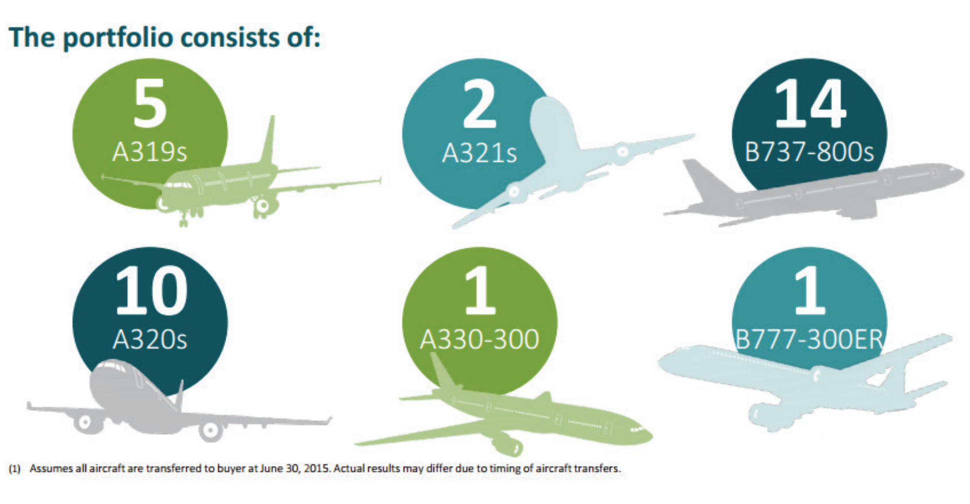
The aircraft from Fly's portfolio sale are being securitized by a $1.2 billion asset-backed securities (ABS) deal, also announced in June, which is secured by a total of 49 aircraft – the 33 aircraft in Fly Leasing's portfolio sale, as well as 16 other aircraft that BBAM services for other leasing companies.

Element Financial Corp, which is taking the majority of the E-notes on the ABS deal, is the purchaser of Fly Leasing's 33-aircraft portfolio, say sources close to the deal.

BBAM's asset-backed securities deal is raising $1.2 billion across three tranches. The $459.3 million A-1 tranche carries a coupon of 3.473% and has a weighted average life of 3.57 years and offers a yield of 3.5%.

The $590.6 million A-2 note carries a margin of 4.947% and has a 6.97-year weighted average life with a yield of 5%. The $160 million B-1 note has a coupon of 5.802%, a 5.49-year weighted average life and a yield of 5.875%.

Both the A-1 and A-2 notes have a 70.41% loan-to-value, while the B-1 notes have an 81.14% loan to value.



ASSET ANALYSIS

777-300ER - A remarketing challenge

Boeing's latest model of the popular 777 family is still selling well, but lessors warn that the widebody is increasingly hard to remarket.
Jack Dutton reports.

Widebody lessors may run into problems in 2017, when many of the first 777-300ERs come off their leases. Lessors warn that expensive reconfiguration costs, long lead times and a limited operator base for the -300ER may make it hard to trade on the secondary market. Some leasing companies are going as far as to call the 777's secondary market prospects "a new industry issue".

"The 777-300ER is without a doubt one of Boeing's best aircraft, but going forward, it could be one of the hardest aircraft to remarket," admits Bill Cumberlidge, chairman and chief commercial officer, GCAP, a UK company which focuses on middle- to end-of-life aircraft.

This is bad news for 777 lessors – the market anticipates that, from 2017, there will be 30 777-300ERs finishing their leases each year. With more 777-300ERs coming off their leases, lessors that invest in the Boeing widebody may struggle to place the aircraft with airlines in the secondary market.

One of the main setbacks of the aircraft is that it has a relatively limited operator base. According to AeroTransport Data Bank, only 35 airlines operate the 569 active 777-300ERs. In addition, many of those carriers have placed orders for more: Boeing has received 20 orders and commitments for the -300ER so far in 2015.

Lessors looking to remarket the aircraft complain they are often competing with the manufacturer when placing aircraft. "When your manufacturer is also your competitor and maybe doing some discounting on their deals, it makes it more troublesome for lessors to place their own aircraft coming off lease," a leasing source tells *Airfinance Journal*.

"The 777 has neither a large operator base nor an active used market, but a significant wave of used 777-300ERs will hit the market in a couple of years," Mark Pearman-Wright, head of leasing and investor marketing, Airbus, tells *Airfinance Journal*.

He adds: "The 777, particularly the -300ER, is likely to suffer on a durable basis. The first 777-300ER came off lease this year and the number increases very rapidly."

A popular asset

The 777-300ER remains a popular aircraft to order new. Its popularity has urged Boeing to keep up the production line for the aircraft. Orders and deliveries this year from some of the larger carriers, such Air France, Korean Air and China Eastern, show that the -300ER is still one of the preferred twin-aisle aircraft on the market.

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“I think prices will have to come down. When you think of the costs you have to put into it, somebody’s got to pay for it. The current operator’s not going to fund it at all because they’re just looking to return the aircraft, and their only obligation is to return it as they took it.”

Kevin Sewell, head of aircraft transactions, IBA

Randy Tinseth, vice-president, marketing, Boeing Commercial Airplanes, tells *Airfinance Journal*: “The airplane [777-300ER] delivered in 2004, meaning we should see some airplanes come back into that market in the next couple of years. That’s something we considered when we built our bridge plan between where we are with the 777 and the 777X.”

He adds: “I don’t expect it to be big numbers [of used aircraft without airlines], today and in the near future. We expect most of the 777s that are on lease with the operators to stay with them after the first lease terms end. I think a vast majority of airplanes – whether they are widebody or single-aisle – will stay with the companies that are leasing the airplanes today.”

The Airbus A330 is one of the 777-300ER’s main competitors. When comparing their operating base, the A330 wins – with 95 airlines, nearly three times the number as the -300ER. Between January 2013 and the first quarter of 2015, 18 777-300ERs had their leases extended or were leased on the used market. During this time, 83 used A330 leases and lease extensions were recorded, many more than the -300ER.

“The A330 has demonstrated liquidity through a large operator base and active used market,” says Mark Pearman-Wright, who adds: “Market base is the key to aircraft liquidity, and an active trading history is important. The A330 has demonstrated remarketability.”

Reconfiguration costs

The larger the aircraft, the higher the reconfiguration costs. Configuration costs, made up of factors such as reconfiguring seats and adding new in-flight entertainment, can quickly go up to double-digit millions of dollars when remarketing widebodies, which are more expensive to reconfigure than narrowbodies or regional aircraft.

Gary Fitzgerald, chief executive officer, Stratos, tells *Airfinance Journal* that the minimum reconfiguration cost for a widebody is about $4 million. Although it could be that low for a 767 or an A330, Fitzgerald says it is likely to be more: typically between $6 million and $8 million for an A330 or 767 and between $10 million and $15 million for the 777 and $20 million to $40 million for an A380.

It may be cheaper for charter airlines to reconfigure the aircraft because they are not likely to spend as much on reconfiguring seats and updating other aspects of the aircraft such as in-flight entertainment software.

“The minimum you could was de-brand. Along with that and the paint cost, it may take you between $180,000 to $200,000,” Ken Sewell, head of aircraft transactions, IBA, tells *Airfinance Journal*. “Any sort of tier one operator would want their product identity to be removed. That would be an absolute minimum and it could cost a few hundred thousand dollars.”

Costs can build up quickly when cabins and seats are reconfigured, but if a secondary operator or lessor wants to maximize the value of the aircraft, changing the seat plan is often a necessity. Maximizing the size of the aircraft could mean changing business class to make the aircraft entirely economy, which could cost in the region of $1 million to $1.5 million.

“You then have the question of whether you want to put in any different monuments, galleys, toilets or wardrobes,” says Sewell. “The typical worse-case cost for a widebody, particularly a 777, could be over $10 million,” he adds, with design costs likely to make up a significant part of that total.

Lead times

Airlines trying to buy or lease widebodies on the secondary market should also be wary of lead times.

Sewell says: “I think that the word of warning to anyone thinking of doing this is to think about the lead times because the companies that produce this kind of stuff aren’t simply waiting for orders to retrofit at the moment. They are more focused on production line and fitting in new aircraft because they can see that on the horizon. A request for this would be totally bespoke and you would have to get your design done, then order the parts, and those parts could very easy have a lead time of six months.”

What sort of airlines will want to take on a 777-300ER in the secondary market?

“Commonly, widebodies go from legacy-type carriers into tier two- or three-type operators or even low-cost model,” says Sewell. “So typically, the installation will be to either use what’s there and slap a new set of covers on it, if at all. Or just operating on a charter basis, which could be $100,000 just to remove all the previous operator marking and de-brand.”

GCAP’s Cumberlidge says: “The 777 [-300ER] is expensive to reconfigure and too big for the tier two operators. I believe that most tier one legacy carriers will extend the fleet service life of the aircraft as opposed to trying to redeploy the aircraft into the secondary market.”

Sewell predicts that residual values could fall as a result of secondary tier airlines not being able to afford the aircraft. Lessors have echoed his sentiments.

“I think prices will have to come down,” says IBA’s Sewell. “When you think of the costs you have to put into it, somebody’s got to pay for it. The current operator’s not going to fund it at all because they’re just looking to return the aircraft, and their only obligation is to return it as they took it,” he notes.

Residual values

When remarketing 777s, lessors need to consider two points. First, they need to think about which airlines are likely to take a 777-300ER in the secondary market. Then they need to consider what the minimum cost to remarket the aircraft is likely to be. Remarketing costs will be paid either by the lessor only or as a shared cost with the airline taking the aircraft.

“The new operator is just going to look at the acquisition cost and other lessors. If they are a current operator, they might have their own procurement sources but, then again, lead times will not be particularly attractive to anybody wanting to do this,” says Sewell.

Others think that a significant number of the 777s will have their lease terms extended.

Fitzgerald of Stratos says: “I think half of the leased 777s will get extended. The aircraft are hard to replace and airlines have a slightly different investment horizon in the cabin. It’s normally an eight-year invest-

“In terms of the secondary market, if we want the residual values to remain the same and ensure the long-term viability of the market, the manufacturers need to be more heavily invested in the secondary marketplace than they are currently.”

The 777-300ER’s popularity has urged Boeing to keep up the production line for the aircraft.

ment. They do tend to extend. The rest will find homes in the charter market. There’s a use for them; it’s just a question of how much people are willing to pay.”

But there is likely to be demand for 777s from non-charter airlines as well, “airlines like Transaero that have a lot of charter-style flying on long distance and long haul”, says Fitzgerald. “There are a lot of 767s to replace, but it’s a bit of a step. A lot of people are scared of the size of the 777 but there are certainly some airlines that are looking at it.”

Past widebody remarketing trends

When looking at previous widebody remarketing trends, Fitzgerald says that about half of the A330s and 767s had their leases extended from their first leasing term.

“The general trend is: the smaller the widebody, the easier it is to move. As well as this, you’ve got the expansion of the secondary market. So, if you look at a 747, relatively few went to use. The airline owned them – the leasing company didn’t – and they were financed on the airline’s balance sheet. So very few moved into the secondary market, because they cost so much to reconfigure,” says Fitzgerald.

He adds: “It’s probably going to be the same for the A380. It’s difficult to imagine too many secondary operators. There will be a few, but there certainly won’t be as many as with the A330. The A330 operator base is really impressive. There are at least 100 operators with A330s – you’ve got a massive spread there. I’m guessing about 40 or 50 operators operate the 777. A340s went way out of fashion with the four-engine problem. It was basically deleted by technology.”

The 777-300ER works really well operationally, so it seems likely that airlines using the type will want to extend their leases.

Andreas Kehl, director, key accounting, lessors and banks, Lufthansa Technik, thinks the A340, another widebody aircraft, may be different to the A330 or 777 to reconfigure.

“The older A340s are getting nearer to their mature age, and if you then want to do reconfiguration or engine overhaul and maintenance on an aircraft with four engines, then you are talking quite some investment and that, of course, needs to be justified by the second or third lease period as to whether it pays off or not.”

Appraisers argue that the -300ER helped “kill off” its four-engined rival.

Lufthansa Technik is working on reconfigurations for several different widebodies, including A330s and 777s. In early June, *Airfinance Journal* reported that Lufthansa German Airlines is to lease seven midlife A330-200 aircraft from Gecas to fly for a new long-haul, low-cost project called Wings.

When considering examples of midlife widebody projects such as Wings, it is clear that the A330, one of the main competitors of the 777-300ER, has high liquidity in the secondary market. Time will tell for the 777-300ER. If it struggles to trade on the secondary market and goes a similar way to the A340-600, Boeing may have to step in and play a bigger role in trying to remarket the aircraft.

“I think that Boeing can provide a wealth of solutions,” says the leasing source. “They support the secondary channels, but struggle more with giving tangible campaign support. In terms of the secondary market, if we want the residual values to remain the same and ensure the long-term viability of the market, the manufacturers need to be more heavily invested in the secondary marketplace than they are currently.”

AIRLINE PROFILE

UIA's fight for survival

When military conflict worsened in Ukraine last year, the country's flag carrier faced huge problems with falling demand and currency devaluation. Yuri Miroshnikov, its chief executive officer and president, tells Joe Kavanagh how the airline has survived.

Most airline heads have similar problems: stiff competition from rivals, delays from manufacturers, unpredictable fuel costs, or weeks running on little sleep and bad coffee at conferences.

But few have the difficult task of turning a profit on the edge of a war zone.

Speaking by phone from Kiev, Yuri Miroshnikov, the chief executive officer and president of Ukraine International Airlines (UIA), is startlingly honest about his carrier's fortunes over the past year. He explains that the hostile operating environment in Ukraine came close to defeating his airline, and may even have done so had UIA not taken drastic steps to reduce its fleet and cut costs.

Noting that the danger is far from over, he says: "At this moment in time, the situation is so difficult that survival is attracting all our attention and resources."

In response to one of the world's toughest macroeconomic situations, the airline carried out an emergency cost-reduction programme. The result was a dramatic reduction in its fleet – from just over 40 aircraft to 32 – as well as a round of staff cuts and salary reductions, which helped the airline survive its worst crisis.

Macroeconomic problems

The political situation in Ukraine deteriorated last year when separatists in the country's eastern regions began a military campaign against the government.

The violence and instability hit the airline in two ways: first, by drastically cutting the demand for air travel in and out of Ukraine, and second, by leading to a severe devaluation of the local currency.

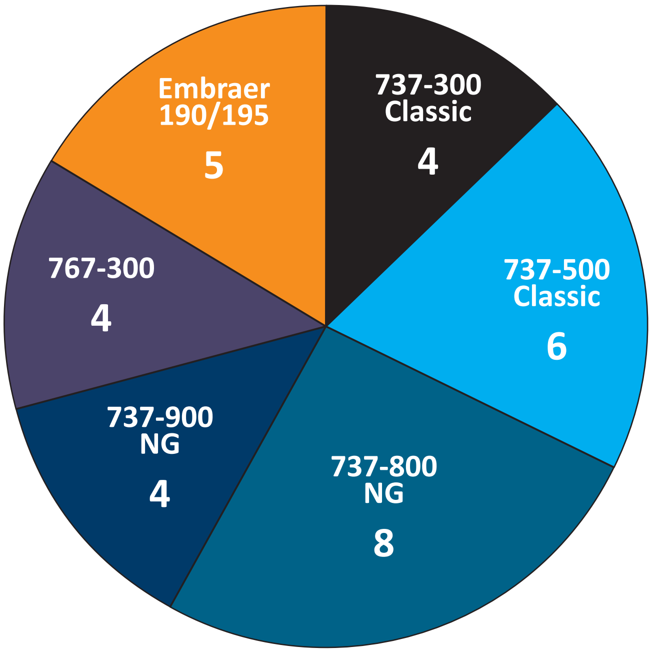
As a number of Russian carriers can testify, the devaluation of local currency can be fatal for airlines with fixed dollar costs such as lease agreements and debt repayments. These can rapidly become unmanageable for airlines that generate the bulk of their revenue in the devalued currency.

Since it began, the military conflict in the East of the country has caused a huge drop in demand for air travel, while causing the local currency – hryvnia – to weaken against the dollar to just one-third of its pre-conflict value. The year saw the currency's value drop from Hm8.2 to the US dollar to more than Hm25.

To make matters worse, its operating costs

> "Survival is our first and main priority at this moment. It's extremely difficult to build your three- or five-year plan on such shaky ground. You don't know what's going to happen tomorrow, so how can you plan for five years ahead?"

Fleet by Airline Type - total 31



also took a hit when the Russian government banned Ukrainian carriers from flying over Russian airspace in August last year. The airline was forced to fly lengthened routes around the country, leading to a rise in operating costs of 15% to 20%.

Demand for air travel also dropped quickly. In July 2014, a Boeing 777-200ER was shot out the sky by a suspected surface-to-air missile as it flew over eastern Ukraine. Almost 300 passengers and crew aboard Malaysian Airlines flight MH17 were killed. A pivotal moment in the West's relations with Russia, the event also shook consumer confidence in the region as a safe tourist destination.

Cost reduction

In response to the tough operating environment, UIA began an emergency cost-cutting programme to ensure its survival. This was an abrupt change for an airline that, before the crisis, had been enjoying a period of uninterrupted expansion.

Miroshnikov explains that UIA had been expanding quickly before the crisis hit. Speaking about the peaceful period in the years leading up to 2014, he says: "We doubled our fleet from 20 to 41 aircraft and we entered into a new segment of long-haul equipment and long-haul flights. We increased staff numbers to support this higher operational activity."

However, the onset of the conflict meant that the airline had to apply an "emergency brake" to its plans. As demand dropped rapidly, the carrier had to cut back. Throughout the year, UIA reduced its fleet by 10 aircraft, which represented 25% of its capacity.

The reductions involved ending lease agreements early and delaying the delivery dates of its order backlog with Boeing.

The carrier also wet-leased four of its aircraft for periods of up to six months. The aircraft, which included two 737-400s, one 737-800 and one 767, allowed UIA to generate some revenue and cut back excess capacity. More importantly, however, it also bought the airline extra time to arrange other deals with leasing companies.

Fortunately for UIA, the vast majority of its aircraft are on operating lease. This allowed the carrier to find solutions with its lessors, some of which reached agreements with the airline, which allowed it to cut back excess capacity.

Miroshnikov is full of praise for the industry partners that helped UIA manage its leasing and order book commitments. As he explains, leasing partners agreed to the early termination of operating leases and Boeing was willing to push back some of the deliveries on its backlog.

He adds: "Of course, there were negotiations regarding concessions, especially in cases of early termination. But in general, I can only give great thanks to the leasing companies, as well as other suppliers and partners, who were helpful, constructive and shared our firm belief in the positive future [of UIA]."

The airline also cut jobs and staff hours to keep on top of costs. It created a 25% reduction in staff costs by reducing working hours, as well as cutting its workforce by a little over 10%. Miroshnikov says the majority of staff were supportive of the changes.

Finally, like many others, the carrier was thrown a lifeline by the dip in fuel costs in the tail end of 2014. Miroshnikov is candid about how important this was when he says that low fuel costs "significantly helped" in its fight for survival. He adds: "That, basically, is how we coped with the situation."

Planning for the future

UIA's operating environment has become more stable since the peace agreement agreed on in Minsk in February. However, there is still sporadic fighting in the region, and the underlying diplomatic problems are far from resolved.

Now UIA hopes to turn its eye to the longer term. In the coming months, the airline will begin laying out a three- to five-year plan that will outline its fleet and financing requirements. However, the uncertainty in the region makes planning for the future difficult.

Miroshnikov says: "If the situation does not become worse than it is now, we will start planning with this assumption."

However, he adds: "Survival is our first and main priority at this moment. It's extremely difficult to build your three- or five-year plan on such shaky ground. You don't know what's going to happen tomorrow, so how can you plan for five years ahead?"

The airline chief strikes an optimistic note as he analyses the carrier's chances. While he accepts the severity of UIA's situation, he also says the airline has handled several crises before.

As he sees it, the airline has always emerged healthy from difficult times. Whether it will do so again depends on how tightly it can manage capacity.

AIRCRAFT PROFILE

Airbus A319 – under pressure

Once a favourite with investors, the third member of the A320 family has fallen out of favour.

The A319, which entered service in 1996, was the third variant of Airbus's A320 family, after the original A320 and the stretched A321. A fourth model followed in the form of the smaller A318.

There is a high degree of commonality across the family and, to some extent, with other members of the Airbus product line. The A319 is offered with powerplants from either CFM or International Aero Engines. The A319's main competition has come from the in-production 737-700 and out-of-production 737-300.

Although higher capacity models are available, the A319 has typically seated 125 passengers, and this size category is being targeted by a number of new entrants, including Bombardier's CSeries, the Comac C919, the Irkut MC-21 and Embraer's E195-E2.

Airbus has continuously developed the A320 family with a series of improvements to engines, interiors and aerodynamics, with the latest development being sharklet wing-tip devices, which the manufacturer says give a 4% fuel saving.

Future developments

Airbus has launched new engine versions of the A320 family that will offer fuel savings of 15% over non-sharklet-equipped current models. The designation for the new generation of aircraft is new engine option (Neo), leading to the adoption of the term current engine option (Ceo) for in-production models. The first A320neo is due to enter service in late 2015, but the A319neo is not scheduled to enter service before mid 2017.

AIRCRAFT CHARACTERISTICS	
Seating/range	
Max seating	156 (with double over-wing exit)
Typical seating	124
Max range (with sharklets)	3,700nm (6,850km)
Technical characteristics	
MTOW	64 tonnes/76 tonnes
OEW	38 tonnes
MZFW	54.7 tonnes
Fuel capacity	24,210 litres
Engines	CFM56-7B/V2500-A5
Thrust	22,000lbf (98kN)
Fuels and times	
Block fuel 200 nautical miles (nm)	1,710kg
Block fuel 500nm	3,140kg
Block fuel 1,000nm	5,620kg
Block time 200nm	54 minutes
Block time 500nm	94 minutes
Block time 1,000nm	160 minutes
Fleet data	
Entry into service	1996
In service	1,380
Operators (current)	81
In storage	30
On order	25
Built peak year (2005)	142
Built 2014	30
Average age	10.3 years
*Source: AeroTransport database/*Airfinance Journal *research*	
Indicative maintenance reserves	
C-check reserve	$60-$65 per flight hour
Higher check reserve	$55-$60/flight hour
Engine overhaul	$95-$100/engine flight hour
Engine LLP	$120-$125/engine cycle
Landing gear refurbishment	$35-$40/cycle
Wheels, brakes and tyres	$120-$130/cycle
APU	$75-$80/APU hour
Component overhaul	$210-$220/flight hour

"Traders and lessors report that it is difficult to trade aircraft for values that are approaching let alone exceeding book values."

Oliver Stuart-Menteth, managing director, Fintech Aviation Services

ISTAT APPRAISERS VIEWS

Fintech Aviation Services
Oliver Stuart-Menteth, managing director

The A319, once the choice of low-cost carriers, has fallen from grace in rather dramatic fashion. The aircraft is no longer revered by investors with values and lease rates softening substantially over the past three years, primarily as a result of increasing load factors and the ensuing preference of airlines to operate higher capacity aircraft.

The baseline A319 is certified for up to 145 seats, but when equipped with double overwing emergency exits it can take up to 156 passengers. The double exit version now accounts for 17% of the fleet. Historically, the market's preference has been for the higher capacity variant, though the corresponding lease differential that was once achievable has largely disappeared. Traders and lessors report that it is difficult to trade aircraft for values that are approaching let alone exceeding book values, with the result that many potential deals are falling through. Part-out companies are offering engine-based values on aircraft that are as young as five years old and, while lessors are rejecting such offers, it gives an indication of the general level of interest in the market.

The only viable option for many investors not willing to undertake write-downs is to agree an operating lease, incur the associated bridging costs and then complete a sale/leaseback. Competition among lessors to secure financially secure lessees is fierce and this has led to an already beleaguered lease rate falling by an estimated 5% over the past six months. Almost 50% of the fleet is aged 10 years or older and therefore likely to be affected by those countries with age importation requirements, further limiting their prospects.

In our opinion, the economic lives for the last-of-the-line serial numbers will be curtailed, resulting in steeper depreciation curves. There is unlikely to be support from the firm order profile of the A319neo, which stands at just 34 aircraft split among four operators. Further pressure comes from the 800 or so remaining Boeing 737 Classics still in active service, which provide operators in the 120- to 150-seat range with excellent economics at reduced lease and acquisition pricing levels.

Morten Beyer & Agnew (MBA)
Kim Seward, senior analyst, valuations

A shortened version of the A320, the Airbus A319, was the third derivative of the original Airbus A320 design. The A319 entered into service in 1996 with Swissair, and has since had more than 1,470 models delivered in various configurations. Despite being initially a very popular aircraft, demand for the type has tapered as operators have up-gauged to larger aircraft in pursuit of lower per-seat operating costs. Improvements in performance for the larger A320 have increased this trend, because the optimal range and short field performance characteristics of the A319 are now more closely matched by the larger models in the A320 family.

The A319 competes directly with the Boeing 737-700 and, to a lesser extent, with the Boeing 737-300/-400. The 737-700 has recorded about 360 deliveries fewer than its Airbus rival; however, both types have been impacted by the market-wide shift towards larger

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VALUES A319-100

Current market value ($m)

Build year	2000	2003	2006	2009	2012	2015 (new)
Fintech view	7.6	10.9	15.7	20.9	26.4	33.3
MBA view	11.1	13.8	17.2	21.7	27.9	35.7
Oriel view	9.5	12.5	16.0	19.8	24.5	36.9

**Assuming standard Istat criteria.*

Indicative lease rates ($m/month)

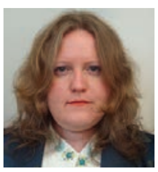
Build year	2000	2003	2006	2009	2012	2015
Fintech view	96-106	109-119	125-135	158-168	206-216	239-249
MBA view	115-145	135-165	155-185	180-210	215-245	255-285
Oriel view	120	135	150	165	195	240

> “In the medium term, values for the A319 are expected to decline at a more rapid pace than comparable vintage A320 aircraft and 737-700s.”

Kim Seward, senior analyst, valuations, Morten Beyer & Agnew

narrowbody aircraft. This pattern looks likely to continue and, as a result, A319-100 values are suffering more than those of its larger family members. In the medium term, values for the A319 are expected to decline at a more rapid pace than comparable-vintage A320 aircraft and 737-700s, the latter being bolstered from a value standpoint by its predominance in the fleet of Southwest Airlines, its largest operator.

Orders for the Neo variant will almost certainly have an impact on values, and will have the largest effect on those of the youngest and most recently produced A319-100s. However, the entry into service of the A319neo is not likely to cause significant technical obsolescence for the current engine option family for many years.



Oriel
Olga Razzhivina, senior Istat appraiser

The A319 is the second-smallest member of the Airbus A320 family, derived from the larger A320. Although less successful than its larger family members, the A319 has still amassed more than 1,400 orders.

Of the two engine choices – the CFM56 and V2500 – the former is more popular, accounting for about two-thirds of orders. The latter is proving more difficult to place in the secondary market.

Oriel originally saw the double overwing exit, an option specific to the A319, as a positive for increasing seating capacity up to 156. However, Airbus developments of new seating configurations potentially make the double-exit configuration less desirable.

Allegiant, one of the prolific buyers of used A319s, appears happy to carry on acquiring the double-exit variant, but supply is slow as easyJet is extending the leases of the aircraft it has with this configuration. Apart from Allegiant, demand is mostly for leasing to Russia, the CIS and Latin America, as well as to network operators such as Iberia. United has agreed to take 25 used A319s from AerCap, but the standing of the lessee and the size of the deal suggest lease rates are likely to be low.

The combined order book for the current and new engine options of the A319 is less than 60 aircraft, making it clear that the sweet spot has moved towards the larger A320/A321 models.

There is an argument that the lack of demand for the Neo version may buoy the demand for the current model. Something similar was noted for the 737-500 because of the poor sales of the -600. The smallest members of aircraft families always lose out on programme improvements because these typically come with increased weights.

Values and lease rates have been stable in the past six months, but the aircraft would be vulnerable to any softness in the market. Mass retirements, such as affected 737 Classics, are unlikely in the short to medium term. The greatest pressure on values will be seen on A319s delivered in the recent past. Further competition may come from Bombardier’s CSeries, although to date the type has not made large inroads into the market. Oriel envisages the A319 fleet operating well into the 2020s.

A320 freighter conversion programme makes comeback

Airbus has teamed up with a new partner to resurrect its plans for an A320 cargo option.

Airbus has signed an agreement with Singapore-based ST Aerospace to offer passenger-to-freighter (P2F) conversion solutions for its A320/A321 aircraft. The agreement was signed at the Paris Air Show in July.

Airbus says it foresees a significant market demand of more than 600 aircraft over the next 20 years for P2F aircraft conversions in the small freighter segment. The A320P2F, with 11 main-deck container positions, will be capable of carrying 21 metric tonnes of payload over 2,100 nautical miles, while the A321P2F with 14 main-deck positions will be able to carry up to 27 tonnes over 1,900 nautical miles. Delivery of the first converted A321P2F is targeted for 2018.

The converted aircraft will be marketed and managed by Elbe Flugzeugwerke (EFW), a Dresden-based conversion facility in which Airbus holds a majority stake.

EFW was also involved in Airbus’s

previous ill-fated attempt to start an A320 conversion programme with Russia’s United Aircraft Corporation, which was ended in 2011.

Owners and operators of current engine option A320s will welcome the new programme, which may help aircraft residual values, but a potential market of 600 aircraft should be viewed in the context of a total of A320neo orders and commitments that passed the 4,000 mark during the Paris show.

LESSOR PROFILE: ROLLS-ROYCE & PARTNERS FINANCE

Automating spare engine leasing

Bobby Janagan, general manager, Rolls-Royce & Partners Finance (RRPF), speaks to *Airfinance Journal* about engine residual values and its plans for an online spare engine-leasing platform.

***Airfinance Journal:* What makes you different from an independent spare engine lessor, other than the fact that the majority of your stock is Rolls-Royce engines?**

Bobby Janagan: The first difference is that we finance all types of Rolls-Royce engines whereas independent lessors are selective – they prefer certain types. We tell customers that we can do everything, whether it is a popular Trent 700, Trent XWB or a more niche market like the Trent 900.

Secondly, we can offer tailored and flexible solutions as we are closely aligned with Rolls-Royce. Our USP is partnerships. Airline customers are asking for engines over 10 years. It is a very long time, and in a 10-year period, anything could happen. If our customers need to find a solution, we will find a way to help them. Because of the scale of our platform and our relationship with the wider Rolls-Royce group, we are in the best position to find a way to help them.

What is the exact relationship between you and Rolls-Royce the manufacturer?
Rolls-Royce & Partners Finance has two shareholders: Rolls-Royce 50% and GATX 50%. Everything is commercial and at an arm's-length basis, but we collaborate to create value for customers. Although RRPF is not wholly owned, RRPF is closely aligned with Rolls-Royce. This close alignment is important as it enables us to offer tailored and flexible solutions to our customers. From a commercial point of view, we pay the same dollar an airline would pay for its engines. If another engine lessor wants to buy an engine, they'd pay the same cost as us.

In the engine poll we did there were some concerns about the residual values of some of the Rolls-Royce engines. Lessors stated that there is perhaps less liquidity in the aftermarket, partly driven by the fact that there are fewer maintenance shops, or even a spare parts market, for those Rolls-Royce engines. What's the reality about these residual values?
Let's look at what is happening in the market. Firstly, appraisers are treating Rolls-Royce-

powered aircraft or GE-powered aircraft on a similar basis. Secondly, Airbus delivered 150 Rolls-Royce Trent 700-powered A330s in the last 18 months, of which 42% were financed by the leasing community, and so it seems that they are comfortable with the residual values of Rolls-Royce engines. Thirdly, there are 450-odd Rolls-Royce-powered 757s flying today and around 30% are owned by more than 30 lessors. What this says to me is that investors are generally comfortable to invest in Rolls-Royce-powered aircraft and engines.

But there appears to be some disgruntlement among the leasing community, particularly for certain aircraft types because the residual values of some Rolls-Royce engines.
Yes, there has been noise from some people in the market. For example, in the context of the A340-500/-600 debate. The aircraft does have higher fuel burn than some competitors, which is an issue at high fuel price points. Everybody recognized the problem. But in other types of engines it shouldn't be an issue.

If you look at the 757 market, no-one is complaining about Rolls-Royce residual values. Some operators are on TotalCare, some are on Time and Material packages. This fleet has matured and so has the market.

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“If you look at the 757 market, no-one is complaining about Rolls-Royce residual val-ues. Some operators are on TotalCare, some are on Time and Material packages. This fleet has matured and so has the market.”

We hear you are making some changes to the business and that you’ve a new IT product coming out. Can you explain more?

Yes, we have been working on a new web-based application for customers. It will look and feel a bit like your online banking service. This is in response to market structural changes.

Firstly, airlines are always looking for efficient ways of working as they are under incredible cost and time pressure.

Secondly, airlines are reducing the number of spare engines to reduce cost, and are increasingly relying on the spot market to top up their cover when needed to cover occasional peaks. This is all in the context of the internet and the changing technologies that are now available.

To support such requirements, lessors need to respond faster. For us, we believe the way to do this is to be more open with our customers and give them full access to information on a real time 24-hour basis so they can do their work at their own time and needs – information at their fingertips at all times.

Is there a name yet?

We are calling it the customer portal for now. This is a service that we will continue to invest in and develop over time. When it is launched, the portal will give customers access to their lease documents, invoices and technical utilization data on the engines that they have on lease from us. Customers will also be able to easily view details of other engines that we have available for lease and make requests to take such engines.

We will build on this and provide more functionality in the near future, especially in the area of engine technical records.

Well that would save the technical guys a lot of time. Theoretically, how quickly could someone lease a spare engine?

Customers take a lot of time to understand whether an engine is a good fit for them or not. They need to review the technical documentation and assess the condition of the engine – how the last operator operated it, the airworthiness directives and service bulletins, etc. Assessing the engine can take quite a bit of time, so by putting as much data together as possible in a very user-friendly fashion, in a way that is easily searchable, people can make decisions quickly. At the moment lots of records in the industry are sent by email in spreadsheets and PDFs.

We use the Stream product from AerData to improve how we manage this whole area of technical records but the next step is to integrate this service more robustly into our customer portal. This will bring all the relevant information together to help customers make decisions quicker.

We also want to make lease engine redeliveries as easy as possible for our customers by building more automated tools and processes into the portal. For example, we want to build a tool that will do a fly-forward forecast of engine utilization to help customers assess whether the engine is likely to meet redelivery conditions. This will help customers to better plan their lease engine returns.

We also see an opportunity to speed up our engine booking and delivery service through further investment in the portal. In the short-term lease and spot market, speed of response is very important. I think customers would appreciate being able to get quotations and agree terms as quickly as possible, especially if there was a risk of an aircraft-on-ground situation arising.

Our vision is to automate as much of the engine lease delivery and redelivery process as possible and assist customers to access data quickly. The aim is to reduce one or two days of work to a few hours.

What do airline clients typically ask for?

Our customers request a full range of services from us, including sale and leasebacks, operating lease, short-term lease or exchanges. We also sell used engines and can provide finance leases to support such sales. Our short-term leasing is currently focused on V2500-A5 engines.

What about the impact of new investors in this space?

I think competition is good. Spare engine leasing is a mature market and there is a lot of capital in aviation finance chasing opportunities, so there will naturally be new investors coming into the engine leasing space. Annually, the industry needs to finance between $2.5 billion to $3 billion new spare engine deliveries, and competition promotes innovation in the space.

This is why having a wide lessor base is good. But compared to aircraft leasing, the engine market is very small. The annual financing opportunity is only equivalent to 10 A380s. The question is whether all the new entrants will have the necessary patience, because they may have big plans to grow their portfolios but they may struggle to do so in a speedy fashion.

It’s expensive to do so as well. If there is increased competition are engines trading at a premium now?

A lot of people with industry experience are supporting these new entrants and they are not growing at any cost. They are probably pricing the engines sensibly by reflecting the underlying value. I don’t think there is a big premium in the trading market.

Are you guys in the market for those portfolios if engines come up for sale from these lessors?

From time to time we trade engines with leases attached, either as a buyer or seller. But we don’t sell frequently. If you look in the aircraft leasing space, aircraft are traded on a regular basis. You won’t see this volume of trading in the engine leasing market – one of the reasons is that the three big lessors are OEM [original equipment manufacturer] affiliated. The assets are core to their overall business and they can comfortably take a long-term view.

What should we expect to see in the next six months in the spare engine market? Any trends?

I think the market will be pretty quiet. This is because Airbus is winding down their current A320ceo production, and the associated engine leasing market is waiting for the Neo deliveries. This is the same for Boeing and the 737s. All of the existing players have sufficient levels of the existing spare engine types to support these older fleets.

The new engine deliveries are going to support existing airlines to meet top-up requirements rather than fleet renewal – this will happen once the 737 Max and A320neo ramp up. For us, we are waiting for Rolls-Royce to start delivering Trent XWB engines. So, the market will be quiet for the next 12 months or so at least.

TAA Financial Rating Scores - LTM					Overall Rating Scores		
Avg. Fleet Age	EBITDAR Margin	FCC	Liquidity	Leverage	LTM-2	LTM-1	LTM
5	2	2	1	3	1.4		2.2
				6	2.4		5.6
							6.2
						3.5	3.6
						2.9	2.0
						6.6	6.4
						3.9	3.7
7	2	1	1	1	1.9	1.9	1.7
4	2	4	4	5	3.6	3.8	3.8
6	3	5	4	3	5.1	4.6	3.9
5	1	4	2	4	2.5	2.5	2.9
5	2	4	3	4	2.7	2.9	3.4

THE AIRLINE ANALYST FINANCIAL RATINGS

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The Airline Analyst
FINANCIAL RATINGS

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DEAL WATCH

LOANS/FINANCE LEASES

Borrower	Country	Asset	Amount	Structure	Arranger	Debt
June 2015						
Aircastle	US	2xA330-300	$506m/$210m (List/CMV*)	11-year debt financing	BTMU, DBJ	
China Eastern Airlines	China	1xA330-300	$253m/$105m (List/CMV*)	French tax lease	CA-CIB	China Construction Corporation, DBS
Qatar Airways	Qatar	1xA380	$428m/$222m (List/CMV*)	French tax lease	CA-CIB	
Kuwait Airways	Kuwait	5xA330-200	$400m	Sharia compliant loan/lease	International AirFinance Corporation	
FMI Ar	Myanmar	4xCRJ200	Undisclosed	Secured loan		
SunExpress	Turkey	1x737-800	$93.3m/$47.6m (List/CMV*)	10-year euro-denominated Jolco	Commerzbank, Standard Chartered, Yamasa	
Etihad	UAE	1x787-9	$136m (CMV*)	Sharia compliant facility	First Gulf Bank, National Commercial Bank Saudi Arabia	
China Eastern	China	Mix of A320/737	Undisclosed	Jolco	Commerzbank	Yamasa
Cathay Pacific	Hong Kong	3x777-300ER	$504m (CMV*)	12-year loan	ANZ, ING, Natixis	
May 2015						
Air France	France	1x777-300ER	$168m (CMV*)	Jolco	CA-CIB	CA-CIB
Air France	France	1x777-300ER	$168m (CMV*)	Jolco	Natixis, CIC, BRED	
Azul	Brazil	8xE195	Undisclosed	Finance lease	ICBC	
Asiana Airlines	Korea	1xA380	$222 m (at current market value)	$/Won commercial loan	Korea Development Bank	
Thai Air Asia	Thailand	1xA320	$40 m	French tax lease	BNP Paribas	
CDB Leasing	China	4xA320 (2014 build)	Undisclosed	Commercial loan	KfW Ipex-Bank, Landesbank Hessen-Thüringen, Korea Development Bank	
Aerolineas Argentinas	Argentina	A330-200	$222m	Finance lease/8 years	Airbus Financial Services	
April 2015						
Sanad Aero Solutions	UAE	CFM56 engines and spares	$90m	Secured loan	Abu Dhabi National Leasing, National Bank of Abu Dhabi,	BofA Merrill Lynch, FGB
CDB Leasing	China	4x737-800, 1xA320	Undisclosed	Commercial re-financing	DVB	

EXPORT CREDIT DEALS

Borrower	Country	Asset	Amount	Structure/ECA	Arranger
June 2015					
China Eastern	China	1x777-300ER	$330m at list (CMV* $168m)	ECA-backed commercial loan/Ex-Im	HSBC
May 2015					
THY Turkish Airlines	Turkey	3xA330-300	$280m	ECA-backed Italian tax lease	Société Générale
ICBC Leasing	China	2x787	$201.2m	Bond/Ex-Im	Citi
Norwegian Air Shuttle	Norway	3x737-800	$119m	Bond/Ex-Im	CA-CIB, Goldman Sachs
Norwegian Air Shuttle	Norway	2x737-800, 1x 787-8	$177.2m	Bond/Ex-Im	CA-CIB, Goldman Sachs
April 2015					
THY Turkish Airlines	Turkey	2xA330-300, 1xA33-200	$740m (at list prices)	CHF denominated loan/European agencies	Natixis, Deutsche Pfandbriefbank

CAPITAL MARKETS

Borrower	Country	Asset/Security	Amount	Structure/Term	Arranger	Coupon/Rating
May 2015						
BBAM	US	49 aircraft	$1.2 bn (A-1:$459m/A-2:$591m/B-1:$160m)	ABS	Deutsche Bank , BNP Paribas, Citi	A-1:A/A-2:A/B-1:B (Fitch, S&P)
April 2015						
Latam	Chile	17 aircraft	$1.02 bn (A:$845.2m/B:$175.6m)	EETC	Citi, Deutsche Bank, JP Morgan	A:4.2%/8.4yrs, B:4.5%/5.4 yrs
March 2015						
Republic	US	E170s	$81m ($66m senior/$15m junior)	Secured loan/5.5 years	PK Airfinance	
Turkish Airlines	Turkey	3x777-300ER	$328.27m	EETC	Citi, Goldman Sachs, Deutsche, BNP Paribas	4.25% /A2 (Moody's)
Avianca	Colombia	2xA320, 1x787	$153m	EAVI (EETC)		
Air Canada	Canada	9x787	€1.03bn (A:$667m/B:$182m/C:$182m)	EETC		
Ryanair	Ireland	Unsecured	€850m	Eurobond/7 years	Citi, BNP Paribas, Deutsche Bank	1.125%

DEAL WATCH

SALE/LEASEBACKS

Borrower	Country	Asset	Lessor/Arranger	Amount
June2015				
Qatar Airways	Qatar	8xA320	Pembroke	$776m/$350m (at list/CMV*)
May 2015				
Kenya Airways	Kenya	1x787-8	Awas	$218m (at list)
April 2015				
Flydubai	Dubai	1x737-800	Gecas	$93.3m (at list)
Garuda	Indonesia	3x777	ICBC	$990m (at list)
Asiana	South Korea	4xA350	SMBC	$982m (at list)
Virgin Atlantic	UK	4x787-9	Avolon (KfW Ipex financed))	$1.03bn (at list)

Airfinance DEALS DATABASE

For more extensive deal coverage and lawyers details go to http://www.airfinancejournal.com/dealsdatabase

DEAL PIPELINE (MANDATES)

Borrower	Country	Asset	Structure	Amount	Arranger/Advisor	Status
April to June 2015						
Comair	South Africa	4x737-800	Probaly ECA backed	$373m (at list)	Nedbank	Mandated
SunExpress	Turkey	5x737-800	Ex-Im backed 12-year loan	$466m/$238m (at list/CMV*)	Natixis	Mandated
VietJet	Vietnam	6xA320	PDP financing	up to $60m	BNP Paribas	Mandated
Air Asia X	Malaysia	4xA330-300	Sale/leaseback	$1.01bn/$422m (at list/CMV*)	BOC	Mandated
Korean Air Lines	Korea	2x777-300ER	ECA-backed bond	$990m/$503m (at list/CMV*)	BNP Paribas and others	Mandated
Cathay Pacific	Hong Kong	5xA350	Diverse	$1.52bn (at list)		RFP issued
Air Cote D'Ivoire	Ivory Coast	5xA319	To be decided	$443m at list (CMV* $188m)		RFP expected
Shenzhen Airlines	China	10 single-aisle aircraft	10-12 year sale/leaseback	Undisclosed		In preparation
Gol	Brazil	737-800s (current and ordered)	EETC	To be announced		In preparation
Latam	Chile	up to 7xA321	Sale/leaseback	$796m at list (CMV* $364m)		
Spirit Airlines	US	15xA320 family aircraft	Sale/leaseback, commercial debt, public financing			Evaluating proposals
CDB Leasing	China	A320s/737NGs	Export credit	$3.6bn (at list)	Undisclosed	RFPs expected
Ethiopian Airlines	Ethiopia	12xA350	To include sale/leaseback	$3.6bn (at list)		RFP issued
ICBC	China	7x737-800	12 year French tax lease	$653m (at list)	BNP Paribas, Natixis, CIC	Mandated
Peach	Japan	3xA320	Sale/leaseback	$282m (at list)	Fuyo General Lease	Mandate imminent
Finnair	Finland	2xA350-900	Sale/leaseback	$610m (at list)		Mandated
Avianca	Colombia	6xA320, 2x787	Private placement	unknown		Mandate pending
Vietnam Airlines	Vietnam	3xA321	Mix of ECA and commercial	$341m (at list)		RFP issued
Garuda	Indonesia	11xA330, 1x777	Sale/leaseback	$1.36bn (at list)		RFP issued

* Current market value - see page 42

RATINGS

AIRLINE FINANCIAL RATINGS

Airline	Fitch	Moody's	S&P
Aeroflot	BB-(stable)	-	-
Air Canada	B+(stable)	B1(stable)	B+(stable)
Air New Zealand	-	Baa2(stable)	-
Alaska Air Group	BBB-(stable)	-	BBB-(stable)
Allegiant Travel Company	-	Ba3(stable)	BB(stable)
American Airlines Group	B+(stable)	Ba3(stable)	BB-(stable)
Avianca Holdings - IFRS	BB-(neg)	-	B+(stable)
British Airways	-	Ba2(stable)	BB(pos)
Delta Air Lines	BB(pos)	Ba2(pos)	BB(pos)
Etihad Airways	A(stable)	-	-
GOL	B-(stable)	B3(pos)	B(neg)
Hawaiian Airlines	B(pos)	B3(stable)	B+(stable)
jetBlue	B+(stable)	B2(pos)	B+(pos)
LATAM Airlines Group	BB-(stable)	Ba2(stable)	BB(stable)
Lufthansa Group	-	Ba1(pos)	BBB-(stable)
Qantas Airways	-	Ba1(pos)	BB+(stable)
Ryanair	BBB+(stable)	-	BBB+(stable)
SAS	-	B3(stable)	B-(stable)
Southwest Airlines	BBB(pos)	Baa1(pos)	BBB(stable)
United Continental Holdings	B+(pos)	Ba3(pos)	BB-(pos)
US Airways Group	B+(stable)	B1(stable)	-
Virgin Australia	-	B2(Stable)	B+(stable)
WestJet	-	-	BBB-(stable)

Source: Ratings Agencies - 8th July 2015

LESSOR CREDIT RATINGS

Lessor	Fitch	Moody's	S&P
AerCap	BB+(stable)	Ba2(pos)	BB+(pos)
Air Lease Corp	-	-	BBB-(stable)
Aircastle	-	Ba2(pos)	BB+(stable)
Aviation Capital Group	BBB-(stable)	-	BBB-(stable)
AWAS Aviation Capital Limited	-	Ba3(stable)	BB+(neg)
BOC Aviation	A-(stable)	-	A-(stable)
CIT Group Inc	BB+(stable)	B1(stable)	BB-(pos)
DAE Aviation Holdings	-	B2(stable)	B-(stable)
Fly Leasing	-	B1(pos)	BB(stable)
ILFC (Part of AerCap)	-	Ba2(pos)	-
SMBC Aviation Capital	BBB(stable)	-	BBB+(stable)

Source: Ratings Agencies - 8th July 2015

AVIATION COMPANY RATINGS

Company	Fitch	Moody's	S&P
Airbus Group	A-(stable)	A2(stable)	A(stable)
Boeing	A(stable)	A2(stable)	A(stable)
Bombardier	B+(neg)	B1(neg)	B+(neg)
Embraer	-	Baa3(stable)	BBB(stable)
Rolls-Royce	A(stable)	A3(stable)	A(stable)
United Technologies	A(stable)	A2(stable)	A(stable)

Source: Ratings Agencies - 8th July 2015

AIRCRAFT ORDERS

COMMERCIAL AIRCRAFT ORDERS BY MANUFACTURER

	Gross orders 2015*	Cancellations 2015*	Net orders 2015*	Net orders 2014
Airbus	389	22	367	1,456
Boeing	320	44	276	1,432
Bombardier	23	0	23	93
Embraer	124	0	124	122
ATR	49	0	49	160

*Based on manufacturer announcements of firm orders as of end June

COMMERCIAL AIRCRAFT ORDERS BY CUSTOMER

Customer	Country	Quantity/Type
April to June 2015		
Enter Air	Poland	2x737 Max8, 2x 737-800
Wizz Air	Hungary	110xA321neo
Synergy (Avianca Brasil)	Colombia	62xA320neo
Volga Dnepr	Russia	20x747-8
Bahamas Air	Bahama	3xATR42-600, 2xATR72-600
Colorful Guizhou Airlines	China	7xE190
Ethiopian Airlines	Ethiopia	6x787-8
VietJet	Vietnam	6xA321
AerCap	Netherlands	100x737 Max
Minsheng Finacial Leasing	China	30x737 (mix of NG and Max models)
SMBC	Ireland	10x737 Max8
Sriwijaya Air	Indonesia	2x737-900ER
Eva Air	Taiwan	3xA330-300
SkyWest	US	8xE175
United Airlines	US	10xE175
Aircastle	US	15xE190-E2, 10xE195-E2
Yakutia Airlines	Russia	3xSSJ-100
Peach	Japan	3xA320
Air New Zealand	New Zealand	1xATR72-600
Air Madagascar	Madagascar	3xATR72-600
Braathens	Sweden	5xATR72-600
Binter Canarias	Spain	6xATR72-600
Cebu pacific	Philippines	16xATR72-600
Garuda	Indonesia	30x787-9, 30x737 Max8
Garuda	Indonesia	30xA350 XWB
Gecas	US	60xA320neo
Japan Air Commuter	Japan	8xATR42-600
Eva Airways	Taiwan	5x777F
Air Lease Corporation	US	1xA350-900, 1xA320ceo, 3xA320ceo
Frontier	US	12xA320ceo
Azul	Brazil	30xE195-E2
Tianjin Airlines	China	20xE195-E2, 2xE190-E2
Ruili Airlines	China	60x737 Max
Tui Group	Germany	1x787-9
Silk Way	Azerbaijan	12xAN-178
Avianca	Colombia	100xA320neo family
Copa	Panama	61x737 Max
CIT	US	5xA321
ANA	Japan	7xA321
ANA	Japan	3x787-10

CURRENT PRODUCTION AIRCRAFT PRICES AND VALUES ($ MILLIONS)

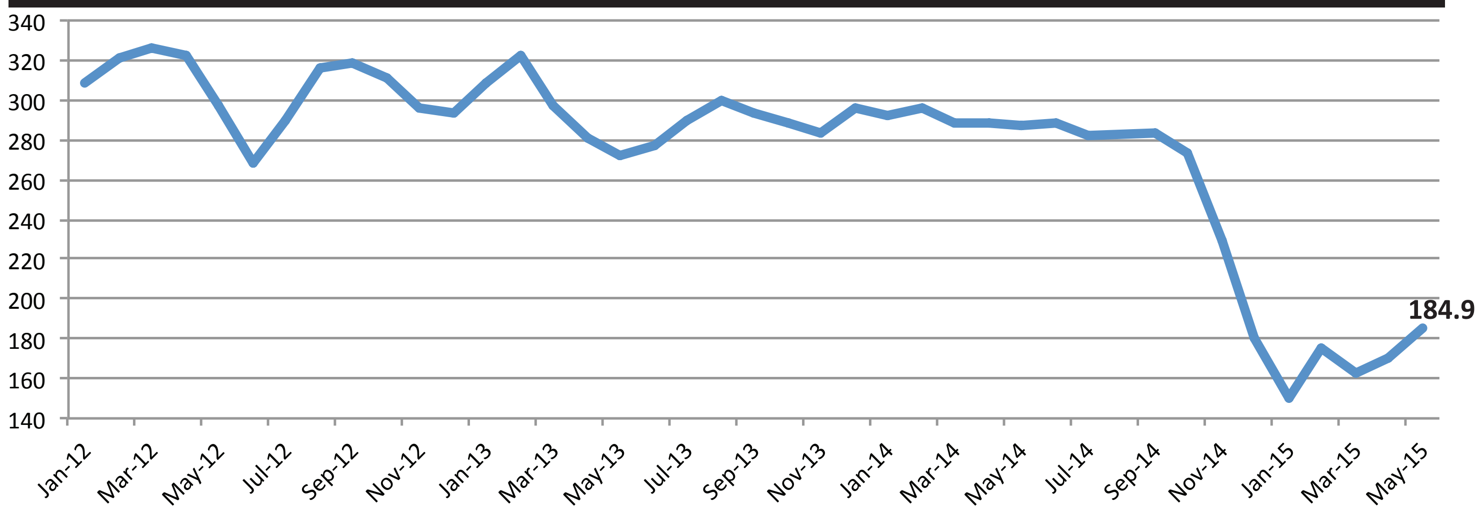
Model	List price	Current market value*
Airbus (2015 prices)		
A319	88.6	37.6
A320	97	43.8
A321	113.7	52.1
A330-200	229	93.9
A330-300	253.7	105.6
A350-900	304.8	TBD
A380	428	222.2
ATR (2015)		
ATR42-600	21.6	15.5
ATR72-600	25.9	20.2
Boeing (2015)		
737-700	78.3	38
737-800	93.3	47.6
737-900ER	99	50.6
747-8 (passenger)	367.8	167.2
777-200LR	305	147
777-300ER	330	167.7
787-8	218.3	117.8
787-9	257.1	136.1
Bombardier (2014)		
CRJ700	39.9	23.9
CRJ900	45.8	26
CRJ1000	48.9	27.7
Q400	30	21.2
Embraer (2014)		
E170	40	27
E175	43.1	29.2
E190	47.7	33
E195	50.5	34.9

*Based on Istat appraiser inputs for Air Investor 2015

AIRCRAFT LIST PRICES - NEW MODELS

Model	$ millions
Airbus (2015 prices)	
A319neo	97.5
A320neo	106.2
A321neo	124.4
A330-800neo	249.6
A330-900neo	284.6
A350-800	269.5
A350-900	304.8
A350-1000	351.9
Boeing (2014)	
737 Max 7	87.7
737 Max 8	106.9
737 Max 9	113.3
777-8X	360.5
777-9X	388.7
Bombardier (2014)	
CS100	67.1
CS300	75.3
Embraer (2014)	
E175-E2	48.3
E190-E2	55.3
E195-E2	62.4

US GULF COAST KEROSENE-TYPE JET FUEL (CENTS PER US GALLON)



Source: US Energy Information Administration

LEASE RATES ($000S)

Model	Low	High	Average
Airbus			
A319	230	370	300
A320	280	410	345
A321	360	490	425
A330-200	690	950	820
A330-300	730	1,100	915
A380	1,650	2,110	1,880
ATR			
ATR42-600	120	180	150
ATR72-600	160	210	185
Boeing			
737-700	230	380	305
737-800	330	450	390
737-900ER	370	470	420
747-8 (passenger)	1,200	1,770	1,485
767-300ER	400	590	495
777-200ER	800	1,250	1,025
777-200LR	950	1,420	1,185
777-300ER	1,050	1,550	1,300
787-8	850	1,110	980
787-9	1,190	1,340	1,265
Bombardier			
CRJ700	160	210	185
CRJ900	190	225	208
CRJ1000	210	280	245
Q400	150	225	188
Embraer			
E170(AR)	180	230	205
E175(AR)	200	250	225
E190 (AR)	260	300	280
E195 (AR)	230	320	275

Based on Istat appraiser inputs for Air Investor 2015

PILARSKI SAYS...

Cycles in aviation: where are we right now?

Although there are differences of opinion about where we are in the cycle, most agree the peak is in sight, writes Adam Pilarski, senior vice-president at Avitas.

Everybody in our industry accepts that aviation is highly cyclical. There are many reasons for that. First, economies are cyclical and aviation is strongly tied to the economy. There are some cycle deniers who hope that this time realities changed and we finally achieved a recession-proof period, because new developments make history superfluous.

The timing of a downturn is notoriously difficult to predict and historically has been often precipitated by external shocks or policy mistakes. However, as sure as night follows day (trust me, I am a doctor) a future recession will happen. The basis for economic cyclicality, for those who insist on knowing, is the so-called accelerator-multiplier effect related to the investment component of economic activity.

The reason that aviation is more cyclical than other branches of the economy is that our industry can justifiably be characterized as luxury. Human needs to eat or for health care are deemed more critical than the joy of flying. Hence, our industry faces what economists know as an elastic demand curve. This means that as incomes go up by 1%, the number of passenger-miles will rise by, say, 2%. The opposite happens on the way down because we stick more with eating than flying to exotic travel destinations. The same goes for business, where as our incomes go up, the value of our time rises and we are loath to waste it on getting to our destinations by slower means than air travel.

While passengers are the backbone of aviation, many of our readers deal with the movement of assets that move passengers. The environment for aircraft is layered with a slew of additional relationships causing cycles. As traffic increases, airlines desire additional lift. New aircraft are not instantaneously available – hence, airlines place new orders. They also scrounge for capacity at lessors and bid up prices of existing aircraft.

The time to produce a new aircraft, even assuming no backlog, is an added factor contributing to the intricate pattern of lags guiding the aviation cycle. As orders increase, they signal to manufacturers to raise production levels. As backlog increases, the lags between orders and deliveries lengthen. This relationship faces a different pattern on the way down. As airlines face much lower demand as a result of deep recession, they do not need added capacity and would rather reduce their fleets. The manufacturing process, though, cannot be stopped abruptly because of long-term supplier contracts and more units are introduced into a system that no longer wants them.

The cycles faced by the different players in aviation are not the same and are subject to various lagged effects. Usually the economy falters first which causes traffic to decline, affecting demand for aircraft and airline profitability. Supply factors still continue expanding but after some time are affected and start declining. Aircraft values, which are highly variable by type, vintage and phase of production, have a cycle that lags the economic and airline cycle. Indeed, in May 2014 I wrote a column in this journal headlined "Rashomon and the aviation bubble debate" describing how out of kilter the perceptions of the financial and manufacturing communities were with respect to the phase of the aviation cycle each community believed we were in.

During the May *Euromoney* Airfinance Conference in Miami I asked the participants to rate their subjective feeling regarding where we are in the cycle. The participants were asked to vote as to whether they believed we were at a low point (trough), rising, peak or falling past peak points in the cycle with regard to the economy, airline industry, manufacturing and value of aircraft. The almost 100 people voting very strongly supported the view that we were either rising towards or already had reached the peak. This view was supported by on average 85% of the participants. Substantially more believed that we were already at the peak. This was especially the case with manufacturing where 57% of the participants believed we had reached the peak.

To collaborate this finding further, Boeing shared with me the results of voting of participants at their superb seminars for financiers conducted in New York, London and Tokyo. Their beliefs about values were similar to those voting in Miami. The share of participants believing values were either at their peak or two-thirds towards their peak was between 79% and 92%. Also, more than half in each city believed there was a possible oversupply coming in the next three years. Interestingly, the highest percent (London) of participants who believed a potential oversupply was on the horizon also believed that values were at their peak – a very appropriate causal relationship of value and demand/supply balance.