Avilease achieves investment grade status

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Saudi operating lessor Avilease has received investment grade corporate credit ratings of Baa2 with a stable outlook from Moody's Ratings and BBB with a stable outlook from Fitch Ratings.

Avilease chief executive officer Edward O'Byrne said: "From day one, AviLease was set up with an investment grade profile in mind. Through the acquisition of the Standard Chartered Aviation platform, we have been able to accelerate our strategy by at least two years, establishing a robust platform of 200 owned and managed aircraft on lease to 48 airlines globally. The ratings open the door for even greater financial flexibility, as we will be able to tap into the unsecured debt capital markets. Achieving investment grade ratings in under three years since our establishment is a remarkable feat, and we believe it positions AviLease within a select group of lessors in the industry in record time. We are honored to see our efforts recognized by Moody's and Fitch."

Fahad Al Saif, chairman of Avilease, commented: "The investment grade ratings from Moody's and Fitch, underscore the quality of our aircraft leasing platform both in terms of operational excellence and financial robustness. These ratings will enable AviLease to access global capital markets to finance its business strategies, positioning itself at the forefront of the aircraft leasing industry, in complete alignment with the National Aviation Strategy and Saudi Arabia's Vision 2030."

Fitch said it applied a two-notch uplift from Avilease's standalone credit profile (SCP) to reflect the likelihood of support from the state-owned Public Investment Fund (PIF). The rating agency believes Avilease plays a key role in "Saudi Vision 2030", particularly as it is the sole aircraft lessor in the country, facilitating the development of its domestic and international air traffic networks. Saudi Arabia aims to increase international air traffic by promoting Islamic and non-Islamic tourism, with a small portion attributed to transit. In Fitch's view, this gives Avilease a unique opportunity to become a pivotal participant in the Vision 2030 tourism objective compared with Gulf Cooperation Council peers.

The two-notch uplift also reflects PIF's full ownership of the lessor, their reputational linkage, and PIF's history of capital increases totalling about $4 billion to support Avilease's conservative leverage policy as the lessor scales up.

Fitch has notched up from Avilease's SCP rather than down from Public Investment Fund's long-term IDR, given the absence of explicit legal funding or capital support commitments from PIF, the adequate operational autonomy of Avilease's day-to-day activities, and its less central role in Saudi Arabia's government policy and in the financial sector than banks, given its small size and limited influence on the financial system.

At 31 December 2024, Avilease's contracted fleet consisted of 169 owned aircraft and 22 managed aircraft with a $6.7 billion net book value. The portfolio had a weighted average age of five years and a weighted average remaining lease term of 6.8 years.

"This represents a liquid portfolio among Fitch rated aircraft lessors, and we expect it to support strong asset quality relative to peers. The portfolio had net aircraft assets of about $6.6 billion as of end-2024. In the absence of an orderbook, Avilease's growth plans rely on sale and leaseback transactions and on portfolio acquisitions. These markets are highly competitive, presenting some execution risk to management's strategy," commented Fitch.

The portfolio is more concentrated by customer and geography than peers'. At end-2024, the largest customer accounted for 13.6% of net book value, while exposure to Saudi Arabia-domiciled lessees was 23%. Fitch expects exposure to Saudi airlines to decrease over the long term as the company grows, and through active portfolio management. Fitch considers Avilease's management of its Saudi Arabia concentration through the use of "sidecars" to be effective.

Fitch believes the company's growing scale in the face of increased competition, focus on new-technology aircraft and higher funding costs could negatively affect profitability. Fitch expects Avilease's net spread (lease yield minus funding costs) to be around 3% over the near term, modest compared with peers, and commensurate with the agency's bb benchmark range of 1-5% for aircraft lessors with a sector risk operating environment score in the bbb category.

At end-2024, Avilease's gross debt to tangible equity was 1x. Fitch expects the company's leverage to increase modestly over time but remain at or below 1.5x, given growth in retained earnings, and additional capital being provided by PIF to support growth.

Fitch said Avilease's liquidity will remain sound. At 31 December 2024, resources included about $907 million in unrestricted cash and $2.25 billion (including $1.5 billion facilities closed in April 2024) available under committed revolving credit facilities, and annualised operating cash flow of $552 million over the next 12 months. This gives liquidity coverage well above 5x of $247 million of contracted aircraft purchases over the next 12 months.

Fitch expects liquidity coverage to remain above 1.5x over time, given modest purchase commitments. It believes there is minimal refinancing risk as maturities are well spread, with none until 2028.

Fitch views Avilease's fully unsecured funding profile positively, due to financial flexibility in times of stress given its unencumbered asset base. The rating agency expects Avilease to continue to raise funds predominantly through unsecured markets, supporting its funding, liquidity, and coverage assessment. The lessor has been active in the bank market, securing about $8 billion in unsecured conventional and Islamic financing, although it has no experience in accessing public unsecured bonds.

Moody’s said Avilease's Baa2 issuer rating is supported by its baa3 standalone credit profile and one notch of affiliate support uplift from its parent, the Public Investment Fund.

Avilease benefits from significantly lower debt to equity leverage than rated peers, operating at approximately 1x debt to equity as of 31 December 2024, with a stated medium-term target of no more than 1.5x debt to equity, versus most investment-grade peers that operate with leverage between 2x and 3x debt to equity.

Moody’s expects Avilease will maintain strong liquidity, currently supported in part by its new $1.5 billion committed unsecured revolving credit facility, which should allow it to maintain 12-month liquidity coverage well in excess of 150%, including debt service commitments, maturities in the next 12 months, and aircraft purchase commitments.

The company's liquidity is further aided by a substantial amount of unencumbered assets, given its primarily unsecured funding, allowing the company to seek additional liquidity through asset sales or pledges if needed.

The rating also considers Avilease's high customer and geographic concentrations, as the company's top five customers accounted for a larger share of net book value than similarly rated aircraft leasing peers. Avilease also maintains high exposure to airlines based in Saudi Arabia.

“While we expect Avilease's portfolio will become more granular as the company executes its growth strategy, its KSA exposure will likely remain high given its role within PIF's broader aviation strategy, which involves significantly expanding passenger traffic into the Kingdom. Geopolitical pressures will also contribute to ongoing uncertainty regarding the global economic outlook. These risks are balanced against AviLease's low leverage, strong liquidity and solid operational capabilities.”

The stable outlook reflects the expectation that Avilease will continue to execute its growth plan while maintaining low leverage and ample liquidity and demonstrating improved financial performance.

