Airfinance Journal SEPTEMBER / OCTOBER 2015

Airfinance JOURNAL

September / October 2015 ISSUE Number 380

Financial intelligence for commercial aviation

REGIONAL BANKS TURN TO AIRCRAFT FINANCE

JAPAN

Regional banks turn to aircraft finance

/ 28

www.airfinancejournal.com

ONLINE /EVENTS
Middle East and Africa Airfinance conference

ONLINE /NETWORK
The online community for aircraft financiers

ONLINE /DEALS DATABASE
Analysis and insight

ONLINE /UPDATES
Daily breaking news


FROM SHARED VISION TO SHARED
A BETTER WAY TO FLY.
boeing.com/commercial

VALUE

Built into every Boeing airplane is a relationship that transcends route maps and data points. It's a personal commitment to share your vision and understand your business like no one else can. A commitment that continually delivers products, technologies and services that create bigger opportunities for you today and tomorrow. It's a nonstop commitment to superior value. That's a better way to fly.

BOEING

EDITOR'S LETTER

Industry leaders display cautious optimism

The message from recent industry gatherings is that airline financials are improving, but there are still threats to profitability

Judging by our news pages in this issue, the aircraft financing industry appears in decent health. HNA's takeover of Avolon, the Irish government's commitment to leasing, LCI's fleet expansion are all good signs, even if DVB's reporting of reduced margins will not be welcomed by the banks. The manufacturers continue to turn out new products, a process exemplified by the news that Airbus has started production of the A330neo and that Boeing has firmed up the design of the 777X. But the health of the financing and manufacturing sectors are inextricably linked to the strength of the world's airlines.

In this context, the International Air Transport Association's (Iata's) second World Financial symposium in September was of no little interest. The event, which took place in Barcelona, attracted 145 carriers, including 46 airline chief financial officers.

Tony Tyler, Iata's director general and CEO, began the conference on a positive note. He predicted that this year will be the first time that the airline industry's return on invested capital exceeded its weighted average cost of capital. He also forecast that in 2015 there will be an industry net profit of $29.3 billion on revenues of $727 billion, for a net profit margin of 4%.

But Tyler acknowledged that a lot work needed to be done in the industry. He reported the wide disparity between different regions for airlines making profit, adding that more than half of the global profits were being made in North America and that many carriers still struggle to keep their revenues ahead of costs.

What our team at the Latin American Airfinance event in Rio, which coincided with the Iata conference, heard from senior airline officials in the region confirmed Tyler's caveats to his good-news story. At the Rio event, conversations turned towards the macroeconomic problems threatening Latin America as the region's major economies suffer from declines in gross domestic product. Naturally, the industry is asking what the impact will be on the region's major carriers.

Speaking in Barcelona, Iata economist Julie Perovic talked about the positive role of low fuel prices on the aviation industry this year, although it was offset by the strong US dollar for non-US airlines. She also highlighted that only 34 high-performing airlines earned returns in excess of their cost of capital.

In Rio, the plight of local currencies, which have devalued dramatically against the dollar, was higher up the agenda. The strong US dollar was of particular concern. The Brazilian real, for example, has dropped to its lowest value against the dollar since late 2002.

Andres del Valle, Latam's director of corporate finance, acknowledged how Brazil's growth problems had impacted the airline group's financial results. He added, however, that low fuel costs went some way to offsetting the loss.

Tax, mergers and acquisitions and maintaining a healthy bank balance were among the subjects and thoughts of the chief financial officers in Barcelona.

In a keynote presentation, Michael Duff, managing director, *The Airline Analyst*, turned to the subject of airline credit ratings and whether they will inevitably remain low. It is a question of some importance given the $5 trillion of capital that is forecast to fund the industry's expansion over the next 20 years.

His view was that the capital will be available – at a price – to finance the industry's growth, but that airlines need to diversify their sources of financing, a diversification that would be helped by improved credit ratings. However, given the cyclical nature of the industry, the industry's credit rating, as a whole, will not be improved, rather it will follow the cycle. The Airline Analyst data shows a trend of strong airlines getting stronger and weaker airlines getting weaker, whereby the price of capital for the weaker ones goes up, in turn threatening their survival or at least their independence.

The mood, at the Barcelona conference at least, was positive for the coming year, but as one panelist put it: "Just because it's warm, don't sell your winter clothes" – an apt reminder that the industry remains both cyclical and prone to external shocks.

Airfinance Journal editorial team

Magazine Editor
Geoff Hearn
+44 (0)20 7779 8853
geoff.hearn@euromoneyplc.com

Reporter
Joe Kavanagh
+44(0)20 7779 8072
joe.kavanagh@euromoneyplc.com

Reporter
Michael Allen
+44(0)20 7779 8029
michael.allen@euromoneyplc.com

Reporter
Jack Dutton
+44(0)20 7779 8734
jack.Dutton@euromoneyplc.com

Group sub editor
Peter Styles Wilson

Production editor
Clare Wood

Publisher
Bryn Hossack
+44 207 779 8857
bhossack@euromoneyplc.com

Advertisement Manager
Chris Gardner
+44 (0)20 7779 8231
chris.gardner@euromoneyplc.com

Senior Account Manager
Chris Welding
T: +44 (0) 207 779 8015
chris.welding@euromoneyplc.com

Senior Marketing Executive
Eva-María Sánchez
+44 (0) 207 779 8450
eva.sanchez@euromoneyplc.com

Business group manager
Andy Cook
+44 (0)20 7779 8207
andy.cook@euromoneyplc.com

Divisional director
Danny Williams

SUBSCRIPTIONS / CONFERENCES HOTLINE
+44 (0)20 7779 8999 / +1 212 224 3570
hotline@euromoneyplc.com

CUSTOMER SERVICES
+44 (0)20 7779 8610
4 Bouverie Street, London, EC4Y 8AX

Executive chairman: Richard Ensor
Directors: Sir Patrick Sergeant, The Viscount Rothermere, Neil Osborn, Dan Cohen, John Botts, Colin Jones, Diane Alfano, Christopher Fordham (managing director), Jaime Gonzalez, Jane Wilkinson, Martin Morgan, David Pritchard, Bashar Al-Rehany
Printed in the UK by Buxton Press, Buxton, Derbyshire.

(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)

COVER STORY

NEWS


/4


/20

ANALYSIS/PROFILES, INTERVIEWS AND FEATURES


/21


/24

REGULARS

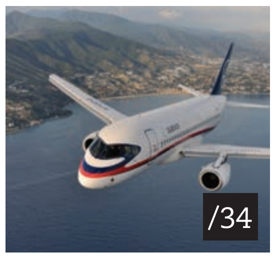

/34

Image credits: GeorgeM757, p8; Doug, p10, p14; Pieter van Marion, p10; Bill Abbott, p11; Patrick Cardinal, p11; Andrew W. Sieber, p12; Miguel Mendez, p15; Woodys Aeroimages, p17; Christian Junker, p17; Aero Icarus, p18;

NEWS

People

Intrepid names new CEO

Olaf Sachau, Intrepid Aviation's chief financial officer, has been appointed chief executive officer (CEO), and Doug Winter, the chief commercial officer, has been promoted to the newly created position of president and chief commercial officer.

The appointments come after Frank Pray, Intrepid's CEO since 2011, is leaving the firm to "pursue other interests", according to a statement by the leasing company. Pray was responsible from repositioning the company from a cargo-focused leasing firm to a widebody lessor.

Intrepid is owned by private equity firms Reservoir Capital Group and Centerbridge Partners.

Sachau tells *Airfinance Journal* that Intrepid has long-term plans to grow the business.

"We are not a wind-down case," he says. "I wouldn't have taken this job if this was a wind down and, by the way, this is a $3 billion business. The shareholders need to develop this one way or another for this to be sold successfully at some point. We know they need to sell at some point, as they are private equity."

Intrepid was adversely affected by the troubles of Japanese carrier Skymark. In February, the carrier announced it would ground its fleet of A330s and cancel its leases. The airline had agreed seven A330 leases from Intrepid. The leasing company had at least 15% of its fleet leased to Skymark when the airline decided to stop flying its A330s and had planned to lease nearly 25% of its total fleet to the Japanese carrier by the end of 2015.

The lessor is claiming ¥104 billion ($900 million) from Skymark for the cancelled A330 contracts, according to documents filed by the airline earlier this year. Sachau confirms the lessor is still looking to place Skymark's A330s.

Tyler to leave Iata

Tony Tyler, the director and chief executive officer of the International Air Transport Association (Iata), will retire from the organization next year.

He will step down in June 2016 after serving five years in the position.

Tyler was chief executive of Cathay Pacific Airways before joining the airline trade association in 2011.

Citi reshuffles aviation division

Anup Mysoor, Citi's Asia aviation head, is leaving the bank, prompting a reshuffle within the investment bank's aviation division.

Mysoor, whose full title is Asia head, aviation, power and utilities, and investment banking division, has been with the bank for 21 years. *Airfinance Journal* understands Mysoor is taking a break from banking because he plans to spend a few months with his wife before embarking on a second career.

Sources in the market commented that Mysoor was leaving the bank on a "high" after a record year for financing in the aviation sector and Asia, in particular.

Mysoor was responsible for many of the recent Asian airline initial public offerings (IPOs), including Tiger Airways, Cebu Pacific, Garuda, AirAsia X and Bangkok Airways, and is believed to have been involved in last year's privatization of Vietnam Airlines and in IndiGo's latest IPO ambitions.

The Citi banker has also been linked with Macquarie's acquisition of Skyfin, a portfolio of 90 aircraft from Awas. In 2014, Mysoor advised MCAP on its joint venture with CK Holdings.

Mysoor's role will be divided among Citi's current aviation team. Asia investment aviation banking will be handled by Scott Miller, who now works with Mysoor in Hong Kong. He will report directly to John Grier, global head of transportation corporate investment banking, based in New York. Tom Hollahan will remain as global head of aviation corporate banking.

New Chinese lessor appoints Lau as adviser

New Chinese aircraft leasing company China Aviation Leasing Service (Cals) has enlisted the former chief executive officer of Minsheng Financial Leasing's aircraft division as an adviser.

Johnny Lau, who has already taken on the role, will act as a general adviser of the company's business development in aircraft leasing.

Cals, which was set up earlier this year by its chairman, Jiedong Min, hopes to raise funds through retail investors online, but the plans are still in the early stages. The company has not done any deals so far.

Lau began his career at Bank of East Asia in Hong Kong and has also worked for Cathay Pacific, Babcock & Brown, Macquarie Bank, Citibank, ICBC Leasing and Spring Airlines.

MBA promotes Tokoph

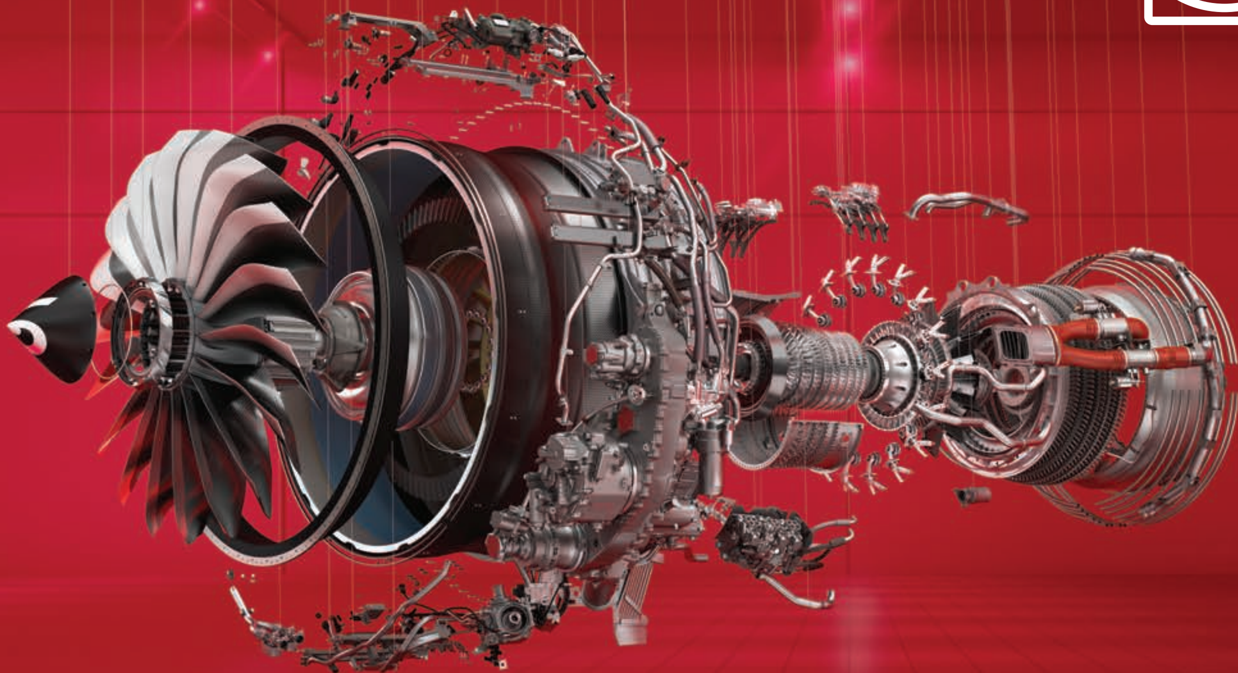
Aviation consulting firm Morten Beyer & Agnew (MBA) has appointed David Tokoph as chief operating officer. He will be responsible for all of the company's valuations, analysis and business development.

Tokoph, who was formerly senior vice-president of valuations and technical analysis, joined MBA in 2011.

Lighthouse Aviation recruits new sales director

Selim Cherif has joined Lighthouse Aviation as director and vice-president of business development.

>>>



NEWS

People

Cherif was most recently with MDT, a European investment firm which he joined in 2008. Before that he worked as an aircraft analyst at both Calyon and PK Airfinance.

Lighthouse is a boutique lessor focusing on regional jet and turboprop aircraft.

Max Bachrach, managing director of Lighthouse Aviation, says: "We are very excited by this addition to our management team with the qualities Selim brings to the table, and we are looking forward to continue to build the Lighthouse Aviation Group's offering and exploring new opportunities in our business."

Leadership changes at Chorus

Chorus Aviation, the holding company of Canadian regional airline Jazz Aviation, has announced three new executive appointments.

The company wrote in a statement that the changes, which are effective on October 1, would support its plans for growth and diversification.

Richard Flynn, who has worked as chief financial officer at Chorus since 2011, will become executive vice-president and chief corporate development officer.

Jolene Mahody, who has worked as chief operating officer of Jazz since 2009, replaces Flynn as Chorus' chief financial officer and executive vice-president.

Meanwhile, Colin Copp has been selected to replace Joseph Randell as president of Jazz. Copp has worked as chief administrative officer at Jazz since 2009. Copp will report to Randell, who remains president and CEO of the holding company.

Chorus had previously announced the appointment of Stephen Hannahs, founder and chief executive officer of Wings Capital Partners, to its board of directors.

Republic Airways Holdings appoints CFO

Republic Airways Holdings has appointed Joe Allman as senior vice-president and chief financial officer (CFO).

Allman joined Republic in 2007 and served as vice-president and corporate controller, before becoming vice-president finance and treasurer in 2012.

He replaces Tim Dooley, who has left the company after 17 years to pursue other interests.

Bryan Bedford, Republic Airways Holdings' chief executive officer, says: "Tim has been a valuable part of the senior leadership team and will be missed. In a turbulent industry, Tim has been a consistent, strong leader during his 17 years at Republic."

Jason Secore, managing director of treasury and corporate development, will replace Allman as vice-president finance and treasurer.

Republic Airways Holdings is an airline holding corporation based in Indiana, US, which owns Republic Airlines and Shuttle America.

White & Case hires internally to replace associate

White & Case has transferred associate Jeffrey Dressler from its New York office to make up for the loss of Tokyo associate Amanda Darling to rival law firm K&L Gates. Darling's responsibilities included working on aircraft finance deals.

Simon Collins, a partner in White & Case's Tokyo office, tells *Airfinance Journal*: "Jeffrey had a desire to move to Asia and we had an opening for an associate in our group."

Millette and Andrews set up investment fund

Airfinance Journal understand that Michael Millette and David Andrews have established a new investment firm, Hudson Structured Capital Management, which will invest in aircraft and other assets.

Millette is a former head of structured finance at Goldman Sachs; Andrews was president of Jet-Alpha Asset Management.

Airstream appoints new manager

Airstream International Group has appointed a new business development manager. The new hire, Ivan Player, will be working on Airstream's existing mandates to remarket Embraer, Bombardier, Boeing and ATR aircraft. He will also be developing and maintaining relationships with aircraft owners and operators, particularly in South America and the CIS.

Player is new to aviation finance but has previous experience as a pilot, according to a company source. Player will be based in the company's offices in Guildford, UK.

Air India appoints new managing director

Indian flag carrier Air India has appointed a new chairman and managing director.

The new MD, Ashwani Lohani, started his new role in early September and will replace Rohit Nandan, according to a source with knowledge of the move.

Lohani was previously the director for railways in India.

RAA appoints Black as President

The Regional Airline Association (RAA), the trade organization representing US regional airlines, has appointed Faye Malarkey Black as president.

Black has served as the RAA's interim president since February 2015 and was formerly SVP of government affairs.

The RAA supports 28 member airlines across North America by providing technical, government relations and public relations services.

NEWS

Airlines

Gol closes $300m term loan

Brazilian carrier Gol has closed a $300 million term loan underwritten by US carrier Delta Airlines.

The five-year loan has a principal amount of $300 million and carries a coupon of 6.5%.

Morgan Stanley is acting as administrative agent.

The loan was first announced in a memorandum of understanding signed between Gol and Delta in July. Under the agreement, Delta guarantees a term loan for Gol, as well as making an equity investment of up to $56 million.

Aeroflot to buy Transaero

Russian flag carrier Aeroflot is to acquire the struggling airline Transaero, Russia's second-largest carrier.

In an emailed statement, Transaero said that a government commission, chaired by Russia's first deputy prime minister Igor Shuvalov, had approved the acquisition.

Reuters and Bloomberg have reported that Aeroflot will acquire a 75% stake in Transaero, for a token payment of one ruble.

Aeroflot plans to restructure Transaero's heavy debt burden, and has appointed Sberbank to advise on the process.

As of December 2014, Transaero had balance sheet debt and outstanding finance leases totalling $1.795 billion. The troubled airline received a state-guaranteed loan from the Russian bank VTB earlier this year, in order to help with its mounting costs. Like many Russian carriers, Transaero has been hit hard by the rising costs caused by currency devaluation, as well as a drop in demand on international routes.

China Southern to increase stake in Xiamen Airlines

China Southern Airlines has agreed to purchase an additional 4% equity interest in Xiamen Airlines, increasing its stake in the carrier from 51% to 55%.

China Southern revealed in its half-year results announcement that it had entered into an agreement with Xiamen Jianfa Group on July 14 to purchase the stake.

>>>

NEWS

Airlines

The acquisition is subject to the approval of the "relevant authorities".

In the results, Xiamen Airlines reported a net profit of Rmb696 million ($113.6 million).

IAG completes Aer Lingus acquisition

International Airlines Group (IAG) has completed the acquisition of Aer Lingus, the Irish flag carrier.

The offer for 529,779,029 Aer Lingus shares, representing 98.05% of the airline's existing issue share capital, was accepted on September 1.

Airfinance Journal understands the remaining shares will be acquired as a result of a "squeeze out" – a compulsory acquisition of stakes from a small group of shareholders as a result of IAG acquiring more than 90% of the Aer Lingus shares. Speaking to local media, Irish minister for transport Paschal Donohoe said that the money the government gets from selling its stake in Aer Lingus will be used to fund infrastructure projects across the state.

Shandong Airlines to sell Qingdao share

Chinese carrier Shandong Airlines has issued a public tender to sell its 20% stake in start-up carrier Qingdao Airlines for a base price of Rmb200.8 million ($31.6 million).

Qingdao Airlines is held 55% by Nanshan Group, 25% by Qingdao City Construction Investment Group and 20% by Shandong Airlines.

The carrier began operations in April 2014.

Congolese carrier Korongo ceases service

Korongo Airlines, a start-up Congolese carrier, will be wound down after starting operations just three years ago with the goal of providing safe operation in a country dogged by aviation disasters.

The airline was founded in 2012 as a joint venture between Airbel (which is 51% owned by Brussels Airlines and 49% by Forrest Group) and local Congolese investors. The airline had hoped to "provide a reliable, comfortable and safe service, respecting all international aviation standards and thus to contribute to the transport development in the DRC [Democratic Republic of the Congo] and Africa".

In a statement, Brussels Airlines said that shareholders and management had decided on September 4 in a meeting in the DRC's second city Lubumbashi to discontinue Korongo Airlines' flight operations and dissolve the company.

Brussels Airlines added that, despite flights achieving load factors of more than 70% and several international organizations and companies letting their staff travel exclusively with Korongo Airlines, the carrier had not been able to reach profitability because of "a lack of critical mass [and] operations based on a fleet of only one aircraft, which doesn't offer sufficient possibilities to amortize the fixed costs of an airline operation respecting all international safety standards".

The Congolese government's decision to create a new airline is also thought to have played a role in the decision.

Jetlines and Inovent reach settlement

Canadian low-cost carrier Jetlines and its former backer Inovent Capital have reached a settlement agreement over this year's cancelled initial public offering (IPO) deal.

In February, Jetlines cancelled a C$50 million ($40 million) IPO agreement. After the settlement, Jetlines paid Inovent C$25,000 and was required to pay a further C$80,000 by September 30. Jetlines will also give Inovent the right to purchase 200,000 shares at C$0.50 a share.

The airline is still working towards its IPO, and plans to begin operations six months after it is fully funded.

New Malaysia Airlines gets AOC

The new Malaysia Airlines company Malaysia Airlines Berhad (MAB) has received its air operator certificate (AOC).

After financial difficulties exacerbated by two fatal crashes last year, the company headed by former Aer Lingus chief executive officer Christoph Mueller decided to split itself into two entities: the old company Malaysian Airline System (MAS) and a new company Malaysia Airlines Berhad.

Malaysia Airlines originally set September 1 as the deadline for deciding which aircraft would be transferred to MAB and which would be returned to creditors.

However, in July *Airfinance Journal* revealed that the company had delayed this move and instead asked creditors to agree to an interim agreement whereby its entire fleet would be sub-leased to MAB and operated by this new entity for a period of six to 12 months, with the possibility of an extension.

To qualify for the AOC, MAB was required to undergo months of audit activities, which included airworthiness of the airline's operations, aircraft maintenance, as well as regulatory conformity.

THY and Lot plan joint venture

Turkish Airlines (THY) and LOT Polish Airlines have signed a letter of understanding to boost cooperation between the two carriers.

THY stated that the airlines planned to launch a joint venture, but it did not reveal more details.

Turkish Airlines already has a joint venture with Lufthansa in the form of the airline SunExpress, which operates flights to destinations in Europe, Asia and North Africa.

Garuda 'should stop fleet expansion'

Indonesian flag carrier Garuda should cancel its fleet expansion plan, according to a newly appointed government minister.

Coordinating maritime affairs minister Rizal Ramli, who took office in August, said he was concerned about Garuda going bankrupt again if it goes ahead with the purchase of 30 Airbus A350 aircraft using a $44.5 billion loan from the China

>>>


SUKHOISUPERJET100
In Partnership with Alenia Aermacchi
fly more
Fast turnaround, high dispatch reliability, lower operation charges: INCREASEyourMARGINS
Find out more about the Sukhoi Superjet 100 at
SSJ100RIGHTNOW.COM
Navigate on board the SSJ100
DOWNLOAD THE ON BOARD APP

NEWS

Airlines

Aviation Bank, according to the Jakarta Post.

Ramli reportedly made a request to Indonesian president Joko Widodo to cancel the expansion.

He said the international routes planned by Garuda were unprofitable, pointing to other carriers in South-East Asia, such as Singapore Airlines, operating similar routes without making a profit.

He added that Garuda's routes to Europe have only a 30% passenger load factor. Instead of expanding its international routes, it would be better if Garuda bought a number of A320 aircraft and focused on the domestic and regional markets.

Ramli is quoted as saying: "We can rule the regional market in five to seven years. When we are strong enough, then we can go onto the next step. The president has agreed to the cancellation of the purchase of the Airbus A350 and we will summon the [Garuda] management to change its plans."

Singapore Airlines not taking Jeju Air stake

Singapore Airlines has announced it has stopped discussions with South Korean carrier Jeju Air and will not be purchasing an equity stake in the carrier.

The Singaporean flag carrier announced to the Singapore Exchange on March 17 that it was in talks with the airline about a possible equity investment.

Thai Airways receives safety audit requests

Thai Airways has been contacted by foreign aviation regulators requesting safety audits, according to local media reports.

The Bangkok Post cited the carrier's president Charamporn Jotikasthira as saying that "several" regulators, including Indonesia's aviation regulator, have been in touch to request an audit. The airline did not name any other parties which made requests.

The requests are a response to the Thailand Department of Civil Aviation's failure to meet a 90-day deadline to correct problems identified by an earlier report by the International Civil Aviation Organization (Icao).

Thailand's safety standards have been under scrutiny since Icao gave the country a "red flag" on June 18 over safety concerns.

Alaska Air approves $1bn share repurchase

Alaska Air Group has approved a $1 billion share repurchase programme.

The repurchase, which represents 10% of the company's stock market capitalization, is the largest in Alaska Air Group's history. It will begin once the airline has completed an existing $650 million buyback.

The programme allows the company to buy common stock on the open market, through negotiated transactions or other means, including accelerated share repurchases.

The $1 billion repurchase will be Alaska's ninth since 2007.

FedEx launches TNT offer

US delivery firm FedEx has made its offer to buy Dutch rival TNT Express.

The offer is a public cash offer for all the issued and outstanding ordinary shares, at an offer price of €8 per share. The offer values 100% of the shares of TNT Express at €4.4 billion ($4.8 billion).

The acceptance period closes on October 30. TNT Express will hold an extraordinary general meeting of shareholders to discuss the offer on October 5.

FedEx announced its intention to buy TNT in April this year. In a statement, the US company said it would finance the bid with cash and both new and existing debt arrangements.

FedEx Express, the US company's cargo airline, operates a fleet of 650 aircraft.

The TNT Express fleet, including its subsidiaries and wet-lease agreements, consists of around 45 aircraft, including Boeing 737, 757, 777, 747 and BAe 146 type aircraft.

New UK airline planned

A new carrier, Firnas Airways, is hoping to launch operations from the UK next year. The new operator intends flying to Pakistan and Bangladesh from the fourth quarter of 2016. Initial plans are based on the operation of a 767-300 on a five-year operating lease.

Abdul Roqueb, Firnas Airways' head of planning, says he is looking to lease an aircraft under 15 years old.

"Five years into operation, we want to reduce our fleet age to 10 years, and five years after that, we want to reduce our average fleet age to five years," he tells *Airfinance Journal*.

Roqueb adds that the airline is in talks with several lessors to lease aircraft and that the airline "might consider the 757" in future.

Other routes the airline is looking at include London to New York, Iran, and several destinations in India and Africa. The airline is negotiating slots with London Heathrow, Gatwick and Stansted, and claims it will have finalized its departure hub by the end of the year.

Kenya Airways requests loan to stem record losses

Kenya Airways has asked the African Export-Import Bank to arrange a $200 million bridging loan to help it stem record annual losses. A source at the export credit agency (ECA) confirms to *Airfinance Journal* the accuracy of media reports about the proposed loan. The East African airline posted financial results at the end of July, recording an annual pre-tax loss of KSh29.7 billion ($293 million). The operator's pre-tax losses were KSh4.86 billion in 2014. Kenya Airways attributed the losses to its fleet-renewal programme coinciding with "a difficult business environment", driven by the Ebola outbreak and terrorism in the region, causing a slump in the Kenyan tourism industry.

The carrier said in a statement it had successfully completed its first phase of fleet renewal over the past year, acquiring five 787 Dreamliners, two 777-300s and three 737-800NGs. The carrier also retired its entire 767 fleet during this period.

Manufacturers

EIB confirms $427m Rolls-Royce loan

The European Investment Bank (EIB) has agreed to loan Rolls-Royce £280 million ($426.8 million) to support the development of the higher-thrust version of the Trent XWB engine.

Rolls-Royce will use the seven-year loan to develop the Trent XWB-97, a 97,000lb-thrust engine that will power the A350-1000 when it enters into service in 2017.

EIB is the sole lender on the loan. It has lent more than $723 million to Rolls-Royce over the past 10 years.

The bank is a long-term lender that is owned by and supports the European Union member states.

Iranian carriers and IFC in Superjet talks

Iranian carriers have met with Russian aircraft lessor Ilyushin Finance Company (IFC) to discuss the potential lease of Sukhoi Superjet 100s, a spokesman for the lessor tells *Airfinance Journal*.

The spokesman says that Russian companies, including manufacturers, banks and lessors, are preparing to go ahead with new deals once sanctions against Iran are lifted.

Under the Joint Comprehensive Plan of Action signed in August, Iran has agreed to cut back its uranium-enrichment programme. In exchange, the US, the European Union and the UN Security Council will lift the nuclear-related economic sanctions on Iran.

For the country's airlines, the lifting of sanctions means that the purchase and lease of foreign aircraft will be permitted. IFC says that the Russian-manufactured SSJ100 may be a good fit for Iran's carriers.

Ilyushin's spokesman tells *Airfinance Journal*: "As Iran has firm plans to renew its fleet, including dozens of vintage medium-range planes like MDs [McDonnell Douglas aircraft] and Fokkers, then the SSJ100 may be a right solution as soon as the western sanctions are lifted. Given that Russia is Iran's neighbour and has old ties in civil aviation cooperation, there might be enough room for competitive financial solutions and closer logistics."

The deputy head of Iran's civil aviation organization has said the nuclear deal lifts US sanctions on importing aircraft, and the country's official news agency reports that the intention is to purchase 80 to 90 Boeing and Airbus aircraft every year.

When contacted by *Airfinance Journal*, Boeing and Airbus remained cautious about the potential for supplying aircraft to Iran.

CSeries certification getting nearer

Bombardier's CS100 has completed 80% of its required certification tests, according to an August announcement by the Canadian manufacturer.

The company adds that the aircraft has completed 2,250 flight test hours and is on schedule to achieve full certification later this year.

In 2012, Bombardier said the CSeries was planned to enter service about the second half of 2014. It was then pushed back until the second half of 2015. The CS100 is now scheduled to deliver to launch customer Swiss International Air Lines in the first half of 2016.

Airfinance Journal understands Russian aircraft lessor Ilyushin Finance Company is in the process of renegotiating its order for 32 CS300 aircraft. The lessor hopes to push back its delivery slots to 2019 to increase its chance of accessing export credit agency guarantees for the new aircraft.

Speaking about the Ilyushin order, a spokesman for Bombardier says: "IFC is a solid, valued customer with a firm order in place. It is our understanding that the CSeries 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."

Avic signs orders for 185 turboprops

Chinese manufacturer Aviation Industry Corporation of China (Avic) has announced 185 purchase agreements for its Xian Modern Ark 700 (MA700) aircraft.

The 11 customers are Joy Air, Okay Airways, Cambodia Bayon Airlines, China Development Bank Leasing, CMB Financial Leasing, Chongqing General Aviation Financial Leasing, Poly Technologies, Air Avenues, EGA Group, Hybrid Aviation and Segers Aero.

Dong Jianhong, chief designer of the MA700 project, says that the next-generation MA700 turboprops will serve regional air transportation within an 800-kilometre range and will be able to fly at high altitudes and in high temperatures, according to Chinese aviation website WCARN.com.

Dong says the target is for the MA700 to take its first flight in 2017 after its final assembly in 2016, and be certificated by the Civil Aviation Administration of China in 2019. Thereafter, it will also seek certification from the US Federal Aviation Administration, making it the first Chinese-made turboprop to apply for western certification.

The manufacturer's target for entry into service of the MA700 is 2019. However, other Chinese commercial aircraft projects have had difficulty meeting entry into service expectations. For example, the ARJ21 regional jet is

>>>

NEWS

Manufacturers

believed to be nearing service entry, but is nearly eight years behind schedule, according to some accounts.

Although the regional jet programme has provided some valuable lessons for the country's C919 project, there are fears that the Chinese competitor to the Boeing and Airbus single-aisle products is also behind schedule.

SpiceJet in talks for more than 100 jets

Indian carrier SpiceJet is in talks with aircraft manufacturers for the purchase of more than 100 narrowbody aircraft, the company's head of corporate affairs Ajay Jasra tells *Airfinance Journal*.

Jasra confirms the accuracy of reports on newswires that the airline is in talks with Airbus and Boeing to acquire A320neo and 737 Max aircraft.

Bregier commits to A380 variant

Fabrice Bregier, the Airbus chief executive officer, said that the European manufacturer plans to offer an improved version of its A380 widebody by 2025, though no decision has been made on whether to offer a new engine.

Bregier told UK newspaper The Sunday Times that Airbus plans to move towards an "A380neo type", which will be introduced between 2020 and 2025.

He added that Airbus had not decided yet on whether it would add a new engine to the aircraft.

MRO NEWS

Rusline buys two CRJs

Russian regional airline Rusline has purchased two 1998-vintage CRJ100 aircraft.

The carrier plans to tear down the airframes via its subsidiary, Future Aviation Support Technology.

The aircraft are powered by GE CF34-3A1 and CF34-3B1 engines. Rusline will keep two of the engines for use on its own fleet of Bombardier jets, and will lease another to an undisclosed Russian airline.

An airline source says the aircraft were sold by a US financial institution, but did not disclose its name.

Calc signs with China Eastern's maintenance arm

Hong Kong lessor China Aircraft Leasing Company (Calc) has signed a strategic cooperation agreement with China Eastern Airlines' maintenance arm.

Eastern Airlines Technic, which was set up in December 2014, will provide Calc with aircraft and engine maintenance services and technical advisory services that "facilitate the lessor to meet applicable airworthiness requirements".

Other services will include on-site emergency support, aircraft maintenance cost analysis, parts solutions and training.

The cooperation agreement is valid for three years.

AerFin and SR Technics form new A340 JV

AerFin and SR Technics, the maintenance, repair and overhaul (MRO) provider, have signed a memorandum of understanding to form a new joint venture (JV) which will offer end-of-life management solutions for Airbus A340s.

The joint venture, Beyond.Fleet.Services, will guarantee fixed engine pricing and MRO services for components, and will provide the option for carriers to sale/leaseback aircraft and engines.

SR Technics will provide the MRO services for CFM56-5Cs, the engine used for the A340. AerFin will provide finance and leasing schemes for end-of-life aircraft.

AerSale buys five A300s

US part-out company AerSale is in the process of taking delivery of five A300-600 aircraft from Thai Airways, *Airfinance Journal* learns. The Thai flag carrier's board of directors approved the sale in April.

Airfinance Journal understands that the aircraft will be parted out at AerSale's facility in Roswell, New Mexico, if they cannot be leased or sold to third parties.

NEWS

Lessors

Avation's net profit falls

Singapore-based lessor Avation has posted a net profit of $13.3 million for the first half of 2015, a 7% reduction on last year's figure for the same period.

Jeff Chatfield, Avation's executive chairman, said in a statement that the "small reduction" in net profit was "primarily due to the variability in aircraft trading gains and losses between the respective financial periods".

He added: "The one-off gains from the sales of two aircraft in 2014 were not replicated in 2015. Furthermore, Avation's subsidiary, Capital Lease Aviation, incurred a loss of $1.2 million net of tax from the cessation of operations and part-out of an aircraft which was at the end of its useful life."

Avation has four aircraft contracted for delivery before December 31 and a further six for delivery in the six months to June 30 2016, with a further two expected in the second half of next year.

Chorus eyes new leasing customers

Chorus Aviation, the holding company of Canadian regional airline Jazz Aviation and leasing subsidiary Jazz Leasing, plans to expand by leasing to new airline customers.

Speaking to *Airfinance Journal*, president and chief executive officer Joe Randell says the company is seeking to place regional aircraft with new customers who are "further afield" than Canada.

He adds: "We've already started. I wouldn't classify them as advanced, but we are having discussions. We wouldn't rule anything out."

Randell says: "We're being strategic, but we're willing to be opportunistic as well. I'm not going to put a timeframe on a deal. We're going to do things that make sense. We've identified the market as being there, but I'm hopeful that if you were speaking to me next year at this time, that we'd be able to point to several successes."

Jazz Aviation operates regional flights on behalf of Air Canada. Chorus also leases aircraft through Jazz Leasing, as well as providing maintenance, repair and overhaul, and parts sales.

Randell says that Chorus is "not averse" to diversifying its fleet with Embraer and ATR aircraft. Chorus's operating fleet consists of CRJ200, CRJ100, Dash 8-300, Dash 8-100 and Q400 aircraft.

He explains: "[Chorus plans to lease] Q400s and Dash 8-100s as a minimum, but we're not averse to Embraer products as well, or ATRs. We're very Bombardier-centric, and a greater level of diversification for Chorus makes sense."

Referring to Dash 8-100s and -300s, Bombardier turboprops that are now out of production, Randell says: "We see these

CHINESE CONGLOMERATE AGREES TO BUY AVOLON

Bohai Leasing, a subsidiary of Chinese conglomerate HNA Group, has agreed to buy Irish lessor Avolon for $31 per common share, a dollar lower than the expected $32 a share.

A spokesman for Avolon says the company has 82.428 million shares in the market that, according to *Airfinance Journal*'s calculations, puts Avolon's market capitalization at about $2.5 billion. The total enterprise value of the transaction, which includes the company's debt, is about $7.6 billion.

The lessor said the $1 discrepancy between the expected and actual sale price per share represented "significant volatility across global equity markets".

Despite being slightly lower than predicted, the sale price still represents a 31% premium to Avolon's undisturbed closing price on July 13 of $23.73 a share, the closing price before the announcement of Bohai's initial intention to acquire a 20% stake, according to a statement from Avolon.

The $31 a share price also represents a 55% premium to Avolon's initial public offering (IPO) at $20 a share in December 2014, although that IPO priced between $1 and $3 below guidance.

The move comes after the August announcement that the companies were in exclusive talks for Bohai Leasing to take a 100% equity stake in Avolon. In July, Bohai agreed to acquire a 20% interest in Avolon for $429 million.

Bohai will increase its deposit by $100 million to $350 million to "provide greater certainty of value and reflecting its commitment to the transaction". The total $350 million deposit represents about $4.25 per Avolon common share and is payable to Avolon "in certain circumstances" if the transaction is not concluded.

Denis Nayden, Avolon's chairman, said in a statement: "We believe Bohai will enhance Avolon's profile, positioning and relationships in the Chinese aviation market – a market which we believe offers one of the most compelling growth opportunities in global aviation over the next two decades."

The transaction is expected to close by the first quarter of 2016.

NEWS

Lessors

airplanes being in good demand as time goes forward, because of their significant value and operational abilities, with respect to smaller markets, etc."

He adds: "In our view, these airplanes are going to be around for a long time. In terms of newer technology, there's really nothing comparable on the small turboprop side when you look at operating costs or anything of that nature. So we think that these airplanes will be in reasonable demand."

Chorus plans to support its upcoming expansion with changes to its management team.

(See Leadership changes at Chorus, page 6.)

DVB sees margins drop for new transport deals

Transportation lender DVB Bank has reported that bank margins on new deals have dropped by 44 basis points in the past six months compared with the same period a year ago.

In its first half-year report, DVB Bank stated that the average gross interest margins on new transport finance business, including aviation, had dropped from 279 basis points last year to 235 basis points.

Aviation lending now totals about €8.09 billion ($9 billion) and accounts for 32% of DVB Bank's total customer lending, as of June 30.

The bank also reported a rise in its consolidated net income, before taxes, for the first half of 2015 by 4.6% year-on-year, to €43.3 million.

Ireland 'will remain attractive' for leasing

Paschal Donohoe, the Irish minister for transport, tourism and sport, has vowed to keep Ireland an attractive jurisdiction for aircraft leasing. In a policy document, Donohoe says: "Aviation matters. It matters to the Irish economy, it matters to consumers and it matters to this government. The aviation sector contributes significantly to the Irish economy. It contributes over €4 billion ($4.5 billion) directly to Ireland's GDP, supporting 26,000 jobs with a further 16,000 jobs indirectly. The tourism industry is also heavily reliant on aviation and accounts for a further €5.3 billion in GDP and 180,000 jobs."

The national aviation policy document outlines that Ireland will "fully adopt the Cape Town Alternative A insolvency arrangements and promote it for the benefit of aviation finance" to help maintain its attractiveness as a leasing base.

A spokesman from the Irish Department of Transport tells *Airfinance Journal*: "The policy acknowledges the growing challenges (and opportunities) from other regions in the world, and accordingly the precise manner in which Ireland's attractiveness and competitive advantage can be sustained will require on-going analysis and attention."

EQT takes majority stake in NAC

EQT VI, a fund controlled by private equity group EQT, has agreed to acquire a majority stake in Nordic Aviation Capital (NAC) in a deal that values the leasing company at $3.3 billion.

According to a statement, NAC's founder and chairman Martin Møller will continue as chairman of the company, remaining a significant shareholder and contributing about 50% of the capital.

Neither party revealed the size or value of the equity stake. However, a joint statement valued 100% of NAC at $3.3 billion on a cash- and debt-free basis.

Clifford Chance, Rothschild, Ernst & Young and PwC advised NAC. Freshfields, Goldman Sachs, Accura, IBA and PwC advised EQT VI.

NAC's fleet consists of almost 250 aircraft with an average age of 5.4 years, on lease to more than 40 airlines.

LCI plans fleet expansion

Lessor LCI is planning on expanding its fleet, looking at a mixture of used narrowbody and widebody aircraft.

Jaspal Jandu, chief financial officer of LCI, tells *Airfinance Journal* that the lessor is planning to acquire used 737s and A320s, as well as used A330s and possibly even 777s with leases attached from rival lessors.

Jandu adds that as LCI's portfolio grows, it wants to look at the capital markets. He also calls for more banks to specialize in lending against asset risk rather than just relying on the underlying credit of the airline.

The lessor has one 747-400 freighter on lease to Singapore Cargo Airlines and four A330-300s leased to Singapore Airlines.

The lessor is also one of the launch customers of the Bombardier CSeries. The first Bombardier aircraft is due to deliver from 2016.

Jandu says LCI is committed to the CSeries, and adds it is working closely with Bombardier to help place aircraft with airlines.

(See CSeries certification getting nearer, page 11.)

NEWS

Deals

THY launches yen-denominated EETC

Turkish Airlines (THY) is launching the first yen-denominated enhanced equipment trust certificate (EETC).

The structure will support the delivery of three new A321-200s. The aircraft will be 100% financed by the proceeds of the EETC investments, as well as the equity contributions from Japanese operating lease with call option investors.

The deal is split between two tranches: an ¥8.5 billion ($70.3 million) A tranche and a ¥1.95 billion B tranche. Both tranches mature on March 20 2024.

Ratings agency Moody's has assigned an A2 rating to the A tranche and a Baa2 rating to the B tranche.

The aircraft, which were all due to deliver to THY before October, will be operated under 12-year leases.

Mizuho Securities is acting as underwriter, Shinsei Trust & Banking as trustee and Development Bank of Japan is acting as depositary and liquidity provider.

Pillsbury is representing THY, while Nishimura & Asahi is representing Mizuho.

Korean Air takes first 747-8

Korean Air Lines (KAL) took delivery of its first 747-8 aircraft in August. The jet is on a 12-year US Ex-Im-guaranteed finance lease with HSBC.

The aircraft is the first of 10 of its type the South Korean airline has on order.

Airfinance Journal understands Korean has mandated financing for the three other aircraft, which will deliver this year.

A further three aircraft are expected to deliver in 2016 and three more in 2017. No financing has been arranged for these deliveries yet.

KAL is the first airline in the world to operate both the passenger and freighter versions of the 747-8.

IndiGo closes sale/leasebacks for five A320neos

Indian airline IndiGo has signed a sale/leaseback agreement with Dublin-based lessor Goshawk Aviation for five new A320neo aircraft. The aircraft will deliver between November 2015 and June 2016.

IndiGo firmed up an order for 250 A320neos on August 17, setting a record for the largest order from Airbus.

Goshawk was established in November 2013 as an aircraft-leasing platform focusing on young, new-technology, in-production aircraft, according to a statement released by the company. The company's principal shareholders are Chow Tai Fook Enterprises, NWS Holdings and Investec Bank.

HKAC closes $725m warehouse

Hong Kong Aviation Capital (HKAC) has closed a new $725 million warehouse facility to finance aircraft deliveries and refinance existing aircraft.

The facility for the Hong Kong lessor was oversubscribed and is priced at 2%.

Credit Suisse structured the facility, which was syndicated to banks based in the Americas, Europe, the Middle East and Asia, including Crédit Agricole Corporate and Investment Bank, RBC Capital Markets, EverBank, FGB, Natixis and Nomura.

Credit Suisse, Crédit Agricole and RBC Capital Markets served as joint lead arrangers.

Avic Leasing to finance more CRJs for China Express

Chinese lessor Avic Leasing intends financing more CRJ900NG aircraft for China Express in 2016 after its financing of two of the aircraft type this year, according to a company source.

In March, the Guiyang-based carrier took delivery of two CRJ900NGs from Avic, with Canadian export credit agency Export Development Canada providing a loan to Avic to finance the aircraft. The deal was structured through a special purpose company.

Lion Group agrees ATR finance lease

Indonesian airline company Lion Group has taken delivery of a new ATR 72-600 on a 12-year finance lease from PK AirFinance, an affiliate of Gecas.

Wings Abadi Airlines (Wings Air), one of the group's subsidiaries, is operating the aircraft.

NEWS

Deals

DAE signs commercial loan for six ATR 72-600s

Middle Eastern lessor Dubai Aerospace Enterprise (DAE) has signed a loan to purchase six new ATR 72-600s.

DekaBank is the sole arranger and initial lender on the deal. It did not disclose the loan amount.

The German bank has placed about $31 million of the debt in Deka Münster Transportmittelkredit, its in-house debt fund. The doctors' pension fund, Ärzteversorgung Westfalen-Lippe, is the sole investor in the fund.

The six turboprops will be leased to Brazilian low-cost carrier Azul.

Delta prices EETC

US carrier Delta Air Lines has priced a $500 million enhanced equipment trust certificate (EETC) secured against 15 narrowbodies. The carrier priced its EETC at par.

The EETC is secured against, and will be used partially to finance, 15 Boeing 737-900ER aircraft delivered new to Delta between September 2013 and February 2014, which were originally funded with cash.

The EETC was split between three tranches. The first tranche has been dubbed a class-AA certificate, the second a class-A certificate and the third a class-B certificate, reflecting the ratings of the tranches.

The $312.5 million AA-class certificates have a loan-to-value of 45%, an 11.9-year final maturity and an 8.9-year weighted average life and were rated Aa3 by Moody's and AA by Standard & Poor's (S&P).

The $69.4 million class-A certificates have an 11.9-year final maturity and an 8.9-year weighted average life and were rated A1 by Moody's and A+ by S&P.

The $118.02 million class-B certificates have a 7.9-year final maturity, a 5.9-year weighted average life and are rated Baa2 by Moody's and BBB by S&P.

The AA-class tranche has a coupon of 3.625%, the A-class has a coupon of 3.875% and the class-B tranche has a coupon of 4.250%.

Moody's stated in its ratings rationale for the structure that it believes the 737-900ER will remain "the backbone of Delta's narrowbody fleet over the transaction's 12-year term".

Morgan Stanley is the sole structuring agent on the deal, while Credit Suisse, Citi, Deutsche Bank and Goldman Sachs are the joint bookrunners.

White & Case advised the underwriters, while Debevoise & Plimpton advised Delta.

ALC announces $500m bond pricing

Air Lease Corporation (ALC) has priced a $500 million unsecured bond offering.

The three-year senior unsecured notes carry a coupon of 2.625% and priced at 99.5% of par.

The notes are due on September 4 2018.

CMB Financial Leasing refinances three aircraft

Chinese lessor CMB Financial Leasing has closed a financial facility for the refinancing of three jets.

The aircraft portfolio – consisting of one A330-300, one 737-800 and one A320-200 – is on finance lease to China Southern Airlines.

DVB Bank and Morgan Stanley are co-arrangers for the senior loan facility.

Bank of Tokyo-Mitsubishi UFJ and Sumitomo Mitsui Trust Bank are also lenders on the transaction.

DVB acted as facility agent and security trustee.

William KK Ho & Co acted for the borrower, while Allen & Overy Shanghai acted for the lenders.

Vietnam Airlines closes Dreamliner financing

Vietnam Airlines has closed a $589 million Ex-Im Bank-guaranteed financing for the acquisition of four 787-9 Dreamliners.

ING Capital in New York acted as lead arranger and agent. TD Securities acted as co-arranger.

>>>

NEWS

Deals News

SECONDARY MARKET NEWS

Fastjet signs LOI for A319

Fastjet has signed a letter of intent (LOI) for the purchase of a nine-year-old A319.

The aircraft was expected to begin operations in September, and is planned to be the first aircraft for the fastjet Zambia fleet.

A spokesman for the airline tells *Airfinance Journal* the aircraft will be paid for in cash raised from fastjet's $50 million accelerated bookbuild, which took place at the start of April.

Ed Winter, fastjet chief executive officer, says: "Following our recent announcement of the fourth and fifth aircraft joining our fleet, the addition of this owned aircraft by the end of September will see the fleet double in size to six once each of these aircraft are operational."

Falko buys Embraer jets

UK-based lessor Falko has purchased five Embraer aircraft from Dublin-based lessor SMBC Aviation Capital.

The aircraft, which are between 2001 and 2005 vintage, are made up of three ERJ145s and two ERJ170s.

A source with knowledge of the deal tells *Airfinance Journal* that two of the ERJ145s are leased to Dubai-based airline Rotana Jet and the other ERJ145 is leased to Denim Air. The two ERJ170s are leased to Finnair.

Chinese lessor buys airberlin A320s

Chinese lessor Bank of Communications Financial Leasing (Bocomm) has purchased three A320-200s from airberlin for lease to Chengdu Airlines, according to a source close to the deal.

The aircraft are on 12-year operating lease and are between two and three years old. The aircraft were delivered to Chengdu Airlines at the end of July.

Airfinance Journal understands Bocomm financed the aircraft from a pool of funding from its relationship banks.

William KK Ho & Co acted for the lessor on both the purchase and the leasing transactions.

The deal is Bocomm's first transaction with Chengdu Airlines, although it has previously done business with Chengdu's parent company Sichuan Airlines.

TD Bank will act as lender for three aircraft, while AB Svensk Exportkredit will act as lender for one aircraft.

The financing for the aircraft closed at the same time as the delivery of the first aircraft on July 30.

The remaining three aircraft were scheduled to deliver in August, September and October.

Clifford Chance acted for the lenders, Hogan Lovells for Vietnam Airlines and Robert Wray for Ex-Im Bank.

Air China Cargo takes Ex-Im-backed freighters

Chinese cargo carrier Air China Cargo has taken delivery of a 777-200F financed by a US Ex-Im Bank loan, *Airfinance Journal* learns.

The delivery is part of a two 777-200F deal. HSBC is acting as lender on the deal.

Air China Cargo is a joint venture between Chinese flag carrier Air China and Hong Kong flag carrier Cathay Pacific.

Sriwijaya Air takes two 737-900ERs

Indonesian airline Sriwijaya Air has added two 737-900ERs to its fleet. The airline ordered two of the Boeing models at the Paris Air Show in June.

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

After the delivery, a spokesman for Aergo confirmed the lease terms to *Airfinance Jour-*

NEWS

Deals

nal.

Blake Morgan in the UK and Mochtar Karuwin Komar in Indonesia acted for Aergo. Hanafiah Ponggawa & Partners acted for Sriwijaya Air.

Awas refinances eight jets

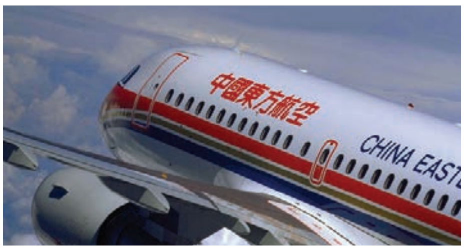
Aircraft lessor Awas has closed a refinancing deal for eight aircraft in its portfolio.

DVB Bank arranged a number of secured commercial loans for the lessor, with terms ranging from three to four years.

The aircraft being refinanced include five Airbuses (both single- and twin-aisle jets) and three Boeing narrowbodies. Sources on the deal declined to reveal the vintages of the aircraft.

DVB Bank acted as sole arranger, agent and underwriter on the deal. Clifford Chance advised DVB for the transaction.

ICBC refinances three jets



ICBC Financial Leasing has announced the refinancing of three aircraft with DVB Bank.

The aircraft portfolio, which consists of one A330-200, one 737-700 and one A319-100, are on long-term finance leases with China Eastern Airlines.

DVB is the sole arranger, sole underwriter and lender for the senior loan facility.

Berwin Leighton Paisner represented ICBC and Clifford Chance represented DVB.

ICBC is one of the largest leasing companies in China, with over 200 aircraft in its portfolio.

DELIVERIES IN BRIEF

Hainan Airlines receives A330

Hainan Airlines took delivery of a new A330-300 at the end of August.

The jet is the 10th of its type for the Chinese carrier and is equipped with Rolls-Royce Trent engines.

Icelandair leases 767-300ER

Icelandair has leased a 767-300ER from Gecas. An airline source confirms the aircraft is a 2000 vintage.

The source adds that Icelandair is in the process of buying another 767-300ER from a lessor.

The aircraft is due to deliver at the end of 2016.

Avolon Capital Partners acquires A321-200

Avolon Capital Partners, a joint venture between Irish lessor Avolon and US bank Wells Fargo, has acquired a new A321-200.

The Airbus jet has been delivered to Spanish carrier Vueling Airlines.

Nok Air takes first direct-purchased 737-800NG

Thai airline Nok Air has received its first directly purchased 737-800NG aircraft.

The delivery is the first of seven of the aircraft type that Nok Air has on order with manufacturer Boeing.

Based in Bangkok, Nok Air is a low-cost carrier.

Lion Air gets 737-800

Indonesian airline Lion Air has taken delivery of a 737-800 on a 12-year sale/leaseback from Irish lessor Avolon.

The jet is the seventh Avolon aircraft on lease to Lion Air.

Lion Group, the holding company of Lion Air, has more than 10 aircraft from Avolon, according to a source.

The tenor of the lease is 12 years.

First 747F delivered to Qatar Airways Cargo

Qatar Airways Cargo, the freight branch of Qatari flag carrier Qatar Airways, has received its first 747 Freighter aircraft.

The airline also ordered Boeing 777Fs at the Paris Air Show in June, and has Airbus A330Fs on order.

NEWS ANALYSIS

Skymark restructuring plan becomes binding

The rehabilitation plan of bankrupt Japanese airline Skymark has become final and binding after no appeals from creditors were lodged at the Tokyo District Court before the September 1 deadline.

On August 5, creditors voted in favour of ANA Holdings' rescue plan for the airline. A rival proposal led by Skymark's biggest creditor, Intrepid Aviation, failed to gain enough votes in a two-stage process.

A note to creditors issued that day by Skymark and seen by *Airfinance Journal* states that the successful plan won consent from 136 out of 174 voting rights.

After financial difficulties, Skymark is being rehabilitated under Japan's Civil Rehabilitation Act, which was introduced in December 1999. The purpose of the Act is to coordinate "appropriately" the relationships of rights under civil law between debtors and creditors with the aim of ensuring the rehabilitation of the debtors' (in this case Skymark) business or economic life.

Civil rehabilitation is a court-led process and district courts – of which Japan has 50 – handle bankruptcy hearings. Once a civil rehabilitation plan is confirmed by the court and the confirmation becomes final and binding, it becomes binding on all creditors, whether or not they voted in favour of it.

Ayako Kawano, a partner in White & Case's Tokyo office, confirmed to *Airfinance Journal* that there was no appeal lodged by the appeal period expiration date of September 1.

She added that, after the lack of appeal, one of the main remaining issues is the settlement of claims, especially with the big four creditors of Airbus, Rolls-Royce, CIT Aerospace and Intrepid Aviation. This will affect the timing and amount of the "additional repayment" after the 5% "basic repayment".

Getting their money back

Creditors are understandably trying to claw back as much money as possible, but are unlikely to get all of their money back.

Skymark's rehabilitation plan consists of two payments: a basic repayment and an additional repayment.

Basic repayment is the first repayment to be made, which is the scheduled minimum repayment pursuant to Skymark's rehabilitation plan. Additional repayment is the repayment to be made after the basic repayment.

The basic repayment was set at 5% in the rehabilitation plan submitted by Skymark and approved at the August 5 creditors' meeting and confirmed by the Tokyo District Court on the same day. Creditors who have agreed on the amount of their respective rehabilitation claims will receive the basic repayment on November 30. Each of the remaining creditors – those who have not yet agreed on the amount of their rehabilitation claims – will receive the basic repayment once its claims are fixed.

An additional payment cannot be made until Skymark has solved all disputes over the amount of claims, except perhaps in the form of an interim additional payment.

Additional repayment criteria

If Skymark successfully reduces the amount of common benefit claims and/or the total amount of rehabilitation claims through negotiation with creditors, then Skymark will be able to make additional repayment to creditors, says Kawano.

Creditors cannot dispute the scheme of the additional payment. There is no future vote to determine or approve the amounts of the additional payment.

Skymark – a troubled history

Skymark Airlines was established in November 1996 as an independent domestic carrier after deregulation of the Japanese airline industry. It started operations on September 19 1998. Skymark was originally owned by a consortium of investors led by the travel agency HIS.

It struggled financially and made losses every year until 2003, when it was able to announce a small profit.

However, Skymark's finances were hit hard by foreign exchange rate fluctuations. Its dollar-denominated order for A380s was particularly problematic and was eventually cancelled by Airbus after a public dispute in which the manufacturer was said to be seeking $700 million in compensation.

The airline filed for bankruptcy protection under the Corporate Rehabilitation Law (which is equivalent to a Chapter 11 bankruptcy in the US) at the Tokyo District Court in January.

NEWS ANALYSIS

Russian no-show

This year's Maks air show in Moscow produced few aircraft orders. Joe Kavanagh looks into why Russian aircraft manufacturers continue to lag behind their bigger western rivals.

The latest Maks air show, which is held every other year on the outskirts of Moscow, was notable for one thing: a lack of aircraft orders, particularly from foreign companies.

United Aircraft Corporation (UAC), the manufacturing conglomerate that owns Sukhoi, Irkut and other Russian aircraft manufacturers, says it announced just one deal at the air show. The contract, with Russia's State Transport Leasing Company (GTLK), contained an order for 32 Sukhoi Superjet 100 aircraft with options for an additional 28. All the aircraft will deliver between 2015 and 2017 on lease to Russian regional carriers.

When contacted by *Airfinance Journal*, a UAC spokesman said: "As Maks is our domestic air-show we did not plan to publicize foreign deals there. There are plenty of shows this year and next year to announce foreign orders."

The spokesman also pointed towards the Kazakh airline SCAT, which signed a deal with GTLK for 15 of the aircraft it ordered from UAC.

However, the absence of foreign demand for Russian-built aircraft was matched by a drop in demand from Russian airlines and lessors.

Russian airlines hold back

Historically, Russian-manufactured aircraft have been operated mostly by Russian airlines. With some exceptions, notably in Cuba, the bulk of these aircraft are bought or leased by Russian carriers on regional routes.

For a variety of reasons, these airlines are placing far fewer orders for new aircraft. The combination of economic sanctions, currency devaluation and low demand on international routes has created a difficult operating environment for Russian carriers. Most are facing severe liquidity problems and are reluctant to place new orders while the future is so uncertain.

Aeroflot taking a controlling stake in the country's second airline, Transaero, is indicative of the problems of debt and falling demand faced by Russian carriers *(see Aeroflot to buy Transaero, page 7)*.

Another of the country's major carriers, UTair, was forced to cut its fleet dramatically from 117 aircraft to 71 in an attempt to cut costs.

The result is that manufacturers, both western and Russian, are seeing far fewer orders from Russian airlines. But while Boeing, Airbus and others have a wide range of airline customers, Russian manufacturers are more heavily dependent on their domestic carriers.

Speaking about the demand from Russian airlines for both Russian and western new aircraft, Philip Lamzin, Moscow-based legal director of DLA Piper, says: "There is certainly much less appetite for newer – and more expensive – aircraft. There will be substantially fewer new deliveries this year, especially compared to the record-breaking 2013 and 2014."

Concerns from foreign carriers

Meanwhile, the majority of the world's airlines continue to opt for aircraft produced by western manufacturers.

Alastair Fallon, aviation analyst at IBA, explains that this is because Russian aircraft manufacturers have not yet gained a foothold in the international market.

He says: "The United Aircraft Corporation struggles when competing on the international aviation market place. Russian aviation does not have an established position in the global market, nor does it offer reliable access to MROs [maintenance, repair and overhaul services]."

Fallon adds: "There are questions raised when market stability is considered: economic, social and political climates can change during the production lifetime of an aircraft. This draws in concern over already fraught political and religious difficulties in the region."

Once Russia's macroeconomic problems have improved, the country's manufacturers will likely see more orders from domestic airlines. However, for UAC to challenge the regional aircraft manufacturers outside of Russia its subsidiaries must introduce more internationally produced parts into its supply chain.

Fallon adds: "Once the political weather has settled, more interest will undoubtedly come from non-Russian groups. The Irkut MC-21 and the Sukhoi Superjet 100 [SSJ100] aircraft do fit neatly into specific travel bands: regional, single-aisle, short-haul. Non-Russian interest will increase if more international companies become involved in supplying parts and equipment; careful positioning of MRO partners will also parry fears of untoward disruption once the aircraft is operational."

There are some encouraging signs. For example, last year VLM Airlines of Belgium became the first western European carrier to agree to acquire the Sukhoi Superjet – it plans to take the long-range SSJ100 version on lease. The delivery date was, however, postponed to 2016 to enable the European Aviation Safety Agency to certify the aircraft. Once it is delivered, the airline will be the first European operator of the jet. If the SSJ100 proves operationally successful in Europe then other carriers may soon be lining up to order the jet, which could pave the way for other Russian products.

AIRCRAFT ANALYSIS

Airbus starts production of first A330neo

As Airbus announces a production milestone in its A330neo programme, Geoff Hearn looks at how the new widebodies are impacting the market.

Machining of the first A330neo engine pylon started during the summer in Toulouse

Airbus has begun manufacturing its first A330 new engine option (neo), according to a statement in early September from the company. The announcement refers to the first cutting of metal that aircraft manufacturers consider a significant landmark in the development and production of a new aircraft type. In this case, it is the machining of the first engine pylon that is being cited as the milestone. Although the metal cutting is largely symbolic, it does focus attention on the development plans and entry-into-service targets for the aircraft type in question.

The A330neo will be built in two variants – the A330-800 and the A330-900 – and is scheduled to begin delivery in the fourth quarter of 2017.

Both the A330neo models are powered by latest-generation Rolls-Royce Trent 7000 engines, and incorporate aerodynamic improvements – including new sharklet wingtip devices that effectively increase the wing span by nearly four metres, providing increased lift and reduced drag.

AIRBUS A330/A350 AND BOEING 787 COMPETITORS

Model	787-8	A330-800neo	A350-800	787-9	A330-900neo	A350-900	787-10
Typical seats	246	249	272	283	304	311	323
Typical range (nm)	7,650	7,900	8,300	8,200	6,800	8,100	7,000
Entry into service	2011	Q4 2017	2016	2014	Q4 2017	2014 (end)	2018
Orders backlog	183	11	19	410	137	596	139
List price ($m)	218	249	269	257	284	304	297

“There has been speculation that the A330neo might take some orders from the more expensive A350 models”

Airbus says as a result of these upgrades, the A330neo delivers fuel savings of 14% per seat compared to in-production A330s. According to the manufacturer, the aircraft also offer range increase of about 400 miles, additional payload capability and decreased maintenance costs.

The A330-800neo retains the current-production A330-200’s fuselage length, while the A330-900neo uses the A330-300’s longer fuselage. However, the manufacturer says that thanks to cabin design enhancements, the new models will offer additional seats at an equivalent comfort level.

Market forces

The new models have sold well with close to 150 on order. However, orders are principally for the larger -900 variant.

The A330neos are positioned to compete with the smaller Boeing 787 models, and Airbus was encouraged to launch the programmes by some high-profile operators and potential customers. The manufacturer appeared reluctant at first, preferring to concentrate on its all-new A350 family, but the two models were launched at the 2014 Farnborough Airshow with a flurry of orders, including one for 25 aircraft from US lessor Air Lease Corporation, whose chairman and chief executive officer, Steven Udvar-Hazy, had been among those pressing Airbus to launch the aircraft.

There has been speculation that the A330neo might take some orders from the more expensive A350 models, but Airbus and the initial customers were confident that the two families addressed different markets, although the smaller poor-selling A350-800 always looked vulnerable. Hawaiian Airlines’ switch to the A330-800neo was probably not a major surprise to the European manufacturer.

TAP Portugal’s recent decision to drop its order for the A350 in favour of the A330neo might, however, give more cause for concern that there is indeed an overlap in the markets for the two families.

The Portuguese airline’s new majority owner, Atlantic Gateway – partly owned by JetBlue Airways and Azul founder David Neeleman – plans to acquire 14 A330-900neos and 39 A320neo-family aircraft for TAP.

This still represents very good business for Airbus, but the carrier had held orders for a dozen A350-900s.

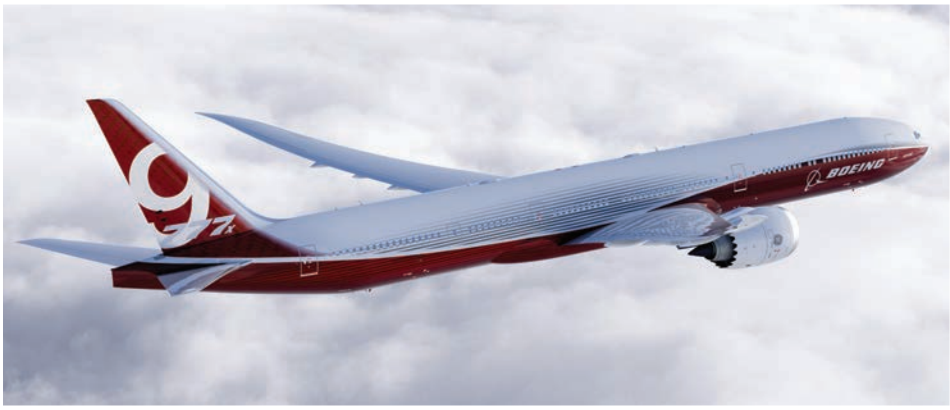
“We already talked to Airbus to change the order of 12 A350s for 14 A330-900neos,” said Neeleman at a June press conference.

If airlines with firm orders are changing from the A350 to the A330neo, it seems likely that carriers that are evaluating the two types may conclude that the less capable but cheaper A330s may be sufficient for their plans.

AIRBUS A330NEO FIRM ORDERS

Customer	Model	
	800neo	900neo
Delta Air Lines	0	25
CIT Group	0	15
AirAsia X	0	55
Hawaiian Airlines	6	0
Avolon	0	15
Transasia Airways	4	0
Air Lease Corporation	0	25

Boeing completes 777X firm configuration



Boeing says its latest widebody is progressing well.

Boeing’s 777X has reached firm configuration, an important milestone in its design process, says the US manufacturer. This comes after extensive studies with airlines and key suppliers to optimize the configuration of the new aircraft.

The firm configuration milestone marks the completion of configuration trade studies required to finalize the aircraft’s capability and basic design. Wind tunnel test results, aerodynamic performance and structural loads are also evaluated to ensure design requirements are met.

The firm configuration means the 777X team can begin detailed design of parts, assemblies and other systems. As detailed designs are completed and released, production can begin.

REGIONAL PROFILE

Battle for open skies

Jack Dutton explores the ins and outs of the US-Gulf subsidy debate that is dividing the world of aviation.

Qatar Airways chief executive officer Akbar Al Baker had a lot to get off his chest when speaking at an arts conference in Doha in March. He said: "I am delighted that Richard Anderson of Delta [Air Lines] is not here. First of all, we don't fly crap airplanes that are 35 years old. The Qatar Airways average fleet is only four years and one month." He also claimed Anderson did not know the difference between equity and subsidy.

The background to this outburst is the row between the US legacy carriers and the big three Gulf carriers over state subsidies, a debate that has quickly turned nasty. Only a few weeks before Al Baker made is outspoken comments, Anderson had cited the September 11 terrorists in his argument against Etihad, Emirates and Qatar Airways. Anderson told CNN that he saw a "great irony" in airlines from the Arabian peninsula criticizing US aid to domestic carriers after the 9/11 attacks in 2001, since many of the hijackers hailed from the region. He later apologised.

Subsidy allegations

The dispute began in January when The Partnership for Open & Fair Skies, a consortium made up of the big three US carriers, Delta Air lines, United Airlines and American Airlines, and several pilot unions, released a 55-page white paper accusing the three Gulf airlines of collectively receiving $42.3 billion in unfair state subsidies since 2004.

The white paper said the three Gulf carriers had "subsidized support", which included interest-free government loans with no repayment obligation, free land and airport fee exemptions. The paper argued that the state support from the Gulf governments to their airlines posed a threat to the US airline industry and, in turn, US jobs and the US economy. The report added that "a level playing field" needed to be restored under the open-skies agreements with Qatar and the United Arab Emirates (UAE).

The criticism did not stop the big three Gulf airlines from expanding quickly. In 2015, Emirates began flying to its 10th US destination, Orlando, and announced it would double its daily frequencies between Dubai and Seattle. Qatar Airways announced it would add routes from its Doha hub to Los Angeles, Boston and Atlanta in 2016.

The Gulf carriers maintained that open skies and competition stimulated demand. Emirates chief executive officer Tim Clark said at a National Press Club in Washington in March that in Emirates' 30 years of operations, the airline had defended itself repeatedly against allegations of subsidies, which were unsubstantiated.

The Partnership released an analysis to challenge the Gulf carriers' argument that open skies and competition stimulated demand. Looking at passenger bookings from 2008 to 2014, it found the presence of Gulf carriers operating on US legacy routes did not significantly impact on overall traffic levels. Instead, it suggested that the US had been losing traffic as a result of Gulf competition.

The barrage of accusations against the Gulf carriers continued. Some of the more recent subsidy allegations have been arguably the most controversial – for example,

Emirate's terminal at Dubai International Airport is the subject of subsidy allegations

"Bringing up the issue of Gulf subsidies may have backfired on the US legacy carriers by opening up scrutiny of their own financial practices."

that the UAE government spent $7.8 billion to erect an 11-story Emirates terminal at Dubai International Airport. The US legacy airlines also accused Qatar Airways of receiving free land worth $452 million from the government of Qatar to ensure the company "had enough real estate for office and residential space".

The Gulf strikes back

It was not long until the Gulf carriers responded with full force. Etihad Airways followed through with a damning report that claimed the big three US carriers had received more than $70 billion in state subsidies since 2000, made up of a mixture of pension termination, bankruptcy debt relief and preferential financing. A report from The Risk Advisory Group, commissioned by Etihad, claimed that United Airlines had received $44.41 billion in subsidies, Delta Airlines had received $15.02 billion and American Airlines had received $12.05 billion.

The report said its primary sources for the data included official government records, audited annual airline reports and its secondary sources included academic studies and "recognized aviation industry trade publications".

Chapter 11 benefits

Bringing up the issue of Gulf subsidies may have backfired on the US legacy carriers by opening up scrutiny of their own financial practices. For example, US carriers can seek protection using US Chapter 11 bankruptcy law. The big three US carriers, which have all benefited from this protection since 2002, have been able to restructure debts and avoid legacy pension costs to allow them to keep flying. Some argue that this constitutes a subsidy.

Baseless claims

Etihad's report was labelled as "baseless". Jill Zuckman, a spokeswoman for the big three, said: "It is absolutely false to claim that any of the US carriers receive comparable financial benefits to the Gulf carriers. For example, the Chapter 11 process is not a subsidy, as established by international trade law, and many other countries have similar procedures in place. In addition, US taxpayers are not liable for any restructuring of airline pension plans in bankruptcy.

"The Gulf carriers always try to equate the US Pension Benefit Guarantee Corporation with support from American taxpayers, but that agency neither receives taxpayer funds nor is backed by the protection of the US government. Baseless claims like these are an attempt to distract from the real issue: the Gulf carriers are engaging in a smoke and mirrors campaign to hide their lack of financial transparency and the pervasive billions in unfair subsidies they receive from their governments."

Emirates and Qatar respond

Emirates and Qatar Airways also made formal submissions to the argument. In early June, Emirates submitted a 388-page document to the US Congress that rebutted the accusations from the North American carriers saying the airline was subsidized. The report argued that Emirates' success was because of superior commercial performance and not subsidies from the government of the United Arab Emirates. It said that the legacy carriers' fuel hedging allegation was false and had "mischaracterized the facts of the fuel hedging contracts". The report also said there were legal distortions and factual errors in the American airlines' criticisms.

Qatar Airways followed with a 55-page report that stated many of the changes to the market, which the US legacy carriers complained about, were not because of "unfair competition" but because of advances in technology and the ability of long-range aircraft to fly over congested European hubs. The airline's acquisitions of widebody aircraft such as 777s has increased its amount of non-stop long-haul flights, which make European transfer points irrelevant. A shorter flight that does not involve any stopovers is also more attractive to a consumer.

>>>

“The big three do not speak for all, or even most, US airlines.”

Hawaiian chief executive officer and president Mark Dunkerley

Fifth freedom and European concerns

Another great concern of US legacy carriers was the fifth-freedom rule, one of the key parts of the open-skies agreements. The rule allows an airline to carry revenue traffic to foreign countries as part of the service of the airline flying to its own country. It offers carriers opportunities to stop off in countries they do not travel to as a destination to refuel or collect passengers before moving on to their final destinations. Emirates does this when it flies from New York to Milan, before going straight on to Dubai.

This fifth freedom concern was shared by some other European carriers. Air France submitted comments to the US government saying that the white paper submitted by the partnership “provides evidence of serious distortions of competition”. Christoph Franz, the former Lufthansa chief executive officer, had warned of the threat of the Gulf carriers to the German airline before he stepped down from his role in April.

“The Gulf carriers are limited in the amount of frequencies they can add from German cities in the case of Lufthansa and French cities in the case of Air France,”

Jack Diskin, an analyst at Goodbody Stockbrokers, tells *Airfinance Journal*: “The stress is that the Gulf airlines can put other aircraft on to those frequencies and upscale that way.

“For example, Ethiopian is doing flights to LAX [Los Angeles] but refuelling and collecting passengers in Dublin on the way. It’s dangerous that. More and more fifth-freedom opportunities are coming available in Europe. You have Emirates, which is doing some flying out of Milan to New York, so I guess with the European airlines at the moment, the concern with the Gulf carriers is more about going into Asian markets because of the positioning of the Gulf hubs. It’s less so about western-facing traffic, which is more of a concern for the US majors.”

He adds: “With Lufthansa, its main hub is in Frankfurt, which isn’t a particularly [important] destination on its own. There’s not a lot of end-point demand there; they use that hub largely for interlining traffic, getting feeds from around regional Germany and around central Europe, getting into Frankfurt and connecting on to Asian cities.

“Lufthansa is losing some of its typical flow from regional Germany sourcing passengers from cities like Dusseldorf, flying them on to Frankfurt and then on to their whole network. Emirates is putting capacity into that city, so the alternative would be flying from Dusseldorf to Dubai and then you have a much broader scope in terms of connections to Asia.”

The European Commission is reviewing whether Etihad, which has stakes in European carriers including Alitalia and airberlin, is influencing the redirecting of traffic from Rome and Berlin to its Abu Dhabi hub.

“I think the concerns from the US majors is about fifth freedom being offered in the European markets,” adds Diskin.

But there are benefits of fifth freedom for US carriers, especially in the cargo sector, which relies heavily on the agreements. In early August, the US legacy carriers ran into some unlikely opposition, when another group of US airlines – cargo carriers FedEx and Atlas Air WorldWide and commercial carriers JetBlue and Hawaiian Airlines – praised the current open-skies agreements.

“The big three do not speak for all, or even most, US airlines,” Hawaiian chief executive officer and president Mark Dunkerley said in a statement. “Our coalition believes that the United States should honour its open-skies commitments, which opens markets for US carriers, promotes competition on international and domestic routes and facilitates US exports.” JetBlue chief executive officer Robin Hayes agreed, deeming global competition “a fact of life”.

Atlas WorldWide chief executive officer William Flynn argued that the open-skies agreement allows US cargo airlines to develop global networks, which facilitate the rapid distribution of military supplies around the world in times of crisis, in places such as Iraq, Afghanistan and Syria.

The subsidies debate has become political.

Washington’s decision

The subsidies debate has quickly gone from being a commercial one to a political one. The US legacy carriers have requested that the US government discusses the issues with the governments from the UAE and Qatar, as well as limiting the Gulf carriers’ access to the US market.

Regardless of which side of the debate you are on, distinguishing what constitutes a subsidy and what constitutes an investment can prove difficult. It is hard to distinguish between investment and subsidy when Gulf carriers have no legal obligation to open their books.

Publicly traded US corporations, on the other hand, are obliged to publish their accounts. There is a lot of room for discussion and interpretation, but it is probably fair to say that both the US and the Gulf carriers have benefited from some sort of economic support.

With this in mind, it may be very difficult for either party to succeed in their accusations. If the US legacy carriers want to get their way, not only do they need to prove subsidies exist, but also they have to show sufficient evidence of harm from these subsidies to their businesses.

Washington sources speculate that the US Department of Transport is finding the situation uncomfortable, and is reluctant to act because the US legacy carriers have failed to prove their case of harm to their businesses. The US big three and their European friends may have to come to terms with the idea that competition is inevitable but is not always completely fair.

COUNTRY ANALYSIS

Regional banks get in on act

Regional banks in Japan are expanding slowly towards aircraft investment, Michael Allen reports.

Unlike their larger cousins in Tokyo, the names of Japan's more than 100 regional banks are not steeped in history. A giant such as Sumitomo Mitsui Banking Corporation (SMBC) can trace its name back to its founder, Masatomo Sumitomo, a monk turned merchant born in the 16th century. Or take Mizuho (from Mizuho Bank), which means "golden ears of rice", a phrase mentioned in an 8th century Japanese history text.

Conversely, the Sendai-based 77 Bank is so called because it was the 77th bank licensed by the country's Ministry of Finance. There is also 82 Bank in Nagano Prefecture and 114 Bank in Kagawa prefecture.

In contrast to their unimaginative names, some of Japan's regional banks are being very innovative in their efforts to find new homes for their excess liquidity in the face of falling interest rates and reduced lending opportunities in their local prefectures. Statistics from the Bank of Japan (BOJ) state that the gap between loans and deposits in Japanese banks – including regionals – is more than ¥200 trillion.

"Generally, most banks are looking for new investment opportunities, and regional banks are one of those that are dying for new opportunities. I think that's the reality," says Yasuhiro Nakauchi, vice-president of Mizuho Securities' strategic solutions department, IB products group.

Because of this, investment in aircraft – historically not a well-trodden turf for regionals – has attracted regional banks, and they are looking to Japan's larger financial institutions to take them by the hand and school them in the art of aircraft investment.

Adapt or die

For the past 20 years regional banks have invested their excess deposits in Japanese government bonds, earning a margin between the near-zero rates they pay depositors and the 1% to 2% they could get on the bonds, but that model is no longer working so well.

This has seen pressure from the government for regional banks to innovate or merge. In December 2014, Reuters revealed that regional banks were being stress tested by the BOJ to see if too much cash in their system is stifling their ability to earn. Then, in April, the news wire reported that Japan's financial regulator, the Financial Services Agency (FSA), had set up meetings with regional bank presidents to grill them on their long-term business plans, asking them to show their survival plans for the coming years or to look for tie-ups.

"I think we will see more mergers of regional banks," says an executive at one super regional bank. "There are many banks for less and less population, and industry in general is not growing fast. The FSA is very keen to merge the regional banks."

Regional banks, however, tend to be averse to tie-ups.

"Those regional banks have a history in the region so they don't like interference from other parent companies or things like that. They have had their own customer base for a long time," a super regional banker told *Airfinance Journal*.

Attraction to aircraft

Aircraft investments are therefore increasingly being seen as an attractive solution to regional banks' problems.

"It's a very stable and growing market compared to other sectors and relatively easy to understand this market, so I think this industry is good for many regional banks who like to get into the international finance business," says a banking source.

Takamasa Marito, joint general manager of Century Tokyo Leasing's (CTL) aircraft division, recently had a discussion with one undisclosed super regional bank about making an aircraft investment.

The bank in question was looking at providing financing in the aviation sector and CTL was looking at providing them a proper internal set up to allow them to do so.

Marito originally began talks with them about one year ago, then in July he had another meeting and the bank said it was ready to proceed with the investment – something he was quite surprised about.

He says: "When we first met, they were going through a very familiar line where they have a general interest but were not able to get the necessary guidance that was required, so I was quite sceptical of that bank being able to do anything – but surprisingly they were able to do that.

"Quite interestingly, this particular bank said not only were they interested in doing

>>>

> "Most banks are looking for new investment opportunities, and regional banks are among those that are dying for new opportunities"

Yasuhiro Nakauchi, Mizuho Securities

aviation financing and fully amortizing, but they were also willing to take asset risk. I would say that's quite brave for a first transaction."

Regional banks have not tended to favour taking asset risk and instead have relied on the support of export credit agencies in a deal, according to one super regional banker.

Development Bank of Japan

One of the key drivers of regional bank aircraft investment in Japan is the Development Bank of Japan (DBJ).

DBJ is active in transferring some of its aircraft loan portfolio to regional banks once the primary transaction has already closed. This involves some education because regional banks tend not to be so comfortable with aircraft as an asset class.

"I think Japanese regional banks are still in the process of learning this business, so it's not so easy for most of the Japanese regional banks to participate in the primary transaction and I think it is difficult for them to keep pace with the transaction process," says Masao Masuda, head of the global aviation team at DBJ.

"What they are expecting from DBJ is that we underwrite some portion on a primary basis and afterwards regional banks spend a lot of time analysing the transaction, and once they have finished everything DBJ transfers some portion to those regional banks."

In November 2014, DBJ arranged a syndicated Japanese yen-denominated Samurai loan together with BNP Paribas for US lessor Aviation Capital Group. Among the banks involved were Chugoku Bank and Joyo Bank.

In 2014 alone, DBJ transferred $100 million of loans to regional banks, out of an estimated $500 million potential (for aircraft investment). Despite this significant amount, Masuda insists DBJ remains "basically a buy and hold player".

He says: "DBJ doesn't necessarily like originate-to-distribute; we like to buy and hold. We don't want to become active trading financiers, but regional banks are expecting DBJ to transfer some of the loans to them. If regional banks join on a primary basis, sometimes the process can be a bit difficult or time consuming or not so efficient, so from a customer perspective it's also better for them to see DBJ coming to the transaction alone and, after DBJ takes some portion, regional banks join the transaction by way of transfer."

Solaseed's second regional bank Jolco

Date closed:	July 30 2015
Borrower:	Solaseed Air
Asset:	1 x 737-800
Loan syndication arranger:	Development Bank of Japan
Debt providers	Miyazaki Bank (15%), Miyazaki Taiyo Bank (12%), Oita Bank (12%), Kagoshima Bank (12%), Jiuhachi Bank (12%), Higo Bank (9%), The Senshu Ikeda Bank (9%), Development Bank of Japan (7%), Sumitomo Mitsui Trust Bank (6%), Bank of Tokyo Mitsubishi (6%)
Equity arranger:	Fuyo General Lease (through an SPC called FO Traffic Leasing)
Tenor:	12 years
Lawyers:	Clifford Chance acted for Gecas and DBJ. Nishimura & Asahi acted for Solaseed Air.

Masuda estimates that, out of the 100 or so regional banks in Japan, 30 to 40 are interested in and capable of aircraft investment, while between 10 and 20 banks are doing something with aircraft.

But this number is likely to increase, he says. DBJ and BNP Paribas Tokyo plan to hold a seminar for regional banks at the end of October and are expecting 60 institutions to attend, a record amount compared with similar seminars held in previous years.

Not just for the banks

Investment in aircraft has the benefit of helping regional banks better utilize their excess liquidity, but the benefits are not only on the side of the banks. Local airlines, in particular, are keen to do business with them in order to diversify their funding base and avoid "serving as a slave" to a small group of banks, according to one domestic airline.

At the end of July, Solaseed Air completed its second regional bank-supported Japanese operating lease with call option (Jolco) transaction (see box). Seven regional banks and two major banks – SMTB and BTMU – provided the debt, which was arranged by DBJ, which also provided a 7% portion of the debt.

>>>

"One of the key drivers of regional bank aircraft investment in Japan is the Development Bank of Japan (DBJ)."

The deal came on the back of the carrier's first successful Jolco financing in 2013. The same seven regional banks participated in this transaction, but SMTB and BTMU joined only on the 2015 Jolco.

Although Solaseed posted record financial results earlier this year, the carrier says it is still important to build long-term relationships with as many regional banks as possible to ensure it has parties willing to bail it out should it ever suffer a financial crisis.

An airline source points to the case of Japanese carrier Skymark, which filed for bankruptcy earlier this year.

The source says that one of the reasons Skymark failed was because it had never borrowed money from regional banks. "If some regional banks had been lending money to Skymark, they would have made an effort to save the airline before its sudden death, but because there was no borrowed money from the banks, no bank tried to save Skymark."

It now seems that national carrier ANA will lead a rescue *(see Skymark restructuring plan becomes binding, page 20)*.

The source adds: "That was one of the reasons why we built up our relationship with regional banks – and the number of regional banks was seven, so it's not so small a number. Many regional banks will make efforts to save Solaseed if we get into a financial crisis situation."

International airlines are also keen to take advantage of the extra money in the market. Indeed, in the Jolco market at least, there is reportedly more demand from investors than there are aircraft to satisfy their appetite.

China Eastern, China Southern and Turkish Airlines, for example, have had portions of their loans sold off in the secondary market to Japanese regional banks.

A finance executive from one top-tier carrier says: "From our perspective, it opens up a new market for us and new investors that we would not be directly assessing. It allows us to enter the Japanese market and build the interest."

However, in general, regional banks tend to favour foreign lessors over foreign airlines because knowing that the company they are investing in is investment grade is very important to them.

"There are only a few airlines that have obtained investment grades, but some operating lessors have very, very good ratings – and that's key for regional banks," says a DBJ source.

Masuda estimates there are about five to 10 airlines that are eligible candidates for regional bank investment, although some – such as Ryanair – "don't need money". There are then only about three to five non-Japanese airlines being invested in by regional banks.

Regional banks have a negative image of airlines from witnessing the bankruptcy of JAL in 2010

BOC Aviation is one of the international lessors that have dipped into the regional banking market. It closed a $300 million unsecured term loan in July with 18 Japanese financial institutions, of which a "large number" were regional banks.

"We see the Japanese domestic financing market as an important new source of funding in the years ahead, and we expect to return to this market as well," a spokesman for the lessor tells *Airfinance Journal*.

Challenges for regional banks

Being relative novices to the aircraft finance space, regional banks are faced with challenges when making the decision to branch out into aircraft investment.

Tatsuhiko Moriyoshi, head of loan syndication and sales Japan at BNP Paribas, says it can be a challenge for regional banks to take aircraft asset risk. This is partly because they have a negative image of airlines from witnessing the bankruptcy of JAL in 2010, as well as several US carriers filing for Chapter 11 bankruptcy, and also because of difficulties in assessing aircraft, regional banks tend to prefer good credit borrowers (or export credit agency) deals.

He says BNP Paribas' first approach is to try improving the image of aviation finance by introducing transactions that are relatively comfortable for regional banks, with detailed explanations to show that aviation finance is not so risky because of the asset quality.

Another challenge for regional banks is that, unlike Japan's larger banks, they are largely not as confident using the English language, the international language of business, as their larger cousins in Tokyo.

"They don't have that much trouble reading English documents, but in reality even after you provide the loan you have to keep monitoring it, and that's quite a lot of work from the regional banks' point of view," says Nakauchi of Mizuho Securities.

He adds: "They don't have that much infrastructure compared to the large banks. When you provide a loan to a non-Japanese airline, generally the regional banks would prefer providing the loan to an airline where they have a branch. I guess most regional banks don't have many overseas branches, which would be one hurdle."

Nakauchi says that some lenders might provide a loan even if they do not have a branch, because of the credit or the ability to rely on the leading arranger.

Not a panacea

Although aircraft investment provides a great opportunity for regional banks to utilize their excess liquidity effectively, it is certainly not a cure-all for their woes.

BNP Paribas' Moriyoshi is sceptical that investment in this sector alone will be enough to help regional banks avoid being merged.

"The impact of starting aviation finance is not so huge," he says, adding: "I don't see any relationship between aviation finance increasing to avoid a merger or being acquired by a bigger bank."

CFO INTERVIEW

A happy addiction

Michael Allen talks to Nayyar Hayat about PIA's fleet-renewal programme, its looming so-called privatization and the restructuring of its balance sheet.

For his business trip to London, Nayyar Hayat is staying at the Marriott Hotel in Maida Vale where his airline has had an informal crew layover agreement for more than a decade. The pilots and cabin crew of Pakistan International Airlines (PIA) like staying there because of the hotel's proximity to Kilburn High Road, which offers a tempting selection of Pakistani cuisine to remind them of home after the long flight to Heathrow on one of the airline's ageing 777s. These aircraft are soon to be replaced with newer models as the airline rapidly renews its fleet in an attempt to optimize operations and improve its poor financial performance.

Hayat joined PIA in 2010 as general manager of finance, and just one year later was made chief financial officer. Although his pre-PIA experience is not aviation related, Hayat says aviation has a tendency to "suck you in" and he has become "addicted" to the industry since joining Pakistan's flag carrier.

"Once you are in the airline, then no other business looks good to you," he says. "It's very hectic because of the financial condition we are in, but still it is very rewarding."

PIA used to be successful and even helped set up other top-tier carriers such as Emirates and Singapore Airlines, but it has failed to make a profit for more than a decade and now needs a "360 degree" restructuring.

Consultants from Sabre Airline Solutions arrived at PIA's offices in Lahore in August and will remain there for 12 weeks. They are performing Gap analysis of PIA's Sabre products and analysing some of the underlying data and processes in relation to bookings, reservations and scheduling to evaluate strengths and weaknesses of the network.

"For a period of time, particularly the last few years, things have been very difficult for us because of a number of factors starting from macro- to micro-level problems," says Hayat.

"Right now we are very heavily leveraged, which is bringing the company down. The debt we are carrying on our balance

sheet is around $1.6 billion with sales of around $1 billion. It's not a sustainable level of debt. We need to restructure our balance sheet."

It recently sold its entire fleet of five 747s for part out to undisclosed local Pakistani tear down companies. It also sold its six 737 classics for part out, although one was given to the PIA flight training centre in Karachi.

So far this year the airline has inducted nine A320s and five ATR 72s. Four more A320s leased from AirAsia's leasing arm Asia Aviation Capital, as well as three 777-200ERs from AerCap, will join the fleet over the next month or so.

"This makes a substantial number in a very small period of time. It's a huge capacity – kind of like starting a new airline," says Hayat.

"We are looking forward to all this fleet expansion, fleet enhancement, because the market is there. By bringing back the capacity, we are hoping to get the market back."

Although in the past PIA has financed a lot of its aircraft, relying heavily on the support of Citi, the carrier has decided to take its aircraft only on operating lease until its balance sheet is restructured. This year, for example, it took five ATR 72-500s from Abric Leasing.

“We are looking forward to all this fleet expansion, fleet enhancement, because the market is there. By bringing back the capacity, we are hoping to get the market back.”

“We don’t carry them on our balance sheet and we don’t carry the residual value risk,” says Hayat.

This policy is being followed so strictly that PIA is talking to manufacturer Boeing about renegotiating a 777-300ER order it made in 2012 for which it had intended to seek financing. Instead, PIA has asked Boeing to postpone the delivery slots and possibly convert them into either 787-8s or 737 Max aircraft – or a mix of the two models.

By the end of this year the airline expects to have 37 aircraft in its fleet (excluding two A330-200s that are being drafted in for Haj flights). Its current fleet consists of two 777-200LRs, three 777-200ERs, four 777-300ERs, five A310s, nine A320s, six ATR 42-600s and five ATR 72s.

With the addition of the new aircraft, PIA will be able to “cater to its route structure much more efficiently”, according to Hayat. The A320s will be deployed on regional routes to destinations such as Dubai, Doha and Delhi, while the 777s will fly to the UK, New York and Toronto.

PIA faces stiff competition from the likes of Emirates, which connects Pakistan’s major cities to large parts of the world through its Dubai hub.

But Hayat says PIA’s ability to offer direct flights gives it an advantage over the UAE carrier.

“It’s a much better product as compared to someone who has to fly from Karachi to Dubai, have two to four hours transit time, then to fly to London,” he says.

Another of PIA’s problems is high staff numbers relative to the size of its fleet. It has about 15,000 employees and a high employee per aircraft ratio, although Hayat notes that PIA has its own set-up for IT, flight kitchen, engineering, training centre, passenger handling and technical. Many other carriers outsource these services.

“Because of the recent shrinkage of the fleet, the number of employees per aircraft obviously looks very, very bad, even after these recent aircraft introductions,” admits Hayat.

He adds: “On the other hand, the staff cost is not very much – it’s only 18%. The cost is not that alarming but the number of employees sure is. It’s also an ageing company. In the next two to three years around 3,000 people are going to retire, so we are expecting that natural attrition will also help us to bring these numbers down.”

Privatization

PIA was established in 1958 by an act of parliament as a state-owned carrier, but since a $6.6 billion International Monetary Fund (IMF) loan to Pakistan in 2013, the carrier has had to undergo privatization as part of the IMF’s loan conditions.

Hayat refuses to comment on the link between the IMF loan and PIA, saying it is the government’s prerogative. However, he argues that the airline is not undergoing true privatization.

“Privatization means the government will be offloading 100% of the shareholding – that’s not the case here,” he says.

The government will be offering 26% of the shareholding to a “strategic investor”, with space for the new investor to increase its shareholding. This is so that “the governance improves, the balance sheet is restructured and the company becomes sustainable in the long term”, according to Hayat.

The government has an 89% shareholding, so by offloading 26% it will still be the majority shareholder, though whether this strategy will succeed is questionable. A similar strategy was applied to Pakistan Telecommunication Company Limited (PTCL) in 2008, but had an adverse impact on profitability, affected performance and caused unemployment, according to an article in Pakistan’s Daily Times newspaper.

“The views of one newspaper [do] not necessarily provide the full clear picture,” says Hayat.

“PTCL has been performing well since then. PIA has a completely different setup and the dynamics are different due to international operations and presence. Hence, it cannot be compared to PTCL. The consortium appointed for due diligence is working on all angles to ensure smooth transition.”

Dubai Islamic Bank is leading the consortium for due diligence along with Iata Consulting, Deloitte, Haidermota BNR, Freshfields Bruckhaus Deringer, Abacus Consulting, APCO and Prestige.

The parties will present a report on the privatization soon, and the sale of equity should be completed by about March 2016.

A senior market source, speaking to *Airfinance Journal* on condition of anonymity, raised concerns that PIA’s negative equity would make it difficult for it to get a private investor on board. In response, Hayat says the government will be doing a balance sheet restructuring before offering the shares to market.

“By restructuring the balance sheet, what I mean is that we have some assets that are very high value, such as The Roosevelt Hotel in New York and the Hotel Scribe in Paris.”

PIA bought The Roosevelt Hotel in 2000 and Hotel Scribe in 2002 through Pakistan International Airlines Investments Limited (PIAIL).

The chairman of PIA’s privatization committee Mohammad Zubair said at a press conference earlier this year that the company was expecting to get a minimum of $700 million by selling these two assets and that a deal could be finalized by January 2016.

Hayat says that, by selling these, PIA can offload some of the loans from its balance sheet. The hotels are owned through PIAIL, a 100%-owned subsidiary, so the balance sheet will not reflect their value in PIA’s books. The company changed its accounting policy this year to IAS 39, an international accounting standard.

“We are showing the properties in our balance sheet, although they are right now at breakup value, but we are getting them revalued and they will be reflected at true market value by the end of this year in our accounts, so you’ll be looking at a better balance sheet at the end of this year,” says Hayat.

The only reprieve in this stressful process has been the recent drop in global fuel prices.

Hayat says: “While everything has been restructured, it’s taken a lot of pressure off us and we can concentrate on a lot of things that we wanted to.”

AIRCRAFT PROFILE

Sukhoi Superjet100

The Sukhoi Superjet 100 has had more export success than any previous Russian-built commercial aircraft, but it faces stiff competition for non-domestic orders.

The Sukhoi Superjet 100 (SSJ100) is a modern twin-engine 100-seater regional jet. The airline design was led by Sukhoi, a division of the Russian civil aerospace company, in cooperation with several foreign partners, which, at one stage, included Boeing.

There were a number of delays during development and certification before the SSJ100 entered domestic commercial service in April 2011. The type received certification from the European Aviation Safety Agency in February 2012 and certification has followed in a number of other export markets.

The aircraft was designed to compete internationally with the larger Embraer and Bombardier models, such as the E190/195 and the CRJ900/1000. The Russian manufacturer claims substantially lower operating costs compared to these more established models.

The final assembly line of the SSJ100 is located in Komsomolsk-on-Amur in eastern Russia. Its SaM-146 engines are designed and produced by the Franco-Russian PowerJet joint venture. The aircraft is marketed internationally by the Italian-Russian SuperJet International joint venture.

The first SSJ100s delivered to Aeroflot did not meet the airline's requirements, and an upgraded version was launched and delivered to the national airline. Sukhoi took back 10 of the original Aeroflot aircraft, some of which have been placed with other airlines.

Future developments

The manufacturer is investing significant resources in new developments. A long-range variant – the SSJ100 LR – is nearing certification, and the company announced at the recent Moscow airshow that an upgraded more powerful version, designated B100, is being developed.

From 2017, new wingtips will be offered as an option for all SSJ100s. Sukhoi says the wingtips will deliver up to 4% in fuel savings and will also improve take-off and landing performance.

The original plan by the manufacturer was to produce 60-seat and 75-seat variants in addition to the nominal 100-seater. The smallest variants were postponed, and it is widely believed they will not be built. However, a stretched version seating up to 145 passengers is being studied.

ISTAT APPRAISERS VIEWS

Collateral Verifications (CV)
Gueric Dechavanne, vice-president, commercial aviation services

The SSJ100 continues to gain interest from various potential customers worldwide. In the past few years the operator base has become more diverse, which is important for the type. Growing interest from several leasing companies has helped, because it offers an alternative to operators which prefer not to own their aircraft, or want flexibility with their fleet planning.

The 70-seat to 100-seat market is already very competitive and Embraer's launch of the second (E2) generation of its E-Jet family increases pressure on the Sukhoi model. However, as the E2 variants are still a few years away, there is an opportunity for Sukhoi to develop further enhancements to compete

AIRCRAFT CHARACTERISTICS

Seating/range	
Max seating	108
Typical seating	98 at 32-inch seat-pitch
Maximum range (basic model)	1,645nm (3,048km)
Maximum range (long-range model)	2,470nm (4,578km)
Technical characteristics	
MTOW (basic model)	101,150lbs (45.88 tonnes)
MTOW (long-range model)	109,020lbs (49.45 tonnes)
Estimated empty weight	55,300lbs (25.1 tonnes)
Estimated maximum payload	26,970lbs (12.25 tonnes)
Fuel capacity	13,135 litres
Engines	2 x PowerJet SaM146
Thrust	16,000lbf (69kN)
Fuels and times (*Airfinance Journal* estimates based on manufacturer claims)	
Block fuel 100 nautical miles (nm)	495kg
Block fuel 200nm	1,050kg
Block fuel 500nm	2,800kg
Block time 100nm	26 minutes
Block time 200nm	42 minutes
Block time 500nm	90 minutes
Fleet data	
Entry into service	2011
In service	54
Operators (current)	7
In storage	18
On order	174
Built peak year (2014)	34
Average age	1.9 years
Average age	10.3 years

*Source: AeroTransport database/*Airfinance Journal *research*

"Russia's newly fledged export credit agency is proposing to offer residual value guarantees which might make the SSJ more attractive to western buyers, especially lessors."

Olga Razzhivina, senior Istat appraiser, Oriel

with these new-generation Embraers and other emerging types.

Overall, CV feels that this aircraft has performed better than expected for a newcomer; however, with a number of up-and-coming competitors, we do not feel that this area of the market will become any easier to compete in. In the long term, to be able to continue growing their market share, Sukhoi will not only have to remain aggressive with its sales campaigns, but also it will have to provide technology and performance upgrades to avoid losing ground to its competitors.

IBA
Huda Syed, aviation analyst

The SSJ100, was designed and developed in Russia but it incorporates a large number of components from global manufacturers. The SSJ100 suffered setbacks during its development and was delivered late to launch customer Armavia in 2011.

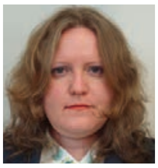
When the aircraft was first launched it promised lower fuel consumption figures than its competition – the Embraer E190 family and the Bombardier CRJ900/1000 family – at the top end of the regional jet market. However, production delays reduced the impact of the SSJ100's first-mover advantage in introducing a new-generation regional jet. This delay meant the competition was able to match and arguably surpass the improvement over the current generation of regional jets achieved by the SSJ100.

All of the competing new offerings are powered by variations of the Pratt & Whitney PW1000G, which appears to have become the engine of choice for the regional jet market, leaving the SSJ100 caught between engine generations.

Sukhoi is planning to offer wingtip devices by 2017, which it says will increase performance and improve fuel efficiency by up to 4%.

The problems faced by the SSJ100 include industry perception of Russian aircraft, an uncertain political backdrop and unease about the global support network. SuperJet International is working hard to build up its global services network but the other two issues are out of the manufacturer's control. In the coming years the SSJ100 will face competition from new entrants and could be marginalized unless Sukhoi undertakes its own re-engining programme.

It is difficult to ascribe values to the SSJ100 because the aircraft has a small fleet with a concentrated operator base, is powered by unconventional engines and is built by a non-western manufacturer. Furthermore, there have been no secondary market trades. The SSJ100 is already expected to trade at a discount in comparison to its peers, and values will likely be further weakened in the next few years as new aircraft, powered by PW1000G engines, enter into service.



Oriel
Olga Razzhivina, senior Istat appraiser

The Sukhoi SSJ100 is the first Russian-built commercial aircraft that has had any notable success outside of the domestic market.

The SSJ100 is competing in an already crowded segment of 90-seat to 110-seat small narrowbodies where the Bombardier CRJ1000 and Embraer E195 have already established themselves among operators. A worrying sign about the size and strength of the target market segment is that neither the CRJ1000 nor the E195 are the most successful members of their respective families.

Sukhoi claims that the advantage of a clean-sheet design leads to the aircraft having lower operating and acquisition costs than its rivals. Because it has western avionics and engines built in collaboration with Snecma, it was expected that the SSJ100 would be better accepted outside Russia than its predecessors. Nonetheless, it has been hindered by the airline industry's scepticism about non-western manufacturers and Russia's political instability. Furthermore, the SSJ's advantage is likely to be surpassed with the introduction of the Mitsubishi MRJ and the Embraer second-generation (E2) models.

In a move to reduce its dependence on imported parts, Sukhoi has announced the development of an alternative engine, the Perm PD-14. The manufacturer also intends offering Russian-manufactured avionics. These actions are expected to reduce the aircraft's price further below its competitors, but these new options are unlikely to be selected by customers outside of Russia and the CIS.

Russia's newly fledged export credit agency is proposing to offer residual value guarantees (RVGs), which might make the SSJ more attractive to western buyers, especially lessors. The levels of the RVGs and the ease of their implementation will be key.

The current operators of the SSJ are reportedly happy with its performance, and Interjet has increased its total orders to 30. Other foreign orders have met with less success, with operators in Laos and Indonesia collapsing after having taken only three deliveries, while Belgium carrier VLM's deliveries have been delayed. Orders continue coming in from Russian airlines and lessors, although these could be politically rather than commercially motivated.

Based on its operating economics, the SSJ is a good choice for airlines, particularly where a robust airframe is preferred. More western operators and lessors would help its acceptance; however, its success beyond the Russian borders is hampered by the country's political instability and uncertainty about the manufacturer's after-market support.

SUKHOI SUPERJET 100-95

Current market value ($m)

Build year	2011	2012	2013	2014	2015
CV view	14.9	15.7	16.6	17.5	25.2
IBA view	17.9	19.4	20.8	22.3	24.1
Oriel view	10.7	11.6	12.5	15.31	18.61

Indicative lease rates ($'000s/month)

Build year	2011	2012	2013	2014	2015
CV view	130	140	150	160	200
IBA view	140-165	150-180	160-195	170-210	180-225
Oriel view	–	–	–	–	–

DEAL WATCH

LOANS/FINANCE LEASES

Borrower	Country	Asset	Amount	Structure	Arranger	Debt
August 2015						
HKAC	Hong Kong	Various aircraft	$725m	Warehouse facility	Credit Suisee	
Lion Group	Indonesia	1xATR72-600	$25.9m/$20.2m (List/CMV*)	12-year finance lease	PK AirFinance	
Dubai Aerospace Enterprise (DAE)	Dubai	6xATR72-600	$155m/$121m (List/CMV*)	Commercial loan	DekaBank	
Awas	Ireland	8 aircraft	Undisclosed	Refinancing/(3-4 years)	DVB	
July 2015						
Goshawk Aviation	Ireland	23 aircraft	$605m	Secured loan	Citigroup, Bank of America, Helaba	CA-CIB
Allegiant	US	2xA319-100	Undisclosed	Term loan	DVB	
Awas	Ireland	1x737-800	$506m/$210m (List/CMV*)	11-year debt financing	BTMU, DBJ	
Aerolineas Argentinas	Argentina	A330-200	$222m	Finance lease/8 years	Airbus Financial Services	
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*)	Jolco	ANZ, ING, Natixis	

EXPORT CREDIT DEALS

Borrower	Country	Asset	Amount	Structure/ECA	Arranger	Debt
August 2015						
CMB Financial Leasing	China	1xA330-300, 1x737-800, 1xA320-200	Undisclosed	Senior loan facility	DVB, Morgan Stanley	Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Trust
Vietnam Airlines	Vietnam	4x787-9	$589m	Guaranteed loan loan/Ex-Im	ING, THD Securities	
July 2015						
THY	Turkey	1x737-900ER	$99m/$47.6m (List/CMV*)	Yen-denominated loan/Ex-Im	ING	
Korean Airlines	US	1xA330-300	$113m	Export credit/Coface	ING	
June 2015						
China Eastern	China	1x777-300ER	$330m at list (CMV* $168m)	ECA-backed commercial loan/Ex-Im	HSBC	

CAPITAL MARKETS

Borrower	Country	Asset/Security	Amount	Structure/Term	Arranger	Coupon/Rating
August 2015						
THY	Turkey	Part of 3xA321	$86.4m (A:$70.36m/B:$16.1m)	Yen denominated EETC/March 2024	Mizuho Securities, Shinsei Trust & Banking, Development Bank of Japan	A:A2, B:baa2 (Moodys)
ALC	US	Unsecured	$500m	Bond/3 years	Syndicate of banks	2.63%
Delta Airlines	US	15x737-900ER	$500m (AA:$312.5m/A:$69.4m/B:$118.02m)	EETC/(A/AA:11.9 years, B:7.9)	Morgan Stanley	AA:Aa3, A:A1, B:Baa2 (Moodys)
July 2015						
Spirit Airlines	US	15 aircraft	$577m (A:$456m/B:$121m)	EETC/(A:12.6 years, B:8.6)	Citi, Morgan Stanley	A:4.1%, B:4.45%
Apollo Aviation	US	40 aircraft	$71m (C tranche of November 2014 ABS)	ABS//2029	Goldman Sachs, DVB, CA-CIB	B+
June 2015						
Azul	Brazil	49 aircraft	$232m (A:$142m/B:41m/C:49m)	EETC	Deutsche Bank	

* Current market value - see page 38

DEAL WATCH

SALE/LEASEBACKS

Borrower	Country	Asset	Lessor/Arranger	Amount
August 2015				
Indigo	India	5xA320neo	Goshawk	$531m (list)
Avianca	Brazil	6xA320	Vermillion Aviation	$782m/$262m (at list/CMV*)
July 2015				
AirAsia	Malaysia	3xA320	Goal	$391m/$131m (at list/CMV*)
Eaglexpress	Malaysia	2x747-400	Aersale	>$30m
ANA	Japan	4xCRJ700	Showa Leasing	$160m/$350m (at list/CMV*)
June2015				
Qatar Airways	Qatar	8xA320	Pembroke	$776m/$350m (at list/CMV*)

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
June to August 2015						
SunExpress	Turkey	5x737-800	Ex-Im backed	$467m/238m (at list/ CMV*)	BNP Paribas	Mandated
Xiamen Airlines	China	5x737-800	Operating leases	$467m/238m (at list/ CMV*)	ICBC	Mandated
Spirit Airlines (THY)	US	11xA320 family	Debt commitments	Undisclosed		
Turkish Airlines (THY)	Turkey	20x737-800, 6x777-300ER	To be decided	Undisclosed		
Turkish Airlines (THY)	Turkey	10xA321-200, 5xA330-300, 2xA330-200F	To be decided	Undisclosed		
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*)		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

* Current market value - see page 38

RATINGS

AIRLINE FINANCIAL RATINGS

Airline	Fitch	Moody's	S&P
Aeroflot	B+(neg)	-	-
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+(stable)
Etihad Airways	A(stable)	-	-
GOL	B-(stable)	B3(pos)	B-(stable)
Hawaiian Airlines	B(pos)	B2(stable)	B+(stable)
jetBlue	B+(stable)	Ba3(stable)	B+(stable)
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)
Spirit Airlines	BB+(stable)	-	BB-(stable)
Turkish Airlines	-	Ba1(stable)	BB(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 September 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)
Avation PLC	B+(stable)		B(stable)
Aviation Capital Group	BBB-(pos)	-	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	-	-	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 September 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)	B2(neg)	B(neg)
Embraer	-	Baa3(stable)	BBB(stable)
Rolls-Royce	A(stable)	A3(stable)	A(stable)
United Technologies	A(stable)	A2(stable)	A(neg)

Source: Ratings Agencies - 8th September 2015

AIRCRAFT ORDERS

COMMERCIAL AIRCRAFT ORDERS BY MANUFACTURER

	Gross orders 2015*	Cancellations 2015*	Net orders 2015*	Net orders 2014
Airbus	754	46	708	1,456
Boeing	505	58	447	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 end of August.

COMMERCIAL AIRCRAFT ORDERS BY CUSTOMER

Customer	Country	Quantity/Type
July to September 2015		
Jet2.com	UK	27x737-800
Qantas	Australia	8x787-9
Indigo	India	250xA320neo
IAG	UK/Spain	8xA350-900, 3xA330-200, 20xA320neo
FedEx	US	50x767-300F
China Eastern Airlines	China	50x737-800
China Aviation Supplies	China	45xA330
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)

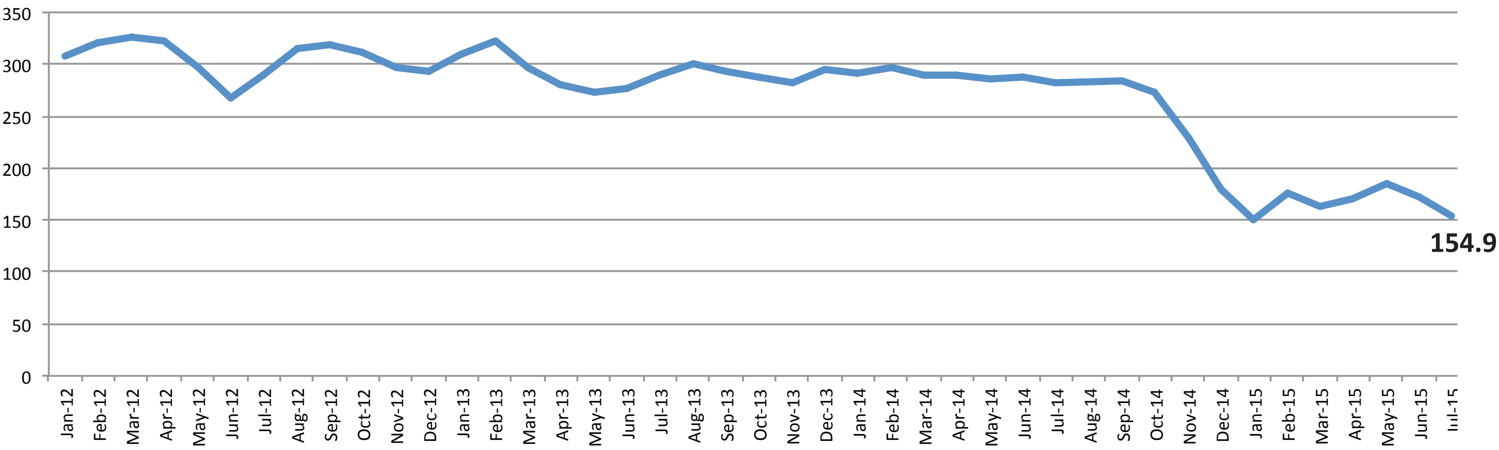
Model	List price	Current market value*
Airbus (2015 price)		
A319	88.6	37.6
A320	97.0	43.8
A321	113.7	52.1
A330-200	229.0	93.9
A330-300	253.7	105.6
A350-900	304.8	TBD
A380	428.0	222.2
ATR (2015)		
ATR42-600	20.1	15.5
ATR72-600	24.7	20.2
Boeing (2015)		
737-700	80.6	38.0
737-800	96.0	47.6
737-900ER	101.9	50.6
747-8 (passenger)	378.5	167.2
777-200LR	313.8	147.0
777-300ER	339.6	167.7
787-8	224.6	117.8
787-9	264.6	136.1
Bombardier (2014)		
CRJ700	39.9	23.9
CRJ900	45.8	26.0
CRJ1000	48.9	27.7
Q400	30.0	21.2
Embraer (2014)		
E170	40.0	27.0
E175	43.1	29.2
E190	47.7	33.0
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
A350-1000	351.9
Boeing (2015)	
737 Max7	90.2
737 Max8	110
737 Max9	116.6
777-8X	371.0
777-9X	400.0
787-10	306.1
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...

Can all benefit from lower oil prices? Or trust me, I'm a doctor

It is time for airlines to be smart and embrace higher traffic levels, writes Adam Pilarski, senior vice-president at Avitas.

With the substantial fall in oil prices, who are the beneficiaries in aviation? When oil prices fell, I made bold predictions that traffic necessarily would go up. Some people, especially airline analysts, thought this necessarily meant an end of capacity discipline, which they believe transformed airlines from perennial money losers to profitable enterprises. Hence, they argued strenuously against expansion of capacity. So, the question is: do capacity increases have to lead to the end of an era of profitability for airlines?

Obviously, a fall in oil prices is by definition not good for everybody, the same as a cessation of a plague is not good for funeral directors. But the question here is, can lower oil prices lead to more traffic benefiting passengers and aircraft manufacturers while, at the same time, benefiting airlines by helping them remain profitable?

The July record passenger traffic of more than 10 million flyers a month achieved by Ryanair is an indication that lower oil prices should result in higher traffic levels. Incidentally, the Irish airline's monthly load factor was 95%, being a jump of 4% year on year.

When oil prices initially fell airlines were very coy about plans of expanding capacity. One, they did not really believe me that this was most likely a permanent shift rather than an aberration that would soon go away. Two, they were afraid that expanding capacity would inevitably lead them towards the old path of financial losses.

Economic theory is quite clear. In competitive markets, prices are determined by supply and demand. When the price of a major cost component goes down (such as fuel for airlines), the supply curve shifts to the right, resulting in lower prices and higher quantity provided to the market. This is, as always, under the provision of ceteris paribus, or other things unchanged, a magic component of all economic predictions.

Other factors changing while oil prices come down could outweigh the stimulus provided by the shift of supply. As one example, in Russia demand has been increasing for the past few years with high oil prices and a booming economy. As oil prices halved, the Russian economy slid into recession. Additionally, political developments caused a marked deterioration in foreign relations, leading the government to ban foreign travel for all public sector employees. So, despite the fall in oil prices, other factors trumped that one and resulted in a fall in traffic in Russia.

Overall though, it is beyond dispute that a fall in oil prices, ceteris paribus, has to lead to more traffic at lower prices. Interestingly, the same results will happen in non-competitive markets. Again, economic theory is clear. Even in the case of a pure monopoly, a significant reduction in cost will lead to lower prices and higher quantity supplied. This will happen, for those who want to know, not at the intersection of demand and supply but rather of the marginal revenue and supply curves.

I have been claiming for a long time that high oil prices do not necessarily mean low airline profits. The statements of analysts that "airlines cannot be profitable at $40/50/60… a barrel of oil" were always meaningless but repeated over the years. History shows that there is no correlation between the change in oil prices and the change in profits, as I have documented over the years. High oil prices obviously are not good for the airline industry. They lead to higher ticket prices – hence, fewer flying passengers.

But they also cause airlines to behave in a more rational way, not to fight for market share but rather to price in a smart way. Basically, airlines have to be smart or they will not survive. Low oil prices historically sometimes led to irrational pricing and unnecessary price wars, leading to large financial losses. However, this does not have to happen now. Airlines may have learned to price rationally. Hence, the rational behaviour of increasing capacity because of substantially lower oil prices, in line with standard economic theory, may lead us to the promised land of more traffic together with continuing profitability.

Airlines should not be led astray by analysts who warn of increasing capacity, which, in their view, must inevitably lead to losses. With lower oil prices, higher capacity will happen. Existing airlines can participate in these market developments or shrivel and let newcomers take over the market.

Either way, traffic will increase, benefiting the flying public and aircraft manufacturers. Airlines can behave smarter than in the past and remain profitable at higher traffic levels or resort to the old way of price wars. They will not be able to stop the laws of economics and increase capacity though.


Propelling New Horizons
ATR / 72-600
ATR
PROPELLING THE NEXT CONNECTION
ATR / 600
99.6%
Dispatch reliability
5,000
ATR flights per day
78%
Market share
Technology / Profitability / Comfort
ATR is the leader of regional air transport today.
ATR 72-600 and 42-600 aircraft, with a unique combination of flexibility on regional routes, reliability and unbeatable fuel efficiency, enable airlines to offer their passengers great flight experience at unique comfort standards.
With more than 190 operators in over 90 countries worldwide,
ATR turboprops are good value for money over time.
Opt for the best solution for regional flights!
www.atr-aircraft.com
atrbroadcast
atraircraft
atraircraft
atr
ATR
PROPELLING THE NEXT CONNECTION