



AIRFINANCE JOURNAL EVENTS

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Cancellations dominate Airbus and Boeing results

Manufacturers Airbus and Boeing finished the year 2016 with a reasonable amount of aircraft orders but the level of cancellations almost reached 400 units.

Chicago-based Boeing recorded 848 gross orders last year but 180 of those were cancelled. This represented about 21% of its order intake.

The previous year, Boeing cancellations represented 12.5% of its annual orders while in 2014 the manufacturer's cancellations totalled 7.6%.

The Boeing 737 models net orders totalled 550 units or 82% of the manufacturer's intake.

Boeing booked 701 orders for the type, but also recorded 151 cancellations.

This compared with 666 gross orders in 2015 and 78 cancellations. The previous year Boeing gross orders for the 737 types totalled 1,196 while cancellations were booked on 92 units.

Last year, Boeing booked a total of 316 737s as unidentified customers as well as 37 787s. In 2015, it booked a total of 175 737s as unidentified customers as well as 41 777/787s.

In the narrowbody market, its biggest sales in 2016 were VietJet Air for 100 units, Gecas with 75 aircraft, followed by United Airlines with 41 aircraft and Donghai Airlines and Malaysia Airlines with 25 aircraft each.

In the widebody sector, Qatar Airways ordered 10 777s and 30 787s, representing almost a third of the manufacturer's widebody intake.

Deliveries reached 748 units in 2016, albeit 14 units less than in the previous year. Boeing delivered 490 737s (vs 495 in 2015), nine 747s (vs 18 in 2015), 13 767s (vs 16 in 2015), 98 777s (vs 99 in 2015) and 137 787s (vs 135 in 2015).

Its orderbook stood at 4,715 aircraft as of 1 January 2017, down 80 units from the previous year. As expected the orderbook for the 737s is the only product to have seen an increase over the past three years. The Max products have sold well and the first delivery of the Max8 is expected this year.

Airbus finished the year on a stronger note than its American rival. At 30 November 2016, the

European-based manufacturer had recorded 600 gross orders and 190 cancellations.

During December, it added 349 gross orders but recorded 28 cancellations. Airbus confirmed 28 A330-900neos and 16 A350-1000s from Iran Air during the month.

But the majority of its December sale performance was in the single-aisle market with 281 gross orders. The A320neo model took the lion's share with 250 gross orders.

Airbus's gross orders reached 949 units while the manufacturer recorded 218 cancellations, or 23% of its annual orders.

The previous year, Airbus cancellations represented 9.2% of its annual orders while in 2014 the manufacturer's cancellations almost reached 19%.

Airbus recorded 526 net sales in the single-aisle market last year, or 72% of the manufacturer's intake.

Cancellations accounted for 183 units, or 23% of its 2016 single-aisle intake.

This compared with 1,015 gross orders in 2015 and 70 cancellations. The previous

year Airbus gross orders for the A320 types totalled 1,545 while cancellations were booked reached 224 units.

Last year, Airbus booked a total of 253 unidentified customers for its A320 family along with 19 unidentified customers for its A330s.

In the narrowbody market, its biggest sales centred around AirAsia (100), Synergy Aerospace (62) and Iran Air (46).

In the widebody sector, Iran Air ordered eight A330-200s, 28 A330-900neos and 16 A350-1000s. Garuda placed orders for 14 A330-900neos while China Eastern Airlines ordered 20 A350-900s.

Airbus deliveries reached 688 units in 2016. These included 545 single-aisle A320 family aircraft of which 68 were A320neo. Over 40% of single aisle deliveries were for the A321 model. Airbus also handed over 66 A330s, 49 A350s and 28 A380s during the year.

In 2015 Airbus delivered 635 aircraft to customers, including 491 A320 family aircraft, 103 A330s, 27 A380s and 14 A350s.

Airbus's orderbook was 6,874 aircraft as of 1 January 2017, up 43 units from the previous year. About 5,650 units are for the single-aisle market.

Boeing annual orders summary

	737	747-8I/F	767	777	787	Total
2016 Total gross orders	701	18	26	23	80	848
Total net orders	550	17	26	17	58	668
2015 Total gross orders	666	6	49	58	99	878
Total net orders	588	2	49	58	71	768
2014 Total gross orders	1,196	2	4	283	65	1,550
Total net orders	1,104	0	4	283	41	1,432

Source: Boeing

Airbus annual orders summary

	A320Family	A330	A350	A380	Total
2016 Gross Orders	790	106	51	2	949
Net in year of cancellation	607	83	41	0	731
2015 Gross Orders	1,015	156	16	3	1,190
Net in year of cancellation	945	136	-3	2	1,080
2014 Gross Orders	1,545	174	57	20	1,796
Net in year of cancellation	1,321	154	-32	13	1,456

Source: Airbus

Why lessors will continue to consolidate

The aviation leasing sector will continue to face further consolidation following the purchase of CIT Aerospace by Avolon and its Bohai Leasing parent group, say lessor sources.

Since 2014, the leasing industry has evolved through consolidation and the emergence of new platforms.

A spate of mergers and acquisitions has allowed cash-rich Asian businesses to enter the sector as the industry is increasingly viewed favourably by yield-hungry long-term investors.

The momentum is expected to carry on this year.

A leasing source says: "2017 will see more platform acquisitions, given the drive to consolidate and the continued influx of capital to the sector that will quickly determine that a 'go alone' strategy is not the right way forward."

More second-tier lessors could fuel their growth by acquiring platforms and/or portfolios to become first-tier lessors.

"It is a possibility because generic growth is so hard in today's market with lease returns being so low. We see the likes of AerCap selling off its portfolio and returning cash to investors via share repurchases vs reinvesting in aircraft," said another source.

"We are still seeing plenty of liquidity and not only China. Canada has, at present, only slightly cracked open its coffers and there's a lot more there. We have a number of sources in the Middle East suggesting they are ready to invest. Korea is a quickly developing market also," he adds.

A leasing source believes the catalyst for acquiring other platforms "will be a softening in the market" where the smaller or boutique lessors start to struggle.

The main reason for this struggle will be two-fold, he says.

"First, it is the desire of equity to switch to a different



Olivier Bonnassies, MD Airfinance Journal, Laura Mueller, MD Airfinance Journal, Robert Martin CEO BOC Aviation, Domhnal Slattery CEO Avolon, Hong Kong, November 2016

investment sector and second, it is because so many of the new entrants are staffed for good times – they have no real ability to deal with a single repossession, let alone say several and lease restructurings simultaneously."

More mega-lessors?

In a poll at the 17th Asia Pacific Airfinance conference last November, 85% of the audience expects more operating leasing platforms to be acquired by Chinese entities in 2017.

Another 12% opined this will not be the case while the remaining 4% were unsure.

In an interview with *Airfinance Journal* Aengus Kelly, chief executive officer (CEO) of AerCap said there will be continued consolidation in the leasing sector as there are significant benefits of scale.

"I would expect to see more of the second-tier guys rollover," he says.

But another lessor argues that size is not essential.

"I think it's more important to ensure that the liability side of the balance sheet is financed efficiently and that doesn't necessarily have to come as a result of size," the lessor says.

He points out the difficulties of making good returns in today's market, especially on sale and leaseback transactions.

"With the OEM's juggling an order backlog it is impeding their placement opportunities for their own orderbooks.

Options are few, but doesn't it point to the fundamental structure of the leasing business changing? You have to restructure your balance sheet to be a lender via some hybrid leasing structures as well as a traditional lessor," he comments.

Airfinance Journal's 2016 top 50 lessors showed the lessors represented \$260 billion-worth of assets, up from \$234 billion in 2015.

Their revenues, and net income are also up on aggregate. The top 10 lessors had \$18.6 billion combined revenues this year, up from \$15.7 billion last year. Net income has gone up to \$4.1 billion from \$3.1 billion over the past 12 months.

The top 50 lessors ranking showed a fleet of approximately 8,675 aircraft under ownership and management. This compares with 8,185 units a year ago.

The top 10 lessors account for 5,200 aircraft or 60% of the top 50 ranking. In last year's ranking they represented almost two thirds with 5,330 units.

Lessor's top 50 exposure to the widebody market further reduced over the past 12 months to 15% from 15.3% a year ago. However their narrowbody market share is now at 69%, a 0.5 percentage point up from the 2015 figures.

Aside from NAC, a regional lessor specialist, their footprint in the regional jet and turboprop fleets over the past

12 months has diminished by more than 10%, confirming a trend to focus on the mainline sector.

The report showed that 455 regional jets and turboprops were owned and/or managed by the top 10 lessors, down from last year's 510 total.

Overall, the largest lessors in terms of fleet size - Gecas, AerCap, SMBC Aviation Capital, BBAM and Nordic Aviation Capital (NAC) - contracted by 200 units year-on-year.

The race to the top could potentially mean a group of five large lessors by 2020.

Lessor number three

Avolon's CEO Domhnal Slattery has said the purchase of CIT Aerospace is "not the summit" of the lessor's ambition.

Bohai Leasing, which is majority owned by HNA Group, completed the purchase of Avolon in the first quarter of 2016. Avolon merged with Bohai's existing leasing entity, Hong Kong Aviation Capital.

The completion of the acquisition of CIT Aerospace, which scheduled for the first-half of 2017, would propel Avolon to the number three spot in the lessor ranking by fleet size behind AerCap and GECAS.

Now all eyes are on the sale of AWAS, which has been downsizing its fleet size and personnel during the past couple of years.

The lessor sold a 90-aircraft portfolio to Macquarie AirFinance as well as the E-notes of an asset-backed securitisation (ABS) deal covering 30 aircraft to Kahala Aviation in 2015.

The remaining 245-aircraft and its platform have been subject to sale speculation since.

Terra Firma Capital Partners' sale of its aircraft arm has attracted the attention of a group of operating lessors, source indicate. Avolon, Dubai Aerospace Enterprise and Macquarie Group, which has teamed up with Ping An, are

all involved in sales talks regarding the AWAS platform, say sources.

However, bids for AWAS are not due for "a few more weeks" at which time the market should "know more then" about which firms will emerge as the leading bidders for the platform, says a source involved in the sale process.

Terra Firma entered into sales talks last year with

Chinese-owned entities regarding the purchase of AWAS. But talks with ICBC Financial Leasing and Bohai Leasing broke down due to turmoil in the Chinese market, which resulted in the nation's stock market come to a halt twice in one week, triggering a further weakening of the yuan.

So will a sale happen this time around? BOC Aviation's

CEO Robert Martin opines that a sale is more likely now, but it "depends on the price and what Guy Hands has in his head."

Avolon's Slattery believes AWAS will be sold and the owners will get a "fair price".

"If they don't sell it, I would not like being a limited partner investor in Guy Hands' fund. I would be pretty upset," he adds.

American Airlines to issue B tranche

American Airlines plans to issue an additional \$197.7 million B tranche to supplement the planned issuance of \$785 million of EETC notes announced earlier this month.

The total size of the issuance is now \$983 million, which also includes a \$536.8 million AA tranche and a \$248.6 million A tranche.

The notes are secured against 24 aircraft: 10 Airbus A321s, three Boeing 737-800s, three 787-8s, one 787-9 and seven Embraer E175s.

The MSNs of the aircraft are 7349, 7509, 7539, 7541, 7419, 7564, 7617, 7636, 7500, 7566 (A321s); 31262, 33344, 31265 (737-800s); 40635, 40636, 40637, 40644 (787-9s); and 17000630, 17000634, 17000635, 17000641, 17000642, 17000649 and 17000650 (E175s).

The aircraft are expected to deliver between January and May 2017.

The AA and A tranches have a 12.1-year tenor and a weighted average life of 8.8 years. The B tranche has an 8.1-year tenor and a weighted average life of 5.5 years.

The initial loan to value (LTV) is 38.6% for the AA tranche, 56.4% for the A tranche and 70.7% for the B tranche.

The notes will carry an interest rate of 3.65% for the AA tranche, 4% for the A tranche and 4.95% for the B tranche.

Ratings agency Fitch has rated the AA tranche at "AA" and the A tranche at "A", while Moody's has rated the two tranches at Aa3 and A2. For the B tranche, the ratings are BBB and Baa2 respectively.

Credit Suisse, Citigroup and Deutsche Bank Securities are acting as joint structuring agents and lead bookrunners.

Goldman Sachs, Morgan Stanley, Bank of America Merrill Lynch, Barclays, JP Morgan, BNP Paribas, Credit Agricole Securities, ICBC and US Bancorp are acting as joint bookrunners.

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European aviation in a post-Brexit world

After the UK voted to leave the EU in June, the European Regions Airlines Association has been busy lobbying governments for a fair deal for aviation. **Jack Dutton** speaks to **Simon McNamara**, the organisation's director general, about the consequences of Brexit for airlines.

Since the United Kingdom (UK) voted to leave the European Union (EU) on 23 June 2016, there have been more questions asked than answered. One question that continues to be unanswered is the full impact of Brexit on the aviation industry.

About a week after the referendum, the board of the European Regions Airlines Association (ERA), a trade association that represents the European aviation industry, held a meeting to come up with a three point initiative as to how to protect European carriers that are based and fly into the UK.

On top of this, Simon McNamara, director general of ERA and his colleagues, have been lobbying the British and European governments to negotiate a good deal for the aviation industry. "We have been working with the Civil Aviation Authority and more recently the Department for Transport, but we are a European organisation, so our prime focus is Brussels and Cologne," he says.

The ERA has 52 member airlines and 144 associate and affiliate members which include airlines, airports, manufacturers and suppliers. Eight of ERA's 52 airline members are British carriers, including Flybe, BMI Regional, Aurigny Airlines and Titan Airways.

Despite having a proportion of ERA members based in the UK, McNamara stresses that it is not only UK-based carriers that will face challenges following Brexit. "ERA's view is that Brexit is not a British problem, it is a European problem when it comes to aviation. The benefits that the liberalisation of air transport has brought for airlines far outweighs the disadvantages and legal complexities of EU law that we have," he says.

Although McNamara's organisation has a history of challenging EU-formed legislation, he still believes that European aviation is in better health with Britain in the EU.

"We were the first ones to complain about the EU and the complexity EU law can bring to airlines, EU 261 being a perfect

example, but the benefits of having a free market outweigh these complexities. We'd rather see aviation was part of that free market so there needs to be a mature discussion by all sides about how we preserve that free market."

With a weaker sterling exchange rate, the UK population is likely to travel less and outbound load factors will decrease as a result. The International Air Transport Association (IATA) forecasts that the number of UK air passengers could be 3-5% lower by 2020. With weaker outbound load factors, UK-based carriers will lose out the most.

UK-based airlines have also been hit by the low value of the pound against the dollar. Aviation is an industry where most of the costs are paid for in dollars and the profits are made in the local currency, meaning British carriers have been losing out. IAG scaled back its growth plans following Brexit and Easyjet's profits were hit by the referendum result, falling 27.9% in 2016 from 2015's figure for the year end 30 September.

McNamara believes traffic rights for flying into and out of the UK are a prime concern. "The first part of our position on Brexit concerns traffic rights and preserving a free and open market between the UK and mainland Europe. The position we have taken is that we would like to preserve the status quo when it comes to traffic rights." In other words, McNamara wants European operators have free access to UK markets and UK operators have full access to the EU markets.

"Brexit potentially means more restrictive access to the UK for carriers in Europe and more restrictive access for UK carriers to Europe. None of that is good. Over 40% of our airline members operate to, from or within the UK."

Threat to ACMI market

At the moment, EU operators with an EU Air Operators Certificate (AOC) and an EU operating license, can freely

lease to another EU operator without permission. For example, an airline like Titan Airways, which is based in the UK, is able to freely-lease aircraft to a French, Italian airline or a Spanish airline without any restrictions.

But McNamara says a hard Brexit could change this. "The ACMI (aircraft, crew, maintenance and insurance) market is a big market for our members, whether it be short, medium or term leases and we don't want to see that put at risk. We want full freedom of intercommunity leasing, where UK carriers are able to lease to EU carriers and EU carriers are able to lease to UK carriers without restriction." This is less of a problem for the dry lease market as most of the lessors are based in Dublin, rather than the UK.

The third part of the ERA's position is on the application of EASA rules and regulations. The association would like to see EASA rules and regulations continue to apply to UK-based operators and companies in the UK who currently work to EASA rules so the industry has a common regulatory framework for Europe."

"Our fundamental position on EASA and technical regulations is that we have a common regulatory system. And that system works well, because aviation is a business that doesn't respect borders and a common regulatory system makes life easier for operators moving around Europe and moving aircraft. I think taking the UK outside when it comes to setting regulation is not really a sensible thing."

No formalities

One of the main hindrances of the negotiations, McNamara says, is the fact that the European Commission has banned any debate of Brexit until Article 50 is triggered. Because of this, ERA and other organisations that want to negotiate Brexit terms cannot hold formal meetings. The ERA board has only been able to have off-the-record

conversations so far.

"This is somewhat frustrating because it's not going to be easy to negotiate this so we need as much time as possible. It's certainly holding back our lobbying in Europe but it hasn't stopped us taking a position and raising the topic whenever we have meetings with people, even if they're not officially allowed to be on the record on the topic."

Is there any chance that aviation will be given special treatment from other industries that will be affected by Brexit, considering its vitality to international connectivity? "We would like aviation to be treated as a separate case, but we also have to be realistic and accept that aviation is just one industry out of multiple industries that are going to potentially be feeling the consequences of Brexit. My guess is that aviation will be part of a bigger negotiation and the risk there is that we become traded against something else. That would be a shame because I'd like to see aviation dealt with on its own but there is a strong risk that it won't be."

At time of writing, we are nearing the end of the final day of a historic trial being heard in the UK Supreme Court in Westminster. The trial will determine whether the UK Prime Minister, Theresa May, has the executive power to trigger Article 50, the UK's formal exit from the EU, herself, rather than having to do so via a parliamentary vote.

Regardless of how Article 50 is triggered, McNamara believes that the biggest risk for the aviation industry is a decision from the Brexit negotiations that is motivated by politics rather than on "rational headed thinking about what's good for business".

"I'm yet to meet someone in the aviation business who doesn't want to preserve the status quo. If that's the position of industry, let's try and negotiate with the UK and the European governments to make that happen."

2016: not a year for lessors orders

Aircraft leasing companies placed orders for a total of 97 Airbus and Boeing aircraft last year, representing a mere 5% of the manufacturers' gross figures.

In 2016, Airbus recorded 949 orders and 218 cancellations finishing the year with 731 net orders. Boeing had 848 orders and 180 cancellations during the year, meaning 668 net orders.

Lessors ordered 79 Airbus aircraft last year, equivalent to 10.8% of manufacturer's 731 net orders.

A total of 33 orders were for the current engine option models while another 40 orders were for the new engine option models, according to Airbus' order figures. The remaining six orders were for the A330 and the A350 models.

Calc ordered two A320s

while Air Lease placed orders for two A320s, one A321 and two A320neos during the year. Aviation Capital Group was the most active lessor. It placed follow-on orders for 35 A320-family aircraft including 30 A320neos, two A320s and three A321s, as well as options for a further 10 A320neo aircraft.

Awas ordered 12 A320s and three A321s, while AerCap ordered 10 A320neo and BOC Aviation placed follow-on orders for five A320s and five A321s.

New lessor Hong Kong International Aviation Leasing extended an order for five A330-300s in December while Air Lease ordered one A350-900 unit.

In the narrowbody market, lessors represented 17.5% of Airbus current engine option models sales and less than 1%

In 2016, Airbus recorded 949 orders and 218 cancellations finishing the year with 731 net orders. Boeing had 848 orders and 180 cancellations during the year, meaning 668 net orders

of new engine option orders.

Airbus delivered a total of 688 aircraft to customers last year and lessors represented 20% of direct deliveries by value. Asia accounted for 31% of deliveries ahead of Europe with 19%, Americas with 16% and Middle East/Africa with 14%.

Lessors represented about 2% of the Boeing's total orders. The lessors placed orders for 18 units including Air Lease for six 737 Max and

Standard Chartered Bank for 10 737s. Silk Road Leasing placed an order for one 737. Air Lease also ordered one 787 unit during the year.

In 2015, Boeing booked narrowbody orders from AerCap (101), Air Lease (8), BOC Aviation (28), Gecas (2) and SMBC Aviation Capital (10).

Boeing delivered a total of 748 aircraft during 2016 and lessors represented 16% of direct deliveries, with 121 units.

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The winners and losers of 2016

1 Which aircraft saw the greatest recovery in 2016?

IBA's chief intelligence officer Stuart Hatcher: "Pricing got pretty overheated for new narrowbodies in sale and leaseback, transactions/sales with leases attached over the course of last year. Every request for proposals was jumped on by a staggering number of potential buyers and pricing just kept on creeping up. Even mature and generally less popular types, such as the Boeing 737-700s and Airbus A319s, crept up. This is contrary to lease rates, which continue to slide downwards."

MBA's chief operating officer David Tokoph: "The A319 saw the greatest recovery in 2016 having been bolstered by low fuel prices. After a few years of operators up gauging, it seems that the current engine option (ceo) has become a more stable platform than it had been in recent years."

Ascend's head of valuations George Dimitroff: "In market value terms, the 737 Classic freighters saw the greatest recovery in 2016."

ICF International's principal Angus Mackay: "ICF considers that most aircraft performed reasonably well with demand exceeding supply in a low interest rate, low fuel cost environment."

Collateral Verifications' vice president, Commercial Aviation Services Gueric Dechavanne: "I don't believe any one aircraft saw a great recovery in 2016. The A320 Family, the 737 Next Generation (NG), and Embraer E-Jets held pretty stable throughout the year but we didn't see any great recoveries."

Oriel's Olga Razzhivina: "While most aircraft types experienced value declines in 2016, the strongest sector was the narrowbody freighters. The surge of demand from e-commerce platforms,



particularly in China, combined with limited supply have driven values and lease rates up."

2 Which aircraft performed the worst in 2016?

Hatcher: "Pricing on large widebody freighters continued to show poor performance last year. We also saw a continual creep downwards on widebody values - particularly older 777s and A330s. Off lease aircraft were most affected, although there were a number of trades in 2016 performed at much lower rentals that naturally pulled values down too."

Tokoph: "Widebodies like the 777-200ER model saw the most detrimental effect in values in 2016 with lessors having trouble placing the aircraft. Announcements by Delta of low offers have also hit at the types values in a very public manner. This has raised many questions as to the future of other widebodies as the horizon is dotted with impending returns off lease. Ultimately the outcome of the 2016's battle with widebodies will chart the course for the coming years."

Dimitroff: "The market through 2016 was generally weaker in market value and lease rate terms than the macro demand and supply picture should lead us to expect. In this context, most types saw downward movement. The worst performing of any single or twin-aisle was the 777-200 (non -ER), which saw reductions in market value of up to 22% depending upon vintage. From the more

"investment grade" types, the 737-800 had an uncomfortable year with current market value reductions in the mid-teens for older vintages, with a 1997-vintage aircraft seeing a drop of just under 17% through 2016 albeit younger vintages were not as impacted. In macro terms, we think the value cycle appears to have peaked in 2016 (although for twin-aisles the peak was perhaps a little earlier)."

Mackay: "Perhaps the notable exception has been the performance of the 777-300ER, which now appears to have raised market concerns, amplified by recently announced production cuts, along with continuing and growing concern over the A330-200 and 777-200ER types."

Dechavanne: "This would have to be the 777-200/200ER models. Unfortunately for the aircraft, the secondary market has been taking much longer to surface, which has made it very challenging to place due to very high reconfiguration and maintenance costs."

Razzhivina: "Widebodies in general saw significant declines. In the terms of investor disappointment, the new technology aircraft were very difficult to place from lessor orderbooks at any premium and arguably leased for less than the older technology aircraft 12-18 months ago. This is another example of how a combination of market cyclicality and oil prices can have an effect not experienced by the market before."

3 Will the premium between current generation narrowbodies and re-engine narrowbodies widen in 2017?

Hatcher: "Traffic is predicted to continue rising and therefore we would expect to see strong utilisation for the current generation alongside the re-engined models – however that is not a sentiment felt worldwide. Whilst US traffic is soaring, many smaller operators in Asia are unable to fill capacity. If there are still some airlines that are flying on financial fumes, then a sudden rise in availability will hit lease rates and values of current generation aircraft very quickly - although if they can be absorbed, the effect may be light. But assuming that demand remains fairly intact and oil doesn't hike up, then the premium will not widen - if exist at all! If interest rates also rise, then the cost of new will also rise - although we may also expect oil to be at a higher level too for that to happen. This remains one of the most common questions we get from clients who are trying to second guess this effect. The truth is that what works for one, doesn't work for another. We have worked for a number of operators on route and fleet selection and there can be a fine line for some, and a glaringly obvious solution for others. For some, its capital cost, for others, low operating cost or technology risk is more important."

Tokoph: "I don't believe the premium will strengthen in 2017 as their benefits are closely tied to oil prices. If oil prices stabilise at a nominal level then the premium will remain low as operators will see less benefit in terms of efficiency and it will take longer for them to see the benefit of a premium. Nevertheless the aircraft offers superior efficiency in a jump that is twice that of the previous generation improvement over the aircraft it replaced, so the re-engined variants will see success."

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Dimitroff: “We expect the premium to remain broadly unchanged absent some fundamental change in oil prices.”

Mackay: “ICF expects this premium to widen in 2017 driven by less bullishness in the used market for current generation equipment. The pace of change may be moderated by a reduction in fuel prices and any increase in availability of current generation aircraft with significant maintenance life remaining.”

Dechavanne: “The premium will widen, especially if the price of fuel increases and interest rates continue to rise.”

Razzhivina: “This will depend on demand and oil price. All indications of the former are that airlines’ appetite is slowing down. If the oil prices do not experience any significant rises the current premiums (where they exist) will remain. The other environmental qualities of the Neo and Max could become more apparent.”

4 Do you see the second-hand market for narrowbodies improving in 2017?

Hatcher: “The secondary market remains split as off-lease ageing aircraft have been dropping off for some time, whilst sales with leases attached have been going up. So in terms of the latter, it doesn’t get much better than this! However, at the tail end of the market, pricing still isn’t low enough for many of the mature-market lessors. Pricing remains a little too hot for part-out still, so decent aircraft like the 737-800 will be positioned for freight conversion, likewise good A320s and A321s shortly after. If lease rates continue to slide, then there won’t be much hope for the older lease attached aircraft.”

Tokoph: “It is difficult to say whether 2017 will continue with a positive note for the second-hand market. The year 2016 saw many new investors in the space who will likely be around in 2017 buoying the narrowbody market. The current discussion



on whether we are at the top of the market will heat up in early 2017, which will ultimately set the stage. The narrowbody market will be better insulated than other aircraft types in 2017 as they are the mainstay of the world fleet as the leading indicators such as the widebody market will provide insights into the evolution in the single aisle space.”

Dimitroff: “No.”

Mackay: “No. ICF expects the second-hand market for narrowbodies to decline in 2017.”

Dechavanne: “I don’t necessarily see it improving but I don’t believe it will deteriorate significantly either.”

Razzhivina: “No, apart from freighter conversion candidates. US airlines will attempt to control capacity growth as their yields are under pressure from labour costs. European airlines will find it difficult to grow in the climate of economic uncertainty. Low-cost carriers have already announced halting their growth and re-allocating capacity.”

5 Do you see the second-hand market for widebodies improving in 2017?

Hatcher: “For older types, no. There appears to be a wider over-capacity issue for certain operators that could see a sharp rise in availability. The first A380 will transition in 2017, large numbers of A330s will be looking for homes, and plenty of lease ends ahead for 2017 for older 777s. For operators with a more robust long-range strategy, we expect more extensions to occur if the market remains fairly flat (as it is today) - or the lessee can’t pay for the return. But should traffic

dip, oil rise and travellers shy away from longer range options, parking levels will rise.”

Tokoph: “We do not believe the widebody space will improve as we hear from mega operators on their retirement schedules, which will include many widebodies and put pressure on owners and investors to find homes. The large widebody market will likely take a different trajectory than the mid-size narrowbodies which have seen more stability.”

Dimitroff: “No.”

Mackay: “No. ICF also expects the second-hand market for widebodies to decline in 2017, potentially to a greater extent than that for narrowbodies.”

Dechavanne: “No, especially for larger widebodies. The secondary market for these aircraft will take a bit longer to materialize fully.”

Razzhivina: “No. With even the likes of Emirates reporting significant profit declines, it is unlikely airlines will be requiring extra long-haul capacity. Leases ending for 777-300ERs will pump more aircraft into the market. While the announced production rate decreases are a positive sign the market is yet to ‘bottom out’.”

6 Will 2017 see more aircraft being parked? Why?

Hatcher: Yes and no. I expect more older widebodies to park up, and older narrowbodies that need heavy airframe checks that are about to go in for conversion to park up. But if traffic remains strong, the current generation of narrowbodies should hold out fine. The oldest types will stay flying until oil and maintenance

conditions get the better of them. There will naturally be a steady increase in these parking levels, but not necessarily above background levels unless the market takes a dive.”

Tokoph: “With demand continuing to increase and manufacturers being in the midst of a production transition you will not likely see many more narrowbodies parked than expected. What could effect this is the global economy and distress among carriers. There will likely be more widebodies parked as the secondary market for them continues to evolve.”

Dimitroff: “Yes, with demand softening and OEM supply through new aircraft deliveries increasing (both single and twin-aisle), plus cost headwinds from labour and fuel, which mean airlines potential to use reducing yield to stimulate demand is limited, we think idle aircraft inventories reached the bottom of this cycle in 2016. But we should note that when normalised for the size of the overall fleet, the percentage of single-aisles in storage are close to historical lows whilst twin-aisles have broadly been stable over the past couple of years. But in absolute terms, we do expect to see the parked aircraft fleet increase in 2017 both for single and twin-aisles. We also expect to see more retirements in 2017, with 2016 again probably representing the bottom of this cycle in absolute volume terms.”

Mackay: “ICF anticipates a moderate increase in parked aircraft in 2017 driven by a moderate increase in supply over demand as we begin to see a softening in the market cycle.”

Dechavanne: “I don’t believe it will be any more significant than usual. Even if fuel prices go up, it will still take some time for operators to phase out ageing types.”

Razzhivina: “Not yet. The new generation aircraft are not there en masse yet and interim lift is still necessary. Once that production reaches full speed we will see more ceos/next generations parked.”

Marana and Ascent to Merge

Marana Aerospace Solutions (MAS) and Ascent Aviation Services (Ascent) announced a definitive merger agreement to create one of the leading aircraft MRO facilities for both widebody and narrowbody aircraft in North America. The combined company will provide maintenance, flight line, storage, and reclamation services out of two facilities that spans more than 1,250 acres and includes five hangars.

Located in Tucson International Airport, Ascent has a track record in servicing narrowbodied aircraft. MAS, with facilities located 35 miles from Ascent, is a Class 4 repair station, approved to service the largest commercial aircraft in the world.

Ascent says the close proximity of the facilities and deep pool of high-quality technicians will optimise staffing capabilities and project planning, which will result in an expanded service offering, increased productivity, quicker turnaround times and greater customer satisfaction.

David Querio, president of Ascent said: "Combining Marana and Ascent means that customers can procure all of their maintenance, storage, and end-of-life services with one partner while utilising a single customer representative, rather than requiring three or four different facilities. Beyond the obvious cost synergies, there are exciting new growth opportunities for us. The companies share similar values and approaches and we plan to leverage that to become the premier choice for our customers."

Matthew Ray, chief executive officer of Ascent added, "This combination is highly synergistic, creating a flexible business model that will maximize each company's human capital, technical capabilities and footprint while capturing immediate cost savings and driving significant value creation for both companies. We are creating a new kind of industry leader."

Other senior leaders involved in the combined company

include Jack Keating, Ascent's chief commercial officer and general manager, and Randy Buol, Marana's vice-president of operations.

In addition to approval from the United States Federal Aviation Administration,

the company will maintain approvals and certifications from regulatory authorities globally, including the European Aviation Safety Agency and the aviation agencies of Bermuda, Brazil, Canada, Mexico and Nigeria among others.

"This combination is highly synergistic, creating a flexible business model"

Matthew Ray, chief executive officer, Ascent

The merger of Ascent Aviation and Marana Aerospace creates one of the largest aircraft maintenance, storage and reclamation operations in the world.

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Appointments

BOC Aviation Fabian to lead Elix Aviation

Irish-based turboprop lessor Elix Aviation Capital has appointed Volker Fabian as its new chief executive officer, starting 1 March 2017. Fabian, who has more than 20 years' experience in aviation finance and leasing, replaces Antonis Simigdalas, who stepped up to the role of chairman.

Fabian joins from BOC Aviation where he had been executive vice president of airline leasing and sales for the Europe and Africa region since May 2015.

Previously he served as chief commercial officer of Intrepid Aviation for three years.

Elix Aviation Capital also announced that ex-co founders Antonis Simigdalas and Emmanuel Carousos will be supporting the company's next growth phase through their new mandates at the company's board of directors. Current deputy chief executive officer and chief investment officer Carousos has been promoted to the board of directors where he will serve as executive director

with responsibility for strategy, risk, and finance.

"Volker is a strong leader, and brings a wealth of experience from the leasing and aircraft-finance markets. I look forward to working closely with him as Elix continues its journey towards further successes. I am also delighted that Emmanuel Carousos will join us on the board of directors where his insight and expertise will be of benefit to all of us," said Simigdalas.

Ex-ACG CEO joins Avolon board

Avolon has appointed ex-Aviation Capital Group's chief executive officer (CEO) and chairman Denis Kalscheur as a non-executive director of its board. Kalscheur joined the US-based lessor in January 2013. In December 2015, he stepped down from the CEO role and assumed the role of vice chairman. The Irish lessor has also appointed two other non-executive directors to its board. The first appointment is Joe Nellis, managing director of

the business development team at GE Capital, which oversaw the signing and closing of nearly \$200 billion of transactions in a 24 month period as part of GE's transition to a more focused, digital industrial company.

The second appointment is Ciarán ÓhÓgartaigh, professor of accounting and Dean of University College Dublin College of Business. He has been published in international peer-reviewed journals on audit and accounting matters and he also serves on a number of audit committees including the Audit Committee of Ireland's department of finance.

DAE recruits DVB veteran

Ex-member of the board of managing directors of DVB Bank and a veteran in the industry Bertrand Grabowski has joined Dubai Aerospace Enterprise as senior advisor.

Airfinance Journal understands that the assignment is part time.

Grabowski, who had been at DVB for 11 years, left the German bank on 30 November.

He joined DVB in May 2005 as board member responsible for the whole aviation activity of the bank as well as rail financing.

Previously Grabowski spent

four years at Citibank's London asset finance group with primary responsibility over Europe and Japan. Prior to his spell at Citibank, he worked in various positions at Banque Indosuez (later renamed Credit Agricole Indosuez) as head of the Tokyo-based Asian Aviation Team for eight years and Tokyo Branch manager. He also was the bank's New York Branch manager with direct responsibility over all American based asset finance and leveraged buy-out and private equity activities for three years. In his new role Grabowski will report to Dubai Aerospace Enterprise's chief executive officer Firoz Tarapore.

"Bertrand is a world-class aviation finance professional and is extremely well-respected in the aviation industry. We are proud to add Bertrand to our management team as we make steady progress to double the size of our aircraft leasing portfolio. We grew our portfolio by 25% in 2016 and are on track to record similar growth in 2017. While retaining some other responsibilities in the industry, Bertrand will play an instrumental role in shaping the development of our franchise, and our entire team is excited by this stellar addition," said Tarapore.



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The 19th Annual **Global Airfinance Conference**

Tuesday 17th January 2017, CCD, Dublin

Capital Markets Day

08:30 Registration and morning refreshments

08:55 Chairperson's Opening Remarks

Hugh Robertson, Partner, Milbank

09:00 Capital markets' activity and outlook

- How were existing structures innovated in the past year and what is the outlook for 2017?
- What impact has the ECA shutdown had on the market?
- Fixed rates vs floating rates

Mark Streeter, Managing Director, Airline/Aircraft Credit Research, JP Morgan Securities

09:30 Asian Capital Markets: What to expect?

- Are we seeing an increasing trend in strategic investors participating in Asian IPOs?
- Why are Chinese lessors and airlines rushing to raise RMB?
- What is the outlook for liquidity in Asia?

Steven Townsend, Deputy Managing Director and Chief Commercial Officer for Europe, Americas & Africa, BOC Aviation

Wang Tao, Managing Director Aviation, CCB Leasing

Cristina Chang, Managing Director – Asia Pacific Structured Finance, Citigroup

Mark Jiang, Global Head of Aviation, Managing Director, ICBC Financial Leasing Co. Ltd

Moderated by: Weili Chen, Head of Capital Markets Aircraft Financing, Standard Chartered

10:15 Morning Refreshments and Networking

10:45 Challenging credit agencies and their role in aviation

This session will be an opportunity to see senior credit experts in the hot seat as their latest ratings are being examined and challenged by Marjan Riggi, Managing Director, Kroll Bond Rating Agency.

Jonathan Root, CFA, Vice President, Senior Credit Officer, Moody's Investors Service

Joe Rohlena, Director, Fitch Ratings

Philip Baggaley, Managing Director, Standard & Poor's Global Ratings

Moderator: Marjan Riggi, Managing Director, Kroll Bond Rating Agency

11:30 Will the ABS market pick up in 2017?

- Has there been any structural evolution in ABS deals?
- Where does investor demand come from and will we see more issuance in 2017?
- Is ABS most efficient for new, mid-life or older assets?

Matt Little, Managing Director - Head of Business Development & Capital Markets, Castlake

Scott Debono, Managing Director, Citigroup Global Markets – Global Structured Debt, Citigroup

Kate Scanlin, Analytical Manager & Senior director, S&P Global Ratings

Chuck Weilmann, Managing Director - Head of US ABS, DBRS

Vijay Jethwa, Director, Mizuho Securities USA

Moderated by: Drew Fine, Partner, Milbank

12:10 Lunch and networking

13:30 Is the private placement market still under-supplied?

- Why have we not seen more issuance in the private placement market?
- What are the benefits of the private placement market?
- Appetite for private placement market's transactions in 2017

Michael Dickey Morgan, Executive Managing Director, Burnham Sterling & Company

Douglas Brennan, Chief Executive Officer, Stellwagen Group Limited

Andrew Kleeman, CFA, Managing Director, Private Placements, Barings

Rafael Kuhn, Vice President, Deutsche Bank

Moderated by: Jim Pascale, Partner, Milbank

14:15 Has an excess of liquidity in the market dwarfed EETC issuance?

- Breakdown of last year's EETC transactions
- Commercial banks have been lending aggressively – has that had an impact on the US and non-US EETC markets?
- How much demand and supply will we see in the EETC market in 2017?

Helen Kotsvos, Director, Financing - Treasury, Air Canada

Eric Harder, Director of Corporate Finance, United Airlines

Matt Simonetti, Vice President, Citigroup

Moderated by: Justine Fisher, Vice President Credit Research, Goldman Sachs

15:00 Afternoon refreshments and networking

15:30 Why are investors drawn to aviation?

- Who has been investing and where?
- What are investors looking for in airline vs lessor paper?
- How do investors think about aircraft financing transactions from a relative value perspective compared to other investments?

Bob Peart, Portfolio Manager, Magnetar Capital

Keith Allman, Vice President, Senior Securitized Asset Analyst, Loomis, Sayles & Company, L.P.

Jeff Straebler, Managing Director - Transportation, Aerospace & Defense, Bonds & Corporate Finance Group, John Hancock

Moderated by: Nick Swinburne, Partner, Milbank

16:15 What is driving lessor IPOs?

- How are lessor IPOs impacted by market conditions?
- Will Asian investors maintain their appetite for Western portfolios?
- Are we likely to see similar volumes in 2017?

Steve Townsend, Deputy Managing Director & Chief Commercial Officer (Europe, Americas, Africa), BOC Aviation

Michael J. Inglese, Chief Financial Officer, Airastle

Ryan McKenna, Vice President, Head of Strategic Planning, Air Lease Corporation

Moderated by: Seamus O'Crainin, Partner, A&L Goodbody

17:00 Chairperson's closing remarks followed by cocktail reception sponsored by ORIX Aviation

Aircraft and Engines Day

08:30 Registration and morning refreshments

08:55 Chairperson's opening remarks

James Meyler, Deputy Chief Executive Officer & Chief Commercial Officer, ORIX Aviation

09:00 Air transport and equipment markets review and outlook for 2017

- Aircraft and engines' assets: Winners and losers from an investor's perspective
- Do OEMs care enough about residual values?
- Fundamental drivers for investment success: Lease rates and residual values

Bert van Leeuwen, Global Head of Aviation Research, DVB Bank

09:30 The C-Series challenges the narrowbody duopoly

- Can we now conclude that 2016 was a breakthrough for the C-series?
- How does it compete with existing products?
- What will be the impact of other new products such as the Irkut MC21 and Comac C919?

Lindsay Webster, Director – Asset Valuations, Morten Beyer & Agnew

Olga Razzhivina, Director, Oriel

Stuart Rubin, Principal, ICF International

Rikard de Jonge, Vice President – Asset Valuation, AVITAS

Moderated by: Mike Yeomans, Head Analyst – Commercial Aircraft & Leasing, IBA Group

10:00 Appraisers: Friends or foes?

Dick Forsberg, Head of Strategy at Avolon will seek to explore and challenge the dynamic between values and appraisers based on his white paper entitled "Values & Valuers". Phil Seymour, CEO of IBA Group will be put to the test by Dick Forsberg in this keynote onstage interview.

Dick Forsberg, Head of strategy, Avolon

Phil Seymour, President & Chief Executive Officer, IBA Group

10:30 Networking break and refreshments

11:00 Boeing & Airbus debate: Filling the middle market gap

- Progress update on the 757 replacement
- Is there a market for an all new product - single or twin aisle?
- How attractive will the middle market plane be for Investors and will it impact values of current aircraft types?

Richard Owen Walker, Head of Investor Marketing, Airbus

James Billing, Managing Director, Market Analysis, Boeing

Moderated by: Doug Kelly, Senior Vice President – Asset Valuation, Avitas

11:30 Is there a future for very large aircraft?

- Will OEMs continue to produce very large aircraft despite the well-publicised difficulties in this market segment?
- If this generation of aircraft fails, what will become of current equipment?
- Could future engine technology revive the very large aircraft market?

Mark Lapidus, Chief Executive Officer, Amedeo

Simon Finn, Senior Vice President – Aviation Research, DVB Bank SE

Edward O'Byrne, Chief Investment Officer, Aercap

Moderated by: Geoff Hearn, Technical Editor, Airfinance

12:10 Lunch and networking

13:30 Evolutions in the cargo market

- The evolution of e-commerce and impact on the global aviation business
- What aircraft are cargo operators looking to acquire?
- What impact will the possible dissolution of the TPP have on the cargo market?

Robert van de Weg, Senior Vice President Sales & Marketing, AirBridge Cargo

Ed McGarvey, Vice President & Treasurer, Atlas Air Worldwide

David Tokoph, Chief Operating Officer, Morten Beyer & Agnew

Moderated by: Stephen J. Fortune, Principal, Fortune Aviation Services

14:15 Competition in the engine aftermarket

- What should the role of the OEM be in the engine aftermarket?
- How do the various manufacturers' approaches to the aftermarket differ?
- How can the interests of lessors and financiers be protected?

Paul Finklestien, Vice President – Marketing, Pratt & Whitney

Richard Goodhead, Senior Vice President, Marketing, Civil Aerospace, Rolls-Royce plc

Bill Dwyer, Services Marketing General Manager, CFM

Moderated by: Jon Sharp, President & Chief Executive Officer, Engine Lease Finance Corp.

15:00 Afternoon refreshments and networking

15:30 Trends in the End of Life Market

- Is the life of aircraft getting shorter?
- Is there increased competition between end of life specialists?
- We have seen part-out values decline sharply for some aircraft types, how do you time your investment and exit?

Abdol Moabery, President & Chief Executive Officer G.A. Telesis

Pascal Picano, Senior Vice President and Global Head of Marketing, Apollo Aviation

Marian Pistik, Chief Executive Officer, Aerotask

16:15 Is the 70-90 seat market overcrowded?

- What are the prospects for a 100 seater turboprop?
- What is the status and scope of the 70 seater market?
- Are jets or turboprops the way forward?

Rodrigo Silva e Souza, Vice President Marketing - Commercial Aviation, Embraer

Jérôme Gabory, Head of Leasing Markets, ATR

Ross Mitchell, Vice President Commercial Operations, Bombardier

Hideyuki Kamiya, Director, Head of Strategic Marketing, Mitsubishi Aircraft Corporation

Moderated by: Geoff Hearn, Technical Editor, Airfinance

17:00 Chairperson's closing remarks followed by cocktail reception sponsored by ORIX Aviation



AIRFINANCE JOURNAL EVENTS

DAY
2
Wednesday
18th January
2017

19th Annual Global Airfinance Conference The Convention Centre Dublin – 17th - 19th January, 2017

CSeries will have a good year, appraisers say

The Bombardier CSeries programme will likely have a strong year in 2017, but it will still experience some challenges, according to a panel of appraisers at the 19th Annual Global Airfinance Conference in Dublin.

Speaking on the Aircraft and Engines Day, Stuart Rubin, principal at ICF International, said: "I think 2016 was an excellent year for the programme. The Delta order was key. Still some challenges remain: Boeing and Airbus have deep pockets on production levels and I think they are very well positioned to compete with the CSeries. The A319neo continues to be a problem for the programme, so think 2017 will be a good year but there will be some challenges ahead."

Olga Razzhivina, director at Oriel said that the lack of orders for the CSeries may be due to market appetite for 108-133 seat aircraft.

"It's a difficult sector of the market to be in. If you look at CSeries' closest competitors – 737 Max 7s and A319neos – the orders are disappointing. But it could be a bellweather for how much demand there is for 108-133 seater aircraft. It's

hard to tell whether the CSeries programme is out of the woods; I think it depends on one more major order from a main operator. It is really down to Bombardier to score another order, otherwise it might be another niche type that has its merits. You want an aircraft type that is really diversified between operators."

Lindsay Webster, director – asset valuations, Morten Beyer & Agnew, said: "Bombardier has definitely done better than Boeing and Airbus for orders for the aircraft. The CSeries is certainly moving out of the woods, but it's not out of the woods yet. The 737 Max and A319neo can get away with lower orderbooks, as they can rely on 737 Max 8 and the A320neo. I think it's an excellent aircraft and more capable than the A319 and 737 Max. There's a lot of potential."

A member of the audience asked how many operators of the aircraft should there be before the lessor community gains interest in the asset type.

"I don't know if you need that many operators," Rubin said. "It's a much smaller programme. Bombardier can only produce 100 aircraft a year; Boeing and Airbus put

that out a month. You have over 3,000 aircraft that would fit the CS300 range today that need to be replaced in the future. I don't think size matters – just consider it's a much smaller programme."

Rikard de Jonge, vice president – asset valuation, AVITAS pointed out there has already been interest from the lessor community for the CSeries programme from lessors including Macquarie, which placed an order for up to 50 CSeries aircraft.

"It's a small segment. If you think about the E-jets, there were only one or two big E-jet lessors. Look at NAC's acquisition of Jetscape. For the programme to be successful, we may not need the interest we see for the 737 and the A320 programmes, as it's much smaller."

Morten Beyer & Agnew's Webster adds: "The CS300 already has 13 customers. Five are lessors. They have pretty decent customer bases considering they've only been delivering aircraft for six months now."

"I think there are many regions of the world that can benefit from the CSeries. You want to see it outside Europe and US. You want to go into growing markets like Asia as well."

She adds that she could see carriers such as Jet Blue, Hawaiian and Qantas, and a number of carriers in Southeast Asia order the CSeries. De Jonge adds that he could see Southwest Airlines ordering the aircraft.

Pegasus issues Airbus RFP

Pegasus Airlines has issued a request for proposals (RFP) for the financing of incoming Airbus aircraft, according to a source.

The airline reportedly issued the RFP a few days ago, and the first aircraft included in the request delivers next month.

The airline has 48 Airbus A320neos and 18 A321neos outstanding on its order book with the manufacturer, according to the latest data from Airbus.

It operates 53 Boeing 737-800s, 12 A320s and nine A320neos, according to *Airfinance Journal's* Fleets.

The airline could not immediately be reached to confirm its issuance of an RFP.

In October 2016, Pegasus admitted that its financing costs had risen due to political instability in Turkey throughout last year.

Pegasus Airlines' vice president, finance and strategic planning, Tamer Yuzuak, told delegates at the 14th Annual Middle East Airfinance Conference in Dubai that its funding had become more expensive.

"There have been a couple of incidents like the rating decrease of Turkey that have affected us financially, but on the operational side we have been affected more. In the long-term, Turkey's potential is recognised and we don't see too much of a significant effect on us.

"Is there a reflection in our cost of funding? Yes, for the time being."



Lindsay Webster, Director – Asset Valuations, Morten Beyer & Agnew, Olga Razzhivina, Director, Oriel, Rikard de Jonge, Vice President – Asset Valuation, AVITAS, Stuart Rubin, Principal, ICF International, Mike Yeomans, Head Analyst – Commercial Aircraft & Leasing, IBA Group

Heard in the AFJ open lounge

Iceland's Wow Air is in discussions with commercial banks about the financing of five Airbus A321 aircraft, scheduled for delivery this year and in 2018.

Sources speculate operating lessors could face increased impairments, starting this year due to softness in the Airbus A330-200 and Boeing 777-200 markets. "The 777 is a massive aircraft and the A330 was significantly bolstered by delays to the 787 programme, which is now in full swing, so there are concerns for the widebody market but no one wants to say so publicly," says the senior management of a leading lessor.

A meeting scheduled for early this month to confirm the Basel IV rules has been postponed, as more time is needed to finalise the regulatory framework. Market sources say this is a welcome move, as the regulation will likely not end up as originally proposed. The Group of Central Bank Governors and Heads of Supervision - which oversees the Basel Committee on Banking Supervision - confirmed it needs more time to review the package of proposals.

Sources says a lack of investment opportunities and increased borrowing costs could push some of the new money in the operating leasing sector to look at other asset classes.

South Africa's Airlink has selected the Embraer E-jet family to renew its Avro RJ85 fleet, sources indicate. *Airfinance Journal* can reveal that the regional carrier will take 10 used E190s as well as three E170s

Korean investors not yet comfortable with portfolio deals

Korean investors will remain active in commercial aviation finance in 2017 but are not yet as comfortable with portfolio deals as they are with single-aircraft transactions, according to Cristina Chang, managing director of Asia Pacific structured finance at Citigroup.

"We do see a significant amount of liquidity in Korea, particularly from insurance companies and pension funds. To date, that has mainly been in single-airline, single-aircraft transactions, because their internal approval models have been set up to cater for these

types of investment," said Chang, speaking at *Airfinance Journal's* Aviation Investors' Day. While Chang maintains that Korean investors are active in the market, some investors are less inclined to invest in portfolio deals, she adds.

"They have a big focus on looking at the financials and credit profiles of the airline, as well as a deep understanding of the specific aircraft that they finance. In asset backed securitisation (ABS) transactions, they've had a hard time moving their credit approach from single

airlines and single aircraft to a portfolio. They are starting to do that, but it's been quite slow. In the aircraft ABS space we've seen really only one or two accounts participate in those transactions," says Chang.

Chang indicates that Korean investors are interested in different tranches of aircraft financing and that will "continue into the near future".

Korean investors have been active in equity and mezzanine debt with equity in the most recent \$709 million aircraft ABS launched by GECAS, placed into the Korean market.

JP Morgan: EETC B tranches trading very cheaply

Airline enhanced equipment trust certificate (EETC) B tranches are trading more cheaply than the higher-rated tranches, according to Mark Streeter, managing director at JP Morgan.

"B tranche EETCs, which represent an incremental slice, typically less than 10% of leverage in a cross-defaulted, cross collateralised pool, still trade very, very cheap," said Streeter, speaking at *AirFinance Journal's* Aviation Investors' Day.

"For example, the B index right now is at 221 basis points - that's about 50 basis points cheap to BBB bonds in the market."

However, the difference is starkest with B tranches, which trade substantially cheaper than similarly-rated products.

Freight specialist FedEx recently issued 30-year bonds, which Moody's and Standard & Poor's assigned Baa2 and BBB ratings, respectively, which priced at 4.4%, Streeter adds. However, Fort Worth-based American Airlines' latest EETC B tranche, rated BBB and Baa2, priced at 4.95% with an average life that is far shorter, he notes.

Streeter also highlights that airline EETCs are still a very niche product.

Despite a recent influx of

debut issuances in recent years, the EETC product is still "a pimple on the market", with slightly more than \$5 billion of issuances in 2016. In contrast, the market saw around \$1 trillion in high-grade US-dollar-denominated issuances last year.

Earlier this month, American Airlines issued three tranches of its first EETC of 2017: a \$536.8 million AA tranche, a \$248.6 million A tranche and \$197.7 million B tranche.

The notes are secured against 24 aircraft: 10 Airbus A321-200s, three Boeing 737-800s, three 787-8s, one 787-9 and seven Embraer E175s.

SpiceJet reveals financing plans for 737 Max order

Indian carrier SpiceJet has revealed its financing plans for its order for 205 Boeing aircraft that it announced on 13 January

The order includes a firm order for 155 737 Max aircraft, with options to choose between 737 Max 8s and Max 9s.

Speaking to *Airfinance Journal* in Dublin, Ajay Singh, chairman of SpiceJet said: "We have placed the order so we can capitalise and help us

reduce our costs. With interest rates being at a historic low, we feel we can finance the aircraft on a commercial basis".

He added: "Sale and leasebacks will initially be the plan. Ex-Im Bank-backed commercial debt could also be an option. We are looking at the lowest possible cost and relatively aggressive deals on the financing side."

However there is some speculation that under the new Donald Trump administration,

US Ex-Im Bank will not reopen and guarantee aircraft deals.

Commenting on this, Singh said: "People say one thing on the campaign trail and another thing in government. Trump will look to create US jobs and boost US business and Ex-Im Bank will do that."

Singh adds that although SpiceJet will look for the most cost effective deal, he envisions leasing the incoming Max aircraft "for around nine years."

Stellwagen Group to set up new leasing JV

Dublin-based aviation financier Stellwagen Group has set up an operating leasing joint venture with “a large institutional investor” and looks to announce the full details in the “next month or so”, according to the company’s chief executive Doug Brennan.

Speaking to *Airfinance Journal* in Dublin, Brennan said: “They have their own operations, but they do not specialise in older aircraft and they say that is where the returns are, not on shiny new equipment.”

Stellwagen specialises in older assets and its objective is to fill the void left by banks that retreated from commercial aviation in the wake of the financial crisis.

“Both us and the institutional investor will be putting in equity capital and will roll the platform out in Asia in a big way,” Brennan adds. “Right now, there’s too many aircraft being manufactured and not enough money to pay for them. Airlines will be going to be holding onto their older aircraft.”

Canadian boutique merchant bank Acasta agreed to buy Stellwagen for \$270 million in December. So far, Acasta has contributed \$100 million to Stellwagen’s senior loan investment vehicle.

“We don’t expect Acasta to put in any more capital to the senior loan vehicle as we strongly believe that third party investors will follow on from them,” says Brennan. He adds that the company is looking to raise \$250 million for the senior loan vehicle by the end of March.

Brennan says he is seeing a lot of interest from fixed income Canadian investors to contribute towards the senior loan fund.

Stellwagen closed transactions for 12 aircraft in December 2016. In October, the company tapped the Spanish market to fund a structured sale and leaseback deal for an Emirates Boeing 777-300ER aircraft.

No EETC plans for Air Canada in 2017

Air Canada will fund its upcoming Boeing 787 deliveries in the commercial banking this year and has no plans to issue an EETC to fund the widebody programme.

The Canadian carrier has a total of 11 787 deliveries scheduled for delivery this year.

Air Canada tapped the EETC market in 2015 with nine new 787-9 deliveries. Later in that year, it also priced another EETC to refinance three 787-9s that delivered in the first half of 2016

along with two 777-300ERs.

Speaking at the 19th annual Global Airfinance conference, Helen Kotsovos, director planning of treasury said Air Canada is also financing new deliveries through sale and leaseback transactions.

Last November *Airfinance Journal* reported that Air Canada was exploring sale and leasebacks for two 787-9s, scheduled for delivery this year.

The asset-backed securitisation (ABS) issued by

Blackbird Capital 1, in the second half of last year, featured a 787-9 on lease to Air Canada. The aircraft is being delivered this month.

Blackbird Capital 1 is the joint venture established in 2014 between Air Lease Corporation and Napier Park Global Capital.

Of the 16 remaining 787s that are scheduled for delivery by 2019, the airline has already arranged financing for 10 aircraft with undisclosed financiers and under 12-year terms.

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Zeevo taps IT leasing gap

A gap in the market for outsourced IT solutions and enterprise software development prompted ex-ILFC veterans to launch Zeevo as a solution to meet the growing needs of the leasing community.

“We love aviation. Most of us were lucky enough to work for a globally-recognised aircraft leasing company for more than a decade,” says Karen Curtis, a founding member of Zeevo. “Combining aircraft leasing expertise and ‘big four’ consulting experience allows Zeevo to focus on specific needs and processes that are unique to lessors.”

Curtis and the founding members of Zeevo saw a special requirement in the market when it comes to consultancies that “specifically support” complex, global aircraft-related leasing operations.

“With the right strategy, clients can transform data from various disparate sources into usable formats that provide accurate, timely knowledge of business critical information, including lessee relations, markets, original equipment manufacturers, MROs, suppliers, emerging trends and internal operations. We know how to bring this together for them.”

Curtis notes that the industry is moving toward paperless record-keeping for aircraft maintenance records, so

“it makes sense to boost technology and data mining and to connect with customers and vendors.”

Zeevo’s goal is to be the world’s “best technology partner” to aircraft leasing companies.

“We know leasing. We work with a number of aviation-related leasing companies. Our level of involvement within the industry allows us to provide clients with knowledge of the latest trends, technology and effective practices. We endeavour to help our clients enable their people and teams to realise the clients’ visions.

Curtis maintains that Zeevo’s clients recognise that the key to their success is building a competitive advantage through the appropriate use of technology.

“This helps lessors outpace peers.”

However, she stresses that “no one solution fits every approach”.

While other consultancies can provide “independent pieces of the puzzle” that lessors face in day-to-day business, Zeevo has specific technical, finance, IT, operations, internal control, and industry experience across its teams.

“No single competitor offers the same unified approach with the overall experience that Zeevo offers its clients,” Curtis says.

The launch of Zeevo allowed

the founding partners to build on their experience in the aircraft leasing industry for more than two decades.

“We know the challenges leasing companies face in their operations and we are uniquely positioned to use our management consulting, information technology, operations and internal control expertise to help leasing companies effectively leverage leading technology to drive tangible business results.”

Zeevo aims to achieve superior financial and operating results by engaging with an increasing number of lessors.

It also aims to be a single point of contact for clients when they seek outside perspectives and resources.

“Our clients tell us that they see us as a trusted advisor and partner the in the long run. They know that if we don’t have the specific expertise they need – we know who does and this saves them time and effort.”

Zeevo is issue-led, not product-driven as its “strength” lies within bridging aviation business needs with technology capabilities.

Curtis acknowledges that 2016 showed increased merger and acquisition activity within the leasing industry – a trend she expects will continue and one that Zeevo hopes to capitalise on.

“It appears that there will be more consolidation and new

players in the market. Our team has experience with pre-IPO planning and each of the Zeevo principals and many of our team members have first-hand experience planning for and managing post-merger integration projects.”

Curtis maintains that utilising industry experts is “key” to maintaining competitive market positions and profitability in the leasing industry, as competition continues to increase among operators domestically and abroad.

With the continued growth of the global fleet, today’s operators have even more focus on scalable processes, says Curtis.

However, she stresses the systems and processes lessors set up to manage dozens or a few hundred aircraft, in most cases, are not ready for their fleet size to double.

“By reviewing and revising current processes and enhancing or replacing their current technologies operators will ready themselves for their growing fleet and that’s where we come in,” she says, adding: “From project management to automating workflows, designing and developing web-based portals to creating custom reports and business intelligence solutions, internal controls design and implementation to business process and operations optimisation; we have the team and experience to enable our clients’ visions.”



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A380 market needs disruptive airlines

Amedeo's chief executive officer Mark Lapidus is hopeful the market for very large aircraft (VLA) can attract airlines that are more what he calls "disruptive" in their business plans.

He notes Malaysia Airlines is looking to use its existing Airbus A380 fleet for charter services with major Malaysian tour operators to help boost its revenue.

"What Malaysia Airlines is doing by reconfiguring on charter flights is interesting. But we need to capture more people who want to be disruptive like Norwegian is doing in the North Atlantic market with long-haul flights," Lapidus said at the 19th *Airfinance Journal* Annual Global Conference in Dublin.

"We need airlines that would use the A380 with the ability to sell very cheap tickets," he adds.

The A380 has made

headlines in the past as being a four-engine aircraft competing with twin-engine widebody aircraft in a high-fuel environment.

However Lapidus argues the A380, when "properly configured with 600- to 700-seats beats the economics in terms of unit costs of anything flying."

Lapidus notes one of the difficulties for the A380 is a geopolitical factor.

"With a highly competitive environment in the US and the Middle East, the 'big three' in the US see the A380 as a nuclear weapon that Emirates use against them very effectively."

Infrastructure is also a problem, he says. "What we have experienced is getting more acceptance among airlines is infrastructure driven and what gates airlines can get at airports."

He cites the fact that British

Airways cannot currently park any A380s in New York JFK as the reason why there are no operations between London Heathrow and JFK. "Hopefully that will change in time. But those processes require lots of time and advance planning," he adds.

To Lapidus the biggest factor that will drive this industry forward is consumerism.

"The VLA market is a reflection of what is happening globally. Global aviation is growing as people travel more."

Lapidus remains optimistic about the A380 market.

He cites Emirates as operating the A380 with between 470 and 615 seats, and using the aircraft differently.

"It is about getting more people to look at the A380 that way and not as a flagship aircraft as most airlines do. Their A380 is not part of their core business strategy."



Mark Lapidus, Chief Executive Officer, Amedeo

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Appraisers give their views about the coming year

1 What was the most important event in 2016?

IBA's chief intelligence officer Stuart Hatcher: "On the macro side, the US election and Brexit vote were the talk of the year with the main consequences still unknown. In both cases, the political establishment that normally retains the status quo was countered by a more vocal decentralised electorate. A nationalistic desire to halt the effects of globalisation by restoring local industry, and reduce immigration took centre stage. Many fear that this will lead to a more isolationist approach from both the UK and US, which could materially affect gross domestic product (GDP), traffic, currency, and oil prices. We have certainly seen an uptick on country risk analysis in our teams over the past six months - and not just for the usual suspects. Effects on a destabilised Euro, US dollar currencies and a change in US foreign policy are all high on the agenda. Whilst international carriers have a natural hedge to currency swings, there aren't many places to hide when most costs are in US dollar and it gets too strong."

MBA's chief operating officer David Tokoph: "The Brexit vote and election of Donald Trump are the most impactful events in 2016, which seem to usher in a new era of isolationism in the world's largest economies."

Ascend's global head of consultancy Rob Morris: "In the commercial aviation sector we did not see any major event which fundamentally impacted the market. However, we did observe a number of events – election of Trump, Brexit, the OPEC production agreement and Delta's new pilot contract, which have potential to create headwinds for our sector."



ICF International's principal Angus Mackay: "The decision by CIT Group to sell its commercial aircraft leasing business to Chinese conglomerate HNA Group's Avolon, making the latter the third largest global aircraft leasing business."

Collateral Verifications' vice president, Commercial Aviation Services Gueric Dechavanne: "The US presidential election."

Oriel's Olga Razzhivina: "The US elections - the result may have significant consequences for the world politics: potential change in the US foreign policy, re-drawing of the world political alliances and potential cessation of large-scale hostilities in the Middle East. This could be beneficial for the world political stability and improved traffic flows. On the other hand, these changes could increase tensions in other parts of the world. US infrastructure projects may help domestic demand."

2 What will be the major event(s) in 2017?

Hatcher: "In 2017, we should start to see the actual effect of Trump's presidency and the early stages of Brexit negotiations. Whilst, it could end up being an anti-climax, currency movements and interest rate changes remain likely still."

Tokoph: "I believe the most important events that will impact the course of the world's economy will be the policy of Donald Trump's administration and the outcomes and policies of the upcoming elections in France and Germany. Coupled with Brexit, the policies of the new administrations will set the course for the next few years."

Morris: "By definition it's impossible to predict a single major event in 2017, but increasing global instability (witness comments above about Trump, Brexit), slowdown in the Chinese economy (albeit prior slowdowns have had little impact on aviation growth), macro demand weakening at a global and regional level, increasing oil prices, increasing labour costs at airlines and increasing interest rates all have potential to create headwinds in our sector."

Mackay: "The major event of 2017 would be the acquisition of a large leasing platform by a Chinese bank/insurance corporation. Further significant events would be continued interest rate rises and the curtailing of OPEC and non-OPEC oil production leading to higher fuel prices."

Razzhivina: "The European Union (EU) situation - it is not an event but there are several events to take place which can either strengthen or destabilise EU, depending on their outcome. The events

include: elections in France and now Italy as well as UK triggering Article 50 and consequent negotiations with the EU as a whole and member states individually. UK has a very successful record of implementing the 'divide and conquer' doctrine."

3 Do you expect oil prices to continue to creep up in 2017?

Hatcher: "I see plenty of movement in pricing for 2017 - although that isn't new. Whilst OPEC members are finally discussing how to reduce production in an effort to take control of pricing once again, negotiations can quickly collapse still. As oil pricing became less dependent on OPECs influence over the last few years, their proposed reduction plan can be countered by an aggressive US move - especially if it serves to destabilise the Middle East and Russia at the same time. Low-cost oil producers will push through regardless. So whilst there will be greater volatility, the changes may be short and sweet."

Tokoph: "We expect a steady pickup in oil prices in 2017 but do not expect a major fluctuation from the \$50 per barrel range that we saw at the end of 2016. OPEC cuts have certainly helped to stabilise oil prices. However the cuts in the latter part of 2016 have not had and will not have a drastic or immediate effect on oil prices."

Morris: "Yes, but creeping is the key word."

Mackay: "ICF believes current oil prices will remain relatively stable into 2017 with only minor increases anticipated, boding well for continued airline profitably over the period."

Razzhivina: "It is possible oil prices will remain hovering

Continued on page 8 >>>



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around the same level. While OPEC might cut its production, relaxation of sanctions against Russia may bring more oil onto the market. Plus with his inward looking policies, Trump may authorise increased shale production in the US.”

4 Do you expect interest rates to rise in 2017?

Hatcher: “My view on interest rates has been up and down, much like oil prices. Late 2015, the expectation was that the rate would rise, and it did marginally, same for December 2016. The rises will remain very small so development shouldn't be crippled. In the UK, the post-Brexit view pretty much destroyed any notion of a rise - but despite some concerns by Carney, the economy responded more favourably to the Brexit vote. Still a raise maybe on the cards. Whilst inflation remains low still, higher hikes will be unlikely, but indications that inflation is rising (partially due to post-Brexit currency collapse), could see a small shift in the short term.”

Tokoph: “We do expect interest rates to rise as is signalled by the recent US Federal Reserve (Fed) hike of 25 basis points in the US. The hesitation of the Fed to raise interest rates the past few years has put them in a position that may require further hikes however the strong dollar pre and post announcement may carry a lot of weight in determining the next increase.”

Morris: “Yes, but we expect the increases to be managed and marginal (so three or four 25 basis point rises through the year). We also expect to see the US dollar strengthen as we move through the year.”

Mackay: “Yes, and manifestly so with the recent interest rate rise announcement in December by the Fed.”

Razzhivina: “While minor rises are most likely, significant ones are unlikely. The US is likely to concentrate on stimulating its domestic market while UK will be doing everything to alleviate negative consequences of Brexit.”

Oil prices recovery to push narrowbodies premium up

Low levels of oil pricing has had an effect on the lease rates differential between the current generation and the new engine option models in 2016, but as oil prices kept creeping up during the year, the lease rates premium have started to widen again.

Oil prices are predicted to continue their slow recovery in 2017, further widening the gap between the “new engine option” (neo) and Max products with the current engine models (ceo).

When Airbus launched the neo for its A320 family in December 2010, oil prices were in the \$90-a-barrel region.

Since then, the price of oil per barrel has been on a roller-coaster ride, peaking at \$147 a barrel in July 2014 to a low of \$28 a barrel in January 2016.

The year 2016 saw crude oil prices continuously creeping up and the oil market was buoyed by the organization of petroleum exporting countries’ (OPEC) agreement. Prices have risen from the mid-\$40 a barrel level in November to the mid-\$50s this month.

The oil market is oversupplied and OPEC members would have to reduce their level of output to rebalance the market.

OPEC crude output rose to a record 33.83 million barrels a day in October after production recovered in Nigeria and Libya and flows from Iraq hit an all-time high. Output from the group’s 14 members has climbed for five months running, led by Iraq and Saudi Arabia. In October, OPEC supply stood nearly 1.3 million barrels a day above a year ago.

In late November, the organization of petroleum exporting countries (OPEC) reached its first production deal in eight years, vowing to lower output by 1.2 million barrels a day to boost prices. Oil rallied after the agreement, and finished 2016 around \$53, its biggest annual gain since 2009.

Still volatility could be a mainstay in the energy market in 2017. Oil prices may rise on signs that OPEC members will

stick to output pledges. Earlier this month reports indicated that Saudi Arabia has cut its daily output by 485,000 barrel and the consensus is the majority of its neighbours will fully comply with the proposed cuts. Whether all oil-producers will stick to their production limits is not guaranteed.

In September OPEC members pledged to produce 32.5-33 million barrels a day. “If they stick to the proposed ceiling the market could rebalance in the second half of 2017,” International Energy Agency’s Christophe McGlade tells *Airfinance Journal*.

McGlade says the agency forecast \$80 a barrel by 2020 to balance supply and demand.

But today’s aircraft deliveries had lease rates negotiated at least two years ago.

“Lease rates for new A320neo were in the \$430,000 range about a year ago. Now it is more into the \$360,000 a month,” says one source.

Meanwhile, the drop in the ceo market has not been as dramatic. Various sources agree the lease rates for an A320ceo is in the \$320-340,000 range for a new delivery.

With A320s offered at that rate, the monthly premium for a new A320neo over an A320ceo is about \$30-40,000.

One leasing source mentions a request for proposals, currently in the marketplace, to finance Max deliveries scheduled for 2018-19 timeframe. “The asking is \$50,000 premium between the Max8 and the 737-800 models. It is more likely to settle in the \$30-35,000 a month between he models,” he comments.

He adds that the premium between the two models is \$4 million.

Another leasing source says the delta in pricing between the A320neo and the A320 is in the \$4.5 million range.

Avolon’s chief executive officer Domhnall Slattery admits the premium is “half” of what the industry expected when lessors underwrote acquisitions.

“That is directly correlated to

the price of fuel. But we have seen that premium starting to widen over the past month because fuel price is going up,” Slattery told *Airfinance Journal* in November.

Eventually, the A320neo or 737 Max will be the only available narrowbody options offered by Airbus and Boeing. And by 2019-2020, when both are likely to stop producing A320s and 737-800s, fuel prices are likely to have risen.

Today’s proposals are looking at deliveries around that timeframe.

“We are comfortable with our commitment. When we think about Neo and Max it is noise in the short term because over the next 12-24 months Airbus and Boeing won’t be building the current engine option and the next generation models. It will all be about the Neo and the Max models,” says Slattery.

Slattery adds: “2016 will be looked back upon as when the price for new technology aircraft was not great. I think in the next two to three years we are going to see a significant rebound in pricing relative to interest rates.”

BOC Aviation chief executive officer Robert Martin agrees: “The lease rates are holding up to our expectations. We are getting away the long term leases that we wanted.

“We are still in a benign environment, with fixed long term low interest rates. Lease rates do look low relative to what you would expect them to be in the 5% interest rate environment. But what matters is the operating margin and we are holding on operating margins. That tells us we are able to deliver on lease rates.”

As at 31 December 2016, Airbus had booked 55 A319neo, 3,626 A320neo as well as 1,388 A321neo orders. A total of 68 A320neos were delivered last year.

Boeing had booked 3,419 orders for its 737 Max products at 4 January 2017. The first 737 Max 8 is expected to be delivered in the first half of this year.

Export credit to play limited role in 2017

Export credit funding for the aviation sector, which is still unavailable for Airbus assets and available on a limited basis for Boeing products, will not play a significant role in helping to pay for the industry's \$126 billion financing bill for commercial aircraft deliveries this year.

However, Mark Streeter, managing director of JP Morgan, speaking at *Airfinance Journal's* Aviation Investors' Day today, said export credit funding could be "up and running" as early as this year.

Though he insists export credit support will not pay for a "large piece of the aviation funding pie in 2017".

"Everyone has learned to live without a functioning export credit environment," he says, adding: "We have all heard of lessors who are picking up deals that should have gone to the export credit market and that is helping them out."

While Streeter would not be drawn on when he believes export credit funding could return to the aviation sector in full force, he indicates the export credit door is still open under president-elect Republican Donald Trump.

The US Export-Import Bank (Ex-Im) has been operating with just two board members for nearly 19 months, one board member shy of the three needed to approve transactions greater than \$10 million.

Ex-Im faces opposition from Republicans that view the agency's use of government funding as corporate welfare, and just how the Trump administration will weigh in on the matter has yet to be seen.

"It is interesting as Trump is all about creating jobs and the Tea Party is always whispering in his ear about killing Ex-Im Bank, but hopefully since Trump is all about job creating, if he is seen to be doing something that is killing jobs, he could be caught in a catch 22," Streeter says, adding: "The one thing we know about Trump is to expect the unexpected, so I don't think anyone can say with certainty what is going to happen with how his administration will deal with Ex-Im Bank."

If there is a "European corollary up and running" then there will be a lot more incentive to have a level playing field in the USA, he adds.

As for Ex-Im, Streeter says it is a matter of wait and see whether the agency's capability

"gets expanded or gets stuck" with the "small" \$10 million deals the bank is authorised to work on.

He adds: "It is not that important now until we get to the downturn."

In Europe, he notes the Airbus's "controversy", adding:

"We will see how it all plays out but my sense is at some point in time we will have a green light again."

Export credit financing is due to account for 9% of the 2017's funding bill, according to Boeing.

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Appointments

Huijbers joins CALS as CEO

China International Aviation Leasing Service (CALS) has appointed Peter Huijbers as its new chief executive officer.

Further representatives from CALS executive team are chairman Jiedong Min, executive officer Mr. Li and general manager and chief economist Dr. Wang.

Huijbers was most recently the head of marketing at Hong Kong Aviation Capital. He has over 30 years aviation industry experience, and prior to HKAC has been employed in senior commercial positions at BMW Rolls-Royce, Lufthansa Technik as well as being managing director at Nordcapital Aviation.

His experience covers the full spectrum of technical, commercial and capital markets and he has dealt extensively with the senior management of airlines, lessors, banks, aircraft investors and closed-end funds globally.

Huijbers will be based in the

CALS headquarters in Shanghai.

CMIG Aviation Capital makes senior hires

CMIG Aviation Capital, the Dublin office of Chinese leasing company of CMIG Leasing, has expanded its platform, sources indicate.

Sixiang Gao (Peter Gao), former Bocomm Leasing deputy GM aviation, has been named as president and chief executive officer.

Luo Le, former director/senior vice-president marketing of Bocomm's Irish company JY Aviation Leasing, has joined as managing director marketing. JY Aviation has not yet hired a replacement for Luo Le, but plans to do so as well as make additional hires to expand the team, sources indicate.

Huang Zheng, former managing director and head of aviation at Ping An Leasing, has been hired as executive vice president and chief operating officer. Joe Tian Ye, Ping An Leasing's deputy head of

aviation, has been promoted to head of aviation.

Yiping Ke, senior trading manager, aviation at Bocomm Leasing, has also joined the team. Sources could not confirm his role at the time of publication.

Luo Le will be based in Dublin. The positions of the other three have not yet been finalised, though *Airfinance Journal* understands that Gao is likely to base himself in either China or Hong Kong.

The company's Dublin office, which was established in December 2016, will do most of the leasing, but CMIG also intends to establish a Hong Kong platform.

CMIG Aviation Capital is affiliated with China Minsheng Investment Group (CMIG), a Beijing-based company which owns Shanghai-based CMIG Leasing in Shanghai.

Southwest promotes senior members

Southwest Airlines has promoted two senior members of its leadership team, Thomas Nealon and Michael Van de Ven.

Nealon has been named president. He re-joined Southwest a year ago as executive vice president strategy and innovation. He was previously a member of the airline's board of directors between 2010 and 2015 and also served as Southwest's chief information officer between 2002 and 2006.

Van de Ven has been named chief operating officer. He has worked at Southwest for 23 years and has spent the last 11 years in leadership roles in internal audit and finance. He currently serves on the board of directors for Comerica Bank.

Clyde & Co hires aviation partner

Law firm Clyde & Co has hired Robert Lawson as a partner in its aviation group.

Lawson joins Clyde & Co from Quadrant Chambers where he has a general commercial and common law practice, with particular emphasis on aviation law.

The firm called the hiring "a rare lateral move from the senior ranks of the independent bar".



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The 19th Annual Global Airfinance Conference

Wednesday 18th January 2017, CCD, Dublin

Day One

08:00 Registration and Morning Refreshments

08:50 Chairperson's Opening Remarks

Gillian Kelly, Partner, KPMG

09:00 Global economy and aviation – do we have room to grow?

The status of the global economy indicates that we may be approaching the peak of the cycle. How far do we have to go before the next recession? And what will happen to growth?

Will Boeing and Airbus be able to increase production rates in the narrowbody market given the general uncertainty in the global economy? Brian Pearce considers the outlook for aviation in the broader context of the global economy.

Brian Pearce, Chief Economist, IATA

09:30 Keynote presentation – Etihad

President & Chief Executive Officer, James Hogan will deliver a keynote presentation outlining recent expansion activities.

James Hogan, President & Chief Executive Officer, Etihad Airways

10:00 On-stage interview with Wizz Air

LCCs are operating in an increasingly competitive environment, is there room for more or will we see consolidation of LCCs in Europe? Are IPOs a good idea for both airlines and lessors, or does one stand to benefit more than the other? Will we see Wizz Air follow in the footsteps of other LCCs in the region and reduce their lease fleet in a move towards more bank/capital market financing? Steve Udvar-Házy will conduct an on stage interview with Wizz Air Chief Executive Officer, Jozsef Varadi, to shed light on these issues.

Jozsef Varadi, Chief Executive Officer, Wizz Air

Interviewed by: Steve Udvar-Házy, Executive Chairman, Air Lease Corporation

10:20 Case study: Blackbird ABS prices with lowest ever coupon

Steven Chung, Partner, Hughes, Hubbard & Reed LLP

Patrick McShane, Senior Director, Kroll Bond Rating Agency

Vinodh Srinivasan, Managing Director, Co-Head Structured Credit Group, Mizuho Securities USA

Ryan Mckenna, Head of Strategic Planning, Air Lease Corporation

Moderated by: Joe Kavanagh, Senior Reporter, Americas, Airfinance Journal

11:00 Morning Refreshments and Networking

11:30 On-Stage Interview with Alec Burger: Liquidity - A Double Edge Sword for Lessors?

Liquidity enables Lessors to sell the existing assets profitably however it makes it difficult to replace those assets and make a return on them. We currently live in a 0 Libor world therefore new entrants are coming into the market because they want yield and relatively low volatility of returns. However there will come a point when no more liquidity will come in because the marginal returns are not attractive enough. How far will yields decline? How many basis points above Libor?

Alec Burger, President & Chief Executive Officer, GECAS

Interviewer: Greg Lee, Managing Director, Goldman Sachs

11:45 Airline CFO Discussion

In a time of macroeconomic uncertainty and rumours of a bubble within the aviation industry, how will CFOs decide to finance their coming deliveries? Will Brexit/Trump stand to have a significant impact on airlines' financial plans and strategy? How are airlines preparing for a rise in both oil prices and interest rates?

Neil Sorahan, Chief Financial Officer, Ryanair

Frode Foss, Chief Financial Officer, Norwegian Air Shuttle

Niklas Hårdänge, Vice President Asset Management, SAS Group

Serhan Ulga, Chief Financial Officer, Pegasus Airlines

Moderated by: Guido Schmitz, Managing Director, Aviation Credit, DVB Bank SE

12:30 On-Stage Interview with Aengus Kelly

With growth in aviation outperforming GDP growth globally, airlines and lessors are enjoying high demand and high yields. Production rates are keeping up with demand however experts are questioning what will happen if Chinese demand for these aircraft declines. What will be the impact over supplied market on lessors?

Aengus Kelly, Chief Executive Officer & Executive Director, AerCap Holdings N.V.

Interviewed by: Olivier Bonnassies, Managing Director, Airfinance Journal & **Laura Mueller**, Managing Director, Airfinance Journal

12:45 Lunch and Networking

14:00 New Trend - airlines looking at unsecured borrowing

An increasing number of airlines are getting credit ratings. Is the transition to investment grade borrowing and unsecured borrowing going to continue? Will airlines moving up the rating spectrum also look to more corporate level recourse funding rather than EETCs/ aircraft base funding? Airline CFOs and Treasurers give us their take on unsecured borrowing and airline financing strategy.

Candice Li, Vice President Finance & Fleet Management, Westjet

Andy Nelson, Managing Director and Assistant Treasurer, Delta

Tom Weir, Vice President & Treasurer, American Airlines Group

Moderated by: Patrick Kaufer, Managing Director, Deutsche Bank

14:45 Lessor Executives - What is the Future of Listed Leasing Equities?

We have seen a recent spike in Lessor M&A activity and IPOs. What is the outlook for lessor consolidations and IPOs? How are IPOs in line with lessors' funding strategy? What is the future of listed leasing equities for 2017 and beyond? Our panel of Lessor CEOs will assess recent activity in the leasing market and reveal how they see their sector evolve.

John Higgins, President & Chief Commercial Officer, Avolon

Peter Barrett, Chief Executive Officer, SMBC Aviation Capital

Steve Udvar-Házy, Executive Chairman, Air Lease Corporation

David Walton, Chief Operating Officer, BOC Aviation

Ruth Kelly, Chief Executive Officer, Goshawk

Moderated by: Bertrand Grabowski, Senior Strategic Adviser, Dubai Aerospace Enterprise

15:30 Afternoon Refreshments and Networking

16:00 Airlines Champagne Networking

16:00 New Accounting Shock to Impact Airlines and Lessors

IFRS 16 will require airlines to put all their leased aircraft on balance sheet. The scale of increased leverage is likely to be a shock to investors. Possible effects of the new accounting standards may include a propensity for airlines to want to shorten lease terms. Shorter lease terms brings about increased residual value risk, which in turn affects the risk appetite of Lessors.

How will the new accounting rule affect airlines? Are lessors expecting changes to their customers' behaviours and how will they respond to these potential changes? KPMG assesses the potential impact of the new regulation.

Killian Croke, Partner, Financial Services Audit, Aviation Finance & Leasing, KPMG

16:30 Industry Cycle - Are We at the Peak?

Traffic is still strong and oil prices low so airline profits are still high. 2016 will be a record year. But what is the outlook for 2017? Where are we in the cycle? Are we at the peak or just past the peak? How much longer do we have before the next recession? Adam Pilarski debates.

Adam Pilarski, Senior Vice President, Avitax

17:00 Chairperson's Closing Remarks followed by Cocktail Reception sponsored by KPMG



AIRFINANCE JOURNAL EVENTS

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Another year of 'elevated sales' at GECAS

Operating lessor GECAS will see another year of what it calls "elevated sales" in 2017, after being an active seller of aircraft assets in recent years.

GECAS made headlines during the past 24 months with several portfolio sales, including the \$2 billion disposal of 45 units to Avolon in 2016. This came after a spate of sales to Aviation Capital Group, Goshawk and China Construction Bank Leasing.

"We have obviously had an elevated level of asset sales and we expect that to continue for one more year," said Alec Burger, speaking at *Airfinance Journal's* Global AirFinance conference in Dublin.

Burger says GECAS is

taking advantage of market conditions and strong investor appetite for aircraft, after selling \$3.5 billion of assets in 2016 and \$3 billion in sales the year before.

GECAS' portfolio peaked at about \$49 billion-worth of assets in 2010 and the "go-forward strategy" is to be about \$43 billion.

During the past couple of years, the lessor has been selling about \$3-4-billion-worth of aircraft, he says, while originating \$5-6 billion-worth of transactions, which is down slightly from the \$6-7 billion a year it had previously typically invested.

Parent company General Electric is the second largest

beneficiary of US Export-Import Bank funding; however, the bank has been operating with just two board members for nearly 19 months, one board member shy of the three needed to approve transactions greater than \$10 million.

Ex-Im faces opposition from Republicans that view the bank's use of government funding as corporate welfare.

Burger would not be drawn on what impact a Donald Trump administration will have on the future of Ex-Im bank.

"We will find out," he says, adding that the aviation sector has learned to adjust to the financing markets without Ex-Im support.

Heard in the AFJ open lounge

VietJet, which has over 220 undelivered Airbus A320 and Boeing 737 aircraft, is the latest airline to be considering the airline-lessor business model that has been implemented at Lion Air, through Transportation Partners and Norwegian through its Arctic Aviation Assets subsidiary, sources say. In December the Vietnamese budget airline priced its initial public offering of 44.78 million shares at 84,600 dong (\$3.70) each, valuing the firm at \$1.2 billion.

Wizz Air to finance on balance sheet for first time

Wizz Air plans to finance its Airbus A321neo aircraft using the debt market, marking the first time the Central European low-cost carrier will use its balance sheet for financing deliveries.

The first deliveries are expected in 2019 and Wizz Air will come to the market with a request for proposals for financing in the second half of this year, according to carrier's chief executive Jozsef Varadi.

Currently Wizz Air has 75 aircraft in operation, comprising 10 A321s and 65 A320s.

"In 18 months, the fleet size will be pushed up to 100 aircraft. We have a very intense delivery programme in front of us and growth opportunities for the airline," he told *Airfinance Journal* in an interview in Dublin.

Wizz Air leases all of its aircraft.

"We will continue leasing the Ceo aircraft," Varadi says. "We are taking the Neo aircraft in



Jozsef Varadi, Chief Executive Officer, Wizz Air

January 2019 and we think that balance sheet financing would make sense."

"The leasing market has become much more competitive recently, so I think it's a good alternative to balance sheet financing. Nevertheless, we will try and understand all our options available to us and we will take what best suits the company," he adds.

The airline will take delivery of 14 aircraft this year, according to Varadi. The carrier will complete

the delivery programme of the Ceo aircraft in the next two years, with a further 25 deliveries planned.

In the last quarter of 2016, the airline closed two sale and leaseback deals with Asian lessors for 10 aircraft, including Bank of Communications and Financial Leasing and BOC Aviation.

Varadi adds that the airline is getting more competitive deals with Chinese lessors at the moment.

A lessor is in the market to sell a portfolio of 18 aircraft, comprising 15 narrowbody aircraft and three widebodies, according to sources.

Icelandair is in the process of mandating six Boeing 737 Max deliveries to operating lessors. The request for proposals for funding was issued in November with a deadline for sale and leaseback offers due this month. The airline has orders for nine 737 Max 8 and seven 737 Max 9 aircraft.

A new US airline - which will be a "very niche player" has apparently begun the process of seeking start-up capital. The company has not yet finalised its plans, but one possibility is convertible debt. The new entity will shortly retain an investment bank to lead the capital raise.

Scope eyes the aviation market

During his 13-year tenure at Standard & Poor's, Olaf Tölke found a weakness in the US rating agency's methodology – it is regionally-focused.

"The definition of the S&P model is tailored on the US market, but in Europe it is different," Scope's head of corporate ratings tells *Airfinance Journal*. "We wanted to bring a new product which is better suited to reflect the European realities."

Scope Ratings publicly-rated an aviation corporate for the first time in November, assigning Lufthansa an issuer rating of BBB- and a short-term rating of S-2.

Tölke says that before the company started rating corporates, it mainly rated open- and closed-ended funds. The close-ended funds were rated in all asset classes and the open-ended funds were in real estate only.

Scope was founded in 2002 and has rated approximately 20 international airlines privately in that time.

From funds to flyers

Before rating aviation corporates such as Lufthansa, Scope focused on aviation transactions, including aircraft and loan portfolios.

It has privately-rated 51 funds backed by aircraft, analysing assets from an equity-risk angle.

The ratings agency looks to publicly rate operating lessors and the original equipment manufacturers in the future.

"We have rated quite a few airlines privately, but it's not a full-blown rating process when we do that," says Werner Stäblein, executive director at Scope and the lead analyst of the Lufthansa rating. "There is no rating committee or interaction with the company or the airline. We do small credit estimates for the very simple reason – if structured finance would want to assign a rating, they would want to know the counter party risk of the airline. So, we have been looking at a

number of airlines, but none of those assessments or opinions is a) in the public domain or b) fully-blown ratings."

The process behind the organisation's rating of Lufthansa was more rigorous. "When we rated Lufthansa, there were people from the structured finance team involved to access relevant information and analysis on the credit," says Guillaume Jolivet, head of structured finance at Scope, adding: "When we do rate aviation loans, securitisations backed by aircraft, we involve the industry specialists so that we have a perfect inclusion of their business understanding when we analyse structured finance transactions."

"One of the strengths of Scope is that we are a very flat organisation which allows close cooperation between the corporate team and the securitisation team," adds Jolivet. "It is important because the securitisation people have knowledge of the assets and understand the structure, but the corporate people understand the business and the trends in the industry and you need to use both."

Tölke says that Scope is working with "a couple of big aviation names", with ratings that will "hopefully come through" in the next few months. He adds that Scope will also be rating the next unsecured financing from Lufthansa.

European alternative

Tölke explains why it is the opportune time for a European agency to start rating aviation corporates. "Everyone has got used to the methodologies of the US agencies and nobody dares to question it. We are now bringing in – both commercially and product-wise – a viable alternative. For the industry, I think it's an attractive proposition."

Although Tölke concedes that Scope is not as well-known in aviation circles as the US agencies, he says that Scope

is growing quickly in Europe. He believes that the feature of Europe needs to be reflective in the agency's approach, adding that it is more difficult for small ratings agencies to be successful with investors because you have to "build up a persistency and consistency and make no mistakes".

Many European corporates have a different approach to cash flow compared to US corporates. "Europe has much more diverse structures on the corporate side in the US. Pensions aren't fully understood in the US, as they don't really exist there. In Europe, you also often have more cash on the balance sheet," says Tölke.

"In the US, all the public companies – the majority of all the big companies out there – are breathing shareholder value doctrine because that's what the shareholder value investors want."

Tölke says that in Europe, it is more than just shareholder value. There is more of a family interest in European businesses than in the USA, and Europeans have more of a long-term stakeholder-oriented view, he says.

As a result, he believes that the US rating models have led to agencies underrating some companies with more diversified financial structures – such as a company with several subsidiaries – and instead only have a few focus points.

Scope argues that Lufthansa is a case in point. Both S&P and Moody's rate Lufthansa lower than Scope. Moody's rated Lufthansa one notch lower and although S&P also rated it BBB-, S&P's outlook is negative and Scope's outlook is stable.

During the last few years, there has been political and corporate demand for a European alternative to the big US ratings agencies. According to Stäblein, that is "one of the key reasons" why Lufthansa chose Scope for a rating.

Stäblein, who worked at S&P for 10 years before joining Scope, says: "When you look

at Kroll, they have a pretty good knowledge base and pretty good analysts in aircraft financing. No doubt about that, they are clearly ahead of us and they are running the business out of the US, where you have a) many more rated aircraft lessors than in Europe and the aircraft lending business in general because the entire industry is US dollar-based."

Stäblein also notes that there is much more capital market funding transactions in aircraft financing going on in the US than there is in Europe.

"We are different in the sense that we move back to have an opinion on the creditworthiness of a structure, an issuer, a corporate, an airline, rather than a mechanical scoring system. Secondly, ratings are based on criteria, so you have to take the rating criteria when you assign certain ratings."

He says that large US corporates rarely report significant amounts of cash on their reporting days. A general rule in the USA is that the cash balance at the end of the year should be as low as possible. For European companies, the cash balance should be as "reasonably high" as possible.

"An American-centric rating criteria will entirely disregard cash balances, because they simply do not exist in their world."

Changing the market share

There are many small agencies worldwide, which mainly rate smaller companies, but tend to look at one asset class. They either rate corporates, look at structured finance or they look at bank ratings – and do not focus on blue chip companies as much as the larger ratings agencies do.

Together, S&P and Moody's make up 90% of the corporate market, with a similar proportion with aviation corporates. Of the 268 IATA airline members, 26 are publicly rated – meaning 9.7% of the airlines are rated by either S&P, Moody's or Fitch. Fitch has rated 16 out of the 26,

AFJ's "The Airline Analyst" coverage now exceeds 200 airlines

Moody's has rated 20, S&P has rated 22 and Scope has rated one out of the 26.

Stablein says he can see the market share of the ratings agencies changing, but not quickly. "Our long-term vision is to have a 10% market share 10 years down the road. Believe me, if we were to achieve that, it would be a huge success. Imagine you go out, and your goal is to challenge Google and Apple. Something like that."

But he acknowledges that Scope is in competition with companies that have long histories in the market and with strong brand names.

Increased German interest

That said, Jolivet, who previously worked at Moody's for 12 years and has been involved in EETC-type transactions, says that the interest and demand is there for Scope's ratings model.

"We started rating structured finance credits in 2013 and we are seeing a rising interest from our domestic market, where a number of German investors, typically insurance investors, have interest in securitisations backed by aircraft because it is a movable asset, which allows nice structures to fit their returns and investment horizon profile."

Jolivet maintains that the borrowing conditions for European aviation corporates is "excellent", citing the low-interest rate environment and the impact on the corporate purchase programme from the European Central Bank and growth prospects in the airline industry. He says that the aviation sector has not been well-tackled on the corporate ratings side, because of the private nature of many aviation finance transactions.

"Knowing Germany has several investors in the aviation industry and this is our home country, we want to become the go-to ratings agency for European investors in the aviation segment."

Although this may take time, Jolivet and his colleagues seem intent on making this happen and offering a viable alternative for aviation corporates looking for a European perspective on their business.

The Airline Analyst offers comprehensive financial data and analysis for the world's airlines. It is a key resource for many of the biggest stakeholders in the airline industry – OEMs, Lessors, ECAs, Banks, Advisory firms, fuel suppliers and airlines themselves. It now has financial data for more than 200 airlines, including not just the 80 or so

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Market welcomes **Basel IV** delays

A meeting scheduled for early this month to confirm the Basel IV rules has been postponed, as more time is needed to finalise the regulatory framework. Market sources at *AirFinance Journal's* 19th Annual Global Airfinance event says the move is a welcome sign as the regulation will likely not end up as originally proposed.

The Group of Central Bank Governors and Heads of Supervision - which oversees the Basel Committee on Banking Supervision - confirmed it needs more time to review the package of proposals.

Industry sources indicate the cost of borrowing from the banking sector could become a lot more expensive for airlines and lessors under the next wave of regulation coming from the Basel Committee on Banking Supervision. The move could also potentially reduce the amount of firms willing to lend to the sector, they say.

"We believe if new rules are enacted as proposed in March, there would be an impact on availability of bank debt to both airlines and lessors," says Daniel da Silva, vice-president of strategy and regulatory policy of Boeing, adding: "Although other sources of financing could take up some of the slack, it's imperative to keep bank lending viable to maintain a good diverse set of financing sources."

He argues if the objective of the Basel Committee is to ensure that banks are properly accounting for the risk in their lending portfolios, then the current proposal misses the mark.

"It does not meet their

objectives of reducing risk in bank lending and also does not properly account for the historic performance of aircraft-backed lending and the inherent quality of aircraft as collateral for structured financing," says da Silva.

He notes that the Aviation Working Group commissioned a study that shows that aircraft-backed secured loans have a "significantly" lower risk profile than what is being proposed as a standard by the committee.

A German-based banker agrees.

"The leverage ratio approach is poison for specialised lenders keeping the bulk of the loans on their balance sheets with no-risk adjusted relief on the equity side," says the banker, adding: "On the other hand, underwrite-to-distribute business models will benefit."

He insists that lessors and airlines like that lenders not only underwrite deals, but also have controlling pieces in the transactions. "This is important if adjustments, waivers, restructuring or other unforeseeable events become necessary.

"And negotiating and documenting complex structures in a stressed environment with a variety of players that are not experienced in this industry may turn out as a real challenge."

The banker says lenders could be forced to look at other asset classes if the regulation becomes "too restrictive" for aviation "as transactions are already very competitive to secure."

Boeing's da Silva argues post-financial-crisis regulatory changes have already altered

behaviour in the bank debt. He agrees with the banker that the new regulation, as proposed, would further impact banks' appetite for aircraft-backed lending.

"We are already seeing some of those changes where major aviation banks are moving away from using their own balance sheets and are using their aviation franchises, like investment banks, connecting capital and borrowers.

"Specifically, a number of banks are starting to raise fund capital instead of using regulated capital (deposits and interbank borrowing) to fund aircraft transactions. Pension funds are already playing a role, to what future extent, we'll see."

Another European banker anticipates that lessors may be less affected by the new regulation than compared with airlines as they fund use the capital markets frequently to raise funding.

However, a lessor argues that the reality is that if access from a particular debt source, such as commercial banks, becomes more restrictive and costly, then it will affect the wider aviation industry and increase the cost of leasing to airlines.

Still, "apples for apples" lessors will experience the increased costs so competitively, he says, they will be none the worse off vis-à-vis each other.

The lessor adds: "For the top 15 lessors as competitors, there is likely to be little competitive impact, but it may widen the gap between them and the smaller lessors."

Could stepped up regulation force banks out of

the lending market for lessors and airlines?

"That would be an unfortunate outcome and we hope the regulators will realize that disproportionate amounts of regulatory capital will have adverse economic consequences on the air transport, manufacturing and banking sectors," says the European-based banker.

The lessor source insists banks are not over-regulated, noting that in the past four decades the "failure of the Norwegian, Japanese, Chinese, Icelandic, US and many major European Union economy-leading commercial banks with banking continue to restructure and hover close to failure."

Basel IV is not the answer, though, as it could be liberally interpreted as simply a return to something close to Basel I, he says.

Instead, the lessor believes banks may need to come in line with wider enterprise if they are to be seen as pillars of stability, that is, tier 1 capital ratios north of 20% and possibly closer to 50%.

"This will of course require debt capital to be more expensive," he says, adding: "All of this has echoes of public rhetoric by banks and financiers to increase costs as a result of apparent regulation when, in fact, the regulators should be raising the level of capital required for banks, which will in turn raise the cost of capital if they wish to have sustainable stable financial markets.

"But in a world of sluggish growth in the USA and EU especially, draconian measures such as this will have no political appeal."



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ABS deals could trade better than unsecured paper, says ALC

Asset-backed securities (ABS) transactions could end up trading at better rates than unsecured bonds, the head of strategic planning at Air Lease said at the *19th Annual Global Airfinance Conference* in Dublin.

Speaking on a panel that looked into the Blackbird ABS transaction, which priced in November, Ryan Mckenna said: "To me, the ABS market has not been used efficiently for a long-time for our asset class. There were deals pre-9/11 that were not going particularly well, and there were deals close to 9/11 that had mixed success."

"I look at this product [ABS] and say it can trade better than our unsecured paper at some point. I think there's a chance with the structured products that we have the opportunity to tap into a market that aviation hasn't used efficiently."



Ryan Mckenna, Head of Strategic Planning, Air Lease Corporation

He points out that Air Lease came out as an unrated unsecured borrower, starting with higher coupons on initial issuances, but after several issuances managed to price deals at much lower rates.

"It's going to take repeated issuance; it's going to take continued performance to get

those coupons tighter... more of these products are better for the whole space. Everywhere we go, people are talking about this market."

Steven Chung, partner at law firm Hughes, Hubbard and Reed, which advised on the Blackbird transaction, added: "I think 2017 is going to be strong

for the ABS market, especially with the deals we are seeing in the pipeline. If other lessors or joint ventures are able to bring in similar commitment and focus to Air Lease and Blackbird as they did to their deal, I think from a time and cost efficiency perspective, you'll really see the upside for lessors."

Also commenting on the ABS market, Vinodh Srinivasan, managing director, co-head structured credit group, Mizuho Securities said: "The portfolio sale transactions are going to continue this year. The ABS structures tend to be equity accretive. I think you'll have a lot of Blackbird-type joint ventures that other lessors are trying to create – which will have features like warehouses and takeouts. And then you're going to see the guys who are mid-life or end-of-life that keep doing deals quite often."

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Changes underway in Argentina

Columbia's Synergy Aerospace plans to launch a new carrier in Argentina, on the back of an aircraft order with turboprop manufacturer ATR, sending a signal that the landscape in the Argentine aviation industry is about to change.

The Argentinian government has pledged to double the number of flights in the domestic market under the presidency of Mauricio Macri.

The route to full deregulation is a long way away, but the move has prompted a number of individuals, private companies and airlines to jump at the opportunity to enter Argentina's air travel sector.

The domestic market has been dominated by the country flag carrier Aerolíneas Argentinas, for decades. Aerolíneas operates about 70% of the market, making Argentina's aviation policy impossible for low-cost carriers (LCC) to penetrate the domestic market.

The carrier shares domestic services with LAN Argentina while Macair Jet, American Jet and Lineas Aereas del Estado (LADE) operate small turboprop services.

Sol Lineas Aereas ceased operations in August last year after filing for bankruptcy in January.

A source says the government "manipulation of the market", means Argentine airlines have failed to be profitable during this century.

"Now that fares might be liberalised a bit, the wave of tourism that began around 2004 is subsiding so profits will remain elusive," says the source.

The Argentine market is the last of the major Latin American domestic markets to not have any true low-cost carriers.

"Mexico and Colombia have true LCCs, but the rest of the continent is dominated by pseudo-LCCs, where basic things like buy on-board service, paying for luggage, still cause too much outrage for most Latin Americans," says a source.

In this category he includes LATAM, SKY Airlines, GOL



Lineas Aereas and Azul.

Still Aerolíneas will have to adapt with new competition from 2017 onwards.

Flybondi, which is headed by Argentinian entrepreneur Gaston Parisier and ex-Flybaboo founder Julian Cook, announced plans this autumn to start services in the third quarter of 2017.

The start-up carrier is in advanced discussions with international lead investors and Argentinian investors to raise \$75 million in preparation for its planned launch next year.

The ultra low-cost carrier completed a seed capital round in August with the participation of ex-chief commercial officer and current board member of Ryanair, Michael Cawley and ex-chief executive officer of Air Canada and board member of Swiss International Airlines and Allegiant, Montie Brewer, as well as Robert Wright, who founded UK carrier CityFlyer, alongside a group of Argentinian investors.

It will initially operate domestic routes from its Buenos Aires base and has started negotiations with the Argentinian authorities to obtain an aircraft operator's certificate (AOC).

Early indications show Flybondi will not go head-to-head with Aerolíneas Argentinas, as the start-up carrier aims to bypass Buenos Aires' downtown airport Aeroparque.

Alas del Sur plans to start scheduled passenger

operations from April 2017 onwards using a mix fleet of Airbus and Boeing aircraft.

The new carrier will have its base in Cordoba and initially operate domestic flights to Bariloche, Buenos Aires (Aeroparque), Iguazu, Mendoza, Neuquen and Salta.

Alas del Sur plans to start operations with three Airbus A320s. The carrier's fleet plans show 12 A320s as Alas del Sur aims to serve 25 domestic and regional destinations by 2022.

The start-up carrier also plans to start regional services to Rio de Janeiro and Sao Paulo (Brazil), as well as Santiago (Chile) using three Boeing 777s. Plans for 2022 includes a five 777 fleet with 12 destinations, according to the carrier's fleet plans.

Argentina with turboprops

Avianca Group is investing \$100 million in Argentina until 2018 to provide essential service across the Argentinian market, and introduce new regional routes.

The group does not need an air operator's certificate after it completed the acquisition of Macair Jet, a regional carrier from the family of Argentine president Mauricio Macri, in March 2016.

Macair Jet operates a fleet of six BAe Jetstream 32 units for scheduled air taxi flights. The company inherited the fleet from a local commuter airlines that went bankrupt and has since offered them on an ACMI basis

to small provincial airlines.

Parent company Synergy Aerospace placed an order for 12 ATR72-600s and six options that are to be operated by the group's new subsidiary in Argentina, Avian Líneas Aéreas.

The new regional airline, which will be branded as Avianca Argentina under a license agreement, will start 72-seat operations from the city of Córdoba in the first quarter of 2017.

"The Synergy venture is about the most plausible and above all can grow from unconstrained regional airports like Córdoba and Tucumán," says the source. "However, they may have to combat a prevailing negative perception towards turboprops."

In addition to Alas del Sur, Avian Líneas Aéreas and Flybondi, the Argentine market is attracting interest from airline groups in South America that hope to use cabotage rights to develop their footprint. LATAM Airlines (representing about with 25% of the market) and Panama's Copa Airlines, are reportedly showing an interest in joining the fray.

However, even with these new investments, airlines still face many difficulties in Argentina.

The first challenge is the limited business model. The Argentine flight operations can be assimilated as a south to north business model, leaving relatively few market opportunities for expansion.

Second, the infrastructure is poor. Beside the main airports, investments have not reached other airports. Most are military or general aviation airfields that will need comprehensive investment to handle scheduled flights.

Buenos Aires has two main airports capable of handling commercial traffic: Ezeiza and Aeroparque Jorge Newberry. Yet a number of airfields have been mentioned as alternatives.

El Palomar airport, situated west of Buenos Aires was used as a second back up for Aeroparque (after Ezeiza) due to maintenance of their

Continued on page 8 >>>



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runways around November 2010. But the military airport has an infrastructure dating from the 1940s, currently capable of handling only one flight at a time, according to a source.

Mariano Moreno is a joint public and military airport which is used for helicopter operations. But the airport has no infrastructure and the runway is in poor condition, the source adds.

Another airfield that has been recently mentioned is Moron airport. It was the main airport in Argentina prior to the opening of Ezeiza in 1944.

Morón was the base of the defunct regional carrier CATA Línea Aérea, which operated a fleet of Fairchild F-27 turboprops between 1986 and 2004.

"The runway is in poor condition while the infrastructure built dates from the 1940s," says the source.

Argentina's transport minister Guillermo Dietrich recently confirmed plans to invest \$110 million in airports over the next few years. The Cordoba airport will feature a new instrument landing system, while runways like in Mendoza will be rebuilt.

Earlier this year IATA's Americas vice president Peter Cerda said Argentina is one of the few countries where airport services are under a monopoly.

"Taxes are excessive and airport services are expensive, bad and inefficient. Buenos Aires Ezeiza is the more expensive import in the region," he said.

"The industry needs to get involved in order to guarantee efficient and affordable services. Among the challenges faced by the industry are sky-high taxes on passenger tickets, as well as a lack of competition in the refuelling and airport services sectors," adds Cerda.

When establishing its Argentine subsidiary, Avianca listed the following factors as potential roadblocks:

- High airport taxes and excessive aeronautical infrastructure fees compared to other countries.
- The mandatory use of Intercargo, the state-owned airport ground handling operator, with its monopolistic fees and practices.

- An Argentine airline labour market characterised by high employee wage scales and low-productivity work rules as benchmarked by Aerolíneas Argentinas, the market leader, which would likely lead to substantial resistance to the lower-wage, higher productivity work rules prevalent at low-cost carriers that Avianca would probably want to implement.

Another obstacle is the price of air travel, which probably reflects the high airport charges.

The current pricing initiative has been in place since 2002, in order to stabilise the aviation industry following the 2001 economic crisis.

But more affordable travel is vital for the aviation industry, say newcomers.

The Macri's administration has implemented changes by removing the maximum price for air fares but has not allowed free pricing environment, which low-cost carriers use to drop fares to low levels to stimulate travel and make money on a high-volume, thin-margin passenger traffic profile.

The minimum fare bands still exist.

The population in Argentina is expected to reach 43.61 million by the end of this quarter, according to Trading Economics global macro models and analysts' expectations. This compares with 40.7 million in 2010.

The population is projected to trend around 45.6 million in 2020. About 92% of Argentina's population live in cities, with the 10 largest metro areas accounting for nearly half of the population.

Buenos Aires has a population of about three million, with a metropolitan population of close to 13 million. By 2030 greater Buenos Aires is predicted to have 17 million residents.

But the economic situation is challenging. Argentina has one of Latin America's largest middle classes, but it is shrinking and chronically impoverished by galloping inflation, which even Macri's team is yet to bring under control.

In December 2015 Argentina scrapped most of its currency

“Today only one out of every 10 Argentinians fly by plane. In five years, we want half of our country in the air.”

Julian Cook, Ex-Flybaboo founder

controls and allowed the peso to start trading freely, setting the stage for a sharp devaluation.

The peso has devalued more almost 60% year-on-year and inflation remains in the region of 30-40%, says the source.

In 2001, about 25% of the population was below the poverty line. In 2002 that figure jumped to 70% after the Peso got decoupled from the dollar and individual savings lost two-third of their values. "Today the poverty line best estimates are in the 40-50% range," he says.

Aerolíneas at crossroads?

LAN Airlines exploited an opportunity in mid-2000 by creating a new carrier to access the Argentine market. LAN Argentina was able to enter the domestic market when Aerolíneas was under private foreign ownership with Spanish-owned Group Marsans.

At the time, the government was concerned that Aerolíneas was not adequately serving the local market in addition to operation and reliability problems.

The Kirchner government acquired Aerolíneas and Austral from Grupo Marsans in 2008 and the two carrier were expropriated by decree by the Cristina Kirchner's government. To this day, the two airlines' legal entities remain Sociedad Anónima (SA) instead of Sociedad Estatal (SE) which is what they would have become under normal circumstances.

LAN Argentina, which is owned by LAN Airlines and Argentine investors, operates scheduled domestic services from Buenos Aires to Bariloche, Córdoba, Comodoro Rivadavia, El Calafate, Mendoza, Puerto Iguazú, Neuquén, Río Gallegos, Salta, San Juan, Tucumán and Ushuaia, as well as international services to Miami, Punta Cana, Santiago and Sao Paulo.

But room for expansion has been fairly limited over the past

few years as Aerolíneas, under government ownership, has benefited from protectionism in the short-haul market.

But Aerolíneas is under scrutiny.

President Macri's administration believes that the national carrier has gobbled more funds than what was invested in education in some of Argentina's poorest provinces.

Still he has let it be known that he would like to see Aerolíneas double its domestic service during his term, with the twin goals of having a large successful national airline and dramatically increasing air connectivity in Argentina.

Earlier this autumn, chief executive officer Isela Costantini revealed that the flag-carrier is increasing passenger numbers and could become profitable in four years' time.

For the moment, Aerolíneas Argentinas continues to bleed financially, but the carrier is restructuring.

It carried a record million passengers in July, up 13% over a year ago.

As is the norm with low-cost carriers' model, Flybondi plans to by-pass major airports. The initial plan is to fly domestic routes, to Iguazú, Córdoba, Mendoza, Bariloche, Salta, Neuquén, Tucumán, Ushuaia, El Calafate, Comodoro Rivadavia, Resistencia and Río Gallegos.

Cook told *Airfinance Journal* that Flybondi will either operate Airbus A320s or Boeing 737-800s. "Plans are to operate six aircraft in the first year," he says.

By 2021 Flybondi plans to transport over eight million passengers on domestic and regional flights with a fleet of 30 aircraft.

The start-up carrier fully believes Argentinians deserve a chance to fly. "Today only one out of every 10 Argentinians fly by plane. In five years, we want half of our country in the air."

WestJet to diversify beyond bonds

Canadian airline WestJet plans to diversify its sources of financing, according to Candice Li, vice-president finance and fleet management at the airline.

The carrier has already tapped the unsecured markets but plans to expand its funding sources further.

WestJet closed a debut \$400 million five-year offering of senior unsecured notes in July 2014. It then completed a

second unsecured issuance in June 2016 with a \$400 million offering that priced with a coupon of 3.5%.

"It is our aim to truly diversify – not only diversify into the bond market. The first bond deal was for diversification, and the second was to prop up the first bond deal to ensure that we had enough debt in that bond market," Li said, adding: "But now, I think it is a matter of understanding what's available

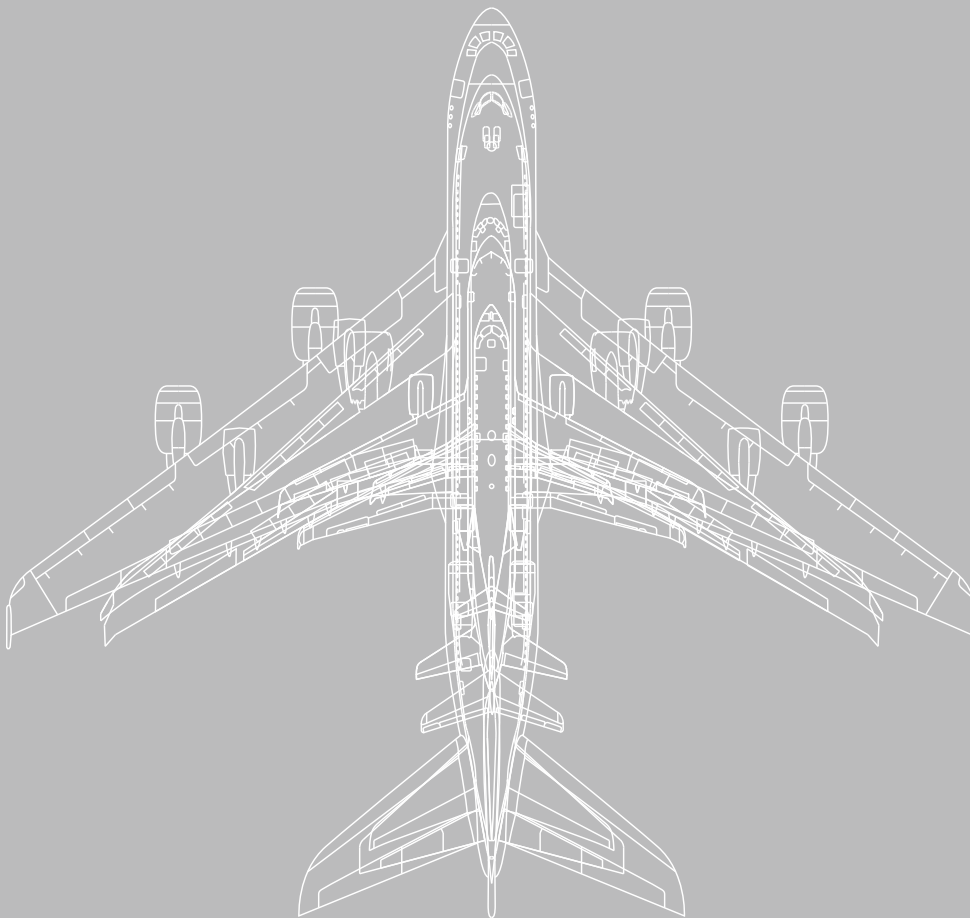
in terms of liquidity, and what the pricing looks like for carriers like us and how that compares to what's available in using the unsecured market."

Discussing possible options, she says that there are several potential funding routes.

"I think we are open to other options... from JOLCOs, JOLs and EETCs... we've also got an untapped revolver. So we've got a lot of different options available," she says.

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Appraisers expect Bombardier to look at the CS500

Bombardier is likely looking at making a larger member of the CSeries family, according to a panel of appraisers speaking at the 19th Annual Global Airfinance Conference in Dublin.

Speaking on the panel, Stuart Rubin, principal, ICF International said: "I certainly would say that Bombardier are looking closely at making a CS500. They see the family concept as key success factor and we've seen that in the market, having a family is the key to success. I would not be surprised if they tried to stretch the aircraft in the next three to four years."

Lindsay Webster, director – asset valuations at Morton Beyer & Agnew, added: "Bombardier is pretty adamant that there's not going to be. But I think that if they want to be in the industry for long, that's the next option they've got to go to."

However, Rikard de Jonge, vice president – asset valuation at AVITAS disagreed with Webster and Rubin. "It would be tempting to stretch, but they have enough to do in the sub 150-seat market. In the bigger market, Airbus and Boeing would likely stomp you out."

Olga Razzhivina, director at Oriel agreed, saying that Bombardier needs "a family concept" to be successful but going straight in a new class against Boeing and Airbus "will be difficult".

She said: "Looking at the history of Bombardier, we know there has been a bid from China to have ownership in the company. The Canadian government may look at that again. The influx of money from that side of the pacific means that Bombardier may not have to look over their shoulder in financial terms went to looking to funding a new programme."

Hogan says Alitalia needs an ‘Italian solution’

Etihad Airways’s chief executive officer James Hogan says that struggling equity partner Alitalia needs “an Italian solution” if it is to reach profitability again.

Speaking at the *19th Annual Global Airfinance Conference*, Hogan said: “The market in which Alitalia operates had challenges in 2016 due to the Italian and European economy, and other industry pressures such as the severe impact in Europe of terrorist attacks and an increasingly tougher competitive market.”

He adds that there needs to be further structural and strategic changes made to Alitalia before it can return to profitability. “The airline’s management and shareholders have worked hard to finalise an industrial plan that is adjusted to ensure a sustainable future for the carrier,” he said, adding that he is confident that the management and employees will make the changes necessary to get business back on track.

“The coming weeks will mark another important step in Alitalia’s journey. We need the commitment that the management and employees will embrace the changes necessary to rebuild the business to get it back on track. But let me be clear: that airline needs an Italian solution, the local management will define the business plan which will ensure the airline moves back into profitability.”

He also mentioned that Etihad Group placed \$100 million in cash into the Italian airline recently, demonstrating Etihad’s “commitment” to the airline.

In his keynote speech, Hogan also mentioned Air Berlin, another equity partner of Etihad’s that is failing to turn a profit.

He said: “In the case of Air Berlin, it’s clear with hindsight that the earlier changes introduced by the business did not go far enough. They tried to recover from years of losses in small steps rather than in radical leaps. And that just didn’t work.”



James Hogan, President & Chief Executive Officer, Etihad Airways

“In our position as a partner sharing traffic flows and business synergies, we were

very happy. But in our position as a shareholder watching a business strategy that was not delivering what it should, we were decidedly not happy.”

In the last few months of 2016, Air Berlin has taken a ground up review of its operations and decided to focus on its core network business as a smaller, targeted airline, serving long-haul markets with short-haul feeder traffic to its main hubs. To cut costs and focus on profitable routes, it agreed a deal to wetlease 40 aircraft to Lufthansa.

Hogan adds: “There have been sceptics for sure about our strategy but more airlines around the world have been following our partnership and equity investment model.”

There has been speculation that Etihad is reviewing its European investment strategy and is considering reducing its equity stakes in some of its European equity partners. Hogan refused to comment on the carrier’s investment strategy after the panel.



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The 19th Annual **Global Airfinance Conference**

Thursday 19th January 2017, CCD, Dublin

Day Two

08:30 Morning Refreshments

08:50 Chairperson's Opening Remarks

Catherine Duffy, Partner, A&L Goodbody

09:00 Latin America is showing signs of recovery – Airlines give their forecasts

With the Brazilian economy showing signs of recovery the rest of the region is hopeful. Having portrayed a positive outlook at the 12th Annual Latin America Airfinance Conference in September 2016, airline CFOs will give their forecasts for the year. What sources of funding will airlines in the region tap into? What approach are airlines taking to hedging on fuel prices? What impact did the slowdown of local economies have on the airline's fleet planning strategy?

Ricardo Sanchez Baker, Chief Financial Officer, Aeromexico

Jose Ignacio Dougnac, Chief Financial Officer, Sky Airline

Moderator: Thomas Hollahan, Managing Director, Citi

09:40 Aircraft Economics – What is the Outlook for New vs Mid-Life vs Old Aircraft?

We are seeing a lot of capital come after hard assets of all types, especially new commodity aircraft (like the Boeing 737 or the A320) and returns compress as a result. Meanwhile lease rates for mid-life aircraft are still holding up. What is the return outlook within the different pockets of aircraft risk?

Where is the sweet spot on a risk-adjusted basis between new vs mid-life vs old aircraft? What type of assets should you be buying? Our panel of lessors, appraisers and analysts will offer their views on the matter.

David Power, Chief Executive Officer, ORIX Aviation

Doug Runte, Managing Director and Head of Aviation Debt Research, Deutsche Bank

Phil Seymour, President & Chief Executive Officer, IBA Group

John Pritchard, Partner, Holland & Knight

10:20 Networking and Morning Refreshments

10:50 New dynamic between the banking market and the capital markets

The capital markets have grown and are very functional. Overall net bank capacity seems as high as it has ever been if not higher. How does that dynamic play out between the banking market and the capital markets and what is the outlook for the ABS and EETC markets? Our panel of experts debate.

Evan Carruthers, Managing Partner, Castlflake

Stephan Sayre, Managing Director, Aviation Investment Management, DVB Bank SE

Patrick Kaufer, Managing Director, Deutsche Bank

Bertrand Dehouck, Managing Director - Head of Aviation EMEA, BNP Paribas

William Hoffman, Chairman, Apollo Aviation Group, LLC

Moderated by: Henry Morriello, Partner, Arnold & Porter Kaye Scholer LLP

11:40 Far Eastern Promises: The new wave of lessors

There has been a wave of new entrants to the operating leasing industry from China. These new players have already amassed portfolios aggregating \$35bn according to Airfinance Journal Fleet. What are the portfolio growth targets of these new entrants and through which means of acquisition? What are their financing plans? What government approvals are required for fleet acquisitions? What will be the role of Ireland and Tianjin in new entrants' future plans? Our distinguished panel of new lessors will answer these key questions.

Xing Zhen, Director, Aviation, BOCOMM Leasing

David Wang, Managing Director, ICBC Financial Leasing Co., Ltd.

Wang Tao, Managing Director Aviation, CCB Leasing

Huang Bo, Chief commercial officer, CMB Financial Leasing Co. LTD.

Russell Hubbard, Senior Vice President – Aircraft Trading, China

Aircraft Leasing Group Holdings Limited

Moderated by: Paul Jebely, Managing Partner, Pillsbury, Winthrop, Shaw & Pittman (HK) LLP

12:30 Keynote Address from BOCOMM Leasing

Ling Li, Managing Director, Aviation, BOCOMM Leasing

12:50 Lunch

14.30 A Look into the Russian & CIS market

With the growth in the leasing market, a softening of load factors and no access to capital markets for Russian banks, the region presents a mixed case of optimism and concern. A panel of experts seek to explore the challenges and opportunities present in the region's market.

Konstantin Mekhonoshin, Vice President International Business, Aviation Company Rusline

Pavel Piskun, Director, Sberbank Leasing

Pavel Chernysh, Head of Treasury, VTB Leasing

Moderated by: Jack Dutton, Editor, Airfinance Journal

15:10 When Will the ECAs Return to Aviation?

Export Credit Agencies look to provide insight into when they will return to aviation and the impact of 2016's political upsets on ECA financing in aviation.

Eric Agote, Head of Unit – Airbus Unconditional Guarantee, Bpifrance Assurance Export, COFACE

Alain Gauthier, Global Accounts Director, Export Development Canada

Marcio Migon, Head of Department, Aviation Financing – Export Credit Division, BNDES

Paul Walsh, Head of Business Group, Aerospace, UK Export Finance

Thomas Kolberg, Unit Head Aviation Risk, Federal Export Credit

Guarantees, Euler Hermes Aktiengesellschaft

Robert F.X. Roy, Jr., Vice President – Transportation, Export-Import Bank of the United States

Moderated by: Louis Douady, Managing Director – Aviation Group North America, Natixis

16:00 Opportunities in the Middle East

Impressive growth in the region has further secured the Middle East as hub for aviation. How do carriers in the region plan to exploit growth opportunities in neighbouring countries such as Iran, Turkey and India? What impact is regional instability having on the region's aviation growth? What funding sources are carriers in the region likely to tap into in the wake of Basel III/III and other regulatory requirements impacting the region?

Mohammad Gorji, Executive Vice President & Fleet Development, Iran Aseman Airlines

David Houlihan, Chief Marketing Officer, Dubai Aerospace Enterprise Capital

Anas Bennani, Managing Director, Palma Holdings Ltd

Moderated by: Bertrand Grabowski, Senior Strategic Adviser, Dubai Aerospace Enterprise

16:45 On-Stage Interview with SpiceJet CFO

Kiran Koteswar, Chief Financial Officer, Spicejet

Interviewer: Ray Sisson, Co-Founder & Chief Executive Officer, AVi8 Air Capital

17:15 Chairperson's closing remarks followed by concert ice-breaker

18:00 Charity concert and closing party