



AIRFINANCE JOURNAL EVENTS

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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 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

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A large jet engine is suspended in a factory setting, with the word "CUSTOMISES" written in large, metallic, 3D block letters in the foreground. The background is a blue-tinted industrial environment with structural beams and lights.

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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 Domhnal 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, Avitas

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