

ishkaView EXTRA

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This is the 32nd in a series of supplements to Ishka's Transaction Economics subscription-based service. It delivers 'the Ishka View' on events that have a bearing on the near-term performance of aircraft values, lease rates, and the market dynamics that matter, under today's extraordinary market circumstances.

Drawing on market events and aircraft activity, this report examines how aircraft types are faring through the crisis, which types are in favour or 'on watch' and which are most exposed and impacted by the evolving aircraft environment. The COVID-19 pandemic has spread globally and severely impacted the airline industry. Airlines have made drastic changes to their networks, fleets, operations and liquidity. Airline survival and economic recovery will be instrumental in shaping asset value and lease performance.

IMPACT INTELLIGENCE 26th OCTOBER – 30th OCTOBER 2020

ANA's RECOGNITION – It was interesting to see All Nippon Airways' (ANA Holdings) release this week, confirming their transformative measures to a new business model. They have recognised that travel is changing, and are planning to be resilient towards future risks. They see the following: 1. **Demand from business travel will decrease and likely not fully return to previous levels** due to changes to the nature of work, such as the widespread popularity of online conferences and meetings. 2. **Demand for leisure and visiting friends and relatives (VFR)** will likely continue to **remain robust**, with potential growth from **new segments including new working environments and multiple residencies**. 3. They also see new potential for demand from untapped markets with preference for greater hygiene during travel, **airlines with high ESG policies, adoption of contactless and automated options**, simplistic services as well as more customisation options. A third airline brand will be part of their transformation.

EVEN SOUTHWEST... sees change. The airline says it "absolutely needs a smaller airplane", as many of its B737-700s face retirement in the coming years. The airline's COO notes that they are "looking at both the A220 and the MAX 7" with a decision by 2025. It may be posturing for prices, but maybe there is recognition too, that change is coming.

AIRCRAFT VALUES & RENTALS – 15-YEAR-OLD AIRCRAFT

The table below reflects our view of a selection of 2005 vintage aircraft, assuming **off lease** and available today. We continue to make incremental step changes to CMV and MLR to reflect our view of directional trend, and what we see in market movements and used aircraft deals that are happening. After a summer lull, adjustments in values and rentals have started to be made again as the market remains sluggish. These numbers reflect adjustments made to date in October. As always, we hope these numbers are not the end of a discussion, but the start of one. We look forward to our readership keeping us informed – if you are paying more (or less) on a new deal, please let us know! Bear in mind these numbers reflect **unencumbered assets**; aircraft already on decent leases with good credits can generate a different set of results.

| 15-YEAR-OLD AIRCRAFT | | | | | | |
|----------------------|-----------------|------------------|----------|-----------------|------------------|----------|
| Type | CMV 1-Jan-20 | CMV 26-Oct-20 | % change | MLR 1-Jan-20 | MLR 26-Oct-20 | % change |
| A320-200 | \$13.00m | \$10.45m | -20% | \$0.173m | \$0.105m | -39% |
| A321-200 | \$18.90m | \$14.50m | -23% | \$0.210m | \$0.126m | -40% |
| A330-200 | \$24.20m | \$17.00m | -30% | \$0.200m | \$0.165m | -18% |
| A380 | \$51.00m | \$37.00m | -27% | \$0.425m | \$0.320m | -25% |
| B737-700 | \$12.00m | \$8.60m | -28% | \$0.120m | \$0.082m | -32% |
| B737-800 | \$15.50m | \$11.60m | -25% | \$0.200m | \$0.115m | -43% |
| B767-300ER | \$16.50m | \$12.50m | -24% | \$0.240m | \$0.180m | -25% |
| B777-200ER | \$24.50m | \$18.00m | -27% | \$0.220m | \$0.160m | -27% |
| B777-300ER | \$46.00m | \$24.50m | -47% | \$0.445m | \$0.245m | -45% |
| Dash 8-Q400 | \$6.90m | \$4.80m | -30% | \$0.074m | \$0.056m | -24% |
| CRJ900 | \$7.20m | \$5.25m | -27% | \$0.101m | \$0.082m | -19% |
| E190LR | \$9.10m | \$5.75m | -37% | \$0.105m | \$0.065m | -38% |

CMV = Current Market value MLR = Market Lease Rate

NOTE: The Values behind the above data reflect **unencumbered** aircraft and reflect what might be achievable based on the prevailing market conditions. ISTAT definitions apply. Values reflect **Basic Configuration** aircraft in 'half-life' or better condition. In reality, many aircraft are likely to be of a higher than basic specification. This data is for **comparative and trend observation** purposes. For **more detailed appraisal and valuation information** please contact the Ishka team.

THE ISHKA INDICATORS

OEM Q3 2020 RESULTS

Boeing reported a total \$14.1b in revenues for Q3 2020, a 29% drop versus Q3 2019. The Commercial Airplanes division brought in \$3.6b, a 56% drop versus Q3 2019. The Q3 group results include a \$401m operating loss - a year earlier it had recorded \$1.2b in operating income. The Commercial Airplanes Division recorded a net loss of \$1.4b, widening from \$40m in Q3 2019. The OEMs net loss was \$466m. At the end of September 2020, Boeing held \$27b in cash and cash equivalents and securities, while its long-term debt was up from \$19.9b at the end of December 2019 to \$57.3b end of Q3 2020. Boeing has kept its production rates intact from Q2 2020.

Airbus has also announced its Q3 results, generating consolidated revenues of EUR11.2b (\$13.1b) while reporting a EUR767m (\$897.4m) net loss for the period. The commercial aircraft unit's revenues dropped by 33%, y/y, generating EUR7.7b (\$9b) in revenues for Q3 2020 while recording EUR666m (\$779.5b) in EBIT for the third quarter, a 52% y/y drop. The OEM reported an increase in inventory from December 2019 of EUR5.1b (\$5.9b), mainly due to deferred aircraft deliveries (EUR4.2b / \$4.92b) as Airbus now has 135 undelivered aircraft. The majority have contracts attached, while a 'low double-digit number' of aircraft are white tails. Airbus also confirmed it has engaged with its suppliers regarding a production ramp-up for Q3 2021, which could target 47 A320 aircraft per month. The OEM believes its supply chain will have to be ready for such an increase. Addressing some pessimistic analysis around this ramp-up, Airbus have explained the planned increase in production "is backed by the backlog" and that "it's not speculative, it's robust". Airbus will continue to monitor the situation.

AVOLON has reduced its net losses in Q3. After posting \$162m in net losses in Q2 2020, **Avolon** has reported \$41m in net losses for the Q3 period, including \$42m in impairment and accelerated amortisation charges, a decrease from the Q2 2020 charge of \$314m. The lessor generated \$504m in revenues in Q3 2020, a 22.5% decrease, y/y, and managed to improve its revenue collection rate to 83% during Q3 2020. Revenue collection improved significantly over the lessor's H1 2020 figure of 68%, as 24 customers restarted paying their leases, while four customers have extended their lease deferral period. The lessor also increased its total liquidity, quarter-on-quarter, recording \$5.7b in total liquidity versus \$5.1b end of Q2 2020, a 12% increase. The lessor increased its total aircraft and order portfolio from 547 aircraft at the end of Q2 2020 to 551 aircraft at the end of September 2020 and from 277 orders to 286 during the same period.

The Russian State Transport Leasing Company (**GTK**) has issued \$500m in Eurobonds (with demand for the bonds exceeding 3x supply) on the Dublin Stock Exchange. The offering has a coupon of 4.8% and matures in 2027. The issuance will be used to refinance debt and for investment in the Russian transportation industry.

APOC AVIATION has announced a partnership with the Dutch-based private equity investor, Egeria. While no investment figures were unveiled, Egeria typically invests in companies valued at EUR50m (\$58.8m) to EUR350m (\$411.2m). The investment is aimed at expanding **APOC Aviation's** global presence, as it plans to open a location in Singapore by 2020 and a US based location in Q1 2021.

CHORUS AVIATION has received a non-binding acquisition proposal from an unnamed third party. The proposal is subject to "several significant conditions". The company's current market value stands at \$374m, having jumped 32% when the company statement was released.

ANA has presented a transformation plan which includes aircraft retirements and plans for a new airline to be launched by 2022/2023. The Japanese airline group announced it will retire a total of 35 aircraft in 2020, adding 28 to the seven aircraft it had initially planned on retiring. Out of the 35 aircraft to be retired, 22 are B777s. The airline group currently has 56 B777 aircraft, with seven being the -200 variant (average age 18 years), 12 B777-200ERs averaging 13 years of age, two B777-200Fs aged 1.5 years, seven B777-300s aged 20 years, on average, and 28 B777-300ERs with an average age of 9 years. The group will also delay the delivery of one B777 and its last A380. ANA's new airline (using the Air Japan platform) will be focused on low-cost medium haul destinations in the Southeast Asian and Pacific regions. The airline is expected to operate two-class B787 aircraft configured with 300+ seats. ANA also plans to move towards in-house management of previously outsourced tasks such as aircraft and engine maintenance.

THE TRANSACTION VACUUM...

easyJet has announced another set of Sale and Leaseback (SLB) transactions, involving nine A320s. One transaction has been agreed with **Wilmington Trust SP** for the Sale/Leaseback of five A320s, which will generate total proceeds of \$191.1m and lease obligations totalling GBP123.7m (\$160.6m) for an average term of approx. 117 months. The book value of the aircraft stood at GBP116.2m (\$150.8m). **easyJet** entered into a second SLB deal with **Sky High 112 Leasing** for four A320s which will generate total proceeds of \$207.5m (approximately £159.1m), with the aircraft being

leased for an average of 116 months, creating lease obligations of GBP108.0m (\$140m). The aircraft had a book value of approximately GBP140.2m (\$181.9m). According to ch-aviation, easyJet's A320 fleet consists of 204 aircraft (37 A320neos and 167 A320ceos). Of the A320ceos, 130 are active (average age six years) while the stored A320ceos average nine years. **Lufthansa** has agreed the sale of five B747-400s to GE Aviation Materials for part-out and spares. The aircraft are parked at Twente Airport, Netherlands, and are between 18 and 24.5 years old.

SPOOLING UP...

Flair Airlines' new CEO has announced the airline's plans to grow from three aircraft today to 50 aircraft. Flair currently operates three B737-800s, average age 10 years, leased from CMB Financial Leasing (one) and from Zephyrus Aviation Capital (two), according to ch-aviation. **EGO Airways** took delivery of its first aircraft, a 12.5-year-old ERJ190AR leased from Azorra Aviation. The airline plans to launch by Q1 2021, depending on the certification process, as the airline is still awaiting its AOC. **Go2Sky** has negotiated a deal with lessors and is expected to resume operations after winter. The airline had previously terminated operations in August. The carrier will operate three out of its five B737-800s, which are leased from **Fly Leasing** and **World Star Aviation** and are on average 18 years old. **Iraqi Airways** will restart services to Germany, Denmark and the UK in December 2020 with the wet-lease of a B737-800 from Slovakia's Air Explore, which has seven of the type. Iraqi Airways has been on the European Union's blacklist since 2015, but the airline will now circumvent the ban as aircraft wet-leased from EU-approved carriers can operate the routes.

China Express Airlines and Quzhou city government have signed a cooperation agreement that has the potential to create a new airline using Quzhou as the airline's hub, by end of 2020. The airline is expected to base two aircraft there, while expanding to five in 2022 and eight by 2023. **China Express Airlines** currently operates a fleet composed of A320ceos (11 aircraft, average age two years), A320neo (two aircraft, average age four months) and CRJ900ER (38 aircraft, average age five years). **Heston Airlines** has announced that it will start ACMI operations in early 2021, offering services to European charter and scheduled airlines with an A320 only fleet. The airline is part of **Heston Aviation**, a group which includes companies focused on Leasing, Trading and MRO. The start-up **Air Georgia** has taken delivery of the first of two A320ceos, with plans to begin operations in Q1 2021 from Georgia to Europe and Central Asia. The 2005 vintage A320, leased from FTAI, had been parked for a year, prior to which it had been operated by Avianca El Salvador.

SPOOLING DOWN...

Alif Segregated Portfolio Company, a fund managed by **IAFC**, **Airbus** and the **Islamic Development Bank** has filed a claim over an alleged breach of contract from **Saudia**. The lessor is demanding a minimum of \$460m in unpaid rent and maintenance costs from the airline. The lessor has leased 50 aircraft to Saudia, including 30 A320ceo and 20 A330-300s. **Hawaiian** has announced it will delay deliveries of its B787s, having reached an agreement with Boeing, and now expects to take delivery between 2022 and 2026. **Air Belgium** sent its A340-300, aged 12.5 years, into storage for the winter season. The carrier will also store its second A340-300. The carrier has four of the type in its fleet. **TUI fly** terminated its B737-700 operations having returned its last aircraft of the type to lessor **Castlelake**. The aircraft is 12.5-year-old, having been operated by TUI fly since 2008. **Icelandair** is planning to retire four more B757s over the next few weeks, placing the aircraft on part-out schemes. The airline expects some of the components to be used by the remaining B757s, which will total 15, with an average age of 22 years. The move comes after the airline recently sold 3 B757s for cargo conversion.

CARGO CORNER

GECAS Cargo and **Kalitta Air** have announced an agreement for three converted 777-300ERSF aircraft. Kalitta will become the launch operator for the new conversion type. Delivery is expected by 2023. The conversion programme is jointly funded by **GECAS** and **Israeli Aerospace Industries (IAI)**. **Airbus** and **ST Engineering's** Joint Venture, **Elbe Flugzeugwerke's** first A321 P2F conversion for Vallair has entered service, with Qantas for Australia Post. The 22 year old, V2533-A5 powered A321F was initially operated by British Midland. **Aero Capital Solutions** and **Aeronautical Engineers** have entered into a contract covering four B737-800SF freighter conversions. The first aircraft will be delivered by January 2021, while the remaining aircraft are expected to be finished by H1 2021. **Atlas Air** has agreed to take over and convert to cargo three B747-400s from Virgin Atlantic, which have been on lease from GECAS. The aircraft are all 19 years old.

THE AIRCRAFT VIEW

MITSUBISHI is reportedly considering a freeze on its SpaceJet regional aircraft programme, although the OEM itself has stated that it was considering several options. The OEM is expected to present a new plan for the aircraft shortly.

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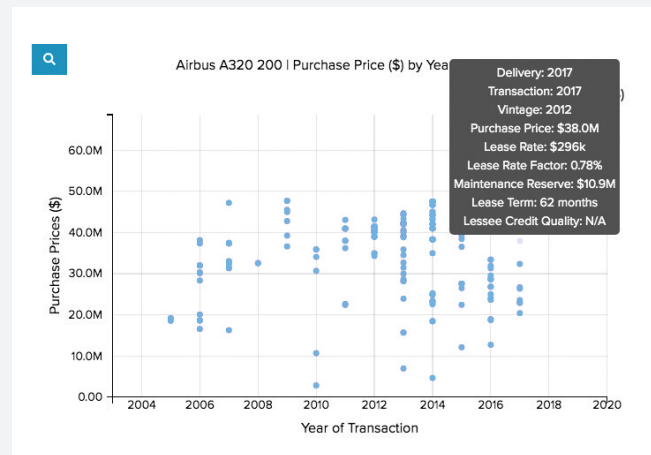
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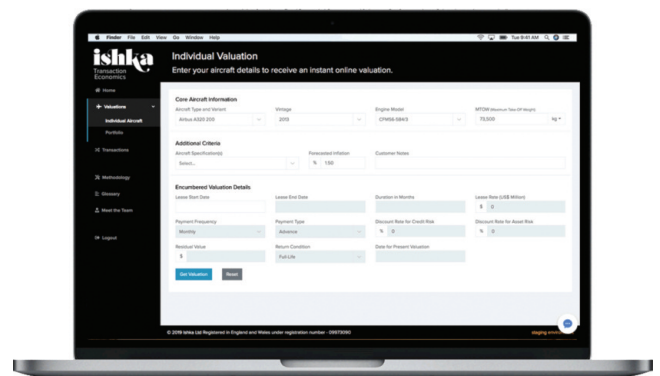


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