Credit Opinion

31 December 2024

Ratings	
Category	Financial Institution
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A_g-
Outlook	Stable

Analyst Contacts

Vincent Tong +852-2860 7125

Assistant Director of Credit Ratings

vincent_tong@ccxap.com

Amy Chen +852-2860 7127

Credit Analyst

amy_chen@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

China Aircraft Leasing Group Holdings Limited

Initial credit rating report

CCXAP assigns the first-time long-term credit rating of A_g- to China Aircraft Leasing Group Holdings Limited, with stable outlook.

Summary

The A_g- long-term credit rating of China Aircraft Leasing Group Holdings Limited ("CALC" or the "Company") is underpinned by (1) the recovery in the global aviation industry; and (2) the Company's leading market position in China's aircraft leasing industry, with a global footprint and narrowbody-focused fleet portfolio.

However, the rating is constrained by the Company's (1) high debt leverage and moderate profitability; and (2) high financing needs from its large order book and short-term debt maturities.

The rating also reflects the likelihood of support from China Everbright Group ("CEG") and its affiliated entities, which is based on the Company's (1) strategically important position to CEG's development strategy; (2) track record of receiving funding and financial support from CEG and its affiliated entities; and (3) certain reputation risk if failure.

The stable outlook on CALC's rating reflects our expectation that the Company will maintain its credit profile with solid business position and stable financial metrics over the next 12 to 18 months. We also expect the likelihood of support from CEG and its affiliated entities will remain unchanged during the period.

Rating Drivers

- Operating environment underpinned by the recovery in the global aviation industry
- Leading market position in China's aircraft leasing industry, with a global footprint
- Narrowbody-focused fleet portfolio helps reduce asset risk
- High debt leverage and moderate profitability
- High financing needs alleviated by good access to funding
- Likely to receive support from CEG and its affiliated entities

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) there is a stronger expectation of group support, such as the Company showing a higher strategic importance to CEG; or (2) the Company significantly improves its standalone credit profile, such as strengthened recurring profitability, capital adequacy, and financing flexibility.

What could downgrade the rating?

The rating could be downgraded if (1) there is a weakening expectation of group support, such as the Company showing a lower strategic importance to CEG; or (2) the Company demonstrates material deterioration in its standalone credit profile, such as weakened asset quality, capital adequacy, and liquidity position.

Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Assets (HKD billion)	50.0	55.3	59.8	64.0
Total Equity (HKD billion)	6.0	6.3	5.1	5.1
Total Revenue (HKD billion)	3.3	4.2	4.9	5.2
Net Profit (HKD million)	627.3	215.7	220.2	98.9
Pre-Tax Net Income/Average Assets (%)	3.3	1.0	0.9	0.6
Return on Average Equity (%)	11.0	3.5	3.9	1.7
Capital Adequacy Ratio (%)	12.0	11.3	8.6	7.9
Realizable Assets/Short-Term Debt (%)	32.9	21.1	29.3	33.5
Secured Debt/Tangible Assets (%)	38.9	40.5	46.4	46.9

All ratios and figures are calculated using CCXAP's adjustments. 2024H1 figures are annualized for the last twelve months ended 30 June 2024.

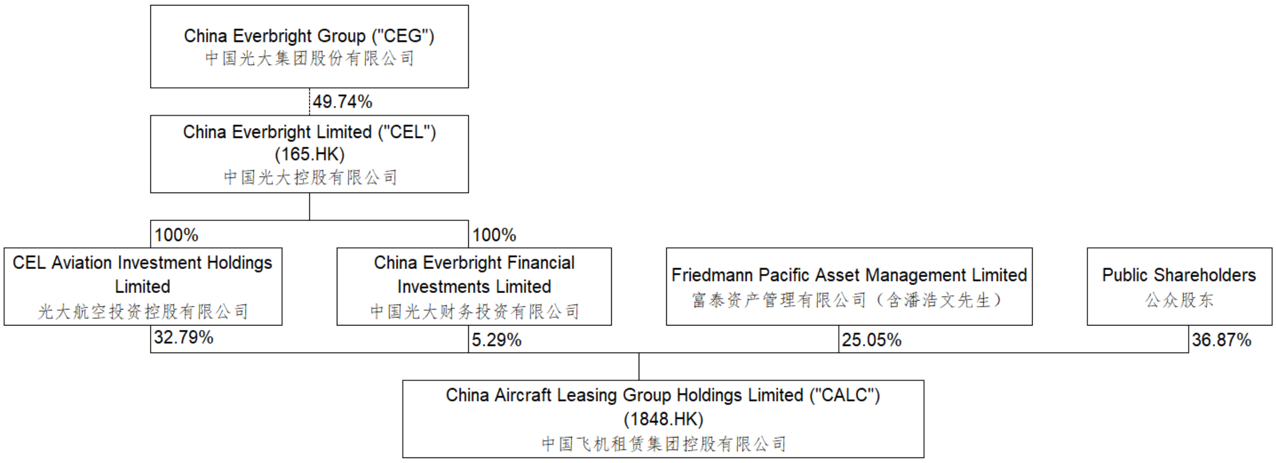
Source: Company data, CCXAP research

Corporate Profile

Established in 2006, CALC (Stock code: 1848.HK) is an operating aircraft lessor based in Hong Kong SAR. It is dedicated to providing global aircraft services across the entire industry chain, covering new aircraft leasing and procurement, operating leasing and leaseback, aircraft trading and asset management, and engine leasing and trading. In July 2014, the Company was listed on the Hong Kong Stock Exchange, becoming the first listed aircraft leasing company in Asia. As of 30 June 2024, CALC had total assets of HKD64.0 billion and a fleet size of 199 aircraft, including 172 owned aircraft and 27 aircraft in escrow.

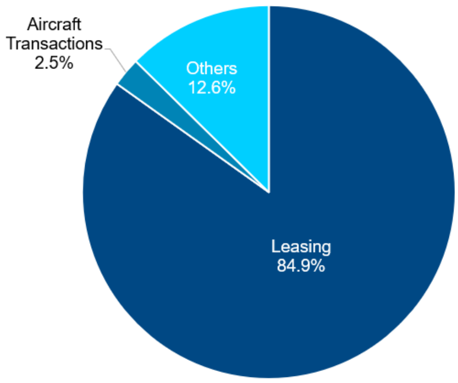
In 2011, China Everbright Limited ("CEL") (Stock code: 0165.HK) successfully acquired substantial shares of CALC and became the single largest shareholder. CEL is an important platform of CEG in investment and asset management business, and CEG is a large financial holding group controlled by the Chinese central government. As of 30 June 2024, CEL indirectly held a 38.08% equity interest in CALC, and Fridemann Pacific Asset Management Limited and Mr. Pan Haowen together held a combined 25.05% equity interest in CALC.

Exhibit 1. Shareholder chart as of 30 June 2024



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Operating environment underpinned by the recovery in the global aviation industry

The ongoing recovery in the global aviation industry has increased the global air travel demand and the number of air passengers, which are supportive to the operation of airline companies and aircraft lessors. According to data released by IATA, the global total traffic in 2023 (measured in revenue passenger kilometers or “RPKs”) rose by 36.8% year-over-year (“YoY”) to 3.8 billion, equivalent to 94.1% of pre-pandemic levels in 2019. China’s civil aviation sector also recorded substantial recovery after the government fully reopened its border in March 2023. The country had about 619.6 million air passenger trips in 2023, based on data from the Civil Aviation Administration of China, a spike growth of 146.1% YoY. The recovery of air travel and the aviation industry not only improves airline companies’ cash flow and profitability but also reduces rent collection risk for aircraft lessors. Aircraft lessors are benefiting from the present supply scarcity of new aircraft, which raises the lease charge rate and the value of aircraft, reducing the lessor’s asset risk. Given that major global aircraft manufacturers are still delaying deliveries in 2024, we expect the supply-demand mismatch to persist in the next 12 to 18 months.

However, existing aircraft lessors are still challenged by the intense market competition and heightened interest rate environment. The entry barrier for the aircraft leasing industry is relatively low, as well-capitalized new entrants can compete on price to gain market share. Only a few lessors that have strong expertise in structuring complex transactions and asset management ability can obtain competitive advantages. Market rivalry in China is rising as the government imposes stricter regulations on financial leasing sectors, encouraging them to shift their business focus away from financial leasing and toward direct financing leasing. More and more bank-owned financing leasing companies are changing their business structures and expanding direct finance leasing operations, such as aircraft leasing. Although there are other financing alternatives available to airlines, aircraft leasing still provides benefits, such as lowering upfront cash and asset ownership risk for airlines. We believe leasing will continue to be an important finance source for aircraft acquisition in the airline industry. The global leasing penetration rate continues to climb, reaching roughly 52% as of 30 June 2024. Additionally, in recent years, China's domestic aircraft production capacity has constantly increased, along with the strategy of expanding abroad, creating greater development opportunities for Chinese aircraft leasing companies.

Leading market position in China's aircraft leasing industry, with a global footprint

CALC, a leading aircraft lessor in China, has long focused on the Chinese market and has achieved positive market recognition. CALC has a strong advantage in offering comprehensive solutions to its customers and is able to cover the whole aircraft lifespan. Around 68% of CALC's owned aircraft were leased to Chinese airline companies. CALC is also expanding its clients globally. It provides leasing services to worldwide airlines in Asia Pacific (13% of its total aircraft fleet), North America (4%), South America (7%), and EMEA (6%). As of 30 June 2024, the Company offered leasing services to 42 airline operators in 22 nations or territories.

However, CALC could face concentration risk in the Chinese market, where it drives the majority of its revenue and cash flow. The concentration risk is largely mitigated by its prudent client selection, and most of its Chinese clients are state-owned airline companies with certain government support. China's three largest domestic state-owned airline companies and their affiliates accounted for approximately 44% of CALC's rental income in the first half of 2024. Moreover, China's aviation sector and air travel have remained relatively steady when compared to other markets. CALC is also expected to further diversify its client base and expand its overseas business. Half of the aircraft delivered by December 2025 will be leased to overseas clients.

We believe that CALC is exposed to moderate credit risk as underpinned by its good client base. The Company has a manageable risk of provisions on rental and financing leasing receivables, which were mainly formed during the pandemic. As of 30 June 2024, it had a total provision of HKD201.2 million for rental receivables and HKD12.2 million for financial leasing receivables.

Narrowbody-focused fleet portfolio helps reduce asset risk

CALC targets to maintain an attractive and liquid fleet portfolio. As of 30 June 2024, the Company's 199-aircraft fleet portfolio consists of 172 owned aircraft and 27 managed aircraft. Narrowbody aircraft constitute around 90% of CALC's owned fleet, and 33% of them are new technology narrowbody aircraft. Narrowbody aircraft normally are more liquid in the market because of their large user base and less reconfiguration time, which allow CALC to have more remarketing opportunities and higher operation predictability. Narrowbody aircraft also demonstrated an earlier recovery in demand compared with widebody aircraft as short-distance air travel rebounded stronger than long-haul international routes.

Exhibit 3. CALC's aircraft portfolio structure as of 30 June 2024

Manufacturer	Aircraft series	Type	Self-owned	Managed	Total
Airbus	A320 CEO	Narrowbody aircraft	80	17	97
Airbus	A320 NEO	Narrowbody aircraft	54	6	60
Airbus	A330 CEO	Widebody aircraft	13	1	14
Boeing	B737 NG	Narrowbody aircraft	19	2	21
Boeing	B737 Max	Narrowbody aircraft	2	0	2
Boeing	B787	Widebody aircraft	1	1	2
COMAC	C909	Regional aircraft	3	0	3
Total			**172**	**27**	**199**

Source: Company information, CCXAP research

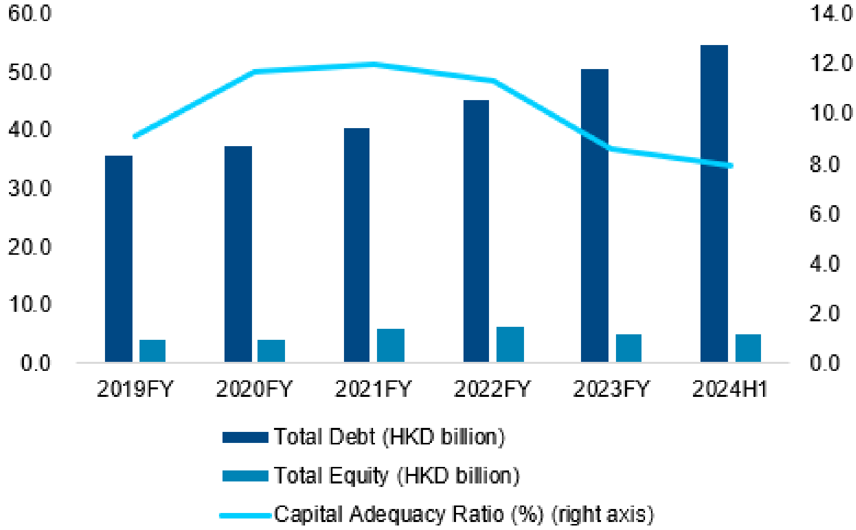
CALC's fleet had an average age of 8.1 years as of 30 June 2024. The number, nevertheless, is slightly higher than its global peers because the Company provides aircraft retirement solutions to its Chinese clients by using a sale and leaseback model for older aircraft. In China, aircraft aged 15 years reach retirement period, and aircraft aged 20 years are required substantial cost of repairment to maintain its operation as airliners. Moreover, CALC's involvement in aircraft retirement services leads to a shorter average remaining leasing term. As of 30 June 2024, its average remaining leasing term was 5.9 years, lower than that of its global peers. In general, the leasing term for brand-new aircraft is 12 years and 6 to 8 years for older aircraft. The fleet age and shorter leasing term may expose CALC to higher risk on downside demand volatilities than its peers with young age and longer average leasing terms. However, we believe CALC's aircraft remarketing risk remains low because of its narrowbody-focused fleet composition, good aircraft retirement ability in global, and the still strong leasing market demand in old aircraft. CALC has still exhibited a stable aircraft leasing profile during distressed sector conditions in the pandemic.

In addition, CALC acquires new aircraft and sells older aircraft to maintain a stable fleet size and age. As of 30 June 2024, the Company had 129 aircraft in its order book, comprising 102 Airbus A320 aircraft family and 27 COMAC C909 series aircraft. CALC is one of the few Chinese aircraft lessors that is capable of direct aircraft procurement from aircraft original equipment manufacturers. It ranked seventh among global lessors by number of aircraft in order book as of 30 June 2024, according to the data of Cirium. CALC has accelerated its fleet trading, which is expected to improve its aircraft composition and cash flow. CALC's good ability in aircraft retirement is supportive to managing the residual value of its fleet. It has established an aircraft disassembly center in Harbin, offering services covering the life cycle process for aircraft maintenance, overhaul, and repair (MRO). It also builds aircraft disassembly and aviation materials distribution networks in Memphis, America.

High debt leverage and moderate profitability

CALC has demonstrated a relatively high and increasing debt leverage given its debt-driven investment in the aircraft fleet and modest capital base. The Company's capital adequacy ratio (measured by net capital/total assets) was 7.9% as of 30 June 2024, which is lower than most of its global peers. As of mid-2024, approximately 27% of the Company's interest-bearing debts were denominated in RMB. CALC intends to lower its leverage by expediting its aircraft selling and the adoption of an asset-light model in managed aircraft. The Company had 27 aircraft in escrow on the asset-light model as of mid-2024. In 2023, the Company sold 64 aircraft in the order book that materially alleviated its capital expenditure. It also has a large number of aircraft in the selling process but is subject to execution risk. In the first 6 months of 2024, it disposed of 5 aircraft and signed sales and purchase agreements ("SPA") for 17 aircraft.

Exhibit 4. Capital adequacy ratio from 2019FY to 2024H1



Source: Company information, CCXAP research

However, the weakened profitability, driven mainly by the heightened interest rate and rising depreciation expense from aircraft portfolio expansion, has impeded its deleveraging progress. Interest expense, a significant cost component for CALC, has soared since 2022, as the majority of its debts are denominated in USD at a floating rate. As a result, the Company reported a ROE of 3.9% in 2023, decreasing from 11.0% in 2021. The impact of interest rates can be partially moderated by the Company's ongoing effort in replacing its high-cost funding with low-cost funding in the onshore market. The RMB funding accounted for approximately 27% of its total debt as of 30 June 2024, increasing by 4 percentage points compared to that of the end of 2023.

CALC's credit losses and aircraft impairments have been small over the past year, supported by its good client selection and asset quality. In addition, CALC has limited exposure to the sanctions on Russia compared to its peers. It has made a one-time write-off of HKD439.0 million (net of security deposit and maintenance reserves received) for the only 2 aircraft in Russia in 2022. In 2023, the Company received HKD185.4 million in insurance claim compensation for one of the aircraft.

We expect that CALC's profitability will gradually improve along with the moderating interest rate environment and the accelerating aircraft disposal. However, the Company's debt leverage is expected to remain high over the next 12 to 18 months if there is no material capital injection.

High financing needs alleviated by good access to funding

CALC has high financing needs driven by its significant order book and large short-term debt maturities. The Company has a total capital commitment of HKD48.2 billion for its 129 aircraft in the order book by mid-2024. All aircraft are expected to be delivered before 2028, and the Company is required to make prepayments of HKD8.3 billion for the coming 12 months. In addition, the Company has a large short-term debt maturity of HKD18.3 billion as of 30 June 2024. We expect that CALC will need to refinance most of its maturing debts due to its moderate level of internal liquidity resources. The Company has cash and cash equivalents of approximately HKD6.1 billion by mid-2024, covering only 33.5% of its short-term debts.

CALC's refinancing ability is underpinned by its dual-platform corporate structure, which allows it to access both onshore and offshore funding channels. CALC has exhibited diversified funding channels in the past few years, including bank loans (69.0% of the total interest-bearing debt), PDP financing (11.2%), bond issuance (11.6%), structured finance (0.8%), and trust financing (7.4%). It maintains good relationships with multiple international and domestic banks, and its listing status can provide access to equity funding. Nonetheless, CALC's secured debt represented 46.9% of its total assets as of 30 June 2024, which is higher than its global peers and could weaken its financing flexibility.

In addition, the liquidity support from CEG and its affiliates will help mitigate CALC's refinancing risk and liquidity pressure. In the past two years, for example, CEL extended USD94 million in standby revolving credit lines to CALC to support its liquidity needs. CEB, a subsidiary of CEG, had also provided a total of RMB8 billion in credit facilities to CALC as of 30 June 2024.

External Support

Likely to receive support from CEG and its affiliated entities, when necessary

We expect CALC is likely to obtain support from CEG and its affiliated entities in times of need. This expectation incorporates our considerations of the Company's (1) strategically important position to CEG's development strategy; (2) track record of receiving funding and financial support from CEG and its affiliated entities; (3) certain reputation risk if failure.

CALC has a strategically important position in CEG's development strategy, including the objective of cultivating a world-leading aircraft lessor. It is the only platform within CEG that solely focuses on aviation and aircraft leasing. CEG has strong operational and managerial control over CALC. For example, CEL has appointed two directors to CALC and participated in the Company's major operational decisions. Meanwhile, CEG has provided support to the Company's business development, including promoting cooperation between the Company and COMAC in the export of domestically produced aircraft. CEG and its affiliated entities also have a solid track record of providing funding and financial support to CALC.

CEG has a strong ability to provide support. It is one of the major financial holding companies owned and controlled by the central government of China. CEG's development strategy is approved by China's Ministry of Finance and China Huijin Investment Ltd. CEG has large investments cover both finance and industrial sectors. As of 30 June 2024, CEG reported a total asset of RMB7.5 trillion and a net asset of RMB786.5 billion. CEL is the primary entity for CEG to engage in private equity investment and asset management business, with an important strategic position in CEG and strong capital strength. As of 30 June 2024, CEL reported a total asset of HKD78.1 billion and a net asset of HKD32.9 billion.

Rating Methodology

The methodology used in this rating is the Rating Methodology for Finance Companies (April 2019).

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656