

## AIRCRAFT LEASING SECTOR-LED OPPORTUNITY

### Strengths:

- To accrue operating and cost efficiencies, many airlines acquire new aircraft through leasing as opposed to making and bearing the burden of a direct purchase
- Shift toward leasing owing to carrier consolidation; focus on core competencies
- Lessors offer the most cost-effective and flexible options in the business: **innovative structures that combine financial market exposures with traditional insurable risks help advance a client's specific balance sheet goals**

### Weaknesses:

- Cyclicity of the industry: **aviation industry financial cycle**, generally believed to be around 8 to 9 years
- There are costs to shifting aircraft around (**lessor must know how to manage these costs**)

### Opportunities:

- It is expected that by the year 2010,  
**50% of the world's fleet of passenger and freighter aircraft will be on operating leases**
- Significant growth rates in passenger and freight demand
- Fundamental market shift in the behaviour of airlines  
(shift in their aircraft requirements from ownership to operating leases, as this allows airlines to release capital for expansion, improve financial ratios and maintain a constantly modern fleet of aircraft)

### Threats:

- Global GDP growth slows considerably/slides unexpectedly
- A sustained escalation of airborne terrorism; sharp sustained spike in fuel prices

### Risk Management:

- Insurance coverage for aviation risk: (**traditional aviation insurance and risk management programs**)

### Lessor skills:

- Ability to develop and analyse new leasing products
- Structured financing expertise
- Asset and portfolio management

### How it works:

Allco Finance, for instance,

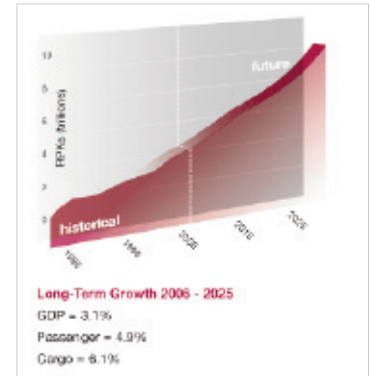
- Divides all operating leases into two streams - the lease receivable and the residual asset risk.
- This allows the firm to take on the residual risk on the asset value whilst limiting the risk to the lease receivable.
- The residual value risk is managed through careful purchasing and management strategies.
- All passenger aircraft purchased are standard configuration, suitable for a wide user base and possible freight conversion at a later date.
- The value and re-marketing of these aircraft is ensured as the firm plays an active role throughout the lease. (aircraft undergo regular assessment and maintenance throughout their lease term, including ongoing physical inspection by independent technical engineers)

### Players:

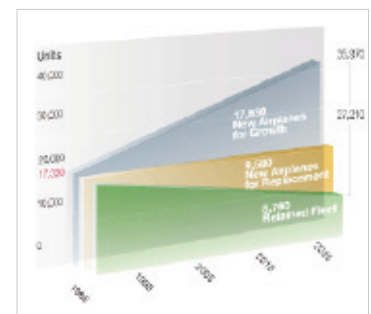
- International Lease Finance Corporation, (ILFC) a wholly-owned subsidiary of American International Group, Inc. **Owns a portfolio valued at more than USD48 bn, consisting of nearly 900 jet aircraft**
- AWAS, Terra Firma's existing aviation leasing business (Terra Firma bought Pegasus) to create the third-largest aircraft lessor
- Allco Finance, the Australian infrastructure asset manager structure lease transactions that are mutually beneficial to both customers and shareholders
- Babcock&Brown Aircraft Management (BBAM): **Manages a portfolio valued at USD5.8bn, comprising 219 leased commercial jets**. Currently, BBAM is the leading arranger of syndicated aircraft finance in the Japanese market and manages the world's sixth largest portfolio of leased commercial jets by value.
- Australian bank Macquarie

### Investment opportunities:

Notes, structured products, hedge funds



**Aviation industry: strong long term growth**  
Source: Boeing, IATO, ICAO  
(RPKs, revenue passenger kilometers trillions)



**Long term demand for new aircrafts remains strong**  
Source: Boeing, IATA