



Liebo's Leasing Letter (Vol. XI, No. 19)

Aerospace & Defense

USD Company Name	Rating	Price 09/26/17	FY EPS 2017E	FY EPS 2018E	FY P/E 2017	FY P/E 2018
Commercial Aerospace, Overweight						
▲ AerCap Holdings N.V. (AER)	1	50.27	5.90	6.65	8.5x	7.6x
Aircastle Ltd. (AYR)	2	21.85	1.70	2.35	12.9x	9.3x
Fly Leasing Ltd (FLY)	1	13.98	1.00	2.00	14.0x	7.0x
The Boeing Company (BA)	2	253.70	9.95	10.55	25.5x	24.1x

Source: Company data and Wells Fargo Securities, LLC estimates

1= Outperform, 2 = Market Perform, 3 = Underperform, V = Volatile, ▲ = Company is on the Priority Stock List
 NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

- This installment of the *Leasing Letter* highlights **GECAS's** planned return to fleet growth starting in 2018; the surge in narrow-body lease expirations in 2019-22; and various other industry news and data points.
- We also include a valuation comp sheet for the four US-listed, purer-play lessors of large commercial aircraft.

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Please see page 5 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 09/26/17 unless otherwise stated. 09/26/17 16:48:47 ET

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Liebo's Leasing Letter

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A periodic newsletter for equity investors in the commercial aerospace and specialty finance sectors

• **GECAS's** CEO told *Airfinance Journal* that the lessor will return to "net buyer status" in 2018 after being a net seller of aircraft for the past three years, when it divested about \$4B worth of airplanes annually. Going forward, the company plans to add \$5B-\$6B of jets annually (both from its order book and purchase-leasebacks) while selling ~\$2B/year. The CEO noted that the return to modest growth is "a really big deal," and that GECAS is gaining traction on sourcing deals by working on joint campaigns with **GE Aviation**.

There could be one more large portfolio sale out of GECAS this year, as *AJ* also reported that the lessor currently is marketing a 26-aircraft portfolio that includes A320s, A321s, 737s, 777-300ERs, and an A350.

• **Air Lease's** CEO told *Airfinance Journal* he is seeing **CFM LEAP** (A320 neo/737MAX engine) deliveries delayed by two weeks to a month. With respect to **Pratt & Whitney** GTF engines he added, "I do not have confidence in the supply chain. I think we are in for bigger delays."

• The CEO of Dubai's **DAE Capital** told *Airfinance Journal*: (1) the lessor plans to order "a large number" of narrowbody jets from **Airbus** and **Boeing**; and (2) he expects industry consolidation to continue as "many smaller players are finding it increasingly difficult to differentiate their offerings and to originate new business."

• China's **COMAC** announced orders for 130 C919 single-aisle aircraft from four separate lessors based in China. The C919's backlog is dominated by Chinese customers, and *Ascend* projects: (1) the first delivery will be in early 2020; and (2) a delivery rate of only 2/mo in 2020 – compared to the A320 family's targeted 60/mo and the 737's 57/mo.

• **Moody's** upgraded **FLY Leasing's** unsecured debt rating to B1 from B2, citing improvements in FLY's fleet quality. FLY said it will issue \$300MM of 2024 unsecured notes, with proceeds going to the redemption of its 6.75% 2020 notes on the December 15 call date. We estimate this will generate \$0.12-\$0.15 of annual EPS accretion starting in 2018.

• *Ishka Global* noted that **South African Airways'** existence is predicated on continued political support (i.e., government bailouts). Of the public lessors, **Aircastle** has the highest relative exposure: four 2011-vintage A330-200s. Although we have seen reports that SAA will terminate the leases of five widebodies, we believe those could be some of their older A340-600s – including (up to) three owned by **AerCap**.

• Per *Flightglobal*, September's scheduled global air traffic capacity remained robust: up 8.0% y/y.

• Per *Airfinance Journal*, **China Eastern** issued an RFP to finance 28 jets, and will consider US\$ financing. *AJ* noted that non-Chinese financiers had been worried about the trend of Chinese airlines increasingly financing in the local currency – where many non-Chinese banks are less competitive.

• **Avolon** re-priced a \$5B secured loan facility to LIBOR+225 from LIBOR+275.

The Upcoming Lease Expiration Surge

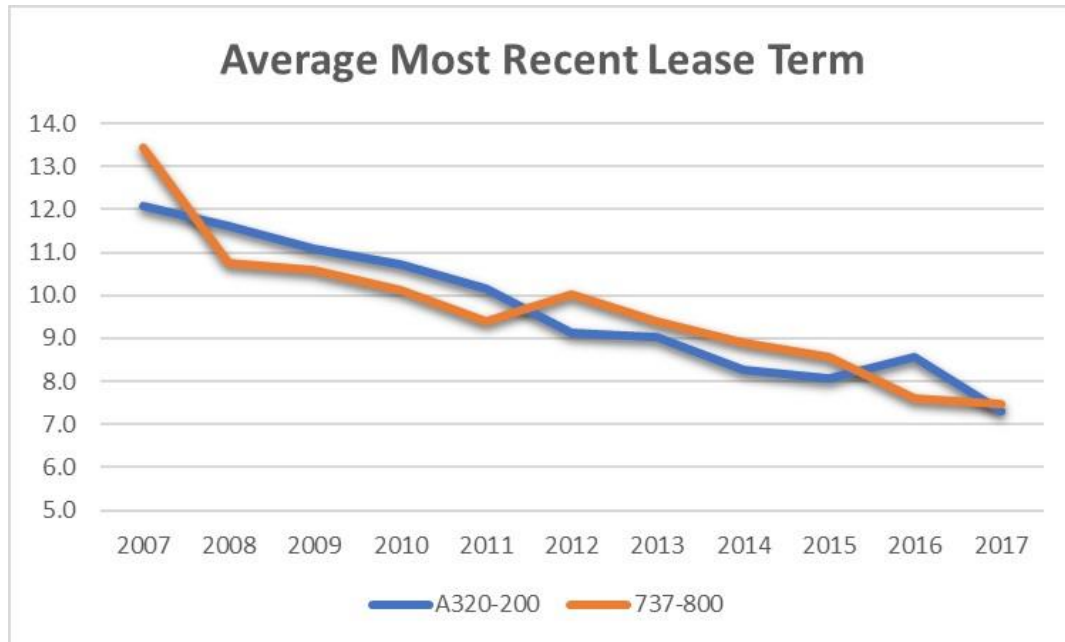
Source: IBA (enlarged on following page for readability)



IBA pointed out that 2019-22 will see a spike in 737-800/A320 lease expirations to over-600 per year. This dynamic is driven by not only higher production levels over the past decade, but the "bunching effect" – i.e., the steady decline in the average most-recent lease term from 12-13 years in 2007 to 7-8 years today. IBA suggests this could lead to a supply bubble, where "The best-case scenario could be a flood of remarketing and the worst-case scenario could be lower revenues. However, this could dissipate... with an increase in lease extensions or demand continues to increase, in which case it becomes a non-issue... but certainly a possible scenario that needs to be reflected upon."

Valuation Comps		Pricing: 9/26/2017			
	AerCap Holdings	Air Lease Corp.	Aircastle	FLY Leasing	
Ticker	AER	AL	AJR	FLY	
Rating	1	NR	2	1	
IPO Date	11/20/06	4/18/11	8/7/06	9/27/07	
Share price	\$50.27	\$41.04	\$21.85	\$13.98	
52-week high	\$50.90	\$43.39	\$25.98	\$14.65	
52-week low	\$36.38	\$27.15	\$18.26	\$11.41	
Avg. volume (000)	646	475	222	177	
Market cap (\$MM)	8,223	4,251	1,723	453	
Ent. Value (\$MM)	33,682	12,690	5,582	2,697	
2017E P/E	8.5x	11.8x	12.8x	14.0x	
2018E P/E	7.6x	10.0x	9.3x	7.0x	
2017E Pretax P/E	7.4x	7.6x	11.9x	11.7x	
2018E Pretax P/E	6.6x	6.5x	8.6x	5.9x	
2017E Adj. Pretax ROE	11.6%	NE	6.1%	8.6%	
2018E Adj. Pretax ROE	10.5%	NE	7.9%	11.7%	
2017E BV/sh. growth	14.3%	7.9%	2.3%	8.1%	
2018E BV/sh. growth	13.3%	9.6%	4.7%	9.8%	
Dividend Yield	0.0%	0.7%	4.8%	0.0%	
Net debt/capital	2.7x	2.5x	2.1x	3.9x	
GAAP Price/Book	0.96x	1.25x	0.94x	0.73x	
Aircraft:					
Owned	998	240	190	76	
Commitments (net)	399	374	34	7	
Average age (yrs)	7.3	3.6	8.3	6.4	

1=Outperform; 2=Market Perform; NR = Not Rated; NE = No Estimate
 P/B, debt/capital, and fleet data as of the last actual balance sheet date.
 Sources: Wells Fargo Securities, LLC estimates (AER, AJR, FLY) and Bloomberg (AL)



Source for **both** charts: IBA

Rating Basis Information:

AER Thesis: AerCap's strong balance sheet and focus on young, modern aircraft positions it well for rising airline capacity demand, in our view.

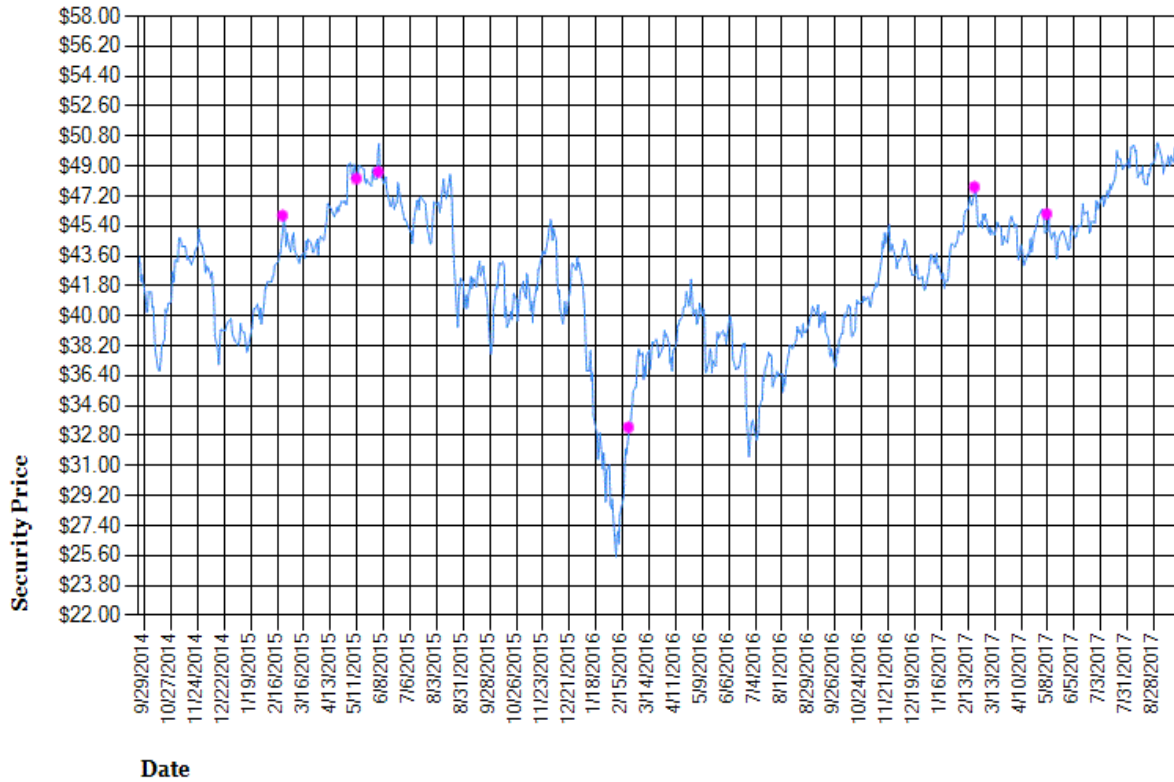
AYR Thesis: AYR offers an attractive, growing dividend, but book value growth lags other lessors and wide-body exposure is above-average.

BA Thesis: We believe Boeing's cash flow growth outlook already is fairly reflected in the share price.

FLY Thesis: FLY's recent fleet transformation and share buyback program should drive significant near-term ROE improvement.

Required Disclosures

AerCap Holdings N.V. (AER) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price (\$)
9/22/2014		Liebowitz				
9/22/2014	NA		NE	53.00	55.00	43.51
2/23/2015	45.94	1	NE	54.00	56.00	45.94
5/11/2015	48.22	1	NE	57.00	60.00	48.18
6/4/2015	48.55	1	NE	58.00	62.00	48.50
2/23/2016	33.27	1	NE	53.00	57.00	33.17
2/21/2017	47.57	1	NE	57.00	61.00	47.67
5/9/2017	46.02	1	60	57.00	61.00	46.02

Source: Wells Fargo Securities, LLC estimates and Reuters data

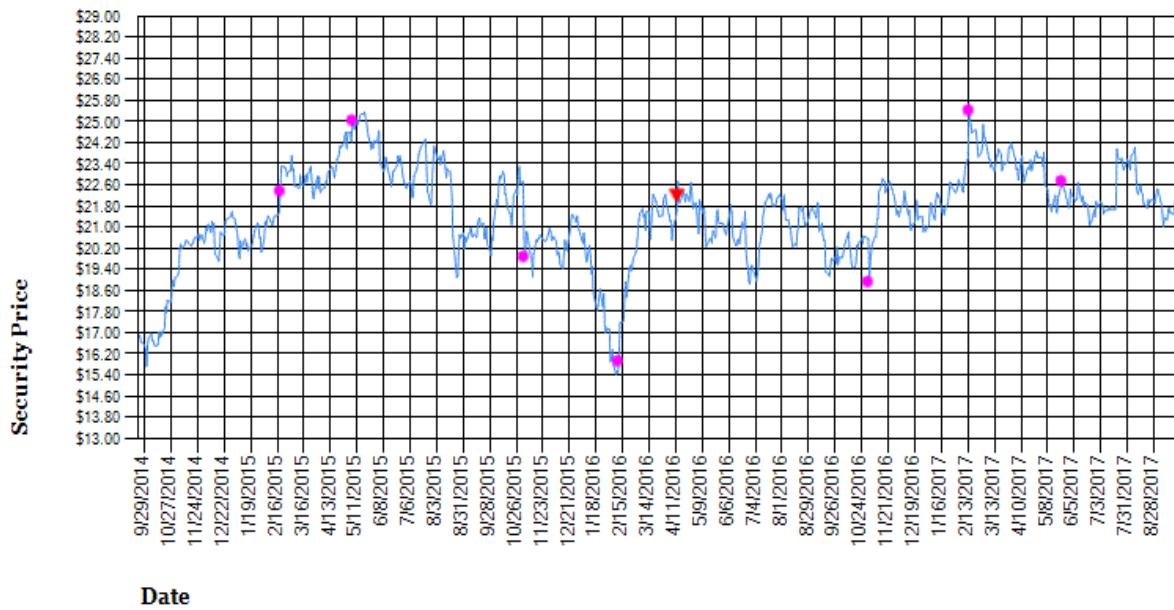
Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

Rating Code Key

- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Aircastle Ltd. (AYR) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price (\$)	
9/22/2014		Liebowitz					
9/22/2014	NA	1	NE	22.00	23.00	17.07	
◆ 2/19/2015	22.30	1	NE	25.00	26.00	22.30	
◆ 5/6/2015	24.99	1	NE	27.00	28.00	24.99	
◆ 11/4/2015	20.73	1	NE	23.00	24.00	19.81	
◆ 2/11/2016	15.87	1	NE	19.00	20.00	15.87	
◆ 4/14/2016	22.74	2	NE	23.00	24.00	22.13	
◆ 11/1/2016	18.87	2	NE	22.00	23.00	18.87	
◆ 2/15/2017	25.65	2	NE	25.00	27.00	25.36	
◆ 5/23/2017	22.71	2	24	25.00	27.00	22.71	

Source: Wells Fargo Securities, LLC estimates and Reuters data

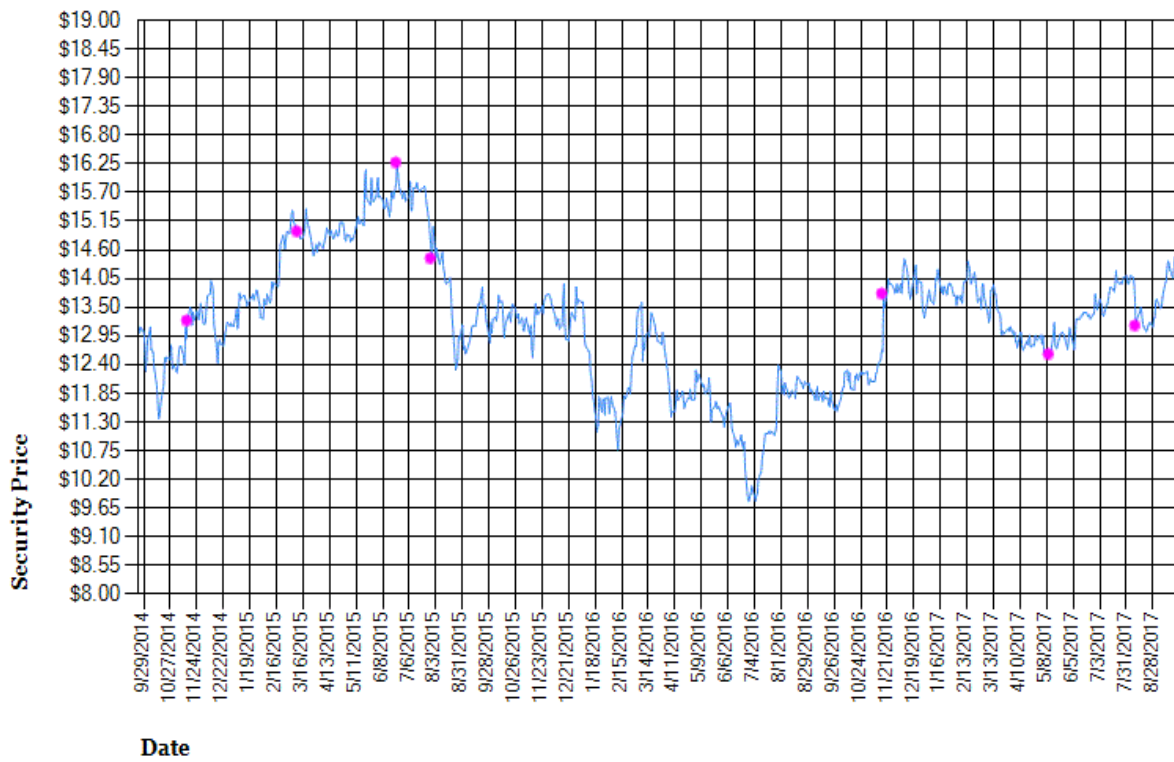
Symbol Key

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Rating Code Key

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- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Fly Leasing Ltd (FLY) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price (\$)
9/23/2014		Liebowitz				
9/23/2014	NA	1	NE	17.00	17.50	13.02
● 11/14/2014	12.90	1	NE	15.50	16.00	13.23
● 3/11/2015	14.92	1	NE	16.50	17.00	14.92
● 6/23/2015	15.85	1	NE	17.00	17.50	16.23
● 7/30/2015	14.12	1	NE	15.50	16.00	14.39
● 11/17/2016	13.74	1	NE	16.00	17.00	13.73
● 5/11/2017	12.58	1	16	16.00	17.00	12.58
● 8/10/2017	13.13	1	17	16.00	17.00	13.13

Source: Wells Fargo Securities, LLC estimates and Reuters data

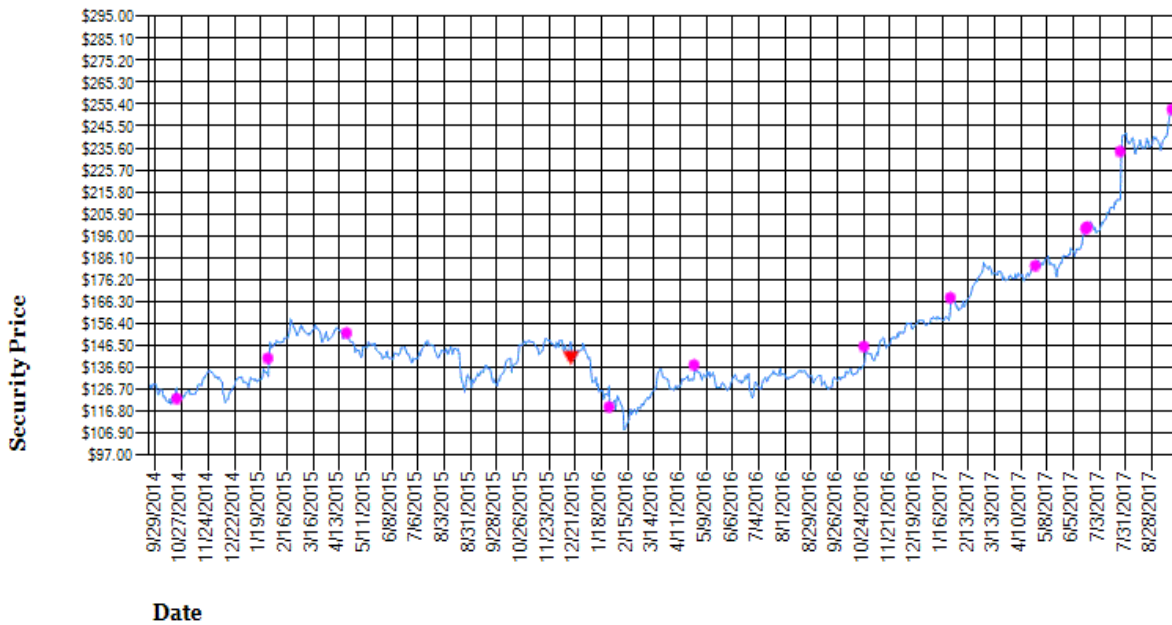
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- NR Not Rated
- NE No Estimate

The Boeing Company (BA) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price (\$)
9/22/2014		Pearlstein				
9/22/2014	NA	1	NE	143.00	147.00	128.61
● 10/22/2014	121.45	1	NE	139.00	143.00	121.45
● 1/28/2015	139.64	1	NE	153.00	157.00	139.64
● 4/22/2015	151.19	1	NE	163.00	166.00	151.19
▼● 12/18/2015	145.56	2	NE	154.00	158.00	139.58
● 1/28/2016	116.58	2	NE	130.00	135.00	118.01
● 4/27/2016	137.08	2	NE	145.00	150.00	137.08
● 10/26/2016	145.54	2	NE	155.00	160.00	145.54
● 1/25/2017	167.36	2	NE	170.00	175.00	167.36
● 4/26/2017	181.96	2	NE	190.00	195.00	181.71
● 6/20/2017	198.33	2	195	190.00	195.00	198.33
● 6/21/2017	199.17	2	192.5	190.00	195.00	199.17
● 7/26/2017	233.45	2	240	190.00	195.00	233.45
● 9/19/2017	252.46	2	255	190.00	195.00	252.46

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

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- ▲ Rating Upgrade
- Price Target/Val Range Change
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- Split Adjustment

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AYR: Risks include sourcing attractively-priced deals and widebody demand/impairments.

BA: Risks include weak orders/production cuts, delays/cost overruns on new programs, and supply chain disruptions.

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O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

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V=A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: September 26, 2017

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