



DEAL-MAKING HITS CHINA PLANE LEASING AS BILLIONAIRE LI JUMPS IN

News / Finance



China is making the aircraft-leasing business a popular destination for mergers and acquisitions.

Plane-leasing companies in China have been involved in more than US\$16 billion worth of acquisitions since last year, according to figures compiled by Bloomberg. In addition, billionaire tycoons such as Li Ka-shing, Hong Kong's richest man, have entered the industry during that period.

Behind the recent flurry of activity is the Chinese government's call in mid-2014 for local leasing companies to expand overseas and benefit from rising travel demand. Renting out planes to airlines has shown to be a stable business and is often more profitable than the carriers themselves.

"They want to grow big - and fast," said Dewey Yee, head of aerospace finance and leasing advisory at Bridge Partners Capital in Hong Kong. "Aviation is really the only very, very long-term investment that you can make that gives you these really solid, steady returns."

Aside from the stability of contracts typically running for about 10 years, leasing a plane can be more lucrative than flying one. For example, operating margins at AerCap Holdings NV and Avolon Holdings Ltd., two of the biggest listed companies that lease planes, have averaged 31 percent and 22 percent, respectively, in the past three years, according to data compiled by Bloomberg. That compares with less than 5 percent for the 26-member Bloomberg World Airlines Index.

Li isn't the only one to spot the potential payoff. Chow Tai Fook Enterprises Ltd. and NWS Holdings, firms linked with the family of billionaire Cheng Yu-tung, bought a combined 80 percent of aircraft lessor Goshawk Aviation Ltd. this year. In September, China's Bohai Leasing Co. agreed to buy Dublin-based Avolon for an enterprise value of US\$7.6 billion.

Still, there are risks to leasing aircraft, a capital-intensive business given that many airplane models could cost more than US\$100 million. For one, borrowing costs could rise after the U.S. Federal Reserve raises rates, a move expected as soon as December.

"When interest rates go up there's going to be some stress placed on lessors that can't raise capital as efficiently," Denis Kalscheur, chief executive officer of Aviation Capital Group Corp., an aircraft lessor, said at a conference in Hong Kong in November. "They'll suffer some margin compression."

Even so, more deals have been planned. ICBC Financial Leasing Co. and Aviation Industry Corp. of China are exploring a takeover of Dublin-based AWAS Aviation Capital Ltd., a deal that could fetch more than US\$5 billion, people familiar with the matter have said. CIT Group Inc. is weighing spinning off its aircraft-leasing business, Chief Executive Officer John Thain said this month.

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