

BOC Aviation (2588 HK)

Target Price **HK\$49.00**
 Current Price **HK\$42.60**
 % Upside **15%**

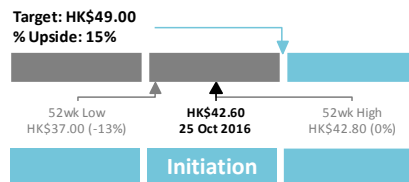
Fund Low, Lease High

Diversified Financials

Hong Kong

25 Oct 2016

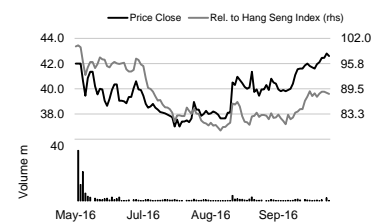
BUY



Basic Share Information

| | |
|---------------------------|------------------------|
| Market cap | HK\$29.56b / US\$3.81b |
| Daily traded value (3mth) | US\$3.24m |
| Shares outstanding | 694.0m |
| Free float | 15% |
| Net debt-to-equity | 333.3% |
| 1 yr high | HK\$42.80 |
| 1 yr low | HK\$37.00 |
| Major shareholding | 70.0% |
| Last HTI contact w/ Co | 19 Oct 16 |

Price/Volume



Source: Bloomberg

| | 1mth | 3mth |
|-----------------|------|-------|
| Absolute | 5.4% | 12.5% |
| Absolute USD | 5.4% | 12.5% |
| Relative to HSI | 5.9% | 5.4% |



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Premium Fundamentals, Premium Valuation

Summary: We initiate coverage of BOC Aviation (BOCA) with a BUY, because we see it as the most experienced listed large aircraft leasing pure-play in Asia, with strong ROE historically. Given its sizeable and young fleet, long remaining lease terms, and strong asset management record, we expect it to sustain a lease rate factor of above 10% and a net lease yield of around 8%, which should provide attractive financial intermediation return with minimal asset quality concerns. Two common pushbacks against BOCA are a potential aircraft supply glut and the valuation discount of AerCap (AER US). We agree there may be near-term oversupply given the record OEM backlog and falling book-to-bill ratio, but we see BOCA as well positioned to navigate this with the embedded value in its modern fleet, global customer base, minimal short-term lease expirations, and asset trading experience. We also think BOCA deserves a valuation premium to AerCap, for its stronger credit rating and lower exposure to widebody price weakness, but also on structural factors, such as its quasi-bond characteristics and smaller public float.

Target Price and Catalyst: We think the main share-price catalysts include BOCA achieving an H2 FY16 net lease yield that is as strong as in H1, a dividend payout ratio of more than 20% for FY16, and a PBR re-rating of AerCap to above 1.0x.

Earnings: We estimate lease income of US\$1,077mn, revenue of US\$1,222mn, OP of US\$491mn, and NPAT of US\$428mn for FY16, representing YoY growth of 10.4%, 12.1%, 22.4%, and 24.5%, respectively. Assuming a dividend payout ratio of 20%, we estimate BPS of US\$4.80 (HK\$37.4) for FY16.

Valuation: We set our target price at 1.30x our forecast FY16 BPS of HK\$37.4. Our BUY recommendation reflects our positive view on the aircraft leasing sector as a whole, as sector fundamentals tend to overwhelm company fundamentals, in our view. We expect US-listed sector leader AerCap's PBR to normalize to 1.0x considering the positive industry backdrop and its healthy ROE. Secondly, we see a 30% premium for BOCA over AerCap as reasonable, based on BOCA's lower risk profile, higher credit rating, and stronger expansion potential in China as well as its Hong Kong listing status.

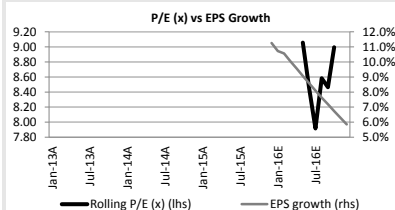
Key risks to our rating and target price attainment include a fall of BOCA's lease rate factor to below 10%, price weakness of the A320 or 737 models, a major credit event by an Asian airline, and increased competition by Asian lessors driving down leaseback rates.

| | Dec-14A | Dec-15A | Dec-16E | Dec-17E | Dec-18E | Trend |
|----------------------------------|---------|---------|---------|---------|---------|-----------|
| Total turnover (US\$m) | 988 | 1,091 | 1,222 | 1,369 | 1,480 | — — — — — |
| Operating profit (US\$m) | 352.8 | 401.4 | 491.4 | 539.5 | 575.9 | — — — — — |
| Pre-tax profit (US\$m) | 352.8 | 401.4 | 491.4 | 539.5 | 575.9 | — — — — — |
| Net income to ord equity (US\$m) | 308.6 | 343.3 | 427.5 | 469.3 | 501.1 | — — — — — |
| Net profit growth | 11.4% | 11.3% | 24.5% | 9.8% | 6.8% | — — — — — |
| P/E (x) | 10.50 | 9.44 | 8.92 | 8.12 | 7.61 | — — — — — |
| Adj EV/EBITDA (x) | 31.28 | 28.33 | 24.96 | 23.33 | 21.90 | — — — — — |
| P/B (x) | 1.55 | 1.33 | 1.14 | 1.04 | 0.95 | — — — — — |
| ROE | 15.3% | 15.1% | 14.8% | 13.4% | 13.0% | — — — — — |
| Dividend yield | 4.3% | 0.0% | 2.2% | 3.1% | 3.9% | — — — — — |
| EPS HTI New (US\$) | 0.52 | 0.58 | 0.62 | 0.68 | 0.72 | — — — — — |
| Consensus EPS (US\$) | | 0.58 | 0.61 | 0.68 | 0.79 | — — — — — |
| HTI EPS vs Consensus | na | 0.3% | 0.8% | (0.8%) | (9.1%) | — — — — — |

Source: Company data, Bloomberg, HTI estimates

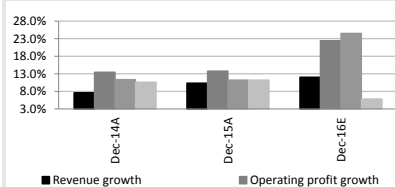
Click [here](#) to download the working model

Valuation



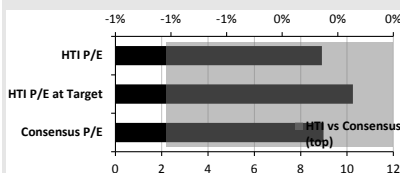
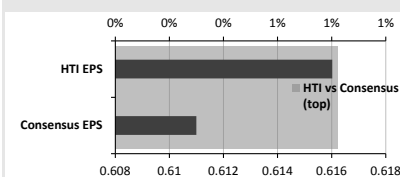
Source: Company data, Bloomberg, HTI estimates

Earnings Trends



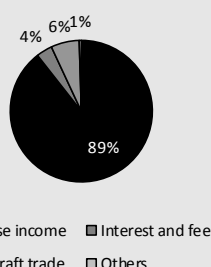
Source: Company data, Bloomberg, HTI estimates

Earnings: HTI vs Consensus



Source: Company data, Bloomberg, HTI estimates

FY15 Revenue Breakdown



Source: Company data

Investment Thesis

BUY

- We think BOCA can deliver industry-leading ROE by utilizing its high credit rating to achieve a strong NPM and, through leverage, magnify its strong ROA into ROE.
- Among the global aircraft lessors, we see BOCA as the best growth lessor considering its strong operating track-record, balance sheet strength, global footprint, sizeable OEM backlog, and China expansion potential. We think the simplicity of the balance sheet and a robust aircraft market give credibility to BOCA's book value.
- Secular travel volume growth and rising aircraft demand led by emerging Asia fit well with the investment themes of a growing middle class and the structural economic shifts towards consumption. Compared with volatile and flow-based airline and OEM profitability, leasing offers stable stock-based exposure to expanding air travel demand, in our view.
- We do not think a low oil price and China slowdown should impact BOCA much, because we see BOCA's next-generation fleet backlog as less exposed to shrinking neo-neo premiums than its peers, and the propensity-to-fly of the Chinese has structurally risen such that an economic deceleration is unlikely to dent travel volume growth.
- Widebody weakness stands at the top of our industry concerns, but BOCA has the lowest fleet proportion to widebody among the major listed aircraft lessors. Also, its young fleet, embedded value, minimal near-term lease rollovers, and long remaining lease terms should make its balance sheet more resilient than peers in case the narrowbody market also experiences softness. We also see low oil prices, which slow fleet retirements altogether, as another sector risk.

Company Snapshot

BOCA is one of the largest aircraft lessors in the world, ranked sixth in terms of owned fleet at the end of 2015, according to Ascend. BOCA focuses on acquiring in-demand aircraft through direct OEM orders and leaseback deals, funding them efficiently, managing interest-rate risks, and deploying the aircraft to generate returns via operating leases to airlines and trade sales. BOCA is a listed subsidiary of the Bank of China (3988 HK), with a globally diversified customer base. The company is not affiliated with any airframe or engine manufacturer. BOCA operates on a global scale, leasing and trading aircraft in every major geographical region. The company went public in Hong Kong in June 2016.

Key Investment Metrics

Revenue Growth

Low Medium High

We forecast revenue and lease income to grow by 12.1% and 10.4% in FY16, led by an expanding fleet, 100% utilization rate, and rising lease rate factor. We expect BOCA to add 59 aircraft from OEM and five from leaseback, and dispose of 34, resulting in a fleet of 257 aircraft. Having half of its leases tied to LIBOR, we expect minimal yield compression when US interest rate begins to rise.

Profit Margins

Low Medium High

We forecast an FY16 net lease yield of 8.3% and OPM of 40%. The forecast OPM expansion is primarily due to our rising lease rate and flat aircraft depreciation rate assumptions. We assume an accounting tax rate of 13%, resulting in NPM of 35% for FY16.

Shareholder Returns

Low Medium High

We forecast ROA of 3.2%, ROE of 14.8%, and ROC of 5.9% for FY16, all up YoY except for ROE. Our estimated fall in ROE is primarily due to its enlarged equity base after going public. We assume a dividend payout ratio of 20%.

Balance Sheet Risks

High Medium Low

Operating in a capital-intensive business, aircraft lessors are always subject to asset impairment, financing, and airline credit risks. While aircraft values are driven by the broader fleet demand and supply situations, aircraft lessors can manage the asset risks by positioning the fleet towards the most in-demand models. We think BOCA's modern fleet, long remaining lease term, diversified customer base, and affiliation with the Bank of China make its balance sheet more defensive than its peers.

Barriers to Entry

Low Medium High

Entry barriers to aircraft leasing are low, and an increasing variety of players, such as financial investors and Chinese institutions, have entered the market. However, operating a sizeable leasing business requires relationships with OEMs, placement capability with a range of airlines, aircraft re-marketing capability, strong access to long-term funding, and a deep knowledge of aircraft and market conditions.

International Exposure/Breakdown

High Medium Low

Aircraft leasing is a global business, and, as a leading lessor, BOCA has exposure to all major geographies. Unexpected economic weakness in certain regions can impact travel demand and airline profitability, resulting in falling lease rates and rising credit risks. Asia Pacific represented 50% of FY15 lease income, of which 17% is from Greater China.

FX Exposure

High Medium Low

While BOCA is globally diversified, all of its aircraft leases and related payments are made in USD as aircraft assets are denominated in USD. While BOCA raises funds in AUD, CNY, and SGD, all proceeds are swapped into USD.

Corporate Governance

Low Medium High

BOCA is a consolidated subsidiary of the Bank of China. The chairman and vice-chairman are seconded from the Bank of China.

Our Model Assumptions

We assume a rising interest rate, such that the average lease rate should increase, from 10.06% in FY15 and 10.88% in H1 FY16, to 10.50% in FY16, 10.55% in FY17, and 10.60% in FY18

We assume maintenance reserves to be 3.8% of net selling cost

We apply a depreciation rate of 3.5% to gross aircraft book value

We expect finance cost to rise to 2.4% in FY16 from 2.0% in FY15, due to increased capital market financing and a rising interest rate

We assume an accounting tax rate of 13%, while the cash tax rate should be close to zero

✓ Key P/L Takeaway

We think BOCA should be profitable even in a black-sky scenario, which should make it a low-risk entry point to the global commercial aviation market, but its capital-intensive nature should result in ROE trailing those of airlines and OEMs in a blue-sky scenario

| Profit & Loss (US\$m) | 12/2014A | 12/2015A | 12/2016E | 12/2017E | 12/2018E |
|--------------------------|------------|--------------|--------------|--------------|--------------|
| Lease income | 937 | 975 | 1,077 | 1,236 | 1,347 |
| Interest and fee income | 12 | 40 | 42 | 43 | 45 |
| Aircraft trade income | 30 | 70 | 94 | 80 | 77 |
| Others | 10 | 5 | 10 | 10 | 10 |
| Revenue | 988 | 1,091 | 1,222 | 1,369 | 1,480 |
| Depreciation | 381 | 382 | 410 | 466 | 507 |
| Finance cost | 151 | 169 | 221 | 254 | 280 |
| Compensation | 51 | 59 | 66 | 74 | 80 |
| Others | 52 | 80 | 33 | 36 | 37 |
| Operating expense | 636 | 689 | 731 | 830 | 904 |
| Operating profit | 353 | 401 | 491 | 539 | 576 |
| Income taxes | 44 | 58 | 64 | 70 | 75 |
| Net income | 309 | 343 | 428 | 469 | 501 |

Source: Company, HTI estimates

[Click For Interactive Model](#)

In essence, aircraft leasing is a rather straightforward business, where profits are driven by the successful acquisition of in-demand aircraft at good prices and placing them with airlines at attractive lease rates, thus earning spread revenue. Typically, the largest and second-largest costs are aircraft depreciation and financing, respectively. BOCA's lease rate factor has been steadily rising, from 9.7% in FY13 to 10.9% in H1 FY16. Since more than half of its leases are tied to LIBOR and we think healthy demand for narrowbody should prevail, we expect BOCA's lease rate factor to increase slightly. We assume funding cost rises rapidly, to 2.4% in FY16 from 2.0% in FY15, due to a shift to capital market funding. Due to a larger proportion of floating-rate borrowings than floating-rate leases, we expect funding costs to rise more than the lease rate factor, resulting in close to flat net lease yield over our projection period. We think long-term operating leases and a stable market for narrowbody should result in steadily rising OP for BOCA.

Our Model Assumptions

For FY16–18, we assume OEM deliveries and leaseback deals add 59, 54, and 37 and 5, 10, and 14 aircraft, respectively, with disposals of 34, 35, and 34, respectively

We assume an average pre-delivery payment of US\$18mn to be paid two years prior to taking OEM delivery

We assume maintenance reserves to be 4.0% of aircraft net book value

We assume borrowings to be 75% of aircraft-related assets and direct financing to account for 38%, 40%, and 42% of total borrowings over FY16–18

Common share capital increased by US\$550mn due to its IPO in June 2016 at HK\$42 per share



Key B/S Takeaway

In the case of severe narrowbody oversupply, BOCA's balance sheet rather than its immediate lease income could be subject to material downside risk; we pay close attention to the A330 and 777 scheduled for delivery in FY17

| Balance Sheet (US\$m) | 12/2014A | 12/2015A | 12/2016E | 12/2017E | 12/2018E |
|---|---------------|---------------|---------------|---------------|---------------|
| Cash and cash equivalents | 367 | 507 | 1,324 | 1,789 | 2,146 |
| For-sale assets | 0 | 222 | 194 | 0 | 0 |
| Aircraft, net | 9,923 | 9,475 | 11,037 | 12,394 | 13,029 |
| Pre-delivery payments | 1,089 | 2,240 | 1,997 | 1,691 | 1,565 |
| Others | 23 | 29 | 40 | 44 | 46 |
| Total assets | 11,403 | 12,473 | 14,592 | 15,919 | 16,787 |
| Payables | 68 | 107 | 113 | 125 | 132 |
| Unearned income | 56 | 79 | 81 | 93 | 101 |
| Lessee deposits | 214 | 221 | 243 | 273 | 287 |
| Maintenance reserves | 384 | 433 | 441 | 496 | 521 |
| Future income tax | 220 | 277 | 341 | 411 | 486 |
| Bank borrowings | 6,009 | 5,667 | 6,061 | 6,339 | 6,349 |
| Capital market borrowings | 2,153 | 2,972 | 3,715 | 4,226 | 4,597 |
| Other liabilities | 204 | 279 | 269 | 276 | 282 |
| Total liabilities | 9,307 | 10,034 | 11,263 | 12,237 | 12,754 |
| Common Stock | 608 | 608 | 1,158 | 1,158 | 1,158 |
| Capital surplus | 0 | 0 | 0 | 0 | 0 |
| Retained earnings | 1,489 | 1,832 | 2,174 | 2,526 | 2,877 |
| Others | 0 | 0 | -2 | -2 | -2 |
| Shareholders' equity | 2,096 | 2,439 | 3,329 | 3,681 | 4,032 |
| Total Liabilities & shareholders' equity | 11,403 | 12,473 | 14,592 | 15,919 | 16,787 |

Source: Company, HTI estimates

[Click For Interactive Model](#)

BOCA's balance sheet is easy to understand, with aircraft-related assets representing close to all of its ex-cash total assets. Considering the multi-year aircraft production cycle of Boeing (BA US) and Airbus (AIR FP), we assume BOCA's OEM deliveries to be 59, 54, and 37 for FY16–18, the same as the delivery schedule outlined in its annual report. We expect leasebacks to account for 5, 10, and 14 aircraft additions over our forecast period. On the trading side, we assume 34, 35, and 34 aircraft are disposed of. Despite more-expensive next-generation aircraft being added to the portfolio, we expect gross book value per aircraft to be largely flat at US\$48–49mn as the OEM delivery schedule is dominated by narrowbody (only 4 widebody, compared with 237 narrowbody).

Our Model Assumptions

Our estimated fall in revenue per share is due to its IPO during FY16, a year in which we expect BPS to grow at 16%

We think BOCA's fundamentals are stronger than Aercap's, so it deserves a PBR premium

Besides rising finance costs, we expect all major cost ratios to be stable

We expect ROA to be robust, so the estimated fall in ROE over our forecast period is due purely to declining leverage

✓ **Key Driver Takeaway**
Our forecast earnings and ROE do not materially deviate from consensus, and we expect PBR expansion to drive the share price towards our target price

| Per Share Data | Dec-14A | Dec-15A | Dec-16E | Dec-17E | Dec-18E |
|---------------------------------------|---------|---------|---------|---------|---------|
| EPS (US\$) | 0.52 | 0.58 | 0.62 | 0.68 | 0.72 |
| FDEPS (US\$) | 0.52 | 0.58 | 0.62 | 0.68 | 0.72 |
| Revenue per share (US\$) | 1.68 | 1.85 | 1.76 | 1.97 | 2.13 |
| Operating EBITDA per share (US\$) | 0.60 | 0.68 | 0.71 | 0.78 | 0.83 |
| BVPS (US\$) | 3.55 | 4.14 | 4.80 | 5.31 | 5.81 |
| DPS (US\$) | 0.24 | - | 0.12 | 0.17 | 0.22 |
| Recurrent cash flow per share (US\$) | 0.89 | 0.35 | 0.90 | 1.60 | 1.02 |
| Shares in issue (million) | 589.9 | 589.9 | 694.0 | 694.0 | 694.0 |
| Year end adjusted shares in issue (m) | 589.9 | 589.9 | 694.0 | 694.0 | 694.0 |
| Key Ratios | Dec-14A | Dec-15A | Dec-16E | Dec-17E | Dec-18E |
| Valuation Measures | | | | | |
| P/Sales (x) | 3.28 | 2.97 | 3.12 | 2.78 | 2.58 |
| P/E (x) | 10.50 | 9.44 | 8.92 | 8.12 | 7.61 |
| P/CF (x) | 6.15 | 15.75 | 6.11 | 3.42 | 5.37 |
| P/B (x) | 1.55 | 1.33 | 1.14 | 1.04 | 0.95 |
| Adj EV/EBITDA (x) | 31.28 | 28.33 | 24.96 | 23.33 | 21.90 |
| Dividend yield | 4.3% | 0.0% | 2.2% | 3.1% | 3.9% |
| Growth | | | | | |
| Revenue growth | 7.6% | 10.3% | 12.1% | 12.0% | 8.1% |
| Operating profit growth | 13.5% | 13.8% | 22.4% | 9.8% | 6.8% |
| Net profit growth | 11.4% | 11.3% | 24.5% | 9.8% | 6.8% |
| Margins | | | | | |
| Gross margin | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Operating EBITDA margin | 35.7% | 36.8% | 40.2% | 39.4% | 38.9% |
| Operating margin | 35.7% | 36.8% | 40.2% | 39.4% | 38.9% |
| Pretax profit margin | 35.7% | 36.8% | 40.2% | 39.4% | 38.9% |
| Tax rate | 12.5% | 14.5% | 13.0% | 13.0% | 13.0% |
| Net profit margin | 31.2% | 31.5% | 35.0% | 34.3% | 33.9% |
| Key Ratios | | | | | |
| ROE | 15.3% | 15.1% | 14.8% | 13.4% | 13.0% |
| ROA | 2.9% | 2.9% | 3.2% | 3.1% | 3.1% |
| Capex/revenue | 143.8% | 64.4% | 108.0% | 76.8% | 34.4% |
| Current ratio (x) | 0.40 | 0.68 | 1.12 | 1.22 | 1.42 |
| Debtor days | 6.08 | 7.77 | 7.32 | 7.30 | 7.30 |
| Sales/avg assets | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 |
| Credit analysis | | | | | |
| Debt/EBITDA (x) | 23.14 | 21.52 | 19.89 | 19.58 | 19.01 |
| Debt/equity | 389.3% | 354.1% | 293.6% | 286.9% | 271.4% |
| Net debt to equity | 371.8% | 333.3% | 253.8% | 238.3% | 218.2% |

Source: Company, HTI estimates

[Click For Interactive Model](#)

If the industry backdrop remains robust, we think BPS accretion can continue strongly. If lease volume slows down materially, resulting in lower capex, we think BOCA can increase its dividend payout ratio. The aircraft leasing market backdrop remains positive despite certain risk factors, such that ROE should continue to be in double digits with insignificant balance sheet and central bank policy risks.

BOCA was founded by Singapore Airlines in 1993 and acquired by the Bank of China in 2006

While we are concerned about oversupply, we think the problem is likely to be short term, as OEMs, airlines, and lessors are likely to respond to correct the issue

Company Outline and Operational Review

BOCA is a listed subsidiary of the Bank of China. Headquartered in Singapore, the company is one of the largest global aircraft lessors, with a modern fleet leased to a diverse global customer base. Benefiting from its relationship with the Bank of China, BOCA has a strong credit rating and the potential to expand its still modest business scale in China.

We think the aircraft leasing industry offers an attractive risk-adjusted return to investors interested in gaining exposure to the secular commercial aviation industry, and that BOCA is one of the strongest players in the sector, such that it deserves a valuation premium to its US-listed peers.

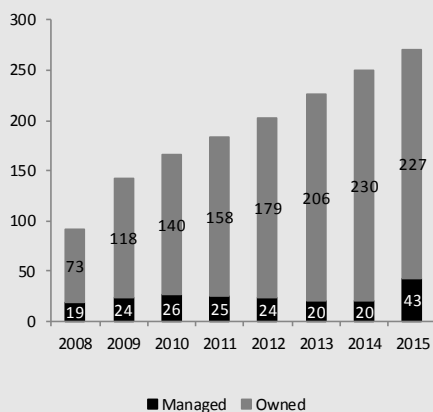
Investment Thesis

- Commercial aviation is an international business whose growth outlook is underpinned by sustainably rising travel demand from emerging markets.
- The operating fleet should rise from 20,000 in 2016 to about 40,000 in 2035, creating demand for around 33,000 new aircraft in the next 20 years, on Airbus estimates.
- Leasing is the largest single financing channel for capital-intensive aircraft acquisition.
- BOCA's low funding costs, globally diversified base, and modern fleet should make it less vulnerable to potential demand shocks and supply glut than its peers.
- Aercap's PBR has contracted substantially since 2008, but should it re-rate to above 1.0x on the healthy sector outlook and its improved balance sheet, it would remove a valuation overhang for BOCA.

Our positive view on the aircraft leasing industry, despite expecting some supply-side softness, is driven by the following opinions.

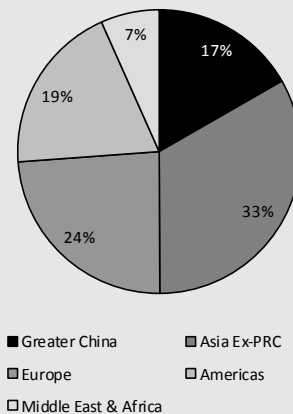
- OEMs are disciplined in managing capacity and matching production to demand.
- Lease rate factors to increase in sync with funding costs in a rising US interest rate environment despite some floating-rate financing costs being unhedged.
- The rapid emergence of sizeable Chinese lessors would have minimal impacts on industry profitability and lease rates in the medium term.

Fleet Trend



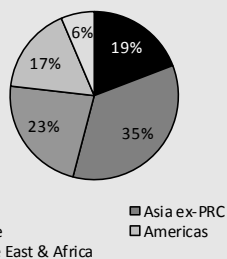
Source: Company data

Lease Income Breakdown by Geography



Source: Company data

Aircraft Book Value Distribution



Source: Company data

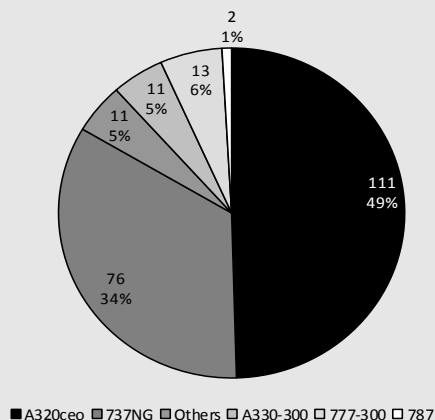
On average, BOCA has added 22 aircraft per year since 2008

On average, BOCA should take delivery of 40 aircraft per year until 2021

Large and Modern Aircraft Portfolio—The Older It Gets, the More Fuel It Consumes

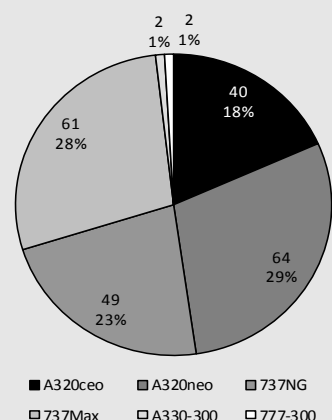
BOCA's fleet is one of the largest and youngest of global lessors. Narrowbody models account for 88% of its total existing fleet. Due to its average fleet age of 3.3 years and average remaining lease term of 7.2 years, we think BOCA is subject to lower impairment and re-lease exposure than its peers. Also, BOCA opportunistically trades its aircraft to take advantage of market conditions and maintain the most in-demand portfolio.

Current Fleet Breakdown



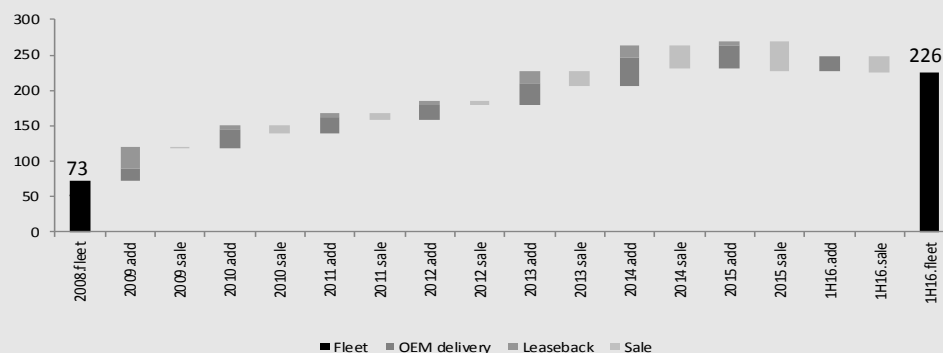
Source: Company data

Order Backlog Breakdown



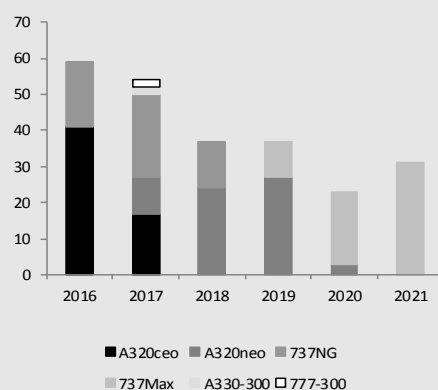
Source: Company data

Fleet Acquisition and Disposal Trend



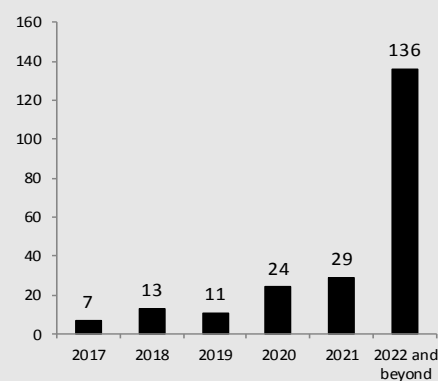
Source: Company data, Bloomberg, HTI estimates

OEM Delivery Schedule



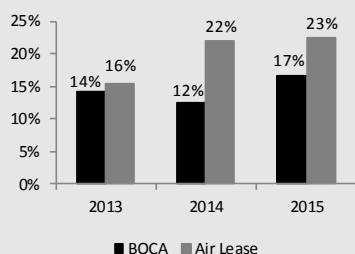
Source: Company data

Lease Expiry Schedule



Source: Company data

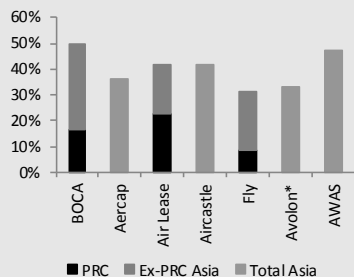
China Revenue Comparison



Source: Company data, Air Lease

Note: Air Lease's numbers were for Mainland China whereas BOCA's were for the PRC, so BOCA's Mainland China percentages were actually much lower

FY15 Asian Exposure Comparison



Source: Individual company data

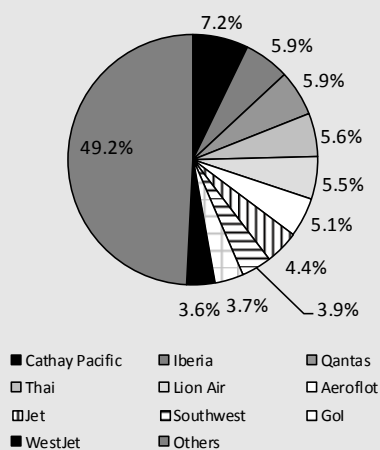
Note: Avolon does not include CIT

Airline Customers and Geographical Diversification

The existing portfolio is leased to 64 airlines in 31 countries. Such a wide and geographically diverse customer base is necessary for a major lessor of BOCA's scale, such that it can mobilize its aircraft to different regions and manage the airline credit risk exposure.

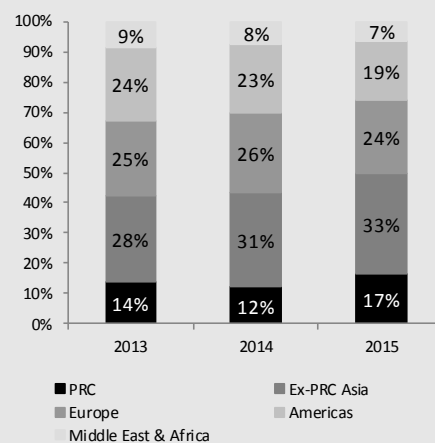
We think BOCA has significantly benefited from its relationship with the Bank of China, especially in terms of financing costs. Because young fleets tend to earn a lower lease rate factor, the funding cost advantage enables BOCA to achieve its industry-leading NPM, resulting in a similar ROA to Aercap, while maintaining a modern portfolio to control residual value risks. Given the Bank of China's material corporate loan exposure to the domestic transportation sector and BOCA's Tianjin office being opened only recently, we believe there remains significant potential for BOCA to expand in China. Greater China (including Hong Kong and Taiwan) accounted for 17% of FY15 income, but more than 10% of that was related to Cathay Pacific (293 HK) and EVA Airways (2618 TT), implying BOCA's exposure to Mainland Chinese airlines was closer to 6%, much lower than its global peers. On the other hand, BOCA has more exposure to ex-PRC Asia than its peers, making its overall Asian exposure the highest among global lessors.

FY15 BOCA Lease Income by Customer



Source: Company data

FY15 BOCA Lease Income by Regions



Source: Company data

Industry Ranking—China Transforming Both the Demand and Supply Sides

The aircraft leasing sector has witnessed significant consolidation since 2008, with major players becoming increasingly large through M&A. Some major transactions include Aercap's acquisition of ILFC from AIG (AIG US), the creation of SMBC Aviation from RBS Aviation, Bohai Leasing's (000415 CH) acquisitions of Hong Kong Aviation Capital, Avolon, and CIT's (CIT US) aircraft business. Chinese and Japanese companies have significantly expanded their aircraft leasing operations to gain a large market presence. Major Asian lessors include BOCA, Bohai Leasing, SMBC Aviation, ICBC Leasing (unlisted), CDB Financial Leasing (1606 HK), Mitsubishi UFJ Lease & Finance (8593 JP), China Aircraft Leasing (1848 JP), and Orix (8591 JP). As China's air traffic continues to experience robust growth in the next decades, we expect Chinese lessors, especially those financed by state-owned bank parents, to lead the industry consolidation and emerge to dominate the global rankings. Attracted by the USD-denominated revenue and profitable yield spread, we expect a number of mid-sized Chinese lenders to enter the aircraft leasing market by placing aggressive and speculative OEM orders. As Chinese lessors emerged only recently during years of robust domestic economic growth, global economic recovery, and improving airline profitability, they have been focusing on portfolio expansion with little experience in re-deployment and bankruptcy repossession. We consider the rapid entry of Chinese lessors and their country concentration as a potential oversupply risk.

Aircraft Lessor Ranking by Fleet Size (December 2015)

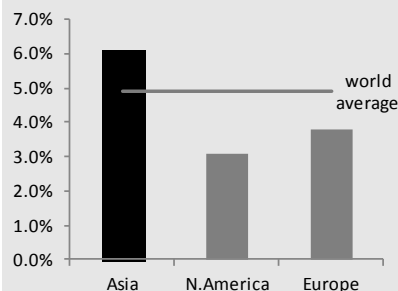
| Rank | Lessor | Narrowbody | Widebody | Current fleet | Backlog | Total (inc. backlog) |
|------|-------------------------|------------|----------|---------------|---------|----------------------|
| 1 | Aercap | 941 | 304 | 1,245 | 416 | 1,661 |
| 2 | GECAS | 1,069 | 161 | 1,230 | 266 | 1,496 |
| 3 | Bohai (CIT+Avolon+HKAC) | 428 | 96 | 524 | 377 | 901 |
| 4 | BBAM | 328 | 81 | 409 | - | 409 |
| 5 | SMBC Aviation | 386 | 7 | 393 | 205 | 598 |
| 6 | BOC Aviation | 225 | 45 | 270 | 241 | 511 |
| 7 | Aviation Capital | 254 | 8 | 262 | 105 | 367 |
| 8 | AWAS | 215 | 43 | 258 | 2 | 260 |
| 9 | Air Lease | 204 | 46 | 250 | 389 | 639 |

Source: Ascend

Some key drivers for Asian traffic growth include robust regional economic growth, liberalization, a consumption-based economic structure, a rising middle class, and deregulation, such as relaxed visa requirements

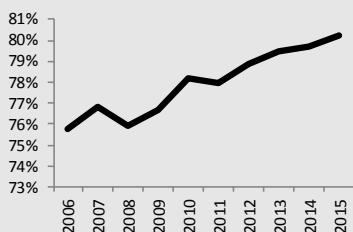
Airbus expects RPK to grow 142% from 6.6trn in 2015 to 16trn in 2035

RPK Outlook 2015–35



Source: Boeing

Global Airline Load Factor

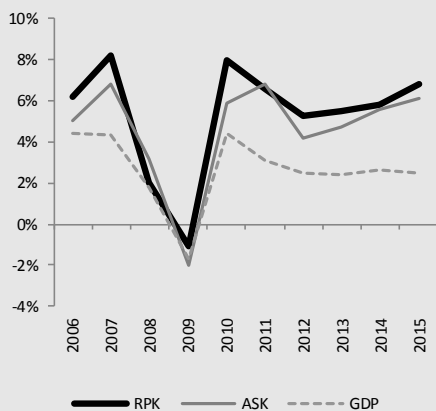


Source: International Air Transportation Authority (IATA)

Aviation Industry Demand-Side Outlook

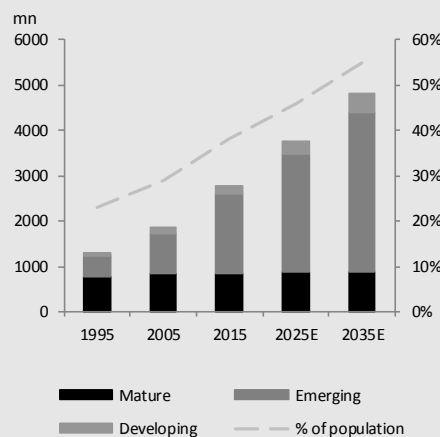
Due to a rising propensity-to-fly, falling flying costs, an increasing number of airlines, and strong air traffic demand from China and Southeast Asia, global air traffic has experienced robust growth in the past decade (up 68% since 2006) despite a brief pause in 2009. Many analysts (including ourselves) believe that rising travel demand is secular and is likely to be much more resilient to external shocks than past cycles. Both revenue passenger per kilometer (RPK) and available seat per kilometer (ASK) have outperformed global GDP growth since 2006. We think the GDP factor on RPK is likely to weaken in the future, underpinned by the powerful force of a rising middle class and an economic transition towards consumption in China and other major economies.

Passenger Traffic Demand and Supply



Source: International Civil Aviation Organization (ICAO), World Bank

Middle Class Population by Country Status



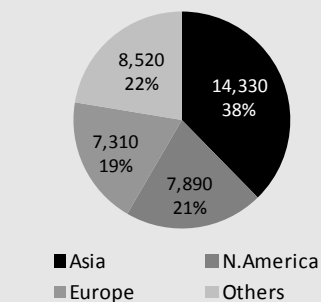
Source: Oxford Economics, Airbus

Aircraft Demands—From Bullish Forecast to More Bullish Forecast

We expect load factor to remain high, such that rising air travel demand (RPK) should directly translate into increasing capacity (ASK), resulting in strong demand for aircraft. We expect the distribution of ASK to become increasingly diverse across geography and carrier type (with LCCs increasing share). Against this backdrop and assuming low fuel costs persist, we expect airlines to remain profitable, but expect the average airline balance sheet to shrink as the market fragments and airlines increase outsourcing. As a result, we think operating leases should become more rational and common than aircraft ownership.

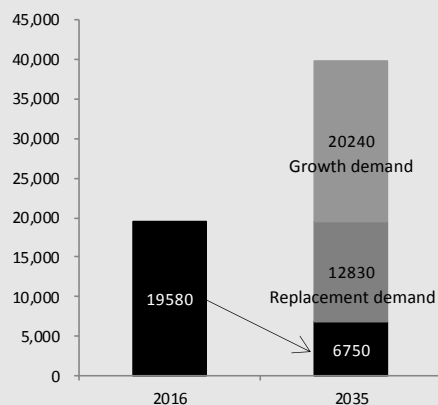
According to Airbus, of the 19,580 aircraft in 2016, 12,830 would retire in the next 20 years. Another 20,240 aircraft would be added for growth, resulting in demand for 33,070 aircraft in 2016–35, of which, more than 70% would be for narrowbody models.

Global Fleet Delivery 2015–34



Source: Boeing

Aircraft Demand Forecast



Source: Airbus

Aircraft Demand Forecast by Body Type

| Body type | 2016–35 Demand | Current models |
|---------------------|----------------|----------------|
| Narrowbody | 23,530 | A320, 737 |
| Widebody | 8,060 | A330, 777 |
| Very large aircraft | 1,480 | A380, 747 |

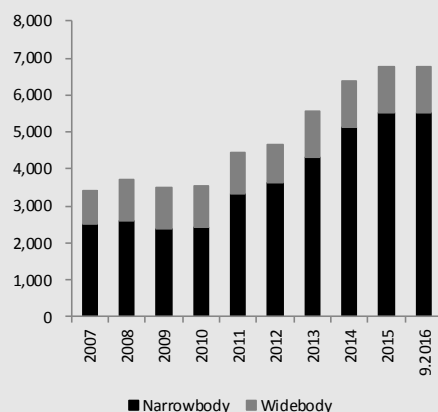
Source: Airbus

Aircraft Supply-Side Situation

To position for future ambitious growth plans, many airlines, especially those in emerging markets, have placed large and speculative aircraft orders, resulting in record-high backlogs at Airbus and Boeing. Some new lessors with little experience during down-cycles have placed hefty orders to gain immediate scale or position for a company sale. On the other hand, OEM near-term delivery slots have become more available, such that airlines could go directly to the OEM for a better deal. Due to the abundant cheap capital caused by quantitative easing, aircraft orders have become optimistic and speculative, such that an oversupply is likely to materialize, according to some analysts. We also see demand double-counting by lessors and aggressive orders by airlines like Lion Air as key risks. In fact, we think some lessors also see it as a risk, so they have substantially curtailed their OEM orders so far this year. Compared to orders of around 200 in the past few years (even 550 in 2014), lessors have only ordered 34 aircraft year-to-date. Instead of OEM orders, we think they have shifted focus to leaseback deals, which tend to have lower placement risks. Moreover, the falling book-to-bill ratio also indicates diminished appetite for new fleet, in our view.

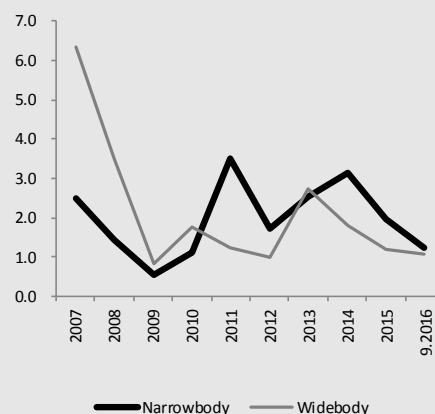
Although we see increased fleet replacement needs, we think the high order backlog and falling book-to-bill ratio together with low oil prices slowing fleet retirements are a real supply-side risk factor

Airbus Order Backlog



Source: Airbus

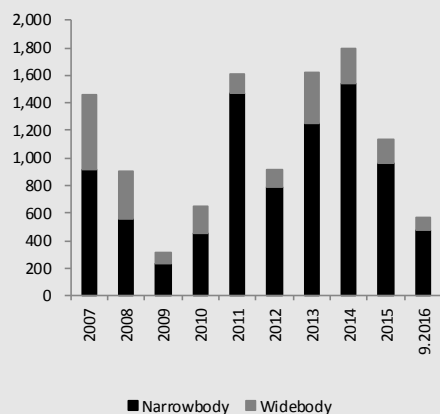
Airbus Order-to-Delivery Ratio



Source: Airbus

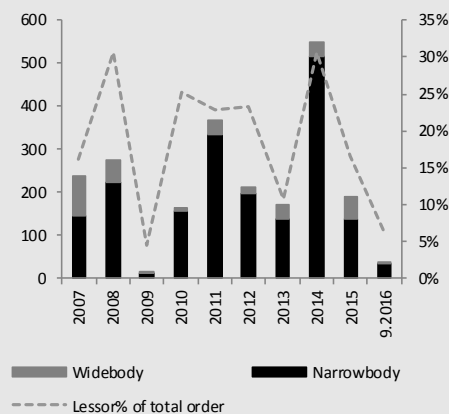
Airbus aims to raise the A320 production rate to 60 per month by 2019 but has no plans to increase beyond that, while Boeing targets to step up production of the 737 to about 57 a month in 2019

Airbus Total Orders



Source: Airbus

Airbus Orders by Lessors



Source: Airbus

OEM Production Rates

We believe Boeing and Airbus are disciplined in managing their production rates, such that despite high order backlogs, lease rates should remain well supported in 2016–18 given annual production rates of 550–600 A320 family and 530–560 737 family. We expect any further OEM production increases would face resistance by suppliers, such as CFM International (unlisted). However, there could be certain downside risk to the aircraft supply-demand situation if low oil prices delay fleet retirements or Asian airlines with large order backlogs, such as Lion Air, experience weaker traffic demand than they expect.

Financial Impact on BOCA If Aircraft Values Fall

In the case of an oversupply leading to weak narrowbody prices, BOCA would be negatively affected in the following ways.

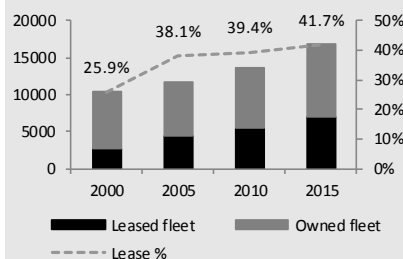
- **Impairment:** Since aircraft and related assets represent almost all non-cash assets, BOCA would be subject to asset impairments and book value dilution if narrowbody prices were to weaken.
- **Leasing:** Since BOCA's leases have an average maturity of 7.2 years such that there are few lease expiries in the near term, and with the majority of its OEM deliveries in 2017 already placed, the immediate revenue impact of a softening lease rate is not material. However, future growth prospects would be impacted.
- **Aircraft trading:** Because BOCA has to trade its aircraft to maintain a modern portfolio, a weak aircraft market would likely result in trading losses if the narrowbody market were to soften over a sustained period.

Why Invest in an Aircraft Lessor?

We think aircraft leasing offers attractive risk-adjusted returns, because it generally offers quasi-bond returns as long as the aircraft portfolios are appropriately managed. Also, the robust ASK growth outlook, the rise of LCCs, and improving airline credit profiles should support modest growth potential for the aircraft financing industry.

Because the aircraft title remains with the lessor, lessors are subject to changes in fleet value (residual risk). When value rises, lessors enjoy embedded value in their portfolio, which can be realized by fleet sale

Proportions Leased versus Owned



Source: Boeing Capital

Since 2008, we find aircraft lessors to show consistent profitability, reasonable growth, and low earnings volatility

Why Aircraft Leasing Is an Attractive Business

Basically, aircraft leasing is a fairly simple spread business: acquire right, fund low, lease high, and properly manage the residual risk. In a buoyant environment, lessors have access to competitive funding and strong aircraft demand, resulting in a wide income spread. When demand for aircraft shrinks in difficult times, cost of capital increases, airline profitability declines, and residual risk rises, resulting in spread compression. The business model is at its best when capital is abundant and cheap, air traffic and aircraft demand is robust, fleet values are rising, and airline profitability is high. We think these are currently positive, especially for lessors with material exposure to China and emerging Asia.

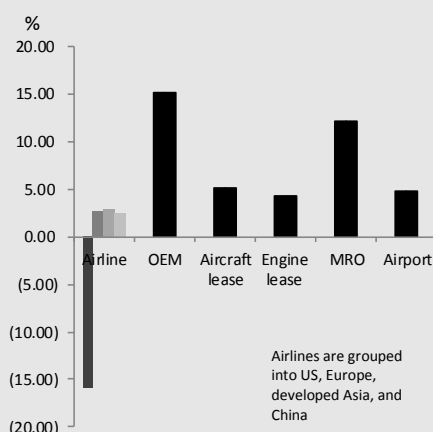
The Benefits of Aircraft Leasing over Ownership

Aircraft have useful operating lives for more than 20 years and are expensive assets to own. The marginal profitability of operating an aircraft is highly unpredictable as it fluctuates with passenger traffic, fuel price, industry competition, and economic conditions. Therefore, airlines need to adjust their portfolios more flexibly and quickly than a buy-and-hold policy can provide, as fleet delivery takes several years and ownership is for 20–30 years, resulting in ownership of such long-lived assets being risky for airlines. Aircraft lessors, with their strong financial resources, step in to provide a viable solution for aircraft operators such that the aviation industry can flexibly and efficiently distribute capacity around the world. By leasing, airlines can have cost visibility, access the latest aviation technology, adjust their fleets flexibly, reduce balance sheet sizes, and potentially benefit from more-competitive funding and tax advantages. As airlines continue to deleverage and export credit agency (ECA) shrinks in importance, we expect lessors to play an increasing role in aircraft finance.

Aircraft Leasing Compared with Airline Operation and Aircraft Manufacturing

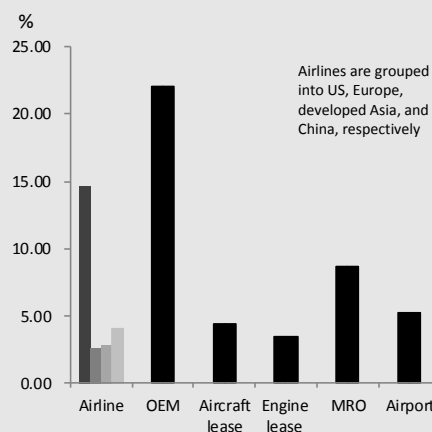
It is worth noting that even during the recession of 2008–10, aircraft lessors remained profitable, despite the huge losses (and bankruptcies) of airlines. Therefore, we find aircraft leasing attractive as it provides exposure to the secular aviation growth story with continuously rising leasing market share, without the cyclicity faced by airlines and OEMs.

2008–12 ROC Comparison



Source: Bloomberg

2013–15 ROC Comparison

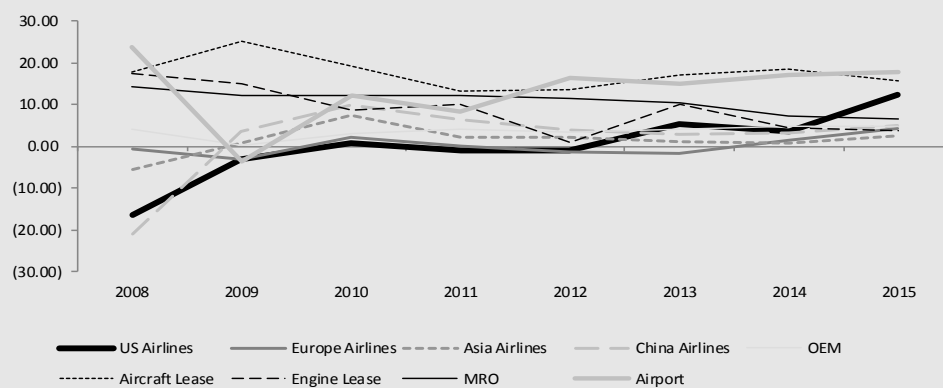


Source: Bloomberg

Airlines are grouped into US, Europe, developed Asia, and China, respectively

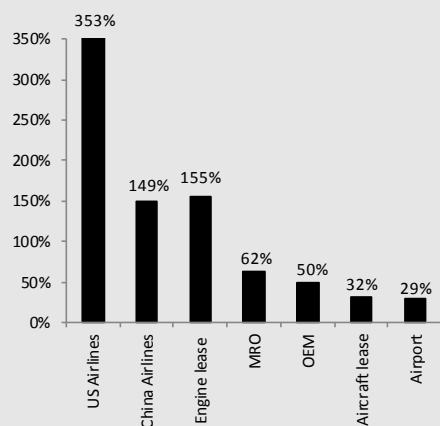
Airlines are grouped into US, Europe, developed Asia, and China

Net Profit Margin Comparison



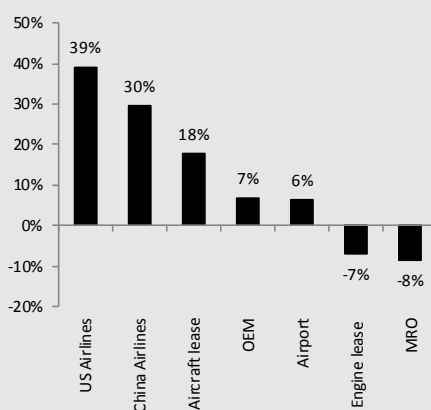
Source: Bloomberg

OP Volatility 2008-15



Source: Bloomberg

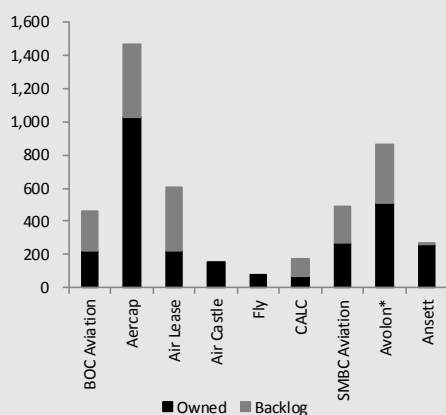
OP CAGR 2008-15



Source: Bloomberg

Peer Comparison

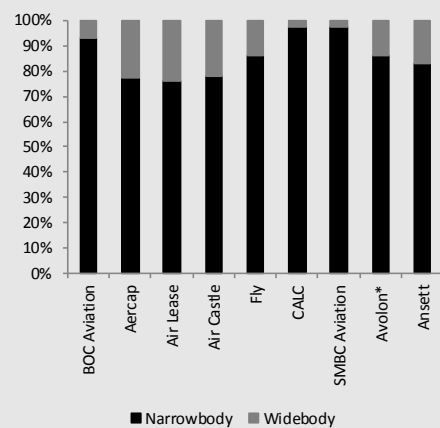
Fleet Portfolio



Source: Individual company filings

Note: Avolon includes Avolon (HKCA inclusive) and CIT

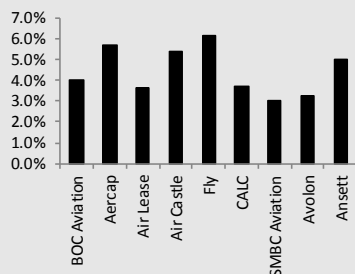
Portfolio Composition (Including Backlog)



Source: Individual company filings

Note: Avolon does not include CIT's fleet and backlog

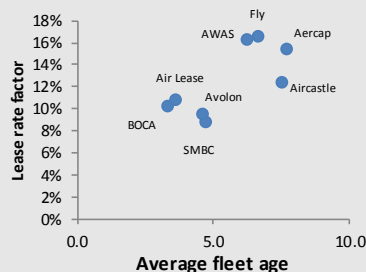
Approximate Depreciation Rate



Source: individual company filings

BOCA's lower lease rate factor than AerCap, AirCastle, Fly, and AWAS can be attributed to its younger fleet

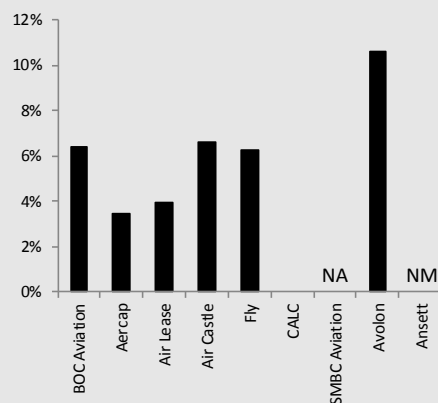
Fleet Age versus Lease Rate Factor



Source: Individual company filings

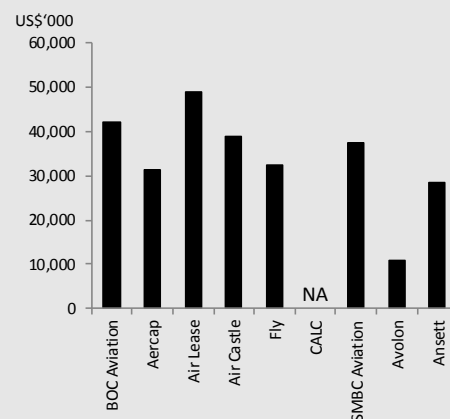
BOCA's highest credit rating among peers has contributed to its lowest cost of funding, a material advantage in this capital-intensive industry

Percentage of Aircraft Trading Revenue



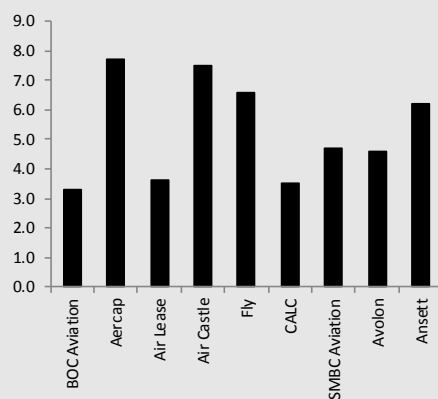
Source: Individual company filings

Average Net Book Value per Aircraft



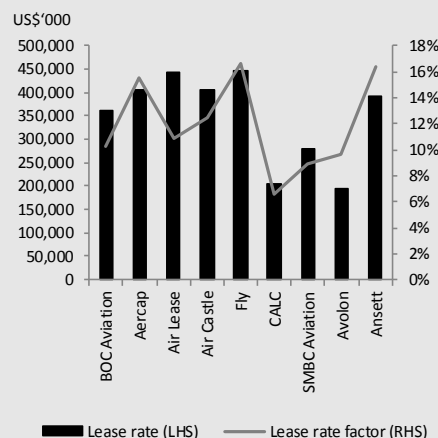
Source: Individual company filings

Average Fleet Age



Source: Individual company filings

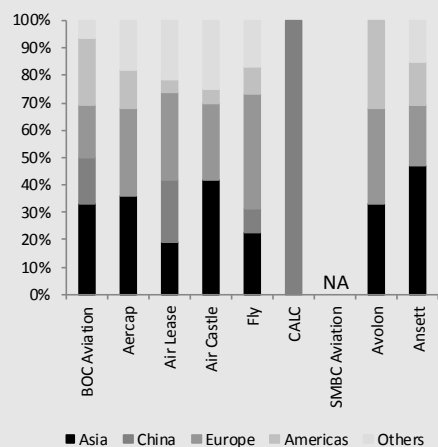
Estimated Lease Rate and Lease Rate Factor



Source: Individual company filings

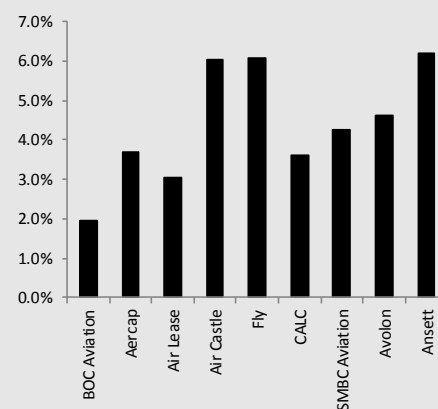
Note: Only year-end numbers are used in estimation

Lease Income Geographical Breakdown



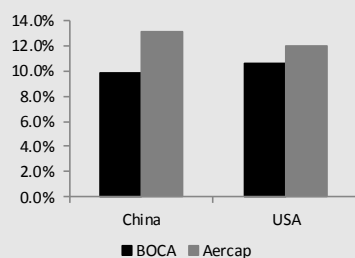
Source: Individual company filings

Interest Expense / Year-End Borrowings



Source: Individual company filings

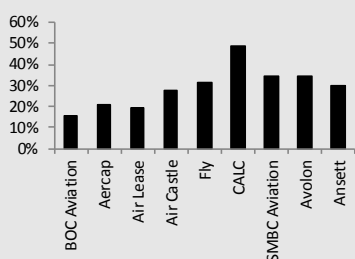
Lease Rate Factor Comparison



Source: Individual company data

We think BOCA's high ROE is led by its strong ROA and sustainable above-average leverage

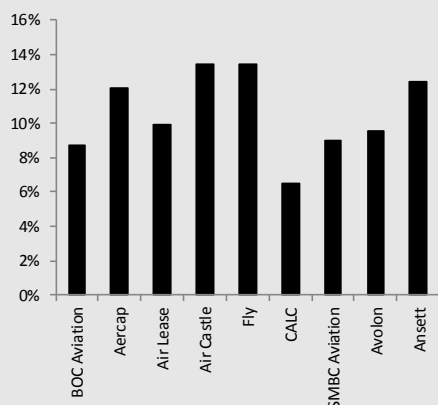
Interest Cost As a Percentage of Revenue



Source: individual company filings

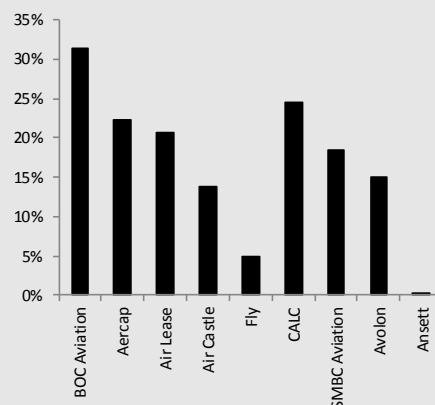
BOCA's highest credit rating is an important advantage over its peers concerning operating stability and profitability

Asset Turnover



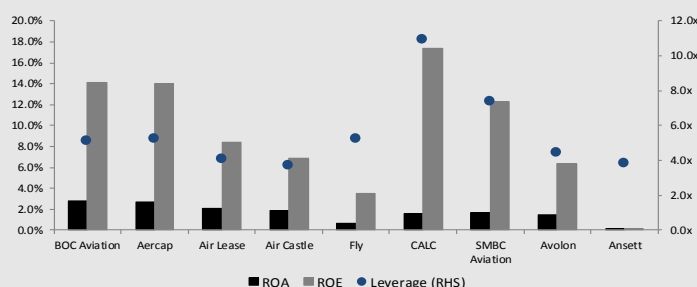
Source: individual company filings

Net Profit Margin



Source: individual company filings

DuPont Analysis—ROA, ROE, and Leverage Comparison



Source: Individual company filings

Financing—Every Basis Point Counts

Aircraft lessors are a conduit to the unsecured public finance markets for many airlines. Therefore, financing capacity could determine a lessor's operating scale and funding capability could materially influence profitability. Financing cost is the second-largest cost for aircraft lessors after depreciation, so OPM variation is often caused by capital structure and funding capability. Due to its balance sheet strengths and affiliation with the Bank of China, BOCA has obtained the strongest credit rating among global aircraft lessors, which enables it to issue debt at competitive rates and with long tenors. While the majority of its peers raise five-year tenors at above 3.0% yield and above 200bps Treasury spread, BOCA managed to issue at 135bps Treasury spread.

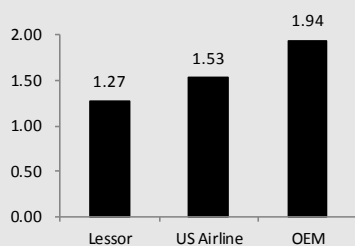
Credit Rating and LIBOR Spread Comparison

| | S&P | Moody's | Fitch |
|--------------------------|------|---------|-------|
| BOCA | A- | na | A- |
| Aercap | BBB- | Ba1 | BBB- |
| Air Lease (AL US) | BBB | na | na |
| Aircastle (AYR US) | BB+ | Ba1 | na |
| Fly Leasing (FLY US) | BB | B1 | na |
| CALC (1848 HK) | na | na | na |
| SMBC Aviation (unlisted) | BBB+ | na | BBB+ |
| Avolon (unlisted) | na | na | na |
| Ansett (unlisted) | BBB- | na | na |

Source: Bloomberg

CALC has a HKD convertible bond with three-year tenor issued in 2015 at 3.0% coupon, despite its high equity volatility, implying its straight-bond funding cost would be substantially above BOCA

Beta Comparison (10 Years against SPX)



Source: Bloomberg

Bond Yield-to-Maturity and Spread Comparison for Selected Issues

| | Principal | Issue | Maturity | Coupon | T-spread@issue | Bid | Bid ytm |
|-------------|------------|---------|----------|--------|----------------|--------|---------|
| BOCA | US\$500m | 9/2016 | 9/2021 | 2.38% | 135bps | 99.04 | 2.59% |
| | US\$500m | 4/2016 | 4/2026 | 3.88% | 215bps | 103.17 | 3.47% |
| | US\$500m | 4/2013 | 5/2023 | 4.38% | 270bps | 107.92 | 3.03% |
| Aercap | US\$1,000m | 5/2016 | 2/2022 | 3.95% | 270bps | 103.25 | 3.19% |
| | US\$1,000m | 10/2015 | 10/2020 | 4.63% | 327bps | 105.75 | 3.09% |
| | US\$1,100m | 7/2015 | 5/2021 | 4.50% | na | 104.88 | 3.33% |
| Air Lease | US\$500m | 9/2016 | 1/2020 | 2.13% | 137.5bps | 99.55 | 2.27% |
| | US\$750m | 8/2016 | 9/2023 | 3.00% | 180bps | 99.12 | 3.14% |
| | US\$600m | 4/2016 | 6/2021 | 3.38% | 235bps | 103.64 | 2.52% |
| Aircastle | US\$500m | 3/2016 | 4/2023 | 5.00% | 330bps | 104.25 | 4.24% |
| | US\$500m | 1/2015 | 2/2022 | 5.50% | 381bps | 108.25 | 3.77% |
| | US\$500m | 3/2014 | 3/2021 | 5.13% | 291bps | 107.13 | 3.36% |
| Fly Leasing | US\$325m | 9/2014 | 10/2021 | 6.38% | na | 102.38 | 5.42% |
| | US\$375m | 12/2013 | 12/2020 | 6.75% | na | 103.75 | 5.43% |
| CALC | HK\$504m | 3/2015 | 4/2018 | 3.00% | na | na | na |
| SMBC | US\$500m | 7/2016 | 7/2021 | 2.65% | 160bps | 99.58 | 2.75 |

Source: Bloomberg

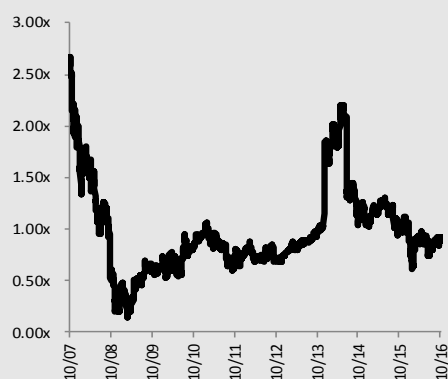
How Lessor Shares Trade

Because of BOCA's short trading history and our view that its business drivers are similar to those of Aercap and Aircastle, we use their stock performances to observe how aircraft lessors have traded historically.

How US-Listed Lessors Have Traded

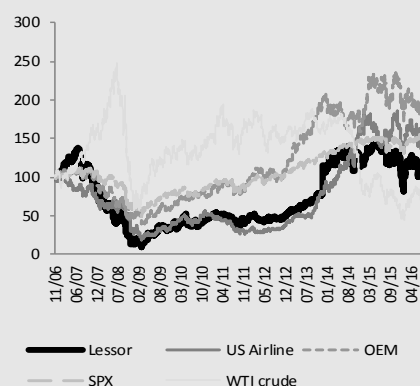
We find US-listed lessors have de-rated substantially since 2007 to trade below 1.0x BPS compared to above 2.0x in 2007. While aircraft OEMs have performed well since 2010, lessor and airline shares have a high correlation, but airlines logically have higher volatility. Also, the broader market (measured by SPX) has materially outperformed lessor stocks since early 2015, despite the positive sector outlook and healthy performance by many lessors.

Aercap's PBR



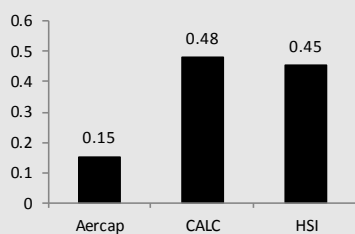
Source: Bloomberg

Price Performance Comparison



Source: Bloomberg

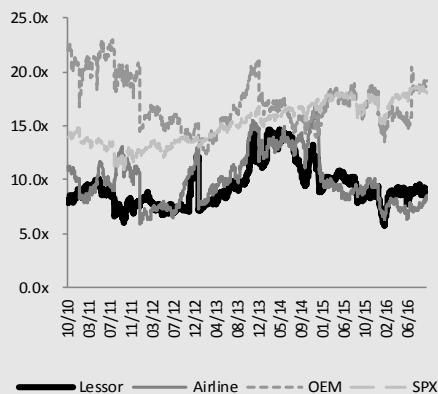
Correlation with BOCA Shares



Source: Bloomberg

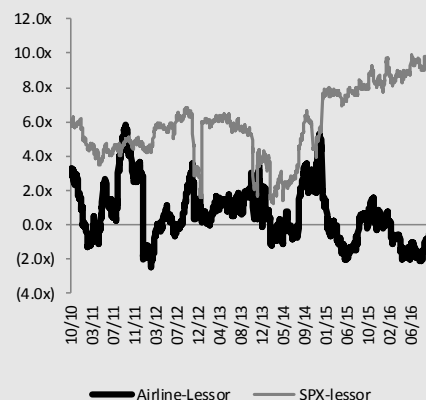
We think CALC is fundamentally weaker than BOCA, but has grown rapidly due to its low base and heavy focus on Mainland China

PER Comparison



Source: Bloomberg

PER Premium Comparison

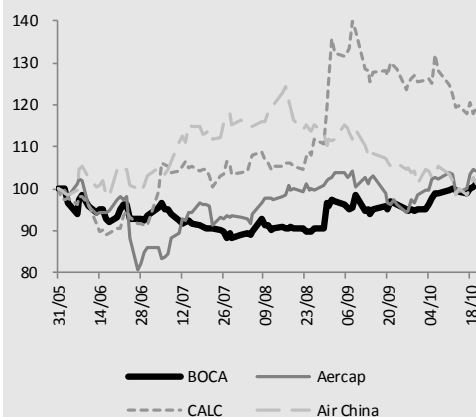


Source: Bloomberg

How BOCA Has Traded Since June 2016

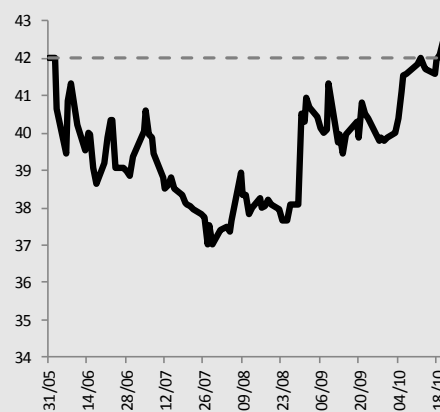
BOCA shares have been trading below its IPO price of HK\$42 until recently. We expect some short-term volatility early next year on potential share sales by cornerstone investors. However, we expect positive sector and company fundamentals to drive multiple expansion toward our target price over a twelve-month horizon.

BOCA Performance Comparison



Source: Bloomberg

BOCA Share Price Against IPO Price



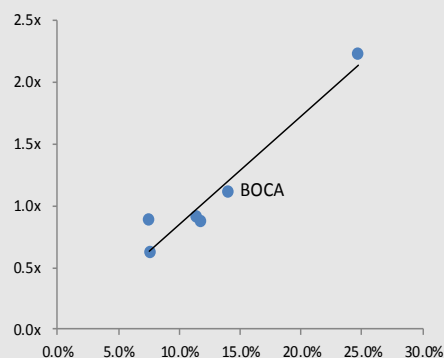
Source: Bloomberg

Valuation

Due to the short history of aircraft lessors trading in Asia, we value BOCA by referencing US-listed peers, especially Aercap. We also pay attention to China Aircraft Leasing (CALC) since it is a pure-play listed in Hong Kong, but we consider its business model to differ from BOCA's.

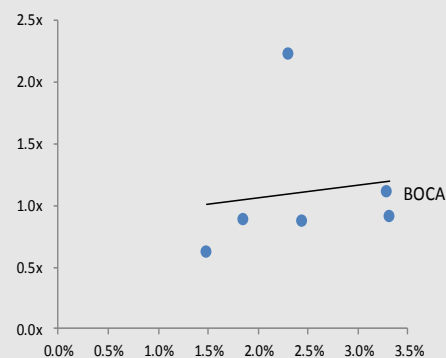
Considering the solid industry outlook and strong double-digit ROE achieved in recent years, we think Aercap's PBR should re-rate to 1.0x. Based on the current PBR-ROE, BOCA does not seem to be undervalued relative to peers. However, we think that BOCA deserves a valuation premium of approximately 30% to Aercap, because of BOCA's modern fleet (average age of 3.3 years), materially lower exposure to widebody models, strong credit rating, potential to scale faster in China due to the support of the Bank of China, and its slightly more conservative revenue recognition accounting policy. Therefore, based on a 30% premium to a normalized PBR of 1.0x for Aercap, we set our target price on a 1.3x PBR for BOCA.

PBR-ROE Comparison



Source: Bloomberg

PBR-ROA Comparison



Source: Bloomberg

Aircraft Leasing Peer Valuation (25 October 2016)

| Company | Valuation Multiples | | | | | | Returns | | | | Margins | | Leverage |
|-----------|---------------------|-------|-------|--------------|-------|-------|---------|-------|-------|-------|---------|-------|----------|
| | Price / Earnings | | | Price / Book | | | ROA | | ROE | | OPM | NIM | D/E |
| | FY15A | FY16E | FY17E | FY15A | FY16E | FY17E | FY15A | FY16E | FY15A | FY16E | FY16E | FY16E | FY15A |
| BOCA | 9.4x | 9.0x | 8.0x | 1.32x | 1.11x | 1.02x | 2.9% | 3.3% | 15.1% | 14.0% | 55% | 34% | 3.6x |
| Aercap | 7.0x | 6.8x | 6.5x | 0.98x | 0.87x | 0.76x | 2.7% | 2.4% | 14.5% | 11.8% | 39% | 22% | 3.5x |
| Air Lease | 12.0x | 8.7x | 7.9x | 1.01x | 0.91x | 0.82x | 2.2% | 3.3% | 8.7% | 11.5% | 54% | 26% | 2.6x |
| Aircastle | 13.6x | 11.5x | 9.3x | 0.92x | 0.88x | 0.83x | 1.9% | 1.9% | 6.9% | 7.5% | 50% | 17% | 2.3x |
| CALC | 14.9x | 9.8x | 8.4x | 2.63x | 2.22x | 1.87x | 1.8% | 2.3% | 19.2% | 24.7% | 43% | 27% | 9.4x |
| Fly | 23.3x | 9.0x | 6.1x | 0.66x | 0.63x | 0.55x | 0.6% | 1.5% | 3.1% | 7.7% | 51% | 13% | 3.6x |
| Mean | 13.4x | 9.1x | 7.7x | 1.25x | 1.10x | 0.98x | 2.0% | 2.4% | 11.3% | 12.9% | 48% | 23% | 4.2x |
| Median | 12.8x | 9.0x | 8.0x | 0.99x | 0.90x | 0.83x | 2.1% | 2.4% | 11.6% | 11.6% | 50% | 24% | 3.6x |

Source: Bloomberg

Reference: Valuation Comparison to Asian General Lessors (25 October 2016)

| Company | Valuation Multiples | | | | | | Returns | | | | Margins | | Leverage |
|----------------------|---------------------|-------|-------|--------------|-------|-------|---------|-------|-------|-------|---------|-------|----------|
| | Price / Earnings | | | Price / Book | | | ROA | | ROE | | OPM | NIM | D/E |
| | FY15A | FY16E | FY17E | FY15A | FY16E | FY17E | FY15A | FY16E | FY15A | FY16E | FY16E | FY16E | FY15A |
| BOCA | 9.5x | 9.0x | 8.1x | 1.33x | 1.12x | 1.02x | 2.9% | 3.3% | 15.1% | 14.0% | 55% | 34% | 3.6x |
| Bohai | 19.4x | 21.8x | 16.6x | 0.93x | 1.47x | 1.36x | 1.3% | 3.6% | 7.0% | 7.5% | 17% | 10% | 2.7x |
| Far East Horizon | 8.8x | 8.4x | 7.0x | 1.14x | 1.01x | 0.91x | 2.1% | 1.9% | 13.3% | 12.1% | NA | 26% | 3.9x |
| CDB Leasing | 15.2x | 11.1x | 9.8x | 1.06x | 0.98x | 0.91x | 0.7% | NA | 7.3% | 9.8% | 32% | 24% | 7.8x |
| Chailase | 9.1x | 9.1x | 8.6x | 1.65x | 1.49x | 1.38x | 2.7% | 2.5% | 19.0% | 17.6% | 23% | 18% | 4.8x |
| Orix | 7.4x | 7.2x | 6.7x | 0.84x | 0.77x | 0.71x | 2.3% | 2.6% | 11.7% | 11.1% | 14% | 11% | 1.7x |
| Mitsubishi UFJ Lease | 8.0x | 8.1x | 7.8x | 0.71x | 0.66x | 0.62x | 1.1% | 1.0% | 9.0% | 8.4% | 10% | 7% | 6.2x |
| Tokyo Century | 9.6x | 8.8x | 8.3x | 1.20x | 1.09x | 0.99x | 1.2% | 1.3% | 13.0% | 13.0% | 7% | 4% | 6.9x |
| Mean | 10.9x | 10.4x | 9.1x | 1.11x | 1.07x | 0.99x | 1.8% | 2.3% | 11.9% | 11.7% | 22% | 17% | 4.7x |
| Median | 9.3x | 8.9x | 8.2x | 1.10x | 1.05x | 0.95x | 1.7% | 2.5% | 12.3% | 11.6% | 17% | 14% | 4.4x |

Source: Bloomberg

Reference: Valuation Comparison to Asian Airlines (25 October 2016)

| Company | Valuation Multiples | | | | | | Returns | | | | Margins | | Leverage |
|--------------------|---------------------|-------|-------|--------------|-------|-------|---------|-------|--------|-------|---------|-------|----------|
| | Price / Earnings | | | Price / Book | | | ROA | | ROE | | OPM | NIM | D/E |
| | FY15A | FY16E | FY17E | FY15A | FY16E | FY17E | FY15A | FY16E | FY15A | FY16E | FY16E | FY16E | FY15A |
| BOCA | 9.5x | 9.0x | 8.1x | 1.33x | 1.12x | 1.02x | 2.9% | 3.3% | 15.1% | 14.0% | 55% | 34% | 357% |
| Singapore Airlines | 14.9x | 16.8x | 17.0x | 0.94x | 0.91x | 0.88x | 3.4% | 3.4% | 6.4% | 5.5% | 5% | 4% | 10% |
| Cathay Pacific | 6.9x | 25.2x | 23.3x | 0.86x | 0.84x | 0.81x | 3.5% | 1.1% | 12.0% | 3.2% | 3% | 2% | 131% |
| China Eastern | 9.0x | 5.9x | 6.6x | 1.10x | 0.91x | 0.80x | 2.5% | 4.4% | 13.5% | 17.0% | 13% | 7% | 298% |
| Eva Airways | 9.1x | 8.7x | 9.8x | 1.21x | 1.14x | 1.03x | 3.5% | 4.2% | 15.5% | 12.2% | 7% | 4% | 162% |
| Airasia | 14.5x | 6.6x | 7.3x | 1.76x | 1.39x | 1.21x | 2.6% | 7.2% | 12.0% | 26.1% | 28% | 20% | 283% |
| Airasia X | -3.9x | 7.6x | 6.9x | 2.66x | 1.84x | 1.56x | -8.8% | 5.5% | -52.4% | 27.3% | 8% | 5% | 226% |
| Thai Airways | -4.5x | 14.4x | 13.9x | 1.81x | 1.59x | 1.41x | -4.3% | 2.6% | -35.3% | 15.5% | 6% | 3% | 552% |
| Bangkok Airways | 27.9x | 18.1x | 15.9x | 1.63x | 1.58x | 1.51x | 3.4% | 5.0% | 6.4% | 8.5% | 16% | 11% | 46% |
| Cebu Air | 14.9x | 6.6x | 7.5x | 2.62x | 1.95x | 1.60x | 5.5% | 11.6% | 18.9% | 31.8% | 20% | 16% | 147% |
| Mean | 9.8x | 11.9x | 11.6x | 1.59x | 1.33x | 1.18x | 1.4% | 4.8% | 1.2% | 16.1% | 16% | 11% | 221% |
| Median | 9.3x | 8.8x | 8.9x | 1.48x | 1.26x | 1.12x | 3.1% | 4.3% | 12.0% | 14.7% | 11% | 6% | 194% |

Source: Bloomberg

MRO refers to maintenance, repair, and overhaul service providers

Reference: Valuation Comparison to Asian MRO and Airports (25 October 2016)

| Company | Valuation Multiples | | | | | | Returns | | | | Margins | | Leverage |
|-------------------------|---------------------|--------|-------|--------------|-------|-------|---------|-------|-------|-------|---------|-------|----------|
| | Price / Earnings | | | Price / Book | | | ROA | | ROE | | OPM | NIM | D/E |
| | FY15A | FY16E | FY17E | FY15A | FY16E | FY17E | FY15A | FY16E | FY15A | FY16E | FY16E | FY16E | FY15A |
| BOCA | 9.5x | 9.0x | 8.1x | 1.33x | 1.12x | 1.02x | 2.9% | 3.3% | 15.1% | 14.0% | 55% | 34% | 3.6x |
| HK Aircraft Engineering | 19.8x | 15.5x | 14.4x | 1.56x | 1.39x | 1.34x | 3.1% | NA | 7.8% | 9.5% | NA | 4% | 0.6x |
| SIA Engineering | 23.5x | 20.6x | 22.0x | 2.79x | 2.61x | 2.56x | 10.2% | 13.1% | 12.6% | 15.6% | 8% | 20% | 0.0x |
| Beijing Airport | 19.3x | 17.3x | 15.3x | 1.74x | 1.63x | 1.53x | 5.1% | 5.8% | 9.3% | 9.9% | 34% | 21% | 0.6x |
| Malaysia Airport | -597.2x | 108.5x | 56.1x | 1.38x | 1.32x | 1.32x | 0.2% | 0.5% | -0.2% | 0.9% | 16% | 2% | 0.7x |
| Mean | -105.0x | 34.2x | 23.2x | 1.76x | 1.61x | 1.55x | 4.3% | 5.7% | 8.9% | 10.0% | 28% | 16% | 1.1x |
| Median | 19.3x | 17.3x | 15.3x | 1.56x | 1.39x | 1.34x | 3.1% | 4.5% | 9.3% | 9.9% | 25% | 20% | 0.6x |

Source: Bloomberg

Appendix: China's VAT Reform and Its Implications on the Leasing Sector

China has operated a dual system of indirect taxes with value-added tax (VAT) applicable to the sale of goods, generally at 17%, and business tax (BT) to services, at 3–5%. The Chinese Government is implementing a major tax reform to replace BT with VAT across the entire service sector. BT is generally regarded as an inefficient turnover tax because it applies to business in each stage of a supply chain, regardless of the value add by each business in that supply chain, resulting in double or multiple taxation. In contrast, VAT is collected from businesses throughout a supply chain, but each business is entitled to deduct the VAT it paid on its purchases. The effect of offsetting purchases against sale is to impose the tax on the value-add at each stage of a supply chain and to neutralize tax regardless of the number of transactions. The end consumer, without any input VAT credits, absorbs the VAT as part of his purchase price.

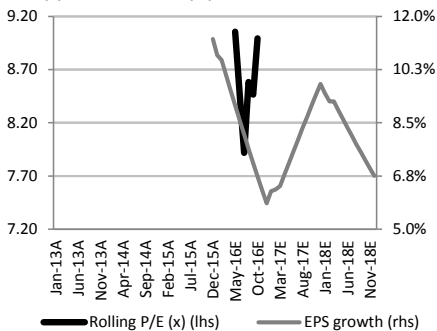
Under BT, lessors would pay VAT on asset purchases and BT on lease payments received. A pilot program began in Shanghai in January 2012 to replace BT with VAT for a number of service sectors, including asset leasing. The pilot program has been progressively rolled out across various cities and expanded to include additional services. The headline VAT rate of 17% is materially higher than the BT rate of 3–5%, but input VAT credits are available to offset VAT liability. For leasing, input VAT is primarily the principal of assets. Due to grandfathering rules, lease contracts concluded before the VAT reform are still subject to BT until expiration.

There have been some common VAT issues in the leasing sector since the VAT reform. For example, a lessor financing a leaseback transaction should be able to deduct the principal amount from the lease revenue in computing VAT payable. However, the deduction requires a valid VAT invoice to be issued by the lessee, which has created challenges as some lessees are BT payers or unwilling to issue VAT invoices for some reasons, resulting in unnecessary tax liabilities for the leasing sector. Also, the leasing sector suffered a setback in May 2013 when principal in a leaseback transaction was interpreted as a non-deductible item, resulting in a significant decline in transaction volume. After a series of industry consultations, that interpretation was repealed and the original principal deductibility was restored at the end of 2013. Furthermore, the ability of lessees to use lease payments as input VAT is unclear, in our opinion.

Moreover, VAT reform is likely to be expanded into the banking sector in the near future and a likely VAT rate of 6% applied to loan interests. As a result, banks will be able to issue VAT invoices, giving lessors the ability to claim funding costs as input VAT. According to Circular 36, sale-and-leaseback transactions are reclassified as a “financial service” and subject to 6% VAT, from 17% VAT under the “leasing of tangible assets” classification. At this stage, we think it is uncertain how the VAT reform, when introduced across industries and geographies, will alter the competitive position of the leasing sector within China's credit market.

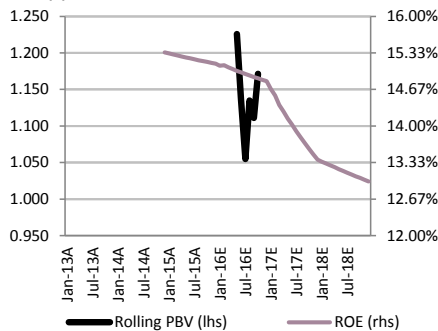
Regarding aircraft leasing, foreign lessors providing leasing services to China-based operators are subject to a 10% withholding tax, while domestic lessors are subject to VAT rate of 6% or 17% with deductible input VAT credits. Chinese aircraft lessors based in a Free Trade Zone, such as Dongjiang, benefit from lack of customs duty and import VAT on the purchase of aircraft.

P/E (x) vs EPS Growth (%)



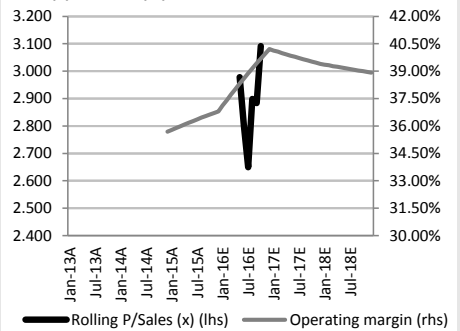
Source: Company data, Bloomberg, HTI estimates

P/B (x) vs ROE



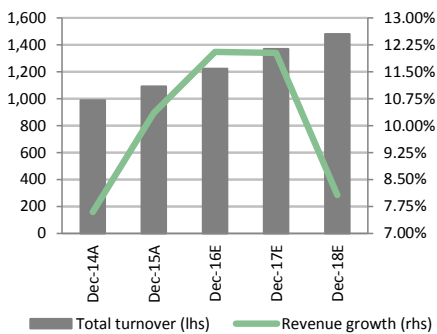
Source: Company data, Bloomberg, HTI estimates

PSR (x) vs OPM (%)



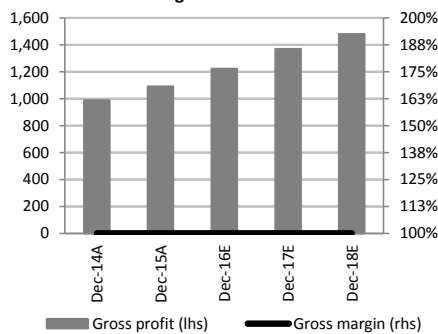
Source: Company data, Bloomberg, HTI estimates

Turnover and Growth



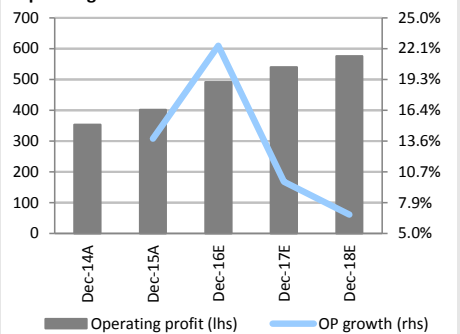
Source: Company data, Bloomberg, HTI estimates

Gross Profit and Margin



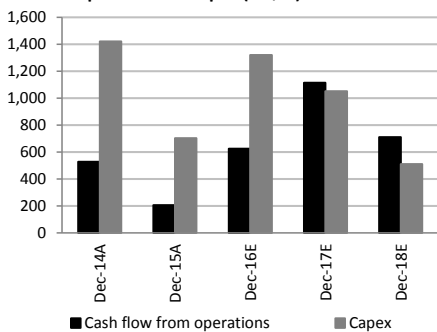
Source: Company data, Bloomberg, HTI estimates

Operating Profit and OP Growth



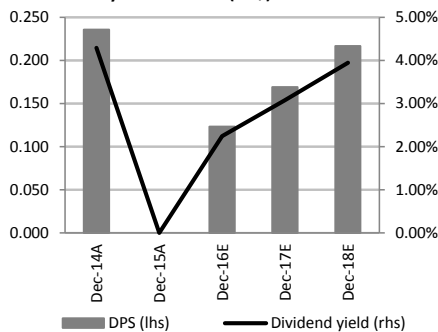
Source: Company data, Bloomberg, HTI estimates

CF from operations vs Capex (US\$m)



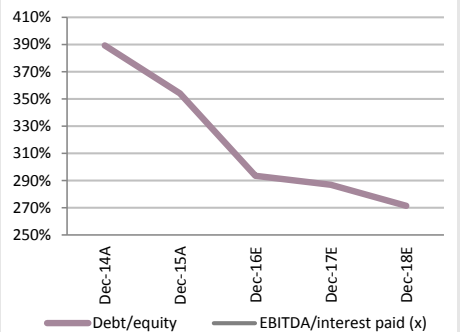
Source: Company data, Bloomberg, HTI estimates

Dividend Payout and Yield (US\$)



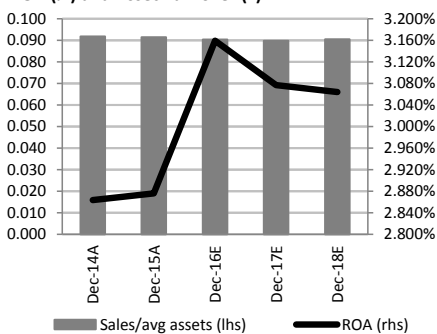
Source: Company data, Bloomberg, HTI estimates

Debt to Equity (%) and Interest Cover (x)



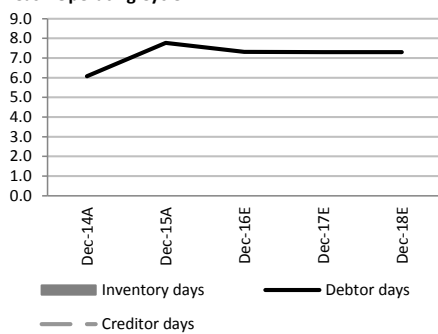
Source: Company data, Bloomberg, HTI estimates

ROA (%) and Asset Turnover (x)



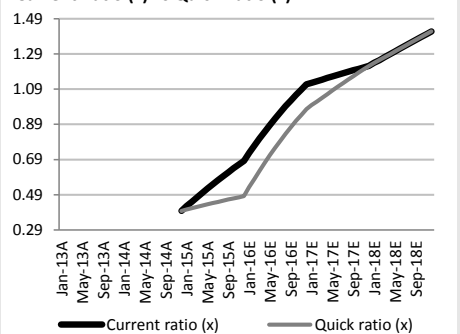
Source: Company data, Bloomberg, HTI estimates

Cash Operating Cycle



Source: Company data, Bloomberg, HTI estimates

Current Ratio (x) vs Quick Ratio (x)



Source: Company data, Bloomberg, HTI estimates

Revenue Growth

We forecast revenue and lease income to grow by 12.1% and 10.4% in FY16, led by an expanding fleet, 100% utilization rate, and rising lease rate factor. We expect BOCA to add 59 aircraft from OEM and five from leaseback, and dispose of 34, resulting in a fleet of 257 aircraft. Having half of its leases tied to LIBOR, we expect minimal yield compression when US interest rate begins to rise.

Profit Margins

We forecast an FY16 net lease yield of 8.3% and OPM of 40%. The forecast OPM expansion is primarily due to our rising lease rate and flat aircraft depreciation rate assumptions. We assume an accounting tax rate of 13%, resulting in NPM of 35% for FY16.

Shareholder Returns

We forecast ROA of 3.2%, ROE of 14.8%, and ROC of 5.9% for FY16, all up YoY except for ROE. Our estimated fall in ROE is primarily due to its enlarged equity base after going public. We assume a dividend payout ratio of 20%.

Balance Sheet Risks

Operating in a capital-intensive business, aircraft lessors are always subject to asset impairment, financing, and airline credit risks. While aircraft values are driven by the broader fleet demand and supply situations, aircraft lessors can manage the asset risks by positioning the fleet towards the most in-demand models. We think BOCA's modern fleet, long remaining lease term, diversified customer base, and affiliation with the Bank of China make its balance sheet more defensive than its peers.



Key Takeaway

We recommend BOCA as a quality global aircraft lessor to gain stable exposure to the rising commercial aviation sector for Asian investors

Investment Thesis – Target Price – Share Price Catalysts

We think the aircraft leasing industry offers an attractive risk-adjusted return and that a valuation re-rating for the sector should take place if industry fundamentals continue to be robust despite the market anticipating some weakness in aircraft supply. We see BOCA as the most defensive stock in the sector given its aircraft portfolio and balance sheet strengths. Also, we think BOCA possesses a stronger growth outlook in China than Aercap due to its relationship with the Bank of China. To achieve our target PBR of 1.3x, we expect a broader industry re-rating and the expansion of BOCA's valuation premium.

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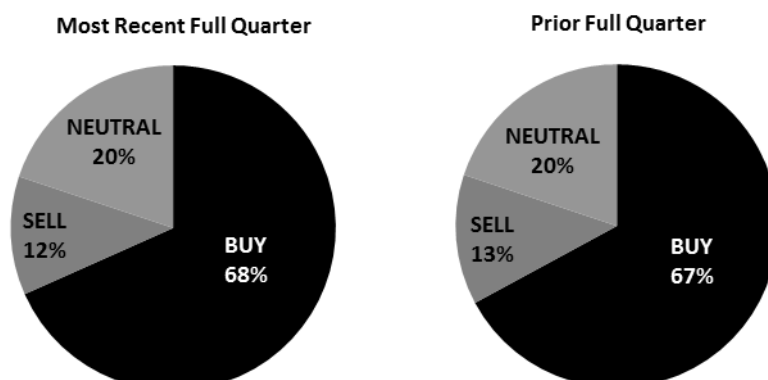
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has three ratings, which are defined below. The percentage of BUY, SELL or NEUTRAL ratings out of the total number of rated notes appears in the Ratings Distribution chart. ALL rated stocks have a target price which represents the analyst's best estimate of the fundamental value of the stock on a 12 month forward basis.

BUY> 15% absolute upside performance expected within the next 12 months

SELL> 15% absolute downside performance expected within the next 12 months

NEUTRAL: A stock under coverage with insufficient upside or downside to justify a BUY or SELL rating. For purposes only of FINRA/NYSE ratings distribution rules, our Neutral rating falls into a hold rating category.



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Haitong International Equity Research Ratings Distribution, as of September 30, 2016

| | BUY | Neutral (hold) | SELL |
|--------------------------------|------|-------------------|------|
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Recommendation Chart



| Date | Recommendation | Target (HK\$) | Price (HK\$) |
|------------|----------------|---------------|--------------|
| 2016-10-25 | | | |

Source: Company data Bloomberg, HTI estimates

Definitions for Key Investment Metrics

Business Growth

This is the metric which matches the top line in our report.

Business profit

This is the metric which best represents operating profit in our report

Shareholder Returns

Return on Equity

Balance Sheet Risk

Net Debt to Equity

Haitong International Coverage as of 1 Oct 2016

| Pan Asia Resources | |
|--|--|
| Core Coverage Universe | Non-Coverage Universe |
| Sam Thawley (Team Leader) Air China (601111 CH) Angang Steel (347 HK) Anhui Conch Cement (600585 CH) China Petroleum & Chemical (386 HK) China Shenhua Energy (1088 HK) CNOOC (883 HK) Daido Steel (5471 JP) Hanwa (8078 JP) Kawasaki Kisen (9107 JP) Kunlun Energy (135 HK) Kyoel Steel (5440 JP) Mitsui O.S.K. Lines (9104 JP) PetroChina (857 HK) Sanyo Special Steel (5481 JP) Shanghai International Airport (600009 CH) Tokyo Steel Mfg. (5423 JP) Fook Tat Cho Anton Oilfield Services (3337 HK) China Datang (1798 HK) China Longyuan Power (916 HK) China Singyes (750 HK) China Suntien (956 HK) CIMC Enric (3899 HK) CLP Holdings (2 HK) GCL-Poly (3800 HK) Henan Pinggao Electric (600312 CH) Hilong (1623 HK) Hong Kong and China Gas (3 HK) Huadian Fuxin Energy (816 HK) Huaneng Renewables (958 HK) Jiangsu Linyang Energy (601222 CH) Nari Technology (600406 CH) Xinjiang Goldwind (2208 HK) Xinyi Solar Holdings (968 HK) | CGN New Energy Holdings (1811 HK) Dowa Holdings (5714 JP) GCL New Energy Holdings (451 HK) Iino Kaiun Kaisha (9119 JP) Maruichi Steel Tube (5463 JP) Mie Holdings (1555 HK) Nippon Coke & Engineering (3315 JP) NS United Kaiun Kaisha (9110 JP) Osaka Steel (5449 JP) Sino Oil and Gas Holdings (702 HK) |

| Pan Asia TMT | |
|--|--|
| Core Coverage Universe | Non-Coverage Universe |
| Steve Myers Canon (7751 JP) Fujitsu (6702 JP) Hon Hai Precision Industry (2317 TT) Keyence (6861 JP) Konica Minolta Holdings (4902 JP) LG Electronics (066570 KS) Mediatek (2454 TT) Nikon (7731 JP) Samsung Electronics (005930 KS) Taiwan Semiconductor Mfg. Co. (2330 TT) Toshiba (6502 JP) Jones Ku AAC Technologies (2018 HK) BYD Electronic (285 HK) China Communications (552 HK) Coolpad Group (2369 HK) Kingsoft (3888 HK) Sunny Optical (2382 HK) TCL Communication (2618 HK) Tongda Group (698 HK) ZTE (763 HK) Jean-Louis Lafayeedney Advanced Semiconductor Engineering (2311 TT) ASM Pacific Technology (522 HK) Asustek Computer (2357 TT) Casetek Holdings (5264 TT) Catcher Technology (2474 TT) Largan Precision (3008 TT) Lenovo (992 HK) Nidec (6594 JP) Skyworth Digital Holdings (751 HK) Sony (6758 JP) Billy Leung Aisino (600271 CH) Alibaba Group Holdings (BABA US) Anhui Xinhua Media (601801 CH) Baidu (BIDU US) Chinese Universe Publishing (60037 CH) Ctrip.com International (CTRP US) JD.com (JD US) NetEase (NTES US) Tencent Holdings (700 HK) Zhe Jiang Daily Media Group (600633 CH) | China Fiber Optic Network System (3777 HK) ChipMOS Technologies (8150 TT) DTS (9682 JP) Eva Precision Industrial Holdings (838 HK) Ferrotec (6890 JP) GMO Internet (9449 JP) Hikari Tsushin (9435 JP) Internet Initiative Japan (3774 JP) Itochu Techno-Solutions (4739 JP) Megachips (6875 JP) Micro-Star International (2377 TT) Shindengen Electric Mfg. (6844 JP) Taiwan Chelic (4555 TT) Trigiant Group (1300 HK) Truly International Holdings (732 HK) Unity Opto Technology (2499 TT) Yangtze Optical Fibre & Cable (6869 HK) |

| Japan Real Estate | |
|---|-----------------------|
| Core Coverage Universe | Non-Coverage Universe |
| Yushi Kawamoto Asul (2678 JP) Cookpad (2193 JP) CyberAgent (4751 JP) Dentsu (4324 JP) Monotaro (3064 JP) Rakuten (4755 JP) Recruit Holdings (6098 JP) Softbank (9984 JP) Start Today (3092 JP) Yahoo Japan (4689 JP) | |

| Japan Real Estate | |
|---|--|
| Core Coverage Universe | Non-Coverage Universe |
| Mark Brown (Team Leader) Daito Trust Construction (1878 JP) Daiwa House Industry (1925 JP) Lixil Group (5938 JP) Mitsubishi Estate (8802 JP) Mitsui Fudosan (8801 JP) Noritx (5943 JP) Obayashi (1802 JP) Sekisui House (1928 JP) Sumitomo Realty & Development (8830 JP) Taisei (1801 JP) Takara Leben (8897 JP) Tokyo Tatemono (8804 JP) | Daiburu (8806 JP) Daikyo (8840 JP) Haseko (1808 JP) Hulic (3003 JP) Kenedix (4321 JP) Leopapace21 (8848 JP) Sanwa Holdings (5929 JP) Sumitomo Real Estate Sales (8870 JP) |

| Pan Asia Autos, Machinery & Industrial | |
|---|--|
| Core Coverage Universe | Non-Coverage Universe |
| Ole Hui (Team Leader) BAIC Motor (1958 HK) Brilliance China (1114 HK) BYD (1211 HK) Changyuan Group (600525 CH) China Communications Construction (1800 HK) China Railway Construction (1186 HK) China Railway Group (390 HK) China Railway Signal & Communication (3969 HK) China State Construction Engineering (601688 CH) China Yongda Automobile Services (3669 HK) CRRC (1766 HK) Dongfeng Motor (489 HK) Geely Automobile (175 HK) Great Wall Motor (2333 HK) Guangzhou Automobile (2238 HK) Hongfa Technology (600885 CH) Hyundai Mobis (012330 KS) Hyundai Motor (005380 KS) Jiangsu Expressway (600377 CH) Kia Motors (000270 KS) Shanghai Zhixin Electric (600517 CH) Spring Airlines (601021 CH) Tainjin Port (600717 CH) Zhuzhou CRRC Times Electric (3898 HK) Tsutomu Kijima Amada Holdings (6113 JP) Daikin Industries (6367 JP) Fanuc (6954 JP) Hitachi Construction Machinery (6305 JP) Komatsu (6301 JP) Kubota (6326 JP) Makita (6586 JP) SMC (6273 JP) THK (6481 JP) Gary Cheung Adlink Technology (6166 TT) | BeijingWest Industries International (2339 HK) Calsonic Kansei (7248 JP) China Harmony New Energy Auto (3836 HK) DMG Mori (6141 JP) Frontier Services Group (500 HK) Hitachi Koki (6581 JP) Kato Works (6390 JP) Kehin (7251 JP) Makino Milling Maching (6135 JP) Mitsui Engineering & Shipbuilding (7003 JP) Okuma (6103 JP) Press Kogyo (7246 JP) Roland DG (6789 JP) Shanghai Prime Machinery (2345 HK) Takeuchi Mfg. (6432 JP) TS Tech (7313 JP) West China Cement (2233 HK) Xingda International Holdings (1899 HK) Yasukawa Electric (6506 JP) |

| Japan Consumer | |
|--|--|
| Core Coverage Universe | Non-Coverage Universe |
| James Moon (Team Leader) Ain Holdings (9627 JP) Aoyama Trading (8219 JP) Asics (7936 JP) Don Quijote Holdings (7532 JP) FamilyMart (8028 JP) Fast Retailing (9983 JP) HIS (9603 JP) Japan Tobacco (2914 JP) Kao (4452 JP) Laox (8202 JP) Oriental Land (4661 JP) Seven & I Holdings (3382 JP) Unicharm (8113 JP) | Advantech (2395 TT) Airtac International Group (1590 TT) Bizlink Holding (3665 TT) Delta Electronics (2308 TT) Giant Manufacturing (9921 TT) Hiwin Technologies (2049 TT) Merida (9914 TT) Techtronic Industries (669 HK) Teco Electric and Machinery (1504 TT) Weichai Power (2338 HK) Kosuke Matsuda Aisin Seiki (7259 JP) Bridgestone (5108 JP) Denso (6902 JP) — Kosuke Matsuda Fuji Heavy Industries (7270 HK) Honda Motor (7267 JP) Isuzu Motors (7202 JP) Mazda (7261 JP) Mitsubishi Motors (7211 JP) Nexteer (1316 HK) Nissan Motor (7201 JP) Suzuki Motor (7269 JP) Toyota Motor (7203 JP) Yamaha Motor (7272 JP) Lily Li Mintn (425 HK) |

| Japan Consumer | |
|--|--|
| Core Coverage Universe | Non-Coverage Universe |
| James Moon (Team Leader) Ain Holdings (9627 JP) Aoyama Trading (8219 JP) Asics (7936 JP) Don Quijote Holdings (7532 JP) FamilyMart (8028 JP) Fast Retailing (9983 JP) HIS (9603 JP) Japan Tobacco (2914 JP) Kao (4452 JP) Laox (8202 JP) Oriental Land (4661 JP) Seven & I Holdings (3382 JP) Unicharm (8113 JP) | Aeon Mall (8905 JP) Avex Group Holdings (7860 JP) DCM Holdings (3050 JP) H2O Retailing (8242 JP) Honeys (2792 JP) Parco (8251 JP) |

| China Real Estate | |
|--|--|
| Core Coverage Universe | Non-Coverage Universe |
| Andy So (Team Leader) Agile Property (3383 HK) Beijing Capital Development (600376 CH) China Fortune Land Development (600340 CH) China Overseas Land & Investment (688 HK) China Resources Land (1109 HK) China Vanke (2202 HK) China World Trade Center (600007 CH) CIFI Holdings Group (884 HK) CMST Development (600787 CH) Country Garden Holdings (2007 HK) Dalian Wanda Commercial Properties (3699 HK) Future Land Holdings (601155 CH) Greentown China Holdings (3900 HK) Guangzhou R&F Properties (2777 HK) Huafa Industrial (600325 CH) KWG Property Holding (1813 HK) Longfor Properties (960 HK) Nanjing Gaoke (600064 CH) Shenzhen International (152 HK) Shimao Property Holdings (813 HK) Shui On Land (272 HK) SOHO China (410 HK) Peter Yang China South City Holdings (1668 HK) Greenland Hong Kong Holdings (337 HK) Shenzhen Investment (604 HK) Soufun Holdings (SFUN US) | Times Property Holdings (1233 HK) Yuzhou Properties (1628 HK) |

Haitong International Coverage as of 1 Oct 2016

| <i>China Consumer</i> | |
|---|---|
| Core Coverage Universe | Non-Coverage Universe |
| Nicolas Wang (Team Leader) | China Huiyuan Juice Group (1886 HK) |
| China Medical System (867 HK) | China LotSynergy Holdings (1371 HK) |
| China Mengniu Dairy (2319 HK) | China Shineway Pharmaceutical Group (2877 HK) |
| China Resources Enterprise (291 HK) | Dynam Japan Holdings (6889 HK) |
| China Traditional Chinese Medicine (570 HK) | Shanghai Fudan-Zhangjiang Bio-Pharm (1349 HK) |
| Chongqing Brewery (600132 CH) | Tenwow International (1219 HK) |
| CSPC Pharmaceutical Group (1093 HK) | |
| Foshan Flavouring & Food (603288 CH) | |
| Hengan International (1044 HK) | |
| Inner Mongolia Yili Industrial Group (600887 CH) | |
| Jiangsu Hengrui Medicine (600276 CH) | |
| Jonjee High-Tech Industrial (600872 CH) | |
| Kweichow Moutai (600519 CH) | |
| Laobaixing Pharmacy Chain (603883 CH) | |
| Luye Pharma Group (2186 HK) | |
| Phoenix Healthcare Group (1515 HK) | |
| Shanghai Pharmaceuticals (2607 HK) | |
| Sinopharm Group (1099 HK) | |
| Tingyi Cayman Islands Holding (322 HK) | |
| Tsingtao Brewery (168 HK) | |
| Uni-President China (220 HK) | |
| Want Want China Holdings (151 HK) | |
| Wuliangye Yibin (000858 CH) | |
| Xinjiang Yili Industry (600197 CH) | |
| Zhangzhou Pientzehuang Pharmaceutical (600436 CH) | |
| Zhejiang Huahai Pharmaceutical (600521 CH) | |
| Jessica Hong | |
| Chongqing Department Store (600729 CH) | |
| Chow Tai Fook Jewellery Group (1929 HK) | |
| GOME Electrical Appliances Holding (493 HK) | |
| Li & Fung (494 HK) | |
| L'Occitane International (973 HK) | |
| Luk Fook Holdings (590 HK) | |
| Prada SpA (1913 HK) | |
| Samsontile International (1910 HK) | |
| Sun Art Retail Group (6806 HK) | |
| Yonghui Superstores (601933 CH) | |
| Jessica Ye | |
| Anta Sports Products (2020 HK) | |
| Belle International Holdings (1880 HK) | |
| Cosmo Lady China Holdings (2298 HK) | |
| Galaxy Entertainment (27 HK) | |
| Li Ning (2331 HK) | |
| Sands China (1928 HK) | |
| Wynn Macau (1128 HK) | |

| <i>Pan Asia Financials</i> | |
|---|-----------------------|
| Core Coverage Universe | Non-Coverage Universe |
| Steven Chan (Team Leader) | |
| Agricultural Bank of China (1288 HK) | |
| Bank of China (3988 HK) | |
| Bank of Communications (3328 HK) | |
| China CITIC Bank (998 HK) | |
| China Construction Bank (939 HK) | |
| China Everbright Bank (6818 HK) | |
| China Merchants Bank (3968 HK) | |
| China Minsheng Bank (1988 HK) | |
| Chongqing Rural Commercial Bank (3618 HK) | |
| Industrial and Commercial Bank of China (1398 HK) | |
| Michael Makdad | |
| Japan Post Bank (7182 JP) | |
| Mitsubishi UFJ Financial Group (8306 JP) | |
| Mizuho Financial Group (8411 JP) | |
| Resona Holdings (8308 JP) | |
| Sumitomo Mitsui Financial Group (8316 JP) | |
| Tony Tanaka | |
| Centruy Tokyo Leasing (8439 JP) | |
| China Life Insurance (601628 CH) | |
| China Merchants Securities (600999 CH) | |
| China Pacific Insurance Group (601601 CH) | |
| CITIC Securities (600030 CH) | |
| Digital Garage (4819 JP) | |
| Everbright Securities (601788 CH) | |
| GCA Sawian (2174 JP) | |
| GF Securities (1776 HK) | |
| GMO Payment Gateway (3769 JP) | |
| Hitachi Capital (8586 JP) | |
| Hong Kong Exchanges and Clearing (388 HK) | |
| Huatai Securities (6886 HK) | |
| Mitsubishi UFJ Lease & Finance (8593 JP) | |
| Nihon M&A Center (2127 JP) | |
| Ping An Insurance Group (601318 CH) | |
| Zenkoku Hosho (7164 JP) | |

Latest Drops from Coverage

Honghua Group (196 HK)
Sanrio (8136 JP)

Latest Additions to Coverage

Aisino (600271 CH)
Askul (2678 JP)
Beijing Capital Development (600376 CH)
China Jushi (600176 CH)
China Merchants Securities (600999 CH)
Chinese Universe Publishing and Media (60037 CH)
Future Land Holdings (601155 CH)
Phoenix Healthcare Group (1515 HK)
Prestige International (4290 JP)
Rakuten (4755 JP)
Resona Holdings (8308 JP)
Shanghai Zhixin Electric (600517 CH)
Spring Airlines (601021 CH)
Wuliangye Yibin (000858 CH)
Zhuzhou Kibing Group (601636 CH)

| <i>Asia ex Small Cap</i> | |
|---|---|
| Core Coverage Universe | Non-Coverage Universe |
| Walden Shing | Bonjour Holdings (653 HK) |
| APT Satellite (1045 HK) | C.banner International Holdings (1028 HK) |
| Best Pacific International (2111 HK) | China Maple Leaf Educational Sys. (1317 HK) |
| China Aircraft Leasing Group (1848 HK) | Cuchen (225650 KS) |
| China Jushi (600176 CH) | Goldpac Group (3315 HK) |
| Fu Shou Yuan International (1448 HK) | Hotel Shilla (008770 KS) |
| Goodbaby International Holdings (1086 HK) | Maoye International Holdings (848 HK) |
| Lee & Man Paper Manufacturing (2314 HK) | Modetour Network (080160 KS) |
| Man Wah Holdings (1999 HK) | Orange Sky Golden Harvest (1132 HK) |
| Pacific Textiles Holdings (1382 HK) | Orbitech (046120 KS) |
| Pax Global Technology (327 HK) | Pou Sheng International Holdings (3813 HK) |
| Sa Sa International Holdings (178 HK) | PS TEC (002230 KS) |
| Shanghai Fudan Microelectronics (1385 HK) | Samchuly Bicycle (024950 KS) |
| SITC International Holdings (1308 HK) | Sinsoft Technology Group (1297 HK) |
| TAL Education Group (XRS US) | Texhong Textile Group (2678 HK) |
| Travelsky Technology (696 HK) | TK Group Holdings (2283 HK) |
| Virscend Education (1565 HK) | Tsui Wah Holdings (1314 HK) |
| Vitasoy International Holdings (345 HK) | Value Added Technologies (043150 KS) |
| Vtech Holdings (303 HK) | VST Holdings (856 HK) |
| Wasion Group Holdings (3393 HK) | Xia Nan Guo Restaurants Holdings (3666 HK) |
| Xinyi Glass Holdings (868 HK) | |
| Zhuzhou Kibing Group (601636 CH) | |
| Justin Kim | |
| Aerospace Technology of Korea (067390 KS) | |
| Cuckoo Electronics (192400 KS) | |
| Dexter (206560 KS) | |
| Duzonbizon (012510 KS) — Justin Kim | |
| Fila Korea (081660 KS) | |
| Kepco Plant Service (051600 KS) | |
| Koh Young Technology (098460 KS) | |
| Medy-Tox (086900 KS) | |
| Vieworks (100120 KS) | |
| Jaesong Woo | |
| Dio (039840 KS) | |
| Hansae (105630 KS) | |
| Hy-Lok (013030 KS) | |
| Inbody 041830 KS) | |
| Korea Kolmar (161890 KS) | |
| Kyung Dong Navien (009450 KS) | |
| Osstem Implant (048260 KS) | |
| Yonwoo (115960 KS) | |
| Youngone (111770 KS) | |
| Julie Liu | |
| Shenzhou International Group (2313 HK) | |

| <i>Japan Small Cap</i> | |
|--------------------------------------|--|
| Core Coverage Universe | Non-Coverage Universe |
| Hiroyuki Terada (Team Leader) | Autobacs Seven (9832 JP) |
| Accordia Golf (2131 JP) | China Financial International Invest. (721 HK) |
| Accretive (8423 JP) | Fancl (4921 JP) |
| Asahi (3333 JP) | Istyle (3660 JP) |
| Doutor Nichires Holdings (3087 JP) | Luzheng Futures (1461 HK) |
| IDOM (7599 JP) | Meitac (9744 JP) |
| Kameda Seika (2220 JP) | Nichii Gakkan (9792 JP) |
| Mandom (4917 JP) | Nippon Parking Development (2353 JP) |
| Metawater (9551 JP) | SBS Holdings (2384 JP) |
| Pigeon (7956 JP) | VT Holdings (7593 JP) |
| Pola Orbis (4927 JP) | |
| Prestige International (4290 JP) | |
| Relo Group (8876 JP) | |
| Shiseido (4911 JP) | |
| Sohgo Security Services (2331 JP) | |
| Technopro Holdings (6028 JP) | |
| Yumeshin Holdings (2362 JP) | |

Latest Transfers of Coverage

Best Pacific International (2111 HK) - To Walden Shing
China Aircraft Leasing Group (1848 HK) - To Walden Shing
Goodbaby International Holdings (1086 HK) - To Walden Shing
Pacific Textiles Holdings (1382 HK) - To Walden Shing
Pax Global Technology (327 HK) - To Walden Shing
Sa Sa International Holdings (178 HK) - To Walden Shing
Shanghai Fudan Microelectronics (1385 HK) - To Walden Shing
SITC International Holdings (1308 HK) - To Walden Shing
TAL Education Group (XRS US) - To Walden Shing
Travelsky Technology (696 HK) - To Walden Shing
Virscend Education (1565 HK) - To Walden Shing
Wasion Group Holdings (3393 HK) - To Walden Shing