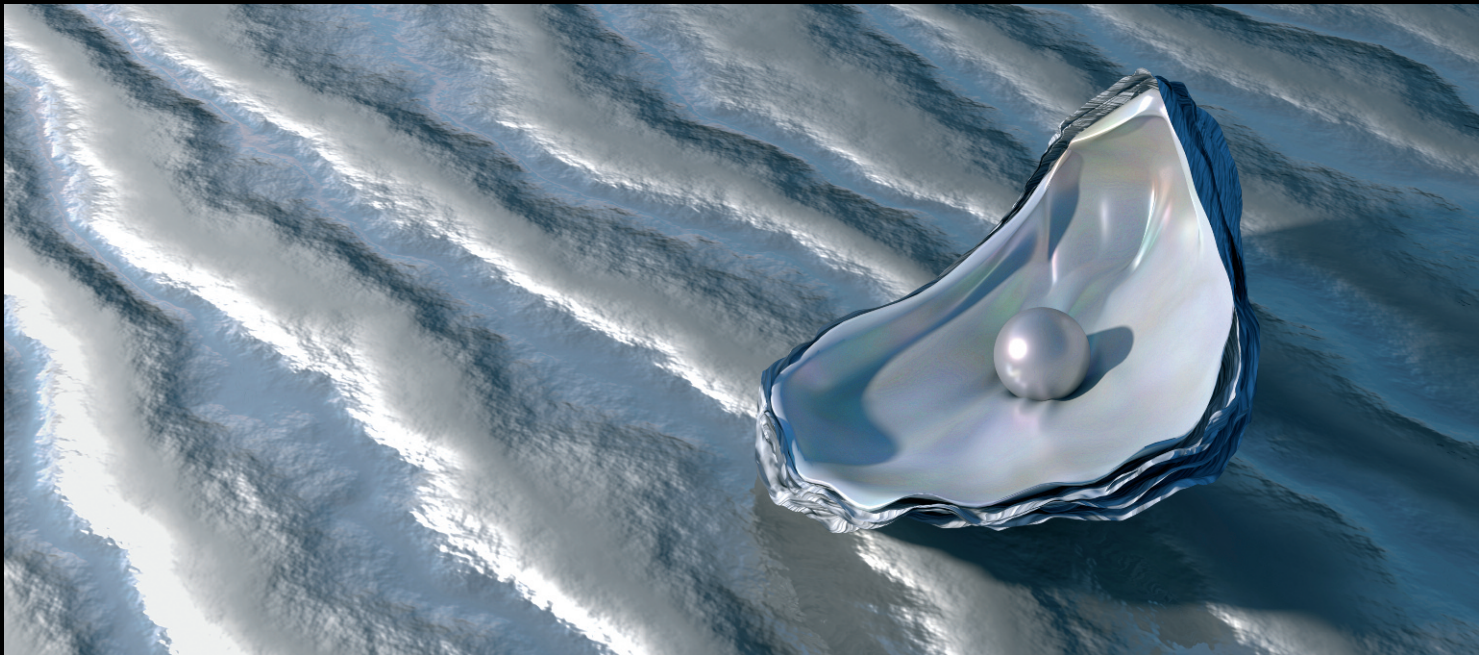


Introducing

# ishka Vista

2018 Aviation Finance Market Forecast



Chance favours the prepared

**Increase your visibility and prepare to make better business decisions with Ishka's essential 2018 Aviation Finance Market Forecast.**

**Ishka Vista** delivers a trusted and independent assessment of the aviation landscape to help identify markets, products and assets that offer the greatest return on investment and the best potential for growth.

**ORDER TODAY**

Introducing

# ishka Vista

Inform your investment strategy and make critical decisions with confidence



As the market enters the next phase of the aviation cycle, I'm delighted to introduce **Ishka Vista: 2018 Aviation Finance Market Forecast.**

The requirement for new aircraft funding is expected to reach US\$140+ billion in 2018. With record deliveries, an active secondary market and bank liquidity at an all time high, the aviation finance market appears buoyant. However, the sands are shifting below our feet.

Markets are evolving, leading to potential changes in demand for different types of aircraft; some market sectors are becoming riskier, both politically and socio-economically, and the competition to both acquire and place aircraft is driving aggressive transaction terms. When airlines also start showing signs of over extending, it becomes increasingly critical to be doing the right deals, with the right assets and airlines, at the right price.

**Ishka Vista: 2018 Aviation Finance Market Forecast** identifies and addresses the critical issues impacting the investment landscape over the next 12-18 months, enabling investors, lessors and financiers to effectively compete in tomorrow's markets

#### **Eddy Pieniazek**

Head of Ishka Advisory

#### **Expert analysis and assessment of:**

##### **Global aviation finance markets**

Which markets are primed for growth and which are in decline? Where should you plan to focus your resources and make key strategic investments?

##### **25 key international airline groups**

These 25 specially identified carriers are responsible for 50% of new aircraft deliveries by volume and value in 2018. Which airlines are performing well and which ones are exposed to a bumpier ride?

##### **Attractive classes of aircraft types and assets**

It's a complex world of choices. Financiers can opt for lower-risk, lower-yield new-build aircraft types, or focus on older assets with their lower capital costs and higher margins, but with higher levels of risk in terms of demand, marketability and maintenance burden. In between the two, are a myriad of other investment options. Which sectors are facing change in 2018?

##### **Deal structures and deal volumes**

The proliferation of SLB (Sale & Leaseback), ABS and EETC transactions covering billions of dollars of investment each year indicates confidence in the market as a whole. However all are reliant on the quality and performance of the lessors, asset managers and airlines that are managing the aircraft. Which deal types are providing the better returns and where are the pressure points?

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**Please contact Chris Keene to order your copy**

chris@ishkaglobal.com +44 (0)20 3176 6392

# 2018 Aviation Finance Market Forecast

## Contents Overview:



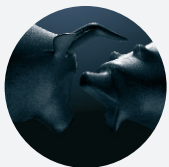
### Section One **The End of 2017: Industry signals and current trends**

2017 has seen some major airline failures and increasing pressure on airline yields, despite oil price remaining relatively low. 2018 will prove you can still lose money in this game.



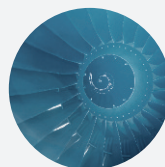
### Section Two **External factors impacting the aviation finance industry**

50% of new deliveries in 2018 could be financed via sale and leaseback arrangements but given the new accounting regulations, will airlines look to alternative funding options?



### Section Three **The demand for aircraft finance in 2018**

Is aircraft production a 'runaway train'? \$140 billion is required to cover 2018 new aircraft deliveries. However, with 1 in 4 scheduled for China, can their infrastructure handle such an increase in capacity?



### Section Four **The supply of aircraft finance in 2018**

The 'Wall of Cash' from China and investors around the world are revisiting their criteria. Lessors face continued consolidation pressures in order to better manage future risk and exposure. This is not a static play! Expect some turbulence.



### Section Five **The impact on aircraft values and lease rates**

The Consensus view suggests market values for widebody types such as 777-300ERs and A330-300s are coming under more pressure than lease rates. When there's more confidence in renting the utility than in owning it, be alert to the market signals. According to the Consensus, Narrowbodies such as the A320ceo and 737-800 are responding in lease rate terms, plugging the gap left by delayed deliveries in new equipment – a short term effect, but welcome nevertheless. Data and charts on key types will be provided



### Section Six **The Ishka View**

The good years are not necessarily behind us, but we are ticking more and more boxes that point to some difficult times ahead. While profitability doesn't go away altogether, it does get harder to locate. This report will help you find it.

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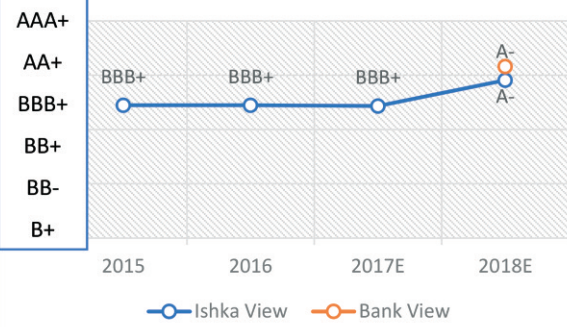


SAMPLE

**Southwest Airlines**

Country	United States
Alliance Membership	None

**Credit Review (Ishka Scorecard and Bank Consensus PD)**



Source: Ishka calculations, Airline financial statements, Bloomberg, Thomson Reuters & Credit Benchmark's Bank Consensus Probability of Default

**Ishka Scorecard**

	FY 15	FY 16	FY 17E	FY 18E
Liquidity	BB+	BB+	BB+	BB+
Leverage	A+	A+	A+	AA
Gearing	AA	AA	AA	AA+
EBITDAR Margin	A-	A-	A-	A
Avg. Age	B-	B-	N/A	N/A
Load Factors	A-	A-	N/A	N/A

**2018 Delivery Profile**

Type	Approx.. No.	Value	Remarks
Boeing 737-800	26	\$1,210m	These are the last of the 737-800s Southwest has on order.
Boeing 737MAX 8	13	\$650m	Second batch of MAX 8s for Southwest, first 14 MAX 8s due for delivery in 2017.
<b>Total</b>	<b>39</b>	<b>\$1,860m</b>	

Southwest has 170 737 MAX 8s on firm order, with options for another 195. The last of its earlier orders for 737-800s will deliver in 2018. Capital commitments amount to \$1 bn in 2018 (presumably these are final instalments on deliveries).

Southwest will also be acquiring 4 737-700s from the secondary market in 2018.

In 2019 Southwest will take the first of its 30 737MAX 7 orders.

**Ishka Summary View**

Southwest remains one of the most financially healthy airlines globally following its consistently dependable record of profitability through varying industry cycles

The airline has never suffered an annual loss since its inception in 1971 and has pioneered the LCC model imitated by airlines globally

Despite the increasing cost and revenue pressures, the airline's expertise in its business model and its strength of fundamentals should ensure that its credit standing remains relatively robust in the near future

Southwest's fleet replacement programme should also help the airline to remain competitive and generate additional cost-savings

Improved credit ratings should help to limit cost of financing

While Southwest is structurally strong, it remains to be seen whether the US market has the bandwidth to absorb the level of capacity growth planned by the various US airlines

The airline will face increasing competitive pressures from both, the FSCs who are increasingly offering no-frills ticket options and the rise of Ultra LCCs such as Spirit Airlines and Frontier Airlines who have an even lower cost structure than Southwest and therefore can offer even lower tickets

Rising labour costs and even fuel expenses will put increasing upward pressures on the airline's cost structure

Outlook

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