

Air Lease Corp.

(AL)

Small Talk – March 21, 2017
Ralph Futch - Rocky Mountain Chapter

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Poll Question

- Have you completed a study of Air Lease?
 - Air Lease is new to me
 - Heard of Air Lease, have not studied it
 - Have completed SSG for Air Lease
 - Air Lease is in my club's portfolio



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Know what you own
Know what it does
Know why you own it

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Air Lease – A Brief History

Founded in 2010
Based in Los Angeles, California
76 employees
2016 - \$1.419 Billion in revenue
95% of business is ex-US
Fleet of 237 owned and 30 managed aircraft (12/31/2016)
85 customers in 51 countries (12/31/16)
Transactions are in US dollars

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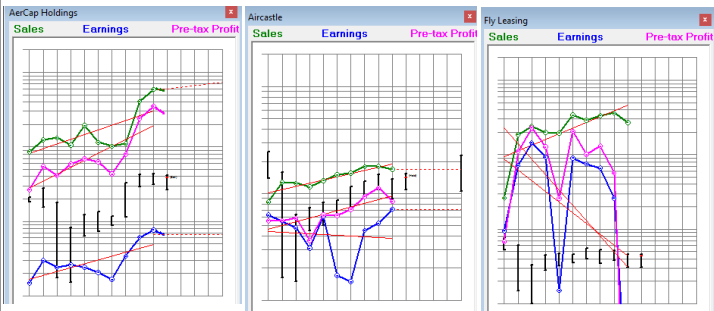
What Does Air Lease Do?

Leases commercial aircraft, sells aircraft, and manages aircraft leases
Have purchase agreements and scheduled deliveries from Boeing and Airbus for new aircraft through 2021
92% of aircraft for delivery through 2019 are leased
In 2016 – signed agreements for 122 aircraft with 39 companies across 33 countries

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Competitors



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Management

- Although a new company, AL has an experienced management team
- Strong relationships with manufacturers, airlines, and financial institutions
- Succession plan in place

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Industry Growth

- Passenger miles doubling every 15 years (5% annual growth)
- Replacement cycle at about 7%; OEM's maintaining discipline on production, reducing cyclicality
- Increasing use of leasing by industry (from <1% in 1970 to ~40% in 2015)
- Need for more efficient aircraft – engines, electronics, passenger amenities

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Company Growth

- Scheduled aircraft deliveries (296 in next 5 years)
 - 2017 – 34
 - 2018 – 43
 - 2019 – 64
 - 2020 – 78
 - 2021 – 77
- 92 % of scheduled aircraft delivery through 2019 have signed leases

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- Section 1
 - Insiders, institutions
 - Quarterly Y/Y comparisons, Sales & Earnings
 - Graph of Sales, PTP, earnings
 - Historical & projected sales growth
 - Historical & projected earnings growth

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Estimated Sales Growth Rate

- 30.6% Historical growth
- 20.9% 5 year average
- 15.0% Company estimates
- 13.4% Last quarter



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Estimated Earnings Growth Rate

- 25.1% 5 year average
- 27.5% 5 year average with cy 2015 removed
- 20.3% Last quarter growth rate
- 15.0% Same as estimated sales growth
- 13.4% Last quarter revenue growth



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- Section 2
 - Management
 - PTP, ROE, Debt to Equity
- Section 3
 - Historical data
- Section 4
 - Judgments on P/E's, Low price

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2 QUALITY ANALYSIS

	2012	2013	2014	2015	2016	5 YEAR AVG.	TREND UP / DOWN
A % Pre-tax Profit on Sales	31.1	34.2	37.6	32.1	40.9	35.2	UP
B % Return on Equity	5.6	7.4	9.0	8.2	10.8	8.2	UP
C % LT Debt to Equity	176.8	222.3	231.5	243.3	246.0	224.0	UP

2A and 2B are both up, and what we would like to see in a quality company.

2C shows a debt to equity ratio of 2.5*1, a wide departure from the BI guidance of .5*1 for an industrial company

Let's explore further

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- AL debt covenants allow up to a 3*1 debt to equity ratio
- Debt ratings:
 - BBB – Standard & Poors, Fitch
 - C++ Value Line

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Estimating P/E's

- In addition to looking at historical P/E's, look at the P/E's that analysts are projecting. Usually, only one value is given, leaving us to determine what a range of P/E values might be, based on the mid point.
- Value Line – 9.6
- Morningstar – 8.2
- Credit Suisse – 10.7

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Estimated High P/E

- 17.1 - 5 year average high P/E
- 18.7 - 5 year average with 2016 removed
- 11.4 - Current P/E ratio
- 12.5 - Higher P/E that current



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Estimated Low P/E

- 11.4 – 5 year average low P/E
- 12.8 – 5 year average low P/E with 2016 removed
- 7.1 - 52 week low P/E
- 6.5 - Low P/E for 2016



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Estimated Low Price

- \$xx.xx - Forecast low price from tonight's polls
- \$22.50 - 2016 low price
- \$24.50 - 52 week low price
- \$26.90 - Price Variant Quotient (PVQ)
- \$31.28 - 80% of current price (3.17.17)



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Estimated High Price

How do our projected high prices compare to analysts?

Using Book Value as a tool for forecasting prices for financial companies

Using Book Value as a tool for forecasting prices


	Year	BV	BV Growth %	High Price	High P/BV	Low price	Low P/BV
Actual	Book value	2010	-				
Actual	data from Morningstar data feed	2011	21.28	29.94	1.41	17.24	0.81
Actual		2012	23.04	26.47	1.15	18.45	0.80
Actual		2013	24.17	33.57	1.39	21.73	0.90
Actual		2014	26.32	42.89	1.63	30.01	1.14
Actual		2015	26.85	40.49	1.51	28.12	1.05
Actual		2016	31.97	37.24	1.16	22.47	0.70
	Average 5 yr		8.63%		1.37		0.90
Projected BV Growth			8.63%		1.37		0.85
Estimated		2017	34.73	47.58		29.52	
Estimated		2018	37.73	51.68		32.07	
Estimated		2019	40.98	56.15		34.83	
Estimated		2020	44.52	60.99		37.84	
Estimated		2021	48.36	66.25		41.11	
Estimated		2022	52.53	71.97		44.65	
Estimated		2023	57.07	78.18		48.51	

After this study, what are your thoughts?

- I have no interest in this company
- No interest in leasing companies
- Interesting company with good, long-term prospects
- Will research for further consideration
- Will put on a watch list

Questions?





SWOT Analysis

Strengths – Internal factors that may positively influence company performance

Weaknesses – Internal factors that may negatively influence company performance

Opportunities – External factors that may positively influence company performance

Threats – External factors that may negatively influence company performance

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Strengths

- Management
- Strong relationships with manufacturers, air lines, and financial institutions
- Business diversified across countries and companies – no concentrated risk in one area
- Only leases most commonly used airframes – helps to keep resale values high
- 95% of business is ex-US
- Pays dividend; has increased substantially since inception




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Weaknesses

- Financial strength rating of C++ in Value Line
- Credit rating of BBB by Standard & Poors and Fitch




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Opportunities

- Growing passenger traffic worldwide, especially in Asia
- Replacement cycle for aging equipment
- Increased aircraft under management add to revenues



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Threats

- *Slowdown in orders for new jets from major carriers*
- *Increased availability of used aircraft coming off lease – may depress resale prices*
- *Increasing interest rates*
- *Availability of financing*
- *Potential lease defaults*



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Thanks for attending this episode of Small Talk

Hope you enjoyed it!

Next Small Talk: April 18, 2017

Dates of Classes and 2017 Small Talks
and other events listed on

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References

- Investor Day Presentation – May 19, 2016
- Equity Q4 16 Equity Presentation –

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Comparing judgments

Source	Sale s%	EPS %	High P/E	High EPS	High Price	Low P/E	Low EPS	Low Price
BI (544)	13.3	12.7	17.71	5.45	95.86	12.95	2.64	25.70
My answer								
Small Talk								
Revised								

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