

Jane's

Intelligence and Insight You Can Trust

TRANSPORT FINANCE

DVB analyses funding gap



■ SinoPac mandates Mega

■ Air India issues RFP

■ Visit jtf.janes.com for additional news and analysis

● Singapore Airlines is an A-rated airline owner. A-rated owners are scheduled to receive 241 jet aircraft between them in 2010, or 21.38 per cent of the total.



IHS Jane's/P Allen: 1177237

DVB assesses funding gap

DVB Bank has analysed the aircraft finance market and arrived at a size and description of the funding gap for 2010

DVB Bank has analysed the aircraft finance market and arrived at a size and description of the funding gap for 2010.

DVB said the methodology used in assessing the funding gap entailed ranking potential borrowers – owners of the ordered aircraft – according to creditworthiness, or, more generically, according to their capability and ease in accessing funding and aircraft finance.

The Frankfurt-based transportation finance bank said in a note: "Our reasoning behind this procedure is obvious: if there is a funding gap, it will not have the same impact on each of the market segments.

On appraising the sources of fund-

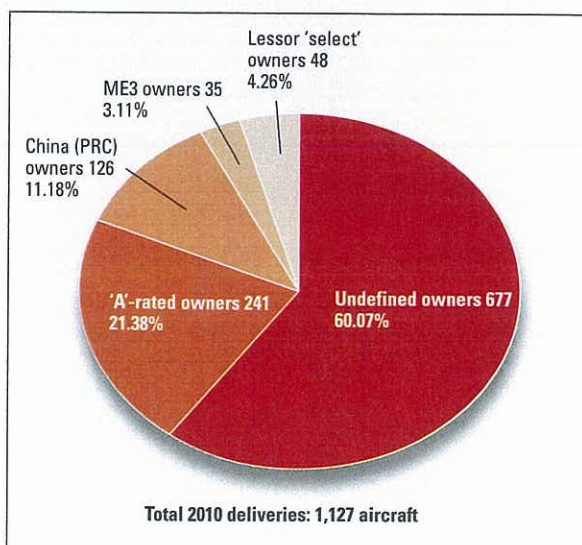
ing, we have proceeded with our best current knowledge of the market, bearing in mind that banks and export credit agencies [ECAs] are reasonably frugal in communicating openly on this sensitive issue. It must be stated that it is quite impossible to evaluate the funding needs of existing fleet refinancing, and/or sale/leaseback [S/L] transactions, etc, as opposed to the funding of new deliveries."

DVB used data provided by consultancy Ascend that was valid as of 12 January 2010.

Deliveries by type/operator

There are 1,127 jet aircraft scheduled for delivery in 2010: 376 A320-family aircraft (33.36 per cent); 379 B-737NG aircraft (33.63 per cent); 157 regional

jet aircraft (13.93 per cent); 83 A330/A340 aircraft (7.36 per cent); 77 B-777 aircraft (6.83 per cent); 21 A380 aircraft (1.86 per cent); 18 B-767 aircraft



Total 2010 deliveries: 1,127 aircraft

'If there is a funding gap, it will not have the same impact on each of the market segments'

DVB Bank

DVB Bank/IHS Jane's/J Pye: 1192100

(1.6 per cent); eight B-747 aircraft (0.71 per cent); and eight B-787 aircraft (0.71 per cent).

Of the total, 677 aircraft (60.07 per cent) are scheduled to be delivered to undefined owners while A-rated owners are scheduled to receive 241 aircraft (21.38 per cent); 126 aircraft (11.18 per cent) are destined for Chinese (PRC) owners; 48 deliveries (4.26 per cent) are scheduled for select lessors; and 35 units (3.11 per cent) are scheduled to be delivered to Middle Eastern carriers.

Of the USD58.75 billion overall value of 2010 deliveries, undefined owners are set to receive USD32.3 billion-worth (55.05 per cent) of aircraft; A-rated owners – USD13.67 billion (23.26 per cent); operators in China (PRC) – USD5.32 billion (9.06 per cent); Middle Eastern carriers – USD4.18 billion (7.12 per cent); and select lessors – USD3.24 billion (5.51 per cent).

Who needs how much?

DVB Bank estimates that A-rated airlines will enjoy ample and relatively easy access to funding and should also be able to use their cash positions to help fund some of their future deliveries.

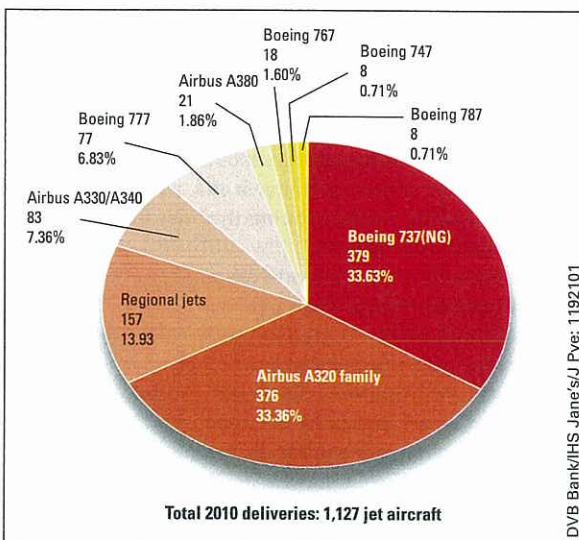
The unique situation in China is expected to continue. Created by public agencies demonstrating commitment to the airlines, Chinese banks should continue to cover the funding needs of domestic carriers, with some additional assistance from ECAs.

The Middle Eastern sector will also continue to enjoy easy access



● FedEx is also an A-rated airline owner.

EADS: 1172925



DVB Bank/IHS Jane's/J. Pye: 1192101

to funding and, when required, is also supported by implied or explicit state guarantees (for example, Dubai and Qatar).

Of the lessor commitments, those leasing companies capable of offering assets under lease to any of the select owner categories should also be able to access financing.

Hence, the total value of 2010 deliveries to be made to prime owners amounts to USD26.4 billion – leaving the remainder of USD32.3 billion still to be financed.

Manufacturers are expected to finance up to USD2 billion while ECAs are expected to support USD21.9 billion – resulting in an unassigned financing requirement (funding gap) of USD8.4 billion.

Owners of aircraft to be delivered

- **A-rated airline owners:** where the aircraft is owned by what is widely considered to be an A-rated airline credit. These airlines are: Air France-KLM (including Brit Air, KLM Cityhopper, Regional and Transavia); All Nippon Airways (ANA); British Airways (including BA Cityflyer); Cathay Pacific Airways; Easyjet; FedEx; Japan Airlines International (JAL)*; Lan Airlines; Lufthansa (including Austrian Airlines, Lufthansa CityLine and Swiss); Qantas Airways (including Jetstar Airways); Ryanair; Singapore Airlines (including SilkAir); Southwest Airlines; and UPS Airlines.
- **Chinese carrier owners:** where the aircraft is owned by a China-domiciled airline company.
- **ME3 owners:** where the aircraft is owned by one of the considered top-three Middle Eastern airline credits: Emirates, Etihad Airways and Qatar Airways.
- **Select lessors:** where the aircraft is owned by an operating lease company and operated by either an A-rated Chinese or ME3 carrier.
- **Other owners:** where the aircraft is owned by a non-defined entity/airline.

(*JAL remains in the 'A-rated' owner category despite its recent bankruptcy filing. During its restructuring, the future of its order book is uncertain. However, given the immense government intervention and (financial) support, JAL is unlikely to experience difficulty funding its 2010 deliveries, assuming that these orders actually remain confirmed.)

Conclusion

DVB Bank's analysis derives a 2010 total aircraft delivery value of USD58.7 billion for all Western-built commercial jet aircraft.

However, DVB notes that the majority of aircraft scheduled for delivery this year were probably ordered two to three years ago. Subsequently, the price for each aircraft was also agreed at that point.

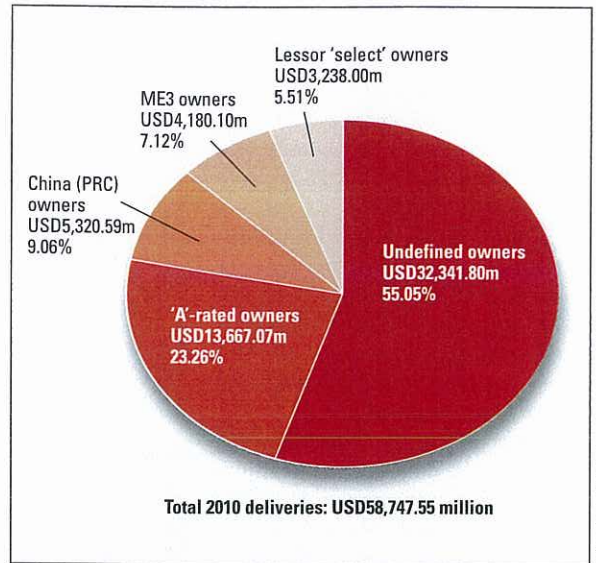
Therefore, taking into consideration that this negotiated historical price structure will undoubtedly feature escalation factors, DVB believes that the effective total value for 2010 deliveries will be closer to USD60 billion.

DVB Bank cautions that the exact funding gap is extremely difficult to assess because, in addition to the financing of new deliveries, there is

● EasyJet is an A-rated airline owner. Of the USD58.75 billion overall value of 2010 deliveries, A-rated owners are set to receive USD13.67 billion-worth (23.26 per cent) of aircraft.



IHS Jane's/P. Allen: 1373793



DVB Bank/IHS Jane's/J. Pye: 1192099

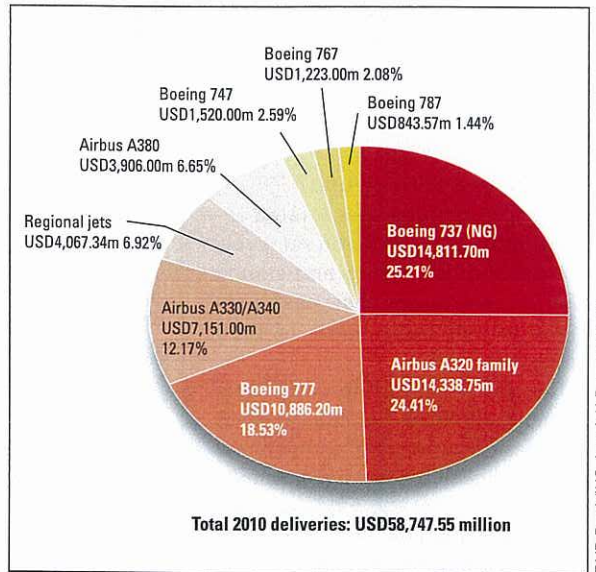
The majority of aircraft scheduled for delivery this year were probably ordered two to three years ago. Subsequently, the price for each aircraft was also agreed at that point

a significant level of activity in the second-hand S/L market. Some of it is in anticipation of future deterioration in the bank market and this is taking its toll on available capacity.

Assuming that the ECAs and manufacturers deliver and perform as expected, and also that the carriers listed in the prime owner categories consume only a modest portion of export credit, DVB concludes that, for the remaining new deliveries of 2010 to be financed, a total of USD8.4 billion will have to be sourced.

The capital markets made a significant contribution to the liquidity of the aircraft finance sector in 2009. However, given their volatility, it is difficult to assess and/or assume the extent of their role in 2010.

DVB believes that the bank market will have to absorb the majority of the USD8.4 billion to satisfy and support the weakest segment of the market. At this point, however, DVB Bank is of the opinion that this figure remains a challenge for the industry. ■



DVB Bank/IHS Jane's/J. Pye: 1192098

● JAL remains in the A-rated owner category despite its recent bankruptcy filing. DVB Bank estimates that A-rated airlines will enjoy ample and relatively easy access to funding and should also be able to use their cash positions to help fund some of their future deliveries.



P. Jackson: 0567736