



ALAFCO Aviation Lease and Finance Co.

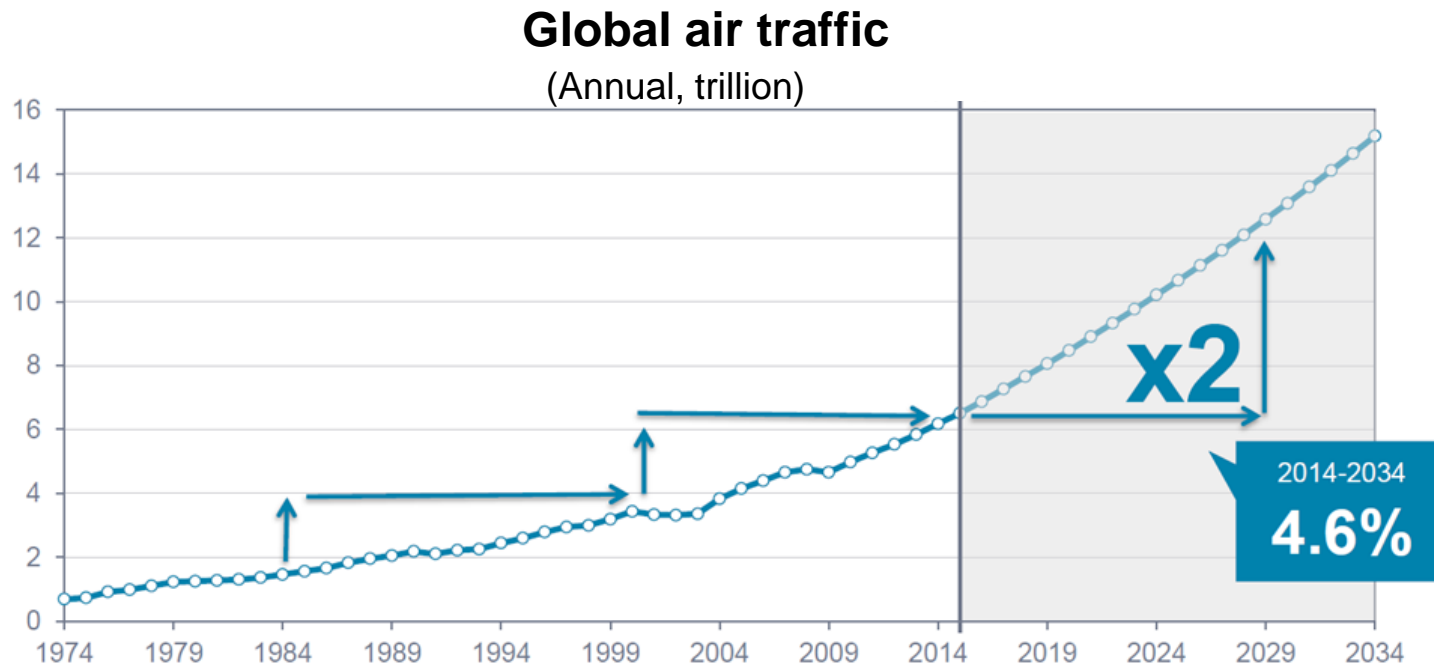
Mr. Adel Al-Banwan
Deputy CEO

(18th April 2016)

❖ **Section 1: Aviation Industry Highlights**

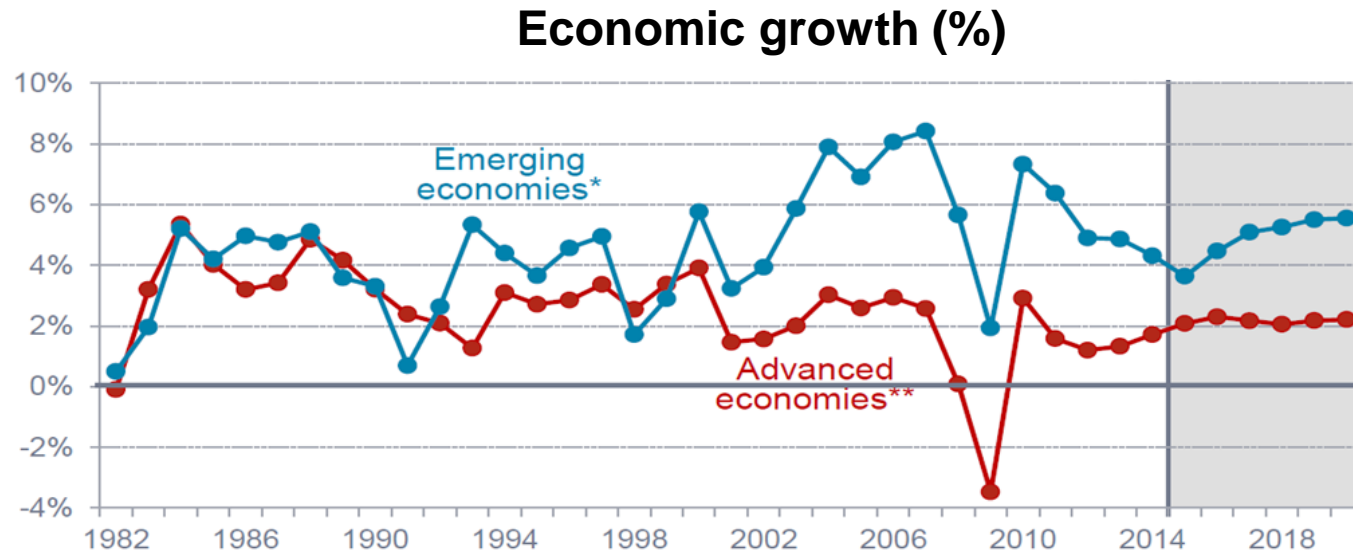
Global air travel to double in the next 15 years

- According to market outlooks, world passenger traffic is expected to double in the next 15 years – at an **annual growth rate of 4.5%-5%**.
- **Air travel is resilient.** Over the past 30 years, the aviation industry has experienced recessions, oil-price shocks, wars and security threats, yet traffic has continued to grow at 5% annually on average.



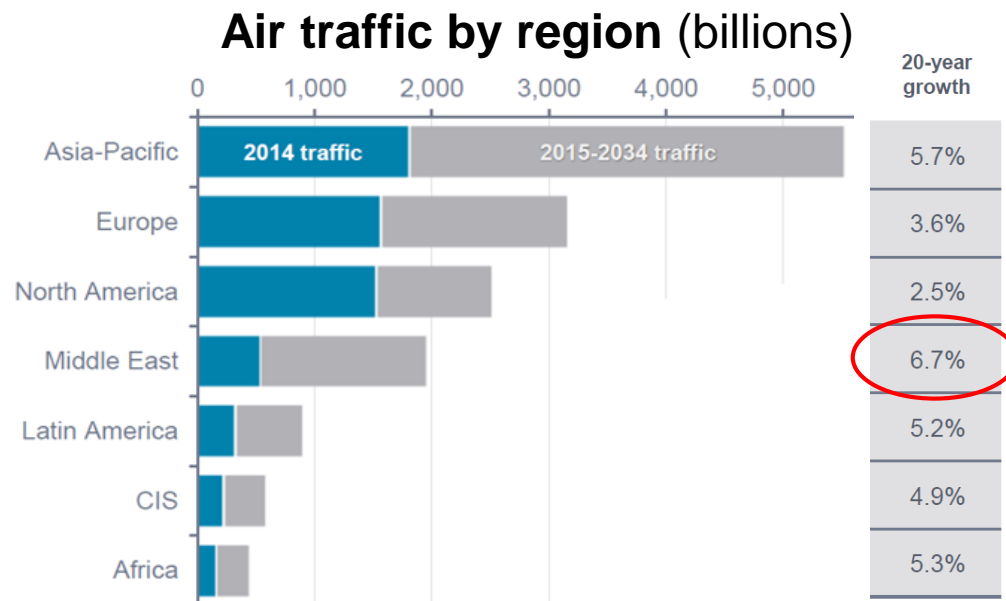
Population and economic growth drive air travel

- **World population** is projected to increase by 1.6 billion between 2015-2034, and **world economy** to double in size over the same period.
- Emerging markets are expected to lead growth. **High economic growth rates, increased urbanization and an expanding middle-class** will drive air travel demand in these economies.



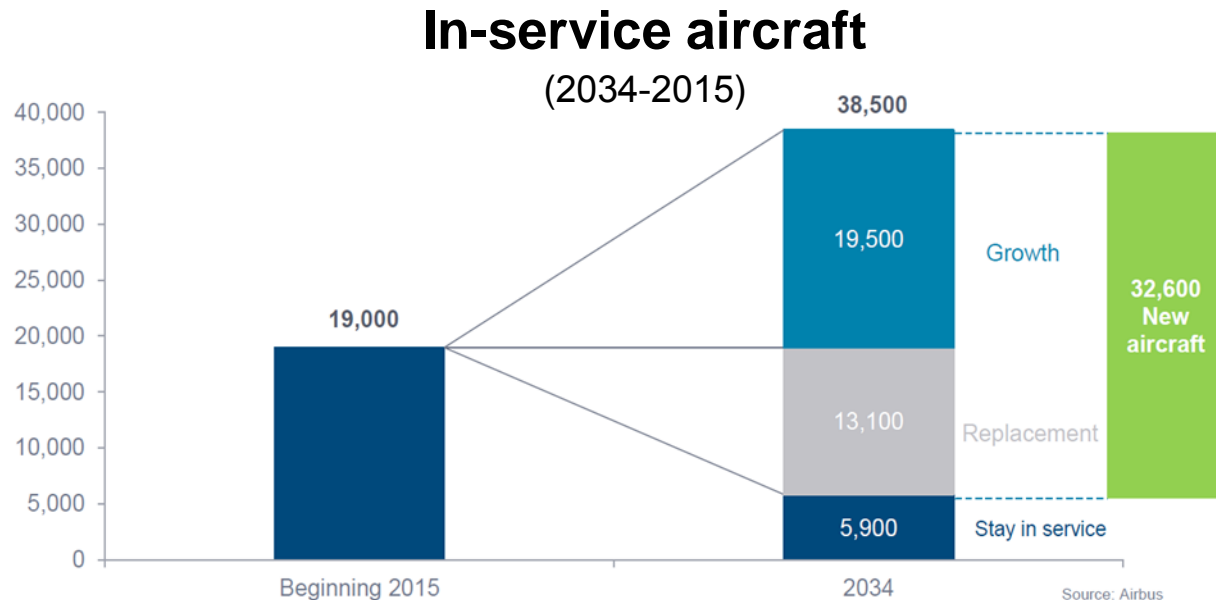
Air travel growth is highest in emerging markets

- The **Asia-Pacific region has become the world's largest aviation market**, and is expected to continue to see significant growth.
- Given that **Europe and the US are more mature markets**, growth rates will be lower. But they will continue to hold a large share of air travel.
- The **Middle East is expected to experience the fastest growth** in passenger traffic amongst all regions.



World fleet to double over the next two decades

- Forecasted **demand for more than 30,000 new aircraft over the next 20 years**, in order to meet the expected growth in air travel.
- It is projected that 40% of all new aircraft in the next 20 years will be delivered to airlines in Asia-Pacific, while Europe and North America combined need 40%.
- Around 60% of deliveries focus on industry growth requirements, and 40% for replacement of aging aircraft.



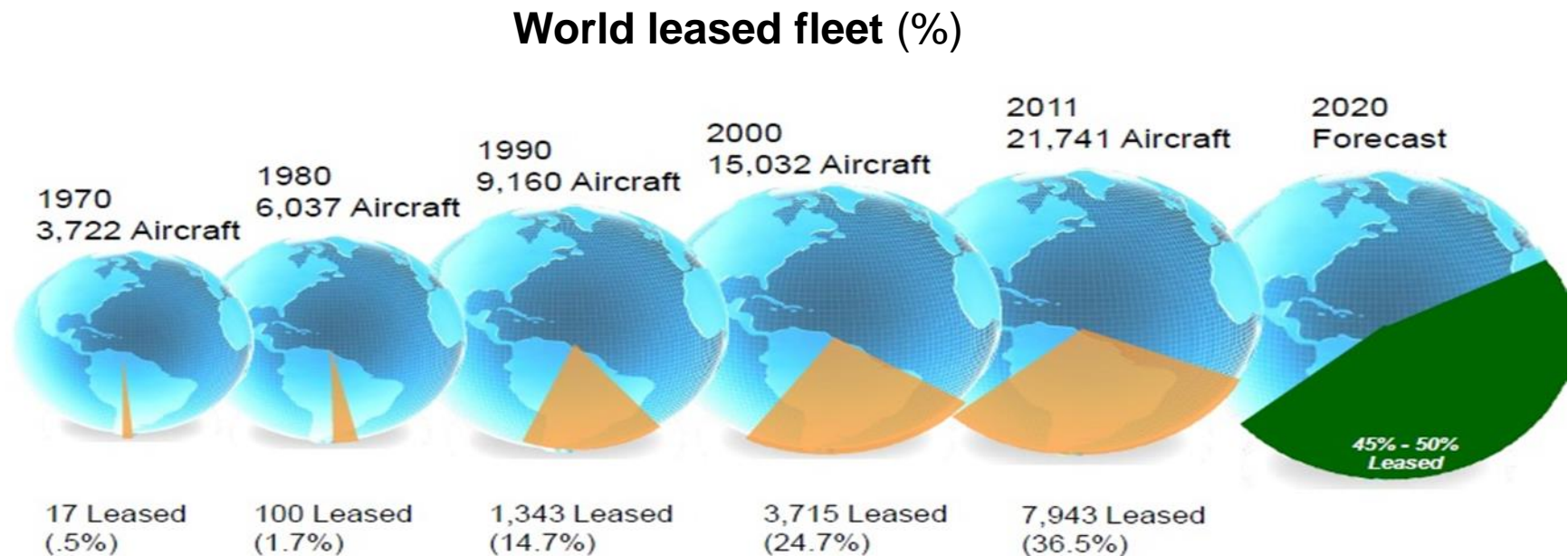
More airlines turn to leasing to finance fleet

With aircraft orders at record high, leasing companies will play a bigger role in financing these orders. Benefits of operating lease include:

- Utilization of **freed-up liquidity** to finance core operations.
- **Flexible fleet portfolio** – allows airlines to increase operational flexibility through providing interim capacity quickly.
- **Access to attractive delivery slots**, given many production slots are sold out for a number of years, airlines seeking fleet growth could access lessor slots.
- **Access to relatively cheaper capital** given lessors investment grade rating and better risk profile.
- **Avoiding pre-delivery payments** (PDPs) which decreases liquidity for several years without increasing revenue.
- **Residual value and obsolescence risk** rests with the lessor.

The increasing trend towards aircraft leasing

- Today, leased aircraft represent around 40% of global fleet (7,600 leased aircraft) from around 14% of the global fleet in 1990 (1,343 leased aircraft) .
- **By 2020, around 50% of the world's fleet are expected to be leased aircraft.**



Aircraft leasing industry attracting more investors

- The aircraft leasing market is increasingly attracting investors who are eager to profit from **stable, predictable returns** generated by this sector. The stability is secured by fixed monthly lease payments which cover both aircraft acquisition and financing costs.
- In the current **low interest rate environment**, the sector offers an attractive alternative to investors, generating long-term dollar-based revenues.
- An aircraft is a hard asset-backed investment which can **generate up to 10%-15% ROIs**.
- Aircraft are a **highly mobile asset** – helps with reclaiming and redeploying the asset in case of a default. Aircraft can be easily relocated to another region in the world, and is supported by International regulations such as the Cape Town Treaty.
- **Record aircraft orders** have increased investors interest into the sector, as the aircraft leasing industry look to finance these significant orders.

❖ Section 2: ALAFCO



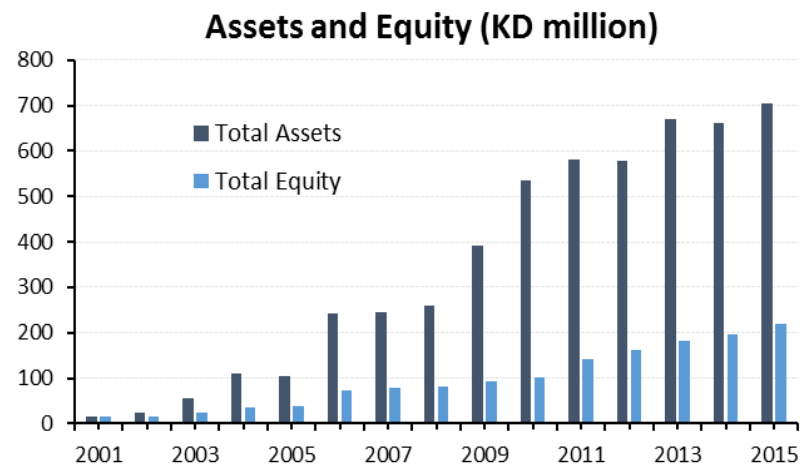
ALAFCO's successful business model

ALAFCO's success has stemmed largely from its **focus on its core business** of aircraft leasing, and its conservative investment criteria which entails:

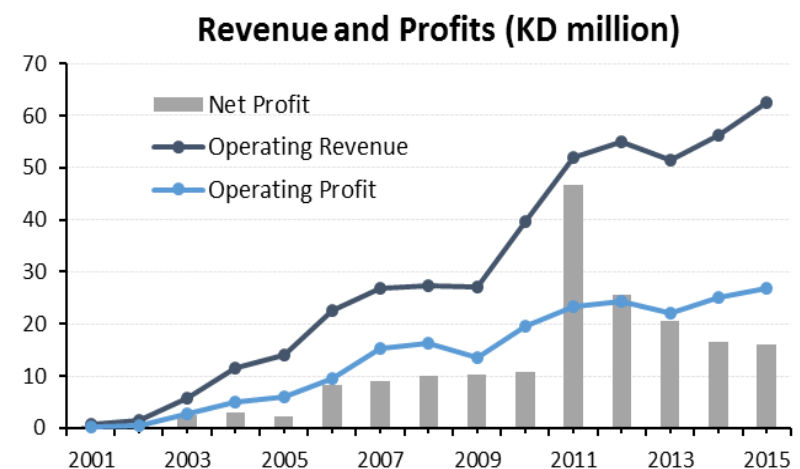
- Acquiring **aircraft that are liquid** such as Airbus A320 and Boeing B737 (narrow body aircraft) that are widely operated in the world, easily placed with customers, and quickly transferable to other customers at the end of lease.
- Investing **early in the product life cycle** - ordering new technology aircraft, obtaining favorable delivery slots and benefitting from the aircraft's long useful life.
- Leasing aircraft to **credit worthy airlines** on long-term leases.

ALAFCO financial performance consistently strong

- ALAFCO's total assets – mainly aircraft, engines and equipment – reached KD 704 million at end-2015, while total equity reached KD 219 million.
- ALAFCO recorded **double-digit growth in operating revenue in 2015**, which reached KD 62.6 million, up KD 6.4 million year-on-year. Operating profit was up KD 1.9 million to KD 26.9 million.
- ALAFCO has **posted profits every year** since inception, and has **declared dividends every year** since listing.



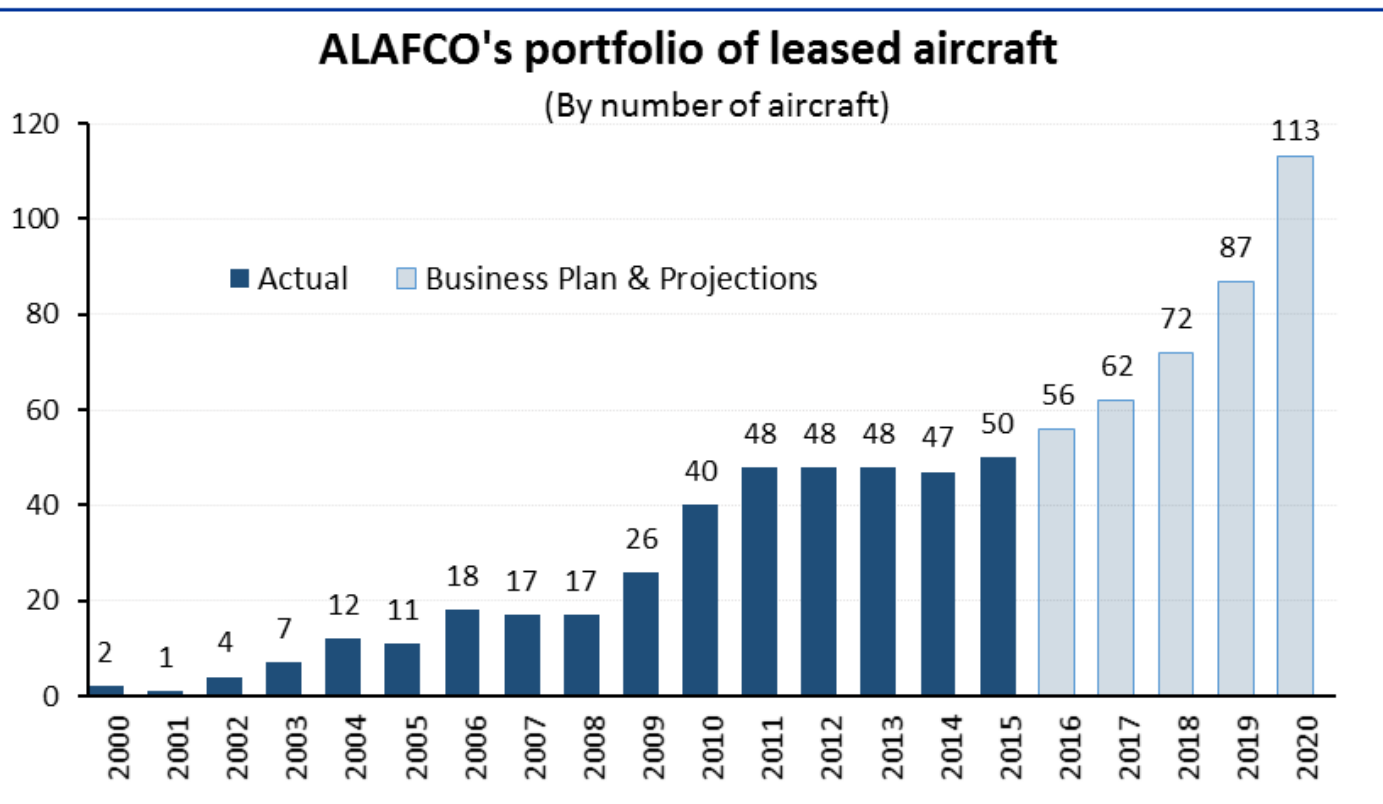
Source: ALAFCO



Source: ALAFCO

ALAFCO plans to reach 100 aircraft by 2020

- ALAFCO's portfolio consisted of 50 aircraft as of the end of 2015, valued at around KD 579 million.
- ALAFCO plans to **double the size of its portfolio in the next 5 years**, reaching at least 100 aircraft by the end of the decade.





ALAFCO's strategy for expansion of its portfolio

ALAFCO plans to achieve its growth targets through:

- **Acquiring aircraft directly from aircraft manufacturers.** ALAFCO has 117 new technology aircraft on order from Airbus and Boeing, at a list price of KD 14.9 billion, scheduled to be delivered starting next year (2017) through 2021.
- ALAFCO is also adding aircraft via **sale-and-leaseback (SLB) transactions and acquisition of aircraft with lease attached.**
- **Divestment in aging aircraft,** in order to maintain a young fleet and to prepare for gradual replacement with new technology aircraft.



ALAFCO financial strength to support growth plans

ALAFCO finances its aircraft acquisitions 20% through equity and 80% through international banks and US / European export credit agencies.

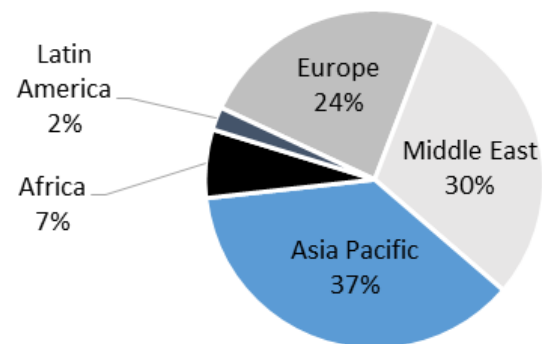
ALAFCO is capable of funding its significant purchase commitments due to:

- ALAFCO's **strong balance sheet with high liquidity levels**, which is significantly above the industry average.
- **GIC's injection of KD 30 million in capital** will strategically serve growth plans. Gulf Investment Corporation (GIC) became a new strategic investor at the end of 2015.
- ALAFCO's relatively **low debt-to-equity ratio** of 1.4, which is well-below the industry average. This means that ALAFCO can increase its borrowing further to fund its expansion plans.

ALAFCO strategy for placement of ordered aircraft

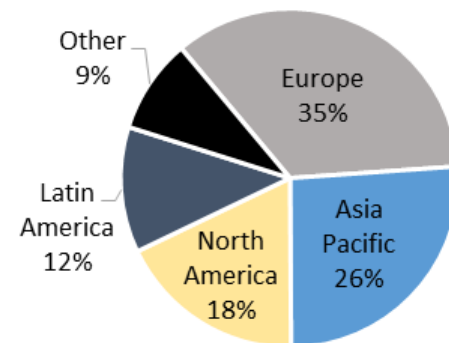
- Two-thirds of ALAFCO's current portfolio is placed with airlines in Asia-Pacific and the Middle East – the two fastest growing aviation regions in the world. **ALAFCO plans to expand globally, but these two regions will offer more opportunities.**
- ALAFCO is currently in the process of establishing an **operating subsidiary in Ireland, which will allow ALAFCO to expand its operations into the US market** – one of the largest aircraft leasing markets that ALAFCO has not yet tapped into due to taxation issues.

Geographical distribution of ALAFCO's leased aircraft



Source: ALAFCO

Geographical distribution of the world's leased aircraft



Source: Airfinance Journal



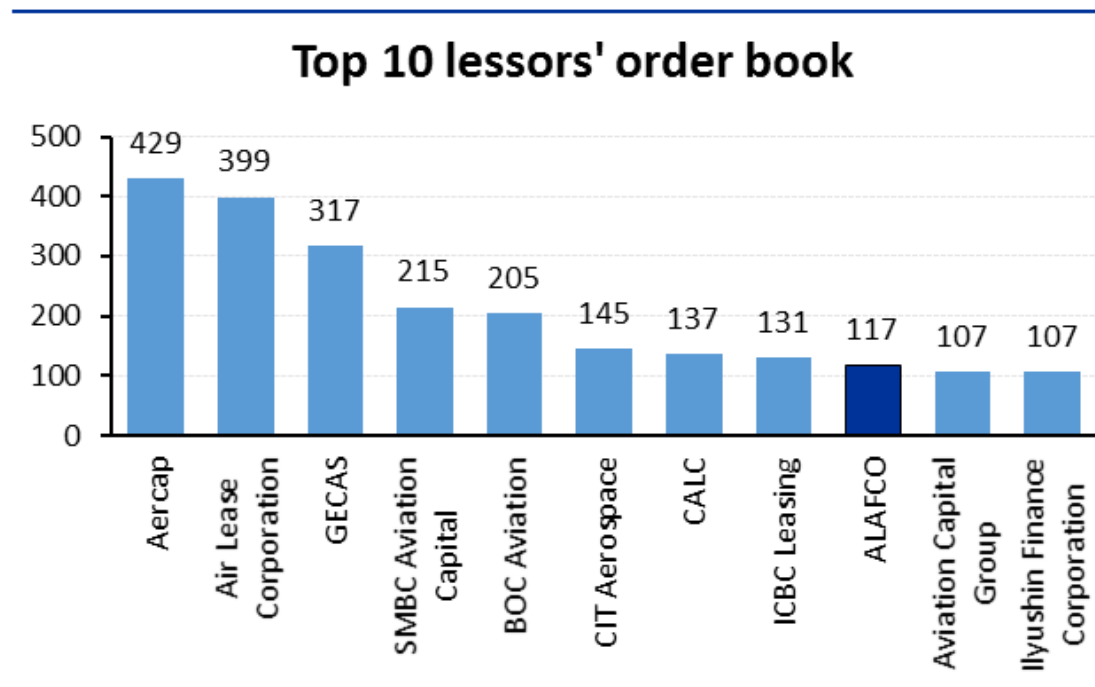
ALAFCO strategically invests in new technology

ALAFCO strategic investment is based on the following:

- New fuel-efficient aircraft offer **huge fuel-savings** for airlines.
- New technology aircraft also offer **lower maintenance costs, reduced emissions/noise** to meet regulatory requirements, and **increased passenger comfort**.
- **Oil price are volatile** and unpredictable.
- **Airline fleet investment based on long-term strategy**, not short-term movements in oil prices.
- **Reducing exposure to current technology aircraft** as their residual value will be affected by the entrance of new technology aircraft .
- New fuel-efficient aircraft will become **more expensive** and difficult to acquire **when oil prices are higher**.

ALAFCO's order book amongst world's top ten

- **ALAFCO's order book is ranked 9th amongst the world's aircraft leasing companies**, according to Airfinance Journal. This gives ALAFCO a distinct competitive advantage over other leasing companies.
- ALAFCO's deliveries of 117 ordered aircraft will begin next year until 2021. ALAFCO's 2017 and 2018 delivery slots are almost completely sold out.



ALAFCO begins securing customers for orders

ALAFCO has successfully placed 20 aircraft from its order book with two flag-carriers in Asia:

- ALAFCO will lease 6 wide-body aircraft (A350XWB) to **Thai Airways**, to be delivered in 2017-2018, for a long lease period of 12 years ending in 2030.
- ALAFCO will also lease 14 narrow-body aircraft (A320neo) to **Air India**, with deliveries between 2017-2019, for a long lease period of 12 years ending in 2031.



ALAFCO's airline customers



Emirates Airlines



Saudia



Royal Jordanian



Yemenia



Air China



China Eastern Airlines



China Southern Airlines



Okay Airways (China)



Air India



GoAir (India)



Malaysia Airlines



Garuda Indonesia



Thai Airways



NOK Air (Thailand)



VietJet Air (Vietnam)



British Airways



Turkish Airlines



Air Europa (Spain)



Transaero Airlines



Aegean Airlines



Ukraine Int. Airlines



Martinair (Holland)



Ethiopian Airlines



Caribbean Airlines

