



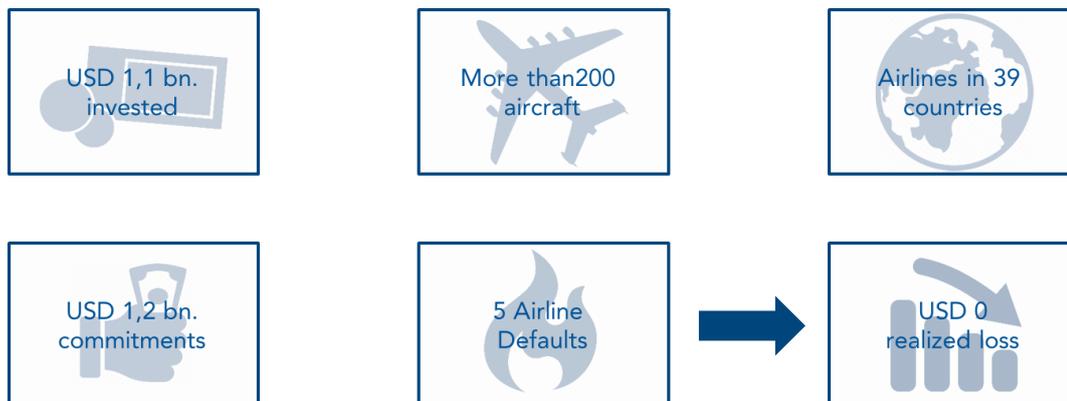
Asset Management

Aviation Newsletter – Q4 2019

Aviation Highlights for Q4 2019

- The Boeing 737 Max crisis has led to the departure of Boeings CEO and a new communication strategy of the manufacturer. Also the Q4 results have been heavily impacted with provisions rising to more than USD 18 bn.
 - Airlines beat earnings estimates, with North American carriers leading the way.
 - Airline stocks soared in Q4 again after a slight drop, back to the level of the beginning of the year; the kerosene spot prices increased compared to Q3, and general economic uncertainty remained comparably high.
 - Passenger numbers grew below the long-term average nonetheless have managed to outpace capacity growth, supporting high load factors across the globe.
 - Prime Capital was able to close and commit USD 15m to aviation debt in the fourth quarter. The underlying airlines are based in Asia and Europe, with spreads between 255 Bps and 260 Bps (over USD swap).
- ➔ **Conclusion:** While the news flow was a little quieter in the fourth quarter, the general trends have remained. Passenger growth is still declining, however outpacing capacity. Financing activity has been stable with several ABS transactions in the fourth quarter. Aircraft trading activity further declined due to the shortage of aircraft, caused by the Boeing 737 Max8 crisis. We currently see a generic spread for a narrow-body loan at around 220 Bps.

Prime Capital's Aviation Track Record



Q4 Summary

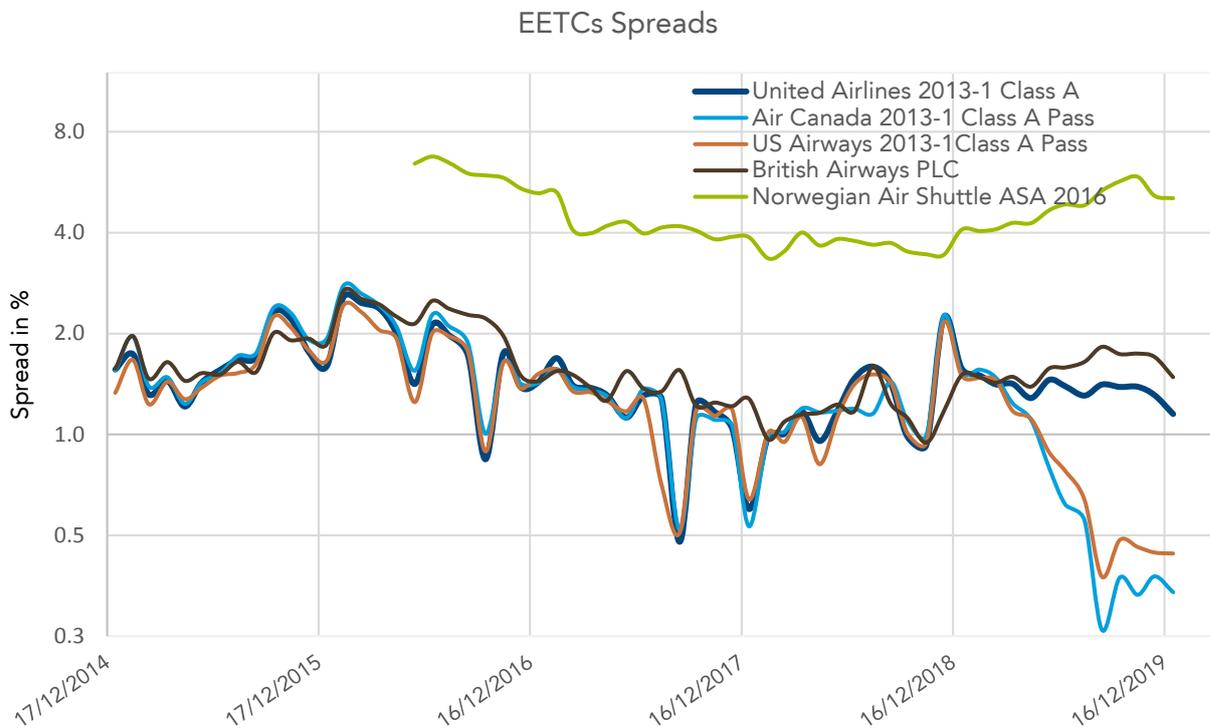
In the fourth quarter the press coverage of aviation was muted compared to the previous quarters. The focus remained on Boeing and the B737 Max crisis. Boeing drew clear consequences and dismissed its CEO. In addition, production of the aircraft was temporarily discontinued starting at the end of January 2020. This is partly due to the fact that Boeing is running out of space to park the produced aircraft. It is currently estimated, that delivery of the 400 aircraft produced after grounding will take until 2021. With the new CEO, there has also been a significant change in the Group's communication strategy. Boeing announced in mid-January that it did not expect the aircraft to be re-certified before mid-2020. This deviates from the previous strategy of always pushing the date back by one or two months. The FAA has since then commented, that it considers the timeline to be conservative and expects an earlier certification without providing a precise date. Boeing has set aside a total of USD 18.6 billion for claims in the fourth quarter of 2019. At the same time, Boeing was able to secure a credit line of USD 12 billion. While the crisis continues to put significant strain on the aviation industry, it has also led to a rationalization of capacity and stabilizing values for existing aircraft. Due to the expected slow re-entry of the Boeing B737Max into the world fleet, this effect is expected to last for several quarters. Ishka estimates a shortfall of c. 1000 aircraft. This is also expected to slow trading among leasing companies.

In December the first ever aircraft was financed using a green loan. ATR has delivered its first ever green financed aircraft to Swedish regional airline Braathens. It is part of a new order for five 72-600s, all purchased by Singapore based lessor Avation from ATR and leased to Braathens. ATR has acquired an ISO certification for managing the entire lifecycle of the aircraft, mapping out an effective environmental management system.

Rumors increased for an interest of Lufthansa to take over Alitalia, which is still under administration. However Lufthansa announced, that the airline would only be interested in taking over a restructured Alitalia, which should be done by the current ownership. Since then the deadline for a solution was further extended by six months until June 2020, while the Italian government claimed, that this would be the final extension.

Financing Terms

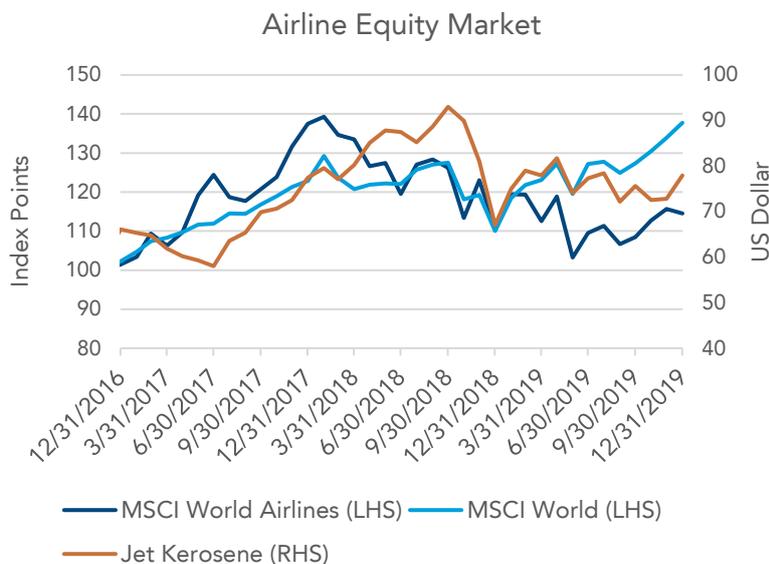
Average EETC* spreads overall for major airlines slightly decreased by 23 Bps in Q4. However, whilst spreads for United Airlines and British Airways remained fairly stable, spreads of US Airways, Air Canada and Norwegian Air Shuttle decreased significantly. The sharp decrease was mainly driven by good results of the airlines. Norwegian continues to struggle, but reported improved figures for Q4.



Source: PCAG Research based on Bloomberg Data / the spread is calculated as the difference between the yield and the respective Swap rate

* EETCs are publicly-issued bonds, with full recourse to the airline and backed by liens on a portfolio of aircraft

Airline Market



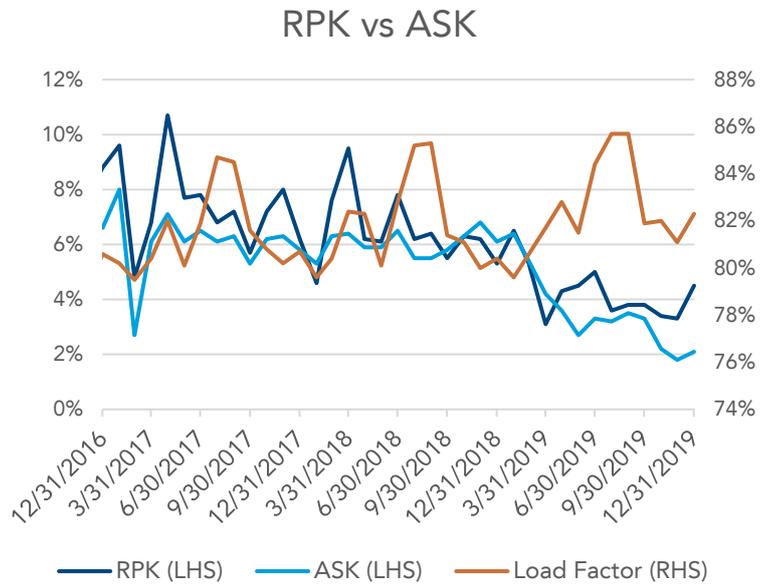
Source: Bloomberg

The preliminary Q4 2019 airline financial data gathered by IATA confirms a steady development in earnings on a global basis. Global airline share prices climbed in Q4 by 5.6%, while global equities have been up 8.2% over the same period. Initial Q4 2019 earnings announcements showed that strong demand and a lower fuel price continued to support especially North American airlines. Looking forward, although rising capacity in 2020 may be a challenge in some regions, moderate fuel prices together with an improvement in global economic growth are expected to support industry-wide financial performance. Following a short-lived improvement in October, global base passenger yields (excluding surcharges and ancillary revenues) eased modestly in US dollar terms in November despite the improvement in premium class yields.

Overall, economy class yields trended downwards in Q4 2019, while premium class yields improved in the last two months of the year. However, both economy and premium class yields are approx. 3% lower than their level at the beginning of the year. In 2020, moderate economic growth together with the planned capacity increases in some regions will likely maintain downward pressure on yields.

Commercial Aviation

Global revenues passenger kilometers (RPK) measuring the total demand of passenger traffic, increased by 4.5% (y-o-y) as of year end, up from 3.8% in September. The RPK growth is currently significantly below the 5-year average of 7% and also below the 10-year average. Available seat kilometers (ASK) increased by 2.1% year-on-year as of December, while the load factor slightly increased to 82.3% trending towards its all-time highs in 2018. The growth has significantly slowed during the past month, in line with economic expectations. IATA expects a growth around 5.5% for the coming year 2020. The annual growth is currently below expectations, but partially made up by the high-season contribution in the summer. The load factor has reversed its downward trend and is expected to stabilize, likely due to further consolidation in the airline industry. However, even though oil prices are tumbling, the industry is expected to further consolidate, due to competitive pricing and declining margins.



Source: IATA, Air Passenger Market Analysis Dec 2019, P.1. Available [here](#).

About Prime Capital's Private Debt Team

Prime Capital has been a pioneer in making aviation debt accessible to institutional investors and has since been expanding its Private Debt capabilities into Corporate Lending, Infrastructure and Real Estate financing and expects significant further asset growth in these areas.

Prime Capital's Private Debt Team manages more than EUR 2bn across these asset classes for institutional investors.

Further information about Prime Capital AG can be found on the web site www.primecapital-ag.com

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Source of Data (08 February, 2020): Prime Capital AG, Bloomberg, IATA, Airline Economics,

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