DAE Capital joins the leasing premier league

In August, DAE Capital, the leasing division of Dubai Aerospace Enterprise, muscled into the first rank of international aircraft leasing companies when it acquired AWAS from private equity firm Terra Firma Capital Partners and the Canadian Pension Plan Investment Board for an undisclosed sum. As a result, DAE has doubled its owned, managed and committed fleet to just under 400 aircraft with a value of around $14 billion.

“Organically it would have taken us a very long period of time to get to where we needed to get to, because the definition of scale is constantly being redefined in our industry,” says Firoz Tarapore, DAE Capital’s CEO. “The AWAS sale offered us a perfect opportunity to put the two companies together and create a top tier competitor.”

The Ishka view is that DAE’s scale will provide the company with a better market position and the opportunity to price deals more competitively.

AWAS paid for with bonds and ready cash

DAE funded the AWAS acquisition through a combination of its own cash – the firm’s net income for 2016 was $124.9 million – and by raising funds on the US bond market. DAE also sold MRO platform StandardAero to private equity firm Vertias Capital two years ago for more than $2 billion. Some of the proceeds were used for the AWAS acquisition.

“The AWAS transaction was funded principally by debt that AWAS already had on its balance sheet which was portable and then became the debt of our company,” says Tarapore. “For the remainder, we issued bonds in the US markets and combined that with internal cash and capital from our shareholders.”

In July DAE announced that it has priced of $2.3 billion in senior notes for the AWAS deal. $500 million of the senior notes are due in 2020 and are priced at 4%. Another senior note tranche of $800 million is due in 2022 and is priced a5 4.5%. The final tranche of $1 billion is priced at 5% and is due in 2024. The bonds are being offered only to institutional buyers in accordance with the US 144A rule.

“So, today our balance sheet size will be approximately $14 billion. And shareholders’ equity will be just over $3 billion. This brings our primary leverage metric – net-debt-to equity – at just under three times.”

Tarapore anticipates further consolidation in the leasing market. With between 40 and 50 main competitors, the logical suggestion, says Tarapore: “is to question the viability of this industry structure and cluster around a much smaller number of competitors in the not too distant future.”

DAE to focus on narrow body OEM orders

DAE now has a fleet of 344 aircraft and 43 managed aircraft placed with 114 customers. Up from 111 aircraft before the AWAS acquisition. The new combined DAE-AWAS fleet has an average age of 5.8 years.

According to Tarapore, DAE is plans to move away from reliance on sale and lease-back transactions and instead focus on direct orders from OEMS. “We still have aircraft that are committed which we will take delivery of this year and next year,” says Tarapore. This includes 15 sale and lease backs and a committed pipeline of 33 other aircraft. “Thereafter, our principal acquisition method will be through a direct order that we will place with the OEMs.”

Fleet Split 31st Aug 2017	AWAS	DAE	Total
737-300	2		2
737-400	4	3	4
737-700	10	21	13
737-800	70		91
747-400ERF	1		1
747-400F	3		3
757-200F	1		1
767-300ER	6		6
777-200ER	1		1
777-200F		12	12
777-300ER	1	2	3
787-8	4		4
A319-100	13	7	21
A320-200	83	8	90
A321-100	4		4
A321-200	10		10
A330-200	7	11	18
A330-300	13		13
A350-900		3	3
ATR72-600		44	44
Total	233	111	344

Source: DAE Capital

DAE will extend capital into "all of the new aircraft products coming to market," with a specific focus on new-technology narrow body aircraft. Tarapore says the lessor is looking at placing a "substantial order" with Boeing or Airbus.

Tarapore has not outlined any concrete fleet growth targets. "We don´t have a magic number for fleet size, but my bias is that given the development in the industry in terms of growth and consolidation, we will have to think about a number that´s somewhat larger than where we are now."

In March, DAE acquired a portfolio of ATR 72-600s from GECAS, increasing its ATR fleet to 57 aircraft. DAE has options with ATR for a further 20 aircraft. DAE's favour ATRs for use in emerging markets and has ambitions to own up to 100 ATR aircraft. "It is an asset class that we absolutely love," says Tarapore.

And in February 2017, DAE announced its first $410 million aircraft securitisation. The 21 aircraft were novated within two months to Falcon

Aerospace limited. The portfolio comprises 10 A320 family and 11 B737-NG planes. It has a weighted average age of approximately 9.1 years and 4.4-year weighted average remaining lease maturity. It is the first time that DAE has acted as a servicer on a securitisation.

Trading environment is ‘robust’

Tarapore believes the trading environment to be robust and with ample liquidity, but adds that yields could be better. DAE has recently transitioned a number of widebody aircraft. We have been – touchwood – very successful in placing our wide body assets, which are otherwise perceived to be assets with higher transition risk.”

In May, DAE remarketed eight, 16-year-old Airbus A330-200 aircraft from their first lessee, Emirates Airline, to Air Transat, Air Leisure, and iFly on long term leases. And in August, DAE Capital placed two Boeing 777-300ER aircraft on long-term leases with Nordwind Airlines. These aircraft were previously on lease with EVA Airways.

The Ishka View

DAE Capital, which was already the Middle East’s largest aircraft leasing company, has propelled itself into the first rank of global lessors with the acquisition of AWAS. DAE now has a fleet of almost 400 aircraft, up from 111 before the AWAS deal. DAE’s newfound scale makes it more relevant to a broader range of larger airlines, as it is likely to be able to offer a wider range of fleet solutions.

DAE’s growth model is to move away from sale and lease back transactions and focus on direct orders of new technology narrow bodies from Boeing and Airbus. This will also help it become more useful to the larger airlines, but it depends on how substantial DAE’s investments into new aircraft will be. DAE is already playing catch up with regards to the larger lessors that have access to cheap capital and have lots of covetable slots for new technology aircraft.

DAE fought off tough competition to buy AWAS and the million-dollar question, whish Ishka does not expect to be answered, is how much DAE actually paid to acquire the business. DAE’s CEO believes that further consolidation in the leasing industry is very likely. The long-term trend supports this view but leasing mergers, although become more frequent, are still relatively rare. Lessors have been opting to trade portfolios rather than showing a keen interest in acquiring rival platforms.