AIRCRAFT LEASING FIRM'S $10BN DEAL TO CREATE WORLD'S THIRD-LARGEST RENTAL FLEET

News / Finance



China's HNA Group, controlled by the billionaire Chen Feng, has agreed to buy the aircraft-leasing business of CIT Group for US$10 billion in a deal that would create the world's third-largest rental fleet.

HNA's Avolon Holdings will expand its line-up to 910 aircraft valued at more than $43bn, including planes on order, the company said. The acquisition is scheduled to close in the first quarter after regulatory and shareholder approval.

"Our strategic objective is to build the No 1 aircraft-leasing company in the world in terms of size, shape and scale," said Domhnal Slattery, the chief executive of Avolon. "This transaction enables that journey."

The purchase about doubles Avolon's fleet and vaults it into the ranks of the top aircraft lessors. Founded in 2010, Avolon is betting on rising demand for global air travel and airlines' desire to replace aging jets, especially in the Asia-Pacific region, where China is poised to become the biggest aviation market within two decades. The Dublin and Hong Kong-based company aims to

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overtake market leaders GE Capital Aviation Services, a unit of General Electric known as Gecas, and AerCap Holdings.

"The transaction fits right in the middle of our wheelhouse," Mr Slattery said.

The deal doubles HNA’s more than $10bn of acquisitions already announced this year, according to data compiled by Bloomberg, and expands its travel and leisure business spanning airports, airlines and hotels.

For Mr Chen, who two decades ago walked the aisle of his startup Hainan Airlines’ss lone airplane serving refreshments, the latest acquisition is part of his ambition to make HNA one of the world’s top 100 companies by the end of this decade and among the top 50 by 2030.

"This is an essential part of a strategy to make China a hub, not just for airlines, but also for aircraft manufacturing, for leasing, for components, for engines," said Will Horton, a Hong Kong-based analyst at Capa Centre for Aviation. "Demand for leasing should remain high. It is certainly more profitable than running an airline."

CIT, a New York-based bank, intends to return as much as $3.3bn of common equity to shareholders, it said. CIT is seeking to reduce annual operating expenses by $125 million over the next two years as it targets a return on tangible common equity of 10 per cent, the firm said in March. The bank has been exploring a sale of its aircraft business, which comprised about 23 per cent of assets before the deal, since last year.

"This transaction will strengthen our balance sheet, simplify our business and enable us to return significant capital to our shareholders," said the CIT chief executive Ellen Alemany. "The sale of CIT Commercial Air represents an important milestone for CIT."

The deal is "definitely accretive" to CIT’s value to shareholders, says the chief financial officer Carol Hayles. Whether the deal adds to earnings per share depends on how many shares the company buys back, she says.

Airlines in Asia will fly more than 16,000 planes within 20 years, almost tripling the current number, according to estimates by Boeing. In the past three decades, the number of aircraft owned by operating lessors jumped 11 per cent a year, according to the Singapore-based Phillip Capital.

HNA is among the most active players in what is shaping up to be a record year for overseas acquisitions by Chinese companies.

In August, HNA completed the purchase of a stake in Azul Linhas Aereas Brasileiras, Brazil’s third-largest airline, after agreeing in May to buy part of Virgin Australia. The group expects to complete its acquisition of the Swiss airline caterer Gategroup this year after taking over the airport luggage-handler Swissport International in February.

HNA posted 2015 revenue of almost $28bn and had about 200,000 employees worldwide, according to its website. Aviation is a key business for HNA, whose airlines include Hainan Airlines, the fourth-biggest in China. The group’s airlines flies more than 800 domestic and international routes with a fleet of 1,250 aircraft as of July.

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Gecas and AerCap are the aircraft-leasing market leaders, each with more than 1,000 planes in operation, according to Bloomberg Intelligence. Avolon said it had a fleet of 443 planes at the end of the second quarter. BOC Aviation, the aircraft-leasing unit of Bank of China, had 483 aircraft owned, managed or on order, according to the company.

HNA-controlled Bohai Leasing acquired Avolon in a $7.6bn deal that closed in January.

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