TO CAPTURE STRONG DEMAND FOR DEDICATED FREIGHTER AIRCRAFT ST ENGINEERING AND TEMASEK TO SET UP JV

News / Finance, Maintenance / Trainings

ST Engineering announced that its wholly-owned aviation asset management unit has entered into an agreement with Temasek to set up a 50-50 joint venture for freighter aircraft leasing. The JV will address the growing demand for freighter aircraft as e-commerce and air cargo volumes expand across the globe.

The JV targets to build a portfolio valued at about US$600m (or about S$800m) within five years, investing in passenger aircraft to be converted into highly efficient freighters. ST Engineering will provide the associated maintenance, repair and overhaul services to these aircraft. In addition, ST Engineering will be the asset and lease manager to the JV, consistent with the Group's aviation asset management business model.

The portfolio will primarily comprise narrowbody aircraft that will provide an option to operators to reuse older passenger aircraft by giving them a new lease of life as fuel efficient freighters. This is in line with the JV's focus to implement an environmental, social and governance (ESG) policy to guide its operations and business development. The JV will set relevant ESG criteria for its investments and work with prospective clients on measures to reduce their carbon footprint, including the use of sustainable aviation fuels

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and enhanced engine maintenance programmes.

On the supply side, the JV expects to purchase passenger aircraft feedstock at lower prices as passenger aircraft value has been affected by travel restrictions arising from the COVID-19 pandemic. The JV intends to finance these aircraft through a mix of equity and debt.

"This joint venture represents a significant step by ST Engineering in growing our aviation leasing business as we expand beyond passenger aircraft and engines to include freighter aircraft assets as part of our portfolio," said Jeffrey Lam, President/Head of Commercial Aerospace, ST Engineering. "As we embark on this exciting venture with our partner, Temasek, we also welcome and look forward to working with other potential like-minded partners who are looking to invest in the strong freighter aircraft leasing market. In the medium to long-term, the JV intends to securitise the leasing income streams by way of a business trust to unlock capital."

Uwe Krueger, Head, Industrials, Business Services, Energy & Resources, Temasek, added, "As an investor and shareholder, we are focused on embedding sustainability in our investment approach. The joint venture with ST Engineering represents an opportunity for both of us to identify solutions for the reduction of carbon emissions, even in a traditionally carbon-intensive industry, by putting capital to work in those solutions. We expect to work with like-minded partners and customers to tailor solutions that are efficient and sustainable, while being commercially viable."

The setting up of this JV is not expected to have any material impact on the consolidated net tangible assets per share and earnings per share of ST Engineering for the current financial year.

According to Oliver Wyman, the number of cargo aircraft is expected to grow 2.4 percent annually between 2020 and 2031, on par with the 2.3 percent annual growth rate of the previous decade. More than 750 freighter conversions are forecast over the 10-year period, an increase of 28 percent from the previous decade.

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