



# 1H 2023 Earnings Call

First half period ending on March 31, 2023

# Agenda

1. ALAFCO Highlights
2. Industry Update
3. Operational Review
4. Financial Review
5. Sustainability Strategy
6. Outlook



# ALAFCO Highlights

As of 31<sup>st</sup> March 2023

**76**  
Aircraft in Portfolio

**46**  
Aircraft on Order

**23**  
Customers  
*Presently*

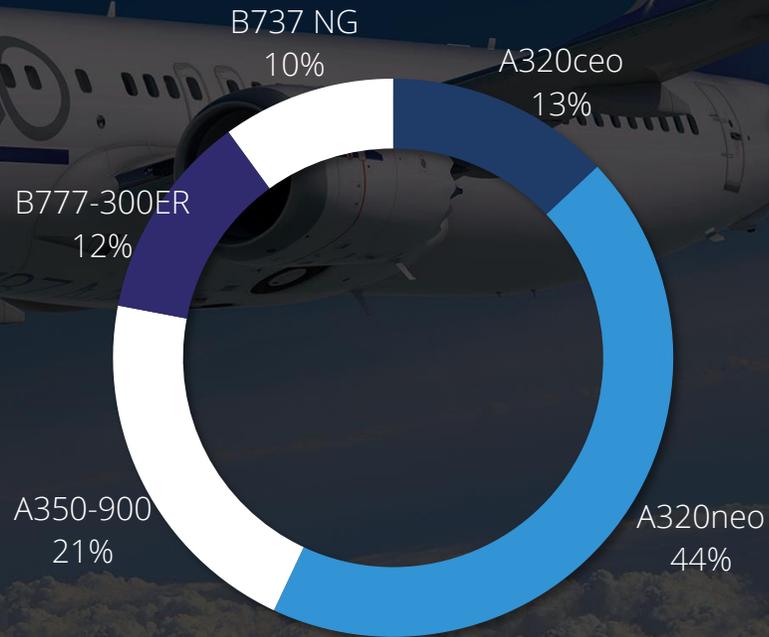
**17**  
Countries  
*Presently*

**5.4 years**  
Portfolio Weighted  
Average Age

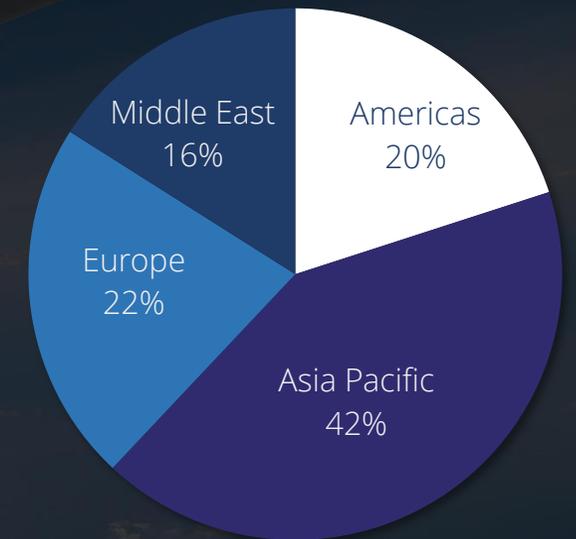
**8.1 years**  
Average Lease  
Remaining

**80%**  
Single-aisle  
in Committed Fleet

## AIRCRAFT COMPOSITION



## AIRLINE DISTRIBUTION



## SERVICES:

LEASING

AIRCRAFT  
TRADING

SALE &  
LEASEBACK

AIRCRAFT LEASING  
MANAGEMENT



# INDUSTRY UPDATE

# Industry Review

## LEASING REVIEW

- Demand for travel continues to outstrip existing capacity with supply chain constraints continuing to delay new aircraft delivery.
- Lease rents represent a small proportion of airlines' operating costs, making lease rent increases easier to pass on.
- Shortage of capacity is driving higher demand for leased aircraft and higher lease rates.
- Leasing offers lower operating and financial risks to airlines.

## AIRLINES REVIEW

- Surge in demand has been witnessed for leisure and business travel post-pandemic.
- IATA expects passenger revenue to recover further in 2023, but still below its pre-COVID level at around 85% versus 2019.
- Further oil price volatility is to be expected in 2023 directly attributable to ongoing conflict in Ukraine and remains a risk to airline profitability.
- Appreciation of the US dollar has added to airlines US dollar denominated costs, e.g., fuel.

## TRAVEL RETURNING

- Passenger demand continued its strong trend during the current quarter.
- The global traffic recovery has been supported by recent developments in the Asia Pacific's air travel markets.
- Economic uncertainties with increasing interest rates and cost inflation are likely to affect travel industry going forward but the overall underlying demand for travel remains healthy and continues its strong trend.



# OPERATIONAL REVIEW

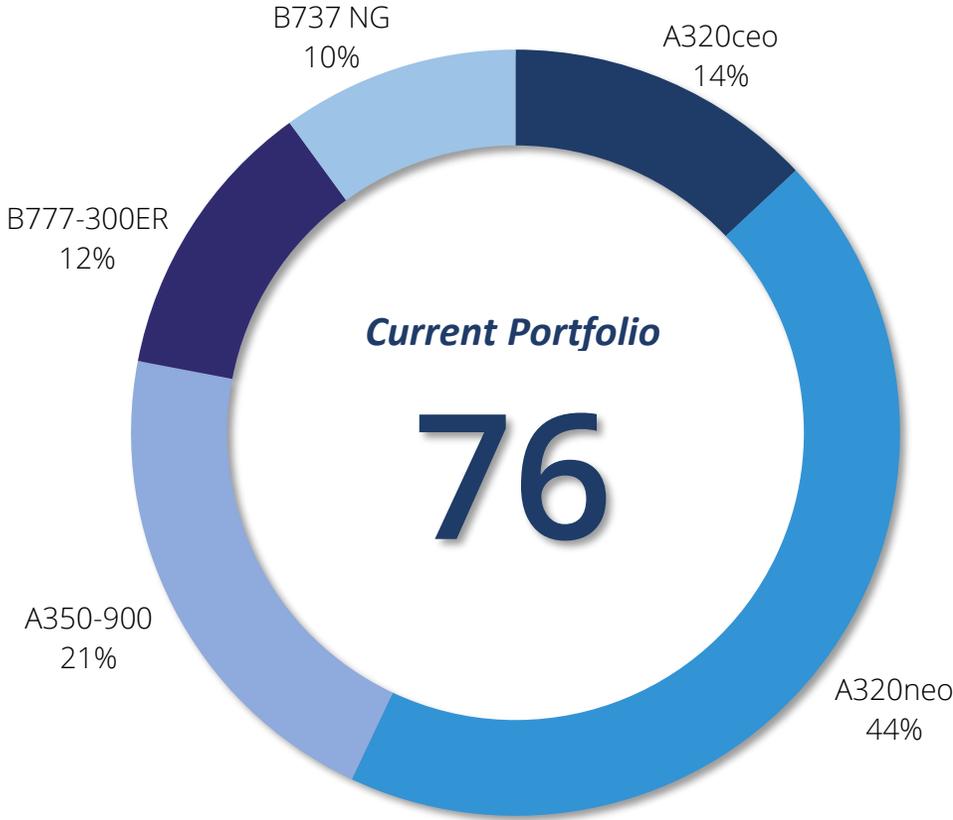
# 1H 2023 Highlights

ALAFCO completed the following during 1H 2023:

- Delivered the second A320neo aircraft to Volaris, based in Mexico, from ALAFCO's orderbook as per the lease agreement for 2 A320neo aircraft.
- Delivered the third and last A320ceo aircraft to Berniq Airways, based in Libya, as per the sale agreement for 3 A320ceo aircraft.
- Shareholders approved the sale and purchase agreement with Macquarie AirFinance for 53 aircraft from the company's portfolio and 20 B737-8 MAX aircraft on order from Boeing.



# Fleet Composition



Aircraft composition % include delivered aircraft based on aircraft NBV

Portfolio Weighted Average Age **5.4 Years**

- Maintaining a young portfolio of new generation liquid aircraft.
- Newly delivered aircraft contribute to the young average portfolio age.
- Limited investment in widebody aircraft to minimize the impact of headwinds on travel demand.

# Airline Portfolio



**ALAFCO’s customer portfolio consists mainly of government backed airlines and well-established privately owned carriers backed by major investors.**

*Distribution includes the portfolio of leased aircraft based on NBV.*

# Current Order Book

**46** Aircraft on Order

- 46 new technology advanced aircraft on order from Airbus.
- Deliveries are scheduled to start in 2026 and beyond.

**46**

A320neo Family





# FINANCIAL REVIEW

# 1H 2023 Earnings

## OPERATING LEASE REVENUE

KD **17.0** million

-67%

*KD 51.0 million in 1H 2022*

## NET PROFIT

KD **(0.2)** million

-96%

*KD (4.5) million in 1H 2022*

## EPS

**(0.20)** fils

-96%

*KD (4.76) fils in 1H 2022*

# Financial Highlights (IN KD)

INCOME STATEMENT	1H 2023	1H 2022	CHANGE
Operating Lease Revenue	16,974,322	50,962,439	-67%
Depreciation	(7,840,099)	(25,484,211)	-69%
Finance Cost	(23,632,472)	(17,447,856)	35%
Staff Cost	(1,523,006)	(1,968,688)	-23%
Other Expenses	(2,061,649)	(1,704,834)	21%
Other Income	15,837,146	2,047,753	673%
Allowance for Credit Losses / Reversal	616,360	(159,045)	-488%
Gain on Sale of Aircraft	1,437,768	2,409,682	-40%
Impairment	-	(13,184,336)	-100%
Re-Lease Provision	-	-	0%
Profit Before Tax	(191,630)	<b>(4,529,096)</b>	<b>-96%</b>
Net Profit after Tax	(191,630)	<b>(4,529,096)</b>	<b>-96%</b>

Net loss of the company has improved by 96% in comparison to the previous period, mainly due to the following:

- a) In the previous period, ALAFCO recorded KD 13.1 million in impairment on aircraft and engines compared to not recording impairment during the current period.
- b) Other income representing reversal of old provisions which are no longer required to be paid to any third party and also price ticker has been recorded for the current period which is to be received from Macquarie Airfinance.
- c) Reversal of ECL.

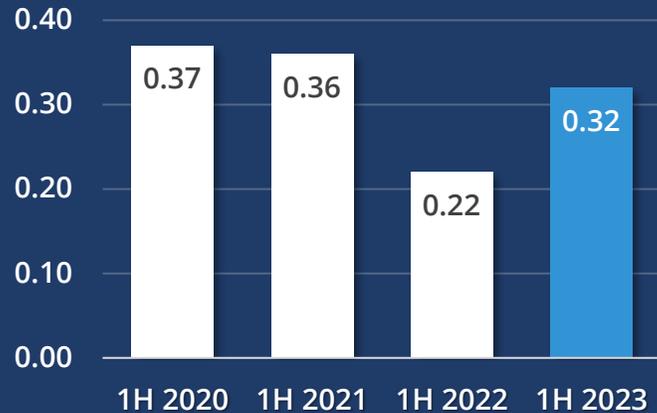
# Financial Highlights (IN KD)

BALANCE SHEET	Mar 31, 2023	Sep 30, 2022	CHANGE
Aircraft, Engines and Equipment	1,062,595,942	1,067,295,751	0%
Capital Advances	34,831,588	88,478,441	-61%
Receivables	37,613,562	25,326,718	49%
Cash and Cash Equivalents	51,794,100	25,113,155	106%
<b>Total Assets</b>	<b>1,186,835,192</b>	<b>1,206,214,065</b>	<b>-2%</b>
Share Capital and Premiums	95,209,348	95,209,348	0%
Retained Earning and Reserves	125,558,985	128,813,164	-3%
<b>Total Equity</b>	<b>220,768,333</b>	<b>224,022,512</b>	<b>-1%</b>
Loans and Borrowings	798,064,404	833,969,170	-4%
Security Deposits	12,677,081	12,450,499	2%
Maintenance Reserves + Provisions	109,934,016	115,121,641	-5%
Other Liabilities	45,391,358	20,650,243	120%
<b>Total Liabilities</b>	<b>966,066,859</b>	<b>982,191,553</b>	<b>-2%</b>
<b>Total Equity and Liabilities</b>	<b>1,186,835,192</b>	<b>1,206,214,065</b>	<b>-2%</b>

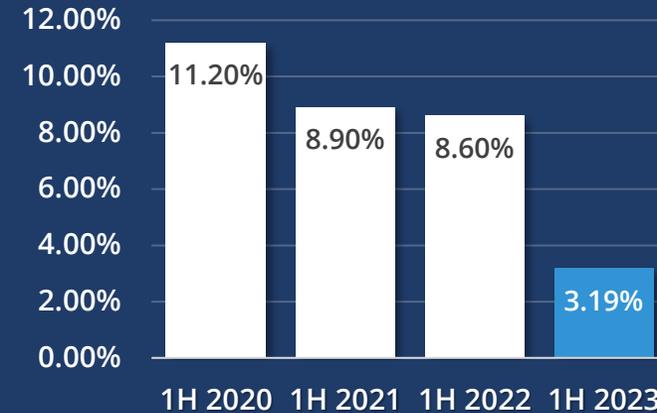
1. Total assets declined by 2% as a result of decline in capital advances, mainly due to the sale of the Boeing orderbook of 20 B737 Max aircraft to Macquarie Airfinance in Q2 2023, and the 2 A320neo aircraft delivered to Volaris that were adjusted from capital advances. These were partly offset by the increase in cash and cash equivalents and receivables.
2. Decline in total equity is mainly due to the negative movement in FCTR\* as the Kuwaiti dinar weakened against the dollar.
3. Decline in total liabilities represents (a) the repayment of loans and (b) the decline in maintenance reserve liabilities which is settled, adjusted against sale of 2 aircraft or reduced as part of the restructuring of leases. These decreases are partly offset by the increase in other liabilities.

# Key Financial Ratios

## CURRENT RATIO

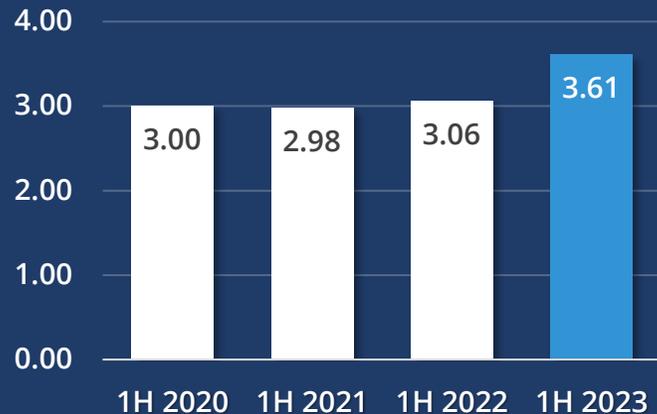


## AVERAGE LEASE RATE FACTOR



*Average Lease Rate Factor = Lease Revenue / Net Book Value of Aircraft*

## DEBT-TO-EQUITY RATIO

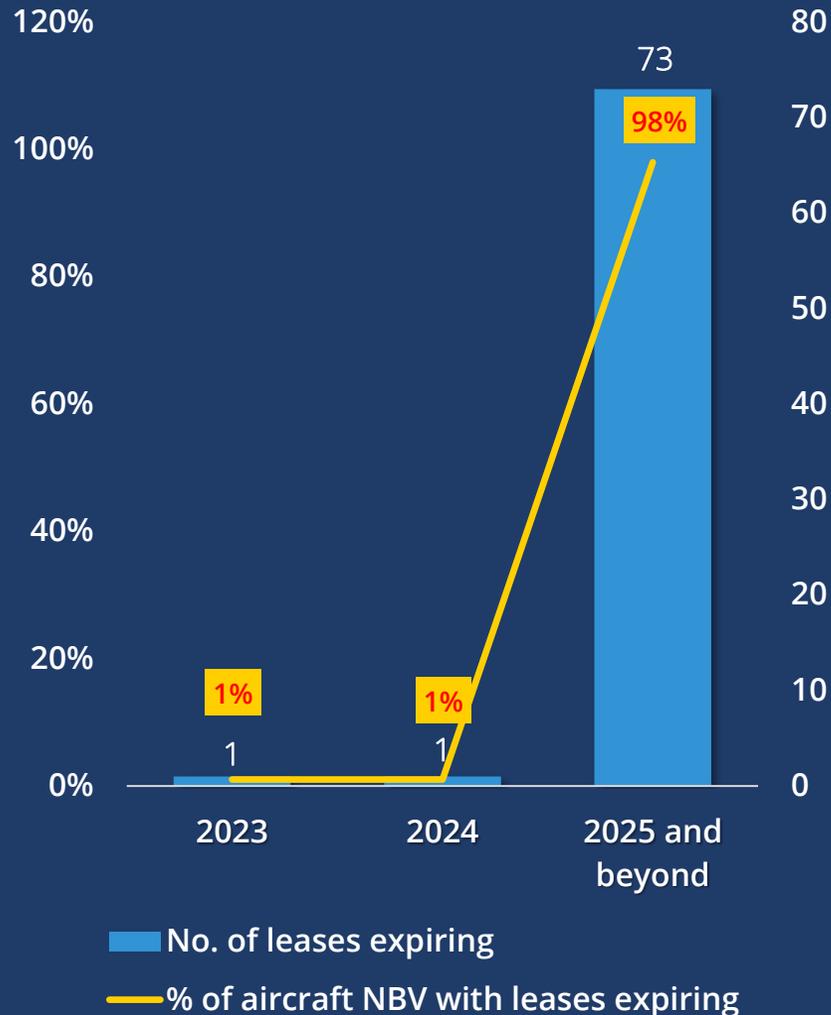


## PROFIT MARGINS



*Adjusted Profit Margin = Net Profit Before Adjusting ECL, Impairments, provision for Heavy Maintenance and Gain of Sale*

# 8.1 Years of Average Remaining Lease Term



- Most of the leases expire beyond 2026.
- Average remaining lease term is 8.1 years for the entire aircraft portfolio.
- Until 2024, ALAFCO has few aircraft to be delivered and coming off lease. The company is currently working either to sell or lease these aircraft.



# SUSTAINABILITY

# Sustainability Commitment

## TRANSITION TO FUEL-EFFICIENT FLEET

ALAFCO is committed to renewing its fleet into the most-fuel efficient aircraft alongside strong governance frameworks as well as empowered employees.

We work closely with our airline customers to develop innovative and sustainable solutions that support their business in a sustainable way.

Wider market shows optimism and strong commitment to emission reduction with net delivery of over 1,400 aircraft in 2023.

## SUSTAINABILITY LINKED STRATEGY

Acquiring and maintaining a fleet of new generation aircraft remains vital to ALAFCO's strategy.

Actively selling older technology aircraft to de-risk portfolio and reduce overall emissions.

Providing financing to airlines through our leasing products, which inevitably allow airlines to reduce carbon emissions.

We continue to support investment in new technology aircraft and introduce this to our growing customer base.

## SOCIAL COMMITMENT

ALAFCO continues its efforts to support local communities. Our work with our partners demonstrates our commitment to causes we feel strongly about.

We engage with communities in which we live and work to bring employees together to help make a difference and inspire positive change.



# OUTLOOK

# Market Outlook

## PASSENGER TRAVEL GROWING

- Continue to see further evidence of travel recovery, as Europe, the Americas and Asia all now exceed 80% of 2019 levels, with China being the latest driver.
- Rapid removal of COVID-19 restrictions for Chinese domestic and international travel bodes well for the continued strong industry recovery from the pandemic throughout the year
- Passenger demand is expected to reach around 85% of 2019 levels over the course of 2023 (IATA).

## AIRLINES REMAIN RESILLIENT

- Airline operating cost pressures continue to ease with airlines ramping up services to meet ongoing demand.
- Pent-up demand has seen global international air connectivity (measured by IATA's Air Connectivity Index) continue to recover in the first quarter of 2023.
- Airlines are expected to post a net profit of US\$4.7 billion in 2023 (IATA), as airlines continue to control costs.
- Airlines expected to face relatively lower fuel prices in 2023 compared to 2022.

## LESSORS MARKET REMAINS ATTRACTIVE

- With restrictions in China lifted, expectation that this may exacerbate the supply/demand imbalance for aircraft, pushing lease rates higher.
- Restricted new aircraft production and continued traffic growth will place a premium on aircraft available today.
- Leasing market remains competitive, with supply restrictions benefiting those with strong orderbooks.



# Q&A

# Contact

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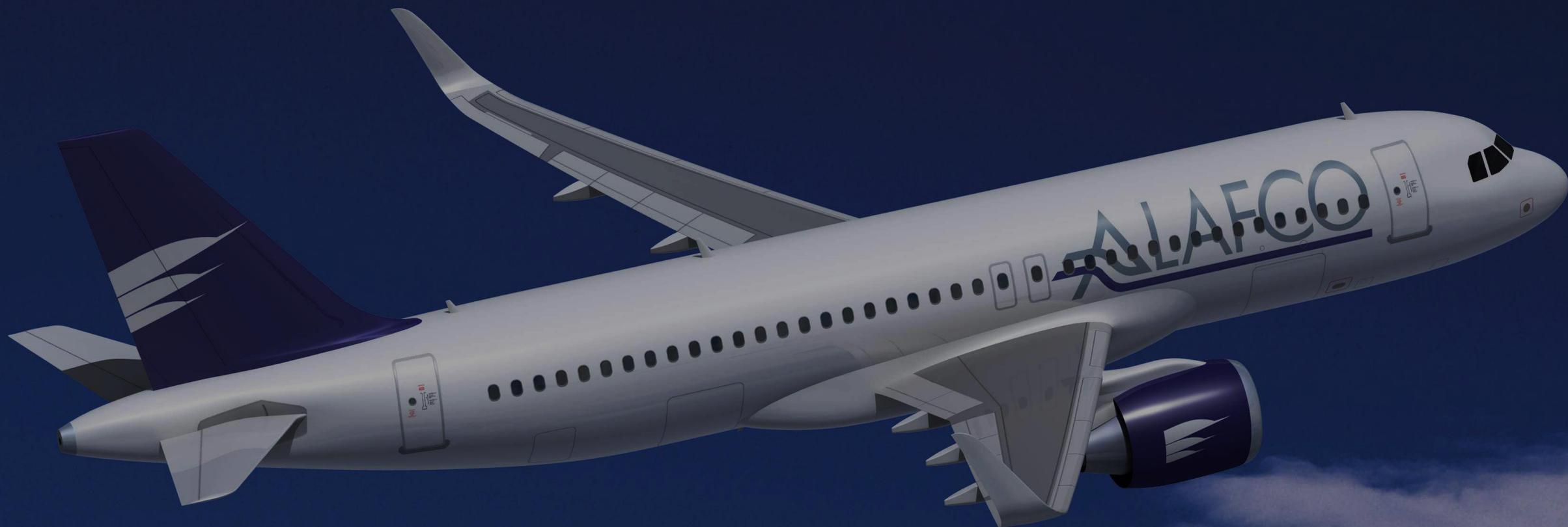
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ALAFCO KSCP is listed on Boursa Kuwait

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Reuters: ALAF.KW

<https://www.alafco.com/en/investors/>



**THANK YOU**