

RWP Morning Notes – 9/06/2019

Avation PLC (LSE: AVAP) – Yesterday AVAP released results for the fiscal year ending June 30, 2019. Revenue for the period came in at \$117.7 million, up 21% y-o-y, while profit was up 28% to a record \$25.7 million. EPS was up 25% to \$0.40. Record results were expected, as the company added 10 aircraft to its fleet during the fiscal year - delivering 12 aircraft and selling two aircraft (each at a more than 10% gain over book value), ending the year with 48 aircraft, all fully leased. Meanwhile, the company continues to expand its customer base, increasing airline customers from 13 at June 30, 2018 to 18 today. Looking ahead, the company expects to take delivery of eight ATR 72-600 aircraft by 2022 and could add to its jet aircraft fleet opportunistically.

AVTCAP is smaller & more levered than other aviation lessors, though as it has demonstrated its ability to reduce leverage following aircraft acquisitions as it has grown over the last 5 years, its bond spreads have narrowed relative to peers by more than 200bp. The positive outlook from S&P on its B+ rating for the bonds is based on expectation that Avation will maintain its solid but prudent growth profile, and could materialize into an upgrade in the next 12-24 months. However, the 4.3% yield on the notes currently matches the average for “B” rated credits, and the premium amortization toward the 2021 maturity could limit further upside over the next six months. *Brian Charles, CFA (212) 832-6312* bcharles@pressprich.com.

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