

ANALYSIS: DORIC EYES BOND DEAL

17 June 2015, by Laura Mueller, Flightglobal

Fund manager Doric is looking to return to the Luxembourg bond market by year-end to secure additional funding and broaden its pension and insurance company investor base.

The move will also involve it continuing to diversify further away from large Airbus A380 financings and into smaller regional aircraft funded by family offices.

The pool of investors in pension funds and insurance companies is tremendous, so we would look to secure funding for each transaction in the ballpark of \$50 million, which is similar to our previous issue," Doric managing director Sibylle Paehler told Flightglobal at the Paris air show.

Doric first entered the bond market in 2012 with a €65 million (\$57 million) bond after receiving approval from Luxembourg's financial regulator.

The structure opened up new investor markets for aircraft financing with the participation of retail investors residing in Austria, Germany, Luxembourg and Switzerland.

Now, Doric is targeting pension-fund money primarily being derived from continental European investors, "which desperately look for alternative investment opportunities".

The move into finance lease structures is in line with Doric's strategy of continuing to broaden its scope beyond operating leases.

"These investors are looking at primarily debt structures, so they prefer finance leases without asset risk and, one day, they might develop into becoming equity investors in operating leases as well," says Paehler.

In a typical transaction, Doric structures the financing with a senior lender, which provides up to 50-60% of the purchase price, and the fund manager provides the top slice to make up 90-95% of the total cost.

Doric also has been busy to also arrange smaller aircraft for private placements with family offices and co-operation partners.

Paehler says the move was prompted "after a standstill of 18-24 months" when larger offers came to market, involving two A380s and one Boeing 777, and "all of those having difficulties to get placed".

"We felt that stepping right behind them cannot be the right thing, which confirmed our approach to move away from widebody aircraft to the opposite sector. We felt it was a good idea to go into smaller, used aircraft and also do finance leases."

In March, Doric structured investments involving six ATR 72-500s on lease to Finnair for two family offices and for its co-operation partner, HEH Hamburger EmissionsHaus. Doric took delivery of the turboprops – on lease for a period of eight years – at the end of March.

Three of the aircraft were 100% equity financed and the other three were part-financed by NordLB, says Doric.

Family offices are "very happy just to have their own investments", says Paehler, so on the equity side, they can invest anything between \$5 million and \$30 million.

However, this amount precludes A380 financings – a move Paehler says Doric welcomes as it has 21 units [correction by Doric: **22 units**] on its books already.

Financing for ATR aircraft has allowed Doric to diversify into the turboprop segment and away from the classical lessors, “which are very strong and bidding on a very strong basis”.

“It was a nice match having the demand from the family side as well as our own perception that we should be in the regional market.”

Doric manages the first five A380s on lease to Singapore Airlines and four of those are owned by Dr Peters retail funds.

The first of the five A380s could be returned by SIA in October 2017. The airline would otherwise need to exercise its option next year in October to extend the lease for an additional two years.

Paehler remains positive about the five A380s as SIA confirmed that the units are “performing very well and even better than later deliveries”.

“Some people claimed there are weight issues, but there is nothing like that from a performance perspective as Singapore Airlines has been very happy.”

Paehler admits that if the leases are not extended, they could be lengthened by a few months as the five aircraft are “coming back in a quite tight manner for Singapore as well as Doric”.

Doric has a total of 40 aircraft under management and has no strategic plans under way to increase its fleet.

“Our strategy is not about size; instead, we are focusing on equity investments for family offices [and] debt instruments for our institutional investors as well as our advisory business.”

Paehler says Doric has been approached to advise airlines, aviation lenders and pension funds. In addition, the fund manager is looking to expand its advisory role on redelivery and re-leasing of aircraft for third parties.

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