



As bunds plummet, Sibylle Pähler, co-founder of German asset manager Doric, tells Silvia Sciorilli Borrelli how aircraft leasing is soaring among investors

Summer is nearing, and all around the world people are busy booking flights for their annual vacation. Global economic growth has been a key driver for air travel – with social networks and travel blogs whetting the appetite for travel – and this has increased demand for aircraft.

Depending on its size and technological sophistication, a new commercial aircraft costs between \$40 million and \$200 million. In the past, airlines had significant capex commitments and financed aircraft purchases with high levels of debt.

Following the crisis, banks have withdrawn from larger-scale lending activity, leaving room for new players to enter the market. This has created an excellent buying opportunity for institutional investors looking for attractive absolute returns and the potential to diversify their portfolios, especially in times of financial distress.

‘The stable long-term cash flows aircraft investments are offering are what investors like the most,’ says Sibylle Pähler, of Doric, a prominent

asset manager in international transport and energy finance.

Doric was founded in Germany in 2005 and is a specialist in aircraft leasing. Of the \$8 billion in assets run by the company, \$6.6 billion is allocated to plane leasing.

‘After 2008 there was a void in this sector. Banks were no longer able to finance the airlines and institutional investors could fill the gap through companies like ours,’ said Pähler, who is a co-founder of the firm and also its global head of acquisition and structuring.

Although Doric’s management comes from the banking sector, having worked in asset finance at Citigroup for over 20 years, they now operate quite differently from banks.

‘Banks have very limited contact with the aircraft during the life of the investment, whereas we are a “hands on” asset manager. We constantly monitor

what the lessee is doing, from usage to maintenance and insurance.

‘Apart from the financing solutions we have a full in-house asset management team and their services are integrated in the full range of what we offer during the entire lifecycle of an aircraft.’

Throughout the whole process Doric reports back to its investors, who benefit from being constantly updated on the state of their holding, without being charged any operational costs.

The lack of operational costs is another reason why aircraft leasing is so appealing to institutional investors, and has to a certain extent overtaken shipping in this area.

A NEW LEASE OF LIFE

TRANSPORTATION
81%

DORIC HAS MORE THAN \$8 BILLION IN ASSETS UNDER MANAGEMENT. THE GROUP IS RANKED FOURTH GLOBALLY IN THE ASSET MANAGEMENT OF WIDE BODY AIRCRAFT, AND NUMBER 13 GLOBALLY ACROSS ALL AIRCRAFT CATEGORIES.

‘Operational costs are shared in shipping. This is where aircraft leasing is different within the transportation finance arena. The airline is responsible for all the operating costs and the investor benefits from 7-9% returns on average,’ Pähler explains. ‘Institutional investors are able to cash an annual coupon of around 8% with a double-digit IRR. This leads to an enormous reduction on the residual risk side of the aircraft toward the end of its lifecycle.’

Compared with other alternative assets, such as property and infrastructure, cash flows from aircraft leasing decline with the age of the aircraft and the inflation hedge is lower. However, returns are more predictable and they are less influenced by regional factors as aircraft are easy to relocate to different clients and geographies across the globe.

CARRIER FOCUS

Doric’s client base includes many international carriers headquartered across five continents. The portfolio currently has a total of 40 aircraft ranging from ATR72-500s leased to Finnair to the brand-new Airbus A380-800 operated by Emirates and Singapore Airlines.

When asked to pick a favourite airline, Pähler can’t

really make up her mind as she’s been working with many carriers for years, and for different reasons they all make interesting investment cases.

She does, however, think Emirates is one of the fastest-growing international airlines, strategically located in a spot of the globe where most European, African and Asian countries can be reached within seven hours.

‘I have been following the Emirates story since 1996. Dubai is a perfect hub and they have been implementing great marketing strategies, for example, daily flights to Germany, and increasing their client base across Europe.’

Doric has recently invested in new aircraft and increased its long-term investment offering.

‘The Boeing 747-8F for Cargolux was delivered at the beginning of March this year and with the six new ATR72 we now have eight different aircraft types under management.’

The company’s investment horizon is a minimum of 12 years, for both the investor and the airline’s lease. ‘It may happen that an aircraft is sold before the end of the projected investment cycle, but it’s rather tricky as in most cases investors want to get at least the same returns,’ Pähler says.

A NEW SAFE HAVEN

The firm is headquartered in Offenbach, Germany, and Pähler has noted a shift in demand from institutional investors, especially in her home country. ‘Now that bund yields have plummeted, German pension funds are looking for ways to make the same returns they are used to making with bunds.’

However, considering the cyclical nature of the sector there are some concerns. ‘There is currently excess liquidity on the market. Everyone is looking for assets to invest in, so the question is whether investors will actually get the expected return.’

Nonetheless, Pähler remains bullish on the fundamentals.

‘People want to visit the places they see pictured across the internet. Demand for air travel has been increasing in the recent years. Undoubtedly it will further increase in the future.’ ■

ANOTHER VIEW: PENSION SCHEMES TAP RETURNS FROM AIRCRAFT LEASING

PETE DREWENKIEWICZ

HEAD OF MANAGER RESEARCH, REDINGTON

Aircraft leasing is an opportunity where you acquire portfolios of narrow- or wide-bodied jets, and then look to lease them out over usually about five to 10 years to the better-quality airlines across the market.

It is quite a nice credit profile because investors are effectively collateralised; if the airline does default, you end up owning the portfolio of jets and you can usually re-lease them fairly easily.

One particular example: when Swissair went bankrupt, the airline leasing entities did much better than the corporate bond holders, who scarcely got anything back at all. This is quite scalable, and can deliver anything up to high single digits – around 8-10%.

REAL ESTATE
15%

ENERGY
4%

EMIRATES IS GROWING RAPIDLY, WITH DUBAI SERVING AS
AN IDEAL HUB TO SERVE CUSTOMERS ACROSS THE GLOBE

