



Malaysia Airlines (MAS) Airbus A330. Apollo Aviation Group recently acquired A330s from MAS



Trading places

Apollo Aviation Group president Robert Korn sees plenty of unrealised potential in the Asia-Pacific used aircraft market. Colin Baker reports

Robert Korn, president of Apollo Aviation Group, believes there is plenty of unrealised potential in the Asia-Pacific used aircraft market.

"I do believe that many Asian carriers have a closed mind to used aircraft. It isn't necessarily due to economics," Korn says.

As an example he gives airlines in China. When a 12-year aircraft comes off lease, it is very difficult to find another Chinese airline willing to take it. "This affects the economic life of an aircraft," he says.

As a result, most aircraft coming off-lease move out of the country, he says. He adds that most Chinese operators do a "fairly good job" in terms of end-of-lease paperwork, meaning that it should be relatively easy to move aircraft from one airline to another.

Moving aircraft between different owners is nothing new to Apollo. "We've made a business of buying aircraft towards the end of these first 12 year leases and either extending [the leases] or moving them to a second home," explains Korn.

Korn and business partner Bill Hoffman founded Apollo Aviation in early 2002, in the wake of 9/11. Korn joined from Pegasus Aviation (where he was VP marketing) while Hoffman was an aviation lawyer managing his own firm.

"By end of the year [2002] we saw a huge opportunity to buy distressed assets, especially engines. By 2003, we were buying JT8s, CF6-50s, and met Highbridge Capital Management."

Highbridge, a hedge fund, was interested in

Apollo's strategy and provided Apollo with its first US\$100 million "We were at the forefront of doing large scale part out programmes," recalls Korn. From 2004 to 2006 Apollo worked exclusively with Highbridge and the successor firm DB Zwirn and Co.

Today, Apollo has about US\$2.4 billion of assets and 80 commercial aircraft on lease (including buying commitments) and an average fleet age of 15 years. This is primarily made up of single-aisle in-production aircraft, although there are a few Boeing 777s and Airbus A330s (Apollo recently did a deal with Malaysia Airlines for the latter.)

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Korn sees an excess of orders from Southeast Asian carriers, but adds the fact that China can absorb a lot of these provides an "intra-Asia arbitrage". He adds, "It seems to be orderly so far."

Korn said at this year's International Society of Transport Aircraft Trading (ISTAT) Asia conference that took place in Singapore in May, that depreciation should be 18 years, rather than the industry norm of 25. "My personal belief is that we should be depreciating to an 18 year policy, with maybe a 10% residual," he said. "We may see aircraft fly beyond that and we'll take advantage of that, but from an accounting standpoint I think we want to be very conservative."

A key reason for this is the number of governments with age restrictions on aircraft coming into the country. A recent example of this is Thailand's NokScoot, which is unable to take 777-200s from Scoot due to a 15-year age limit in Thailand.

Speaking on the sidelines of the event, Korn made plain his frustration with these types of scenarios. "Age-driven restrictions make no sense – you would think it could be aircraft generation," he says, citing a few examples of where Apollo has been frustrated by these restrictions. There was a two-year overlap when Boeing was producing 737NGs and Classics, he points out, so you end up in a situation where the first NG is banned but not the last Classic.

Another concern is the production rates of the major manufacturers. "If the industry builds so many new airplanes, that everyone's demand is satisfied by new airplanes, then there's no need for used airplanes – then that changes the lifecycle of the airplane." He adds that isn't necessarily the case now though.

Apollo currently has eight aircraft in the Asia-Pacific, including South Korea's Eastar Jet, China Eastern Airlines, Shanghai Airlines, Malaysian charter operator Eaglexpress and Orient Thai Airlines. It has just purchased some A330s from Malaysia Airlines. "We would like our presence in the region to grow," says Korn. ✈