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Apollo hopes China's growth could open up mid-life aircraft opportunities

[Back](#)

The continued growth of Chinese airlines could well lead to the development of an internal secondary market there for mid-life aircraft, according to Robert Korn, the co-founding Principal and President of Apollo Aviation. 'We are in an interesting time that's somewhat unprecedented, in that the production lives of the A320ceo and 737NG are so long that you have currently a lot of in-production aircraft over 15 years old that are flying and are available per se. So when you consider the 737NG was produced only 15 years after the 737 classic introduction, we are seeing something that has never occurred before.'

Speaking to *Aviation Finance* earlier this month, Korn said that restrictions by a number of countries on the importation of aircraft beyond a certain age did not help to keep the global fleet flying. 'Restrictions in practice in this regard are equally as important as rule of law,' he said, noting that 'the practice and behaviour of the Chinese airlines is not to take other people's old airplanes.'

However, he believes that this may well change in the future. 'I would like to think that because of the insatiable demand, and because of the growth and success, you will see Chinese airlines being forced to either introduce used airplanes at some point or simply keep their airplanes longer.'

Korn added: 'We are in an interesting time that's somewhat unprecedented, in that the production lives of the A320ceo and 737NG are so long that you have currently a lot of in-production aircraft over 15 years old that are flying and are available per se. So when you consider the 737NG was produced only 15 years after the 737 classic introduction, we are seeing something that has never occurred before.'



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'Airlines are being given an option they never had before. It's unprecedented in that for, example, just like when Delta wanted to take in 717s and Southwest wanted to get rid of them, we saw a

transition in the US of rather new airplanes from one major carrier to another.

'What I would like to see develop, and I think we could possibly see in China, is an airline such as China Southern, which has a group of 12 to 15 year old 737s, moving those aircraft on to another Chinese airline as they switch out into MAXs. It's a little bit of a stretch to see Chinese airlines starting to take used aircraft coming out of the US, but I don't think it's unreasonable to believe that they could introduce domestically available aircraft. It's such a big place, you may well find excess capacity in one airline and the need for capacity in another.'

As a mid-life specialist lessor Apollo does not have any aircraft in China right now. 'Our baseline expectation is that currently these aircraft will start to leave China as they reach a certain age. But if these aircraft can stay in place there we view this as potential upside for us,' Korn said.

Now 15 years old, Apollo is owned by its two founders, Bill Hoffman and Robert Korn, as well as a private equity investor who came on board nine years ago. The company is currently investing through its 3rd fund (SASOF III) which has capital commitments of \$833m.

With offices in the US, Ireland and Singapore, since 2014 Apollo has been in a strongly expansionist mode, raising in aggregate over \$3 billion of debt and equity to expand its fleet of mid-life aircraft. Its AASET 2016-1 securitisation raised \$510 million, which was used to fund 32 aircraft and was followed by the \$640 million AASET 2016-2 used to fund a further 35 aircraft.

Apollo currently has 131 aircraft and 30 engines on lease, representing assets of \$3.5 billion, and employs 65 people. The Irish subsidiary was established in 2007, expanding the firm's leasing and origination activities to Dublin. Over the past 12 months it has completed two asset backed securitizations, grown its fleet by 64 per cent and increased its AUM by 42 percent.

The fleet comprises primarily in-production narrowbodies (both A320CEO and 737NG) as well as 17 A330s and one 777. Essentially a mid-life lessor, the Apollo fleet has an average age of approximately 14 years. With 64 airline customers and aircraft on every continent, the biggest concentration of customers is currently in Europe.

Over the past five years Apollo has primarily bought its aircraft from large first tier lessors. 'We're buying airplanes in the mid-life and the typical airlines are not selling at mid-life,' Korn said.

'We're geared up and expect to touch the metal. To the extent you have that expertise, this becomes your core business.' Part out is one of the exit options Apollo uses when it liquidates its planes and is what differentiates Apollo from typical first tier lessors. 'We're not afraid to take an airplane back off lease to dispose of it through sale, through sale of the main part components or through sale at the piece part level. It's part of our core DNA. When we look at an aircraft we look at all the options - it really depends on the individual aircraft, there's no one specific convention.'

Korn said Apollo was happy with the current state of the aircraft leasing market. 'In our view, we're very happy with the market. We've been very active. Every investment is made to make money. Any market that has good liquidity creates an opportunity where equity can make a better return. As cost of capital or cost of debt becomes more expensive it pushes the equity return down, so therefore equilibrium would suggest the price goes down so that the equity can continue to make a return.

'To the extent that airplane leases are longer with higher lease rates, you will see people willing to pay more for the airplane because they are going to earn a return. So the world lives in equilibrium. What we've seen over the last few years is a lot of airlines keeping aircraft in their fleet longer than expected and investors have benefitted from that, as have lessors.'

Reflecting its funding activity in 2016, Apollo picked up two awards last month - Aircraft Securitisation Deal of the Year - US, and Aviation 100 Debt Deal of the Year. Korn said of these accolades: 'For me personally it's nice - but for our firm and the young people that work here they're fantastic. It's always humbling that our wonderful young people, who have been so active in these fields, are recognised by peers and colleagues for their great work.'

[Vol. 7 Issue 3](#) of *Aviation Finance*