



# 2016 Annual Results Analyst Briefing

14th March 2017

# Agenda

- **Financial Overview**
- **Performance of Key Operating Units**
  - HAECO Hong Kong
  - HAECO Americas
  - HAECO Xiamen
  - TEXTL
  - HAESL
  - Other Subsidiary and Joint Venture Companies
- **Key Metrics**
- **Financial Profile**
- **Prospects**



# Financial Overview

---

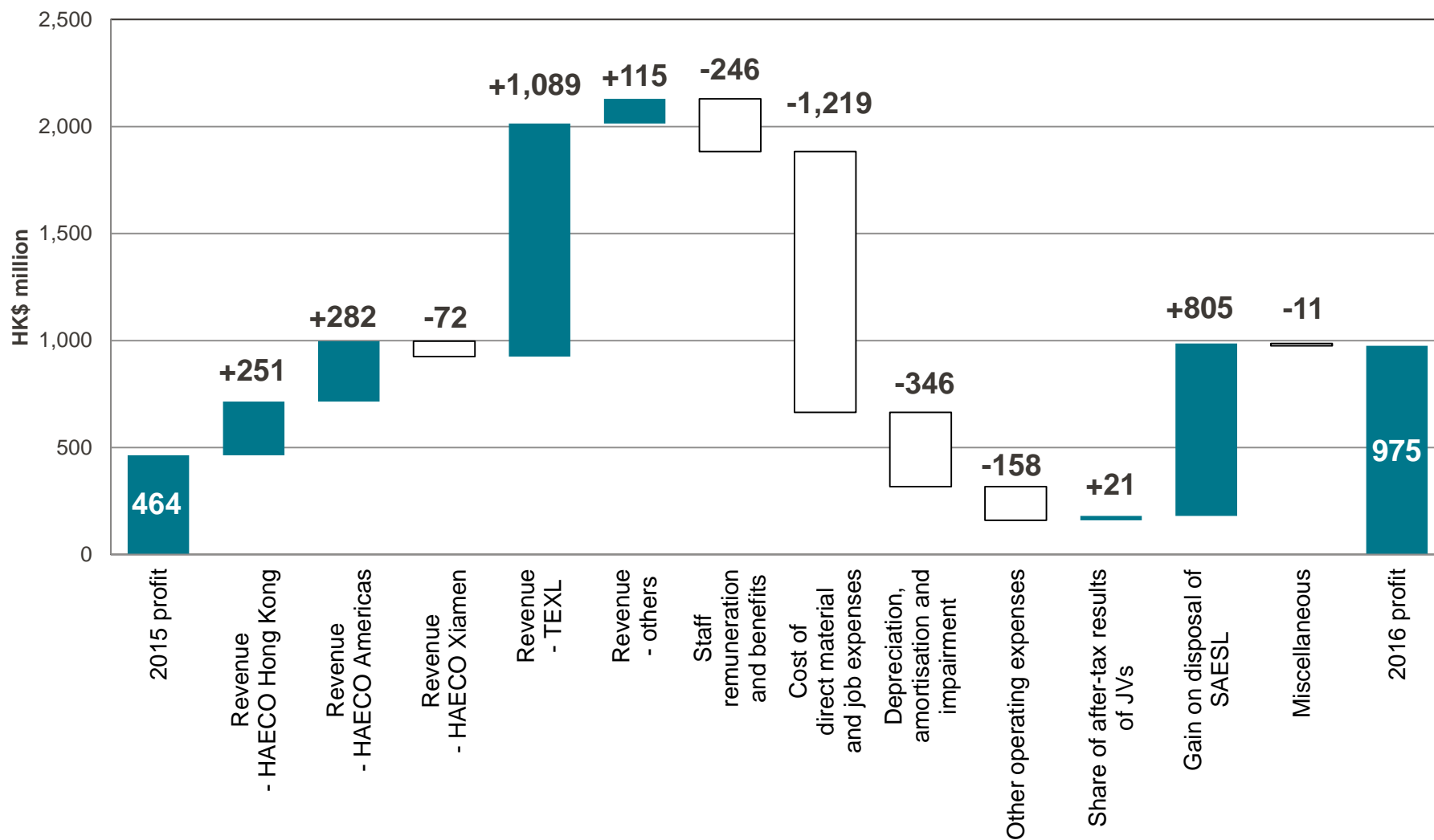
# Financial Overview

## Financial Highlights

	2016	2015	Change
Revenue (HK\$M)	<b>13,760</b>	12,095	+13.8%
Attributable profit (HK\$M)	<b>975</b>	464	+110.1%
Earnings per share (HK\$)	<b>5.86</b>	2.79	+13.8%
Total dividends per share (HK\$)	<b>3.90</b>	1.70	+129.4%
Net borrowings (HK\$M)	<b>2,368</b>	2,710	-12.6%
Total equity (HK\$M)	<b>7,519</b>	7,186	+4.6%
Gearing ratio	<b>31.5%</b>	37.7%	-6.2%pt

# Financial Overview

## Movement of Profit Attributable to the Company's Shareholders



# Financial Overview

## Adjusted Profit Attributable to the Company's Shareholders

	<b>2016</b>	2015	Change
	<b>HK\$M</b>	HK\$M	
Profit attributable to the Company's shareholders	<b>975</b>	464	+110.1%
<i>Adjusting items</i>			
Gain on disposal of SAESL	<b>(805)</b>	-	N/A
Expenses associated with the disposal of SAESL	<b>22</b>	-	N/A
Impairment charge in respect of goodwill	<b>285</b>	-	N/A
Impairment charge in respect of plant, machinery and tools	<b>39</b>	13	+200.0%
<b>Adjusted profit</b>	<b>516</b>	477	+8.2%

# Financial Overview

## Adjusted Profit Analysis by Companies

	<b>2016</b>	2015	Change
	<b>HK\$M</b>	HK\$M	
HAECO Hong Kong	<b>194</b>	167	+16.2%
HAECO Americas	<b>(238)</b>	(158)	-50.6%
HAECO Xiamen	<b>94</b>	69	+36.2%
TEXL	<b>196</b>	149	+31.5%
Share of:			
HAESL and SAESL	<b>218</b>	194	+12.4%
Other subsidiary and joint venture companies	<b>52</b>	56	-7.1%
<b>Adjusted profit</b>	<b>516</b>	477	+8.2%



# Performance of Key Operating Units

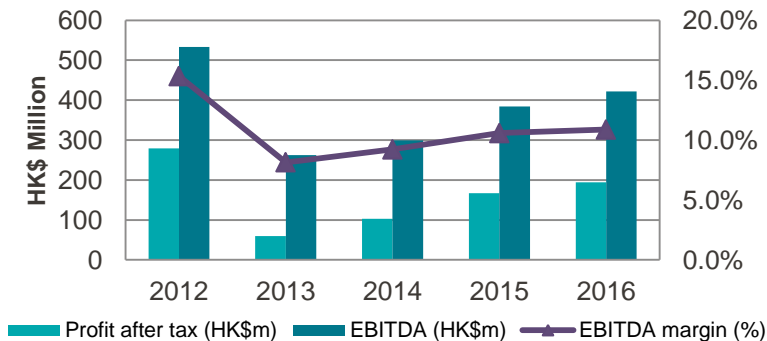
---



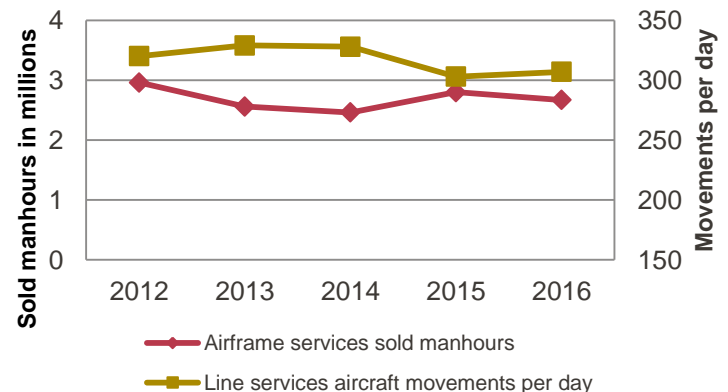
# Performance of Key Operating Units

## HAECO Hong Kong

- HAECO Hong Kong recorded a 16.2% increase in adjusted profit to HK\$194M in 2016 compared to 2015 while revenue recorded a 6.9% increase to HK\$3,879M.
- Performance of line services was good. The average number of aircraft movements handled per day increased in 2016 by 1.3% to 307. Line services manhours sold also increased, reflecting this increase in volume and the fact that more work was done per movement.
- Airframe services manhours sold decreased from 2.80M in 2015 to 2.67M in 2016. This reflected deferral of work by some customers to 2017.
- Manhours sold for components and avionics work, together with those sold by HAECO Component Overhaul (Xiamen), were 0.206M in 2016, an increase of 3.5% compared to 2015 reflecting additional component maintenance capabilities.



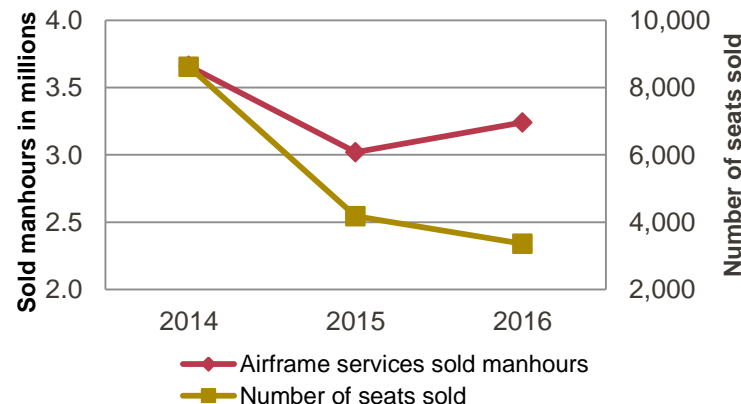
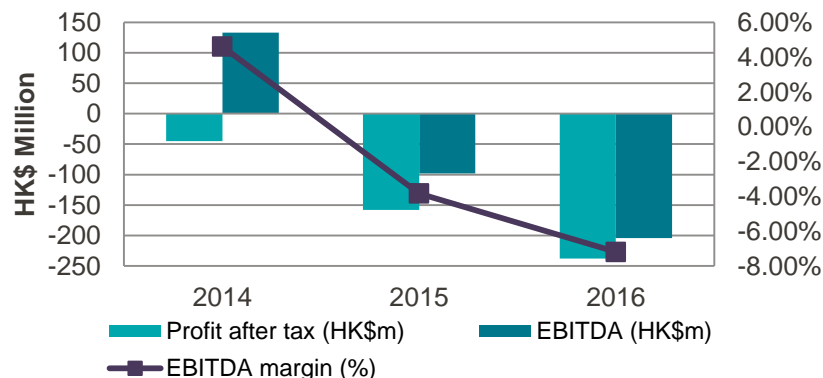
The above figures do not include the expenses arising in connection with the disposal of SAESL.



# Performance of Key Operating Units

## HAECO Americas

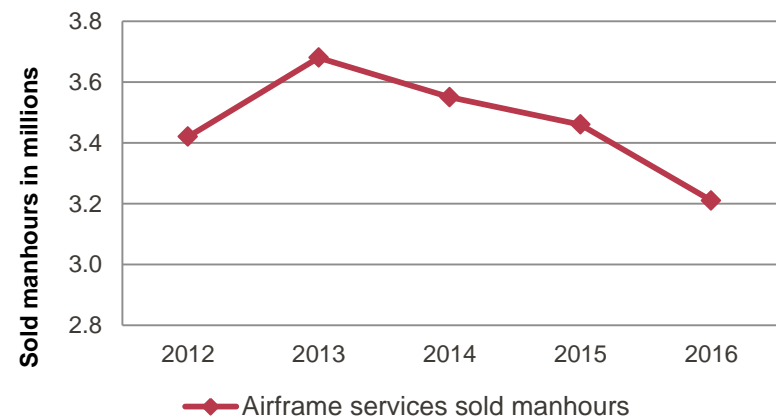
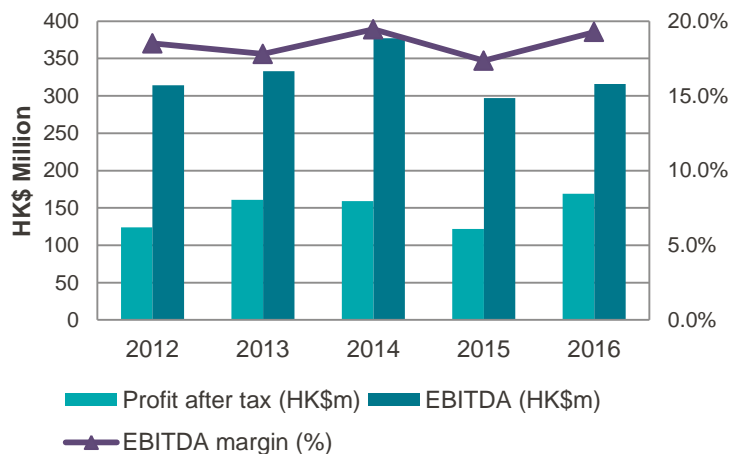
- HAECO Americas generated total revenue of HK\$2,836M in 2016, 11.0% up from 2015.
- A loss of HK\$523M was recorded in 2016 (including an impairment charge of HK\$285M in respect of goodwill). Excluding this item, the loss was HK\$238M, compared to a loss of HK\$158M in 2015. The increase principally reflected losses on some seat contracts and a reduction in the number of seats sold and in cabin integration work.
- Airframe services results improved with manhours sold increased from 3.02M in 2015 to 3.24M in 2016. Profits also benefited from higher-margin checks being done but were adversely affected by consultancy fees incurred for improving efficiency and work flow.
- In 2016, the cabin and seats business lost more money than in 2015. 30 cabin integrations were done compared with 40 in 2015. Rescheduling caused some of the reduction. More Panasonic communication equipment installation kits were done.
- Approximately 3,400 seats were shipped in 2016, compared with approximately 4,200 in 2015. Demand for our old seats reduced. The new ones were not available until Q2 of 2016.



# Performance of Key Operating Units

## HAECO Xiamen

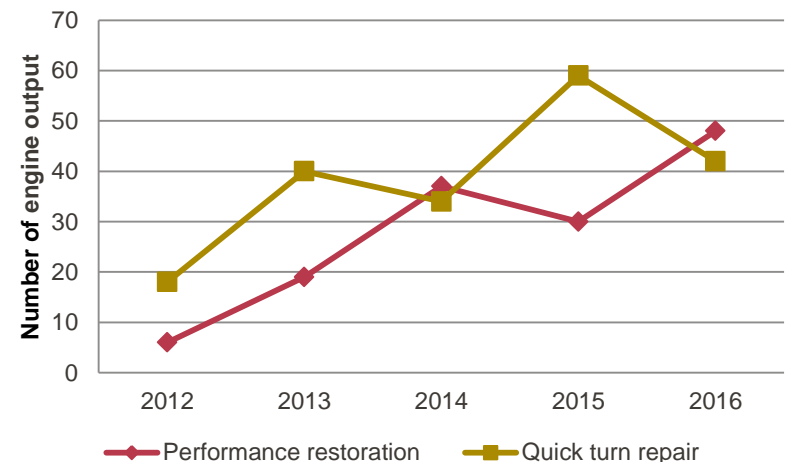
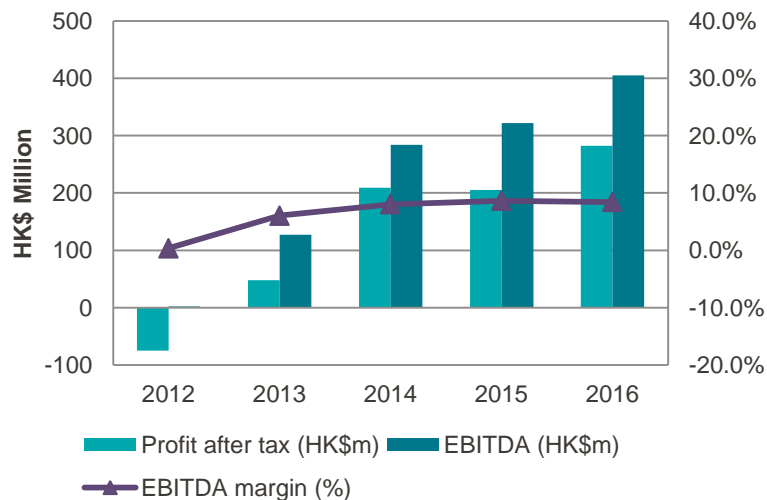
- HAECO Xiamen's revenue for 2016 was HK\$1,640M, 4.2% reduced from 2015.
- HAECO Xiamen recorded a 36.2% increase in attributable profit in 2016 compared to 2015. Fewer airframe services manhours were sold but hourly rates were higher. More line services work was done. More aircraft parts were manufactured. More technical training was done. Operating costs were lower.
- Airframe services manhours sold in 2016 were 3.21M, 7.2% fewer than in 2015. Less work was performed for a major North American customer. A typhoon disrupted production in Q4. Profitability benefited from the fact that services are priced in US dollars and a high proportion of costs are incurred in Renminbi.
- HAECO Xiamen handled an average of 50 aircraft movements per day in 2016, 8.7% more than in 2015. The profit from line services increased accordingly.
- Revenue from private jet work declined slightly in 2016. Less work was done.
- Revenue from both parts manufacturing and technical training increased in 2016.



# Performance of Key Operating Units

## TEXL

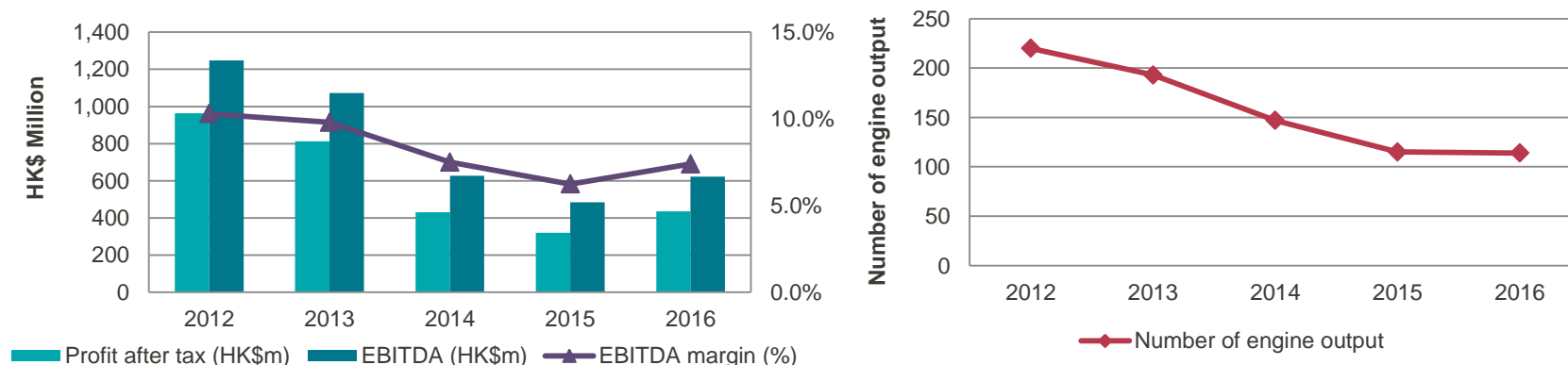
- TEXL generated HK\$4,808M revenue for 2016, a 29.3% increase from last year.
- TEXL completed 48 engine performance restorations and 42 quick turn repairs on GE90 aircraft engines, compared to 30 engine performance restorations and 59 quick turn repairs in 2015.
- With more engines overhauled and more component repair work, TEXL's attributable profit increased 31.5% from that of 2015 to HK\$196M.



# Performance of Key Operating Units

## HAESL

- ➔ Excluding the profit on disposal of its interest in SAESL, HAESL recorded a 43.1% increase in attributable profit in 2016 compared to 2015. More work was done per engine. Engine output was 114 in 2016 compared with 115 in 2015.
- ➔ HAESL had a 20% interest in SAESL until 30th June 2016. The HAECO Group's share of SAESL's results for the first half of 2016 was HK\$12M, compared with the share of its results for the whole of 2015 of HK\$50M.
- ➔ The agreements for the restructuring of shareholdings in HAESL and SAESL were completed on 30th June 2016. The gain attributable to the Group arising from the disposal of HAESL's 20% shareholding in SAESL under the restructuring was HK\$805M.



The above figures do not include the gain on disposal of SAESL and any share of after-tax results of SAESL.

# Performance of Key Operating Units

## Other Subsidiary and Joint Venture Companies

- ➔ HAECO ITM recorded a smaller profit reflecting lower demand for the loan of aircraft parts and higher financing charges. The total number of aircraft for which services were provided in 2016 was 275, 6.2% more than in 2015.
- ➔ HAECO Landing Gear Services did more work in 2016 than in 2015, but its losses increased. This principally reflected an impairment charge of HK\$57 million made in respect of plant, machinery and tools. The impairment charge reflected the fact that less work is expected because of strong competition.
- ➔ HAECO Shanghai handled an average of 47 aircraft movements per day in 2016, 14.6% more than in 2015. More work was done per movement. Profits increased accordingly.
- ➔ HAECO Line Services (Singapore) recorded a small profit in 2016, as it did in 2015.





# Performance of Key Operating Units

## Other Subsidiary and Joint Venture Companies (cont'd)

- ➔ Goodrich Asia-Pacific's sales increased in 2016, but profits fell. Staff costs and direct job expenses increased.
- ➔ HAECO Spirit AeroSystems did more work and made more profit before tax in 2016 than in 2015. Its after tax profit fell, as it no longer had tax losses to utilise.
- ➔ Dunlop Taikoo's broke even in 2016, having made a small loss in 2015. It did more work.
- ➔ Goodrich TAECO 's profit increased in 2016 as a result of higher sales.
- ➔ Honeywell TAECO's profit in 2016 fell because of higher costs.
- ➔ STAECO's profits increased in 2016. Margins were higher on airframe services.





# Key Metrics

---



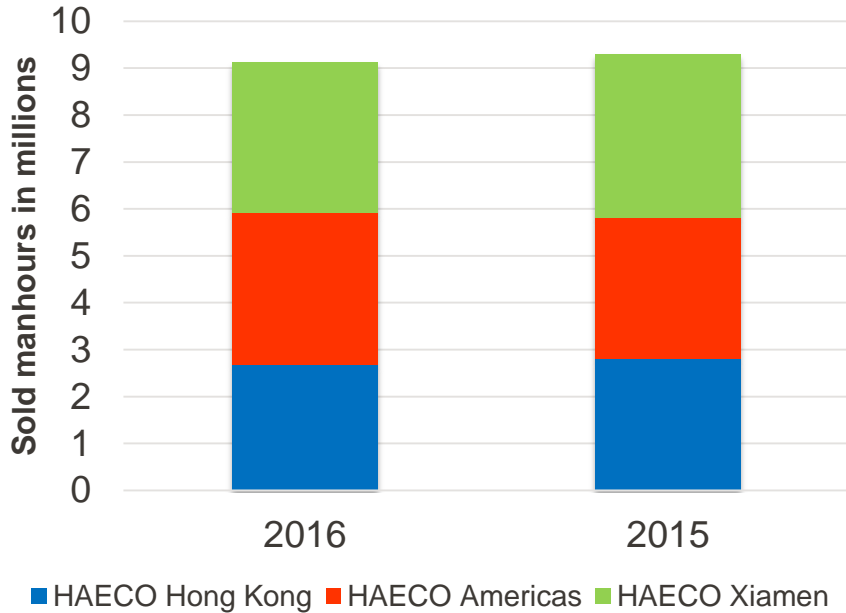


# Key Metrics

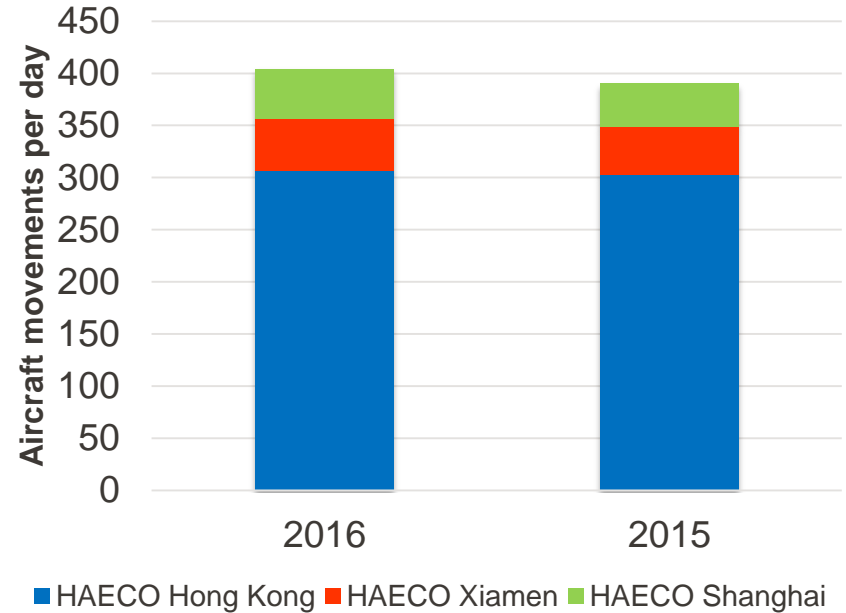
## Key Operating Drivers



**Airframe services**  
- Number of sold manhours



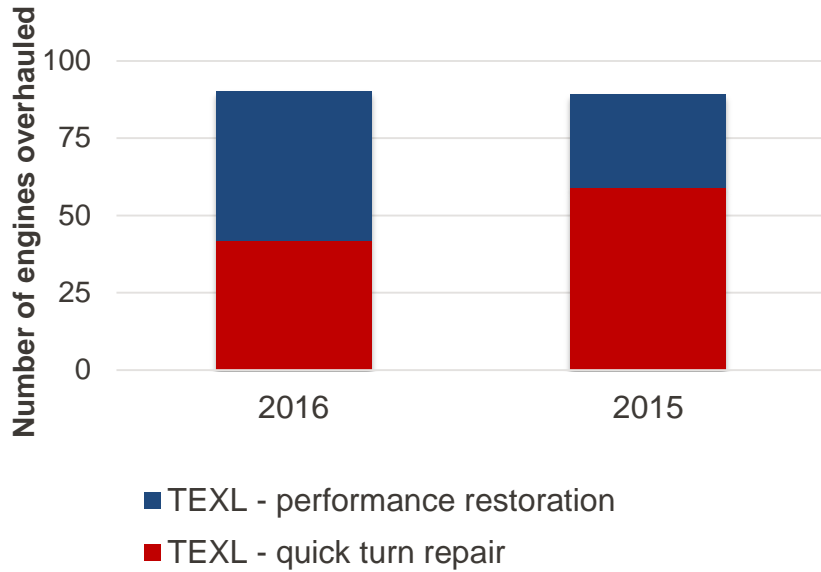
**Line services**  
- Number of aircraft movements



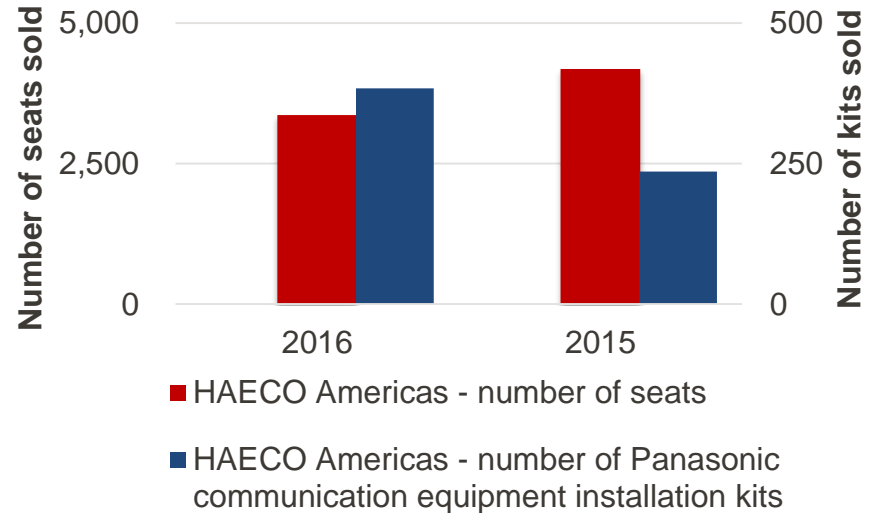
# Key Metrics

## Key Operating Drivers (cont'd)

**Engine services**  
- Number of engines overhauled



**Cabin and private jet work**  
- Number of seats and Panasonic communication equipment installation kits sold

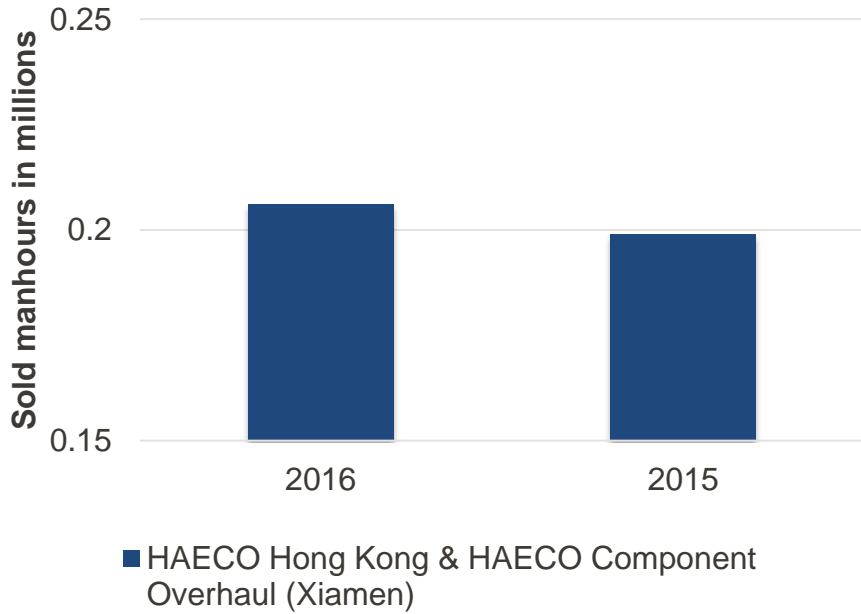


# Key Metrics

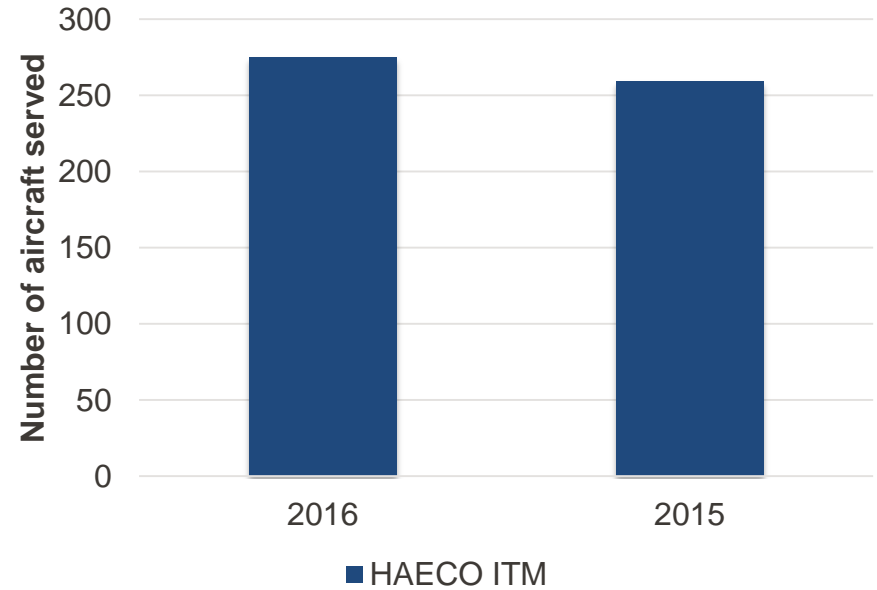
## Key Operating Drivers (cont'd)



**Component services**  
- Number of sold manhours



**Inventory technical management**  
- Number of aircraft served





# Financial Profile

---

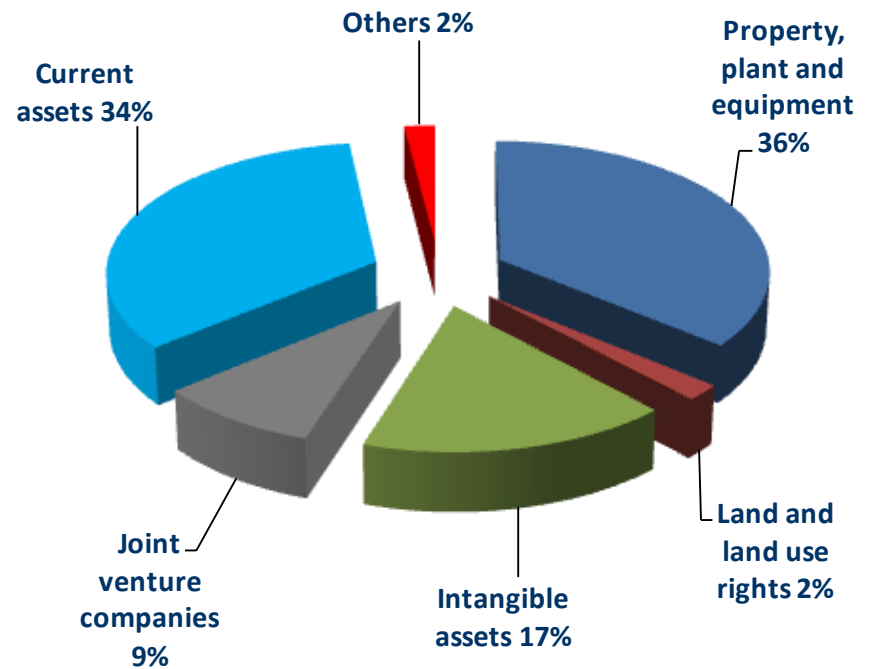
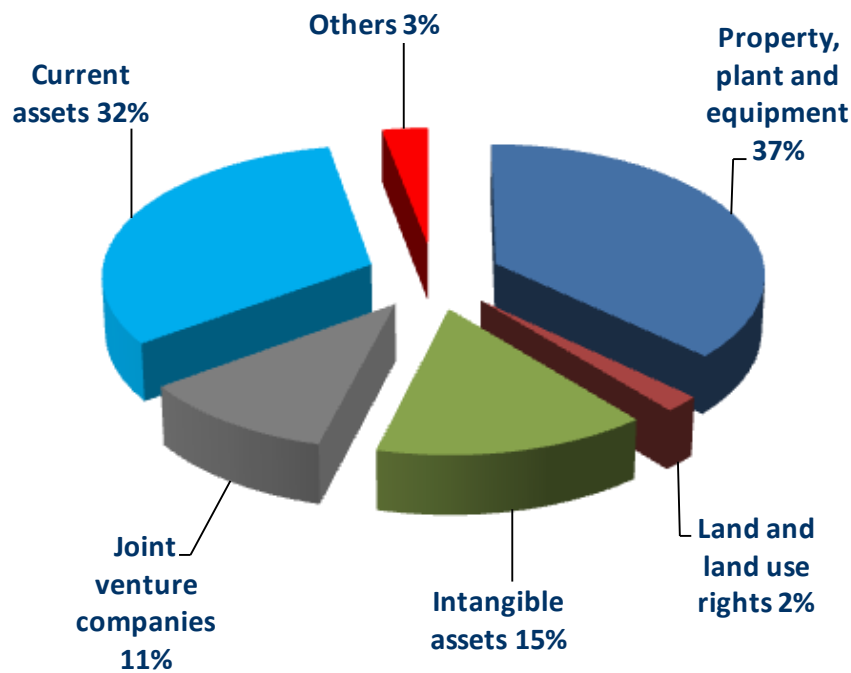
# Financial Profile

## Total Assets



31st Dec 2016

31st Dec 2015



**HK\$14,350M**

**HK\$14,672M**

# Financial Profile

## Net Borrowings Movement

**HK\$M**

Net borrowings at 1st Jan 2016	<b>(2,710)</b>
Cash generated from operations	<b>1,199</b>
Net interest and tax paid	<b>(176)</b>
Dividends received	<b>1,169</b>
Purchase of 5% interest in HAESL	<b>(452)</b>
Dividends paid	<b>(684)</b>
CAPEX	<b>(727)</b>
Other movements	<b>13</b>
<hr/>	
Net borrowings at 31st Dec 2016	<b>(2,368)</b>

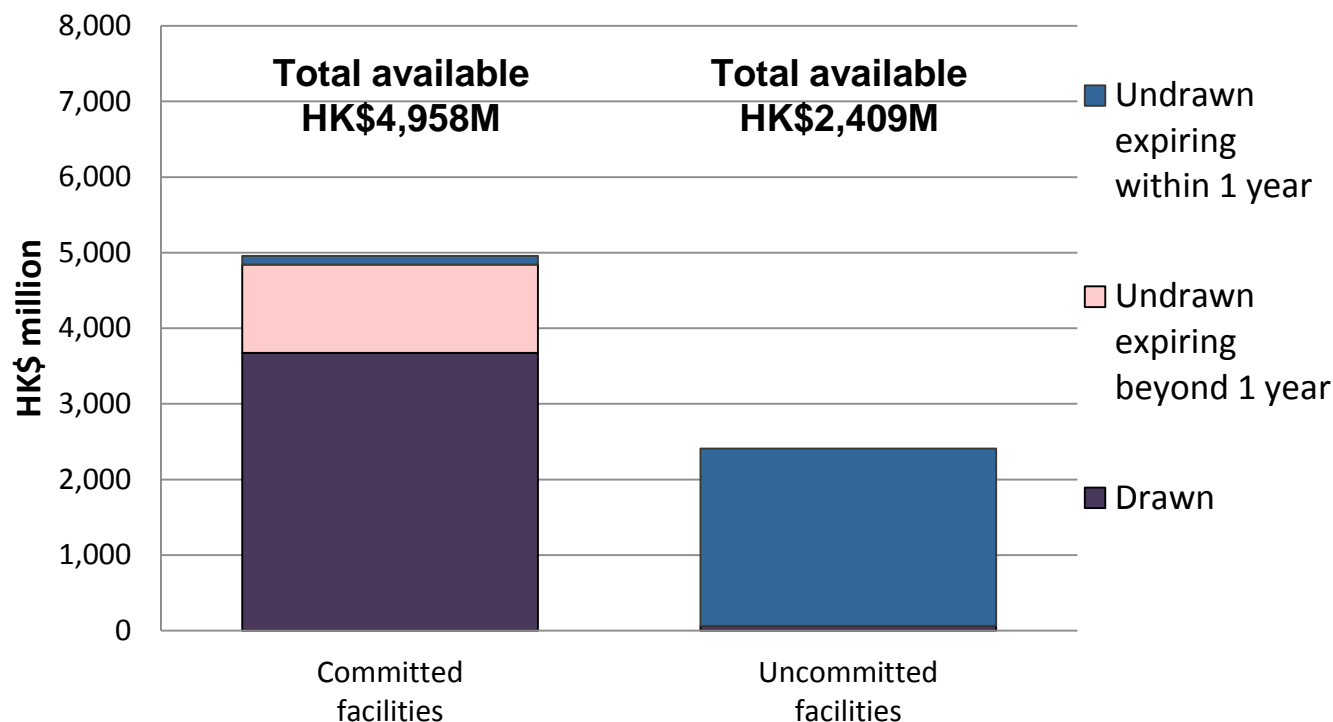


# Financial Profile

## Liquidity

	31st Dec 2016 HK\$M	31st Dec 2015 HK\$M	Change %
Bank balances and short-term deposits	1,321	1,427	-7%
Total undrawn facilities:			
- Committed	1,284	1,766	-27%
- Uncommitted	2,345	1,930	22%

### Facilities - Loan

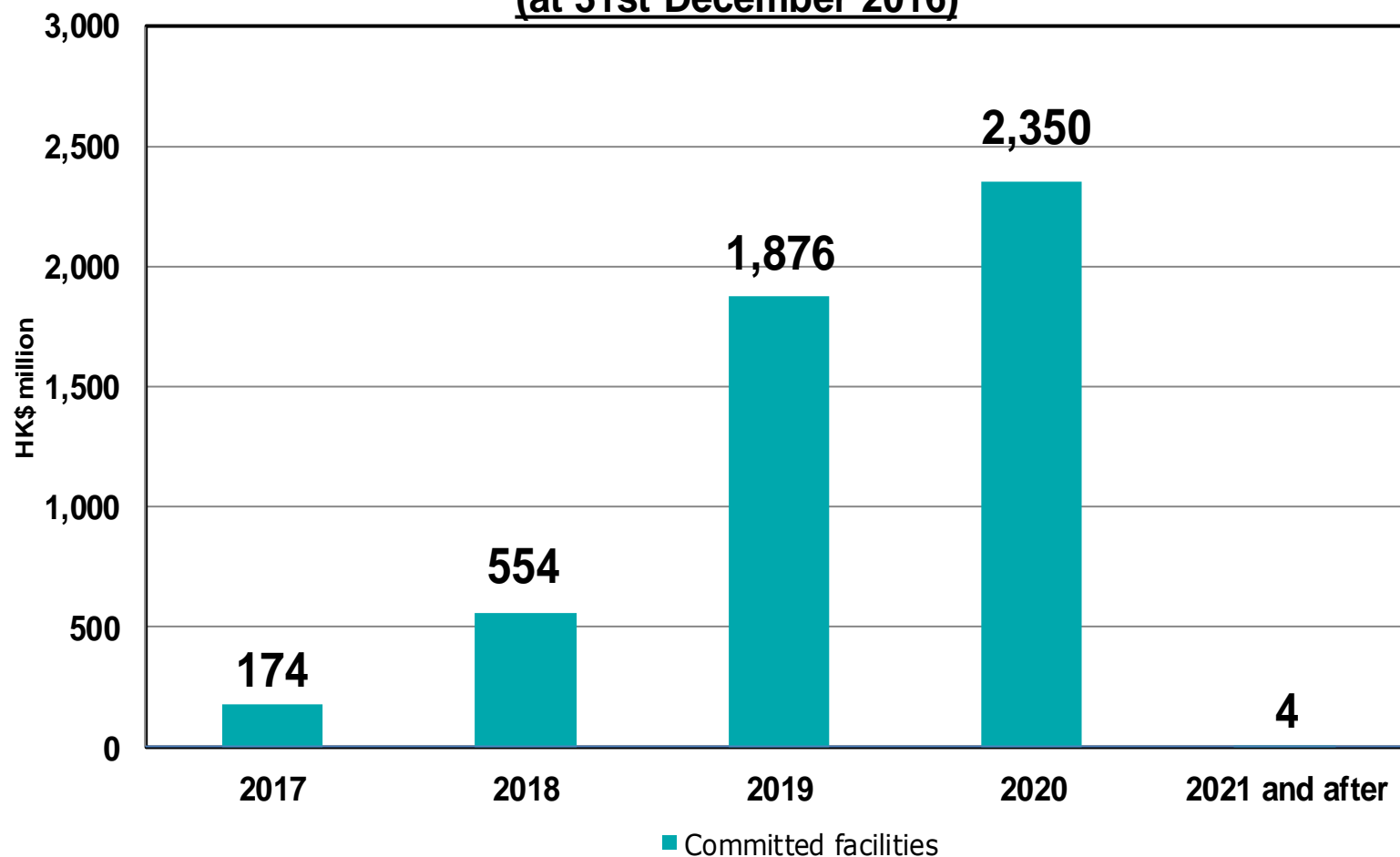




# Financial Profile

## Liquidity (cont'd)

**Total Available Committed Facilities by Maturity**  
**(at 31st December 2016)**





# Prospects

---

# Prospects

- HAECO Hong Kong expects its results to be affected again by deferral of airframe services work by some customers. Demand for line services in Hong Kong is expected to be firm.
- Demand for HAECO Americas airframe services is expected to increase in 2017. However, its airframe services results will depend on the outcome of efforts to improve efficiency and work flow.
- The number of seats sold is expected to grow, sales of the new Vector seats are expected to remain modest. Forward bookings for cabin integration work are weak. Less Panasonic communication equipment installation kits are expected.
- Demand for HAECO Xiamen's airframe services is expected to improve.
- Demand for TEXL's overhaul services is expected to be stable in 2017.
- HAESL is expected to have a similar level of workload in 2017 to that in 2016. But its results will be adversely affected by higher depreciation and training costs associated with developing the capability to overhaul Trent XWB engines from 2018.
- HAECO Landing Gear Services is expected to do more work in 2017, but to continue to make losses.



**THANK YOU**

---