FITCH TO RATE SHENTON AIRCRAFT INVESTMENT I LTD.

News / Finance

Fitch Ratings expects to assign the following ratings to **Shenton Aircraft Investment** I Ltd. (SAIL) as follows:

—$747,444,000 series 2015-1A notes ‘Asf’; Outlook Stable.

—$60,532,000 series 2015-1B notes ‘BBBsf’; Outlook Stable.

KEY RATING DRIVERS

Quality of Assets: The pool is of high quality with the majority being tier 1 aircraft with long expected remaining useful lives. The weighted average (WA) aircraft age is 4.6 years, younger in comparison to recent Fitch-rated transactions, consistent with BOC Aviation’s owned and managed fleet.

Technological Risk: Despite their current popularity, the pool is largely composed of aircraft that face replacement programs, such as the A320neo or B737 MAX, scheduled for implementation in the latter half of this decade. Fitch believes that the large operator bases, long lead time to replace these assets, and continued low fuel-price environment all partially mitigate this risk.

Weak Lessee Credits: SAIL has significant concentrations with unrated or speculative-grade lessees consistent with most aircraft operating lease transactions. Fitch assumed unrated lessees would perform consistent with a ‘B’ Issuer Default Rating (IDR), to reflect increased default risk.

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Structure/Credit Enhancement/Cash Flow Stresses: Credit enhancement (CE) consists primarily of overcollateralization (OC) and two liquidity facilities. Fitch created multiple cash flow scenarios to evaluate the structure, as detailed in this report.

Heavy Servicer Reliance: SAIL will depend on BOC Aviation's ability to collect lease and maintenance support payments, remarket and repossess the aircraft, and procure maintenance, among other functions, all crucial to asset values and transaction performance. Fitch believes BOC Aviation to be capable of performing these functions as servicer of SAIL.

Cyclicality of Commercial Aviation Industry: Commercial aviation has historically been subject to significant cyclicality stemming from macroeconomic downturns. These periods are typically marked by reduced asset utilization, values and lease rates, as well as deteriorating credit quality amongst lessees. Fitch's analysis assumes multiple periods of significant volatility in asset values and lease rates over the life of the transaction.

RATING SENSITIVITIES

Due to the correlation between global economic conditions and the airline industry, the ratings may be impacted by the strength of global macro-economic factors over the remaining term of the transaction. As such, in its review of SAIL, Fitch evaluated several scenarios that simulated various timing and severity of future recessions that would affect the transaction through reduced aircraft values, lease rates and utilization levels.

Fitch performed a sensitivity analysis assuming a 10% decrease to Fitch's lease rate factor (LRF) curve to observe the impact of depressed lease rates due to increased competition in the market, a trend which has been ongoing particularly within the Asia/Pacific region. This scenario is intended to stress SAIL to a higher degree by assuming lease rates well below observed market rates. In addition, the first recession was deemed to start on day 1, instead of the six months assumed in Fitch's primary scenario. Under this scenario, the series 2015-1A notes showed minor sensitivity and would face a potential rating downgrade of one notch to one level below the expected rating, while the series 2015-1B notes showed little rating sensitivity.

Fitch also evaluated a scenario in which fewer lessees pay monthly maintenance support due to prevailing market conditions, lessee attributes, or BOC Aviation lease terms. In addition, Fitch ignored maintenance adjustments on each aircraft and utilized half-life base values instead, decreasing the portfolio value by approximately $35 million. This stress considers the potential for a difference in maintenance condition than what was forecast at the time the appraisals were completed. Similar to the LRF Stress Scenario, the first recession was assumed to begin on day 1. Under this scenario, the series 2015-1A notes showed slightly less sensitivity than the LRF scenario and potential for a rating downgrade of one notch below the expected rating, while the series 2015-1B notes showed little rating sensitivity.

Lastly, changes in the airline industry can have a significant impact on the ratings of these transactions. If the timing of or degree of technological advancement in the commercial aviation space differs materially from Fitch's expectations, SAIL's performance could be affected. Similarly, factors influencing the supply of and demand for the certain aircraft types present in the SAIL pool could affect Fitch's view of the transaction's ability to avoid a default on the notes and, thus, could result in negative rating actions. In a review of sensitivities designed to represent significant drops in aircraft demand and shorter asset useful lives owing to these factors, the notes showed little rating sensitivity, retaining investment-grade ratings in all cases.

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Fitch's stress and rating sensitivity analysis are discussed in the presale report titled 'Shenton Aircraft Investment I Ltd.', dated Sept. 18, 2015, which is available on Fitch's web site, or by clicking on the link.

DUE DILIGENCE USAGE

Fitch was provided with third-party due diligence information from KPMG. The third-party due diligence focused on reviewing certain information with respect to the lease information provided in the data package. The procedure compared line items provided in the data package with same line items in the lease agreements for each aircraft. Fitch considered this information in its analysis, and the findings did not have an impact on the analysis. A copy of the ABS Due Diligence Form-15E received by Fitch in connection with this transaction may be obtained through the link at the bottom of this rating action commentary.

Fitch's analysis of the Representations and Warranties (R&W) of this transaction can be found in the reports titled 'Shenton Aircraft Investment I Ltd. — Appendix'. These R&W are compared to those typical R&W for the asset class as detailed in the special report 'Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions' dated June 12, 2015.

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