Amedeo Air Four Plus

Elevator Pitch

A £144m co. selling below 1/2 NAV with FCF > MC, a ~15% dividend yield, and over 50% shares repurchased since COVID.

Business

"If it flies, floats, or fornicates, always rent it – it's cheaper in the long run" – Felix Dennis (How to Get Rich)

Amedeo is an acquiror, lessor, and seller of aircraft with 6x A380s and 2x B777-300ERs on lease to Emirates and 4x A350-900s to Thai Airways. Since inception, Amedeo has returned almost 3x their current market capitalisation to shareholders and have reduced shares in issue by ~30% since 2021 and over 50% since 2019.[1] More recently, management increased their quarterly dividend 17% now up 40% since 2022. Ultimately, Amedeo is a £144m company sat on over £127m cash, cash equivalents, and short-term investments with: CFFO of £187m; shareholder's equity ~2.5x current market cap; and a net asset value of £350m.

The travel industry is returning with a vengeance with global traffic reaching 96% of pre-pandemic levels in May (up 6% since April and +11% since February). Domestic travel was 5.3% above pre-pandemic levels for the second month in a row and Willie Walsh, Director General of IATA, said with strong demand, rising consumer confidence, and declining jet fuel prices, strong traffic trends are thriving before we even enter the Northern Hemisphere peak travel season.[2, 3] International traffic growth is being led by APAC and Middle East with the Middle East and North American airlines *exceeding* pre-pandemic levels. More specifically, Emirates (10/12 aircraft) has seen revenue up 1.3x with EBITDA almost doubling and is running its Dubai-Toronto route 40% more due to pent up demand. Thai airways (2/12 aircraft) has seen revenue up 3x, and passengers carried up 24x and plan to acquire 9 additional aircraft as part of their revised rehabilitation plan focusing on East Asia.

Chairman, Robin Hallam, was Partner and Co-Head of Asset Finance at Hogan Lovells and specialised in aircraft financing (e.g., leasing, export credit, and structured financing) for over 25years. Laurence Barron, NED, a commercial lawyer in aircraft financing transactions joined Airbus in 1982 specialising in aircraft financing before setting up Airbus Asset Management in 1994.

Valuation

Amedeo has a current NAV of ~£350m and trades at 2x earnings and less than half book. Assuming Amedeo's market cap appreciates 2.5x (eradicating the discount to NAV), Amedeo would be valued at just 5x earnings and 1x book. Management compute book value using initial cost less impairments which may differ from current fair market value. They do this due to a lack of comparables, especially as the aircraft market remains highly volatile post-COVID. Rough analysis suggests liquidation value is anywhere from £250m to over £750m (vs. £1bn on the books).[4] Ultimately, this shows that the value lies primarily in the contractual obligations of the leases. Amedeo has non-cancellable op. leases of £180m for years 1 through 3 followed by £166m and £124m in years 4 and 5. Assuming earnings equates to ~25% of rental income (as per 2022/23), a slapstick DCF using a discount rate of 14.4% (to 31/12/22) would value Amedeo at over £144m whilst completely ignoring the £251m from year 6 onwards and potential Emirates renewals which are extremely lucrative.

Should Emirates choose not to renew, however, they must pay ~$17m per A380 equating to 70% of Amedeo's current market cap enabling Amedeo to pay off the residual debt on the aircrafts at lease end. That said, supply chain issues have driven Emirates President, Sir Tim Clark, to say that he wishes to retain **all** A380s until the mid-2030s. Should Emirates extend the lease on Amedeo's fleet of A380s until 2035 Amedeo will receive an additional 7-9 years of leasing income. This will mean Amedeo will not need to sell the aircraft in the secondary market to meet junior debt obligations. Moreover, the additional income will allow Amedeo to pay off all residual income, retain a ~15% dividend yield for another decade, and create generous residual shareholder value.

Why does this opportunity exist?

This treasure was plenty well hidden: a company in the travel market whilst we all have 'covid-brain'; amidst 'a looming recession'; one of its two customers entering bankruptcy; users of its product deciding they no longer want it; suspended dividends during COVID (market cap crashed 85%); saddled with £1.2bn in debt. If you've made it this far, you deserve the good news: the travel market is going gangbusters and has surpassed pre-COVID levels in certain markets and is encroaching upon it in others. Amedeo's customer (2 of 12 aircraft) has successfully emerged from bankruptcy and has signed a stricter contract which means they now receive more consistent payments (rather than rent which fluctuates). The primary aircraft that

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[1] Over £400m returned (~2/3 dividends; ~1/3 redemptions). Shares in issue: 642m (2019) vs. 434m (2021) vs. 304m (2023). [Factsheet (31/03/23)]

[2] [IATA - Travel Demand Continues Strong in April; Domestic Traffic Fully Recovered]

[3] [IATA - Strong Air Travel Growth Continues in May as Load Factor Rises to 2019 Levels]

[4] A380s [£25m - £80m each]; A350-900s [£30m - £100m each]; and B777-300ERs [£25m - £50m each].

people are looking to upgrade may be sticking around a little longer due to supply chain woes possibly resulting in a huge uptick in the life of leases. Moreover, should Emirates choose not to, Amedeo will receive almost ¾ its current market cap in 'refurb' payments. Finally, of the £1.2bn in debt, just £100m is current and over ¾ of the debt is on fixed interest rates and the remainder that isn't, is appropriately hedged.[5]

What's more – prior to the redemption in February – one could purchase the stock, receive an immediate 19% return in one month (cash money), and be holding a stock selling below NAV and FCF with a remaining dividend yield of 15%. Despite this, the stock reacted like a deaf man would if his lottery numbers were announced over the radio. Nada. This shows the market is either ignoring this opportunity due to their fear of airlines; or they are completely unaware. This explains the lack of movement in the more recent (previously unexpected) catalyst that we now have on the horizon with Emirates potentially extending the lease on the A380s.

Catalysts

Portfolio Update

- Emirates is reintroducing the A380 to eight destinations resulting in c.90% of its pre-pandemic network becoming operating.

Thai Airways

- Thai Airways switched from power-by-the-hour to a more rigid and routine leasing schedule of fixed monthly rentals agreed with the bankruptcy planners. They are also operating the aircraft more as China and the rest of APAC continue to increase flight traffic.

Dividend Yield Acknowledgement

- Resumption of the dividend yield increasing sentiment. Currently entirely funded by Emirates thus may be an additional catalyst as Thai Airways continually succeeds.

Transaction / Restructuring

- The team have an abundance of experience in restructuring, business transformation, and general commercial transactions emphasised by their recent appointment of Tom Sharp (a ~7% owner) who has over 20yrs experience investing and **a strong ability to structure and negotiate commercial transactions.**

Market Value of Aircraft

- The A350-900 is a modern, lightweight fuel-efficient twin proving popular thus pricing ought to remain robust.
- The B777-300ER has been deeply written down but has high conversion potential thus may support future value.[6]
- As A380 production almost stopped completely during COVID, subsequent supply chain issues have slowed production which ought to preserve value in aircraft close to retirement.[7]

More Noise

- Recent feature in Investors' chronicle.[8]

Risks

- The smaller LIBOR-linked debt putting stress on company.
- Thai airways restructuring losing steam weighing on the stock.
- Insiders own less than 1% of shares signalling little skin in the game.[9]
- Liberum analysts are concerned regarding debt obligations hence Amedeo's cash build up.
- Should this rapid recovery in travel completely bottom out, it may look like an upside-down V, lower case n, or A without the bar (stolen from the famous covid-recovery nomenclature).
- A380s are set to be phased out thus resale values are expected to drop sharply. Typical resale value is ~40% but others believe they might be worth just 10-15%.
    - Whilst this may come true, the primary value herein lies in the leases with little reliance on the second-hand market value of aircraft in the long run. Of course, if the values are optimistic, the upside will be higher. But the downside will be adequately covered with the free cash flows from current leases otherwise.

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[5] £745m fixed; £321m variable w/ interest rate derivative contracts; £210m variable rate (LIBOR) w/ rate cap; senior loans have balloon payment on maturity.
[6] A350 Prices - Ishka
[7] Consolidated Annual Financial Report (YE 31-Mar-23)
[8] A hidden stock about to secure its dividend for a decade - Investors' Chronicle (investorschronicle.co.uk)
[9] Although their newest addition, Tom Sharp, is an executive director of Metage Capital, who own 6.85% of Amedeo.

Appendix

Type	Quantity	Lo	Me	Hi	Valuation Range[10]		
A380	6	$25m	$50m	$ 80m	£117m	£234m	£374m
A350-900	4	$30m	$75m	$100m	£ 94m	£234m	£312m
B777-300 ER	2	$25m	$30m	$ 40m	£ 39m	£ 47m	£ 62m
					£250m	**£515m**	**£749m**

A380
Doric Nimrod recently sold an A380 for ~$25m. Analysts are super pessimistic about the second-hand market for this aircraft suggesting closer to half this amount (~15% of ~$200m cost) whereas typical resale price is closer to ~40%. Pre-Pandemic, the A380s were worth ~$75m for a half-life model.[11] Assuming a 33% post-COVID discount, would suggest these are worth just ~$50m. Moreover, Amedeo sold 2x A380s to Etihad Airways in the first half of COVID for ~£50m each. Assuming a range of: (a) low = Doric Nimrod @ $25m; (b) Median of recent sale and post-COVID discount @ $50m; and (c) 40% of purchase price @ $80m, Amedeo's A380s are worth £117m – £374m.

A350-900
A 2014 A350-900 is worth approximately $110 - $165m in 2021 in line with ~40% of new build cost. [Link #1] [Link #2] [Link #3]. Assuming continual analyst pessimism, we take a low end of 10% new build @ ~$30m and a median valuation of 25% new build costs @ $75m which equates to (a) half that of the 2021 price; and (b) $100m of our ~40% at cost (a discount of at least $10m). We also know that these values ought to corroborate with Airbus' pricing mechanism whereby the A350-900 ought to exceed the value of the A380s.[12]

B777-300ER
An 18yr old B777-300ER was worth ~$30m in 2021 whilst a 14yr old cost ~$39m in the same year. Assuming with every year the price depreciates $2m, Amedeo's 7yr old B777-300ER would be valued at ~$53m. With a 1yr old selling for ~$100m in 2021, this approximate value equates to half a newbuild a few years ago.[13] Thus, being slightly more conservative, we approximate the high-end value of the B777-300ERs at ~$40m.

Summary
Thus, we can say that the 12 airlines are worth, at minimum, £250m, 1.5x today's market capitalisation of the entire business. What's more, it is reasonable to suggest these airlines could be worth over $500m (3x today's market cap) without encroaching upon our 'sunny day' scenario which would suggest the assets being worth over £750m (6x today's market capitalisation). Assuming I'm wildly incorrect on the value of these planes we know the lowest value asset, Doric Nimrod, sold for $25m so, at minimum, these assets are worth $20m and – at an absolute maximum – our most conservative high end is the $40m B777-300ER thus, assuming this is the range for the entire asset base, the 12 assets would be worth at least £187m to £374m.

[10] 1 USD = 0.78 GBP
[11] Why a second-hand A380 is an extremely hard sell (key.aero)
[12] How Much Does an Airbus Plane Cost? (2023 Pricing) (pilotpassion.com)
[13] How Much Is A Boeing 777-300ER Worth In 2021? (simpleflying.com)