

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings upgrades the long-term issuer rating of Dubai Aerospace Enterprise (DAE) Ltd to Baa2 from Baa3; outlook changes to stable**

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24 Jun 2024

New York, June 24, 2024 -- Moody's Ratings (Moody's) has upgraded to Baa2 from Baa3 the long-term issuer rating of Dubai Aerospace Enterprise (DAE) Ltd and the long-term backed senior unsecured ratings of its subsidiary DAE Funding LLC. The backed senior unsecured medium-term note program ratings of DAE Sukuk (DIFC) Ltd were also upgraded to (P)Baa2 from (P)Baa3. The outlooks for the entities were changed to stable from positive.

#### RATINGS RATIONALE

We upgraded DAE's ratings based on the commercial aircraft leasing company's consistently strong liquidity position and diverse funding sources, improving operating results and low debt-to-equity leverage. The upgrade also considers DAE's well-managed fleet risks, reflecting its focus on investing in popular new technology aircraft and maintaining granular customer exposures. DAE's ratings continue to reflect the long-term, stable ownership of its shareholder, the Investment Corporation of Dubai (ICD), which has provided capital to DAE to fund its growth and aided DAE's access to debt funding and liquidity sources.

DAE maintains stronger liquidity than most peer aircraft leasing companies. The company's \$5 billion of liquidity at 31 March 2024 provided 12-month's coverage of debt maturities and capital expenditure commitments of 249%, higher than aircraft leasing company peers. The company has fewer aircraft purchase agreements than certain competitors, which eases committed demands on its liquidity sources, but conversely provides less transparency and certainty regarding the company's fleet replenishment over time. DAE's strong liquidity also reflects its diverse funding sources, including its unique access to capital from banks in the United Arab Emirates (Aa2 stable). We expect that DAE will continue to manage to a strong liquidity cushion and have access to growth capital from ICD.

DAE manages to a low debt-to-equity leverage profile, providing a strong cushion for fleet and operating performance contingencies. The company reported a ratio of net debt to equity of 2.5x at 31 March 2024, which provides an appropriate buffer for both its aircraft leasing risks as well as the operating risks associated with its Joramco maintenance, repair and overhaul business. Capital injected by ICD to facilitate DAE's acquisition of aircraft has been instrumental in helping to reduce volatility in the company's leverage profile. We expect that DAE's leverage will remain below 2.7x.

DAE's profitability is stronger than most peers. The company's net income-to-average assets ratio for the quarter ended 31 March 2024 (annualized Moody's adjusted) was 2.23% versus 1.9% for full-year 2023. We anticipate that strong demand for leased aircraft from airlines striving to build capacity to accommodate growing air travel volumes will help to sustain DAE's operating performance.

DAE only periodically acquires aircraft directly from aircraft manufacturers, instead relying more significantly on airline sale-leaseback and secondary market purchases to replenish its fleet investments. But DAE has been able to grow its franchise strength notwithstanding the pricing competition that it faces in these channels from other investors seeking to build their leasing businesses. In recent periods, DAE has made progress transitioning its fleet toward a higher proportion of the newest technology aircraft and the company continues to maintain strong granularity in its customer base. However, the company's investment strategy does result in its fleet having a moderately higher average age and lower average remaining lease term than certain peers that focus more on new aircraft acquisition strategies.

DAE's credit challenges include airline industry cyclicalities, higher debt refinancing requirements in 2024 even as funding has become more costly and the rising cost of desirable aircraft, which DAE acquires through trading channels. Additionally, ongoing geopolitical event risk could slow positive momentum in the industry. However, we believe that DAE's established market presence, effective fleet risk and liquidity risk management, and its shareholding by ICD underscore its favorable long-term performance prospects.

DAE's outlook is stable, based on the company's prospects for sustaining improved profitability and cash flow over the next 12-18 months and our expectation that it will continue to maintain strong liquidity coverage and low leverage.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

DAE's ratings could be upgraded if: 1) the company generates consistently stronger and more stable profitability and cash flow ratios compared to peers; 2) fleet residual value risks decline and fleet composition strengthens; 3) the company maintains liquidity coverage (Moody's sources-to-uses over a one-year horizon) of debt maturities and aircraft expenditures consistently above 150%; 4) debt-to-tangible net worth leverage (Moody's adjusted) is maintained below 2.7x; and 5) airline industry

performance and air travel growth support continued strong demand for leased aircraft.

DAE's ratings could be downgraded if: 1) liquidity coverage declines to less than 120%; 2) leased aircraft demand or industry operating conditions weaken; 3) debt-to-equity leverage (Moody's adjusted) increases above 3.0x; 4) fleet or airline customer risks or concentrations materially increase; or 5) the company's competitive positioning weakens.

#### LIST OF AFFECTED RATINGS

..Issuer: Dubai Aerospace Enterprise (DAE) Ltd

Upgrades:

.... LT Issuer Rating, Upgraded to Baa2 from Baa3

Outlook Actions:

....Outlook, Changed To Stable From Positive

..Issuer: DAE Funding LLC

Upgrades:

.... Backed Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa2 from (P)Baa3

.... Backed Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

Outlook Actions:

....Outlook, Changed To Stable From Positive

..Issuer: DAE Sukuk (DIFC) Ltd

Upgrades:

.... Backed Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa2 from (P)Baa3

.... Backed Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

Outlook Actions:

....Outlook, Changed To Stable From Positive

Dubai Aerospace Enterprise (DAE) Ltd., headquartered in Dubai, is a global aviation

services corporation, providing aircraft leasing and asset management services through its DAE Capital division and providing maintenance, repair, and overhaul services from its DAE Engineering division, through Jordan Aircraft Maintenance Company Limited (Joramco), based in Amman, Jordan. The company is 100% owned by the Investment Corporation of Dubai (ICD), the principle investing arm of the government of Dubai.

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at <https://ratings.moodys.com/rmc-documents/65543>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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