

QUARTERLY FACT SHEET

September 2024

DORIC NIMROD AIR TWO LIMITED

LSE: DNA2

The Company

Doric Nimrod Air Two Limited ("the Company") is a Guernsey domiciled company. Its shares have been admitted to trading on the Specialist Fund Segment (SFS) of the London Stock Exchange's Main Market. The market capitalisation of the Company – after the partial compulsory redemption of shares following the sale of the first two aircraft – was GBP 176.4 million as of 30 September 2024.

The Company has three wholly-owned subsidiaries: MSN077 Limited, MSN105 Limited and Doric Nimrod Air Finance Alpha Limited ("DNAFA") (and together with the Company "the Group").

Investment Strategy

The Company's investment objective is to obtain income returns and a capital return for its shareholders by acquiring, leasing and then selling a portfolio of aircraft. The Company receives income from the leases and targets a gross distribution to the shareholders of 4.5 pence per share per quarter. It is anticipated that a final income distribution will be made in October this year.

Asset Manager's Comment

1. The Assets

The Company acquired a total of seven Airbus A380-861 aircraft between October 2011 and November 2012. Each aircraft was leased to Emirates Airline – the national carrier owned by the Investment Corporation of Dubai, based in Dubai, UAE – for a term of 12 years from the point of delivery with fixed lease rentals for the duration. MSN 077 and MSN 090 were sold to Emirates at the end of their 12-year leases, in October and November 2023.

The loan for MSN 105 was repaid early in September 2024.

While the return to service of Emirates' A380 fleet is continuing post pandemic, one of the DNA2 aircraft remains in storage at Dubai World Central Airport.

Company Facts (30 September 2024)

Listing	LSE
Ticker	DNA2
Current Share Price	143p
Market Capitalisation	GBP 176.4 million
Initial Debt	USD 1.03 billion
Outstanding Debt Balance	USD 0 million
Current Dividend	4.5p per quarter per share (18p per annum)
Earned Dividends	224p
Current Dividend Yield	12.59%
Dividend Payment Date	October 2024
Ongoing Charges (OCF) ¹	2.4%
Currency	GBP
Launch Date/Price	14 July 2011 / 200p
Average Remaining Lease Duration	1 month
C Share Issue Date/Price	27 March 2012 / 200p
C Share Conversion Date/Ratio	6 March 2013 / 1:1
Partial Compulsory Share Redemption Date/Ratio/Amount	18 December 2023 / 2 for every 7 shares / 120p per share
Shares in Issue Post Redemption	123,392,956
Incorporation	Guernsey
Aircraft Registration Numbers (Lease Expiry Dates)	A6-EDX (01.10.2024), A6-EDY (01.10.2024), A6-EDZ (12.10.2024), A6-EEB (09.11.2024), A6-EEC (30.11.2024)
Asset Manager	Doric GmbH
Corporate & Shareholder Advisor	Nimrod Capital LLP
Administrator	JTC Fund Solutions (Guernsey) Ltd
Auditor	Grant Thornton Ltd
Market Makers	Investec Bank Plc, Jefferies International Ltd, Panmure Liberum Ltd, Peel Hunt LLP, Shore Capital Ltd, Winterflood Securities Ltd
SEDOL, ISIN, LEI	BMWCCD4, GG00BMWCCD4, 213800ENH57LLS7MEM48
Year End	31 March
Stocks & Shares ISA	Eligible
Website	www.dnairtwo.com

¹ As defined by the AIC.

Aircraft utilisation for the portfolio aircraft until the end of August 2024 was as follows:

Aircraft Utilisation				
MSN	Delivery Date	Flight Hours	Flight Cycles	Average Flight Duration
105	28/09/2012	32,248	5,142	6h 16m
106	01/10/2012	42,198	5,214	8h 6m
107	12/10/2012	41,631	4,983	8h 21m
109	09/11/2012	37,549	5,971	6h 17m
110	30/11/2012	38,027	6,183	6h 5m

Maintenance Status

Emirates maintains its A380 aircraft fleet based on a programme according to which minor maintenance checks are performed every 1,500 flight hours and more significant maintenance checks (C checks) at 36-month or 18,000-flight hour intervals, whichever occurs first.

Emirates bears all costs relating to the aircraft during the lifetime of the leases (including for maintenance, repairs, and insurance).

Completed Sale of Two Aircraft

The leases for the Group’s first two aircraft (MSNs 077 and 090) expired in mid-October and early December 2023 respectively. Both aircraft were sold around their respective lease expiry dates to Emirates. Sale proceeds paid by Emirates to the Company were GBP 28.9 million in respect of each aircraft (equivalent to USD 35 million at that time). Following the sale, the Company returned monies to shareholders in the second half of December 2023 by way of a partial compulsory redemption of two ordinary preference shares for each seven shares in the Company. The redemption proceeds of 120 pence per share were paid on 27 December 2023.

Upcoming Sale of the Remaining Aircraft

In August 2024 the Company reached an agreement with Emirates that, at the respective lease end dates for each of the remaining five A380 aircraft, currently expected to be between 1 October 2024 and 30 November 2024, the Company will sell the respective assets to Emirates. The sale proceeds to be paid by Emirates to the Company are GBP 30.71 million in respect of each aircraft (equivalent to USD 40 million per asset, an aggregate combined total amount of USD 200 million or GBP 153.53 million at the time of exchange rate fixing).

Until the respective lease end dates, the operating leases will continue as contracted.

The Directors intend to distribute the sale proceeds to shareholders together with the remaining cash holdings, net of any liquidation and other costs and assuming successful completion and no further unexpected costs or events, as soon as possible following the last lease end date and subject to the relevant solvency tests, laws and regulations.

Payment of monies to shareholders is therefore currently expected to be made early in the first calendar quarter of 2025. It is currently anticipated that the process for liquidation of the Company will commence as soon as practicably possible thereafter.

A further announcement detailing final distribution amounts and timetable will be released in due course.

2. Market Overview

The impact of the pandemic on the global economy was severe, resulting in a 3.1% contraction in global GDP in 2020, followed by a recovery of 6.2%, 3.0% and 2.6% in 2021, 2022 and 2023 respectively. According to its June 2024 report on global economic prospects, the World Bank expects a growth rate of 2.6% for the current year making it the third consecutive year of deceleration. The World Bank expects a steady average growth of 2.7% p.a. for 2025 and 2026.

According to the Global Outlook for Air Transport from June 2024, the International Air Transport Association (IATA) expects the airline industry’s profitability to increase in 2024, reaching USD 30.5 billion, a year-over-year improvement of 11.3%.

The year 2024 is so far marked by an ongoing industry-wide recovery of air passenger traffic, measured in revenue passenger kilometres (RPK), which has already caught up to the 2019 levels in February. As of August 2024, a year-over-year growth of 8.6% was recorded. The supply of capacity, measured in available seat kilometres (ASK), increased in August 2024 by 6.5% compared to August 2023. The average passenger load factor (PLF) in August 2024 came in at 86.2%, an improvement of 1.6 percentage point from the same period in 2023 – and a historic high.

International travel – measured in RPKs – is up 10.6% year-over-year in August 2024. The strongest improvements in international traffic could again be observed in the Asia-Pacific region with an increase in RPKs of 19.9%. Global domestic travel on the other hand increased by 5.6% in August 2024 in comparison with August 2023 domestic travel levels.

“The market for air travel is hot and airlines are doing a great job at meeting the growing demand for travel. Efficiency gains have driven load factors to record highs while the 6.5% capacity increase demonstrates resilience in the face of persistent supply chain issues and infrastructure deficiencies”, said Willie Walsh, IATA’s Director General.

The Middle East, where the lessee is located, recorded an RPK increase of 5.0% between August 2023 and August 2024. Capacities, measured in ASKs, expanded by 5.9% over the period, however there was a 0.7 percentage point decrease of the average PLF to 82.3%.

Source: IATA, World Bank
© International Air Transport Association, 2024
Air Passenger Market Analysis August 2024
Global Outlook for Air Transport – June 2024
Available on the IATA Economics page

3. Lessee – Emirates

Network

During the financial year 2023/24 the carrier increased frequency and capacity to 15 destinations globally and replaced Boeing 777 services with A380s on 14 routes.

Starting on 1 March 2025, Emirates will add a fourth daily flight to Johannesburg (South Africa). It will be operated on a three-class Boeing 777-300ER, also increasing the cargo capacity in and out of South Africa, offering additional belly capacity of 300 tonnes weekly.

To meet seasonal demand, Emirates decided to temporarily upgrade its second daily flight to Bali (Indonesia) to another A380 service. A non-stop daily service from Dubai to Bali was originally launched in 2015 and the latest decision adds more than 2,600 additional weekly seats compared to the previous 777 service.

Emirates currently sustains partnerships with 162 partners including 31 codeshare and 118 interline partners in over 100 countries, offering connectivity to nearly 1,700 cities worldwide. More than 61,000 weekly travellers connect on flights by Emirates' partners and allow customers to make use of seamless ticket itineraries, frequent flyer benefits, baggage transfer, and lounge access.

Fleet

According to Emirates, its passenger aircraft fleet consisted of 116 Airbus A380s and 133 Boeing 777s at the end of March 2024. Due to the lack of availability of similar-sized replacement aircraft and delays in the delivery of new aircraft ordered, Emirates plans to keep its A380s flying until the late 2030s with corresponding extensions of aircraft leases, according to a statement made in March 2024.

In May 2024, the airline announced an expansion of its Airbus A380 and Boeing 777 cabin retrofit programmes, originally announced in November 2022, to 191 in total. It now covers Emirates' 110 Airbus A380s delivered without premium economy seats installed and will also include the five A380s owned by the Company. Another six A380s were delivered from Airbus with premium economy seats and do not require an upgrade. In June 2024, Emirates claimed that the delivery delay to the Boeing 777X will cost the airline USD 3 billion in refurbishment of its existing A380 and 777 fleet. In order to maintain its existing network Emirates has also extended lease agreements and bought some of the previously leased aircraft.

In early August 2024, the first retrofitted Boeing 777 returned to service in a three-class configuration, including the addition of a 24 seats Premium Economy cabin and Emirates' new 777 Business Class product. In total, the airline has plans to refurbish another 80 Boeing 777. The first 777 took 18,000 manhours to finish.

Emirates aircraft fitted with Premium Economy will reach 48 by the end of this year, and will serve 27 destinations including Dubai, using Emirates' fleet of Boeing 777s, A380s, and A350s.

At the 2023 Dubai Air Show in November 2023 Emirates also added a number of aircraft to its existing order book for a combined list price value of USD 58 billion.

Boeing 777X

In November 2023, Emirates topped up an existing order for 115 Boeing 777Xs, a combination of 16 777-8s and 99 777-9s, by signing a firm order for another 35 777-8 and 55 777-9 aircraft. This brings the lessee's Boeing 777X orderbook to a total of 205 units. According to a statement from Tim Clark in November 2023, delivery of the first 777-9 from the initial order was expected from October 2025. Deliveries for the new 777-9 order are scheduled up until 2035. The slightly smaller 777-8, for which Emirates is one of the launch customers, are expected to commence delivery in 2030.

If delivered in 2025, the Boeing 777-9 will be over five years late. Due to multiple delays, and as these aircraft are destined to replace the airline's aging Boeing 777-300ER fleet, the carrier extended the lease period of 25 Boeing 777 aircraft during the 2022/23 financial year and of a further 12 during the last financial year. Emirates has also included the aircraft type in its refurbishment programme.

Late last year Tim Clark had no concerns that the delivery of the first 777-9 aircraft for Emirates could slip into 2026. However, his view has changed and he is "beginning to doubt" that the airline will receive its first aircraft in 2025, according to a statement made in late February 2024. Latest statements point to delivery in 2026.

After the manufacturer had received type inspection authorization in July 2024 Boeing began certification flight testing with FAA personnel on board the aircraft. During scheduled maintenance, a structural component between the engine and aircraft structure "did not perform as designed", according to the manufacturer. In response to the discovery of cracks Boeing suspended further test flights. Boeing has not yet commented on the potential impact of the certification and first deliveries, but launch operator Lufthansa expects this situation will result in further delays and has rescheduled the aircraft's entry into service to late 2026.

With Airbus A380s and Boeing 747s no longer available for order, the Boeing 777X is currently the biggest aircraft in production, but has not yet been certified.

Boeing 787

During the 2023 Dubai Air Show Emirates also updated an existing order for 30 Boeing 787-9 aircraft and committed to purchasing another five. As per the latest agreement of mid-November 2023, Emirates will receive 20 Boeing 787-8s and 15 Boeing 787-10s. However, the airline did not share an updated delivery timeline.

The previously ordered 787-9 aircraft were supposed to be delivered from May 2023 onwards. But Clark does not expect the 30 Boeing 787s to join his fleet soon. Delivery of the 787 family paused for about 19 months between November 2020 and August 2022 after Boeing had identified quality issues. It only resumed after the US Federal Aviation Authority (FAA) decided the airframer "had made the necessary changes to ensure that the 787 Dreamliner meets all certification standards." Deliveries paused for another few weeks in February/March 2023 over concerns connected to the aircraft's forward pressure bulkhead which were then resolved. In June 2023 Boeing announced the discovery of yet another production flaw that required the manufacturer to inspect all 90 787 aircraft in its inventory, potentially affecting the timing of near-term 787 deliveries as well.

Boeing delivered only nine 787's in the second quarter of 2024, down from 13 in the three months before.

Airbus A350

An order of a further 15 A350-900s placed during the 2023 Dubai Air Show increases the number of A350-900 widebody aircraft ordered by Emirates to 65. The first of these was expected to join Emirates' fleet in August 2024. The airline and

the manufacturer agreed on a "compressed delivery schedule" for the first 50 aircraft, all of which are to be delivered within a 30-month period. This should help "to pick up this big capacity hole that we can see", noted Emirates' President in 2022. The last aircraft of this batch are expected to be delivered in early 2028.

Due to delivery delays, the airline had to postpone the aircraft's entry into service and now expects to receive its first A350 in October 2024.

With a more diversified fleet, Emirates plans to add 400 destinations to its network over the next decade and expects to operate about 350 aircraft from the early 2030s onwards.

Key Financials

For its financial year 2023/24 ending on 31 March 2024, Emirates recorded a net profit of AED 17.2 billion (USD 4.7 billion), a record performance for the company and 62.9% more than in the same period of the previous year. The airline attributes its performance to strong passenger demand for its premium product and offerings. Revenue, including other operating income, was up 13% from last year and reached AED 121.2 billion (USD 33.0 billion).

Between 1 April 2023 and 31 March 2024, the airline carried 51.9 million passengers, an increase of 19% over the previous financial year. Emirates' SkyCargo uplifted 2,176,000 tonnes during that period, an increase of 18% over the previous financial year. However, an increase in cargo capacity worldwide resulted in downward pressure on prices and a decrease of 21% in SkyCargo's revenue.

During the financial year 2023/24 Emirates' capacity grew by 21% measured in available seat kilometres (ASK). At the same time RPKs increased by 22%. This resulted in an average passenger load factor (PLF) of 79.9%, an improvement of 0.4 percentage points compared to the last financial year.

Emirates' total operating costs increased 8%. Fuel was the largest cost component amounting to 34% of operating costs, 2 percentage points lower than in the period from April 2023 to March 2024. Higher revenues and better margins resulted in an improved EBITDA of AED 37.6 billion (USD 10.2 billion), a 13% improvement from last year.

As of 31 March 2024, Emirates' total liabilities decreased by 9.6% to AED 117.4 billion (USD 32.0 billion) compared to the end of the previous financial year. Amongst other things, the airline repaid AED 20.9 billion (USD 5.7 billion) in bonds, lease liabilities and term loans and paid a dividend to its shareholders in the amount of AED 2.0 billion (USD 540 million). Total equity came in at AED 46.5 billion (USD 12.7 billion), an improvement of 66% since the beginning of the financial year in April 2023. Emirates' equity ratio stood at 28.3% and its cash position, including short-term bank deposits, amounted to AED 42.9 billion (USD 11.7 billion) at the end of March 2024, 15% more than at the beginning of the financial year. The net cash flow from operating activities came in at AED 37.6 billion (USD 10.3 billion) for the last financial year, about 15% lower than in the financial year before.

Commenting on rising profit announcements of other international airlines, Tim Clark noted in March 2024 that margins at Emirates now compare favourably with other industries, having risen from around 3% before the pandemic to 8-10% now.

As at the end of September 2024, Emirates had outstanding US dollar debt issuances with maturities in 2025 and 2028. These bonds last traded at around 100 cents and 99 cents respectively, with a yield to maturity of 5.7% and 4.9% p.a. respectively, a little lower than last quarter. There has also been no significant upward pressure on yields. This level of yields does not appear to indicate any significant financial stress to the issuer. In Emirates' most recent annual financial report the auditor PricewaterhouseCoopers issued an unqualified audit report.

Sustainability

In September 2024, Emirates noted that on every one of the carrier's 470 daily flights all pilots actively use GE FlightPulse. The analytics application provides operational data relating to the safety and fuel efficiency performance of each mission. Among other things, the software allows pilots to review their individual data from previous flights, and benchmark key performance indicators against the fleet average. It further provides information that helps with flight planning, e.g. which runway can be expected on arrival at a certain airport and if flying in a holding pattern is a likely scenario, based on actual data collected from other Emirates aircraft over the past 90 days.

Source: Cirium, Emirates, Simple Flying

4. Aircraft – A380

According to Cirium, as of the end of September 2024 the global A380 fleet consisted of 203 aircraft operated by 12 airlines. Of these, 166 were in service. The remainder of the fleet is currently parked. The 12 operators are Emirates (118), Singapore Airlines (13), British Airways (12), Etihad Airways (10), Qantas (10), Qatar Airways (10), Deutsche Lufthansa (8), Korean Air Lines (8), Asiana Airlines (6), Air France (4), All Nippon Airways (3) and HiFly Malta/Global Airlines (1). Another 21 aircraft are registered with non-airline entities.

In an analysis published in November 2023 Cirium Ascend Consultancy noted that the number of A380s reactivated post-pandemic is higher than initially expected, but that the full extent of the fleet recovery "is hard to forecast". After the number of in-service A380s reached a low in the single digits at the height of the pandemic, Cirium Ascend Consultancy estimated "that potentially up to 190 aircraft could be reactivated". Several factors were identified to explain a "once-unlikely comeback". These include the large-scale retirement of older twin-aisles in the early months of the pandemic and "a relative lack of replacement capacity" due to the slow ramp-up of production by Airbus and Boeing along with extended delays to the introduction of the Boeing 777X.

Source: Cirium



Contact Details

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