

LHI Leasing GmbH

Asset Management Rating



Rating rationale

Scope affirms the Asset Management Rating for LHI Leasing GmbH at AA_{AMR}.

Scope attests LHI Leasing GmbH (LHI) a very high asset management quality and competence. The assigned rating for the company's aviation subsegment is affirmed at A+_{AMR}, those for the real estate and renewable energy divisions are affirmed at AA_{AMR}.

As of 31.12.2018, LHI's assets under management amounted to a total of Euro 16.4 billion, compared with Euro 18 billion a year earlier. The company's business model is diversified, with operations comprising leasing solutions, structured finance, management of real estate portfolios and investments in real assets.

LHI's in-house investment fund manager (KVG) carries out central tasks such as risk management, portfolio management, and asset management. Currently, the product offering is exclusively aimed at institutional clients.

This rating pertains to the segment of investments in real assets only. Here, LHI currently manages around Euro 4 billion in 88 investment vehicles, of which 53% are in real estate investments, 29% in renewable energies and 19% in aviation assets, such as aircraft and jet engines.

Positive rating drivers were (1) the very extensive industry experience and long company tenure both of the current and the future executive board as well as the second level of management, (2) excellent competence regarding the structuring of individual product solutions, (3) the good to very good investment performance in each of the three analysed segments, (4) high degree of transparency of investment and operative processes, (5) highly effective risk management and compliance setup, (6) the state-of-the-art, tailor-made and continuously enhanced IT-landscape based on SAP, which provides the company with a significant advantage regarding efficiency and quality.

Within the asset class Real Estate, office and retail each amount to a third of the total segment assets of Euro 2.1 billion. Hotel investments constitute 17% of the total, with minor portions in logistics, residential, and other kinds of real estate. The total rentable space of about 1.4 million square metres is fully let, with occupancy rates at around 99%. In 2018, the investment vehicles' average return reached an attractive level at 8%.

Investments in the segment Renewable Energies focus on onshore wind and photovoltaic. As per the rating date, LHI managed assets worth Euro 1.1 billion with a nominal output of 575 MW/MWp, distributed evenly between the two subsegments. In 2018, the average investment return reached 5.5%, which Scope considers competitive.

Within the segment Aviation, LHI currently manages 12 investments in aircraft, helicopters and jet engines. The company so far has issued investment products of about Euro 1 billion and appears well established, also internationally. In 2019, for instance, the company managed sale-and-lease-back transactions of two Airbus A220s with lessee Air Baltic and placed these assets in a special funds.

Rating

Rating overall	AA _{AMR}
Real Estate	AA _{AMR}
Aviation	A+ _{AMR}
Renewable Energy	AA _{AMR}

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Due to regular and projectable management fees the company exhibits a stable income base and high fixed cost coverage of about 80%. According to Scope, this is clearly a competitive advantage, since it allows LHI to be selective in the currently high-priced asset markets. The company's access to assets, often contributed by clients who require LHI's high expertise in structuring, is also clearly positive and conducive for reinforcing the company's position as an institutional asset manager. The long-term stable pre-tax profit rate of between 10-20% is the strong foundation that enables the company to stay long-term oriented and to protect its reputation, as is typical for a company that is part of the German Mittelstand (SME).

During the period under review, a high staff fluctuation in the segment Real Estate became evident, as three positions in the areas of asset and portfolio management had to be refilled. In Scope's view, the currently positive environment for real estate investments and the resulting tight labour markets puts the company in front of increasingly difficult challenges to fill vacancies. Nonetheless, all three positions were successfully filled.

The generational change in the executive board, which was prudently planned for during the past three years, was initiated in October 2019. The process stipulates a gradual handing-over of responsibilities to Ms Nicole Handschuh, previously board member responsible for overall bank management, finance, legal and compliance with Sparkasse KölnBonn, as well as internal candidates Florian Heumann and Markus Niedermeier. While Ms Handschuh directly joined the board, Messrs Heumann and Niedermeier were appointed executive managers of LHI, only to be appointed general managers by July 2020. The entire current executive board is to retire by the end of 2020 but continues to be available as owners and shareholders. Moreover, Messrs Porr and Soethe are going to take up positions in the advisory board and thereby ensure continuity and on-going transfer of knowledge. According to Scope, the entire setup comprising the careful selection of new managing directors, the generous time frame allowed for the transition period, the sensible allocation of responsibilities within the downsized executive board effectively mitigates the risks inherent in such a generational handover of the company management.

Rating drivers



Excellent industry knowledge and company continuity of the executive board and very carefully planned replacement and downsizing of executive board



Diversified business model with a broad income base, high fixed cost coverage due to predictable management fees



Trusted and state-of-the-art operational processes as well as stringent, integrated risk management for all investment segments



Continuous development of institutional segment based on excellent structuring capabilities and longstanding asset management competence



Increased personnel fluctuation in the segment Real Estate due to a difficult recruiting environment



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Rating history (last three actions)

Date	Rating Action	Rating
08.01.2020	Affirmation	AA _{AMR}
21.12.2018	Affirmation	AA _{AMR}
06.12.2017	Affirmation	AA _{AMR}

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