

LHI Leasing GmbH

Asset Management Rating



Rating rational

Scope affirms the current asset management rating of LHI Leasing GmbH at **AA_{AMR}**.

Scope attests the company a very high asset management quality and competence. The Aviation sub-segment is upgraded from **A+_{AMR}** to **AA-_{AMR}**, while the Real Estate and Renewable Energies sub-segments are each confirmed at **AA_{AMR}**.

As at the rating date of 31 December 2019, LHI Leasing GmbH ("LHI") manages assets worth around EUR 15.5 billion (31 December 2018: EUR 16.4 billion) and is characterised by a diversified business model. Its mainstays are the areas of leasing and structured financing, the ramp-up and portfolio management of real estate portfolios, and asset-backed capital investments.

The company's own capital management company assumes the central tasks of risk, portfolio and asset management. The broad and innovative product range is currently aimed exclusively at institutional clients.

The area of asset-backed investments, to which this asset management rating refers, comprises 94 active investment vehicles with a combined €4.4 billion in assets under management as of 31 December 2019, distributed across the asset classes of real estate (53%), renewable energies (29%) and aviation (18%). After a high volume of new business of €1.2 billion was generated in 2019, this year also saw further growth in this area to currently €5 billion.

The rating is essentially supported by (1) the very extensive industry experience and long tenure of the management and the second management level, (2) the diversified, profitable business model with a broad revenue base and high fixed cost coverage due to well plannable management fees, (3) the outstanding expertise in structuring individual product solutions for institutional investors and support by experienced relationship managers of many years, (4) the good to very good investment performance in the three asset classes considered and (5) proven and modern operational processes as well as effective risk control and compliance mechanisms.

From Scope's point of view, the high fixed cost coverage represents a competitive advantage, as it enables a selective approach in the relevant asset markets, which is in line with the company's typical German Mittelstand (SME) orientation, which is geared towards the long term and protecting its reputation. Scope also considers it positive that investors are now more frequently contributing their own assets to investment vehicles and requesting LHI's structuring expertise for this purpose, which underlines its consolidated market position as an institutional asset manager.

With its staff largely centralised in Pullach, LHI has geographically expanded its investment markets to include the Netherlands, Denmark and Portugal in the field of renewable energies and Vienna/Austria in the field of real estate. In the area of renewable energies, the portfolio in France was also further expanded. From Scope's perspective, it would be desirable to build up own staff in established foreign target markets. At the moment, however, this is well covered by the targeted recruitment of French and other international staff in portfolio management.

The handover to the new management is proceeding according to plan. The handover process will be completed by 31 December 2020 with the complete withdrawal of the four previous managing directors. They will remain with the company as shareholders,

Rating

Rating overall	AA_{AMR}
Real Estate	AA _{AMR}
Aviation	AA- _{AMR}
Renewable Energy	AA _{AMR}

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and the planned future active exercise of the advisory board function by Oliver Porr and Robert Soethe will ensure continuity and the retention of important company knowledge.


In the real estate asset class, 36% of the current investment assets of 2.6 billion euros are allocated to office and 28% to retail (with a focus on local supply centers). Hotel investments account for around 20%, while logistics, residential and other types of use complete the spectrum. The managed rental space of currently around 1.3 million sqm is effectively fully let at 99% and the average payout of the investment vehicles was at an attractive level of around 4.73% in 2019.


The investment assets in the renewable energy asset class focus on onshore wind farms and photovoltaic systems. A total of €1.4 billion with a nominal capacity of around 678 MW/MWp is currently being actively managed, consisting of 57% wind farm and 43% solar farm. In 2019, the average payout of the investments was around 4.95%, which corresponds to a very competitive yield level.


In the Aviation segment, LHI currently manages 13 active investments in the areas of aircraft, helicopters and aircraft turbines. In its history, the group has launched investment assets totaling around one billion euros in this segment and has a grown, international network. Sale-and-lease-back transactions from 2019, in which two Airbus A220s with the lessee Air Baltic were placed in a special fund, are an example of the origination and structuring expertise in LHI's Aviation segment, which achieved an average payout of 4.89% for its investors in 2019.


With regard to the current Covid 19 crisis, it is positive to note that so far there have been no serious effects on investment performance, risk-bearing capacity or business development. The renewable energy sector is even benefiting noticeably from the increased interest of institutional investors in infrastructure investments since Corona and is consistently expanding the investment countries and the investment focus (PPA contracts, hydropower and future technologies). This is accompanied by an increase in staff in transaction and portfolio management as well as in technology. In the real estate segment, Scope appreciates the proactive reduction of retail investments made by LHI for years; the increased investment focus on sustainable infrastructure and social real estate is assessed as conclusive, as is a further real estate investment in neighbouring countries (Vienna). In the Aviation segment, LHI intends to benefit from the demand for private financing at higher yields and lower-risk structures. Furthermore, Scope considers the investment in cargo aircraft and rescue helicopters last year to be a successful portfolio management decision, as these have tended to benefit from the crisis so far.


Rating drivers


-  Very extensive industry experience and long tenure of the new management as well as the second management level

-  Diversified, profitable business model with broad revenue base and high fixed cost coverage due to well plannable management fees

-  Outstanding expertise in structuring individual product solutions for institutional investors and support from experienced relationship managers of many years' standing

-  Good to very good investment performance in the three asset classes considered

-  Proven and modern operational processes and effective risk control and compliance mechanisms

-  No own staff in foreign target markets so far



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Rating history

Date	Rating Action	Rating
10.11.2020	Affirmation	AA _{AMR}
08.01.2020	Affirmation	AA _{AMR}
21.12.2018	Affirmation	AA _{AMR}
06.12.2017	Affirmation	AA _{AMR}
30.11.2016	Affirmation	AA _{AMR}
02.12.2015	Affirmation	AA _{AMR}
08.05.2015	Watchlist resolved / Affirmation	AA _{AMR}
20.04.2015	Watchlist (evolving)	AA _{AMR}
05.05.2014	Initial Rating	AA _{AMR}

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Principal sources of the management rating

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Before publication, the client had an opportunity to review the rating and the key factors leading to the rating decision (rating drivers), including a summary of the underlying rating rationale. The rating was not revised following this review.



Methodology

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