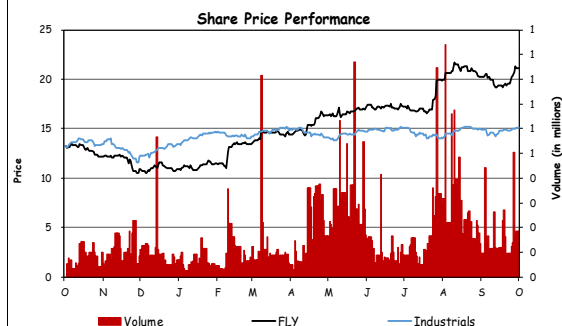


Fly Leasing Limited	Symbol: FLY
Analyst	Ryan Dudzic
Buy below	\$21.40
Sell above	\$31.21
Probability of Price Increase	61%
Last Price	\$21.11
Intrinsic Value	\$24.97
Target Dividends	\$0.00
Target Price	\$26.75



Description
Fly Leasing Limited, through its subsidiaries, purchases and leases commercial aircraft under multi-year contracts to various airlines worldwide.

Sector	Industrials
Industry	Trading Companies and Distributors
Last Guidance	December 11, 2018
Next earnings date	November 8, 2019
People	
Barrington, Colm, CEO & Director	
Ruehl, Julie, Chief Financial Officer	
Dallas, Matt, Investor Contact	
, 0	
, 0	
, 0	

Top Competitors	
Aircastle Limited	Textainer Group Holdings Limited
AerCap Holdings N.V.	ALACCO Aviation Lease and Finance Company K.S.C.P.
CAI International, Inc.	--
Air Lease Corporation	Willis Lease Finance Corporation
Fortress Transportation and Infrastructure Investors LLC	--

Market Statistics	
Market Capitalization (mil)	\$655.22
Last Price per share	\$21.11
52 week high	\$22.11
52-week low	\$10.42
Volatility	24.90%
Daily volume (mil)	0.18
Short interest	0.61%
Days to cover short interest	0.82
Beta	0.44

Financials			
Profitability	FLY (LTM)	FLY Historical	Peers' Median (LTM)
Return on Capital	7.3%	5.97%	5.70%
Adjusted EBITDA Margin	50.8%	54.34%	50.82%
Return on Equity	24.0%	4.5%	9.9%
Adjusted Net margin	30.0%	8.4%	13.8%
Invested Funds	FLY (LTM)	FLY Historical	Peers' Median (LTM)
Cash/Capital	5.9%	11.1%	2.5%
NWC/Capital	2.7%	2.5%	-0.1%
Operating Assets/Capital	91.5%	86.1%	96.0%
Goodwill/Capital	0.0%	0.0%	0.0%
Capital Structure	FLY (LTM)	FLY Historical	Peers' Median (LTM)
Total Debt/(Market Cap.+ Other Claims on Capital)	0.83	0.85	0.78
Minority Interest/(Market Cap.+ Other Claims on Capital)	0.0%	0.0%	0.0%
Preferred Equity/(Market Cap.+ Other Claims on Capital)	0.0%	0.0%	0.0%
CGFS Credit Rating	CCC		CC
Credit Rating Model	bb to bb+		bb to bb+
Probability of Default Model	bb to bb+		b+ to bb-
Likely Current Cost of Debt	5.28%		5.11%
Likely Current Cost of Equity (Cost of Debt + MRP)	13.16%		12.99%
Likely Current WACC	9.28%		9.2%

Investment Thesis

UNIQUE LONG-TERM GROWTH PROSPECTS AND MARGIN EXPANSION

I am initiating coverage of Fly Leasing Limited with a BUY at market price and a \$26.75 price target. I view FLY as a strong company with a very attractive future outlook. The recent acquisition of AirAsia's aircraft portfolio will allow Fly Leasing to generate better returns on equity as well as revenue boosts and better operating efficiency. Along with the acquisitions of aircrafts, FLY is proving their ability to penetrate the Asian aircraft market as well as continuing the sale of their aircrafts at premiums to book value. With a P/E ratio of 4.79 compared to its industry's average P/E of 11.14, FLY proves to be a valued investment at this time.

For the long:

1. Acquisition of AirAsia's aircraft portfolio:

The deal, which was announced back in February of this year, will see FLY acquiring 34 relatively young A320-200s with an average age of 6.6 years for \$1.1 billion in cash. These acquisitions will expand FLY's fleet by over 60% and lower FLY's fleet age by over a year. Although yields tend to be lower on newer aircraft, the demand for newer, more fuel efficient aircrafts is currently very high. Also, while this transaction will increase FLY's debt load, it should also lead to a significant increase in cash flows in the coming years.

2. Ability to increase aircraft fleet whilst selling at a premium:

FLY sold seven aircraft for \$18.9 million during the second quarter of 2019 at a 10% premium of their book value. FLY is also contracted to sell 14 more aircraft, also at gains, this coming year. The company also purchased two additional aircrafts for \$60.9 million during the quarter, furthering its fleet to 98 aircraft, of which 1 are classified as held for sale.

3. Strong fundamentals compared to its industry:

FLY is holding a forward P/E ratio of 3.51 in comparison to the industry average forward P/E of 9.74. This proves that FLY is trading at a discount to its group of competitors.

For the short:

1. Worries about the health of emerging market airlines:

This particular uncertainty falls within the business FLY does in India where they have significant exposure. FLY generates close to 60% of its revenue in Asia and with rising rates and weakening currencies, investors are wary as to whether or not the growth will continue in this geographic region.

2. Highly Leveraged:

With a debt/equity ratio of 359.9%, FLY is extremely leveraged and many investors find this to be a metric to watch out for moving forward. Although the company has plans in place to ensure no defaulting, wall street may steer away from FLY due to its highly leveraged state.

Key Catalysts for price change

- Acquisition of AirAsia fleet
- Aircraft portfolio average age
- Ability to sell middle-aged aircrafts at premiums to book value

Valuation

My \$26.75 price target is derived from a 75% weight in price to book value and 25% weight in enterprise value to EBITDA.

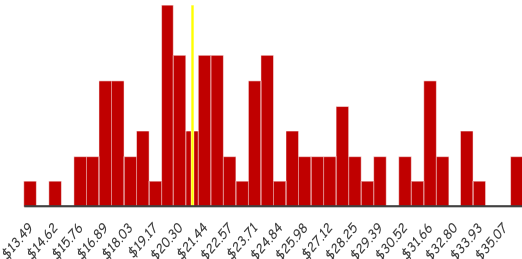
Ownership		Change in Ownership (over the past "Number" months)	
Shares outstanding (mil)	31.04		
Weighted Diluted shares outstanding (mil)	31.97		
Options and Warrants (Shares equivalent)	0.00		
% shares held by institutions	98%		"INPUT from BB"
% shares held by investments Managers	26%		"INPUT from BB"
% shares held by hedge funds	8.59%		"INPUT from BB"
% shares held by VC/PE firms	10.019%		"INPUT from BB"
% shares held by insiders	0.31%	0.00%	
Poison Pill and Type	NONE		

Quarterly Earning Surprises (Actual/Median Estimates)	
Revenue	Last 5 quarters
6/30/2018	\$409.76 (-0.5%)
9/30/2018	\$408.372 (1.2%)
12/31/2018	\$487.216 (8.6%)
3/31/2019	\$532.128 (0.1%)
6/30/2019	\$579.428 (3.5%)
History:	Last 10 years
Mean Surprise	0.71%
99th percentile "surprise" range	-24% to 25%
EBITDA	Last 5 quarters
6/30/2018	#VALUE!
9/30/2018	#VALUE!
12/31/2018	#VALUE!
3/31/2019	#VALUE!
6/30/2019	#VALUE!
History:	Last 10 years
Mean Surprise	-100.00%
99th percentile "surprise" range	-100% to -100%

Fly Leasing Limited	Symbol: FLY	Cost of Capital Estimates		
Analyst	Ryan Dudzic			
Buy below	\$21.40	Implied Cost of Borrowing (FLY)	CGFS Credit Rating	Credit Rating Model
Sell above	\$31.21	Implied Cost of Borrowing (Peers)	5.2%	5.2%
Probability of Price Increase	61%		5.7%	6.1%
Last Price	\$21.11	Cost of New Debt Estimate	Base Year	Explicit Period (7 years)
Intrinsic Value	\$24.97	Country Risk Premium Estimate		Continuing Period
Target Dividends	\$0.00	Cost of Equity Estimate		
Target Price	\$26.75	WACC Estimate		

Forecast Assumptions						
Fiscal Year	Revenue Growth	EBITDA Margin	CAPEX/Revenue	DPR/CAPEX	Other	
Base Year (Actual)	15.95%	58.0%	211.3%		SBC/Revenue	0.00%
year 1	-17.00%	92.0%	54.8%	0.00	Constant/same as LTM	
year 2	9.30%	89.5%	89.2%	0.00	Lease term	10
year 3	9.00%	92.3%	76.9%	0.00	Rent Expense/Revenue	0.00%
year 4	7.70%	88.0%	64.5%	0.00		Tappers off to historical average
year 5	6.41%	83.7%	52.1%	0.00	R&D life	10
year 6	5.11%	79.4%	39.7%	0.00	R&D Expense/Revenue	0.00%
year 7	3.81%	75.0%	27.4%	0.00		Constant/same as LTM
year 8	2.52%	70.7%	15.0%	0.00	LIFO Reserve	Tappers off to zero
year 9	2.52%	70.7%	15.0%	0.00	Non-operating pension costs	Tappers off to zero
year 10	2.52%	70.7%	15.0%	0.00	Net financing pensions costs	Tappers off to zero
year 11	2.52%	70.7%	15.0%	0.00	Overfunded pension plans	Tappers off to zero
year 12	2.52%	70.7%	15.0%	0.00	Capitalized interests	Constant/same as LTM
year 13	2.52%	70.7%	15.0%	0.00	Dividends/Revenue	2.31%
year 14	2.52%	70.7%	15.0%	0.00	Tax Rate	12.85%
year 15	2.52%	70.7%	15.0%	0.00		
Continuing Period	2.52%	70.7%	15%	0.00		

Simulation Assumptions					
Random Variables	Distribution Assumption	MAX	Likely	MIN	
Deviations in annual Revenue Growth--Expl. Per.	Triangular	6.31%	0%	-8.00%	<div>Sensitivity: Price Variance Attribution Analysis</div> <div> <div>Revenue growth</div> <div>EBITDA Margin</div> <div>CAPEX/Rev</div> <div>Discount Rate</div> <div>TEV/Rev</div> <div>TEV/EBITDA</div> <div>P/BV</div> <div>P/E</div> <div>Asset Recovery Rate</div> </div>
Deviations in annual Revenue Growth --Cont. Per.	Normal	1.52%	0%	-1.52%	
Deviations from EBITDA Margin base annual estimates	Triangular	21.68%	0%	-64.02%	
Deviations from CAPEX/Revenue base annual estimates	Triangular	103.87%	0%	-13.83%	
Deviations from Kd base annual estimates	Triangular	0.89%	0%	-1.43%	
Deviations from CRP base annual estimates	Triangular	1.82%	0%	-1.92%	
Deviations from TEV/Revenue base estimate	Triangular	1.42	0%	-3.28	
Deviations from TEV/Revenue base estimate	Triangular	3.19	0%	-0.11	
Change in P/BV (TTM)	Triangular	0.48	0%	-0.41	
Change in P/E (FW)	Triangular	6.44	0%	-0.62	
Recovery Rate	Triangular	10.00%	0%	-10%	

Valuation				<div>Intrinsic Value Distribution--Probability (Upside)=61%</div> 
DCF Valuation				
	Base	Explicit Period (Average)	Continuing Period	
Revenues	\$501.79	\$609.49	\$776.17	
Net Margin	30%	47%	46%	
LFCF	\$48.68	\$231.21	\$353.53	
Ke	13.67%	13.07%	13.07%	
ROE	23.97%	17.59%	45.86%	
Relative Valuation				
	Median Justified Multiple	Basis	Implied Equity Value	
EV/Rev (FW)	7.4x	\$430.25	\$983.49	
EV/EBITDA (FW)	8.6x	\$392.12	\$1,154.47	
P/BV (TTM)	0.9x	\$826.15	\$747.63	
P/E (FW)	8.3x	\$226.51	\$1,869.65	

Asset Based Valuation				Valuation Summary			
Recovery Rate	60%			Intrinsic Value	Target Price	Model Weight	
Capital	\$3,004.74			DCF Valuation	\$ 55.05	\$ 59.21	0%
Intangibles	\$251.80			EV/Rev (FW)	\$ 30.76	\$ 32.83	0%
Claims	\$2,727.93			EV/EBITDA (FW)	\$ 36.11	\$ 38.54	25%
Implied Equity Value	\$0.00			P/BV (TTM)	\$ 23.39	\$ 24.96	75%
				P/E (FW)	\$ 58.48	\$ 62.42	0%
				Asset Based Valuation	\$ -	\$ -	0%
				Price per Share	\$ 26.57	\$ 28.35	100%