

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

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Research Report-Update

Rating (BUY)

AeroCentury Corp.
ACY - \$7.625 - (AMEX)

Michael C. Roesler
May 25, 2000

	FYE 12/97	FYE 12/98	FYE 12/99	FYE 12/00*
Revenues	\$3,311,860	\$3,777,580	\$7,380,160	\$11,380,628
Earnings per share (diluted)	NA	\$0.74	\$0.90	\$1.11

52week range	8 - 5 ¼	Fiscal year ends:	December
Shares outstanding	1.54mm	Revenue/shares (TTM)	\$5.40
Trading float	1.20mm	Price/Sales (TTM)	1.4x
Institutional ownership	12%	Price/Sales (F'00)*	1.0x
Book value/share	\$10.33	Price/Earnings (TTM)	7.8x
Price/Book	0.74	Price/Earnings (F'00)*	6.9x

* Taglich Brothers Estimates,

AeroCentury Corp., is engaged in the business of ownership, management, leasing and acquisition of aircraft, focused on used commercial turboprop aircraft equipment for lease to domestic and foreign regional air carriers.

Key Investment Considerations:

- *We are maintaining our price target of \$9.00 based upon an ACY's peer group average of 16x trailing 12-month earnings adjusted for the group's price/book ratio;*
- *We are raising our 2000 revenue estimate from \$10.7mm to \$11.4 resulting in an increase in our EPS estimate from \$1.06 to \$1.11;*
- *The Regional Aircraft Market is expected to increase globally through the year 2007, with the Turboprop aircraft that AeroCentury leases representing nearly 50% of the total;*
- *Worldwide passenger air traffic is forecast to grow at a compound average growth rate of 5% over the period from 1999 to 2019.*

The information and statistical data contained herein have been obtained from sources which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to change in figures or our views. This is not a solicitation of any order to buy or sell. We, our affiliates, and any officer, director or stockholder, or any member of their families, may have a position in and may from time to time purchase or sell any of the above-mentioned or related securities. Since February 2000, the company pays a monthly monetary fee of \$1,250 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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Recent Financials

On April 24, 2000 AeroCentury Corp. (AMEX: ACY, \$7.625) announced the results for its first quarter ended March 31, 2000. The Company reported revenues of \$2.7mm, an increase of 89% over year ago results. The Company reported net income of \$457,850, an increase of 35% over first quarter 1999. On a per share basis, the Company reported EPS of \$0.30 versus \$0.21 for the same period last year. Total assets increased to \$64mm from \$34mm at the end of March 1999.

In relation to Taglich Brothers estimates, revenue growth was above our \$2.4mm estimate resulting in net income and EPS being above our \$416,391 and \$0.27 estimates respectively. The increase in revenues and income are the result of an increase in the company's aircraft asset base. The company continues to increase the number of aircraft in its inventory while maintaining a high on-lease percentage.

Recent Events

AeroCentury recently secured a commitment from National City Bank for a three-year, \$50mm revolving line of credit. This credit line will replace the existing credit facility with First Union National Bank that expires on June 30, 2000. This new facility is a substantial increase over the \$35mm available under the previous credit line. This expansion should allow the company to increase aircraft purchases throughout the rest of the year.

The lease for the Pratt & Whitney Turboprop engines that were due to come off lease in April of 2000 was renewed by the lessee for an additional two years. The Dash-7 aircraft that came off lease in April of 1999 remains un-leased at this time, though the company believes it has identified potential clients interested in leasing the aircraft. The other three Dash-7 aircraft that are leased by the U.S. Army are due to come off lease this year but the company believes that the Army is likely to renew the lease for an additional two years. There is also a Fairchild Metro III aircraft that is due to come off lease in August of this year but this lease does not materially contribute to company revenues so there will be negligible impact on earnings when the lease expires.

Projections

The Regional Aircraft Market is expected to increase globally through the year 2007, with the Turboprop aircraft that AeroCentury leases representing nearly 50% of the total. AeroCentury's expertise in selecting quality aircraft and potential lessors positions the company well to take advantage of this market growth.

According to Avitas, worldwide passenger air traffic is forecast to grow at a compound average growth rate of 5% over the period from 1999 to 2019. While regional jets will absorb some of this growth, less than 10% of regional jet routes will replace turboprops according to BACK research. Turboprop aircraft offer a cheaper operating alternative for small airlines that focus on competing in the short-haul regional route segment. The cost advantages of turboprop aircraft also make them attractive to major carriers as feeders into hubs for longer-distance flights.

The table below outlines the cost and profit differentials realized by an operator of a typical turbo-prop aircraft versus a regional jet on a 200nm trip.

	Dash-8 300 (50 seats)	CRJ (50 seats)	Differential
Direct Operation Cost/Trip	\$1,107	\$1,410	28%
General % Overhead	\$443	\$564	28%
Total Operating Cost/Trip	\$1,549	\$1,974	28%
Average Fare	\$88.00	\$112.20	\$24.20
Breakeven Passengers	17.6	22.4	4.8
Profit at Average Load Factor	\$475	\$50	\$425
Profit Margin	23%	2%	21%

Source: Bombardier

We are raising our 2000 revenue estimate from \$10.7mm to \$11.4 resulting in an increase in our EPS estimate from \$1.06 to \$1.11. Given the impending increase in the company's credit line, coupled with the reasonable expectation that the aircraft coming off lease in 2000 are re-leased, we believe this increase is appropriate. Part of the revenue increase is due to the inclusion of interest income on deposits that we had not included previously.

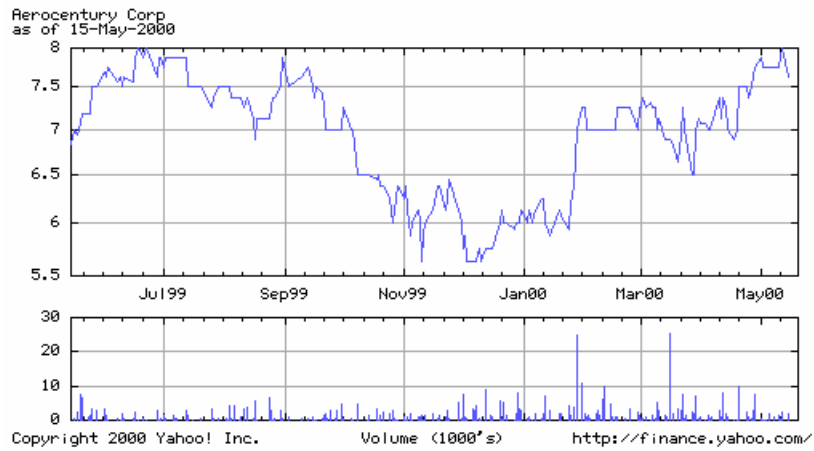
While the company continues to generate high quality earnings, a rising interest environment and possible uncertainty as to the renewal of leases should be noted as having possible adverse impact on the company's bottom line. In its recent financial statements, AeroCentury's management indicated that it had decided not to pursue an interest rate hedging strategy because the costs of implementing such a strategy would outweigh the benefits. We expect that company may review this course of action if the Federal Reserve continues to aggressively raise interest rates.

Conclusions

We are maintaining our price target of \$9.00 based upon an ACY's peer group average of 16x trailing 12-month earnings adjusted for the group's price/book ratio. In determining a valuation for ACY we have selected a small peer group of comparable firms that are engaged primarily in aircraft leasing, and whose asset base is similar to ACY's. On a Price to Earnings basis ACY, trading at 7.8x earnings is well below the peer group average of 16x. While the group generally trades below book value, we believe that at a Price/Book ratio of 0.74, ACY remains undervalued. The company takes a 10% haircut when valuing its assets, providing an adequate cushion in the event of a drop in the used aircraft market.

Comparative Valuation Summary

Company Name	Ticker	Business	Current Price	Market Cap (in millions)	Current P/E (trailing 12m)	Price/Sales (trailing 12m)	Hard BV/Share	Price/Book
Airlease Ltd.	FLY	Aircraft Leasing	\$11.81	\$54.7	12.1x	7.4x	\$11.97	0.99x
Continental Information Systems	CISC	Aircraft & Equipment Leasing	\$1.50	\$9.9	NMF	0.7x	\$2.90	0.52x
International Aircraft Investors	IAIS	Aircraft Leasing	\$5.88	\$23.9	7.4x	0.6x	\$9.36	0.63x
Willis Lease Finance Corp.	WLFC	Aircraft Leasing	\$8.06	\$59.6	28.8x	0.7x	\$9.40	0.86x
Peer Group Average(Ex ACY)					16x	2.0x		0.68x
AeroCentury Inc.	ACY	Aircraft Leasing	\$7.63	\$11.7	7.8x	1.4x	\$10.33	0.74x



AeroCentury Inc.
Consolidated Balance Sheets for the Quarters Ended
December 31st 1998, December 31st 1999 and March 31st 1999

	<u>(12/98)Q4A</u>	<u>(12/99)Q4A</u>	<u>(3/00)Q1A</u>
Assets			
Current Assets			
Cash & Equivalents	\$ 1,852,010	\$ 1,251,730	\$ 1,960,080
Deposits	1,584,260	5,419,160	5,867,950
Accounts Receivable	165,550	307,760	475,000
Prepaid Expense & Other	<u>147,470</u>	<u>359,130</u>	<u>331,540</u>
Total Current Assets	3,749,290	7,337,780	8,634,570
Deferred Tax Asset			
Aircraft & engines, net of depreciation	22,812,600	55,853,940	55,212,890
Total Assets	<u>\$ 26,561,890</u>	<u>\$ 63,191,720</u>	<u>\$ 63,847,460</u>
Liabilities & Shareholders' Equity			
Current Liabilities			
Accounts Payable and accrued expenses	\$ 249,400	\$ 906,970	\$ 495,460
Notes Payable and accrued interest	6,439,780	37,094,920	36,762,580
Maintenance deposits and accrued costs	1,661,330	4,389,700	4,947,810
Security deposits	479,100	1,785,140	1,785,140
Prepaid rent	<u>60,450</u>	<u>295,780</u>	<u>300,000</u>
Total Current Liabilities	8,890,060	44,472,510	44,290,990
Deferred Income Taxes	<u>3,160,030</u>	<u>3,227,870</u>	<u>3,607,290</u>
Total Liabilities	<u>12,050,090</u>	<u>47,700,380</u>	<u>47,898,280</u>
Total Shareholders' Equity	<u>14,511,800</u>	<u>15,491,340</u>	<u>15,949,180</u>
Total Liabilities & Equity	<u>\$ 26,561,890</u>	<u>\$ 63,191,720</u>	<u>\$ 63,847,460</u>
SHARES OUT	1,606,505	1,563,591	1,543,257

AeroCentury Inc.
Annual Income Statement for the Years Ended December 31, 1997-2000

	<u>FY1997</u>	<u>FY1998</u>	<u>FY1999</u>	<u>FY2000E</u>
Revenues:				
Rent Income	\$ 3,198,200	\$ 3,494,330	\$ 7,128,690	\$ 11,059,673
Gain(loss) on disposal of assets	-	228,230	98,400	-
Other Income	<u>113,660</u>	<u>55,020</u>	<u>153,050</u>	<u>320,955</u>
Total Revenues	3,311,860	3,777,580	7,380,140	11,380,628
Expenses:				
Management Fees	96,520	596,450	1,148,800	1,830,284
Depreciation	626,000	713,930	1,700,000	2,740,103
Interest	-	83,690	1,534,310	3,254,669
SG&A	443,540	347,440	581,690	784,966
Maintenance	<u>742,280</u>	-	<u>374,240</u>	-
Total Expenses	1,908,340	1,741,510	5,339,040	8,610,023
Operating Income	<u>1,403,520</u>	<u>2,036,070</u>	<u>2,041,100</u>	<u>2,770,605</u>
<i>Operating Margin</i>	42.38%	53.90%	27.66%	24.34%
Taxes(Benefit)	<u>(86,890)</u>	<u>854,420</u>	<u>635,680</u>	<u>1,056,351</u>
<i>Tax Rate</i>	-6.19%	41.96%	31.14%	38.13%
Net Income	<u>\$ 1,490,410</u>	<u>\$ 1,181,650</u>	<u>\$ 1,405,420</u>	<u>\$ 1,714,254</u>
EPS-fully diluted*	<u>\$ -</u>	<u>\$ 0.74</u>	<u>\$ 0.90</u>	<u>\$ 1.11</u>
Avg Shares Out-fully diluted	<u>-</u>	<u>1,606,505</u>	<u>1,563,591</u>	<u>1,542,100</u>
As Per Cent of Rent Income				
Management Fees	3.02%	17.07%	16.12%	16.55%
Depreciation	19.57%	20.43%	23.85%	24.78%
Interest	0.00%	2.40%	21.52%	29.43%
SG&A	13.87%	9.94%	8.16%	7.10%
Maintenance	23.21%	0.00%	5.25%	0.00%
Total Expenses	59.67%	49.84%	74.90%	77.85%

*Reflects results of partnership prior to incorporation of ACY.

AeroCentury Inc.
Quarterly Income Statement for the Year Ended December 31, 1999

	<u>(3/99)Q1A</u>	<u>(6/99)Q2A</u>	<u>(9/99)Q3A</u>	<u>(12/99)Q4A</u>	<u>FY1999A</u>
Revenues:					
Rent Income	\$ 1,395,330	\$ 1,439,940	\$ 1,874,600	\$ 2,418,820	\$ 7,128,690
Gain(loss) on disposal of assets	-	98,400	-	-	98,400
Other Income	<u>25,190</u>	<u>24,710</u>	<u>46,490</u>	<u>56,660</u>	<u>153,050</u>
Total Revenues	1,420,520	1,563,050	1,921,090	2,475,480	7,380,140
Expenses:					
Management Fees	241,290	238,400	322,120	346,990	1,148,800
Depreciation	306,970	341,250	465,550	586,230	1,700,000
Interest	209,430	247,630	436,840	640,410	1,534,310
SG&A	116,040	136,820	144,750	184,080	581,690
Maintenance	-	-	-	<u>374,240</u>	<u>374,240</u>
Total Expenses	873,730	964,100	1,369,260	2,131,950	5,339,040
Operating Income	<u>546,790</u>	<u>598,950</u>	<u>551,830</u>	<u>343,530</u>	<u>2,041,100</u>
<i>Operating Margin</i>	38.49%	38.32%	28.72%	13.88%	27.66%
Taxes(Benefit)	<u>206,470</u>	<u>202,050</u>	<u>188,150</u>	<u>39,010</u>	<u>635,680</u>
<i>Tax Rate</i>	37.76%	33.73%	34.10%	11.36%	31.14%
Net Income	<u>\$ 340,320</u>	<u>\$ 396,900</u>	<u>\$ 363,680</u>	<u>\$ 304,520</u>	<u>\$ 1,405,420</u>
EPS-fully diluted	<u>\$ 0.21</u>	<u>\$ 0.25</u>	<u>\$ 0.23</u>	<u>\$ 0.20</u>	<u>\$ 0.90</u>
Avg Shares Out-fully diluted	<u>1,592,811</u>	<u>1,569,232</u>	<u>1,549,761</u>	<u>1,543,257</u>	<u>1,563,591</u>
<u>As Per Cent of Rent Income</u>					
Management Fees	17.29%	16.56%	17.18%	14.35%	16.12%
Depreciation	22.00%	23.70%	24.83%	24.24%	23.85%
Interest	15.01%	17.20%	23.30%	7.61%	21.52%
SG&A	8.32%	9.50%	7.72%	15.47%	8.16%
Maintenance	0.00%	0.00%	0.00%	88.14%	5.25%
Total Expenses	62.62%	66.95%	73.04%	0.00%	74.90%

AeroCentury Inc.
Quarterly Income Statement for the Year Ended December 31, 2000

	<u>(3/00)Q1A</u>	<u>(6/00)Q2E</u>	<u>(9/00)Q3E</u>	<u>(12/00)Q4E</u>	<u>FY2000E</u>
Revenues:					
Rent Income	\$ 2,604,050	\$ 2,624,973	\$ 2,794,491	\$ 3,036,159	\$ 11,059,673
Gain(loss) on disposal of assets	-	-	-	-	-
Other Income	<u>74,160</u>	<u>76,612</u>	<u>84,249</u>	<u>85,934</u>	<u>320,955</u>
Total Revenues	<u>2,678,210</u>	<u>2,701,585</u>	<u>2,878,740</u>	<u>3,122,094</u>	<u>11,380,628</u>
Expenses:					
Management Fees	415,700	431,048	468,350	515,185	1,830,284
Depreciation	641,060	641,381	698,623	759,040	2,740,103
Interest	745,080	774,367	824,375	910,848	3,254,669
SG&A	154,400	181,123	209,587	239,857	784,966
Maintenance	-	-	-	-	-
Total Expenses	<u>1,956,240</u>	<u>2,027,919</u>	<u>2,200,935</u>	<u>2,424,930</u>	<u>8,610,023</u>
Operating Income	<u>721,970</u>	<u>673,666</u>	<u>677,805</u>	<u>697,164</u>	<u>2,770,605</u>
<i>Operating Margin</i>	26.96%	24.94%	23.55%	22.33%	24.34%
Taxes(Benefit)	<u>264,120</u>	<u>255,993</u>	<u>264,344</u>	<u>271,894</u>	<u>1,056,351</u>
<i>Tax Rate</i>	36.58%	38.00%	39.00%	39.00%	38.13%
Net Income	<u>\$ 457,850</u>	<u>\$ 417,673</u>	<u>\$ 413,461</u>	<u>\$ 425,270</u>	<u>\$ 1,714,254</u>
EPS-fully diluted	<u>\$ 0.30</u>	<u>\$ 0.27</u>	<u>\$ 0.27</u>	<u>\$ 0.28</u>	<u>\$ 1.11</u>
Avg Shares Out-fully diluted	<u>1,543,257</u>	<u>1,542,485</u>	<u>1,541,714</u>	<u>1,540,943</u>	<u>1,542,100</u>
As Per Cent of Rent Income					
Management Fees	15.96%	16.42%	16.76%	16.97%	16.55%
Depreciation	24.62%	26.00%	25.00%	25.00%	24.78%
Interest	28.61%	29.50%	29.50%	30.00%	29.43%
SG&A	5.93%	6.90%	7.50%	7.90%	7.10%
Maintenance	0.00%	0.00%	0.00%	0.00%	0.00%
Total Expenses	75.12%	77.25%	78.76%	79.87%	77.85%