

Taglich Brothers, Inc.

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Research Report-Update

Rating (Strong BUY)

AeroCentury Corp.
ACY - \$6.06- (AMEX)

Michael C. Roesler
November 14, 2000

	FYE 12/97	FYE 12/98	FYE 12/99	FYE 12/00*	FYE 12/01*
Revenues	\$3,311,860	\$3,777,580	\$7,380,160	\$12,051,177	\$14,654,566
Earnings per share (diluted)	NA	\$0.74	\$0.90	\$1.32	\$1.52

52week range	8 - 5 ¼	Fiscal year ends:	December
Shares outstanding	1.61mm	Revenue/shares (TTM)	\$6.75
Trading float	1.20mm	Price/Sales (TTM)	0.90x
Institutional ownership	12%	Price/Sales (F'01)*	0.66x
Book value/share	\$10.54	Price/Earnings (TTM)	5.3x
Price/Book	0.57x	Price/Earnings (F'01)*	4.0x

* 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 raising our rating on ACY to a Strong BUY and are increasing our 12-month price target to \$10.50;*
- *Recent aircraft sales result in an increase of our 2000 revenue estimate to \$12.1mm, which offsets anticipated maintenance expenses and results in an increase in our F2000 EPS estimate from \$1.24 to \$1.32;*
- *Recent aircraft acquisitions should offset aircraft sales, while management keeps tight control of costs resulting in an increase of our F2001 EPS estimate from \$1.47 to \$1.52;*
- *ACY continues to remain undervalued on a P/E, Price/Sales, and Price/Book basis. The S&P 500 is currently trading at 21-23x expected F2001 EPS, while ACY is trading at only 4x estimated F2001 EPS.*

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Recent Financials

On October 23, 2000, AeroCentury Corp. (AMEX: ACY, \$6.06) announced the results for its third quarter ended September 30, 2000. The Company reported revenues of \$2.97mm, an increase of 55% over year ago results. The Company reported net income of \$488,360, an increase of 34% over second quarter 1999. On a per share basis, the Company reported EPS of \$0.32 versus \$0.23 for the same period last year.

In relation to Taglich Brother's estimates, total revenue was slightly higher than our \$2.82mm estimate, while net income and earnings per share were higher than our \$437,221 and \$0.28 estimates respectively. The increase in revenues and income are the result of an increase in the Company's aircraft asset base as compared to the same period in the previous year.

Recent Events

Aircraft Leases

The Company acquired three additional on-lease deHavilland DHC-8-100 (Dash-8) aircraft during the third quarter. The acquisition of the Dash-8 increases the range of aircraft types that the Company can offer potential customers. The Dash-8 is the most advanced turboprop from deHavilland and we believe that this acquisition fills a hole in the Company's inventory that will provide the Company with recurring revenues for the next 7-10 years. It should also be noted that this acquisition again demonstrates the Company's patience and expertise in selecting high value aircraft that are already on-lease, providing an immediate boost to revenue.

As noted in our previous reports, (available on our website, www.taglichbrothers.com) one of the Company's deHavilland DHC-7 (Dash 7) aircraft is currently off-lease. The Company believed that it had found a lessee for the Dash-7 aircraft during the second quarter, but that deal did not come to fruition. At this time we believe that the Company is close to re-leasing that aircraft.

As noted in the Company's third quarter financial report, one of the two Fairchild Metro III's, and two of the Dash 7 aircraft were recently sold. We expect the Company to record a gain of approximately \$500,000 in the fourth quarter from these sales. We expect this gain to be offset by approximately \$450,000 in accrued maintenance costs on the currently off-lease Dash 7 aircraft and on the airplane leased to a UK firm that is operating under bankruptcy protection.

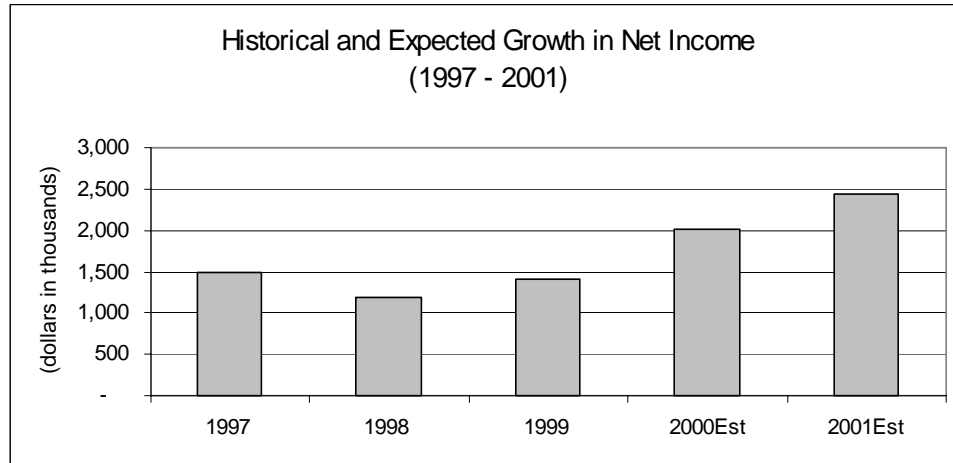
Projections

Revised Estimates

While having previously factored in additional aircraft acquisitions into our forecasts we believe that a further upward adjustment is necessary. We are raising our 2000 revenue forecast to \$12.1mm (including gains on asset sales), from \$11.4mm, and increasing our EPS estimate from \$1.24 to \$1.32. For 2001, we are reducing our revenue estimate of \$15.0mm to \$14.7mm due to the three planes that were sold in November, while increasing our EPS estimate to \$1.52 from \$1.47 to account for downward revisions to our expense projections.

We expect the Company to continue to grow its asset base with further aircraft acquisitions, especially in the dual-use cargo/passenger plane market. AeroCentury management is also considering purchasing a regional jet aircraft. Moving into the jet market would raise the profile of the Company into the more competitive jet lease market and believe that management would only pursue this strategy if the lessee was of low-credit risk and the income generating potential was high.

In order to take advantage of market opportunities that exist, especially in Europe, we anticipate that the Company may sell off 1-2 more of the older, single purpose planes that it now owns. We believe that given its history of earnings growth and a relatively low debt-to-equity ratio of approximately 2.8-to-1 at the end of the third quarter, AeroCentury will be able to secure additional increases in its credit line.



Source: Company financials; Taglich Brothers estimates

Conclusions

We are raising our rating to a Strong Buy and are increasing our 12-month price target to \$10.50. At current price levels, we believe that ACY is clearly undervalued. In comparison to the S&P 500 Index, which is currently trading at 21-23x expected 2001 earnings, ACY is trading at only 4x expected 2001 earnings. Our price target is based upon our belief that the Company should be trading at book value. In the comparative valuation table included below, it should be noted that of the peer group, only one company, FLY, is currently trading at book value and we think this is due to that company's practice of a quarterly cash distribution. It is our belief that should ACY's stock price remain at current levels management will have to pursue one of two courses of action. Either 1) take the company private at book value or 2) begin paying dividends. In the case of the second option, we believe that dividend payment will result in share values increasing to book value.

We believe that at current price levels, investor downside risk is extremely limited due to the intrinsic value of ACY's assets. We expect the Company to continue to pursue its growth strategy, which will of course increase interest exposure and expenses in the short-run, but over the longer-term the Company will be able to pass those costs on to its customers. The charts below highlight ACY's profitability performance in comparison to the Rental & Leasing Industry as well as a relative value comparison to a selected peer group.

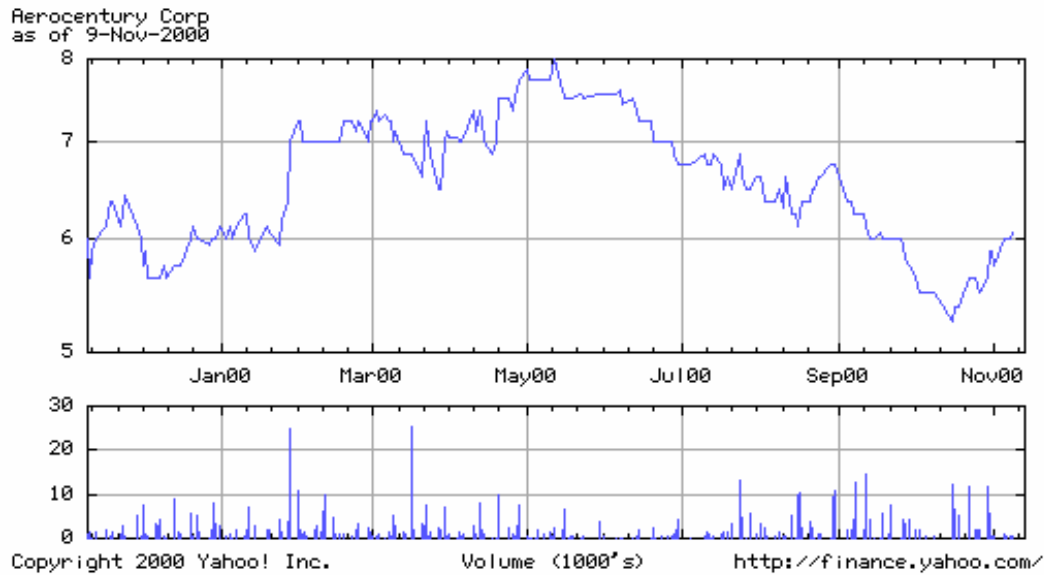
Profitability Comparison

	ACY	Rental & Leasing Industry
Operating Margin	23.6%	10.6%
Net Profit Margin	16.1%	4.9%
Return on Assets	2.6%	2.3%
Return on Equity	10.8%	10.3%

Comparative Valuation Summary

Company Name	Ticker	Business	Current Price	Current P/E (trailing 12m)	Price/Sales (trailing 12m)	Book Value/Share	Price/Book
Airlease Ltd.	FLY	Aircraft Leasing	\$12.00	12.7x	8.0x	\$11.53	1.0x
Continental Information Systems	CISC	Aircraft & Equipment Leasing	\$1.09	NMF	3.9x	\$1.93	0.6x
International Aircraft Investors	IAIS	Aircraft Leasing	\$5.63	11.3x	0.5x	\$9.60	0.6x
Willis Lease Finance Corp.	*WLFC	Aircraft Engine Leasing	\$8.69	8.4x	0.7x	\$9.88	0.9x
Peer Group Average(Ex ACY)				10.8x	3.3x		0.8x
AeroCentury Inc.	ACY	Aircraft Leasing	\$6.06	5.3x	0.90x	\$10.54	0.6x

*WLFC recently sold a 15% stake to SAirGroup for \$15 per share or 1.5x Book Value



AeroCentury Inc.
Consolidated Balance Sheets for the Years Ended December 31, 1998, December 31, 1999
and Quarter Ended September 30, 2000

	<u>(12/98)Q4A</u>	<u>(12/99)Q4A</u>	<u>(9/00)Q3A</u>
Assets			
Current Assets			
Cash & Equivalents	\$ 1,852,010	\$ 1,251,730	\$ 2,005,750
Deposits	1,584,260	5,419,160	7,412,700
Accounts Receivable	165,550	307,760	976,160
Prepaid Expense & Other	<u>147,470</u>	<u>359,130</u>	<u>591,580</u>
Total Current Assets	3,749,290	7,337,780	10,986,190
Deferred Tax Asset			
Aircraft & engines, net of depreciation	22,812,600	55,853,940	65,370,210
Total Assets	<u>\$ 26,561,890</u>	<u>\$ 63,191,720</u>	<u>\$ 76,356,400</u>
Liabilities & Shareholders' Equity			
Current Liabilities			
Accounts Payable and accrued expenses	\$ 249,400	\$ 906,970	\$ 1,379,790
Notes Payable and accrued interest	6,439,780	37,094,920	45,493,500
Maintenance deposits and accrued costs	1,661,330	4,389,700	6,278,050
Security deposits	479,100	1,785,140	1,870,770
Prepaid rent	<u>60,450</u>	<u>295,780</u>	<u>413,800</u>
Total Current Liabilities	8,890,060	44,472,510	43,995,140
Deferred Income Taxes	<u>3,160,030</u>	<u>3,227,870</u>	<u>3,982,270</u>
Total Liabilities	<u>12,050,090</u>	<u>47,700,380</u>	<u>59,418,180</u>
Total Shareholders' Equity	<u>14,511,800</u>	<u>15,491,340</u>	<u>16,938,220</u>
Total Liabilities & Equity	<u>\$ 26,561,890</u>	<u>\$ 63,191,720</u>	<u>\$ 76,356,400</u>
SHARES OUT	1,606,557	1,606,557	1,606,557

AeroCentury Inc.
Annual Income Statement for the Years Ended December 31, 1997-2001

	<u>FY1997*</u>	<u>FY1998</u>	<u>FY1999</u>	<u>FY2000E</u>	<u>FY2001E</u>
Revenues:					
Rent Income	\$3,198,200	\$ 3,494,330	\$ 7,128,690	\$ 11,126,957	\$ 14,164,889
Gain(loss) on disposal of assets	-	228,230	98,400	500,000	-
Other Income	<u>113,660</u>	<u>55,020</u>	<u>153,050</u>	<u>424,220</u>	<u>489,677</u>
Total Revenues	3,311,860	3,777,580	7,380,140	12,051,177	14,654,566
Expenses:					
Management Fees	96,520	596,450	1,148,800	1,760,109	2,301,795
Depreciation	626,000	713,930	1,700,000	2,696,229	3,490,637
Interest	-	83,690	1,534,310	3,276,623	4,107,818
SG&A	443,540	347,440	581,690	580,034	849,893
Maintenance	<u>742,280</u>	-	<u>374,240</u>	<u>560,000</u>	-
Total Expenses	1,908,340	1,741,510	5,339,040	8,872,996	10,750,143
Operating Income	<u>1,403,520</u>	<u>2,036,070</u>	<u>2,041,100</u>	<u>3,178,181</u>	<u>3,904,424</u>
<i>Operating Margin</i>	42.38%	53.90%	27.66%	26.37%	26.64%
Taxes(Benefit)	<u>(86,890)</u>	<u>854,420</u>	<u>635,680</u>	<u>1,137,157</u>	<u>1,561,769</u>
<i>Tax Rate</i>	-6.19%	41.96%	31.14%	35.78%	40.00%
Net Income	<u>\$ 1,490,410</u>	<u>\$ 1,181,650</u>	<u>\$ 1,405,420</u>	<u>\$ 2,041,024</u>	<u>\$ 2,342,654</u>
EPS-fully diluted	<u>\$ -</u>	<u>\$ 0.74</u>	<u>\$ 0.90</u>	<u>\$ 1.32</u>	<u>\$ 1.52</u>
Avg Shares Out-fully diluted	<u>-</u>	<u>1,606,505</u>	<u>1,563,591</u>	<u>1,543,257</u>	<u>1,543,257</u>
<u>As Per Cent of Rent Income</u>					
Expenses:					
Management Fees	3.02%	17.07%	16.12%	15.82%	16.25%
Depreciation	19.57%	20.43%	23.85%	24.23%	24.64%
Interest	0.00%	2.40%	21.52%	29.45%	29.00%
SG&A	13.87%	9.94%	8.16%	5.21%	6.00%
Total Expenses	59.67%	49.84%	74.90%	79.74%	75.89%
<u>Percent Change Year/Year</u>					
Rent Income		9.26%	104.01%	56.09%	27.30%
Operating Income		45.07%	0.25%	55.71%	22.85%
Net Income		-20.72%	18.94%	45.23%	14.78%

*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%
<u>Percent Change Year/Year</u>					
Rent Income	72.28%	66.47%	116.72%	153.43%	104.01%
Operating Income	26.72%	32.20%	-14.23%	-33.50%	0.25%
Net Income	30.37%	44.64%	-4.40%	11.04%	18.94%

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

	(3/00)Q1A	(6/00)Q2A	(9/00)Q3A	(12/00)Q4E	FY2000E
Revenues:					
Rent Income	\$ 2,604,050	\$ 2,612,560	\$ 2,849,060	\$ 3,061,287	\$ 11,126,957
Gain(loss) on disposal of assets	-	-	-	500,000	500,000
Other Income	74,160	109,460	120,600	120,000	424,220
Total Revenues	2,678,210	2,722,020	2,969,660	3,681,287	12,051,177
Expenses:					
Management Fees	415,700	411,020	435,930	497,459	1,760,109
Depreciation	641,060	641,060	679,400	734,709	2,696,229
Interest	745,080	751,620	892,150	887,773	3,276,623
SG&A	154,400	159,940	112,630	153,064	580,034
Maintenance	-	-	110,000	450,000	560,000
Total Expenses	1,956,240	1,963,640	2,230,110	2,723,006	8,872,996
Operating Income	721,970	758,380	739,550	958,281	3,178,181
<i>Operating Margin</i>	26.96%	27.86%	24.90%	26.03%	26.37%
Taxes(Benefit)	264,120	257,700	251,190	364,147	1,137,157
<i>Tax Rate</i>	36.58%	33.98%	33.97%	38.00%	35.78%
Net Income	\$ 457,850	\$ 500,680	\$ 488,360	\$ 594,134	\$ 2,041,024
EPS-fully diluted	\$ 0.30	\$ 0.32	\$ 0.32	\$ 0.38	\$ 1.32
Avg Shares Out-fully diluted	1,543,257	1,543,257	1,543,257	1,543,257	1,543,257
<u>As Per Cent of Rent Income</u>					
Expenses:					
Management Fees	15.96%	15.73%	15.30%	16.25%	15.82%
Depreciation	24.62%	24.54%	23.85%	24.00%	24.23%
Interest	28.61%	28.77%	31.31%	29.00%	29.45%
SG&A	5.93%	6.12%	3.95%	5.00%	5.21%
Total Expenses	75.12%	75.16%	78.28%	88.95%	79.74%
<u>Percent Change Year/Year</u>					
Rent Income	86.63%	81.44%	51.98%	26.56%	56.09%
Operating Income	32.04%	26.62%	34.02%	178.95%	55.71%
Net Income	34.54%	26.15%	34.28%	95.11%	45.23%

AeroCentury Inc.
Quarterly Income Statement for the Year Ended December 31, 2001

	<u>(3/01)Q1E</u>	<u>(6/01)Q2E</u>	<u>(9/01)Q3E</u>	<u>(12/01)Q4E</u>	<u>FY2001E</u>
Revenues:					
Rent Income	\$ 3,286,422	\$ 3,450,743	\$ 3,623,280	\$ 3,804,444	\$ 14,164,889
Gain(loss) on disposal of assets	-	-	-	-	-
Other Income	<u>120,960</u>	<u>121,928</u>	<u>122,903</u>	<u>123,886</u>	<u>489,677</u>
Total Revenues	3,407,382	3,572,671	3,746,183	3,928,331	14,654,566
Expenses:					
Management Fees	534,044	560,746	588,783	618,222	2,301,795
Depreciation	814,704	853,369	893,139	929,426	3,490,637
Interest	953,062	1,000,715	1,050,751	1,103,289	4,107,818
SG&A	197,185	207,045	217,397	228,267	849,893
Maintenance	-	-	-	-	-
Total Expenses	2,498,995	2,621,875	2,750,070	2,879,203	10,750,143
Operating Income	<u>908,387</u>	<u>950,796</u>	<u>996,114</u>	<u>1,049,127</u>	<u>3,904,424</u>
<i>Operating Margin</i>	26.66%	26.61%	26.59%	26.71%	26.64%
Taxes(Benefit)	<u>363,355</u>	<u>380,318</u>	<u>398,445</u>	<u>419,651</u>	<u>1,561,769</u>
<i>Tax Rate</i>	40.00%	40.00%	40.00%	40.00%	40.00%
Net Income	<u>\$ 545,032</u>	<u>\$ 570,478</u>	<u>\$ 597,668</u>	<u>\$ 629,476</u>	<u>\$ 2,342,654</u>
EPS-fully diluted	<u>\$ 0.35</u>	<u>\$ 0.37</u>	<u>\$ 0.39</u>	<u>\$ 0.41</u>	<u>\$ 1.52</u>
Avg Shares Out-fully diluted	<u>1,543,257</u>	<u>1,543,257</u>	<u>1,543,257</u>	<u>1,543,257</u>	<u>1,543,257</u>
<u>As Per Cent of Rent Income</u>					
Expenses:					
Management Fees	16.25%	16.25%	16.25%	16.25%	16.25%
Depreciation	24.79%	24.73%	24.65%	24.43%	24.64%
Interest	29.00%	29.00%	29.00%	29.00%	29.00%
SG&A	6.00%	6.00%	6.00%	6.00%	6.00%
Total Expenses	76.04%	75.98%	75.90%	75.68%	75.89%
<u>Percent Change Year/Year</u>					
Rent Income	26.20%	32.08%	27.17%	24.28%	27.30%
Operating Income	25.82%	25.37%	34.69%	9.48%	22.85%
Net Income	19.04%	13.94%	22.38%	5.95%	14.78%