AviTrader
AVIATION NEWS PUBLICATIONS

avitrader.com | Edition #110

May 2023

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Aerospace Magazine

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Pent up demand amplifies return of engine lease market

As more engines come back online, there will be increasing bottlenecks for MRO services. *© CSAT*

Demand for engine leasing and trading has bounced back, but the industry will need to keep a close watch on asset availability and hangar repair slot accessibility.

By Keith Mwanalushi

Analysts at aviation advisory firm IBA recently indicated that as more engines come back online, there will be increasing bottlenecks for MRO services caused by engine shop visits that were deferred during the pandemic but now require a performance restoration due to the increased passenger demand.

Wasim Akhtar, Director of Engines at AJW Group observes that in line with the surging demand for travel, the aircraft engine leasing market is undergoing immense growth. "Several airlines are choosing to lease rather than purchase engines. This is done as a way of avoiding the high capital costs associated with buying engines and can provide more flexibility in terms of fleet and risk management. With the pent-up demand for engines, the traditional dry leasing routines have come back, and AJW is seeing the rates going back to 70 percent of pre-pandemic levels."

Wasim Akhtar, Director of Engines, AJW Aviation

Akhtar notes that competition in the engine leasing market is fierce, among large and smaller players alike. "It is important to note that as the leasing market continues to grow, there is an increase in the number of engines needing to be overhauled or retired. This is having a significant impact on the demand for used engine parts, which is impacting the MRO market as shops have low capacity and long turnaround times due to the ongoing repercussions of Covid 19," he states.

AJW see the demand for the current technology narrowbody engines to be positive for the coming decade as many CFMs and V2500

Seval MROs are seeing exponential increases in parts and maintenance costs. © *HAECO Americas*

engines are yet to go through their first shop visit and as such the demand for leasing, spare parts, and MRO capabilities is sustainable.

At Willis Lease Finance Corporation (WLFC) they are seeing consistent demand across all airline segments and for all engine types, including widebody, narrowbody, and regional. Craig W. Welsh, SVP and Chief Commercial Officer, Americas and Asia says green time engines should continue to effectively support the market as operators look to minimise reinvesting in current technology engines as they transition their fleets over to newer more fuel-efficient aircraft, powered by new technology engines – "However, we are seeing more airlines planning to keep a portion of their current technology equipment as reliability is more predictable and supply of new aircraft continues to be constrained. This could push the market to a threshold in which green time engine demand will outstrip supply," he anticipates.

Craig W. Welsh, SVP and Chief Commercial Officer, Americas and Asia at WLFC

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>
> *Craig W. Welsh, Willis Lease Finance Corporation*

Marc Pierpoint, SVP, Head of Trading at Investments at WLFC

Marc Pierpoint, SVP, Head of Trading at Investments at WLFC adds that both trading and leasing demand is strong for all narrowbody engine types currently. He says: "We expect this to remain over the medium-term especially while new aircraft deliveries are hampered by delays due to supply chain issues and MRO slot availability remains under pressure." Additionally, Al Landolfi, VP and General Manager, Willis Aeronautical Services, Inc mentions that logistic and supply chain pricing has greatly decreased since the pandemic allowing them to provide some additional flexibility and cost savings to customers. "However, we still feel the pain of prolonged delays with piece part repair and with new spare parts delivery," says Landolfi.

Before the global pandemic, Akhtar recalls that the demand for aircraft engines exceeded supply, resulting in costs related to the sale and leasing of engines soaring. "Moving on two years, airlines are still financially vulnerable due to the ongoing recovery of flight schedules. Consequently, the demand for green time engines exists for the foreseeable future," he notes.

Also, having a good supply of cheaper, serviceable engines with favourable lease rates now available, the trend among airlines is to save costs by delaying the replacement or restoration of ageing engines and opting instead for the green time engine leasing opportunities that are available.

Demand for procurement of higher thrust CFM56-5B and -7B engines has been rising strongly over the past two years, with demand for part-outs, rebuilds and continued-time lease candidates also increasing steadily since early 2021, suggests David Blackburn, Senior Vice President – Asset Leasing and Trading at PTS Aviation (a StandardAero company).

Blackburn anticipates that the CFM56-5B/-7B demand will continue to grow through 2025, especially as MRO shops diligently work to hire experienced and knowledgeable talent, increase shop visit throughput, and create new processes to reduce excessive turn-times.

PTS Aviation believe the increase in airline operational activity is driving the procurement, lease and utilisation of higher-thrust green time CFM56-5B/-7B engines, which is in turn creating a large

Al Landolfi, VP and General Manager, Willis Aeronautical Services

pull (or vacuum) in this narrowbody engine sector – "Asset pricing – from individual internal and external parts to entire serviceable engines – is steadily increasing, and is forecast to continue to increase through 2025," Blackburn states.

Meanwhile, at AerFin, they too are seeing a significant demand for both the engine leasing and trading pool, along with the engine components division for materials. Nick Filce, Director of Trading

Nick Filce, Director of Trading at AerFin

> "Engine pricing for lease, sale and teardown engine candidates are increasing which effects the cost throughout the supply chain."
>
> *Nick Filce, AerFin*

The CFM56-7B demand will continue to grow through 2025. © *StandardAero*

at AerFin confirms that this growth has continued through 2022 and 2023 with activity back to pre-pandemic levels and rates, especially good quality V2500 Select Engines, CFM56-5B TI / PIP and CFM56-7B TI/E engines. "We expect this to continue due to the increase in supply chain issues effecting MRO slots and operators requiring seed engines to cover shop visits," he says.

IBA data indicates that lease rates have nearly recovered to pre-pandemic levels for the CFM56-7B which were at US$73,000 pm in 2019 and are now at US$72,000 pm in 2023.

Delays in deliveries of new generation aircraft like the Neo and MAX have led to heightened demand for current generation assets with mid-life aircraft also seeing extended operations. "The lessor community are reporting activity on airframes they were expecting to be retired and are now being extended or re-entering service," comments Filce. He adds that the increased TAT issues faced by MROs are making it difficult to secure repair slots and putting a strain on the engines available to lease and trade – "Aircraft utilisation is returning at such a rapid rate the availability will continue to be an issue in the short to medium term," he observes.

Filce suggests that green time engines will continue to supply the market effectively, as the availability is very strong. "Engine owners are rebuilding and repairing engines for green time, such as hospital servicing, module swaps etc. which ultimately have an impact on USM since these would have previously been torn down for their LLP's, LRU's and piece parts." He adds that engines that were originally being torn down in house for the components division were now being shopped for return to service – "Engine pricing for lease, sale and teardown engine candidates are increasing which effects the cost throughout the supply chain."

By all indications, demand for green time solutions for the V2500, CFM56-5B, and CFM56-7B engines will remain strong for the next several years. At Aero Capital Solutions (ACS) they expect sustained and robust demand for mid-life narrowbody aircraft in the mid-term, which is their area of focus and investment.

Ryan Anderson, VP - Commercial, Americas describes several underlying factors driving operator demand for mid-life 737NG's and A320 ceo family aircraft and the respective engines that power them. He indicates issues such as MRO capacity: "Many operators delayed engine shop visits and heavy maintenance during the pandemic. In parallel, MRO workforces were reduced, and many lost their most senior technicians and engineers to retirement. As maintenance

Ryan Anderson, VP - Commercial, Americas at Aero Capital Solutions

demand has accelerated to meet passenger demand, MRO slots are scarce, and turn-around-times are considerably longer than their pre-pandemic standards."

Also, highlighted, Anderson commented on the exponential increases in parts and maintenance costs: "The clear inflation in MRO costs for engines naturally makes alternatives such as existing green time engines more attractive to bridge to new aircraft or avoid unnecessary investment into retiring aircraft." Other factors driving demand include passenger and cargo demand and new equipment delays and the lack of performance.

One area that ACS has seen grow stronger is formal or informal thrust programmes whereby the lessor becomes responsible for delivering green time engines to the operator on a defined schedule aligned to the airline's demand forecast. Anderson explains: "Engines are delivered based on pre-agreed economic terms and technical requirements. They can be used to replace run-out engines as a fleet approaches end-of-life or to meet an operator's engine spares requirement in a way that optimises their cash position."

ACS has traditionally made serviceable continued-time engines available for sale to customers who wish to completely forego a shop visit, including buy-back of the customer's unserviceable engine. "The net of the two transactions is the fee the customer pays to acquire the engine green time faster and more economically than sending their engine through the shop for a performance restoration," Anderson continues.

ACS believes that these use cases will persist and that there remains a healthy supply of green time V2500, CFM56-5B and CFM56-7B engines available to provide operators with a choice of creative solutions to minimise maintenance cost on ageing assets while acquiring the engine run-time they require currently.

Joe Hussar, Executive Vice President – Head of Portfolio at Engine Lease Finance Corporation, says the company is seeing the highest demand for secondary market leases since before the pandemic. "On the trading side we are seeing speculators returning to the market looking for green time engines to lease with an acquisition strategy to either break the engine for part-out once all of the maintenance life has been consumed or overhaul and lease onward for another maintenance cycle." Hussar explains that this is indicative of the general mood in the market and reckons it will be sustainable throughout 2023 and beyond despite the many challenges facing the world economy at present.

With airlines rebuilding their flying schedules, Hussar agrees that green time engines will continue to supply the market – "green time engines will be critical for airlines to get capacity in service considering the lack of available slots across the world MRO capacity. Demand has been strong in both passenger and cargo sectors as well as from lessors that are under pressure to deliver repositioned airframes."

With indications pointing to more engines coming back online and the challenges this will create for MRO services, and as the IBA forecast suggests, there will be some turbulence ahead for the engine market. Previously deferred shop visits will likely result in an increased backlog of demand, and turnaround time will have to be increased due to a lack of supply and staff to support.

Joe Hussar, Executive Vice President – Head of Portfolio at Engine Lease Finance Corporation