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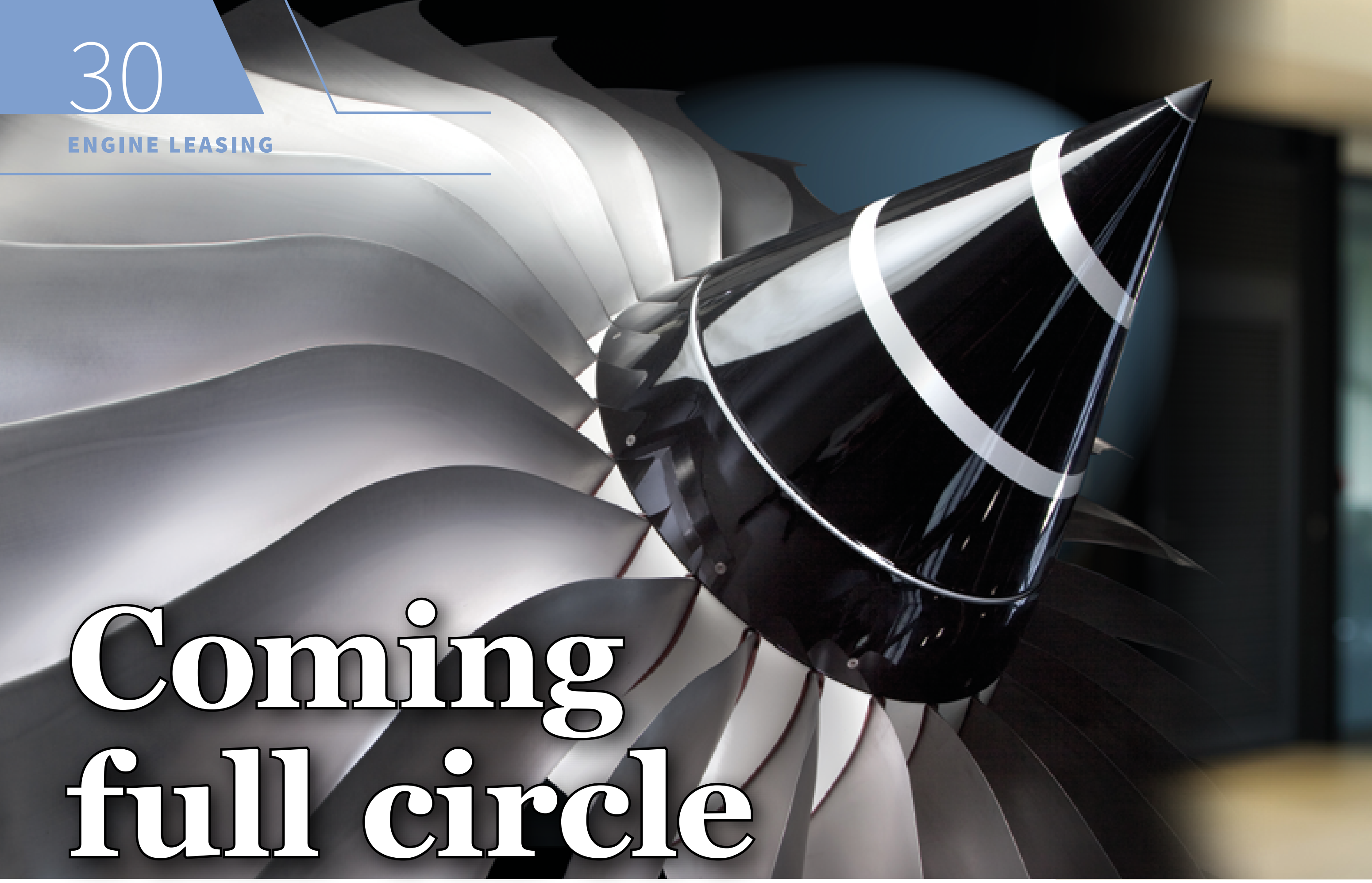
Finance and Leasing Special

Paintings and coatings

Protective measures

Window of opportunity

ATR's Nathalie Tarnaud Laude leads the line



Coming full circle

***LARA* sits down with elfc and AJW to get a snapshot of what 2024 might have in store for engine leasing.**

As airlines operating new-generation narrowbody engines brace themselves for upcoming aircraft groundings, this is but one in a mass of growing challenges littering the OEM landscape. Challenges which seem to spell good news for engine lessors with older-generation engines in their portfolio.

However, the number of older engines typically stocked by lessors, like the CFM56 and V2500, is not infinite. Coupled with a growing need for maintenance and repairs on these types, the demand for services are only emphasising the already tough issues in the supply chain.

What's more, there is still the need for lessors to grow their new-generation portfolios with engines such as the LEAP and GTF, as the engine issues experienced now – whilst still a hammer blow in the short term – will not last forever.

So, what does this all mean for lessors as we go into 2024?

For world-leading engine finance and leasing company, and a group company of Mitsubishi HC Capital, Engine Lease Finance Corp (elfc) it's currently all about investing for growth.

With the financing power to help satisfy long-term financing needs for over 80 operators, OEMs and MRO organisations worldwide, elfc currently has a portfolio of 360 engines, which include most narrowbody and widebody engine types.

The company's Chief Commercial Officer Julian Jordan confirms that at present it is investing heavily – to the tune of US$1 billion in 2023 – in current technology narrowbody engines, which includes the LEAP-1A, LEAP 1B and PW1100.

Jordan says elfc "expects growth to continue".

But how have supply chain demands, MRO bottlenecks, rising costs and OEM delays affected overall engine availability in the market in general?

In short, massively.

"Demand [for LEAP and GTF spare engines] is unprecedented with market availability close to nil," says Jordan.

To drive the point rather sharply home, as operators anticipate prolonged issues and uncertainties in the market, Jordan says that elfc has seen the time requested for the length of lease change dramatically.

It is now no longer being measured in months, he says, but in years.

"Operators are seeking to reserve spare engines up to 12 months in advance," he adds.

OLD AND NEW

It's not just new-generation engines that are in the firing line, but older engine models too.

Offering bespoke engine leasing solutions to a variety of operators, AJW's Director of Engines, Wasim Akhtar, says that the company – whose portfolio consists of older engines types, such as the CMF56 series, V2500, PW4000 and RB211 – has seen massive demand for what it considers these "bread and butter" engines.

"Demand for narrowbody engines, specifically for the Boeing 737NG and Airbus A320, has experienced a significant resurgence, representing a crucial aspect of AJW's business operations," he says.

elfc's Jordan agrees. The lessor has also seen a significant increase in demand for the CFM56 and V2500 engine models, as 737NG and A320ceo aircraft remain in service to

Julian Jordan says elfc is investing heavily in narrowbody engines such as the PW1100 and CFM's LEAP-1A and LEAP-1B

AJW's Wasim Akhtar says that the company is seeing 'massive demand' for older engine types like the CFM56 and V2500.

combat the shortfall in capacity that can't be met by lagging aircraft deliveries.

"Supply and demand are tightly matched," he adds, citing the CFM56-7B engine to illustrate his point.

"The number of available CFM56-7B engines advertised globally in October 2023 reduced by almost 75 per cent since the start of the year to the lowest number since July 2019."

So it should come as no surprise that leases for the majority of elfc's older engine types – CFM56 and V2500 – are extending.

Jordan mentions that the average extension rate year-to-date (YTD) for the company is 75%.

"For context, this rate dropped to 38 per cent in 2021, and is actually higher than in the year prior to the Covid crisis," he says.

There are both good and bad sides to this rate change, as Jordan explains.

"Fortunately, we are finding broad agreement by lessees to rental rate adjustments at the time of extensions to enable us to reset to post-pandemic market rates," he says.

"The downside to this high level of extensions is that it is contributing to the low numbers of spare engines available to lease by elfc and other engine lessors and the trend is actually increasing so far during Q4."

AJW's Akhtar shares a similar outlook.

"There's a growing inclination among operators to extend leases on aging engine types, such as the CFM56 and V2500," he says.

"This trend of lease extensions on older engines is likely to continue for at least another 24 months, as the aviation industry undergoes a transitional phase."

He adds that AJW's ability to facilitate lease extensions for operators has proved "a crucial solution" for operators looking to maintain their fleets' operational continuity.

BALANCING ACT

Considering capacity limitations in the engine MRO section, elfc's Jordan also envisages this continuing for the next 24 months.

And given these limitations, it's not just extension requests increasing. The types of engine lease requests are changing too.

Akhtar comments that the industry is seeing a "strategic shift" towards maximising the operational life of engines, pivoting away from short-term leases towards longer ones due to heavy market demand.

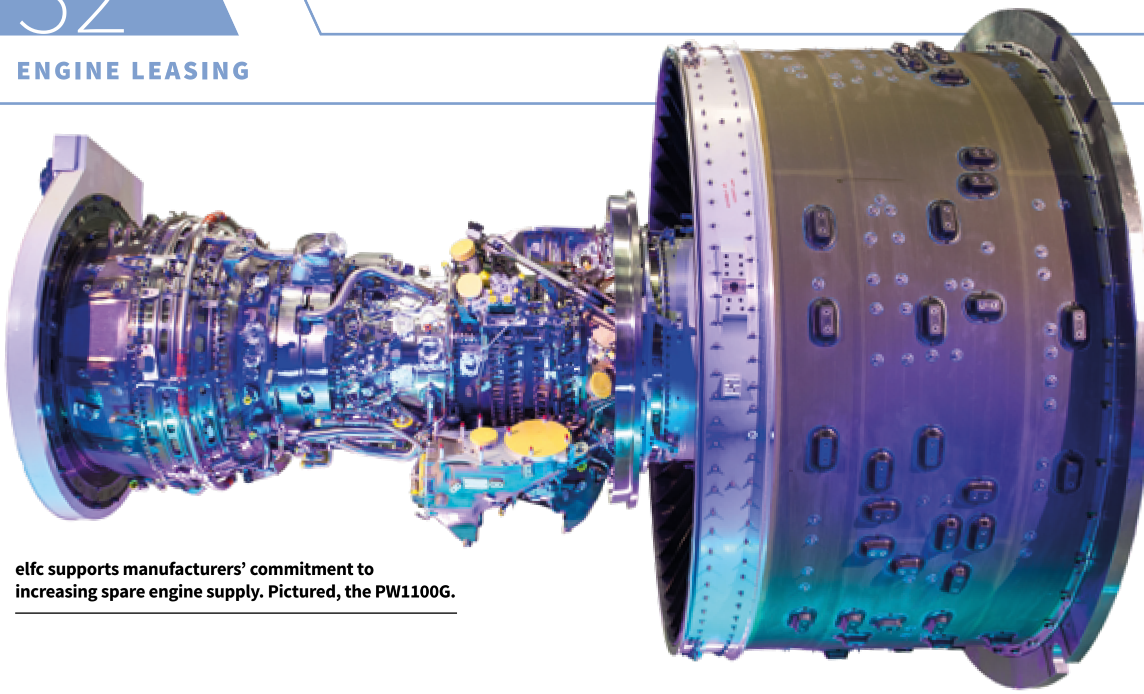
Short-term leasing requests from operators to cover a single engine removal are "significantly reduced" according to elfc's Jordan, who says that post-production engine operators (i.e. CFM56 and V2500) are "reacting prudently" to the diminishing availability of these spare engines.

Here, Jordan adds that demand has pivoted to securing longer-term operating leases of engine stock – as a way for operators to ensure that any ongoing maintenance disruption to its fleet does not disrupt operations.

As for how this is affecting low-fare and regional carriers, AJW's Akhtar says: "Low-fare and regional operators are leaning towards longer-term engine leases and they provide a more extended duration.

"The recovery in travel demand necessitates a reliable and consistent engine supply to meet operational requirements, favouring longer-term agreements that provide a more stable and predictable engine fleet."

As such, when it comes to ongoing issues with the GTF PW1100 and CFM engines, elfc's Jordan offers a pragmatic view on its resolution.



elfc supports manufacturers' commitment to increasing spare engine supply. Pictured, the PW1100G.

"As a long-term engine investor, elfc's business model remains underpinned by the long-term residual value of our assets, and we are therefore closely monitoring aircraft and engine production rate forecasts to ensure that oversupply in the very long term does not impact engine market values."

"We support both Pratt & Whitney and CFM's commitment to increasing spare engine supply in the short term despite the pressure that both OEMs are experiencing," he says.

Jordan adds that in the more immediate term, the engine lessors' shared task with the OEMs is to "satisfy the spare engine demands of our customer base".

"We have every confidence that as the current production and maintenance issues are resolved over the next few years, they will get the balance right."

However, as of right now, such issues are already having a knock-on effect for operators.

This includes the likes of low-fare carrier Wizz Air, which anticipates at least 10% of its fleet being grounded by the second half of 2024 and has recently trimmed its profit forecast accordingly.

Simply put, operators of these engine types stand to lose out in the coming year. This being something that, despite its heavy investment in growing its narrowbody and widebody current technology portfolio, engine lessors like elfc are also all too aware of.

"The majority of the engines being acquired will be on long-term leases," says Jordan. "However, many will be used to cover immediate airline requirements in support of OEM programmes."

By comparison, Akhtar adds that the delays with these engines is creating is creating demand elsewhere.

"The OEM delays for new-gen engines have created a surge in demand for our services," he says. "Higher lease rates further underscore the increased demand for engine leasing," which make providers like AJW "a viable and attractive option for airlines and operators seeking to bridge the gap."

VALUE ADDED

The overall outlook for 2024 is therefore a muddied one.

The aircraft engine leasing market is undergoing rapid growth, as airlines choose to lease and avoid high costs associated with buying engines or extended pre-existing leases on older engines. But availability and values of those engines will still prove a stumbling block.

AJW's Akhtar sees "rates going down to pre-pandemic levels" due to the mass of demand for engines.

"Our company is confident in the sustained market demand for narrow-body engines, which underscores our commitment to maintaining and possibly expanding the Group's presence in this sector of the aviation industry," he adds.

elfc's Jordan takes a broader view, given the variety in its portfolio.

"Clearly we foresee issues with meeting market demand for certain engine types as demand outstrips available supply of current technology engine types," he says.

Yet he reiterates that elfc is keeping a close eye on engine values.

Despite difficulties in the short term, there is much in the way of positive activity for the lessor.

Sale leaseback (SLB) of engines has been a massive boon to both operators and lessors like elfc. The company is also working on acquisition programmes for older engine types, such as the CFM56 and V2500, and building up its delivery timelines.

"We are ready to step up again in 2024 with significant funding of new spare engine deliveries, particularly through sale leaseback of engines which operators bring forward to combat their current issues and may not therefore have budgeted for next year," Jordan confirms.

Demand for used service material (USM) is also at a "high level" for lessors, as operators seek to manage their overhaul costs and material supply for older engines to maintain their 737NGs and A320ceos.

As a result, elfc's subsidiary, INAV, is currently seeking retiring engines to feed its USM supply programmes to support MRO shops and airlines.

"We see this as a great opportunity for elfc to acquire retiring aircraft and mature engines as a means to financially and operationally support operators in their fleet transition plans," says Jordan.

Increasing its spare engine availability for customers in the short term is also a priority for elfc, before the company releases unserviceable ones to its subsidiary. ■