Q3 2022 Earnings Call

Company Participants

- Aengus Kelly, Chief Executive Officer and Executive Director
- Joseph McGinley, Head of Investor Relations
- Peter Juhas, Chief Financial Officer

Other Participants

- Hillary Cacanando, Analyst
- Jamie Baker, Analyst
- Mark DeVries, Analyst
- Moshe Orenbuch, Analyst
- Ron Epstein, Analyst
- Ross Harvey, Analyst
- Vincent Caintic, Analyst

Presentation

Operator

Good day, and welcome to AerCap's Third Quarter 2022 Financial Results.

(Operator Instructions) At this time, I'd like to turn the conference over to Joseph McGinley, Head of Investor Relations. Please go ahead sir.

Joseph McGinley {BIO 17672898 <GO>}

Thank you, operator, and hello, everyone. Welcome to our Third Quarter 2022 Conference Call. With me today is our Chief Executive Officer, Aengus Kelly, and our Chief Financial Officer, Pete Juhas.

Before we begin today's call, I would like to remind you that some statements made during this conference call which are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements.

AerCap undertakes no obligation other than that imposed by law to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after this call. Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated November 3, 2022.

A copy of our earnings release and conference call presentation are available on our website at aercap.com. This call is open to the public and is being webcast simultaneously at aercap.com and will be archived for replay.

We will shortly run-through our earnings presentation and we'll allow time at the end for Q&A. As a reminder, I would ask that analysts limit themselves to one question and one follow. I will now turn the call over to Aengus Kelly.

Aengus Kelly {BIO 2460371 <GO>}

Thank you for joining us for our third quarter 2022 earnings call. We are pleased to report another quarter of strong earnings for AerCap. During the third quarter, we generated $2.21 of adjusted earnings per share and adjusted net income of $537 million. We generated strong net income and cash flow and achieved our target leverage ratio well ahead of our expectations. As a result, we are raising our Full Year EPS guidance from a range of $6.50-$7.00 to a range of $8.00-$8.50.

As we have discussed in prior quarters, the environment for aircraft leasing continues to strengthen, and we are seeing this reflected in our financial results. On the operational side, the impact of this strengthening demand is clearly evident. The best indication of this was in the execution of a record 255 transactions in the third quarter. This included lease agreements for 137 aircraft, 24 helicopters and 23 engines. We also completed the purchase of 15 aircraft, 16 engines and 3 helicopters, and sold 21 aircraft, 13 engines and 3 helicopters.

The amount of data emanating from this level of transaction activity data is unparalleled and gives AerCap unique insights into the market allowing us to make meaningful decisions earlier, and with more conviction. Today, it’s the reason we are considerably more optimistic about global widebody demand than many others. We believe that the shortages we are currently experiencing in the narrowbody market will be replicated in the widebody market. And, like the narrowbody market, the tight supply will persist for the next few years.

As an example, in the 3rd quarter alone we signed 30 widebody leases, of which 11 were from our orderbook and 19 were for used aircraft, with broad based demand in Europe, Asia and South America. This will be sustained by the low production rates for new B787, A350, and A330neo aircraft as well as significantly longer lead times for components, engines, and shop visits which are impacting the supply of older kit. In fact, it may surprise you to learn that storage rates for 787s are actually lower than A320neos today. As a result, we believe that we will continue to see strong demand, and upward pressure on lease rates for widebody aircraft.

As I described on our last earnings call, we are continuing to see significant delivery delays on new aircraft from the OEMs. This is caused by a number of factors including the shortage of engines available to service both new aircraft deliveries and spare engines requirements and a shortage of MRO capacity to repair engines in a timely manner.

On the first point, the engine OEMs are under pressure to increase the production rates for new engines by the airframe manufacturers. This creates a steep industrial challenge and it's also coming at a time when the new technology engines are coming off-wing earlier than expected. This means airlines are becoming frustrated at the lack of spare engine availability and are therefore demanding that more new engines are diverted to the in-service pool rather than to new aircraft deliveries.

The issues around the new engine technology coming off-wing early are not unique to these engines, they're a predictable part of the teething processes of inducting new technology. However, it's happening at time when supply chains and labor availability are already under pressure. Working in an MRO is a high skilled job and finding qualified engineers to fill these roles is not straightforward, as it requires several years of training. So, we believe turnaround times will continue to be elevated.

On top of this, few people outside the industry realize how complex the approval, certification and delivery processes are for the manufacturers, especially after an unexpected hiatus in production. It's not just as simple as building the inventory, and when the aircraft is re-certified you deliver it.

Airplanes are not meant to sit idle, so there are numerous checks that need to take place before an aircraft can be reactivated, for example engine power levels, critical systems such as cockpit instrumentation and cabin pressurization etc which can easily take a month per aircraft. And then, any modifications like cabin changes will have to be made after that. Further, the increased oversight from the FAA on their processes is also adding to the logistical challenges of delivering new aircraft.

This is why Boeing, for example, has not been able to deliver all of its fully built 737 MAX's despite its recertification in most of the world. Likewise on the 787, which is the most popular widebody, Boeing has only delivered 9 thru Sept 30, compared to over 150 in full year 2019, which is contributing to further tightness in supply. Given the events of the last few years, it is no surprise that all of the OEMs are facing higher scrutiny on deliveries and quality assurance, but we are confident that they will address these issues.

In the meantime, our leading engine leasing business is well placed to provide solutions to customers affected by these delays, and we are seeing continued strength in this area as a result.

Cargo demand also continues to be robust, notwithstanding the recent normalization of shipping rates over the past few months. It's worth noting that the underwriting case for cargo aircraft was never predicated on those super-normal lease rates being sustained. They were certainly beneficial for placements in the last few quarters, but the real change in that area is the improved quality and breadth of customers looking to lease cargo aircraft.

Much of the historical cyclicality in cargo leasing was reflective of the binary nature of many of the operators, which were either very strong well-capitalized players, or start-up high growth opportunistic ones. What we are seeing now is a filling out of the middle, where the commercial benefits of managing your supply chain in-house is becoming increasingly important and cargo aircraft are seen as another part of the critical infrastructure of large companies.

In light of this, we placed firm orders for 15 Airbus A321-200 Passenger to Freighter aircraft conversions with EFW, with an option for a further 15 units, which are expected to begin delivery in 2023 through 2025. This aircraft is the best-in-class and most fuel-efficient aircraft to replace the B757-200 freighter, so we expect to see strong demand for these aircraft.

On the helicopter side, we continue to see increased activity with 24 leases signed in the quarter, 3 purchases and 3 sales. Again, we witnessed broad-based demand which shows our global reach. We completed lease agreements with operators in Australia, Europe, South America, North America and the Middle East. This increasing demand, coupled with our focus on improving terms and extending tenor, should provide more reliable and resilient returns in this business going forward.

So, moving back to passenger aircraft. The demand for narrowbody aircraft preceded the first leg of the recovery and it’s proven to be a reliable forward-looking indicator on travel recovery. I expect the demand that we are currently seeing for widebody aircraft will continue to drive the recovery.

I think it's important to consider that while passenger traffic is still well below 2019 levels, supply constraints are already occurring. As a result, airlines are seeing higher yields and revenues. In fact, IATA forecasts that worldwide airline revenues will reach $782 billion this year, this equates to 93% of 2019 revenues on only 82% of the traffic.

Bringing all this together, the supply side dynamics are going to persist, traffic demand continues to surprise on the upside and leasing costs form a relatively small part of an airlines total costs. As such I expect that the environment for aircraft leasing will continue to improve.

So, in summary, this was another great quarter for AerCap, with earnings and cash flows remaining strong throughout the business. The market environment continues to improve and, as you’ll have seen from this quarter, the financial impact is already beginning to come through.

As we sit here now, 12 months on from the closing of the GECAS acquisition, we are optimistic about the future. We have come through COVID, the Russian aircraft write-offs, and we have still hit our target debt equity ratio ahead of schedule. As we look forward, it is clear to me that the resilience and stability of our industry is becoming more and more apparent and AerCap will be in an even healthier position to provide great support to our customers and strong returns to our shareholders.

With that, I will hand the call over to Pete for a detailed review of our financial performance and our increased guidance for the full year.

Peter Juhas {BIO 16582554 <GO>}

Thanks Gus. Good morning, everyone. We had a very strong performance in the third quarter. Our adjusted net income was $537 million dollars, or $2.21 per share.

The impact of purchase accounting adjustments, which include lease premium amortization and maintenance rights amortization, was $123 million dollars in the third quarter, including a reduction to revenue of approximately $80 million dollars and an increase in leasing expenses of $43 million dollars. We also had transaction and integration-related expenses of $4 million dollars for the quarter. Taking all of those into account, our GAAP net income for the quarter was $440 million dollars, or $1.82 per share.

I'll spend a few minutes going through the main drivers that affected our results for the third quarter.

Basic lease rents were $1,473 million dollars for the quarter, a slight increase from the strong results in the second quarter. Our basic lease rents reflected $51 million dollars of lease premium amortization during the third quarter. As I've mentioned on previous calls, the lease premium asset is amortized over the remaining term of the lease and reduces basic lease rents.

Maintenance revenues for the quarter were $120 million dollars. That reflects $30 million dollars of maintenance rights assets that were amortized to maintenance revenue during the quarter. In other words, maintenance revenues would have been $30 million dollars higher, or around $150 million dollars, without this amortization.

Net gain on sale of assets was $69 million dollars for the quarter. During the third quarter we sold 17 of our owned aircraft, 10 of our owned engines and 3 helicopters for a total of $373 million dollars, so that represents a gain-on-sale margin of 23% for the quarter.

Our other income was $62 million dollars for the quarter, which included $29 million dollars of proceeds from unsecured claims. This primarily related to recoveries on our unsecured claim related to Aeromexico.

Leasing expenses were $161 million dollars for the quarter, including $43 million dollars of purchase accounting amortization expenses.

Equity in net earnings of investments under the equity method was $45 million dollars for the quarter. That was mainly driven by continued strong earnings from Shannon Engine Support, our joint venture with Safran, which is our largest equity investment. SES has been generating a strong performance this year driven by the engine supply and demand factors that Gus mentioned in his remarks.

We continue to maintain a strong liquidity position. As of September 30th, our total sources of liquidity were approximately $17 billion dollars, which resulted in a next 12 months' sources-to-uses coverage ratio of 1.7x and excess cash coverage of $7 billion dollars. Our total operating cash flow was approximately $1.1 billion dollars for the quarter.

As a result of the strong earnings and cash flow generation this quarter, we saw a significant decrease in our leverage ratio, and we ended the third quarter with net-debt-to-equity of 2.69 to 1, which is just below our target ratio of 2.7x. So we were able to achieve our return to target leverage earlier than expected and only two quarters after writing off all of our Russian assets.

At the beginning of Covid in early 2020, we increased our target liquidity coverage from 1.2x to 1.5x given the uncertainties around the severity and duration of Covid. Since then, we've consistently run well above this target level, as we continued to do in the third quarter. Given the strength of the recovery that we've seen and the return to normal operations by airlines in most parts of the world, we believe it's no longer necessary to maintain this higher liquidity target, so going forward we will return to our previous target of 1.2x sources-to-uses coverage, while maintaining the $17 billion of liquidity sources that we currently have. We will, of course, continue to monitor the environment to make sure we always maintain a very strong liquidity position, as we've always done.

Our secured debt-to-total-assets ratio was approximately 14% at the end of September, down slightly from 15% last quarter. Our average cost of debt for the third quarter was 3.2%, an increase from 3.0% last quarter.

In October, Moody's revised its rating outlook for AerCap to positive. This follows Fitch's revision of its outlook for AerCap to positive in June. Our goal is to achieve mid-BBB ratings from all three rating agencies and both of these moves are a step in the right direction and continue our positive ratings trajectory.

Given the strong performance of our business this year and the outlook for the rest of the year, we are raising our 2022 full year adjusted EPS estimates from our previous range of $6.50 to $7.00 to a new range of $8.00 to $8.50.

The outperformance compared to our original estimate has been driven by a number of factors. As I mentioned earlier, we've seen a positive impact on revenue from higher cash collections as well as higher maintenance revenue. We've also seen strong performances from our engine leasing and helicopter leasing businesses. And we've had higher income from our joint venture SES, which has performed well ahead of expectations.

Our gains on sale so far this year have been larger than we expected. We've also had higher other income, where we've received significant proceeds from unsecured claims. Through the first three quarters of this year, we've had gains on sale of $108 million dollars and proceeds from unsecured claims of $69 million dollars, so the combined impact of those two items is $176 million dollars year to date.

Another factor contributing to the outperformance has been mark-to-market gains on our interest rate caps. So far this year, we've recognized mark-to-market gains of $67 million dollars.

So overall, this was a strong quarter for AerCap.

We continued to see global travel recover, higher demand for leased aircraft and improving lease rates. We're also continuing to see strong performance across all of our businesses. All of this has led to continued strong earnings and cash flows this quarter and deleveraging back to our target debt-to-equity ratio well ahead of expectations, and an increase in our full year guidance.

And with that, operator, we can open up the call for Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions) W e'll take our first question from Ross Harvey with Davy, please go-ahead.

Q - Ross Harvey {BIO 18664315 <GO>}

Hi thanks. I was hoping that we could talk about excess capital because you have done frankly a very remarkable job bringing the debt-to-equity ratio down below 2.7 already. I'm hoping Gus and Pete, you might talk us through your priorities around how you deploy capital. I recall, you would have spoken about CapEx and M&A and de-levering and shareholder returns in the past and how they can fluctuate. How do you assess those at the moment?

And perhaps in the case of share repurchases, just how you would -- how you would think of structuring those? Thanks.

A - Aengus Kelly {BIO 2460371 <GO>}

Thanks, Ross. Well on the first point, yes, indeed. We have brought down the debt-equity ratio which is a real cash-flow measure, to below 2.7 times as Pete mentioned despite the challenges presented from COVID and Russia, et-cetera.

That shows to me the stability and the robust nature of the business. As regards deploying excess capital, we will now begin to generate excess capital and as we have done in the past, we're very careful stewards of that excess capital and how we deploy it. As we look today at the opportunity set that's in front of us, there's no doubt as I've made clear before that the acquisition of our own share is a highly-attractive use of that excess capital as it is generated.

Q - Ross Harvey {BIO 18664315 <GO>}

Thank you very much.

Operator

We'll take our next question from Mark DeVries with Barclays, please go-ahead.

Q - Mark DeVries {BIO 15168557 <GO>}

Yes, thanks. So the updated EPS guide for the year implies a run-rate of somewhere around $2.5 a share in 4Q. Is that a fair run-rate to assume heading into 2023? Are there some nonrecurring items in there that we should think about?

A - Peter Juhas {BIO 16582554 <GO>}

Well, I think it's actually, I mean if you look, we've gone $6.35 so-far this year, Mark in adjusted EPS, so we are guiding to $8.00 to $8.50, so that's the range there right which is basically $1.65 to $2.15 for the fourth quarter and I think, what we've seen in the past and, you've heard us talk about is, things can move around from one quarter to another.

So we'll have to see. That's why we have a range for it. There are a number of items, maintenance for instance, gains on-sale, other things that could easily slip from fourth quarter to first-quarter or vice-versa, so that's why we've got the range. I mean I'd say, if you take the midpoint of that range, that's kind of our best estimate at the moment.

But if you look at this quarter, we did have some things that were onetime items that were positive, so like the mark-to-market gain that we got. We had very-high gains on-sale of 23% margin, so if you look at the full-year that tends to -- that's about 10% for the full-year for example.

So we have the unsecured claims from Aeromexico that we got in this quarter as well, so I think, as you think of a normal quarter, I would remove some of those items from that.

Q - Mark DeVries {BIO 15168557 <GO>}

Okay, that's helpful thanks.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

We'll take our next question from Jamie Baker with JPMorgan, please go-ahead.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay good afternoon, everybody. Can you walk us through an actual example of how interest-rate adjustments work for forward placements?

So for an aircraft that you're going to deliver this quarter or next, I'll assume the order was placed, however many years ago but that the lease, I'm guessing was inked, I don't know, 18 to 36 months ago, so for contracts with adjustments, how much higher will the lease be as a result of said adjustment?

A - Aengus Kelly {BIO 2460371 <GO>}

Jamie. It's Gus here.

Q - Jamie Baker {BIO 3406456 <GO>}

Hi, Gus.

A - Aengus Kelly {BIO 2460371 <GO>}

If I can ask you to pick up a pen, you just pick-up a pen.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay.

A - Aengus Kelly {BIO 2460371 <GO>}

I'll talk you through it, okay. So what you would assume, let's say, for standard narrow-body airplane. You'll have a loan, somewhere around $36 million.

So $36 million is the part that's interest-rate sensitive. What you want to do first is workout okay, of that $36 million, how much do I need? How much is the interest bill going to go up each month for a 1% move-in rates?

So you divide $36 million by 12, to get the monthly impact and by 100 to get 1%. So $36 million divided by 1,200 is $30,000, so what you need to be indifferent Jamie, this is a simplistic example, is for every 1% movement in rates in your contract, you need the lease rate to go up by $30,000.

So to take an example, let's say, two years ago, we wrote a lease rate, say it was $300,000 is the lease rate and what we call the adjustment factor per 1% was $30,000, now it will be per basis-point but stick with me with 1%,

Q - Jamie Baker {BIO 3406456 <GO>}

Sure.

A - Aengus Kelly {BIO 2460371 <GO>}

So in that timeframe, if interest rates have gone from 2% to 4%, when the aircraft delivers, if the relevant index which might be say the seven-year swap rate or the five-year treasury has gone from 2% to 4%, your lease rent will go up by $60,000.

And these are obviously example number, illustrative numbers.

Q - Jamie Baker {BIO 3406456 <GO>}

Yeah, no, of course thank you for that Gus, because it's a question I get rather often from your investors. And second, last quarter your forward 12 month CapEx was $5 billion, this quarter it's $6 billion. I realize we're mixing time periods here but I guess, I'm just surprised with the OEM challenges.

I mean, this can't be an implicit acknowledgment that OEMs are putting their houses in order because it doesn't sound like they are, is this just modeling noise?

A - Aengus Kelly {BIO 2460371 <GO>}

I would say, on that Jamie, we will have to see how that delivery profile actually plays out with the OEMs as we get into 2023. The OEMs provide guidance to us every few months on the delivery profile. Personally, I think it's more likely than not but that will shift down to the right of this but we have to wait till we get the guidance from the OEMs. But certainly as you saw in my comments earlier on, there are stresses that aren't immediately obvious to everybody in the supply-chain, both for production of aircraft and the maintenance of those aircraft and those engines.

You must remember that there's a finite supply of parts that go into an airframe or an engine. But the engine is the easier one to understand. When the engine comes off wing prematurely, the engine manufacturer is typically on the hook under their flight hour agreements to compensate the airline for lost flying time of the airplane that can no longer fly while the engine is in the shop.

So if you are the engine OEM, what you want to do is get that airplane back-in the air very quickly. The engine OEM typically doesn't make money when the airplane is delivered to the customer, they make money or lose money over the life of the engine post-delivery which is in sharp contrast to the airframe OEM.

So when there is a shortage of parts which there is and if engines are coming off wing faster-than-expected, the bias of the engine OEM, be it in self-interest, will be to try to divert as much parts as they can to the MRO shops, not to production engines.

So. I think, we've yet to see all of this play-out over the course of the next couple of years but it is a factor that's out there.

Q - Jamie Baker {BIO 3406456 <GO>}

That's great, Gus, and if I could just be super quick, third one slide it in. In relation to the question prior to this, would you consider share repurchases with excess capital before securing rating agency upgrades? How you are prioritizing the upgrades?

A - Peter Juhas {BIO 16582554 <GO>}

Sure so look as we look at it. I mean, we've got positive outlooks from Moody's and Fitch right now which is very good, we're clearly in a positive trajectory with both of those and hopefully, we can get those over the line, get upgraded. But we've been very clear with all the rating agencies that our target leverage ratio is 2.7 to 1.

That's what we're going to manage the business to and when we have excess capital, we'll plan to distribute it up to that level, so it's not, we're not going to wait for the rating agencies which we don't control.

I mean, that will come or it won't, we're hopeful that it will. But all we can do is just manage the business and use the excess capital when we've got it.

A - Aengus Kelly {BIO 2460371 <GO>}

And I would bear in mind Jamie, of course, in that regard that that was our target ratio coming into COVID which we are at and that was a ratio that was well able to get us through COVID and indeed not just survive it but thrive in it.

Q - Jamie Baker {BIO 3406456 <GO>}

Mark and I appreciate the answers, thank you, gentlemen. Take care.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

We'll take our next question from Moshe Orenbuch with Credit Suisse please go-ahead.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great. Thanks. Given the really strong gain on-sale that you had and I don't know whether that was unusually strong or not, but I guess and the answers to the previous questions are there ways to kind of accelerate the ability to buy-back stock just given, both where the stock trades and the ownership structure at this point given that you're now below your leverage target and the sale market is as strong as it is?

A - Aengus Kelly {BIO 2460371 <GO>}

Well, Moshe, thanks very much. We've always been very clear that the number-one task here to make sure the balance sheet is rock-solid before we distributes any capital and that is unchanged. You are right that we've had very strong gain on-sale in the quarter just gone. As Pete highlighted, that was higher-than-usual, normal is around 10% and in this quarter it was over 20% odd margin, of course, we're always looking to see what else we can do that makes sense for the long-term of the business.

A - Peter Juhas {BIO 16582554 <GO>}

Yeah and, I'll just add, Moshe. I mean as we look at at the fourth quarter, we do have a fair amount of sales. We estimated before that we would have $2 billion of sales this year and I still think, we'll be around that target but we will have to see if all those come in or some slip.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Got you, maybe just as a follow-up. Gus, you talked quite a bit about the environment for the engine market, are there ways for AerCap to benefit, obviously you're benefiting quite handsomely right now but are there ways that you can kind of even extend that or is there anything you can do to make it you know to -- make that even kind of larger and bigger contributor?

A - Aengus Kelly {BIO 2460371 <GO>}

It is -- no doubt, it is a significant contributor already. The obvious one you see is the benefit of the SES but there's tremendous synergies that come through the business as well through our technical line in managing our own engine shop visits.

We have of course by some distance, the leading engine leasing franchise in the world by quite a distance, maybe by a factor of three times. And we certainly want to make sure we maintain that global leading position in the engine business as this technology matures.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Thanks very much.

Operator

We will take our next question from Hillary Cacanando with Deutsche Bank, please go-ahead.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Hi, thanks for taking my questions. So now that you've exceeded your leverage target, I would assume the rating agencies will probably be revisiting your rating, could you just go over what they will be focused on obviously, one of the -- their focus point was the leverage ratio but what else do you think they will be looking at for a potential upgrade?

A - Peter Juhas {BIO 16582554 <GO>}

Well. I think on the metrics, Hillary, we meet all of the metrics when we talk about that with the rating agencies. I think, the real thing for them to think about, that they will consider and could affect the timing here, it's just the overall macro-environment, right?

And so -- but I think, metrics wise, I think we're there on all of the metrics as far as we know based on our discussions with them.

And I do think, leverage was the main one, obviously, we committed to get back-down to our target leverage ratio. We had committed to doing that after the GECAS transaction, we got there by the end of last year but then we had the whole Russian situation that obviously brought it up.

So, I think, I agree with you, now that we're back there. I think, we are in-line on all of the metrics and it's really just a question of looking out at the macro-environment, how do they feel about that.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Okay, got it, thank you. And then I just had one more follow-up question. You've previously said that renewal rates have picked-up due to delay -- lack of aircraft in the market, could you just talk a little bit about what you're seeing for renewal lease rates? Obviously, when lease rates -- there is usually a step-down right in lease rates when customers renew. But are you -- of the lease rate -- renewal lease rates actually now higher than what they normally would be just given the current supply-constrained environment? And if so, do you expect this trend to continue for the foreseeable future? Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Hillary, there is no doubt as we said that lease rates are going up at the moment. That's a function of two items, of course, you have the interest-rate increase and you also have the shortage of certain types of aircraft as well. We expect that the shortage of aircraft will persist for quite some time into the future relative to demand. And, of course, look there is still one very large market out there that has not yet opened, but in time, it well, which is the Chinese market, of course, now we're not saying that will happen today or tomorrow but over some of period of time in the future it well, and this is a long-cycle business. So you do have to look into the future.

An important data point for yourselves is the amount of aircraft that airlines are buying off us is higher than ever. The airlines also know the challenges that Boeing and Airbus face. And what they are doing now for the first time, almost 40% of our aircraft sales are to airlines. Airlines are buying airplanes off us that they thought they would be exiting, you know 20-year-old A320s, 737s, et-cetera.

So that's a very good indicator of the likely longevity of the supply issues.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Okay. Thank you very much, very helpful, thank you.

Operator

We'll take our next question from Ron Epstein with Bank of America please go-ahead.

Q - Ron Epstein {BIO 15893287 <GO>}

Yeah good morning, Gus. Just a very -- a couple of quick questions. On the time on wing on engines, I mean are you seeing that the new-generation CFMs, the LEAPs or the GTFs which are coming off wing more prematurely?

A - Aengus Kelly {BIO 2460371 <GO>}

Well it's -- at the moment probably by a bit the -- a little bit ,the GTFs are coming off a bit faster than the CFMs at the moment. Both engines so do face issues but I would say, at the moment, slightly more weighted towards the GTF engine.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it, and then you know, it's interesting, yesterday at Boeing's Investor Conference, Calhoun came out and said, in pretty no uncertain terms, they are not going to do a new narrow body until sometime in the middle of the 2030s. I would imagine, I mean that's probably be got to be a pretty good thing for all the narrow bodies you own right?

Can you just make -- what does that mean for you? And what does that mean for the residual value of your fleet if there's no impending threat of anything new coming out to replace them?

A - Aengus Kelly {BIO 2460371 <GO>}

Clearly, Ron, it enhances the residual values of all those aircraft that we have. As you've heard me say in the past, I think it would be an error to launch a new airplane now without the engine technology being able to provide any new airframe with the type of operational savings that would persuade an airline to switch out of a very good airplane such as a MAX 8 or an A320neo, both are excellent aircraft.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it.

A - Aengus Kelly {BIO 2460371 <GO>}

So in that regard, the danger would have been to me, if they were to launch a new airplane with sub-optimal technology, the other side would say, don't touch that airplane, wait for me, you have a very good airplane with me, wait for me, I'll have the leap change in technology, no pun intended, in the mid 30s and you will regret ever taking a sub-optimal aircraft. And history has always shown that to be true.

Panic decisions to build airplanes, suboptimal always end in tears and I think Dave Calhoun is obviously an extremely experienced executive in the industry and knows all and has seen all the mistakes made by various airframers over the years. And to my mind, it is most definitely the right decision for all concerned.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it. And then maybe just one last quick reference -- question. Are you seeing a customer preference for A320s or 737s?

A - Aengus Kelly {BIO 2460371 <GO>}

On the MAX 8, the MAX 8, an excellent airplane. Real bounce-back there on the MAX 8 and we see parity now on lease rates between the MAX 8 and the 320neo, something of course we hadn't seen up until last few months.

So really good demand there on the MAX 8, but where Airbus has the lead is on the 321, the capability of it. But that must be tempered by the fact that many airlines don't actually fly the aircraft to the limits, to the edge of the envelope, many airlines don't need to do -- don't need as much airplane as a 321 offers, but there's no question that 321 has the lead there over their competing Boeing products.

And I would say to be balanced on the widebody side while the 330neo is very good airplane, the 787-9 has the lead there as well.

Q - Ron Epstein {BIO 15893287 <GO>}

Got it, thank you very much.

Operator

We'll take our next question from Vincent Caintic with Stephens, please go-ahead.

Q - Vincent Caintic {BIO 18737149 <GO>}

Hey, thanks for taking my questions. Two questions. So first. I appreciate the updated guidance and the implied fourth quarter. And understanding that there were some maybe onetime items or some moving parts over the past three quarters.

But when I think about the lease rates and also the expenses that you've had so-far, just wanted to get a sense of whether the third quarter is a good jumping-off point when we think about the fourth quarter especially given the strength you've been discussing in terms of demand for leased aircraft, so that's first question.

And second question, just wanted to follow-up on the insurance claims and what, if any update in terms of the process and the timing when we think about the resolution of the rest of lease claims? Thank you.

A - Peter Juhas {BIO 16582554 <GO>}

Well just on the first point. Vincent, yeah so I think the third quarter is good but I would -- I would look at those items, like the unsecured claims that we got through -- that came in like the mark-to-market and then on the gain side that's really dependent on the mix of aircraft that we sell.

So I think, you have to look at sort of all of those things when you normalize it and think of what a run-rate would be. But other than that, yeah, I mean I'd say that most of the other items, I mean, depreciation as you know, it doesn't move around very much, leasing expenses and maintenance can move around and so that that can be a swing factor. But SG&A doesn't really move, lease rents don't tend to move that much either, so.

A - Aengus Kelly {BIO 2460371 <GO>}

Quarter on quarter.

A - Peter Juhas {BIO 16582554 <GO>}

So in a quarter -- in a quarter.

A - Aengus Kelly {BIO 2460371 <GO>}

And regards the insurance proceeds, there -- we can't comment on that, I'm sorry, Vincent.

Q - Vincent Caintic {BIO 18737149 <GO>}

Okay, understood and that's very helpful. Thanks very much.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure.

Operator

Ladies and gentlemen this concludes today's question-and-answer session. At this time, I'd like to turn the conference back to Aengus Kelly for any additional or closing remarks.

A - Aengus Kelly {BIO 2460371 <GO>}

Thank you all very much for joining us for the call and we look-forward to discussing our full-year results with you in the New Year.

Operator

Ladies and gentlemen, this does conclude today's conference. We appreciate your participation. You may now disconnect.