Company Name: AerCap Holdings
Company Ticker: AER US
Date: 2020-05-05
Event Description: Q1 2020 Earnings Call

Market Cap: 3755.39289653
Current PX: 28.5400009155
YTD Change($): -32.9299990845
YTD Change(%): -53.571

Bloomberg Estimates - EPS
Current Quarter: 1.417
Current Year: 6.504
Bloomberg Estimates - Sales
Current Quarter: 1144.4
Current Year: 4621.333

Q1 2020 Earnings Call

Company Participants

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

Other Participants

- Helane Becker, Senior Research Analyst
- Koosh Patel, Analyst
- Jamie Baker, Analyst
- Mark Streeter, Analyst
- Moshe Orenbuch, Analyst
- Catherine O'Brien, Analyst
- Ross Harvey, Analyst
- Vincent Caintic, Analyst
- Ronald Epstein, Analyst

Presentation

Operator

Good day, and welcome to AerCap Holdings N.V. First Quarter 2020 Financial Results Conference Call. At this time, all participants are in a listen-only mode. After speaker presentations, there will be a question-and-answer session. Today's call is being recorded and a transcript will be available following the call on the company's website. I would now like to hand the call over to Joseph McGinley, Head of Investor Relations. Please go ahead, sir.

Joseph McGinley, Head of Investor Relations

Thank you, operator, and hello everyone. Welcome to our First Quarter 2020 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 not 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 May 5, 2020. A copy of the 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-up. I will now turn the call over to Aengus Kelly.

Aengus Kelly, Chief Executive Officer

Thank you, Joe. Good morning, everyone and thank you for joining us for our First Quarter 2020 Earnings Call. In what is clearly a remarkable time, our thoughts go out to those of you who have been directly impacted by this virus and to our staff, suppliers and customers who are working tirelessly in such trying circumstances. Despite the impact of the coronavirus in the first quarter, AerCap produced a strong quarter with net income of $277 million and earnings per share of $2.14.

Now, how any company emerges from a crisis depends firstly on what condition it was in when it entered, both from a financial and operational perspective and then, critically, what the company does during this period. AerCap has been through several crisis before and has emerged stronger from each one. The key, in our experience, is to have a strong, independent liquidity position going in. AerCap has that with $8.2 billion of liquidity on hand, $28 billion of unencumbered assets, a 7-year low debt-equity ratio of 2.5 times and very manageable CapEx, particularly relative to our size.

Our expected CapEx for the rest of 2020 is 2.7% of our total assets. It is vital in times of stress that one has a platform that can handle multiple challenges. AerCap's platform is unrivaled in this regard. To remind you, AerCap has bought, sold or leased over 2,000 aircraft in the last five years alone, including over 500 widebody transactions. These numbers, and the associated infrastructure, are unmatched in the industry.

Turning to airline credit, it is very important to look at the credit quality of AerCap's customer base when assessing our financial strength. Approximately 70% of our fleet is the flag carriers of Chinese and US majors. Relatively speaking, this gives AerCap a stronger base from a credit profile perspective and given our scale and capabilities, we will generally have a more influential position with an airline than other lessors when deferrals or similar agreements are being negotiated.

As you will be aware, aviation has been deemed to be part of the critical infrastructure of the global economy. This is evidenced by the massive state support airlines are receiving. I believe there will be over $200 billion of state support for airlines globally. Well over $100 billion has already been announced and or received. Crucially most of AerCap's revenue comes from carriers that are important enough to receive state support.

Now, I want to explain how and why we help our customers. Many of our airlines have been long-term customers of AerCap, and will be for many years to come. Because of this, we are providing them with assistance in unprecedented time in the form of rent deferrals. You can see from the slide in our presentation, that we've entered into approximately $300 million of rental deferrals and expect to enter into another approximately $300 million of deferrals. The amount deferred is generally the equivalent of two to three months of rent and repayment generally begins four to six months after. It is important that these numbers are seen in context. Against this $600 million of deferrals, we have over $1 billion of security deposits and we have a further $1.6 billion of maintenance reserves. Given the aforementioned credit quality of our customer base, we expect a very high level of recoverability of these amounts.

When discussing a deferral with a customer and deciding the size and duration of the deferral, we take the following into account. What is the collateral package we have? What level of shareholder support has been received and what is the potential for state support? Of course, AerCap continues to receive cash every single day. Since 1st, April AerCap has already collected over $200 million in cash from our customers and over $100 million in cash from aircraft sales. So, even when there is a deferral, it is generally for part of the rent and the timing of the deferral agreements is staggered between different regions of the world.

There is no doubt that some airlines will fail because of this crisis. To date, in our portfolio, we have seen Virgin Australia and Air Mauritius enter administration, which is a similar process to Chapter 11. When an airline enters Chapter 11 or administration, they will normally have between 30 and 60 days of protection from their creditors. After that, they either pay for the lease or return the aircraft. If we believe the right thing to do is remove the aircraft, then we won't hesitate to do so. In a number of cases the airline can emerge from Chapter 11 and in these situations, they generally maintain the majority of their fleet. I think this is a likely outcome in the case of Virgin Australia.

As I mentioned, aviation is viewed globally as critical infrastructure, therefore, one way or another, the vast bulk of the world's airlines and aircraft will be in operation after this crisis ends. We are already seeing this in China.

On liquidity, we have and continue to take actions to further improve our position. As I mentioned, we have $8.2 billion of liquidity on hand and $28 billion of unencumbered assets. We continue to source financing from our globally diverse lending base and we have $1 billion of funding initiatives that have either closed already in the last few weeks, or will close in the near term. The terms of these financings are relatively comparable to the terms we achieved with these lenders in prior transactions. These actions demonstrate the benefits of having a globally diversified funding structure with longstanding relationships and not being solely reliant on one source of funds. Further helping our liquidity, we have deferred over 60 aircraft deliveries. As a result of these actions, we expect CapEx for the rest of 2020 to be $1.2 billion which is 2.7% of our total assets as of March 31st and this is fully financed.

In March, we took the decision to draw down our RCF, revolving credit facility, out of an abundance of caution due to the volatility of the capital markets at that time. Given the actions of the Fed since then, and further stability in the broader funding markets, we have repaid $3 billion of this RCF.

Turning to the OEMs, as mentioned above, since our last earnings call, we have agreed to defer the delivery of over 60 MAX aircraft by several years, on terms that we believe are attractive for AerCap. We do believe that, assuming a successful reentry of the MAX, this aircraft will be in demand in future years and we wanted to ensure that AerCap has access to this aircraft on competitive terms. Part of this agreement, we retained our contractual rights and remedies. However, I do think it is likely that there will be additional delivery delays due to the challenges that the OEMs will have in their supply chains as they restart production. These potential delays are not factored into the numbers I just mentioned.

Separately, in light of the recently announced OEM production cuts, we expect to see further reductions in our CapEx and deliveries in 2021 and beyond.

Looking forward, it is very important to remember that aviation is by far the safest form of transport in the world. A fundamental part of the safety has always been the air quality on board an aircraft. The air in an aircraft is cleaner than any office or train station or bus station. This is due to the regular recycling of the air in the cabin every few minutes and the use of HEPA filters which are on a par with those used in hospitals to purify their air. As people return to work, they will, and are using public transport. Hundreds of millions of people use public transport every day. As such, I am extremely confident people will say to themselves, "I am on a train, a tram or bus every day. So why don't I get on an airplane?" Be that in Seoul, New York, London, Beijing Istanbul, etc.

On the portfolio side, I believe that any crisis accelerates trends that were already evident, they don't create new ones. As we highlighted in prior calls, we were seeing a trend towards certain variants of new technology aircraft and slowly out of current technology aircraft. Critically, we saw this trend out of current and older technology aircraft and we acted on it, by selling over 600 aircraft in the last six years. Hence, our barbell approach to minimize our exposure to current technology equipment. For example, we only have of 12% of our portfolio by value in current technology widebodies, and many of them are on long-term lease to flag carriers. And 59% of AerCap's portfolio is in new technology aircraft. To put this in context, and as you can see from the two tables included in our presentation, there are approximately 20,989 large passenger jet aircraft in service. Only 12% of them are new technology. AerCap's fleet has more new technology aircraft than any airline or lessor in the world.

Turning to demand for aircraft, there was no doubt that this has been impacted, but coming into this crisis, AerCap did not have a single new aircraft slot available until 2022. Furthermore, of the 55 used aircraft that had lease is scheduled to expire this year, we only had six left to place. A manageable task for a company used to placing up to 200 aircraft a year. This is one of the key benefits of having longer than average lease terms, i.e. fewer expiries each year. Our average lease doesn't expire until 2027.

Of course, some of these lessees will default, but AerCap's platform will find alternative homes for these aircraft. As I said earlier, Airlines are deemed to be critical infrastructure by governments around the world. So, one way or the other, the vast majority of airlines will continue to operate and fly our aircraft.

As you can see from the actions of governments, what might be good for creditors of airlines, such as aircraft lessors, may not be as advantageous for equity investors. That being said, there will be fewer aircraft operating in 2021 than expected. This will come from aircraft retirements by the airlines and a reduction in supply from the OEMs. To date, airlines have announced the retirement, or possible intent to retire, approximately 700 aircraft. Importantly, 240 of these aircraft are very large aircraft such as A380s, 747s, 767s and A340s. These large aircraft will take a disproportionate amount of ASMs, or available seat miles, out of the system.

On the OEMs, as I've said in the past, a great advantage of this industry is a duopoly on the supply side. What we are seeing from Boeing and Airbus now is the same type of behavior that we've seen in past crises, where they ultimately do match supply to demand. The combination of the already announced OEM production cuts of between 33% and 50%, depending on the aircraft type, as well as the accelerated retirement of old technology aircraft by the airlines, will result in supply and demand ultimately coming into balance.

Now to what we are seeing in the market. There are three major markets in the world - China, Europe and the United States. I am going to focus on China first, because it was the first major market to deal with the coronavirus and the first to recommence air travel.

For your benefit, in the supplemental information of this presentation, we have included photographs that AerCap staff in China have taken from airports around China on May 1st, so that you can get some sense of what is happening right now in active airports.

At the start of the year, total flights in China reached a high of 15,885 flights on January 23, as we approached Chinese New Year. Then the concerns of the coronavirus took hold and the number of flights began to decrease and troughed on February 24 at 4,062, certainly a very significant decline. Over the course of the last two months, we have seen a steady increase in flight activity and load factors in China, where they are now running approximately half of the flights they were operating in 2019.

They hope to get to approximately 65% during the summer. There was some very positive news from China last week, when it was announced that the third session of the 13th National People's Congress would be held in Beijing on May 22, which had been postponed from March. Many representatives from the leadership of the Communist Party will go to Beijing from all over the country at that time.

Also last week, the quarantine rules in Beijing were relaxed, which led to a surge in bookings on the online travel websites. This demonstrates confidence in the safety of air travel and the desire of people to travel, once authorities say they can. We are also seeing the first agreements on cross-border travel, with the protocols being discussed between China and South Korea and other countries in Southeast Asia.

In our discussions with European airline CEOs, we are hearing the same things we heard from China two months ago, which is that they expect to see flight activity to resume on a limited basis at some point in May. Right now, they are at the same stage that China was at in late February. The discussions I have had with European airlines indicate a summer schedule for July and August, equivalent to somewhere around 50% of their 2019 levels, moving to approximately 60% to 65% during the fourth quarter. Air France-KLM has publicly said 70% by year-end. Bear in mind that Europe is two to three months behind China. What is occurring in China today is what European airlines expect to see in two to three months' time.

In Europe, EUROCONTROL, the entity that manages European air space, yesterday observed that, “since mid April 2020, a change of trend must be noted, with a slight increase of average traffic in absolute terms, compared to 2019”. That said, the increases are slight and are coming off a low base in mid-April. I expect that we will see similar developments in the US domestic market.

Another indicator we look at is hotel occupancy. In China, we are seeing this mirror air travel. Hotel occupancy has almost doubled from its February trough. This again shows that the consumer will get back on airplanes and will travel. It will take time to recover to the 2019 levels of traffic, but the crucial point to take away is that the consumer will travel and governments will support airlines.

Also, AerCap closed the sale of 15 aircraft in March and April. Indeed, the value of aircraft sales executed in April alone was $150 million. In March and April, we also signed leases and lease extensions for another 15 aircraft. We continue to compete for RFPs for future placements from 2022 onwards, and our scale and reach does give us a competitive advantage in these processes. The execution of this number of transactions in this environment, again demonstrates the unrivaled capabilities of AerCap's platform, on both the asset and funding side of the business.

Looking forward, we have provide a consistent, stable returns over 15 years and whilst this crisis certainly presents challenges, we continue to look forward. We will incur costs along the way. Not all of our customers will make it. But air travel will recover and people want to travel. As I said we are observing this in China already.

No doubt we are in unprecedented times, but you can see from the actions AerCap has taken to date that we are well positioned to weather the storm. With that, I will hand the call over to Pete.

Peter Juhas, Chief Financial Officer

Thanks, Gus. Good morning, everyone. I'll start on slide seven. AerCap produced a strong financial performance in the first quarter with net income of $277 million, an increase of 18% over the first quarter of 2019. Our diluted earnings per share was $2.14, an increase of 27% from 2019. Our book value per share increased 14% over the past year.

On slide eight, our total revenues for the first quarter were $1,238 million, an increase from $1,205 million last year. Our basic lease rents were lower, primarily due to downtime on re-leasing activity and the write-off of $16 million of lease receivables in the first quarter.

Our maintenance rents were $134 million in the quarter and were higher, mainly due to lease terminations, as well as higher end of lease compensation that we received during the quarter. Our net gain on sales for the quarter was $58 million, an increase over last year. And our other income was lower because we had higher interest income and some insurance proceeds that came through in the first quarter of 2019.

On slide nine, our net interest margin for the first quarter was around $725 million, our average cost of debt was 4.1% for the first quarter, a slight decrease from 2019. Our net spread was 7.7% for the first quarter and our net spread less depreciation was 3.1%. The average age of our fleet remains just over six years. The average age of our new tech aircraft, which represent 59% of our fleet today, is two and a half years, while the average age of our current tech fleet is 11.5 years. Our average remaining lease terms continues to be seven and a half years, which is one of the longest in the industry.

Turning to slide ten, we sold 12 aircraft in the first quarter for a total of $265 million. Our net gain on sales was $58 million, which was an increase from 2019. During the first quarter, we sold 11 narrow bodies and one widebody with an average age of 14 years.

Our gain on sales margin in the first quarter was 28% which was due primarily to the sale of some older aircraft at a significant gain. On the purchasing side, in the first quarter we bought seven new aircraft for total CapEx of $427 million.

Slide 11, our SG&A expenses continue to decline and were about $65 million for the first quarter. Our maintenance rights expense was $16 million for the quarter, down from $21 million in the first quarter of 2019. This was due to lower maintenance activity and the continued decline of the maintenance rights asset balance as that asset continues to roll off. Our other leasing expenses were $87 million for the quarter, an increase from $70 million in 2019. This was primarily due to higher expenses related to lessor contributions and lease incentives during the quarter.

Asset impairments in the first quarter were about $14 million dollars. These related to aircraft sales and lease terminations and were more than offset by maintenance revenue that we recognized upon termination. .

On slide 12, our liquidity position. We continue to maintain a very strong liquidity position. We're currently at the highest level of liquidity coverage we've ever had at two times sources to uses coverage, an excess cash coverage of $5.5 billion over the next 12 months.

Our total liquidity is just under $11 billion and you can see the components of that on the slide. Against that amount, over the next 12 months, we have $3.8 billion of debt maturing and expected CapEx of $1.7 billion. As Gus mentioned, our CapEx requirements for 2020 have come down significantly, by around $2.3 billion, and we expect our 2021 CapEx to come down substantially as well in the future, as we continue to have discussions with the OEMs and with our customers.

Since the onset of COVID-19, our ratings have been affirmed by all three rating agencies, but they placed us on negative outlook along with the overall sector. However, all of the rating agencies have commented favorably on our liquidity, and have also made the distinction between leading lessors, such as AerCap, versus smaller players with less experience and capability, that they expect to struggle in the current environment.

As we've said before, we're committed to maintaining our investment grade ratings and will continue to manage this business in a way that supports those ratings. That means, putting our balance sheet first and continuing to strengthen our liquidity. We suspended our share repurchase program and have not used any of the most recent authorization from our Board. Since March 31, we have made significant progress in over $1 billion worth of new funding initiatives. Earlier this week, we closed a $425 million secured bank loan and we have a number of other facilities that we expect to put in place over the next few months. And of course, we have over $28 billion of unencumbered aircraft assets, the highest amount we've ever had, that can be used for additional financing.

So, in summary, the first quarter results were strong, with solid earnings, cash flow and EPS. This is, of course, a very challenging time for the aviation industry, but our balance sheet and our business are well positioned and prepared to weather the storm. We have a very strong level of liquidity, $11 billion in total, which is twice our cash needs over the next year. That's $5.5 billion of excess cash coverage. We came into this year with the strongest balance sheet we've ever had. Our debt-to-equity ratio of two and a half to one, is the lowest level it's been since 2014. Our secured debt to total assets ratio of 19.6% is an all-time record low. We've got over $28 billion of unencumbered assets, 70% of our customers are flag carriers, US and Chinese majors and other investment grade airlines. Our order book is 100% placed through the end of 2021 and we have an attractive fleet with 59% new technology aircraft, the highest percentage of any major lessor. And, finally, we have an unmatched operating platform with 2000 transactions over the last five years. With that, we'll turn it over to Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question today is from Helane Becker of Cowen. Please proceed with your question.

Helane Becker, Senior Research Analyst

Thanks very much, operator. Hi, everybody and thank you for the time. I just have two questions. When you do deferrals, how do we reflect that on the income statement? So maybe that's for Pete.

Peter Juhas, Chief Financial Officer

Sure. Thanks, Helane. So, when we have a deferral, we continue to reflect that as revenue, as long as we believe that that the leased rent is probable of collection. And as Gus mentioned, on the deferrals that we've got, our security deposits and other security well exceed those that we've done.

Helane Becker, Senior Research Analyst

Okay and then my other question is, I know you don't comment on specific clients and that's fine, but there has been some discussion that one of your biggest clients has asked for debt for equity swaps and things like that and I just kind of wonder how you think about that conceptually. I mean, I know you're in the leasing business, not the airline business, but maybe you could just talk about your view on that and how we should think about that big picture.

Aengus Kelly, Chief Executive Officer

Its extraordinarily rare for us to convert debt to equity. It will only be done in very unusual circumstances. We've done it with Norwegian airlines as part of the restructuring of that airline as its business plan changed and the government of Norway invested in the airline, but generally we won't do that. And for AerCap to become an equity investor in an airline, what's happened is that the prior equity participants have lost everything effectively. So it's a very expensive route to go down and it's certainly not the norm.

Helane Becker, Senior Research Analyst

Okay, that's very helpful. Thank you.

Operator

The next question is from Koosh Patel of Deutsche Bank. Please proceed with your question.

Koosh Patel, Analyst

Hey, good morning, guys. Aside from rent deferrals, I understand that there can be multiple other avenues for relief for your customers. Could you talk to us about what some of those might entail? For instance, we've heard that some customers are recapturing a portion of their security deposit to maintenance revenues, maintenance reserves. Is that accurate?

Aengus Kelly, Chief Executive Officer

I can't speak to other leasing companies, I can only speak to ourselves. I would say, the vast, vast, vast majority of things we do are around rent deferrals. When it comes to security deposits or maintenance reserves, you generally will only give those back if you receive letters of credit in return. So, oftentimes that doesn't really help an airline because to get a letter of credit, they may need to put cash collateral up. So it will depend.

But, as Pete said, when we look at AerCap's deferral position, we have entered into at March 31, approximately $300 million. We have another $300 million, give or take that we expect to put in place, but against that, there is $1.1 billion of security deposits and a multiple again of maintenance reserves.

Koosh Patel, Analyst

Thanks, and then considering the 60 aircraft deliveries that are deferred for this year, is there any cost to you for this or is that mostly a function of OEM production reductions?

Aengus Kelly, Chief Executive Officer

I would say it's not something we can really comment on with the manufacturers. Suffice to say that those airplanes that we deferred, we would not have deferred them unless the deferral was on competitive terms, because we had actually placed over half our MAX aircraft already. I don't believe any other leasing company had managed to do that. And I should just go back to talk on the deferrals. Just to be very clear, as I said in my prepared comments, we get paid every single day by our customers. Just, even in the second quarter in the month of April, we received over $200 million in cash from our customers.

Koosh Patel, Analyst

Great, thanks a lot guys.

Operator

The next question is from Jamie Baker of JP Morgan. Please proceed with your question.

Jamie Baker, Analyst

Hey, good afternoon gentlemen and thanks for a very solid presentation. I think many of us also appreciate the evidence on the call that working from home is never going to replace international air travel! A question on the deferral numbers though, Gus or Peter, the release that you said as " in progress". Does this presumably represent the peak? Is the reality or the assumption that airline seat release have already raised their hand? And also, on the percentage of recapture that you were assuming in 2020, is that also -- is that only to the leases that have been granted, or is that also your assumption for the in progress discussions? Thanks. (inaudible)

Aengus Kelly, Chief Executive Officer

Sure, I think it was, Jamie, a little bit difficult to hear you, but I think you're asking, are we at peak deferral at the moment? And I would say that we certainly feel that mid-April was the low point for air traffic globally. That's what we feel based on what we've observed, what we see from EUROCONTROL. As I mentioned in my prepared comments, and what we're observing in China, they're certainly on the road back. I can tell you that in the Chinese market, we are getting paid now again, the regular rate rental. You know, could we see airlines ask for another few weeks, a month of deferral in certain cases? Sure we could, but, from what we've seen at the moment, those that we grant deferrals to in February, March, primarily in China, they are back on track at the moment.

Jamie Baker, Analyst

Okay, that's helpful, Mark?

Mark Streeter, Analyst

Yeah, so I just wanted to jump in. Pete, question for you. In the fourth quarter presentation for the sources and usage walk, there was mention of $3.1 billion, a forecast of $3.1 billion of operating cash flow for the next 12 months. In this quarter's deck, it's $2.7 billion. So it's gone down by $400 million. Is that just a function of lower CapEx or is there a rent deferral number as part of that 400 million reduction?

Peter Juhas, Chief Financial Officer

Yeah thanks, Mark. So that reflects a few things. Partially, it reflects lower CapEx. It also reflects all of the deferrals that we've done and what we expect to do, and it also reflects our expectations around maintenance revenue, things like that. But those are the three main things to factor in.

Mark Streeter, Analyst

Okay, great. And then just one last one for me and we'll turn it over. I think there's a lot of confusion about your relationships with Boeing and Airbus from the perspective of, if you have aircraft that are being built, obviously, and are in that order book, and I realize everything is placed right now. But what happens if the airline just says, we're not taking delivery. And I realize that in this environment, this is a concern investors have. So, I mean, will AerCap take delivery of aircraft that simply go directly into storage, or is that just not part of the business model if you will? Will you work with the OEMs in a situation like that to defer that delivery. Thank you.

Aengus Kelly, Chief Executive Officer

Mark, you will normally work with the OEM and the airlines to defer the delivery. The only exception would be where the airline is in bankruptcy, and then it's different of course, but that's very rare. Of the airlines that are in bankruptcy, we don't have any airlines, airplanes scheduled to deliver to them. But, at this point, if there is an airplane up for delivery, you will generally work with the manufacturer. And as you can see, Mark, we have already pushed out over 60 airplanes in the near term and, as I mentioned in my prepared comments, would expect that 2021 and 2022, you'll see significant amounts move out. So, what's always happening is that the three parties concerned are trying to work together to avoid those types of situations. I'm not saying they can't ever exist, but what you'll see is that the three parties are working together to prevent those situations from happening.

Mark Streeter, Analyst

Great, thanks for the time.

Operator

The next question is from Moshe Orenbuch of Credit Suisse. Please proceed with your question.

Moshe Orenbuch, Analyst

Great, thanks. I wanted to kind of return to the question about the estimated operating cash flow. So, the 2.7 billion that you have on this chart, includes the deferrals that you've done, the deferrals that you expect. And could you talk about what it assumes for that for those airlines who have received deferrals to start repaying both the regular rents and the back rent and any kind of thoughts there? Thank you.

Peter Juhas, Chief Financial Officer

Sure, Moshe. So, as Gus mentioned, the deferrals tend to be two to three months in duration, then the airlines start repaying those afterward over a period of time, basically for the remainder during the remainder of the year. And so, that's what that reflects. And as I said, it's not just the deferrals that we've executed to date, but also the ones that are, where we've had discussions with the airlines on them. So that $2.7 billion number reflects those, it reflects, as I mentioned before, the changes in CapEx that we're expecting during the year, it reflects leasing expenses that we'll have, maintenance revenues, that type of thing. So it basically reflects everything that we can see to date, as we look forward over the next 12 months.

Moshe Orenbuch, Analyst

And I guess just a follow-up on that, Pete. How will we be able to kind of observe how that's tracking? Are you going to tell us what your receivables are at the end of the next quarter? I mean, I guess how are we going to know that that's forecast, either as we get into the second quarter is either better or worse than that?

Peter Juhas, Chief Financial Officer

Yeah, I mean it's a 12-month forecast Moshe. You can see our operating cash flow. In the first quarter, our operating cash flow was $628 million. So, you'll see that on the cash flow statement. As Gus mentioned, I think the second quarter should be the nadir for this, just given what's happening with the industry. So, we should see gradual recovery in subsequent quarters. But even this quarter, we're going to have several hundred million of that, of operating cash flow.

Moshe Orenbuch, Analyst

Okay, thanks so much.

Operator

The next question is from Catherine O'Brien of Goldman Sachs. Please proceed with your question.

Catherine O'Brien, Analyst

Hi, good afternoon everyone, thanks for the time. So, just a couple of questions on your airline customer portfolio. Are there any airlines you would categorize as through the worst, in terms of demand, sounds like maybe some geographies in Asia, you're already seeing that? Or just in terms of liquidity concerns being behind them. If so, what percentage approximately of your customers, or lease revenue, would you say is in this category? And I guess really what I'm trying to get it is, are there a subset of your customers that have come back and confirmed that they are really confident in their lease commitments with you? Thanks.

Aengus Kelly, Chief Executive Officer

A fairly broad question, Catherine. I guess, as I said, if we look. Let's start over in China, where -- and Southeast Asia, in fairness. Of course, there are some problem spots down there, but they seem to be coming out this side slowly. And the level of activity is approximately half of what they were doing last year in China, if not more.

And so most of our exposure to China is with airlines that have significant state ownership in them as well, have received significant state support. So, we're not seeing any more requests from that part of the world. In Europe then, we are seeing vast amounts of state support also come in on a par with what's been announced in the US for the US majors. We're seeing that with, clearly, the Air France-KLM announcement, what we're likely to see out of Germany as well. And what we've seen, some smaller carriers around Europe too. And the US, we saw very large amounts.

But Catherine, look, I suppose the overall point I would say is that of course, some guys just aren't going to make it here, and we will have to see how that progresses through the year. But the vast majority of our operator are going to make it through and they will be flying our airplanes at the end. But no doubt there will be a bunch of defaults. It's just very hard to say at this stage and what they'll be. But you have to look at who you're talking to here. It's AerCap. We've moved 2000 airplanes in the last five years. If we get an airplane back, we'll find a home for it, and also the security position we have as well. Thank you.

Catherine O'Brien, Analyst

I appreciate that. Thanks for entertaining a pretty broad question there. So, maybe just a follow-up to that. I feel there is some confusion out there as to what actions you can take if the lessee defaults on payments. Can you just walk us through, like you know, the actions you would take. And if you were thinking about taking those actions at a different pace than you would normally say, given maybe there's a little bit less demand for those aircraft coming out of repossessions. And maybe, correct me if I'm wrong, is there demand for those aircraft coming out repossessions? Thank you.

Aengus Kelly, Chief Executive Officer

Well, let me start, AerCap repossesses airplanes very quickly, and historically, as you can see from listening to us for the last 15 years, we are generally, I can't remember a situation where another lessor was faster than us to pull airplanes out. So, where someone stops paying, we will enforce a security likely, may seize assets of the airline in different jurisdictions, we may put liens on their cash flows. There are many things we will do and that generally, if you want to get the airplane back, you'll get it back. There's never been a jurisdiction in the world, ever, that we could not take an airplane out of.

Now, generally, what you will do is, you will move extremely quickly because your concern is that, when the airline stops paying for the aircraft, they will continue to fly and burn green time off the airplane. Now, the second reason you want to move very quickly is, you're in a hostile jurisdiction, you want to get it out before liens can attach to your airplane. Which has never happened to us in any material level. So, in this instance, there are airplanes of course that we're taking back, or that we want to, I should say, put in our control. You will have seen publicly, some airplanes that are under our control from Interjet, and there are other airlines as well, we have taken airplanes and put them under our control, even in this environment.

However, the instance of where an airline is going to use the airplane and burn green time off the engine, that clearly isn't a risk at this point in time. So, if you have a consensual agreement with the airline and you have all your records, you may as well leave the airplane there rather than go to the effort and expense of moving it in this environment. But, be under no illusions, look, if we don't believe in the airline and we're in a hostile jurisdiction, we'll take the airplane out.

Catherine O'Brien, Analyst

Okay, great, that's very clear. I appreciate that. And maybe if I can just sneak one quick follow-up to Helane's question earlier on Norwegian, you noted that this is very unusual. I don't think in my time covering the States I've seen something like this. So it definitely seemed unusual to me. What are the circumstances that led to this, if you can say, is it something about the jurisdiction, is its something tied to COVID? I imagine you're not envisioning many more of these types of deals happening over the next couple of years? Thanks, that's it from me. Appreciate it.

Aengus Kelly, Chief Executive Officer

No, we won't see many of those type of structures happening. In the case of Norwegian, what we had was an airline that had entered into a huge growth phase, that was stopped, obviously, over the course of the last few months completely and it's been retreating. We have a new management team in place in the airline also. And we also have the conditions under which the Norwegian government would come into the airline. So the combination of those factors was the reason, and obviously the environment we're in, was the reason why us and other lessors proceeded with this Norwegian arrangement, which is highly unusual and I can't think of one like this ever before.

Catherine O'Brien, Analyst

Thank you very much.

Operator

The next question is from Ross Harvey of Davy. Please proceed with your question.

Ross Harvey, Analyst

Hi, good afternoon and thanks for taking the time. Three questions from me. The first is, the likes of easyJet has said it will take in about half a billion from sale leaseback in the post-COVID environment. I wonder, are you looking at any such transactions and do you see any of the excess cash coverage being deployed in such a way?

Secondly, you highlighted in the CMD deck that there were 63 used aircraft requiring placement in 2021. I'm wondering, is there any update on that particular figure?

And finally, more of a long-term question, but there has been speculation about the pace of recovery in air traffic over the coming years and I'm wondering, do you believe there will be structural effects post COVID, above and beyond the more cyclical and time limited health-related impact?

Aengus Kelly, Chief Executive Officer

It's a good few questions there, Ross. Let me deal with the easy one, your 2021 placements, as we said at the Capital Markets Day last November, many of those aircraft are already placed. The vast majority will be placed already. In turning to sale leasebacks, look, our focus at the moment is just making sure that we understand completely the extent of the crisis, the impact it will have on AerCap, making sure that we maximize our liquidity. As Pete mentioned, and I said in my prepared comments, we were able to put in place the seven year debt facility with a group of our longstanding banking partners, that closed, actually, this week and as a matter of fact, it was finally signed yesterday, the credit committee approvals were taken in the depths of the coronavirus in early April.

That demonstrates the extent that we have access to capital, but at the moment, when it comes to the sale leaseback transactions, I believe there will be plenty of those there. The reality on the far side of this, to talk about the industry outlook, is that airlines will need lessors a lot more than they did over the last few years, and I do believe there will be fewer lessors. In this environment, not having a global platform is a massive disadvantage. And those who have entered the space on the basis of trying to pick up yield over the last few years, I suspect that they will retreat from the space over the coming years and they will be reluctant to reinvest.

So I think, on the far side of this, opportunity will not be the issue, and there is no need to rush into it, there will be plenty there. And because airlines will be focused on retiring debt, or government aid, and we've seen clear evidence of this behavior from the financial crisis. Once the banks receive significant government aid, the priority was to retire that government support as fast as possible, because it strategically impaired and tactically impaired the ability of management to run the business. And I do believe we will see the same behavior here. And so, there'll be a greater focus on using operating lessors, when we get to the far side of this, than spending billions of dollars of their own money buying airplanes from Boeing and Airbus.

Ross Harvey, Analyst

That's very helpful, thank you Gus.

Aengus Kelly, Chief Executive Officer

You’re welcome.

Operator

The next question comes from Vincent Caintic of Stephens. Please proceed with your question.

Vincent Caintic, Analyst

Okay, thanks. Thanks for taking the question. Just a few quick ones, on the CapEx, the remaining 1.2 billion of CapEx for this year. I was just wondering if that's confirmed or if there is a chance that that might get pushed back and then how are discussions that you're having with the airlines on confirming 2021 orders?

Aengus Kelly, Chief Executive Officer

Look, I think it's likely that most of that CapEx will occur, of course, if they restart production. Could some of that slide to the right? Yes, I think that's obviously a real possibility out there. The 2021 deliveries again, of course, as I mentioned earlier in the call, the idea is to work with the manufacturer and the airline, to see what can be taken what can't be taken. But, as I said, I would envisage that most of our slots will be taken by the airlines at this point. But no doubt we are in discussions and a significant portion, though, will get pushed out to the right in 2021 and 2022. That's just a fact, given the numbers we gave you our before the cuts that were announced by Boeing and Airbus last week on the 320neo, the 737, the 787 line. So, no doubt, some of our CapEx -- a good chunk of our CapEx in 2021 and 2022 is going to move out to the right.

Vincent Caintic, Analyst

Okay that's very helpful. Next, on the aircraft sale margins, so they're very strong this quarter and I'm impressed that you had April sales of $150 million. If you could maybe share what sort of the margins you're seeing today on sales and how much demand is there and kind of generally who is buying in this environment?

Aengus Kelly, Chief Executive Officer

Yeah, the April sales would have been, the margins would have been consistent with the March sales. Look, I mean in today's world, you have to have an infrastructure and knowledge and experience to execute sales. I'm sure many lessors won't have executed 150 million of sales in the last three months, let alone in April. And that's just is a differentiation in the capability of this platform versus others.

Vincent Caintic, Analyst

Okay, very helpful, and last one from me, just an update on your funding initiatives. So, I am encouraged you've returned $3 billion of the facility. What sort of priorities are you thinking in terms of financing? Are you looking more in the unencumbered aircraft portfolio or are you able to do still unsecured debt? And what, sort of, the costs are for the various sources of funding you have? Thank you.

Peter Juhas, Chief Financial Officer

Yeah. Thanks, Vincent, it's Pete here. So, on the funding side, our plan is to continue to fund the business in the way that we have before, which is primarily on the unsecured side. Although, as we talked about many times, we have a number of funding alternatives that we use. We do it in a number of different markets. That's one of the benefits of having the 120 bank relationships that we have.

And so when we look at that secured funding that we just talked about, that was done with a number of European banks, and it was done at levels that were consistent with where we would have been pre COVID, right? So, very little disruption in that market. So, that's something that we'll continue to do, but fundamentally, as I mentioned, we're committed to running this business as an investment grade company and that means we're going to do a lot of unsecured funding. We will be doing that and looking at other alternatives too. So I don't see any real change in our funding profiles going forward. Obviously, as we look at it now, spreads are wide in the unsecured bond market and we think that's unwarranted. We would hope to see those come in. But we're going to maintain strong liquidity for this business.

Vincent Caintic, Analyst

Okay, great, thanks very much guys. Thank you.

Operator

The next question is from Ron Epstein of Bank of America. Please proceed with your question.

Ronald Epstein, Analyst

Okay. Good morning, good afternoon guys. Just a couple of follow-on questions. When you look at the production rate decisions at the OEMs, one of the things that seem to jump out and strike me was the 787. Getting back up to ten per month in the current environment seems aggressive. I don't know, I mean are you seeing that kind of demand for that airplane?

Aengus Kelly, Chief Executive Officer

Well, the ten they're talking about is, ones that they have already had on order. I think you saw United's confirmation, they were going to take 787s. You saw American's confirmation they were going to take 787s. So, I don't think this is about selling new airplanes in this market. It's airplanes that are built, are in the production system that are going to deliver. And I think the rate reduction down to seven is more reflective of where they think demand is.
Because what they're selling today is what I think demand will be in two years.

Ronald Epstein, Analyst

Got you, got you. And then, moving on to the 737 program, they completed 50 more airplanes in the quarter. So they now have about 450 in inventory. And on top of that there is what, the 400 approximately that have been grounded by the airlines. So you've got, effectively, 850 737s that have to enter into service, either through delivery at Boeing or back at the airlines. I mean, how do you think about that as a headwind when you think about demand for the 737?

Aengus Kelly, Chief Executive Officer

Well, I think, timing is the key there, Ron. First of all, when will they be certified on a global basis? Now, one certification for a global product is not enough. Certification, so that's the first thing. You have got to have global certification. We'll have to see when that occurs. Thereafter, I suspect that the delivery profile will be very low, as Boeing have indicated themselves. So, I think you'll see a slow reintroduction of those airplanes, and I think Boeing have made that clear, both from the stored fleet, those already delivered or what's in the Boeing field at the moment.

But I do think, to be fair to the MAX 8, in a couple of years' time, that airplane will be seen as a very desirable aircraft to be had by airlines. I don't think… that's premised on a successful reentry and global certification of the airplane.

Ronald Epstein, Analyst

Yeah, that makes sense. And maybe just another quick one, if I may? What do you think about the future of the E2 Program now that it appears Embraer and Boeing are kind of going their separate ways?

Aengus Kelly, Chief Executive Officer

The E2 was the only plane, look, it is the only alternative in the world, its the regional jet business now, apart from Airbus and Boeing. And what Embraer need to look at is, over the next three or four years, because Airbus will make changes to the A220 to make sure that a pilot flying a A320 can fly a A220 and that there will be commonality in the cockpit. That's where Airbus will trend and so Embraer should have a decent sized market there that they can sell into over the medium to long term, due to the fact that the Airbus products will be very standardized with the A320 and that will take time. It will take time over the next three to five years. But there is a market there for the Embraer product, no doubt about it.

Ronald Epstein, Analyst

Yeah, and then maybe just one last one. When you look at, these disruptions create opportunities, right? When you look at what's out there now, are there are some interesting opportunities for you guys to pick up some assets at, let's call it the fire sale prices?

Aengus Kelly, Chief Executive Officer

Look, as I said on that, Ron, what do you need to do now is just make sure you take stock of the impact of this crisis. What impact it will have on AerCap, what we need to do. Clearly we have a huge amount of liquidity, and we've significantly reduced any outgoings, and the platform that we have. I do believe, though, that on the far side of this, it is likely that those big lessors will be far more in demand than they were over the last three or four years. I think it's likely that we will return to the situation that we had for most of the last 30 years.

And that airlines, certainly coming out of this, will be extremely focused on repaying debt, particularly if it's government aid. That will be the number one focus of management teams. And as I said, the evidence of that is what occurred after the financial crisis, to the financial institutions around the world, and I saw that first hand in dealing with AIG on the sale of ILFC. Well, I think we'll see a repeat there, which will mean that there be less motivation for airlines to the ordering airplanes from the two OEMs and far more motivation to use a leasing products that doesn't chew up money that they can use to repay government debt and get control back of their airline.

Ronald Epstein, Analyst

Thank you very much.

Aengus Kelly, Chief Executive Officer

You're very welcome.

Operator

There are no additional questions at this time, I would like to turn the call back to Aengus Kelly for closing remarks.

Aengus Kelly, Chief Executive Officer

Thank you all very much for joining us on the call and we look forward to talking to you again in three months time. Take care.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.