Company Name: AerCap Holdings
Company Ticker: AER US
Date: 2019-05-01
Event Description: Q1 2019 Earnings Call

Market Cap: 7,436.20
Current PX: 52.12
YTD Change($): +12.52
YTD Change(%): +31.616

Bloomberg Estimates - EPS
Current Quarter: 1.645
Current Year: 6.767
Bloomberg Estimates - Sales
Current Quarter: 1216.833
Current Year: 4917.111

Q1 2019 Earnings Call

Company Participants

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

Other Participants

- Moshe Orenbuch, Analyst
- Ross Harvey, Analyst
- Scott Valentin, Analyst
- Helane Becker, Analyst
- Catherine O'Brien, Analyst
- Susan Donofrio, Analyst
- Kristine Tan Liwag, Analyst
- Rajeev Lalwani, Analyst
- Vincent Caintic, Analyst
- Reno Bianchi, Analyst
- Koosh Patel, Analyst
- Kevin Crissey, Analyst

Presentation

Operator

Good day and welcome to the AerCap First Quarter 2019 Financial Results Call. Today's conference is being recorded and a transcript will be available following the call on the Company's website.

At this time, I would like to turn the conference 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 2019 conference call. With me today is our Chief Executive Officer, Angus 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 events or results 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 May 1st, 2019. 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 will allow time at the end for Q&A. As a reminder, I would ask that analyst limit themselves to one question and one follow-up.

I will now turn the call over to Angus Kelly.

Aengus Kelly, Chief Executive Officer

Thanks, Joe. Good morning everyone and thank you for joining us for our first quarter 2019 earnings call. I'm pleased to report another quarter of strong profitability, generating earnings per share of $1.68. This result is driven once again by a robust performance of the underlying business and our disciplined capital allocation strategy. AerCap is the largest aircraft lessor in the world. This scale provides us with tremendous amounts of data. For example, in the last five years alone, we have bought, sold or leased over 2,000 aircraft. This is approximately 10% of the in-service large commercial aircraft lease. In an (inaudible) markets, this gives us a unique knowledge advantage and this is a key differentiator in the aircraft leasing business.

Ally to this knowledge advantage, the real foundation of AerCap success is our long-standing deeply ingrained culture of action and discipline. You can see that culture at work in our proactive forward order placement, which had 90% placed through December 2021 in our globally diversified funding sources, which we have spent years cultivating and in the speed and forcefulness of our execution around airline defaults. These scale and knowledge advantages coupled with our culture of action and discipline have enabled AerCap to produce superior economic results quarter-after-quarter, year after year after year. Over the past five years alone, we have generated over $15 billion of operating cash flow, over $5 billion of net income; $30 of earnings per share and we have increased our book value per share by 200% during that period. So that's the past.

Now what I want to talk about is how AerCap is positioned for the future. As of today, AerCap is over $40 billion of contracted revenue, that's more than 5 times our market capitalization. 51% of our portfolio is comprised of the most in-demand variance of new technology aircraft. No other lessor in the world is close to this. Our average lease expiry date is mid 2026. We have a long-term debt structure in place and $10 billion of liquidity. And as our track record has demonstrated, we have a platform that is unrivaled in its capabilities. So as we look to the next five years, we are very confident that the business will continue to generate strong profitability. A very few businesses in any industry can show this level of topline predictability on a consistent and sustained basis and critically also have the track record to match.

Turning to demand side of the business, IATA reported a 5.3% increase in global RPKs in February. Growth was driven by Europe at 7.3% and Asia-Pacific at 6.3%, offset by an expected reduction in the Middle East of 1%. Load factors remained strong at 80.6% and this is a key indicator of whether or not there is support for this level of growth in the industry. The actual indicator for AerCap of whether or not there is support for growth at these levels is what is actually happening with our aircraft placement activity every day in the market and there we continue to see solid demand. So overall, we see a generally healthy environment for airline, notwithstanding some recent smaller airline failures. For context, there would be over 200 airline defaults in the past five years and AerCap itself has dealt with over 60 in it's time as a public Company, yet our default costs have averaged approximately 1% of lease revenue in that time. So whilst airline default is certainly a significant driver of news headlines, these results show that airline credit has not been a material driver of profitability when the risks are managed correctly. As a truly globally diversified lessor with 200 airline customers in 80 countries, we are better placed in anyone to deal with airline credit issues.

Jet Airways is an excellent and tangible example of our culture of action. AerCap had its aircraft repossessed and critically de-registered out of India before anyone else in the industry, that is the norm. And we see a time and again be it with Air Berlin or Primera or Monarch et cetera, et cetera. This is one of the many areas where the capability and knowledge of the AerCap platform produces superior economic returns for our shareholders. Frankly, when it comes to managing customer defaults having no security deposits, but a platform that has the willingness and the capability to act is far superior to having three months of security deposits and no willingness to act for six months or worse no capability to act.

On the topic of the MAX aircraft, we currently have five aircraft that are delivered to a carrier in Asia. We are still awaiting further information on its potential return to service, but we would clearly expect to see some impact on our 2019 deliveries. At the moment, it is too early to say when there will be a return to service on a global basis. On capital allocation, we continue to see considerable value in our stock, given the discount to book value. In contrast to the volatility in the financial markets and our stock price, our business continues to add value on a consistent basis, growing book value per share to $64.92 and we will continue to take advantage of that disconnect.

So to close, we operate a long-term stable business model. We have one of the longest average remaining lease term in the industry. Even though some of our competitors have a younger fleet, this is another clear and tangible example of the competitive advantages AerCap has and how these competitive advantages bring superior economic returns for our shareholders. As I mentioned, our average lease expires in the middle of 2026, which provides a very durable and earnings cash flow profile. In closing, our first quarter results are another demonstration of the power of the AerCap platform. We will continue to run our business according to our core principles because we know that by doing so, we will generate significant value for our shareholders.

With that I will hand the call over to Pete.

Peter Juhas, Chief Financial Officer

Thanks Gus. Good morning, everyone. Our net income for the first quarter was $234 million and our diluted earnings per share was $1.68. We completed 81 aircraft transactions in the quarter, including 16 wide-body transactions. This included purchases of 17 new technology aircraft during the quarter for CapEx of $1.2 billion and the sale of 19 midlife and older current technology aircraft. Our utilization rate remained high at 99.2% for the quarter. Our basic lease rents increased in the first quarter as our average lease assets grew by over $2.3 billion year-over-year. Our net income was lower in the first quarter of 2019 and in the prior-year period, primarily due to lower gain on sales compared to the first quarter of 2018. In the first quarter of 2018, we sold a much higher volume of aircraft and also had a record amount of gains on sale. Our earnings per share was slightly lower in the first quarter as our purchases of 17 million shares since January of 2018, basically offset the impact of the lower gain on sale this quarter. And that's a result of our disciplined and consistent capital allocation strategy. The average age of our fleet continue to decrease and we're now operating in the low 6s, average age was 6.2 years at the end of March. We've reduced the age of our fleet in the right way by buying new technology aircraft that will be in demand for the next 25 years. The average age of our new technology fleet was only 1.9 years at the end of March while the average age of our current technology fleet was 10.8 years and we believe this barbell approach is the correct way to manage the portfolio. Our average remaining lease term for our existing fleet is now 7.4 years, taking us out to the third quarter of 2026. We continue to maintain very strong liquidity of over $11 billion and our leverage ratio was 2.8 to 1 at the end of the quarter, which is in line with the revised target we set earlier this year.

We continued with our share repurchase program and bought back 3.1 million shares for $137 million during the quarter. We currently have around $150 million remaining in our existing authorization. Our basic lease rents for the quarter were $1.75 billion, continuing the growth we saw in the third and fourth quarters as we took delivery of new technology aircraft and grew our aircraft assets. Our maintenance revenues for the first quarter were $87 million, which was in line with last year. Our net gain on sales was approximately $22 million for the first quarter, which as I mentioned was significantly lower than the $89 million last year, which was a record number. This was really due to the lower volume of sales this quarter as well as the composition of those sales. Our other income in the first quarter was higher than last year, primarily due to insurance proceeds that we recognized in the quarter as well as higher interest expense resulting from our higher cash balance during the quarter and our higher interest rate that we earned on that cash.

Turning to slide seven, our net interest margin was $757 million for the first quarter and the increase over last year was due to growth in our basic lease rents, driven by higher average lease assets. Our average cost of debt was 4.2% for the first quarter with the increase from 2018, driven primarily by the roll-off of fair value of debt related to purchase accounting. The average cost of debt of 4.2% includes all fees including debt issuance cost, upfront fees, commitment fees and original issue discounts. It also includes the impact of finance leases and if you add all those up, they come to about 40 basis points, that's included in that 4.2%.

Our net spread was 8.1% for the first quarter, slightly below the 8.2% we reported last quarter and the decrease from the first quarter of 2018 was due to the lower average age and longer average remaining lease term of our fleet. The average age of our fleet decreased from 6.8 years to 6.2 years at the end of March and this was achieved through a combination of purchases of new technology aircraft and sales of older current technology aircraft. Average remaining lease term, as I mentioned, has now moved out to 7.4 years, which is one of the longest in the industry and longer than any of our publicly listed US peers. That's due to the fact that we're placing almost all of our new aircraft and 12-year leases and we're also placing and extending many of our used aircraft on longer lease terms.

Our net spread less depreciation was 3.3% for the first quarter, an increase from 3% in 2018. This was primarily due to lower maintenance rights amortization as well as the lower depreciation rate on our assets generally. And as the average age of our fleet has fallen, our depreciation rate has also decreased. So effectively in the first quarter of 2019, we continued to generate strong returns on a better positioned portfolio with the lower average age, a higher proportion of new technology assets and a longer lease term.

Turning to slide eight, our net gain on sales was $21.5 million for the first quarter. As I mentioned, we sold 19 aircraft with an average age of 15 years. That resulted in sales proceeds of $340 million for the quarter. Our gain on sales margin was around 7% for the first quarter. And as you can see from the chart on the right, sales volumes and margins tend to move around from quarter-to-quarter, but the margins have remained consistently high generally in the 7% to 10% range, but sometimes above that. We've only shown you the last eight quarters here, but the story is really the same as you go further back. We've consistently generated gains on sale for the last 14 years and it's also worth noting that these are unlevered gains measured as the sales proceeds over the cost of goods sold of the assets, because we're levered at 2.8 to 1 and asset margin of 7% is equal to an equity margin of around 27%. We've continued to see strong demand from buyers for our mid-life and older aircraft. We said in February that we expected to sell about $1 billion of assets in 2019. And given the fact that we've sold $340 million in the first quarter and currently have held for sale balance of $633 million at the end of March, at this point, we expect to do at least $1.5 billion of sales for the full year. And turning to aircraft purchases in the first quarter, we took delivery of 17 new technology aircraft for CapEx of $1.2 billion, which was about what we had expected to do.

Turning to the next slide, our SG&A expenses were around $67 million for the quarter, which was a decrease of 22% from $86 million last year. That's mainly due to lower stock compensation expense, which was higher than normal during the first half of last year, but it's also due to a reduction in some other compensation-related expenses. Our maintenance rights expense was about $21 million for the first quarter, down from $54 million in 2018 and this was primarily driven by the lower maintenance rights asset balance, which has come down substantially since 2014 and is now just over $1 billion.

Our other leasing expenses were around $70 million for the first quarter, a slight decrease from about $79 million last year and that's still a little higher than normal due to some aircraft transitions that we had during the quarter. We continue to maintain a very strong liquidity position. As of March 31st, we had available liquidity of $11.1 billion and that includes our cash, our revolvers, our other undrawn facilities and our contracted sales. Together with their operating cash flows that gives us total cash sources of $14.3 billion, which is 1.4 times our cash needs over the next 12 months. This amounts to excess cash coverage of around $4.3 billion. As you can see, we've exceeded our target level every quarter for the past two years. In fact, we've always exceeded this target ever since we first put in place five years ago. We raised around $2 billion of financing during the first quarter, including public unsecured bonds, unsecured loans and secured loans. Maintaining this diversity of funding sources is an important aspect of our strategy and we'll continue to seek out new sources of liquidity. We currently borrow from over 120 banks and other financial institutions around the world as well as from public capital markets. But it's not just our liquidity and funding that remains strong. AerCap's credit metrics have improved considerably across the board since we were upgraded to investment grade ratings in 2016.

As Gus mentioned, new technology aircraft now make up more than half our fleet and of course that number will continue to decline as we take new deliveries. Our order book commitments are very manageable and represent 39% of our total assets compared to 56% in 2016. We brought our debt to equity target down to 2.8 to 1 and we're currently at that target level. And we've reduced our secured debt to total assets from 28% in 2016 to 25% to-date, which is a reduction of around $1.2 billion of secured debt. As I mentioned before, our average age is now in the lower 6s. Our fleet is now more than a year younger and our average remaining lease term is now a year longer and we've accomplished all of that in the right way by selling older, less liquid assets and taking delivery of the most in-demand, new technology aircraft. Finally, our book value per share of $64.92 today is up by 32% since the end of 2016. And while this isn't a credit metric, it does show that we've been able to create significant economic value for our shareholders while at the same time improving the credit profile of the Company and positioning it for long-term success. And in fact on the next slide, if you look at the last five years since the ILFC acquisition, you can see that on average, we've grown our book value per share at an annual rate of about 14%. That's a very high level of consistent economic value creation year after year.

So to wrap-up, first quarter was another strong one for AerCap. We continue to make good progress in placing our new aircraft and we are now 90% placed through the end of 2021. Around 95% of our lease rents for the next three years are already contracted. We continue to sell older and midlife current technology aircraft at attractive prices and the market for those assets remains robust. Our portfolio is now over 50% new technology aircraft. We ended the quarter in a very strong liquidity and capital position. We have significantly improved our credit metrics across the Board.

So with that, now I will turn it over for Q&A.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) And our first question today comes from Moshe Orenbuch from Credit Suisse. Please go ahead.

Moshe Orenbuch, Analyst

Great, thanks. Peter, you had mentioned that your CapEx in the first quarter was roughly in line with your expectations. I guess as you look out the balance of the year given some of the delays that are out there from both of your major suppliers, is that likely to continue. And if not, what are your plans in terms of use of that capital?

Peter Juhas, Chief Financial Officer

Thanks Moshe. So you will see in the supplemental materials that we didn't change our delivery projections for the remainder of the year. That being said, as Gus mentioned, we do expect to see some deliveries on the MAX, but it remains to be seen how long those will be. So we'll have to see how that is, we had projected just under $6 billion of CapEx for the year and we'll have to see how pronounced those delivery delays are.

Moshe Orenbuch, Analyst

Okay. And on a separate topic, you talked about the increase in the cost of debt driven by the roll-off of the fair value, given that interest rates have now sort of stabilized and some maturities fallen. Could you talk a little bit about the progress and how that's going to look over the balance of 2019?

Peter Juhas, Chief Financial Officer

In the progress in terms of our average debt, you mean?

Moshe Orenbuch, Analyst

Well, I mean -- yeah, your average cost of debt like how will that you know --

Peter Juhas, Chief Financial Officer

So I think the average cost of debt will probably be 4.1%, 4.2% for the year. It takes a long time for any of these effects to -- for that to change. And so I think it will still be somewhere in that ballpark.

Aengus Kelly, Chief Executive Officer

But I think it's very important, as Pete noted in his prepared comments that when we give you our cost of debt, it's the all-in cost of this. And borrowing money requires you to pay fees, it requires you to have undrawn lines and as we said, (inaudible) includes 40 basis points of fees associated with our debt balance. Others when they disclose, disclose it excluding fees, so just to make sure you compare like with like.

Moshe Orenbuch, Analyst

Got it. All right. Thanks very much.

Operator

Thank you. Our next question today comes from Ross Harvey. Please go ahead, your line is now open.

Ross Harvey, Analyst

Hi, thanks for taking my question. Two from me. Firstly given all you've said around portfolio management and liquidity and credit metrics have improved and with the stock still trading out of this, kind of just interested in what you think are the main risks to the business and how do you contract them. And secondly, there is a quite noticeable step down in terms of depreciation expense as a percentage of leased assets in the quarter. Just wondering, Pete, how you expect that to trend from here?

Aengus Kelly, Chief Executive Officer

I'll take the first part of Ross, thanks for that. You're right. Look, the three risks that come up when we talk to investors are airline credit risk, the funding risk and residual value risk of the portfolio. Starting with airline credit, for a company of our capability, credit risk has never had a material impact on our results. That's because of the capability of the platform, a very consistent aircraft portfolio strategy, but as we mentioned above all, a culture of action. And so what we've seen there as I mentioned is that for the last 14 odd years, credit cost would be 1% of lease revenue. So they're not the material cost in reality. Second risk is funding though as you mentioned. No one in the world has our experience of raising funding or the scale of having done it. We have the most diversified funding base in the world and the largest pool of standalone liquidity out there. No other leasing company in the world carries $10 billion plus of liquidity. So from that regard that risk is covered. The third one you touched on it is residual value risk. The residual value risk materializes when you can't consume the carrying value of your assets. Today, AerCap has 51% of its portfolio in the most in-demand variance of new technology aircraft. No other leasing company in the world is anywhere close to this, despite having younger fleets. And that's why average age of a portfolio is not a good indicator of fleet quality or residual value risk. The truth is far more nuanced.

What is critical is, will your fee consumers remain in carrying value. And crucially, our current technology assets, our average age is 11 years. So I have every confidence that for the next decade, 320, 330, 777, 737s, they will be the backbone of the global fleet. But after that, the sun will start to set in their customer base or the customer base for those airplanes. So you don't want to have economic exposure to those aircraft types at that time. And over the last five years, we've been very consistent and deliberate in creating a barbell in our portfolio regarding age. So the average age of the current technology is far, far older than the average age of the new technology. And look, as you've seen, we back test the carrying values of our assets all the time, we sold 450 airplanes off our own book at a gain.

And so over the last five years, look, it has been extremely enticing to purchase new 777s to boost near-term growth in earnings and to reduce the average age of your fleets. But this is where the real residual value risk lies because they will have decline in user basis. But if you look at the way we've positioned ourselves for example on 777, our fleet has an average age of 13 years and we can clearly see the demand is there for the remaining useful life of our 777 fleets. So when we look forward, we are very confident our carrying values and again if you look at the past track record for 14 years, you'll see we consistently sold at a gain. And because of that we are very confident that we have the most attractive fleets in the industry from a residual value risk perspective and further evidence of that is the last time we placed an order for current technology airplanes with 2011. So that's where those three risks are covered in our business and why we have so much confidence in the future and why we're continuing to buy our own stock when it's there at a discount in the market.

Peter Juhas, Chief Financial Officer

Yeah. And Ross on the depreciation question, so you're right. It came down pretty substantially from the first quarter of last year and there are really two components of depreciation, so there is what I would say is the regular depreciation on the fleet and then there is the maintenance rights amortization and most of that reduction that you see year-over-year was really due to lower maintenance rights amortization, that's because the balance of that asset has come down. So if you look at it and say without maintenance rights amortization, depreciation was about 4.6% over lease assets for the quarter and I think it will probably continue to be about that during the course of the year. Maintenance rights amortization, it was a little lower than normal just in terms of dollar numbers this quarter than it would typically be in a quarter, but not that much lower. So that's come down pretty substantially. So I think it will be relatively flat during the course of the rest of this year.

Ross Harvey, Analyst

Fantastic [ph]. Thank you both.

Aengus Kelly, Chief Executive Officer

Sure.

Operator

(Operator Instructions) And our next question today comes from Scott Valentin from Compass Point. Please go ahead.

Scott Valentin, Analyst

Thanks very much for taking my question. Just with regard to the sales guidance, you guys mentioned, you increased probably to $1.5 billion now you target for sales. Is that reflective of the environment, you just see opportunity right now to give where the stock is combination of where the secondary market is, it's just ideal to be selling aircraft right now?

Aengus Kelly, Chief Executive Officer

I think it's people view aircraft as a very investable industry, particularly when we talk about equity outside of the public markets they feel that this is a very stable investment to make. And so there has been consistent and stable demand on the buy side from lots of types of buyers all over the world. And in some instances, our funds that could be private equity funds, it could be sovereign wealth funds, it could be airlines, banks, et cetera. There is a very broad array of buyers and there's very solid demand for aircraft. And of course as you rightly pointed out, look, given where the stock is trading capital allocation is not only about how you spend your available resources, but it's very much about thinking how you create those resources and obviously aircraft sales were part of that.

Scott Valentin, Analyst

Thanks. And then just on the 737 MAX, assuming if there is a six-month delay, let's say in deliveries, how fast do you think Boeing can catch-up to deliveries or will there be perpetual six-month delay.

Aengus Kelly, Chief Executive Officer

It's premature at this stage to say the extent of the delays. Of course the 2019 airplanes, we do expect some delays to occur, but we'll have to see when on a global basis all the regulators put the airplane back in the sky. If one regulator goes before the other that won't impact global delivery, it'll impact deliveries only for one market. So we've got to see how long it takes all the main regulators in the world to put the airplane back in the sky before we could accurately answer that.

Scott Valentin, Analyst

Okay, all right. Thanks very much.

Operator

Our next question today comes from Helane Becker from Cowen. Please go ahead, your line is open.

Helane Becker, Analyst

Excuse me. Thanks very much, operator. Hi team. Thank you for the time. Aengus, thank you very much for all your opening remarks, because they answered most of my questions. I just have one question on the asset impairment and the aircraft sales. As we think about your aircraft sales against prior asset impairments, are the gains you're reporting net -- I guess are net of those numbers, right? So we don't really have a sense on how well you're selling aircraft?

Aengus Kelly, Chief Executive Officer

Well, Helane, when you sell a portfolio, if you've got most of the assets that we're selling for a gain, but you could have a couple of aircraft in there that are loss. Overall, we look at it and say what's the overall -- what are we getting for this portfolio and what's the margin on that. And so if you've got an aircraft that you know you're going to make a loss on, you have to recognize that loss in the quarter that you signed the SPA, not the quarter that it actually gets transferred whereas the gain you recognize those when the aircraft actually gets transferred. So what tends to happen is you sign an SBA purchase agreement for portfolio of aircraft and then it takes a few months for those aircraft to be innovated and to transfer and if you've got them held for sale at the end of the quarter, you may have to recognize impairment if there's forthcoming loss. As you can see, the numbers tend to be pretty small, I think $5 million.

Peter Juhas, Chief Financial Officer

But you got to look at the overall picture for the last year -- that's why PK [ph] for the last eight quarters, but you can go back 10 years and we've never had a losing quarter selling airplanes. So that's the best evidence we can give you as we say, we back test our carrying values quarter-in quarter-out for the last 60 odd quarters this company makes money doing that. Any impairments are completely immaterial to the scale of the gains.

Helane Becker, Analyst

Got you. Okay, well, thank you. That's very helpful. And then my other question is, I think you talked about having such a substantial liquidity balance greater than anybody else out there. So as you think about capital allocation and buying back your stock, should we think about you using more cash for aircraft acquisition or do you think the debt markets make more sense? How should we think about that too? And those are all my questions. Thank you.

Peter Juhas, Chief Financial Officer

Helane, I mean when we look at capital allocation of course we want to make sure that the balance sheet target debt-equity ratio that we have it satisfied. That's the number one priority. And then as we generate capital above and beyond that, of course, we look at what's the best way to spend that capital and as you've seen from our behavior, currently, we strongly believe it's buying our own stock.

Helane Becker, Analyst

Okay, thank you. That's very helpful. Thanks very much.

Operator

Thank you. Our next question comes from Catherine O'Brien from Goldman Sachs. Please go ahead, ma'am. Your line is open.

Catherine O'Brien, Analyst

Hello, gentlemen. Thank you so much for the time. So I was wondering, is there anything unique to the March quarter that drove your net spread less D&A above your full-year 3% target for 2019 or should we expect to see 2019 come in above target just as 2018 did? Thanks.

Peter Juhas, Chief Financial Officer

Yeah. Thanks, Katherine. They came in a little above what we would expect because the maintenance rights amortization was lower than expected. So little lower than normal and that's what boosted it. Long-term, I'd say 3% is a good number to use. And that's still kind of what we would expect. So the year maybe a little bit above that, because the first quarter was higher, but long-term, I'd still would go with 3%.

Catherine O'Brien, Analyst

Okay, understood. Thanks, Pete. And then when I speak to the US Airlines about the grounding of the MAX, it seems they feel it's too early for them to make decisions on potentially extending leases or going out to some market to source additional aircraft to back-fill those MAX bought, have you seen any increased our initial indications of interest from airlines elsewhere globally to maybe extend leases or looking to buy some of your current technology aircraft that might be coming off lease this year in 2020?

Aengus Kelly, Chief Executive Officer

We certainly are. You would know no question about it, that some airlines are acting, not every airline, but some certainly are Catherine and looking to extend lease in required [ph] airplanes.

Catherine O'Brien, Analyst

Thank you both so much for the time.

Aengus Kelly, Chief Executive Officer

Sure.

Operator

(Operator Instructions) And our next question today comes from Vincent Caintic from Stephens, Inc. Please go ahead.

Joseph McGinley, Head of Investor Relations

Vincent?

Operator

I'm afraid his line has dropped and let's move on to the next questioner, who is Susan Donofrio from Macquarie Capital. Thank you.

Susan Donofrio, Analyst

Yes. Hello, everyone.

Aengus Kelly, Chief Executive Officer

Hi, Susan.

Susan Donofrio, Analyst

So just a question on the rising fuel prices. Have you seen any change with respect to demand for aircraft?

Aengus Kelly, Chief Executive Officer

We haven't seen a noticable change. Yes. There is still very solid demand day-in day-out for airplanes, particularly for the new variant like the 787 and the A320 NEO family airplanes we're seeing pretty strong demand. So we haven't seen any noticeable change in demand just yet.

Susan Donofrio, Analyst

Okay. Can you also just comment on some of the emerging markets and what you are seeing there?

Aengus Kelly, Chief Executive Officer

Look, as I have said, the real indicator of how the market is absorbing the level of growth that is coming in through deliveries is one you've got load factors which is a macro indicator. If load factors were falling deeply then clearly there's too much growth coming into the market. Now you could argue that say, well, maybe they're giving seats away. Maybe they are, but what's a real indicator for us is, are they adding our capacity to that as well. Are we seeing demand for our product everyday? And yes we are. So as I said, we're still seeing pretty strong solid demand across the world and there's always going to be one or two markets that have their issues at any given time, but on a global basis, we see pretty strong demand.

Susan Donofrio, Analyst

Okay, great. You answered my other question. Thanks so much.

Aengus Kelly, Chief Executive Officer

No problem.

Operator

Our next question today comes from Kristine Liwag from Bank of America Merrill Lynch. Please go ahead.

Kristine Tan Liwag, Analyst

Well, with regards to the 737 MAX (Technical Difficulty)

Aengus Kelly, Chief Executive Officer

Sorry, Kristine, We can't hear you there.

Kristine Tan Liwag, Analyst

Sorry about that. I guess with the granting of the 737 MAX, what are airlines doing for alternative lift? Is there opportunity for you in the near term to get higher lease revenue on aircraft coming off lease?

Aengus Kelly, Chief Executive Officer

Look, there is certainly increased demand, Kristine, that's a simple somewhat sales evident and we'll just have to see how that plays out.

Kristine Tan Liwag, Analyst

And in terms of your order book, you've got 99 737 MAX aircraft on order and if the 737 MAX issues persist even once the aircraft entries into service, which is clearly not what anybody wants, but should it happen and airlines go away from the 737 MAX in the medium and long-term, would you have any flexibility to cancel or renegotiate the price of your order?

Aengus Kelly, Chief Executive Officer

We have a very long relationship with Boeing. We are the biggest buyer of Boeing airplanes in the world for the last 25 odd years. So the contractual discussions we will have with Boeing, we will keep those in private, Kristine.

Kristine Tan Liwag, Analyst

Great. And if I could squeeze one last one. You've got similar sized A320 NEO and 737 MAX deliveries in 2021 and since you're already 90% placed for 2021, can you discuss on a high level, the pricing differences between the two families of aircraft? Which one is getting a premium over the other and how much of a difference is there?

Aengus Kelly, Chief Executive Officer

Kristine, look, there's both. We've had extremely solid demand for the MAX airplane. The A320 book, clearly we have a lot more of them in order were 2.5, 2.6 to 1 in favor on the order side, on the Airbus side, which reflects the A321. If we look at the three airplanes, the MAX A320, the A321 NEO, we're closer to a third, and we see in terms of yields, they're pretty close together on average. You will always have one or two that are higher or lower than another, but on average, the yields across the three types are broadly similar.

Kristine Tan Liwag, Analyst

Great, thank you.

Aengus Kelly, Chief Executive Officer

You're welcome.

Operator

Our next question today comes from Rajeev Lalwani from Morgan Stanley. Please go ahead.

Rajeev Lalwani, Analyst

Hi, gentlemen. Thanks for the time. Continuing on the MAX dialog. Gus, do you have any longer term concerns as far as residual value, anything along those lines on the aircraft? Maybe just start with that.

Aengus Kelly, Chief Executive Officer

Sure. You have to put in context the life-cycle of an aircraft. We are looking at a 20, 25 year life-cycle for the aircraft type. We have had introduced before the launch of aircraft types, most recently with the 787 of course, which had very significant issues. It didn't have the terrible tragedies that have been experienced on the MAX program, but looking at purely from a residual value perspective. There were concerns around the 787s family four or five years ago as to its residual value and how it would hold up. And what we believe is that Boeing will produce a quality product and that market demand is there for the airplane. We don't see that dash in the long run assuming Boeing deliver a quality product and we wouldn't envisage any type of long-term detrimental impact on the residual values, assuming Boeing build a quality product.

Rajeev Lalwani, Analyst

Thanks. And unrelated -- I guess sort of related, there's been a degree of discussion out there as far as narrow bodies not having a home as far as other lessors, obviously you guys are in pretty good shape. Over the next couple of years, is that something you're seeing or agree with?

Aengus Kelly, Chief Executive Officer

No, well not for us, because you don't see it as you see our contractual data. We are 90% placed through 2021. We have a lot of our equipment lease in 2022, 2023, even 2024. So we certainly don't see that. But look, the reality is, no one has the capability of cap and when it comes to placing airplanes and so you see us in our placement capability. And again I would caution anyone who talks about are there open slots out there. This is anecdotal information. There is no access to that data by anyone as to how many open slots in reality there actually are in the Skyline. So that's completely anecdotal and of course you do hear those things from time-to-time, several years ago people talked about a 777 being worth less than $10 million, of course that was completely erroneous. We knew the factual situation which was that because we managed the airplane for third-party, they received $30 million of end of lease compensation as part of the transaction and they were just selling the airframe for scrap. So I think it used to be very cautious about giving too much weight to anecdotal information without any evidence behind it.

Rajeev Lalwani, Analyst

Very helpful. Thank you.

Joseph McGinley, Head of Investor Relations

Next question, operator?

Operator

We have Vincent Caintic back on the line. Would you please go ahead and ask your question, Vincent. Thank you.

Vincent Caintic, Analyst

Hi, yes, can you hear me? Hello?

Aengus Kelly, Chief Executive Officer

Sure.

Vincent Caintic, Analyst

Yes. Okay, great. Sorry for the technical issues. First, a question on the the lease rental yields. So by my math, I'm calculating that the lease rental yields are up quarter-over-quarter, pretty significantly, which is pretty, very impressive. I'm just kind of wondering is there any underlying trends that you're seeing there and is there something where we can start to see lease rental yields expand going forward?

Aengus Kelly, Chief Executive Officer

The primary driver of the lease rental yield, so just lease rents itself basically trend has been the decreasing age of the fleet. So that's been the primary thing that's driving that. What you'll see now is we've already brought the average age down to 6.2 years. I think it will bottom out at around six years. So you don't see that significant decrease in average age, which was driving that. So I think that's part of what you're seeing there in terms of the yields. The other aspect of it is the maintenance revenues and as we've talked about before that can bounce around just depending upon activity level. So that's the other factor there.

Vincent Caintic, Analyst

Okay, got it. And the second question, I know we've been talking about the MAX delays a lot, just broadly speaking, as a result of those, are you seeing differences in demand for your existing portfolio. So I'm wondering if maybe there are better lease rates there, are you seeing more requests for extensions higher gains on sale and does that sort of maybe change your thinking about fleet age and how you're thinking about selling going forward. Thanks.

Aengus Kelly, Chief Executive Officer

No, it doesn't. It does not change our directional view on how we manage the portfolio. It's still less than 90 days since the fleet has been grounded. So it's fairly premature to see what the long-term impact would be.

Vincent Caintic, Analyst

Okay, got it. Any early indications from what maybe airlines are wanting to do more extensions or increase demand for current generation aircraft?

Aengus Kelly, Chief Executive Officer

Sure. Of course in the near term, look, those that would have airplanes that might otherwise be returned, they will want to extend them in the near term, but no one is changing their fleet strategy on the back of this at this early point.

Vincent Caintic, Analyst

Okay, understood. Thanks very much.

Operator

Thank you. Our next question comes from Reno Bianchi, Cantor Fitzgerald. Please go ahead.

Reno Bianchi, Analyst

Yeah. Good morning and good afternoon. My first question is, I found a little bit of a discrepancy between your market outlook and your Company capability and the relationship between your order book and your existing fleet. Your around order book is about 35%, 36% of the existing fleet when you look at all the major aircraft lessor is around 80%, 90%. So my question is, I don't fully understand it, how much this is due to your larger critical mass, how much of that is due to your more prudent approach to where future committed aircraft order and how much maybe due because you don't spot as many opportunities as some of your competitors?

Aengus Kelly, Chief Executive Officer

I think there are several factors at play there Reno. I think first of all, of course you rightly point-out, just scale means that for us to be an 80%, 90% would be of our balance sheet to be $40 odd billion. I do think though when we look at allocating our shareholders' capital, we have to ensure that we're very disciplined about us and that we are very focused on maximizing the value of the business for the long-term. And from our perspective, we see at the moment the share buybacks provide an awful lot of opportunity for us that really frankly isn't matched by opportunity, certainly in the sale leaseback markets. And with the OEMs, I think you've to be very cautious there and make sure that you buy what you and your customers want, not what the manufacturers are trying to sell you, there is a big difference there. And so I think we very carefully analyze how we deploy each dollar of capital, should it go to buybacks, should you to go to debt repayment, should it go to ordering airplanes from the OEMs. Clearly, if you look at the capability of the business we could of course absorb more, but we would only do that if it produce superior returns for our shareholders.

Reno Bianchi, Analyst

Fair enough. Changing topics. I mean you made a lot of progress with respect to the balance sheet, then you have a dedicated a couple of slide to renew financial strength, it seems like we are in a period of time where most of your competitors have enjoyed rating upgrade some quite significant from high yield to high grade. Your rating I wouldn't say they are still, but around a couple of years old. Is there something that some kind of a stumbling block then prevent the rating agencies to upgrade your ratings?

Aengus Kelly, Chief Executive Officer

Well, Reno. Thanks for your question. And from our perspective, the reason we tried to lay out that the improvement in the credit metrics is we believe that as it stands today, they weren't an upgrade. So you can see this I mean improvement that's been made there and some of these things take time remember, it takes time for the rating agencies to act. We have seen a lot of upgrades of others from below investment grade and into BBB minus. And as we look out and compare ourselves with those companies, we do think that there is a significant differentiator between both the power of the AerCap platform and our metrics relative to those. And so, as I've said in past calls, we would like to see an upgrade and we think it is warranted.

Reno Bianchi, Analyst

Well, you're not aware of any particular target and the rating agency should tell you then you have to meet in order to move to the next stage of your ratings?

Aengus Kelly, Chief Executive Officer

No. I mean you can see in the reports that they've published and some of the targets that they have laid out, for instance, in terms of average age and things like that and I think we have reached those levels.

Reno Bianchi, Analyst

I agree. But anyway, my last question is a little bit the small question, detailed question, but I'd like to better understand the decrease in SG&A. I think you mentioned something about share payment under your plan. But the numbers is pretty large decrease year-over-year. Can you please give me a little bit more context as to the decrease of the SG&A?

Peter Juhas, Chief Financial Officer

Sure. So most of the decrease was due to a reduction in share compensation expense and that's because if you look back over the last -- over 2018, you will see that that that was an elevated number, it was around $31 million for each of the first two quarters of 2018. And that's just the way you have to recognize those expenses, some front loading of it. And so that's one of the principal drivers, that's the main one really in terms of the year-over-year comparison. We did have some other lower expenses, both on the compensation side, little lower office expenses, little lower professional fees. But going forward, I would say if you were to look out a typical quarter should be around $70 million to low 70s, say around $70 million, $73 million or so and that's inclusive of stock-based comp. So those are really the drivers there.

Reno Bianchi, Analyst

I appreciate that. Thank you very much for your time.

Aengus Kelly, Chief Executive Officer

Sure.

Operator

Our next question today comes from Koosh Patel from Deutsche Bank. Please go ahead, your line is open.

Koosh Patel, Analyst

Hi guys. You've previously said that net spread was likely to reach a bottom in 2019, the low 8% range. Given what you're seeing in the market right now as it pertains to lease rates and borrowing costs, is that still a range you're comfortable with this time and should we expect 1Q or 2Q to mark a bottom for you?

Peter Juhas, Chief Financial Officer

No, I think that -- thanks for your question. I think that 8% is about where it should bottom out in that ballpark and really probably during the course of this year, that's around where we will be for the year. The thing that could take it, if we were to go slightly lower, the thing that would do that would be if we were to sell more aircraft and some more higher yielding aircraft.But if that happened, I think it would only go slightly below that. So I expect it to be relatively flat during the course of the year.

Aengus Kelly, Chief Executive Officer

But I think Pete, if we were to sell assets, you'll recruit more than that, we would say by buying back stock. But we're not going to sell assets and have the net spread decline if we're not going to redeploy the capital into more accretive fashion. So you would see that if we did something like that, you have to look at both metrics and you can continue to see EPS move up.

Koosh Patel, Analyst

Got it. So then moving from the $1 billion in targeted asset sales to $1.5 billion shouldn't necessarily impact that 8%?

Peter Juhas, Chief Financial Officer

No.

Aengus Kelly, Chief Executive Officer

No.

Koosh Patel, Analyst

Okay. And then as a follow-up, I know you mentioned your 90% lease to 2021, but I just wanted to see if you could give us some insight as to how you're progressing as it pertains to the E2 order book you have. I know there is a pickup of deliveries as you go into 2021 and 2022?

Peter Juhas, Chief Financial Officer

Sure. We should be clear that when we talk about lease to 2021 that's only our new order book. The average lease expiry date for the AerCap portfolio is mid 2026, so way out there. In terms of the Embraer products, we have 50 of them in order and we've already placed 47, that's many multiples of what the competition has done. And again as I said to you, that is a real tangible demonstration of the capability of the AerCap platform that generates superior economic returns for our shareholders being brought to bear.

Koosh Patel, Analyst

Fantastic. Thanks a lot guys.

Aengus Kelly, Chief Executive Officer

Sure.

Operator

Our final question today comes from Kevin Crissey from Citigroup. Please go ahead.

Kevin Crissey, Analyst

Thank you for the time. And maybe you could touch on the attractiveness from your perspective of 321 versus 321-LRs?

Aengus Kelly, Chief Executive Officer

Sure. A321 is the heart of the market, that's absolutely the case. And we do have some LR in order in fact just today, we delivered the very first one to the Americas, again another first for AerCap leading the way with the first LR being delivered to the American hemisphere. So that airplane is an excellent aircraft, but like all aircraft, airlines have to make sure they're going to use its capability. And it can fly Trans-Atlantic with heavy loads. So if that's your market, then it's a great airplane for us. But the heart of the A321 market is a much shorter haul market and that because sending airplanes long haul for many airlines is riskier than just flying two or three hours from your home base and in highly populated parts of the world like East Coast or the US, Western Europe, China where the heart of the market is, the average stage length is much smaller than that. So we think that 321-LR has great role to play and it's a very capable airplane for those airlines that are going to need for you that length of mission. But the vast majority of the market is in the regular way, A321.

Kevin Crissey, Analyst

Thank you. And if I may, I got a question from an investor and wanted to -- I gave my perspective, I wanted to give yours. In a proportional size, fuel price shock versus recession, which is a more challenging environment for AerCap and for lessors generally?

Aengus Kelly, Chief Executive Officer

I think it's the velocity that always matters. If fuel prices were to go steadily up to $90 plus a barrel and it was to happen over a year, 1.5 years, airlines would have time to start adjusting their business model to cope with that it was a sudden shock in the morning, then that would be very different. It wouldn't be easy to cope with that. I think on a recession side, again, it depends on the severity of the recession. But what's very important to note is for our business, there was growth every year in traffic. So you can have a recession in the United States as we've seen in the past, but you can have growth in Brazil, you can have growth in China, you can have growth in Europe. As we just saw in the last quarter, Europe led the way for growth. So a regional recession isn't something that's going to have material impact on this business, sure, there'll be guys will go bust. But that's the daily cut and thrust of the business, as I've said before and but with the platform of AerCap scale and its capability, we'll move those airplanes from underperforming regions to performing regions as we've shown time and time again, most recently with events at Jet Airways where of course we led the industry again.

Kevin Crissey, Analyst

Terrific. Thank you so much.

Operator

Thank you. That concludes today's question-and-answer session. I'll hand back over to you for any closing remarks.

Joseph McGinley, Head of Investor Relations

Thank you, operator. Thanks very much everybody, and look forward to talking to you in three months time.

Operator

Ladies and gentlemen that concludes today's conference call. Thank you very much for your participation today. You may now disconnect.