Company Name: AerCap Holdings
Company Ticker: AER US
Date: 2020-07-29
Event Description: Q2 2020 Earnings Call

Market Cap: 3607.14984651
Current PX: 27.8250007629
YTD Change($): -33.6449992371
YTD Change(%): -54.734

Bloomberg Estimates - EPS
Current Quarter: 1.067
Current Year: 6.048
Bloomberg Estimates - Sales
Current Quarter: 1117.75
Current Year: 4656.667

Q2 2020 Earnings Call

Company Participants

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

Other Participants

- Jamie Baker
- Moshe Ari Orenbuch
- Catherine Maureen O'Brien
- Mark C. DeVries
- Helane R. Becker
- Ross Harvey

Presentation

Operator

Good day, and welcome to the AerCap Holdings N.V. Second Quarter 2020 Financial Results Call. Today's conference is being recorded and will be available for replay on the company's website after the conference is finished.

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 second 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 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 find in AerCap's earnings release dated July 29th, 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 will allow time at the end for Q&A. (Operator Instructions).

I will now turn the call over to Aengus Kelly.

Aengus Kelly, Executive Director and Chief Executive Officer

Good morning, everyone, and thank you for joining us for our second quarter 2020 earnings call. Clearly, the environment remains very challenged. But I am pleased to report that the AerCap platform continues to perform well and reported net income of $246 million, and earnings per share of $1.92 for the second quarter.

Turning to the market and the global environment. We have just gone through what was the worst six months aviation has ever experienced and I hope ever will. The positive is that the industry is very much alive, and it's starting to recover in certain parts of the world. In other parts, this is not the case.

So starting with where the virus was first detected in China. We see that the recovery is well underway. Last Friday, there were over 11,500 domestic flights, which is equivalent to 90% of the pre-COVID levels in January. This demonstrates that once customers believe it is safe to fly and they have clear procedures to follow, they will and want to travel.

Next in the US, we saw the bottom on April 14. And we observed a steady improvement that began to accelerate into June. But since the beginning of July, the U.S. recovery has run out of steam and retreated. It will take control of the virus to get the U.S. recovery back on track.

In contrast in Europe, we are seeing the largest recovery. Europe bottomed on April 12 with 2,099 flights. However, last Friday July 24, there were 16,300 flights in Europe. So the recovery in this critical market is well underway, no doubt, there will be setbacks, but the willingness and desire of the consumer to travel is very clear. In terms of scale, the European market is leading the global recovery.

In Latin America, we are still in the throes of the crisis. In Southeast Asia, some large tourist markets such as Thailand and Vietnam appeared to have extremely low levels of infection, but they are effectively close to air travel which of course means, we are not seeing any meaningful recovery in international travel in those markets. This information I just quoted is actual public data.

Now what we are seeing in our business is reflected in the number I just quoted. We have begun leasing airplanes again, but it's almost exclusively focused on the European market. In the last month, we have begun to sign leases and letters of intent. What was clear when we last spoke in early May, was that whilst COVID-19 affected every region of the world, it didn't necessarily do so in the same way or at the same time.

At that stage, it was really only in China where COVID cases were falling and where we could see the early stages of an air traffic recovery. Today, other parts of Asia and Europe are coming out the other side and are flying again. A key factor in the recovery is the level of government support that has reached over $130 billion so far across 74 different countries around the world.

Again, it is clear that governments around the world recognized the critical importance of maintaining a functioning airline industry. This support has been achieved through a combination of loans, subsidies and guarantees. This has allowed many airlines enough breathing room to get through the worst of the traffic declines and provide a stronger footing for their recovery.

What we've also seen is a significant acceleration of retirements from airlines around the world who are right-sizing their fleets for the future. Many airlines were reluctant to do this in prior year as the opportunity cost of spilling passengers was too high, but the crisis today affords them the opportunity to do so. We have seen 950 aircraft retirements announced so far this year, equivalent to 4.5% the world's fleet, but over 5% of global seats. All of which go towards helping the supply-demand imbalance to reach equilibrium at a faster pace.

Importantly, the vast majority of these retirements are focused on aircraft such as 767, 747, A340s and 757s, which collectively represent less than 1% of the AerCap fleet. As mentioned previously, no other entity owns a greater percentage of new technology aircraft than AerCap. In addition to this, there will be a very significant reduction in the number of new aircraft entering the market as a result of the production cuts announced by the OEM.

To-date, Boeing and Airbus have announced production cuts of approximately 33%. We expect, they will announce further production cuts in the coming months. The combination of retirements and production cuts will contribute to the industry reaching equilibrium. Very importantly though, for AerCap, market equilibrium is not 2019 traffic when airlines are making record profits, for us, equilibrium is achieved when traffic can enable airline to cover their cash operating cost. Of course, we want to see airlines return to 2019 profit level, but for AerCap, that will occur after they can cover cash operating expenses and pay their lease rents.

Switching back to AerCap specifically, what measures have we taken over the past number of months to offset the impact of the crisis. Well our first priority in the midst of this crisis was to ensure that we maintain high levels of liquidity, as the likely magnitude and length of the impact was unknown at that point. In an environment like this, it is as important to manage spending as funding, so early on we negotiated with the three OEM partners, Airbus, Boeing and Embraer for the rescheduling of aircraft purchases into a time frames more suitable for ourselves, our airline customers and the OEM new production framework.

Working in concert with the OEMs and our airline customers, AerCap has rescheduled the delivery of over 100 aircraft that were originally expected to deliver in 2020, 2021 and 2022. The rescheduling of these deliveries has reduced our cash, CapEx in 2020 and 2021 by a total of $5.3 billion. We also recently cancelled orders for 15 Boeing 737 MAX aircraft, which have passed their contractual delivery dates.

We have also been very busy supporting the business by managing the liability side of the balance sheet with additional sources of cash and liquidity. AerCap was the first aircraft lessor to access the unsecured bond market since the crisis, when we raised 2.5 billion of unsecured funding in June. We attracted over $15 billion of orders across the two deals and pricing has improved significantly since then, showing the confidence the market has in AerCap.

This along with our numerous other funding sources and initiatives, meant our average cost of debt issued since the beginning of April was only 4.2%. Lastly, the team have been working hard to ensure that we continue to collect cash everyday from our customers, and it's important to note that we continue to collect cash from the majority of our customers every day.

At the end of June, our deferral balance was $430 million, which is equivalent to roughly 9% of our annual revenues. Against this amount, we have over $1 billion of security. The level of requests for deferrals has slowed down as traffic has begun to recover. Obviously, there are some customers who have filed for bankruptcy in the last number of months, which should be no surprise to anyone given the level of disruption in the industry.

But that doesn't automatically mean, we've had the aircraft returned and in many cases, we expect the aircraft to stay in place after the airlines emerge from bankruptcy. In other cases, we will take aircraft back, but I expect this to be manageable for a platform of AerCap's size.

Against all this, given the very strong levels of liquidity we have, the record high sources to uses and low leverage level, there will come a point where we will be able to take advantage of the opportunities available to us. We have not completed a competitive sale leasebacks since 2013, but it is clear that the terms of those transactions are improving, and we remain open to doing business in that channel should the right opportunity present itself.

AerCap has always found a way to add value in a crisis, in various ways, like opportunistic M&As or large scale of fair leasebacks but only when the timing is right. As we look at the opportunity set at the moment, we remain patient but ready.

Looking forward, AerCap has been through numerous challenges before, and whilst this crisis is more global and uniform, our platform continue to perform well in cash collection and seeking out opportunity, I firmly believe we have the right mix of assets, people and strategy to ensure that AerCap remains the market leader for years to come.

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

Peter Juhas, Chief Financial Officer

Thanks, Gus. Good morning, everyone. I'll start on Slide 7. AerCap produced a solid financial performance in the second quarter with net income of $246 million and earnings per share of $1.92. For the first half of the year, our net income was $523 million and our EPS was $4.06. The decrease compared to the second quarter of 2019 was primarily driven by lower lease rents as well as by a lower gain on sale of assets.

On Slide 8, our total revenues for the second quarter were $1,197 million, a decrease from $1,281 million last year. Our basic lease rents were lowered due to lease restructuring, aircraft transitions and the impact of airline bankruptcies during the quarter. Our maintenance rents were $224 million in the quarter and higher due to lease terminations.

In the second quarter, we sold nine of our owned aircraft for a total of $188 million. The average age of the aircraft we sold was 14 years, and our net gain on sales for the quarter was $10 million for gain on sales margin of around 6%. And finally, our other income was roughly the same as last year.

Turning to Slide 9. Our SG&A expense was $53 million in the second quarter, a decrease from $65 million last year, primarily due to lower compensation-related expenses. Our maintenance rights expense was slightly lower than last year, and our other leasing expenses were $66 million compared to $49 million last year. The increase is primarily due to an increase in our provision for expected credit losses as part of the new CECL accounting conventions. We had asset impairment charges of $73 million in the quarter, which primarily related to these terminations. Our maintenance revenue was also higher than normal this quarter as a result of these terminations.

Turning to Slide 10, we continue to maintain a very strong liquidity position. We're currently holding a record level of liquidity, with $12 billion in total sources of liquidity as of June 30th. Against that amount, we had $5 billion of debt maturing over the next 12 months and expected CapEx at $0.5 billion for total uses of $5.5 billion. So we currently have a record level of liquidity equal to 2.2 times our cash needs over the next 12 months, and excess cash coverage around $6.4 billion.

As Gus mentioned, our CapEx requirement for both 2020 and 2021 has come down significantly this year by over $5 billion. During the second quarter, we took delivery of only two new aircraft, and we only have $500 million of cash CapEx remaining over the next 12 months. Our strong liquidity position is the direct result of actions we've taken since the COVID-19 pandemic.

Since the beginning of April, we've raised $3 billion in new funding both unsecured and secured, and as Gus mentioned, the average cost of this debt we've issued is around 4.2%, which is similar to our overall average cost of debt of 4.1%. While we've seen significant compression in our unsecured bond spreads over the last few months, they're still wide of where we think they should be for a company with the liquidity and balance sheet that we have.

Our leverage ratio is 2.5 to 1, the lowest level since 2014 and our secured debt to total assets ratio remains in the low 20s. Going forward, we'll continue to maintain a very strong liquidity position. We believe that's the prudent thing to do in the current environment. Therefore, we're planning to run -- to continue to run at a higher liquid level of at least 1.5 times sources-to-uses coverage until things normalize. And in the near term, we will likely run in excess of that level and we believe this will be viewed positively by the rating agencies.

Now more than ever, we see the importance of having strong global access to funding. So far this year, we've executed approximately $10 billion of liquidity initiatives that includes 5 billion of CapEx and 5 billion of funding. Since June 30, we've undertaken $2.5 billion of liability management actions, including the $1.5 billion tender offer that we completed earlier this month, as well as the earlier retirement of the $1 billion of debt maturing later this year.

In addition, we currently have over $2 billion worth of additional funding plans that are currently well advanced, and then we expect to close over the next few months on attractive terms. We will continue to be proactive in our funding to make sure we maintain a significant amount of liquidity headroom and excess cash coverage.

And we have $27 billion of unencumbered flight equipment assets, which can be used for additional financing in the future. This of course, continues to be a very challenging time to the aviation industry but with our strong down sheet, record liquidity position and unmatched operating platform, we remain well positioned and prepared to weather the storm.

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

Questions and Answers

Operator

(Question and Answer)

Operator

Thank you. (Operator Instructions). We will now take our first question from Jamie Baker from JP Morgan. Please go ahead.

Jamie Baker

Hey, good afternoon, gentlemen. So, Mark and I have a question on operating cash flow year-end, so pre-COVID, obviously the 12-month, figure in your deck was $3.1 billion, it declined to $2.7 billion last quarter and it's $2.3 billion today. So that's 26% decline. How should we interpret that? Is that sort of the best estimate now going forward for what percentage of rents you expect to collect? Or should I come at it differently, was this influenced by CapEx revisions and maybe some other inputs and if those inputs now are baked, are we at the trough? And should any further changes be driven solely by deferrals? Just need some guidance here on how best to interpret this metric and the recent decline?

Peter Juhas, Chief Financial Officer

Sure, Jamie. So, the main impacts of the -- as you alluded to, it's really what we're seeing is mostly due to the deferrals and I think as we go forward -- so it's the deferrals and then as we look at our estimates of the $2.3 billion estimate for the next 12-months, we've baked in our deferrals into that. We've also reflected the lower CapEx, so you've seen CapEx has come down a fair amountfrom our previous estimates, So that's reflected in there too. So, really what you're seeing and if I compare it to last quarter, for example, I'd say some of that effect is due to as we look at what's going on the deferral side, we are seeing somewhat longer repayment periods for some of those deferral. So as you push those out, right, you're not -- you're getting back to regular rents from those lessees, but you're not seeing as much of the repayment of that deferral amount during that 12-month period.

Jamie Baker

Okay, that's helpful. And second question, our requests to convert existing leases to a power by the hour structure significant right now, and would that be captured in deferred revenue going forward to the extent that conversions are temporary. Just trying to get a feel for how material this phenomenon might be. It feels like we're taking more investor questions on the topic with every passing week? Thank you.

Aengus Kelly, Executive Director and Chief Executive Officer

No, Jamie. There are cases, of course, where you have certain power by the hour arrangements, but the vast majority of the fleet is most definitely not on that arrangement, we do have airlines in bankruptcy of course and they're not paying anything at the moment and we would hope that probably troughedin the second quarter. But in relation to the power by the hour question, that is certainly -- does not apply to the vast majority of the fleet.

Jamie Baker

That's great. Thank you, gentlemen. Take care.

Peter Juhas, Chief Financial Officer

Sure.

Operator

We will now move to our next question from Moshe Orenbuch from Credit Suisse. Please go ahead.

Moshe Ari Orenbuch

Great. Thanks. Peter, I was hoping you could just help us understand a little bit, building on the previous question, when you've got lease revenue recorded like -- the different alternatives I guess, in airline, in bankruptcy, how does that -- is there any difference between that recording and a regular lease contract? And then given that you've now started to take some, I guess, a little bit of write-downs, could you talk a little bit also about the level of receivables that you're carrying and perhaps, any other kind of differences that this has kind of made within the financials? Thanks.

Peter Juhas, Chief Financial Officer

Sure, Moshe. So, I guess, I'll start on the bankruptcy question. So, what happens when an airline goes into bankruptcy? Obviously, we still got a lease with them, but they're not paying on that and we assess those, we look at them and say okay are those rents probable of collection, and if they're in bankruptcy, if they just got into bankruptcy, then you'd say no. And so we wouldn't recognize any revenue associated with any of those customers while they're in bankruptcy Until they are emerging and you've got a plan, and if you've got an agreement to lease those planes with them going forward, then you might start, but for now you wouldn't. So for any of those airlines that have gone into bankruptcy recently, we're not recognizing any revenues for those.

Maybe as I look at, if I -- you mentioned the write-downs, I think with your next question. Yes. So during the quarter, we had $73 million of impairments on about eight aircraft. And so, every quarter we do an impairment analysis, of course, we look at our fleet and see if we have impairment triggers for any of our aircraft. And when we have a trigger, we perform a test to see if the aircraft's impaired. So, this quarter, these impairments were triggered by lease terminations during the quarter. There are offset by around $50 million of maintenance revenue that we recognized on those aircraft.

Now, of course, beyond those kind of airline specific or aircraft-specific credit triggers, we also look at the overall environment to determine whether there are other trends or factors that we ought to be considering. One of the things that we look out there is early retirement announcements by airlines. To date, as Gus mentioned, we've seen announcements for early retirements of around 950 aircraft in total. And most of those have been 747, 757, A340s, those types of aircraft that collectively make up less than 1% of our fleet. So, we haven't seen an impact there. What we have observed though is that there have been some announcements of early retirements of 777s and A330s and together those make up around 10% of our fleet. So as we go forward, I think that's an area where we'll have to monitor developments to see if there is any impact on those aircraft types.

Moshe Ari Orenbuch

And the line on your balance sheet, trade receivables, did go up about a $100 million in the quarter?

Peter Juhas, Chief Financial Officer

Yes. So trade receivables was $200 million at the end of June, and what we would expect on some of those, I'd say, probably a $120 million or so of that we would expect that to go into deferrals. Essentially, there are deferrals being discussed with customers where they just weren't completed before the end of June. So I would expect that movement to go in there. So if you think about, our deferrals balance at the end of June was $430 million, I would expect that $120 million to go in there.

Moshe Ari Orenbuch

And then maybe just somewhat big picture question, Gus you talked about the sale leasebacks, you're seeing on some of your competitors kind of doing that to a greater degree, is there -- is it a question of the level of returns on those agreements now or is it a level of seeing some kind of liquidity level for AerCap, like what is the -- what's going to be the factor that gets you to start doing that if that's something that's of interest?

Aengus Kelly, Executive Director and Chief Executive Officer

Well, it's a combination of the return levels and the risk in terms of the airplane and the asset. Now at the moment, there isn't a huge amount ofsupply on the sale lease back side, because a lot of airplanes were just not being delivered. I do think that will change as we go into 2021, as the OEMs start to redeliver aircraft. And at that point in time, it would be clear that the airline's balance sheets have been stretched.

The airlines will have significant amount of debt on their balance sheet or significant amount of state aid. The objective of the airline will be to reduce that state aid as fast as possible. It certainly won't be buying airplanes. So I do expect that there will be a structural turn in the market in the demand for sale lease back, and I do think that on the far side of this there will be less lessors that are in the market and that will be -- have the liquidity to take advantage of it also.

Moshe Ari Orenbuch

Thanks so much.

Operator

We will now move to our next question from Catherine O'Brien from Goldman Sachs. Please go ahead.

Catherine Maureen O'Brien

Hello, everyone. Thanks so much for the time. So maybe, just one more on the lease deferrals, maybe that number ticks back up a little bit, that 120 gets moved into the balance, but down from last quarter at least as of the end of June. So what's driving that, does that lessors going from being under deferred payment plans to lease termination or that customers maybe who started doing regular payments, any color there?

Peter Juhas, Chief Financial Officer

Sure, Katie. So I would say, if you look at the end of March, the balance on the balance sheet then of deferrals was around $140 million, and what we said during the call was that we expected it to, that we had done by the time of the call, it was around $300 million or so, and that we expected it would go up to $600. So as I look out today, right? I would look at it and say, we had completed -- we had notes receivable of $140 million as of March 31, that went up to $430 million as of June 30. And if I look at where is that balance going to go to overtime, where do we expect it to go to based on what we've talked to customers about and what we foresee, I expect that balance on the balance sheet should grow to around $700 million to $800 million over the next couple of quarters, that's where I would expect it to go.

Aengus Kelly, Executive Director and Chief Executive Officer

And you have to look at the security behind that as well that we referenced of $1 billion. And in addition, it has to be seen in context of the revenue of the business as well, still less than 20% of the business, 20 -- 23% of the revenue.

Catherine Maureen O'Brien

Right. Okay. Understood. And then maybe just, I'd love to understand a little bit more, how you guys are thinking through adjusting your order book. Right now, of course, there are also lessees cancelling some of these orders in some cases, particular the MAX, but in general, how do you determine what the right balance between managing liquidity today and stress lessees today and long-term growth after the recovery? And then one quick housekeepingone, just the $14 million unrealized gain, was that at Norwegian? Thanks so much.

Peter Juhas, Chief Financial Officer Yes. Just on that last one, that was Norwegian. That was we're accounting for the Norwegian stake on a mark-to-market basis. So every quarter, we will just market based on the value at the end of the quarter.

Aengus Kelly, Executive Director and Chief Executive Officer

On the CapEx, it is something you have to be very cognizant of managing the future as well as the current liquidity needs. And what you have seen is that we acted very quickly in March and April to significantly reduce the CapEx, and now there's a very low amount left for the year of $500 million and a low amount next year relatively to where it was of 2.2. So we've reduced CapEx by5.3 in total.

Now what you want to make sure of course that you believe you have attractive pricing in your CapEx, we do know. It's very important to remember and sometimes it's hard to see it. Travel will come back. That's demonstrably clear from what we've seen in other markets around the world. Once the government lifts restrictions and the consumer believes it's safe to travel, they will travel and they will travel quicker than you think. That's what we've seen in Europe, that's what we've seen in China. The U.S. as I said, the market has stalled. So the structural growth in this industry has not changed over the long term. And you have to keep that in mind, as you negotiate with the OEM and with your customers.

You are striking a balance between maintaining what you believe, as an attractive order book particularly on the 737 MAX. I do believe the 737 MAX will be an aircraft of choice and an aircraft in demand, as we come to the other side of this in 2023, 2024. As I mentioned before, we deliberately positioned our overall strategy in our portfolio, and that -- if there was a trend to move into new technology quickly, AerCap will be best positioned for that, because we stayed away from buying any end of line current/old technology assets. We haven't bought or ordered any of those since 2011. So our exposure to that trend is less than many others as people moving rapidly out of current tech into new tech? So, I do think that it's very delicate balance and it's something I think we've managed pretty well and we'll see the benefit of that in the years to come.

Catherine Maureen O'Brien

Understood. Thank you very much for the time.

Operator

We will now move to our next question from Mark DeVries from Barclays. Please go ahead.

Mark C. DeVries

Yes. Thank you. Gus, you alluded to the fact that your equilibrium is determined more by airlines reaching their cash operating costs. Can you talk about how close we are to that? And how much more if any capacity needs to come out of the global fleet?

Aengus Kelly, Executive Director and Chief Executive Officer

I mean, look we're good bit away from that, I mean, on a global basis, that's the fact. Now, it's -- I think that we will need to get back to probably around 60 -- maybe close to 70%, because airlines would have done two things. The cash costs won't be the same as they were in 2019. So that's come down structurally as well. So, you don't need quite as much revenue to cover and where they'll be, they'll be more efficient. So I do think that we'll probably get closer to cash operating costs being covered if we can get to around 70-odd percent, depending on yields of course of where the airlines revenue base was in 2019, but we're just not there at the moment. There's a long way to go before we get to that. I can assure you, I don't see that happening -- decided anytime soon.

On the airplane side of things as well, we've seen a lot of the fleet grounded. As Pete mentioned and I mentioned, there really are about 21,000 large commercial airplanes in the world. And so we've seen 950 retirements, most of those are large airplanes. So the amount of seats that come in -- seats is what matters, not the number of shells, it's seats -- and seats are what you want out. So every time a very big airplane comes out, of course, that is a positive. And so we've seen over 5% of the global ASMs come out, but I do think we'll see more.

Also, I talked about production cuts of manufacturers. We saw another production cut today from Boeing, and so that's in addition to the 33% I said in my opening comments. I think we'll see more production cuts both from Boeing and Airbus as well to help us to get to that equilibrium. The reason is not out of any philanthropic nature from Boeing and Airbus, it's a reality. If they don't cut the production and they put in too many airplanes into the system, the airlines they're giving, forcing the airplanes into, will either file for bankruptcy or their competitors will file for bankruptcy and Boeing and Airbus will lose their order books.

So a much more sensible way to do it is restructure it with the lessee -- with the customers, excuse me, on a consensual basis and maintain the order book for some dates in the future. I think those discussions are still ongoing. I would be hopeful that tomorrow when Airbus release their results, we'll see another production cut there like we did from Boeing today.

Mark C. DeVries

Okay. That's helpful. And sorry, if I missed this, but did you talk about what your exposure to Aeromexico is?

Aengus Kelly, Executive Director and Chief Executive Officer

No. We have several 787s to Aeromexico. We had one 737- 800, an old airplane and that was taken back.

Mark C. DeVries

Okay. Got it. Thank you.

Operator

We will now take our next question from Helane Becker from Cowen. Please go ahead.

Helane R. Becker

Hi, everybody, and thank you very much operator. I just have a couple of questions. One, is on the pre-delivery deposits, will this come down, since you've deferred, so many aircraft and cancelled so many aircraft. Can you recapture some of that money?

Aengus Kelly, Executive Director and Chief Executive Officer

Yeah. So, the answer to both of those is yes, on both cancelling.

Helane R. Becker

Okay. Thank you. And then my other question is, you talked about having significant unencumbered assets. And is that -- how are you getting to that number? Is that a third-party appraisal or is that just your view of, I guess, list price of the aircraft that are unencumbered? How should we think about that number, because I get that question a lot, like how do you come up with that? And I probably don't ever have a really great answer for it.

Peter Juhas, Chief Financial Officer

Yeah, Helane, that's just if we look at our balance sheet, so we're carrying the aircraft and then subtracting the secured debt against those. So, -- but as you can see, it's an enormous number, $27 billion, so. And the reason we put that down there frankly is, like obviously, we're not looking to do anything close to that in terms of secured financing. But I just think it's (inaudible) to include that, because it is a very large number. And I think, in contrast, if you're looking at the airlines or others who are looking at I mean non-airplane assets to finance against, I mean these are hard assets. So I do think that gives us options as we think about financing in the future.

As I said before, look, most of our financing is unsecured now and will continue to be the case, but I think what you're seeing in the current environment is that it really does -- you do see the benefit of having all these different financial -- financing options. Certainly, as Gus mentioned before, our average cost of debt for the first half of the year 4.2%, that's a pretty good number in this environment.

Aengus Kelly, Executive Director and Chief Executive Officer

So Helane, it's just a net book value what we carry the assets at and it's very different sometimes if you think of what airlines their unencumbered assets, which can be confusing where you're assessing slots, gates, and rights, et cetera routes, which is very different, and ours are just hard aircraft assets.

Helane R. Becker

Okay, and then, just if I can sneak one more in. As the Norwegian lockups expire, would you consider selling the shares or will you be long-term holders?

Aengus Kelly, Executive Director and Chief Executive Officer

I mean, look, we're just going to assess that situation over time, and then we'll do what's in the best interest of AerCap and Norwegian for the long term.

Helane R. Becker

Okay. All right. Well, that's very helpful. Thanks guys. Have a nice day.

Peter Juhas, Chief Financial Officer

Sure.

Operator

We will now take our next question from Ross Harvey from Davy. Please go ahead.

Ross Harvey

Hi, good afternoon. Two questions for me. First, is just wondering can you help us bridge the sequential change on lease rate from Q1 to Q2, when you look at the moving parts like restructurings -- like say Norwegian and the non-recognition of revenue from bankruptcies and maybe the straight lining of rents from extension, just how it’s split out from one to the other?

And second question if I may, you mentioned that we should expect further changes on the delivery schedule based on the discussions that you're having. I'm wondering to what degree that's might impact H2 of 2020 or 2021? Or is it further down the line and maybe related to this, would you allocate capital to use rather than new delivery spots with some selected customers?

Peter Juhas, Chief Financial Officer Sure. So, I'll answer your first question, Ross. The main driver of the difference during the quarter was the aircraft that we've got on cash accounting, right, where we're not recognizing revenue and that -- so those are aircraft in bankruptcy or others where we think it's -- that’s weak at the moment. And in total, that was about $76 million in the second quarter. So normally, we would be getting that amount. So that was really the big driver in bringing down the revenues during the quarter. And then the other factors are, you got some aircraft where we've terminated the leases as a result of default, so we've brought those aircraft back and they're not earning revenue at the moment. So, it's a combination of those things, but cash accounting would be the biggest factor there.

Gus, you want to cover the second?

Aengus Kelly, Executive Director and Chief Executive Officer

Yeah. In terms of the sale lease back, I don't think we would do the used airplanes at this point. I think it would be more where we would stick to if there's better value in the new technology asset. I think that's where we would stick with, because I do believe that there will be a significant increase in supply and the demand for those sale leasebacks as the OEMs start to deliver significant numbers of airplanes in 2021. So, I think, you're -- you'd be better off waiting for that when there is probably a supply-demand mismatch in our favor.

Ross Harvey

Great, and just in terms of the CapEx by the way, would you expect much change for H2 '20 or 2021, or is it more further down the line that we might expect changes?

Aengus Kelly, Executive Director and Chief Executive Officer

I think in second half '20 unlikely. I mean it is now down at $900 million, and in the second half in 2021 at the $2.2 billion. I think, the vast majority of the movement there have occurred. Could see a few 100 million more move, yeah, but not the scale of what has happened over the course of last four months.

Ross Harvey

Okay. Great. Thank you very much.

Operator

As there are no further questions, I would like to hand the call back to Aengus Kelly for any additional or closing remarks.

Aengus Kelly, Executive Director and Chief Executive Officer

Thank you very much everybody. We look forward to speaking to you again in three months' time. I very much hope that at some point in that 3 months, we may get to see each other face-to-face. Thank you.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.