Q3 2024 Earnings Call

Company Participants

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

Other Participants

- Christopher N. Stathoulopoulos, Analyst, Susquehanna International Group
- Hillary Cacanando, Analyst, Deutsche Bank
- James Kirby, Analyst, JPMorgan Chase & Co.
- Moshe Orenbuch, Analyst, TD Cowen
- Ronald J. Epstein, Analyst, Bank of America
- Stephen Trent, Analyst, Citi

Presentation

Operator

Good day, everyone, and welcome to AerCap's Q3 2024 Financial Results. 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 {BIO 17672898 <GO>}

Thank you, operator, and hello, everyone. Welcome to our Third Quarter 2024 Conference Call. With me today is our Chief Executive Officer, Aengus Kelly; and our Chief Financial Officer, Pete Juhas.

Before we begin today's call, I would like to remind you that some statements made during this conference call, which are not historical facts may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements. AerCap undertakes no obligation other than that imposed by law to publicly update or revise any forward-looking statements to reflect future events, information, or circumstances that arise after this call.

Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated 30th of October 2024. A copy of the earnings release and conference call presentation are available on our website at aercap.com. This call is open to the public and is being webcast simultaneously at aercap.com and will be archived for replay. We will shortly run through our earnings presentation and we'll allow time at the end for Q&A. As a reminder, I would ask that analysts limit themselves to one question and one follow-up. Given the ongoing court case, we will not be taking any questions regarding our insurance claims on this call.

I will now turn the call over to Aengus Kelly.

Aengus Kelly {BIO 2460371 <GO>}

Thank you for joining us for our third-quarter 2024 earnings call. I am pleased to report another quarter of strong earnings for AerCap, generating adjusted net income of $463 million and adjusted earnings per share of $2.41. We also continue to generate very strong operating cash flows across the business, reaching a record $5.6 billion for the last 12 months. These results reflect the widespread demand for our assets, the ongoing constraints on OEM deliveries and our continued focus on execution. As a result, we are pleased to increase our earnings guidance for the year from $10.25 to approximately $10.70. As a reminder, our guidance does not include any gains on sale in the fourth quarter.

We have spoken many times about how we expect the supply constraints to persist for many years to come, which we expect will continue to add further upward pressure to aircraft and engine values. This position was further reinforced by the commentary from the various engine and airframer manufacturers over the last fortnight.

Despite this backdrop, we continue to improve the quality of our fleet with the delivery of $1.8 billion of new technology aircraft, engines and helicopters in the last quarter. We also added a further $500 million share repurchase authorization in September, taking total authorizations year-to-date to $1.5 billion. And we announced a dividend of $0.25 per share for Q3, which will be paid in early December.

Demand for leasing continues to be reflected in our consistently high levels of activity. In Q3, AerCap executed 226 transactions across aircraft, engines, and helicopters. This comprised of 160 lease agreements, 41 purchases, and 25 sales. Our utilization rate, which measures the percentage of our fleet, which is currently on a revenue-generating lease was 99%, the highest since the pandemic. Further, extension rates exceeded 90% demonstrating continued demand for older aircraft. Both of these measures show the consistent and recurring earnings power of the business and translate into higher cash flows and increased profitability for our shareholders.

On the sales side, where the financial benefits are seen more immediately, I am pleased to report another strong quarter of activity, leading to unlevered margins of 27% in the quarter or approximately 2 times book equity. The aircraft sold had an average age of 17 years and were predominantly sold to airlines or part-out specialists. It always gives me satisfaction and comfort to see aircraft, especially older variants, sell at large gains on sale. This validates our approach to valuation, depreciation, and portfolio management. Ultimately, this is the best proof of the conservative nature of the carrying value of AerCap's book equity on our balance sheet. It's your 25-year litmus test, and we have done this successfully and consistently for almost two decades.

On the purchase side, our investment in new technology equipment continued with the delivery of 27 aircraft, including A220s, A320neo family aircraft, 737 MAXs, Embraer E2s and a 787. On the engine side, we also took delivery of a further 13 new technology engines, including a mix of LEAPs, GenXs, GTFs and one H175 helicopter.

The Boeing strike, which began in mid-September did not have much of an impact on deliveries given it occurred so late in the quarter, though we have not taken delivery of any MAX aircraft since then. Given the ongoing strike, it's hard to predict what impact this will have on the rest of the year. But we have so far pushed 8 aircraft from 2024 into 2025 and subsequently into 2026. We are also seeing delays at Airbus, and as you'll see from our updated delivery schedule, we have moved 15 A320neo Family aircraft out of 2025 and into 2026. So as we have said in the past, this is not just one manufacturer's issue.

To wrap up, with global traffic growing at 12% year-on-year through August and the delivery delays from the aircraft and engine OEM set to continue through the end of this decade, the environment for aircraft leasing remains strong, underpinning the profits and cash flows of our business. This dynamic and the broad-based demand for AerCap's assets supported a record operating cash flow performance and a positive outlook for AerCap's future.

With that, I will hand the call over to Pete for a detailed review of our financial performance and favorable outlook for 2024. Thank you.

Peter Juhas {BIO 16582554 <GO>}

Thanks, Gus. Good morning, everyone. Our GAAP net income for the third quarter was $375 million or $1.95 per share. The impact of purchase accounting adjustments was $107 million for the quarter or $0.56 a share. That included lease premium amortization of $31 million, which reduced basic lease rents, maintenance rights amortization of $44 million, which reduced maintenance revenue and maintenance rights amortization of $32 million, which increased leasing expenses. We also had $4 million of recoveries related to the Ukraine conflict.

The tax effect of the purchase accounting adjustments was $16 million or $0.08 a share. So taking all of that into account, our adjusted net income for the third quarter was $463 million or $2.41 per share.

I'll briefly go through the main drivers that affected our results for the third quarter. Basic lease rents were $1.605 billion, an increase from $1.568 billion in the second quarter. Basic lease rents reflected $31 million of lease premium amortization, which reduces basic lease rents. As a reminder, lease premium assets are amortized over the remaining term of the lease as a reduction to basic lease rents.

Maintenance revenues for the third quarter were $161 million. That reflects $44 million of maintenance rights assets that were amortized to maintenance revenue during the quarter. In other words, maintenance revenue would have been $44 million higher or $205 million without this amortization.

Net gain on sale of assets was $102 million for the third quarter. We sold 22 of our owned assets during the third quarter for total sales revenue of $479 million. That resulted in an unlevered gain on sale margin of 27% for the quarter, which was one of the highest margins we've ever had. As of September 30th, we had $521 million worth of assets held for sale, including 16 aircraft and 18 engines.

Other income was $79 million for the quarter, which consisted primarily of interest income and certain one-time items. Interest income has been higher this year as we're seeing higher interest income on our cash balances due to higher interest rates. Interest expense was $516 million, which included $22 million of non-cash mark-to-market losses on interest rate derivatives.

Leasing expenses were $275 million for the quarter. This includes $32 million of maintenance rights amortization expenses, as well as a $140 million increase to our credit loss provision. Income tax expense for the third quarter was $61 million, which represented an effective tax rate of 15.5%.

We continue to maintain a strong liquidity position. As of September 30th, our total sources of liquidity were approximately $23 billion. That compares to uses of around $13 billion, resulting in a next 12-month source uses coverage ratio of 1.8 times and excess cash coverage of around $10 billion. Our leverage ratio at the end of the quarter was 2.4:1, basically the same as last quarter.

Our operating cash flow was approximately $1.4 billion for the third quarter, driven by continued strong cash collections. Our secured debt to total assets ratio was 12% at the end of September, same as last quarter, and our average cost of debt was 4%.

During the third quarter, we bought back 5.5 million shares at an average price of $91.03 for a total of $497 million. We also paid our second quarterly dividend of $0.25 a share. Our book value per share was $90.66 as of September 30th, an increase of 16% over the last 12 months, notwithstanding our payments of $0.50 a share in dividends during that time.

On our last earnings call, we raised our guidance for full-year adjusted EPS to around $9, excluding gains on sale, plus $1.25 of gains on sale in the first half of the year for total guidance of $10.25 for the full year. We're still expecting around $9 of EPS for the full year, excluding gains on sale. We had another $0.45 of gains during the third quarter, so we're now raising our overall guidance for full year 2024 to around $10.70, not including any gains on sale for the fourth quarter.

Overall, AerCap continued to perform very strongly during the third quarter. We continue to see a strong environment for leasing, which you can see from our utilization rate of 99%. It's also a strong environment for aircraft sales. which was reflected in the volume of sales and the very high gain on sale margin this quarter, as well as in the $521 million of assets we currently have held for sale.

We're continuing to generate strong cash flows that in turn result in greater profitability and more financial flexibility, and we're deploying capital towards attractive aircraft and engine opportunities. We also continue to return capital to shareholders. During the third quarter, we bought back close to $500 million worth of stock, bringing total share repurchases for the first nine months of this year to $1.2 billion. And of course, we recently announced a new $500 million share repurchase program, that reflects our confidence in the value of AerCap and our outlook for the future.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) All right, we'll take your first caller. That will come from Jamie Baker from JPMorgan. Please go ahead.

Q - James Kirby {BIO 20901295 <GO>}

Hey guys, this is James on for Jamie. Can you hear me?

A - Joseph McGinley {BIO 17672898 <GO>}

Yes, we have. Go ahead, James.

Q - James Kirby {BIO 20901295 <GO>}

Okay, great. I just want to start off with maybe a two-part question on the macro picture and the relationship between easing global interest rates and the ongoing supply shortage. The first part, do you think as capital becomes cheaper to raise, is there any fear of more undisciplined capital entering the space? Or is it really not a concern with lease rates kind of having to remain strong here? And then the second question, has there been any pushback from the airlines that lease rates relative to margins are approaching untenable levels? I guess, we're just hearing that there has been some airlines that are starting to kind of say that lease rates here are too high.

A - Aengus Kelly {BIO 2460371 <GO>}

Well, in the first question regarding the movement in interest rates and how that is affecting the sector. As it relates to new capital being raised, I mean, the sector has proven itself to be a very attractive sector over the last 15-odd years. It's a hard dollar asset. The value of the asset is fairly stable. That's something that people realized, in particular, through COVID and the various issues before that, that people see this as a very stable asset and one that's highly investable.

So whether interest rates were high or low, we've seen solid demand from investors. And that really is as the industry has matured and become much bigger over the course of the last 10 years, 15 years. There's been a steady increase in understanding of the industry. And you see that, of course, in asset sales. The people we sell to are smart people, and they understand the value of the assets and they understand that it's a fairly durable and steady return those assets will generate. So I wouldn't be concerned about movements in interest rates to how it's impacting the sector.

Generally speaking, of course, low interest rates will bring in the extra marginal buyer of assets, which is no harm given that we're a seller to those guys. As it relates then to the airlines and the lease rates, I mean, that's some airlines talk in their own book. That's rubbish, candidly. Lease rates are such a tiny fraction of an airline's P&L. They're completely and utterly meaningless. One fraction of an increase of a pilot's unions contract is what they should be looking at. That has many, many, many more multiples and impacts than anything to do with lease rates. Just look at the P&L of an airline. For an airline to say that, you have to question their competence.

Q - James Kirby {BIO 20901295 <GO>}

Completely understand, and that's helpful. Thanks. I guess for a second question, just on the sales environment, 27% gain on sale this quarter. I know you can't comment too far ahead, but is there any reason given the macro backdrop that isn't sustainable into 2025? And I guess, just a broader question, if you can remind us kind of what is the relationship between interest rates and the sales environment going to 2025 with a lower rate environment?

A - Aengus Kelly {BIO 2460371 <GO>}

Sure. I mean, look, obviously, if you're selling a fixed stream of cash flows and interest rates are lower and you wrote that business in a higher rate environment, you should prosper. So you should get a higher sales price. But of course, on the far side, you have to realize we run a hedged book. we always have, which is what has made our profitability so stable for 20 years by doing that and not taking interest rate risk.

So therefore, when you sell the high-yielding asset, you will have higher cost debt behind us. So, there will be a broken funding or breakage charge associated with that just to be -- that's really the key to the whole business and for any investor in the company to have seen that demonstrated year in, year out that movements in interest rates are not a driver of performance of the business provided the business is hedged, which we've always been. So that's really how we think about the interest rates as it relates to margins.

Look, the industry is strong. We buy assets well. But crucially, what really differentiates you over time on asset value, particularly as it ages, is your ability to preserve the value and maintain the value of the asset. And that's where it comes down to the in-house expertise of how to manage shop visit, landing overhaul visits, APU visits. Our single biggest controllable cost in the company is not depreciation, it's not interest. They're fixed the day you buy the asset or fund it.

On a day-to-day basis, it's your maintenance spend and then have you been efficient in that spend? Have you built the engine or the airframe to a level that makes sense where you're maximizing the value and not overbuilding the asset where you're never going to get paid back for it. So they are the real things that drive value, and we're the best in the world at it. And so, as I look into next year, where we are at the moment, if it continues, I think we'll -- we should see robust gains, but we never really just sell for gain on sale. We're always looking to optimize the portfolio for the long term and that's how assets are selected for sale, not for gain generation, which has never been our MO.

A - Peter Juhas {BIO 16582554 <GO>}

James, I'd just add one thing on the gain on sales. Another driver here that we're seeing is we've got hard assets in an inflationary environment. And so irrespective of where interest rates go, we are seeing inflation in the residual values of those assets and the maintenance condition of those assets. And I think that is driving it pretty much across the board in terms of those margins.

Q - James Kirby {BIO 20901295 <GO>}

Got it. That's really good color. I appreciate the color, guys. Thanks.

Operator

We'll hear next from Hillary Cacanando from Deutsche Bank.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Hi, thanks for taking my question. Regarding the $140 million credit loss, I was wondering if you could give us a little more detail. Specifically, I was wondering if this had to do with the Azul restructuring or perhaps some other existing accruals. And I guess, more importantly, I just want to make sure that we wouldn't see any additional impairments related to this accrual going forward?

A - Aengus Kelly {BIO 2460371 <GO>}

Sure, Hillary. You are correct. That is a provision we have taken against our -- the Azul exposure we have. Now there's some background to that, which is that both AerCap and GECAS unusually had significant exposure to the same carrier. It was one of the very rare overlaps of significant exposure, which was generally a highly diversified and complementary customer base. But this was one where we both had exposure. Azul did not go through a restructuring during COVID. So this is a legacy COVID receivable and the only significant one we have on the balance sheet. There isn't anything else like it on the balance sheet. And we decided to be proactive as is our want and has been our track record, and we've taken a provision against it.

Maybe, Pete, do you want to comment on the provision?

A - Peter Juhas {BIO 16582554 <GO>}

Sure. So Hillary, this is -- even though this is likely to be a fourth quarter event, we thought it made sense to take this provision in the third quarter. And really, it reflects what we expect to be the outcome of that restructuring. We think we've fully provided for it. And as Gus said, I think that's consistent with how we approach these things generally that we always want to be upfront and addressing risks that occur. So I think we're fully covered there going forward, and I wouldn't expect anything else.

A - Aengus Kelly {BIO 2460371 <GO>}

And as you noted there in the quarter, despite that, of course, we've hit our number. We've raised the outlook. And importantly, cash, you saw a record operating cash number for the last 12 months of $5.6 billion industry-leading in any metric.

Q - Hillary Cacanando {BIO 18940405 <GO>}

That's great. So yes, so no further impact in the fourth quarter. That's great. And then you spoke a little bit about Boeing and the supply constraints and also delays from Airbus. And I know that, obviously, that's really good for the demand for your assets. But is there -- at some point, like would you say that could be -- that could -- with Boeing strike, if that continues to go on for months and months, like at what point could that be considered harmful for the lessors and for you guys?

A - Aengus Kelly {BIO 2460371 <GO>}

Look, none of us want the strike to go on for months and months and months. There are unintended consequences you can't see from that, Hillary, I suspect it would mainly affect the in-service fleet as well. It won't be immune because you'll need parts, you'll need Boeing's help to repair aircraft to transition aircraft. There's a lot of unforeseen things that the Boeing strike will affect over time. It's not straightforward, just saying it's a lack of deliveries. There are other things that will come about because Boeing has a very important place in the aftermarket as well. And so, we would certainly hope for a speedy resolution of the strike.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Okay. So your fourth quarter guidance does not include any delivery assumptions from Boeing?

A - Peter Juhas {BIO 16582554 <GO>}

We've got -- we have some deliveries in the fourth quarter, but we reduced that number, Hillary. And we also pushed out about two dozen aircraft out of 2025 to 2026, both Boeing and Airbus, just given the ongoing delays.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Got it. Great. Thank you so much.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

(Operator Instructions). We'll hear next from Stephen Trent from Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning or -- excuse me, good afternoon in your case, and thank you for taking my questions. I was going to ask, I remember on the last call, you mentioned optimizing your global exposure. And how long do you think it takes before you get down to an acceptable level of exposure to the Chinese market? Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure, Stephen. And as we said, we peaked at 20 -- 21-odd percent of the portfolio three years ago, I believe it was. Today, we're down to 13.5%, and that's going to continue to trend down. So that's a fairly big reduction from 21-odd percent a few years ago, now down to 13.5%, and it will continue to keep going down, Stephen. And we said at the start of the year, we'd get to down around 13%, and that's where I expect us to end up pretty much there anyway.

Q - Stephen Trent {BIO 5581382 <GO>}

Great. I appreciate that, Aengus. And just my quick follow-up. Aircraft lessors have seen some really important market share gains over the past 20 years. And as you think about where things stand today and where they could be three years to four years from now, would it be unreasonable to assume that aircraft lessors pick up even more share from the OEMs?

A - Aengus Kelly {BIO 2460371 <GO>}

I think they'll pick it up either from the OEMs or from the airlines. I mean, I think that is inevitable. The business has been growing considerably. More and more airlines are realizing that they do have a cost of capital that isn't the price of a convertible bond. And that the cost of equity is materially higher to an airline than many have thought in the past.

And then I think as new management teams come in and they look at it and say, is the best use of our capital just to sit on hard assets that we don't really know how to trade that, yes, they carry our passengers on, but we must be one of the very few forms of transport that still insist on owning a significant portion of those assets and having what I would look at for some of them a deeply inefficient approach to capital allocation. So I think that's going to change.

I think investors will force that change one way or the other, particularly post-COVID as new types of investors are starting to come into airlines and airlines are reacting to it. So I would imagine that the days the dinosaurs are left behind airlines that are focused on trying to own most of their fleet, don't see it happening. So I think for that reason alone, not to mention the fact that they need lessors anyway, I'd be pretty confident that the market share of lessors will continue to grow. As you say, it's been extremely strong growth over the last 15 years. By value, I'm sure we're well past 50% of the world's fleet today in the hands of lessors.

Q - Stephen Trent {BIO 5581382 <GO>}

That's super helpful. Thanks so much.

Operator

We'll move next to Moshe Orenbuch from TD Cowen.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great. Thanks. And maybe just as a follow-up to that, Gus, given that you're well below better than your leverage target, you've got significant capacity as we sit here and the deliveries are continually delayed. I mean, do you think the scenario that you just laid out manifests itself over the next couple of quarters? Or do you think there's going to be a period of more accelerated buybacks first, then followed by that? How do you think it plays out from an industry standpoint and how AerCap participates in that?

A - Aengus Kelly {BIO 2460371 <GO>}

Well, Moshe, as you know, we are indifferent to how we -- what avenue we choose to deploy capital. The key is that it's in the best interest of the shareholders of the company in the long term and creates the best value for them. And so if that happens to be a deal like we did during the year where we took over as part of an airline's order book, or like as we said, we just announced another large share buyback program. We've been buying back a lot of shares. And you saw us, of course, buy a lot of engines during the year as well, whichever offers the best opportunity.

It is important to note, though, that while the CapEx has been deferred, it hasn't been eliminated, and it is coming down the track, too. So in some respects, if you spend it all today, you're borrowing from the future a little bit, something we've never done because we've always put the balance sheet first. But certainly, look, we've been big buyers of the stock program. You're right, the balance sheet has delevered. The operating cash flow of the business is extremely robust. And don't forget, of course, that operating cash flow excludes gain on sale. But as I said, we will deploy the capital where we think it creates the most value for the shareholders.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Got it. And just as a quick follow-up on the Azul restructuring. I mean, congrats on getting ahead of the financial impact. Just wanted to just make sure that, that is -- that's your view that this is the P&L impact. And going forward, it should have only whatever you realize from the planes from a revenue standpoint.

A - Peter Juhas {BIO 16582554 <GO>}

Yeah, that is our view, Moshe. I mean, look, we think that we have fully provided for it. That was the -- that was our intention, certainly. The restructuring is still in process, right? So we'll have to see how that plays out. But we think that however that happens, we believe that we're fully provided here.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great. Thanks so much, Pete.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

(Operator Instructions) We'll move next to Ron Epstein from Bank of America.

Q - Ronald J. Epstein {BIO 4430430 <GO>}

Hey, guys. Good morning, or good afternoon. A quick question. If we go back to the investor event, the Capital Markets Day, you mentioned, Gus, when you thought you'd see like a supply and demand balancing out in the narrow-body market. I think you mentioned kind of what the late 2020-time frame. Given where production has gone since you guys spoke to the market, Airbus seems to be behind where everybody thought they would be, and Boeing most certainly is. Where do you think that happens now? I mean, when do you get into equilibrium for kind of aircraft supply and demand, in particular, in the narrow-body market? When does that happen now?

A - Aengus Kelly {BIO 2460371 <GO>}

Well, -- and Ron, it's a fair question. And you're right at the Capital Markets Day, I said at the end of the decade, the late 2020s. I think that's probably now right at the end of the decade, maybe '29, 2030 before that happens. As you pointed out, it's not just focused on Boeing. Of course, Airbus have their challenges also. But I suppose the best -- that's commentary. But the tangible data I can point you to is look at the behavior of the customer base of AerCap, the biggest owner of aircraft in the world. What are our customers doing on a global basis with older assets? Are they handing them back? No, hardly ever. What they're doing is buying them, so they have control of their capacity for years to come. If they thought that this was a short-lived issue of a couple of years, which would take us to 2027 almost, they would be asking for lease extensions of a short-term nature. But they're our biggest buyer of assets and have been for some time. Further, our extension rates are at 90%, the highest ever, which again indicates -- and they are longer-term extensions. They're not short extensions. And that again indicates what the customer base sees, which is they also subscribe to our view of the world that this is a prolonged issue. And it's not just Boeing and Airbus, it's all about the amount of time that these new assets are spending in the repair shop.

Turn times on engines are longer. Time on wing of those engines is shorter of these new technology engines. That is one example. The same is true of other aspects of these aircraft, be it auxiliary power units, avionics, things take longer in the shop to come back to repair and overhaul, which means the demand for used aircraft will continue to increase because if you had five aircraft of 737-800s, you may -- and this might be an extreme example. It's not quite this ratio, but for the purposes of the example, you may need six new technology, MAXs to have the same number of flying hours.

Now that's an extreme example. It's not quite that bad, Ron, but there is a significant amount of time on the ground for these aircraft. And that technology ultimately will mature as well. It will get a bit better. We've been saying that for some time. But I believe that technology will continue to improve slightly, particularly on the engine side, we know there are performance improvements coming that will be installed into these engines, but that all takes a fair bit of time. So -- and obviously, Pratt and Rolls-Royce are at the front of that with the Rolls-Royce issues and the Pratt issues.

Q - Ronald J. Epstein {BIO 4430430 <GO>}

So that begs two more questions, if I may. One, is the behavior of the customer just changing? I mean, are airlines readjusting their fleet expectations? I mean kind of think about sort of a secular shift to just having older fleets, and that's just the way it's going to be that we did see this trend towards younger fleets for a while. Is that just kind of permanently reversed? I mean, everybody is going to keep their airplanes longer? That's my first question. And the second question is, given the environment we're in, does this really beg that the world needs a third manufacturer? And I know there's supply chain constraints.

A - Aengus Kelly {BIO 2460371 <GO>}

We don't need a third one. I don't want a third manufacturer. We have enough problems with two of them. I don't think three make it any better. But our airlines keeping aircraft for longer? Yes, they are. Do they want to do that? No, they don't. You know well, Ron, that an airline is such a massive operating leverage business that anything that creates complexity in that operating model creates cost, creates uncertainty, creates delays, creates problems.

Everything they can do to streamline they want to do. So if they could, they would, of course, love to transition into a single fleet type, single pilot contract, single spare parts pool, single-engine type despite the fact that it may not be as reliable, it's more efficient from a fuel burn, but very importantly, it's more efficient operationally. So while I think they're just facing the reality that until we get to a position where Boeing and Airbus are able to fill the order books, give or take on time that we just do have an extended life of older assets.

Q - Ronald J. Epstein {BIO 4430430 <GO>}

Got it. Thank you.

Operator

We'll move next to Chris Stathoulopoulos from Susquehanna International Group.

Q - Christopher N. Stathoulopoulos {BIO 20308003 <GO>}

Good afternoon, everyone. So following on this supply-demand question here, it does sound like now with the introduction of the strike risk here that this equilibrium is looking more realistically like an end-of-decade event. But I guess in your -- or it might have been, Peter, in your prepared remarks here, when you spoke about the strike and the impact, and what I thought was interesting, it's not just the lack of deliveries and that they play a meaningful place in the aftermarket. And that was a point that was interesting to me, and I think some folks at your Investor Day when you ran through the economics of the aftermarket with the engines and why that's sort of a natural gating factor the way the OEMs are incentivized never to oversupply the market. So given all that here, and let's assume here that this strike kind of bleeds into 20 -- the new year. Can you kind of walk us through sort of a little bit more nuanced view as it relates to the aftermarket and Boeing's place in that and then how that -- you see that playing out with customer behavior in your order book as well? Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Well, we certainly hope the strike doesn't last into the new year. Of course, we all hope that the world needs Boeing. But you're right, there's a lot of stuff that you don't see unless you're really in the business of what is happening in the supply chain and the aftermarket. Boeing itself is a huge distributor of parts. Boeing itself provides specific approvals or guidance for repairs to aircraft, for reconfiguration of aircraft that can't be done without their involvement. I'm talking about when you want to reconfigure the interior of a business class section, you may have to have Boeing involvement. All these things, airlines have planned that, they bought the seats. Now Boeing can't give their sign-off as to the new design of the aircraft, et cetera. So there's a lot of things going on in the background because of what is happening with the strike. And as I said, for many reasons, we hope that ends. But throughout the supply chain, turn times are just longer and longer. We don't see that changing next year.

Hopefully, it's too hard to comment on that, in 2026, but we have a reasonable visibility into next year. And we still see fairly elongated turn times. And how does that affect our order book of aircraft? Look, the overriding thing I said in my previous question was that airlines crave a simple operating model. And so, what they would really want is the most standardized fleet they could get their hands on. They know they have to transition into the new technology assets over time, but it's just not feasible to do it in the time frame they want. So it will go on for longer than they want. But there's -- as it relates to our order book, there's extremely strong demand for the order book, no question about that. The challenge, of course, as we all know, is delivering those assets on time, which I think it's fair to say, I suspect our order book will continue to shift to the right. We've given some guidance on that today, and you'll see it in the 6-K filing. But I wouldn't be surprised if they just do continue to shift right as we go through the next few quarters.

Q - Christopher N. Stathoulopoulos {BIO 20308003 <GO>}

Okay. Thank you. And my second question, there was a question earlier around your exposure to China. And I was wondering, can you give a little bit more detail in terms of what you're seeing regionally here? So in the US, just looking at some of the selling schedules from the carriers, supply-demand balance seems to be coming into a better balance, excuse me, for markets like Transatlantic, Asia, LatAm. Anything that sticks out us so far as regionally and so far as orders or carrier behavior, particularly with the news around the China stimulus? Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Well, the interesting one, I mean, that on the ground in China, there is no letup in demand for narrow-body aircraft. The domestic market there is extremely strong. And we think the near international market to China, as visa restrictions are dropped and passports are approved faster in China, that market will actually do well, we think, next year in Southeast Asia and the year after as China continues to open up because one of the issues in China, they did want to stimulate the domestic economy and therefore, issuance of passports was slowed down. It appeared anyway from the outside, and that's what we're hearing from the airlines so that the domestic economy was stimulated by people staying at home. That's changing. So that will be the one thing where you read headlines about the issues in the Chinese economy. It may well be the market there has been undersupplied for a long time because it was under-ordered and of course, there were no Boeing aircraft being delivered there. And that isn't -- there's a limited amount of Boeing aircraft being delivered over the last year, but -- and there hasn't been any orders. So that will be the one thing that kind of stands out.

The issues in the US market have been well documented by various commentators. I don't think we need to say much about that. Transatlantic market is still by far the richest market in the world and where all the long-haul guys really make their money. The Transpacific market slower, of course, because of the geopolitical tensions between China and the US, Southeast Asia to Europe slower, too, because of Russian airspace being closed and European carriers not being permitted to fly over Russian airspace. Chinese carriers can still fight through Russian airspace, but there's certainly a higher level of demand for the flag carriers out of Europe than maybe the flags out of China for a customer that has the discretion to go to either.

Q - Christopher N. Stathoulopoulos {BIO 20308003 <GO>}

Okay. Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

You're very welcome, and thank you all very much for joining us on the call. And we look forward to talking to you in a few months' time, if not before.

A - Joseph McGinley {BIO 17672898 <GO>}

Thanks, operator. You can end the call.

Operator

That does conclude today's teleconference. We thank you all for your participation. You may now disconnect.