ATR

Asia's lessors aim for revenue gains

Across Asia passenger demand is returning to pre-pandemic levels. However, as they seek to ride the robust upswing, critical supply chain issues are now holding back lessors and airlines alike. **Tom King** looks at the numbers.

DESPITE THE CHALLENGING MACRO ENVIRONMENT of high interest rates, sticky inflation and geopolitical risks, there is no shortage of funds for the leasing sector and most lessors are in a reasonably stable financial position with decent balance sheets.

According to research from Singapore banking group DBS, Asia Pacific is expected to drive growth in global air passenger traffic in 2024, buoyed by the resurgence in countries that were slower to reopen, such as China.

In May, the International Air Transport Association (IATA) released data for March 2024 showing global passenger demand on the rise. Asia-Pacific airlines were recorded as leading the way, with a 38.5 percent year-on-year increase in demand.

Capacity also increased 37.4 percent year-on-year and the load factor rose to 85.6 percent (+0.7ppt compared to March 2023), the highest among all regions. The indicators and the facts point in the right direction for a strong and lasting industry recovery in Asia. Passenger demand is strong and still rising.

Major routes from Asia-Pacific are also logging excellent growth, prompting some Asian-based airlines to look at adding wide body jets to their fleets, to break out of their geographical comfort zone but there is an anomaly for airlines and the lessors active in Asia hoping to exploit the promising blue skies, there are not enough aircraft to lease.

Asian-based and Asia-focused aircraft leasing companies carefully

◀ *Turboprops are proving popular in Asia as a way for regional airlines to expand established operations or start new routes.*

piloted their way through the COVID-19 crisis, backing and accommodating their clients with flexible financial conditions. But without any "stock" the current challenging business environment for lessors in Asia sees them in a frustrating holding pattern.

SUPPLY, DEMAND AND UPWARD PRICING PRESSURE

According to several lessors the industry is currently facing a supply-side constraint that has not been so acute for a decade. A spokesman for Singapore headquartered BOC Aviation said: "The issue is that whether airlines are dealing with OEMs or with lessors, they face a long wait for access to lift. We are sold out for 2024 and most of 2025, which is the same pattern at other lessors and if you order an aircraft today from Boeing or Airbus, late 2028 appears to be the earliest one could deliver depending on model and manufacturer."

Other industry insiders *Asian Aviation* spoke with shared this view, stressing that there will likely continue to be a demand-supply imbalance for the medium term, and for airlines trying to lease more aircraft or lengthen lease terms of existing aircraft they should expect to see their costs rising sharply due to the real and limited availability of assets.

In its recent analysis of the sector, Dutch banking group ING said supply shortages, extra maintenance, aircraft production issues and delays are causing operational challenges, which could translate into limiting growth and slowing business for lessors.

On Airbus aircraft ING points out that in late 2023, Pratt & Whitney mandated inspections for turbofan engines on Airbus A320NEOs due to cracking risks, grounding 600 to 700 aircraft for up to 10 months. This action is also expected to affect up to 350 units in 2024, reducing global fleet capacity by almost 2 percent. The Airbus difficulty is expected to extend into 2025, further straining maintenance resources and limiting new engine production.

Boeing meanwhile faces a number of production setbacks after accidents with the B737 MAX in 2018 and 2019. Adding to its setbacks, after the door detachment on Alaska Airlines Flight 1282, which led to the grounding of Boeing 737 MAX 9 aircraft, the supply chain issues of Boeing 737 MAX aircraft was exacerbated adding to the general scarcity of aircraft supply.

Boeing's production backlog exceeds 3,000 aircraft, aggravated by FAA restrictions, primarily affecting US airlines, but with an obvious knock on effect to Asian lessors too. This perfect storm and confluence of events snaring Airbus and Boeing is now putting pressure on aircraft availability, which naturally in turn is sending lease and rental rates higher.

▲ *Lessor Azorra is seeing healthy demand in Asia across all aircraft types, including smaller 100-150-seat crossover jets.*

◄ *John Evans, CEO and founder of Florida-headquartered lessor Azorra.*

On the back of this, used market prices and lease rates have risen significantly, especially for narrow-body single-aisle aircraft ING said.

According to the Dutch bank rates of the A321 have risen some 18 percent in early 2024 compared to a year earlier and rates for a B737 MAX 8 have also surged 19 percent to US$400,000 a month. This direction is expected to continue in 2024. With the delays, leasing rates for widebody aircraft such as A350/B787 are also under upward pressure.

With close to 60 percent of the global aircraft fleet being leased out and owned by companies active in the Asian leasing market such as Aercap, SMBC and Avolon, airlines in Asia are currently looking into lifetime extensions with industry insiders saying lease terms are being extended to keep flying schemes afloat, while the demand for older, used aircraft is also climbing.

Underlining that view, at his company's earning's call in March this year, Steven Townend, chief executive of BOC Aviation said: "The effects of this supply-side shortage have been intensified competition for aircraft, rising lease rates and improving valuations for both new and used aircraft. All of our 2024 lease maturities are placed or subject to sale agreements, while all of our 2024 orderbook deliveries have been placed at attractive rates against this backdrop. Our airline customers' financial health continues to improve on the back of strong travel demand and despite the limited supply of aircraft. This supports an environment of greater aircraft utilisation and higher lease rates, allowing our business to further improve its profitability. Funding markets remain supportive and falling interest rates later in 2024 should remove pressures on our leasing margins," Townend added.

John Evans, CEO and founder of Florida-headquartered lessor Azorra told *Asian Aviation*: "We are certainly seeing healthy, and increasing demand in Asia across all aircraft types, including widebodies and especially, a new trend in Asia, towards smaller 100-150-seat crossover jets. This demand in the crossover space is driven by shifting post-pandemic travel patterns and airlines seeking to expand into new markets with lower risk, lower trip cost aircraft. The supply of aircraft, especially due to production disruptions and delays, has indeed become a significant issue that is likely to persist for several years. Azorra has helped to fulfil some of the crossover capacity demand with our near-term order book Airbus A220s and Embraer E190/195-E2s, and by redeploying current generation aircraft upon lease expiries from other regions into Asia."

Conversely, speaking at a travel focused forum in Vietnam recently, the CEO of Vietnamese airline Bamboo Airways, Luong Hoai Nam, highlighted the current caution from the lessee's point of view when

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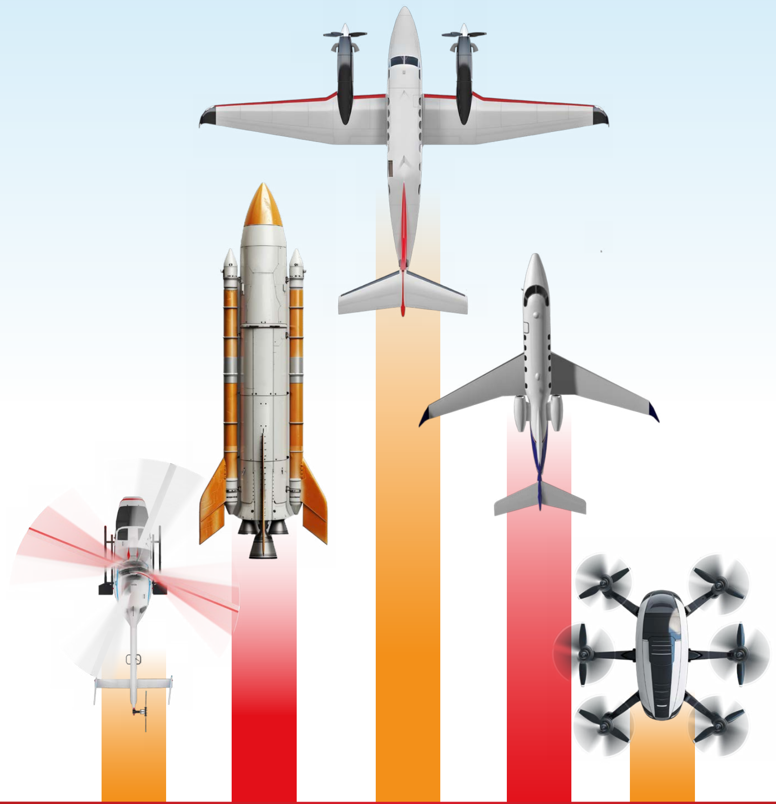

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he said the increase in aircraft lease rates is making carriers reluctant to expand. "If leasing more jets results in higher profits we would have done that already," he stressed.

CAN AN ASIAN OUTLIER BENEFIT?

With Boeing and Airbus orderbooks full and maintenance issues adding to the bottleneck, some industry experts think the timing could now be ideal for China's nascent global aircraft manufacturer the Commercial Aircraft Corp of China or COMAC to muscle in on the leasing monopoly of Airbus and Boeing. There was an initial buzz around Comac's official commercial unveiling of its C919 jet, the plane that the Shanghai-based manufacturer sees as a rival to the Airbus A320 and Boeing's 737 MAX, at this year's Singapore Airshow in February.

However according to Air Lease Chairman Steven Udvar-Házy, COMAC's dilution of the Airbus/Boeing leasing market dominance is not likely to be a factor at least in the short term, due to Comac's lack of a global support structure or technical support training. He added that Air Lease has no plans to acquire any COMAC C919 jets.

Ironically, despite its global ambitions, COMAC too has a full orderbook for the C919, albeit from domestic Chinese airline firms and lessors, which according to COMAC are in the region of 1,500 orders. But its mere presence has industry executives at least now thinking of the Comac option. Speaking at an industry forum in Hong Kong in March Cathay Pacific Chief Executive Ronald Lam described the possibility when he coined the phrase, "an ABC market, Airbus, Boeing and COMAC."

REGIONAL SECTOR ROBUST

One niche but growing area where lessors could find some joy is in the growth of flights between second and third-tier cities across Southeast Asia, communities that until recently have been seriously underserved.

Carst Lindeboom, sales director Asia Pacific at specialist regional aircraft lessor TrueNoord, said: "In general, at TrueNoord see a similar trend in the regional sector, with high demand and low availability due to supply chain issues, albeit to a less extreme degree than in the narrowbody market. Current database storage statistics are no indication of aircraft actually available in delivery condition. Many of the still grounded regional jets and turboprops require significant work before re-entry into service, making this very much a supply chain, rather than a market, issue. But there is still upward potential, as leases are being extended by operators and OEM slot availability is scarce due to low production rates," he says. "TrueNoord owns Q400s and ATRs, and we are seeing strong interest for turboprops in good condition. In the APAC region, especially Southeast Asia, there is particularly high demand for turboprops. Current leases which are nearing expiry are either being extended or are subject to a healthy list of potential next operators. We believe there is upside potential on lease rates in the regional sector, given that current pricing still reflects some of the COVID pressure, unlike lease rates for narrowbody aircraft," Lindeboom says.


TRUENOORD

▲ *Carst Lindeboom, sales director Asia Pacific at TrueNoord.*

He adds that the outlook for regional jets is pretty much the same. TrueNoord owns and leases E-jets and CRJ900s, with strongest demand from Europe and Australia, and his firm sees headroom for lease rentals to grow.

"Used regional jets, mainly E190s, are replacing the Fokker 100s and B717s currently serving fly-in fly-out (FIFO) business. The lower capital costs of used E-jets, combined with the good galley facilities and baggage allowance they offer, makes them unbeatable in the FIFO market," Lindeboom said. "Again, many of our expiring regional jet leases are being extended, as operators are choosing to stick with the reliability of current generation aircraft, given the woes of the GTF engine."

He points out that new regional jet operators are also emerging in Southeast Asia, following the E190-E2 inauguration by Scoot in Singapore.

CDB AVIATION ON THE MOVE

Established in 2016, CDB Aviation has had an active 2024 to date. In May, the Hong Kong listed and Dublin and Hong Kong-based lessor, backed mainly by the China Development Bank, acquired four aircraft from Avolon including one A330-900, two A321neo, and one A320ceo aircraft that contain both fixed and floating rate leases with CDB Aviation's existing and new airline customers. That move came on the back of CDB Aviation's agreement of new lease agreements for a fleet of an additional seven narrowbody and widebody aircraft with its existing customer, Turkish Airlines.

Under the agreements, one used Airbus A330-343 was delivered in May 2024 to support the expansion of Turkish's mainline international operations, while another six Boeing 737 MAX 8 aircraft will be received between 2025 and 2026 by the carrier's newly established subsidiary, Ajet.

With the addition of the aircraft, CDB Aviation now has 17 aircraft on lease to the carrier, including 12x737 MAX 8, 1x737-800, 1x777-300ER, 1xA321neo, 1x A320neo, and 1xA330-343.

While in January, amid a tight supply, CDB secured a new Asian-based client inking a lease agreement for two used Airbus A330-300s with Thai Airways.

Underpinning its recent activity CBD Aviation signed an inaugural Sustainability Linked Loan (SLL) anchored with a US$625 million syndicated term loan facility. The SLL parameters of the facility are contingent on the satisfaction of Sustainability Performance Targets (SPTs), based on the lessor's three Key Performance Indicators (KPIs).

The KPIs CDB is committed to include two environmental goals that encompass reducing the carbon intensity of the CDB Aviation's fleet, focusing on the most fuel-efficient aircraft, and increasing the share of new generation aircraft in the fleet, pursuing its target to reach 60 percent of new generation aircraft (by number of aircraft) by the end of 2025.

The third SPT CBD Aviation pledged to meet is a social commitment which will task the firm with increasing the level of Diversity, Equity, and Inclusion (DEI)-related training for its workforce.

OTHER DEALS OF NOTE

There has still been a flurry of deals within the first months of the year, although the deal flow is somewhat diminished compared to recent years. In February Air Lease signed a long-term lease agreement for three new Boeing 787-9 aircraft with Thai Airways. The aircraft will be delivered in 2025 to augment the Thai carriers flights to Europe, Australia and Intra-Asia.

April saw global aviation finance company Avolon agreeing the sale and leaseback of four new Airbus A330neo aircraft with the Philippines low-cost carrier Cebu Pacific with the first aircraft due for delivery in late 2024 and the final delivery scheduled for 2026.

Also in April In a landmark deal, Florida-based lessor Azorra made a breakthrough with its delivery of the first of nine new Embraer E190-E2 aircraft to the low-cost subsidiary of Singapore Airlines, Scoot. The deal marked the first Singaporean agreement for the Brazilian manufacturer. Scoot said the E190-E2 aircraft will be utilised on intra-Asian routes.

In mid-May, Philippine Airlines (PAL) entered into a five-month temporary wet-lease agreement for two Airbus A330-200s with a dual-class configuration, with charter and wet-lease carrier Wamos Air. The agreement took effect on June 01, 2024 and was struck the airline said to ensure PAL's effective fleet management and operational resilience during the upcoming peak travel period.

India, with its burgeoning wealth and a young aspiring population keen to travel, is on track to be a potentially fertile and lucrative hinterland for global lessors. The market however is still maturing and the airline industry infrastructure needs to catch up to satisfy the coming demand.

Meanwhile following the settlement of a number of commercial disputes, SpiceJet has agreed to lease 10 more aircraft including two Airbus A340s from an unnamed operator. Indian low-cost airline IndiGo also entered into a finance lease transaction with Singapore headquartered BOC Aviation for four Airbus A320NEO aircraft powered by CFM LEAP-1A engines. All four aircraft are scheduled for delivery in 2024.

The cargo sector in Asia has also seen leasing activity with AerCap announcing lease agreements for four 737-800 Boeing Converted Freighter (BCF) aircraft with JD Airlines, the cargo airline of JD Logistics (also known as Jingdong Logistics), which are scheduled for delivery in 2024.

The aircraft will be based in Nantong Xingdong International Airport and will operate routes between the major economic hubs of Nantong, Beijing, Shenzhen, Wuxi, and across Asia and could indicate an upturn of growth in the Chinese economy. AerCap already has three 737-800BCF aircraft on lease to JD Airlines.

Meanwhile ACIA Aero Leasing delivered two ATR 72-212 Large Cargo Door freighters to Australian FIFO and cargo air charter operator Aerlink. The aircraft will be operated for Qantas on an Australia Post contract.