



# BOEING CAPITAL UPBEAT ON MARKET GROWTH

News / Finance



**Boeing Capital projects that airlines and lessors generally will encounter few problems acquiring aircraft financing this year. It describes the market as healthy as order books remain strong, industry growth continues to outstrip GDP and airlines continue to turn more profits than they have in decades, all the while low fuel prices offset the effects on economies of the commodities crisis.**

Tim Myers, president of Boeing Capital Corporation, described the finance market as “very healthy” during a recent briefing in London. Boeing, he said, “did \$500 million of equipment last year.” Boeing projects the value of industry deliveries to total around \$127 billion in 2016. “And it will continue growing at a healthy rate,” noted Myers.

Aircraft purchases accounted for 24 percent of all acquisitions, thanks to the good state of airlines’ finances, allowing them to “deleverage their balance sheets;” 36 percent came from the capital markets such as pension funds and 27 percent from commercial banks. Export Credit Agencies accounted for around 11 percent, Myers suggested (down from a peak of 33 percent). “ECA financing continues to be at a fairly low level...we’re forecasting it will be down to 9 percent of our deliveries in 2016,” he noted.

Myers said that leasing companies now account for around 40 percent of deliveries in the market place “and the same is true for Boeing.” He said he believes that lessors will continue to enjoy ready access to capital markets, noting that such financing accounts for 53 percent of their funding. Meanwhile lessors rely on export credit for only 5 percent of their business, while 26 percent involve cash purchases.

Myers added that the asset-backed securitizations (ABS) market had come back strongly after almost entirely disappearing following the 2008 banking crisis. “There’s new equity coming into the aircraft finance sector...through the leasing sector...It’s terrific for our industry,” he said. “The Chinese banks all have leasing companies now. Banks [account for] the bulk of growth over the past five years and lots have offices in Dublin now.” Dublin has become the main center for aircraft finance companies and Myers had just presented at the annual Global Airfinance conference there.

He also suggested that “new types of structures” would emerge. “Some need this to remain competitive [versus] the new equity that is coming in,” he said, adding that the lease market remains extremely competitive.

Myers also said “returns have remained very consistent” in the EETC (Enhanced Equipment Trust Certificate) market.

He outlined “two ways to get business” for lessors, namely sale and leaseback deals with carriers, accounting for around 46 percent, and direct purchases from manufacturers, when they subsequently lease the aircraft to operators. The Boeing split now stands at 46 percent to 54 percent, which Myers described as a healthy ratio.

Myers also cited “an interesting split” between U.S. and non-U.S. airlines as access to EETC arrangements has proved “very beneficial” to U.S. airlines. However, non-U.S. airlines account for 25 percent of the market now, he noted. “They didn’t have access to that market five years ago,” said Myers, suggesting that the Cape Town Convention had helped a lot, allowing lenders to enforce against an asset in the case of a default. “The EETC market resurgence in 2015 will continue,” he predicted.

In debt markets, Myers said, Japanese banks “are coming back with sizeable dollars” but that “China funds China” even though Chinese banks had shown some interest in the rest of the world.

Generally, Myers said that the number of parked aircraft continues to decrease, particularly as lower fuel prices make older aircraft viable. Nevertheless, he insisted that demand for new aircraft remains as strong as ever. “Manufacturers can’t build aircraft fast enough,” he said. “[Boeing] delivered 762 aircraft last year.” Meanwhile, average aircraft utilization numbers have reached “historic highs” at 8.5 hours a day for single-aisle and 11.5 hours for twin-aisle aircraft, as have load factors, at some 80 percent.

Finally, Myers said he expects the industry to see a 2.5 to 3 percent rate of growth of replacement aircraft deliveries this year, and a 2.5 to 4 percent growth rate for additional aircraft, resulting in a total added before retirements of 6 to 7 percent. “We forecast that this will go to 9 percent by 2020,” concluded Myers.

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