

Air Lease Corporation

Air Lease at PAS: A discussion with CFO G. Willis and VP of IR J. Arnold

Maintain Rating: BUY | PO: 55.00 USD | Price: 41.48 USD

Key takeaways from management

We met with Gregory Willis, CFO of Air Lease (NYSE: AL), and Jason Arnold, VP of Investor Relations, at the Paris Air Show. We maintain our Buy rating on the stock. We summarize our key takeaways below.

On deliveries, more delays to come; No PMA parts allowed

Air Lease has received delay notices until 2025 on some aircraft. There is a shortage of narrowbody lift. Looking at what aircraft were supposed to be delivered since 2019, ex COVID and looking forward at the time, 7,000+ aircraft should have been delivered, but only 3,000+ have been.

Additionally, even in light of the current aircraft parts shortage, Air Lease still does not allow PMA parts (Parts Manufacturer Approval) on components other than aircraft interiors. We note that this may be adding to the delays Air Lease is facing in receiving some aircraft.

Engines are an issue for AL customers

Management noted that no one is happy with either the LEAP or GTF engines at the moment due to well documented maintenance issues and reduced time on wing. This is not an issue for Air Lease, but it is for their customers. There is no appreciable difference in residual value between the LEAP- or GTF-powered A320 NEO family aircraft.

Lease rates increasing, pricing in high interest rates

Lease rates are moving up. New leases are being signed at higher rates and higher interest rates are being priced into new leases. Management commented that they would like to have more A321 NEOs and A220s available for leases.

India on watchlist, no movement on insurance recoveries

Amid the Go First crisis, India has been put on a watchlist with a negative outlook following the order restricting the airline's lessors from repossessing planes as the insolvency process is underway in violation of the Cape Town Convention. There has been no movement yet on insurance recoveries from Russian appropriated aircraft.

19 June 2023

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Stock Data

Price	41.48 USD
Price Objective	55.00 USD
Date Established	24-Apr-2023
Investment Opinion	B-1-7
52-Week Range	29.93 USD - 46.20 USD
Mrkt Val (mn) / Shares Out (mn)	4,605 USD / 111.0
Average Daily Value (mn)	25.70 USD
BofA Ticker / Exchange	AL / NYSE
Bloomberg / Reuters	AL US / AL.N
ROE (2022E)	9.7%
Net Dbt to Eqty (Dec-2021A)	227.4%
ESGMeter™	Medium

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Timestamp: 19 June 2023 01:42PM EDT

Price objective basis & risk

Air Lease Corporation (AL)

We derive our PO of \$55 using a 0.8x price-to-book value on our 2024 estimate of AL book value. We expect the percentage of net book value at risk to disappear by the end of 2023 due to improving market conditions (with commercial traffic recovering of pre-pandemic levels by the end of 2023) and sale of riskier assets as they come off lease.

Downside risks to our price PO are global economic weakness, fuel price spikes, inability to access capital markets at attractive terms, terrorism and geopolitical events, a downturn in aircraft values resulting from rising supply, flattening yield curve, continued sharp appreciation of the U.S. dollar, changes in equity risk premiums, and overall stock market and financial company valuations.

Upside risks to our PO are stronger than expected economic growth, faster than expected recovery to air travel demand, continued weakness in fuel prices, U.S. dollar depreciation, and easier access to credit at attractive rates.

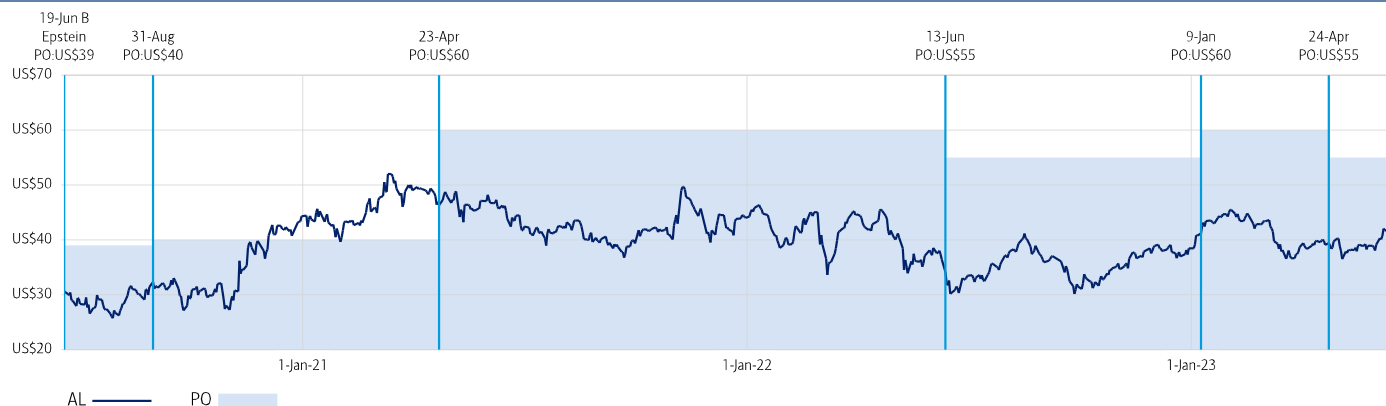
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Air Lease Corp (AL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	25	51.02%	Buy	18	72.00%
Hold	14	28.57%	Hold	13	92.86%
Sell	10	20.41%	Sell	4	40.00%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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