

AerCap Holdings N.V.

Adj. EPS of \$3.11 beats consensus;
\$614mn in Russian recoveries

Maintain Rating: BUY | PO: 80.00 USD | Price: 77.26 USD

In line operating results, EPS beat on one-times

AerCap (AER) reported Adj. EPS of \$3.11 vs. BofAe \$2.06 vs. STe \$2.40. The beat was primarily driven by net income from investments (\$59mn) as well as a lower tax rate (3.6% actual vs. BofAe 14%) and a lower share count than expected. The company reported revenues of \$1,899mn (vs. BofAe: \$1,867mn vs. Bloomberg consensus: \$1,936mn), up 4% Y/Y driven by continued tailwinds for demand for aircraft, engines, and helicopters. We highlight that operating metrics were generally in line with expectations, with revenues slightly above expectations and a slightly lower net spread. During the quarter, AER collected \$614mn in Russian insurance settlements, resulting in \$1.3bn collected for the year. These recoveries are related to 50 aircraft and five spare engines on lease to Russian airlines. During the quarter, AER sold 35 aircraft for \$625mn, resulting in a gain on sale of \$94mn. AER reported an unlevered gain on sale margin of 18% (1.62x book value on an equity basis).

Opportunistic repurchases and aircraft sales continue

In February, the Board announced a new share repurchase authorization program of \$500mn. Throughout 2023, AER returned \$2.6bn to shareholders through the repurchase of 44.3mn shares. We remind investors that following a secondary offering of 30.7mn shares in 4Q23, GE has now sold all of its AER shares. While some investors might be disappointed by how long lease yields could take to reflect current market strength, we continue to positively view the strong long-term position and opportunistic management strategy (both on aircraft sales and buybacks below book value). We maintain our Buy rating.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	8.68	9.01	9.80	9.85	10.65
GAAP EPS	6.71	(3.02)	10.35	7.22	8.17
EPS Change (YoY)	56.4%	3.8%	8.8%	0.5%	8.1%
Consensus EPS (Bloomberg)			10.17	10.37	10.79
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	8.9x	8.6x	7.9x	7.8x	7.3x
GAAP P/E	11.5x	NM	7.5x	10.7x	9.5x
EV / EBITDA*	21.8x	45.4x	12.8x	15.0x	14.3x
Free Cash Flow Yield*	12.1%	10.3%	11.1%	8.4%	4.5%

* For full definitions of *IQmethod*SM measures, see page 5.

23 February 2024

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Stock Data

Price	77.26 USD
Price Objective	80.00 USD
Date Established	2-Nov-2023
Investment Opinion	B-1-9
52-Week Range	49.58 USD - 79.53 USD
Mrkt Val (mn) / Shares Out (mn)	16,408 USD / 212.4
Free Float	82.4%
Average Daily Value (mn)	105.61 USD
BofA Ticker / Exchange	AER / NYS
Bloomberg / Reuters	AER US / AER.N
ROE (2023E)	13.8%
Net Dbt to Eqty (Dec-2022A)	277.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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iQprofileSM AerCap Holdings N.V.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	1.8%	-1.2%	3.4%	2.1%	2.4%
Return on Equity	10.1%	13.2%	13.8%	11.6%	12.2%
Operating Margin	21.9%	-14.0%	34.1%	21.9%	22.9%
Free Cash Flow	1,990	1,691	1,827	1,384	744

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.9x	2.4x	2.7x	2.5x	2.2x
Asset Replacement Ratio	1.0x	1.5x	1.8x	1.3x	1.4x
Tax Rate	14.2%	16.4%	11.9%	15.0%	15.0%
Net Debt-to-Equity Ratio	291.2%	277.5%	272.1%	272.1%	271.7%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,224	7,014	7,549	7,516	7,928
% Change	16.3%	34.3%	7.6%	-0.4%	5.5%
Gross Profit	5,224	7,014	7,549	7,516	7,928
% Change	16.3%	34.3%	7.6%	-0.4%	5.5%
EBITDA	2,886	1,387	4,906	4,188	4,396
% Change	116.9%	-51.9%	253.6%	-14.6%	5.0%
Net Interest & Other Income	0	0	0	0	0
Net Income (Adjusted)	1,294	2,167	2,236	1,889	1,991
% Change	82.3%	67.5%	3.2%	-15.5%	5.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,000	(726)	2,361	1,384	1,528
Depreciation & Amortization	1,738	2,390	2,332	2,543	2,581
Change in Working Capital	475	(389)	1,311	516	135
Deferred Taxation Charge	(6)	(10)	259	0	0
Other Adjustments, Net	487	3,906	(207)	218	181
Capital Expenditure	(1,703)	(3,480)	(4,230)	(3,276)	(3,682)
Free Cash Flow	1,990	1,691	1,827	1,384	744
% Change	47.2%	-15.0%	8.1%	-24.3%	-46.3%
Share / Issue Repurchase	(76)	(17)	(2,466)	(1,500)	(1,500)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	20,101	(3,762)	19	(1,451)	(441)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,729	1,597	2,451	1,219	658
Trade Receivables	0	0	0	0	0
Other Current Assets	60,426	57,162	58,631	59,382	60,364
Property, Plant & Equipment	0	0	0	0	0
Other Non-Current Assets	12,415	10,968	10,738	10,476	10,081
Total Assets	74,570	69,727	71,820	71,077	71,103
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	4,859	3,998	5,586	6,102	6,241
Long-Term Debt	50,205	46,533	46,613	45,363	45,113
Other Non-Current Liabilities	2,085	2,194	2,444	2,444	2,444
Total Liabilities	57,922	53,532	55,589	54,854	54,744
Total Equity	16,647	16,195	16,231	16,223	16,359
Total Equity & Liabilities	74,570	69,727	71,820	71,077	71,103

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Aerospace

Company Description

As an aircraft lessor, AerCap owns and leases aircraft to airlines around the world, earning a margin over its cost of capital. Subsequent to its acquisition of ILFC in May 2014, AerCap became one of the world's top two largest aircraft lessors as measured by aircraft value. As of December 2023, AerCap owned 2308 assets (aircraft average age of 7.3 years and average remaining lease term of 7.3 years) and managed 761 assets

Investment Rationale

The merger with GECAS offers AER shareholders a unique opportunity to be well positioned for the impending air traffic recovery with the most comprehensive aircraft fleet in the business. Our Buy rating is based on valuation and our fundamental belief that well capitalized leasing companies with experienced management teams will benefit from the post-pandemic air traffic recovery as airlines look to deleverage while adding lift.

Stock Data

Average Daily Volume 1,366,971

Quarterly Earnings Estimates

	2022	2023
Q1	2.23A	2.34A
Q2	1.91A	2.56A
Q3	2.22A	2.81A
Q4	2.66A	2.06E



Price objective basis & risk

AerCap Holdings N.V. (AER)

We derive our PO of \$80 using a 0.95x price-to-tangible book value on our 2024 estimate (excluding goodwill but not premium assets and maintenance rights). Our 0.95x multiple compares to 0.3-1.8x of last ten-year range.

Downside risks to our 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, a sharp appreciation of the U.S. dollar, changes in equity risk premiums, overall stock market and financial company valuations, and actual value of GECAS assets is lower than expected.

Upside risks to our PO are higher-than-forecast aircraft trading gains, faster-than-expected recovery in air traffic and commercial air travel, higher lease rates, stronger-than-expected economic growth, continued weakness in fuel prices, U.S. dollar depreciation, easier access to credit at attractive rates, and higher-than-expected unlocked value from GECAS assets.

Analyst Certification

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US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
	Triumph Group	TGI	TGI US	Ronald J. Epstein
NEUTRAL				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein

US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein
	Spirit AeroSys-A	SPR	SPR US	Ronald J. Epstein
RSTR	Parsons Corporation	PSN	PSN US	Mariana Perez Mora

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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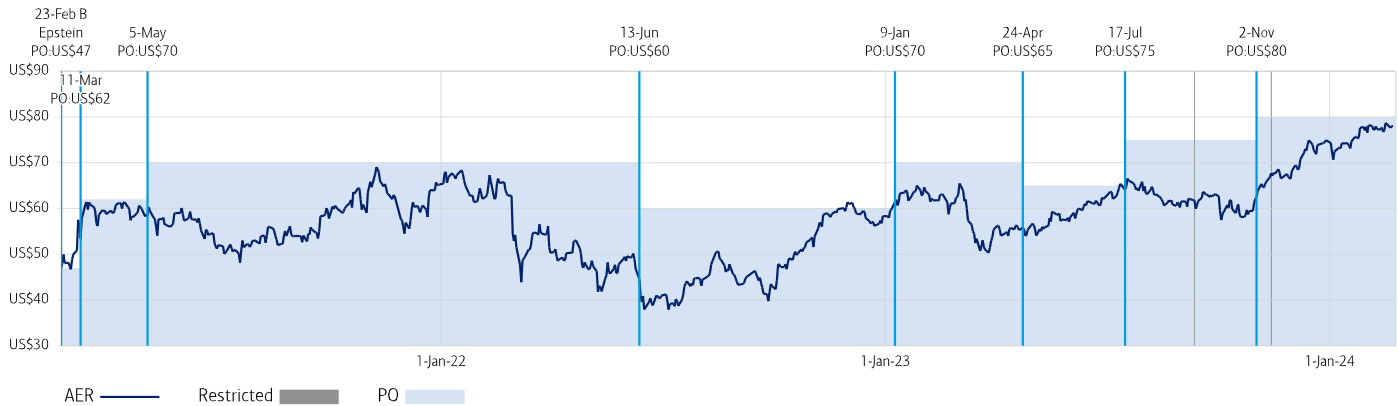
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AerCap (AER) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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