

AerCap

James Young





When asked how to become a millionaire:

“There’s really nothing to it. Start as a billionaire and then buy an airline.”

-Richard Branson, Owner of *Virgin Atlantic Airways*

Company Overview

AerCap is a global leader in aircraft leasing

AerCap **owns 939 aircrafts** and **manages 96 aircrafts** putting it right behind GECAS as the second largest aircraft lessor

AerCap uses leverage to purchase aircrafts and then lease to airlines – they earn the **spread between the lease yield and their cost of debt + D&A**

<i>in millions</i>	2019	2018	2017
BV	\$9,382	\$8,881	\$8,639
NI	\$1,167	\$1,017	\$1,080
ROE	12.4%	11.5%	12.5%

Industry Overview

Why do airlines choose to lease aircrafts rather than purchase?

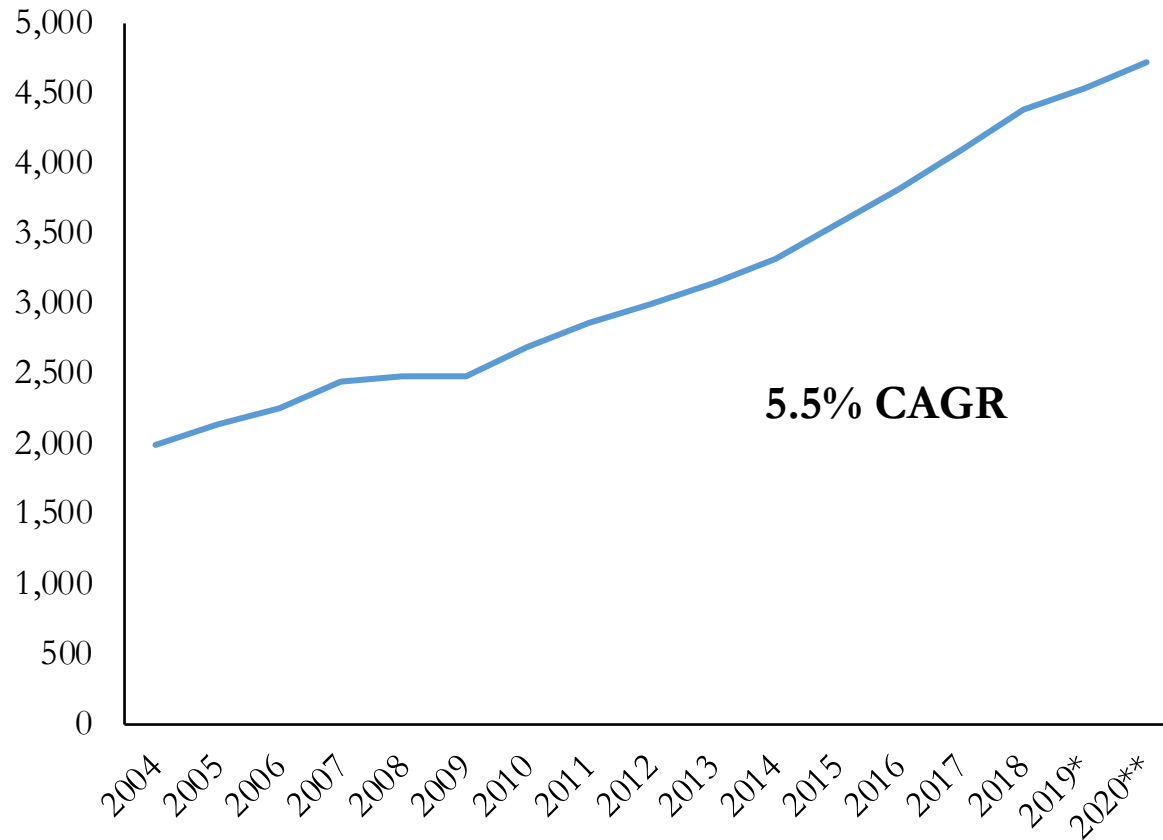
- Limited access to capital
- Lessors have lower cost of capital and more negotiating power with OEMs – these benefits are passed to airlines as they lease
- Promote fleet flexibility – OEMs have a ton of backlog

Why is aircraft leasing a good business?

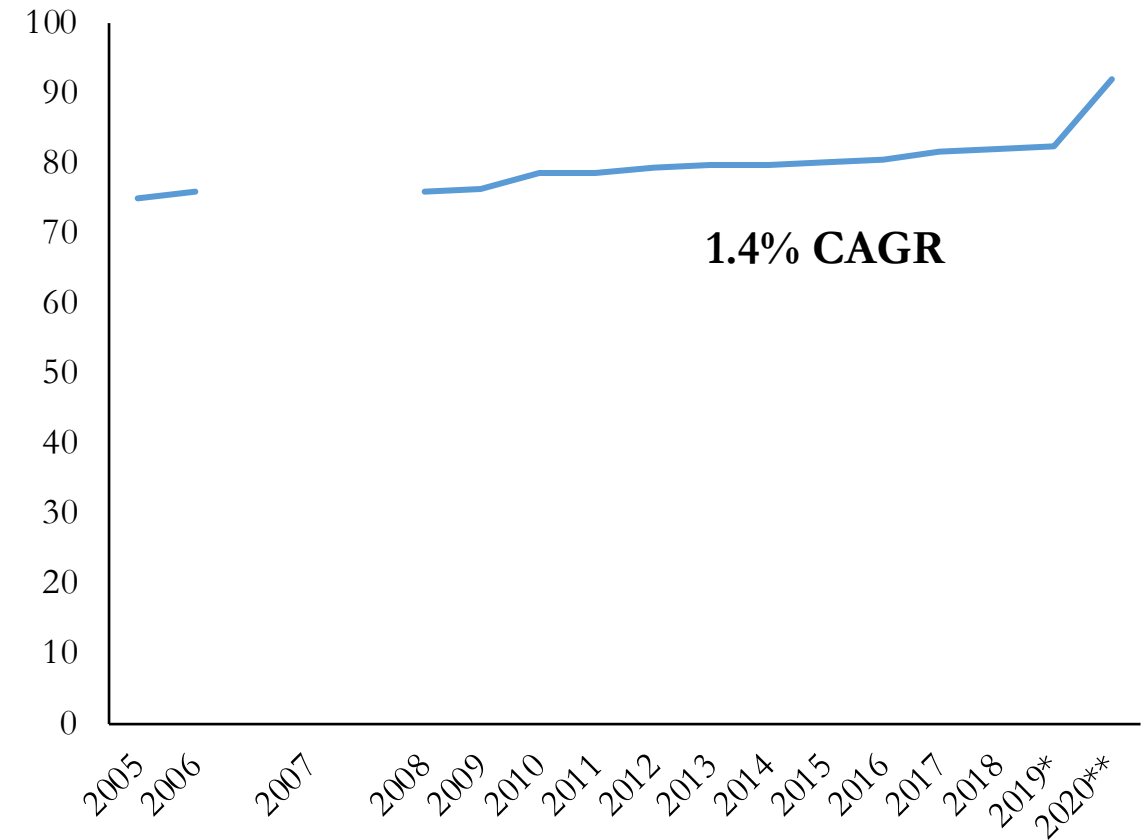
- Planes don't depreciate like cars and are very liquid assets
- Rising air traffic significantly outpaces seating efficiencies
- Recurring and predictable revenue streams
- Low reliance on any single airline

Industry Overview: Air Traffic & Seating Efficiency

Global Air Traffic (in millions of passengers)



Passenger Load Factor (in %)



Source: IATA (International Air Transport Association)

*estimate

**projected

Investment Thesis

1. Best-in-class player in an attractive industry reliant on scale
2. Strong management team with track record of negotiation, operations, and capital allocation expertise
3. Cheap on a tangible book value basis

Thesis Point 1

Best-in-class player in an attractive industry reliant on scale

Predictable Revenue & Young Fleet

The average remaining lease term is greater than 6 years (bottom bound found because AerCap doesn't break out lease expirations past 2029)

Lease Expirations											Total
2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Thereafter	
55	79	66	79	102	77	73	63	48	53	146	841

The average age of the aircraft owned by AerCap is 6.1 years (compared to a typical 25-year useful life and around high 7s in 2016) – meanwhile global aircraft retirements are slowing signaling an aging global fleet

A young fleet hedges against downturns and repos when airlines struggle – a struggling airline will be quicker to retire an older plane with higher maintenance cost than a young plane with low maintenance costs and superior fuel efficiency

Scale

AerCap is the largest lessor with a relatively young fleet by # of aircraft and far beyond other competitors – GECAS, the largest overall lessor, has a much older fleet

Scale comes with competitive advantages: negotiating power with OEMs to place bulk orders at a discount and access to cheap capital

Top 10 Lessors by # of Aircraft					
	Total	Turboprop	Regional jet	Narrowbody	Widebody
GECAS	1450	36	344	904	166
AerCap	1166	0	0	883	283
SMBC Aviation Capital	445	0	4	416	25
BBAM	405	0	2	311	92
Nordic Aviation Capital	351	241	99	11	0
CIT Aerospace	324	0	33	235	56
Air Lease Corporation	280	3	23	202	52
BOC Aviation	267	0	13	214	40
Aviation Capital Group	264	0	0	257	7
AWAS	246	0	0	203	43

Thesis Point 2

Strong management team with track record of negotiation, operations, and capital allocation expertise

Negotiation

Triple net leases: lessees are responsible for all operating expenses such as taxes, tariffs, duties, insurance, maintenance, crews, and fuel

(net gain on sale / (proceeds from sale of assets - net gain on sale)

$\$188,835 / (\$1,773,766 - \$188,835) = 11.9\%$ <- average gain on sale FY19

This 11.9% figure is consistent with previous years – AerCap steadily sells aircrafts at a gain in the high single digits to low teens % every year

Operations: Berlin Airlines Bankruptcy

Air Berlin files for bankruptcy

By Bjorn Fehrm

DOWNLOAD

August 16, 2017, ©. **Leeham Co:** Air Berlin, Germany's second largest airline, with 85 destinations, 8,000 employees and 72 aircraft, filed for bankruptcy yesterday.

Turning to our customer base, we continue to see positive trends for the airline industry on a global basis. However, as we have seen in the past, a number of **individual airlines do get into trouble** in any given year, and 2017 is no exception, as evidenced by the recent demise of Air Berlin and Monarch Airlines, as well as Alitalia entering administration. As usual, AerCap acted quickly and decisively with **Air Berlin** and Monarch, and **rapidly secured control of our aircraft**.

We also monetized our collateral packages. Re-marketing of the returning aircraft began immediately. There were a total of 22 owned and managed aircraft, comprising of 10 A330s and 12 A320 family aircraft. **17 of these aircraft are already under LOI. This not only highlights the strong demand for aircraft on a global basis, but also the expertise of the AerCap platform in moving aircraft.**

Q3 2017 Earnings Call **(11/2/2017)**

Capital Allocation

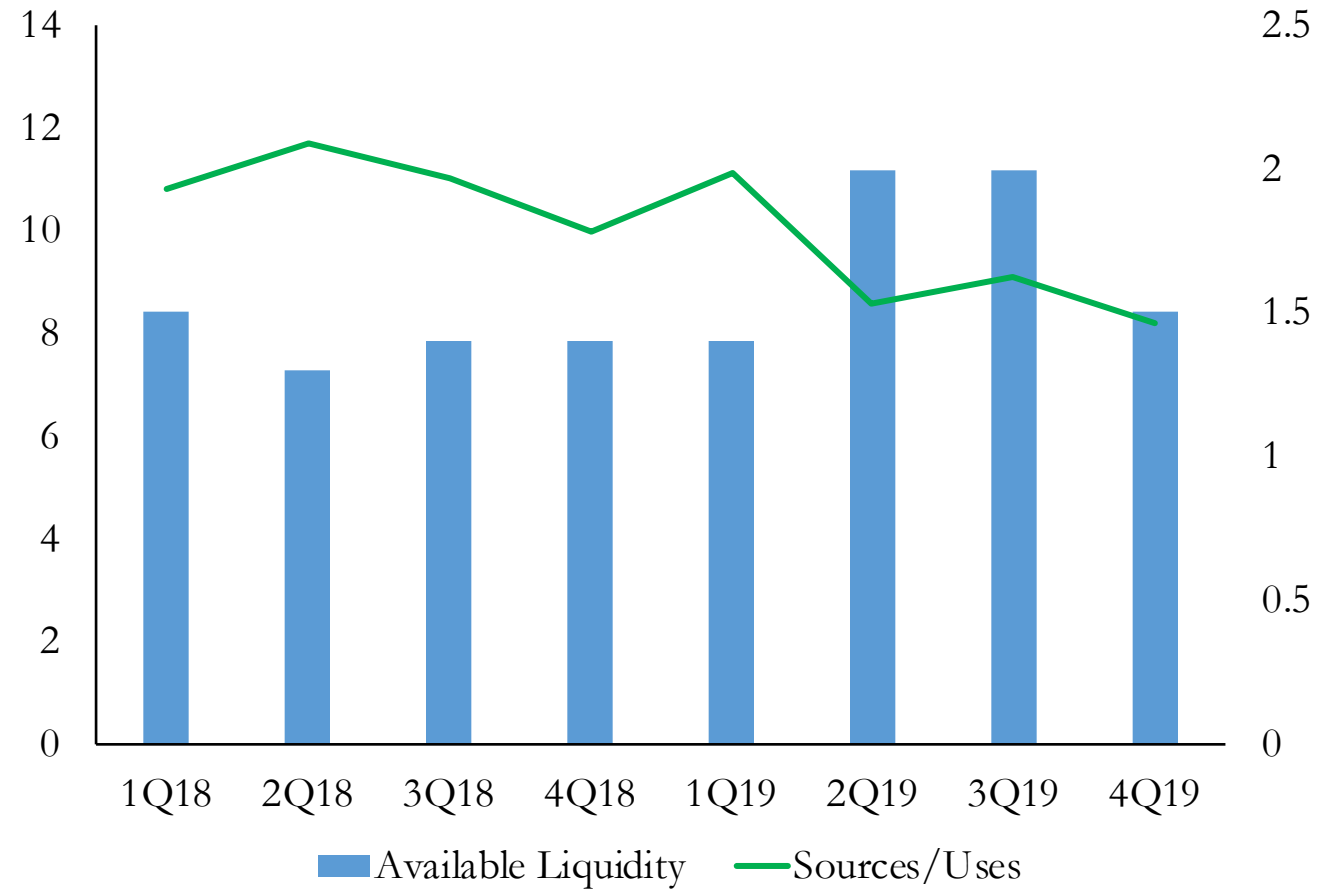
5 options for capital allocation:

1. Maintain liquidity
2. M&A
3. Return value to shareholders
4. Buy planes from OEMs
5. Do sale-leasebacks in the markets

Capital Allocation: Liquidity

2020 Sources	
Unsecured Revolver	4
Other Facilities and Contracted Sales	3.1
Unrestricted Cash	1.1
Total Available Liquidity	8.2
~Levered FCF	3.1
Total Sources	11.3

2020 Uses	
Debt Maturities	3.5
CapEx	3.9
Total Uses	7.4



Capital Allocation: ILFC Acquisition

AerCap to Acquire International Lease Finance Corporation

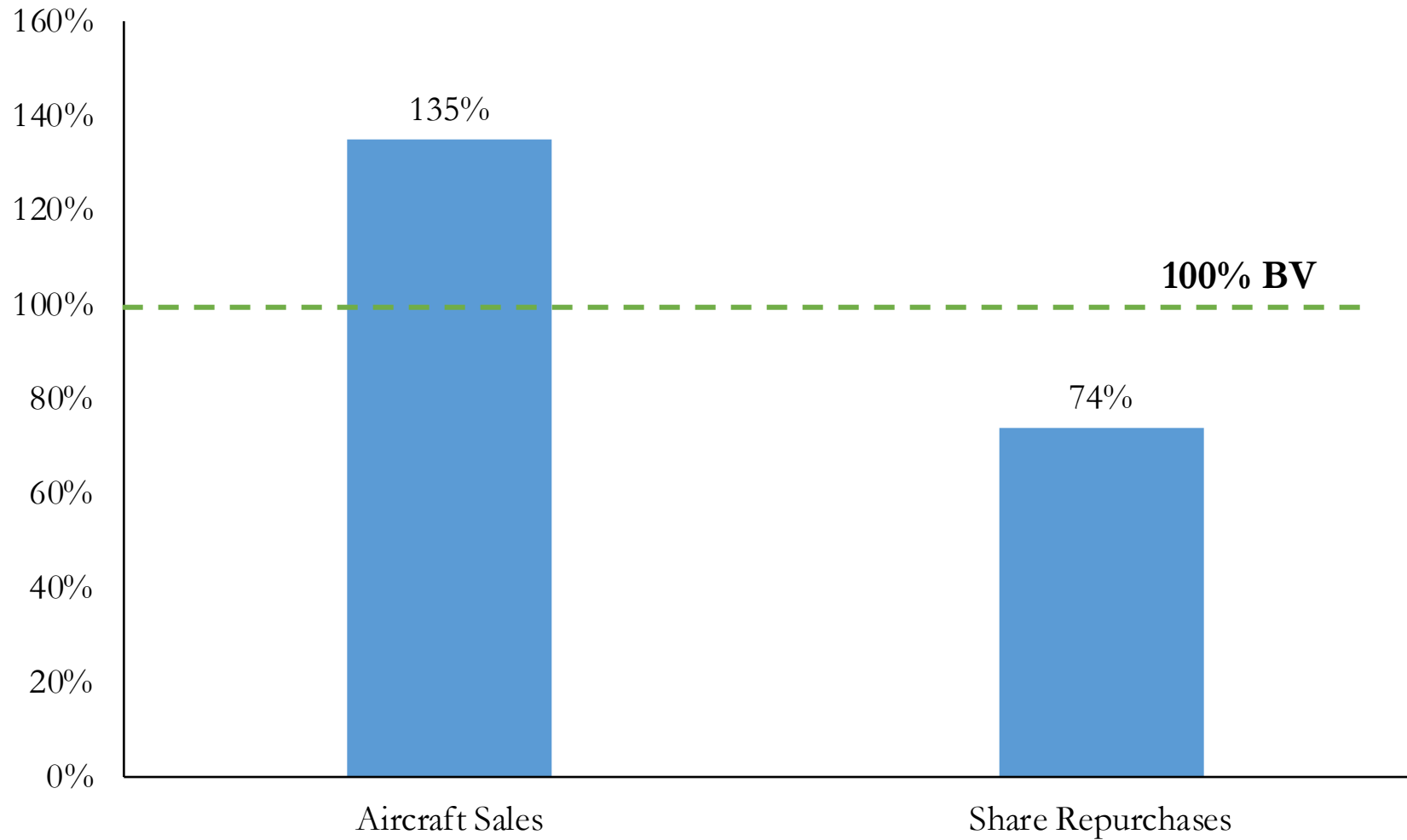
AerCap to Acquire International Lease Finance Corporation

New industry leader in aircraft leasing with total assets of \$41 billion, fleet of over 1,300 aircraft and highly attractive order book of 385 aircraft

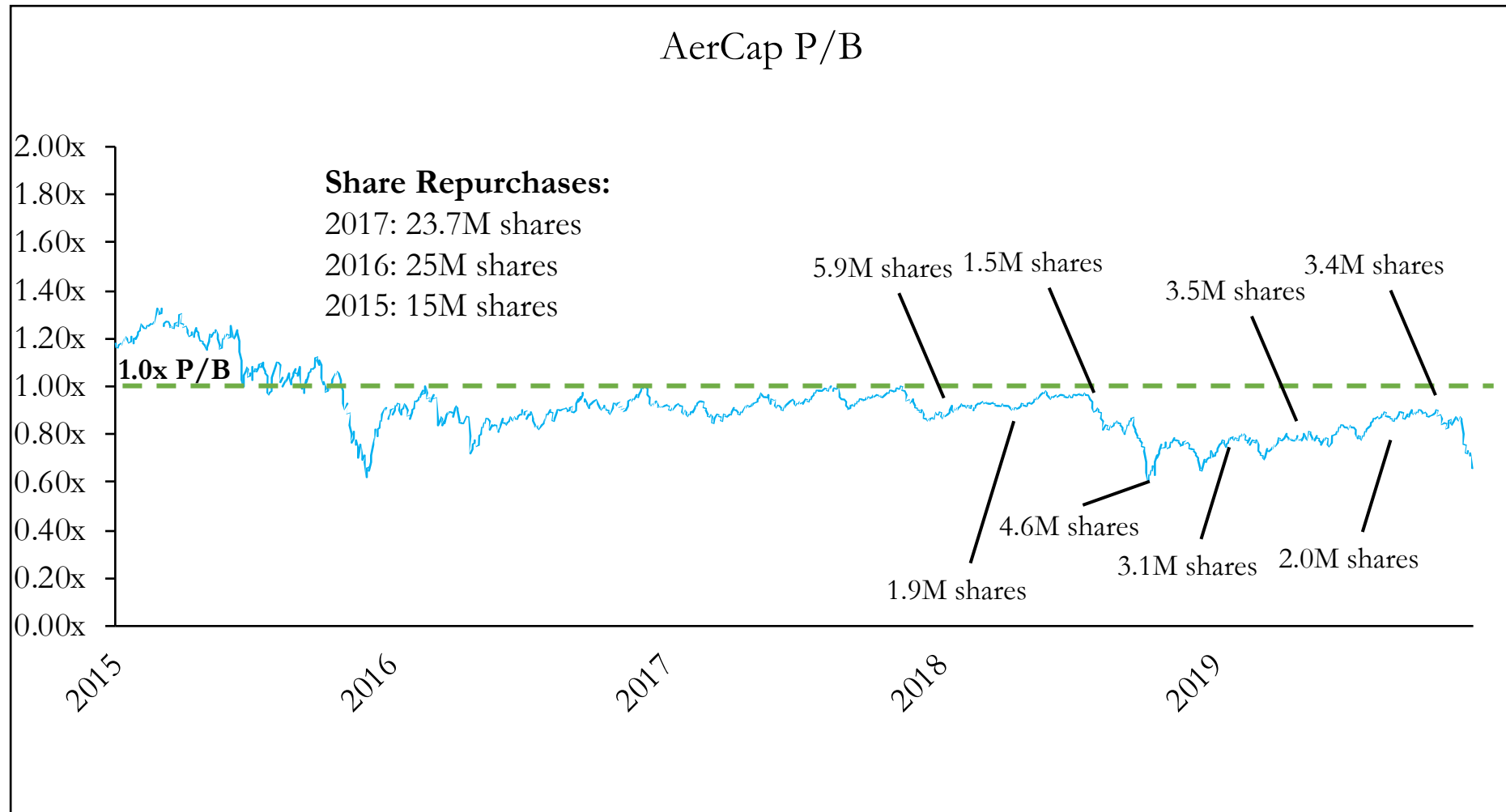
In 2013, AerCap acquired ILFC in one of the most accretive deals in history. AerCap gave up a minority stake in their company to add 989 aircrafts compared to their original 373

The year before, AerCap had repurchased shares at \$13/share. They issued shares at \$24/share to finance the acquisition and subsequently traded at \$45/share post-acquisition.

Capital Allocation: Arbitrage Opportunity



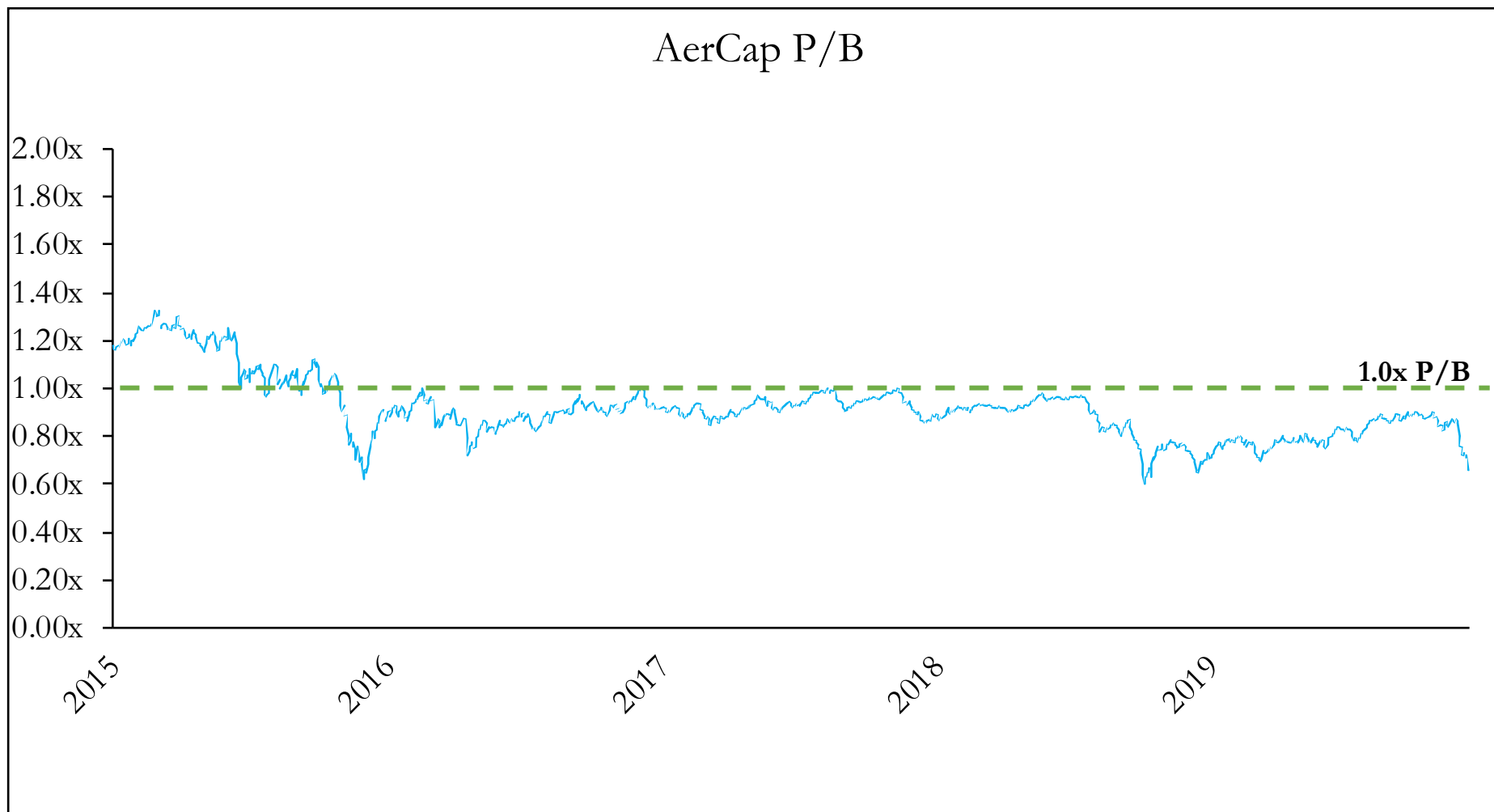
Capital Allocation: Share Repurchases



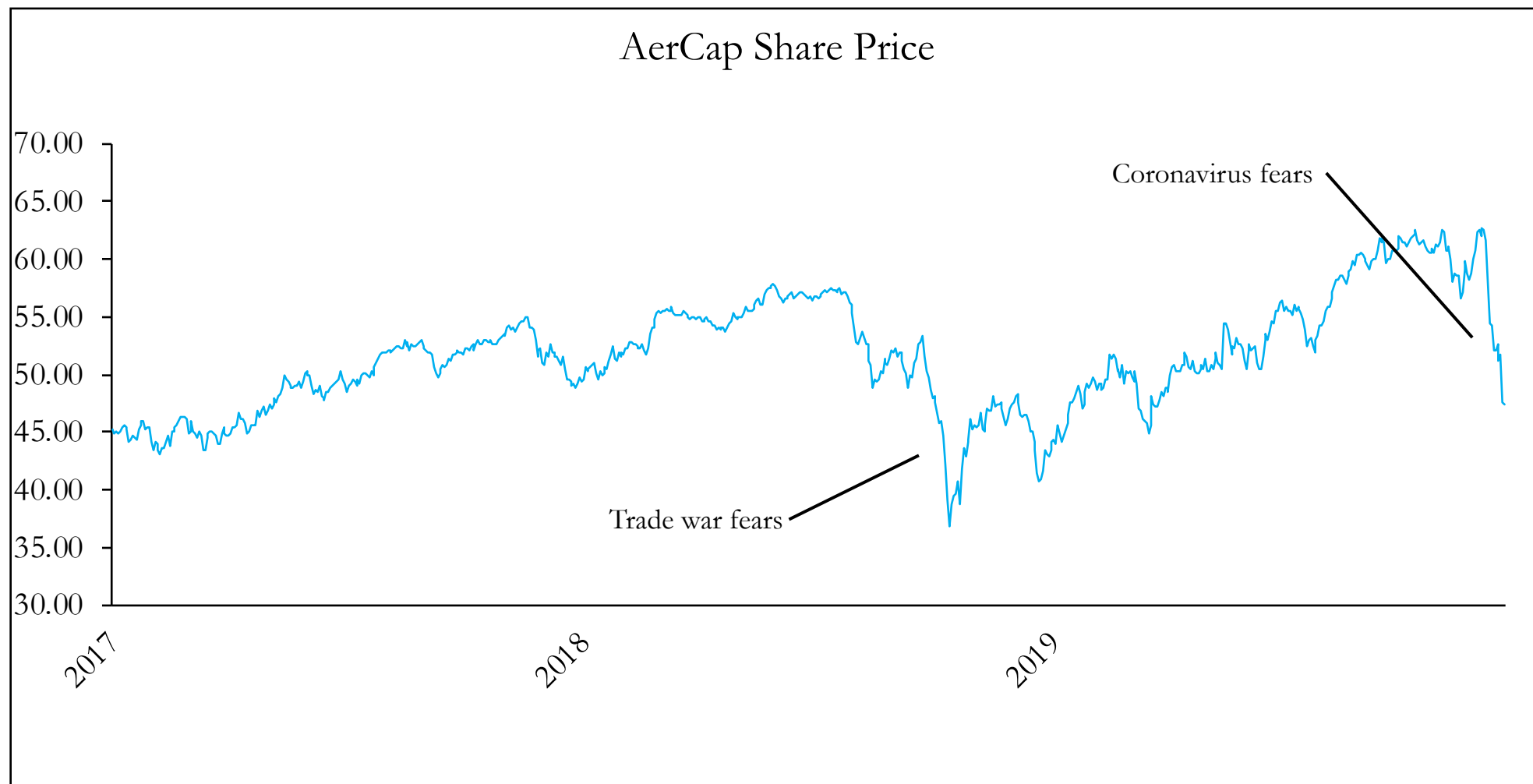
Thesis Point 3

Cheap on a tangible book value basis

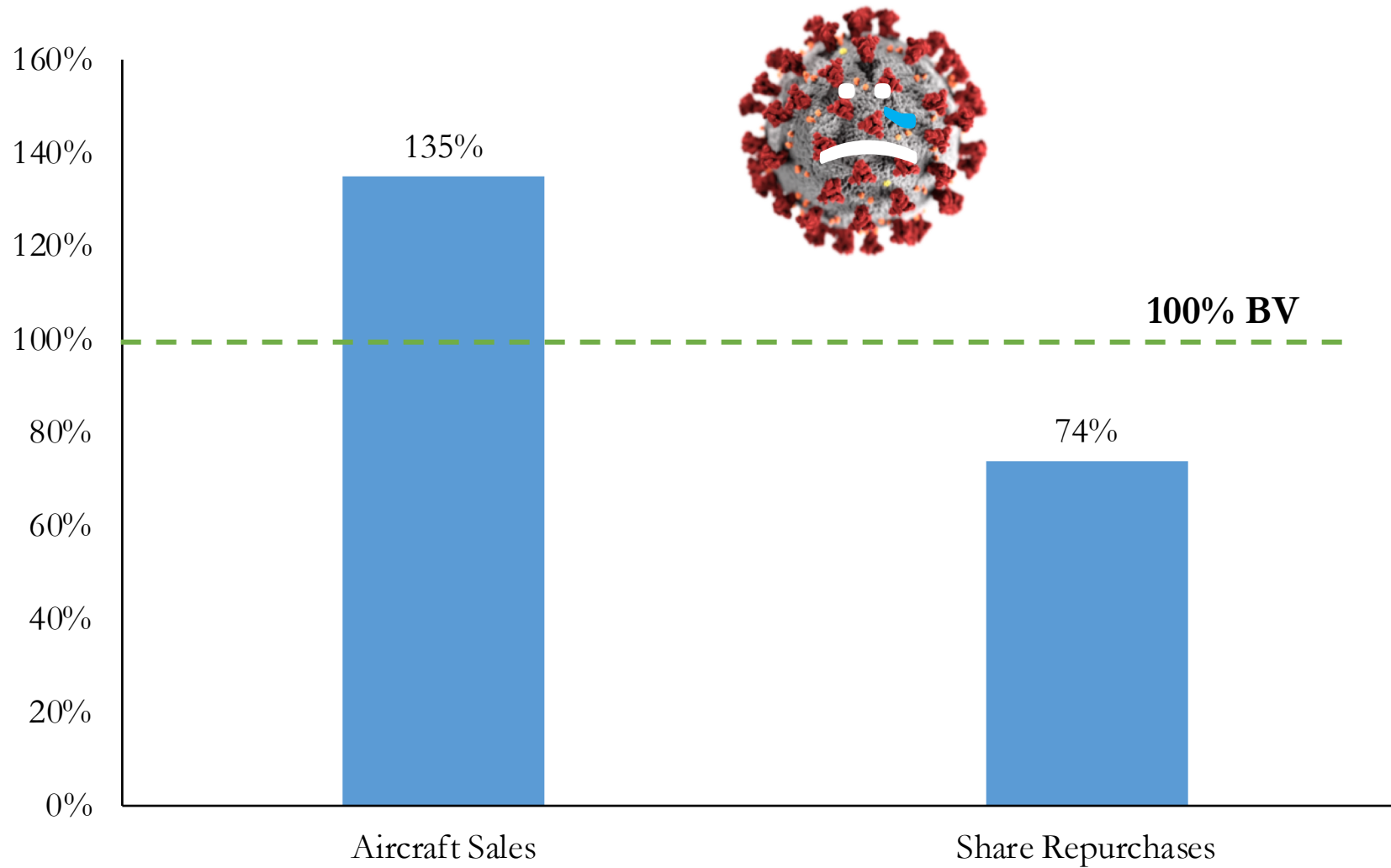
Cheap: P/B



Cheap: P/B



Arbitrage: Will Aircraft Values Really Halve?



Coronavirus Effects Likely Limited But...

The effects of the coronavirus may have short-term headwinds on the airline industry and, in turn, AerCap but these remain a short-term concern – AerCap has demonstrated nimbleness in terms of reacting to customer defaults (~2 months to repossess and get an LOI)

The bigger macro issue at hand is likely the tightening of credit markets and compression of leasing rates. However, large and small players are affected differently – for well-capitalized lessors like AerCap, the tightened credit markets will be offset by cheaper aircrafts which presents an opportunity for AerCap to expand its fleet while smaller competitors struggle

Valuation

Residual Income Valuation

Risks

Risks

This stock has been trading very cheaply for quite some time and has been extensively covered (Sohn [Einhorn '15 and '19], VIC, TBC, etc.)

- A main concern for this investment would be betting on the effectiveness of catalysts – share buybacks, strong earnings, etc. all have had no effect on this company's pricing (always hovered under 1 P/B)
- The industry as a whole seems to be trading far below other financial institutions that have similar ROE

Macro headwinds for air travel could push the company into default especially from their Chinese presence (~10% of their fleet)

- Given their strong liquidity position and performance in downturns, that is unlikely

Questions?