Q4 2022 Earnings Call

Company Participants

- Aengus Kelly, Chief Executive Officer and Executive Director
- Joseph McGinley, Head of Investor Relations
- Peter Juhas, Chief Financial Officer

Other Participants

- Christopher N. Stathoulopoulos, Analyst
- Helane Becker, Analyst
- Hillary Cacanando, Analyst
- James Kirby, Analyst
- Mark C. DeVries, Analyst
- Moshe Orenbuch, Analyst
- Ronald J. Epstein, Analyst
- Vincent Caintic, Analyst

Presentation

Operator

Good day, and welcome to AerCap's Fourth Quarter 2022 Financial Results. Today's conference is being recorded, and a transcript will be available following the call on the company's website.

At this time, I would like to turn the conference over to Joseph McGinley, Head of Investor Relations. Please go ahead, sir.

Joseph McGinley {BIO 17672898 <GO>}

Thank you, operator, and hello, everyone. Welcome to our Fourth Quarter 2022 Conference Call. With me today is our Chief Executive Officer, Aengus Kelly; and our Chief Financial Officer, Pete Juhas.

Before we begin today's call, I would like to remind you that some statements made during this conference call, which are not historical facts, may be forward-looking statements. Forward-looking statements involve risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied in such statements. AerCap undertakes no obligation other than that imposed by law to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after this call. Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated March 2, 2023.

A copy of our earnings release and conference call presentation are available on our website at aercap.com. This call is open to the public and is being webcast simultaneously at aercap.com and will be archived for replay. We will shortly run through our earnings presentation and we'll allow time at the end for Q&A. As a reminder, I would ask that analysts limit themselves to one question and one follow-up.

I will now turn the call over to Aengus Kelly.

Aengus Kelly {BIO 2460371 <GO>}

Thank you for joining us for our Full Year 2022 earnings call. I am pleased to report another quarter of strong earnings for AerCap, we generated adjusted net income of $645 million and adjusted earnings per share of $2.66 in the fourth quarter. On a full year basis, this amounted to adjusted net income of $2.2billion and adjusted earnings per share of $9.01, surpassing our previous estimate of $8.00-$8.50 which we updated in November 2022.

This strong performance across all our business lines reflects how well our teams are working together to execute an extraordinary number of transactions. This level of transaction activity clearly demonstrates the success of the GECAS acquisition, the integration of the two companies and the recovery in aviation.

Cash generation also remains high, exceeding $5 billion of operating cash flow for the year, despite the impact of Russia, which helped achieve a debt to equity ratio of 2.5 times at December 31, 2022. Given these strong earnings and cashflows I am pleased to announce a new $500 million share repurchase program today.

Continuing the theme of prior quarters, the environment for aircraft leasing continues to strengthen, and will be further supported by the ongoing re-opening, of China. AerCap's level of activity in 2022 is unparalleled in the industry; completing 895 transactions over the course of the year. In the fourth quarter alone, the AerCap team completed a record 299 transactions, across 159 lease agreements, 43 purchases and 97 sales. Without the flawless integration of the two companies, this level of transaction activity simply would not have been possible, nor would it have been possible to take full advantage of the recovery in the aviation market. One area where the power of the platform was particularly pronounced was on the aircraft sales side, where we generated $229 million in gains, or a 12% margin across aircraft, engines and helicopters.

We continue to see further evidence of the travel recovery, as Europe, the Americas and Asia all now exceed 80% of 2019 levels, with China being the latest driver. In particular, the growth in domestic flight activity in China since the zero-covid policy was lifted has been significant, surpassing 12,000 flights per day recently, compared to a low of around 3,000 flights per day at the end of November 2022. Having spent the last two weeks seeing all our customers in China, it is clear from speaking to the leaders of these airlines that they are also optimistic about the future.

As we have said time and time again, when the consumer is allowed to travel, they do so, and in large numbers. What we are seeing around the world is that consumers continue to prioritize travel well after restrictions are lifted and this will be no different in China. As a result, the Chinese airlines are all planning to ramp up capacity. We believe this will further exacerbate the supply/demand imbalance for aircraft and engines, pushing lease rates higher. I believe this will be particularly acute on the widebody side, as the combination of severely restricted new aircraft production, continued traffic growth and the retirement and cargo conversion of many widebody aircraft that took place during covid, puts a premium on aircraft available today. AerCap is well positioned to address this opportunity.

We have spoken before about the shortages on the narrowbody side where production cuts due to groundings, COVID and supply chain issues have had a significant impact. As you'll see from the slide, this means there are approximately 1,800 fewer narrowbody aircraft built today compared to the production run-rate in 2018. This is equivalent to approximately 11% of the 16,000 or so narrowbody aircraft in operation at that time.

On the widebody side these reductions have been even more acute. Production rates for new technology aircraft such as the 787, A330neo and A350 are also well below expectations. Airbus was targeting 5 A330neos per month in 2019 and delivered below 3 per month in 2022. They were targeting 10 A350s per month in 2019 and yet delivered only 5 per month in 2022, and Boeing were targeting 14 787s per month in 2019 and delivered less than 3 a month in 2022, with more than 80% of these coming from storage. This has resulted in approximately 740 fewer widebody aircraft built since 2019, a 15% reduction relative to the 5,000 or so widebody aircraft that were in-service at the time. That's equivalent to around two full years of normal production.

So how are we capitalizing on this opportunity? The best example I can give you is that since the start of 2022 we have completed nearly 100 widebody transactions, which I suspect is possibly more than rest of the aircraft leasing industry combined. We are seeing broad-based demand and we expect this to be sustained by continued traffic growth and low production rates for widebody aircraft. We believe that the issues affecting aircraft production are likely to persist for several years, resulting in strong demand and upward pressure on lease rates for widebody aircraft for the foreseeable future.

One further topic I'd like to address is the impact of interest rates and inflation on aircraft lease rates, and our business more generally. On our prior call, we outlined the way new aircraft leases are adjusted for changes in interest rates and escalation, which provides protection to AerCap from interest rate volatility. This is the same exposure an airline would face if it were to purchase aircraft directly from the manufacturers and finance it with debt, so it's widely accepted that this should be reflected in lease rates. However, it's important to put these kinds of increases into context. As you can see on this slide, leasing costs make up approximately 5% of an airlines' cost base on average, so changes here are much more palatable to pass through than fuel or labor costs may be. Of course, every airline looks to minimize whatever level of costs they can, but this should illustrate that even large percentage increases in leasing costs are less material to our airline customers than many investors may realize.

So, in summary, this was another great quarter for AerCap, with record earnings, and cash flows throughout the business. The market environment continues to improve, and this is reflected in our financial results. The company has successfully navigated an extraordinary period over the last 3 years, and now we are well positioned and on an upward trajectory for 2023 and beyond. Our confidence in the future is evidenced by today's announcement of our new share repurchase program.

With that, I will hand the call over to Pete for a detailed review of our financial performance and outlook for 2023.

Peter Juhas {BIO 16582554 <GO>}

Thanks Gus. Good morning everyone. We had a very strong performance in the fourth quarter. Our adjusted net income was $645 million dollars, or $2.66 per share. The impact of purchase accounting adjustments was $215 million dollars in the quarter. This included lease premium amortization of $47 million dollars, which reduced our basic lease rents, $111 million of maintenance rights amortization that reduced our maintenance revenue, and $57 million dollars of amortization that was reflected in higher leasing expenses.

In the fourth quarter we received $47 million dollars of letter of credit proceeds related to our Russian lessees, which was reflected in our Net recoveries related to Ukraine Conflict line item, and we had transaction and integration-related expenses of $3 million dollars in the quarter. Taking all of those into account, our GAAP net income for the quarter was $495 million dollars, or $2.04 per share.

I'll talk briefly about the main drivers that affected our results for the fourth quarter. Basic lease rents were $1,494 million dollars for the quarter, an increase of around $20 million dollars from last quarter. As I mentioned, our basic lease rents reflected $47 million dollars of lease premium amortization. Lease premium assets are amortized over the remaining term of the lease and reduce basic lease rents.

Maintenance revenues for the fourth quarter were $140 million dollars. That reflects $111 million dollars of maintenance rights assets that were amortized to maintenance revenue during the quarter. In other words, maintenance revenue would have been $111 million dollars higher, or $252 million dollars, without this amortization.

fourth quarter we completed a record 97 asset sales, including sales of 83 of our owned assets. The total volume of assets sold in the fourth quarter was around $965 million dollars, so that represents a very strong gain-on-sale margin of 14% for the quarter.

Our other income was $74 million dollars for the quarter, which included proceeds from unsecured claims related to Garuda Airlines and insurance proceeds related to one of our helicopters. Those two items were a total of $36 million dollars of other income in the quarter.

As I mentioned earlier, net recoveries related to the Ukraine Conflict were $47 million dollars in the fourth quarter, which represents proceeds from letters of credit that we received during the quarter. As we've mentioned previously, we submitted claims for our letters of credit related to Russian lessees during the first quarter of 2022. We received most of those proceeds shortly thereafter, but there were certain amounts that were disputed by the banks, and we received almost all of those amounts in the fourth quarter.

Leasing expenses were $261 million dollars for the quarter, including $57 million dollars of amortization expenses. Equity in net earnings of investments under the equity method was $38 million dollars for the quarter. That primarily reflects continued strong earnings from Shannon Engine Support, our joint venture with Safran, which is our largest equity investment. SES has been generating a strong performance this year driven by the ongoing engine supply and demand factors that Gus mentioned in his remarks.

For the full year 2022, our adjusted net income was $2,185 million dollars and our adjusted EPS was $9.01. That is after purchase accounting adjustments of $629 million, transaction and integration-related expenses of $33 million and net charges related to the Ukraine conflict of approximately $2.7 billion dollars.

Our full-year EPS of $9.01 for the full year reflects a strong outperformance relative both to our original guidance of $6.50 to $7.00 as well as our revised guidance that we provided on the last earnings call of $8.00 to $8.50. The outperformance has been driven by a number of factors. We've seen a positive impact on revenue from higher cash collections as well as higher maintenance revenue. We've also seen strong performances from our engine leasing and helicopter leasing businesses. And we've had higher income from our joint venture SES, which has performed well ahead of expectations.

We sold just under $2.2 billion dollars' worth of assets in 2022 and had gains on sale of $229 million dollars, for a 12% gain on sale margin for the full year. We also received significant proceeds from unsecured claims and other items during the year of around $100 million dollars in total. And we also had $69 million of mark-to-market gains on our interest rate caps and swaps in 2022.

We continue to maintain a strong liquidity position. As of December 31st, our total sources of liquidity were approximately $18 billion dollars, which resulted in a next 12 months' sources-to-uses coverage ratio of 1.4x, which is above our target of 1.2x coverage, and excess cash coverage of $5 billion dollars.

Our total operating cash flow was approximately $1.6 billion dollars for the quarter. That was a very strong number for the quarter, which was driven by continued strong cash collections and operating performance as well as sales proceeds from some aircraft that were on finance leases that were sold in the quarter, along with the letters of credit proceeds related to our Russian lessees.

As a result of the strong earnings and cash flow generation this quarter, we saw a significant decrease in our leverage ratio, and we ended the year with net-debt-to-equity of 2.5 to 1, which is well below our target ratio of 2.7x. Our secured debt-to-total-assets ratio was approximately 14% at the end of the year, in line with the prior quarter. Our average cost of debt for the fourth quarter was 3.3%.

Earlier this week our senior unsecured ratings were upgraded by Moody's to Baa2, and we remain on positive outlook from Fitch. So that continues our positive ratings trajectory.

Now I'll spend a few minutes talking about our financial outlook for 2023. As Gus mentioned, we're seeing a strong recovery in aircraft demand and significant supply constraints, both of which we expect to persist. So the environment for leasing continues to be positive and we expect to see lease rates continue to climb higher during the course of 2023. Our EPS guidance for full year 2023 is $7.00 to $7.50 of adjusted EPS, excluding any gains on sale as well as other items like recoveries of unsecured claims.

If we look at our 2022 EPS of $9.01, you can see that was comprised of a number of items that we have not included in the 2023 forecast. For example, we have not assumed any gains on sale, which were $0.83 after taxes in 2022. In 2022 we also had mark-to-market gains on interest rate caps and swaps during as interest rates rose and the value of those derivatives increased. So that's a $0.41 impact. Up until the invasion of Ukraine at the end of February last year, we were still receiving rent from our Russian airline customers. Obviously, that's no longer the case, so the $0.14 reflects the removal of this rent as well as the depreciation related to those assets, which we wrote off in full in the first quarter of last year.

We also had $0.39 of unsecured claims and some other items in 2022 and we haven't forecasted anything for those items in 2023. In 2023, we will also have some higher costs associated with our cargo conversion program as that ramps up this year, as well as higher insurance costs. So those are both reflected in the $0.41 shown here. And finally, we expect higher lease revenue and other items in 2023, which we project will increase our EPS in 2023 to $7.00 to $7.50, excluding any gain on sale or other income items.

If we take a look at our projected income statement for 2023, you can see that we expect to have total revenue of approximately $6.8 billion dollars, interest expense of around $1.8 billion dollars, depreciation of approximately $2.5 billion dollars, and leasing expenses, SG&A and other of expenses of around $1.2 billion dollars. That gives us total pre-tax income of $1.3 billion dollars.

The next line, tax expense and income from equity method investments, includes our income from SES. We expect that our effective tax rate will be around 14% for 2023 and we expect to have around $100 million dollars of income from our equity investments. That gives us GAAP net income of approximately $1.2 billion dollars.

We expect to have purchase accounting impacts, that is from lease premium amortization and maintenance rights amortization, of around $500-$600m million dollars for the year. So that results in adjusted net income of around $1.7 billion dollars, and adjusted EPS of $7.00 to $7.50, which as I've said does not include any gains on sale.

We expect to have sales of $2.5 billion dollars for the year, which is an increase over the $2.2 billion of sales that we had in 2022. And we expect to have cash capex of $6.8 billion for the year.

Of course, the volume of sales will depend on the market for aircraft sales for this year and the amount of capex will depend on the ability of the OEMs to deliver aircraft. But those are our best estimates for now.

So overall, this was another strong quarter for AerCap. After the invasion of Ukraine last February and the write-off of our Russian assets, we have rebounded strongly, which you can see in the level of our transactions activity, our financial performance well above guidance, and the fact that we've de-levered to a level well below our target. We also see this confirmed by the ratings upgrade to Baa2 from Moody's that we received earlier this week. And we expect the trends that are driving these results to continue, which should be positive for our business in 2023 and beyond. That gives us confidence to announce a new share repurchase program and confidence about our outlook for 2023.

With that, operator, we can open up the call for Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions) We'll pause for just a moment to allow everyone an opportunity to signal for questions. We will take our first question from Jamie Baker from J.P. Morgan. Please go ahead.

Q - James Kirby {BIO 20901295 <GO>}

Hello, this is James on for Jamie. Thanks, operator. First question, there was a recent article speculating that you guys were in discussion with a Russian airline to purchase planes at a discounted price. To the extent that you can comment on that, any color you could provide there? But also, is that even possible, just given the sanctions in place?

A - Aengus Kelly {BIO 2460371 <GO>}

Thanks, James. As you know, we are pursuing insurance claims against our own insurers and against the Russian airlines, insurers, and reinsurers. We have been approached by some Russian airlines and their insurers about potential insurance settlements involving some of our aircraft lost in Russia. However, it is too early to know whether anything will come out of it, and we have nothing further to say on it at this stage.

Q - James Kirby {BIO 20901295 <GO>}

Got it. I understand. Just thought I would try the question there. Second question, just on the cadence of the cargo business revenues for the year, it seems like the $0.41 impact for 2023. Just how should we think about that as the year goes on?

A - Peter Juhas {BIO 16582554 <GO>}

Sure. Well, that's -- James, that's really an impact of a couple of things. You've got cargo expenses, as those conversions happen throughout the year. I'd say they're pretty --

going to be pretty balanced throughout the year. And then we do have higher insurance expenses in there as well. So it's both of those factors that are contributing to that.

Q - James Kirby {BIO 20901295 <GO>}

Got it. Okay, that's it for me. I appreciate the question.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

Thank you. We will take our next question from Helane Becker from TD Cowen. Please go ahead.

Q - Helane Becker {BIO 1504163 <GO>}

Thanks very much, operator. It's Helane Becker. Hi team, thanks for the time. So Pete, is it -- do you always not forecast sales for the year and then take them as they come, or how should we think about the forecast for zero sales in '23?

A - Peter Juhas {BIO 16582554 <GO>}

Well, Helane, so we're expecting -- we're projecting $2.5 billion of sales for the year. So that is in our forecast. What we haven't done, which is consistent with how we've done it previously, we haven't made any forecast for what gains on sale will be, because those -- that's really going to depend on what assets we sell and what the market is like during the course of the year. But we are expecting to sell $2.5 billion. Last year, in 2022, we sold $2.2 billion worth, and we would expect to do a little more than that during the course of the year.

Q - Helane Becker {BIO 1504163 <GO>}

Okay, that's helpful. Yeah, I meant gains, not sales. Sorry about that. And then my other follow-up question is on CapEx, the $6.8 billion. So how are you thinking about -- two things; one, financing it, and two, flipping it to the right? Given what you said about delivery delays and what we're seeing about delivery delays in the slide that Aengus referred to earlier in his remarks, it looks like you may not get all the aircraft that you're contracted to get. So how should we actually think about what CapEx will look like and how it will be financed? Thanks.

A - Aengus Kelly {BIO 2460371 <GO>}

Well, CapEx has been a moving piece, Helane, you're right, over the course of the last few years. And I expect that to continue. These are our best estimates at the moment. But even yesterday, as you'll have seen, Airbus made some announcements about the XLR delays again. So, this is a dynamic situation, but it's our best estimate as of now.

Q - Helane Becker {BIO 1504163 <GO>}

Okay, thanks. And financing them?

A - Aengus Kelly {BIO 2460371 <GO>}

We'll generate operating cash flow of $5 billion, as we said, we expect in the coming year. And then in addition, there'll be $2.5 billion of sales. So relative to the size of the balance sheet and the cash flow generating power of the business, these are very manageable CapEx numbers, even if they were to all deliver, which I doubt.

Q - Helane Becker {BIO 1504163 <GO>}

Right, right. Got it. Okay. Thanks very much. Have a great day.

A - Aengus Kelly {BIO 2460371 <GO>}

Thank you.

Operator

We will take our next question from Moshe Orenbuch from Credit Suisse. Please go ahead.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great. Pete -- Pete or Gus, actually, I'm hoping you could kind of talk a little bit about how -- obviously, we'll see the benefit of the strong value market in aircraft in the sales numbers, saw them in the fourth quarter and will likely see them in 2023. Can you talk about how that's going to be manifested in lease rates and whether you've assumed any of that in your 2023 guide?

A - Peter Juhas {BIO 16582554 <GO>}

Sure, Moshe. So overall, we're seeing lease rates going up. We've seen that for more than the past year. So that has been accelerating, and we've factored some of that in. Obviously, we're leasing well in advance. So if we're signing a lease today, that's likely to be for 12 months' time from now, right? So you don't you don't see -- there is a lag in terms of that effect. But obviously, it does affect future years. So we've reflected that in. I mean, in terms of basic lease rents, I would -- I think the fourth quarter run rate is a pretty good starting point if you're thinking of it that way. And you should see those growing somewhat this quarter as the fleet grows somewhat throughout the year. That's what I would expect.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great. Thanks. And I think we've had this discussion about your guidance in the past as being conservative, as excluding some of the items that are in there and I -- when talking with investors this morning already, I think there has been some confusion, I guess. The fact that you kind of -- on the slide on Page 13, you kind of exclude the mark-to-market of interest rate caps and swaps, that doesn't mean that you expect that to be necessarily zero in 2023. Is that -- and some of those other items that are on there, some -- they don't -- they won't necessarily be zero in 2023, correct?

A - Peter Juhas {BIO 16582554 <GO>}

Correct. And maybe I'll take a moment, Moshe, just to talk about those. So the mark-to-market of interest rate caps and swaps, during 2022, we had a benefit from that, because interest rates rose and the value of those derivatives of those caps and swaps rose. So we had to mark that to market. So we're not projecting. We're not making assumption about that in 2023 that that's going to happen again, right? So that's that item.

Some of the other ones, like the lower income as a result of the Ukraine conflict, so that reflects the rent that we got on our Russian aircraft during the first quarter, less the depreciation on that. That's obviously gone, right? So I would not include anything for that. And then we have reflected the cargo conversion program.

In terms of the other items, though, the gains on sale, so I think you could take a look at the -- our projection of $2.5 billion of sales and make a evaluation of whether you think that's high or lower or accurate. And then historically, we've had gain on sale margins of 8% to 10%. Last year, it was 12%. I mean, obviously, that's market-dependent. But that's what we've had.

And then in terms of other items, in 2022, we had about $100 million of unsecured claims that came through. And those are not something that we project, so that's not in these numbers of the $7.00 to $7.50. But I'd say in a balance sheet of the size, in a business of this size, it's not unusual for us to have things come in, in that other income line item. So that's how I would think about it, is you've got $7.00 to $7.50 is what's really forecastable. But then there are other things that could come on top of that.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Thanks so much.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

We will take our next question from Hillary Cacanando from Deutsche Bank. Please go ahead.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Thank you. Thank you for the time. I was wondering, did you buy back any stock year-to-date? And I know you just announced it, but I'm wondering if you bought any. And do you have a full year repurchase target?

A - Peter Juhas {BIO 16582554 <GO>}

We have not bought any back. We just announced it today. So we haven't bought any shares yet. In terms of full year, look, we're going to generate excess capital during the course of the year. And what we've always done historically is, look, as we generate excess capital, we look at how to deploy that. And obviously, we've done a lot of share repurchases in the past. I don't want to speculate about how many we will do this year. But obviously, as we look at it, that's a natural way for us to deploy capital effectively.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Got it. Thank you. And then just regarding your cargo conversion program, what is the timing of revenue coming on from that program?

A - Peter Juhas {BIO 16582554 <GO>}

Well, you'll start to see the first cargo conversions done, on the 777 program anyway, during this year. We'll start to see some delivering. And then, really, it's over the course of the next few years that those come in, and our percentage of revenues from cargo will go up as a result of that. But it's a multi-year program.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Okay. Got it. Great. Thank you so much for the color.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

We will take our next question from Vincent Caintic from Stephens. Please go ahead.

Q - Vincent Caintic {BIO 18737149 <GO>}

Thank you for taking my questions. First question, going back to net spread, so I appreciate the comments about lease rate expansion and kind of building off of the fourth quarter results. Maybe if you could talk about the funding side, how we should think about funding costs and how much of an offset that would be, particularly with the purchases of the $6.8 billion this year? Thank you.

A - Peter Juhas {BIO 16582554 <GO>}

Sure, Vincent. So in terms of net spread for the year, I think it's going to be pretty flat from where it was for the fourth quarter, 7.6% or so. So, I think that's a reasonable estimate. In terms of funding, so we have about $6 billion to $7 billion worth of funding that we would expect to do. That, obviously, depends on the -- on getting all these deliveries, 79 aircraft, during the course of the year, as well as the level of sales that we ultimately end up doing. But based on the $2.5 billion of sales and based on that just under $7 billion of CapEx, we would expect to do about $6 billion to $7 billion, which is -- that will be in unsecured bonds. It will be in some secured deals, unsecured bank deals as well. So it will be a combination, but that probably means two to three trips to the market during the course of the year.

Q - Vincent Caintic {BIO 18737149 <GO>}

Okay, great. That's very helpful. And second question, so I'm glad to hear the strength in the valuations of aircraft, as well as lease rates expanding. How do you balance between selling aircraft and realizing the gain since valuation's are moving higher on aircraft versus keeping the aircraft and taking advantage of the lease rates expanding since there's such high demand there? Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Right. Vincent, when we think about selling assets, it's -- the first objective is to improve the quality of the residual portfolio. Gain on sale and driving the price that we get for the assets comes second to that. So what we do when compose the sale -- portfolio of assets for sale is, we'll say, okay, this is a particular portfolio of assets, where we feel, for various reasons, that the average aircraft in the portfolio post the sale will be a slightly better asset than it was before the sale of this portfolio of assets. That's the key driver that you're always trying to make sure that the portfolio is built for the long term. And that's the primary driver of all our decision-making and that's underpinned the success of the company for many, many years.

Holding on to assets and clipping near-term coupons when you know there's an issue with the -- say, in the bond world. If you are clipping a coupon of 12%, 13% a year in a very low rate environment and the bond is trading at $0.80 on the dollar, you know there is an issue somewhere there. And it's recognizing that and trying, of course, to be ahead of the market. We do have an information advantage over the rest of the markets. We do see things before anyone else in the world. We do see more data than anyone else too, and it's employing all of that to try and make the best decision for the long-term shape of the portfolio.

An example of that would be, we were the only major lessor not to be buying end-of-line aircraft like 737s, A320s, A330s, 777s over the last 10 years. We didn't buy any, but all other competitors were. And we knew that while there are going to be teething issues with the introduction of new technology, we could see before others that the trend for airlines was to move faster than many realized into the newer technology when they could. So that's one example of many, Vincent.

Q - Vincent Caintic {BIO 18737149 <GO>}

Okay. That's very helpful. Thanks so much.

Operator

We will take our next question from Chris Stathoulopoulos from Susquehanna. Please go ahead.

Q - Christopher N. Stathoulopoulos {BIO 20308003 <GO>}

Thank you for taking my question. So Aengus, in your prepared remarks, you spent a good deal of time talking about China, the reopening there. I think you spent time on the last call. But could you speak to what you're seeing in the Americas and other regions and how you would describe, I guess, the pace of recovery there? And then also, curious, within that, if you're -- you mentioned that you have a lot of data that you are privy to within those markets. If you're looking at the segments of travel and how leisure and business might be shaping up as well? Thanks.

A - Aengus Kelly {BIO 2460371 <GO>}

Well, if I -- if you start, say, with the Americas, the market has been very strong there. The domestic market is extremely strong. We expect a very strong summer there with good yields. You can see that there is a tightness of supply of narrowbody aircraft in the US markets, and the North Atlantic market is booming. The North Atlantic is by far the biggest long-haul market in the world. So that affects both the American and the European sides there. So I would show the American domestic market as being extremely strong. I would show the Western European market also having been extremely strong. I think Ryanair had their biggest week of sales ever, Ryanair being the biggest airline in Europe.

And what you'll see around the world is a similar trend where, give or take, with 80% of 2019 capacity, they're generating at or above 2019 revenue. And we see that type of trend being repeated. Now, of course, the input cost for the airlines through higher fuel and, to some extent, higher labor costs, they need that rise. But the good news is that it's there.

With regard to China, I spent two weeks myself in China. I'm just back. I got back on the weekend from spending two weeks there. I met all of the major airlines, be it the flag carriers, the three majors, low-cost carriers, throughout China. And again, we're seeing the same pattern of recovery there, where the domestic market was extremely strong for the spring festival or, as we call it, the Chinese New Year, that occurred in January. The airlines were in profitability pretty much across the board for the first time, heavily focused on the domestic market and into Southeast Asia.

So we'd expect that to -- that is the same that we saw in the Americas and in Europe, and then that expanded over time into the international markets, and I think we'll see the same over the next 12 to 18 months in China.

Q - Christopher N. Stathoulopoulos {BIO 20308003 <GO>}

Okay. My second question, so there's clearly -- you speak to it and we're seeing here in the data, a lot of upward pressure on lease rates as a whole. But could you speak to the cargo side, where perhaps we're not seeing as constructive a supply/demand backdrop, if you will? Volumes consistently moving lower here and the return of belly capacity to the market as these long-haul international flights come back online. So curious, what you're seeing on the cargo side? And if -- within that, if there are any sort of aircraft types that are performing better or worse? Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

It should be no surprise that cargo yields are down. They were stratospherically high during COVID, and it got to the situation where for some low-value products, like, a pair of sneakers, the cost of transporting them from Vietnam to the States or Europe was getting close to the cost of sneakers. So that was an unsustainable situation. So there's no surprise there that it's come down. A lot of demand was pulled forward, of course, in COVID when people were at home buying stuff online.

That being said, however, what we do believe is that the cargo market is a lot more stable now than it has been in the past. If you wind back 10, 12 years, the cargo business was dominated by major carriers like the FedEx, the UPS, the DHL, and a few large Asian airlines that had big freighter fleets. And it was focused on moving food, flowers, fish, drill bits around the world. Now, of course, the e-commerce is supplanted that and we have a much more stable demand and wider and broader demand for cargo.

So I would say that demand is still pretty good. Relative to where it was before COVID, it's very good; relative to where it was in COVID, of course, is down, and that should be no surprise as to specific aircraft types. The 737-800 freighter is the workhorse of the narrowbody side. The 767s, they're just running out of feedstock. That is just an aging platform, so we're going to see that being retired, and that will be replaced over time by a combination of the A330 converted freighter. But importantly, I would say the 777-300ERSF, we've seen very strong demand for that product. We had 20 slots; we've already leased 18 of them, which is a very, very strong uptake, because that aircraft has got so much volume, which is what you need for e-commerce, where the weight is not as important as the volume -- the space on the aircraft, the volume of it.

So look, I don't think anyone should be in any surprise that freight rates came down and the amount of tonnage being moved came down. That doesn't surprise us at all. That's something we fully expected.

Q - Christopher N. Stathoulopoulos {BIO 20308003 <GO>}

Okay. Thank you.

Operator

We will take our next question from Ron Epstein from Bank of America. Please go ahead.

Q - Ronald J. Epstein {BIO 4430430 <GO>}

Hey, good morning, guys. Just a quick one, Gus. When you look at other leasing businesses, cars, other equipment, as assets have become more scarce, it's caused them to retain more value. Given the tightness at the aircraft market, are you guys contemplating at all changing your depreciation rates on aircraft, or are they just too long-lived assets to consider doing that?

A - Aengus Kelly {BIO 2460371 <GO>}

Yeah. That's just an accounting policy, Ron, that we set and it's over a 25-year period and it served us well, to be honest. And yeah, I don't see us changing it. There's never been a concept of marking to market the depreciation or the values.

A - Peter Juhas {BIO 16582554 <GO>}

But Ron, I would say -- it's Pete here. Certainly, we should see, with higher inflation, that should have a positive impact on the residual values of our fleet, because they are hard assets, as you say. So I think, longer term, obviously, we'll have to see how persistent that is, but we're strong believers, obviously, in our book today. But I think this even gives -- should give people more confidence as time progresses.

A - Aengus Kelly {BIO 2460371 <GO>}

Yeah. For sure, Pete.

Q - Ronald J. Epstein {BIO 4430430 <GO>}

Got it, got it. And then maybe a follow-on. Are you guys getting any kind of inflationary adjustments in the maintenance reserves that you get from your customers?

A - Aengus Kelly {BIO 2460371 <GO>}

Well, to the extent that you have maintenance reserve paying leases, what happens is they get adjusted each year in the contract with whatever the OEM increases the reserve rates for parts, et cetera, LLPs. And then if you have an end-of-lease deal, if the engine has to come back overhauled, then the risk is with the customer. But for the most part, Ron, that's passed on. There will be instances, of course, where you have to take an airplane back prematurely and if there's some inflation there, the loss uncovered, you'll have to deal with it. But that's nothing unusual. I wouldn't see it as having any material impact one way or the other.

Q - Ronald J. Epstein {BIO 4430430 <GO>}

Okay, great. Thank you very much.

A - Aengus Kelly {BIO 2460371 <GO>}

Thank you.

Operator

We will take our next question from Mark DeVries from Barclays. Please go ahead.

Q - Mark C. DeVries {BIO 15168557 <GO>}

Yeah. Thank you. The new $500 million repurchase authorization looks relatively conservative to us. Even if you bought back all of that tomorrow, I think you'd still be at 2.6 times levered, below your target. And as you mentioned, it's going to be very strong cash flows, where you will generate additional excess capital, even if you realize the full $6.8 billion of CapEx for the year. So how are you guys thinking about alternative uses of excess capital generation outside of the repurchase authorization?

A - Peter Juhas {BIO 16582554 <GO>}

Well, Mark, I mean, we always look at different alternatives out there, whether that's buying aircraft, whether that's M&A -- although I think that's unlikely at the moment, but M&A, or returning capital to shareholders. And as we think about -- as we thought about sizing this now, we thought, well, we do have excess capital available. It makes sense to deploy it, and this is a good way of doing it. We'll continue to look at that over time. As you say, I expect we will generate a lot of excess capital, we'll generate north of $1 billion during the course of this year, and we'll look to deploy that.

I mean, historically, if you go back, right, most of our share repurchase authorizations were in the range of $250 million to $400 million. So it's not as though we came out with big, splashy announcements and then it took us two years to do that. We looked at it kind of on a quarter-by-quarter basis and made those decisions. So I don't see any reason for us to change that strategy, and that's how we're thinking about it.

Q - Mark C. DeVries {BIO 15168557 <GO>}

Okay. Fair enough. Thank you.

A - Peter Juhas {BIO 16582554 <GO>}

Sure.

Operator

It appears we have no further questions at this time. I would now like to hand the call back over to today's speaker for any additional or closing remarks.

A - Aengus Kelly {BIO 2460371 <GO>}

Thank you very much, operator, and thank you all for joining us on the call, and we look forward to talking to you in a few months' time.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.