Q1 2024 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, Susquehanna International Group
- Helane Becker, TD Cowen
- Hillary Cacanando, Deutsche Bank
- Jamie Baker, JPMorgan
- Terry Ma, Barclays

Presentation

Operator

Good day, and welcome to the AerCap Holdings N. V. Q1 2024 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'd 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 first quarter 2024 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 that 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 arrive after this call.

Further information concerning issues that could materially affect performance can be found in AerCap's earnings release dated May 1, 2024. A copy of the 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 earnings presentation and will 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'll now turn the call over to Aengus Kelly.

Aengus Kelly {BIO 2460371 <GO>}

Thank you for joining us for our first quarter 2024 earnings call. I am pleased to report that the AerCap platform has delivered another quarter of consistent earnings and profitability.

During the first quarter, we generated $3.29 of adjusted earnings per share, up 40% over last year and adjusted net income of $658 million. Importantly, we continued our consistent increases in book value per share which was up 27% year-on-year to $87.47. As a result of this strong first quarter performance and the improving outlook, we are increasing our full-year 2024 guidance to approximately $9.20 per share.

As I mentioned on our last call, the focus of the entire AerCap management team is on maximizing value for you, our shareholders, to earnings per share and book value per share growth not just for an individual quarter but for the long-term.

On the operational side, which underpins everything we do, the platform continues to work well, executing 152 transactions in the quarter. Demand for travel continues to rise, particularly in China where new passenger records were set in the first quarter. Airlines in China flew almost 180 million people in Q1, including 14 million international trips which is still 22% behind the 2019 international levels. The continued supply-demand imbalance creates significant pricing tensions where we regularly have multiple bidders for available aircraft.

On the used aircraft side, we signed lease agreements for A320ceos, Embraer E1s, 737 freighters, and 777s. On the new side, demand remains robust. We are sold out entirely on 787s, A330neos, Embraer E2s, and Airbus A220s, with enviable slots on the 320neos and 737 Max programs. Frankly, the most challenging issue we face is trying to predict with certainty the month or even quarter that these new aircraft will actually deliver from the manufacturers.

Turning to the Engine business, it continues to present opportunities reflected in healthy activity in the period, and I look forward to discussing this subject with you next week. Finally, on the helicopter side, we saw good demand in the first quarter for our Sikorsky 92s, where we signed up extensions and new agreements with a number of operators.

In summary, this was another strong quarter for AerCap. Demand remains robust, cash generation is strong, and earnings per share grew by over 40% year-on-year. The company and industry continues to benefit from a positive macro backdrop, and we are well-positioned to take advantage of it for the years to come.

With that, I will hand it over to Pete before we have the Q&A session. Thank you.

Peter Juhas {BIO 16582554 <GO>}

Thanks, Gus. Good morning, everyone. Our GAAP net income for the first quarter was $604 million, or $3.02 per share. The impact of purchase accounting adjustments was $86 million for the quarter. That included lease premium amortization of $33 million, which reduced basic lease rents, maintenance rights amortization of $35 million, which reduced maintenance revenue, and maintenance rights and lease premium amortization of $17 million, which increased leasing expenses.

During the first quarter, we recognized $23 million of net recoveries, which is included in net recoveries related to the Ukraine conflict. The tax effect of the purchase accounting adjustments and net recoveries related to the Ukraine conflict was $9 million. So, taking all of that into account, our adjusted net income for the first quarter was $658 million, or $3.29 per share.

I'll briefly go through the main drivers that affected our results for the first quarter. Basic lease rents were $1,586 million, an increase of $10 million from last quarter. As I mentioned, basic lease rents reflected $33 million of lease premium amortization, which reduces basic lease rents.

Lease premium assets are amortized over the remaining term of the lease as a reduction to basic lease rents. Maintenance revenues for the first quarter were $179 million, and that reflects $35 million of maintenance rights assets that were amortized to maintenance revenue during the quarter. So, in other words, maintenance revenue would have been $35 million higher, or $214 million, without this amortization.

Maintenance revenues were higher than normal during the quarter due to cash collections and the timing of maintenance events. Net gain on sale of assets was $160 million for the quarter. We sold 43 of our owned assets during the first quarter for total sales revenue of $920 million. That resulted in an unlevered gain on sale margin of 21% for the first quarter. As of March 31, we had $459 million worth of assets held for sale.

Other income was $93 million for the quarter, which consisted primarily of interest income and certain one-time items. Interest expense was $492 million, which included $3 million of mark-to-market losses on interest rate derivatives. Leasing expenses were $149 million for the quarter, including $17 million in maintenance rights and lease premium amortization expenses.

Income tax expense for the first quarter was $94 million, which represented an effective tax rate of 14.3%. That included a discrete tax benefit of $8 million that we recognized in the quarter. Excluding this tax benefit, our effective tax rate was 15.5%.

We continue to maintain a strong liquidity position. As of March 31, our total sources of liquidity were approximately $19 billion, which resulted in next 12 months sources-to-uses coverage ratio of 1.7x. That remains well above our target of 1.2x coverage and represents excess cash coverage of around $8 billion.

Our leverage ratio at the end of the quarter was 2.4 to 1, a decrease from 2.47 to 1 at the end of 2023. Our operating cash flow was approximately $1.4 billion for the first quarter, driven by continued strong cash collections. Our secured debt-to-total assets ratio was around 14% at the end of March, in line with prior quarters.

Our average cost of debt was 3.9% for the first quarter. And during the first quarter, we repurchased 4.3 million shares at an average price of $77.89 for a total of $336 million. Our book value per share as of March 31 was $87.47, an increase of 27% over the last 12 months.

In February, we projected adjusted earnings per share of $7.50 to $8.50 for the full-year 2024 before any gains on sale. Given the strong performance this quarter, including higher maintenance revenues, we're raising our guidance to the top end of that range, so we now expect adjusted EPS before any gains on sale of approximately $8.50 for the full-year 2024.

We had around $0.70 of gains on sale in the first quarter, so when we add those gains, that takes us to a new estimate of approximately $9.20 of EPS for the full-year 2024, not including any gains on sale for the remainder of the year.

So overall, the strong performance that we had in 2023 has continued in the first quarter of 2024, and you can see that in our results. We continue to see a strong environment for leasing as well as for aircraft sales, which is reflected in the gain on sale margin this quarter.

We also continue to generate a significant amount of excess capital during the quarter and ended with a leverage ratio of 2.4 to 1. With these strong results and a positive outlook going forward, we're now raising our guidance to the top end of our previous range.

And with that, operator, we can now open up the call for Q&A.

Questions And Answers

Operator

(Question And Answer)

Thank you. Given the company is hosting the Capital Markets Day next week, we ask that analysts focus their question on today's call on the quarter. (Operator Instructions) We'll go first to Terry Ma with Barclays.

Q - Terry Ma {BIO 17247903 <GO>}

Hey, thank you. Good morning. Your net spread was down about 10 basis points quarter-over-quarter, but if I remember correctly, I think PBH should have been a 30 basis point impact. So, maybe just walk through the moving pieces to net spread this quarter and maybe just the outlook for the rest of the year?

A - Peter Juhas {BIO 16582554 <GO>}

Sure. So, you're right, you're right, we had mentioned last quarter that PBH would have an impact on net spread, and it was down 10 basis points relative to last quarter. So, that's a little less than we had expected. And that was due to having some more PBH rents in the quarter than we had initially expected. So, that will drop off a little bit next quarter.

I do think it's worthwhile mentioning, though, that we aren't managing to net spread. That is – obviously, it's a metric that we look at but it's not something that we managed to specifically.

Q - Terry Ma {BIO 17247903 <GO>}

Got it. That's helpful. And then you guys raised the guide on Gain on Sale toward the high end, but it just still feels pretty conservative to me, just given what you did in Q1, I understand there's some one-time items. So, maybe can you just walk through what's contemplated in the guide for the rest of the year? And maybe just speak to where the areas of conservatism are?

A - Aengus Kelly {BIO 2460371 <GO>}

Sure, well, I'd say across the Board, if you look back at the line items that I presented last quarter, I'd say we're pretty similar on most of them for the full-year. We did have some higher maintenance revenue during the first quarter, that was due to higher cash collections, as well as the timing of events, and as we've talked about many times, maintenance can move around, that can be lumpy quarter-to-quarter.

So, maintenance came in a little stronger in the first quarter, we had a little bit higher other income in the first quarter as well, so those were some of the drivers, and a small tax benefit that I mentioned, so those were some of the things that helped in the first quarter.

I'd say, as we look out for the rest of the year, and I mentioned this when we gave the guidance on the last earnings call, we do have some contingencies in there for defaults and things like that, and so those are still in there, and we've kept them in for the rest of the year. Hopefully, we'll do better than those, but at this point we haven't changed any of that.

Q - Terry Ma {BIO 17247903 <GO>}

That's great. Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure.

Operator

We'll go next to Jamie Baker with JPMorgan.

Q - Jamie Baker {BIO 3406456 <GO>}

Good afternoon, everybody. So, I was hoping, Gus, I was hoping you could give us an example of where lease rates are coming in now on late 2025 expiring deals, or even early 2026, relative to the economics that were captured in today's results. We're always being asked about the lag time between signing deals and when it hits the income statement.

Obviously, a portion of today's results were locked in, what, 18 to 24 months ago. Just hoping for a nice clean example, apples-to-apples, so, I don't know, tenure 320s, where renewals are coming in now for leases that aren't going to hit until late next year?

A - Aengus Kelly {BIO 2460371 <GO>}

Well, Jamie, the good news is we're going to answer that in some detail next week at the Investor Day. Peter Anderson, our Chief Commercial Officer, is going to give examples of 320s, 787s, which are our main aircraft types and make up more than the majority of our fleet, and he will show you there the rate of increase and how and when it will come into the revenue line.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay. That's super helpful.

(Multiple Speakers)

Okay. We'll be there. That's helpful. I mean, I'm sure you agree. I mean, I think that's the way at least most of my investors are trying to think about it. So, you've given us something to look forward to. So, quick follow-up on the 35 aircraft that you sold in the quarter. Can you comment on any sort of geographic skew? I think at past quarters, we saw a bit of a sort of a North American emphasis. Just wondering if that's still the case. I realize it wasn't an enormous number of aircraft.

A - Aengus Kelly {BIO 2460371 <GO>}

Well, it was widespread. But again, as we've mentioned in prior quarters, our exposure into China is coming down. And by dollar value, that would have been the biggest component of sales – China-based sales.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay. Helpful. See you next week. Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Thank you.

Operator

We'll go next to Hillary Cacanando with Deutsche Bank.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Hi, thank you for taking my question. Could you buy back any shares so far in the second quarter? And in your guidance, are you assuming repurchases of $500 million authorized last quarter and perhaps any other repurchases beyond that in your guidance? And also, I was wondering if you would consider paying a dividend as well, given that leverage declines seem to be outpacing maybe the ability to buy back shares?

A - Peter Juhas {BIO 16582554 <GO>}

Sure, Hillary, thanks. So, we've bought back around 1.2 million shares in the second quarter so far. So, year-to-date, that's about 5.5 million shares for about $435 million. In terms of the guidance that we've provided. So, we've assumed that we would spend our full authorization for the year. So, we've got around $350 million left in that. And then also, just as we generate excess capital, we would assume that we would deploy a lot of that as well for share repurchases during the year.

Obviously, the amount that we do ultimately will depend on how we perform, how much capital we generate, and also other opportunities as well. So, that's really where that stands. And then, I guess, in terms of thinking about capital allocations, that is something that we'll talk about next week as well.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Okay. Got it. And then there was an article in the journal this morning, saying that Embraer is exploring plans to introduce an aircraft to rival, Boeing 737 and A321 in the narrow-body market, according to sources. So, kind of, just wanted to get your thoughts on how likely you think that is? And if you think that would be good for the market to have another player come in. And ultimately, would that be good for the westward?

A - Aengus Kelly {BIO 2460371 <GO>}

I mean, Hillary, I think over the long-term, it may well be helpful. However, I doubt we'll see anything in material numbers before the end of the 2030s.

It's just impossible to develop a new aircraft, particularly if you need a new engine technology, you would have to be well down the track already to have that delivering this side of 2030, so that's not happening, it'll be mid-2030s at best, if they even do it, the financial resources required to do that are extraordinary, to compete with the capability of Airbus and Boeing. I think it's a long shot, to be honest, and even if it does come off, I don't think it'll be relevant for the next 15 years.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Got it. Just one quick follow-up question, where does China's Comac stand in terms of the people's perception of that, and where you think that product is going?

A - Aengus Kelly {BIO 2460371 <GO>}

Well, you've seen the announcements of recent sales to the Chinese majors of the Comac. Again, though, you must bear in mind that this is such a long, long journey to become a global player in aerospace manufacturing. They have one airplane today, that is a technology shift behind the neo and the MAX. For them to compete with the neo and the MAX, they would have to have three or four aircraft in the same family, that's not even in development yet.

So, again, to my point, we all hope there'll be competition, but I suspect it would be well into the late 2030s, maybe mid-2030s, given they have an airplane in operation, before, I think it's late 2030s, to be honest, before, like in Brazil, you would have a global competitor to Boeing and Airbus, and that's best case.

Q - Hillary Cacanando {BIO 18940405 <GO>}

Got it. Great. Thank you so much.

Operator

We'll go next to Helane Becker with TD Cowen.

Q - Helane Becker {BIO 1504163 <GO>}

Thanks very much, operator. Pete, I was just wondering about the assets held for sale, increasing from $296 million at the end of the year to $459 million. Can you just give some color on what those assets are, what families they're in, et cetera?

A - Peter Juhas {BIO 16582554 <GO>}

Sure, well, it's just -- it's mainly aircraft, it's primarily aircraft and some engines that are included in those assets held for sale, and those are assets that we would plan -- we would expect most of those sales to come through next quarter, obviously, you never know exactly what the timing of that will be, but I would expect probably over the next two quarters that most of those would be completed.

Q - Helane Becker {BIO 1504163 <GO>}

Okay. And then my follow-up question is just on the earnings as you think about it, and maybe you'll talk about this next week, we get two major questions, one is on capital allocation, which you already addressed, that you'll talk about it next week, and the other is on how it gets better from here. And maybe you answered that in Jamie's question that you'll speak to it next week. But that's another question we get from investors. Like, how do you go from 320 in earnings this first quarter to a better number in the first quarter of '25?

A - Aengus Kelly {BIO 2460371 <GO>}

Well, Helane, we'll talk about both of those topics next week. Of course, I would always look to the history of this company, and you've seen the tremendous stability of our earnings over a very long period of time through various different issues. But we will talk about the outlook for the business extensively next week. So, once again, I'd encourage you all to be at the Capital Markets Day next week.

Q - Helane Becker {BIO 1504163 <GO>}

All right, thanks. Thanks, team. I appreciate the time.

A - Aengus Kelly {BIO 2460371 <GO>}

Sure. Thanks, Helane.

Operator

We'll go next to Chris Stathoulopoulos with Susquehanna International Group.

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

Good morning. Thanks for taking my question. So, I think it's in your prepared remarks, you spoke about, I guess, managing the timetable for deliveries. And that's a question I've gotten recently, but I'm pretty sure, you've addressed this on your last, if not the call before that. So, if you could just kind of walk us through how you're managing that risk around deliveries. And is there a risk that carriers could potentially cancel orders or defer them as they look to smooth out or derisk their order books? Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Thanks. The concern with the late delivery, I would say more the concern is more about the unknown delivery. When it's late and you can trust the date that you're given, airlines can tend to plan around it. The challenge is when the target is moving and even moving very close in, it can be far more difficult for an airline.

For example, if you were expecting to get an aircraft for the summer, and now you don't get it till November, the airline will say, well, I don't really want it in November. I needed it for the summer. That's when I make my money. I lose money in the fourth quarter and the first quarter. That's the real challenge for our airline customer base and to smooth out those late deliveries that fall from the periods of the year where they're wanted to when they're unwanted. Now, and we work with the airline and the OEMs around those issues.

To the second part of your question, can the airlines cancel the aircraft? Yes, they can after a period of time and certain conditions have been met. However, we have a back-to-back cancellation right with the manufacturers. So, if that were to come to pass, we would not be exposed. But we would certainly, at the moment, we don't see that happening. There is a global shortage of aircraft and we'll talk about that extensively next week as well and what our outlook is on the supply side of aircraft and also how the MRO situation is affecting the demand for aircraft.

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

Okay, thank you. And then on the $160 million in gains on sell in 1Q, could you just walk us through what you're seeing in the secondary market if there's perhaps certain aircraft that are in vintage that are doing better? Any color around the various pieces of sales on the quarter would be helpful. Thank you.

A - Aengus Kelly {BIO 2460371 <GO>}

Well, that's one area I'm going to tackle in quite a bit of detail next week to try to explain to you all how the different things that are happening in the market are impacting different aircraft values and engine values. So, again, I would encourage you to come along next week, where we'll have a more extensive discussion around that and the factors that are driving aircraft values higher.

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

Okay. Looking forward to it. Thank you.

Operator

At this time, there are no further questions. I will now turn the call back to Aengus Kelly for closing remarks.

A - Aengus Kelly {BIO 2460371 <GO>}

Thank you, operator, and thank you everyone for joining us on the call.

In closing, AerCap has produced another excellent quarter of earnings and cash flows. And as I referenced, we're hosting our 2024 Capital Markets Day in New York next week on May 8. And we hope to see as many of you as possible at the event, where you'll also get a chance to hear from a broad selection of the AerCap management team. So, thank you very much.

Operator

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