Company Name: AerCap Holdings
Company Ticker: AER US
Date: 2021-11-10
Event Description: Q3 2021 Earnings Call

Market Cap: 16908.8879637111
Current PX: 69.0500030517578
YTD Change($): 23.47
YTD Change(%): 51.492

Bloomberg Estimates - EPS
Current Quarter: 1.557
Current Year: 7.778
Bloomberg Estimates - Sales
Current Quarter: 1092.75
Current Year: 4620.778

Q3 2021 Earnings Call

Company Participants

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

Other Participants

- Andrew Lobbenberg, Analyst
- Mark DeVries, Analyst
- Jamie Baker, Analyst
- Catherine O'Brien, Analyst
- Hillary Cacanando, Analyst
- Helane Becker, Analyst
- Moshe Orenbuch, Analyst
- Ross Harvey, Analyst
- Ron Epstein, Analyst
- Vincent Caintic, Analyst

Presentation

Operator

Good day, and welcome to the AerCap Holdings NV Third Quarter 2021 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, Head of Investor Relations

Thank you, operator, and hello everyone. Welcome to our third quarter 2021 conference call. With me today is our Chief Executive Officer, Aengus Kelly; and our Chief Financial Officer, Peter 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 November 10, 2021. 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 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, Chief Executive Officer and Executive Director

Good morning everyone and thank you for joining us for our third quarter 2021 earnings call.

I am pleased to report a strong quarter of earnings, with $434 millon dollars of net income, or $3.35 of earnings per share.

Importantly, the positive trends we have observed for the last several quarters relating to operating cash flow, deferral balances, accounts receivable balances and improving demand for aircraft continued in the third quarter. These positive trends are underpinned by the strong recovery in global air travel. More and more countries are opening their borders to international travel driven by the huge success of the vaccination program and the subsequent easing of government restrictions.

As you will see from the slide the three key markets of the world are the United States, Europe, and China, which today contribute 50% more flights each day than the rest of the world combined. Since the GECAS announcement in March, travel has rebounded by about 38% in these three markets, and by 26% in the Rest of the World. This is well ahead of our expectations at the time, and also shows the potential for further progress in 2022.

In the U.S., we saw a strong rebound beginning in January, and this continued through most of the summer with domestic leisure traffic close to 2019 levels. And although there was some temporary softness in traffic in August and September as a result of the Delta variant, most of the U.S. majors that have recently reported highlighted improving booking trends moving into the fourth quarter. In addition, the re-opening of the U.S. international market earlier this week should provide a significant boost to long haul travel demand. It was encouraging to hear from the airlines that bookings surged in the days and weeks following the announcement, a clear sign of the pent-up demand that exists. The transatlantic market is the most important long-haul market for both business and leisure, providing healthy yields for airlines and strong demand for widebody aircraft. The successful reopening of the North Atlantic market will give other airlines and airport operators around the world the confidence to follow. While it’s too early to say how quickly business demand will return, this is a critical first step.

In Europe, the strong recovery has been sustained by the success of the vaccine rollout, and the Digital Covid Certificate which has made international travel much easier for airlines, airport operators and travellers.

China is the most important market in Asia and has also fared well with high levels of domestic demand. Although there have been periods of turbulence due to regional outbreaks and increased travel restrictions, these have been transient in nature and demand for air travel has bounced back each time, proving the resilience of the Chinese domestic market. As a group these markets are back to 85% of total flights relative to 2019 levels.

In the rest of the world, South America and India have shown recent signs of improvement, but the one region that has been harder hit is South East Asia. Even there though we have seen countries like Thailand and Malaysia pivot towards a “living with COVID” approach, which coupled with the continued roll-outs of the vaccine, should also spur a recovery in this region. Likewise, Australia, which has had one of the strictest quarantine requirements in place since the pandemic began, has started to re-open to international travel. Whilst a full re-opening in Australia will take some time, we have already seen evidence of a number of carriers starting to rebuild their domestic networks in advance of greater inbound travel. As an example, Qantas, combined with Jetstar, was operating 1 return flight per day between Sydney and Melbourne, they moved to 18 return flights the day after the state border opened and expect to operate 37 by Christmas. This is still well below the 58 per day that was seen pre-pandemic but a significant step forward, nonetheless.

Turning to GECAS, we were delighted to announce the closing of the transaction following an extremely successful bond offering, and the receipt of all regulatory approvals. And, although we only closed the deal last week there are a number of areas, I would like to highlight that have pleasantly surprised me. AerCap has always had a high degree of communication with its customers, but the level of this communication and the substance of this communication has significantly intensified materially. AerCap is the most important lessor in the world and simply reaches a much wider base of customers, from legacy carriers, LCCs, regional carriers, helicopter operators, Freighter operators, wet-lessors, and engine leasing customers.

Engine leasing in particular provides a new lens into the market This business runs on much shorter lead times than aircraft leasing, as new business deals are done weeks in advance rather than months and years in advance on the aircraft side. This gives us an important window into the thought process of an airline and their confidence in a recovery if we can see they are prepared to invest large amounts of capital in putting their engines through shop visits and leasing from us to cater for them. The same is true of our interactions with the OEMs, as we are by far the largest owner of commercial aircraft in the world and their biggest customer.

I am pleased to see the level of cash we are collecting every day from our customers too. And, whilst we are not out of the woods yet when it comes to COVID, I do believe that with further progress on vaccinations, the new treatments announced last week, the transatlantic market re-opening and a pathway out of this in Asia, that it's only a matter of time before the market fully recovers.

Now, not only does this transaction provide us with an extremely attractive portfolio of customers, just as importantly, we also gain a group of highly-talented colleagues across a variety of functions who will challenge and enhance the AerCap team to ensure we remain the industry leader. It is clear from the level of lease placements, aircraft sales and purchases of both companies that we have the right people and the right products to position AerCap well for the future.

Having the right product available to your customers is crucial and this is why AerCap's fleet will be comprised of 75% new technology aircraft by 2024. These new technology assets, such as the A320neo and the 737MAX are the most in-demand aircraft in the world, reducing airline's operating costs and carbon emissions; and helping them to meet their sustainability commitments. Having the most desirable portfolio of assets will ensure that AerCap maintains its global customer footprint and franchise.

So, in summary, this quarter was an important inflection point for the company. As our strong results demonstrate AerCap continues to recover from the effects of the Covid-19 pandemic. The GECAS transaction adds a portfolio of well-priced assets and a deeply experienced team of people that will further enhance AerCap's position as the lessor of choice for airlines around the world. With that, I will hand the call over to Pete for a detailed review of our financial performance.

Peter Juhas, Chief Financial Officer

Thanks Gus. Good morning everyone. Our total revenues for the third quarter were $1,454 million dollars, an increase of 42% from $1,027 million dollars for the third quarter of 2020. Basic lease rents were lower in the third quarter primarily due to lease restructurings, aircraft transitions and the impact of airline bankruptcies. This includes the impact of cash accounting, which was $75 million dollars for the quarter. With the recovery in air travel progressing and after a stronger summer, most airlines are in a significantly better financial position today, and we could see this in our third quarter numbers. Our cash collection rate was 99% for the third quarter. Our deferral balance decreased by $36 million dollars to $427 million and our trade receivables fell by almost half to $80 million dollars as of September 30th. So, on a combined basis, deferral balances and trade receivables fell by 17% in the third quarter, which leaves us in a good position as we approach the winter months.

Maintenance rents were $110 million dollars in the third quarter, which was an increase from $91 million dollars in 2020, primarily due to higher maintenance revenue recognized as a result of lease terminations. In terms of aircraft sales, during the third quarter we sold 11 of our owned aircraft for a total of $101 million dollars. The aircraft we sold were an average of 20 years old, and our net gain on sales for the quarter was $38 million dollars.

Other income was $459 million dollars for the third quarter, the vast majority of which was the sale of most of our remaining unsecured claims with LATAM Airlines. We recognized $409 million dollars of other income in the third quarter related to the LATAM claims sale. We received the cash proceeds in early October, so those did not contribute to operating cash flow for the third quarter but will instead come through in the fourth quarter.

Turning now to expenses. Our total expenses were $955 million dollars for the third quarter, a decrease from $1,851 million for the third quarter of 2020. The main reason for the decrease was the lower level of impairments this year. We recorded asset impairments of $49 million dollars in the third quarter, which related to lease terminations and were largely offset by maintenance revenue.

Our depreciation and amortization expense was $393 million dollars for the third quarter, a decrease from $416 million last year, primarily due to a lower lease assets balance. Interest expense was $287 million dollars for the quarter, down from $307 million last year, mainly due to a lower debt balance.

Loss on debt extinguishment was $3 million dollars in the third quarter, compared to $43 million last year, when we completed a debt tender and prepayment of a large amount of bonds. Other leasing expenses were $54 million dollars for the third quarter, an increase from $40 million in 2020. The increase was mainly due to higher default and restructuring related costs during the quarter. Our SG&A expenses were $68 million dollars for the quarter, compared to $61 million for the third quarter of 2020.

And finally, in the third quarter we recognized expenses of $101 million dollars related to the GECAS transaction. This primarily represents the costs of the bridge financing facility that we put in place back in March, which was terminated when we closed the transaction.

So overall, in the third quarter, AerCap generated net income of $434 million dollars, or $3.35 cents a share. Excluding the costs related to the GECAS transaction of $101 million dollars pre-tax or $88 million after-tax, net income for the third quarter was $522 million dollars, or $4.04 cents per share.

We continue to maintain a strong liquidity position. Pro forma for the GECAS transaction, our total sources of liquidity were around $18 billion dollars, which results in a next 12 months' sources-to-uses ratio of 2.1x. That's well above our current target of 1.5x. Our excess cash coverage also remained high at around $9 billion dollars. As I mentioned earlier our cash collections continued to be strong at around 99% and our operating cash flow was $788 million dollars for the third quarter.

We continue to maintain a very strong balance sheet. Our leverage ratio on a stand-alone basis at the end of the quarter was 2.3 to 1, which means that, pro forma for the GECAS transaction, our leverage ratio was 2.8 to 1. That puts us well on our way to get back down to our target ratio of 2.7 to 1 in 2022. Our secured debt percentage decreased as a result of the recent financing we did, which was predominantly unsecured, so on a pro forma basis as of September 30th our secured debt was around 16% of our total assets.

So overall, we had a positive quarter with net income, of $434 million dollars and EPS of $3.35. We saw improvements in cash collections, leading to a significant reduction in our deferrals and trade receivables balances. We had very strong demand for our recent financings, and both our $21 billion-dollar unsecured bond offering, and our $2 billion-dollar secured term loan were heavily oversubscribed, which demonstrates the market's confidence in AerCap as well as the sector generally. And of course, the interest cost of around 2.6% for an average tenor of just over 7 years on those financings positions us well with a lower cost of debt going forward. Now, with the GECAS transaction closed, we look forward to completing the integration of our two companies and continuing to deliver for our customers and our investors.

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

Questions And Answers

Operator

(Operator Instructions). We will now take our first question from Andrew Lobbenberg from HSBC. Please go ahead, your line is open.

Andrew Lobbenberg, Analyst

Lovely. Thank you. Can you talk a little bit about when we might see lease rates climbing. Looks to me that they were sort of flattish year-on-year, but obviously we still got the transitions going on, but equally once the transitions go on, I think through this winter we're going to have quite a lot of power by the hour. So yeah when should we expect or how vigorously should we expect lease rate to climb? Thank you.

Aengus Kelly, Chief Executive Officer and Executive Director

Let me start on that one and then Pete can comment on the power by the hour arrangements during the winter. I think it's fair to say that we are seeing upward movement in lease rates in certain aircraft types already. And the recovery in lease rate has been led by the new technology narrowbody assets on the A321neo, in particular, it never really fell that much and we're certainly seeing upward movement there. We are seeing the MAX 8s. We're seeing good movement on the MAX 8s actually as well. It's now trending near where an A320neo would trend as well for future placements. So we're certainly seeing that. And then on aircraft values, we're seeing the upward movement there in values of aircraft as evidenced by the sales that we've been executing. You can see some of the gain on sale in this quarter's earnings.

Pete, would you like to comment on the near-term impact of the power of the hour.

Peter Juhas, Chief Financial Officer

Sure Andrew. So as we look at basic lease rents and our lease yields, really the factor that has been affecting those has been just the number of aircrafts that are in transition, that are waiting to be delivered to new lessees, right. And so as -- really that's the biggest factor, as those aircraft get delivered, then we will start to see them earning revenue again. And that's really something that's going to happen over the next couple of quarters, we will see the vast majority of those being delivered, for example, the A350s that we took out of LATAM and put into Delta. Once those aircraft deliver, then the revenue start again. So that's one of the biggest drivers that you will see there, you will also see from the perspective of airlines coming off of cash accounting, so as airlines come off of cash accounting that will also impact that line because it will go into revenues.

As it relates to the PBH rents, what we will see is over the next, call it, few quarters, those PBH rents you will see airlines coming off of those arrangements because really they were put on them at the start of the leases, so you have a PBH period and then switching to normal monthly rentals, fixed rentals. And so that's really going to happen kind of in early 2022, you'll be seeing that for the most part.

And I would say, in general, if you look at revenues, generally, I think this quarter is the low for us and we should see them picking up from here on out.

Andrew Lobbenberg, Analyst

That's lovely. That's clear. Thank you.

Peter Juhas, Chief Financial Officer

Sure.

Operator

Thank you. We will now take our next question from Mark DeVries from Barclays. Please go ahead, your line is open.

Mark DeVries, Analyst

Yeah, thank you. I appreciate there's probably a lot of work still going on evaluating the planes you acquired. But any sense for when we'll get some clarity on some of the pro forma accounting impacts the deal, whether it's the maintenance rights asset or how much you collected from the cash lockbox?

Peter Juhas, Chief Financial Officer

Sure, Mark. So yes you're right. I mean, it will be a big exercise to go through the legacy GECAS fleet. We will do that on an asset-by-asset basis. So we'll look at every asset, every liability on their balance sheet and assess what do we think is the future for that, what lease rates are we going to get, what maintenance revenues are we going out, what expenses are we going to have et cetera. So that is a big project that we're -- we've just undertaken. And really once we have done that and also once now that we are able to operate the teams together and having leasing executives meeting freely, the portfolio management people meeting, now we can really take a view as to what we're going to do strategically with all of these aircraft.

And so all of that is going to inform the judgments that we make there. And basically when we report fourth quarter results, you will see that, so you will see that pro forma balance sheet in there, you'll be able to see all of those assets laid out. And at that point, there will just be much more information that we can give you on what the combined company will look like and what it will produce.

Mark DeVries, Analyst

Okay, that's helpful. And then just one clarifying question for the pro forma equity in the press release, is that for your stock price as of 09/30 and with the debt to equity and would the implied price ot book value per share be higher, or I'm sorry would the equity be higher if you marked it for where the stock was on the date of close?

Peter Juhas, Chief Financial Officer

So that was based on the stock price as of -- was the Friday before closing. So on October 29th, which was it closed at $59.04 on that date. And so that's what you base it on because when you account for those shares, you just multiply the number of shares 111.5 million times $59.04. So that number won't change and really it's just driven by where the stock happen to be on that date.

Mark DeVries, Analyst

Okay, got it. Thank you.

Peter Juhas, Chief Financial Officer

Sure.

Operator

Thank you. We will now take our next question from Jamie Baker from JPMorgan. Please go ahead, the line is open.

Jamie Baker, Analyst

Hey, good afternoon everybody. Follow-up on the first question about aircraft values. So Mark and I noticed that the weaker aircraft types 330s to 777 300ERs. The value subscribe to those types was lower than what we think some investors might have been expecting. Did you have any wiggle room to allocate GECAS aircraft value in a way that would minimize the risk of downgrades. Could you just remind us of any rules around that?

Aengus Kelly, Chief Executive Officer and Executive Director

Well, let me just start off with the strategy though. And first of all, Mark, the key thing about the portfolio we have bought with GECAS is that, and I say this so many times, the age of the portfolio is not a metric of risk. If you have young 777s, the young A330s, you have significant risk profiles. GECAS and AerCap, the two biggest players in the markets, two biggest buyers and sellers of airplane in the world had the same strategy, do not buy any end of life 330s, 777s. And so neither one of us was involved in that growth at any price model that some of our competitors engaged in over the last seven or eight years. We haven't ordered 777s or 330s since over 11 years ago. So the issue that you're referring to is much more acute for those who have young assets in those asset classes.

Furthermore, the balance sheet of GECAS was not built by buying overpriced M&A transaction. So you are not allocating purchase price premiums. In fact, even on closing, even after $1.5 billion run-up from when we sign the transaction with GECAS in March to closing, the discount is still $3.5 billion that we're getting off the GECAS balance sheet, that's after almost a $1.5 billion run up in the stock. So to the extent, first of all, the most important thing was the strategy was right in both companies about how we put the portfolio together. Secondly, the GECAS book wasn't built by paying over the odds for assets. And then thirdly, of course we're getting a very significant discount here. So to the extent, we want to take something off those assets, we will reflect the true market value.

Jamie Baker, Analyst

Thanks for that guys. And while I have you, I mean the asset sale market is very strong at the moment, we had one of your competitors CEOs tell us that he could sell anything that he wants right now. Just wondering if you agree with that assessment and how aggressive you might be in, culling the pro forma portfolio going forward? Thanks.

Aengus Kelly, Chief Executive Officer and Executive Director

I don't know who described the comment too, but of course you could sell anything for a dollar, I suppose. I'm not entirely certain that that's the case just yet. I mean look, what I would say is this, as in prior downturns, we're seeing the recovery led by the same assets. So without question A320neo aircraft values, well, they never really got hit that hard to be fair and the lease rates have ticked up on those. The MAX 8 is making a comeback, that's important. It's important for competition with Airbus too actually that is not just an Airbus market, the MAX 8 is coming back, that's good news.

And then we certainly see this on 320s, 737s, we see it on 787s at the moment as well. So it's coming, and I do think that we have seen a significant increase in asset values from the beginning of this year, that's not in doubt and we see that in the sales prices that we're getting for our airplanes. So yes, I mean I would agree with the sentiment of which every one of my peers said that, but it's slightly more nuanced.

Jamie Baker, Analyst

Mark and I appreciate the color. Thanks Gus.

Operator

Thank you. We will now take our next question from Catherine O'Brien from Goldman Sachs. Please go ahead, the line is open.

Catherine O'Brien, Analyst

Hi. Good morning, everyone. Thanks so much for the time. So I know the AerCap delivery book is sold out through 2022, I'm guessing GECAS legacy order book is probably similarly positioned, but correct me, if I'm wrong. Can you just speak to, like how quickly you can start marketing both fleets jointly? And can you walk us through any pluses or minuses you're thinking through to marketing a larger combined order book? Thanks so much.

Aengus Kelly, Chief Executive Officer and Executive Director

Well, first of all, yes, the GECAS fleet is similarly placed and the vast majority of the two order books actually through the end of '23 are placed. And when it comes to of course as of the day of closing, we've been preparing for that in AerCap for the last six months to hit the ground running and a lot of work has gone into that. Of course, we were never able to up until the day of closing in any way, shape or form coordinate any campaigns, but we've done this before seven years ago. And so far, we're, albeit 10 days in, the coordination has been very good on marketing the combined fleet.

Catherine O'Brien, Analyst

Okay, got it. Thank you very much. And then maybe just one for Pete, not to be nit-picky and it was a strong quarter, but your cash accounting increased a little bit from last quarter, what drove that? And then just any updates on when you think that unwinds completely, I know you were talking about earlier that you expect 3Q to probably be the bottom safe to assume that probably goes for cash accounting as well? Thanks.

Peter Juhas, Chief Financial Officer

Sure. So the second quarter number was $54 million for cash accounting. And as I mentioned at the time on our last earnings call and that was impacted by some one-time items, which made it kind of artificially low relative to what we would have expected. And so we went from a $100 million during the first quarter to $54 million to $75 million and I think that number is going to come down from here on out. So the trend, absent that one-time aspect of it, the trend is going down. I mean one of the big items on that would have been LATAM, right, and LATAM is back on accrual accounting now, now that we've restructured the deals with LATAM and the aircrafts that are in there, and so that would be a big driver of bringing that down.

Catherine O'Brien, Analyst

Great. Thanks so much for the time.

Peter Juhas, Chief Financial Officer

Sure.

Operator

Thank you. We will now take our next message from Hillary Cacanando from Deutsche Bank. Please go ahead, your line is open.

Hillary Cacanando, Analyst

Hi, thanks for taking my questions. So with the GECAS acquisition now closed and I know you'll be focused on successfully integrating the new operations and you want to bring your pro forma leverage down to 2.7 times. Could you just provide a little more color around how that will be done, will you be selling assets, raising equity capital and how you envision your longer-term capital structure to look like?

Peter Juhas, Chief Financial Officer

Sure. Thanks Hillary. So the primary driver of it will just be our organic cash generation and equity generation. So that on its own would bring us down to that level and below that level and we're starting off at 2.8:1, so we're pretty close to it now, it's a very good start towards that 2.7 target, but that's the main driver. And then beyond that asset sales also contribute, the more assets that you sell, you can bring that number down faster right or by more. But no, I mean, we're not planning to raise any equity.

Hillary Cacanando, Analyst

Got you. That's helpful. And then one of your competitors last week talked about production delays at Boeing and Airbus having an impact on the delivery schedule. Are you having like to same type of issues with the OEMs in terms of delivery, if you could kind of talk about what you're seeing there? Thank you.

Aengus Kelly, Chief Executive Officer and Executive Director

Sure. I mean that's a global phenomenon at the moment and certainly the Boeing issues are well documented with the issues that are currently on the MAX and the 787 line. However, that being said, I would expect Boeing to come through this, it's a very difficult time, but I believe those deliveries will ramp up again as we get into next year, it take a bit of time. Mind you as the largest owner of commercial airplanes in the world and someone who's a marginal supplier of capacity that's not entirely a negative thing for us anyway. But needless to say, we're in discussion with the manufacturers and all of them every day, as we are the biggest owner and buyer of commercial airplanes in the world.

Hillary Cacanando, Analyst

Thanks for your time. Thank you.

Aengus Kelly, Chief Executive Officer and Executive Director

You're welcome.

Operator

Thank you. We will now take our next question from Helane Becker from Cowen. Please go ahead, the line is open.

Helane Becker, Analyst

Thanks very much, operator. Hi everybody and thank you very much for the time today. Just two questions. Pete on the $101 million that you sold those 11 aircraft for in the $38 million net gain. Had this aircraft been previously written down?

Peter Juhas, Chief Financial Officer

Yeah Helane, most of those aircraft, if I look across the 11 aircraft, they were an average age of about 20 years old and some of them were obviously older than that, if that's the average. And so they had been written down by a fair amount over time. I mean some of that was old 767s, for instance. And so there was very little value left associated with them, and so we wrote them down through normal depreciation over the years.

Helane Becker, Analyst

Got you. And then I think you have an order book of about 450 aircrafts now combined. Did you say this and I just missed it and I apologize if you did. Are you going to look and talk to the OEMs about potentially restructuring that order book beyond 2024 since you're mostly placed through year-end 2023 or are you just kind of go ahead and combine them and hope for the best, so to speak?

Aengus Kelly, Chief Executive Officer and Executive Director

Well, it is just one order book now, Helane, and both companies were very proficient in leasing the aircraft on the backlog. And so the placement strategy that both companies had was very similar. And as I said before, over the years, GECAS has been a very experienced and disciplined buyer of assets. And as I mentioned as well, the GECAS balance sheet wasn't built by overpaying for assets either through M&A or buying end of line assets. So we feel that the order book that GECAS has is well priced.

Helane Becker, Analyst

Perfect. Thank you.

Operator

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

Moshe Orenbuch, Analyst

Great, thanks. Gus, you had mentioned that aircraft values have improved and I'm just wondering if there is -- could you put a finer kind of point on the improvement that you've seen since you negotiated the transaction in terms of values and maybe if you could also relate to that the level of interest costs based upon the fundings that you did compared to what you had assumed at the time you negotiated the transaction?

Aengus Kelly, Chief Executive Officer and Executive Director

Well, I mean it's very hard to put a fine point upon it, but I would just say directionally, as I said, we're certainly seeing led by new technology narrow bodies, they are up and we've seen a significant increase in the value of 737s, we had a package of 737-800s that were 2013 build assets. That we had -- we had signed a letter of intent to sell at the beginning of the pandemic in March of 2020. The buyer of those assets walked away. We have since sold those assets, and we sold those airplanes or contracted to sell them at a higher number than what was the case pre-pandemic that's after adjusting for the profitability made by holding the assets through -- the earnings we made on the asset, but overall a higher price.

So I would say that that's the case and then we see it coming back on the new technology widebodies as well. And as I referenced earlier on, on the 777s and 330s, the real issues where people have there will be those who have young variants who've been buying airplanes over the last seven or eight years of that variant, we haven't done that neither has GECAS. And indeed one of the other attractive aspects of GECAS is, GECAS is the leading freighter business in the world and AerCap is now the leading freight lessor in the world, we're not talking about doing things, we are the leader. We are the leader on the 737-800 freighter program. We are the leader on the 777 Freighter program. In fact, we're an industrial partner to run it with IAI, not just a customer of us. And so that's how I see the market at the moment.

Moshe Orenbuch, Analyst

Thanks. And just as a follow-up, I mean maybe to reverse an earlier question, clearly you're going to reach your desired capital level fairly soon and it does seem likely that deliveries are going to be slower than whatever has been anticipated. So I guess and the sales market is likely to be potentially on the stronger side. So can you talk a little bit about how you think about the deployment of your excess capital as you are likely to generate it over the coming couple of quarters?

Aengus Kelly, Chief Executive Officer and Executive Director

Sure, Moshe. I mean, look, I think if you look at our track record there, we've been very disciplined stewards of the capital and always put the excess capital to work in the best interest of the stakeholders and the business and you can assume that we'll do the same again. But we started off, as Pete said, in a good place in the debt-equity ratio.

Moshe Orenbuch, Analyst

Great. Thanks very much.

Operator

Thank you. We will now take our next caller Ross Harvey from Davy. Please go ahead, your line is open.

Ross Harvey, Analyst

Yes, thanks for the time. So my question is just kind of reverting back to the aircraft sales. I'm just wondering from a modeling perspective, conditional obviously on a lot of analysis that you're doing on the assets at the moment, but what should we generally expect for the next couple of years, I know the placeholder would have been $1 billion before, should we pro forma that to something like $2 billion. And you might comment if you can on the secondary market conditions and things like engines and helicopters, on the freighter aircraft just compare to degree that you can, how quickly can you sell assets into those markets and what liquidity is like? Thanks.

Peter Juhas, Chief Financial Officer

Sure, Ross. So on the total sales volume. I think that's a reasonable way to look at it. I mean if you look at what the companies were doing on a combined basis before is up to $4 billion to $5 billion a year. I wouldn't assume that we could get to that level next year. And as you mentioned, historically, we have kind of guided people to around $1 billion a year. So I think that'$2 billion seems like a reasonable number. Obviously that's going to depend on the market in terms of what we achieve. And obviously also our review of the assets and decisions of which assets we want to sell. And maybe just to comment on some of those other types that you mentioned, I mean I would say, as a general matter in the helicopter side, I don't expect, I mean look helicopters are about 5% of the total assets, and so I wouldn't be expecting large numbers coming out of helicopters. I don't know if Gus on the engine side, any comments you want to make there.

Aengus Kelly, Chief Executive Officer and Executive Director

No, I think similarly the engine business, as I said it is less than 10% of the total assets also. So it will be driven by the fixed-wing side of the business on the sales programs.

Ross Harvey, Analyst

Okay, thanks. And just a follow-up then in terms of the integration, I'm just wondering have you got a timeline in mind for when you'll consider the two business sufficiently integrated and one of the figures that you gave earlier this year was $150 million of SG&A synergies and just wanted to know has that been the case or if you stick with that number?

Peter Juhas, Chief Financial Officer

Sure. So look, obviously, we're working hard to integrate the businesses. We're meeting every day, getting the teams together and that's gone very well so far, but it will be a process that takes -- that will take several quarters. As I look out at that $150 million target, I think that is still a good target. And I would look towards the latter part of next year. So by the fourth quarter of next year, we would expect to have gotten all of the benefits through on a run rate basis, so that you could say that's the kind of a run rate of SG&A relative to that target.

Ross Harvey, Analyst

Okay. Thanks for your time.

Peter Juhas, Chief Financial Officer

Sure.

Operator

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

Ron Epstein, Analyst

Hey, good morning, guys. Hope you're doing well? A couple of quick questions for you. I guess, what are your thoughts on the A220, it's my understanding the Airbus is pushing that hard into the leasing community right now and just what thoughts do you have on that asset?

Aengus Kelly, Chief Executive Officer and Executive Director

The A320 or A220?

Ron Epstein, Analyst

A220.

Aengus Kelly, Chief Executive Officer and Executive Director

A220, look, I mean it's a good airplane. I don't think the heart of the market is always going to be the bigger variant, which is the 160 to 220 seat market, now that's where the heart of the narrowbody is that will be an airplane to supplement the existing choices that airlines make, but it will not be the driver of an airline's fleet decision, unlike the neo or MAX would be. But certainly it seems to be gaining good traction at the moment, there's no doubt about that.

Ron Epstein, Analyst

Got it. And then maybe a follow-on, do you think Boeing needs to do a longer range aircraft that's got the capacity of the narrowbody be it a bigger narrowbody, a small widebody or something, but something that could effectively compete in the market where the 757 sits today or maybe something that's a little more capable in the 757s but not kind of ultra-long-haul. Do you think they need to do an airplane there?

Aengus Kelly, Chief Executive Officer and Executive Director

I suppose, I would answer that in two phases. The first thing is, they have to start building what's in their backlog today. They have to start getting 737s and 787s out the door, that is absolute priority. That's the cash cow for any future development of the business. Do I think that they could do with something that could fly up a little bit longer? Perhaps. But I think once again the heart of the market is in that 160 to 220 seats, short-haul drives the global air traffic market. And short-haul operations generally doing 2.5 hours. So people should never get carried away by these marquee routes flying from Eastern United States to Western Europe. That's fine, but it's niche in the global market. The market is not -- that's not the market for narrowbodies, the market for narrowbodies is still 2.5 hour missions, carrying as many people as you can as efficiently as you possibly can. And that is the heart of the market and that ain't going to change.

Now that's not to say that you may want some airplane to top and tail that, we mentioned the 220 is a very good tail for that market. It's got very good acceptance, particularly with the Airbus horsepower behind it now as opposed to Bombardier's horsepower. And then on the bigger end of the market, yeah sure, I mean Airbus definitely have a slight advantage there and do Boeing want to do something there, they may, but the heart of that market, all you have to do is look at public available information, what do most airplanes fly and the vast majority of airplanes are flying two, 2.5 hour missions and that's the short-haul market.

Ron Epstein, Analyst

Yeah. And then maybe just one last one. What's the issue with getting MAXs out the door. I mean we -- I think we all understand the 787s and the issues going on with the FAA. But this the 737 MAX has just been trickling out, I mean I don't know if they're sharing anything with you on that, but I mean what they've shared with the broader community has been pretty sparse to be honest.

Aengus Kelly, Chief Executive Officer and Executive Director

Yeah. I mean, look, as far as I'm concerned, we're not building these aircraft Boeing are, but they just need to start getting these airplanes out faster and whatever takes, that's the cash flow of the business.

Ron Epstein, Analyst

Got it, all right. Thank you.

Operator

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

Vincent Caintic, Analyst

Hey, thank you. Thanks for taking my questions. So first congratulations on the close of the acquisition and think you -- so on the call, you've given some details like the SG&A savings and also maybe what we should think for aircraft sales, but maybe if there is any kind of broader guidance or help you could provide for us when we think about the combined GECAS AerCap entity say for 2022 when we think about ongoing EPS and book value? Thank you.

Peter Juhas, Chief Financial Officer

Yeah. So Vincent, as I mentioned before, I really think that for us right now we're focused on, as I said, assessing the portfolio doing the whole purchase price allocation process that I mentioned. And looking at what we're going to do for each asset in that fleet, and really once we've done all of that, that's when we can provide more information to you, so I'd expect that would be when we report fourth quarter results.

Vincent Caintic, Analyst

Okay, understood. Thank you. And second question, so it was nice gain on sale this quarter and broadly I was wondering if you could talk about your ongoing strategy when you think about aircraft sales and what you sell. And particularly with your combined entity, you talked about the value of the GECAS portfolio on the recovery of aircraft values. So when you think about the $34 billion, $35 billion fair value of that acquisition yet the strong gains you're getting. Just sort of wondering if you could talk about the overall strategy when you think of sales? Thank you.

Aengus Kelly, Chief Executive Officer and Executive Director

I mean the strategy regarding asset sales won't change. I mean we were targeting aircraft that were on the older end mix of wide and narrowbodies. And the objective of our portfolio management and our sales is to improve the residual value of the portfolio. There is no point me going out there selling a prized assets and booking a gain on sale for $10 million, but giving away in essence $15 million of income with a good credit on a good airplane, that's not the way to run these businesses and we haven't done that. And so the strategy will be the same as it has been in the past, which is when we do an asset sale, the residual portfolio should be relatively better without those assets in it. And then of course we will drive and maximize price as much as we can.

Vincent Caintic, Analyst

Great. I appreciate it. Thanks very much.

Operator

Thank you. There are currently no more questions in the queue. I will turn the call back to your host.

Aengus Kelly, Chief Executive Officer and Executive Director

Thank you all very much for joining us for the call. We look forward to talking to you in three months' time if not before.

Operator

Ladies and gentlemen, that will conclude today's conference. You may now all disconnect.