Company Name: AerCap Holdings
Company Ticker: AER US
Date: 2019-02-14
Event Description: Q4 2018 Earnings Call

Market Cap: 6,936.56
Current PX: 47.20
YTD Change($): +7.60
YTD Change(%): +19.192

Bloomberg Estimates - EPS
Current Quarter: 1.635
Current Year: 6.800
Bloomberg Estimates - Sales
Current Quarter: 1202.500
Current Year: 4933.100

Q4 2018 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

- Nish Mani
- Ross Harvey
- Moshe Orenbuch
- Conor Cunningham
- Michael Linenberg
- Rajeev Lalwani
- Mark DeVries
- Kristine Liwag
- Kevin Crissey, Analyst

Presentation

Operator

Good day and welcome to the AerCap Holdings Fourth Quarter 2018 Financial Results Call. At this time, all participants are in a listen-only mode. This call is being webcast and audio version of the call will be available 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 full year 2018 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 February 14, 2019. 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 our earnings presentation, and it will allow time at the end for Q&A. As a reminder, I'd 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

Thank you, Joe. Good morning everyone and thank you for joining us for our fourth quarter 2018 earnings call. I am pleased to report another quarter of robust earnings. We generated earnings per share of $1.62 and $6.83 for the full-year. This is our 13th consecutive year of profitability since our IPO in 2006. In the past five years alone, we have generated $5.1 billion of net income, $15 billion of operating cash flow and $29 of earnings per share. We've also grown our book value per share by almost 200% in that timeframe.

The creation of shareholder value year-after-year is the result of our relentless focus on excellence and execution at all levels of the company, as well as our unrivaled market knowledge. To put this in context, in the last five years, AerCap bought, sold or leased over 2,000 aircraft. This represents approximately 10% of all in-service commercial aircraft in the world today.

Let me remind you of the four pillars of our business. One, we purchased in-demand aircraft from the OEMs at the right prices. Two, we placed them on long-term attractive leases around the world. Three, we actively oversee them with robust portfolio and risk management procedures, including selling aircraft to keep our portfolio in demand; and four, we ensure the stability of the business, by putting in place a long-term durable capital structure. These are the core tenets of our philosophy. We have proven that when we do these things well, strong results follow.

The AerCap platform was again very active in Q4, executing a record 145 aircraft transactions, including 20 wide-bodies. This level of activity is clear evidence of the demand for our fleet and the unique capabilities of AerCap.

For the full year, we executed a total of 436 aircraft transactions. This includes signing lease agreements for 257 aircraft. To put this into perspective, there are only 11 aircraft lessors in the world that even have 250 aircraft in their entire fleet. This gives us tremendous insight into market trends and customer behavior, which better informs our overall decision making. Similarly, we sold 103 aircraft this year, which gives us unmatched knowledge about the sales market for used aircraft.

Turning to the demand environment, we continue to see a generally healthy environment for airlines. Notwithstanding some recent smaller airline failures. Furthermore, the recent drop in oil prices is having a positive impact on the airline industry. As we look out at the operating environment, we continue to see good overall demand for aircraft. With IATA reporting a 6.5% increase in global RPK in 2018. And it is forecasting a further 6% in 2019.

Global RPK growth in December was solid at 5.3%, led by strong performances in Europe, at almost 8%, Asia Pacific and Latin at approximately 6%. Obviously, our record level of transaction activity in the fourth quarter is a reflection of good market demand for aircraft. Global load factors remain near all time highs in December, at 80.4%. Efficiency gains, such as higher utilization and densification of aircraft cabins have allowed airlines to grow RPKs without adding new aircraft. However, we believe a natural ceiling exists in this area, which will support the need for additional aircraft in the coming years.

On the delivery side, this was also a record quarter for AerCap. We purchased 37 new technology aircraft in Q4 and even brought forward a number of aircraft in 2019, to bring our total purchases for the year to 76 new technology aircraft.

In the fourth quarter, we delivered our first Embraer E190-E2 to a carrier in Asia, that is enjoying the aircraft, strong performance and significant fuel savings. We have now placed virtually all of our 50 E2 aircraft on order. We believe that the tie-up with Boeing has been very positive for the marketability of the E2, and we look forward to working with them as our orders deliver.

Looking forward, we operate a long-term stable business model. This means that as of now, in the middle of February 2019, AerCap has already contracted 95% of its expected lease revenues through the end of 2021. Few businesses in any industry can show that level of topline predictability on a consistent and sustained basis.

Now, I know some of you have raised concerns about airline credits. As you all know, we see airline credit events every year, and last year and this year, and the year after, and the year after that, will be no different. We've experienced airline credit events every year for the last 13 years, but for every year for the last 13 years, AerCap has generated very healthy steady profits. Airline failures will always remain part of the cusp [ph] and trust of this industry, but we prepare for them accordingly at the outset.

At a micro level, this manifests itself in two ways. Firstly, prior to any lease, we ensure that our airline credit team assesses and rates both the creditworthiness and the technical capability of the potential customer. And if we decide to do business with them, an appropriate security package is put in place. Secondly, but far more important than the security package, is our relentless culture around risk management, acting quickly and decisively to protect our interests. This is far more important than the security package.

At a macro level, we protect ourselves to the global diversification of our customer base. The combination of these factors is why AerCap's credit costs have averaged approximately 1% of lease revenues for the last 13 years. AerCap's ability to move aircraft quickly into pockets of strength anywhere in the world, creates much better opportunities for consistent earnings, than even the strongest airlines would have on an individual basis.

On capital allocation, we've been able to buyback over 37% of the company at a significant discount to book value since 2015. Please bear in mind, this is why we delever the business from 2014. So long as the market continues to fundamentally undervalue the company and the resilience of not only our earnings, but our book values, we will continue to take advantage of these dislocations. Today, we announced a new 200 million share repurchase program.

In closing, our fourth quarter results were another demonstration of the power of the AerCap platform. We will continue to run our business according to our core principles, because we know that by doing so, we will continue to generate significant value for our shareholders.

With that, I will hand the call over to Pete, to take you through the financials.

Peter Juhas, Chief Financial Officer

Thanks Gus. Good morning everyone. I'll start on slide 6 of the presentation. Our net income for the fourth quarter was approximately $233 million, and our diluted earnings per share was $1.62. For the full-year, our net income was $1,016 million and our earnings per share was a record $6.83.

For the full-year 2018, our EPS increased by 6%, driven by the strong underlying performance of our business, as well as by share repurchases. The lower net income in the fourth quarter was primarily due to a lower maintenance contribution, as we transitioned a number of aircraft during the quarter. We also had mark-to-market losses of approximately $21 million in the fourth quarter related to our interest rate caps, which we use for hedging our interest rate exposure. For the full-year, this line item is about flat, as we had mark-to-market gains during the first three quarters of the year.

On slide 7, over the past year, our book value per share has increased by 10% to $62.95, reflecting another year of strong growth. Our shares outstanding decreased by around 10 million shares during 2018, as a result of our share repurchase program. And we have now repurchased, as Gus mentioned, around 37% of the company's outstanding shares.

On slide 8, our total revenues were approximately $1,220 million for the fourth quarter and $4.8 billion for the full-year. Our basic lease rents for the quarter were $1,051 million, continuing the growth we saw in the third quarter, as we took delivery of new aircraft and grew our aircraft assets. Our maintenance revenues for the fourth quarter were $102 million. This was lower than the fourth quarter of 2017, when we had higher than normal maintenance revenues.

Our net gain on sales was approximately $41 million for the fourth quarter, which was a slight decrease from around $49 million last year. The dollar volume of sales was also a little lower compared to the fourth quarter of 2017.

Throughout the past year, we've continued to see very strong demand from buyers of used aircraft, and we sold 27 of our owned aircraft during the fourth quarter. Our other income in the fourth quarter was higher than last year, primarily due to inventory sales.

Turning to slide 9. Our net interest margin was $749 million for the fourth quarter. Our average lease assets for the quarter grew by approximately $1.6 billion year-over-year, due to higher CapEx in 2018. Our average cost of debt was 4.1% for the fourth quarter, as well as for the full year, with the increase from 2017, driven primarily by the roll-off of fair value of debt related to purchase accounting.

Our net spread was 8.2% for the fourth quarter and 8.4% for the full year, in line with our guidance. The decrease from 2017 was due to the lower average age and longer average remaining lease term of our fleet.

Over the past year, we've reduced the average age of our fleet from 6.8 years to 6.3 years through a combination of CapEx and sales. At the same time, our average remaining lease term has now moved out to 7.4 years, which is one of the longest in the industry and longer than any of our publicly listed US peers. That's due to the fact that we are placing almost all of our new aircraft on 12 year leases, and we are also placing many of our used aircraft on longer lease terms.

Our net spread less depreciation was 3.2% for the full year, and increased over 3% in 2017. As the average age of our fleet is falling, Our depreciation rate has also decreased, although it's still well above the standard industry rate. Effectively, in 2018, we continue to generate strong returns on a portfolio with a lower age and a longer lease term.

On slide 10, our net gain on sales was $41 million for the fourth quarter, as we sold 27 of our owned aircraft, with an average age of 16 years. That resulted in sales of around $515 million for the quarter, and about $2.2 billion for the full year. Our gain on sales margin was around 8.5% for the fourth quarter and about 10% for the full year. As I mentioned, we've continued to see strong demand from buyers for our mid-life and older aircraft.

Turning to aircraft purchases; the fourth quarter was an exceptional one for AerCap, as we took delivery of 37 new aircraft for a CapEx of $2.5 billion, which was a new record for us. For the full year, we took delivery of 76 aircraft, also a record for a total CapEx of around $5.9 billion, and to put this in perspective, it's roughly equivalent to the fleet of a mid-sized aircraft leasing company.

Next slide, we continue to focus on making our platform more efficient. Our SG&A expenses were around $71 million for the quarter, a decrease of about 26% from $96 million last year. For the full year, our SG&A expenses were down around 12% from 2017. This was mainly due to a reduction in our headcount and our compensation-related expenses, including to our stock-based compensation expense.

Our maintenance rights expense is about $36 million for the fourth quarter, down from around $76 million in 2017. This was primarily driven by the lower maintenance rights asset balance, which has come down substantially since 2014 and is now around $1.1 billion.

Our other leasing expenses were $90 million for the fourth quarter, an increase from about $66 million last year. As I mentioned in last quarter's call, we expected leasing expenses to be a little higher than normal in the fourth quarter, as a result of aircraft transitions.

On slide 12, we continue to maintain a very strong liquidity position. As of December 31, we had available liquidity of $10 billion. Together with our operating cash flows, that gives us total cash sources of $13.2 billion, which is 1.4 times our cash needs over the next 12 months. This amounts to excess cash coverage of around 3.6 billion. We raised around $6.9 billion of financing during 2018, from a wide variety of sources, including public unsecured bonds, unsecured loans and secured loans. Maintaining this diversity of funding sources is a critical aspect of our strategy, and we'll continue to seek out new sources of liquidity around the world.

We ended the year with a debt-to-equity ratio of 2.86-1. Over the past few years, we generally operate in this area of around 2.8-1 debt-to-equity and going forward, we're going to target a debt-to-equity ratio of 2.8-1. Of course, the actual level will vary from quarter-to-quarter and we expect that sometimes it will be slightly higher, and sometimes it will be slightly lower, but that's the level we'll target.

So to wrap up, 2018 was an excellent year for AerCap. We continue to make good progress in placing our new aircraft, and we are now 95% placed through the end of 2020. Around 95% of our lease rents for the next three years are already contracted, giving us good visibility on our future revenues and cash flows. We sold 91 of our owned aircraft last year and purchased 76 aircraft for our biggest CapEx year ever. And the results of this activity, were over $1 billion of net income, a record $6.83 of EPS and double-digit growth in our book value per share. Once again, we ended the quarter in a very strong liquidity and capital position, and we have now announced a new share repurchase program for $200 million.

With that, now I'll turn it over for Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions). And we will now take our first question from Jamie Baker. Please go ahead, your line is open.

Nish Mani

Hey, good morning guys. This is Nish Mani on for Jamie. I wanted to ask you question about portfolio sales in the industry and potential consolidation? I mean GE continues to talk about that they have received a lot of inbound offers for GECAS, but have recently said it's not for sale. So I guess, I just want to clarify from your perspective, could you see AerCap buying either chunk of the portfolio or the entire thing outright if it were to ever hit the market?

Aengus Kelly, Chief Executive Officer and Executive Director

Nish, from our perspective, looks quite clear what we would think represents the best value in aircraft acquisitions in the world today, and that's quite clearly, buying ourselves at a discount to book when we've been able to consistently for the last 13 years and 52 quarters, sell our own mid-life part of our fleet at a gain for book value, and redeploy that capital into the residual portfolio of AerCap. which was increasing in quality, all the time. And so, as we look at the world today, that is the most attractive use of our funds.

Nish Mani

Okay, that's helpful. In terms of Avianca Brazil; I mean obviously, you guys did not make the same significant bet on that credit, unlike some of your peers, and I'm just hoping I can get some clarity as to why? I mean, was this a situation where your underwriting team kind of saw perceived risks in the marketplace related to that credit specifically? Or have you guys been exposed to Brazil kind of through other credits? And I'm just wondering kind of how both the Avianca Brazil situation, specifically, but also Brazil as a whole, as an entire credit kind of, you know, how you guys think about that, in light of what could be some, Cape Town shenanigans, for lack of a better term?

Aengus Kelly, Chief Executive Officer and Executive Director

Look, we're not in there. Of course, the way we -- the strength of the business is that, the process, the procedures, the results take care of themselves if you do things, all the way through from the bottom up. And when we look at any airline credits, we have two sets of credit teams that go out to them. One is purely a traditional credit analyst team that you'd associate with a bank or a rating agency. They provide a rating on the airline and an opinion.

The second, is a technical audit that's done at the airline's capabilities to manage the airplane successfully, and that's also given a rating. And those two are used to determine whether or not we want to do business with the airline. Thereafter, we then put in place a security package that will reflect the risks associated at that airline. But far more important than that, frankly is the culture, I've always said this, it's not the ultimate magnitude of your response to an opportunity or threat in this business that determines success, but the velocity. And that is something where historically, I can't think of a location where any lessor has been ahead of AerCap when it comes to action. Things don't get better by doing nothing, and recent example for us was, we did have a big exposure in Shaheen in Pakistan. We had double-digit airplanes there, but we had them all out in a matter of weeks. And while we were taking them out of much more difficult jurisdiction than Brazil, we almost -- we already had the airplanes being sold and re-leased. That is the scale and power of AerCap, which is unmatched elsewhere in the business.

Nish Mani

Understood. And then just to kind of redouble on Brazil as kind of an economy in general. I mean, has -- what's happening in Avianca, kind of specifically changed your perspective on doing business in Brazil?

Aengus Kelly, Chief Executive Officer and Executive Director

No. It hasn't at all. We do business in Brazil. We always have done business in Brazil. You know the risks when you go into a country like that. It was the same in India. Absolutely not. It's about your own capability to deal there, is what's far more important.

Nish Mani

Okay. All right. That is very helpful. Thank you so much for the time.

Operator

We will now take our next question from Ross Harvey. Please go ahead, your line is open.

Ross Harvey

Hi, good afternoon. I'm wondering, just given yesterday's ratings upgrades of Avalon, and the recent upgrades of the likes of Aircastle to investment grade, do you believe there's positive movement potential for the upgrade of AerCap?

Peter Juhas, Chief Financial Officer

Well Ross, we certainly think an upgrade is warranted. As we look out at the recent positive rating actions on a number of the other players in the industry, we think that's encouraging. But we also believe that AerCap compares very favorably to all of them. We were last upgraded in 2016 and early 2017. And as we look out at our own credit profile now versus then, it's clear that over the past three years, it has improved considerably. So yes, we think an upgrade is warranted and obviously, we would welcome it.

Ross Harvey

Great. And just a quick follow-up, and -- with the 2018 core EPS hasn't come in ahead of the original CFD guidance. Just wondering what are your thoughts on the 2019 EPS guidance?

Peter Juhas, Chief Financial Officer

Yeah, so for 2018, I had said on the last call that it would be in -- at the top end of our range of $5.30 to $5.50 of core EPS for 2018 and we actually ended up at $5.65, so little higher than that. For 2019, I still think it will be in the range of $6 to $6.20, that's where we're estimating today, of core EPS.

Ross Harvey

Okay. Thanks very much.

Operator

We will now take our next question from Moshe Orenbuch. Please go ahead, your line is open.

Moshe Orenbuch

Great, thanks. Following up on the guidance, I guess you had improving -- your spread, ex depreciation has been improving. Just talk about the dynamics and how that will look in 2019 and forward?

Peter Juhas, Chief Financial Officer

Sure. Yeah, so for 2019, and I've mentioned this on the previous calls. Well, we expect it will be around 3%, which is consistent. In 2018, it was a little higher than that at 3.2%. But fundamentally, as we look at that, we say 2017, it was 3%. 2018 it was little higher, 3.2% and some of that is due to timing of maintenance amortization and things like that. 2019, it will be 3%. But the main point is that, is that, you're getting a consistent return on a -- let's say, a portfolio that has a lower age and a longer remaining lease term. So a more stable portfolio from our perspective.

Moshe Orenbuch

Got it. And as a follow-up, I was quite impressed actually that you bought back quite a bit of stock in Q4, re-upped your buyback. But also kind of went to a -- essentially more conservative capital kind of leverage target, all at the same time that you were talking about kind of record deliveries. So maybe could you kind of just -- I mean is there something in there that's -- it's -- which of those pieces was -- allowed you to kind of do a little more than what you kind of expected going into Q4 and in 2019?

Aengus Kelly, Chief Executive Officer and Executive Director

I think Moshe, that's one of the reasons we highlighted the cash flow generating capability of the company at the beginning of the call. We've generated over $15 billion of operating cash flow and bought back 37% of the company, while we significantly delevered a very large balance sheet in that timeframe. And so, what you saw in the fourth quarter, was again just a microcosm of what has been happening with the business over the course of the last five years. This business rapidly turns GAAP net income into hard cash.

Moshe Orenbuch

Great. Thanks very much.

Operator

We will now take our next question from Helane Becker. Please go ahead, your line is open.

Conor Cunningham

Hey guys, this is actually Conor Cunningham on for Helane. I just had a question on the fleet over the next couple of years. So you're going to take about 360 aircraft over the next five years. Your own fleet right now is just under 1,000. I'm just trying to figure out what your sweet spot in terms of size is? I mean, clearly your results have been very strong over the past five years. But that's been in environment where your fleet has been around 1,000. So is there like a material upsize of being larger than that going forward?

Aengus Kelly, Chief Executive Officer and Executive Director

I think we should say that the fleet in absolute number of units was much bigger actually five years ago, we were 1,400 plus, plus a significant managed portfolio as well. Now in terms of dollars, of course, the balance sheet is a little bit bigger than it was then. And the strategy, so from a management perspective, clearly you could manage a much bigger number as we have done in the past. And you have to make sure from a dollar perspective, that your balance sheet is able to grow, if you were to take the fleet back up. But I think what's very important when it comes to asset acquisitions, is making sure that you keep your discipline. You buy airplanes that your customers want, not the ones Boeing and Airbus want to sell you or not the ones where you see struggling demand. Focus is on returns here, not size. That's the key. We are stewards of your money and we have to make sure that we get the best risk-reward return for that money that you've given us.

Conor Cunningham

Okay, great. And then just on the impairment, can you just give a little detail about what the aircraft was that you impaired in the quarter? And if there was -- if there is any issue or any potential impairments going forward that we should be aware of? Thanks.

Aengus Kelly, Chief Executive Officer and Executive Director

Sure. It was across a few -- there is very small numbers on a few different aircraft, all related to either aircraft sales or for lease terminations. So in those cases, that's where we're recognizing the maintenance revenue, and which -- a lot of which we recognized during the third quarter, some in the fourth quarter, and then you're also seeing an impairment on the other side. So the maintenance revenues more than offset the amount of impairments during the quarter. And then on the sales side, it's really where you have portfolio sales were you recognize the gains when the aircraft actually is transferred. But you have to recognize the losses upfront, and that's why you saw a few very small impairments on a handful of aircraft.

Conor Cunningham

Okay. Thank you.

Aengus Kelly, Chief Executive Officer and Executive Director

Sure.

Operator

(Operator Instructions). We will now take our next question from Michael Linenberg. Please go ahead, your line is open.

Michael Linenberg

Yeah, hey, and good morning everyone. Just a few here. Peter, in your commentary, you talked about the strength of sort of mid-life and older aircraft. Strength and demand continues to be good. What do you think is driving that? Is that fuel prices moderating more recently? Is it the inability of airlines to maybe procure some of the next generation or the newer generation aircraft, because the -- many of the order books or delivery schedules are basically -- you can't lock it up, you can't get anything for several years. What's driving that demand?

Peter Juhas, Chief Financial Officer

Well, Mike, what we can tell you, is that here in Dublin, in January, at the Global Airfinance Conference, there was about 4,000 participants here coming from the -- mainly the airline side, the lessors, investors, airlines, manufacturers, MROs, all participants in the industry, and the industry has just matured an awful lot. And what we see for good used airplanes, is a very strong bid. And we have focused the portfolio on those types of aircraft over the course of the last five, six years, and to focus around the 320 family, the 737NG family, the 330 family and the 777 family. And those used airplanes have very good demand for them, because they have such wide user basis.

Michael Linenberg

Okay, great. That makes sense. And then just, Gus, another question to you, sort of a two part on Airbus. Obviously the A380 was never an airplane that you really participated in or did participate in at all, but the fact is, there is a lot of seats on those airplanes and there were still a decent number of outstanding orders at the end of the day, those airlines that may be used the A380 are going to use other, they're going to be out there looking at other airplanes who are already seeing some replacement orders. Can you talk about maybe potential opportunities with the A380 going by the wayside from a customer perspective? And then from an Airbus perspective, it will allow Airbus to least concentrate their resources on building out their other platforms, which are quite good. And I'm just curious how you think about some of the conversations around a long-range narrow-body, this A321neo XLR eight to 10 hours of flying. Is that an airplane that makes sense in this world?

Aengus Kelly, Chief Executive Officer and Executive Director

In this world let me start with the 380 and the very large airplane section of the market. The 380 is a niche market. Yes, it's quite a number of seats of course. But when you think about the numbers, that could easily get hoovered up by what's going to be canceled out of that order book by 50 or 60 A350-1000s and another 30 or 40 A350-900s or a combination of A330neo 900s. So I think that it will have a positive impact for sure, there's no question about that. And that if those airplanes leaving will [ph] at the margin, increased demand for certain, in demand, new technology assets, and probably extend the life to be fair, 777-300ERs and A330s also.

Turning to the middle of the market asset, and Airbus clearly have a great airplane in the A321 taking that airplane to eight, nine hours. The question is, in that size of a tube, what's the passenger reaction going to be, and what's your ability to carry freight that far as well. These are things that have to be worked out before it can be certain that aircraft will be a success flying that length. Certainly at the moment, in the five to six hour stage at the A321, is the leader in the space at the moment. When you get to eight plus hours on a narrow body, is there enough real estate in the cabin to satisfy, would cost [ph] minimum levels of customer service you have to provide, and also in the belly, can you carry any freight, and that length of trip. These are questions that have to be asked, and then to have to look at the airframe as well as, whether any improvements would have to be made to the engines that currently power the 321.

Michael Linenberg

Okay, great. Thanks. I appreciate your responses. Thank you.

Aengus Kelly, Chief Executive Officer and Executive Director

No problem.

Operator

We will now take our next question from Rajeev Lalwani. Please go ahead. Your line is open.

Rajeev Lalwani

Hi gentlemen. Aengus, a question for you, this may even be for Peter. On the aircraft financing market, there's been lots of comments out there about it being overheated? Is that something that you share and is it a risk or an opportunity for AerCap, if you do believe that that is the case?

Aengus Kelly, Chief Executive Officer and Executive Director

Well let me just give a few opening comments. Again, virtually all the banks in the world were here in Dublin, in January, at the Airfinance Conference, that lend to the sector. There's hundreds and hundreds of them, and I think that as the industry has matured, I think banks have understood a lot better the durability of the collateral of good aircraft and collateral. And I think that has brought them in. And what we've seen in my view, is a realignment of spreads in what used to be a niche industry aircraft leasing, into a much bigger industry, which has much bigger following in the bank market, and where spreads now just match where they are, and similarly raise at industries elsewhere.

Peter Juhas, Chief Financial Officer

Yeah. And from our perspective, Rajeev, what we're focused on in financing AerCap, is really the breadth of demand globally. So we don't see it as being overheated, but what we're trying to do, is go to places where there is untapped liquidity in the market. We go to Japan, for instance, we've got 24 banks in Japan that we work with. They've got 23 banks in Taiwan. So we're going to those places to get additional funding and we found a lot of receptivity there. But it tends to not be -- it's not a huge jump immediately, it takes time to develop those relationships and it's something that we'd do over time.

Rajeev Lalwani

Okay. And then just as a follow-up, you guys provided some good color on aircraft that you've got signed up over the next few years, as far as your order book. Can you maybe provide a little bit of color on how lease terms differ, rates etcetera between what you are delivering, say in 2019 and what you maybe have locked out in 2021? Generally it's -- I'm trying to see is -- if terms have changed at all or it's all pretty consistent versus what you have in this year?

Peter Juhas, Chief Financial Officer

It will be reasonably consistent. Of course, there's always puts and takes in different transactions, depending on the credit you're delivering to, etcetera. The big outlier course will be interest rates, but they don't really make a net difference if you're running a hedged book, because the rise in rates that generates a higher lease rental will be offset by the higher interest cost. So I would say that broadly, they'd be similar with the (inaudible) puts and takes.

Rajeev Lalwani

Very helpful. Thank you.

Operator

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

Mark DeVries

Yeah, thanks. Is the roughly $1 billion of aircraft sales and $300 million of buybacks still the guide for 2019? Or is there additional room for more sales or buybacks? And also how do we think about those two items in 2020?

Peter Juhas, Chief Financial Officer

Well in 2019, and we've guided $1 billion as we've done in prior years. And if we feel that the market is there and we receive adequate return from the -- for the airplanes that we wish to sell, then we will continue to sell above that $1 billion, as we've done in prior year. So we are very consistent in what we do here, and what you can expect to see is more of the same, if the market continues. And then it's highly likely of course, given the opportunity set that we have for the capital we free up to use some of that to increase the buyback program. In 2020, it's just too early to comment.

Mark DeVries

Okay, thank you. And then just a follow-up on some of the funding comments. I mean, notwithstanding whether or not the rating agencies recognize your financial strength with the ratings upgrade, how you think about the potential to improve funding costs here? Are some of those efforts that you just alluded to, in terms of tapping other markets, is that more about just expanding the breadth of access to liquidity or do you actually think there are some planning improvements you can generate from that?

Peter Juhas, Chief Financial Officer

There are instances where you can get lower funding costs. I mean as we look out across all the different areas, you've obviously got unsecured bonds, you've got unsecured bank loans, you've got secured deals as well, and we've tapped all of those different areas. And so sometimes you will see, like we saw in the fourth quarter, where the US unsecured bond market widened substantially. Right. And so, as we look out at our different funding options, we will say, we didn't see a similar widening in the unsecured bank-loan market, for example, and we raised about $500 million from that market in the fourth quarter. And so, I think that's a good example of how we use these different tools to lower our funding costs.

Aengus Kelly, Chief Executive Officer and Executive Director

And I would say -- that was at a significantly lower spread than where the unsecured market was in December. It was the best part of 100 basis points inside of it, and that's where you have to make sure that you have access to all types of funding that's available around the world at any given time. And the other thing we should note, is that when we disclose our funding costs in our presentation, it's the all-in cost you see. It doesn't strip out fee. It doesn't strip out original issuer discounts or any other component of the deck [ph]. You get the fully loaded actual cost from us.

Mark DeVries

Okay. That's helpful. Thank you.

Aengus Kelly, Chief Executive Officer and Executive Director

Sure.

Operator

We will now take our next question from Kristine Liwag. Please go ahead, your line is open.

Kristine Liwag

Good morning, guys.

Aengus Kelly, Chief Executive Officer and Executive Director

Morning.

Kristine Liwag

For the aircraft that you've placed in 2020 and 2021, in which regions of the world did you place these aircraft? And do you have a sense on what percent of them are for replacement versus growth?

Aengus Kelly, Chief Executive Officer and Executive Director

It's been fairly widely spread. I would say, consistent with what we saw in traffic numbers, the European market has been quite good over the course of the last year, and continues to be, and we see strength there. Of course there will be some smaller failures in Europe, but they are small, not great business models, not great management teams, and not surprisingly, they went away. But overall in Europe, we see a reasonably good market, good placement there.

On the new aircraft side, China has been a huge driver, and we placed a lot of airplanes in China last year and we continue to do so. And if we look even right now, RFPs that are open in China, total over 150 airplanes just right now. So that's a pretty strong market, and that continues to pull along some of the countries of course in Southeast Asia.

Kristine Liwag

Okay. And Gus, following up on that. With the recent, I guess, in the past few years, we've seen the Chinese companies really invest in aircraft leasing. Has that changed the dynamic at all for RFPs for Chinese airlines, and how is it like today, when you're competing there? Are you also competing with the Chinese lessors?

Aengus Kelly, Chief Executive Officer and Executive Director

Of course you are, yes. But we are the biggest player in China and we have been for a long time, and it looks like we're going to be for a long time to come, given where our order book is and the level of the success we have over there. It's a huge market. We all spend a tremendous amount of time in China. So that market is still there. I would note, however, that these Chinese lessors do not have infinite amounts of capital, as witnessed this week by the events at Minsheng, who is one of the aggressive start-up Chinese leasing companies over the course of the last couple of years. And it's fair to say, that we have seen in the sale leaseback market, a cooling there, and we do bid in the sale leasebacks every week, as we've said before, and they are not yet at levels, where it would be attractive to us. But we certainly do see a cooling, as some of these players obviously do not have infinite amounts of capital.

Kristine Liwag

That's helpful. And then switching gears to the A320neo, what has been the customer feedback that you've gotten, as airlines operate aircraft with the LEAP-1A engine versus the geared turbofan?

Aengus Kelly, Chief Executive Officer and Executive Director

I mean we're still placing them both in big sizes. I think the best evidence I can give you is that, we decided last year to default a customer who we were going to deliver six A320neos to. And this is an example of AerCap's culture as well. We weren't going to wait around and see whether the airline was there or not. We knew that with our infrastructure, we'd be able to move the airplanes that we were just starting to deliver in 2019.

And these were GTF powered A320neos. We had the package of them placed within four weeks and we had two airlines that wanted the package that both operate the GTF. So while there were difficulties, that is without doubt with the GTF, and it is frustrating for the operator. The fuel burn savings that come from that engine, as well as the CFM engine are very significant. As one large carrier said to me, look it's 18%, it's 18%. If I have to have a few down days, okay, it's unfortunate, I'll get compensated for it. But ultimately, these are very big savings.

Kristine Liwag

That's helpful. Thank you.

Operator

We will now take our next question from Kevin Crissey. Please go ahead, your line is open.

Kevin Crissey, Analyst

Thank you for the time. Can you talk about -- do you take opinions on the antitrust immunity joint venture applications, because I imagine that some of them could be viewed as anti-competitive, and therefore, reducing the growth of some other competitors. Do you as a general rule, make any views on those type of things?

Aengus Kelly, Chief Executive Officer and Executive Director

We have not objected to any of the airline joint ventures that have been put in place, as part of the antitrust process. We do think that they have enhanced the stability of airlines over the course of the last several years. But in reality, they need to be metal neutral JVs, which means profit sharing JVs. And if they're not that, they not as effective really for the carriers. But we have -- we do believe that they are positive for the industry overall, and we'd be supportive of them, because it does bring stability, and particularly because where they focus on, tends to be the long-haul part of the market, where stability is welcome with the bigger airplanes.

Kevin Crissey, Analyst

Terrific, thank you. You mentioned as part of SG&A, the headcount reduction. Can you talk about the strategy there, given the growth that you've seen and is it just a matter of getting more efficient and can you just talk about that a little?

Peter Juhas, Chief Financial Officer

Yeah, it's just a matter of getting more efficient. We had an office, a very small office in Fort Lauderdale that we closed last year and combine that in with our Los Angeles office, and that was really the -- where a majority of that headcount reduction, we are talking about 15 people or so here.

Kevin Crissey, Analyst

Thank you very much.

Aengus Kelly, Chief Executive Officer and Executive Director

Sure.

Operator

It appears there are no further questions via telephone. I'd like to turn the conference back to Mr. Aengus Kelly.

Aengus Kelly, Chief Executive Officer and Executive Director

Thank you, operator, and thank you all for joining us for the quarterly call. We look forward to talking to you in three months time, if not before. Good afternoon.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, you may now disconnect.