MOODY'S: STRONG SECTOR PERFORMANCES SUPPORT POSITIVE OUTLOOK FOR AIRCRAFT LESSORS

News / Finance

Continued increase in air travel will benefit aircraft lessors this year but slower economic growth in key markets and increased competition will limit further profitability gains, said Moody's Investors Service.

Moody's said its outlook for aircraft lessors is positive over the coming 12 to 18 months. The ratings agency expects that growth in air travel, strong airline operating performance and the availability of low-cost funding will sustain lessors' profitability. Airline operating margins will again strengthen in 2016, reflecting growth in demand in emerging markets, lower fuel costs, easing yield pressures and capacity discipline. These overall favorable sector conditions, driven by an expected 7% increase in global air travel, will contribute to average net finance margins of about 5% for lessors in 2016, said Moody's analysts.

"The growth in air travel will continue to drive up demand for aircraft this year, and lessors will finance as much as 50% of the growth in the global fleet to meet that demand," said Moody's Vice President Mark Wasden. "We also expect that lessors' ready access to funding will help them to continue rejuvenating their fleets with newer equipment."

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While air travel growth and replacement demand for aging fleets will provide a solid base for leasing volumes, Moody's said that lessors' margin growth would be offset by heightened competition.

"The average fleet age for aircraft lessors has declined as a result of sales of older aircraft and investment in newer in-demand models, but the capital flowing into the sector is spawning new competitors," said Wasden. "Not only are these players buying used equipment to grow their business, they are also aggressively competing on price and terms in sale-leaseback transactions."

Moody's said that leverage among lessors will modestly rise after shareholder distributions and share buybacks, but it expects debt to equity levels will remain reasonable when coupled with improved fleet composition. However, Moody's warned that the competitive pressure on profitability and a drive to improve shareholder returns could push some lessors to make riskier investments that could ultimately undermine capital buffers when the cycle turns and aircraft market values and lease rates weaken.

20 JANUARY 2016

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