

Notes on the Week

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Slight change to the format this week. On Wednesday we chaired various discussions at the [Airline Economics Finance & Investing in 777 Aircraft Day](#). Over 150 delegates attended the lively debate and we thought it useful to summarise the day for you in this week's Newswatch.

We'll also be sharing the data we produced for the event in our annual round up which you'll see before the year is out.

Wednesday was also the series of global ISTAT Holiday Receptions held at various locations around the World. In London, it was the Royal Exchange that provided the perfect place to drink, eat, network, argue, make the world a better place, and to agree on how well the earlier event was received.

Phil

Key News Stories of the Week

Click to view this week:

[FAA downgrades Thai aviation](#)

[India retains title of fastest growing aviation market](#)

[Boeing finishes 787-10 design details](#)

[After 13 years, China's home-grown Comac ARJ21 passenger jet enters commercial service](#)

[Boeing ends Globemaster production at Long Beach facility](#)

[Planes Trapped In Rising Water At Chennai Airport](#)

777 Investor Day

On Wednesday IBA held a 777 investor day to discuss the investment and secondary market opportunities of the 777 and other twin aisle aircraft and attempt to answer three important questions:

- By how much are values softening?
- Is the market for used 777s a short-term blip or part of a longer-term shift due to the ease of financing new aircraft?
- What is the long term outlook for the twin aisles in general?

Takeaways Included:

1. All agreed that the 777, especially in the guise of the 300ER, is a great aircraft and flown by most flag carriers yet its size means the number of and quality of secondary market homes is limited.
2. Forecast base values were challenged and perhaps appraisers need to improve clients' understanding of how valuations and the definitions should be interpreted in respect of ageing twin aisle aircraft.
3. The 777-200s have some pressure points such as unscheduled Transaero and MAS inventory as well as scheduled Emirates and SIA redeliveries.
4. The potentially expensive (circa 20mUSD+ per aircraft) issues of engine refurb / engine enrolment to OEM programs and the reconfiguration were discussed. As well as the expense, the reconfig suffers from lead time issues – it can take up to two years to change from a high-end branded 3 or 4 class config to, say, a 2 class config when taking into account the approval of engineering modifications and supply of seats.
5. RR said they know they have to do more for the used market.
6. Even assuming the engine and config issues were solved where is the demand for these used aircraft? No-one had a strong argument for demand that would take 40 aircraft out of the equation.

Prior to the panel discussions, a summary of the twin aisle market was presented with the key takeaways being:

- The B777 has been a hugely successful program since entry into service in 1995.
- Demand and values for the 777 classics are softening now.
- Currently over 30 200ERs are parked with a strong bias towards RR powered aircraft either because of re-fleeting decisions by Singapore or Emirates, or because airlines head into financial difficulties such as Transaero and MAS.
- Fleet remains concentrated with 50% of the fleet being operated by just nine operators, 75% by 19 operators. The lessor fleet is even more concentrated with the top 10 managing 70% of the fleet.
- The number of secondary trades remains very low compared to smaller twin aisle aircraft.
- The 777 programme suffers from too much fragmentation with 11 different variant/engine combinations, although the 300ER has simplified this approach.
- The 300ER and A330 are strong today but will face pressure in the future as history is likely to repeat itself as it has done with the previous generation of twin aisles.
- 115 known lease returns scheduled by end of 2020.
- The pace of removal of 777s from passenger service is expected 400 cumulatively within 10 years – over half coming from the 200/200ER.
- Values for the 200ER have seen rapid decline in recent years with age having relatively little effect on trading appetite – last off the line effect.
- Richard Anderson's comments, whilst sensational, are closer to reality than lessors would like to admit – although 10mUSD would still only give you an aircraft in below-half-life condition.
- The potential downside risk for the 200ER remains considerable.
- 250 potential delivery slots for the 300ER still available before the 777X enters service which highlights potential pricing softness to generate interest.
- 300ER values have remained stable to date but future downside risk is increasing.

Is the Panic Real?

- The appraiser panel agreed that there was a degree of panic around, but that it wasn't a surprise and was actually a familiar pattern, albeit with added market influencers such as MAS and Transaero.
- Widebodies, need a lot more care and expertise than a narrowbody and that increase naturally knocks out a number of potential customers – be they airlines or lessors.
- However, there was tentative agreement that the market is weakening and that aircraft might currently be overvalued.
- The panel agreed that newer investors were more alarmed by the softening market, than the teams that had a number of recessions under their belts.

Too Big to Sale?

- A few 777s are finding homes but its sheer size and cost of operations are barriers to some.
- The market needs to adapt to move away from traditional operating leasing for ageing widebodies to possibly offer a PBH servicing approach to use up green time more efficiently within the fleet and give airlines access to useful life when required.
- The retiring 747 fleet is an opportunity to house 777s, but the panel felt the 300ER was a more natural replacement.

Appraiser Challenges

- There was a lively exchange around the accuracy of valuations in the current volatile market and there needs to be greater understanding around the use of particular valuations. Some were surprised to hear that multimillion dollar investments were being secured with online valuations, when a more rigorous appraisal is more appropriate, especially in a volatile market. Un-forecasted events such as accidents or bankruptcies can have a dramatic short-term impact on demand and therefore pricing.

- Unsurprisingly, after Delta's \$10m pronouncement, there was much discussion around the alleged soft prices in the market and the panel debated the reality of \$10m aircraft, even in a soft market that would practically be available for re-use without \$20m+ of reconfiguration and maintenance costs.
- While some in the audience felt that appraisals were on the high side, the panel stressed that though values might indeed come down, there must not be an overreaction as that will result in a yo-yo effect. Similarly, insurers are telling appraisers that their values are too low.

Economic Life

- Last off the line effects are evident as seen in previous cycles when the availability of new technology has reached close to market saturation.
- The economic life of an aircraft is getting shorter and there was agreement that a reset in the understanding of risk might be necessary in future. The poor residuals currently being debated might ultimately lead to higher lease rates if the economic life concept is put into question.
- The panel did express concern for the 777's secondary market and highlighted that the A330 was next on the block but to a lesser extent as size remained a big issue.
- One interesting challenge is fulfilling demand when a number of aircraft are required. The concept of pooling lease aircraft was discussed but both the panel and audience felt this would be very difficult to implement in practical terms given the differing lessor demands.

The Appraiser Panel in Summary

- Twin aisle values are softening
- There is a degree of frustration with the appraiser community
- The 777-200 ER is a tough sell today
- 777-300ER and A330's values will drop at some point
- Aircraft are being replaced and retired earlier
- 777's size naturally restricts its market
- The opportunities for placement that do exist require 10+ aeroplanes which not only drive price down, they are also is more difficult for the lessor with 1-2 aircraft to accommodate.

Secondary Market

- Another lively session where the audience agreed there was little desire for extensions.
- Again, the size of the 777 was raised as a barrier to more interest from lessors, so too with the A330. One lessor did highlight that the widebody market was well known as a high risk/high return investment.
- Tellingly, when the moderator asked the audience to raise hands if it felt the 200ER values were a blip, only one hand was raised.
- Engines and reconfiguration costs were again highlighted as critical to decision making and it was also highlighted that lead time, easily a year or more, must be taken into consideration. It was suggested that the airframe OEMs could perhaps do more to help lower reconfiguration costs.
- Iran was mentioned as a possible home for 777s as sanctions relax.



IBA Group News

CONFERENCE DATES

18-21 Jan: Dublin Conference week. IBA will have speakers and attendees.

AIRCRAFT FOR SALE

Type	MSN	Vintage	Location
Eurocopter BK117 (EMS Configured)	7142	1988	USA
A320-200 (With stub lease)	4157	2009	UK
Eurocopter AS332 L1 Super Puma (OSOG)	2317	1990	Australia
Eurocopter AS332 L1 Super Puma (OSOG)	2319	1990	Australia
Eurocopter AS332 L1 Super Puma (OSOG)	9008	2006	Australia

For further information, please contact IBA's Head of Aircraft Transactions, Ken Sewell Ken.Sewell@ibagroup.com or visit the remarketing section of our website, <http://www.ibagroup.com/remarketing/aircraft-for-sale/>

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