Q2 2019 Earnings Call

Company Participants

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

Other Participants

- Jamie Baker, Analyst
- Ross Harvey, Analyst
- Kristine Liwag, Analyst
- Catherine O'Brien, Analyst
- Unidentified Participant
- Jonathan, Analyst
- Scott Valentin, Analyst
- Helane Becker, Analyst
- James Ulan, Analyst
- Reno Bianchi, Analyst
- Kevin Crissey, Analyst
- Susan Donofrio, Analyst

Presentation

Operator

Good day and welcome to the AerCap Second Quarter 2019 Financial Results Call. Today's conference is being recorded and a transcript will be available following the call on the Company's website.

At this time, I would like to turn the conference over to Joseph McGinley, Head of Investor Relations at AerCap. Please go ahead, sir.

Joseph McGinley, Head of Investor Relations

Thank you, operator and hello everyone. Welcome to our second quarter 2019 conference call. With me today is our Chief Executive Officer, Angus 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 July 30th, 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 will allow time at the end for Q&A. As a reminder, I would ask that analyst limit themselves to one question and one follow-up.

I will now turn the call over to Angus Kelly.

**Aengus Kelly, Chief Executive Officer**

Thank you, Joe. Good morning everyone and thank you for joining us for our second Quarter 2019 Earnings Call. I'm extremely pleased to report to you, our shareholders. An all-time record quarter with earnings per share of $2.42 this outstanding result is the product of our unrivaled platform capabilities and our disciplined approach to capital allocation, our focus on acquiring only the most in-demand new technology aircraft types rather than end of line current technology aircraft and selling large numbers of older aircraft at a considerable premium has produced an excellent portfolio, this strategy has also enabled us to repurchase over 40% of our outstanding shares at a discount to book value.

While reducing our leverage and maintaining the highest liquidity levels in our industry. In the last 12 months, we have taken delivery of 77 aircraft. And increased our average lease assets by $2.7 billion. Today our portfolio is 53% new technology aircraft. This is the highest percentage of any major aircraft lessor in the world. And just as importantly, for the last eight years AerCap has avoided ordering any end of line current technology aircraft. This barbell approach means we only acquired

Certain variance of new technology aircraft such as A320neo and 787-9, end of line current technology aircraft. As in our view, this is the best way to maximize long-term returns for our shareholders. This is actually a contrarian view as many investors and some rating agencies look purely at the average age of our fleet, rather than the components behind us to measure fleet quality, we believe that this approach does not fully capture the risks and the rewards of an aircraft leasing business.

Today AerCap has an order book of 331 of the most in-demand variance of new technology aircraft, that will deliver between now and 2023. We are well placed out into the future, including 90% placed in all of our new deliveries through the end of 2021, relative to our balance sheet size of $43 billion our remaining forward order cash commitments of $16.3 billion over the next five years are very manageable, particularly when this is tied to our industry-leading liquidity position. This quarter is another example of the consistency of the earnings power of AerCap, which is driven primarily by the capabilities of the platform.

The average lease expiry date of our fleet today is the end of 2026, this is almost 7.5 years from now and this, despite having an older average age of our fleet, then, several of our competitors. Like our industry-leading EPS of $2.42. This is a tangible example of the superior capabilities of the AerCap platform, the longevity of our contracted revenue gives us significant visibility into our future cash flows and profit. The consistency and reliability of our performance is one of the key hallmarks of aircraft business model. AerCap also has the world’s leading platform for the sale of used aircraft for the last five years we have accounted for a significant portion of all the sales of midlife and older aircraft in the global markets.

In an opaque market that volume of activity gives us tremendous information on advantages and knowledge about aircraft values, which we used to make intelligent decisions that create value for our shareholders. There continues to be very strong demand from buyers for older and midlife assets. In the second quarter, we continue to sell assets into a strong secondary markets with sales of 22 owned aircraft in Q2 for just over $500 million. We have sold 81 owned midlife and older aircraft in the last 12 months. These sales have reduced our exposure to certain aircraft types, airline credits and recycled into more accretive opportunities .As we look at our capital deployment options between aircraft purchases ,delevering ,M&A and capital returns to shareholders. It is clear that the discount to book value that currently exists provides us with the greatest opportunity to create value for our shareholders.
Given this we announced a further $200 million repurchase authorization in June. So if the ability to continue to take advantage of this opportunity throughout the year. On the topic of the MAX, Boeing continues to work with the civil aviation authorities to ensure the aircraft return to service and they now assumes they will obtain regulatory approval in the fourth quarter of this year. To date, we have taken delivery of five MAX aircraft.

We had originally expected to receive 17 this year. The number that we actually receive will ultimately depend on the timing of the fix and when Boeing can deliver the aircraft to our airline customers.

Turning to the demand side. I also reported an increase in RPK growth of 4.5% in May, which is above the 3.1% posted in March. But below the 20-year average of 5.5% that growth in May was broad based. But, led by Latin America at 6.5% load factors however reached a new record for me at 81.5%, which we believe underpins the demand for aircraft.

As we said before, the best indicator for AerCap of whether or not there is support for growth at these levels. Is what is actually happening with our aircraft placement activity every day in the market and we continue to see solid demand in closing, our record results this quarter demonstrate once again the competitive advantages and consistency of aircraft business. We will continue to run the business to optimize shareholder value and generate sustainable and consistent returns for our shareholders.

With that I will hand the call over to Pete.

Peter Juhas, Chief Financial Officer

Thanks, Gus good morning, everyone. AerCap produced a very strong performance in the second quarter we had record earnings per share of $2.42, a 42% increase from last year. Our book value per share is now (inaudible), an increase of 13% over the last 12 months, we've continued to grow by taking delivery of new technology aircraft and our average lease assets increased by $2.7 billion year-over-year.

We completed 82 aircraft transactions in the second quarter including 17 for [ph]widebodies this included purchases of 11 new technology aircraft during the quarter and sales of 22 of our older and midlife aircraft.

Our utilization rate remained very high at 99.4% for the quarter. Our average remaining lease term is now 7.4 years, one of the longest of any major lessor. We continue to carry very strong levels of liquidity and we're now two times covered for all of our cash needs over the next 12 months and we continued with our share repurchases and announced new $200 million program in June.

The second quarter, we repurchased 3.5 million shares for $169 million and so far this year, we've repurchased 7.2 million shares for a total of $502 million and we've sold 81 aircraft over the past 12 months for approximately [ph]$1.5 billion these are older and midlife aircraft from our portfolio that we're selling as part of our strategy to transition our fleet away from these aircraft types and towards the new technology fleet. This strategy has consistently produce gains on sale, including $78 million worth of gains in the second quarter, but more importantly, it's given us proceeds and capital, that we can redeploy into other more attractive opportunities.

Third, as we've discussed before, we continue to believe that AerCap stock is a compelling investment opportunity. By selling older aircraft at a gain and reinvesting the proceeds in a better portfolio at a significant discount to book, we can create significant value for our shareholders over the long term. And this quarter, you can see the impact of that
redeployment of capital while our net income went up by 30% year-over-year, our EPS was up by 42% due to the repurchase of almost 15 million shares since April of last year, and that's basically 10% of our total outstanding shares that we bought back over the past year.

Now, we could have held onto those plans or done economically unattractive sale leasebacks and stood but ultimately, we're focused on getting the best economic results for our shareholders. So that's where you can see our capital allocation strategy at work in this quarter’s results. On slide 6, our total revenues for the quarter were up by 7% year-over-year, driven primarily by the increase in our average lease assets in the second quarter our basic lease rents increased to $1.77 billion, maintenance revenues were about flat year-over-year. And other income was higher in the second quarter of 2019, primarily due to higher interest income.

Turning to slide 7 our net interest margin was $755 million for the second quarter and the increase over last year was due to growth in our basic lease rents, driven by the higher average

These assets. Our average cost of debt for the second quarter was 3.95% before debt issuance costs and fees of about 34 basis points, including those costs, it was around 4.3% for the second quarter with the increase from 2018, driven primarily by the roll off of fair value of debt related to purchase accounting, our net spread less depreciation was 3.4% for the second quarter, up from 3.2% last year. That was primarily driven by a lower depreciation rate as we reduce the age of our fleet as well as to lower maintenance rights expense as our maintenance rights asset continues to roll off.

The average age of our fleet decreased from 6.6 years to 6.2 years at the end of June. We achieved this through a combination of purchases of all new technology aircraft and sales of older current tech aircraft. The average age of our new tech aircraft, which represent 33% of our fleet today is only two years, while the average age of our current fleet is around 11 years and we believe this barbell approach is the correct way to manage our portfolio.

As I mentioned before, our average main lease term has increased to 7.4 years, one of the longest in the industry and this gives us strong visibility into our future lease revenues and cash flows. So effectively in the second quarter of 2019, we're generating higher returns on a better position portfolio with a lower average age, a higher proportion of new tech assets and a longer average remaining lease term.

Turning to slide 8, our net gain on sales was $78 million for the second quarter. During the quarter we sold 22 of our owned aircraft, with an average age of 16 years that resulted in sales of $502 million for the quarter. Our unlevered gain on sale margin was higher than usual at 18% for the quarter, we've continued to see strong demand from buyers for our mid-life and older aircraft. We said in April that we expected to sell about $1.5 billion of aircraft for the full year, given our sales to date at this point, I think we'll be closer to $2 billion of sales for the full year.

Turning to aircraft purchases in the second quarter, we took delivery of 11 aircraft for CapEx of around $900 million that was lower than we'd expected because of the MAX delays as you can see from our supplemental materials. We are now assuming that we'll take to the re-of only three this year. Ultimately, of course the number will depend on when the max received certification and when Boeing recommenced as deliveries, but that's our best estimate at the moment. So for the full year 2019. We now expect our CapEx to be around $4.5 billion.

Aside 8 or slide 9 Our SG&A expenses were around $65 million for the quarter, a decrease of 24% from $85 million last year. That $65 million equates to about 5% of our revenues, which shows the efficiency of our platform. The decrease from last year is mainly due to lower compensation-related expenses.

As in previous quarters all the asset impairments in the second quarter related to lease terminations in aircraft sales, the maintenance revenue recognized on the impaired aircraft more than offset the amount of the impairment. Our maintenance rights expense was $16 million for the second quarter, down from $35 million in 2018. And this was primarily driven by the lower maintenance rights asset which has come down substantially since 2014 and is now under $1 billion, but the maintenance rights expense was particularly low in the second quarter based on the timing of maintenance events.

Our other leasing expenses were around $49 million for the second quarter, a decrease from about $68 million last year and this decrease was due to lower expenses related to lease terminations compared to the prior year period.
Slide 10. We continue to maintain a very strong liquidity position, as of June 30th, we had available liquidity of $8.6 billion that includes our cash or revolvers or other undrawn facilities and our contracted sales, together with our operating cash flows that gives us total cash sources of $11.8 billion, which is 2 times our cash needs over the next 12 months, that amounts to excess cash coverage around $6 billion. This is our highest coverage ratio ever and shows our commitment to maintaining a high level of liquidity at all times. Now, this quarter the number is somewhat elevated because we have very little debt maturing over the next 12 months. But as you can see from the chart, we’ve exceeded our target level every single quarter.

Finally on slide 12. Our book value per share, our book value at the end of June was just over $9 billion and our book value per share was $67.08 compared to $59.25 last June. That’s a 13% increase over the past 12 months and over the past five years, we’ve grown our book value per share at a -- of around 15%, through our operating performance and capital allocation strategy. We can continue to generate strong growth in book value per share year-after-year.

So to wrap up then we had a record second quarter, our utilization rate was high, our fleet continues to grow with the addition of new tech aircraft were placed far out into the future, and we continue to sell used aircraft at attractive prices. We ended the quarter with a record level of liquidity and through our capital allocation strategy. We continue to generate strong double-digit growth in our book value per share. As we look out now at the full year 2019 we currently expect to have core EPS that is EPS excluding gains on sale of between [ph]660 and 680 for the full year.

And with that I will turn it over for Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions)

Our first question comes from Jamie Baker of JP Morgan. Please go ahead.

Jamie Baker, Analyst

Hey, good afternoon everybody. Starting off of the max related question you now that Boeing has established its reimbursement pool. How should we think about compensation and how it courses through the earnings model I realize remuneration hasn't been negotiated yet. I'm just wondering about the mechanics of how you expect to be reimbursed and how we should model for that. Any thoughts ?

Aengus Kelly, Chief Executive Officer

Jamie, it’s too early to discuss that. There are various ways that Boeing [ph]half to provide compensation but at this early stage, it's too early to discuss that.

Jamie Baker, Analyst

Okay, fair enough. Second on the aircraft sales over the last 12 months. Could you add any color as to how pricing in the recent six month period compared to the first six months of that period on a like-for-like basis, particularly on the narrow body side. Just looking for how pricing might have evolved over the last 12 months.

Aengus Kelly, Chief Executive Officer
Sure, and I’m very happy to Jeremy 12 months ago, the market was extremely strong, no question about it. Then as we came into the very end of this year in December with the or if you very end of 2018 with the markets at all financial markets under pressure coming into the Dublin air Finance Conference in January, we were concerned what there be as many buyers of airplanes, there were, but I think it’s fair to say that at that time, people were more cautious in patient, but certainly over the last four months, we’ve seen a full return to where we were in terms of prices 12 months ago. So really I think. And if there are any temporary aberration was driven by that December sell off but I confirm you say it recovered very quickly as evidenced by our results.

**Jamie Baker, Analyst**

Excellent, thanks guys, I appreciate the color. Take care.

**Aengus Kelly, Chief Executive Officer**

No problem.

**Operator**

Our next question comes from Ross Harvey of Davy. Please go ahead.

**Ross Harvey, Analyst**

Good afternoon, guys, two for me was just one clarification. Firstly, can you provide any guidance on the expected gain on sale margin and H2 to what’s your particularly strong figure in Q2 relative to what we should expect the second half. And secondly, one maybe for Pete. The quarter end cash on hand level just under a $1 billion to this sort of indicate what you would establishes a new norm or should it revert back up in the coming quarters. And just on the clarification side just to double check the core EPS that you outlined for 2019 was (inaudible) excluding gains on sale of the correct yeah.

**Aengus Kelly, Chief Executive Officer**

Yeah .Right. Thank you.

So I’ll take them first with the last question. Yes, core EPS, excluding gains on sale for the year $6.60 to $6.80. So to confirm that, which is an increase, obviously, from our previous guidance of [ph]$6 to $6.20 for the full year. The second, in terms of gains on sale, we don’t project those margins although if you look historically they’ve generally been between 5% and 10% on an unlevered basis, so obviously this quarter was higher at 18% of it was significantly higher and that’s really just due to the mix of what was sold that will bounce around in any particular quarter and we’ve shown that before. Last quarter we had a chart there that shows that. So you can see that move around. But I think in general, 5% to 10% is a reasonable estimate, but again it will move around quarter-to-quarter.

And sorry, what was your, did you have a third question.

**Jamie Baker, Analyst**

Yeah, (inaudible) relation to cash.
Aengus Kelly, Chief Executive Officer

Yeah, so the cash in hand around $800 million. I mean we have been running that at around $1 billion and we decided that we can probably bring that down a little bit. So we ended the quarter at $800 million, again you can see that in particular, we have a fair amount of CapEx coming up over the next several quarters. But pretty low debt maturities. I think this is a reasonable level for us to run it at. So I think we could keep it at about $800 million and then you see on the liquidity side. Generally speaking, we're at 2 times coverage over the next 12 months, which is a very high level.

Jamie Baker, Analyst

That's great, thanks for the color.

Aengus Kelly, Chief Executive Officer

Sure.

Operator

(Operator Instructions) Our next question comes from Kristine Liwag of Bank of America. Please go ahead.

Kristine Liwag, Analyst

Good morning, guys. For the 95 737 MAX you have an order, how much in pre-delivery payments, have you made. And with the aircraft still grounded what -- obligations for pre-delivery payments for the rest of '19 for the three aircraft you have said you may receive for the full year. And then also for 2020.

Aengus Kelly, Chief Executive Officer

Kristine we don't break out the PDPs by individual aircraft type that's competitively sensitive information, as we have a number of different types on order. We are in in terms of our contract of course whatever obligations we have in our contract we will comply with them whatever rights under our contract we have, we will enforce.

Kristine Liwag, Analyst

Thanks for maybe switching gears for the Embraer E190, E195-E2 has a Boeing and Embraer deal on this aircraft change the demand and also what percent of your [ph]35-E2 aircraft through 2021 is already in place.

Aengus Kelly, Chief Executive Officer

We as a almost 12 months ago, we had placed 47 out of the 50. We have on order

Operator

So we're to all intents and purposes done on that and we were done some time ago and, which again shows you the difference between the capabilities of AerCap and anyone else, who's order that airplane -- our most airplanes for that matter.
Aengus Kelly, Chief Executive Officer

since the tie-up with Boeing. Of course there has been more interest in the aircraft. One of the issues that subscale OEM struggle with is a global logistics chain to support an airplane around the globe. On a 24-hour basis. And that is where Bombardier and Embraer are at a distinct competitive disadvantage. to the Giants of Airbus and Boeing have thus and so now that Embraer has that, or it is coming, once the deal closes. And we can already see the level of interest in the aircraft picking up considerably .

Catherine O'Brien, Analyst

And since you've already placed the majority of the existing orders you have. What else do you have E2, to get you to place more orders for the E2 and then also tied to that. Right. You already mentioned with the tie-up with Bombardier and the C Series what's now called the A220 with that airplane success with its partnership with Airbus does that makes that asset more attractive to you as well.

Unidentified Speaker

I think, look, it's just to demonstrably true dash any airplane that becomes part of the Airbus and Boeing stable just becomes more attractive automatically than it was before. And in terms of the E2, we placed an awful lot of them, I think we want to see now how the merger goals with between Boeing and Embraer.

I think they have a tremendous opportunity to go on the offense with this airplane provided the integration of the two companies is successfully integrate -- is successfully done and done quickly for that matter.

Unidentified Participant

In the A320. ?

Unidentified Speaker

And the 80.2. I mean we continue to look at them on the Airbus side, it's fair to say that the A320 NEO family airplane has been a tremendous success were placed all our Neos as until 2022 and we've placed more than anyone else in the world. And so that airplane has done very well and will, -- we will continue to look at the A220 as well to see how it's commonality evolves with the rest of the highly successful 320 family thank you.

Unidentified Participant

Thank you.

Operator

In the interest of all the analysts, I'd just like to remind you, please limit yourself to one question and one follow-up please. Our next question comes from Catherine O'Brien of Goldman Sachs. Please go ahead.

Catherine O'Brien, Analyst

Hi, everyone. Thanks for the time. I
So maybe just a question on an update to your core EPS guidance pretty impressive given that CapEx, has had to come in a bit, because the delivery delays, could you just maybe walk us through what on the cost side of the house has improved versus your prior expectations or maybe it's just the lease rentals, you're getting on that lower CapEx base any puts and takes would be helpful. Thank you.

**Aengus Kelly, Chief Executive Officer**

Sure. So I'd say the main drivers Catherine. We are seeing some more revenue on the maintenance side. So the maintenance contribution has been higher than what we expected it to be. So that's one driver. Some of the costs have been lower than we expected. So SG&A, as I mentioned, was $65 million that's a little lower than we had expected it to be on the leasing expense side. Those have been a little lower than we had expected. So there are a number of items that contribute to that, to that estimate, but I'd say those are the main ones.

**Catherine O'Brien, Analyst**

Great, thanks. And then maybe -- and a number of your peers have noted that while there haven't been any notable exits, the pace of growth at some of the new entrant lessor that of Asia has slowed over the past year. I guess, first, are you seeing that. And then second of the more global base of new entrants focused on the sale leaseback market, have you seen any of those players place orders or material orders with the OEMs, are they primarily stake into the sale [ph]backmarket still. Thank you. Appreciate it.

**Aengus Kelly, Chief Executive Officer**

Sure. Well, I think, actually, I understand that China, [ph]Ming Chang has sold most if not all of its portfolio. So there would be the first to turn tail ICBC also was a reported to sold significant portion of its portfolio look, so I wouldn't say that there are many of the new entrants and have significantly reduced their interest in the sector. But I do think some of the new entrants that came over the last four or five years. Are beginning to become more rational and more thoughtful and how they deploy their capital. And I think we do see signs of that in the sale leaseback market.

It's still 2013 since AirCap executed its last fair leaseback transaction. It hasn't stopped us growing faster than anyone in the industry has ever grown before so there's plenty of opportunities in this business. If you're patient and disciplined but then by the same token, and when the opportunities, right, you do have to be aggressive, but I would say overall that there is still an extremely strong bid in the sale leaseback market for new airplanes, but probably some of the participants are a bit more thoughtful than they may have been in prior years.

**Catherine O'Brien, Analyst**

Okay, that's great. And then, have you seen a real -- leaseback players branch out into Orders with OEM?

**Aengus Kelly, Chief Executive Officer**

So I'm not many really, I mean it's a very small group and our people who have an order book of more than 10 or 15 wide bodies and 30 or 40 narrow bodies you into a very small number of operating results. Maybe it might see a few of them place some a few small narrow body orders, but I don't see anything dramatic changing there at the top table.

**Catherine O'Brien, Analyst**
Great, thank you so much for all that color.

Aengus Kelly, Chief Executive Officer

No problem.

Operator

Our next question comes from Rajeev Lalwani of Morgan Stanley. Please go ahead.

Jonathan, Analyst

Hi, gentlemen. It's actually Jonathan on for Rajeev I wanted your thoughts on the pending widebody replacement cycle. Boeing is obviously been out talking about how that's something they see maybe early next decade. I just wondering your thoughts on whether that's something you're beginning to see as you start to place aircraft out in the 2020s and how are you positioned for it.

Aengus Kelly, Chief Executive Officer

Well, I think that goes back to how we set up the portfolio and the consistent strategy we've had for many years. In that we do believe that for the next decade or the best part -- 330 and the 777 will be the backbone of long-haul travel. Having said that, as we get to the end of the 2020 you're going to see those aircraft replaced by the 787 and by the A350 predominantly and that is something in our position we see and that's why we were very keen to stress that looking at the average age of a portfolio does not capture the risks and rewards within the portfolio.

So based on what I said you would much prefer to own a 12-year-old 777 then a three-year-old one, it was a 12-year old one, no economic exposure to when the residual value, when the economic cycle or the replacement cycle as you say starts to really kick in, at the end of this, the coming decade. Whereas if you one that has 10 or 12 years left to consume you in a very different position and so we would agree that there is a replacement cycle out there. But you need to be positioning yourself for us many, many years in advance and I don't believe anyone has done the work that AerCap has done to position its portfolio with that barbell approach. Now we just spoke about.

Jonathan, Analyst

Thanks. If I could just one more. Obviously, you guys talked about a higher elevated sales this year, is that going to impact your fleet age targets for the year and I think you guys talked about expecting that to be in the [ph]low 6

Unidentified Participant

Does this year, does that change at all or do they get pushed out ?

Unidentified Speaker

No, it's -- as of the as of June 30, we were at 6.2 years. And so I think we'll continue to be just over six years in the low at the end of the year as well, which is pretty consistent with what we had said before.
Unidentified Participant

got it. Thank you.

Unidentified Speaker

Sure.

Operator

Our next question comes from Scott Valentin of Compass Point Research. Please go ahead.

Scott Valentin, Analyst

Good afternoon and thanks for taking my question. Peter, you mentioned earlier the contributors to the higher core EPS guidance. And just wondering if there’s any upside then interest margin rates have kind of maybe the trajectory of rates have changed a little bit at least mid, long-term rates have come down, I’m just wondering if maybe upside of the 8% margin. You guys have talked about .

Peter Juhas, Chief Financial Officer

the 8% spread. Yeah. So, I still expect the spread to be 8% this year. I mean what we’ve seen on the, debt side and the interest rate side I. So you saw our cost of debt this quarter was 4.3%, including all of those fees and cost, which is about 35 basis points. I think for the full year, it will probably be around 4.2%. But given what we've seen in the market where we've seen rates going down and pulling back. Great. We have seen a compression of spreads today. Our funding costs are well below 4%. So if we were to do a 10-year today, for instance, we could do that. 10-year unsecured bond we could do that under 4%. We could do it five year at just over 3%. So if we see this environment continue, we would see that cost of debt come down and we would see a benefit to Brent thank you for that.

Scott Valentin, Analyst

Thank you that that And then just a housekeeping question on the buyback capacity. How much is it still authorized of the $200 million that was announced in June.

Peter Juhas, Chief Financial Officer

About 190 million still authorized.

Scott Valentin, Analyst

All right, thanks very much.

Unidentified Speaker

Sure.
Operator

Our next question comes from Helane Becker of Cowen. Please go ahead.

Helane Becker, Analyst

Thanks, operator. Hi, everybody. Thank you for the time I think Peter you might have for this, what was CapEx have been, have you gotten your full complement of aircraft this year versus what you forecast. It will be now

Peter Juhas, Chief Financial Officer

hi. And thanks. So we had originally expected it to be just under $6 billion for the year and now we're expecting about $4.5 billion .

Helane Becker, Analyst

okay. And then the other question I had was with respect to LIBOR. I noticed you still use LIBOR plus for some of your debt and it's going away and another year and a half or so and I'm just kind of wondering are there provisions to replace LIBOR with another

Benchmark?

Aengus Kelly, Chief Executive Officer

Well, there are a couple of different benchmarks that are being considered, including so for. So I think that we will see a transitioning to that over time.

Helane Becker, Analyst

Okay, thanks. I think those were really in my questions. So (inaudible) today from me.

Aengus Kelly, Chief Executive Officer

Thank you Helane.

Helane Becker, Analyst

Thank you.

Operator

Our next question comes from James Ulan of Credit Suisse. Please go ahead.

James Ulan, Analyst
Hi, thank you. So we've chatted with a handful of fleet managers who are saying that there they're expecting NEO and MAX lease rates to go up and we haven't really chartered with (inaudible) form of take sample size, but I was wondering if you could share some feedback that you're getting from your customers about how the MAX is impacting lease rates on I guess the deal and also current generation narrow bodies?

**Aengus Kelly, Chief Executive Officer**

It's there in the MAX is just been it's been grounded for relatively short period of time. So the impact that it is having. It's difficult to say also because there is no clarity around when the slots that you had will actually deliver. So you're not in a position to actually really offer them to customers at the moment. So with that lack of clarity. It's not easy to offer aircraft into the market at the moment, as I said earlier on, really since its launch to NEO has been fairly strong and has maintained its strength in the market over the course of the last three, four years, we've moved over 200 of them. So we still see solid demand for the airplane. The fact is, you're placed out already many years in advance, so there isn't necessarily an impact on and placement in any near-term. And because of any issues with the MAX. And as I said then unused airplanes we saw very strong market last year and it was more any fall off in that was happened in December, well before the MAX grounding and that was due to really the sell-off in the financial markets, which then obviously we saw a strong bounce back in those values. More recently.

**James Ulan, Analyst**

What about for lease rates of the current generation technology?

**Aengus Kelly, Chief Executive Officer**

Again you look, you've got to look at, we at 99.6% utilization

So it's not that we have a bunch of airplanes on the deck, thus we can just put up in the air. Because of the shortage of MAX. So we don't immediately generate a gain from that per se.

**James Ulan, Analyst**

Got you. Okay, thank you.

**Operator**

Our next question comes from Reno Bianchi of Cantor Fitzgerald. Please go ahead.

**Reno Bianchi, Analyst**

Yes, good afternoon and thank you for taking my question. I have a question related to SG&A affiliate exposure. My understanding is that you had three narrow-body and 15 widebody. I just wanted to, if you can give me a little bit of color. So what is happening there. So I'll let them are with the payment?

**Aengus Kelly, Chief Executive Officer**

Sure. But you can see our receivable position. At the end of the quarter and totality was at $60 million, which is below the averages and we do have, we are working with members of the SG&A Group beat the different airlines, we do
believe that the airlines themselves are viable businesses the issue they struggle with of course is to some extent what happened at the parent level for liquidity had been taken from the airlines, it was encouraging to see the first steps in the closure of the Hong Kong Express sale to Cathay Pacific occur, there's also been another other airline AOCs in China. I believe there is also some interest in those in China, an airline AOC is a very difficult thing to get unlike in Europe or the US where anyone can set up shop tomorrow and there, there's only been a handful of them granted in the last several years. So it's quite a valuable asset to have. So there is value in those -- airlines and we are working with them and have worked with them to be fair and over the course of the last year. But as I said, you can look at our overall receivable position to see where we stand.

Reno Bianchi, Analyst

Okay. My second question, I want to try to dig a little bit deeper on the gain and you book in the quarter to $78 million on a sales of 22 aircraft it come down to $3.6 million per aircraft and when I look at the recent history. The only quarter then you exceed the number was [ph]fourth quarter 2018 when you book about $4.3 per million aircraft but that particular quarter you sold aircraft that on average, were 12-years old versus 16 this quarter. So the bottom line, it seems like the $3.6 million per aircraft is quite in excess of the average [ph]$1.5 million to $2 million and I think your book for most of the last three or four years. I am wondering was there any particular to the composition of a 22 aircraft and you sold this quarter's is that more a reflection of the market coming back, what make for that seemingly very high

Unidentified Participant

Aircraft.

Peter Juhas, Chief Financial Officer

so you're right, it was, it's definitely above the average that we've -- average gain that we've sold out over time. They were older aircraft here, but not that different. Really when you look at it over, the past couple of years with the average has been, it's I mean then around that 14 years old to 16-year-old average age. I do think in some cases on some of these older aircraft, we're able to extract a lot of value for them. That we have a conservative depreciation policy as well. Right. For older aircraft and that's part of it, but I think the -- So I think that it's, we're looking at this relative to our book value and I think what you can see from this is -- that it's, we are able to realize -- more then realize the book value in our older assets and fact typically you see this 18% gain. That's a big margin. And as I mentioned before, that's an unlevered basis that shows you how solid that book value is and so while I wouldn't take that necessarily as an indicator to say that next quarter across the board, across the industry, you're going to see higher values for aircraft. I wouldn't say that, but I would say that this is what gives us confidence that our book value is fully real, it's fully realizable and more

and Reno, I mean as pizza as it does bounce around it. Average is around 8% on a gross basis, which on a levered basis, which is what we are of course that's closer to 1.3 times our book equity and I think you can look back over the last 12 years -- 13 years since we've been a public company in every single year. We've generated a gain on sale selling us.

Reno Bianchi, Analyst

And my final question if I may at the end of last quarter you had 398 aircraft and we're pledge to different credit facility, how many aircraft per were pledged at the end of the second quarter?

Unidentified Speaker
(inaudible) aircraft at the end of this

**Reno Bianchi, Analyst**

I'm sorry.

**Unidentified Speaker**

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**Reno Bianchi, Analyst**

359. Thank you very much for your time.

**Unidentified Speaker**

Okay

**Operator**

. Yeah. Thank you, sir. Our next question comes from Kevin Crissey of Citi. Please go ahead.

**Kevin Crissey, Analyst**

Hey, good afternoon. Just one question from me, a big picture, long, long-term. Can you talk about the opportunities and risks, maybe from electric aircraft and and-or other technology changes that might be out there that on a long-term basis may just the market.

**Unidentified Speaker**

Well, Kevin, you may have seen that last Monday -- a Monday of last week, we delivered a brand new 787-9 that conducted the longest ever biofuel [ph]slice of 12.5 hours. So the challenge of biofuel of course is cannot be made efficiently at scale. And the answer to date is no

**Aengus Kelly, Chief Executive Officer**

That may be that is a substance that can be used today. And the question is around cost, electric engines are not that advanced yes or other types, I think you do have to look at the extraordinary investment that is required to develop and aircraft and engine and the risks associated with that development are extraordinary as well as recent events have shown us, so I think it will be some time before we see the replacement of the current technology and engines that we have by an alternative fuel source given the huge risks involved in doing it. I think it could be quite some time.

**Unidentified Participant**

Terrific, thanks for your time.
Aengus Kelly, Chief Executive Officer

No problem.

Operator

Our next question comes from Koosh Patel of Deutsche Bank. Please go ahead.

Kevin Crissey, Analyst

Hi guys. How you think about the, how do you think the introduction of the A321-LR might impact the widebody replacement cycle and more specifically valuations and demand for some of the smaller variance of widebody aircraft such as the A330, 200 or 767 or even the [ph]787. I know you have a number of 321neo on order as well. Would you consider converting some of these two (inaudible).

Aengus Kelly, Chief Executive Officer

[ph]XLR is a very interesting aircraft, it's very powerful airplane but what you have to remember is the heart of the A321 market is flying less than three hours that's where the vast majority of the market is because the further an airline goes from home, the greater the risk it carries further you go from home, no one knows who you are and how do you pick up freight and passengers on the far side, that's always challenge where when you fly long-haul, so I do think it will definitely take some of that made of the market aircraft is no doubt about us, I think again that you will see it of course over time and will it take up some of the routes that are currently flown by widebody assets that aren't built for those routes. And could it be a better airplane those routes. Sure. It closed yet, but it's not going to come into service in scale until 2025-2026 before we see it in scale it maybe even later to be quite frank. And that's a ways off and then the way we wanted to set up the AerCap portfolio with that as you mentioned our A330 fleet, et cetera. At that point in time because we do believe that there is a replacement cycle coming and we've been getting ready for the last five years because we could see it coming given our knowledge that we see in the information we have in the market that we have limited to minimum Exposure to that aircraft type in that timeframe. And if we see that the market is more than a niche market for the XLR and we'll certainly convert some of those airplanes that we have as A321s into that aircraft type. But at the moment, the heart of the A321 market is still in the, say, less than four hour missions, many are less than three hours, so an airline will ask itself. If all I'm going to do with that airplane a fly from New York to Miami, I do. I want to carry all that extra ways that could enable the airplane to fly from New York to San Diego .You're not going to get paid for carrying that extra [ph]ways around. So that's the question. That airlines will be asking themselves is it -- is this an aircraft that's applicable to more than a niche component on my [ph]face .

Unidentified Participant

thanks Aengus.

Operator

(Operator Instructions) We will take our next question from Susan Donofrio from Macquarie Capital. Please go ahead.

Susan Donofrio, Analyst
Yeah, just a question on your customer watchlist. Could you say it is better. The same or worse relative to a year ago feels better, but I just want to kind of circle around.

**Unidentified Speaker**

I'd say overall at similar, you're right Fuel is better brand, which really is the key index for the global market has been in the low '60s. That's a big driver. Yeah. But overall look, we'll always have a few customers. That's just the nature of the business and that have their issues and we work with them, but again I would stress that as you've seen over the course of the last 13 years as a public company defaults haven't been a material driver of AerCap's performance over that period of time. So what I expect when the winter comes one or two guys to make it sure. Is that something out of the ordinary, no, it's not, we don't see anything much different to where we were last year. In fairness, and this time last year. I think we are looking at the Air Berlin and Monarch situations.

**Unidentified Participant**

[ph]primitive our questions have been answered. Thank you.

**Unidentified Speaker**

You're very welcome.

**Operator**

That concludes today's question-and-answer session. At this time, I would like to turn back over to the host for any additional or closing remarks.

**Unidentified Speaker**

Thank you. Thank you everyone for joining us today. Look, to sum up, we delivered another very strong quarter. Our best ever with $2.42 of EPS. We've increased the outlook for the full year and we'll continue to run this business in a way that's focused on the future and generate the maximum value

**Aengus Kelly, Chief Executive Officer**

For our shareholders. We look forward to speaking to you again in three months time.

**Operator**

This concludes today's call. Thank you for your participation, you may now disconnect.

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