DELTA IS BARGAIN HUNTING FOR USED LONG-HAUL JETS

News / Airlines

Delta Air Lines Inc., known for snapping up bargain-priced single-aisle planes, is now shopping for used larger, long-haul jets.

A glut of wide-body models coming off leases is creating an "aircraft bubble," Chief Executive Officer Richard Anderson said Wednesday. While no deal is imminent, he said Delta repeatedly gets offers to add twin-aisle jetliners such as Boeing Co.'s 777-200 and Airbus Group SE's A330-200.

"The aircraft market is going to be ripe for Delta over the course of the next 12 to 36 months," Anderson said on a conference call after the airline's third-quarter earnings report. "Prices are going to get lower."

While that's good news for Delta, Boeing tumbled after Anderson's comments stirred concern that a used-jet surplus will crimp the planemaker's ability to charge more for newer versions of the 777. The jet is one of Boeing's main profit generators, according to Bloomberg Intelligence.

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Delta's fleet moves are closely watched, and often copied. Delta's embrace of mid-life 777s may also help shore up values and kindle more interest among the airline's rivals, just as Delta did with Boeing's narrow-body 717.

The carrier's strategy is based on two pillars: Taking advantage of lower capital costs for used planes and reaping a longer commercial lifespan for those aircraft with its in-house maintenance crews.

Shrewd Buyer

"Delta has a relatively old fleet and a really good maintenance organization," said George Ferguson, senior air transport analyst with Bloomberg Intelligence. "Richard is an opportunist when it comes to buying airplanes."

Boeing fell 4.3 percent to US$134.22 at the close in New York. That was the planemaker's biggest drop since Oct. 22, 2014.

Prices for used 777-200ERs are being damped now by planes from Malaysian Airline System Bhd, Kenya Airways Ltd. and TransAero Inc. coming back onto the market. The 777-200ER has amassed 422 orders, features a cabin that typically seats 313 people and boasts a range of 7,065 nautical miles (13,000 kilometers).

Resale values have dropped as much as 14 percent this year, and lease rates are down as much as 10 percent, according to data compiled by Flightglobal's Ascend consulting firm. Models outfitted with Pratt & Whitney engines, for example, range from US$25 million for the oldest to US$78 million for a 2013 vintage.

Lower Offer

Anderson said that Delta is seeing even lower offers: A 9- or 10-year-old 777 on the market for as little as US$10 million. Singapore Airlines Ltd. has dozens of such wide-bodies coming off lease or retiring soon, Anderson said. Companies routinely approach Delta because there are only a handful of carriers capable of taking a dozen or so of the jets, he said.

Delta already operates 18 of Boeing's 777s. By taking on more, Delta could bolster its twin-aisle fleet while finding another replacement for the Boeing 747 jumbo jets that have served as workhorses on trans-Pacific routes for two decades. Delta has also ordered two types of Airbus wide-bodies, A350s and A330neos, worth US$14 billion at list prices.

Adding a 777-200ER would let Delta do more point-to-point flying in Asia and South America without a stopover, Ferguson said by phone. The price that Anderson cited would make such a deal economical, even with the expense of retrofitting and upgrading cabins with lie-flat seats priced upward of US$300,000, he said.

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