IBA FORECASTS LONG TERM ENGINE VALUE RESILIENCE

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The long term value of commercial aircraft engines is set to withstand the worst effects of Covid-19, according to new data from IBA. In a recent webinar entitled How To Build Resilient Engine Management Programmes For The Road To Recovery, the leading aviation data and advisory company outlined how engines are set to show long term value retention.

Engine values and lease rates remain soft across all the widebody, narrowbody, regional jet markets in the short term. Mature widebody engines have experienced the greatest reductions and young narrowbody engines the least.

However, engine values are showing long term stability. Taking a 1999 build Airbus A320ceo as an example, the value of its CFM56 engines have dropped by less than 10%, due to the combined benefits of OEM price inflation and regular reinvestment.

The advent of Covid-19 vaccines is driving some positivity into the engine marketplace, but activity remains depressed as traders are reluctant to sell at the 30-50% discounts currently being sought.

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Lease rate factors on sale and leaseback activity have improved with activity focusing on next generation engines, whilst shop visits have now stabilised at just 50% of pre-Covid levels.

The result of this new normal in the engine marketplace is lessors seeing an increased volume of engines being returned off lease and stored, MROs cutting capacity to meet new demand levels, and OEMs focusing activity on correcting service entry issues with new engines.

While the long term value proposition for the more liquid engine types is sound, the immediate issue for most engine owners, lessors and airlines is cash management and considerable efforts are being made to optimise the blend of cost versus time on wing.

IBA forecasts that the earliest that MRO demand will start to surpass pre-Covid levels is early 2024, with shop visit demand not set to recover until 2022 at the earliest.

Phil Seymour, President of IBA, says: “The engine marketplace has faced significant, immediate challenges since the onset of the Covid-19 pandemic, but the underlying, long term picture is a more stable one and the advent of vaccines is likely to accelerate that trend.”

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