

REDBOOK : Q1 2022

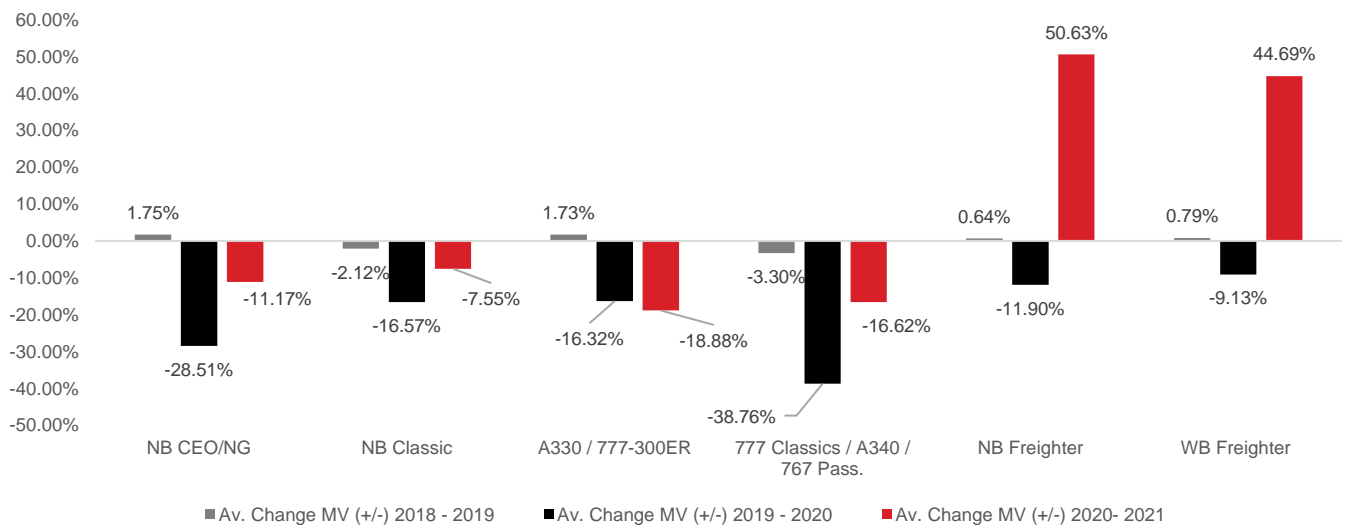
ENGINE MARKET UPDATE

JANUARY 6, 2022 | BY GARRICK RICE



Engine Market Values saw stabilization from large scale losses seen in 2020 as travel rebounded from the lows caused by the pandemic, but continued volatility in some engine types remains possible as we enter 2022. Currently, the COVID-19 Omicron variant has caused disruption in holiday season travel, which is likely to slightly slow projected available seat mile (ASM) recovery to 2019 levels. 2021 also saw the emergence of varied market characteristics across engine programs and the aircraft they power. While diverging market characteristics are common with engine values, this level of difference in value behavior is unprecedented.

Average Year-Over-Year Change in Engine Market Value



The most notable Market Value movements in 2021 were caused by the supply and demand side dynamics that played out in the freighter engine market. After the initial loss in Market Value seen after the pandemic, freighter demand outpaced supply in both international and domestic markets. This movement in equilibrium translated to sell side pricing power in lease rates, unserviceable assets, and spare parts for widebody and narrowbody freighter engines. This trend is likely to continue in 2022 and beyond as the importance of freighter capacity is expected to continue to grow.

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Narrowbody engines that power 737NG and A320CEO aircraft saw a dramatic slowdown in Market Value loss in 2021 as domestic travel figures lead all air travel recovery. Values for these engines typically had very similar market declines, but there was a noticeable segmentation taking place early in 2021. This was primarily due to regional responses to the pandemic and concentration of aircraft within that region, but there was also a noticeable pricing dynamic based on trace and thrust rating within the same engine program. This dynamic is typical of a market where buy-side pricing power is prevalent and buyers can choose the most attractive options. In 2021, the CFM56-7B20 saw a 16.11% decline in Market Value compared to a 10.63% decline in Market Value for the CFM56-7B26. Market Value losses are expected to slow even further, or stop all together, with the potential to increase towards Base Value in 2022 as domestic travel continues to show signs of strength.

Widebody engine Market Values continued to struggle in 2021 and are likely to continue decline without any meaningful rebound in international travel. Given the massive dislocation in the A330 and 777-300ER aircraft markets, there was an expectation of early retirements, which did not take place in 2021. This lack of untimely retirements provides slight positivity for spare engine values as any additional supply would continue to erode Market Values. Creative solutions, such as additional freighter programs and temporary PBH lease structures, have slowed the Market Value loss in the GE90-115, which would otherwise be expected with this level of aircraft under-utilization. Similarly, freighter conversion anticipation for the A330 may slow Market Value losses once demand is established in the PW4000-100", CF6-80E1, and Trent 772 engines but freighter preference is unclear and likely a result of commercial results rather than operational preferences. Market Values for widebody engines are expected to continue their volatility throughout 2022, and depending on worsening market conditions and accelerated retirements, Base Value reductions could be possible in the short term for engines powering out-of-production aircraft.

Looking forward to 2022, most spare engine values are expected to see stabilization or slowing in Market Value decline as the aviation sector continues to recover. The COVID-19 Omicron variant provides an interesting case study to better understand how domestic and international travel figures will react to what could be the seasonal nature of infections for years to come. As of now, travel figures have not been meaningfully disrupted by large scale lockdowns or ineffective travel requirements as a response to the variant. This light reaction will prove positive for the continued recovery in spare engine values as Market Values will be allowed to be based on traditional market forces rather than pandemic influenced prices.

If you have any questions, comments or would like to discuss any of the above topics in more detail, please contact mba's appraisal team at appraisals@mba.aero.



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