

\$68 billion to finance new aircraft in 2009
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(Translated by Calyon)

This amount represents airlines' needs for loans in order to take delivery of new aircraft. Calyon, the world leader in aviation finance, updates the outlook for this business.

How can I finance my fleet? Answering this question is the top priority for airlines' finance managers. In 2009, they need to find 68 billion dollars to take delivery of their new planes. On delivery, aircraft manufacturers' clients pay more than 70% of the price of aircraft ordered years before, on which they made down payments of between 5% and 10% of the total price.

However, the crisis has slowed air traffic, which is expected to decline by 8% this year, weakening some airlines and gaining making access to credit more difficult.

Manufacturers want to secure deliveries

The priority for Airbus and Boeing is to secure the financing for deliveries to keep up their sales and pace of production. Under the circumstances, clients are tracked on a virtually daily basis.

"Of the \$68 billion to be financed, credit agencies will guarantee \$22 billion, double the amount guaranteed in 2008, with \$9 to \$10 billion going to Boeing and \$12 billion to Airbus. Specialized banks will take on \$10 billion, i.e. less than in previous years, and the airlines will put up cash of around \$13.6 billion. Sovereign banks in China and Qatar will also take part," points out José Abramovici, global head of aviation and rail finance at Calyon, the subsidiary of Crédit Agricole.

"We estimate that of this total, between \$8 and \$10 billion had not yet been financed as of mid-June," he adds. This means that Airbus and Boeing will be obliged to provide financial support to some of their clients, and they are expected to book new postponements of deliveries and possibly some cancelations. "The capital markets might also rise," says Abramovici.

Calyon dominates this market at the global level

Dominated by the Americans in the 1960s and then by the Japanese in the early 1990s, aviation finance saw the emergence of European and Chinese banks at the turn of the century (to learn more). The French bank Calyon is the world leader in this specialty with the financing of 890 aircraft, 95% of which are less than 15 years old, owned by 120 different companies. The bank has confidence in the future of this business accounting for 8% of its structured finance activity, amounting to 100 billion euros in gross commitments. And this is so in spite of the crisis. "To our surprise, we have not seen any drop in the volume of business," says Abramovici.

Mortgaged airplanes

Revenues and earnings have been growing for years, and each euro committed to financing aircraft generates 38 cents of revenues for other divisions at the bank. In addition, Calyon suffers few credit events (two in 2008 and none in 2009). "In the case of an event, we repossess the planes and resell them. An aircraft is a secure asset on a solid foundation," says Abramovici. In addition, Calyon has effectively spread its risks and has a low 10% exposure to the U.S. airlines that own around 35,4% of the global fleet but which are financially weaker than their counterparts in Europe and Asia.

Calyon also has a balanced mix between major and quality low-cost companies such as Ryanair, easyJet, Air Asia and Southwest.

Air traffic expected to pick up starting in 2010

If the outlook is so rosy, it is because the need for aircraft and financing is enormous. The bank estimates that air traffic should return to growth of 4% to 5% a year beginning in 2010. Boeing's research shows that by 2028 35,600 new planes are expected to be sold, of which 68% to absorb the growth in traffic and 42% to renew ageing fleets that consume too much fuel and generate too much pollution. The engines for growth over the coming years will be Asia-Pacific and long-haul routes. Financing needs are estimated at 3.2 trillion dollars.

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