Winter is here: Intrepid's new boss speaks growth strategies

Intrepid's new CEO, Doug Winter, explains how the firm could expand.

US aircraft lessor Intrepid Aviation (Intrepid) named Doug Winter as its new CEO in October 2017. The appointment comes at an interesting juncture for the lessor. With all its aircraft now placed and a new CEO at the helm will Intrepid adapt, or change its growth strategy?

Winter joined Intrepid in mid-2015, as its chief commercial officer, and shortly later, President. Prior to Intrepid, he built a 30-year career in the industry with McDonnell Douglas, GECAS, AWAS and Octagon Aviation. For the past two years, Winter and the team have been focused on addressing two pressing challenges: the bankruptcy of Japanese airline Skymark and placing Intrepid's 2014 purchase commitment with Boeing.

As one of Skymark's largest creditor, Intrepid was left with seven A330-300s, to remarket when the airline rejected the type from its fleet. Intrepid placed the aircraft with Turkish Airlines (THY) but had to refit the aircraft to accommodate a more traditional two-class cabin layout, which Ishka understands cost the lessor approximately $10 million per aircraft.

Winter states the transition was completed on plan, with THY receiving the final aircraft in May 2017. "I am not just proud, I am astonished at how well the team performed in this effort: planning, procuring and then executing a reconfiguration and delivery programme of this magnitude on time and on budget."

A second hurdle for the firm was how to place its 2014 purchase commitment with Boeing. Ahead of a planned IPO for Intrepid, that Winter states was targeted for the end of 2014 or early 2015, the firm committed to ordering six 777-300ERs. "When I walked through the door in 2015 only two of those aircraft had been committed, leaving four still to be placed. As we worked through the A330 transitions to THY, we started to observe a shift in the 777 placement market in terms of the breadth of prospects."

In reaction to a tougher marketing environment for 777-300ERs, Intrepid's solution was to work with Boeing in reshaping the order and changing two of the 777-300ER orders into 747-8 freighters, which were subsequently delivered in 2017 on long leases to AirBridgeCargo (ABC). Originally Intrepid had agreed to defer its remaining two 777-300ERs to 2019 but Intrepid identified an opportunity to work with Boeing and Philippine Airlines to take two additional 777-300ERs by the end of 2017, so PAL could begin to accelerate the phase out of their remaining A340 fleet. "We were frankly the only party, working with Boeing, who could achieve that outcome", notes Winter. The net result is that the lessor now has all of its Boeing order book delivered.

Intrepid's next steps

Having put the business on a stable footing, Winter states Intrepid now intends to be patient in its acquisition and diversification plans, in what appears to be a strategic view by Intrepid that the market is at, or near, the peak of an aviation asset value cycle.

"We still see to date, a lot of competition for assets," explains, Winter. "There are some small signals emerging in the market that suggest more favourable opportunities to acquire assets may emerge in the next 12-24 months. We are seeing monetary policies change, the beginning of interest rate rises and fuel prices beginning to pick up."

"We have significantly de-risked the business. We can afford to be patient and invest at the right time. Today, our fleet is fully placed with no future new aircraft order commitments and no near-term lease maturities within our portfolio. We only have a single lease maturing between now and 2022," he adds. The leasing chief indicates the firm could return to growth during 2018 or 2019.

Intrepid's fleet		
Lessee Airline		**Assets**
Air France	2	777-300ER
Air Namibia	2	A330-200
AirBridge Cargo Airlines	2	747-8F
Alitalia	2	A330-200
Cebu Pacific Air	2	A330-300
China Airlines	2	A330-300
Ethiopian Airlines	1	777-300ER
EVA Airways	1	A321-200
EVA Airways	1	A330-300
EVA Airways	1	A330-300
LOT Polish Airlines	1	787-8
Philippine Airlines	4	777-300ER
Sichuan Airlines	2	A330-300
Thai Airways	1	777-300ER
Turkish Airlines	7	A330-300

Source: Intrepid December 2017

Two routes to growth

Winter drops hints as to how Intrepid may choose to build its portfolio in the long-term. He highlights that Intrepid could take advantage of two possible arenas to acquire aircraft in the next 12-24 months. The first is through more aircraft trading. This would be from both emerging lessors that have bulked up their portfolios through sale/leasebacks, and with more established lessors with forward order books with the OEMs, including those with widebodies, which will look to rebalance their portfolios from time to time.

"The vast majority of our peers, something like eleven of the top twelve lessors as measured by book value and fleet size, have OEM order books of various shapes and sizes," observes Winter. "Invariably what you find happens is you can never place these orders perfectly – you wind up going long with a particular credit, or long in a geography, or an asset type, for example. From my perspective, I would see many of our peers being more natural sellers in the trading market over the next couple of years as opposed to natural buyers."

In addition, Winter states that Intrepid is open to working with the OEMs as an opportunistic financing channel to help manage their skyline of deliveries through "pop-up opportunities". "That is a channel that I would seek to play in the short-term", confirms Winter.

Twin-aisles still hold appeal

One question is whether Intrepid, which historically has been focused on widebodies, will seek to acquire more twin-aisle aircraft. The lessor currently has 29 twin-aisle aircraft, plus one narrowbody, in its portfolio with a value just in excess of $3 billion. Will Intrepid's future growth mean it will order, or acquire more narrowbody aircraft? "I think inevitably as we look at growth you would expect to see a shift in the portfolio mix, but we don't have a specific target in mind. We have developed a very strong acumen around managing widebody investments, as we're not afraid to do so," answers Winter.

Winter states the pressure on 777-300ER lease rates over the past 12-24 months has been moderated by Boeing's reduced production rate, and adds that there have been relatively few recent 777-300ER transitions in the market. "There have been more transitions involving the 777-200, or the 777-300. Most of the 777-300ERs that I have heard of have been extended with their existing operator. I still see there being a lot of utility for the 777-300ER for many years to come. If you look at the order book for the 777-9 and -8s, while I think it is going to be an incredibly successful airplane for those who order it,

I could see the possibility that there might be a desire to stretch out some of those commitments a bit among the launch customer base. My point being that, I would expect the ramp-up of the production rate to occur over a period of time."

Responding to a reported softness in A330 rates, Winter indicates he has a sense that lease rates are stabilising. "I think there is not necessarily the extent of supply out there that sometimes is generally painted by the industry. When you really filter though and dig deep and understand all of the available aircraft in the market there is something much closer to about a dozen aircraft available rather than 60 odd, and they are all overwhelmingly, if not entirely, A330-200s." He further cited the recent experience of lessors quickly redeploying the Air Berlin A330s and Alitalia's decision to maintain its widebody fleet as it works through extraordinary administration.

Is a future IPO still on the cards?

Intrepid has been busy in the last year improving its debt profile. The firm has repaid a $120 million senior unsecured notes issuance and its decreasing debt leverage has been recognised by a BB- rating from both Fitch and Kroll. This will be instrumental in helping the lessor attract cheaper debt moving forwards from both banks as well any potential further issuances - a key competitive advantage in the leasing space.

"The business has been on a bit of a journey the past couple of years," summarizes Winter. "It has confronted the challenges it faced successfully, performed adeptly, is more experienced and capable than ever before, and within its current size has the capacity to grow and diversify significantly." Given that the firm is in a stronger position now than it was a few years ago, could it try to list to fund future growth? Winter notes that a potential IPO is "still in the frame of consideration" but adds "other paths" are open as well.

The Ishka View

Intrepid is pausing further aircraft acquisitions as it explores how best to expand the business. Winter states that growth appears to be unlikely in 2018 but could happen in 2019 when the business anticipates more attractive aircraft acquisitions. The company's senior management expects to see a significant "shift" in the market. Of the various potential growth channels Winter appears to be most bullish about "pop-up opportunities" to help the OEMs fund deliveries. Within that context Ishka believes the most attractive opportunities and returns are likely to be in the widebody space.

Despite selling two A330s in 2017, Winter states that it is "unlikely" that the lessor will sell any more aircraft in the short-term. This approach would leave the lessor's fleet static at around 30 aircraft with the largest single asset exposure to the A330-300 with 14 aircraft. Worth noting is Intrepid's exposure to THY, and to one asset type in particular, the A330-300.

The firm's decreasing leverage, its increased fleet, its recent ratings and a more stable platform with placed aircraft are all net positives which will help the firm's long-term IPO plans or any other "paths" the lessor may be exploring.