

## Interview: Airline re-fleeting to drive ACS growth

By Hugh Davies

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Austin-based Aero Capital Solutions (ACS) is gearing up for another busy year in 2023 as the market continues its strong recovery despite the high interest rate environment and a possible recession.

“We've had a busy year in 2022 and expect investment opportunities to continue as airlines seek to grow capacity and continue their fleet development and transitions,” Daniel Watson, chief commercial officer, tells *Airfinance Journal* in an interview.

“There will continue to be a push by airlines to accelerate growth plans, including re-fleeting, as the industry recovers from the pandemic.”

He notes that struggling manufacturer production rates are pushing up demand for midlife aircraft, and by extension, lease rate factors for those aircraft.

Aero Capital Solutions' average lease term is 3.5 years, according to Watson, an approach which provided added flexibility for lessees during the pandemic.

“The main focus is still on narrowbody aircraft, including both passenger and freighter options,” he continues.

“We're very metal focused and adjusting for our size probably carry out more transactions than other larger lessors due to our asset-centric approach across our passenger, freighter and engine portfolio,” Watson adds.

Despite airlines emerging from the pandemic and belly capacity coming back, Watson doesn't think that the industry has created its own freighter conversion bubble.

“Supply reacted to the strong demand during Covid which had the effect of a booming e-commerce segment, spurred on by a lack of belly capacity.

“But e-commerce is now normalising way above pre-Covid-19 levels and domestic volumes are still reasonably healthy. The e-commerce market and express freight segment is strong right across the world and developing markets have huge potential to grow.”

He pointed to the A321P2F, a conversion programme ACS began in October last year, being volumetrically similar to the 757 freighter but with 10% better fuel efficiency.

Watson estimates that there are roughly 329 757s with a current age of 28 years that need to go through the replacement cycle in the coming years.

“There is a clear replacement scenario emerging favouring the A321P2F which will continue to drive demand for cargo conversions,” Watson says.

ACS' A321F programme was launched in partnership with Smartlynx Airlines. Last year ACS also firmed an order for six additional Boeing 737-800SF freighter conversions with Aeronautical Engineers.

Upon completion of this new order, the company will have a total of 40 AEI 737-800 converted freighters in its fleet. In October 2020, ACS placed its first order for the 737-800SF model and has since become AEI's largest customer for the type.