

Values and lease rates trends: 787-9 - troubles continue

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The Boeing 787-9 is the middle member of a three- aircraft family, which also includes the original 787-8 and the larger 787-10. Boeing has assigned the marketing label of Dreamliner to all models.

The 787 was designed to deliver a step change in fuel efficiency compared with the aircraft it replaced and to this end Boeing incorporated new technology and materials in its design. The aircraft undoubtedly brings operational benefits and its performance compares favourably with its current competitors. However, the advanced design has played a role in a problematic development phase and ongoing production issues. The wider problems at Boeing have also impacted the aircraft’s reputation. Nonetheless the aircraft has notched up over 1,200 sales, of which just over half have been delivered.

Orders revived after the Covid pandemic, with a total of 374 placed in 2022/23 according to *Airfinance Global’s* Fleet Tracker. The situation on deliveries is, however, much less positive, with low numbers reflecting production issues at Boeing.

Annual 787-9 orders and deliveries

Source: *Airfinance Global Fleet Tracker 30 June 2024. Includes subsequently cancelled/modified orders*

*Thai Airways order for 45 aircraft is included in 2023 figure



Production rates

Boeing reported that its 787 production rate was five per month during the last quarter of 2023. Following a restart of production in mid-2022, after a nearly two-year hiatus, the company has been trying to ramp up 787 production and deliveries. However, the company said in April that it expects a slower than expected increase because of supplier shortages of some key parts. The supply problems, which are industry-wide, add to Boeing’s issues as the company faces increased scrutiny by the FAA and others.

Competition

The most direct competition to the 787-9 comes from the slightly larger Airbus A330-900 and the A350-900, which has significantly greater capacity. The larger of the two Airbus models is arguably more in competition with the 787-10. The new engine option (neo) version of the A330 does not match the 787-9 in terms of specified performance and as such its cash operating costs are significantly higher. Analysis by Airfinance Global at current fuel prices (\$2.5 per US gallon) suggests that the Boeing model has up to a 15% advantage in terms of cash operating cost. This is offset by the lower capital cost of the Airbus model, but the difference remains close to 10% according to the analysis. These figures go some way to explaining the relatively modest sales of the A330-900 model, with Airbus customers showing a clear preference for the A350-900.

Recent market activity

Sales of the 787 have been slow so far in 2024. The announcement in February at the Singapore air show of a 45-aircraft order by Thai Airways was eye-catching, but the deal had been concluded in 2023 and shown in Boeing data as an unannounced customer.

Secondary market activity

The issues around the 787 have slowed down secondary market activity and leasing companies have been impacted by stalled deliveries. However, there have been some recent transactions. For example, as reported by *Airfinance Global*, China Aircraft Leasing (CALC) delivered a second 787-9 to Lufthansa Group towards the end of June. CALC co-chief Winnie Liu previously told *Airfinance Global* that the used Boeing widebodies were producing strong returns for the Hong Kong SAR-based lessor. AerCap has also issued positive statements about the Boeing aircraft. The lessor says said that in 2023 it obtained a 10% rental premium over rates booked in 2019.

Appraiser’s view

Olga Razzhivina - senior ISTAT certified appraiser - Oriel

The mid-sized variant of the Boeing 787 family, the 787-9, is the most popular version of the new generation twin-aisle. Oriel believes the overall future of the type is assured, but there is a concern with regard to engine selection. The 787 is available with General Electric GEnx-1B or Rolls-Royce Trent 1000 powerplants. Both alternatives suffered teething issues, but the Trent 1000’s durability problems and subsequent groundings have influenced customer choices and have resulted in the Rolls-Royce option falling to a market share below 30%. Such a disparity may negatively affect re-marketability, resulting in a discounted value for Rolls-powered aircraft.

The 787-9 already has a proven value-retention record. The Covid-19 crisis impacted twin-aisle aircraft more adversely and for longer than single- aisle models, but the 787-9 and its main competitor the Airbus A350-900 were the first in the sector to see values returning.

Oriel view of 787-9 values and lease rates (Values reflect half-time maintenance condition except for new aircraft)



The 787 value recovery, however, had some additional tailwinds with the production issues at Boeing stopping new deliveries for nearly a year and limiting delivery -rates as production restarted. This supply scarcity has given all 787s, including the -9, a value and lease rate boost. As long as the production quality issues do not affect the safe operation of the 787, the values and lease rates are unlikely to be negatively affected.

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