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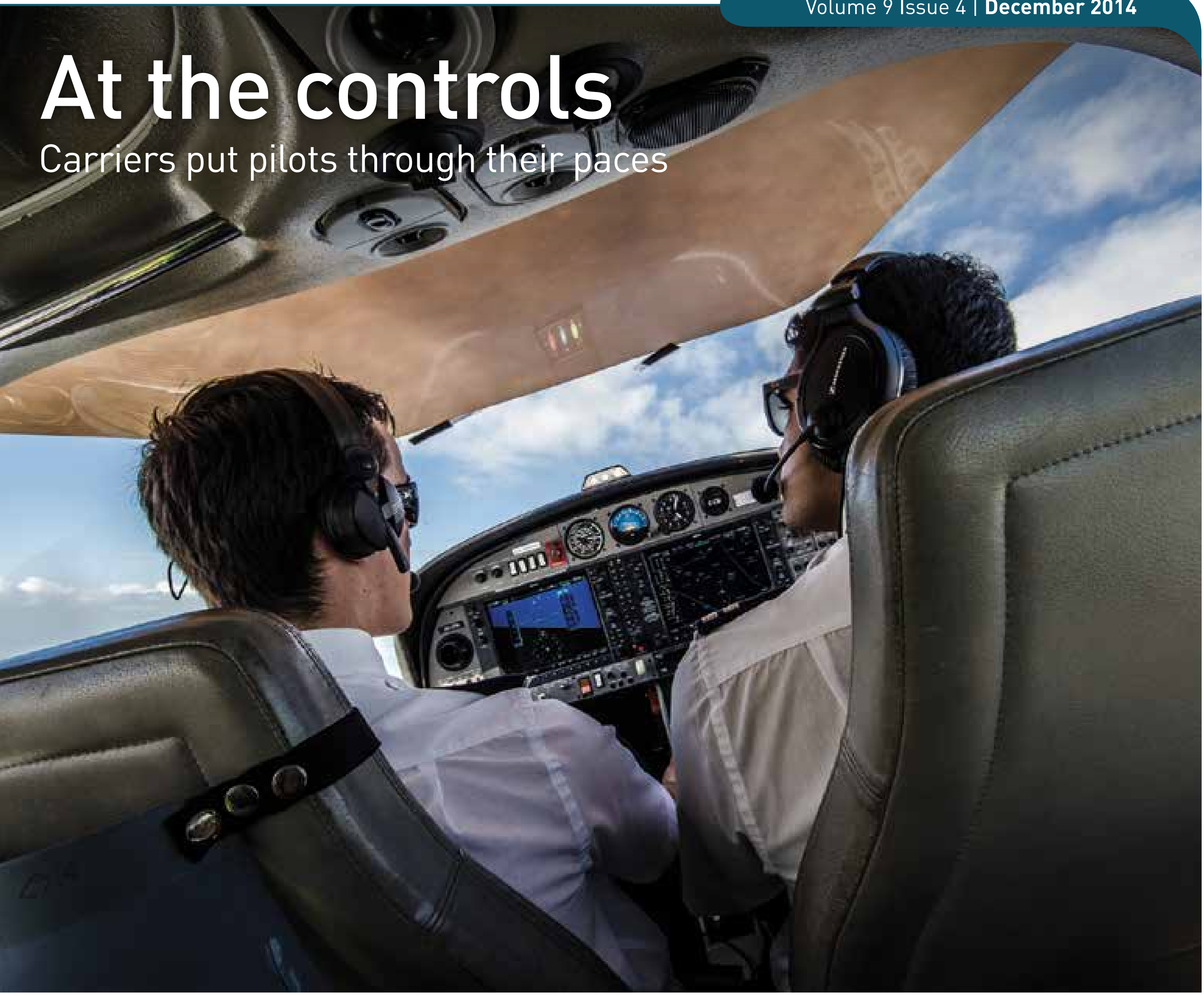


At the controls

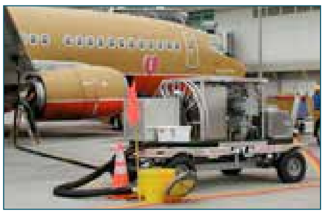
Carriers put pilots through their paces

Embraer: A family affair

Blizzards in Oz

Hybrid flies high

Fuelling debate



The E170 loses its lustre

Interest in the E170 is waning fast and Embraer may have received its last order for the type. **Oliver Stuart-Menteth**, managing director at Fintech Aviation Services, explains what impact this will have on residual values

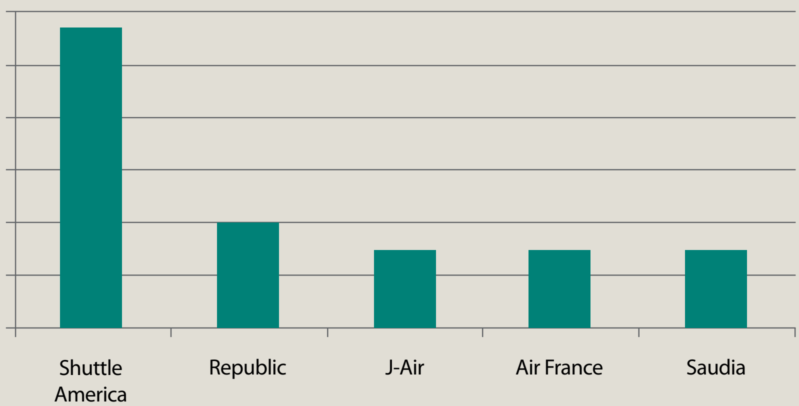
Since the first quarter of 2014, the order backlog for the Embraer E170 had remained steadily at zero; that was until the most recent order, in October, by Japan Airlines (on behalf of J-Air) for five aircraft. However, this order is highly likely to represent one of the last for this particular variant, with interest in this market sector waning considerably over the last five years.

The smallest of the E-Jet family, the E170 has experienced mixed fortunes in the regional market. The 70-seater primarily appealed to niche operators who were able to turn a profit despite the relatively high seat costs and the continued pressure to reduce yields. The E170's seat count sits squarely within the domain of the turboprop. Taking that into consideration, unless an operator has consistent demand over thin routes in excess of 500nm, justifying higher lease or finance charges for an additional revolution on the operator's network does not work within the confines of a typical business plan.

Out of six of the type currently in storage, two are owned by TAME *(photo: Embraer Commercial Aviation)*

However, there are exceptions, namely on point-to-point routes where alternative transport modes are limited or non-existent, or where additional performance capability is required. The principal operators of the E170 are depicted in the graph to the left.

Principal E170 operators



The type entered commercial service in 2002, but the secondary trading market remains immature to this day. Re-marketing agents are still determining acceptable pricing levels, and therefore associated risk, in what is considered to be a very niche, US-centric market. Aircraft are typically re-marketed between 12 and 18 months with agents reporting that overall interest is low, which is unsurprising given that the potential targeted operator-base either consists of turboprop operators wishing to step up, or feeder carriers requiring unique aircraft capability. Out of 26 airlines, 19 have six or fewer aircraft in their fleet, clearly illustrating the limited routes this aircraft type can be profitably deployed on.

While numerous aircraft in the US have been progressively shuffled from their

E170 values

AIRCRAFT TYPE	EMB 170
SERIES	STD
ENGINE TYPE	CF34-8E2

DOM	Lease Rates*	CMV (US$ million)	FBV (US$ million)	FUTURE VALUES US$ million				
	('000 US$)	2014	2014	2016	2018	2020	2022	2024
2013	190-210	22.97	25.06	22.48	19.94	17.47	14.77	12.00
2011	170-190	19.80	21.61	19.17	16.79	14.19	11.54	9.17
2009	150-170	16.89	18.43	16.14	13.64	11.09	8.81	7.14
2007	130-150	14.22	15.51	13.11	10.66	8.47	6.86	5.40
2005	110-130	11.55	12.60	10.24	8.14	6.59	5.19	3.95
2003	90-110	9.03	9.85	7.83	6.34	4.99	3.80	2.79

Note: All values are in US$ million. Future Values are inflated at 2% per annum and depict an aircraft in half time/half life maintenance condition. Current Market (CMV) and Future Base Values (FBV) are provided in accordance with those definitions published by ISTAT. * Lease rates are quoted per month and illustrate a range for short/long-term leases and creditworthiness of lessee. *(data sources: Fintech Aviation Services and Aero Transport Data Base)*

original feeder carriers, it is thought that more moves will occur as feeder contracts are reviewed, while the number of cash trades will remain in single digits.

As of 1 November 2014 there were five aircraft publicly advertised for sale, including four from LOT Polish Airlines. Two TAME aircraft are included in the total of six that are in storage. A total of 219 aircraft have been built, with almost 60% of the current fleet delivered between 2004 and 2006. Consequently, a significant number of un-encumbered aircraft will become available in the coming years as financing terms come to an end. As with the Bombardier CRJ 700, the E170's future is relatively well assured – especially if oil prices continue to weaken – as US feeder carriers will typically retain an asset that has been specifically tailored to work within the scope clauses. Aside from LOT, there are no large-scale ongoing fleet disposals in action and none are anticipated – though it is believed that when traded, aircraft will tend to gravitate to the US markets. In the past six months there have been two lease transactions concerning ex-Kenyan Airways aircraft moving to Aeromexico Connect.

> "Re-marketing agents are still determining acceptable pricing levels, and therefore associated risk, in what is considered to be a very niche, US-centric market"

As a result of deploying a common production line, the E170 could be built on demand until the programme finally transitions to the E2 variant. Embraer has made it patently clear that it will not be investing in this variant, as illustrated by the decision not to offer the E170-E2 (see *page 18*). By adopting this strategy the OEM has effectively retired from the 70-seat market and will focus on up-gauged demand, primarily by offering high-capacity aircraft. The effect of the programme termination upon future value depreciation profiles (the 'end-of-line effect') will be significant, and should be carefully considered by financiers contemplating potential exposure to this asset.

Given that the lack of demand values are, and will continue to be, under pressure, high book values continue to pose a problem to sellers unwilling to accept write-downs. The variation in chargeable lease premiums and inherent values between STD, LR and AR variants has narrowed recently, and is not expected to recover during the remaining operating life of the product. ■

Value briefing is a new resource for Low Cost & Regional Airline Business readers provided by Oliver Stuart-Menteth, managing director at Fintech Aviation Services oliverstuart@fintech.aero www.fintech.aero