

GE sells jet-leasing unit to AerCap for \$30 bn

March 10 2021



GE plans to wind down its GE Capital unit following the closing of a transaction to sell its aircraft-leasing unit to AerCap

General Electric announced a deal Wednesday to sell its aircraft leasing business to AerCap for \$30 billion, establishing a new industry giant

amid the pandemic-induced downturn in air travel.

Under the transaction, the GE unit will be integrated into the Irish company. GE will have a 46-percent stake in the new entity and will nominate two members to AerCap's board, the announcement said.

The combined company will have more than 2,000 owned and managed aircraft, more than 300 helicopters and more than 300 customers around the world, AerCap said.

The airline industry remains in a deep downturn due to the coronavirus pandemic, although progress on vaccination campaigns is expected to lead to a gradual rebound.

"As the recovery in air travel gathers pace, this transaction represents a unique opportunity that we believe will create long-term value for our investors," said AerCap chief executive Aengus Kelly.

GE will receive \$24 billion in cash from AerCap as well as shares in the new company worth about \$6 billion.

The transaction, subject to approval by shareholders and regulators, is expected to close in the fourth quarter of 2021.

Simpler GE

The sale of GE's Capital Aviation Service (GECAS) hearkens the long-awaited wind-down of the US industrial giant's once-mighty GE Capital finance arm as Chief Executive Lawrence Culp proceeds with a turnaround after a rocky period.

The remainder of GE Capital will be folded into the parent company, and GE has said it plans to focus on its industrial core of power,

renewable energy, aviation and healthcare.

It plans also to reduce debt by around \$30 billion, using proceeds from the AerCap transaction and existing cash sources, bringing its total reduction in debt since the end of 2018 to more than \$70 billion.

"Today marks GE's transformation to more focused, simpler and stronger industrial company," Culp said.

AerCap said 60 percent of the combined company's fleet will be narrow-body aircraft, and these smaller planes also comprise more than 90 percent of the nearly 500 new planes that have been ordered.

Narrow-body planes are expected to be in heavy demand in the early period of the post-COVID-19 recovery in which short-distance flights are likely to bounce back more quickly than international travel.

AerCap reported a profit of \$1.1 billion in 2019, but lost \$299 million in 2020.

Similarly, GECAS notched more than \$1 billion in profits in 2019, but lost \$786 million last year.

Colin Scarola, an analyst at CFRA Research, said winding down GE Capital fits in with a long-term strategy to "focus more on their businesses that actually do engineering, design, and actually make real products rather than kind of do the financing."

But transactions like the AerCap deal have a cost, Scarola said.

"Each time they do a sale like this, whether it's selling GECAS here potentially, or biopharma last year, they're selling businesses that have historically been pretty profitable for them," Scarola said.

"And what they're left with is the power and renewable energy business, and aviation business, which are all kind of struggling right now.

"Investors should keep in mind both the benefit of the debt reduction they get from a deal like this, but also the loss of a pretty good business for the long term."

Shares of GE fell 5.4 percent to \$13.25, while AerCap lost 4.7 percent to \$53.39.

After the deal was announced, S&P Global Ratings put GE on credit watch for a possible downgrade of its debt due to the expectation that "GE's debt leverage will be higher than previously expected due to the consolidation of GE Capital financials."

© 2021 AFP

Citation: GE sells jet-leasing unit to AerCap for \$30 bn (2021, March 10) retrieved 13 June 2024 from <https://techxplore.com/news/2021-03-ge-jet-leasing-aercap-bn.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.