AIRBUS AND BOEING JET ENGINE MAKER FORECASTS HIGHER PROFIT FOR THE YEAR

News / Manufacturer

The German aircraft engine maker MTU Aero Engines said it now expected more profit than previously forecast for 2016 after reporting an 18 per cent jump in earnings in the third quarter, boosted by its maintenance business.

MTU Aero, whose customers include Airbus and Boeing, said on Tuesday it now saw adjusted earnings before interest and tax (ebit) coming to about €500 million (Dh1.97 billion) for 2016, compared with a previous forecast for around €480m.

While new engine sales are being held back by delays in deliveries of Airbus's new A320neo jet, its maintenance business for commercial planes reported revenues up 19 per cent.

"The business unit has beaten previous quarterly records four times in a row," said the chief programme officer Michael Schreyoegg.

MTU now expects its commercial maintenance revenues to rise by around 15 to 19 per cent this year in US dollar terms, compared with a previous forecast for 10 per cent. New engine sales are now predicted to remain flat this year, instead of increasing by 3 to 7 per cent.

To meet demand for spare parts and repairs for civil jets after a glut of orders for new aircraft in recent years, MTU is exploring setting up a joint maintenance company with Lufthansa Technik, part of the Lufthansa airline group.

MTU reported third quarter adjusted ebit of €139.7m, beating average analyst expectations for €125m.

Rival Safran also reported an increase in revenues from spares for civil jet engines on Monday.

However, competition looks set to increase, with Boeing also aiming to win more of the lucrative market for replacement parts and repair services to boost its margins.

Boeing is aiming to win more of the lucrative market for replacement parts and repair services, pitting the plane maker against major suppliers who view that growing US$62 billion a year market as their turf.

Boeing said it has added 35,000 parts to stocks it positions around the world to serve airlines in the past year, after analysing its vast store of aircraft data to see where the parts will be needed. It has also cut prices on 24,000 parts to be more competitive, and it is expanding training and other services.

Boeing is trying to capture more profit from spare parts made under licence by suppliers as well. To get there, it is producing some new parts in house to gain control over repairs, and sifting its databases to help airlines predict when planes will need service.

The maker of such flagship jets as the 787 Dreamliner and top-selling 737 has been building its aftermarket business for years. But as demand for planes has slowed over the past 18 months, Boeing is now turning more aggressively to spare parts and services to help meet its own ambitious targets of doubling overall margins to the mid-teens by 2020.

The main reason: a dollar of added aftermarket sales is more valuable than a dollar of new aircraft sales.

Boeing’s aftermarket sales have risen over the last three years and are outpacing the 4.5 per cent growth of the broad aftermarket, said Dennis Floyd, the vice president of services strategy and business development at Boeing.

"That means we’re taking market share," he said.

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