

MTU Aero Engines AG (XTRA: MTX)

We remain long MTU Aero Engines (MTX GR) with no change to our fair value estimate of €545, implying 80% upside. Since the publication of our original report, we have encountered a number of bearish arguments regarding MTU's earnings quality, spare engine exposure, and the durability of aftermarket demand in the face of elevated jet fuel prices. The common thread across these views is the claim that MTU is currently "over-earning" and that both earnings and cash flow will "normalize" downward in the next few years.

We view scenario analyses underpinning recent downgrades as unrealistic, heavily reliant on assumptions that are highly uncertain and do not reflect how MTU's business actually operates. Timing effects and temporary disruptions are being treated as permanent features, and the reversal of cash flow drags currently embedded in the balance sheet are being ignored.

Spare Engine Concerns: The Math Doesn't Work and the Framework is Worse

*"Spare engines. On the contrary, the appetite for spare engine is very, very significant, in fact. And we - I mean, [if] we would be able to produce even more engine than what we have planned for in 2026, there would be an appetite for the airframers to take them, but there would be a strong appetite as well from the airlines to take them. **So, no slowdown for spare engines.**"*

— Olivier Andriès, CEO & Director, Safran SA (April 23, 2026)

In our original report, we addressed the "debate" around elevated spare engine volumes and highlighted that industry participants directly involved in purchasing decisions view this as a manageable multi-year headwind, consistent with MTU's own public comments. The math underpinning more punitive scenarios does not hold.

A bearish note published last week forecasts spare mix declining from 23% in 2025 to 21% in 2026 before falling to 8% by 2029, while assuming €12.5 million of profit per spare engine. This implies a €236 million EBIT headwind (17.5% of group EBIT), over ~4 years. The assumptions driving this conclusion are not well-grounded. MTU management has already indicated that 2026 spare volumes will remain consistent with 2025, and recent [comments](#) from Safran (see above) makes clear that demand for spare engines remains robust.

The magnitude of the forecasted headwind rests on inputs the analyst acknowledges are highly uncertain. The note flags ± €5 million of potential variability in profit per engine, a wide range for such a crucial assumption. At the low end of that range alone, the thesis loses a third of its impact. Our work suggests profit per unit closer to €6 million, less than half the assumed figure. Applied to the same volume assumptions, the implied EBIT headwind shrinks from over €200

million to roughly €100 million, and would be absorbed over many years rather than compressed into a 3-4 year decline.

Just as importantly, the framework assumes spare mix normalizes against a static production base. In reality, normalization occurs alongside rising output. At roughly 1,000 GTF deliveries today, increasing to 1,200-1,300 by 2027-2030, a decline in spare mix from 21% to 12% implies only a modest reduction in absolute spare units. At higher production levels, spare volumes are likely to remain broadly stable. The notion that normalization in mix translates into a collapse in dollars does not reflect the program's underlying growth.

The assumption that spare demand is purely cyclical and destined to revert to prior norms is also unsupported. Newer engine programs are operating at higher utilization rates, in more demanding environments, with airlines placing greater emphasis on redundancy and operational flexibility. There is no evidence that demand is weakening. The bear case implies not just volume normalization but pricing compression as supply improves. Yet current conditions point in the opposite direction: Pratt & Whitney faces constrained production, spare delivery slots remain oversubscribed, and airlines continue to compete for allocation. A pricing collapse requires a demand collapse which is unobservable.

Imbalance Payments are a Timing Mismatch, Not Excess Profit

The bearish treatment of “imbalance payments” reflects a more fundamental misunderstanding. These are receivables created when maintenance work is performed ahead of contractual cash inflows under Flight Hour Agreements. They are not excess profits that should be stripped out of earnings.

During the GTF disruption, engines entered the shop earlier than expected, forcing MTU to incur costs and recognize revenue before receiving cash. That creates a temporary mismatch between earnings and cash flow. The bearish view removes this effect from earnings today (a €232 million in a recent analysis) while ignoring the fact that these receivables convert into cash over time.

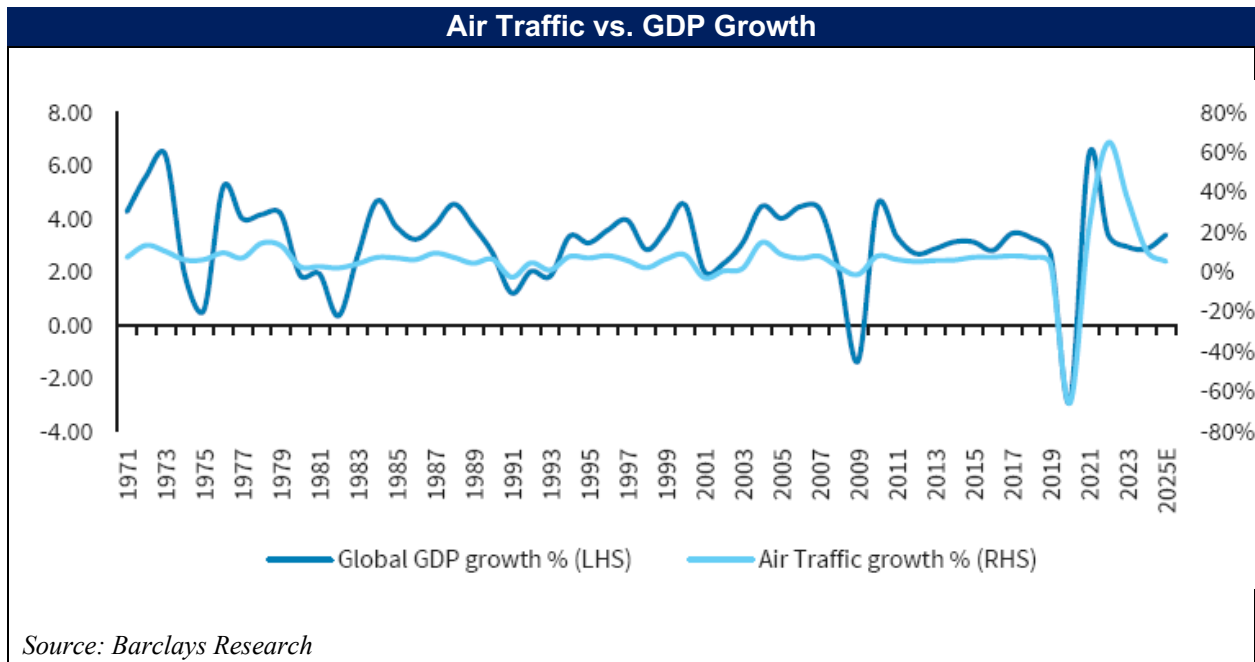
The timing of this reversal may not be precise, but its direction and magnitude are not in question. Management has been explicit that these receivables will unwind later this decade and has indicated that the reversal could push FCF conversion above 100% for a period. Removing €232 million from current EBIT without crediting any portion of future cash flow and leaving cash conversion depressed throughout the forecast period is not “normalization.” It is a one-sided adjustment that understates both earnings quality and cash generation.

Aftermarket demand: No Evidence of the Assumed Slowdown

The argument that higher fuel prices will lead to a sustained reduction in maintenance activity is not supported by current data or industry behavior. Airlines are not reducing work scope, not deferring maintenance, and not altering operating patterns in a way that would suggest a

structural slowdown. Once again, recent [commentary](#) from Safran reinforces this, noting no indication of reduced shop visits or accelerated retirements.

More broadly, aftermarket demand is driven by flight hours and utilization, not airline margins. And air traffic follows the macro environment, not the oil curve. Barclays' work shows that air traffic has consistently grown at a multiple of global GDP. A sustained decline in MRO pricing and activity therefore implicitly assumes a sustained decline in global GDP. There is no evidence to support that outcome. Even under a downside scenario, the impact is modest – a 100bp slowdown in traffic growth (from a ~4% base case) translates into roughly ~2% EPS downside for MTU.



This linkage to GDP is where the longer-term bear case breaks down. While a plausible downside scenario might trim MRO growth in 2027, some bearish estimates reduce MTU's MRO earnings materially through 2030, implying a lasting decline in maintenance activity well beyond any near-term disruption.

That assumption requires a severe and sustained reset in global air traffic. Not a temporary slowdown or cyclical dip, but a structural break in air travel that persists for years. There is no evidence to support that view. Fleet growth remains intact, backlog is extended, and capacity constraints continue to define the industry.

Even if near-term demand were to soften, scheduled maintenance cycles and the underlying supply-demand imbalance would reassert themselves. Jet engine maintenance is not discretionary and aerospace aftermarket businesses have consistently shown resilience through periods of uncertainty, with any impact typically delayed and muted relative to airline profitability. A multi-year impairment to MRO earnings of the magnitude as some bears model implies a prolonged and extreme macro downturn.

Conclusion

The bear case rests on a series of uncertain assumptions, treats timing distortions as permanent, and implicitly requires a sustained deterioration in global air traffic that has not historically occurred. It ultimately depends on two pivotal inputs: a profit-per-spare-engine assumption the analyst himself flags as uncertain by $\pm\text{€}5$ million, and an imbalance payment adjustment that strips $\text{€}232$ million from EBIT without crediting the future reversal. Adjust either input toward more defensible levels and the bear thesis falls apart.

At the end of the day, the current sentiment on civil aerospace companies is understandable given the macro backdrop. But there is a clear pattern in how these stocks typically behave. In periods of uncertainty, trading is overwhelmingly driven by sentiment, with valuations diverging from underlying, resilient fundamentals until fears abate and share prices snap back. That dynamic is evident today. As MTX shifts from trading on headlines to trading on fundamentals, we anticipate massive upside for patient investors.

Full Legal Disclaimer

As of the publication date of this report, Kerrisdale Capital Management LLC and its affiliates (collectively "Kerrisdale") have long positions on the stock of MTU Aero Engines AG. (the "Covered Issuer"). In addition, others that contributed research to this report and others that we have shared our research with (collectively with Kerrisdale, the "Authors") likewise may have long positions in the stock of the Covered Issuer. The Authors stand to realize gains in the event that the price of the stock increases.

This report is not a recommendation to buy shares of any company, including the Covered Issuer, and is only a discussion of why Kerrisdale is long the Covered Issuer. We are not your financial advisor and we do not owe a fiduciary duty to you. We don't recommend that you do anything whatsoever – we don't even know who you are.

Following publication of the report, the Authors will transact in the securities of the Covered Issuer. The Authors may buy, sell or short shares of the Covered Issuer and other securities covered herein subsequent to publication. The Authors will continue to transact in the Covered Issuers' securities for an indefinite period, and such position(s) may be long, short, or neutral at any time hereafter regardless of the Authors' initial position(s) and views as stated in this report. Kerrisdale will not update this report to reflect changes in its positions.

All content in this report represents the opinions of Kerrisdale. The Authors have obtained all information herein from sources they believe to be accurate and reliable. However, such information is presented "as is," without warranty of any kind – whether express or implied. The Authors make no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results obtained from its use. All expressions of opinion are subject to change without notice, and the Authors do not undertake to update or supplement this report or any information contained herein.

This document is for informational purposes only. It is not intended as an official confirmation of any transaction. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. The information included in this document is based upon selected public market data and reflects prevailing conditions and the Authors' views as of this date, all of which are accordingly subject to change. The Authors' opinions and estimates constitute a best efforts judgment and should be regarded as indicative, preliminary and for illustrative purposes only.

This report discusses estimated fair values of securities and companies, utilizing valuation methodologies. Such estimated fair values are not price targets and the Authors will not hold securities until such estimated fair values are reached. The Authors may change their estimates of fair values at any time in the future without updating this report or disclosing the new fair values publicly. The Authors will also transact in the securities of the Covered Issuer and any companies covered herein for many reasons that have nothing to do with the Authors' estimates of the securities' fair values. The estimated fair values only represent a best efforts estimate of

the potential fundamental valuation of a specific security, and are not expressed as, or implied as, assessments of the quality of a security, a summary of past performance, or an actionable investment strategy for an investor.

Any investment involves substantial risks, including, but not limited to, pricing volatility, inadequate liquidity, and the potential complete loss of principal.

This document does not in any way constitute an offer or solicitation of an offer to buy or sell any investment, security, or commodity discussed herein or of any of the affiliates of the Authors. Also, this document does not in any way constitute an offer or solicitation of an offer to buy or sell any security in any jurisdiction in which such an offer would be unlawful under the securities laws of such jurisdiction. To the best of the Authors' abilities and beliefs, all information contained herein is accurate and reliable. The Authors reserve the rights for their affiliates, officers, and employees to hold cash or derivative positions in any company discussed in this document at any time. As of the original publication date of this document, investors should assume that the Authors are long shares of the Covered Issuer and stand to potentially realize gains in the event that the market valuation of the company's common equity is higher than prior to the original publication date.

The Authors shall have no obligation to inform any investor or viewer of this report about their historical, current, and future trading activities. In addition, the Authors may benefit from any change in the valuation of any other companies, securities, or commodities discussed in this document.

Kerrisdale does not provide investment advice to the readers of its reports. You understand and agree that Kerrisdale does not have any investment advisory relationship with you and does not owe fiduciary duties to you. Giving investment advice requires knowledge of your financial situation, investment objectives, and risk tolerance, and Kerrisdale has no such knowledge about you. In no event shall Kerrisdale and the Authors be liable for any claims, losses, costs or damages of any kind, including direct, indirect, punitive, exemplary, incidental, special or consequential damages, arising out of or in any way connected with any information presented in any Kerrisdale report. This limitation of liability applies regardless of any negligence or gross negligence of Kerrisdale and the Authors. You accept all risks in relying on the information presented in this report.

The information contained in this document may include, or incorporate by reference, forward-looking statements, which would include any statements that are not statements of historical fact. Any or all of the Authors' forward-looking assumptions, expectations, projections, intentions or beliefs about future events may turn out to be wrong. These forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, most of which are beyond the Authors' control. Investors should conduct independent due diligence, with assistance from professional financial, legal and tax experts, on all securities, companies, and commodities discussed in this document and develop a stand-alone judgment of the relevant markets prior to making any investment decision.

You agree that any dispute between you and Kerrisdale or the Authors arising from or related to this report or viewing the material presented herein shall be governed by the laws of the State of Florida, without regard to any conflict of law provisions. The failure of Kerrisdale to exercise or enforce any right or provision of this Full Legal Disclaimer shall not constitute a waiver of that right or provision. If any provision of this Full Legal Disclaimer is found by a court of competent jurisdiction to be invalid, the parties nevertheless agree that the court should endeavor to give effect to the parties' intentions as reflected in the provision and rule that the other provisions of this Full Legal Disclaimer remain in full force and effect, in particular as to the governing law and jurisdiction provision. You agree that regardless of any statute or law to the contrary, any claim or cause of action arising out of or related to this report or related material must be filed within one (1) year after the occurrence of the alleged harm that gave rise to such claim or cause of action, or such claim or cause of action be forever barred.