CHC MAY CUT FLEET BY TWO THIRDS

News / Business aviation

It is less than a week since CHC filed for bankruptcy protection – so too early to see exactly how the company will look when it (surely) emerges from Chapter 11. But early court filings give some clues. Thedeclaration by Michael Cox, vice chairman of Seabury – CHC's restructuring advisers – outlines a much smaller helicopter operator.

CHC operates more than 230 helicopters at the moment. It owns 67 of these.

In the filing Cox says that CHC plans to restructure its fleet to 75 aircraft by 2017. This means cutting 155 helicopters from its fleet.

CHC has identified some 44 leases as what it calls "Excess Equipment". These are the aircraft that it plans to return first. The aircraft consist of S76s, AS332s, EC225s and AW139s on lease to several leasing companies. Some of these leasing companies already knew that CHC was planning to return these before it filed.

The operator says it plans to return 90 aircraft in the next 60 days alone (this includes the 44 helicopters already identified as being excess). The logistical and technical issues involved in doing this are huge – even though lessees in Chapter 11 typically do not have to meet lease return conditions.

One of the big issues is pooling of spares and engines. Cox has asked the judge to allow CHC to streamline returns by not having to worry about this. Lessors would simply get whatever equipment is on their helicopter.

Leasing companies are likely to argue against this. Even if it is approved, they are likely to have the right to make claims when aircraft are returned.

The court is due to rule on the motion in the next few weeks. With airline restructurings, courts have tended to go along with plan. Cox is a genuine expert on turning airlines around. He has led more than 10 airline Chapter 11 restructurings and many others around the world.

Chapter 11 restructurings are negotiations – and it is possible that these figures are part of the operator's negotiation tactics. CHC will no doubt be keen to discuss risk sharing options with leasing companies, although any deal will need to be approved in court.

As well as leases, the bankruptcy will involve the renegotiation of CHC's financing facilities.

These include:

- A $1.3 billion 9.25 per cent secured bond maturing in October 2020
- A $ 300 million 9.375 per cent senior bond maturing in June 2021
- A $ 375 million revolving credit facility led by HSBC
- A $145 million financing secured by 13 aircraft led by Morgan Stanley and BNP Paribas.

CHC, in preparation for the filing recently drew down $77 million from its revolving credit facility and has over $140 million in a bank account which it plans to use for running its operations and paying its various advisers over coming months (but not meeting finance or lease obligations). Lenders to this facility are not happy about this.

A strong CHC is good for the industry and the company needs a strong business plan to encourage new investors. But if 90 aircraft (let alone 155) are suddenly released onto the market it will clearly affect the entire industry. CHC's competitors are also no doubt preparing to be asked how much of their fleet is surplus. Any operators looking for new helicopters – or anyone looking to start up operations – are in a wonderful position.

We are now in a relatively quiet period waiting for the court to rule on the motion. But everyone probably needs time to reflect. Things are about to get very difficult.

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