CHC SETS HARD DEADLINE

News / Business aviation, Finance



CHC Group, one of the world's two largest helicopter operators, this week announced that it had decided not to make an interest payment on its bonds that mature in October 2020. It was due to pay $46 million on Monday. Although investors in the 9.25% senior secured notes are not happy, the company has a 30-day grace period before it is technically in default on these bonds.

CHC could have made the payment if it wanted to. It had $377 million of liquidity at the end of January (its first quarter).

In a statement CHC Group said: "The Company believes it is in the best interests of CHC and all of its stakeholders to use the grace period to continue working with its advisors to review all strategic alternatives for restructuring the company's debt and improve CHC's long-term capital structure."

There are two reasons why CHC may not have chosen to make the payment: either major negotiations were meant to be completed before Monday or they have decided to introduce a hard deadline to concentrate people's minds.

It is most likely the latter. The operator is playing hardball.

It is no secret that CHC has been working with restructuring advisers since 2015. But it only chose to announce that it had hired Seabury Advisors; PJT Partners; CDG Group; Weil, Gotshal & Manges; and Debevoise & Plimpton during its March 3 earnings call.

This was clearly a tactical decision to show that it was being serious about restructuring.

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By withholding interest payments from the bond it has shown everyone – secured lenders, bond investors, lessors and customers – that things are very serious now. It also used the press release to name the advisers again. The company has effectively announced that negotiations must be completed in the next month.

Leasing companies already realised that they need to negotiate. Like other oil and gas operators CHC has more aircraft than it needs.

CHC embraced the rise of new specialist leasing companies quickly. It helped many of them get started – it was effectively an incubator for the industry – and they were grateful for their first deals. They entered into these leases knowing that CHC was highly leveraged and needed reorganisation, but no one forecasted oil prices falling so low and for so long. Leasing companies have been talking with CHC for several months now and are willing to work with the operator. These discussions are, however, extremely complicated as lessors – quite fairly – expect some upside when things get better in return for flexibility now. Lessors also know that CHC's competitors are watching closely and will also want to renegotiate if terms are too attractive.

Most banks are likely to be pragmatic. Their credit committees have been watching CHC's problems for many years and they are keen to work out a solution. Oil and gas customers are keen to cut costs but definitely do not want to see CHC stop operating.



One benefit of withholding interest is that CHC is showing lenders and lessors that it is being fair to all creditors.

It is likely that the bondholders are the main obstacle to restructuring. Investors holding the bond

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include some long-term buyers as well as hedge funds and distressed investors so have different priorities. A few funds hold significant shares and are believed to have appointed restructuring advisers.

Although the bonds are secured, they rank relatively far down CHC's capital structure – including bank lenders to the operator's asset backed revolving facility. With helicopter values low, principal is unlikely to be repaid to bondholders if there is a major restructuring. Secured notes are now trading at about 45% of their issue price, with unsecured notes below 10%.

It is not that uncommon for companies to delay coupon payments and this is not the first time that aviation companies have relied on grace periods. After the September 11 terrorist attacks Continental Airlines chose to enact grace periods on interest due on enhanced equipment trust certificates to conserve its liquidity. The airline paid before the grace period ended so avoided defaulting.

If CHC does not pay interest after 30 days, the bond's trustee or a group of bondholders representing 25% or more of the issue can order the company to accelerate payments and repay principal. CHC cannot afford this. At the end of January 2016 the bond had $1 billion of principal outstanding. If CHC fails to pay and bondholders demand repayment, the company would be forced to enter bankruptcy. Although this would not necessarily be in the interest of bondholders.

Failure to pay the interest without getting bondholder agreement would also lead to cross-defaults.

The press release says: "The failure to make the timely interest payment on the 2020 Notes constitutes a default under certain other agreements of the Company and its subsidiaries, which could result in a cross-default under other agreements. If a resulting default or cross-default triggers acceleration of payments owed thereunder, the amount of such payments could be material."

In theory CHC now has 26 days to get everything agreed. But the operator is likely to have other obligations – particularly lease rentals and bank interest – due before then. These will not have long grace periods. The clock is definitely ticking.

Lombard lends $100 million to Waypoint Leasing

Waypoint Leasing has demonstrated that banks are still willing to finance helicopter lessors with a $100 million six year facility via Lombard.

"This facility will free up further debt capacity for Waypoint, allowing us to support our helicopter operator customers with leasing solutions and provide operational and financial flexibility in the current challenging market," said Alan Jenkins, chief financial officer of Waypoint.

The facility can be drawn in dollars, euros and sterling.

"The funding support we've provided is indicative of our long-term involvement in rotary wing assets, as well as in Waypoint's ongoing success," said Mark Jamieson, head of helicopter finance at Lombard.

23 APRIL 2016

SOURCE: HELICOPTERINVESTOR
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