

Lessor disputes unresolved amid \$1.1bn Garuda loss

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Jakarta-based Garuda Indonesia has failed to agree new lease terms with a number of aircraft lessors, prompting several ongoing legal disputes.

In its latest financial filings, it revealed that SMBC Aviation Capital (SMBC AC) had become the latest lessor to sue Garuda in UK courts.

“SMBC Aviation Capital Limited filed a lawsuit to the London Court regarding outstanding payment of aircraft leases of the Company. The trial is currently ongoing at London Court. In parallel the company keeps negotiating with SMBC, to reach commercial deal and contract restructuring outside Court,” Garuda said.

Aercap and Helice Leasing have filed similar proceedings against the Indonesian flag carrier and the disputes remain unresolved to date.

“The Group received flight restrictions from several lessors because it had not fulfilled the obligations for aircraft leasing and maintenance reserves payments. The Group has grounded the relevant aircraft. In order to put the aircraft back to operation, the Group is in negotiation with the lessors and has already received approval for the postponement and payment of the rent and maintenance reserves from several lessors,” Garuda said.

Airfinance Journal has reported that a total of 31 lessors are exposed to Garuda and that by September, 12 had agreed to payment restructurings, six had declined to grant deferrals and talks with the remaining 13 were ongoing.

ICBC Leasing has the largest exposure in terms of asset value, followed by Nordic Aviation Capital, Aercap, CDB Aviation, DAE Capital and GECAS, *Airfinance Journal's* Fleet Tracker data shows.

SMBC AC has eight 2013-2015 vintage Airbus A320 and Boeing 737-800 aircraft on operating lease with Garuda and subsidiary Citilink, Fleet Tracker shows.

Indonesia's government has indicated that lessors still in disagreement need to shift their stance, adding that the state-controlled carrier has been overpaying for some aircraft leases for years.

Deputy minister of state-owned enterprises Kartika Wirjoatmodjo said in a webinar last month that Garuda had been paying above market price for certain aircraft leases. He added: “We will take advantage of this Covid moment to completely restructure Garuda. We know Garuda has past illnesses, namely the high cost of leasing aircraft in the past.”

This week Garuda also updated its fleet plans. Despite saying publicly that it would like to curtail if not end its regional aircraft operations, in its latest financial report Garuda said that as at 30 September it had outstanding operating lease commitments for five ATR72-600 aircraft “with uncertain delivery schedules due to the COVID-19 situation”. The carrier leases more than 30 ATR72s and CRJ1000s from Nordic Aviation Capital, according to Fleet Tracker.

The flag carrier also advises that its four Airbus A330-800 aircraft will be delivered in the third and fourth quarters of 2021, as well as the first and second quarters of 2022.

Garuda was seeking SLB deals for those deliveries; it remains unclear if any such transactions have been agreed. The airline has agreed SLB financings with CDB Aviation for incoming A330-900 aircraft.

Garuda also said its 737 Max 8 order remains current but that the remaining 49 deliveries have been deferred “due to the incidents related” to the programme.

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This week the airline informed the markets of a \$1.1 billion operating loss for the first nine months of 2020, reversing a \$123 million operating profit in the corresponding year-ago period.

It posted a \$723 million net loss for the six months ended 30 June.

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