

Greybull looks to 2021 for distressed airline plays

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Greybull Capital sees opportunities to invest in distressed companies such as airlines in 2021 once their current liquidity reserves are exhausted.

Speaking on a Watson Farley & Williams webinar, Greybull Capital managing partner Marc Meyohas says the number of companies in some form of distress in the sector was “off the charts” as a result of the Covid-19 pandemic.

But he adds that the private equity firm does not see distress as a source of deals at present.

While many aviation companies are “massively distressed”, they have found ways of shoring up their balance sheets, either by not paying lessors and staff or by borrowing money from governments, Meyohas notes.

“The real catalyst for deals in our space is liquidity. They [airlines] can be distressed, but if they have cash in the bank it is very hard to effect a full restructuring and get a transaction done,” he says.

“What we are seeing in terms of the market at the moment is plenty of distressed companies but not many that are truly restructuring themselves,” he adds.

He describes the recent restructuring of Virgin Atlantic as less of a restructuring and more a recapitalisation exercise.

Meyohas sees opportunities for Greybull in 2021 and 2022 when aviation businesses run out of short term-liquidity or need to rebuild their businesses but are “starved of working capital”.

The private equity firm is well known for its acquisition of Monarch Airlines in 2014. The UK carrier subsequently collapsed into administration in 2017.

Meyohas says that Greybull is interested in operating companies rather than assets. It sees opportunities to invest in the whole supply chain, from MRO providers, to airlines and possibly lessors and airports.

He expects 2020 to be a “quiet year” for airline bankruptcies, while 2021 will be “busy”.

“Given we do special situations we quite like the aviation industry because a lot of the restructuring work can be accomplished and completed frankly through the transaction phase of the project, as opposed to quite a lot of companies we invest in, the minute we get given the keys that’s when the restructuring work starts and that may or may not work – these are high-risk investments.

“Whereas with airlines a lot of the restructuring work that is required to put it on a better footing can be done through the transaction phase, whether its balance sheet restructuring, the fleet restructuring or the route network.

“We think that airlines lend themselves better than other industries to being restructured,” he said.

Jim Bell, a partner at Watson, Farley & Williams in assets and structured finance and global co-head of aviation, agreed, stating that after a hiatus in 2020 he sees the potential for a “tidal wave” of private equity plays in 2021.

Bell says the current crisis has some antecedents in the 2012/13 shipping crisis, with oversupply of aircraft and traditional investors looking to retreat from the market.

He also sees a good chance of “sunny day” investors looking to exit aviation, presenting opportunities for more risk-comfortable private investors.

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Pete O'Hare, a partner at Watson, Farley & Williams specialising in assets and structured finance, says there may be opportunities to invest in smaller and niche lessors, where they have challenges around lessee diversification, are highly leveraged, or are unable to raise capital from existing shareholders or capital markets.

He says private equity investment could offer lessors the opportunity to refinance the debt they have on more flexible terms, and there could be options for debt-to-equity deals with funds.

O'Hare says that aircraft trading largely "ground to a halt" amid the crisis, with just a small number of trades taking place. However, he believes this situation will not go on forever.

"To manage diversification risk and free up some much needed capital some lessors will be forced to sell leased aircraft portfolios into this buyer's market and private equity funds may look to take advantage of that," he says.

Franklin Pray, managing director at Alinda Capital Partners, says the firm sees opportunities to add to its engine asset pool given a trend of "shop visit avoidance" which will reach a peak in 2021.

He said the company is also investing into freighter aircraft after the distress in the international widebody market led to a shortage in belly-hold capacity.

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