

# Orix sees HNA bankruptcy as net positive

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The part-owner of Avolon, Japan's Orix Corp, has suggested that HNA Group's bankruptcy proceedings may result in a positive outcome for the lessor and its stakeholders

"With regard to HNA, it's called bankruptcy, but it's actually more like rehabilitation – civil rehabilitation," said Orix's executive officer and head of treasury, Hitomaro Yano.

"Avolon's parent has 70% of the shares. It's called Bohai. Bohai is listed and Hainan only has 28% of the shares. And within this rehabilitation program, Bohai is not included. In other words, Bohai has clearly been severed. And our long-term shareholder structure has improved. That's what we think. So, Hainan Group as a shareholder, everything's now clean. In other words, it would have a positive impact. That's what I think," Yano explained [translated from Japanese].

Orix and HNA-affiliated Bohai Leasing are the owners of lessor Avolon in a 30-70 joint venture.

Bohai Leasing is not directly under the bankruptcy petition. Its parent HNA Capital Group, however, is part of the petition, and Bohai has disclosed that there are risks with regards to potential decisions made by the courts in Hainan Province, which have yet to accept HNA's bankruptcy petition.

The head of Orix's treasury went on to note that the corporation's exposure to HNA subsidiary Hainan Airlines is "minimal".

"Another thing I would like to mention is Avolon's exposure to Hainan versus our exposure to Hainan. Orix, excluding Avolon, has very small exposure, minimal exposure. We do have exposure, but it's nothing to speak of. We do have a joint venture and two or three aircraft. That's all we have in terms of exposure. So, it's negligible," Yano said.

The Japanese executive added that Hainan's "debt will now be cleaned up and Hainan Airlines wants it rehabilitated properly".

He concluded: "We believe that it's going to be a positive factor for Avolon. That's the current status."

[That said, Fitch Ratings has](#) noted that Avolon's exposure to bankrupt HNA Group was approximately 11% of the lessor's net book value on 30 September 2020.

Avolon has particular exposure to HNA carriers through Airbus A350 and Boeing 787 widebody aircraft, representing 28% and 21%, respectively, of Avolon's net book value exposure to the Chinese company.

However, Fitch believes that Avolon has sufficient liquidity to withstand reduced lease revenues and cash flows related to the aircraft leased to HNA-owned airlines as well as any potential near-term reductions in financing costs or availability.

At Orix, Yano did not rule out that there might be impairment charges relating to its aircraft business going forward, although for now none have been agreed. "I'm not denying the fact that there will be any kind of impairment. But of course, we will be carrying out the stress test and also the impairment test with, of course, the accounting auditing firm checking against it. We are not planning any impairment as of now," he said.

Orix said that its outlook for its aircraft business remains "cautious".

The firm, however, noted that the majority of its lessees are flagship carriers which receive government support, "so we believe we are relatively better positioned".

Orix's 'aircraft and ships' revenues decreased 51% to JPY22.6 billion (\$220 million) over the first nine months, compared with the same period

of the previous fiscal year. For the first six months, segment revenue decreased 49% to JPY14.9 billion.

In regard to aviation this was due to a decrease in operating leases revenues resulting from decreases in both the number of aircraft owned and sold, and to a decrease in fee income resulting from the decrease in the number of aircraft sold to investors,

“With the above-mentioned reasons and a decrease in equity in net income of affiliates from Avolon, segment profits decreased 91% to JPY3,116 million year-on-year,” Orix said. In its half-year results on 2 November Orix stated that segment profits had decreased 72% to JPY4.71 billion compared with the same period of the previous fiscal year.

Segment assets decreased 4% to JPY560 billion year on year. The decrease was mainly due to a decrease in instalment loans in its ship-related business and a decrease in investment in affiliates in its aircraft leasing business.

*Airfinance Journal's* Fleet Tracker shows that Orix owns 39 Airbus and Boeing aircraft, including many widebodies, and that the firm manages more than 200 aircraft in addition to that.

Apart from standard operating leases, Orix Aviation, under the lead of chief executive James Meyler, has recently focused on Japanese operating lease transactions with single investors vis-à-vis Jolco structures, Meyler recently told *Airfinance Journal*.

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