Last year was difficult: stock market volatility, Eurozone volatility, financing volatility, and for those of us in the helicopter industry—oil price volatility. Just why is the price of oil so important to helicopter values?

The answer goes back almost 70 years.
In 1948, oilmen and fur trappers in Louisiana were in a dispute about the oilmen’s marsh buggies (used to reach drill sites) trampling muskrat breeding grounds ... and in turn the trappers’ livelihood. A very young Bell Helicopters brought in a demonstrator to show how the oilmen could bypass the breeding grounds by replacing marsh buggies with helicopters. Bob Suggs took that idea and ran with it, forming Petroleum Helicopters Inc (PHI). From there, helicopters found full-time work in the oil fields. PHI still remains a strong presence in offshore oil & gas, although they have been surpassed in size in the intervening decades by Bristow Group and CHC Helicopters.

Oil and gas companies spend significant amounts of money outsourcing transportation of personnel. Energy research and consulting group Douglas-Westwood was forecasting expenditures of $24 billion on offshore helicopter services in the 5-year period between 2014 and 2018. This predicted a 57 percent increase in offshore helicopter service expenditures in comparison to the 2009-2013 period. The Douglas-Westwood prediction was made before oil production volume skyrocketed and oil prices fell dramatically. Since then the major operators have downsized while watching their stock prices fall with profits.

The link between rig counts, oil prices, and offshore operations is easy to see. Look at the ebb and swell of the lines in the following three charts.

During those peak periods, contracts for oil-support helicopters skyrocketed, the supply of used helicopters dissolved, manufacturers hit multi-year backlogs, and speculators crowded the market, buying and selling delivery positions for profit. The fewer helicopters available for sale, the higher the values went. When oil prices crashed, so did helicopter values.

Which means that as low as helicopter values are right now, they’ll continue to fall in reaction to oil prices and rig counts, not to mention a strengthening U.S. dollar. Yes, it will improve eventually, but first it’s going to fall more and then it’s going to need a trigger for improvement, which will probably be oil prices rising again.

So that’s the impact of oil prices. But why does it impact the values of non-offshore machines? The old saw, “a rising tide raises all boats,” has a lot to do with it. We belong to a tiny industry, and helicopters are pretty easily reconfigurable. So a helicopter that’s been offshore could easily become an EMS machine, or a basic utility craft, or vice versa.

The top light-green line is the price of crude oil per barrel tended to 2010 dollars. It peaked around 1980, and again in 2009.
The State of the Industry

Today we have a serious glut of excess inventory on the market. Roughly 10 to 11 percent of the fleet is available for sale, whereas in a “normal” market (if there is such a thing) we’d more likely see 6 to 9 percent available. The size of the available inventory is not shrinking at all.

Light single-turbine helicopters continue to flood the world market. There are over 700 light singles on the market. A fifth of them are Bell 206B series machines, and a third are Airbus AS350B/H125 series. That shouldn’t come as a surprise as that’s probably the approximate allocation of those models in service as well.

We’ve also seen some slight growth in the used light twin inventory. There are 250 light twins on the market. Two-thirds of those are corporate/VIP configured; three-quarters are 10 years or older. The Agusta 109 series makes up very nearly half of all light twin listings. There isn’t a strong secondary market for these machines, with the exception of the BK117, which has found some new life in the utility, oil and gas, and mineral exploration markets.

There is softening in the medium and heavy markets due to replacement of older models like the S76A/B/C and AS332/L1/L2. Older Super Pumas are being traded in on newer models, and nearly three-quarters of those are unlikely to be rebuilt and will instead be scrapped.

Current Issues in Economic Viability

We’re seeing a 15 percent loss in helicopter values. Corporate profits overall don’t have a lot of influence over the helicopter market since most helicopters are income-producing assets. That said, profits in the oil and gas companies do impact contracts, and therefore this impacts demand and ultimately resale values.

Fleets are moving heavily from owned to leased. The Bristow, CHC, and Era fleets already comprise 20 to 30 percent leased aircraft. Most major operators plan to move up to about 35 percent leased aircraft, making our industry for the first time look more like commercial airlines. Owned ships are being sold off (oldest technology first) or to a lesser extent grounded. Leased ships are suffering from postponed or cancelled deliveries. Lessors are seeking new lessees, even at lower rates, just to get the machines into service.

To recap: the percentage of the fleet available for sale is up, resale values are down, operator stock prices are falling, and new deliveries are being delayed or cancelled. The outlook for oil prices is depressing, given the surge in volume, OPEC’s refusal to cut production to shore up those prices, and the addition of shale oil to the pipeline. Not to put too fine a point on it, the helicopter market in 2015 was bleak, and the near-term outlook isn’t any better. It will take either a recovery in oil prices or a new large-scale idea in income-producing usage to bring helicopter values out of their downturn.

Lessors are pretty insistent on power-by-the-hour programs, which of course the lessees are expected to pay. There are good reasons for this: protection of their assets, improvement in residual value at lease termination, and smoothing out of the predictable but still large surges in maintenance, overhaul, and repair expense. Even owned helicopters are moving steadily in this direction. It benefits the helicopter’s owner, regardless of whether they’re a lessor or an operator.