

# Chinese officials are taking control of troubled airline operator HNA



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**Hong Kong (CNN Business)** – Chinese authorities are stepping in to run one of the country's largest conglomerates as it struggles to overcome a massive debt crisis made worse by the [novel coronavirus outbreak](#).

Government officials in Hainan province have established a "working group" with other agencies to help solve HNA Group's financial woes, the company said in a statement Saturday. The move was made at HNA's request, it added.

HNA began life as an airline but grew rapidly through investments in real estate and finance, and overseas acquisitions, to become one of the most important players in China's private sector. Much of its growth was financed by borrowing, however, and the company has been forced to retrench in the last couple of years.

Two government officials were appointed to top management positions at HNA. Gu Gang has become the company's executive chairman and Ren Qinghua was appointed as HNA's co-CEO.



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They will work alongside HNA's current management team, which includes chairman Chen Feng. Two other senior members of the working group come from the country's civil aviation authority and one of its policy banks.

While HNA's ownership structure is extremely complex and opaque — it is apparently controlled by a nonprofit charity foundation — it has traditionally been classified as a major player in China's private sector.

It was one of a handful of major Chinese conglomerates that spent a lot of money in the last decade making ambitious acquisitions abroad, often using powerful political connections at the top to bypass business regulations and borrow heavily from state banks. Starting in 2015, HNA embarked on a \$40 billion shopping spree that included investments in Hilton ([HLT](#)) and Deutsche Bank ([DB](#)). By the

end of 2017, HNA's assets topped 1.2 trillion yuan (\$171 billion).

But those acquisitions were built on a lot of debt. The firm recorded a whopping 707 billion yuan (\$100 billion) worth of debt on its balance sheet as of last June, according to its most recent financial report. Its cash holdings also plunged more than 60% from a year earlier to around 41 billion yuan (\$5.8 billion) in the first six months of

2019.

"Since liquidity risks erupted at the end of 2017, HNA Group has been vigorously trying to save itself under the support of all sides, but unable to fully address the risks," the company said in its Saturday statement.

HNA told China's state-run [Xinhua News Agency](#) last November that it was prioritizing its core airline business, which includes its ownership of Hainan Airlines and other carriers that had been fast-expanding both domestically and globally. But that strategy is at risk of unraveling as the industry comes under immense pressure because of the coronavirus. The outbreak has so far infected [more than 88,000 people worldwide](#) and led airlines worldwide to suspend services. People are also avoiding air travel, fearful of getting sick.



On Saturday, HNA acknowledged that the coronavirus outbreak has exacerbated its problems.

The government intervention is reminiscent of what happened two years ago to [Anbang Insurance](#), another major conglomerate that made big overseas deals. In February 2018, Chinese regulators seized control of Anbang, which once owned Waldorf Astoria and Strategic Hotels & Resorts.

At HNA, "the new chairman and co-CEO can be expected to more ruthless in recovering capital for lenders" by selling assets, said Brock Silvers, managing director of Hong Kong-based [Adamas Asset Management](#). He said the company...

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Silvers suggested that other firms might already be lining up for HNA's assets, adding that the company is unlikely to

"survive in anything close to its present form."

An analyst at Moody's said that the government's involvement could support an "orderly resolution and restructuring" of the company, and could lead to refinancing and rental payment relief to help the company.

"These measures do not necessarily mean all of HNA's debt and assets will be taken over by the government," wrote Sean Hung, vice president and senior analyst at Moody's Financial Institutions Group. He said he expected the government working group to divest some of HNA's equity stakes and non-core assets, adding that the group may also look for "strategic investors" after it is finished cleaning up the company.

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