

July 12, 2018

Credit Headlines: Singapore Airlines Ltd

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors trading 1-2bps lower while the longer tenors traded 2-4bps lower.
- Flows in SGD corporates were light yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was stable at 147bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 11bps to 582bps.
- 10Y UST yields rose 2bps to 2.86% in the earlier part of the trading session due to strong investor demand for the sale of the USD22bn 10-year notes by the US Treasury Department on Wednesday. Yields subsequently fell 3bps to 2.83% as growing trade tensions between China and the United States spurred demand for safe havens before recovering 2bps to close at 2.85%.

Credit Headlines:

Singapore Airlines Ltd (“SIA”) | Issuer Profile: Neutral (3)

- Vistara, the 49:51 joint venture between SIA and Tata Group (a major India-based conglomerate) has placed orders for 19 aircrafts with Airbus and Boeing, the combined order is valued at USD3.1bn (~SGD4.2bn), though this excludes discounts.
- This order is intended to expand Vistara’s local operations and start international flights out of India within the year. Vistara will also be leasing more aircraft for its expansion.
- While the discount on the purchase is not shared, we expect it to be significant given Vistara being partly owned by SIA, a global airline and significant customer of both Airbus and Boeing. Assuming a 40% discount, Vistara will need to pay USD1.9bn (~SGD2.5bn) for the aircraft.
- We expect this funding will need to come from Vistara’s owners (or at the very least corporate guarantees given that the joint venture itself is yet to be profitable. Assuming a proportionate contribution based on their shareholdings, we estimate that SIA would need to fund USD911mn (~SGD1.2bn) of the cost.
- In May 2018, SIA shared that its capex plan for the year ended March 2019 (“FY2019”) was SGD6.2bn (92% for aircraft) and on average for the five years between FY2019 to FY2023, SIA may spend SGD5.7bn p.a. The amounts that Vistara will spend from this purchase are outside of this capex plan.
- We expect SIA’s net gearing levels to increase significantly within the next 12months as cash flow generated from operations (“CFO”) is insufficient to fund the large capex needs and simultaneously sustain its dividend payments at current levels. In FY2018, SIA’s CFO before interest expense was SGD2.6bn. For now, we are maintaining SIA’s issuer profile at Neutral (3) as SIA’s gearing levels are starting from a low base. As at 31 March 2018, SIA’s adjusted net gearing was 0.04x. (OCBC, Bloomberg)

Table 1: Key Financial Indicators

| | 12-Jul | 1W chg (bps) | 1M chg (bps) |
|--------------------|--------|--------------|--------------|
| iTraxx Asiax IG | 94 | 1 | 16 |
| iTraxx SovX APAC | 15 | 0 | 2 |
| iTraxx Japan | 55 | -3 | 13 |
| iTraxx Australia | 84 | 1 | 13 |
| CDX NA IG | 63 | -4 | -1 |
| CDX NA HY | 106 | 0 | 0 |
| iTraxx Eur Main | 68 | -5 | -3 |
| iTraxx Eur XO | 305 | -10 | 5 |
| iTraxx Eur Snr Fin | 82 | -6 | -2 |
| iTraxx Sovx WE | 25 | 0 | -1 |
| AUD/USD | 0.737 | -0.28% | -2.73% |
| EUR/USD | 1.168 | -0.12% | -0.58% |
| USD/SGD | 1.364 | 0.05% | -2.01% |
| China 5Y CDS | 72 | 4 | 16 |
| Malaysia 5Y CDS | 102 | -3 | 5 |
| Indonesia 5Y CDS | 127 | -7 | -1 |
| Thailand 5Y CDS | 46 | -2 | 2 |

| | 12-Jul | 1W chg | 1M chg |
|----------------------------|----------|---------|--------|
| Brent Crude Spot (\$/bbl) | 74.05 | -4.32% | -2.41% |
| Gold Spot (\$/oz) | 1,243.05 | -1.18% | -4.08% |
| CRB | 192.83 | -2.35% | -3.65% |
| GSCI | 459.38 | -4.49% | -3.59% |
| VIX | 13.63 | -15.55% | 10.45% |
| CT10 (bp) | 2.849% | 2.00 | -11.17 |
| USD Swap Spread 10Y (bp) | 7 | -1 | 1 |
| USD Swap Spread 30Y (bp) | -3 | 2 | 3 |
| TED Spread (bp) | 38 | 0 | -4 |
| US Libor-OIS Spread (bp) | 37 | -2 | -4 |
| Euro Libor-OIS Spread (bp) | 4 | 0 | 0 |
| DJIA | 24,700 | 2.17% | -2.45% |
| SPX | 2,774 | 2.24% | -0.46% |
| MSCI Asiax | 664 | 0.99% | -8.48% |
| HSI | 28,312 | 0.25% | -8.97% |
| STI | 3,249 | 0.13% | -5.29% |
| KLCI | 1,689 | 0.02% | -4.27% |
| JCI | 5,893 | 2.79% | -1.67% |

New issues

- Agile Group Holdings Ltd has priced a USD200mn 3NC2 bond (guaranteed by certain restricted subsidiaries of Agile Group Holdings Ltd outside of the PRC) at 8.5%, in line with its initial price guidance.
- CDBL Funding 2 has priced a USD500mn 3-year FRN (guaranteed by Metro Excel Ltd, keepwell and asset purchase deed provider: China Development Bank Financial Leasing Co Ltd) at 3mL+115bps, tightening from its initial price guidance of 3mL+140bps area.
- American Honda Finance Corp has priced a USD1.75bn deal across three tranches, with the USD500mn 2-year bond priced at CT2+50bps, tightening from its initial price guidance of CT2+60bps area; the USD750mn 2-year FRN priced at 3mL+26bps, in line with its initial price guidance and the USD500mn 5-year bond priced at CT5+75bps, tightening from its initial price guidance of CT5+85-90bps area.

| <u>Date</u> | <u>Issuer</u> | <u>Size</u> | <u>Tenor</u> | <u>Pricing</u> |
|-------------|--------------------------------------|-------------|-----------------|----------------|
| 11-Jul-18 | Agile Group Holdings Ltd | USD200mn | 3NC2 | 8.5% |
| 11-Jul-18 | CDBL Funding 2 | USD500mn | 3-year | 3mL+115bps |
| 11-Jul-18 | American Honda Finance Corp | USD500mn | 2-year | CT2+50bps |
| 11-Jul-18 | American Honda Finance Corp | USD750mn | 2-year | 3mL+26bps |
| 11-Jul-18 | American Honda Finance Corp | USD500mn | 5-year | CT5+75bps |
| 10-Jul-18 | Public Utilities Board | SGD300mn | 15-year | 3.01% |
| 10-Jul-18 | Legend Fortune Limited | USD250mn | 3-year | 3mL+128bps |
| 10-Jul-18 | Ronshine China Holdings Ltd (re-tap) | USD225mn | RONXIN 8.25%'21 | 92.971 |
| 10-Jul-18 | Toyota Motor Corp | USD750mn | 3-year | CT3+50bps |
| 10-Jul-18 | Toyota Motor Corp | USD750mn | 5-year | CT5+65bps |
| 10-Jul-18 | Toyota Motor Corp | USD500mn | 10-year | CT10+80bps |
| 9-Jul-18 | Westpac Banking Corp | EUR850mn | 10-year | MS+62bps |
| 9-Jul-18 | Westpac Banking Corp | EUR650mn | 5.25-year | MS+50bps |
| 9-Jul-18 | Commonwealth Bank of Australia | USD1.25bn | 5-year | MS+40bps |
| 9-Jul-18 | SK Innovation Co Ltd | USD500mn | 5-year | CT5+140bps |
| 9-Jul-18 | Suntec REIT MTN Pte Ltd | SGD150mn | 3-year | 3.0% |

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