

May 17, 2019

Credit Headlines: Singapore Airlines Ltd

Market Commentary

- The SGD swap curve steepened yesterday, with most tenors trading up to 1bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 134bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 490bps.
- Flows in SGD corporates were heavy, with flows seen in SOCGEN 6.125%-PERPs, UOLSP 3.0%'24s, ACAFP 3.8%'31s. DBSSP 3.98%-PERPs, UBS 5.875%-PERPs, WINGTA 4.48%-PERPs., GUOLSP 4.6%-PERPs, PILLSP 8.5%'20s and METRO 4.0%'21s.
- 10Y UST yields rose 2bps to 2.39%, on the back of encouraging economic data and an equity rally. US April homebuilding data was stronger than expected, weekly jobless claims dropped and the Philadelphia Federal Reserve index of business conditions rebounded, while all three major US stock indexes were up approximately 1%.

Credit Headlines

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

- SIA announced its results for the full year and fourth quarter for the financial year ended March 2019 (“4QFY2019”). For 4QFY2019, revenue was up 1.4% y/y to SGD4.1bn, however fuel costs which makes up ~31% of total cost was up by 8.0% y/y, wiping out the top line gains. SIA had hedged 80% of its fuel requirements for 4QFY2019 at USD74/bbl and as such despite jet fuel prices generally hovering lower, we did not see SIA benefiting much from the lower spot prices. In our view, this is indicative of the difficulties faced by airlines including SIA in hedging fuel given the high volatility in the past six months. For this quarter, SIA has hedged 80% of jet fuel at USD75/bbl.
- 4QFY2019 EBITDA (based on our calculations) was down 6.5% y/y although interest expense had increased to SGD28mn versus SGD22mn in 4QFY2018, resulting in an EBITDA interest coverage of 22.3x. The increase in interest expense was predominantly due to higher average debt balance in 4QFY2019 of USD6.0bn against USD3.1bn in 4QFY2018.
- SIA’s unadjusted net gearing was 0.28x, slightly lower than the 0.31x in end-2018. Despite higher debt drawdown, SIA was able to receive cash in advance of services. We note that sales in advance of carriage and deferred revenue (eg: cash fom KrisFlyer partners) had increase by SGD342mn collectively q/q while book value of equity had increased from positive net fair value changes on jet fuel hedges. On a gross gearing basis, this was 0.49x as at 31 March 2019 versus 0.42x in end-2018.
- Reported total operating profit in 4Q2019 for SIA was SGD253.5mn. The parent airline SQ (which now includes cargo contribution along with the passenger business) contributed 80% to total operating profit.
- Operating profit for SQ had decline by SGD79mn in 4Q2019 (down 28% y/y). While breakeven load factors were not provided directly, we estimate that SQ’s passenger business was able to record a positive spread of 0.3% over break-even load factor in 4QFY2019 versus 4QFY2018 which had a negative spread of 0.5%. The SQ-cargo load factor was lower at 58.8% in 4QFY2019 versus 62.9% in 4QFY2018), we think the spread was still positive, though had decline to 6.5% versus 10.2% in 4QFY2018. In our view, this was the main reason for the decline in SQ’s operating profit, which was insufficiently compensated by the small improvement in SQ-passenger spreads.

Credit Headlines (cont'd)

- Encouragingly, SilkAir saw operating profit at SGD11mn, growing significantly from SGD3mn in 4Q2018 although Scoot, SIA's low cost carrier arm reported an operating loss of SGD6mn driven by increase in expenses from higher capacity.
- In our view, the intense competition in the passenger segment is not abating and it is increasingly harder for SQ to justify their premium pricing which makes cargo and any other way SIA can leverage its strong brand name as crucial for the company's longer term profitability. For now we maintain the issuer profile at Neutral (3) on the back of its still manageable credit metrics. (Company, OCBC)

Table 1: Key Financial Indicators

	17-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	70	1	7
iTraxx SovX APAC	46	0	5
iTraxx Japan	61	2	7
iTraxx Australia	71	0	5
CDX NA IG	62	2	5
CDX NA HY	107	0	-1
iTraxx Eur Main	64	-1	6
iTraxx Eur XO	274	-6	26
iTraxx Eur Snr Fin	79	0	10
iTraxx Sovx WE	18	1	0
AUD/USD	0.690	-1.51%	-3.94%
EUR/USD	1.118	-0.49%	-1.04%
USD/SGD	1.373	-0.72%	-1.44%
China 5Y CDS	47	1	8
Malaysia 5Y CDS	62	-1	12
Indonesia 5Y CDS	103	1	13
Thailand 5Y CDS	37	-1	0

	17-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	72.91	3.24%	1.80%
Gold Spot (\$/oz)	1,285.97	-0.01%	0.94%
CRB	182.32	1.85%	-2.29%
GSCI	445.15	2.57%	-1.05%
VIX	15.29	-19.95%	21.35%
CT10 (bp)	2.403%	-6.39	-19.07
USD Swap Spread 10Y (bp)	-4	-3	-4
USD Swap Spread 30Y (bp)	-28	-3	-6
US Libor-OIS Spread (bp)	16	0	-2
Euro Libor-OIS Spread (bp)	6	0	0
DJIA	25,863	0.13%	-2.22%
SPX	2,876	0.20%	-0.83%
MSCI Asiax	633	-2.05%	-7.71%
HSI	28,325	0.05%	-5.97%
STI	3,218	-1.69%	-3.90%
KLCI	1,607	-0.20%	-0.86%
JCI	5,896	-4.89%	-9.04%

New issues

- Pioneer Reward Ltd has priced a USD500mn 3-year bond (guarantor: Huatai Securities Co Ltd) at T+127.5bps, tightening from IPT of T+160bps area.
- Shougang Group Co Ltd has priced a USD500mn 5-year bond at T+195bps, tightening from IPT of T+235bps area.
- Vigorous Champion International Ltd (guarantor: China Ping An Insurance Overseas (Holdings) Ltd) has priced a USD300mn 5-year bond at T+147.5bps (IPT of T+180bps area) and a USD300mn 10-year bond at T+190bps (IPT of T+220bps area).
- ASB Bank Ltd has priced a USD500mn 5-year bond at T+100bps, tightening from IPT of T+115bps area.
- AVIC International Leasing Co Ltd has scheduled investor meetings from 17 May for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
16-May-19	Pioneer Reward Ltd	USD500mn	3-year	T+127.5bps
16-May-19	Shougang Group Co Ltd	USD500mn	5-year	T+195bps
16-May-19	Vigorous Champion International Ltd	USD300mn USD300mn	5-year 10-year	T+147.5bps T+190bps
16-May-19	ASB Bank Ltd	USD500mn	5-year	T+100bps
15-May-19	Zhuzhou City Construction Development Group Ltd	USD400mn	3-year	5.70%
15-May-19	Liuzhou Dongtong Investment & Development Co Ltd	USD140mn	3-year	7.0%
15-May-19	Export-Import Bank of Thailand	USD300mn	5-year	3M-US LIBOR+85bps
15-May-19	Zunyi Road and Bridge Construction (Group) Ltd	USD78mn	ZYRDBG 8.0%'22s	100 + accrued
15-May-19	New Metro Global Ltd	USD300mn	3-year	6.75%
15-May-19	Wing Tai Holdings Ltd	SGD150mn	NC5-perp	4.48%
15-May-19	UOL Treasury Services Pte Ltd	SGD200mn	5-year	3.0%
14-May-19	Housing and Developmental Board	SGD700mn	5-year	2.164%
14-May-19	Rongshi International Finance Ltd	USD500mn USD500mn	5-year 10-year	3.25% 3.75%

Source: OCBC, Bloomberg

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhiqiseow@ocbc.com

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