Issuer Profile:

Neutral (5)

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Neutral (5)

Ticker:

SIASP

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Singapore Airlines Ltd ("SIA")

Recommendation

- **International borders remain mostly shut though greenshoots are appearing in Europe and the US with international travel gradually restarting. In our last credit update, Europe and the US were contending with high COVID-19 cases while the outlook for the Asia-Pacific region was brighter. SIA is reliant on the Asia-Pacific passenger travel market which now faces virus resurgence in parts of the region and is still catching up on vaccination roll-out.**
- **Revenue for SIA's 2HFY2021 (six months for the financial year ended 31 March 2021) was SGD2.2bn, up by 33.5% on a h/h basis, while operating losses were narrower at SGD649.6mn in the second half against operating losses of SGD1.9bn in 1HFY2021**
- **Encouragingly, operating cash burn has reduced to SGD100-150mn per month while SIA has managed to negotiate a deferral in capex which helps contain its liquidity needs in the short term.**
- **We are maintaining our issuer profile on SIA at Neutral (5) in light of its manageable short-term liquidity situation that is sufficient to cover financial needs to March 2023. SIA has built up liquidity buffers through the pandemic, including from shareholders which serves as a "multiplier effect" for further fundraising. Despite the Minister of Finance owning one Special Share in SIA, our issuer profile for SIA has historically been on a standalone basis without factoring in state support and remains so. SIA's major shareholder Temasek has provided important undertakings on SIA's rights issuances in 2020 and similarly has provided undertakings on the SGD6.2bn additional mandatory convertible bonds.**
- **Bond Recommendation: Within the SIASP SGD curve, we are neutral the shorter dated SIASP 3.16% '23s and the belly of the curve. We like the SIASP 3.50% '30s versus its closest comparable the QANAU 5.25% '30s as the SIASP long dated offers a yield pick-up of ~20bps in implied-SGD terms and the USD-denominated SIASP 3.00% '26% which is paying 2.50% in implied-SGD terms.**

Relative Value:

Bond	Maturity / Call date	Gross Gearing	EBITDA/ Interest coverage	Ask YTM/YTC	Spread	Recommen-dation
SIASP 3.16% '23s	25/10/2023	0.88x	n.m	1.63%	113bps	N
SIASP 3.03% '24s	28/03/2024	0.88x	n.m	1.58%	100bps	UW
SIASP 3.75% '24s	08/04/2024	0.88x	n.m	1.63%	104bps	UW
SIASP 3.035% '25s	11/04/2025	0.88x	n.m	1.75%	96bps	UW
SIASP 3.00% '26s[1]	20/07/2026	0.88x	n.m	2.50%	152bps	OW
SIASP 3.13% '26s	17/11/2026	0.88x	n.m	2.19%	114bps	N
SIASP 3.13% '27s	23/08/2027	0.88x	n.m	2.43%	127bps	N
SIASP 3.50% '30s	02/12/2030	0.88x	n.m	3.22%	172bps	OW
KEPSP 3.145% '22s	14/02/2022	1.13x	14.6x	0.88%	58bps	UW*
KEPSP 3.725% '23s	30/11/2023	1.13x	14.6x	1.36%	85bps	N*
KEPSP 3.0% '24s	07/05/2024	1.13x	14.6x	1.45%	85bps	N*
KEPSP 3.0% '26s	01/10/2026	1.13x	14.6x	2.10%	107bps	N*
KEPSP 3.66% '29s	07/05/2029	1.13x	14.6x	2.56%	120bps	OW*
QANAU 7.75% '22s[2]	19/05/2022	11.58x	n.m	1.28%	96bps	UW
QANAU 4.4% '23s[2]	10/10/2023	11.58x	n.m	1.61%	110bps	N
QANAU 4.75% '26s[2]	12/10/2026	11.58x	n.m	2.21%	115bps	N
QANAU 2.95% '29s[2]	27/11/2029	11.58x	n.m	2.78%	138bps	UW
QANAU 5.25% '30s[2]	09/09/2030	11.58x	n.m	2.99%	153bps	UW

Indicative prices as at 03 June 2021 Source: Bloomberg
Note: (1) SIASP 3.00% '26s is a USD-denominated bond; Ask YTM and spread in implied-SGD terms
(2) QANAU bonds are denominated in AUD; Ask YTM and spread for QANAU in implied-SGD terms
(3) Credit metrics based on latest available financials
** Based on monthly credit view (03 June 2021)*

Background

- Singapore Airlines Ltd ("SIA"), listed on the SGX has a market cap of SGD14.6bn as at 3 June 2021. Apart from its flagship carrier, Singapore Airlines ("SQ"), the company also operates other airlines and businesses: SIA Engineering Company, SilkAir and Scoot. SIA owns a 49%-stake in TATA SIA Airlines Limited (operates Vistara Airlines).
- Post the rights issue, Temasek has a deemed ~56%-stake in SIA while the remaining shareholding is dispersed. The Minister of Finance owns one Special Share in SIA. SIA holds the conversion rights on SGD3.5bn of mandatory convertible bonds ("MCBs") that has been issued. Assuming the (1) MCBs and additional MCBs are converted in year 10 at SGD4.84 per share (2) Temasek subscribing for the full SGD6.2bn of additional MCBs and (3) Including the impact of dilution from the convertible bond priced in November 2020, Temasek will hold ~77% in SIA on a fully diluted basis. The dilution from the MCBs and additional MCBs, if converted by the company into equity, would only occur in 2030.

Key Considerations

- **Difficult virus though vaccinated places gradually reopening:** The International Air Transport Association ("IATA") has shared an updated view that global passenger volumes will exceed pre-pandemic levels in 2023 (by 5% above 2019 levels), more optimistic than its earlier views. Within the Asia-Pacific, tourism-reliant Thailand announced that it expects the tourism sector to only recover in 2026 while the Australian government is maintaining its stance that international travel will only reopen earliest in 2022 despite opposition from businesses. In our last credit update in November 2020, Europe and the US still faced high occurrences of COVID-19 cases and we were more optimistic about earlier recovery in the Asia-Pacific region given the virus was largely under control in the Greater China region. However, since then we observe a continued lack of co-ordination in the Asia-Pacific region towards re-opening (eg: lack of discussion by governments over vaccine certificates, how eventual intra-region travel may look like or standardised safety protocols at airports and borders). Passenger air travel is expected to pick up in the US and Europe earlier, with plans underway to reopen international travel on the back of successful mass vaccine roll-outs as early as the middle of June 2021. On 19 May 2021, the member states of the European Union agreed to reopen their borders to fully vaccinated visitors (mainly within the EU block, though some countries have opened up for visitors from the US).

- **Asia-Pacific now a laggard**: SIA's revenue has historically been reliant on international travel, particularly from the Asia-Pacific region. East Asia (defined by the company as Brunei, HKSAR, Indonesia, Japan, South Korea, Malaysia, China, Myanmar, the Philippines, Thailand, Taiwan and Vietnam) and South West Pacific (Australia and New Zealand) made up ~69% of FY2021 (~68% of FY2020) revenue by area of original sale. By route region, passenger revenue on routes originating from Singapore to destinations within East Asia and South West Pacific, was 52% of total passenger revenue in FY2020. Reopening of borders has been complicated by recent virus resurgence within countries across the Asia-Pacific region. Increasingly, health experts are calling for strategies to cope with a COVID-19 situation that is endemic. Until such time countries increase vaccination rates across the Asia-Pacific region and move away from policies targeted at zero-cases, it is difficult to expect meaningful progress among different governments on international border reopening.

- **Cargo provides a buffer during challenging times**: Given that FY2020 results cover a nine-month period with no negative impact from COVID-19 it is not surprising that on a y/y basis SIA's results have declined, down 76.1% y/y to SGD3.8bn which was mainly dragged by lower passenger revenue. On a h/h basis though, revenue for 2HFY2021 was SGD2.2bn, up by 33.5% while operating losses were narrower at SGD649.6mn in the second half against operating loss of SGD1.9bn in 1HFY2021. Passenger revenue had increased 241% h/h to SGD529.2mn while cargo revenue was up by 18.5% h/h to SGD1.5bn. SIA has been proactive in increasing its focus on cargo early during the pandemic, retrofitting some of its planes towards cargo, buffering some of the absence of revenue. In FY2021, cargo revenue was 71% of total revenue, increasing 38.8% y/y to SGD2.7bn. Despite a 49.5% y/y fall in SIA's gross cargo capacity, the business benefited from stronger customer demand and overall industry reduction in capacity which negatively affected available bellyhold capacity and pushed up freight charges. SIA Cargo's financials are subsumed under the flagship carrier SQ.

- **Lower impairments in 2HFY2021 and less impairments expected this financial year:** In FY2021, we note that SQ reported segmental operating losses (before impairments) of SGD1.7bn. In 2HFY2021, SIA reported net loss of SGD805.6mn which took into account of impairments, positive SGD349.6mn in fuel hedging ineffectiveness (a non-cash item) from higher mark-to-market, financing charges, share of losses from associated companies and undisclosed amounts from the jobs support scheme ("JSS"). For the full year SIA's net loss was SGD4.3bn, where SIA took ~SGD2.0bn in non-cash impairments of aircraft, goodwill and on other assets, where SG1.7bn was taken in 1HFY2021. At 77.6%-owned subsidiary SIA Engineering Co Ltd ("SIE"), revenue fell by 55.4% y/y to SGD443mn in FY2021 while in 2HFY2021 revenue fell 54.3% y/y to SGD220mn (down only 1.3% h/h). Actual reported loss for SIE in FY2021 was SGD19.6mn, taking into account of JSS.

- **Vistara continues to be a strategic investment:** SIA owns a 49%-stake in India-based Vistara Airlines ("Vistara", 51%-owned by Tata Group). In 2HFY2021, SGD97.4mn of cash outflow went towards investment in associated companies (1HFY2021: SGD114.6mn), likely for Vistara, which is a strategic investment of SIA that has started and is expanding its international flights. The sale of Air India is ongoing, albeit delayed by the pandemic, with Tata Group still reportedly a frontrunner. Should a deal transpire between Air India and Tata Group, it is still yet certain how this would impact Vistara given that Air India competes with Vistara, including on international routes which Vistara is expanding. SIA's recently announced MCBs though does not include mergers and acquisitions as part of its use of proceeds.

- **Unadjusted gross gearing up h/h but expected to fall with more MCBs:** Based on our calculation, excluding fuel hedging ineffectiveness, SIA saw a loss before interest, depreciation, amortisation and tax of SGD21.9mn in 2HFY2021 (2HFY2020: SGD1.6bn) and was insufficient to cover interest expense of SGD146.9mn, despite the JSS. With little impact from COVID-19 in FY2020, SIA's EBITDA/Interest coverage was healthy at 15.0x in 2HFY2020 and 13.7x for FY2020. As at 31 March 2021, SIA's unadjusted gross gearing was 0.9x, higher than the 0.7x as at 30 September 2020 though lower than the 1.2x as at 31 March 2020. While the swing factor between beginning of the financial year and mid-year was mainly due to the issuance of new shares and MCBs (recognised as equity at SIA), gross debt (including lease liabilities) had increased by ~SGD3.2bn in the six months to 31 March 2021. In 2HFY2021, proceeds from sale and leaseback transactions were SGD1.2bn while we calculate that debt of SGD1.8bn (net of debt repayments) was added. With the additional issuance of MCBs, we expect gross gearing to fall to ~0.6-0.7x.

- **Generous funding from major shareholders with a "multiplier effect":** In 1HFY2021, SIA had raised proceeds of SGD8.8bn via its rights issue that was strongly supported by its major shareholders. As expected, SIA announced that it will be exercising the option to raise the additional MCBs amounting to SGD6.2bn. Similarly, the conversion option of the additional MCBs will be held by SIA, rather than MCB holders. In our view, aside from providing an immediate cash buffer, the MCBs serve as a multiplier to SIA's financial flexibility as SIA would have stronger negotiation power with pools of funding elsewhere. Aside from the rights issue, SIA had managed to raise SGD6.6bn in funding from aircraft secured financing, sales and leaseback, additional committed lines of credit and debt capital markets since the start of FY2021 to May 2021.

- **Operating cash burn has reduced per company:** Assuming zero revenue, which is conservative, in 1HFY2021, we estimate that SIA's cash expenses were SGD1.8bn (SGD305mn per month), though this had increased to SGD2.2bn (SGD 360mn per month) in 2HFY2021. It is worth noting though that SIA's passenger capacity in millions seat-kilometres on a group airline basis had increased to 16,527 million seat-kilometres in 2HFY2021 versus only 5,194 million seat-kilometres in 1HFY2021. SIA has guided that its current operating cash burn per month which takes into account of revenue generation is SGD100-150mn (after lease payments but before debt servicing). This guidance is dependent on oil prices and eventual cash settlement of fuel hedges though expected to be stable in the near term. At the beginning of FY2021, the cash burn was ~SGD350mn per month and ~SGD300mn in the middle of the financial year.

- **Short-term debt coming due manageable:** Short term debt (including lease liabilities) was

SGD1.4bn, representing only 10% of total debt as at 31 March 2021. Post quarter end, SIA had redeemed SGD200mn of bonds that were due in April 2021. In our previous credit update, we estimated that SIA had ~SGD10.1bn of unencumbered fixed assets that can be used as collateral for further secured financing and/or sales and leaseback transactions. Subsequently in May 2021, SIA raised SGD2bn from sale and leaseback transactions on 11 aircraft. We use the November 2020 estimate as a starting point and assume the market value (that resulted in SIA receiving proceeds from the sale and leaseback) is equivalent to book value. Under this assumption, we estimate that the remaining unencumbered fixed assets that can be used as collateral for further secured financing and/or sales and leaseback transactions is ~SGD8.0bn at the upper bound and SGD6bn at the lower bound.

- **Deferring some capex:** In February 2021, SIA announced the long-awaited outcome from negotiations with aircraft manufacturers. This is a credit positive as it helps to reduce the immediate-to-short term liquidity needs. The delivery of aircraft will be spread out over a longer period, beyond the immediate five years. Overall SIA will be able to defer SGD4.4bn of capex in total, where a higher quantum of deferral is projected to happen in FY2021 and FY2022, cascading downwards in the later years. Cumulatively, based on the last disclosure in May 2020, SIA's capex for FY2021 to FY2025 was SGD24.4bn, this has been reduced to SGD20bn during the same period of time. SIA remains committed to operating new generation aircraft, which is a key way the company manages operating costs and limits emissions. Per company, the current liquidity and additional MCBs is sufficient to cover financial needs well into FY2023.

Figure 1: Sources and uses of funds

Sources	SGDbn	Uses	SGDbn
Existing cash as at 31 March 2021	7.8	Sales in advance of receipts and deferred revenue as at 31 March 2021	1.5
Proceeds from sales and leaseback announced in May 2021	2.0	Capex for next 12 months from 31 March 2021	4.0
Unencumbered aircraft assets that can be used as collateral and for sales and leaseback transactions[1,2]	6.0-8.0	Short term debt (including lease liabilities)	1.4
Unutilised committed credit facilities	2.1	Cash operating expenses for next 12 months from 31 March 2021[4]	1.5-4.3
Additional MCBs[3]	6.2	Interest expense[5]	0.3
		Lease payments[6]	0.1
Total	**24.1 - 26.1**	**Total**	**8.8 - 11.6**

Source: OCBC Credit Research estimates based on company's disclosures

(1) Assume that assets used as collateral is no longer available for sales and leaseback transactions.
(2) While there is a difference between secured financing and/or sales and leaseback transactions (eg: difference in collateral, costs, terms etc), we disregard these differences in coming up with our simplified sources and uses table as we are more concerned over liquidity risk for now.
(3) Inclusive of additional MCBs of SGD6.2bn as this has been announced.
(4) Upper bound uses run rate per 2HFY2021 cash expenses, although actual numbers may vary significantly depending on capacity that will be put back into service, how much revenue SIA receives and fuel prices. Lower bound per company's guidance which takes into account revenue generation
(5) Using FY2020 interest expense and a 2.5% cost of funding on SGD2.6bn of additional debt (inclusive of convertible bond which SIA raised)
(6) Rental payment rate on sales and leaseback transactions undisclosed, we assume the same 2.5% cost of funding per footnote 5 though expect this to be lower in practice

- **Impact of additional MCBs:** SIA is looking to raise SGD6.2bn from additional MCBs. The conversion price is at SGD4.84 (subject to adjustments in certain events). SIA's majority shareholder, Temasek, has provided an undertaking through one of its subsidiaries to subscribe for its pro-rata rights issue and any unsubscribed rights after the fulfilment of valid applications. Similar to the first tranche raised in the middle of 2020, the MCBs is will be recorded as equity in SIA's books where SIA retains the conversion right, rather than the holders. 96% of the earlier MCBs was taken up by Temasek. Assuming that (1) The additional SGD6.2bn of MCBs is fully taken up by Temasek and (2) Holders who hold the convertible option on the SIASP 1.625% ‘25s convertible bond converts fully (and assuming Temasek is not a holder of this convertible bond), we estimate that Temasek’s stake in SIA would be ~77% on a fully diluted basis. The dilution should it occur, will only occur in 2030. In recent days, minority shareholders have raised the possibility of SIA being taken-private, though the company has replied (along with a series of other questions raised) that this is not for the company to consider as it is a shareholder’s action. Based on our preliminary review of SIA’s information memorandums, there are no delisting puts on the straight bonds issued by SIA. That being said, a take-private of SIA is not in our base case.

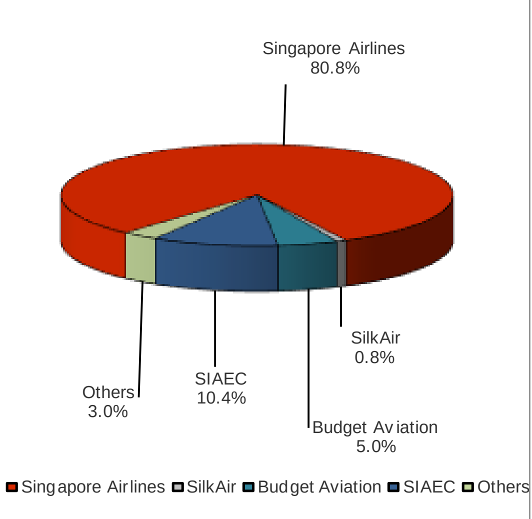
Singapore Airlines Ltd

Table 1: Summary Financials

Year End 31st Mar	FY2019	FY2020	FY2021
Income Statement (SGD'mn)	**SGD'mn**	**SGD'mn**	**SGD'mn**
Revenue	16,323.2	15,975.9	3,815.9
EBITDA	2,456.9	2,250.8	-370.8
EBIT	1,067.1	59.1	-2,512.5
Gross interest expense	116.1	220.9	267.9
Profit Before Tax	868.6	-220.2	-4,957.2
Net profit	721.6	-169.4	-4,283.4
Balance Sheet (SGD'mn)			
Cash and bank deposits	2,944.0	2,685.3	7,783.0
Total assets	30,505.2	33,712.8	37,581.3
Short term debt	231.1	3,154.0	1,398.5
Gross debt	6,654.4	11,784.5	14,336.9
Net debt	3,710.4	9,099.2	6,553.9
Shareholders' equity	13,683.2	9,732.7	16,278.1
Cash Flow (SGD'mn)			
CFO	2,801.1	2,731.9	-3,292.4
Capex	5,562.3	5,103.5	2,695.5
Acquisitions	251.1	152.9	212.0
Disposals	343.4	832.6	926.4
Dividend	484.2	386.2	14.3
Free Cash Flow (FCF)	-2,761.2	-2,371.6	-5,987.9
Key Ratios			
EBITDA margin (%)	15.05	14.09	-9.72
Net margin (%)	4.42	-1.06	-112.25
Gross debt to EBITDA (x)	2.71	5.24	-38.66
Net debt to EBITDA (x)	1.51	4.04	-17.68
Gross Debt to Equity (x)	0.49	1.21	0.88
Net Debt to Equity (x)	0.27	0.93	0.40
Gross debt/total assets (x)	0.22	0.35	0.38
Net debt/total assets (x)	0.12	0.27	0.17
Cash/current borrowings (x)	12.74	0.85	5.57
EBITDA/Total Interest (x)	21.16	10.19	-1.38

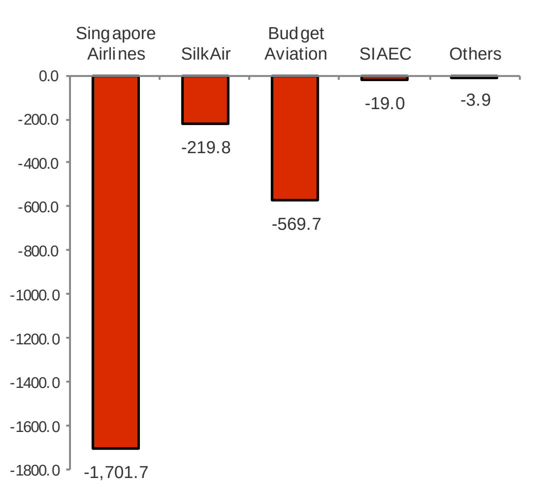
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2021



Source: Company

Figure 2: EBIT breakdown by Segment - FY2021



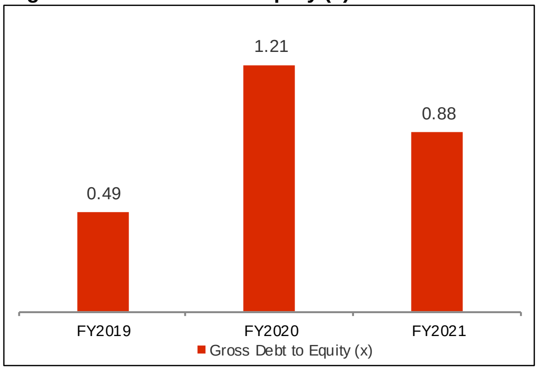
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2021	% of debt
Amount repayable in one year or less, or on demand		
Secured	981.1	6.8%
Unsecured	417.4	2.9%
	1,398.5	**9.8%**
Amount repayable after a year		
Secured	7,322.2	51.1%
Unsecured	5,616.2	39.2%
	12,938.4	**90.2%**
Total	**14,336.9**	**100.0%**

Source: Company, OCBC estimates | Includes lease liabilities

Figure 4: Gross Debt to Equity (x)



Source: Company

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond's price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight ("OW") – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Neutral ("N") – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Underweight ("UW") – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

OCBC CREDIT RESEARCH

SGD Credit Update

Thursday, June 03, 2021

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