

Issuer Profile: Singapore Airlines Ltd (“SIA”)

Neutral (5)

Ticker:

SIASP

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New Issue

- SIA is looking to price a **USD 5.5Y senior unsecured bonds with IPT at the +300bps area**.
- Proceeds will be used for aircraft purchases and aircraft related payments, general corporate or working capital purposes, including refinancing of existing borrowings.
- While SIA is a large SGD bond issuer, this is a debut USD bond for SIA with the bond issue indicated at benchmark size. SIA is not rated by external rating agencies.

Recommendation

- We think the new SIA proposed issue at IPG of +300bps looks attractive, we **expect the proposed new USD 5.5Y bond to tighten from IPT, with fair value at ~3.20-3.30% YTW**.
- SIA’s curve historically trades tight, however, prices have since come down. At IPT, the proposed USD5.5Y bond will be paying ~60bps more than Qantas Airways Ltd (“QANAU”, Issuer profile: Neutral (5))’s QANAU 4.75% ‘26s in implied USD terms and ~30bps more than SIA’s existing SIASP 3.13% ‘26s in implied USD terms.
- As a secondary comparable, we also look at Keppel Corporation Ltd (“KEP”, Issuer profile: Neutral (4)) and Olam International Ltd (“Olam”, Issuer profile: Neutral (5)). Both these issuers have bonds with a similar tenor. While both KEP and Olam are not in the same industry as SIA, both issuers are partly owned by Temasek. KEP in particular, is undergoing a significant business transformation.

Relative Value:

Bond / Perpetual	Maturity / Call date	Issuer Profile	Ask YTW ¹	Spread ¹	Recommendation
SIA new 5.5Y USD bond issue at IPT	July 2026	Neutral (5)	3.57%	300bps	NA
SIASP 3.035% ‘25s	11/04/2025	Neutral (5)	3.00%	264bps	N
SIASP 3.13% ‘26s	17/11/2026	Neutral (5)	3.26%	265bps	N
QANAU 4.75% ‘26s	12/10/2026	Neutral (5)	2.99%	238bps	N
KEPSP 3.0% ‘26s	01/10/2026	Neutral (4)	2.62%	200bps	OW*
OLAMSP 4.0% ‘26s	24/02/2026	Neutral (5)	4.30%	381bps	OW*

Indicative prices as at 13 January 2021 Source: Bloomberg

**Based on latest recommendation as of [Monthly Credit View 11 January 2021](#)*

Note: (1) Existing SIASP bonds are denominated in SGD while the QANAU 4.75% ‘26s is denominated in AUD; Ask YTW and spread in implied USD terms

Background

- Singapore Airlines Ltd (“SIA”) is listed on the SGX with a market cap of SGD12.7bn as at 13 January 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).
- On a non-diluted basis, assuming no conversion of outstanding securities issued with conversion rights, 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 was issued in June 2020. Assuming the MCBs are converted in year 10 at SGD4.84 per share and based on only those MCBs that have been issued, we estimate that Temasek would hold 68%-stake in SIA on a fully diluted basis.
- In our view, SIA’s survival is intrinsically linked to securing Singapore’s air hub status and its importance to Singapore’s economy. For the avoidance of doubt, neither the Government nor Temasek explicitly guarantees SIA’s debt.
- Notwithstanding our view that SIA is important to Singapore’s economy, we think that ensuring SIA’s survival may not automatically equate to SIA’s current capital structure and other obligations remaining as it is. However, a debt haircut is not our base case at this stage.

- With international borders mostly shut, in the first half of the financial year ended March 2021 (“1HFY2021”), SIA reported a 80.4% y/y fall in revenue to SGD1.6bn, an operating loss of SGD1.9bn and an impairment of SGD1.7bn that drove SIA to report a net loss of SGD3.5bn.
- In addition to debt secured by aircraft and renewing existing credit lines, SIA has raised significant amounts of equity of SGD8.8bn via a rights issue (equity and MCBs), SGD850mn of convertible bonds and via a private placement, SGD500mn of 10Y SGD-denominated bonds. As at 13 December 2020, cumulatively ~81% or SGD7.1bn of the rights issue has been utilized. SIA also holds an option to issue another SGD6.2bn in MCBs which has not been exercised, though in our view this remains as a “backup” if further liquidity is needed.
- The company’s December 2020 passenger load factor was 13.7% and unlikely profitable although encouragingly cargo continues to be a bright spot.
- We see SIA’s near-term liquidity situation as manageable, notwithstanding the still highly challenging environment for airlines, especially as COVID-19 has surged again in the Asia-Pacific region, SIA’s key market. We maintain our issuer profile on SIA at Neutral (5) and expect this to be stable within the next 12 months.
- We view capex as an important lever for liquidity conservation especially beyond 12 months. SIA shared that it has concluded negotiations on deferral of aircraft with Airbus and is in advanced negotiations with Boeing, with details to be provided at finalisation.
- Tata, SIA’s joint venture partner at Vistara, has reportedly put in an expression of interest to buy Air India. In our view, this continues to be an event risk given the impact of a sale of Air India on the competitive landscape and implications to SIA’s investment in Vistara.
- As at 30 September 2020, SIA’s unadjusted gross gearing was 0.7x, declining from 1.2x as at 31 March 2020. The rights issue of equity and MCBs were accounted for as equity. As at 13 January 2021, SIA’s market implied gross gearing is 0.9x. We prefer to use gross gearing in the case of SIA given the existence of large sales in advanced of carriage which indicates cash needs to be set aside for potential customer refunds. Based on our calculation, EBITDA/Interest was 10.2x in FY2020 though the company saw loss before interest, tax, depreciation and amortization of SGD727.7mn in 1HFY2021.

Recent Write-ups on comparable issuers from OCBC Credit Research

- [Singapore Credit Outlook 2021](#)
- [Singapore Airlines Ltd Credit Update](#)
- [Qantas Airways Limited Credit Update](#)

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.

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