

Singapore Airlines Ltd

2021 mandatory convertible bonds

SINGAPORE | AVIATION | CREDIT COMMENTARY

SIA is issuing rights to a 2021 mandatory convertible bond (MCB) to raise S\$6.2bn.

Bond terms. The MCB is a bond that will be converted into SIA shares upon maturity. Existing shareholders of SIA are entitled to 209 rights 2021 MCBs for every 100 SIA shares they owned before 27 May 2021. Issue price is S\$1 for every 2021 MCB. The MCB is a zero-coupon bond maturing in nine years' time, on 8 June 2030. Conversion price upon maturity is S\$4.84 per SIA share with a final accreted principal amount of S\$1.69797. This translates to a cost per share of S\$2.85 when the MCBs are converted into SIA shares. SIA has the option to redeem the bonds early.

What this means for investors. Every \$\$1,000 invested in the 2021 MCBs will be worth \$\$1,697.97 upon maturity. This will be paid to bondholders in SIA shares at a conversion price of \$\$4.84, which amounts to 350 SIA shares. This is equivalent to purchasing SIA shares today at \$\$2.85 each, or an annual yield of 6% if SIA's shares are priced at \$\$4.84 on the maturity date.

Figure 1: What you get for every \$\$1,000 invested

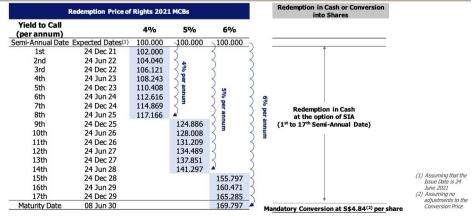
		Comment
Investment @\$1 per MCB	\$1,000	
Final Accreted Principal Amount @\$1.69797	\$1,698	
Convert to no. of SIA shares @\$4.84	350	SIA shares at maturity
	\$2.85	paid per SIA share

Source: Company, PSR

Early redemption option. SIA has the option to redeem the MCBs partially or fully before maturity, every sixth months from the bonds' issue date. Early redemption will be paid in cash. Bondholders' returns will vary with the date of early redemption. If redeemed within Years 1-4, annual yield would be 4%. If Years 5-7, yield would be 5% and Years 8-9, 6%. SIA may choose early redemption if: i) its operations recover well and cash flows are positive, or when ii) it is in a position to redeem using other sources of liquidity.

Figure 2: Optional early redemption: returns for bondholders

Rights 2021 MCBs – Redemption and Conversion



Source: Company



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Summary of the issue:

- MCB rights for SIA shareholders: 209 rights of S\$1 for every 100 SIA shares owned
- 2. Maturity date: 8 June 2030
- Conversion price on maturity: S\$4.84 per SIA share
- 4. Coupon: zero coupon
- 5. Cost of SIA shares when MCBs are converted: \$\$2.85 per share

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Timeline

- 27 May: SIA shares ex-rights
- 2 Jun: Trading of rights & acceptance and payment for rights
- 10 Jun: Last day of rights trading
- 16 Jun: Last day of acceptance and payment for rights
- 24 Jun: Issuance of MCBs
- 25 Jun: Commencement of trading of MCBs

Positives

- + Irrevocable undertaking by Temasek. Temasek Holdings has given an irrevocable undertaking to subscribe to its pro-rated rights 2021 MCBs. It has also undertaken to subscribe to any unsubscribed rights after the fulfilment of all valid applications.
- + No immediate share-price dilution. As the MCBs will be converted into shares upon maturity, there is no immediate share-price dilution. The MCBs will be accounted for as equity on SIA's balance sheet but not in the computation of book value or earnings per share. This would bring its net gearing down from 0.41x as at 31 March 2021 to 0.02x.

Figure 3: Theoretical ex-rights price is not dilutive vs SIA's share price as at 2 June 2021

Type of issue	Shares (mn)	Value (S\$mn)	Per Share	Rights Entitlement
Existing	2964	14672	4.95	
Rights MCB	1280	6197	4.84	209:100
TERP	4244	20869	4.92	

Source: Company, PSR

Negatives

- **Zero coupon.** The MCBs pay no coupon. However like SIA's previous 2020 MCBs, the 2021 MCBs may be traded on the SGX, subject to meeting sufficient spread requirements. Bondholders may choose to realise any capital gains earlier. The MCBs' price can appreciate due to the call option embedded in them.
- **6% yield to maturity not guaranteed.** In the event that the MCBs are converted into shares on maturity, bondholders' returns may be lower than the stipulated 6% annual yield if SIA's share price is below \$\$4.84.

Comments

The bond structure may not appeal to bondholders because of its zero coupon and unfixed yield to maturity.

For equity investors looking for capital gains, however, the MCBs can be used as a leverage to SIA's potential share-price recovery. Gains on the MCBs trading on the exchange may be magnified more than the share price of ordinary SIA shares, given the MCBs' derivative nature and lower price. That said, SIA may choose to redeem the MCBs early at a fixed price.



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