

Singapore Airlines Ltd

2021 mandatory convertible bonds



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

Figure 1: What you get for every S\$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

Redemption Price of Rights 2021 MCBs				Redemption in Cash or Conversion into Shares
Yield to Call (per annum)	Expected Dates ⁽¹⁾	4%	5%	
Semi-Annual Date		100.000	100.000	
1st	24 Dec 21	102.000		
2nd	24 Jun 22	104.040		
3rd	24 Dec 22	106.121		
4th	24 Jun 23	108.243		
5th	24 Dec 23	110.408		
6th	24 Jun 24	112.616		
7th	24 Dec 24	114.869		
8th	24 Jun 25	117.166		
9th	24 Dec 25		124.886	
10th	24 Jun 26		128.008	
11th	24 Dec 26		131.209	
12th	24 Jun 27		134.489	
13th	24 Dec 27		137.851	
14th	24 Jun 28		141.297	
15th	24 Dec 28			
16th	24 Jun 29			
17th	24 Dec 29			
Maturity Date	08 Jun 30			
			155.797	
			160.471	
			165.285	
			169.797	

Mandatory Conversion at S\$4.84⁽²⁾ per share

(1) Assuming that the Issue Date is 24 June 2021
(2) Assuming no adjustments to the Conversion Price

Source: Company

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Summary of the issue:

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

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 S\$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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