QUESTION & ANSWER TRANSCRIPT
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E&OE – may be edited for grammar

Mr Siva Govindasamy: Thank you, Mr Goh. We now have approximately 35 minutes or so for the Q&As. Mr Goh and Mr Barnes will be joined on the line by our three Executive Vice Presidents. They are our Executive Vice President Operations, Mr Mak Swee Wah, Executive Vice President Commercial Mr Lee Lik Hsin, and Executive Vice President Finance and Strategy, Mr Tan Kai Ping. Please note that this session is being recorded and the clip will be uploaded. Therefore, we would appreciate it if you could please identify yourself and the organisation that you represent when you ask questions. We also have a lot of media and analysts on this call. Therefore, in the interest of time, we would really appreciate it if you could please limit yourself to one question, if possible. Over to you, Rishi.

Ms Rishi: Thank you. Again, ladies and gentlemen, we will now begin the Question and Answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Again, for questions, it is star one. And the first question we have is from the line of Chen Chuanren from Air Transport World. Your line is now open.

Mr Chen Chuanren, Air Transport World: Hello there, thank you. Good morning, I am Chuanren from Air Transport World. If I may, I have two short questions. First question is the merger between SilkAir and SIA (that) was initially set for end 2021. Will you foresee an acceleration of this plan? And the second question is how do you balance the supply and demand between SIA and Scoot? Which segment do you expect to recover first? Thank you.

Mr Goh Choon Phong: The merger of SilkAir and SIA, we have announced a previous timeline. At this point in time, we are still evaluating what the implication is for us from the Covid-19 impact, but I think we can say that we intend to look at maintaining the timeline, at least to maintain the timeline. If there is an opportunity or valid reason to speed it up, or a benefit to speed it up, we will certainly look at it. Whether or not the recovery for Scoot or for SIA is going to be faster, the thing about it is as I mentioned, our recovery depends not merely on expectation of the traffic, but also on the lifting of border controls, which is certainly not within our control. And that means that the important thing is for us to be very nimble in responding to how the market will develop. At this point in time, it is too early to call. But what is important is that we do have both the LCC and the full-service in our portfolio, which give us the advantage of being able to react quickly and effectively, as we see how the market unfolds and the border controls being relaxed.

Rishi: Thank you. The next question we have is from the line of Ajith from UOB Kay Hian, your line is now open.

Mr Ajith, UOB Kay Hian: Hi, I've got two quick questions. One is what do you expect in terms of capacity for FY20/21 if border control restrictions are lifted? That's my first question. Second follow-up question is what would you prioritise more, in terms of sale and-leaseback transactions or direct sale of aircraft?

Mr Lee Lik Hsin: This is Lik Hsin. I will take the question on capacity. As mentioned by Choon Phong, it is clearly evolving and things happening even in the moment can change the outlook for what the capacity will be for FY20/21. Safe to say that we do know that this crisis will have a significant economic impact, and that it would be realistic to expect that we will not go back to exactly the capacity that we were at, prior to the crisis, within a short timeframe. So certainly for the next six to 12 months, we will not rebound to exactly the same level that we were at, and that is our current planning horizon.

Mr Tan Kai Ping: Ajith, this is Kai Ping. Thank you for the question. I will take the question on funding. We have disclosed that in addition to the Rights Issue, we are concurrently looking at both the secured debt market as well as sale-and-leaseback opportunities. All these are being looked at in parallel. I think one of the themes you have heard, and I think you will continue to hear, is around how to maintain flexibility and how to be nimble in how we approach the Covid-19 situation. We are aware that while the debt markets are open, they are more limited for the aviation sector. And with our Rights Issue and the strengthening of the balance sheet, that puts us in a much stronger position, but we are exploring all the different pockets of liquidity, different sectors of liquidity, in parallel.

Ms Rishi: Thank you. The next question is from the line of Jamie Leah Freed from Reuters. Miss, your line is now open.

Ms Jamie Freed, Reuters: Hi, my question is just about fleet. Are you considering the retirement of some or all A380s, and do you still want the 777X or will you consider potentially swapping that for another model?

Mr Goh Choon Phong: You are talking about the fleet? So what we have done, as you are aware, especially in recent years, is this very rapid replacement of our older aircraft to newer aircraft, and we expect that to continue. Each aircraft in our fleet serves a purpose. A380s, of course up to this point, have been serving these strong dense routes. And we will continue, like I said, the pace of recovery, the shape of recovery of this particular crisis, is still uncertain. We have flexibility around our fleet. So we will continue to look at what we need to do in terms of mapping the fleet requirements and the market outlook.

Ms Rishi: The next question is from the line of Ezien Hoo from OCBC. Please proceed.

Ms Ezien Hoo, OCBC: Hi, thank you very much for the presentation. I just have a couple of quick questions. The first one is we saw the impact of the fuel hedges on the income statement as well as the balance sheet. Can you share some colour on the impact on cash flow? And the second question is in the very near term, say six to 12 months, do you think that air travel would actually be more expensive for the consumers in line with social distancing measures?

Mr Stephen Barnes: Thank you, Stephen here. I'll take the fuel hedging question. One of the fuel hedges has a maturity, which is essentially laid out at the moment. The fuel hedges that matured in Q4 have ended on which we suffered losses. Cashflow relating to those hedges has already been incurred. The $710 million of mark-to-market losses as you likely picked up, is an unrealised loss. Those contracts will mature during the course of FY20/21. So, the cashflow impact will happen as the year progresses. Now, it is feasible to work with counter parties or others in the market to roll over some of those contracts and we have done so. But we need to be wary of the commitment to make practice that we enter in, that we contract, and so on. And so, we are step-by-step approaching the market when it seems to be opportune to do so. But cash flow generally is going to be spread through the year, as those unrealised losses come to fruition.

Mr Lee Lik Hsin: This is Lik Hsin. I'll take the second question. As to whether air fares will go up or go down, the price of the air ticket is really a function of demand and supply, and we will have to adapt to those curves accordingly as we get back out in the market when we restart our services. As to the question on social distancing, in particular on the aircraft, it is still not determined at this time, the efficacy of such measures, and there are many discussions ongoing between the various authorities, as well as amongst the airlines and the airlines with authorities on this subject, but it is too early to make any pronouncement on this.

Ms Rishi: Next question is from the line of Toh Ting Wei from The Straits Times. Please go ahead.

Mr Toh Ting Wei, The Straits Times: Hi, just wanted to ask what the future of air travel will be like for the consumer. So you touched on the prices, but looking ahead, are we looking at longer waiting times to check in, increased measures such as maybe the cabin crew having to wear PPEs and reduced services that are permanent instead of temporary?

Mr Mak Swee Wah: This is Mak Swee Wah. Yes, all those things you mentioned are precisely the kind of issues that we, together with other airlines, are working with the authorities, and also the regulators, on what we call the mode of operations. Obviously, the concern now is on safety and health, and there are a few themes out there. For example, wearing masks, social distancing on the ground, contactless service. So all these issues are now being examined to see how practical they are, how they can be implemented, both on the ground as well as in the air. As things stand now, there are already some models out there, which require passengers to wear mask, and there are also some guidance on the kind of in-flight service. So this is one area where it will evolve. Safe to say that it will not be the same as the pre-Covid-19 situation. Thank you.

Ms Rishi: Thank you. The next one is from the line of Raymond Yap from CIMB. Please go ahead.

Mr Raymond Yap, CIMB: Hi gentlemen. The capital expenditure for FY20/21 has been reduced from S$6 billion in the last guidance to S$5.3 billion. Can I ask is there a potential to reduce it further, or is it not possible because aircraft deliveries cannot be pushed back in the current year? And the second question is on the staff cost, which actually fell S$500 million between the third quarter and the fourth quarter. Did the Job Support Scheme ("JSS") come into play here and contribute some of this decline or is the JSS only contributing from April onwards?

Mr Stephen Barnes: If I may, Stephen here. On the capital expenditure, there has been some shifting from expenditure, primarily relating to significant maintenance expenditure, the expenditure that we would normally capitalise. Because we are not flying the fleet at the same pace as previously, we no longer have to undertake some of that maintenance expenditure, so that gets deferred. As far as the outcome of the negotiations with Airbus and Boeing is concerned, it is still being negotiated. While we hope that there is scope to improve cashflows in the current year, until we have an agreement, we choose not to actually count it as done. On staff cost, the major impact, although the budget support relates to the period October to March, you would only announce on the cash received rather recently. And so the consequence, we actually booked a significant portion of the benefit, all of the benefit I would say, in Q4 rather than in Q3 and Q4. Secondly, the adjustment to profit sharing bonus is a Q4 effect. Because we have been building up a provision, for profit sharing bonus through December, and that required an adjustment out during Q4.

Ms Rishi: Next question is from Brendan Sobie from Sobie Aviation. Your line is now open.

Mr Brendan Sobie, Sobie Aviation: Hi, good morning. I have a question about retrofits, with the A380, it could go either way. You can use this downtime to accelerate and complete the programme or you can just delay it because maybe you think the aircraft won't be coming back into service soon. So can you tell us if it is accelerated or slowed down, or just no change, and the same thing with the 737-800s that I think that the lie-flat retrofit was going to start pretty soon, is that accelerated or slowed down or the same? And related, I was wondering about cargo conversions. You might have noticed some airlines like Air Canada have converted some of their 777s temporarily by taking out the seats. I was thinking maybe especially with your A350-900s and 777ERs, which are still in service, but maybe it won't go back into passenger service, that there could be an opportunity to maybe quickly turn those into cargo. Any thoughts on whether you are looking at that. Thank you.

Mr Lee Lik Hsin: Hi Brendan, Lik Hsin here. I will take the question on the cargo conversion. There is no quick conversion into a full freighter that's available, but we have done a few things. Firstly, we are able to, sometimes, depending on the type of cargo, carry cargo in the passenger area of the aircraft. So we already have the certification and approval from our regulator to do this. The second type of measure that you might be referring to, is where airlines actually strip out the seats altogether and carry more cargo on board. This is still not a full conversion to a freighter, not equivalent to that. And that is something we are exploring at this juncture, but we have not yet made a decision on actually implementing it.

Mr Goh Choon Phong: Choon Phong here. On the questions about the various retrofit programmes and all that, you can imagine that all these are actually under intense review by us. Like our practice, until we have something that we can announce, we would not be -- as you can imagine, all this also involves discussions with the various suppliers and so forth -- so until there is something concrete we can announce, we will not be talking about it in public.

Ms Rishi: Next question is form Louis Chua from Credit Suisse. Your line is now open.

Mr Louis Chua, Credit Suisse: Good morning. I have two quick questions if I may. First is in terms of the monthly cash burn based on the 96% cut in passenger capacity, are you able to give us some guidance to that? And secondly, in terms of the -- previously, you mentioned that you are working with all your suppliers and partners to reduce costs -- can you help us to quantify the level of cost reductions you have managed to get from your suppliers? For example, through the in-flight services or other maintenance, etc.

Mr Stephen Barnes: If I may, Stephen again. On cash burn, essentially what we are left with, only 4% of capacity in the air, are fixed costs. Now our fixed cost, by way of guidance would be in the region of 30% to 35% of our total costs in a normal operating environment. So from that, I think you can derive the sort of cash burn that we are looking at and I think you will see that that is somewhat consistent with the operating cash flow needs that would be covered by the use of proceeds from the Rights Issue. In terms of cost reductions, they have been useful, but not fundamental, reductions in costs secured from our suppliers. In fairness, the entire aviation sector is under pressure. Where we have been frankly more successful is in adjusting the timing of payments, so the scheduling of cash outflows has been shifted and that has helped particularly in this period before proceeds from the Rights Issue have been received.

Ms Rishi: Next question is from Alfred Chua from FlightGlobal. Your line is now open.

Mr Alfred Chua, FlightGlobal: Hi, good morning. This is Alfred from FlightGlobal. I have a follow-up question in terms of SIA's fleet plans and fleet strategy. Will SIA be retiring any aircraft type earlier than expected? Can we get confirmation that the 777-200 fleet itself has already been – as in has SIA really brought forward the retirement of that particular aircraft type? And also, could you give us a flavour for the engagement with the manufacturers for adjustments with the delivery stream. What is the timeline that you're looking at in terms of the potential deferments? Thank you.

Mr Stephen Barnes: If I can take the first part of that question. Yes, it is the case that if we are not expecting in the next one to one-and-a-half years to recover the full service as we had pre-Covid-19. We will not need the same sized fleet that we had. The aircraft that would therefore be less needed would be the older aircraft and those will be the 777 classics, the 777-200s. So we are expecting that they will leave the fleet a little earlier, certainly by the end of this financial year. The A330s are on lease, but they too are even by schedule, due to leave the fleet within the next 12 to 14 months, and we will not be extending those leases. So those two fleets will probably be no longer flying in a year's time. If I could leave to Kai Ping for the other question?

Mr Tan Kai Ping: Alfred, to your question on colour on the discussion with Airbus and Boeing. These discussions are active and in progress. It will not be fair for me to comment on this at this time. We will disclose when there is information to disclose.

Ms Rishi: Next question is from the line of Ben Hartwright from Goldman Sachs, please proceed with your question.

Mr Ben Hartwright, Goldman Sachs: Hi, good morning. Thanks very much for doing the call. This is Ben Hartwright from Goldman Sachs. If I could just follow up on a couple of earlier questions I see. One is on staff cost. Stephen, could you elaborate on the amount that we should think about in terms of the bonus adjustment, back out in Q4 and also what the budget support do you recognise in Q4, what was the amount there and what should we expect going forward? And then just on the hedging losses, I was wondering if you could just give us a little bit more colour on what your assumption was on FY20/21 consumption when you were calculating the $700 million hedging losses in the P&L? Thank you.

Mr Stephen Barnes: Ben, I'm not going to very helpful to you. We can't describe to you the staff component of the reduction in our staff cost. I think that will not be something that I can disclose. In terms of continuing budget support, there is some continuing budget support through July which has been announced. There will be some benefits that we will see going forward. Now in terms of the recovery of the network, we do assume that there will be some recovery of the network during the financial year. We have a very tentative profile in which we have reviewed the hedges that are effective and ineffective. We will continue to review that as we go through the year and then it is something that we will need to establish whether or not there is a cause for further ineffectiveness or not. But that is something that we will just have to see as more information becomes available and greater confidence in the recovery, if any, emerges.

Ms Rishi: The next question is from the line of Mayuko Tani from Nikkei Singapore. Your line is now open.

Ms Mayuko Tani, Nikkei: Hi, thank you. This is Mayuko from Nikkei. I just would like to know about the $8.8 billion Rights Issue. How long will this last? I have heard Mr Goh saying that this was determined by looking at the requirement over the financial year. So is it for this financial year? And what kind of scenario is this based on? And also, I would like to hear what you think about the continuity of NokScoot for the time being. Thank you.

Mr Goh Choon Phong: Okay, on the issue on how long the $8.8 billion will last, I believe you have read previous reports where that we have mentioned that we expect it to last much of the financial year. I think to also bear in mind that at the same time, we are continuing with our current cost cutting measures. We will have to look at what -- perhaps other things we can do, but certainly the cost measures that we have put in place, that will continue. You are also aware that we are going out to look at raising liquidity through both secured financing, sale-and-leaseback and other forms. As I mentioned earlier in my presentation, that if given the strength of our balance sheet with the Rights Issue, we believe we will be in a stronger position to get those deals done. At the same time, you are also aware that we are talking to the manufacturers about – this is a major part of our capital expenditure, about moving some of the capital expenditure out. All these will help to address some of the liquidity issues and on top of that, of course, you are aware that we do have the ability to draw on the $6.2 billion of additional MCBs. On the matter of NokScoot, like many other carriers in the world, they are also faced with the Covid-19 challenge. So we would just -- we are not able to comment much at this point in time, but we just have to say that this is an area we will continue to watch carefully. But again, for NokScoot itself, NokScoot has also its own majority shareholders and all that. It is also for NokScoot as an airline to assess the situation and how to react to it.

Mr Siva Govindasamy: Thank you. Next question. We probably have time for one or two more last questions. So next question please Rishi?

Ms Rishi: Next question is from Shaurya Visen from Goldman Sachs. Your line is now open.

Mr Shaurya Visen, Goldman Sachs: Hi, good morning all. Thank you for taking the question. I have a quick one. Can you just give us a sense of your cargo yields? So I am thinking more like in March and April, what would the cargo yields look like, perhaps year-on-year? Thank you.

Mr Lee Lik Hsin: Well, suffice to say we have seen a heathy improvement in our cargo yields in recent months. Obviously, we can't give you the cargo yields in April. That is not a published figure at this juncture. But the fact of us operating, which we have publicised that we operated some flights that only carry cargo, goes to show that the yields are healthy, that the carriage of the cargo alone is enough for us to justify operating those flights.

Mr Siva Govindasamy: Thank you. And the last question please.

Ms Rishi: The last question is from James Teo from Bloomberg. Your line is now open.

Mr James Teo, Bloomberg: Hi, good morning everyone. Thanks for giving me the opportunity to ask the question. I think two quick ones; one is on other operating expenses. I noticed that it actually went up for the quarter despite the capacity reduction that we have seen. So maybe if you could shed some colour on what are behind those and whether that is likely to persist? Is it related to more disinfection measures or health-related measures like that? And second question is on loads and how are you seeing in terms of the loads now with the severe cuts of 96% capacity are loads holding at the 50% range or can you give some direction or guidance at least, if not exact numbers at this point? That will be all. Thank you.

Mr Stephen Barnes: I could take the other operating expenses question. I think you are referring to the SGX announcement which see a $20 million or $22 million increase. If that's not correct, please tell me. I think that the primary reason for this increase is actually related to KrisShop. The increase in revenue, the merchandise sale -- from merchandise sale obviously has a cost in sourcing the goods. That's pretty much the explanation for the increase in other operating expenses.

Mr Lee Lik Hsin: On the question on loads, as Choon Phong mentioned, we maintained the minimum connectivity network for good reason, to be able to continue to bring Singaporeans home. Clearly with all of the travel restrictions in place, demand is almost non-existent. So you would expect that our loads are far, far, far below what normal levels would look like. We would continue to publish those numbers on a monthly basis, and you can look at those numbers for updates, but very, very low at this time.

Mr Siva Govindasamy: Thank you Lik Hsin. Thank you everyone for your questions and for participating in this media and analyst briefing. Stay safe, stay well. Thank you again.

Ms Rishi: Ladies and gentlemen, this does conclude our conference for today. Thank you all for participating. You may now disconnect.

(ENDS)