Cathay Pacific shares fall as bond sale announced to stem cash crisis

Airline stock tumbles 9.7% as HK announces new quarantine measures

HONG KONG: Shares in Hong Kong's marquee carrier Cathay Pacific plunged yesterday after the struggling airline unveiled a HK$6.7 billion (US$870 million) bond sale to try to stem its rampant cash burn. The firm's stock tumbled 9.7 percent as the market closed in Hong Kong, days after it warned new quarantine measures planned for passenger and cargo crew arriving in Hong Kong would further dent its finances.

Cathay Pacific yesterday said it would offer five-year bonds maturing in February 2026 that could also be converted into shares at a 30 percent premium above the previous day's close.

Like all major airlines, Cathay Pacific has seen its business evaporate during the coronavirus pandemic but the Hong Kong carrier is especially vulnerable because it has no domestic market to fall back on. It has been burning through cash at a rate of up to HK$1.5 billion a month but executives fear this will spike if Hong Kong authorities make good on stricter quarantine controls for aircrew.

Currently, most arrivals into the city must quarantine in dedicated hotels for three weeks, although aircrew and other vital logistic jobs have exemptions. But leaders have announced plans to enforce a two-week quarantine on all aircrew on long-distance cargo and passenger flights.

On Monday, Cathay Pacific said those measures would increase its cash burn by HK$300-400 million a month and force it to cut its already limited flight capacity by almost two-thirds. The airline raised $5 billion last summer-including a $3.5 billion bailout from the Hong Kong government-to stay afloat during the pandemic. At the time, analysts said that money should last some 15 months.

But yesterday's bond announcement shows the airline is still hemorrhaging revenue at a time when the global travel industry remains on its knees even as coronavirus vaccines are rolled out.

Once one of Asia's largest operators, Cathay Pacific closed its Cathay Dragon subsidiary last year and made about 6,000 staff redundant in a bid to save cash. Passenger numbers have been some 98 percent below pre-pandemic levels since last April.

In December, what would once have been peak season, it flew just 1,290 passengers every day with most flights that were just 18 percent full. But even before the pandemic, the carrier was in a tight spot. Months of huge and disruptive democracy protests in 2019 led to a plunge in customers, especially from the lucrative mainland Chinese market.

A Cathay Pacific passenger plane preparing to take off from Hong Kong's international airport. — AFP

The airline also found itself punished by authorities in Beijing because some of its employees joined or voiced support for the protests.

By the time the pandemic hit at the start of 2020, Hong Kong was already in recession and Cathay Pacific in the red. — AFP

Singapore launches new self-driving bus trial

SINGAPORE: Singapore has moved a step closer to a driverless public transport network with the launch of a new trial of self-driving buses. Orderly and high-tech, the Asian city-state has become a testbed for self-driving vehicles and has developed home-grown technology while inviting foreign companies to trial their own.

In a three-month trial launched this week, passengers can book a bus ride through an app that takes them around Singapore's Science Park, a high-tech business hub, during off-peak hours.The charge is just Sg$0.20 ($0.15). It is not the first self-driving bus trial in the city but is the first to charge a fee. Singapore's first trial of self-driving buses came in 2015, while a trial of driverless road sweepers was launched earlier this year.

Despite the technology on the buses, a driver is still at the wheel to take control if necessary and must drive the bus manually along part of the route. Khor Jing Qian, a 23-year-old student who took the bus to attend a scholarship interview on Wednesday, said the journey, which took about 10 minutes, was "convenient and easy". "It was unnatural to see the bus driver not driving, but I've heard of these kinds of technologies, I've seen them before, so I think this is quite an innovative thing and definitely the way forward," he told AFP. The shuttles are also operating in another area of the city on a fixed schedule as part of the same trial, according to a statement from the Ministry of Trade and Industry.—AFP

Big eurozone banks face loans risk: ECB

FRANKFURT: The eurozone's big banks have successfully weathered the coronavirus crisis so far but could now be exposed to major losses on their loan portfolios, the European Central Bank said yesterday. The ECB said that "deteriorating economic conditions" due to the coronavirus outbreak "slowed the pace of the ongoing reduction in non-performing loans".

In addition, there was "also an embedded level of distress in loan books that is not yet fully evident". Combined with "the phasing-out of several support measures in 2021", this exposure increases the "risk of cliff effects" and the ECB advised banks to follow guidance on precautionary steps. The ECB said that compared to the global financial crisis of 2008-09, euro area banks began 2020 with "significantly higher capital levels and far greater resilience to economic deterioration".

Unprecedented measures by governments have helped to shield companies and workers as well as the banking sector, averting a "pandemic-induced shock", it said. The central bank called banks' capital buffers "ample" up to the third quarter of last year but warned that "significant uncertainties remain in the short- to medium-term". This would require "vigilance" as well as "continued supervisory challenges in several critical areas, relating in particular to the risk of a sudden increase in non-performing loans".

It said that in the face of greater risk of default, it was encouraging "appropriately prudent approaches" with "a considerably higher number of recommendations to banks". ECB chief Christine Lagarde warned last week that the pandemic still poses "serious risks" to the eurozone economy as concerns grow about new virus variants and sluggish vaccination campaigns.

Under Lagarde, the ECB took unprecedented steps last year to cushion the eurozone economy from the impact of COVID-19. Its biggest weapon is a pandemic emergency bond-buying scheme, known as PEPP, that was in December topped up by 500 billion euros ($606 billion) to reach a total envelope of 1.85 trillion euros. The scheme was also extended to March 2022.

The bank has also offered ultra-cheap bank loans and held interest rates at historic lows to bolster the economy. Meanwhile, Spain's Bankia said yesterday its 2020 net profit plummeted by nearly 60 percent after setting aside more than half a billion euros to cope with the fallout from the coronavirus crisis. The bank, which is in the process of merging with its larger rival CaixaBank to create Spain's biggest domestic lender, said profits fell 57.6 percent to 230 million euros ($278 million) last year.

The bank said it had set aside 505 million euros to strengthen solvency against an increase in bad loans due to the economic fallout of the pandemic. "The aim of these extraordinary provisions was to further strengthen the bank's balance sheet," Bankia said.

Most of Europe's banks have taken similar steps in recent months as fears grow that many individuals and businesses will be unable to repay their loans due to soaring unemployment and bankruptcies caused by the economic crisis. In the fourth quarter, the bank posted a net profit of 50 million euros, well above the 32 million euros forecast by analysts.

Over the year, Bankia said it had granted 11 billion euros in credit to companies in the form of state-guaranteed loans under a program unveiled by the government of Socialist Prime Minister Pedro Sanchez to counter the effects of the pandemic. It also granted repayment moratoriums for 49,000 mortgages and 61,500 consumer loans. —AFP