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House approves Rp 8.5t convertible bond for ailing Garuda

PT Sarana Multi Infrastruktur to act as buyer

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The House of Representatives has given the green light for the government to provide Rp 8.5 trillion (US$583 million) for pandemic-hit national flag carrier Garuda Indonesia, in the form of a mandatory convertible bond (MCB).

The MCB will require conversion of the said bond into stocks in accordance with the contractual conversion date. The MCB for the airline is expected to have a tenor of three years, with state-owned infrastructure financing company PT Sarana Multi Infrastruktur (SMI) is projected to act as a buyer for the bond and eventually a shareholder of the company.

The legislature made the decision after a working meeting with State-Owned Enterprises (SOEs) Minister Erick Thohir on Wednesday, citing the reason that Garuda could not receive state-capital injections (PMN) as it is a publicly listed company.

"We proposed that Garuda receive MCB that could be converted for three years, as Garuda has been hit hard by the [COVID-19 pandemic] like other airlines around the world," Erick said.

The nation's aviation industry has been severely impacted by the ongoing health crisis, with restrictions discouraging people from traveling. The International Air Transport Association (IATA) has stated that 2020 will be the worst year in history for airlines, with global airlines expected to face a combined US$84.3 billion in losses.

The MCB scheme is part of the government's national economic recovery (PEN) program, to support the recovery of the virus battered economy. The government expects the fiscal deficit to reach 6.34 percent this year as it allocates Rp 695.2 trillion in stimuli, partially to bolster the economy amid the pandemic.

Under Government Regulation No. 23/3030 on the national economic recovery program, the government has allocated more than Rp 152 trillion to bail out SOEs through PMN, among other mechanisms, of which Garuda is set to receive Rp 8.5 trillion.

Garuda Indonesia service and business development director Ade R. Susardi said on a separate occasion that the company was in dire need of government funding as it had been operating at a loss since the COVID-19 outbreak hit Indonesia.

"Our flight occupancy rate currently stands at around 40 percent, which cannot even cover the operation cost. We hope that Garuda can receive funding in the form of MCB," he said during an online webinar held by The Habibie Center on Wednesday.

Garuda's flight traffic has also fallen to around 40 daily flights as of July from the average rate of 330 daily flights before the crisis, Ade added.

As the number of passengers fell, Garuda saw a 30 percent year-on-year slump in revenue to $768.12 million in the first quarter from $1.1 billion in the same period last year. The company also booked a $120 million loss in the first quarter this year, compared to $20.48 million profit in the January-March period of 2019.

Amid its financial woes, the company recently secured a three-year extension on $500 million worth of global sukuk (global Islamic bonds) that were due in June, as a result of liquidity problems caused by the pandemic.

"We are now trying to increase the number of passengers in order to help Garuda by convincing passengers that it is safe to fly. With the rising number of passengers, we can boost our cash flow," Ade said.

Convincing the public about the safety of air travel has become a major challenge for the aviation industry, as in a recent survey conducted by state-owned airport operator Angkasa Pura I, 84 percent of respondents said they were still taking a "wait-and-see" approach toward using air transportation.

Garuda was previously embroiled in an incident on June 27, when a passenger was allowed to board a Garuda Indonesia flight from Jakarta to Sorong, West Papua, despite having recently tested positive for COVID-19.