CORPORATE CREDIT · ASIA-PACIFIC AIRLINES · PHILIPPINES

Philippine Airlines (PAL Holdings, Inc)

Taking Flight on a Cleaner Balance Sheet

New USD 300m 5NC2 senior unsecured notes priced at 7.75% / 8.00% yield — initiating at Overweight on a post-restructuring credit with a wide-open sovereign gap and a defensible domestic duopoly.

EM Credit Analysis · PAL Holdings — New Issue Priced · 7 July 2026

THE KHORLAN VIEW	
	OVERWEIGHT (new 7.75% 2031, 5NC2) — priced at 98.986 to yield 8.00%, inside initial price thoughts of 8.3% area by roughly 30bp — a sign of firm order-book demand. **Positioning.** The new PAL Holdings bond yields approximately 320–330bp over comparable-duration Philippines sovereign paper (Baa2/BBB+) for a Ba2-rated national-champion credit only three notches below the sovereign — wide, in our view, given the post-Chapter 11 balance sheet repair, a defensible domestic duopoly, and Moody's guidance for adjusted debt/EBITDA below 4.0x through 2027–28. We flag near-term margin risk from the Middle East-driven fuel spike as the key offset.

Issuer	**Primero Agila Ltd. (guaranteed by PAL & APC)**	Parent / Ticker	**PAL Holdings, Inc. (PSE: PAL)**
New issue	**7.75% · 5NC2 · due 16-Jul-2031**	Reoffer / Yield	**98.986 / 8.00%**
IPT	**8.3% area**	Ratings (CFR / issue)	**Ba2 (Moody's), stable outlook**
Format	**Senior unsecured · guaranteed by PAL & APC**	Amount	**USD 300m**
Q1'26 Revenue (PAL Holdings, consol.)	**PHP 52.43bn (+11.7% YoY)**	Q1'26 EBITDA margin (co.-reported KPI)	**23.8% (vs. 18.7% FY25)**
Liquidity (PAL, Moody's-adj.)	**~USD 615m cash + ST investments**	Adj. Debt/EBITDA guidance (Moody's)	**< 4.0x through 2027–28**
Recommendation	**OVERWEIGHT**		

Source: Bloomberg (new issue terms); Moody's Ratings, "Moody's Ratings assigns Ba2 rating to Philippine Airlines Inc's proposed bond," 26 June 2026; PAL Holdings, Inc. SEC Form 17-Q for the period ended 31 March 2026; Khorlan Capital. For professional investors only — see Important Disclosures.

EXECUTIVE SUMMARY

Primero Agila Limited — a financing vehicle guaranteed by Philippine Airlines, Inc. ("PAL") and Air Philippines Corporation ("APC"), both subsidiaries of PAL Holdings, Inc. — priced a USD 300m senior unsecured note on a 5-year non-call 2 (5NC2) structure, maturing 16 July 2031, with a 7.75% semi-annual coupon at a reoffer price of 98.986 to yield 8.00%. Pricing came inside initial price thoughts of 8.3% area, a roughly 30bp tightening that is consistent with solid order-book demand for the debut USD structure from the PAL Holdings group.

Moody's assigned a Ba2 rating to both the proposed bond and PAL's corporate family rating, with a stable outlook, aligning the new notes with PAL's post-restructuring credit profile. The rating reflects PAL's position as the Philippine flag carrier with a defensible domestic duopoly alongside Cebu Pacific, materially strengthened financial metrics since its 2021 emergence from Chapter 11, and adequate liquidity, set against the airline's small scale relative to global peers, an active fleet expansion program, and a relatively thin liquidity buffer.

We initiate the new 7.75% 2031 notes at Overweight. On our calculation, the new issue yields approximately 320–330bp above comparable-duration Philippines sovereign paper (Baa2 stable / BBB+) — a wide differential for a credit that sits only three notches below the sovereign, is majority state-linked in strategic importance as the national flag carrier, and is guided by Moody's toward adjusted debt/EBITDA below 4.0x over 2027–28. The macro and credit backdrop is constructive: PAL Holdings' consolidated Q1 2026 revenue grew 11.7% year-on-year to PHP 52.43bn, comprehensive income rose 57.2%, and the company-reported EBITDA margin improved to 23.8% from 18.7% at year-end 2025.

The principal offset to this constructive view is cyclical rather than structural: the Middle East conflict drove Singapore jet fuel to a peak of USD 233/bbl on 30 March 2026 before easing below USD 115/bbl by mid-June on the US-Iran peace deal, and PAL suspended flights to Dubai, Doha and Riyadh from 28 February 2026 (Riyadh resumed 10 April 2026). Moody's interest coverage and margin data already show early signs of pressure, with EBIT interest coverage slipping to 3.55x in Q1 2026 from 4.61x a year earlier. Bloomberg Intelligence's regional midyear outlook frames this as a sector-wide, first post-pandemic earnings decline (Asia-Pacific full-service carrier profits down approximately 30–32% for the year) that is expected to give way to a 2H26 earnings rerating as fuel costs normalize — a dynamic consistent with our view that the current pressure is near-term noise around an intact deleveraging trajectory rather than a change in the credit's medium-term direction. We would look for confirmation in the June/September 2026 quarters, while flagging that a collapse of the ceasefire and renewed fuel-price escalation remains the key swing factor.

KEY FINANCIAL METRICS

PAL Holdings' consolidated results for the quarter ended 31 March 2026 show broad-based improvement. Total comprehensive income rose 57.2% year-on-year to PHP 6.25bn as revenue growth (+11.7%) outpaced the increase in operating expenses (+8.9%), lifting operating income 36.4% to PHP 6.36bn. The improvement was reinforced by a swing in other comprehensive income to a PHP 1.64bn gain (from a PHP 0.73bn loss in Q1 2025), driven by peso depreciation against the US dollar on PAL's USD-denominated lease book — a non-cash, translation-driven item that does not affect cash flow.

Metric	Q1 2026	FY2025 / Q1 2025	Trend
Total revenue (PHP bn, consol.)	52.43	46.95 (Q1'25)	+11.7% YoY
Net income (PHP bn, consol.)	4.60	4.70 (Q1'25)	-2.1% YoY
Total comprehensive income (PHP bn)	6.25	3.97 (Q1'25)	+57.2% YoY
EBITDA margin (co.-reported KPI)	23.8%	18.7% (FY25)	+510bp
Net income margin (co.-reported KPI)	8.8%	5.1% (FY25)	+370bp
EBIT (PHP m, consol.)	111	n/a	margin 7.4%
Interest coverage (EBIT / interest exp.)	3.55x	4.61x (Q1'25)	-106bp
Total assets (PHP bn)	259.94	230.62 (FY25)	+12.7%
Total liabilities (PHP bn)	208.20	185.13 (FY25)	+12.5%
Total equity (PHP bn)	51.74	45.49 (FY25)	+13.7%
Debt / Equity ratio	2.14x	2.18x (FY25)	improving
Current ratio	0.67x	0.56x (FY25)	improving
Cash & equivalents (PHP bn)	37.91	25.97 (FY25)	+45.9%

Source: PAL Holdings, Inc. SEC Form 17-Q for the quarterly period ended 31 March 2026; Khorlan Capital.

Leverage on a company-reported basis continues to trend favorably, with the debt-to-equity ratio improving to 2.14x from 2.18x at year-end 2025 and the current ratio improving to 0.67x from 0.56x, still sub-1x but on an improving trajectory as cash builds from strong operating cash generation (PHP 16.46bn in Q1 2026, more than 60% above the PHP 9.96bn generated in Q1 2025). The one metric moving the wrong way is interest coverage, which slipped to 3.55x from 4.61x a year earlier as financing charges rose 23.1% on a larger lease and debt book — a trend worth monitoring given the fuel-driven margin pressure that began in March 2026.

OPERATIONAL METRICS

Passenger volumes grew 6.1% to 4.30m in Q1 2026 on 7.2% capacity growth and 8.4% more flights, with yield improvement more than offsetting a modest 0.6 point decline in load factor to 80.4%. Cargo revenue growth of 24.9% on a 2.4% decline in freight kilograms flown highlights a sharp improvement in cargo yields, aided by tighter global belly-hold capacity following Middle East airspace disruptions. Ancillary revenue, at approximately 11% of passenger revenue, continues to grow faster than the core business on unbundled-fare take-up.

Operational KPI	Q1 2026	Q1 2025	Change
Passenger revenue (PHP bn)	44.85	40.53	+10.7%
Cargo revenue (PHP bn)	2.55	2.04	+24.9%
Ancillary revenue (PHP bn)	4.93	4.35	+13.3%
Passengers carried (m)	4.30	4.06	+6.1%
Available seat kilometers (ASK, m)	11,920	11,115	+7.2%
Passenger load factor	80.4%	81.0%	-0.6pt
Number of flights	30,354	28,014	+8.4%
Freight (kg, m)	51.4	52.7	-2.4%

Source: PAL Holdings, Inc. SEC Form 17-Q for the quarterly period ended 31 March 2026; Khorlan Capital.

Competitive Positioning

- Domestic duopoly. PAL holds approximately 30% domestic and 23% international market share, operating alongside Cebu Pacific (approximately 56% domestic share) in an effective duopoly; Manila (NAIA) infrastructure constraints limit the prospect of new entrants.
- North America franchise. Roughly 40% of PAL's capacity and one-third of revenue is generated on North American long-haul routes, where PAL holds leading positions even against U.S. carrier peers.
- Fleet. The group operates 83 aircraft as of 31 March 2026 (2 owned, 81 leased), with an order book that includes 13 remaining Airbus A321 NEO and multiple Airbus A350-1000 deliveries through 2027, per Moody's approximately 20 aircraft deliveries are scheduled 2026–2029.

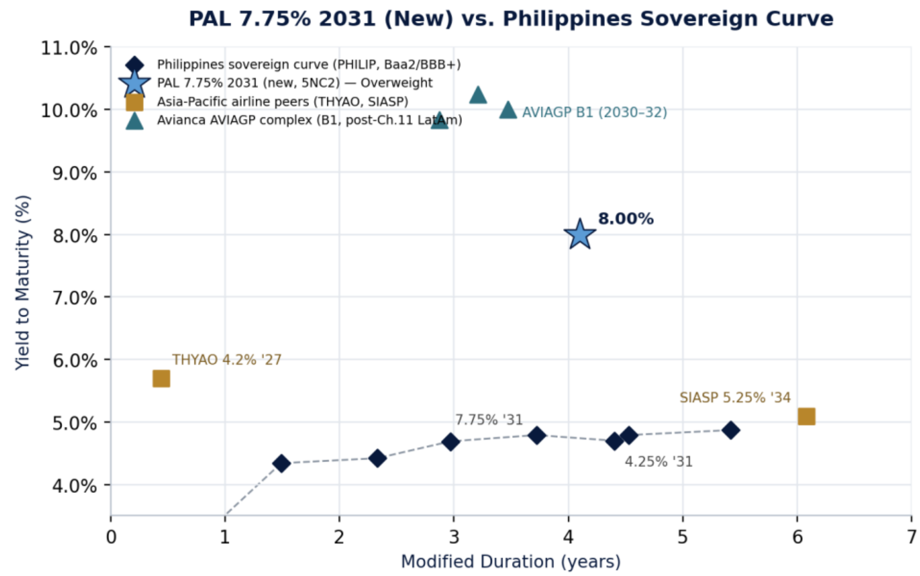
BOND ANALYSIS

Unlike many airline issuers that entered the post-pandemic period with elevated leverage and significant refinancing needs, PAL emerges from its 2021 restructuring with a substantially simplified capital structure and improved financial flexibility. Since exiting Chapter 11, management has focused on rebuilding liquidity, restoring profitability and refinancing maturities through diversified funding sources rather than relying solely on operating cash flow.

This stronger financial position provides the company with greater flexibility to execute its fleet renewal program while maintaining leverage within Moody's targeted range. Although aircraft deliveries will require ongoing capital investment, the combination of improving operating cash generation, adequate liquidity and continued access to funding markets reduces refinancing risk relative to many regional airline peers.

From a credit perspective, the new 2031 notes provide investors exposure to a post-restructuring airline that is now entering a more normalized operating environment, rather than a company still in the midst of financial rehabilitation.

The new PAL Holdings 7.75% 2031 notes represent the group's debut international USD bond and, as such, do not yet trade against an existing PAL secondary curve. We therefore frame relative value against the most directly comparable reference available — the Philippines sovereign curve (ticker PHILIP, Baa2 stable / BBB+) — at matched or near-matched maturities, and separately against Moody's own credit-metric guidance for the issuer.



Yield vs. modified duration. Light blue star: new PAL Holdings 7.75% 2031 (Overweight), duration to maturity estimated by Khorlan Capital. Navy diamonds: Philippines sovereign curve (PHILIP). Gold squares: Asia-Pacific airline peers (Turkish Airlines THYAO, Singapore Airlines SIASP). Teal triangles: Avianca AVIAGP complex (B1), a comparable post-Chapter 11 restructured EM airline credit. Source: Bloomberg, new-issue terms, Khorlan Capital estimates.

Bond	Coupon	Maturity	Bid	Ask	YTM	Z-Spd	OAS	Dur.	Rating
PAL Holdings 7.75% 2031 (new)	7.75	16-Jul-31	98.99	98.99	8.00	n/a*	n/a*	~4.1e	Ba2 (Moody's)
PHILIP 7.75 1/14/2031 (sov.)	7.75	14-Jan-31	111.91	112.24	4.79	79	53	3.72	Baa2/BBB+
PHILIP 4.25 7/27/2031 (sov.)	4.25	27-Jul-31	97.99	98.20	4.70	72	44	4.40	Baa2/BBB+
PHILIP 9.50 2/2/2030 (sov.)	9.50	02-Feb-30	115.62	115.88	4.69	69	46	2.97	Baa2/BBB+
PHILIP 6.375 1/15/2032 (sov.)	6.375	15-Jan-32	107.59	107.82	4.79	80	50	4.53	Baa2/BBB+

**Z-spread/OAS for the new PAL Holdings bond versus UST are not yet available on Bloomberg at time of writing; duration to maturity of ~4.1 years is a Khorlan Capital estimate for a 5-year bullet-equivalent structure and has not been adjusted for the 5NC2 call feature (which would shorten duration-to-worst materially if the market prices to the call date). Source: Bloomberg, new-issue terms, Khorlan Capital.*

Sovereign Notching and New-Issue Concession

At an 8.00% yield against a comparable-duration Philippines sovereign bond (4.25% 2031, YTM 4.70%, duration 4.40 years), the new PAL Holdings notes yield approximately 330bp over the sovereign curve; against the shorter-duration 7.75% 2031 sovereign bond (YTM 4.79%, duration 3.72 years), the differential is approximately 321bp. We regard this as a wide differential for a Ba2-rated, government-linked flag carrier that sits only three notches below the Baa2 sovereign, particularly set against Moody's guidance that adjusted debt/EBITDA should remain below 4.0x through 2027–28.

The 30bp of tightening from initial price thoughts of 8.3% area to the 8.00% reoffer is a genuine, if modest, new-issue concession capture rather than a pure curve-extension story, since PAL Holdings has no pre-existing USD curve against which to measure concession in the way we would for a repeat issuer. We read the tightening as evidence of healthy order-book demand for the debut structure rather than aggressive price discovery.

On our sovereign-differential framework, the new 7.75% 2031 notes screen cheap relative to where a Ba2, three-notches-below-sovereign, national-champion airline credit with an improving leverage trajectory might reasonably clear inside a 12-month horizon. The key supports for compression are: (i) Moody's explicit guidance for adjusted debt/EBITDA below 4.0x over 2027–28; (ii) a demonstrated funding track record, with PAL having raised approximately USD 1.7bn since its 2021 Chapter 11 exit, including a USD 200m securitization program top-up completed in June 2026; and (iii) adequate near-term liquidity coverage, with cash and short-term investments of approximately USD 615m plus approximately USD 730m of operating cash flow versus approximately

USD 889m of debt maturities and approximately USD 404m of committed capital spending through September 2027 — a roughly 1.04x coverage ratio that Moody's itself characterizes as adequate.

The offsetting consideration is timing risk rather than solvency risk. Interest coverage has already softened (3.55x from 4.61x year-on-year) and the Middle East-driven fuel spike toward USD 120/bbl is expected to weigh on margins beginning in Q2 2026, a full quarter after the 31 March 2026 reporting date reflected in the financial metrics above. Until the June and September 2026 quarters confirm that PAL's fare hikes and Civil Aeronautics Board-approved fuel surcharge are offsetting the higher fuel cost, we would expect the bond's carry to be earned in a period of headline margin pressure rather than headline margin expansion — a dynamic bondholders should be prepared to look through rather than react to.

As a debut USD credit, PAL Holdings does not yet offer an intra-curve rotation trade of the kind available in more established EM corporate complexes; the recommendation here is a single-line Overweight in the new 7.75% 2031 notes, sized to the sovereign-relative value case rather than to any curve dislocation.

SECTOR COMPARABLES

With PAL Holdings' notes now priced, we can reference two directly relevant Asia-Pacific airline USD comparables — Turkish Airlines (THYAO) and Singapore Airlines (SIASP) — spanning very different points on the credit-quality spectrum, alongside the LatAm guaranteed-airline complex referenced in our regional coverage for broader rating-band context.

Bond	Coupon	Maturity	Bid	Ask	YTM	Spread	Dur.	Rating
PAL Holdings 7.75% 2031 (new)	7.75	16-Jul-31	98.99	98.99	8.00	n/a*	~4.1e	Ba2
THYAO 4.20% 2027	4.20	15-Mar-27	99.00	99.35	5.70	210	0.44	Ba2
SIASP 5.25% 2034	5.25	21-Mar-34	100.98	101.09	5.09	66	6.08	NR
AVIAGP 9.625% 2030	9.625	14-Feb-30	99.38	99.61	9.83	546	2.87	B1
AVIAGP 9.50% 2031	9.50	28-Jan-31	98.21	98.49	10.00	565	3.47	B1
AVIAGP 10.25% 2032	10.25	07-Jan-32	100.04	100.16	10.24	579	3.21	B1

Source: Bloomberg. THYAO = Turk Hava Yollari (Turkish Airlines); SIASP = Singapore Airlines; AVIAGP = Avianca Midco 2 PLC guaranteed complex (secondary market levels, current). Spread shown as quoted per source; duration for the new PAL Holdings bond is a Khorlan Capital estimate. For professional investors only.

The comparison illustrates the width of the Asia-Pacific/EMEA airline credit spectrum. Turkish Airlines, rated Ba2 — the same rating as PAL Holdings — trades at a 5.70% yield, but at a much shorter duration of 0.44 years; the bulk of the yield gap to the new PAL Holdings notes (8.00% at an estimated ~4.1 years) reflects curve extension rather than a like-for-like credit differential, and we would caution against reading the raw yield gap as a mispricing signal given the very different points on the curve. Singapore Airlines, unrated but effectively a strong, state-linked investment-grade-quality credit, prices at just 5.09% at a considerably longer 6.08-year duration — underscoring the premium the market places on SIA's balance sheet strength and sovereign support relative to a post-restructuring, leveraged flag carrier such as PAL.

A Cross-Regional Restructuring Parallel: Avianca

Beyond the Asia-Pacific set, we see a closer analytical parallel in Avianca (Colombia/pan-regional LatAm), which Khorlan Capital covers actively and which shares PAL's core restructuring narrative: both carriers filed for Chapter 11 in 2020 as the pandemic halted global travel, both completed court-supervised, largely consensual restructurings and emerged in 2021 (PAL in December 2021; Avianca in December 2021 as well, forming the Abra group with GOL), and both are majority owned by long-standing controlling shareholder groups (the Lucio Tan Group for PAL Holdings; Abra/Kingsland for Avianca) rather than by financial sponsors. Both credits also carry the legacy of that restructuring in their capital structures — the AVIAGP notes via an explicit LifeMiles/brand-IP collateral package, PAL Holdings via the new unsecured 2031 notes — and both are being guided by rating agencies toward continued deleveraging (AVIAGP at Net Debt/EBITDAR of approximately 2.7x individually per Khorlan Capital's most recent Avianca coverage; PAL at Moody's-guided adjusted debt/EBITDA below 4.0x through 2027–28).

The current AVIAGP complex — rated B1, two notches below PAL Holdings' Ba2 — trades at 9.83–10.24% across 2030–2032 maturities, versus 8.00% for the new PAL Holdings 2031 notes. On a pure ratings-notch basis this ordering is directionally consistent (the higher-rated PAL Holdings credit yields less than the lower-rated Avianca complex), though we would not overweight the comparison given the collateralized structure and different jurisdiction/currency-regime backing AVIAGP. We note for context that the AVIAGP 10.25% 2032 notes — which Khorlan Capital initiated at Overweight on 25 June 2026 at a 99.97/100.10 reoffer — now trade at 100.04/100.16, consistent with the new-issue concession we had flagged being captured by the secondary market.

STRATEGIC ANALYSIS

Sector Outlook

Philippine air travel demand remains structurally underpenetrated relative to the country's population and overseas diaspora, with passenger growth historically outpacing GDP. PAL's dual domestic/international franchise, anchored by first seat share at Manila (NAIA) — the country's most connected airport — and by leading North American long-haul positions, leaves the group well placed to capture this growth without meaningful new domestic competition given infrastructure constraints at NAIA.

Fleet and Capital Expenditure

The group's order book — approximately 20 aircraft for delivery between 2026 and 2029 per Moody's, comprising remaining Airbus A321 NEO units and Airbus A350-1000 widebodies — will be funded through a mix of operating and finance leases. Despite this expansion, Moody's expects adjusted debt/EBITDA to remain below 4.0x over 2027–28, implying the fleet program is being sized to preserve rather than erode the post-restructuring balance sheet.

Fuel and FX Risk Management

PAL does not hedge fuel or foreign exchange exposure directly. Instead, it relies on a Civil Aeronautics Board-regulated fuel surcharge mechanism that recovers approximately 40% of fuel costs, a relatively short booking curve (approximately 30 days domestic, 60 days international) that limits exposure to rapid fuel price moves, and a revenue mix that is approximately 35% US-dollar denominated, with excess pesos converted to USD as soon as practicable. The airline's USD reporting currency also eliminates mark-to-market foreign exchange volatility on its lease liabilities, a structural feature that materially reduces balance-sheet FX risk even without formal hedges.

Geopolitical and Fuel Cost Shock

The escalation of the Middle East conflict from late February 2026 forced PAL to suspend commercial service to Dubai, Doha and Riyadh (effective 28 February 2026), with Riyadh service resumed 10 April 2026 and Dubai/Doha under continuing review. Per Bloomberg Intelligence, Singapore jet fuel — the regional benchmark underlying PAL's MOPS-linked fuel costs — spiked to a peak of USD 233/barrel on 30 March 2026 before retreating to below USD 115/barrel by 15 June 2026 following the proposed US-Iran peace deal, with the crack spread narrowing to USD 35 from a conflict high of USD 115 (still above the pre-conflict USD 15 level). Fuel prices nonetheless remained approximately 33% above 2025 averages as of that data, leaving fuel cost as the key regional earnings overhang through at least year-end 2026, with the risk of renewed conflict reversing the improvement of live tail risk flagged by Bloomberg Intelligence.

PAL's fuel-risk profile sits closer to the region's unhedged carriers than to its hedged peers. Bloomberg Intelligence identifies Qantas, Cathay Pacific, Singapore Airlines, Japan Airlines and ANA as the most-hedged Asia-Pacific operators, with China's Big Three (Air China, China Southern, China Eastern) the most exposed given no meaningful hedge book. PAL, per Moody's, similarly does not hedge fuel or FX directly, relying instead on its Civil Aeronautics Board-regulated fuel surcharge (covering approximately 40% of fuel costs) and a short booking curve to manage exposure — a mitigation structure conceptually closer to IndiGo's domestic price-control cushion than to a Brent hedge book, and one that, unlike IndiGo, does not extend to PAL's international routes, where roughly two-thirds of group revenue is generated. The group's stated mitigants are capacity discipline (reduced domestic capacity June–September 2026), fare increases, and CAB-approved fuel surcharges targeting at least 60% cost recovery by year-end.

Asia-Pacific Sector Backdrop

Bloomberg Intelligence's midyear outlook frames the region's full-service carriers as entering 2H26 at an earnings inflection point. Consensus points to a full-year net profit decline of approximately 30–32% for major listed Asia-Pacific full-service carriers (to roughly USD 5.3bn from USD 7.7bn on one measure, or to USD 6.6bn from USD 9.8bn on IATA's broader total including unlisted carriers, with net margin compressing to approximately 2.1% from 3.5%) as the 1H26 fuel spike works through reported earnings

— the first such regional decline since the pandemic. Forward P/E multiples for profitable Asia-Pacific full-service carriers, currently elevated at approximately 36x on depressed near-term earnings, are expected by Bloomberg Intelligence to normalize toward approximately 11x into 2027 as fuel costs and earnings normalize, versus approximately 15x expected to persist for low-cost carriers.

Demand and capacity trends remain a tailwind that PAL is well placed to capture. IATA forecasts Asia-Pacific full-year 2026 capacity (available seat-kilometer) growth of approximately 3.6%, trailing only Africa globally and comparing with flat North American and roughly 1% European growth, with regional passenger load factors expected to reach approximately 85% — the region's highest since at least 2019 — despite the fare increases seen since the conflict began. International travel, rather than domestic routes (which Bloomberg Intelligence describes as flat to soft across the region), is expected to drive the bulk of 2H26 growth, a dynamic that favors PAL's North America-weighted long-haul franchise (approximately 40% of capacity, one-third of revenue) over more domestically-weighted regional peers.

Cargo provides a further, partly offsetting tailwind. Global air freight rates rose as much as 41% year-on-year to a peak of USD 3.40/kg in May 2026 — above the prior 4Q peak of USD 2.83/kg — as Middle East hub disruption removed meaningful belly-hold and freighter capacity from key lanes; Bloomberg Intelligence expects these rates to partially normalize in 2H26 as regional carriers restore networks and fuel costs ease. While Bloomberg Intelligence's most cargo-exposed named carriers are China Airlines, Eva Airways, Cathay Pacific, Korean Air and Singapore Airlines (cargo at 24–33% of 1H25 revenue for that group), PAL's own cargo revenue grew 24.9% year-on-year in Q1 2026 on a 2.4% decline in freight kilograms flown — consistent with the same regional yield dynamic — and should provide some offset to passenger-side fuel cost pressure into 2H26.

Region	2025E ASK Growth	2026F ASK Growth	2026F Net Margin
Asia-Pacific	6.6%	3.6%	2.1%
Middle East	5.9%	-4.4%	-6.1%
North America	2.0%	0.3%	2.5%
Europe	5.2%	1.3%	3.1%
Global Total	5.2%	1.6%	n/a

Source: Bloomberg Intelligence, "Asia-Pacific Airlines Midyear Outlook" (7 July 2026), citing IATA and company data; Khorlan Capital.

Rating Migration

With leverage trending down and liquidity adequate, Moody's characterizes rating risk as asymmetric to the upside: a sustained improvement in EBIT margin above 9% and adjusted debt/EBITDA below 3.5x, combined with good liquidity, would support an upgrade. Conversely, EBIT margin below 7% or adjusted debt/EBITDA above 4.0x on a sustained basis, a deterioration in domestic or international market share, liquidity pressure, external debt at APC, or fuel supply disruption would pressure the rating. We view the current fuel shock as a test of, rather than a break in, this asymmetric setup.

KEY RISKS

- Fuel price volatility. Singapore jet fuel spiked to USD 233/bbl at its 30 March 2026 peak before retreating below USD 115/bbl by mid-June on the US-Iran peace deal (per Bloomberg Intelligence); PAL does not hedge fuel directly and relies on surcharge recovery and capacity/fare actions that take time to flow through. A collapse of the ceasefire and renewed conflict remains a live tail risk to this improving trajectory.
- Geopolitical route disruption. Continued suspension of Dubai and Doha service, or renewed disruption on other long-haul corridors, would pressure both revenue and connecting traffic economics.
- Interest coverage trend. EBIT interest coverage fell to 3.55x in Q1 2026 from 4.61x a year earlier; a continuation of this trend alongside margin pressure would erode headroom versus Moody's downgrade triggers.
- Liquidity buffer. Moody's liquidity coverage of near-term maturities and committed capex is adequate but not ample (approximately 1.04x by our calculation); a prolonged primary market closure or an unexpected capex acceleration would tighten this buffer.

- FX translation exposure. Although PAL's USD functional currency and reporting structure limit lease-related FX volatility, PAL Holdings' consolidated PHP-denominated equity and non-controlling interests remain sensitive to peso movements for headline reporting purposes.
- Fleet execution risk. Successful, on-schedule delivery and integration of approximately 20 aircraft through 2029 is necessary to sustain market share gains without an unplanned increase in leverage.
- Structural subordination / guarantee scope. The notes are issued by a financing subsidiary and guaranteed by PAL and APC; as senior unsecured obligations (unlike collateralized structures seen elsewhere in EM airline credit), recovery in a stress scenario would depend on the broader creditor waterfall rather than a ring-fenced asset package.
- Debut-issue liquidity. As PAL Holdings' first international USD bond, the notes lack an established secondary trading history, which may result in wider bid/ask spreads and thinner liquidity than more seasoned regional peers until a track record is established.

CONCLUSION

We initiate the new PAL Holdings (Primero Agila Limited) 7.75% 2031 senior unsecured notes at Overweight. Priced at 98.986 to yield 8.00% — inside initial price thoughts by approximately 30bp — the notes offer roughly 320–330bp of yield pickup over comparable-duration Philippines sovereign paper for a Ba2-rated, government-linked flag carrier only three notches below the sovereign. The underlying credit story is constructive: consolidated revenue and comprehensive income both grew at double-digit-plus rates in Q1 2026, leverage metrics continue to improve on a company-reported basis, and Moody's has explicitly guided to adjusted debt/EBITDA below 4.0x through 2027–28.

The credit risk here is cyclical — a Middle East-driven fuel cost shock and associated route suspensions — rather than structural, and we would expect PAL's CAB-approved fuel surcharge mechanism, fare actions, and capacity discipline to absorb the bulk of this pressure over the coming two to three quarters. We would look for confirmation of margin stabilization in the June and September 2026 results as the next catalysts and would revisit the recommendation if EBIT interest coverage continues to deteriorate materially from the current 3.55x, or if the Middle East disruption to Dubai and Doha service extends materially beyond the current review period.

THE KHORLAN VIEW	**Preferred trade.** Overweight the new PAL Holdings 7.75% 2031 notes on debut as a sovereign-linked, Ba2-rated carry opportunity with a wide gap to the Philippines sovereign curve. **What changes the thesis.** More constructive on confirmed fuel-cost pass-through and stabilizing interest coverage in the June/September 2026 quarters; more cautious on a sustained oil shock above USD 120/bbl, an extended Dubai/Doha suspension, or interest coverage falling meaningfully below 3.0x.

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