Asia Credit Research

OCBC Bank

Aspial Corp Ltd: New ASPSP 5.30% 2020 issue

Thursday, 31 March 2016

More supply as expected with the second retail bond offering in 7 months

Coming just seven months after Aspial priced its maiden retail bond (SGD150mn raised across both retail and placement tranches at 5.25% for a 5-year tenor) in late August last year, the company is looking to raise SGD75mn at 5.30% for a 4-year bond across a SGD25mn placement tranche and a SGD50mn public retail offer. This does not come as a surprise as the company has almost fully utilised its SGD500mn MTN programme with SGD410mn of bonds issued off the programme (this 5.30% deal and last year's 5.25% retail bonds were not issued off the MTN) and heavy refinancing requirements to the tune of SGD580mn this year (including SGD100mn in ASPSP 5.0% '16s maturing in July this year).

Tight relative to ASPSP curve: Yielding 5.30% at an i-spread of ~355bps, the new ASPSP 5.30% 2020 retail bond comes in tighter than the institutional only ASPSP 5.50% '18s (YTM: 5.91%, i-spread: 429bps) and the ASPSP 5.05%'19s (YTM: 6.10%, i-spread: 440bps) despite the 1.4 and 0.83-year extension, respectively. The new ASPSP 5.30% bond does price in line with the outstanding 5.25% 2020 retail bond on a clean price basis (YTM: 5.43%, i-spread: 364bps) for a 4-month shorter tenor implying no new issue premium (assuming 10bps for the reduced tenor). As such, there is a significant dislocation in the ASPSP curve with the longer retail bonds trading tighter than the institutional bonds which could be due to the 1) possibly better liquidity from being exchange traded on the SGX and 2) smaller minimum denominations of SGD1,000 compared to SGD250,000 for the institutional bonds (see Fig. 1 & 2 below). That said despite the premise of better liquidity, the market for the ASPSP retail bond is not deep and we think the premium for the retail bonds is unjustified. For some colour, total traded volume for ASPSP 5.25% 2020 was SGD57,000 on 30 Mar 2016 with last seen bid and ask sizes of SGD1,000 and SGD28,000, respectively.

Figure 1: Yield to maturity vs duration

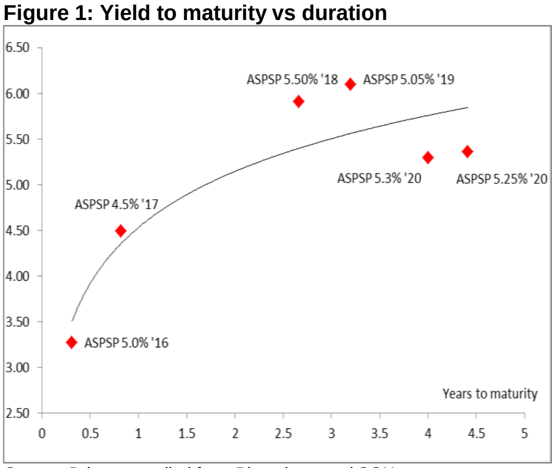
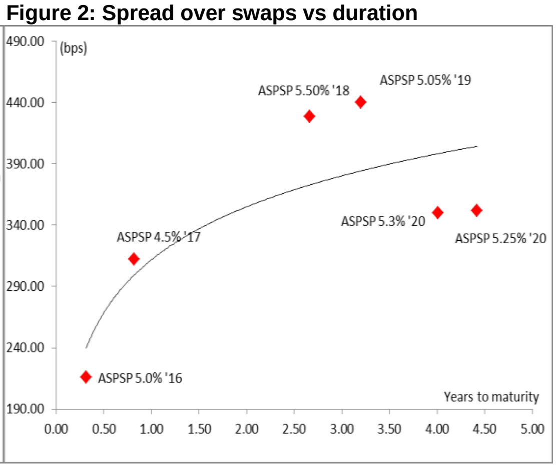


Figure 2: Spread over swaps vs duration



Source: Prices compiled from Bloomberg and SGX

Weak 2015 results: Aspial reported a weak set of results with 2015 revenue down 9% y/y to SGD464.1mn and net profit down 83% y/y to SGD9.2mn. Main driver was reduced contributions from the real estate business (46% of total revenue, revenue down 15% y/y to SGD216.4mn) due to lower contributions from current development projects and the jewellery business (28% of total revenue, revenue down 13.5% y/y to SGD131mn) with Aspial continuing to consolidate its retail network with the closure of 8 stores in 2015. Growth in pawn broking operations (25% of total revenue, revenue up 12% y/y to SGD117mn) which was driven by increase in interest income and retail and trading of pre-owned jewellery and watches offset weaknesses in the other segments slightly. EBITDA was down 51% y/y to SGD25.6mn as a result of the revenue weakness and margin compression.

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Interest Rate
Derivatives
Tel: 6349-1899
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Tel: 6349-1886

GT Institutional Sales
Tel: 6349-1810

OCBC Credit Research
Nicholas Koh
+65 6722 2533
NicholasKoh@ocbc.com

Increase in leverage: The company continued to generate negative CFO (after paying interest expense) of SGD21.6mn, however this represents an improvement from –SGD189.2mn in 2014 due to the progressive revenue recognition from Singapore projects (and matching cash disbursements) and the sale of the property at King Street, Melbourne for AUD52.5mn. Cash increased to SGD133.0mn from SGD83.6mn in 2014 mainly from the retention of part of the proceeds from the SGD150mn retail bond issue which contributed to the SGD200mn increase in gross debt to SGD1.3bn. Net gearing increased to 312% in 2015 from 279% in 2014 as a result. Note that covenants limit net gearing at 400%. Net debt/EBITDA increased to 75.0x from 32.2x while EBITDA/interest coverage deteriorated to 0.77x from 1.9x mainly due to the drop in EBITDA and increase in debt.
Capital requirements to remain elevated but recent increases in leverage should taper off: Looking forward, Aspial expects to progressively recognize SGD580mn from units sold in its Singapore projects and AUD1.05bn upon completion of its Australian projects Australia 108 (95% sold, completion in late 2020) and Avant (90% sold, completion in late 2018) for a total orderbook of SGD1.63bn. 3 projects are expected to obtain TOP in 2016: 40%-owned Urban Vista (582 residential units 100% sold), 40%-owned The Hillford (281 residential units 100% sold) and Kensington Square (141 residential units 100% sold). This will provide some reprieve with 25% of a unit’s purchase price disbursed upon TOP. Capital requirements will likely remain elevated due to construction for its Australian projects but the increase in leverage in recent years should start to taper off.

Recommendation: We continue to be Underweight the entire ASPSP curve as the negative credit trends from the company’s leveraged credit profile and heavy near-term financing requirements remain intact (SGD580mn this year). Within the curve we see better value in the institutional ASPSP 5.50% ’18s and ASPSP 5.05% ’19s over the retail portion of the ASPSP curve. We initiate coverage on the new ASPSP 5.30% ’20s with an Underweight recommendation.

Aspial Corporation Ltd

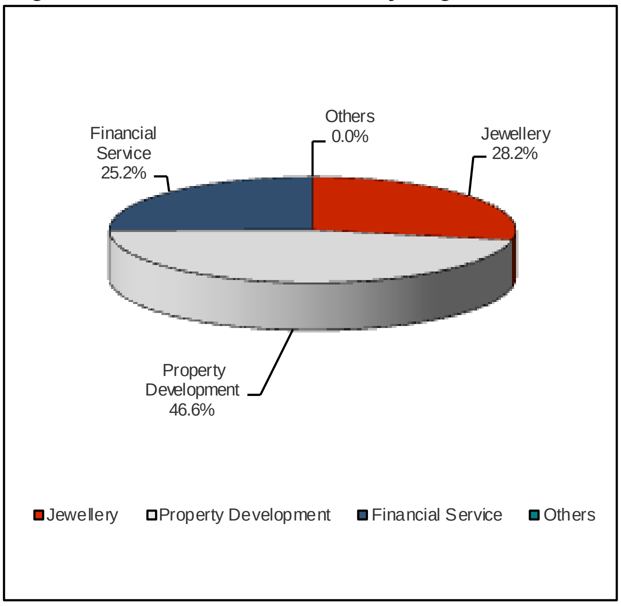
Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (SGD'mn)			
Revenue	515.3	510.1	464.1
EBITDA	77.7	32.1	15.6
EBIT	72.4	26.9	11.0
Gross interest expense	20.7	33.6	36.8
Profit Before Tax	101.0	61.7	13.0
Net profit	67.5	43.1	8.8
Balance Sheet (SGD'mn)			
Cash and bank deposits	67.5	83.6	133.0
Total assets	1,275.6	1,646.3	1,760.7
Gross debt	838.8	1,115.4	1,305.2
Net debt	771.3	1,031.8	1,172.2
Shareholders' equity	330.3	369.7	376.3
Total capitalization	1,169.0	1,485.1	1,681.5
Net capitalization	1,101.6	1,401.5	1,548.5
Cash Flow (SGD'mn)			
Funds from operations (FFO)	72.8	48.2	13.4
CFO	-175.4	-167.4	-6.7
Capex	11.7	5.2	3.7
Acquisitions	-0.1	0.9	9.7
Disposals	0.0	0.1	3.5
Dividend	22.5	11.6	15.9
Free Cash Flow (FCF)	-187.1	-172.6	-10.5
FCF Adjusted	-209.5	-185.0	-32.6
Key Ratios			
EBITDA margin (%)	15.1	6.3	3.4
Net margin (%)	13.1	8.4	1.9
Gross debt to EBITDA (x)	10.8	34.8	83.5
Net debt to EBITDA (x)	9.9	32.2	75.0
Gross Debt to Equity (x)	2.54	3.02	3.47
Net Debt to Equity (x)	2.34	2.79	3.12
Gross debt/total capitalisation (%)	71.7	75.1	77.6
Net debt/net capitalisation (%)	70.0	73.6	75.7
Cash/current borrowings (x)	0.3	0.3	0.2
EBITDA/gross interest (x)	5.9	1.9	0.8

Source: Company, OCBC estimates

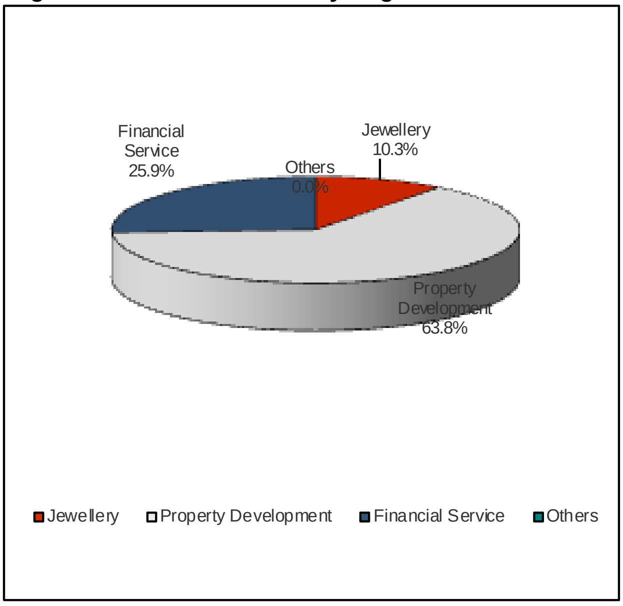
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2015



Source: Company

Figure 2: PBT breakdown by Segment - FY2015



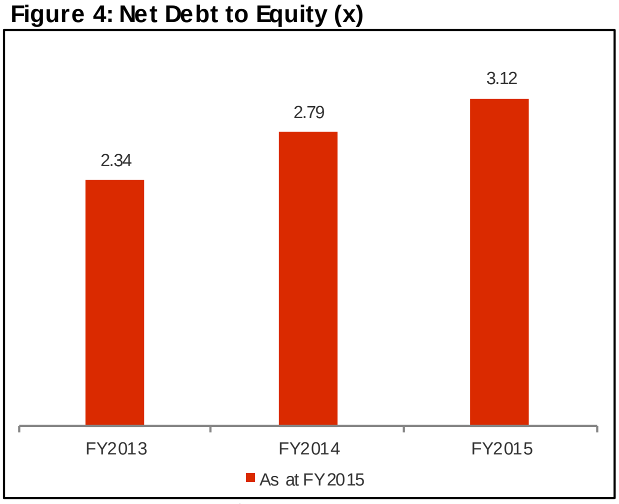
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/12/2015	% of debt
Amount repayable in one year or less, or on demand		
Secured	480.1	36.8%
Unsecured	100.0	7.7%
	580.1	**44.4%**
Amount repayable after a year		
Secured	265.1	20.3%
Unsecured	460.0	35.2%
	725.1	**55.6%**
Total	**1305.2**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

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