

Credit Update: Aspial Corp Ltd (“Aspial”)

Recommendation

- Aspial is inviting holders of SGD74mn ASPSP 5.5% 2018s and SGD123.5mn ASPSP 5.05% 2019s for a tender offer with two options.
- We recommend holders of ASPSP ‘18s and ASPSP ‘19s to accept Option A to sell for cash if the bonds continue to trade below par. Conversely, we do not find Option B to exchange for a like principal amount of a proposed ASPSP 6.25% 2021s to be compelling. Otherwise, we continue to stay Overweight ASPSP 5.5% 2018s with Aspial confident to repay this with cash. We [also turned Overweight on ASPSP 5.05% 2019s](#) given Aspial’s commitment to refinancing.
- With Aspial looking to redeem the said bonds and [intending to use cash proceeds from settlement of its Australian projects to repurchase the remaining term notes and bonds](#) to improve its debt position, we think this will be **highly favourable for Aspial’s credit profile**. We estimate that net gearing may be pushed down to ~1x handle, though we continue to hold Aspial at a Negative (6) Issuer Profile as net gearing remains elevated, for now.

Background and analysis of recommendation

Aspial is inviting holders of SGD74mn ASPSP 5.5% 2018s and SGD123.5mn ASPSP 5.05% 2019s to either (A) tender their notes for cash or (B) exchange for an equivalent principal amount of ASPSP 6.25% 2021s. The details of the options are:

Option A: Sell for cash

- For ASPSP 5.5% 2018s, noteholders can put back at par + accrued interest with 10bps consent fee if consented before 10am on 20 Sep 2018 (“early exit”).
- For ASPSP 5.05% 2019s, the principal to be redeemed (“redemption amount”) is just up to SGD10mn though Aspial has the option to upsize the eventual redemption amount. The redemption price is at 99.9 + accrued interest with 10bps early exit consent fee. If the amount tendered exceeds the redemption amount, the offers will be accepted by ballot.

Option B: Exchange for ASPSP 6.25% 2021s (proposed)

- Holders of both ASPSP 5.5% 2018s and ASPSP 5.05% 2019s will exchange for a like principal amount of a proposed ASPSP 6.25% 2021s, together with accrued interest and 50bps exchange fee.

Option A looks favourable if the bonds continue to trade below par. However, Option B does not appear compelling, noting that several higher yield developer credits are trading well in excess of 6% for similarly tenured 3 year paper and the [previous tender to exchange to ASPSP 5.9% 2021s was not well-taken up](#). For investors comfortable with Aspial, ASPSP 5.25% ‘2020s look more attractive with higher yield and shorter tenor. Following this exercise, assuming SGD74mn of ASPSP ‘18s and SGD10mn of ASPSP ‘19s are redeemed, debt levels may fall to SGD1.56bn (2Q2018: SGD1.65bn).

Relative Value:

Bond	Maturity	Net gearing	Yield to Worst	Spread
ASPSP 5.5% 2018	27/11/2018	3.4x	5.40%	375bps
ASPSP 5.05% 2019	12/06/2019	3.4x	5.74%	399bps
ASPSP 6.25% 2021 (proposed)	TBC/2021	3.4x	6.25%	411bps
ASPSP 5.3% 2020 (retail)	01/04/2020	3.4x	6.18%	419bps
ASPSP 5.25% 2020 (retail)	28/08/2020	3.4x	6.81%	477bps
FRAG 6.125% 2021	26/04/2021	1.1x	6.61%	451bps
OHLSP 6.375% 2021 (USD)	21/04/2021	2.2x	10.26%*	746bps
LOGPH 6.125% 2021	16/04/2021	0.5x	6.77%	467bps
HTONSP 6.08% 2021	19/07/2021	0.5x	6.09%	397bps

Source: OCBC, Bloomberg, Indicative prices as at 13 September 2018
*Yields in USD

Issuer Profile: Negative (6)

Ticker: **ASPSP**

Background

Aspial Corp Ltd (“Aspial”) was incorporated in 1970 and listed on the SGX in 1999. Aspial has evolved from its roots in jewellery (main brands: Lee Hwa, Goldheart and CITIGEMS) to a diversified company with real estate and pawnshop businesses. Aspial has a market capitalization of SGD464.8mn as of 13 Sep 2018. Aspial is 83%-controlled by the members of the Koh family who are siblings to Mr Koh Wee Meng, the founder of Fragrance Group Ltd.

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Explanation of Issuer Profile Rating (“IPR”) / Issuer Profile Score (“IPS”)

Positive (“Pos”) – The issuer’s credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral (“N”) – The issuer’s credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative (“Neg”) – The issuer’s credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings (“IPR”) into a 7 point Issuer Profile Score (“IPS”) scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight (“OW”) – The performance of the issuer’s specific bond is expected to outperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral (“N”) – The performance of the issuer’s specific bond is expected to perform in line with the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight (“UW”) – The performance of the issuer’s specific bond is expected to underperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal (“WD”) – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

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