

Aspial Corp Ltd (“Aspial”): New Issue View

Tuesday, 02 October 2018

New Issue View: Aspial is looking to upsize the new ASPSP 6.25% '21s, which has an outstanding amount of SGD29.25mn following [the exchange of a proportion of the existing ASPSP 5.5% '18s and ASPSP 5.05% '19s](#). There is no indication of the size of the upsized deal.

We **do not find the new ASPSP 6.25% '21s compelling**, [reiterating our view](#) that (1) ASPSP 5.25% '2020s look more attractive with higher yield and shorter tenor and (2) several higher yield developer credits are trading well in excess of 6% for similarly tenured 3-year paper while (3) the [previous tender to exchange to ASPSP 5.9% 2021s was not well-taken up](#).

[In our view, as communicated through Business Times, a fairer pricing for ASPSP 6.25% 2021 may be around 7%-9% instead.](#)

For investors comfortable with Aspial, we prefer ASPSP 5.05% '19s instead given Aspial's commitment to refinance this. Otherwise, ASPSP 5.25% '20s also offer better value, trading at a higher yield (6.97%) for a shorter tenor than ASPSP 6.25% '21s. Outside of the ASPSP curve, investors can also consider OHLSP 5% '19s.

Issuer Profile: Negative (6)

Although we previously opined that Aspial's commitment to redeem ASPSP '18s and ASPSP '19s with cash proceeds from settlement of its Australian projects is highly favourable to its credit profile, we are cautious if the upsized amount is significant as the elevated debt position (net gearing: 3.4x) may be worsened.

Ticker: **ASPSP**

We continue to hold Aspial at a **Negative (6) Issuer Profile**.

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Relative Value:

Bond	Maturity	Net gearing	Yield to Worst	Spread
ASPSP 6.25% 2021	11/10/2021	3.4x	6.25%	401bps
ASPSP 5.05% 2019	12/06/2019	3.4x	6.05%	421bps
ASPSP 5.3% 2020 (retail)	01/04/2020	3.4x	4.65%	261bps
ASPSP 5.25% 2020 (retail)	28/08/2020	3.4x	6.97%	488bps
FRAG 6.125% 2021	26/04/2021	1.1x	6.93%	474bps
OHLSP 5% 2019	05/11/2019	2.2x	6.54%	469bps
LOGPH 6.125% 2021	16/04/2021	0.5x	6.78%	460bps

Source: OCBC, Bloomberg, Indicative prices as at 02 October 2018

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 SGD455.1mn as of 02 Oct 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.

Recent results review:

- **Strong 2Q2018 results:** Revenue rose 103% y/y to SGD212.3mn. This is mainly due to the strong performance from the property segment (+321% y/y to SGD124.1mn) due to the settlement and handover of units for Avant and Australia 108 projects in Australia. The financial service business also did better (+10.5% y/y to SGD54.5mn) with higher interest income from pawnbroking, secured lending business and higher sales from retail and trading of jewellery and branded merchandise. Due to the strong revenues, Aspial turned a net profit of SGD8.0mn (2Q2017: net loss of SGD6.3mn).

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- **Weak credit metrics:** Credit metrics remains weak with net gearing increasing q/q to 3.37x (1Q2018: 3.26x) due to interest payments made (SGD32.3mn) and increased trade and other receivables (SGD17.5mn). Aspial had extended higher amounts of secured loans for its financial service business while working capital for its overseas real estate business had risen. That said, in 2H2018, Aspial expects SGD690mn cash proceeds from settlement and handover of units for Avant and Australia 108, SGD350mn from CityGate project in Singapore with its TOP by end 2018. Aspial's intention is to use part of the cash proceeds to purchase some of the remaining term notes and bonds, including those in 2018, 2019 and 2020. We think this will be highly favourable for Aspial's credit profile. That said, we are wary if further bond issuances may impede the improvement of Aspial's credit profile.

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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

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