

Issuer Profile: **Aspial Corp Ltd (“Aspial”)**

Negative (6)



Negative (6)

Ticker:

ASPSP

Wong Hong Wei, CFA

+65 6722 2533

WongHongWei@ocbc.com

Recommendation

- Results remain lackluster in 3Q2019, with revenue falling 60% y/y to SGD138.7mn and profit before tax declining 62% y/y to SGD12.2mn.
- The weak results are due to the real estate segment, with fewer settlements from Australia 108.
- We still stay cautious on Aspial given that its net gearing levels remains elevated at 2.28x (2Q2019: 2.23x) and liquidity remains tight while there are significant near-term debt maturities amounting to SGD487.0mn on Aspial (less Maxi-Cash).
- Although Aspial guides that cashflow from Australia 108 will be used to pare down debt, we think that successful settlement of units from Australia 108 is not a certainty. As mentioned in our [2Q2019 earnings review](#), sales rate at Australia 108 has fallen by 10ppts since 1Q2018 to 88% in 1Q2019.
- Aspial no longer discloses the sales rate of Australia 108 since 2Q2019 and we will not be surprised if the cancellation rate has further escalated as valuations may have fallen more than the deposit (typically 10%) paid by buyers. Already we have seen the Australia Residential Property Price Index for Melbourne decline 10.6% from early 2018.
- Without certainty on cashflows and demonstrable progress on refinancing of short term maturities, we turn Underweight on the Aspial curve and we are monitoring Aspial for a downgrade in Issuer Profile should the liquidity issue exacerbate.

Relative Value:

Bond	Maturity / Call date	Issuer Profile	Ask YTW	Spread
ASPSP 5.3% 2020	01/04/2020	Negative (6)	7.41%	595bps
ASPSP 5.25% 2020	28/08/2020	Negative (6)	7.20%	592bps
ASPSP 5.9% 2021	19/04/2021	Negative (6)	N/A	N/A
ASPSP 6.25% 2021	11/10/2021	Negative (6)	N/A	N/A

*Indicative prices as at 8 November 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter*

Background

- Incorporated in 1970 and listed on the SGX since 1999, Aspial has evolved over the years from its roots in jewellery (main brands: Lee Hwa, Goldheart and CITIGEMS) to a diversified company with real estate and pawnshop businesses (Maxi-Cash).
- Aspial has a market cap of SGD298.4mn as of 8 Nov 2019. 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.

Key Considerations

- **Continued lacklustre results with real estate segment down:** Continuing trends from 2Q2019, revenue for 3Q2019 fell 60% y/y to SGD138.7mn with profit before tax declining 62% y/y to SGD12.2mn. This is mainly due to the fall in real estate revenue to SGD40.5mn in 3Q2019 (2Q2019: SGD268mn) from fewer settlements. As a result, profit before tax for the segment fell 31% y/y to SGD39.7mn. Meanwhile, the other segments are holding up better. Financial services saw 27.4% y/y rise in revenue to SGD65.1mn and pre-tax profit rising 132% y/y to SGD6.5mn due to higher revenue from pawnbroking and secured lending operations. Jewellery revenue rose 15.3% y/y to SGD34.7mn, with pre-tax losses narrowing to SGD0.3mn (3Q2018 pre-tax losses: SGD2.1mn) from higher sales from overseas operations and a reduction in operating costs.
- **High gearing with impending maturity and low liquidity look increasingly worrying...:** Net

gearing rose q/q to 2.28x (2Q2019: 2.23x) with Aspial incurring SGD10.1mn operating cash outflows mainly due to SGD18.5mn working capital consumed. This is due to on-going construction at Australia 108 and other overseas projects. Liquidity also looks tight with SGD30.8mn of cash insufficient to cover SGD745.7mn debt coming due in the next 12 months. While net gearing has already come down significantly since 1H2018 (2Q2018 net gearing: 3.37x), debt levels remain very substantial. To pare down the debt position and redeem the bonds with impending maturity in the next 12 months, this will rely on successful settlement and cash proceeds from Australia 108 or external capital support.

- **... and debt payment hinges on successful settlements from Australia 108:** Aspial intends to tackle its upcoming debt maturity through cash proceeds from the settlement and handover of units for Australia 108. In our view, **successful settlement and completion of Australia 108 is critical for Aspial to pare down its debt.** As of 1Q2019, Aspial reported that it expects to receive up to SGD520mn from the settlement and handovers of units of Australia 108. Excluding Maxi-Cash's SGD258.7mn short term debt which is consolidated on Aspial's balance sheet, SGD487.0mn debt still remains at Aspial. It is not immediately clear if Aspial can monetize SGD74.8mn of investment properties and ~65%-stake in Maxi-Cash worth SGD87.5mn and SGD9.3mn in investment securities.
- **How successful will the settlements at Australia 108 be?:** We note that the sales rate on Australia 108 has fallen significantly as of 1Q2019 to 88% from its height of 98% in 1Q2018, which [we infer that buyers have been walking away](#) from settlements. Curiously though, [Aspial stopped disclosing the sales rate of Australia 108 since 2Q2019](#) and we will not be surprised if the cancellation rate has further escalated. According to the Australian Financial Review ("AFR"), it was reported that valuations of certain units of Australia 108 have plunged by as much as 25%. With a deposit of just 10%, it seems more economical for the buyer to walk away if the valuation has fallen significantly. Moreover, we note that the average sales per square metre for subsequent phases of Australia 108 were sold at higher prices – which could exacerbate cancellation rates come the settlement date. In addition, we understand that there have been complaints of noises and construction defects at Australia 108 – residents have been moving in since 2018 despite the slated completion date in 2020.

Explanation of Issuer Profile Rating / Issuer Profile Score

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 into a 7 point Issuer Profile Score scale.

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

Please note that Bond Recommendations are dependent on a bond’s price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

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.

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu

FX Strategist
TerenceWu@ocbc.com

Howie Lee

Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li

Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu

Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong

Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst
ZhiQiSeow@ocbc.com

Analyst Declaration

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

Disclaimer for research report

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W