

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

Negative (6)

### Ticker:

ASPSP

Wong Hong Wei, CFA

+65 6722 2533

[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

### Recommendation

- Results are weaker with revenue falling 35% y/y to SGD138.7mn, mainly due to completion of real estate projects that contributed in the prior period. In total, pre-tax profit from real estate, financial services and jewellery declined 72.3% y/y to SGD4.3mn.
- While net gearing has fallen further to 2.23x (1Q2019: 2.54x) and Aspial expects debt levels to continue falling, we continue to stay cautious and maintain Aspial at Negative (6) Issuer Profile as liquidity remains somewhat tight.
- Guidance is no longer provided in 2Q2019 for sales progress and cashflow from the settlement of Australia 108. We think that some buyers have been walking away from settlement due to the weak Australian market. In our view, successful settlement of this real estate project is crucial to pare down debt levels.
- Despite the wider yields offered by the Aspial complex, we prefer switching into CAPG 7.15% '21s, which we rate with a stronger Issuer Profile of Neutral (5). For investors looking for yield pickup and do not mind a longer duration, we prefer OHLSP 5.7% '22s.

### Relative Value:

| Bond             | Maturity /<br>Call date | Issuer Profile | Ask YTW | Spread |
|------------------|-------------------------|----------------|---------|--------|
| ASPSP 5.3% 2020  | 01/04/2020              | Negative (6)   | 6.95%   | 536bps |
| ASPSP 5.25% 2020 | 28/08/2020              | Negative (6)   | 6.50%   | 495bps |
| ASPSP 5.9% 2021  | 19/04/2021              | Negative (6)   | 8.59%   | 698bps |
| ASPSP 6.25% 2021 | 11/10/2021              | Negative (6)   | N/A     | N/A    |
| OHLSP 5.15% 2020 | 18/05/2020              | Neutral (5)    | 4.94%   | 330bps |
| OHLSP 5.7% 2022  | 31/01/2022              | Neutral (5)    | 8.47%   | 689bps |
| CAPG 7.15% 2021  | 07/09/2020              | Neutral (5)    | 6.09%   | 450bps |

*Indicative prices as at 20 August 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 SGD329.2mn as of 20 Aug 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

- Lacklustre results due to significant declines from the real estate segment:** Aspial reported 2Q2019 results. Revenue declined 35% y/y to SGD138.7mn, mainly due to declines in the real estate segment (-50.1% y/y to SGD62.2mn) as a result of absence of revenue from CityGate and AVANT (which contributed to previous period's results). Pre-tax profit for the real estate (-84.6% y/y to SGD1.6mn) fell more than revenue as Australia 108 may have commanded lower margins than CityGate. Meanwhile, Jewellery Business also declined (-10.3% y/y to SGD33.2mn) due to lower sales in Singapore.
- Not overly worried over slower sales from Financial Service segment though it is credit negative that Aspial has committed a credit line to support the segment:** Revenue for Financial services fell 16.9% y/y to SGD45.4mn, mainly due to lower sales from retailing and trading of jewellery and branded merchandise business, which also resulted in pre-tax profit falling by 17.1% y/y to SGD3.4mn, though we are not overly worried as q/q trends are stable. However, we note that Aspial is entering into a revolving loan agreement with

its 64.7%-owned Maxi-Cash Financial Services Corp Ltd (“Maxi-Cash”), in which Aspial will extend term loans to Maxi-Cash for up to SGD50mn. If the term loan were to be drawn in full, this may worsen the liquidity position of Aspial.

- **Sources of cash required to meet near-term needs:** While the issuance of SGD50mn ASPSP 6.25% '21s in late 2018 had partly alleviated the liquidity position of Aspial, we think the liquidity position remains somewhat challenged. Excluding Maxi-Cash and 81.1%-owned World Class Global Ltd (“WCG”), we estimate that Aspial holds SGD30.9mn of cash, which is lower than SGD303.4mn in short term debt due (excluding debt on Maxi-Cash and WCG). While Aspial holds ~SGD48mn of investment securities, ~SGD74mn of investment properties, stakes in Maxi-Cash (worth ~SGD84mn) and WCG (~SGD115mn), it is not immediately clear if these can be easily monetised. We think execution is crucial in delivering the development units of Australia 108, from which Aspial is expecting to receive significant cash proceeds.
- **Lack of visibility over Australia development:** Although Aspial had [in 1Q2019 guided for SGD520mn to be received](#) from the settlement and handover of units from Australia 108, an updated guidance is no longer provided in 2Q2019's results. One key concern we flagged previously was the declining sales progress (which is also no longer provided in 2Q2019). We think this could be attributable to buyers walking away given the weak Australian property market. We turn more cautious in 2Q2019 due to the significant dip in pre-tax profit and revenue from the real estate segment. Meanwhile, Aspial is still guiding that debt and cash profile will be improved in the coming quarters from the settlement of units at Australia 108.
- **Improved net gearing:** Net gearing declined to 2.23x (1Q2019: 2.54x) due to SGD43.5mn cash generated from operations, mainly from declines in working capital with completion of CityGate project and settlement of units for AVANT and Australia 108. Going forward, net gearing may fall further as Aspial intends to use cash proceeds from the settlement of units at Australia 108 to repurchase the remaining term notes and bonds.

**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](mailto:LingSSSelena@ocbc.com)

**Emmanuel Ng**

Senior FX Strategist  
[NqCYEmmanuel@ocbc.com](mailto:NqCYEmmanuel@ocbc.com)

**Tommy Xie Dongming**

Head of Greater China Research  
[XieD@ocbc.com](mailto:XieD@ocbc.com)

**Terence Wu**

FX Strategist  
[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

**Howie Lee**

Thailand, Korea & Commodities  
[HowieLee@ocbc.com](mailto:HowieLee@ocbc.com)

**Alan Lau**

Malaysia & Indonesia  
[AlanLau@ocbc.com](mailto:AlanLau@ocbc.com)

**Carie Li**

Hong Kong & Macau  
[carierli@ocbcwh.com](mailto:carierli@ocbcwh.com)

**Dick Yu**

Hong Kong & Macau  
[dicksnyu@ocbcwh.com](mailto:dicksnyu@ocbcwh.com)

### Credit Research

**Andrew Wong**

Credit Research Analyst  
[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)

**Ezien Hoo**

Credit Research Analyst  
[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

**Wong Hong Wei**

Credit Research Analyst  
[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

**Seow Zhi Qi**

Credit Research Analyst  
[ZhiQiSeow@ocbc.com](mailto: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).