

Singapore Company Guide

UOL Group

Edition 1 Version 1 | Bloomberg: UOL SP | Reuters: UTOS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Nov 2015

BUY

Last Traded Price: S\$6.56 (STI : 2,998.35)

Price Target : S\$8.47 (29% upside)

Potential Catalyst: Better than expected operational performance

Where we differ: Our estimates are more conservative

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2014A	2015F	2016F	2017F
Revenue	1,361	1,158	1,392	1,738
EBITDA	604	696	725	794
Pre-tax Profit	837	544	564	622
Net Profit	686	440	451	490
Net Pft (Pre Ex.)	364	440	451	490
EPS (S cts)	87.1	55.8	57.3	62.3
EPS Pre Ex. (S cts)	46.3	55.8	57.3	62.3
EPS Gth (%)	(15)	(36)	3	9
EPS Gth Pre Ex (%)	37	21	3	9
Diluted EPS (S cts)	87.1	55.8	57.3	62.3
Net DPS (S cts)	15.0	15.0	15.0	15.0
BV Per Share (S cts)	971	1,012	1,054	1,101
PE (X)	7.5	11.7	11.5	10.5
PE Pre Ex. (X)	14.2	11.7	11.5	10.5
P/Cash Flow (X)	nm	nm	nm	nm
EV/EBITDA (X)	12.8	11.8	11.9	11.3
Net Div Yield (%)	2.3	2.3	2.3	2.3
P/Book Value (X)	0.7	0.6	0.6	0.6
Net Debt/Equity (X)	0.3	0.3	0.3	0.3
ROAE (%)	9.5	5.6	5.5	5.8
Earnings Rev (%)		(8)	(11)	(10)
Consensus EPS (S cts)		52.9	55.2	56.8
Other Broker Recs:		B: 8	S: 1	H: 0

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Deep Value Within

Deep value play. Trading at 0.7x P/Bk NAV and 0.6x P/RNAV, UOL Group (UOL) is an attractive deep value play, supported by a portfolio of quality commercial properties and hotels, serviced residences which are located near or within the Central Business District (CBD) of Singapore.

Commercial portfolio to remain resilient. UOL derives a significant 47%-58% of revenues from its retail, office and hotel segments which should continue delivering stable cashflows. We expect its portfolio of commercial properties (office & retail) to be resilient in the face of incoming headwinds for both the office and retail sectors. For offices, this is mainly due to their location along the fringes of the CBD where rental volatility is lesser, while its retail assets have a unique niche in the children and education sectors which has relatively inelastic tenant demand.

Deep value from its hotel business. We believe that deep value lies in the group's portfolio of well located hotels and serviced residences in Singapore, Malaysia and Australia. These hotels are held on a historical cost basis, which we believe to be conservative compared to potential market realizable value. We estimate potential upside of more than S\$1bn if these properties' valuations are marked-to-market.

Valuation:

Our revalued NAV (RNAV) of UOL is S\$11.29, of which the main bulk of the upside came from its hotel properties. Our TP of S\$8.47 is pegged to a 25% discount to RNNAV. BUY!

Key Risks to Our View:

Economic slowdown. The downside risk to our projections is if residential sales are slower than our projections or if commercial properties and hotels operations are impacted by slower-than-projected growth in rental/room rates.

At A Glance

Issued Capital (m shrs)	796
Mkt. Cap (S\$m/US\$m)	5,223 / 3,727
Major Shareholders	
CY Wee & Co Pte Ltd (%)	13.7
Wee Investment Pte Ltd (%)	10.4
United Overseas Bank (%)	9.8
Free Float (%)	53.7
3m Avg. Daily Val (US\$m)	5.6

ICB Industry : Real Estate / Real Estate

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Retail and office sub-segments to offer stable returns.

UOL Group Limited (UOL) derives a significant 47%-58% of its revenues from its retail, office and hotel segments which should continue delivering stable cashflows in the coming years.

While we see headwinds in both the retail and office segments going forward well, we believe that UOL’s portfolio positioning and location of commercial properties mainly along the fringe areas of the CBD, will see lower volatility in rents. Thus operational performance is likely to remain stable going forward.

Its retail malls - United Square and Novena Square - are located in the Novena area, close to an emerging medical hub. The malls have formed a niche, which should result in high tenant stickiness. This is especially so for United Square, which houses tenants well known for providing various children’s education programs. On the other hand, Novena Square’s tenant mix mainly caters to necessity shopping and the needs of the vicinity’s growth as a medical hub.

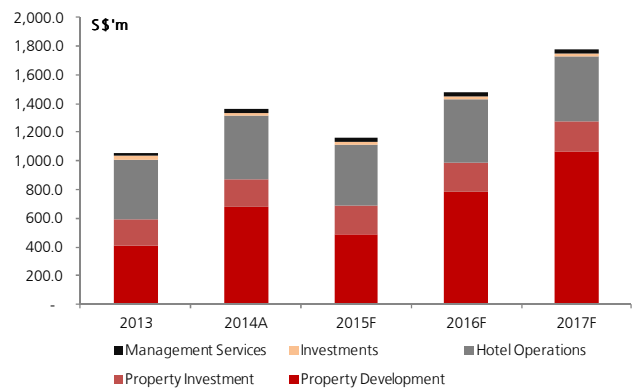
Hotel performance to remain stable. Growth will be driven by a projected 19% growth in total rooms under management over FY14-17. Performance from hotels and serviced residences are expected to remain mixed. We expect the operational performance for the group’s hotels & residences in Singapore and Malaysia to be weak, but partially offset by a better performance from its hotels in Australia. We project portfolio RevPAR to remain fairly stable.

Pre-sales for the group’s residential projects doing well amid muted residential outlook.

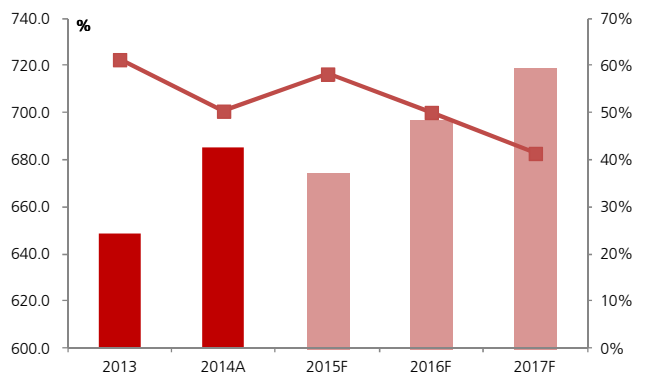
Despite tepid residential transactions YTD, UOL’s projects have continued to do fairly well. As of 2Q15, the group has substantially sold most of its projects currently under development (The Esplanade Tianjin (91%), Archipelago (99.1%), Katong Regency (100%), Thomson Three (98%), Seventy Saint Patric’s (88%)).

Recent launches such as the 555-unit Riverbank @ Fervalue (55% sold as of 2Q15) and 797-unit Botanique at Bartley (43% sell-through rate) saw decent take-ups and continue to sell. The recent launch of Principal Garden at Prince Charles Crescent also saw good response on launch day. We view this as a testament to the group’s ability to design residential projects that are well liked and attractively priced.

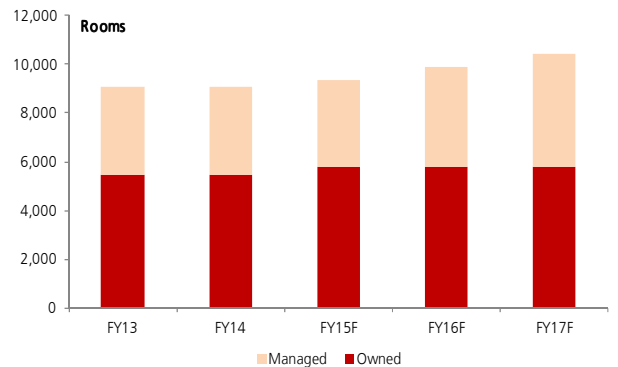
Revenue Breakdown by segments



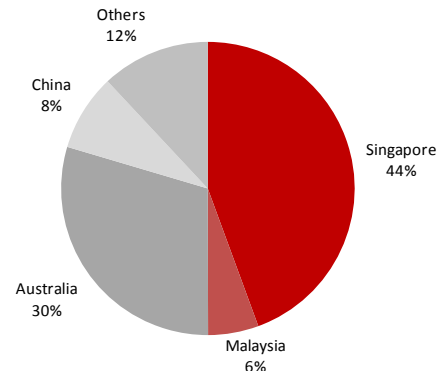
Contribution from Commercial and Hotel Segments (% of revenues)



Total rooms (owned and management) in Group’s hotels portfolio to increase steadily



Breakdown of Hotel revenues by country (FY16F)



Source: Company, DBS Bank

Balance Sheet:

Balance sheet remains strong. Debt/equity ratio was stable at 0.31x given the group’s conservative stance on leverage. Looking ahead, we do not anticipate higher leverage aggressively given the limited amount of capex required. This leaves UOL with the ability to acquire projects / new land when such opportunities come by.

Share Price Drivers:

Replenishing land bank key to income sustainability..

The group turns around its projects quickly and has little landbank on its balance sheet. UOL has always been active in land tenders to replenish its land bank especially in Singapore but remains selective given the sustained high land prices seen in recent government land tenders. The ability to secure additional land-bank at lower prices will mean upside to RNAVs and could re-rate the stock.

Relaxation of property cooling measures in Singapore.

Expectations of policy relaxation (especially cyclical measures like the buyers’ and sellers’ stamp duties) may improve market sentiment and spark a revival in transacted volumes in the Singapore residential market. This would also lift sentiment on property stocks, which we believe will enable UOL to close the gap between stock price and its NAV.

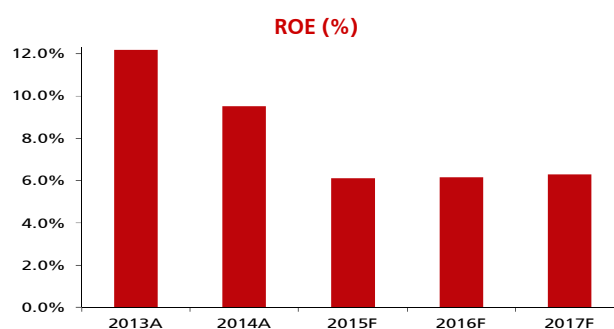
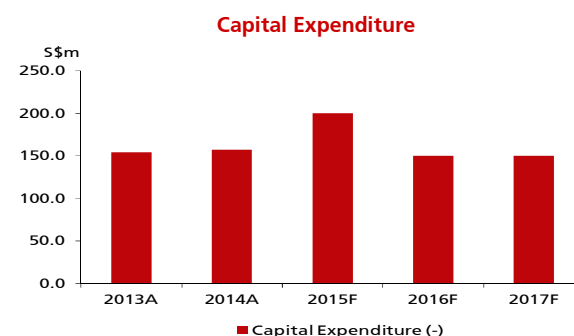
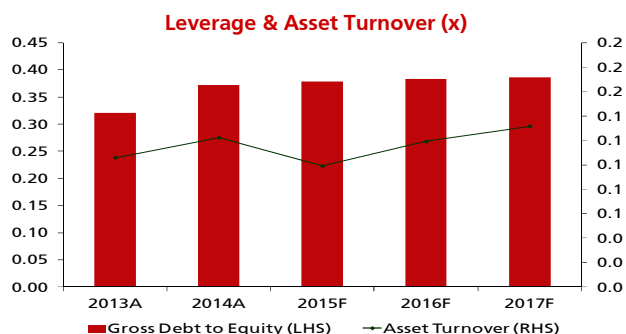
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Key Risks:

Economic slowdown. The downside risk to our projections is if residential sales are slower than projected or if its hotel operations are impacted by slower-than-projected Revpar performance. The upside risks to our view and target price would be posed by higher-than-expected selling prices or upgrades to the target prices of its listed investment holdings.

Company Background

With a track record of nearly 50 years, UOL Group’s impressive list of property development projects includes best-selling residential units, office towers, shopping centres, hotels and serviced suites.



Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenues (\$m)					
Property Development	410	676	484	695	1,020
Property Investment	180	198	203	208	212
Hotel Operations	420	438	421	438	455
Investments	27.5	20.3	20.3	20.3	20.3
Others	20.5	28.8	29.7	30.6	31.5
Total	1,059	1,361	1,158	1,392	1,738

Income Statement (\$m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	1,059	1,361	1,158	1,392	1,738
Cost of Goods Sold	(537)	(780)	(652)	(792)	(999)
Gross Profit	522	581	506	600	739
Other Opng (Exp)/Inc	(184)	(209)	(178)	(214)	(267)
Operating Profit	338	372	328	386	472
Other Non Opg (Exp)/Inc	12.7	13.4	14.4	15.4	16.4
Associates & JV Inc	115	158	293	264	246
Net Interest (Exp)/Inc	(38.3)	(28.5)	(91.4)	(101)	(112)
Exceptional Gain/(Loss)	525	322	0.0	0.0	0.0
Pre-tax Profit	952	837	544	564	622
Tax	(70.5)	(76.7)	(81.1)	(84.0)	(92.6)
Minority Interest	(95.6)	(74.3)	(23.9)	(29.5)	(39.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	786	686	440	451	490
Net Profit before Except.	261	364	440	451	490
EBITDA	524	604	696	725	794
Growth					
Revenue Gth (%)	(7.6)	28.5	(14.9)	20.1	24.9
EBITDA Gth (%)	1.7	15.1	15.2	4.3	9.5
Opg Profit Gth (%)	0.8	10.1	(11.8)	17.5	22.3
Net Profit Gth (Pre-ex) (%)	(7.7)	39.5	20.7	2.6	8.8
Margins & Ratio					
Gross Margins (%)	49.3	42.7	43.7	43.1	42.5
Opg Profit Margin (%)	31.9	27.3	28.3	27.7	27.1
Net Profit Margin (%)	74.2	50.4	37.9	32.4	28.2
ROAE (%)	12.2	9.5	5.6	5.5	5.8
ROA (%)	7.9	6.2	3.6	3.5	3.6
ROCE (%)	3.3	3.2	2.4	2.7	3.1
Div Payout Ratio (%)	19.6	17.2	26.9	26.2	24.1
Net Interest Cover (x)	8.8	13.0	3.6	3.8	4.2

Income driven mainly from revenue recognition from its development projects, and stable returns from its commercial and hotel portfolio

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	2Q2014	3Q2014	4Q2014	1Q2015	2Q2015
Revenue	214	434	305	238	342
Cost of Goods Sold	(95.3)	(302)	(175)	(132)	(204)
Gross Profit	118	132	130	106	138
Other Oper. (Exp)/Inc	(36.0)	(48.3)	(86.6)	(50.8)	(44.0)
Operating Profit	82.3	81.7	242	55.1	94.0
Other Non Opg (Exp)/Inc	(7.9)	6.84	(2.4)	5.01	(9.5)
Associates & JV Inc	38.4	39.8	45.7	38.9	35.3
Net Interest (Exp)/Inc	(7.5)	(4.0)	(6.5)	(10.1)	(4.5)
Exceptional Gain/(Loss)	137	0.0	0.0	0.72	60.3
Pre-tax Profit	243	124	279	89.6	176
Tax	(11.6)	(15.8)	(13.2)	(11.8)	(11.3)
Minority Interest	(19.3)	(6.0)	(14.8)	(3.6)	(12.0)
Net Profit	212	103	251	74.2	153
Net profit bef Except.	74.3	103	251	73.5	92.2
EBITDA	127	143	302	99.0	120

Growth

Revenue Gth (%)	(47.7)	103.0	(29.7)	(21.8)	43.6
EBITDA Gth (%)	(37.4)	12.2	111.6	(67.2)	21.1
Opg Profit Gth (%)	(45.5)	(0.8)	196.4	(77.2)	70.6
Net Profit Gth (Pre-ex) (%)	(34.5)	38.1	144.6	(70.7)	25.4

Margins

Gross Margins (%)	55.4	30.4	42.5	44.4	40.3
Opg Profit Margins (%)	38.5	18.8	79.4	23.1	27.5
Net Profit Margins (%)	99.1	23.7	82.3	31.2	44.6

Balance Sheet (\$\$m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	1,169	1,241	1,381	1,421	1,461
Invt in Associates & JVs	2,785	3,162	3,455	3,719	3,965
Other LT Assets	4,278	4,528	4,528	4,528	4,528
Cash & ST Invt	875	935	704	660	658
Inventory	0.70	0.80	0.68	0.82	1.02
Debtors	378	248	211	253	316
Other Current Assets	936	1,735	2,128	2,579	3,068
Total Assets	10,421	11,848	12,407	13,161	13,998
ST Debt	1,131	1,292	1,292	1,292	1,292
Creditor	447	282	290	348	435
Other Current Liab	99.8	75.2	81.1	84.0	92.6
LT Debt	1,184	1,737	1,937	2,267	2,597
Other LT Liabilities	333	332	332	332	332
Shareholder's Equity	6,760	7,643	7,964	8,297	8,669
Minority Interests	467	488	512	541	581
Total Cap. & Liab.	10,421	11,848	12,407	13,161	13,998
Non-Cash Wkg. Capital	768	1,626	1,969	2,401	2,858
Net Cash/(Debt)	(1,440)	(2,094)	(2,525)	(2,899)	(3,231)
Debtors Turn (avg days)	100.0	83.9	72.2	60.8	59.8
Creditors Turn (avg days)	277.0	184.8	176.1	158.9	152.0
Inventory Turn (avg days)	0.6	0.4	0.5	0.4	0.4
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	1.3	1.8	1.8	2.0	2.2
Quick Ratio (x)	0.7	0.7	0.6	0.5	0.5
Net Debt/Equity (X)	0.2	0.3	0.3	0.3	0.3
Net Debt/Equity ex MI (X)	0.2	0.3	0.3	0.3	0.4
Capex to Debt (%)	6.7	5.2	6.2	2.8	2.6
Z-Score (X)	2.0	2.0	1.9	1.9	1.9

Gearing to remain fairly stable at 0.3x

Source: Company, DBS Bank

Cash Flow Statement (\$m)

@INDA1003

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	881	760	544	564	622
Dep. & Amort.	58.8	60.1	60.1	60.1	60.1
Tax Paid	(46.5)	(96.5)	(75.2)	(81.1)	(84.0)
Assoc. & JV Inc/(loss)	(115)	(158)	(293)	(264)	(246)
Chg in Wkg.Cap.	80.3	(726)	(349)	(435)	(466)
Other Operating CF	(442)	(250)	0.0	0.0	0.0
Net Operating CF	417	(411)	(113)	(156)	(114)
Capital Exp.(net)	(154)	(157)	(200)	(100.0)	(100.0)
Other Invt.(net)	(282)	(0.8)	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(1.6)	0.0	0.0	0.0
Div from Assoc & JV	99.1	18.7	0.0	0.0	0.0
Other Investing CF	(16.0)	8.89	0.0	0.0	0.0
Net Investing CF	(353)	(132)	(200)	(100.0)	(100.0)
Div Paid	(115)	(57.1)	(118)	(118)	(118)
Chg in Gross Debt	156	690	200	330	330
Capital Issues	3.94	3.58	0.0	0.0	0.0
Other Financing CF	(76.1)	(103)	0.0	0.0	0.0
Net Financing CF	(31.7)	534	81.9	212	212
Currency Adjustments	1.20	2.42	0.0	0.0	0.0
Chg in Cash	33.3	(6.9)	(231)	(44.1)	(1.9)
Opg CFPS (\$ cts)	43.7	40.1	30.0	35.4	44.7
Free CFPS (\$ cts)	34.1	(72.2)	(39.8)	(32.5)	(27.2)

Projected capex for hotels / residential projects

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	27 Feb 15	7.85	9.31	BUY
2:	17 Mar 15	7.49	9.31	BUY
3:	13 May 15	7.49	9.31	BUY
4:	13 Aug 15	6.54	8.47	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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