

Singapore Company Guide

UOL Group

Version 14 | Bloomberg: UOL SP | Reuters: UTOS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Apr 2019

BUY (Upgrade from Hold)

Last Traded Price (15 Apr 2019): S\$7.36 (STI : 3,325.86)

Price Target 12-mth: S\$8.53 (16% upside) (Prev S\$7.15)

Analyst

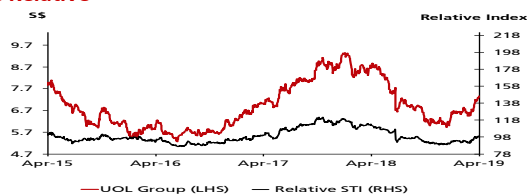
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What's New

- UOL's 50% owned UIC gains 100% control of Marina Square via acquisition of 25% stake in MCH and AHPL for a total consideration of S\$675m
- Timely acquisition for UOL / UIC as the biggest beneficiary riding on the government's plan to rejuvenate the central business district (CBD)
- Price implies 1.2x P/NAV and half of RNAV
- Upgrade to BUY; raised TP to S\$8.53

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2017A	2018A	2019F	2020F
Revenue	2,114	2,397	1,854	2,535
EBITDA	667	828	760	841
Pre-tax Profit	1,038	710	535	640
Net Profit	880	434	326	415
Net Pft (Pre Ex.)	352	348	326	415
Net Pft Gth (Pre-ex) (%)	8.4	(0.9)	(6.3)	27.1
EPS (S cts)	105	51.5	38.7	49.2
EPS Pre Ex. (S cts)	41.8	41.3	38.7	49.2
EPS Gth Pre Ex (%)	4	(1)	(6)	27
Diluted EPS (S cts)	105	51.5	38.7	49.2
Net DPS (S cts)	17.5	17.5	17.5	17.5
BV Per Share (S cts)	1,123	1,145	1,166	1,198
PE (X)	7.0	14.3	19.0	15.0
PE Pre Ex. (X)	17.6	17.8	19.0	15.0
P/Cash Flow (X)	6.6	nm	6.0	5.6
EV/EBITDA (X)	20.8	18.0	18.9	16.6
Net Div Yield (%)	2.4	2.4	2.4	2.4
P/Book Value (X)	0.7	0.6	0.6	0.6
Net Debt/Equity (X)	0.2	0.3	0.2	0.2
ROAE (%)	10.0	4.5	3.4	4.2
Earnings Rev (%)			-	-
Consensus EPS (S cts):			44.4	49.6
Other Broker Recs:		B: 9	S: 0	H: 4

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

Step-by-step to bluer skies

Upgrade to BUY; raised TP to S\$8.53. We upgrade our rating to BUY and raised our TP to S\$8.58 from S\$7.15 for UOL Group (UOL). Currently trading at 0.6x P/NAV, we believe UOL could potentially trade closer to its NAV as it slowly unlocks more value from its commercial and hospitality assets.

Where we differ: Gaining access to prime integrated development with redevelopment potential. Following UOL's tightening grip on UIC (50% stake), the purchase of the minority stake in MCH is a surprise coup and should be read positively, in our view. With control over a prime integrated development comprising a retail mall and 3 hotels fronting the Marina Bay area, we believe UOL is positioned for asset enhancement / redevelopment riding on the government's plan to rejuvenate the CBD.

Potential catalysts: Unlocking the value of its commercial and hospitality assets, recovery in office rental rates and hotel RevPAR, and property sales remain strong despite the change in sentiment. **Taking further bold steps to riches.** We believe UOL / UIC is positioned with many options to close its NAV/RNAV gap, including the securitisation of its hotels and commercial portfolios or potentially to privatise UIC with its thin free float at 12.9%.

Valuation:

We upgrade our rating to BUY with a higher TP of S\$8.53, pegged to a lower discount of 35% to our RNAV and taking into account the higher valuation and stake in MCH and AHPL.

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 hotel operations are impacted by slower-than-projected growth in rental/room rates.

At A Glance

Issued Capital (m shrs)	843
Mkt. Cap (S\$m/US\$m)	6,206 / 4,587
Major Shareholders (%)	
Wee Investment Pte Ltd	14..0
CY Wee & Co Pte Ltd	13.7
Haw Par Corp Ltd	8.5
Free Float (%)	56.7
3m Avg. Daily Val (US\$m)	6.8
ICB Industry : Financials / Real Estate	



UOL Group

WHAT'S NEW

Step-by-step to bluer skies

UOL's 50%-owned UIC gains 100% control of Marina Square development; for AEI/redevelopment potential: United Industrial Corporation Ltd (UIC), a 50%-owned subsidiary of UOL, announced the acquisition of the remaining stakes in Marina Centre Holdings Pte Ltd (MCH) of 24.27% and Aquamarina Hotel Pte Ltd (AHPL) of 25% for S\$485.3m and S\$190m respectively. Post-acquisition, UIC/UOL will own 100% of Marina Square development including three hotels in the development, Pan Pacific Singapore Marina Mandarin and Mandarin Oriental Hotel (50% stake). The acquisition will be funded by UIC Group's internal financial resources and external bank borrowings.

According to Business Times, UOL's CEO, Mr Liam, said UOL and UIC "will jointly explore asset-enhancement opportunities... will also give us an opportunity to rebrand and rename the 575-room hotel"

UIC to recognise S\$218 one-off gain and NAV expected to increase to S\$4.80: Based on the proforma figures, UIC's PATMI will increase by S\$222m (or 15 Scts per share; 88% of FY18 core PATMI), including a S\$218m one-off gain arising from a change in recognition of the Company's investment in AHPL from an associated company to a subsidiary. On the other hand, UOL's PATMI will increase by S\$4m (or 0.4 Scts per share; 1% of FY18 core PATMI).

UIC's NAV will increase to S\$4.80 per share from S\$4.74 per share while UOL's NAV will increase marginally to S\$11.31 from S\$11.30.

Our Views

Timely acquisition for UOL/UIC as the biggest beneficiary riding on the government's plan to rejuvenate the CBD: We believe the acquisition to gain 100% stakes in MCH and AHPL is very timely. With full control over prime assets at the Marina Square development, this allows UOL/UIC to potentially ride on the incentive scheme to rejuvenate the CBD as announced recently when planning for asset-enhancement and redevelopment opportunities. In addition, with UOL now owns a 50% stake in UIC (UOL has been raising its stake in UIC slowly since Nov 2017), UOL/UIC will be the biggest beneficiaries of any potential upside from any asset enhancements.

Acquisition price implies 1.2x P/NAV and half of RNAV. The acquisition price of MCH is estimated at 1.2x P/NAV. However, the price is at 50% below our estimated RNAV of MCH, assuming potential upside to be derived from asset enhancement.

UIC has huge debt headroom for acquisition and asset enhancement. UIC's net debt to equity stands at a mere 3% as at Dec 2018 which offers ample debt headroom to fund the acquisition and any potential asset enhancement/redevelopment of the properties. This gives UIC the opportunity to improve the efficiency of its capital structure.

Preclude to unlocking a bigger value in UIC? Given the potential upside from enhancing Marina Square development and the free float of UIC has now reached 12.9% (almost reaching the 10% free float mark to be delisted), we believe UOL/UIC has a few options to potentially unlock a bigger gain from its investments in UIC. Firstly, with the free float limit approaching, UOL/UIC may potentially delist UIC if UOL continues to acquire without triggering a mandatory general offer (<1% every six months which will only take another 18 months). We believe UIC which is currently trading at 0.6x P/NAV is an attractive valuation to be taken private. In addition, UIC's current share price of S\$2.98 is below the price in which UOL first started to accumulate UIC's shares from the open market at S\$3.34 per share.

Alternatively, with control over more prime assets, UOL/UIC could explore potentially securitisation of its commercial/hospitality assets to allow these assets to be traded at a valuation closer to its NAV / RNAV.

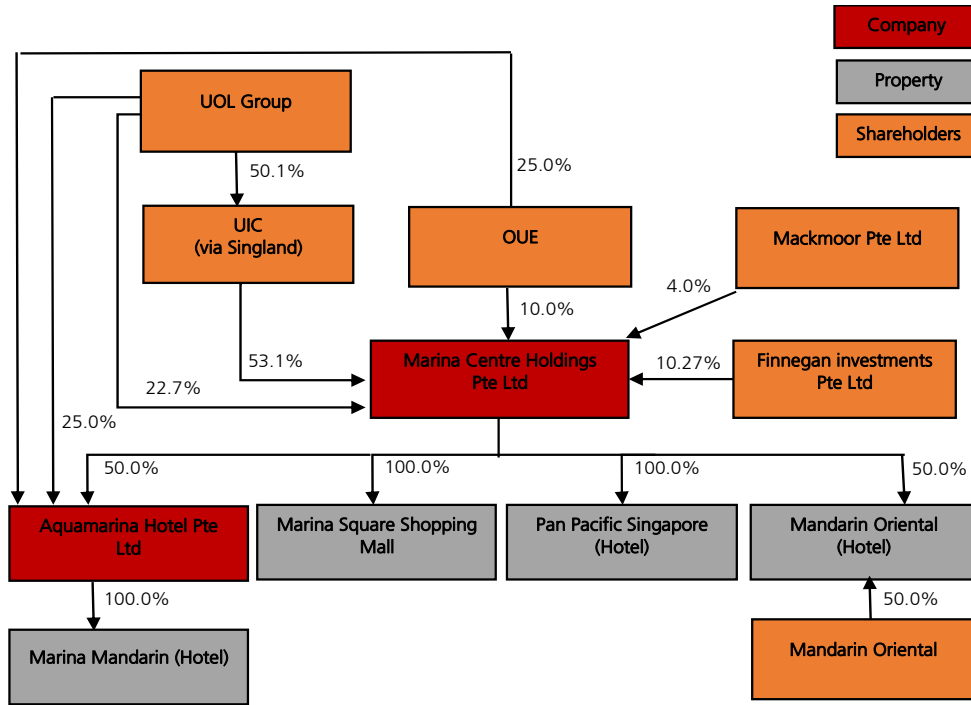
Upgrade to BUY; raised TP to S\$8.53. We upgrade our rating to BUY and raised our TP to S\$8.53, factoring in the higher stake and valuation of MCH and AHPL post the acquisition and reducing the discount RNAV to 35% from 40% previously. We believe gaining control over prime assets warrants a lower discount.

Given its recent actions (gaining control in UIC and now MCH), UOL is now positioned to unlock the value of its commercial and hospitality assets. The stock is currently trading at an attractive valuation, 0.6x P/NAV, at close to -1SD of its historical average that it traded at during the last property cycle (FY13-FY17). We believe UOL could potentially trade closer to its NAV as it slowly unlocks more value from its commercial and hospitality assets. Our target price implies 0.8x P/NAV.

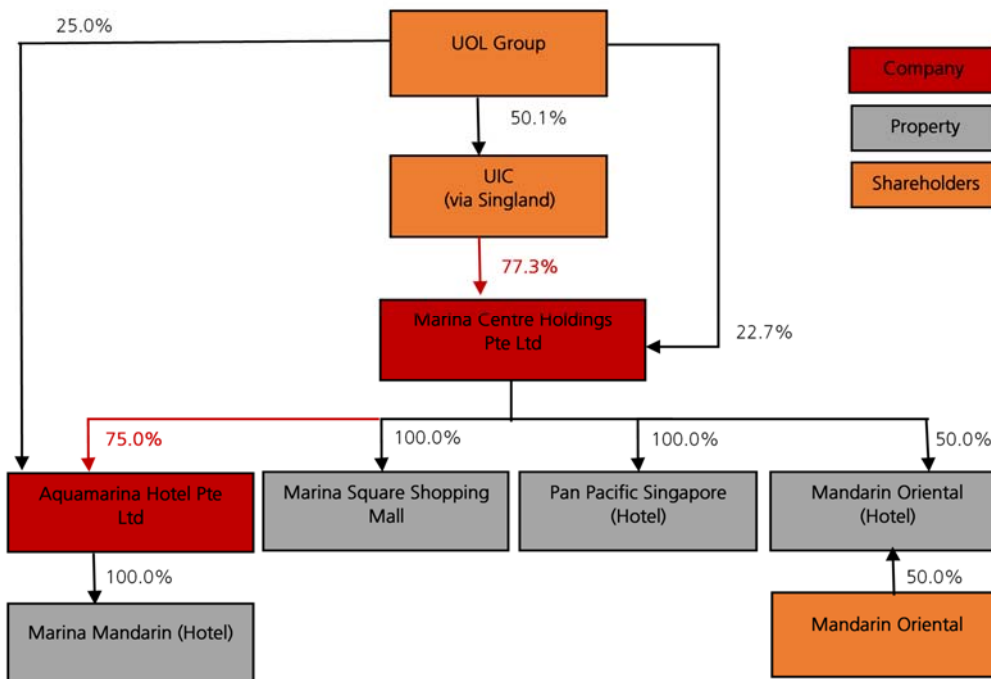
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Figure 1: Shareholdings in UIC/MCH/AHPL pre- and post-acquisition

Pre-acquisition



Post-acquisition



Source: Company, DBS Bank

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Figure 2: Estimated RNAV of MCH

Estimated RNAV of MCH	% stake	NLA (sqft) / Rooms (units)	Rent (\$\$/psf) / Trevpar per room (\$\$)	Cap rate (%)	Value (\$\$/psf / \$\$ per room)	Valuation (\$\$'m)
Marina Square retail	100%	761,260	10	4.25%	1,976	1,505
Pan Pacific Hotel	100%	778	526	5.25%	1,461,530	1,137
Marina Mandarin Hotel	75%	575	468	5.25%	1,301,625	561
Mandarin Oriental Hotel	50%	527	638	5.25%	1,774,943	468
Total value						3,671
minus debt*						(675)
Total RNAV						2,995
Total RNAV per share						9.98
Implied acquisition price per share						6.67
Potential upside						50%

Source: Company, DBS Bank

* Assume 100% debt to fund the transaction

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CRITICAL DATA POINTS TO WATCH

Critical Factors

Retail and office sub-segments to offer stable returns. UOL Group Limited (UOL) derives a significant 47-58% of its revenues from 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 ahead, we believe that the positioning and location of UOL’s portfolio of commercial properties, mainly along the fringe areas of the CBD, will result in lower volatility in rents.

UIC’s portfolio of investment properties is complementary to the group’s exposure in largely city-fringe properties as a majority of the group’s properties are located in the central business district (CBD). With close to c.21% of the space up for renewal in 2018, the tight competitive supply within the CBD will, in our view, result in potentially stronger rental reversionary prospects.

Its retail malls – United Square and Novena Square – are located in the Novena area, close to the 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 programmes. 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.

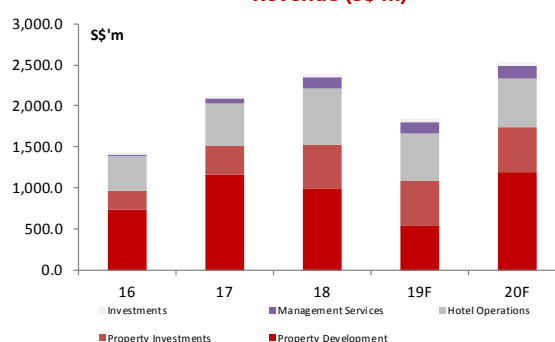
Hotel performance – weakness in Asia; overall outlook stable.

Growth will be driven by the acquisition of Pan Pacific Melbourne in 2017 while performances from hotels and serviced residences are expected to turn up on the back of stronger economic growth driving business travel. We expect the operational performance of the group’s hotels and residences in Singapore and Australia to improve as well. Portfolio RevPAR is expected to improve to the tune of c.3% in 2018. UOL is also revamping Pan Pacific Hotel Orchard into a 340-room “green hotel”, completing in 2021.

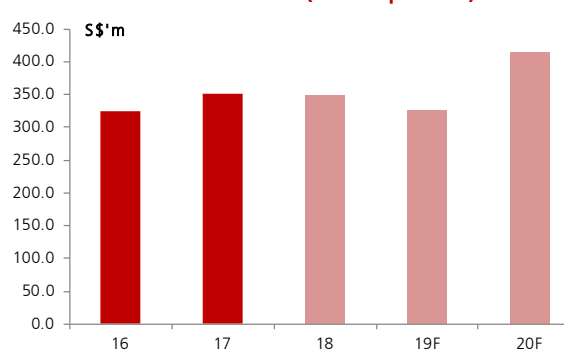
Presales for residential projects doing well amid muted residential outlook.

As of FY17, UOL has substantially sold most of its projects (c.1,090 properties for S\$1.05bn) that are completed or currently under development, and has added three sites which could yield close to 925 units when launched over the next two years. Management believes that the Singapore property market has found a steady state at current levels and the increase in industry sales volume has been encouraging. The launch of the recently acquired sites at 45 Amber Road, Nanak Mansions and Raintree Gardens will be keenly watched given the group’s dwindling land bank.

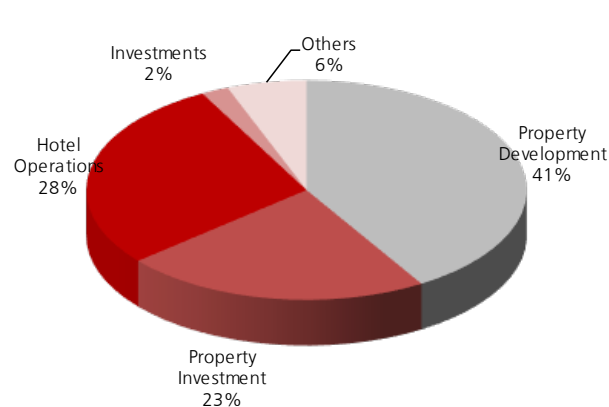
Revenue (S\$m)



Net Profit (ex-exceptionals)



Breakdown of revenue contribution



RNAV

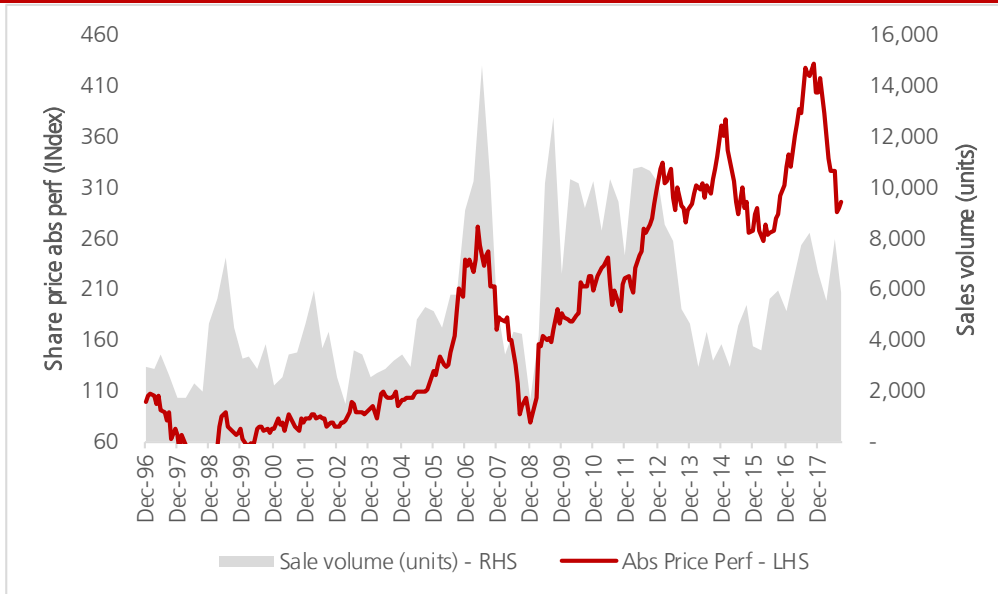
Breakdown of RNAV	OMV (\$m)
Properties	
Investment Properties	7,263
less book value	-7,329
Surplus/deficit	-66
NPV of devt profits	887
Mark to TP value of quoted holdings	
Listed equities/Strategic Holdings	6,734
Hotel operations	3,175
Total	9,909
less book value	-7,742
Surplus	2,167
Book NAV	8,127
RNAV	11,114
Total Shares	842
RNAV/share (\$)	13.21
Discount	35%
Price Target (\$)	8.58

Source: Company, DBS Bank

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Appendix 1:

UOL's absolute performance vs Property sales volume

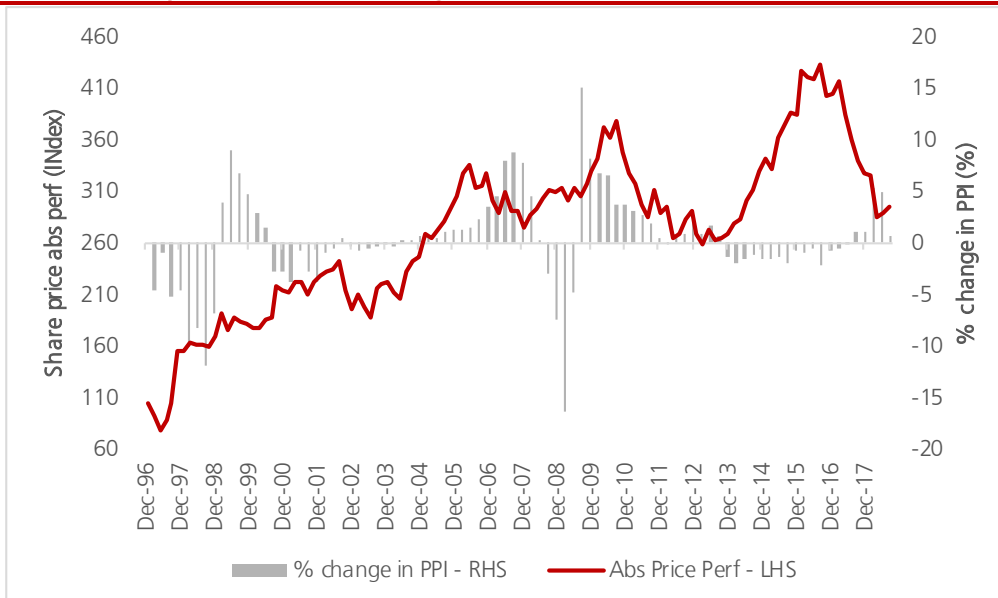


Remarks

Share price performance is positively correlated to the property sales volume.

Source: DBS Bank, Thomson Analytics, Company, Bloomberg Finance L.P.

UOL's absolute performance vs % change in PPI



Remarks

While we saw some positive correlation in period 2006 to 2014, we do not see major correlation thereafter.

Source: DBS Bank, Thomson Analytics, Company, Bloomberg Finance L.P.

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Balance Sheet:

Balance sheet remains strong. Debt-to-equity ratio is expected to remain stable at 0.3x from FY17A-18F. This leaves UOL with sufficient headroom to acquire projects/new sites 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 land bank 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 highly competitive environment seen in recent government land tenders. The ability to secure additional land bank at lower prices will mean upside to RNAVs and this could re-rate the stock.

Strong transaction volumes to drive higher margins. The property market is on an uptrend and we project a price increase of 6-10% over 2018-2019. We believe that UOL, as a proxy to the Singapore property market, is expected to see higher share prices in 2018. Stronger-than-expected rise in prices could mean prospects of higher margins for the group's upcoming launches which will act as a catalyst for further re-rating.

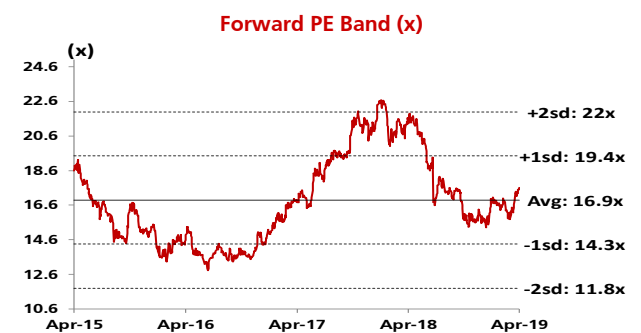
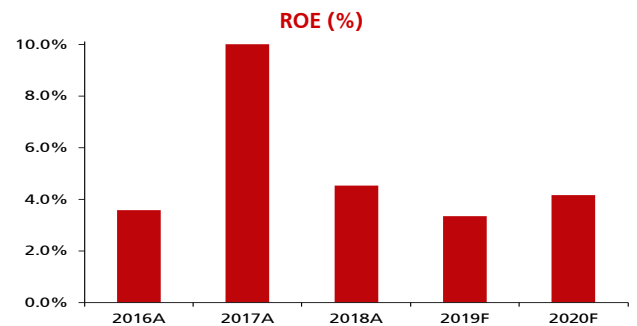
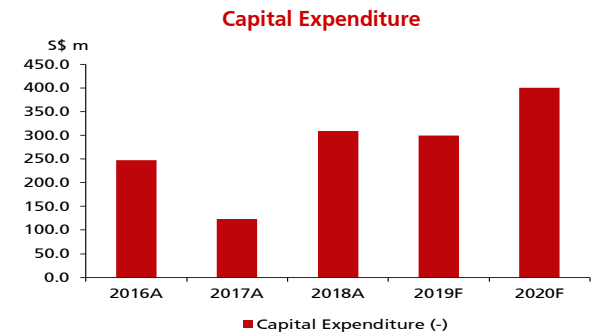
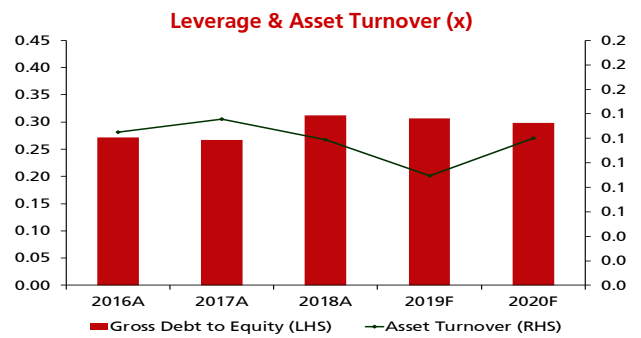
Deep value from its hotel business. We believe that deep value lies in the group's portfolio of well-located hotels and serviced residences in Singapore, Malaysia and Australia. These hotels are held on a historical cost basis, which we believe is conservative compared to potential realisable value.

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 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

Income Statement (\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Revenue	1,441	2,114	2,397	1,854	2,535
Cost of Goods Sold	(956)	(1,406)	(1,410)	(977)	(1,463)
Gross Profit	485	709	988	877	1,072
Other Opng (Exp)/Inc	(222)	(307)	(385)	(315)	(431)
Operating Profit	263	402	603	562	641
Other Non Opg (Exp)/Inc	17.2	14.7	43.2	13.7	18.7
Associates & JV Inc	136	119	5.57	8.61	4.49
Net Interest (Exp)/Inc	(24.9)	(26.3)	(26.7)	(48.5)	(24.1)
Exceptional Gain/(Loss)	(37.3)	529	85.3	0.0	0.0
Pre-tax Profit	354	1,038	710	535	640
Tax	(48.3)	(61.2)	(98.3)	(88.3)	(89.7)
Minority Interest	(18.6)	(96.2)	(178)	(121)	(136)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	287	880	434	326	415
Net Profit before Except.	324	352	348	326	415
EBITDA	483	667	828	760	841
Growth					
Revenue Gth (%)	12.7	46.8	13.4	(22.7)	36.7
EBITDA Gth (%)	(6.2)	38.1	24.2	(8.2)	10.6
Opg Profit Gth (%)	(3.8)	53.0	50.0	(6.8)	14.2
Net Profit Gth (Pre-ex) (%)	(5.3)	8.4	(0.9)	(6.3)	27.1
Margins & Ratio					
Gross Margins (%)	33.7	33.5	41.2	47.3	42.3
Opg Profit Margin (%)	18.2	19.0	25.1	30.3	25.3
Net Profit Margin (%)	19.9	41.6	18.1	17.6	16.4
ROAE (%)	3.6	10.0	4.5	3.4	4.2
ROA (%)	2.5	5.6	2.2	1.6	2.0
ROCE (%)	2.0	2.5	2.7	2.4	2.7
Div Payout Ratio (%)	42.0	16.7	34.0	45.2	35.6
Net Interest Cover (x)	10.6	15.3	22.6	11.6	26.6

Source: Company, DBS Bank

UOL Group

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

FY Dec	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Revenue	827	661	635	524	577
Cost of Goods Sold	(534)	(428)	(388)	(289)	(305)
Gross Profit	293	233	247	235	272
Other Oper. (Exp)/Inc	(124)	(91.8)	(90.2)	(85.5)	(117)
Operating Profit	169	141	157	150	155
Other Non Opg (Exp)/Inc	(6.9)	6.04	30.3	4.38	2.47
Associates & JV Inc	1.75	1.19	0.24	1.73	2.42
Net Interest (Exp)/Inc	(5.0)	(10.2)	(9.7)	(5.7)	(1.1)
Exceptional Gain/(Loss)	(2.2)	0.03	39.3	0.0	46.0
Pre-tax Profit	157	139	217	150	204
Tax	(22.7)	(27.1)	(24.4)	(20.8)	(26.0)
Minority Interest	(55.4)	(37.6)	(60.2)	(36.3)	(44.0)
Net Profit	78.5	73.8	133	92.8	134
Net profit bef Except.	80.7	73.8	93.4	92.8	88.5
EBITDA	230	194	221	187	226

Growth

Revenue Gth (%)	53.7	(20.0)	(3.9)	(17.6)	10.2
EBITDA Gth (%)	37.4	(15.4)	13.6	(15.5)	20.8
Opg Profit Gth (%)	79.6	(16.3)	11.1	(4.8)	3.5
Net Profit Gth (Pre-ex) (%)	(8.8)	(8.5)	26.5	(0.6)	(4.7)

Margins

Gross Margins (%)	35.4	35.3	38.9	44.9	47.2
Opg Profit Margins (%)	20.4	21.4	24.7	28.5	26.8
Net Profit Margins (%)	9.5	11.2	20.9	17.7	23.3

Balance Sheet (\$\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Net Fixed Assets	1,166	2,856	2,808	2,931	3,155
Invts in Associates & JVs	3,488	286	283	291	296
Other LT Assets	5,312	12,325	12,596	12,596	12,596
Cash & ST Invts	302	816	679	1,273	1,841
Inventory	0.65	4.99	4.25	4.38	5.98
Debtors	99.6	395	576	445	609
Other Current Assets	1,191	2,948	3,718	3,220	2,892
Total Assets	11,558	19,633	20,664	20,762	21,395
ST Debt	728	973	1,763	1,763	1,763
Creditor	203	928	803	621	849
Other Current Liab	51.0	110	189	169	170
LT Debt	1,614	2,808	2,762	2,762	2,762
Other LT Liabilities	326	661	678	678	678
Shareholder's Equity	8,127	9,451	9,648	9,827	10,094
Minority Interests	508	4,703	4,822	4,943	5,079
Total Cap. & Liab.	11,558	19,633	20,664	20,762	21,395
Non-Cash Wkg. Capital	1,038	2,311	3,307	2,880	2,487
Net Cash/(Debt)	(2,041)	(2,964)	(3,845)	(3,251)	(2,683)
Debtors Turn (avg days)	37.6	42.7	73.9	100.5	75.9
Creditors Turn (avg days)	90.6	161.9	256.0	324.3	208.5
Inventory Turn (avg days)	0.3	0.8	1.4	2.0	1.5
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	1.6	2.1	1.8	1.9	1.9
Quick Ratio (x)	0.4	0.6	0.5	0.7	0.9
Net Debt/Equity (X)	0.2	0.2	0.3	0.2	0.2
Net Debt/Equity ex MI (X)	0.3	0.3	0.4	0.3	0.3
Capex to Debt (%)	10.6	3.3	6.8	6.6	8.8
Z-Score (X)	1.5	1.5	1.5	1.5	1.5

Source: Company, DBS Bank

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Cash Flow Statement (\$\$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Pre-Tax Profit	354	976	612	535	640
Dep. & Amort.	66.6	131	176	176	176
Tax Paid	(33.5)	(61.3)	(106)	(108)	(88.3)
Assoc. & JV Inc/(loss)	(136)	(119)	(5.6)	(8.6)	(4.5)
Chg in Wkg.Cap.	260	485	(1,138)	446	391
Other Operating CF	27.7	(476)	(16.1)	0.0	0.0
Net Operating CF	539	936	(477)	1,041	1,116
Capital Exp.(net)	(248)	(124)	(310)	(300)	(400)
Other Invt.(net)	0.0	210	(4.4)	0.0	0.0
Invt in Assoc. & JV	(61.7)	(142)	(14.4)	0.0	0.0
Div from Assoc & JV	57.4	48.6	32.5	0.0	0.0
Other Investing CF	3.12	7.05	10.4	0.0	0.0
Net Investing CF	(249)	(0.1)	(286)	(300)	(400)
Div Paid	(66.3)	(75.7)	(175)	(147)	(147)
Chg in Gross Debt	(105)	(255)	897	0.0	0.0
Capital Issues	1.10	12.1	8.36	0.0	0.0
Other Financing CF	(88.2)	(103)	(107)	0.0	0.0
Net Financing CF	(259)	(422)	624	(147)	(147)
Currency Adjustments	(5.9)	0.55	(0.7)	0.0	0.0
Chg in Cash	25.1	515	(139)	594	568
Opg CFPS (S cts)	34.6	53.7	78.4	70.7	85.9
Free CFPS (S cts)	36.1	96.5	(93.4)	88.0	84.9

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	14 May 18	8.61	10.23	BUY
2:	16 May 18	8.35	10.23	BUY
3:	06 Jul 18	6.70	10.23	HOLD
4:	06 Aug 18	7.03	7.82	HOLD
5:	10 Dec 18	6.15	7.15	HOLD
6:	03 Jan 19	6.00	7.15	HOLD
7:	17 Jan 19	6.58	7.15	HOLD
8:	19 Feb 19	6.69	7.15	HOLD
9:	27 Feb 19	6.75	7.15	HOLD
10:	18 Mar 19	6.58	7.15	HOLD
11:	28 Mar 19	6.86	7.15	HOLD

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

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

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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

Completed Date: 16 Apr 2019 08:39:19 (SGT)

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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