

UOL Group Ltd (UOL SP)

Oversold

Maintain BUY; TP SGD8.95

We cut TP to SGD8.95, based on a revised RNAV discount of 25% (from 10%). Our RNAV estimate is lowered by 1.2% to SGD11.91 after downgrading our ASP assumptions. Our FY18-20E EPS is cut by up to 9%. With the stock trading at over 40% discount to its RNAV, we believe the knee jerk reaction to policy tightening may have overcompensated for headwinds to its residential projects. Maintain BUY. UOL remains as our top pick amongst Singapore developers.

Cutting ASP assumptions

With a 5-10% increase in ABSD for property investors, we expect developers to lower ASPs to stimulate demand. We cut ASP for The Tre Ver (former Raintree Gardens) by 5% to SGD1,560 psf. As the site was acquired prior to land price escalation in the vicinity, we continue to see double digit margin for this project. We cut our assumptions for Silat Avenue site by 7% to SGD2,050 psf. Nanak Mansion, a high-end project in the East Coast is cut by 13%.

Cheaper proxy to office recovery

Including its pro-rata stake in UIC (UIC SP, Not Rated), UOL offers a 29% aggregate exposure (by value) to Singapore's office market. At 0.6x P/BV and 42% discount to its RNAV, we believe UOL is a much cheaper proxy to a recovering office market than office REITs which are trading close to book values. Furthermore, with the company recently gaining statutory control of UIC, repositioning and redevelopment potential within its commercial portfolio remains an attractive medium term theme.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	1,441	2,103	3,668	3,128	2,375
EBITDA	337	534	1,095	1,027	804
Core net profit	304	351	389	445	382
Core EPS (cts)	37.9	42.6	46.2	52.9	45.3
Core EPS growth (%)	(27.3)	12.5	8.3	14.5	(14.3)
Net DPS (cts)	15.0	17.5	17.5	17.5	17.5
Core P/E (x)	15.2	17.9	14.5	12.7	14.8
P/BV (x)	0.6	0.7	0.6	0.6	0.6
Net dividend yield (%)	2.6	2.3	2.6	2.6	2.6
ROAE (%)	3.6	10.1	4.1	4.5	3.8
ROAA (%)	2.6	2.3	2.0	2.3	1.9
EV/EBITDA (x)	22.0	28.2	11.6	11.2	13.2
Net gearing (%) (incl perps)	24.4	21.4	13.9	4.2	net cash
Consensus net profit	-	-	413	413	406
MKE vs. Consensus (%)	-	-	(5.8)	7.8	(6.0)

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BUY

Share Price	SGD 6.70
12m Price Target	SGD 8.95 (+34%)
Previous Price Target	SGD 10.85

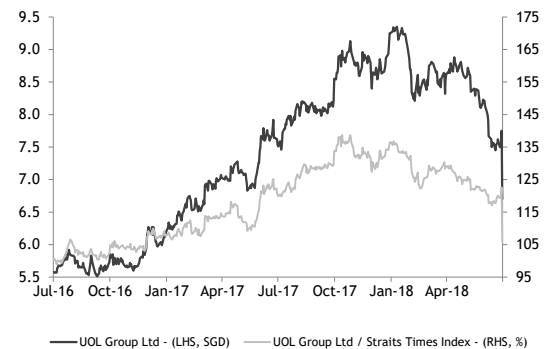
Statistics

52w high/low (SGD)	9.35/6.70
3m avg turnover (USDm)	8.2
Free float (%)	59.1
Issued shares (m)	842
Market capitalisation	SGD5.6B
	USD4.1B

Major shareholders:

WEE FAMILY	26.8%
United Overseas Bank Ltd. (Singapore)	7.0%
Haw Par Corp. Ltd.	5.1%

Price Performance



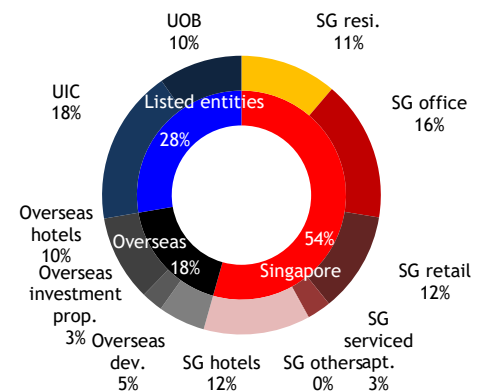
	-1M	-3M	-12M
Absolute (%)	(18)	(22)	(11)
Relative to index (%)	(13)	(18)	(12)

Source: FactSet

Link to sector note:

Singapore Property

Exposure summary (% of GAV)



Source: Maybank Kim Eng

Fig 1: RNAV and TP for UOL

Valuation	2018E (SGD m)	% of total (%)	per share (SGD)	Remarks
Singapore developments	1,454	11.2	1.73	Mass- to mid-range homes.
Singapore investment properties	3,991	30.8	4.74	
Office	2,113	16.3	2.51	Cap-rate assumptions of 3.50%-3.75%.
Retail	1,506	11.6	1.79	Cap-rate assumptions of 4.75%-5.00%.
Serviced apartments	359	2.8	0.43	
Others	12	0.1	0.01	
Singapore hotels	1,593	12.3	1.89	
Overseas developments	706	5.5	0.84	
China	226	1.7	0.27	Projects in Tianjin and Shanghai.
UK	480	3.7	0.57	Projects in London.
Overseas investment properties	325	2.5	0.39	
China	70	0.5	0.08	Commercial property in Tianjin.
Malaysia	77	0.6	0.09	Serviced apartments in Kuala Lumpur.
UK	178	1.4	0.21	Commercial properties in London.
Overseas hotels	1,290	10.0	1.53	Directly owned hotels at latest market value.
Australia	759	5.9	0.90	Hotels in Melbourne, Perth and Sydney.
China	204	1.6	0.24	Hotels in Xiamen, Suzhou and Tianjin.
Malaysia	137	1.1	0.16	Hotels in Kuala Lumpur and Penang.
Vietnam	120	0.9	0.14	Hotels in Hanoi and Ho Chi Minh City.
Myanmar	70	0.5	0.08	Hotel in Yangon.
UIC	2,327	18.0	2.77	Market value of 49% stake in UIC at SGD3.35/share. (0.7x P/BV, BVPS SGD4.60)
UOB	1,257	9.7	1.49	Maybank KE's TP of SGD32.88.
Gross asset value	12,944	100.0	15.38	
Less: adjusted net liabilities	(2,917)			
RNAV	10,027			
Outstanding no. of shares (m)	842			
RNAV per share	11.91			
TP	8.95			Rounded.
RNAV discount (%)	(25)			

Note: RNAV = SGD11.90 if we use the SGD29.50 market price (instead of MBKE TP of SGD32.88) for UOB.

Source: Maybank Kim Eng

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	16.1	7.0	14.5	12.7	14.8
Core P/E (x)	15.2	17.9	14.5	12.7	14.8
P/BV (x)	0.6	0.7	0.6	0.6	0.6
P/NTA (x)	0.6	0.7	0.6	0.6	0.6
Net dividend yield (%)	2.6	2.3	2.6	2.6	2.6
FCF yield (%)	6.8	34.9	7.5	18.2	18.1
EV/EBITDA (x)	22.0	28.2	11.6	11.2	13.2
EV/EBIT (x)	27.5	37.4	13.7	13.2	16.4

INCOME STATEMENT (SGD m)

Revenue	1,440.7	2,103.2	3,667.7	3,127.8	2,375.1
EBITDA	336.6	533.6	1,094.9	1,027.1	804.3
Depreciation	(66.6)	(131.3)	(162.8)	(159.2)	(155.8)
EBIT	270.0	402.3	932.1	867.8	648.5
Net interest income / (exp)	(24.9)	(26.3)	(33.7)	(24.5)	(4.4)
Associates & JV	136.2	118.7	0.0	1.5	1.0
Exceptionals	(16.6)	539.8	0.0	0.0	0.0
Other pretax income	(10.8)	14.5	0.0	0.0	0.0
Pretax profit	353.9	1,049.0	898.4	844.9	645.0
Income tax	(48.3)	(62.0)	(161.7)	(151.8)	(115.9)
Minorities	(18.6)	(96.0)	(347.8)	(247.9)	(147.4)
Reported net profit	287.0	891.0	388.9	445.2	381.7
Core net profit	303.6	351.2	388.9	445.2	381.7
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET (SGD m)

Cash & Short Term Investments	301.5	816.4	1,251.7	2,158.5	3,072.9
Accounts receivable	99.6	395.3	407.2	419.4	432.0
Inventory	1,174.9	2,877.2	2,533.8	1,617.5	1,071.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,165.5	2,856.2	2,793.4	2,734.1	2,678.3
Intangible assets	24.4	181.0	181.0	181.0	181.0
Investment in Associates & JVs	3,487.6	286.5	286.5	287.7	288.5
Other assets	5,304.7	12,210.9	12,249.7	12,289.7	12,330.9
Total assets	11,558.1	19,623.4	19,703.2	19,687.9	20,055.2
ST interest bearing debt	728.7	972.8	1,500.0	1,300.0	1,300.0
Accounts payable	203.1	927.6	955.4	984.1	1,013.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,680.8	2,874.2	1,800.0	1,500.0	1,500.0
Other liabilities	310.0	703.0	724.0	745.0	768.0
Total Liabilities	2,922.8	5,477.2	4,979.1	4,529.4	4,581.3
Shareholders Equity	8,127.2	9,445.1	9,686.7	9,984.7	10,219.1
Minority Interest	508.2	4,701.2	5,037.4	5,173.7	5,254.8
Total shareholder equity	8,635.4	14,146.3	14,724.2	15,158.4	15,473.9
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	11,558.1	19,623.4	19,703.2	19,687.9	20,055.2

CASH FLOW (SGD m)

Pretax profit	353.9	1,049.0	898.4	844.9	645.0
Depreciation & amortisation	66.6	131.3	162.8	159.2	155.8
Adj net interest (income)/exp	24.9	26.3	33.7	24.5	4.4
Change in working capital	260.0	479.7	341.6	914.5	543.9
Cash taxes paid	(33.5)	(61.3)	(161.7)	(151.8)	(115.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	538.5	936.3	1,274.8	1,789.7	1,232.3
Capex	(68.4)	(125.0)	(100.0)	(100.0)	(100.0)
Free cash flow	313.3	2,243.9	421.3	1,029.0	1,018.6
Dividends paid	(64.3)	(71.9)	(147.3)	(147.3)	(147.3)
Equity raised / (purchased)	(7.8)	12.1	0.0	0.0	0.0
Change in Debt	(107.3)	(255.1)	(547.0)	(500.0)	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(198.1)	(268.9)	(45.3)	(135.7)	(70.6)
Effect of exch rate changes	(2.2)	(0.1)	0.0	0.0	0.0
Net cash flow	31.0	515.3	435.3	906.7	914.5

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	12.7	46.0	74.4	(14.7)	(24.1)
EBITDA growth	(6.2)	58.5	105.2	(6.2)	(21.7)
EBIT growth	(7.4)	49.0	131.7	(6.9)	(25.3)
Pretax growth	(23.1)	196.4	(14.4)	(6.0)	(23.7)
Reported net profit growth	(26.7)	210.4	(56.4)	14.5	(14.3)
Core net profit growth	(26.6)	15.7	10.7	14.5	(14.3)
Profitability ratios (%)					
EBITDA margin	23.4	25.4	29.9	32.8	33.9
EBIT margin	18.7	19.1	25.4	27.7	27.3
Pretax profit margin	24.6	49.9	24.5	27.0	27.2
Payout ratio	41.9	16.1	37.9	33.1	38.6
DuPont analysis					
Net profit margin (%)	19.9	42.4	10.6	14.2	16.1
Revenue/Assets (x)	0.1	0.1	0.2	0.2	0.1
Assets/Equity (x)	1.4	2.1	2.0	2.0	2.0
ROAE (%)	3.6	10.1	4.1	4.5	3.8
ROAA (%)	2.6	2.3	2.0	2.3	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	4.0	3.6	4.0	4.3	4.4
Net gearing (%) (incl perps)	24.4	21.4	13.9	4.2	net cash
Net gearing (%) (excl. perps)	24.4	21.4	13.9	4.2	net cash
Net interest cover (x)	10.8	15.3	27.7	35.5	146.4
Debt/EBITDA (x)	7.2	7.2	3.0	2.7	3.5
Capex/revenue (%)	4.7	5.9	2.7	3.2	4.2
Net debt/ (net cash)	2,107.9	3,030.5	2,048.3	641.5	(272.9)

Source: Company; Maybank

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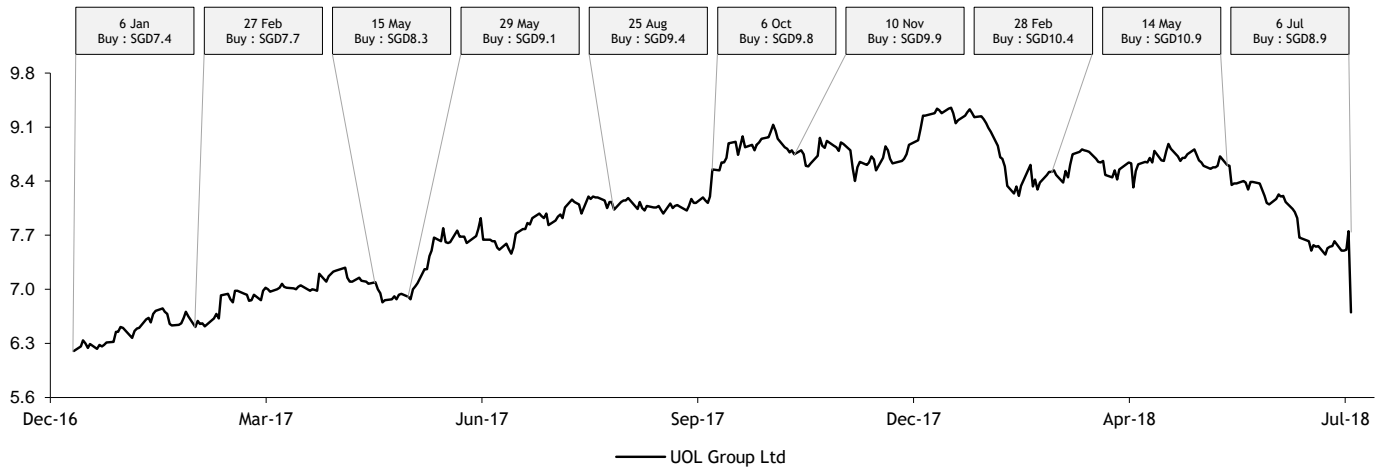
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Historical recommendations and target price: UOL Group Ltd (UOL SP)



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