

Singapore Company Update

UOL Group

Bloomberg: UOL SP | Reuters: UTOS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Mar 2022

BUY

Last Traded Price (28 Feb 2022): S\$6.98 (STI : 3,242.24)

Price Target 12-mth: S\$8.40 (20% upside)

Analyst

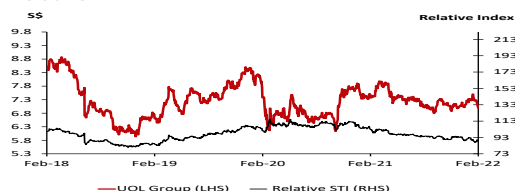
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What's New

- Steady commercial portfolio and strong residential pre-sales offset hospitality weakness
- Positives: (i) strong residential sales, (ii) hospitality eyes a turnaround, (iii) office assets resilient
- Negatives: (i) retail portfolio remains challenged, (ii) softer residential demand in 2022
- Maintain BUY, TP S\$8.40

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	1,977	2,607	2,283	2,286
EBITDA	555	530	570	631
Pre-tax Profit	109	592	538	617
Net Profit	13.1	307	325	396
Net Pft (Pre Ex.)	271	193	325	396
Net Pft Gth (Pre-ex) (%)	(13.7)	(28.6)	68.0	21.9
EPS (S cts)	1.56	36.4	38.5	46.9
EPS Pre Ex. (S cts)	32.1	22.9	38.5	46.9
EPS Gth Pre Ex (%)	(14)	(29)	68	22
Diluted EPS (S cts)	1.56	36.4	38.5	46.9
Net DPS (S cts)	17.5	17.5	17.5	17.5
BV Per Share (S cts)	1,160	1,205	1,226	1,255
PE (X)	448.2	19.2	18.1	14.9
PE Pre Ex. (X)	21.8	30.5	18.1	14.9
P/Cash Flow (X)	10.2	7.8	4.1	6.8
EV/EBITDA (X)	25.5	26.3	23.1	20.6
Net Div Yield (%)	2.5	2.5	2.5	2.5
P/Book Value (X)	0.6	0.6	0.6	0.6
Net Debt/Equity (X)	0.3	0.2	0.2	0.2
ROAE (%)	0.1	3.1	3.2	3.8
Earnings Rev (%):			-	-
Consensus EPS (S cts):			44.0	44.9
Other Broker Recs:		B: 8	S: 0	H: 2

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

Riding on office tailwinds

Investment Thesis:

Trading below replacement cost. Backed by a quality portfolio of commercial and hospitality assets anchored in Singapore, we see UOL offering deep value, trading at 0.6x P/NAV, which is close to the lows seen in the global financial crisis (GFC).

Significant redevelopment potential. A majority of UOL's assets are in Singapore's Central Business District (CBD) with potential to be redeveloped into alternative mixed-use assets that offer upside to GFA and capital values, according to government's Central Business District (CBD) incentive scheme. The group has embarked on a number of redevelopment projects (Odeon House, Faber House) which when completed in the medium term, present upside to NAV and earnings.

A UOL REIT? We believe the stock can potentially trade closer to its NAV if it unlocks value from its commercial and hospitality assets.

Valuation:

Our target price of S\$8.40 is pegged to 30% discount to our RNAV.

Where we differ:

Our earnings estimates are more conservative than peers where we project a slower recovery in the hospitality industry.

Key Risks to Our View:

Slower economic recovery and rising unemployment. A longer drag in the economic recovery post COVID-19 and a potential wave will raise earnings risks.

At A Glance

Issued Capital (m shrs)	844
Mkt. Cap (S\$m/US\$m)	5,894 / 4,355
Major Shareholders (%)	
Wee Investments Ptd Ltd	15.0
CY Wee & Co Pte Ltd	13.6
Haw Par Corp Ltd	8.5
Free Float (%)	50.8
3m Avg. Daily Val (US\$m)	6.5
GIC Industry : Real Estate / Real Estate Management & Development	



[Watchlist the stock on Insights Direct to receive prompt updates](#)

WHAT'S NEW

Strong visibility from commercial portfolio

FY21 results: Steady performance boosted by property development, offset by higher losses from hotel

- UOL Group reported FY21 PATMI of S\$307m vs S\$13m in FY20, in line with our estimates, following fair value and other gains of S\$74m, compared to fair value and other losses of S\$247m in FY20. Core PATMI (ex-fair value and other gains) fell 10% y-o-y.
- FY21 revenue grew 32% y-o-y to S\$2.6b, mainly led by property development (+67% y-o-y to S\$1.6b). FY21 PBT (pre-FV and other gains) was up 2% y-o-y to S\$451m mainly due to lower margins from property development and higher losses from hotel operations (operating losses +13% y-o-y)
- For 2H21, revenue rose 32% y-o-y to S\$1.4b but core PATMI fell 20% y-o-y
- FY21 Adjusted EBITDA margin fell to 24% vs 33% in FY20 mainly from recognition of lower margin property development projects (14% operating margin in FY21 vs 22% in FY22).
- Gearing fell to 0.26x vs 0.29x in 1H21, borrowing cost increased slightly to 1.50% vs 1.23% in 1H21 (vs 1.35% in FY20).

Key Operational Highlights:

(+) Residential developments: Softer demand post cooling measures but expect market will be resilient with prices holding up due to higher cost and low supply

- UOL recorded FY21 residential sales of 799 units (+0.6% y-o-y) mainly from the successful launch of Watergardens at Canberra in Aug21 which sold 330 units (74% sold) as at Dec21, Avenue South Residence (294 units sold in FY21), and Clavon (135 units sold in FY21)
- Most projects are more than 74% sold except Meyer House which also saw sales moving; the project was 57% sold as at Dec21 vs 17.9% sold as at Dec20.
- The Sky residences at One Bishopsgate Plaza continues to see sales progress (29% vs 22.5% in FY20) while Park Eleven saw strong sales with phase 3 launched in Nov21 and the project is 97% sold (total phase 1 to phase 3)
- The group is expected to launch the Ang Mo Kio Ave 1 Site (372 units; land price: S\$381.4m, S\$1,118 psf ppr) this year and has added the enbloc of Watten Estate Condominium into its landbank (200 units).

UOL is considering adopting the Built Environment Transformation GFA Incentive Scheme to enjoy up to 3% additional GFA beyond the Master Plan Gross Plot Ratio.

- Given the recent round of cooling measures, sentiment has been dampened and sales momentum has slowed slightly. However, management believes that residential demand will remain resilient especially from owner occupied demand and believes that prices will be held up by low supply and rising construction cost.

(+/-) Investment property: Stronger recovery in office; AEI of office buildings expected to complete in 2023; retail has stabilised.

- Overall **office** portfolio occupancy has held relatively stable except Singapore portfolio which saw occupancy fall marginally by 2.4ppts h-o-h to 91.3% while UK improved by 0.5ppts h-o-h to 91.4% and Australia remains at 100%.
- Office rental reversions were flat to slight negative in FY21 and should remain at these levels given the current AEI plans.
- For the Singapore office portfolio, management saw rising leasing interest especially from family offices and financial services and those looking to relocate from CBD to lock in a lower rental rate.
- The construction work at Odeon Towers is expected to commence in 1Q2022 and should complete in 2 years while Singapore Land Tower's AEI is expected to start in Jan21 and target to complete in 2H23.
- **Retail** portfolio remains challenging but appears to have stabilised. Tenant sales in Nov/Dec21 were tracking / above pre-COVID levels. The group had disbursed about 1-2 months of rental assistance in FY21 and expects less / minimal rental support in FY22.
- Retail occupancy has improved marginally, +2.3ppts h-o-h to 92.9%. Rental reversions were -2% to 3% in FY21 and management continues to work on its tenant remixing strategy in FY22.

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(-/+) Hotels seeing local demand from staycation, banquet, and MICE events while 2H22 may see the return of travellers with more relaxation in travel borders globally.

- Singapore's hotel occupancy and RevPAR trended lower y-o-y in FY21 as government bulk bookings started to taper off, partially offset by staycation demand (30% to 40% occupancy at higher room rates).
- Hotels outside of Singapore (Oceania and others) saw improving occupancy and RevPAR.
- Management is optimistic that the gradual re-opening of global travel borders is likely to take place in 2H22 and will see the return of travellers. Meanwhile, management continues to see local demand from staycation, banquet, and MICE events.

Cut in earnings estimates. We have reviewed our estimates for our hospitality division and cut our earnings growth and margin assumptions down to account for possible slower recovery from its Singapore hotels given the current Omicron variant possibly delaying the recovery trajectory into 2023.

Company Background

UOL Group Limited (UOL) is one of Singapore's leading public-listed property companies with total assets of about \$20 billion. The Company has a diversified portfolio of development and investment properties, hotels and serviced suites in Asia, Oceania, Europe, and North America.

Key results highlights

Summary of results	2H2021	2H2020	% y-o-y	1H2021	% h-o-h	FY2021	FY2020	% y-o-y
Revenue	1,413	1,069	32%	1,194	18%	2,607	1,977	32%
PBT pre-FV (losses) / gains	237	246	-4%	214	10%	451	443	2%
Fair value (losses) / gains	156	(71)	-321%	(15)	-1127%	141	(335)	-142%
Profit before tax	392	176	123%	199	97%	592	109	444%
Net Profit	216	95	127%	91	137%	307	13	2247%
Net Profit ex-FV	125	156	-20%	108	16%	234	260	-10%
Gearing	0.26	0.29	(0.03)	0.29	(0.03)	0.26	0.29	(0.03)
Av cost of debt	1.50%	1.35%	0.2 ppt	1.23%	0.3 ppt	1.50%	1.35%	0.2 ppt
DSCR	8.0	8.0	-	12.0	(4.00)	8.0	8.0	-
Operational Updates								
Residential sales (units)	581	646	-10%	218	166.5%	799	794	0.6%
Retail Occupancy (%)						92.9%	94.9%	-2 ppt
Shopper Footfall (cumulative y-o-y)						-9.4%	-41.7%	32.3 ppt
Retail lease expiries in FY22						21.0%		
Office Occupancy (%)								
- SG						91%	94%	-2.8 ppt
- UK						91%	92%	-0.7 ppt
- AU						100%	100%	0 ppt
Office lease expiries in FY22						21%		
Hotel Occupancy (%) - cumulative								
- SG						62%	66%	-4 ppt
- Oceania						65%	59%	6 ppt
- Others						35%	32%	3 ppt
Hotel RevPar (\$\$) - cumulative								
- SG						81	90	-10.0%
- Oceania						93	76	22.4%
- Others						36	33	9.1%

Source: Company, DBS Bank

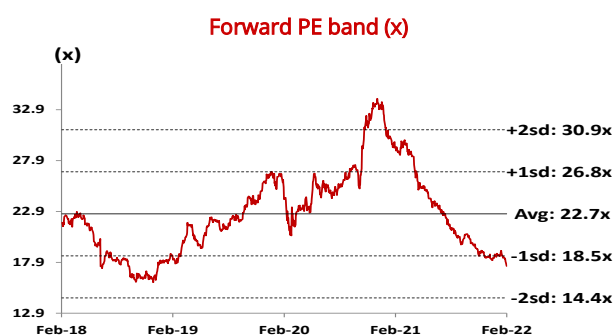
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Interim Income Statement (\$m)

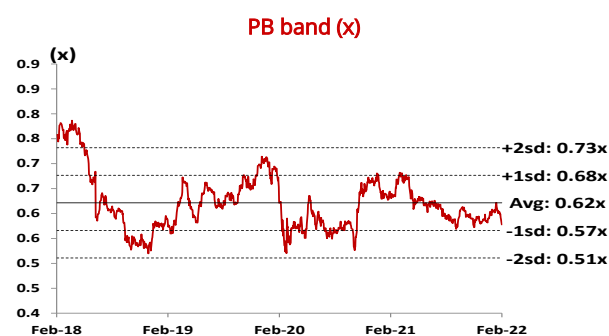
FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	1,069	1,193	1,413	32.2	18.4
Cost of Goods Sold	(685)	(812)	(987)	44.2	21.6
Gross Profit	384	381	426	10.9	11.8
Other Oper. (Exp)/Inc	(160)	(158)	(187)	17.2	18.8
Operating Profit	225	224	239	6.3	6.8
Other Non Opg (Exp)/Inc	(19)	16	55	nm	235.3
Associates & JV Inc	(4)	(5)	1	nm	nm
Net Interest (Exp)/Inc	(32)	(21)	(31)	2.0	(48.4)
Exceptional Gain/(Loss)	6	(15)	129	1,984.7	nm
Pre-tax Profit	176	199	393	123.6	97.3
Tax	4	(45)	(47)	nm	5.4
Minority Interest	(85)	(63)	(129)	(52.3)	105.9
Net Profit	95	91	216	126.8	136.5
Net profit bef Except.	89	107	87	(2.7)	(18.6)
EBITDA	201	235	295	46.3	25.2
Margins (%)					
Gross Margins	36.0	32.0	30.2		
Opg Profit Margins	21.0	18.7	16.9		
Net Profit Margins	8.9	7.7	15.3		

Source of all data: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

UOL Group

Income Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	2,283	1,977	2,607	2,283	2,286
Cost of Goods Sold	(1,238)	(1,250)	(1,799)	(1,373)	(1,315)
Gross Profit	1,046	728	808	910	971
Other Opng (Exp)/Inc	(426)	(295)	(345)	(411)	(412)
Operating Profit	619	432	462	499	560
Other Non Opg (Exp)/Inc	102	14.3	71.0	71.0	71.0
Associates & JV Inc	2.25	(9.6)	(3.6)	0.0	0.0
Net Interest (Exp)/Inc	(104)	(70.8)	(52.3)	(32.1)	(14.0)
Exceptional Gain/(Loss)	165	(258)	114	0.0	0.0
Pre-tax Profit	785	109	592	538	617
Tax	(106)	(23.4)	(92.4)	(75.3)	(86.3)
Minority Interest	(200)	(72.2)	(192)	(138)	(135)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	479	13.1	307	325	396
Net Profit before Except.	314	271	193	325	396
EBITDA	914	555	530	570	631
Growth					
Revenue Gth (%)	(4.8)	(13.4)	31.8	(12.4)	0.2
EBITDA Gth (%)	6.7	(39.3)	(4.5)	7.5	10.7
Opg Profit Gth (%)	(2.4)	(30.2)	7.0	7.8	12.2
Net Profit Gth (Pre-ex) (%)	(5.8)	(13.7)	(28.6)	68.0	21.9
Margins & Ratio					
Gross Margins (%)	45.8	36.8	31.0	39.8	42.5
Opg Profit Margin (%)	27.1	21.9	17.7	21.8	24.5
Net Profit Margin (%)	21.0	0.7	11.8	14.2	17.3
ROAE (%)	4.9	0.1	3.1	3.2	3.8
ROA (%)	2.3	0.1	1.5	1.5	1.8
ROCE (%)	2.7	1.7	2.0	2.1	2.3
Div Payout Ratio (%)	30.8	1,123.8	48.0	45.5	37.3
Net Interest Cover (x)	5.9	6.1	8.9	15.5	40.0

Source: Company, DBS Bank

UOL Group

Interim Income Statement (\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	1,030	908	1,069	1,193	1,413
Cost of Goods Sold	(549)	(565)	(685)	(812)	(987)
Gross Profit	480	343	384	381	426
Other Oper. (Exp)/Inc	(185)	(135)	(160)	(158)	(187)
Operating Profit	295	208	225	224	239
Other Non Opg (Exp)/Inc	95.0	33.8	(19.5)	16.3	54.7
Associates & JV Inc	2.02	(5.8)	(3.8)	(4.6)	1.01
Net Interest (Exp)/Inc	(55.8)	(38.9)	(31.9)	(21.0)	(31.2)
Exceptional Gain/(Loss)	(16.7)	(264)	6.21	(15.2)	129
Pre-tax Profit	320	(67.0)	176	199	393
Tax	(54.5)	(27.8)	4.47	(45.0)	(47.4)
Minority Interest	(54.3)	12.6	(84.9)	(62.8)	(129)
Net Profit	211	(82.1)	95.3	91.3	216
Net profit bef Except.	228	182	89.1	107	86.7
EBITDA	392	236	201	235	295

Growth

Revenue Gth (%)	(17.8)	(11.8)	17.7	11.6	18.4
EBITDA Gth (%)	18.4	(39.9)	(14.6)	16.9	25.2
Opg Profit Gth (%)	(8.8)	(29.7)	8.1	(0.4)	6.8
Net Profit Gth (%)	(21.2)	(138.9)	(216.0)	(4.1)	136.5

Margins

Gross Margins (%)	46.6	37.8	36.0	32.0	30.2
Opg Profit Margins (%)	28.7	22.9	21.0	18.7	16.9
Net Profit Margins (%)	20.5	(9.0)	8.9	7.7	15.3

Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	2,870	2,912	2,967	3,367	3,767
Invts in Associates & JVs	280	271	249	249	249
Other LT Assets	13,022	12,684	13,062	13,062	13,062
Cash & ST Invts	717	977	1,490	2,395	2,711
Inventory	4.29	1.24	2.49	5.39	5.40
Debtors	401	308	192	168	168
Other Current Assets	3,358	3,220	3,312	2,264	1,943
Total Assets	20,654	20,373	21,275	21,511	21,905
ST Debt	1,687	1,652	1,536	1,536	1,536
Creditor	680	495	832	764	765
Other Current Liab	144	189	112	101	112
LT Debt	3,130	3,289	3,550	3,550	3,550
Other LT Liabilities	679	647	629	629	629
Shareholder's Equity	10,047	9,788	10,168	10,345	10,593
Minority Interests	4,287	4,313	4,448	4,586	4,720
Total Cap. & Liab.	20,654	20,373	21,275	21,511	21,905
Non-Cash Wkg. Capital	2,940	2,845	2,563	1,573	1,239
Net Cash/(Debt)	(4,100)	(3,964)	(3,596)	(2,691)	(2,375)
Debtors Turn (avg days)	78.1	65.5	35.0	28.8	26.9
Creditors Turn (avg days)	258.3	189.4	134.6	212.2	212.2
Inventory Turn (avg days)	1.5	0.9	0.4	1.0	1.5
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	1.8	1.9	2.0	2.0	2.0
Quick Ratio (x)	0.4	0.5	0.7	1.1	1.2
Net Debt/Equity (X)	0.3	0.3	0.2	0.2	0.2
Net Debt/Equity ex MI (X)	0.4	0.4	0.4	0.3	0.2
Capex to Debt (%)	6.9	4.2	4.5	7.9	7.9
Z-Score (X)	1.4	1.4	1.4	1.4	1.4

Source: Company, DBS Bank

UOL Group

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	679	85.4	499	538	617
Dep. & Amort.	191	118	0.0	0.0	0.0
Tax Paid	(132)	(96.1)	(173)	(86.5)	(75.3)
Assoc. & JV Inc/(loss)	(2.3)	9.60	3.59	0.0	0.0
Chg in Wkg.Cap.	358	61.6	341	1,001	322
Other Operating CF	(49.5)	401	80.5	0.0	0.0
Net Operating CF	1,044	580	751	1,453	864
Capital Exp.(net)	(330)	(206)	(230)	(400)	(400)
Other Invt.(net)	0.0	0.0	38.1	0.0	0.0
Invt. in Assoc. & JV	60.2	(4.2)	(3.0)	0.0	0.0
Div from Assoc & JV	62.1	50.2	0.0	0.0	0.0
Other Investing CF	8.86	12.1	95.2	0.0	0.0
Net Investing CF	(199)	(147)	(99.3)	(400)	(400)
Div Paid	(190)	(190)	(170)	(148)	(148)
Chg in Gross Debt	181	85.5	103	0.0	0.0
Capital Issues	4.82	3.15	2.94	0.0	0.0
Other Financing CF	(798)	(73.4)	(96.6)	0.0	0.0
Net Financing CF	(802)	(175)	(160)	(148)	(148)
Currency Adjustments	(2.7)	2.50	21.3	0.0	0.0
Chg in Cash	40.2	260	513	905	316
Opg CFPS (S cts)	81.3	61.4	48.6	53.5	64.1
Free CFPS (S cts)	84.7	44.3	61.8	125	54.9

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Oct 21	6.84	8.40	BUY

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

DBS Bank recommendations are based on an 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 share price catalysts within this time frame)

*Share price appreciation + dividends

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

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