

MITA No. 010/06/2008

UOL Group Limited

13 May 2009

Downgrade to

HOLD

Previous Rating: BUY

S\$2.65**Fair Value: S\$2.91**

Stock Code:

Reuters: UTOS.SI

ISIN Code U14

Bloomberg: UOL SP

Event:

Results

General Data

Issued Capital (m)	796
Mkt Cap (S\$m/US\$m)	2,110/1,444
Major Shareholder	
Wee Cho Yaw	(29.1%)
Free Float (%)	51.0
NTA per share (S\$)	4.77
Daily Vol 3-mth ('000)	1,338
52Wk High (S\$)	3.920
52Wk Low (S\$)	1.480

Strong results aided by UIC acquisition

Underlying profit up by 57% YoY. UOL Group reported a set of strong 1Q09 results that was aided by its acquisition of UIC shares. Revenue increased by 21.6% YoY to S\$196.7m due to progressive recognition of revenue from development projects and higher rental income from investment properties. Contribution from hotel operations was weak, with revenue declining by 16.9% YoY to S\$69.6m as occupancy rates and average room rates declined across most of its hotels. Finance expenses jumped significantly by 330.9% YoY to S\$20.4m but this was largely due to a one-off facility fee of S\$14.1m incurred for the offer for UIC shares. Contributions from associated companies were also higher with the inclusion of its share of UIC profits. A one-off negative goodwill of S\$277.7m arising from the acquisition of UIC shares was recognized. As such, reported PATMI jumped 674.3% YoY to S\$331.8m. Excluding one-offs, we estimate that the underlying PATMI would have increased by 57% YoY.

Reaping benefits from UIC acquisition. As UOL's stake in UIC now reached 31.6%, investments in UIC had been reclassified from available-for-sale assets to associated companies, which contributed to the 13% increase in NAV from end-FY08 level to S\$4.82 per share. Profit contribution from UIC should also increase in the next quarter, when UIC will make its full quarterly contributions to UOL's bottomline. UOL's balance sheet remains healthy after the acquisition, with net gearing ratio increasing from 0.4x at end FY08 to 0.44x at the end of 1Q09.

Re-adjusting our forecasts. Hotel segment was the underperformer in 1Q09 and our outlook for the segment has been revised downwards as we expect conditions to remain challenging in light of the weak macro outlook and potential threat from the H1N1 virus. As such, our FY09 revenue estimate has been lowered by 5.6% to S\$818.7m (previously S\$867.2m). However, our FY09 PATMI estimate has now been raised by 105.8% to S\$540.8m (previously S\$262.8m), after accounting for the negative goodwill gain and contribution from UIC. Taking away one-off items, our FY09 underlying PATMI estimate has increased by 14.4% to S\$300.5m (previously S\$262.8m).

Downgrading to HOLD. Our RNAV estimate for UOL has now been raised to S\$3.57 per share (previously S\$3.25) and our fair value has also been raised to S\$2.91 (previously S\$2.58). In light of the recent increase in its share price, we are now seeing limited upside potential of 9.6% in UOL's share price. While we continue to like UOL for its diversified earnings and mass market exposure, we are now downgrading UOL from BUY to **HOLD** on valuation grounds.

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Year to 31 Dec	Revenue (S\$m)	Pretax Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	NAV (S\$)	Price/NAV (x)	Div Yield (%)
FY 07	709.1	938.6	758.9	95.3	5.5	0.5	5.7
FY 08	899.2	210.4	147.2	18.5	4.3	0.6	2.8
FY 09F	818.7	625.1	540.8	67.9	4.9	0.5	2.8
FY 10F	800.5	314.7	256.5	32.2	5.1	0.5	2.8

Please refer to the important disclosures at the back of this document.

Exhibit 1: RNAV estimate

Estimated value of investment properties				1,215.19
Book value of investment properties				2,011.87
Surplus from investment properties				-796.67
Surplus from development properties				444.71
Investment in listed equities:	No. of shares	Last price as at 12 May 09(S\$)		Market Value (S\$m)
UOB	33.0m	14.12		465.96
UIC	435.1m	1.34		582.99
Pan Pacific Hotels	489.4m	0.955		467.42
				<u>1,516.36</u>
Book value of listed equities				<u>1,715.54</u>
Surplus from listed equities (S\$m)				-199.18
End-FY08 Book value (S\$m)				3,394.70
RNAV (S\$m)				2,843.56
Shares outstanding (m)				796.07
RNAV per share (S\$)				<u>3.57</u>
Valuation				
	Discount	Attributable RNAV	% of total RNAV	Valuation (S\$m)
Holdings in UOB and UIC		1,048.95	36.89	1,048.95
Hotel Plaza		467.42	16.44	467.42
Development and Investment properties and others	40%	1,327.20	46.67	796.32
		<u>2,843.56</u>	<u>100.00</u>	<u>2,312.68</u>
Fair value per share (S\$)				2.91

Source: OIR estimates

UOL's Key Financial Data

UOL Results Year Ended 31 Dec (S\$ m)	1Q08 (S\$m)	1Q09 (S\$m)	% Chg (YoY)	4Q08 (S\$m)	% Chg (QoQ)
Revenue	161.7	196.7	21.6%	260.3	-24.4%
Cost of sales	-78.5	-100.6	28.2%	-134.0	-24.9%
Gross profit	83.2	96.1	15.4%	126.2	-23.9%
Other income	5.0	2.9	-41.5%	3.1	-7.0%
Operating expenses	-38.0	-52.4	38.0%	-55.4	-5.3%
Share of profit of associated companies	10.0	24.3	143.5%	16.1	51.0%
Profit before other gains and tax	60.2	70.8	17.7%	90.1	-21.4%
Other gains	0.0	277.7	NM	-36.6	NM
Fair value gain on investment properties	0.0	0.0	NM	-174.5	NM
Profit before tax	60.2	348.5	479.2%	-121.0	NM
Income tax expense	-9.7	-4.6	-52.3%	-10.2	-54.5%
Net profit	50.5	343.9	581.3%	-131.2	NM
Discontinued operations	0.0	0.0	NM	0.0	NM
Minority interests	-7.6	-12.1	58.6%	17.1	NM
Shareholders' profit	42.9	331.8	674.3%	-114.1	NM

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Revenue	709.1	899.2	818.7	800.5
Cost of sales	-339.2	-447.1	-428.9	-426.6
Gross profit	369.9	452.0	389.8	373.9
Other income	14.7	15.0	11.0	9.6
Operating expenses	-148.4	-177.3	-167.9	-158.3
Share of profit of associated companies	55.3	64.6	114.5	89.5
Profit before other gains and tax	291.6	354.2	347.4	314.7
Other gains	56.5	-37.0	277.7	0.0
Fair value gain on investment properties	590.5	-106.8	0.0	0.0
Profit before tax	938.6	210.4	625.1	314.7
Income tax expense	-76.8	-46.3	-50.0	-25.2
Net profit	861.8	164.2	575.1	289.5
Discontinued operations	0.2	0.0	0.0	0.0
Minority interests	-103.1	-16.9	-34.3	-33.0
Shareholders' profit	758.9	147.2	540.8	256.5

BALANCE SHEET				
As at 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Cash	405.7	263.9	262.7	292.5
Development properties	854.0	1,274.7	1,220.9	1,208.6
Other current assets	709.4	477.0	477.0	474.9
Investment properties	2,284.7	2,202.3	2,322.3	2,442.3
PPE	696.6	1,029.3	1,075.2	1,101.3
Other non-current assets	1,231.9	846.5	1,828.0	1,822.2
Total assets	6,182.3	6,093.6	7,186.0	7,341.7
Trade and other payables	135.7	142.7	143.0	170.6
Bank loans (Current)	259.1	518.2	388.5	405.4
Other current liabilities	118.5	45.0	47.1	49.5
Bank loans (Non-current)	772.9	1,037.3	1,693.3	1,575.1
Other non-current liabilities	527.0	533.1	571.9	596.9
Total liabilities	1,813.2	2,278.4	2,845.9	2,799.6
Share capital	1,075.3	1,075.3	1,075.3	1,075.3
Reserves	939.7	359.4	334.6	273.8
Retained earnings	1,932.2	1,960.0	2,475.4	2,705.2
Shareholders' equity	3,947.1	3,394.7	3,885.3	4,054.3
Minority interests	422.0	420.5	454.8	487.8
Total equity	4,369.1	3,815.2	4,340.1	4,542.1
Total liabilities and equity	6,182.3	6,093.6	7,186.0	7,341.7

CASH FLOW

Year Ended 31 Dec (S\$ m)

FY07 FY08 FY09F FY10F

Cashflow from operations

Net profit	862.0	164.2	575.1	289.5
Adjustments	-628.9	102.0	-257.7	25.1
Operating cashflow before working capital changes	233.1	303.2	317.4	314.6
Change in Working Capital	-272.4	-465.0	-306.7	30.3
Income tax paid	-21.2	-108.5	-50.0	-25.2
Net cash from operating activities	-60.5	-270.3	-39.3	319.7
Net cash from investing activities	-60.5	-270.9	-385.2	-94.7
Net borrowings	252.1	529.9	526.2	-101.3
Dividends paid to shareholders of UOL	-119.2	-119.4	-59.7	-59.7
Net cash from financing activities	396.5	399.4	423.3	-195.2
Net change in cash	275.4	-141.8	-1.2	29.8
Beginning cash balance	130.3	405.7	263.9	262.7
Ending cash balance	405.7	263.9	262.7	292.5

Key Ratios

PER (x)	2.8	14.3	3.9	8.2
P/NAV (x)	0.5	0.6	0.5	0.5
Gross profit margin (%)	52.2	50.3	47.6	46.7
Net profit margin (%)	121.5	18.3	70.2	36.2
Net gearing (%)	20.1	40.4	47.7	42.7
Dividend yield (%)	5.7	2.8	2.8	2.8
ROE (%)	19.2	4.3	13.9	6.3
ROA (%)	13.9	2.7	8.0	3.9

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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