

MITA No. 010/06/2009

15 July 2009

Maintain

HOLD

Previous Rating: HOLD

S\$3.27**Fair Value: S\$3.56**

Stock Code:

Reuters: UTOS.SI

ISIN Code U14

Bloomberg: UOL SP

Event:

Update

General Data

Issued Capital (m)	785
Mkt Cap (S\$m/US\$m)	2,568/1,759
Major Shareholder	
Wee Cho Yaw	(29.1%)
Free Float (%)	51.0
NTA per share (S\$)	4.77
Daily Vol 3-mth ('000)	1,629
52Wk High (S\$)	3.590
52Wk Low (S\$)	1.480

UOL Group Limited

Mass market boom

Meadows @ Pierce launching soon. Following the successful launch of the Double Bay Residences (DBR), UOL will be launching another mass market project - Meadows @ Pierce, in 2-3 weeks' time. According to Knight Frank, the marketing agent for the project, this 479-unit freehold residential development at Upper Thomson Road consists of a refurbished tower block (14 storey) and three 5-storey blocks and will include small-size units to cater for the market demand. Launch price for this project is expected to average around S\$900 psf, which is higher than the S\$800 psf that we have assumed in our valuation. UOL will also be able to save on the construction cost through the refurbishment of the existing 14-storey tower. We estimate the breakeven price of this project to be ~S\$670 psf, which could potentially yield a healthy profit margin of 26% for UOL.

Benefiting from spillover interest to high-end segment. In the high-end segment, it has been reported that two units at Nassim Park Residences were sold at prices above S\$3,000 psf, with one of them at S\$3,813 psf and an option was issued for the sale of a fourth-level unit at S\$3,081 psf last weekend. We think that this is a commendable achievement, given that the high-end segment has only seen marginal improvement in buying interest and UOL had managed to sell these units without reducing prices.

Fair value raised to S\$3.56; Maintain HOLD. We are now raising our RNAV estimate to S\$4.11 (previously S\$3.57) to reflect the increase in valuation of UOL's listed investments, lower risk-free rate of 2.4% and higher selling price assumption for Meadows @ Pierce (from S\$800 psf to S\$900 psf). The discount rate on our valuation of UOL's development and investment properties has also been reduced from 40% to 30% as the degree of uncertainty in our valuation is lower now, with the successful launch of DBR and the stabilization of the economy and property market. While we think fundamentals do not support a sustainable recovery in Singapore property market yet, we believe that UOL is now better positioned to weather another downturn as it will be left with just one unlaunched project in Singapore - the former Spottiswoode Park site, after the launch of Meadows @ Pierce. Our fair value has now been raised to S\$3.56 (previously S\$2.91). We maintain our **HOLD** rating on UOL and will turn buyers around S\$3.00-S\$3.10.

Foo Sze Ming

(65) 6531 9810

e-mail: FooSzeMing@ocbc-research.com

Year to 31-Dec	Revenue (S\$m)	Pretax Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	NAV (S\$m)	Price/NAV (x)	Div Yield (%)
FY 07	709.1	938.6	758.9	95.3	5.5	0.6	4.6
FY 08	899.2	210.4	147.2	18.5	4.3	0.8	2.3
FY 09F	818.7	625.1	540.8	67.9	4.9	0.7	2.3
FY 10F	803.6	320.4	261.8	32.9	5.1	0.6	2.3

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

Exhibit 1: RNAV Table

Estimated value of investment properties				1,271.21
Book value of investment properties				2,011.87
Surplus from investment properties				-740.65
Surplus from development properties				517.59
Investment in listed equities:	No. of shares	Last price as at 14 July 09(S\$)		Market Value (S\$m)
UOB	33.0m	14.78		487.74
UIC	435.1m	1.67		726.56
Pan Pacific Hotels	489.4m	1.230		602.01
				1,816.31
Book value of listed equities				1,715.54
Surplus from listed equities (S\$m)				100.77
End-FY08 Book value (S\$m)				3,394.70
RNAV (S\$m)				3,272.41
Shares outstanding (m)				796.07
RNAV per share (S\$)				4.11
Valuation				
	Discount	Attributable RNAV	% of total RNAV	Valuation (S\$m)
Holdings in UOB and UIC		1,214.30	37.11	1,214.30
Pan Pacific Hotels		602.01	18.40	602.01
Development and Investment properties and others	30%	1,456.10	44.50	1,019.27
		3,272.41	100.00	2,835.58
Fair value per share (S\$)				3.56

Source: OIR estimate

UOL's Key Financial Data

EARNINGS FORECAST

Year Ended 31 Dec (\$\$ m)	FY07	FY08	FY09F	FY10F
Revenue	709.1	899.2	818.7	803.6
Cost of sales	-339.2	-447.1	-428.9	-423.5
Gross profit	369.9	452.0	389.8	380.1
Other income	14.7	15.0	11.0	9.6
Operating expenses	-148.4	-177.3	-167.9	-158.8
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	320.4
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	320.4
Income tax expense	-76.8	-46.3	-50.0	-25.6
Net profit	861.8	164.2	575.1	294.8
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	261.8

BALANCE SHEET

As at 31 Dec (\$\$ m)	FY07	FY08	FY09F	FY10F
Cash	405.7	263.9	262.7	294.7
Development properties	854.0	1,274.7	1,220.9	1,209.8
Other current assets	709.4	477.0	477.0	475.2
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	1,823.0
Total assets	6,182.3	6,093.6	7,186.0	7,346.2
Trade and other payables	135.7	142.7	143.0	169.4
Bank loans (Current)	259.1	518.2	388.5	405.8
Other current liabilities	118.5	45.0	47.1	49.5
Bank loans (Non-current)	772.9	1,037.3	1,693.3	1,576.7
Other non-current liabilities	527.0	533.1	571.9	596.9
Total liabilities	1,813.2	2,278.4	2,845.9	2,800.4
Share capital	1,075.3	1,075.3	1,075.3	1,075.3
Reserves	939.7	359.4	334.6	272.3
Retained earnings	1,932.2	1,960.0	2,475.4	2,710.4
Shareholders' equity	3,947.1	3,394.7	3,885.3	4,058.0
Minority interests	422.0	420.5	454.8	487.8
Total equity	4,369.1	3,815.2	4,340.1	4,545.8
Total liabilities and equity	6,182.3	6,093.6	7,186.0	7,346.2

CASH FLOW

Year Ended 31 Dec (S\$ m)

FY07

FY08

FY09F

FY10F

Cashflow from operations

Net profit	862.0	164.2	575.1	294.8
Adjustments	-628.9	102.0	-257.7	25.5
Operating cashflow before working capital changes	233.1	303.2	317.4	320.3
Change in Working Capital	-272.4	-465.0	-306.7	25.2
Income tax paid	-21.2	-108.5	-50.0	-25.6
Net cash from operating activities	-60.5	-270.3	-39.3	319.9
Net cash from investing activities	-60.5	-270.9	-385.2	-94.7
Net borrowings	252.1	529.9	526.2	-99.3
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	-193.2
Net change in cash	275.4	-141.8	-1.2	32.0
Beginning cash balance	130.3	405.7	263.9	262.7
Ending cash balance	405.7	263.9	262.7	294.7

Key Ratios

PER (x)	3.4	17.7	4.8	9.9
P/NAV (x)	0.6	0.8	0.7	0.6
Gross profit margin (%)	52.2	50.3	47.6	47.3
Net profit margin (%)	121.5	18.3	70.2	36.7
Net gearing (%)	20.1	40.4	47.7	42.6
Dividend yield (%)	4.6	2.3	2.3	2.3
ROE (%)	19.2	4.3	13.9	6.5
ROA (%)	13.9	2.7	8.0	4.0

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

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

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

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Carmen Lee
Head of Research