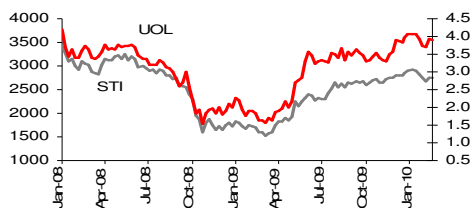


24 February 2010

Maintain

**BUY**

Previous Rating: BUY

**Current Price: S\$4.00**
**Fair Value: S\$5.25**


# UOL Group Limited

## Strong outlook remains intact

**Below-expectation results due to timing of revenue recognition.** UOL Group reported 4Q09 results that came in below our expectations. 4Q09 revenue increased 4.8% YoY to S\$272.7m, with 55% of the revenue coming from property development. Revenue fell short of our expectation by 17% due to the slower-than-expected construction schedule for some of its development projects, which affected the timing of revenue recognition. On a positive note, the pickup in hotel operations was stronger than expected in 4Q09. Fair value losses of S\$70.6m on its investment properties were recognized in 4Q09. Nevertheless, PATMI reversed from a loss of S\$114.1m in 4Q08 to a profit of S\$6.9m in 4Q09. Excluding one-off gains and revaluations, core PATMI would have increased by 28.9% YoY to S\$83.6m in 4Q09.

**Going ahead with residential launches.** Management shares the view that recent property measures target only speculative activities and are unlikely to affect genuine buyers. As such, there will be no change in its plans for residential property launches. The Dakota Crescent site and the former Rainbow Gardens site are expected to launch in April/May.

**Raising our FY10 earnings estimate by 34.5%.** We have now raised our FY10 PATMI forecasts by 34.5% to S\$380.2m, after adjusting our construction schedule and raising our FY10 residential sales forecasts. This is in line with our expectation of a strong mid-high end residential property market in 2010. We have also introduced our estimates for FY11 and we expect UOL to continue delivering strong PATMI of S\$382.5m in FY11, underpinned by the progressive recognition of revenue from its residential sales in 2009.

**Fair value raised to S\$5.25; Maintain BUY.** We now roll over our RNAV to FY10 and our RNAV estimate and fair value (which is pegged at parity to RNAV) have been raised to S\$5.25 per share (previously S\$4.55), largely due to an 11.8% increase in our re-appraised value of the investment properties and an 8.1% increase in market value of UOL's listed investments. We raised our valuation of the investment properties after considering the improved macro-economic outlook, but our valuation remains conservative as it is still 24% below the latest independent valuation. We continue to like UOL for its strong earnings outlook and attractive valuation (Price/NAV: 0.76x, Price/RNAV: 0.76x) and we also believe that its hotel subsidiary, Pan Pacific Hotels Group, is under-appreciated by the market as it is still trading at a discount of 29% below its revalued NAV of S\$2.10 per share. UOL remains as one of our top picks in the property sector. With an upside potential of 31.3%, we maintain our **BUY** rating on UOL.

Reuters Code	UTOS.SI
ISIN Code	U14
Bloomberg Code	UOL SP
Issued Capital (m)	784
Mkt Cap (S\$/US\$m)	3,134 / 2,221
Major Shareholders	
Wee Cho Yaw	29.1%
Free Float (%)	51.0%
Daily Vol 3-mth ('000)	1,025
52 Wk Range	1.580 - 4.200

(S\$m)	FY08	FY09	FY10F	FY11F
Revenue	899.2	1,007.1	1,031.5	1,119.0
Shareholders' profit	147.2	424.2	380.2	382.5
NAV per share (S-cents)	426.4	529.4	568.4	605.0
P/NAV (x)	0.9	0.8	0.7	0.7
PER (x)	21.6	7.4	8.2	8.2

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**Exhibit 1: RNAV Table**

Estimated value of investment properties				1,421.51
Book value of investment properties				1,871.67
<b>Surplus from investment properties</b>				<b>-450.15</b>
<b>Surplus from development properties</b>				<b>528.05</b>
Investment in listed equities:				Market Value (\$m)
UOB				619.74
UIC				891.88
Pan Pacific Hotels				734.16
				<u>2,245.78</u>
Book value of listed equities				<u>2,357.78</u>
<b>Surplus from listed equities (\$m)</b>				<b>-112.00</b>
<b>End-FY09 Book value (\$m)</b>				<b>4,148.23</b>
<b>RNAV (\$m)</b>				<b>4,114.14</b>
Shares outstanding (m)				783.53
<b>RNAV per share (\$)</b>				<b>5.25</b>
<b>Valuation</b>				
	<b>Discount</b>	<b>Attributable RNAV</b>	<b>% of total RNAV</b>	<b>Valuation (\$m)</b>
Holdings in UOB and UIC		1,511.62	36.74	1,511.62
Pan Pacific Hotels		734.16	17.84	734.16
Development and Investment properties and others		1,868.36	45.41	1,868.36
		<u>4,114.14</u>	<u>100.00</u>	<u>4,114.14</u>
<b>Fair value per share (\$)</b>				<b>5.25</b>

Source: OIR estimate

**UOL's Key Financial Data**

<b>UOL Results</b> Year Ended 31 Dec (S\$ m)	<b>4Q08</b> (S\$m)	<b>4Q09</b> (S\$m)	<b>% Chg</b> (YoY)	<b>3Q09</b> (S\$m)	<b>% Chg</b> (QoQ)
Revenue	260.3	272.7	4.8%	323.9	-15.8%
Cost of sales	-134.0	-152.9	14.1%	-196.0	-22.0%
Gross profit	126.2	119.8	-5.1%	127.9	-6.3%
Other income	3.1	4.4	40.0%	3.1	40.4%
Operating expenses	-55.4	-51.8	-6.4%	-45.6	13.7%
Share of profit of associated companies	16.1	9.1	-43.1%	48.2	-81.0%
Profit before other gains and tax	90.1	81.5	-9.5%	133.6	-39.0%
Other gains	-36.6	1.9	NM	1.5	30.7%
Fair value gain on investment properties	-174.5	-70.6	-59.5%	0.0	NM
Profit before tax	-121.0	12.8	NM	135.1	-90.5%
Income tax expense	-10.2	-6.1	-39.9%	-15.2	-59.9%
Net profit	-131.2	6.7	NM	119.9	-94.4%
Discontinued operations	0.0	0.0	NM	0.0	NM
Minority interests	17.1	0.2	-98.7%	-14.3	NM
Shareholders' profit	-114.1	6.9	NM	105.6	-93.4%

**UOL's Key Financial Data**

<b>EARNINGS FORECAST</b>					<b>BALANCE SHEET</b>				
Year Ended 31 Dec (S\$m)	FY08	FY09	FY10F	FY11F	As at 31 Dec (S\$m)	FY08	FY09	FY10F	FY11F
Revenue	899.2	1,007.1	1,031.5	1,119.0	Cash and bank balances	263.9	281.5	303.1	314.7
Cost of sales	-447.1	-554.6	-537.7	-623.3	Investment properties	2,202.3	2,027.5	2,067.5	2,107.5
Gross profit	452.0	452.5	493.8	495.7	Development properties	1,274.7	1,562.7	1,406.2	1,423.6
Operating expenses	-177.3	-190.4	-167.4	-172.1	Total assets	6,093.6	7,328.0	7,308.3	7,566.2
Share of profit of assoc	64.6	88.3	136.5	115.0	Debt	1,555.5	1,936.5	1,531.8	1,409.5
Profit before other gains and tax	354.2	363.8	473.9	450.3	Current liabilities excluding debt	187.7	219.8	265.9	302.7
Fair value gain on properties	-106.8	-147.6	0.0	0.0	Total liabilities	2,278.4	2,720.1	2,348.9	2,288.2
Profit before tax	210.4	493.5	473.9	450.3	Shareholders equity	3,394.7	4,148.2	4,453.4	4,740.2
Net profit	164.2	461.5	426.5	414.3	Total equity	3,815.2	4,607.9	4,959.4	5,278.0
Shareholders' profit	147.2	424.2	380.2	382.5	Total equity and liabilities	6,093.6	7,328.0	7,308.3	7,566.2

<b>CASH FLOW</b>					<b>KEY RATES &amp; RATIOS</b>				
Year Ended 31 Dec (S\$m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Net profit	164.2	461.5	426.5	414.3	EPS (S-cents)	18.5	53.7	48.5	48.8
Adjustments	102.0	-117.4	-11.9	-0.7	NAV per share (S-cents)	426.4	529.4	568.4	605.0
Change in Working Capital	-272.4	-465.0	-246.9	153.3	PER (x)	21.6	7.4	8.2	8.2
Operating cash flow	-270.3	68.6	520.5	290.0	P/NAV (x)	0.9	0.8	0.7	0.7
Investing cash flow	-270.9	-257.9	27.8	-40.0	Gross profit margin (%)	50.3	44.9	47.9	44.3
Dividends paid	-119.4	-59.7	-78.4	-78.4	Net profit margin (%)	18.3	45.8	41.3	37.0
Financing cash flow	399.4	206.9	-526.6	-238.5	Net gearing (%)	40.4	41.3	29.8	25.5
Net change in cash	-141.8	17.6	21.7	11.5	Dividend yield (%)	1.9	2.5	2.5	2.5
Cash at beginning of period	405.7	263.9	281.5	303.1	ROE (%)	4.3	10.2	8.5	8.1
Cash at end of period	263.9	281.5	303.1	314.7	ROA (%)	2.7	6.3	5.8	5.5

Source: Company data, OIR estimates

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- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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Head of Research

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