

Overseas Union Enterprise Ltd

Wading through the tides

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Industry: Property

Phillip Securities Research Pte Ltd

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Report type: Full Year Results

Company Overview

Overseas Union Enterprise Ltd (OUE) is a diversified real estate owner, developer, and operator. It focuses its business across the commercial, hospitality, retail and residential sectors primarily in Singapore.

- FY11 revenue at \$332.4mn (54.2%y-y), PATMI at \$335.7mn (-56.5% y-y)
- Proposed a final dividend of 3 cents and special dividend of 8 cents
- Low lease pre-commitment level for ORPT2
- Downgrade to Accumulate, fair value lowered to \$2.83

What is the news?

OUE reported FY11 revenue of \$332.4mn or 54.2% higher y-y boosted by hospitality and property investment segments. In-line with the larger asset base and higher leverage, financial expenditure increased from \$8.1mn in FY10 to \$50.1mn. Contributions from associates were 37.4% lower y-y due to lower fair value gains. Other gains, which include fair value gains and reversal of impairment losses, were lower at \$265.5mn in FY11, compared to \$771.8mn in FY10. As a result, PATMI was lower by 56.5% y-y to \$335.7mn. On an adjusted basis, PATMI was \$95.1mn, or 2.1% higher y-y. The management proposed a final dividend of 3 cents and special dividend of 8 cents.

Fig: Results summary

Income Statement	FY10	FY11	Y-Y Δ
(S\$ 'mn)			
Revenue	215.6	332.4	54.2%
EBIT	78.1	140.1	79.3%
Share of results of associates	63.0	39.4	-37.4%
PBT	904.6	394.9	-56.3%
PATMI	772.5	335.7	-56.5%
Adj. PATMI	93.2	95.1	2.1%

Source: Company, Phillip Securities Research

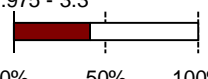
How do we view this?

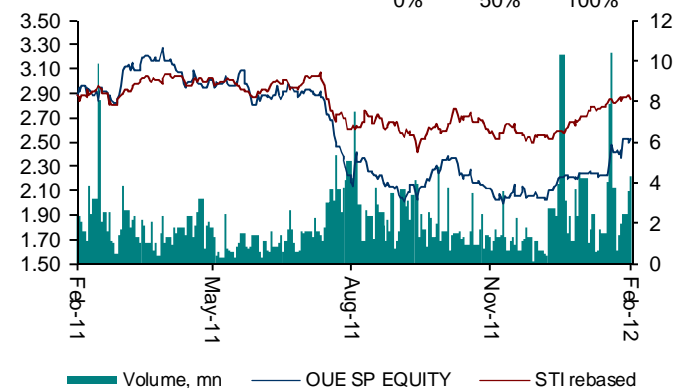
The results largely meet our expectations, with hospitality and property investment segments leading the growth. What surprised us is the 8 cents special dividend, which makes the dividend payout more than its net profit for the financial year. We believe that signifies that the management is comfortable with its future recurring income as it has built up a larger investment property portfolio.

Investment Actions?

We factor in the high percentage of expiring lease at DBS Tower in the next 2 years, and increase discount to RNAV to 35% to reflect the low pre-commitment level at ORPT2. Fair value is thus lowered to \$2.83 from \$2.84. Downgrade to Accumulate.

Overseas Union Enterprise Ltd

Rating	2	Accumulate
- Previous Rating	1	Buy
Target Price (SGD)	2.83	
- Previous Target Price (SGD)	2.84	
Closing Price (SGD)	2.53	
Expected Capital Gains (%)	11.9%	
Expected Dividend Yield (%)	2.2%	
Expected Total Return (%)	14.1%	
Raw Beta (Past 2yrs w weekly data)	0.99	
Market Cap. (USD mn / SGD mn)	1829 / 2302	
Enterprise Value (USD mn / SGD mn)	3133 / 4001	
3M Average Daily T/O (mn)	2.1	
52 week range (SGD)	1.975 - 3.3	
Closing Price in 52 w week range		



Major Shareholders

	(%)
1. OUE Realty Pte Ltd	55.2
2. Golden Concord Asia Ltd	12.7
3. Overseas Union Enterprise Ltd	7.9

Key Financial Summary

FYE	12/11	12/12F	12/13F	12/14F
Revenue (SGD mn)	332	382	436	535
Net Profit, adj. (SGD mn)	95	101	97	120
EPS, adj. (SGD)	0.10	0.11	0.11	0.13
P/E (X),adj.	25.1	22.7	23.8	19.3
BVPS (SGD)	3.21	3.31	3.36	3.44
P/B (X)	0.8	0.8	0.8	0.7
DPS (SGD)	0.13	0.06	0.05	0.07
Div. Yield (%)	5.1%	2.2%	2.1%	2.6%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

RNAV

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A record year for hospitality segment

Higher occupancy and room rates across its hotel portfolio helped to boost revenue from the hospitality segment. The increase was partly attributed to Crowne Plaza Changi Airport (CPCA) which, was acquired in April 2011, had contributed c\$18mn to the revenue. Revenue in FY11 was \$215.5mn compared to \$172.3mn in FY10. Average occupancy rate of Mandarin Orchard maintained at 85% in 4Q11 despite overall economic slowdown.

Larger office portfolio lifted income

Due to the completion of OUE Bayfront (OUEB) in 2011 and the addition of DBS Towers, which was acquired in 2010, rental income leaped from \$38.5mn in FY10 to \$106.9mn. Occupancy rate at OUEB stagnated since the previous quarter at ~82%, signifies office rental market had been challenging over the last quarter. While DBS Bank, the anchor tenant in DBS Towers, is vacating by 2013, we expect rental contribution from the property to fluctuate, depends on how efficient OUE can churn in new tenant for the vacated space. Nonetheless, incoming tenants should provide OUE with upside rental reversion as its current average rent is about \$5.60psfpm while market rent is around \$6 to \$7psfpm. Note that about 55% of the lease in DBS Towers will expire in 2012. That said, the fluctuation in rental income will partly be cushioned by OUEB when full contribution will be captured in 2012.

One Raffles Place Tower Two is partially completed

Its 40.8%-owned One Raffles Place Tower Two (ORT2) is partially completed since 4Q11, with basement 1 to level 27 achieved TOP, and the remaining will be completed in 1Q12. Pre-commitment for the space is a merely 42%, compared to 30% in last quarter. Given the prime locality and quality of the building, we believe it should be able to move occupancy rate up to 70% by 2H12.

Moving into the next phase of asset enhancement

Having OUEB completed in 2011 and ORPT2 completing in 1Q12, OUE is staging for the next phase of asset enhancement. In the hotel portfolio, it is going to build an extension adjacent to CPCA that could yield around 200 additional rooms at the cost of c\$40mn. Development work could start by end of this year once the development plan approval is obtained. In 2013, it is expected to kick start refurbishment works at both DBS Towers' podium to create a shopping mall with a supermarket as an anchor, and OUE Centre 5-storey retail podium. We estimate the capex of c\$200mn for the next three years can be comfortably funded by its strong recurring income.

Twin Peaks sales hit hard by ABSD

The only residential project of OUE, Twin Peaks, has not seen any sales progress since 2H11. Management acknowledged that the residential segment is in a challenging environment now in view of the latest Additional Buyer's Stamp Duty in placed. We believe partial stamp duty absorption and rebates in-kind will be offered to draw sales, and price cutting shall be the last resort.

What is missing?

Well, the management was eager to increase its hotel management contracts from the existing 6 to 30 in 5 years, and this part has been quiet a year on.

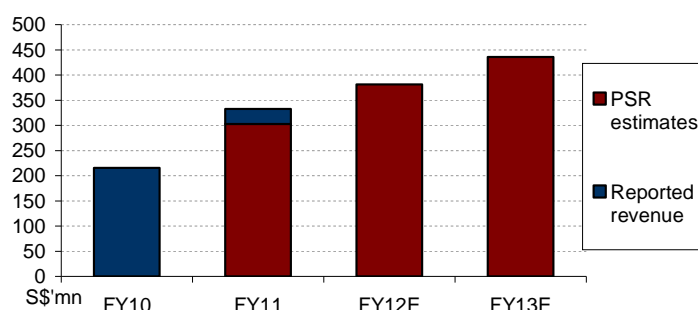
Financial position

OUE issued 3 MTN in the past 12 month, amount raised totaling \$800mn, mainly for the acquisition of CPCA, and rolling over some existing loans. As a result, there are no major refinancing required in 2012. Net D/E as of 4Q11 stood at 0.58x and we estimate that to increase to c0.60x by end-FY12, with no further acquisitions in sight. Note that Mandarin Orchard is stated at a depreciated value in the book. Net gearing could have been <0.45x if that asset is restated to market value.

Downgrade to Accumulate with fair value lower to \$2.83

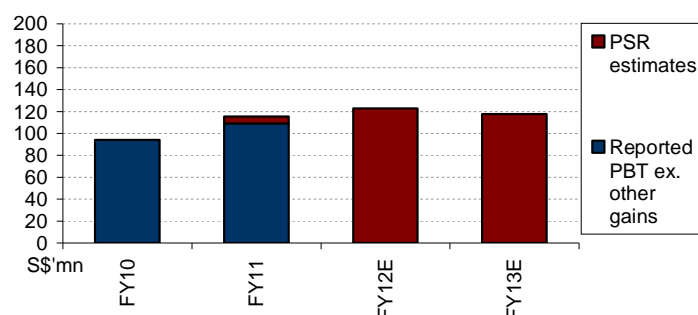
We roll over our RNAV estimates to FY12 and factor in possible rental income disruptions from the expiring leases at DBS Towers and refurbishment works. RNAV is lowered by c0.5%. However, the share buy back to-date had reduced the total shares outstanding by c7%. As a result, our RNAV is lifted from \$4.06 to \$4.36. We increase our discount to RNAV from 30% to 35% to reflect the low pre-commitment level at ORPT2 as well as high percentage of expiring leases at DBS Towers. Fair value is thus lowered to \$2.83. We downgrade our recommendation from Buy to Accumulate. Any improvement in the office rental market will be upside catalyst to the share price.

Fig 2: Reported FY11 revenue is 10% above our estimates



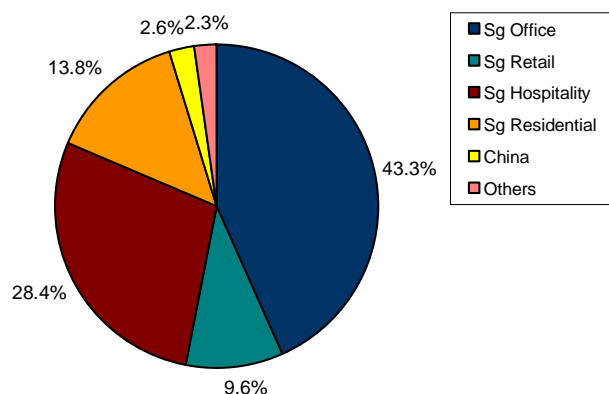
Source: Company, PSR

Fig 3: Reported FY11 PBT ex. other gains is 95% of our estimates



Source: Company, PSR

Fig 4: OUE's GAV by segment



Source: PSR

OUE RNAV		
	RNAV (S\$m)	S\$/share
Singapore		
Office	2,461	2.61
Retail	548	0.58
Hospitality	1,617	1.71
Residential	784	0.83
China hospitality	148	0.16
Others		
Hotel management business	70	0.07
Stake in MCH	128	0.14
GAV	5,757	6.10
Less: FY11E net debt and committed Capex	1,792	1.90
RNAV	3,964	4.20
RNAV/share (S\$)	4.36	
Premium/discount to RNAV	-35%	
Fair value (S\$)	2.83	

FYE Dec	FY10	FY11	FY12F	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	26.7	25.1	22.7	23.8	19.3
P/B (X)	0.9	0.8	0.8	0.8	0.7
EV/EBITDA (X), adj.	42.0	25.0	22.9	22.9	21.3
Dividend Yield (%)	1.6%	5.1%	2.2%	2.1%	2.6%
Per share data (SGD)					
EPS, reported	0.79	0.34	0.11	0.11	0.13
EPS, adj.	0.09	0.10	0.11	0.11	0.13
DPS	0.04	0.13	0.06	0.05	0.07
BVPS	2.86	3.21	3.31	3.36	3.44
Growth & Margins (%)					
Growth					
Revenue	56.8%	54.2%	14.8%	14.2%	22.7%
EBITDA	137.7%	68.0%	9.1%	-0.1%	7.6%
EBIT	249.8%	79.3%	6.3%	-0.5%	7.2%
Net Income, adj.	109.4%	2.1%	6.5%	-4.3%	23.3%
Margins					
EBITDA margin	44.2%	48.1%	45.7%	40.0%	35.1%
EBIT margin	36.2%	42.1%	39.0%	34.0%	29.7%
Net Profit Margin	360.5%	101.5%	26.8%	22.4%	22.5%
Key Ratios					
ROE (%)	31.9%	11.5%	3.4%	3.2%	3.9%
ROA (%)	20.6%	6.5%	1.8%	1.7%	2.1%
Net Debt/(Cash)	1370	1753	1792	1823	1758
Net Gearing (X)	0.49	0.58	0.60	0.60	0.56
Income Statement (SGD mn)					
Revenue	216	332	382	436	535
EBITDA	95	160	175	174	188
Depreciation & Amortisation	17	20	26	26	29
EBIT	78	140	149	148	159
Net Finance (Expense)/Income	(8)	(50)	(62)	(68)	(52)
Other items	772	266	0	0	0
Associates & JVs	63	39	38	40	40
Profit Before Tax	905	395	123	118	145
Taxation	(127)	(57)	(21)	(20)	(25)
Profit After Tax	777	337	102	98	120
Non-controlling Interest	5	2	1	1	1
Net Income, reported	772	336	101	97	120
Net Income, adj.	93	95	101	97	120

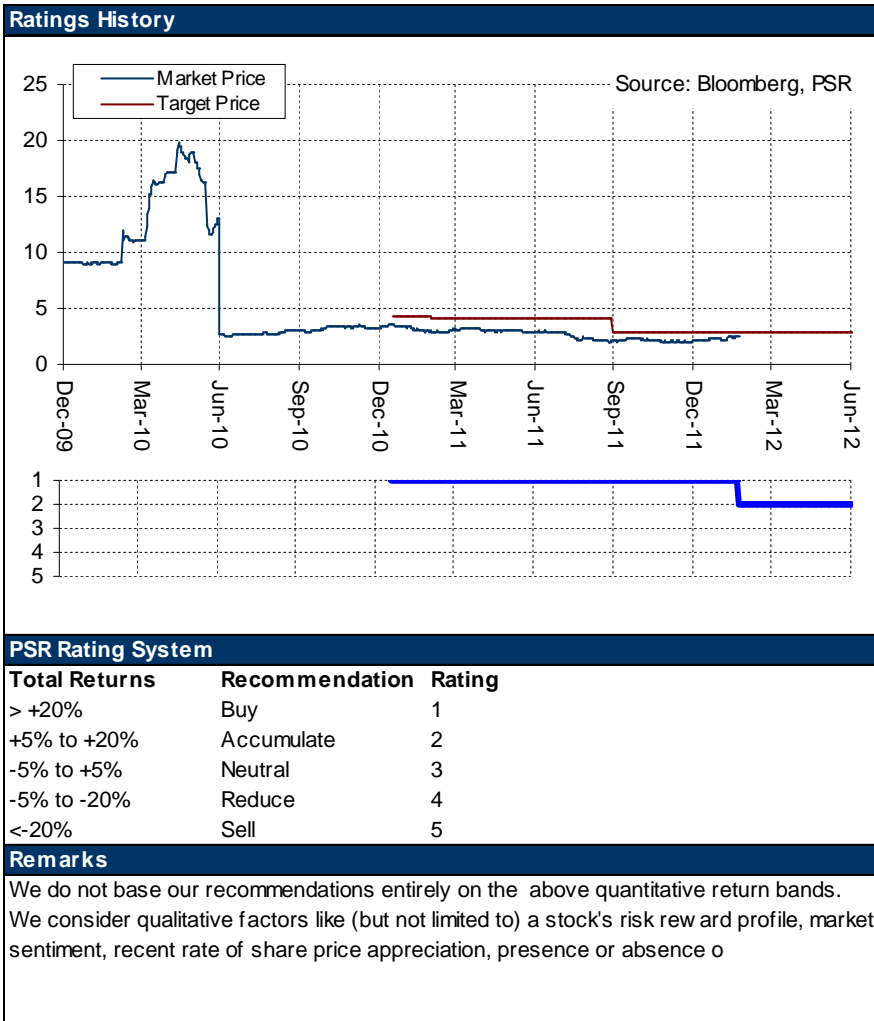
Source: PSR

FYE Dec	FY10	FY11	FY12F	FY13F	FY14F
Balance Sheet (SGD mn)					
PPE	243	508	504	510	507
Intangibles	0	43	43	43	43
Associates & JVs	670	707	741	777	813
Investment/Development Property	2,704	2,993	3,003	3,075	3,147
Others	128	130	130	130	130
Total non-current assets	3,746	4,382	4,421	4,535	4,640
Inventories	1	1	1	1	1
Accounts Receivables	27	25	29	33	40
Development property	715	743	771	764	715
Cash	226	368	599	559	247
Others	7	15	15	15	15
Total current assets	976	1,152	1,414	1,372	1,018
Total Assets	4,721	5,533	5,835	5,908	5,658
Short term loans	481	56	847	778	369
Accounts Payables	70	103	131	169	226
Others	25	23	23	23	23
Total current liabilities	577	182	1,002	971	618
Long term loans	1,115	2,066	1,544	1,604	1,636
Others	227	258	278	275	275
Total non-current liabilities	1,342	2,324	1,822	1,879	1,911
Non-controlling interest	(2)	0	1	1	1
Shareholder Equity	2,805	3,028	3,011	3,057	3,128

Cashflow Statements (SGD mn)

CFO					
PBT	777	337	102	98	120
Adjustments	(684)	(179)	69	73	64
Cash from ops before WC changes	93	159	171	171	184
WC changes	(71)	(0)	17	37	98
Cash generated from ops	22	159	188	208	282
Taxes paid, net	(12)	(18)	(21)	(20)	(25)
Interest paid	0	0	0	0	0
Cashflow from ops	10	141	167	188	258
CFI					
CAPEX, net	0	(15)	(21)	(33)	(26)
Dividends from associates & JVs	3	4	4	4	4
Dividends/Interest from Investments	2	2	2	2	2
Purchase/sale of investments	(119)	(44)	(8)	(70)	(70)
Investments in subs & associates	(855)	(290)	0	0	0
Others	0	0	0	0	0
Cashflow from investments	(969)	(343)	(24)	(97)	(90)
CFF					
Share issuance	0	0	0	0	0
Purchase of treasury shares	0	(83)	0	0	0
Loans, net of repayments	1,008	465	206	(79)	(431)
Dividends to minority interests	0	0	(1)	(1)	(1)
Dividends to shareholders & capital reduction	(20)	(39)	(118)	(51)	(48)
Others	(1)	0	0	0	0
Cashflow from financing	988	343	87	(130)	(480)
Net change in cash	28	141	231	(39)	(313)
Effects of exchange rates	0	1	0	0	0
CCE, end	226	368	599	559	247

Source: PSR



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