

Overseas Union Enterprise Ltd

Hunt for F&N continues

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Industry: Property

Phillip Securities Research Pte Ltd

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Report type: Quarterly 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.

- 3Q12 revenue \$102mn, increased 18% y-y, and PATMI \$23.9mn, 20.5% y-y higher
- Announced that it will clarify its intentions with regard to F&N bid by no later than 15 Nov
- Results largely in-line, maintain Accumulate with fair value unchanged at \$2.83

What is the news?

OUE reported 3Q12 revenue of \$102mn, an increase of 18% y-y, mainly due to higher contribution from all development, investment and hospitality segments. Share results of associates were lower mainly due to higher financing costs. As a result, PATMI was 20.5% y-y higher at \$23.9mn. Separately, OUE announced that it will clarify its intentions with regard to F&N bid by no later than 15 Nov.

Fig 1: Results summary

Income Statement	3Q12	3Q11	Y-Y Δ	9M12	9M11	Y-Y Δ
	(restated)					
(S\$ 'mn)						
Revenue	102.0	86.4	18.2%	295.9	226.9	30.4%
Gross profit	62.8	50.9	23.4%	182.0	137.7	32.2%
Associates	3.1	5.1	-37.9%	9.3	14.3	-35.4%
Other gains - net	2.3	-1.8	n.m.	3.5	247.4	-98.6%
PBT	29.5	23.9	23.5%	85.8	322.6	-73.4%
PATMI	23.9	19.8	20.5%	68.4	309.9	-77.9%

Source: Company

How do we view this?

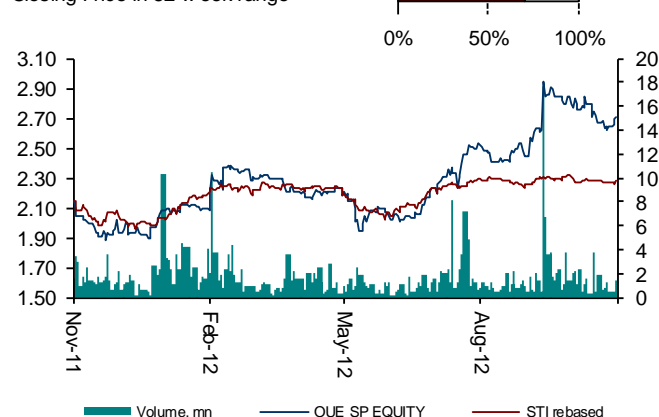
Hotel operations remained healthy while OUE Bayfront continued to optimize its contribution. At the associates' level, contribution was below our expectation due to higher financing costs and subpar occupancy rate for ORPT2. On its attempt to bid for F&N, we would prefer OUE to bid for F&N property division separately, rather than entering into a bidding war against ThaiBev that could lead to risk of overpricing. Nonetheless, it could fast track its expansion plan if OUE takes over the property division of F&N.

Investment Actions?

Reported revenue and PBT ex other gains form 78% and 73% of our FY12 estimates respectively, largely in-line with our expectations. We keep our estimates and fair value unchanged at \$2.83. Maintain Accumulate.

Overseas Union Enterprise Ltd

Rating	2	Accumulate
- Previous Rating	2	Accumulate
Target Price (SGD)	2.83	
- Previous Target Price (SGD)	2.83	
Closing Price (SGD)	2.71	
Expected Capital Gains (%)	4.4%	
Expected Dividend Yield (%)	1.9%	
Expected Total Return (%)	6.3%	
Raw Beta (Past 2yrs weekly data)	1.02	
Market Cap. (USD mn / SGD mn)	2017 / 2466	
Enterprise Value (USD mn / SGD mn)	3522 / 4374	
3M Average Daily T/O (mn)	1.6	
52 week range (SGD)	1.9147 - 3.04	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. OUE Realty Pte Ltd	55.2
2. Golden Concord Asia Ltd	12.8
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	93	97	119
EPS, adj. (SGD)	0.10	0.10	0.11	0.13
P/E (X), adj.	26.9	26.5	25.4	20.7
BVPS (SGD)	3.47	3.57	3.62	3.70
P/B (X)	0.8	0.8	0.7	0.7
DPS (SGD)	0.13	0.05	0.05	0.07
Div. Yield (%)	4.8%	1.9%	2.0%	2.4%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

RNAV

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Hotel occupancy lower y-y but still high

Hotel operation continued to perform well with revenue of \$58.2mn (3Q11: \$57mn) achieved mainly due to Crowne Plaza Changi Airport (CPCA) acquired in July 2011. Occupancy rates in the quarter at Mandarin Orchard (MO) and CPCA were 82.9% and 90.8% respectively, slightly lower compared to the 85% and 92% registered in the same period last year.

Office occupancy continued to improve

Rental from investment properties amounted to \$37.9mn in 3Q12 as compared to the \$27mn in the same period last year, mainly due to higher occupancy of close to 88% at OUE Bayfront, inched up slightly from the 85.9% registered in 2Q12. Occupancy rate at One Raffles Place (ORP) Tower 2 maintained at 60% as of end-Sept 2012, but has seen more tenants signing up to 70% to date, according to the management.

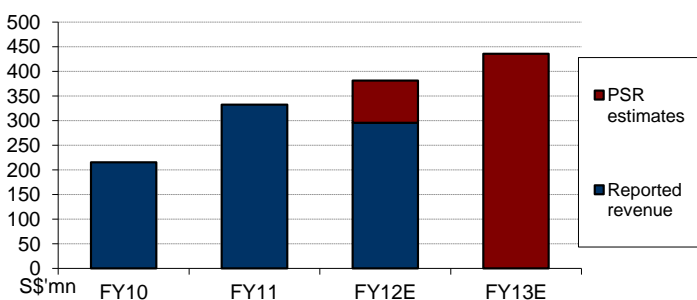
Acquisition of F&N

It was announced earlier in Oct that OUE is considering all possible options with respect to Fraser and Neave Ltd (F&N) with certain parties, and it announced in a separate announcement yesterday that it will clarify its intentions by no later than 15 Nov with regard to its intention on bidding for F&N. Based on media reports OUE could be in talk to potential parties that include Kirin for a joint-bid for F&N. Assuming OUE will take only the property division of F&N and the joint-party will take the F&B division, we opine that the move could certainly help to fast-track its expansion plan, upsizing its property portfolio by more than double, it also means OUE will be overhauled to become a regional property player instead of Singapore-focused property landlord. Financially OUE will be overstretched, but still doable, by gearing up to over 2x its book value assuming it will take over only the property business of F&N after the bid, and cash equity call may be required as well. That said, we would prefer OUE to bid for F&N property division separately, rather than entering into a bidding war against ThaiBev that could lead to risk of overpricing.

Maintain Accumulate with fair value unchanged at \$2.83

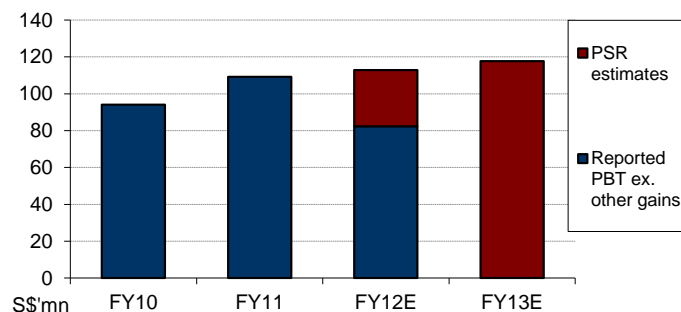
Reported revenue and PBT ex other gains form 78% and 73% of our FY12 estimates respectively, largely in-line with our expectations. We keep our estimates and fair value unchanged at \$2.83. Maintain Accumulate.

Fig 2: Reported revenue is 78% of our FY12 estimate



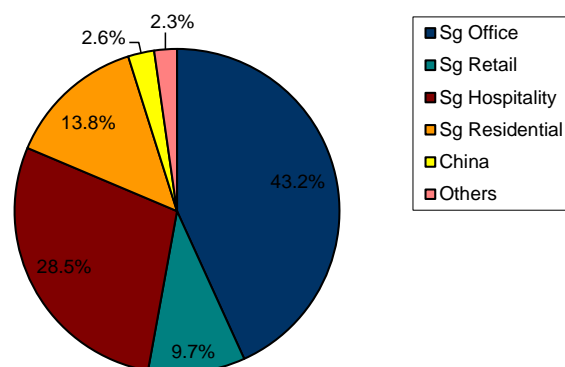
Source: Company, PSR

Fig 3: Reported PBT ex. other gains is 73% of our FY12 estimate



Source: Company, PSR

Fig 4: OUE's GAV by segment



Source: PSR

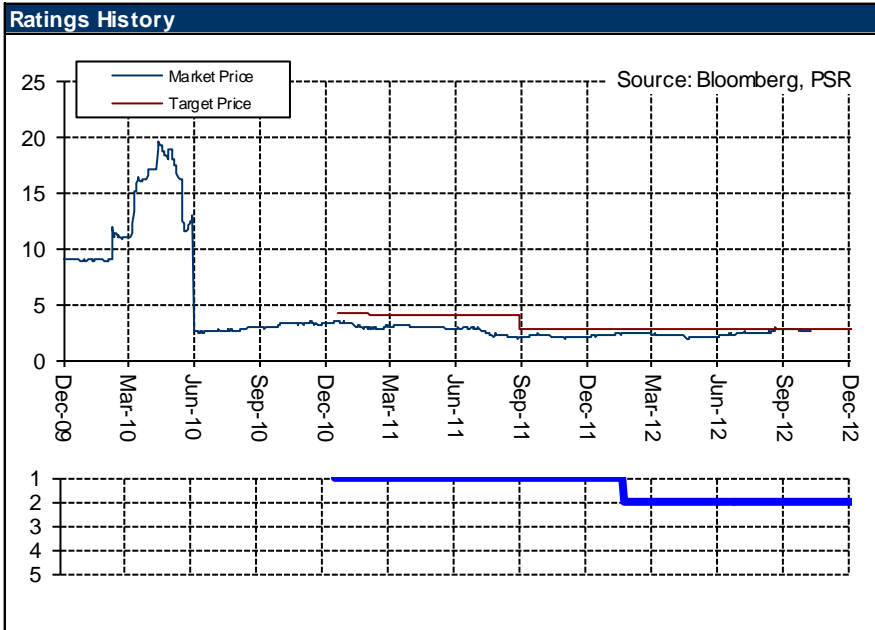
OUE RNAV		
	RNAV (S\$m)	S\$/share
Singapore		
Office	2,457	2.61
Retail	549	0.58
Hospitality	1,621	1.72
Residential	784	0.83
China hospitality	148	0.16
Others		
Hotel management business	70	0.07
Stake in MCH	128	0.14
GAV	5,758	6.11
Less: FY11E net debt and committed Capex	1,791	1.90
RNAV	3,967	4.21
RNAV/share (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.	28.5	26.9	26.5	25.4	20.7
P/B (X)	0.9	0.8	0.8	0.7	0.7
EV/EBITDA (X), adj.	45.9	27.3	25.1	25.1	23.3
Dividend Yield (%)	1.5%	4.8%	1.9%	2.0%	2.4%
Per share data (SGD)					
EPS, reported	0.79	0.34	0.10	0.11	0.13
EPS, adj.	0.09	0.10	0.10	0.11	0.13
DPS	0.04	0.13	0.05	0.05	0.07
BVPS	3.06	3.47	3.57	3.62	3.70
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%	-2.3%	4.3%	23.1%
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%	24.8%	22.4%	22.5%
Key Ratios					
ROE (%)	30.6%	10.7%	2.9%	3.0%	3.6%
ROA (%)	20.6%	6.5%	1.7%	1.6%	2.1%
Net Debt/(Cash)	1370	1753	1791	1817	1753
Net Gearing (X)	0.46	0.54	0.55	0.55	0.52
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	1	0	0
Associates & JVs	63	39	28	40	40
Profit Before Tax	905	395	114	118	145
Taxation	(127)	(57)	(19)	(20)	(25)
Profit After Tax	777	337	95	98	120
Non-controlling Interest	5	2	1	1	1
Net Income, reported	772	336	94	97	119
Net Income, adj.	93	95	93	97	119

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	683	721	745	781	817
Investment/Development Property	2,704	2,993	3,004	3,076	3,148
Others	128	130	130	130	130
Total non-current assets	3,758	4,396	4,426	4,540	4,645
Inventories	1	1	1	1	1
Accounts Receivables	27	25	29	33	40
Development property	715	743	771	764	715
Cash	226	368	600	565	252
Others	7	15	15	15	15
Total current assets	976	1,152	1,415	1,378	1,023
Total Assets	4,734	5,547	5,842	5,919	5,669
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	38	27	48	45	45
Total non-current liabilities	1,154	2,093	1,591	1,649	1,680
Non-controlling interest	(2)	0	1	1	1
Shareholder Equity	3,006	3,272	3,248	3,298	3,369
Cashflow Statements (SGD mn)					
CFO					
PBT	777	337	95	98	120
Adjustments	(684)	(179)	76	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)	(19)	(20)	(25)
Interest paid	0	0	0	0	0
Cashflow from ops	10	141	169	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)	(46)	(48)
Others	(1)	0	0	0	0
Cashflow from financing	988	343	87	(126)	(480)
Net change in cash	28	141	232	(35)	(313)
Effects of exchange rates	0	1	0	0	0
CCE, end	226	368	600	565	252

Source: PSR



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of

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