

Overseas Union Enterprise Ltd

Successful asset spin-off

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OUE SP | OVES.SI | OUES.SG
Industry: Property

Phillip Securities Research Pte Ltd

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Report type: Results Update

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.

- OUE 2Q13's 15.8% y-y increase in revenue to S\$112.0mn, was met with a larger 56.6% increase in cost of sales. Gross profit dipped 8.5% to S\$55.4mn.
- PATMI decreased 35.8%y-y to \$14.6mn, due to higher costs incurred for administrative and marketing purposes.
- Special dividend of 20 cents per share and interim dividend of 1 cent per share
- Maintain Accumulate with unchanged fair value of \$3.24

What is the news?

OUE reported a 15.8%y-y increase in 2Q13 revenue at \$112.0mn, mainly due to higher revenue recognition from project Twin Peaks, offset partially by lower revenue in the Hospitality division and Property Investment division. Gross profit, on the other hand decreased by S\$5.1 mn due largely to increase in cost of sales and lower contribution from 6 Shenton Way. Additionally, higher marketing costs incurred for the Twin Peaks project coupled with an increase in administrative expenses (higher legal/professional fees and head count cost), resulted in the group registering a lower y-y net profit of S\$14.6 mn for 2Q13, a 35.8% y-y dip. Management has declared an interim dividend of 1 cent per share and a special dividend of 20 cents per share.

Fig 1: Results summary

Income Statement	2Q13	2Q12	Y-Y %	1H13	1H12	Y-Y %
(\$ mn)						
Revenue	112.0	96.7	15.8	217.4	193.9	12.1
EBIT	34.4	44.2	(22.3)	68.3	86.3	(20.9)
Share of results of associates	4.6	4.1	13.0	9.2	6.1	51.4
Other gains - net	0.5	(0.4)	Nm	0.8	1.3	(39.6)
Profit before Tax	19.1	28.6	(33.2)	25.0	56.3	(55.6)
PATMI	14.6	22.8	(35.8)	16.6	44.5	(62.7)

Source: Company, Phillip Securities Research

How do we view this?

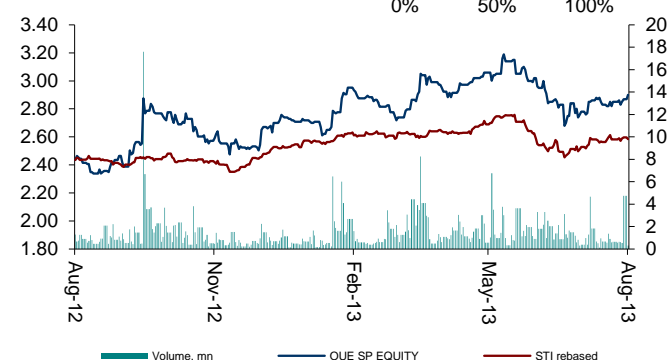
The higher finance expenses were the only negative surprise. We are positive to note that the asset spin-off plan is successfully completed while the principle approval had been obtained to convert part of 6 Shenton Way into a mixed development of retail/serviced apartments/office space, which could potentially unlock greater value for the strategic site.

Investment Actions?

We maintain Accumulate with unchanged fair value of \$3.24. Potential upside remains from further assets spin-off and potential new acquisitions/projects with S\$~600mn cash war chest.

Overseas Union Enterprise Ltd

Rating	2	Accumulate
- Previous Rating	2	Accumulate
Target Price (SGD)	3.24	
- Previous Target Price (SGD)	3.24	
Closing Price (SGD)	2.9	
Expected Capital Gains (%)	11.7%	
Expected Dividend Yield (%)	1.7%	
Expected Total Return (%)	13.4%	
Raw Beta (Past 2yrs weekly data)	0.92	
Market Cap. (USD mn / SGD mn)	2074 / 2639	
Enterprise Value (USD mn / SGD mn)	4040 / 5133	
3M Average Daily T/O (mn)	1.5	
52 week range (SGD)	2.3613 - 3.2	
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	12/12	12/13F	12/14F
Revenue (SGD mn)	332	418	432	523
Net Profit, adj. (SGD mn)	138	102	86	109
EPS, adj. (SGD)	0.15	0.11	0.09	0.12
P/E (X),adj.	19.6	25.6	30.2	23.9
BVPS (SGD)	3.47	3.49	3.48	3.55
P/B (X)	0.8	0.8	0.8	0.8
DPS (SGD)	0.13	0.11	0.05	0.06
Div. Yield (%)	4.5%	3.8%	1.7%	2.1%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

RNAV

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Hotel operations

The hospitality division maintained its prior year performance, achieving \$57.0mn (-1.1%y-y) in revenue. Management has confirmed that principle approval had been obtained to convert a portion of 6 Shenton Way into serviced apartments. Additionally, OUE will continue to operate the Mandarin Orchard hotel. As Singapore tourism continues to show resilient and sustainable growth, we expect revenue contributions to sustain at current levels, and demonstrate growth, with the successful conversion of the 6 Shenton Way asset.

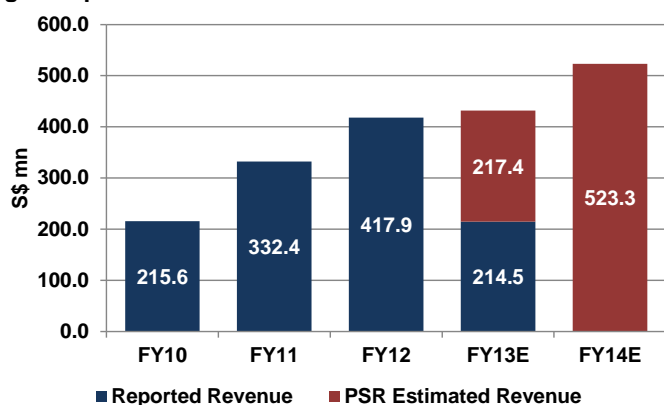
Property investment

Following the relocation of a major tenant, the lower occupancy of 6 Shenton Way was the main driver behind the S\$4.7mn (-13.6%y-y) decrease in revenue, to S\$29.7mn. Currently, the potential AEI plan has been approved. The plan would be to convert two-thirds of the commercial assets to service apartments while continuing to lease out the remaining one-thirds as office. The AEI will also see an introduction of 4 levels of retail. The AEI at One Raffles Place retail podium remains on track for completion by end-2013. Management has revealed that the decline in revenue was partially mitigated by revenue contribution from US Bank Tower, a Class A office property in downtown Los Angeles-California, acquired in June 2013. We expect the revenue contribution to slowly recover to former levels over the next 3-4 quarters.

Optimizing capital availability and deployment

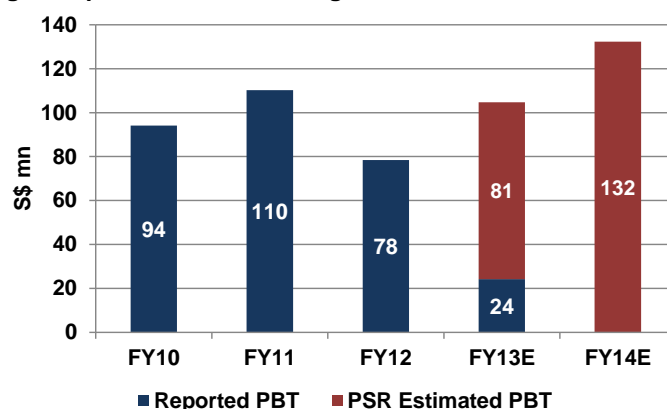
Excluding the 48% stake OUE retained in the listing of OUE H-REIT, the company received cash proceeds of ~S\$600 mn. We expect the company to utilize the cash to repay debt while embarking on further growth opportunities, which includes acquisitions, developments and redevelopment works. With the economic situation remaining delicate, the company ability to optimize the use of this cash influx is vital to its longer term success. The company declared a total of 21 cents dividend, to share the returns of the successful REIT listing with investors.

Fig 2: Reported revenue form 49.7% of our FY13 estimate



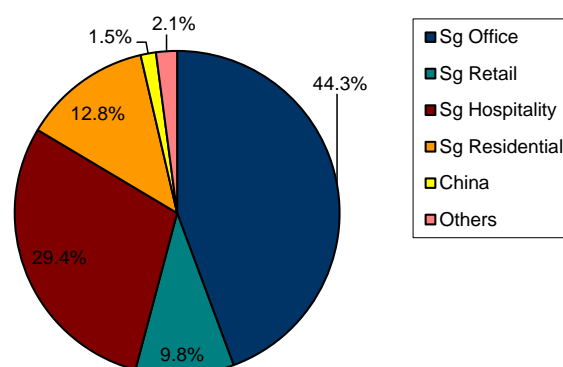
Source: Company, PSR

Fig 3: Reported PBT ex. other gains 6% of our FY13 estimate



Source: Company, PSR

Fig 4: OUE's GAV by segment



Source: PSR

OUE RNAV		
	RNAV (S\$'mn)	S\$/share
Singapore		
Office	2,726	3.00
Retail	602	0.66
Hospitality	1,809	1.99
Residential	788	0.87
China hospitality	94	0.10
Others		
Hotel management business	70	0.08
Stake in MCH	128	0.14
GAV	6,217	6.83
Less: FY13E net debt and committed Capex	2,008	2.21
RNAV	4,209	4.63
RNAV/share (S\$)	4.63	
Premium/discount to RNAV	-30%	
Fair value (S\$)	3.24	

FYE Dec	FY10	FY11	FY12	FY13F	FY14F
Valuation Ratios					
P/E (X), adj.	30.2	19.6	25.6	30.2	23.9
P/B (X)	0.9	0.8	0.8	0.8	0.8
EV/EBITDA (X), adj.	53.6	31.9	24.6	30.0	27.8
Dividend Yield (%)	1.4%	4.5%	3.8%	1.7%	2.1%
Per share data (SGD)					
EPS, reported	0.79	0.39	0.10	0.09	0.12
EPS, adj.	0.09	0.15	0.11	0.09	0.12
DPS	0.04	0.13	0.11	0.05	0.06
BVPS	3.06	3.47	3.49	3.48	3.55
Growth & Margins (%)					
Growth					
Revenue	56.8%	54.2%	25.7%	3.4%	21.2%
EBITDA	137.7%	68.0%	29.6%	-17.9%	8.2%
EBIT	249.8%	79.3%	30.5%	-21.2%	7.8%
Net Income, adj.	109.4%	48.3%	-26.2%	-15.3%	26.5%
Margins					
EBITDA margin	44.2%	48.1%	49.6%	39.4%	35.2%
EBIT margin	36.2%	42.1%	43.8%	33.4%	29.7%
Net Profit Margin	360.5%	114.5%	21.7%	20.1%	21.0%
Key Ratios					
ROE (%)	30.6%	12.1%	2.8%	2.7%	3.4%
ROA (%)	20.6%	7.4%	1.6%	1.5%	1.9%
Net Debt/(Cash)	1370	1753	1970	2008	1982
Net Gearing (X)	0.46	0.54	0.62	0.63	0.61
Income Statement (SGD mn)					
Revenue	216	332	418	432	523
EBITDA	95	160	207	170	184
Depreciation & Amortisation	17	20	24	26	29
EBIT	78	140	183	144	155
Net Finance (Expense)/Income	(8)	(50)	(86)	(77)	(61)
Other items	772	266	32	0	0
Associates & JVs	63	41	(24)	40	40
Profit Before Tax	905	396	103	105	132
Taxation	(127)	(16)	(12)	(18)	(22)
Profit After Tax	777	380	91	87	110
Non-controlling Interest	5	2	1	1	1
Net Income, reported	772	379	90	86	109
Net Income, adj.	93	138	102	86	109

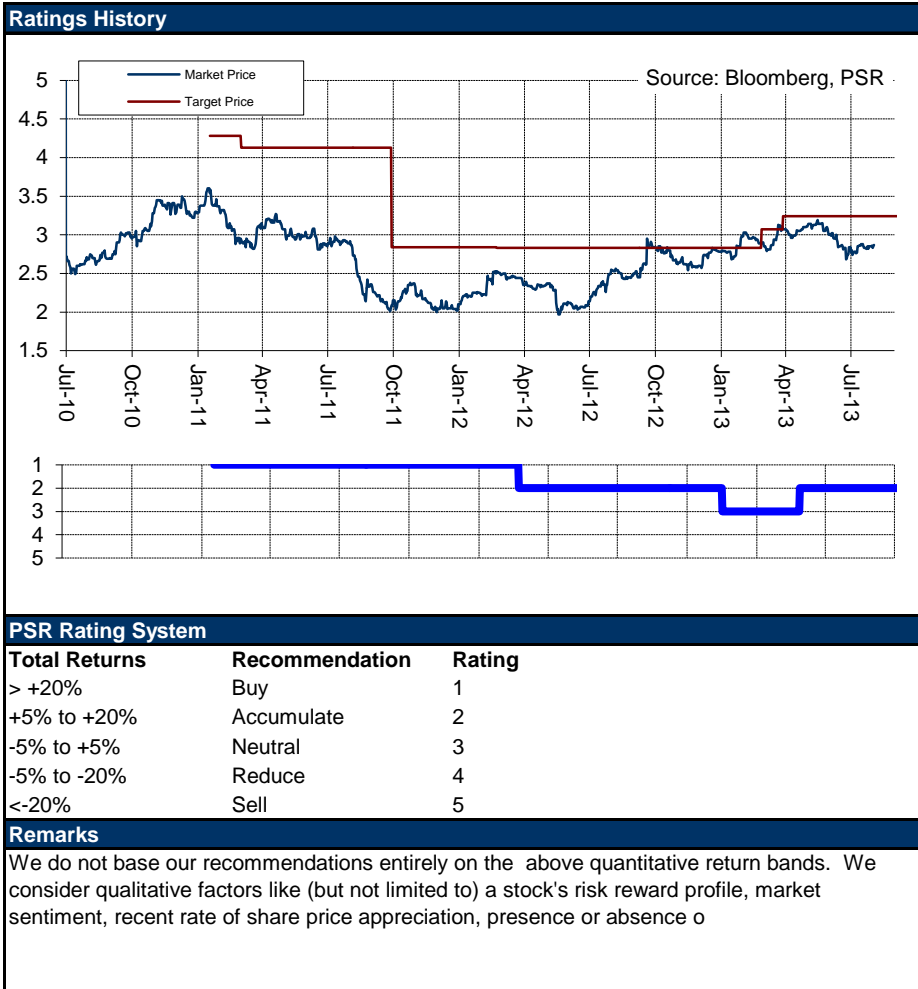
Source: PSR

FYE Dec	FY10	FY11	FY12	FY13F	FY14F
Balance Sheet (SGD mn)					
PPE	243	508	495	502	498
Intangibles	0	43	43	43	43
Associates & JVs	683	721	721	785	850
Investment/Development Property	2,704	2,993	3,021	3,093	3,165
Others	128	130	164	164	164
Total non-current assets	3,758	4,396	4,445	4,588	4,721
Inventories	1	1	1	1	1
Accounts Receivables	27	25	35	33	39
Development property	715	743	794	782	732
Cash	226	368	605	573	223
Others	7	15	7	7	7
Total current assets	976	1,152	1,442	1,397	1,003
Total Assets	4,734	5,547	5,888	5,984	5,724
Short term loans	481	56	846	787	378
Accounts Payables	70	103	83	170	221
Others	25	23	23	23	23
Total current liabilities	577	182	952	980	622
Long term loans	1,115	2,066	1,728	1,794	1,826
Others	38	27	33	41	41
Total non-current liabilities	1,154	2,093	1,762	1,835	1,867
Non-controlling interest	(2)	0	1	1	1
Shareholder Equity	3,006	3,272	3,173	3,168	3,234

Cashflow Statements (SGD mn)

CFO					
PBT	777	380	91	87	110
Adjustments	(684)	(222)	112	79	70
Cash from ops before WC changes	93	159	203	166	180
WC changes	(71)	(0)	(46)	109	93
Cash generated from ops	22	159	157	275	274
Taxes paid, net	(12)	(18)	(16)	(18)	(22)
Interest paid	0	0	0	0	0
Cashflow from ops	10	141	140	257	251
CFI					
CAPEX, net	0	(15)	(15)	(33)	(25)
Dividends from associates & JVs	3	4	7	(24)	(24)
Dividends/Interest from Investments	2	2	2	2	2
Purchase/sale of investments	(119)	(44)	(17)	(70)	(70)
Investments in subs & associates	(855)	(290)	(32)	0	0
Others	0	0	0	0	0
Cashflow from investments	(969)	(343)	(54)	(125)	(118)
CFF					
Share issuance	0	0	0	0	0
Purchase of treasury shares	0	(83)	(73)	0	0
Loans, net of repayments	1,008	465	354	(72)	(440)
Dividends to minority interests	0	0	0	(0)	(0)
Dividends to shareholders & capital reduction	(20)	(39)	(127)	(91)	(43)
Others	(1)	0	0	0	0
Cashflow from financing	988	343	153	(163)	(484)
Net change in cash	28	141	239	(31)	(351)
Effects of exchange rates	0	1	(3)	0	0
CCE, end	226	368	605	573	223

Source: PSR



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