

Company Initiation

UOL Group Limited

The slow and steady wins the race

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Initiating coverage

“ACCUMULATE” rating, TP: S\$7.05, Last close: S\$6.29

- **52-week range: S\$5.22 – S\$6.38**
- **Market Cap: S\$5.1bn**



Three primary business segments

- Property development
- Property investments
- Hotel operations
- Management services
- Investments



Property Development

A rather comfortable position...

- Nimble and well-executed development strategy
- Only two launched projects remaining with more than 10% unsold units in Singapore

Details of launched development properties as at 3Q16

Development Properties	Equity Stake (%)	No. of Units	% Sold	TOP Status
Singapore				
Seventy Saint Patrick's	100	186	100	TOP
Thomson Three	50	445	99.6	TOP
Riverbank@Fernvale	100	555	89	1Q17
Botanique at Bartley	100	797	96	1Q18
Principal Garden	70	663	53	4Q18
China				
The Esplanade (Tianjin, China)	100	570	95.1	TOP
Park Eleven, Shanghai	40	398	21.1	1Q18

Source: Company Data, Phillip Securities Research (Singapore)

Principal Garden

- Take-up rate encouraging: 47.1% sold as at 3Q16
- Plenty of time remaining to sell since ABSD Clawback in April 2019
- Lowest land acquisition cost compared to two nearby developments, The Crest and Mon Jervois
- Expecting strong development margin from development

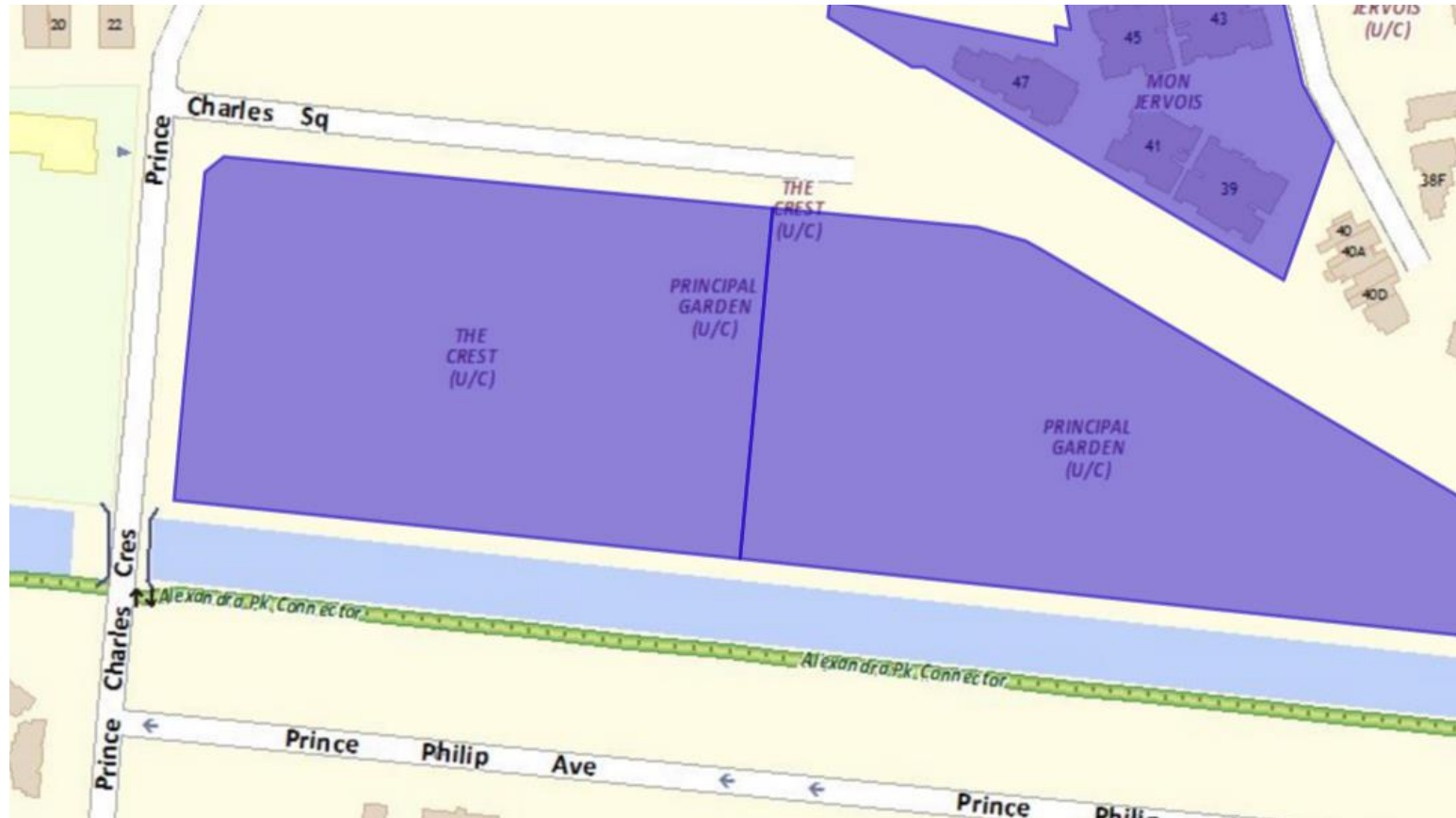
Artist impressions of Principal Garden, Mon Jervois and The Crest



Source: Company Website

Principal Garden

Location of Principal Garden, Mon Jervois and The Crest

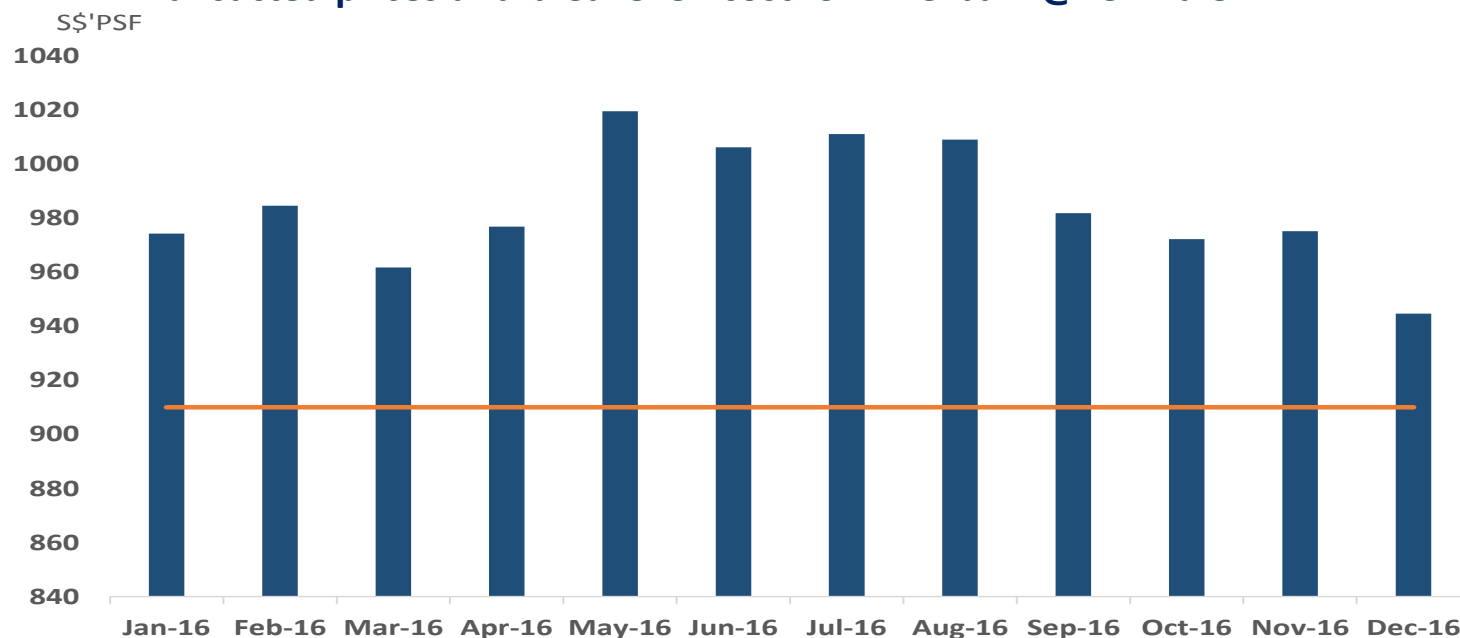


Source: URA

Riverbank@Fernvale

- 555-unit condominium in Sengkang; 89% sold
- 15 months remaining to clear 60 remaining units
- Weak development margin of 8% expected
- Expecting oversupply of units in OCR segment
- Lowest land acquisition cost among other developments

Transacted prices and breakeven cost for Riverbank@Fernvale



Source: REALIS, Phillip Securities Research (Singapore)

Clear pipeline of development projects

- Intends to launch 2 development projects each year in 2017 and 2018
 - 1) Clement Canopy – 555 units
 - 2) Potong Pasir Avenue 1 – 750 units
- Weaker market conditions likely to result in lower development margins
- Project 2 projects will add S\$50m or S\$0.06 to our RNAV estimates

China

The Esplanade: 570-unit residential and office development

- >95.1% sold

Park Eleven: 398-unit residential development

- Private launch of 168 units: 80% sold

London, UK

Bishopgate Landsite: 160-unit freehold mixed development

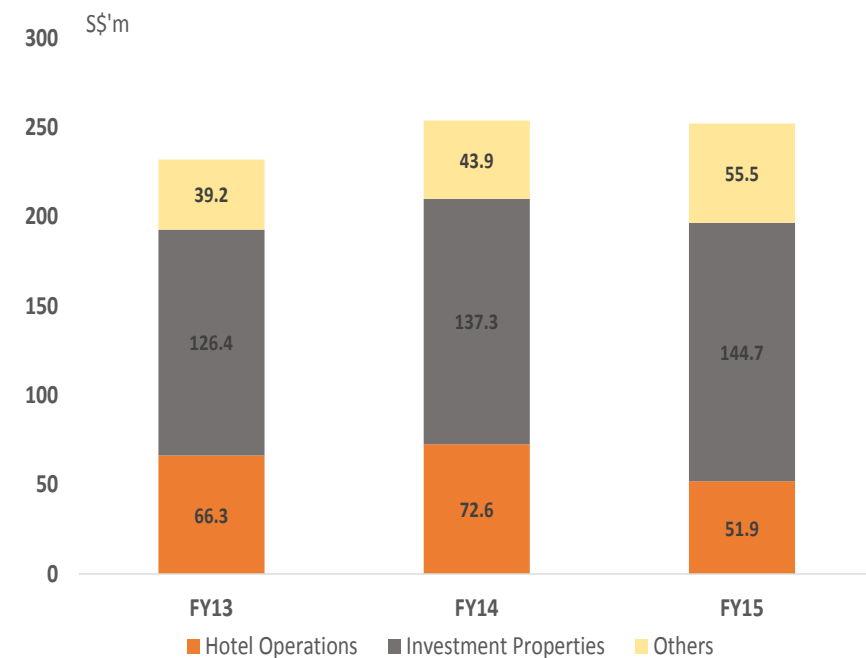
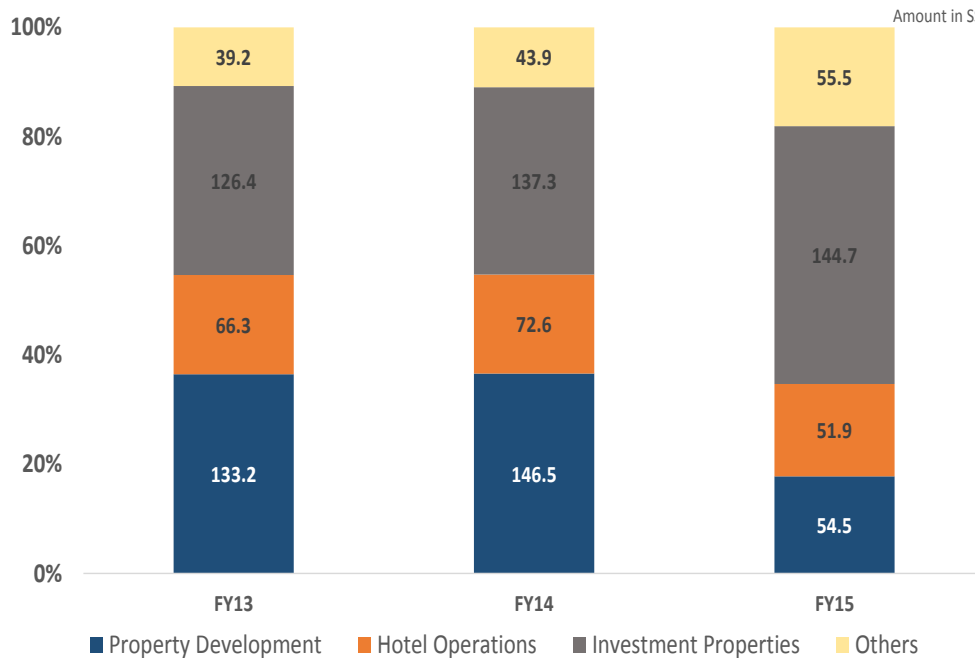
- Expected to be launched in 2017

3 projects to potentially add S\$103m or S\$0.13 to our RNAV

But...

- UOL derives >65% of operating profit from recurring income – hotel operations, investment properties and other investments
- Lower reliance on property development pans out well during weaker markets

Segmental breakdown of historical operating profits



Source: Company Data, Phillip Securities Research (Singapore)

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Hotel Operations

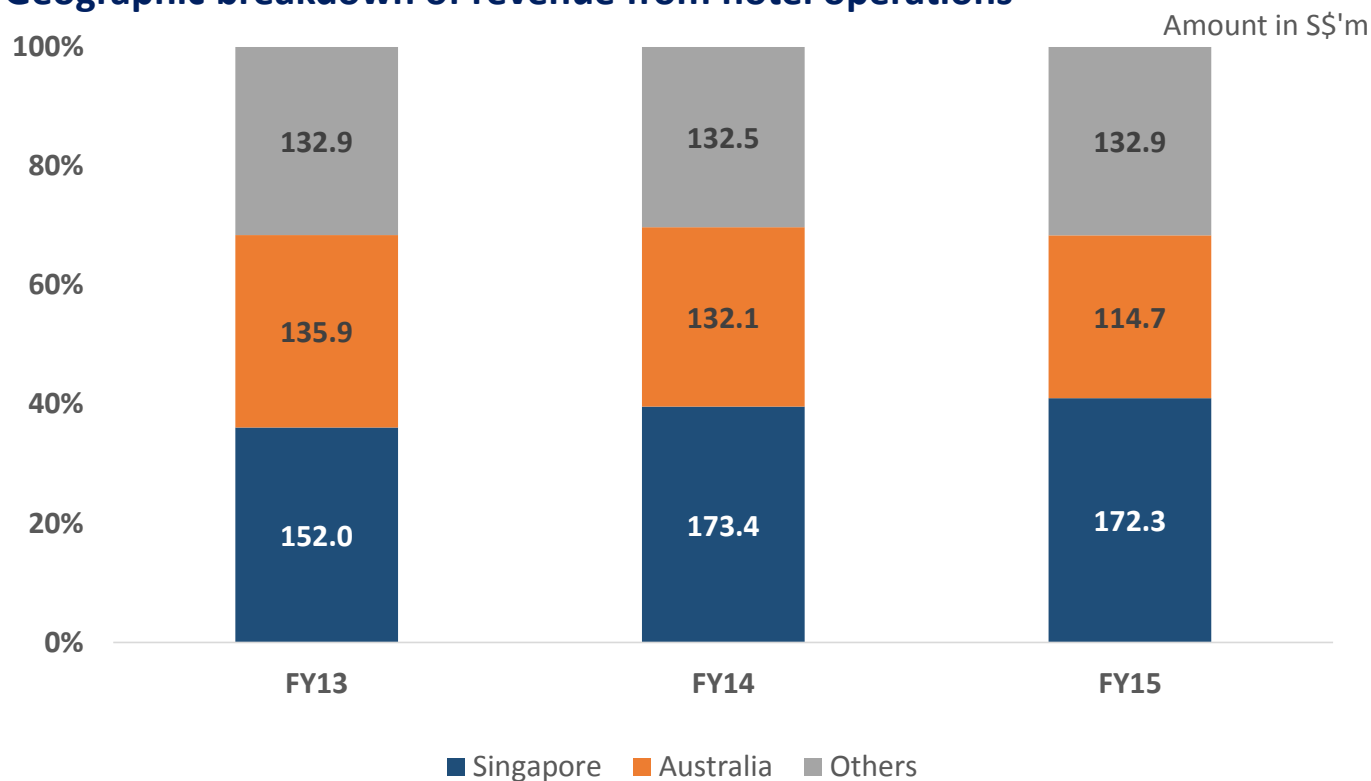


PAN PACIFIC
HOTELS AND RESORTS

PARKROYAL and Pan Pacific

- 33 hotels with 9,864 rooms across different locations in Asia, Oceania and North America
- Singapore and Australia contributed >68% of segment revenue

Geographic breakdown of revenue from hotel operations

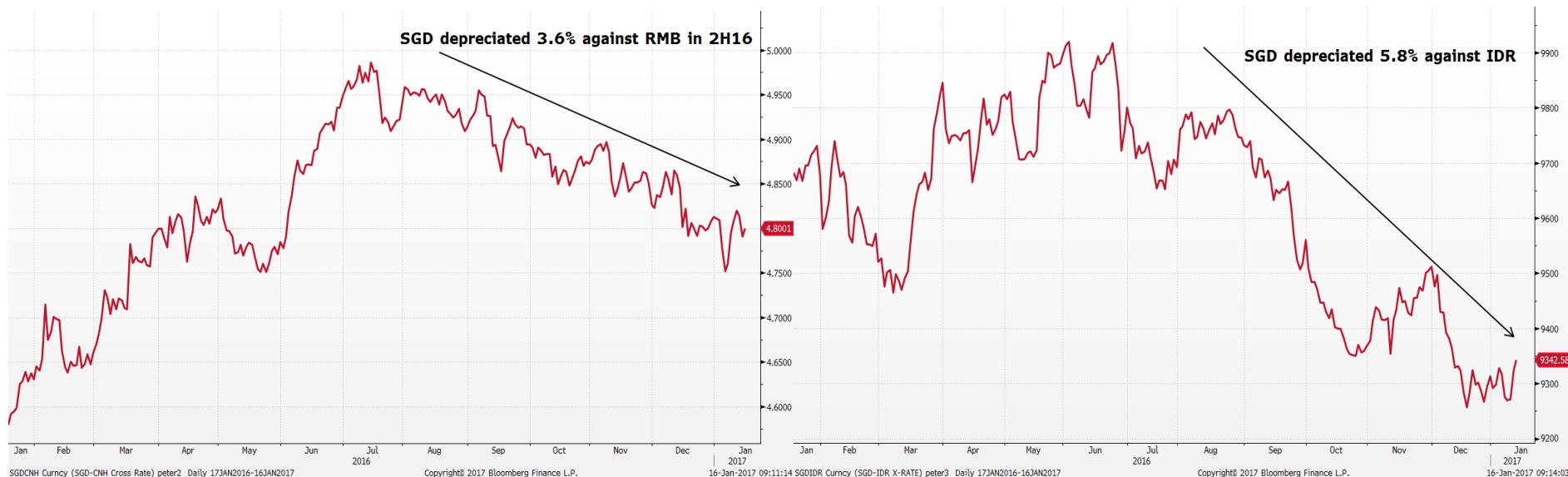


Source: Company Data, Phillip Securities Research (Singapore)

Continued depreciation of SGD will benefit visitor arrivals

- International tourist arrivals up 7.9% YoY in 11M16 → 36.1% and 5.9% growth in Chinese and Indonesian visitors
- Depreciation of SGD against IDR and RMB (5.8% and 3.6%)
- Marketing efforts by STB to second-tier Chinese cities
- Expect SGD to continue downtrend in 1H17

1-Year historical SGD/RMB and SGD/IDR exchange rate



Source: Bloomberg, Phillip Securities Research (Singapore)

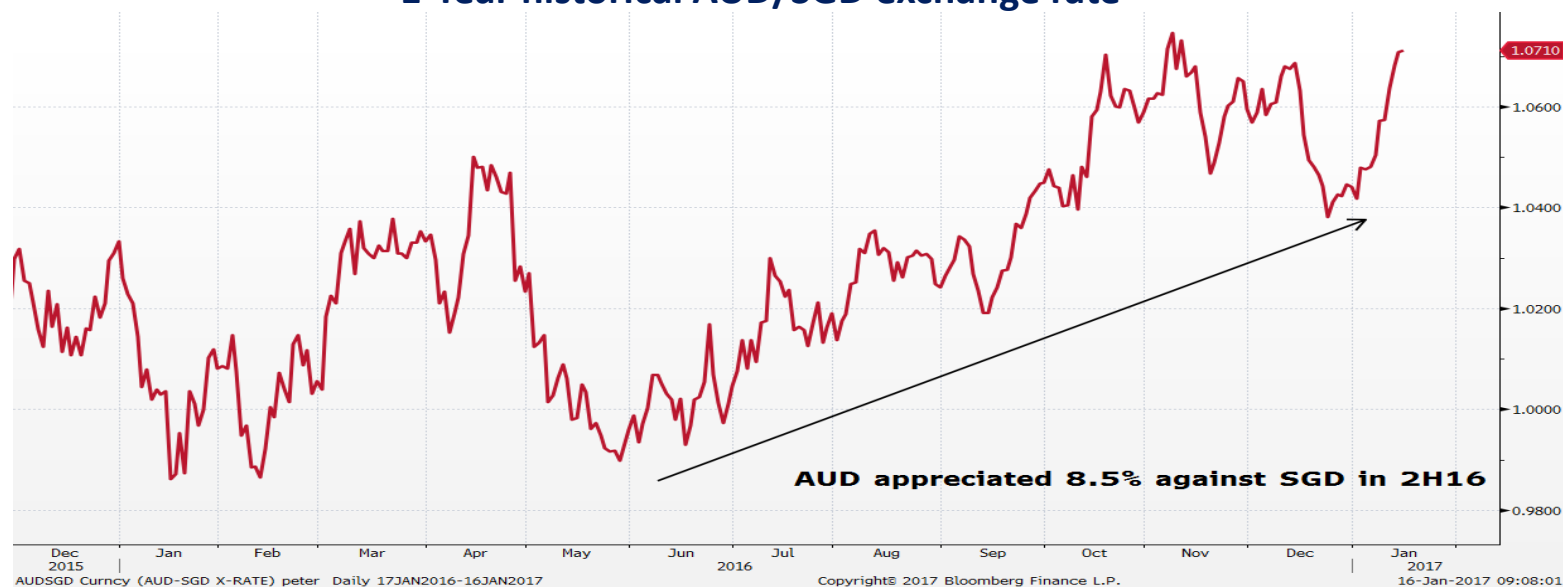
Australia tourist arrivals grew 11% YoY

- 15 out of top 20 inbound markets came in at records levels
- Chinese visitors grew the most at 21%
- Tourist receipts grew just as much

Translation gains from AUD appreciation

- AUD has appreciated 8.5% against the SGD in 2H16

1-Year historical AUD/SGD exchange rate



Source: Bloomberg, Phillip Securities Research (Singapore)

Clear pipeline of expansion strategy

- Room capacity expected to increase by 16.9% (1,672 rooms) in the next 3 years
- New hotels will be located mostly in Asian countries, Malaysia, Indonesia and Myanmar
- New assets to boost existing hotel ops revenue by 8% to 12%

Property Investments

Diverse base of Singapore investment properties

Different types of rental properties provides stability to operating performance and not only relying on property development which is rockier

Breakdown of investment properties portfolio

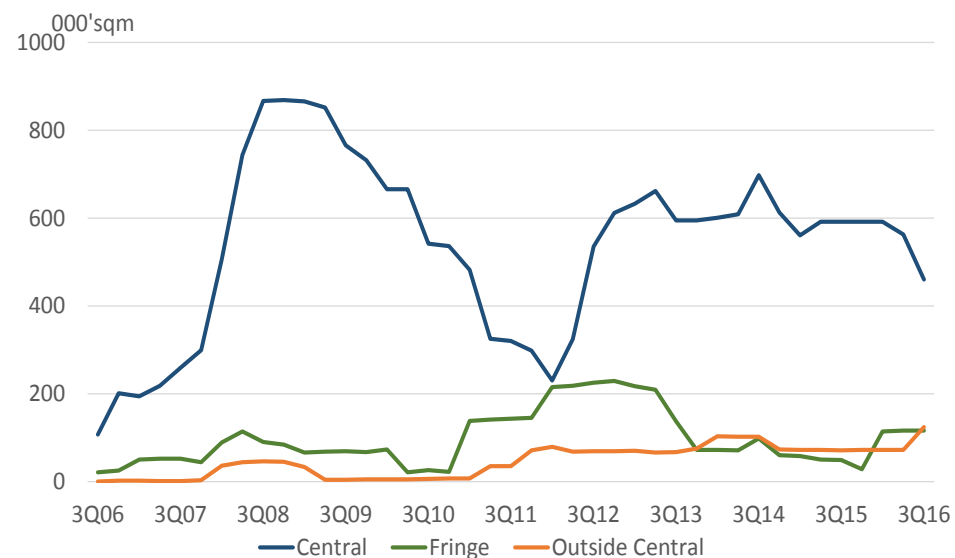
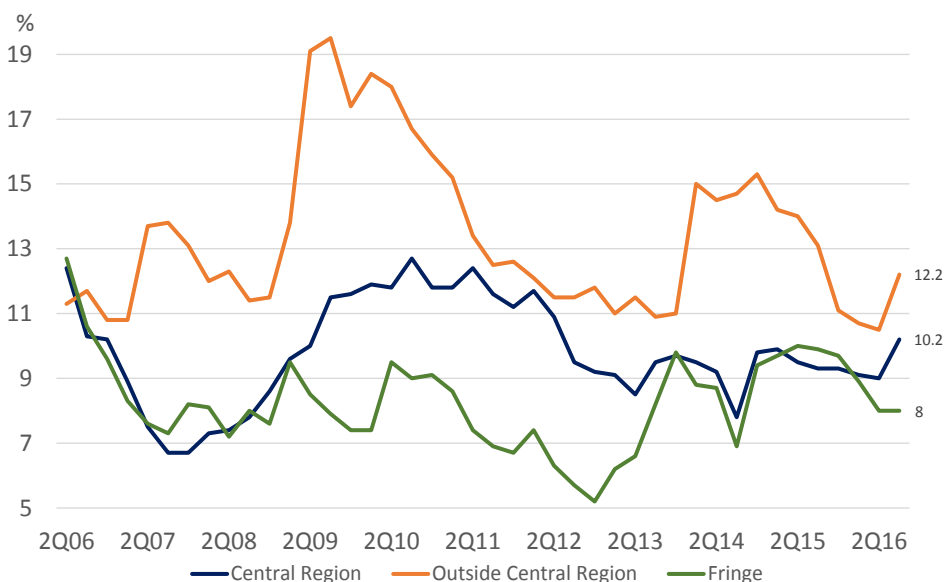
Investment Properties	Net Lettable Area (sqm)
Office	
Novena Square	41,579
United Square	26,897
Odeon Towers	18,364
Faber House	3,956
One Upper Pickering	8,089
110 High Holborn (London, UK)	10,873
Total	109,758
Retail	
Novena Square	15,854
United Square	19,328
OneKM	19,045
The Esplanade (Tianjin, China)	6,164
Total	60,391
Owned Service Suites Properties (number of rooms)	
Pan Pacific Serviced Suites Orchard	126
Pan Pacific Serviced Suites Beach Road	180
PARKROYAL Serviced Suites Beach Road	90
PARKROYAL Serviced Suites (Kuala Lumpur, Malaysia)	287
Total	683

Source: Company Data, Phillip Securities Research (Singapore)

Strong occupancy rates of office properties

- Most office properties located in the fringe of CBD
- Vacancy rates of fringe office properties consistently lower than the other two segments
- Group's occupancy rate higher than average fringe occupancy rate (94% vs 92%)
- Expect -3% to -5% decline in rental but occupancy rates should sustain due to subdued construction activities

Office Vacancy and supply under construction



Source: REALIS, Phillip Securities Research (Singapore)

Acquired 2 mixed-use buildings in UK in 2016

110 High Holborn

- Freehold 8-storey building with 10,873sqm of retail and office space
- 100m away from Holborn underground station

120 Holborn

- Freehold 9-storey building with 32,431sqm of retail and office space
- Farringdon area; 300m from Chancery Lane underground station
- 44% NLA: retail, 56%: office

3Q16 Vacancy rates: 3.4% vs 10-year average: 7.9% + Slowing construction activities in Central London = supply to remain tight

Expect further cap rate compression

Upside

- Unwinding of property cooling measures with ABSD and 60% TDSR in focus
- Broadening of immigration policy
- Depreciation in the S\$ which could boost inbound tourism to Singapore

Downside

- A further slowdown in Singapore's Real Estate sector
- Unforeseen circumstances (e.g. terrorism and pandemic) that are adverse to the Hospitality subsector

Valuation Methodology

Investment properties: By applying appropriate market cap rates on net operating income

Development properties: Valued at Net Present Value of their after tax cash flow less all associated costs

RNAV Table

Segment	Location	Amount (S\$'m)	Per share (S\$)
Residential	SG	232	0.29
	Overseas	103	0.13
Hotels & Serviced Residences	SG	1,507	1.87
	Overseas	1,201	1.49
Commercial (Office & Retail)	SG	2,928	3.63
	Overseas	72	0.09
Add: Market Value of stakes in Listed Entities			
UIC (44.6%)		1,759	2.18
UOB (2.3%)		747	0.93
Total GAV		8,549	10.61
Add cash:		265	0.33
Less debt:		2,503	3.11
RNAV:		6,311	7.83
No. of shares ('m)		806	
Discount to RNAV (%)		10	
Target Price			7.05

Source: Phillip Securities Research (Singapore)

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