

OUE
 OUE SP

Target (SGD): 3.380 → 3.300

Upside: 51.4%

22 May price (SGD): 2.180

- 1 Buy (unchanged)
- 2 Outperform
- 3 Hold
- 4 Underperform
- 5 Sell

Update of OUE Downtown

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- Completion in 4Q16 could slip
- Cutting 2015-17E EPS by 4-31%
- Reiterating Buy (1) rating; lowering TP to SGD3.30

What's new

OUE's refurbishment of OUE Downtown appears to be on schedule, but could slip to early 2017. Accordingly, we revise down our EPS forecasts.

What's the impact

As the Daiwa Capital Markets Singapore office is located in OUE Downtown 2, we received an update recently on the 'revitalisation' of the property from our landlord (the memo was signed by OUE's CEO, Mr. Thio Gim Hock). It includes an indicative schedule.

OUE Downtown: key milestones

2Q15	Downtown 2 transition to interim lobby in June 2015
2Q16	Completion of new office lobbies at Level 4
4Q16	Completion of Downtown Gallery, Meritus Serviced Suites and Downtown 1 façade upgrading
2Q17	Completion of Downtown 2 façade upgrading

Source: OUE

OUE expects to 'unveil' the Downtown Gallery (160,000 sq ft of retail space from B1 to level 5) in 4Q16. It promises a wide array of retail, dining and entertainment options at our doorstep, including restaurants, cafes, food hall, super market, fashion and accessories stores, beauty, health and wellness facilities, arts and gifts and service

outlets such as a banking hall, money changer, florist and dry cleaner.

OUE also disclosed that it has received approval from authorities recently to replace the current aluminium-cladded façade with a new glass curtain wall façade. The low and mid zone of Downtown 1 is being transformed into Meritus Serviced Suites, 265 fully-furnished apartments with facilities including a swimming pool and gym.

The milestone schedule that we received is consistent with the company's expected completion of 2016 (as stated in its 2014 annual report). However, with several major milestones scheduled for 4Q16, we believe there is a possibility that the actual completion of the Downtown Gallery could slip to 2017 with most tenants likely to fit out or move into the mall in 2017.

We push back our occupancy-rate assumptions for Downtown Gallery from 10% for 2016 and 90% for 2017 to 0% for 2016 and 25% for 2017. We now expect a full year of revenue contribution only in 2018.

We revise down our 2015-17E EPS by 4-31% after incorporating the 1Q15 results announcement and our new assumptions for the OUE Downtown post-refurbishment. We also lower our SOTP-derived 12-month target price to SGD3.30 from SGD3.38. This represents a 24% discount to OUE's BVPS of SGD4.35 as at 31 March 2015. A delayed opening of several months would not have a significant impact on our NAV valuation, but it would postpone the divestment of OUE Downtown to OUE's listed REITs, a potential positive share-price catalyst for OUE.

What we recommend

We reiterate our Buy (1) rating and believe OUE remains one of the few deep value stocks under our coverage. Risks to our call include delays in the completion of its refurbishment activities or a poorly perceived investment initiative.

How we differ

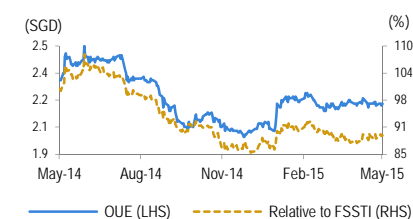
Our target price is still the highest among the 12 brokers on Bloomberg as we believe any positive development could narrow the discount to its NAV.

Forecast revisions (%)

Year to 31 Dec	15E	16E	17E
Revenue change	(2.0)	(6.3)	(2.7)
Net profit change	(4.3)	(31.1)	(10.5)
Core EPS (FD) change	(4.3)	(31.1)	(10.5)

Source: Daiwa forecasts

Share price performance



12-month range	1.995-2.500
Market cap (USDbn)	1.48
3m avg daily turnover (USDm)	0.69
Shares outstanding (m)	910
Major shareholder	Lippo, Stephen Riady (68.0%)

Financial summary (SGD)

Year to 31 Dec	15E	16E	17E
Revenue (m)	398	436	470
Operating profit (m)	94	98	129
Net profit (m)	114	109	161
Core EPS (fully-diluted)	0.126	0.120	0.177
EPS change (%)	(86.3)	(4.8)	47.5
Daiwa vs Cons. EPS (%)	13.3	(9.3)	30.8
PER (x)	17.3	18.2	12.3
Dividend yield (%)	1.4	1.8	2.3
DPS	0.030	0.040	0.050
PBR (x)	0.5	0.5	0.5
EV/EBITDA (x)	28.1	24.8	18.2
ROE (%)	2.9	2.7	3.8

Source: FactSet, Daiwa forecasts

■ **OUE: Daiwa SOTP valuation**

Value of item	SGDm	Share
Adjusted cash	232	6%
Financial and other assets	474	12%
Stake in One Raffles Place	588	14%
Stake in Marina Mandarin	171	4%
US Bank Tower (LA)	579	14%
OUE Downtown	1,280	31%
Stake in OUECT	347	8%
Stake in OUEHT	423	10%
Twin Peaks	0	0%
Total assets	4,093	100%
Adjusted borrowings	(1,071)	
Other liabilities	(20)	
Total liabilities	(1,091)	
Net-asset value	3,003	
Shares outstanding (m)	909.9	
SOTP per share (SGD)	3.30	

Source: Daiwa estimates

Financial summary

■ Key assumptions

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Hospitality EBITDA margin (%)	47.2	40.8	38.9	22.3	7.6	7.0	4.6	6.7
Property inv EBITDA margin (%)	73.8	337.9	73.5	52.6	126.1	68.9	69.4	72.6
Overall EBITDA margin (%)	45.2	130.2	45.1	21.0	44.4	25.5	24.3	29.1

■ Profit and loss (SGDm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Singapore hospitality	138	175	200	202	196	201	238	245
Property investments	38	107	147	138	158	170	180	207
Other Revenue	39	51	71	97	63	27	17	17
Total Revenue	216	332	418	437	416	398	436	470
Other income	9	1	0	0	5	5	5	5
COGS	(89)	(129)	(163)	(211)	(237)	(239)	(261)	(282)
SG&A	(39)	(46)	(54)	(65)	(68)	(71)	(75)	(79)
Other op. expenses	(18)	(19)	(20)	(21)	(14)	1	(6)	15
Operating profit	78	140	181	140	103	94	98	129
Net-interest inc./(exp.)	(8)	(50)	(89)	(96)	(69)	(74)	(69)	(64)
Assoc/forex/extraord./others	835	306	8	(33)	1,267	128	171	188
Pre-tax profit	905	396	100	11	1,301	148	200	252
Tax	(127)	(16)	(12)	(44)	(61)	(12)	(15)	(20)
Min. int./pref. div./others	(5)	(2)	(1)	(6)	(146)	(19)	(20)	(22)
Net profit (reported)	772	379	87	(40)	1,094	116	165	210
Net profit (adjusted)	108	126	63	7	835	114	109	161
EPS (reported)(SGD)	0.787	0.388	0.096	(0.043)	1.202	0.127	0.182	0.231
EPS (adjusted)(SGD)	0.110	0.129	0.069	0.008	0.917	0.126	0.120	0.177
EPS (adjusted fully-diluted)(SGD)	0.110	0.129	0.069	0.008	0.917	0.126	0.120	0.177
DPS (SGD)	0.040	0.130	0.110	0.230	0.020	0.030	0.040	0.050
EBIT	78	140	181	140	103	94	98	129
EBITDA	95	160	206	162	115	106	111	141

■ Cash flow (SGDm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Profit before tax	905	396	100	11	1,301	148	200	252
Depreciation and amortisation	17	20	25	22	12	12	12	13
Tax paid	0	0	0	0	0	0	0	0
Change in working capital	(71)	(0)	(46)	(36)	(61)	111	27	10
Other operational CF items	(841)	(275)	61	107	(1,212)	(121)	(86)	(106)
Cash flow from operations	10	141	140	104	40	150	154	169
Capex	(126)	(52)	(36)	(523)	(92)	(150)	(72)	(20)
Net (acquisitions)/disposals	(853)	(297)	3	87	(481)	290	205	0
Other investing CF items	10	6	(21)	76	66	(200)	57	46
Cash flow from investing	(969)	(343)	(54)	(360)	(507)	(60)	190	26
Change in debt	1,040	534	444	166	(288)	0	(216)	(100)
Net share issues/(repurchases)	0	(83)	(73)	0	0	0	0	0
Dividends paid	(20)	(39)	(127)	(264)	(59)	(39)	(36)	(36)
Other financing CF items	(33)	(70)	(90)	480	244	(78)	(69)	(64)
Cash flow from financing	988	343	153	382	(103)	(117)	(321)	(201)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	28	141	239	126	(570)	(27)	23	(6)
Free cash flow	(116)	89	104	(419)	(52)	0	81	149

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (SGDm)

As at 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Cash & short-term investment	226	368	605	731	162	135	158	153
Inventory	716	744	795	848	876	784	774	764
Accounts receivable	27	25	35	22	25	40	40	40
Other current assets	7	15	7	21	565	500	350	350
Total current assets	976	1,152	1,442	1,621	1,628	1,460	1,323	1,307
Fixed assets	243	508	495	367	21	0	0	0
Goodwill & intangibles	0	43	43	43	0	0	0	0
Other non-current assets	3,515	3,844	3,907	4,387	5,045	5,396	5,451	5,545
Total assets	4,734	5,547	5,888	6,418	6,694	6,856	6,774	6,852
Short-term debt	481	56	846	350	650	650	650	650
Accounts payable	70	103	83	87	149	198	198	198
Other current liabilities	25	23	23	11	17	28	28	28
Total current liabilities	577	182	952	447	815	875	875	875
Long-term debt	1,115	2,066	1,728	2,392	1,416	1,416	1,201	1,101
Other non-current liabilities	38	27	33	64	123	123	123	123
Total liabilities	1,730	2,275	2,714	2,903	2,355	2,414	2,199	2,099
Share capital	693	693	693	693	693	693	693	693
Reserves/R.E./others	2,313	2,579	2,479	2,198	3,160	3,262	3,396	3,574
Shareholders' equity	3,006	3,272	3,173	2,892	3,853	3,956	4,089	4,267
Minority interests	(2)	0	1	623	486	486	486	486
Total equity & liabilities	4,734	5,547	5,888	6,418	6,694	6,856	6,774	6,852
EV	2,668	3,016	3,233	3,898	3,223	2,981	2,741	2,567
Net debt/(cash)	1,370	1,753	1,970	2,011	1,904	1,931	1,692	1,597
BVPS (SGD)	3.063	3.470	3.487	3.178	4.235	4.347	4.494	4.690

■ Key ratios (%)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Sales (YoY)	56.8	54.2	25.7	4.5	(4.6)	(4.3)	9.4	7.8
EBITDA (YoY)	137.7	68.0	28.6	(21.3)	(29.1)	(7.5)	4.2	27.8
Operating profit (YoY)	249.8	79.3	29.2	(22.9)	(26.5)	(8.6)	4.5	31.1
Net profit (YoY)	n.a.	16.6	(49.9)	(88.1)	11,049.7	(86.3)	(4.8)	47.5
Core EPS (fully-diluted) (YoY)	n.a.	17.3	(46.3)	(88.1)	11,049.7	(86.3)	(4.8)	47.5
Gross-profit margin	58.8	61.2	60.9	51.8	43.1	40.0	40.0	40.0
EBITDA margin	44.2	48.1	49.2	37.1	27.6	26.6	25.4	30.1
Operating-profit margin	36.2	42.1	43.3	32.0	24.6	23.6	22.5	27.4
Net profit margin	50.0	37.8	15.1	1.7	200.5	28.7	25.0	34.2
ROAE	4.3	4.0	2.0	0.2	24.8	2.9	2.7	3.8
ROAA	2.9	2.4	1.1	0.1	12.7	1.7	1.6	2.4
ROCE	2.2	2.8	3.2	2.3	1.6	1.5	1.5	2.0
ROIC	2.0	2.9	3.1	(7.7)	1.7	1.4	1.4	1.9
Net debt to equity	45.6	53.6	62.1	69.6	49.4	48.8	41.4	37.4
Effective tax rate	14.1	3.9	12.1	395.5	4.7	8.3	7.3	7.9
Accounts receivable (days)	30.0	28.5	26.4	24.1	20.6	29.7	33.5	31.1
Current ratio (x)	1.7	6.3	1.5	3.6	2.0	1.7	1.5	1.5
Net interest cover (x)	9.6	2.8	2.0	1.5	1.5	1.3	1.4	2.0
Net dividend payout	5.1	33.5	114.7	n.a.	1.7	23.6	22.0	21.6
Free cash flow yield	n.a.	4.5	5.3	n.a.	n.a.	0.0	4.1	7.5

Source: FactSet, Daiwa forecasts

■ Company profile

OUE is a diversified real estate owner, operator and developer, with a portfolio of properties comprising hospitality, investment property (office and retail), and other activities including property development. It is also the sponsor of OUE Hospitality Trust (Not rated) and OUE Commercial REIT (Not rated).

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Disclosure of investment ratings

Rating	Percentage of total
Buy*	61.0%
Hold**	26.1%
Sell***	12.9%

Source: Daiwa

Notes: data is for single-branded Daiwa research in Asia (ex Japan) and correct as of 31 March 2015.

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