

13 June 2019

Real Estate | Real Estate Management & Development

Oxley Holdings (OHL SP)

Buy

Major Property Sector Bargain; Initiate BUY

Target Price (Return)	SGD0.41 (+32%)
Price:	SGD0.31
Market Cap:	USD944m
Avg Daily Turnover (SGD/USD)	1.1m/0.8m

- **Initiate coverage on Oxley, a home-grown property developer, with BUY and a TP of SGD0.41**, pegged to a 45% discount to our RNAV of SGD0.74. Concerns over its gearing level are overdone, as it should be lowered by key asset sales – especially from Chevron House and its hotels along Stevens Road. Sturdy profits from its overseas and local projects will also start to flow in, and shareholders could be rewarded by special dividends.

- **Likely able to pare down debts despite the market pricing it otherwise.** Oxley has SGD2.18bn of debts expiring by 2020. However, the majority comprise property loans, which can easily be refinanced. Only SGD450m of its retail bond needs to be paid by 2020. Meanwhile, Chevron House has been sold for SGD1.025bn – for which it received SGD210m. In addition, it also has EUR237m coming in 2020, from the Dublin project as well as another USD204m from its development in Cambodia. There is still SGD2.4bn worth of locally-sold residential units set to be booked into its coffers, and another >SGD900m from the potential value-unlocking of the Stevens Road hotels. As such, the market has, indeed, been too focused on its high net gearing and underestimated Oxley's ability to pare down loans.

- **Unlocking value in its key asset, the Stevens Road hotels.** The Stevens Road hotels which had a previous offer of SGD950m, is an attractive proposition for potential buyers. The replacement cost of building a similar hotel in the same area will likely also be north of SGD1bn, due to the surge in development charge required for hotel use, to SGD14,000 per sqm from SGD8,200 in 2017. The land terms have also been converted into freehold, which will be even more attractive to buyers.

- **Deep discount to RNAV coupled with key asset sales and potential special dividends.** Management guided that excess cash – after paring down gearing – will be used to reward shareholders with special dividends, if there are no suitable opportunities at that time. The counter is trading at a deep 60% discount to our RNAV of SGD0.74 (majority of assets are already sold). We believe that this is an attractive price level, ie close to its 5-year low – as investor sentiment was impacted by property sector cooling measures, as well as the misconception over its ability to repay debts. This, together with a 8.1% FY20F dividend yield, strong insider buying as well as billions in proceeds coming in the next few years, compels us to initiate coverage on the stock with a strong BUY.

- **Key risks** include further property cooling measures, and rising interest rates.

Analyst

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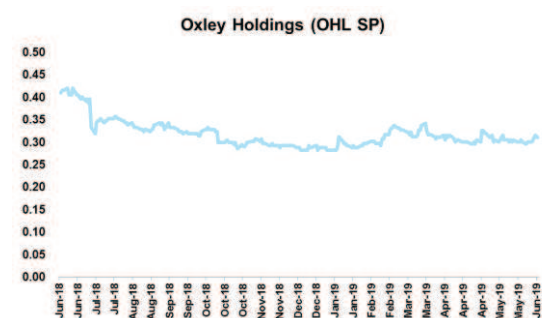


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.9	1.6	(3.1)	6.9	(26.2)
Relative	2.5	3.8	(2.9)	3.6	(19.6)
52-wk Price low/high (SGD)	0.28 - 0.44				



Source: Bloomberg

Forecasts and Valuation	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
Total turnover (SGDm)	1,343.0	1,188.6	751.3	3,109.6	1,076.4
Recurring net profit (SGDm)	218.1	285.0	142.0	468.3	208.7
Recurring net profit growth	5.9	30.7	(50.2)	229.8	(55.4)
Recurring P/E (x)	4.5	4.5	9.0	2.7	6.1
P/BV (x)	1.2	0.9	0.8	0.7	0.6
P/CF (x)	2.6	6.0	(5.7)	1.8	3.7
Dividend Yield (%)	4.8	4.8	4.8	8.1	8.1
EV/EBITDA (x)	10.0	13.1	16.6	5.8	11.0
ROE (%)	20.9	19.9	9.4	25.0	10.5
Net debt to equity (%)	187.9	217.0	221.6	114.8	103.2
Interest coverage (x)	8.1	5.6	2.2	6.4	3.9

Source: Company data, RHB

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Financial Exhibits

Financial model updated on: 2019-06-10.

Asia		Financial summary	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
Singapore		Core EPS (SGD)	0.06	0.07	0.03	0.11	0.05
Real Estate		EPS (SGD)	0.06	0.07	0.03	0.11	0.05
Real Estate Management & Development		DPS (SGD)	0.02	0.02	0.02	0.03	0.03
		BVPS (SGD)	0.37	0.37	0.38	0.47	0.49
Major shareholders (%)		ROE (%)	20.9	19.9	9.4	25.0	10.5
Ching Chiat Kwong	42.0	ROA (%)	4.9	4.7	2.4	7.4	4.0
Low See Ching	28.1						
Tee Wee Sien	11.3	Valuation metrics	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
Valuation basis		Core P/E (x)	4.5	4.5	9.0	2.7	6.1
45% discount to RNAV of SGD0.74		P/B (x)	1.2	0.9	0.8	0.7	0.6
		Dividend yield (%)	4.8	4.8	4.8	8.1	8.1
		EV/EBITDA (x)	10.0	13.1	16.6	5.8	11.0
Key drivers		Income statement (SGDm)	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
i. Sale of Investment properties		Total turnover	1343	1189	751	3110	1076
ii. Lowering of net gearing;		Gross profit	386	186	150	622	215
iii. Special dividends;		EBITDA	338	344	287	603	309
iv. Gains from property developments		Operating profit	339	364	272	588	293
		Net interest	(39)	(59)	(119)	(86)	(69)
Key risks		Exceptional items	-	-	-	-	-
The downside risks include:		Pre-tax profit	299	305	153	502	224
i. Lumpy revenue;		Taxation	(72)	(23)	(12)	(38)	(17)
ii. Exposure to performance of the Singapore property market;		Net profit	228	282	141	464	207
iii. High gearing;		Core net profit	218	285	142	468	209
iv. Subject to government regulations;							
v. Disputes and possible legal claims with buyers;		Cash flow (SGDm)	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
vi. Property assets are relatively illiquid		Cash flow from operations	461	115	(353)	602	259
		Capex	(124)	(31)	(39)	(39)	(39)
Company Profile		Cash flow from investing activities	(191)	(1,154)	171	748	(39)
Oxley Holdings is a home-grown property developer with a diversified portfolio including property development, property investment and project management. The group currently has a business presence across 12 markets including Singapore, the UK, Ireland, Cyprus, Australia, Cambodia, Malaysia, Indonesia, China, Japan and Myanmar.		Cash flow from financing activities	(410)	879	38	(1,043)	(584)
		Cash at beginning of period	551	414	255	111	419
		Net change in cash	(140)	(161)	(144)	307	(364)
		Ending balance cash	414	255	111	419	55
		Balance sheet (SGDm)	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
		Total cash and equivalents	414	255	111	419	55
		Tangible fixed assets	911	972	996	1,019	1,041
		Intangible assets	-	-	-	-	-
		Total investments	703	1,881	1,688	938	989
		Total other assets	2,581	2,887	3,206	3,903	3,065
		Total assets	4,608	5,995	6,001	6,279	5,149
		Short-term debt	610	247	247	247	247
		Total long-term debt	1,850	3,214	3,314	2,374	1,893
		Total liabilities	3,519	4,518	4,444	4,361	3,129
		Shareholders' equity	1,045	1,436	1,515	1,876	1,979
		Minority interests	44	41	41	41	41
		Total equity	1,089	1,477	1,557	1,917	2,021
		Total liabilities & equity	4,608	5,995	6,001	6,279	5,149
		Key metrics	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
		Revenue growth (%)	36.9	(11.5)	(36.8)	313.9	(65.4)
		Core net profit growth (%)	5.9	30.7	(50.2)	229.8	(55.4)
		Core EPS growth (%)	(19.3)	28.7	(52.6)	229.8	(55.4)
		Gross margin (%)	28.8	15.6	20.0	20.0	20.0
		Core net profit margin (%)	16.2	24.0	18.9	15.1	19.4
		Dividend payout ratio (%)	20.0	21.0	44.0	22.0	49.0

Source: Company data, RHB

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Investment Merits

Significantly undervalued – stock is trading at a deep discount of 60% to RNAV, which we estimated to be around SGD0.74. We believe that such a wide discount is mainly due to its high gearing and doubts over its debt repayment ability. Issues of its debt repayment should be resolved once it has sold some key assets. One of these, Chevron House, has already been sold. In addition, out of its RNAV – on which the majority of the assets are already sold – the risk profile has been scaled down significantly. This does not warrant such a huge discount. We believe that this is an attractive level for Oxley, as its share price has been impacted by property cooling measures, as well as the misconception over its ability to repay debts. Together with a 8.1% FY20F dividend yield and potential special dividends, as well as plentiful proceeds coming in the next few years, we think that Oxley is significantly undervalued.

Local developer with a regional vision growing at record pace. Oxley started out as a boutique developer of private residential projects in Singapore. The group was listed on the Singapore Exchange on Oct 2010, with an initial portfolio of 15 properties. Since listing, it has amassed a much larger landbank and diversified across all segments of the real estate value chain. To date, it has launched 41 projects in Singapore, from residential and commercial to industrial and hospitality projects. Riding on a real estate upcycle post-global financial crisis and coupled with a keen sense of timing, the group identified demand trends ahead of the market and successfully launched all its local projects, which are now substantially sold.

Figure 1: Sales milestones since 2018 for Singapore (as at May 2019)

No.	Project	Tenure	Residential / Commercial	Land Area (sq ft)	GFA (sq ft)	Sold	Expected TOP
1	Affinity at Serangoon	99-year	1052/5	296,913	831,356	300/300 (phase 1) 220/350 (phase 2)	2024
2	Mayfair Gardens	99-year	386/0	208,477	291,865	143/215	2024
3	Mayfair Modern					18/50 (phase 1)	
4	Kent Ridge Hill Residences	99-year	548/0	319,250	446,951	171/250 (phase 1)	2024
5	Sixteen35 Residences	99-year	60/0	12,000	33,600	60/60	2023
6	Sea Pavilion Residences	Freehold	24/0	13,908	19,472	24/24	2023
7	The Addition	Freehold	26/0	9,667	20,301	22/26	2023
8	1953	Freehold	58/14	17,938	53,814	29/58 (phase 1)	2023
9	Verandah Residences	Freehold	170/0	89,620	125,468	170/170	2022
10	INSPACE	Freehold	84	62,345	155,864	6/42 (phase 1)	2022
11	Riverfront Residences	99-year	1472/6	396,234	842,125	800/800 (phase 1) 60/60 (phase 2) 151/340 (phase 3)	2018

Source: Company data

Good execution and solid earnings visibility. Oxley's rise from a boutique developer to its current position can be traced back to its sharp reading of the market and identifying trends ahead of the crowd, coupled with good project execution. The group was early to spot growing demand for shoebox developments – projects with a unit size of <500 sq ft – which appeal to a growing pool of young working professionals and singles. Its boutique projects in this space were all fully sold within weeks of their launches.

It moved on to develop industrial buildings, injecting lifestyle facilities, cafes and gyms in a bid to liven up the setting of traditional industrial buildings. Its Oxley Bizhub and Bizhub 2 industrial developments, launched in 2011, set benchmark pricing levels within the vicinity and were fully sold out, grossing over SGD360m of pre-tax profit when completed in 2013.

Oxley also made a number of well-timed acquisitions in the commercial and residential markets, re-launching them subsequently as a series of highly successful mixed-development and strata-office projects. These include Oxley Tower (strata-office and retail), KAP/KAP Residences (strata-retail and residential), NEWest (strata-retail and residential), the Flow (strata-retail), Midtown/Midtown Residences (strata-retail and residential), Robinson Square (strata-office and retail) Oxley Edge (retail and residential), The Rise (retail and residential), T-space (industrial) and Chevron House (commercial and retail podium).

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Figure 2: Oxley's commercial and mixed development projects

Project	Type	Launched	TOP	Group Stake	Acquisition Date
Chevron House**	Commercial and retail podium	na	na	100	Dec-17
T-Space	Industrial	Mar-16	2019	49	Mar-15
Novotel Singapore on Stevens* / Mercure Singapore on Stevens*	Hotel development	na	started its operations in Q4 2017	100	Mar-13
Eco-tech @ Sunview	Industrial	Aug-13	2016	51	Oct-12
KAP/KAP Residences	Strata-retail and residential	May-13	2016	55	Oct-12
Space@Tampines*	Industrial	na	2015	70	Sep-12
Midtown/Midtown Residences	Strata-retail and residential	Apr-13	2016	50	Jun-12
NEWest	Strata-retail and residential	May-13	2016	55	May-12
The Rise*	Strata-retail and residential	2014	2017	100	May-12
The Flow	Strata-retail	Jun-13	2017	100	Mar-12
Floraville / Floraview / Floravista*	Mixed	2013/2014	2017	55	Mar-12
The Commerze @ Irving	Industrial	Feb-12	2013	55	Jun-11
Oxley Bizhub 2	Industrial	Oct-11	2013	55	Feb-11
Arcsphere	Industrial	Sep-11	2013	100	Dec-10
Robinson Square	Strata-office and retail	Nov-11	2014	100	Dec-10
Oxley Edge	Strata-retail and residential	Mar-13	2015	100	Nov-10
Oxley Tower	Strata-office and retail	Apr-12	2016	100	Sep-10
Oxley Bizhub	Industrial	Apr-11	2013	100	Aug-10

* Investment property

** Sold for SGD1.025bn in Apr 2019

Source: Company data

Superb track record overseas with profits flowing in from overseas expansion. Oxley started to diversify overseas, given the challenging domestic residential market and developed a portfolio of 13 overseas sites in Malaysia (6), Cambodia (4), China (2) and London (1). Some of its high-profile purchases include Royal Wharf, a 363,000 sqm site in London's Royal Docks. Oxley bought the 16ha mixed-use project for GBP200m, and is partnering local developer Ballymore to develop the site into 3,385 residential units. The first phase, comprising 811 residential units, has since been sold out following its launch in March this year.

In Cambodia, Oxley teamed up with local developer World Bridge Group to acquire a prime site in downtown Phnom Penh. The duo launched the site as a 45-storey mixed-used development, The Bridge, comprising 762 residential units, 963 small office-home office (SOHO) apartments and 627 commercial units. 80% of the residential component has since been sold. We estimate Oxley has, to date, chalked up SGD1.05bn in pre-sales for these two projects. The group is preparing to launch future phases as well as its other overseas projects in the next few months. High take-up rates could trigger a new wave of re-rating for the stock.

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Figure 3: Oxley's overseas development portfolio as at May 2019

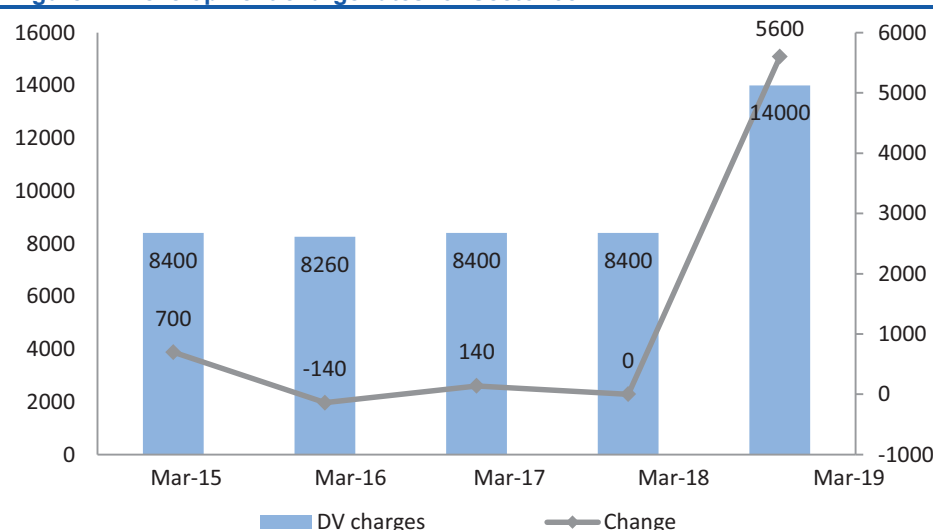
No	Project	Region	Tenure	No. of units	Sold
1	Royal Wharf	UK	Freehold	3385	3124
2	Deaston Wharf	UK	999-year	769	-
3	The Bridge	Cambodia	Freehold	2319	2307
4	The Peak	Cambodia	Freehold	2358	1745
5	The Palms	Cambodia	Freehold	220	64
6	The Garage	Cambodia	Freehold	TBD	-
7	Dublin Landings	Ireland	300-year	Proposed sale: Part of Block B and E	Sold: Office Block No. 1, 2, 4 and 5
8	Conolly	Ireland	300-year		
9	Gaobeidian / Sino-Singapore Health City	China	40/50/70-year	50000	-
10	Yangon Central Railways Station Area Comprehensive Development Project	Myanmar	Leasehold	Transit-oriented development	-
11	Thao Dien Residential Project	Vietnam	Freehold/50-year	270resi units + 300sqm retail	-
12	Waterfront Hamlet	Vietnam	50-year/ freehold	Mixed residential township development	-
13	Limassol Oxley	Cyprus	Freehold	100	-

Source: Company data

Further unlocking of key assets could be a catalyst. With the softening of the property market in Singapore, the market is sceptical about Oxley being able to sell assets to pare down debt. However, it has proven the market wrong by announcing the sale of one of its key assets, Chevron House for SGD1.025bn, which will garner a profit of SGD275m.

Another key asset – the Stevens Road hotels which had a previous offer of SGD950m for both – is an attractive proposition to potential buyers, with the replacement cost of building similar hotels in the same area being north of SGD1bn. This is as the development charge required for hotel use has surged to SGD14,000 per sqm, from SGD8,200 in 2017. The land terms have also been converted to freehold, which will even be more attractive to buyers. Management has appointed CBRE and JLL as the exclusive agents for the hotel sale. We think such a catalyst could possibly come in the next few months.

Figure 4: Development charge rates for Sector 38



Source: Urban Redevelopment Authority of Singapore

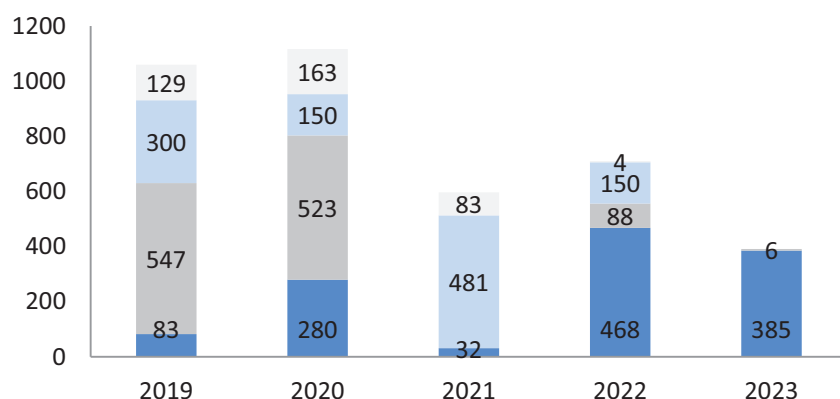
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High level of debt not as scary as it seems. With SGD3.9bn of debt and over 250% gearing, these headline numbers may be a huge cause for concern. However, upon studying the debt further, Oxley's cash flow and sales from the current projects are more than enough to pare down gearing significantly in the next few years. Management also stated that it is keen to pare down gearing in the next 1-2 years. Oxley has SGD1.06bn of debt expiring in 2019, with another SGD1.12bn of debt in 2020. However, most of the debt is tied down with its properties it purchased – which could easily be refinanced without paying down the full debt amount.

Out of its debt profile, only SGD450m of the retail bond needs to be paid by 2020. Chevron House has been sold, in which Oxley received SGD210m of the sale price of SGD1.025bn. In addition, it also has EUR237m coming in 2020 from the Dublin project, as well as another USD204m from its Cambodia development. In addition, it still has SGD2bn worth of locally-sold residential units set to enter its coffers, and another >SGD900m from the potential value-unlocking of the Stevens Road hotels. As a result, we think that the market has, indeed, been too focused on its high gearing and misjudged Oxley's ability to pay down its loan.

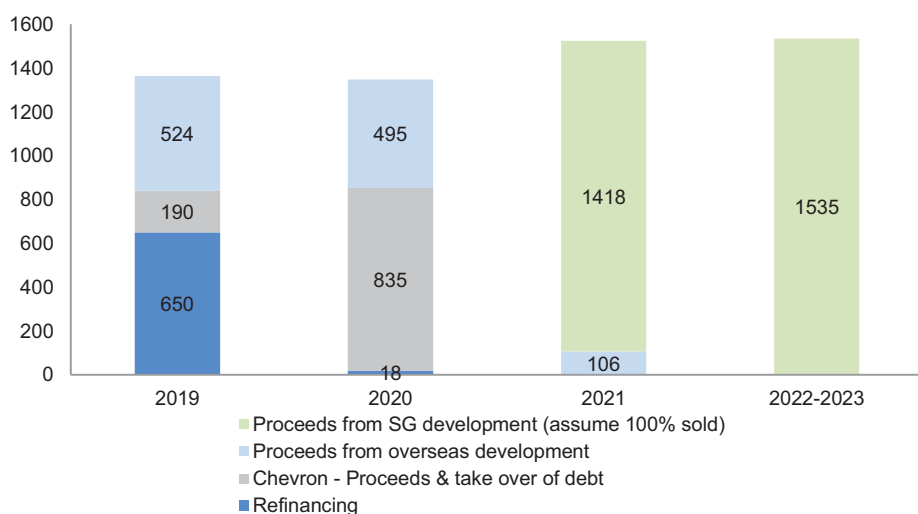
Figure 5: Oxley's debt maturity profile



■ Development Project ■ Investment Property ■ MTN/Bonds ■ Corporate Loan

Source: Company data

Figure 6: Debt repayment schedule (estimated)



Source: Company data, RHB

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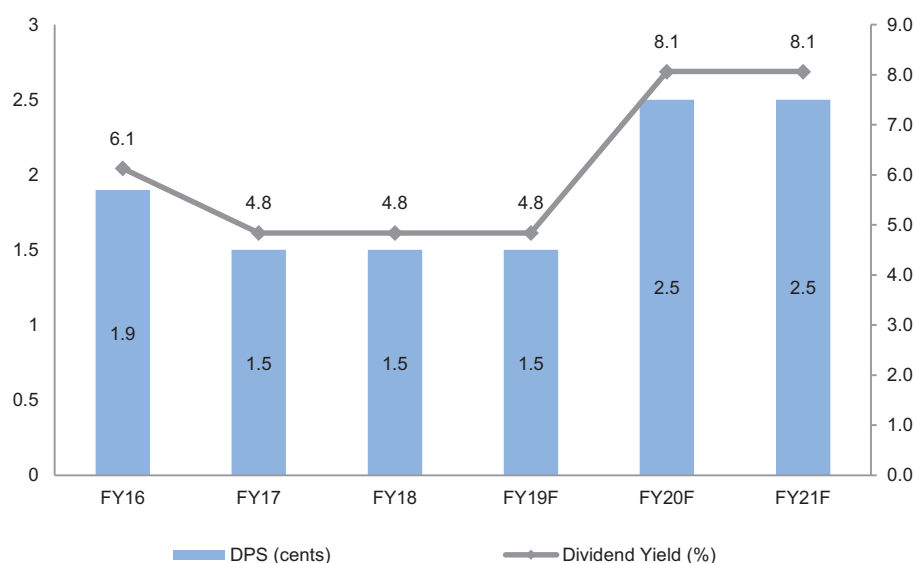
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Attractive dividend yield of 8.1% accompanied by potential special dividends.

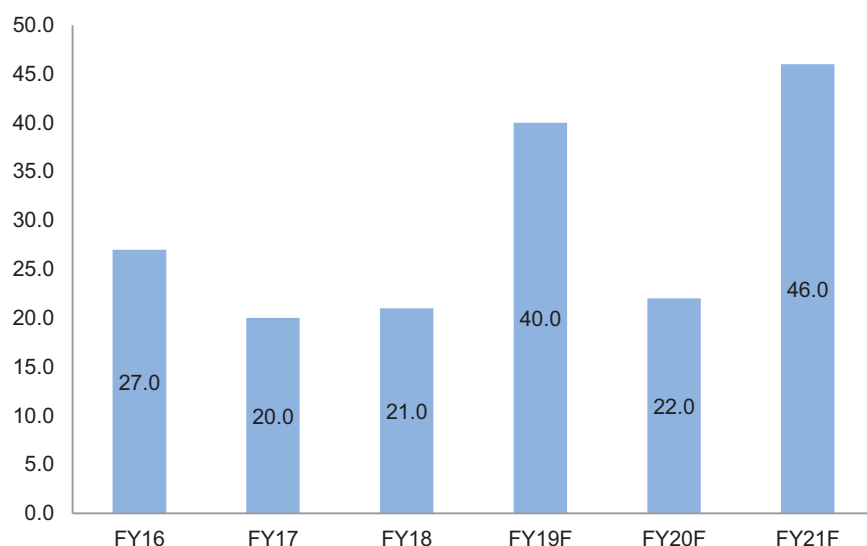
Management guided that excess cash after paring down gearing will be used to reward shareholders with special dividends, if there are no suitable opportunities at that time. At current normalised dividends levels, it reflects a yield of 4.8%. We think that these dividends are sustainable – especially with hefty sales flowing in the next few years.

In addition, with the recognition of profits worth over SGD1bn from its overseas and local projects, like SGD275m from Chevron House, we think that the likelihood of a special dividend is high – especially with management being keen to reward shareholders.

Previously in 2014, its industrial project Oxley Bizhub brought over SGD250m worth of profits, of which SGD0.0348 cents in DPS were distributed (total was over SGD102.6m). We think that a similar ratio for special dividends could be used for future large profits recognised. We expect DPS to increase to SGD0.025, implying a 8.1% yield for FY20F.

Figure 7: Dividend per share (cents) and yield (%)

Source: Company data, RHB

Figure 8: Dividend payout ratios (%)

Source: Company data, RHB

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Strong insider buying from management. We believe that the strong insider buying from the management over the past year is one of the best indicators as to whether the management has faith in the company. Figure 9 shows that management has opted to take shares as dividends, vs shares after the script dividend has been implemented. In addition, management has also been strongly buying Oxley shares in the open market – the last purchase was made on 7 Jun, worth SGD0.514m at SGD0.308/unit. Over just a 1-year period, a combination of SGD40.1m worth of shares at an average price of SGD0.30 has been bought or selected as script dividend by the insiders.

Figure 9: Insider transactions – part 1

No	Date	Party	No. of shares	Price (SGD/share)	Amount (SGDm)
1	7/6/2019	Ching Chiat Kwong	1,666,000	0.308	0.514
2	28/5/2019	Ching Wei Hung	100,000	0.300	0.030
3	15/5/2019	See Ching Low	12,535,301	0.295	3.692
4	15/5/2019	Ching Chiat Kwong	18,745,253	0.295	5.520
5	15/5/2019	Weng Sui Ng	5020	0.295	0.001
6	15/5/2019	Ching Wei Hung	1476	0.295	0.000
7	19/2/2019	See Ching Low	100,000	0.325	0.033
8	24/12/2018	Ching Chiat Kwong	44,893,589	0.291	13.078
9	24/12/2018	See Ching Low	30,019,685	0.291	8.745
10	21/12/2018	Ching Wei Hung	27,000	0.287	0.008
11	18/12/2018	Ching Wei Hung	20,000	0.290	0.006
12	17/12/2018	Ching Chiat Kwong	100,000	0.285	0.029
13	14/12/2018	See Ching Low	100,000	0.285	0.029
14	14/12/2018	Ching Chiat Kwong	30,000	0.285	0.009
15	13/12/2018	Ching Chiat Kwong	219,100	0.286	0.063
16	12/12/2018	Ching Chiat Kwong	100,000	0.290	0.029
17	11/12/2018	Ching Chiat Kwong	521,200	0.289	0.151
18	7/12/2018	See Ching Low	100,000	0.295	0.030
19	6/12/2018	Ching Chiat Kwong	733,000	0.293	0.215
20	6/12/2018	See Ching Low	100,000	0.290	0.029
21	5/12/2018	See Ching Low	200,000	0.295	0.059
22	23/11/2018	See Ching Low	300,000	0.295	0.089
23	22/11/2018	See Ching Low	200,000	0.295	0.059
24	21/11/2018	See Ching Low	200,000	0.300	0.060
25	20/11/2018	Ching Chiat Kwong	400,000	0.295	0.118
26	20/11/2018	See Ching Low	200,000	0.295	0.059
27	19/11/2018	See Ching Low	300,000	0.295	0.089
28	16/11/2018	Ching Chiat Kwong	1,550,000	0.297	0.460
29	15/11/2018	See Ching Low	500,000	0.300	0.150
30	14/11/2018	See Ching Low	200,000	0.300	0.060
31	26/10/2018	See Ching Low	200,000	0.295	0.059
32	25/10/2018	Ching Chiat Kwong	611,700	0.300	0.184
33	25/10/2018	See Ching Low	300,000	0.300	0.090
34	23/10/2018	See Ching Low	200,000	0.305	0.061
35	19/10/2018	Ching Chiat Kwong	500,000	0.310	0.155
36	19/10/2018	See Ching Low	200,000	0.310	0.062
37	18/10/2018	Ching Chiat Kwong	481,700	0.310	0.149
38	18/10/2018	See Ching Low	200,000	0.315	0.063

Source: Bloomberg, SGX

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Figure 9: Insider transactions (continued)

No	Date	Party	No. of shares	Price (SGD/share)	Amount (SGDm)
39	17/10/2018	Ching Chiat Kwong	318,300	0.315	0.100
40	16/10/2018	Ching Chiat Kwong	347,300	0.310	0.108
41	16/10/2018	See Ching Low	200,000	0.310	0.062
42	15/10/2018	See Ching Low	200,000	0.310	0.062
43	12/10/2018	Ching Chiat Kwong	200,000	0.310	0.062
44	11/10/2018	See Ching Low	600,000	0.310	0.186
45	15/8/2018	Wee Sien Tee	700,000	0.335	0.235
46	12/7/2018	Ching Chiat Kwong	1,000,000	0.360	0.360
47	12/7/2018	See Ching Low	200,000	0.360	0.072
48	11/7/2018	Ching Chiat Kwong	1,800,000	0.356	0.641
49	11/7/2018	See Ching Low	1,000,000	0.357	0.357
50	10/7/2018	See Ching Low	1,974,700	0.352	0.696
51	10/7/2018	Ching Chiat Kwong	8,365,000	0.349	2.921
			133,765,324	0.300	40.094

Source: Bloomberg, SGX

Gaobeidian – a lucrative project for the future. Back in Apr 2017, China announced a new economic zone just south of Beijing in Hebei province, three times the size of New York city. This special economic zone is located right next to Oxley, KSH, Lian Beng and Heeton's Sino-Singapore Health City JV development in Gaobeidian. Oxley originally had a 20% stake but raised it to 27.5%, and now holds the largest share in the project. KSH holds 22.5%, while Lian Beng and Heeton own 10% and 7.5%.

Sino-Singapore Health City comprises a 393,335 sqm site, and features an allowable GFA of 1,234,006 sqm. The township development will be able to accommodate 50,000 households. It has a GDV of SGD4bn. Despite the government cooling measures, residential prices have still more than doubled to around CNY13,000 psm. The surge in property prices in Hebei and Sino-Singapore Health City is also likely to add significant value to the land Oxley has a majority stake in. Management revealed that it is in no rush to develop the project, and would rather wait for the right timing to realise gains. Just from the rise in land prices, we believe the rewards could be quite significant for shareholders, when the time comes.

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Valuations

Significantly undervalued – trading at a deep discount of 60% to RNAV. Oxley is trading at a c.60% discount to RNAV, which we estimate to be around SGD0.74. We believe that a discount this wide is mainly due to its high gearing and doubts over its debt repayment ability, which should not be an issue at all. As such, our SGD0.41 TP is based on a 45% discount to RNAV. We believe Oxley is trading at a significant discount of 60% to RNAV, which consists of assets that are mostly sold. As a result, a 60% discount is too steep and we believe 45% presents a fairer reflection of its value.

Figure 10: Oxley's RNAV valuation

Surplus / deficit of assets:		
	SGDm	SGDm
Development properties		1,451.1
Singapore	345.6	
Overseas	1,105.6	
Investment properties		136.5
Hotel Properties		50.0
Total surpluses		1,637.6
NAV		1,414.9
RNAV		3,052.6
No. of shares		4,121.0
RNAV per share (SGD)		0.74
Discount to RNAV		45%
TP		0.41

Source: RHB

Figure 11: Development portfolio – net surplus breakdown

SGDm	Stake	Net Surplus (SGDm)	Total (SGDm)
Singapore			345.6
The Verandah Residences	100%	30.0	
Sixteen35 Residences	100%	6.8	
Sea Pavilion Residences	100%	4.2	
Affinity at Serangoon	40%	56.9	
Riverfront Residences	35%	60.7	
Parkwood Residences	100%	3.6	
The Addition	100%	4.8	
Mayfair Gardens/Modern	100%	67.0	
Kent Ridge Hill Residences	100%	90.1	
1953	100%	13.5	
INSPACE	49%	8.2	
Overseas			1105.6
Royal Wharf	100%	70.5	
Deanston Wharf	50%	50.7	
The Peak	79%	83.0	
The Palms	79%	19.9	
The Garage	79%	44.0	
Dublin Landings	80%	190.8	
Conolly	90%	159.8	
Gaobeidian / Sino-Singapore Health City	28%	153.0	
WATERFRONT HAMLET	80%	185.9	
So Sofitel KL Residences	100%	148.1	

Source: RHB

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Peer Analysis

Following the introduction of property cooling measures in Jul 2018, developers with significant exposure to the Singapore residential market were negatively affected. The average total 1-year return for their stock is -14.8%. Naturally, Oxley – with its exposure to the Singapore residential market – has not been spared. This, together with investor concerns on highly-gearred companies, led to a selldown – its share price has declined by 31.7% from a year ago.

The counters under our coverage, CapitaLand (CAPL SP; BUY, TP: SGD4.00) and City Developments (CIT SP, NEUTRAL, TP: SGD9.20) are currently trading at 35-45% discounts to their respective RNAV.

Figure 12: Peer comparison

Company	Market Cap (USDm)	P/E (x)	Forward P/E (x)	P/B (x)	EV/EBITDA (x)	Dividend Yield (%)	ROE (%)	Total Debt to Total Asset
Oxley Holdings	942.3	4.3	2.6	0.8	17.1	5.0	10.1	58
Aspial Corp	240.8	12.9	na	1.0	24.8	2.9	6.9	69
CapitaLand	10139.5	8.0	14.9	0.7	19.6	3.6	4.5	37
Chip Eng Seng Corp	320.5	6.9	11.7	0.5	10.6	5.7	9.2	59
City Developments	5943.8	12.9	14.6	0.7	11.6	0.9	6.0	30
Frasers Property	3844.9	7.6	10.9	0.7	21.6	4.8	4.6	46
Guocoland	1722.4	11.4	18.1	0.6	35.4	3.5	2.6	47
Ho Bee Land	1163.0	6.4	11.4	0.5	10.0	3.3	4.5	41
Keppel Corp	8161.2	13.8	11.9	0.9	28.6	4.1	4.8	28
Low Keng Huat Singapore	286.4	25.4	na.	0.6	26.9	2.8	2.5	37
OUE	996.1	140.6	20.7	0.3	33.7	1.3	-0.5	38
Sinarmas Land	778.3	7.9	na.	0.4	9.7	0.8	6.1	28
Singhaiyi Group	290.1	17.7	na.	0.6	77.6	1.6	5.4	51
UOL Group	4391.6	13.9	16.4	0.6	19.1	2.5	3.5	22
Wee Hur Holdings	137.8	9.6	na.	0.5	2.9	3.9	3.9	23
Average (ex-Oxley)		21.1	14.5	0.6	23.7	3.0	4.6	

Source: Company data, Bloomberg

Key Risks

Lumpy revenue. The revenue from the sale of development properties is recognised based on the percentage-of-completion method. As such, the revenue to be recognised for each FY is dependent on the number, value and stage of completion of the projects. If there is a delay in completing the project, or lesser projects undertaken by Oxley in the financial year, the revenue will be adversely affected.

Exposed to cyclicity of Singapore property market. The performance of the property industry will be impacted by the following factors, but not limited to:

- i. Global and/or local economic slowdowns;
- ii. Oversupply of properties;
- iii. Increase in COGS such as raw material costs and labour costs;
- iv. Changes in government regulations;
- v. Financing availability and interest rate hike.

High gearing. Property developers need substantial capital for projects. The company may fund a large part of the projects via borrowings. As such, debt levels can be high. Hence, it is exposed to the risks associated with debt financing. Oxley may incur more financing costs if there is an increase in interest rates. In the event that it does not generate sufficient cash flow or have enough cash to repay debts, operations may be adversely affected – and this may affect the business as a going concern.

Subject to government regulations. The Singapore property market is a tightly-regulated industry, as the Government aims to stabilise and provide sustainable housing. As such, any new or stringent property measures implemented will have a material effect on the group's performance.

The latest measure announced by the Government was the raising of the additional buyer's stamp duty (ABSD) rates and tightening LTV limits on residential property purchases in Jul 2018, to cool the property market and stabilise prices.

Disputes with buyers and possibility of legal claims. The group may face disputes and claims from purchasers if a project is delayed, or if the property contains defects or differs from contract specifications. If a major claim arises, the group may have to pay for damages – which will negatively impact profitability. There is no certainty that damages paid can be recoverable from the contractors or other counter-parties. The group is also currently undergoing litigation on the Ampas apartments over a collective sale dispute.

Property assets are relatively illiquid. Real estate assets are fairly illiquid. It will take some time for the group to convert the assets to cash. In the event that Oxley requires cash urgently and is unable to obtain alternative financing facilities, it may be pressured to sell real estate assets at distressed rates – which will lead to significantly lower prices. As such, its performance may be adversely affected.

Industry Overview

Property prices in Ireland. According to data released for Mar 2019 by the Central Statistics Office of Ireland, residential property prices in the country increased by 3.9% in YT-Mar 2019. However, in Dublin, prices have pulled back substantially – growing just 1.2% in YT-Mar 2019, with prices for landed homes rising by 0.7% and apartments by 2.5%.

Potential buyers are seen to be experiencing difficulties in getting a mortgage, particularly property with value above a certain threshold. It was evident in recent months, as there was a drop in the number of first-time buyers being approved for mortgages. Another factor that is cooling the market could be that people are more cautious about the value of properties, and on interest rates post-Brexit. As such, they may be holding back on buying until there is further clarity.

According Cushman & Wakefield report, the Irish market opened strongly in 2019, recording revenue of EUR507.8m on a total of 29 deals in 1Q19. Transactions in the office market reached EUR275.5m (54% of total turnover). The largest deal was valued at EUR145m, for the sale of Charlemont Exchange, Dublin 2, located in the heart of the city's central business district. The property was acquired by a South Korean investment fund, Vesta Management.

Cushman & Wakefield had anticipated that 2019 would be a vibrant year for the commercial property market, underpinned by demand for office space – which will likely translate to an increase in rental rates. Close to 80% of the space due to be delivered this year has already been pre-committed.

The UK property market. The average property price in the UK in 1Q19 is GBP226,798, which is down by a marginal 0.2% QoQ. Prices rose by 1.4% YoY, and by almost 9% from GBP208,443 in Apr 2016 (pre-Brexit referendum, which was on 23 Jun the same year). The Brexit overhang has led to a sluggish increase in prices over the past two years, when compared to the post-GFC period.

That said, the low interest rate environment and demand have kept house prices pretty resilient. The downtrend was further supplemented by a decline in fresh properties coming into the market. That, as well as affordability, continue to affect the UK housing market. Despite the challenging market environment, price expectations for the next twelve months are modestly positive, according to a survey done by the Royal Institute of Chartered Surveyors (RICS).

Singapore's private property market. In an effort to cool the property market and keep prices in line with economic fundamentals, the Government announced an increase in ABSD rates and the tightening of LTV ratios in July last year. This came on the back of higher private residential prices (+9.1%) for the past year (2017).

The ABSD was raised by 5% for Singapore citizens and permanent residents purchasing more than one property, and by 10% for companies/entities. Rates for the first-time buyer remain unchanged.

As for the LTV ratio, it was tightened by 5% for all housing granted by financial institutions. However, these limits do not apply to loans granted by Housing Development Board (HDB). The Government will continue to monitor the property market, and adjust the policies to keep the property market stable and sustainable.

Real estate statistics released by the Urban Redevelopment Authority of Singapore showed that prices of private residential properties dipped by 0.1% YoY in 4Q18 and 0.7% in 1Q19. For 2018, prices increased by 7.9%, vs a 1.1% increase in the previous year.

In 1Q19, excluding executive condominiums, total new private homes launched came up to 2,989, about 80% more than the previous quarter. Of the new launches in 1Q19, 1,838 units were sold – close to the previous quarter's 1836 units.

Company Background

Oxley is a property developer specialising in residential and commercial developments. Back in Jun 2009, executive chairman and CEO, Ching Chiat Kwong, with non-executive director Low See Ching and Tee Wee Sien (substantial shareholder), pooled together resources to jointly develop properties. They have a common strategic vision – to develop properties that cater to young working adults (a growing segment, at the time). Subsequently, the group expanded its business into industrial development in Aug 2010 after it successfully secured a land parcel.

To date, Oxley is a business presence in 11 countries. It has three core segments: property development, property investment, and hotels.

Development Portfolio

Singapore

Oxley currently has 12 projects under development in Singapore. In FY18, the group expanded its presence in Singapore significantly by acquiring 12 land sites – 11 residential and one commercial.

As at Feb 2019, eight out of 12 developments have been launched. Figure 23 shows the take-up rate for each development. The group has sold close to 1,800 out of 3,800 units and booked sales of SGD1.93bn since 2018. There is approximately 2.93bn of revenue remaining, which should be recognised over the next couple of years.

Figure 13: Timeline of launches for Singapore projects (as at May 2019)

Project	Launch Date	Top Date	Remaining Revenue
Verandah Residences	Launched	1Q21	None
Sea Pavilion Residences	Launched	1Q20	None
Sixteen35 Residences	Launched	4Q20	None
Affinity at Serangoon	Launched	2Q22	1.3bn - 0.6bn = 0.7bn
Riverfront Residences	Launched	2Q22	1.5bn - 0.9bn = 0.6bn
Parkwood Residences	1H2019	1Q20	28.0m
Kent Ridge Hill Residences	Launched	1Q22	803m - 193.5m = 609.5m
Mayfair Gardens	Launched	2Q22	588.4m - 252.6m = 335.8m
Mayfair Modern	2H2018	2Q22	
The Addition	Launched	1Q20	37.5m - 28.9m = 8.6m
1953	1H2019	1Q21	111.8m - 40.1m = 71.7m
INSPACE	1H2019	4Q20	138.4m - 11.3m = 127.1m

Source: Company data

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Figure 14: Sales milestones since FY18 – Singapore (as at Feb 2019)

Project	Units sold	% sold	Revenue
Verandah Residences	170/170	100% sold	SGD 249m
Sixteen35 Residences	60/60	100% sold	SGD 56m
Sea Pavilion Residences	24/24	100% sold	SGD 33m
Affinity at Serangoon	300/300 (phase 1) 220/350 (phase 2)	100% sold 63% sold	SGD 432m
Riverfront Residences	800/800 (phase 1) 60/60 (phase 2) 151/340 (phase 3)	100% sold 100% sold 44% sold	SGD 781m
The Addition	22/26	85% sold	SGD 25m
Mayfair Gardens	143/215	67% sold	SGD 222m
Mayfair Modern	18/50 (phase 1)	36% sold	SGD 31m
Kent Ridge Hill Residences	171/250 (phase 1)	68% sold	SGD 154m
1953	29/58 (phase 1)	50% sold	SGD 40m
INSPACE	6/42 (phase 1)	14% sold	SGD11m

Source: Company data

Overseas

Oxley has nine ongoing overseas projects, of which five have been launched. As at February, the group recorded sales of SGD1.47bn from overseas projects. It has approximately SGD 4.6bn worth of overseas projects to be launched.

Figure 15: Timeline of launches - overseas projects (as at Feb 2019)

Project	Launch Date	Top Date	Remaining Revenue
Royal Wharf	Launched	2019-2020 (in phases)	SGD275m
Deanston Wharf	TBC	4Q21	SGD647m
Dublin Landings	Launched	2Q20 and 4Q19	SGD320m
Conolly	4Q19	TBC	SGD1.3bn
KLCC (Residential and Commercial)	Launched	1Q22	SGD866m
Cyprus	1H19	1Q21	SGD736m
The Palms	Launched	2020	SGD89m
The Peak (Residential and retail)	Launched	3Q19-2020	SGD210m
Thao Dien Residential Project	2019	4Q21	SGD91m

Source: Company data

Figure 16 Sales milestones since FY18 – overseas (as at May 2019)

Project	% sold	Revenue
Royal Wharf	106 units sold	SGD109m
Dublin Landings	Office Block No. 1,2,4 and 5	SGD1bn
	Part of Block B and E (letter agreement - proposed sale)	
KLCC (So Sofitel Resi)	161/200 81%	SGD105m
The Palms	64/116 (phase 1) 55%	SGD49m
The Peak (Retail)	676 units	SGD297m
The Peak (Resi)	441 units	

Source: Company data

Investment Portfolio

Oxley has expanded into various property segments, including investment and hotel properties. In 2013, the group acquired a 20% stake in London house builder, Galliard which helped to strength its presence in the UK. Oxley went on to acquire a 50% stake in Western Australia-based Pindan Group.

In the hospitality sector, the group currently owns 254-room Novotel Singapore and 518-room Mercure Singapore. Both achieved an occupancy rate of 84% in Aug 2018. In Mar 2019, it appointed exclusive agents for the sourcing of a purchaser for these two properties.

Oxley also expanded into the office sector by acquiring Chevron House for SGD660m in Mar 2018. On 29 April this year, it sold the building for SGD1.025bn, subject to certain adjustments in accordance with the terms of the sale and purchase agreement.

Figure 17: Investment portfolio

Portfolio	Type	Location	Stake	Indicative Value
Space @ Tampines	Industrial	Singapore	70%	SGD200m
The Rise @ Oxley	Commercial	Singapore	100%	SGD75m
Floravista	Commercial	Singapore	55%	SGD53m
Novotel Singapore on Stevens/ Mercure Singapore on Stevens	Hospitality	Singapore	100%	SGD1.053bn
Shangri-La Hotel	Hospitality	Cambodia	79%	SGD150m
Limassol Oxley Cyprus Development	Hospitality	Cyprus	50%	SGD128m
SO Sofitel Kuala Lumpur Hotel	Hospitality	Malaysia	100%	SGD113m
Jumeirah Kuala Lumpur Hotel	Hospitality	Malaysia	100%	SGD120m

Source: Company data

Other Investments – United Engineers & Aspen

United Engineers is a real estate company with property businesses mainly in Singapore and China. Developments in Singapore include UE Square, UE Bizhub and Rochester Mall. Oxley has a 19% stake in United Engineers, which it acquired for c.SGD341m. The stock is listed on the Singapore Exchange, with a market cap of approximately SGD1.5bn.

Aspen Group is listed on the Catalist Board of the Singapore Exchange. Its business is mainly in property development in Malaysia, and focuses on developing affordable residential and mixed development properties at strategic locations targeting the mass market. Oxley took a 10% stake in Aspen for c.SGD23m. The market cap of the company is about SGD137.8m.

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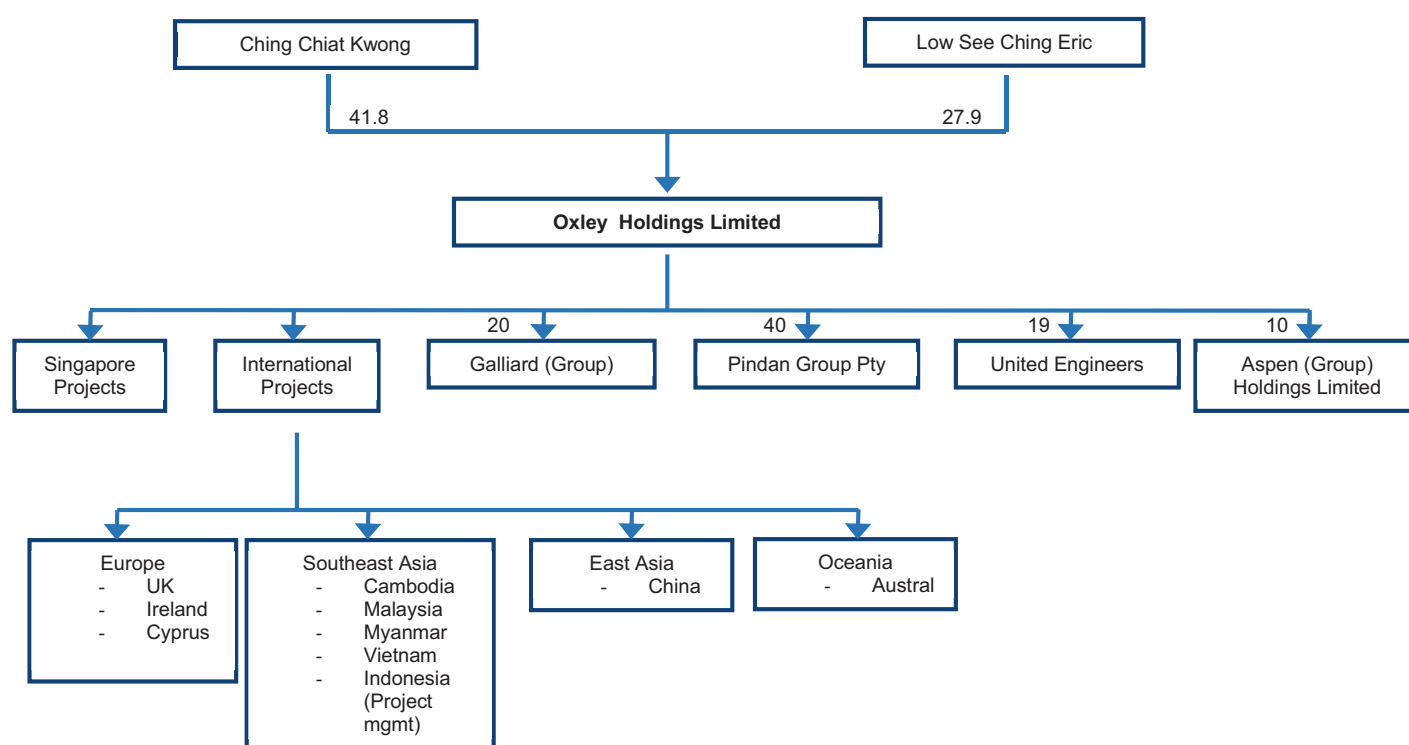
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Figure 18: Management team

Name	Position	Profile
Ching Chiat Kwong	Executive Chairman and CEO	Ching Chiat Kwong is the Executive Chairman and CEO of the Group. He is responsible for the formulation of corporate strategies, charting future growth plans and driving the overall performance of the group.
Low See Ching (Eric)	Executive Director and Deputy CEO	Low See Ching was appointed as Deputy CEO and Executive Director of the Group on 1 Feb 2014. Prior to this, he served on the Board as a Non-Executive Director. Mr Low is responsible for the operation of the group including sales and marketing, project development, business development and financial management. Mr Low also assists the CEO in charting and executing the strategic plans for the group.
Shawn Ching	Executive Director and Group General Manager	Shawn Ching Wei Hung was appointed Executive Director and Group General Manager on 15 Nov 2018. Mr Ching is responsible for the general operations and administration of the group. Prior to this appointment, he was a project manager at the company.

Source: Company data

Figure 19: Group structure



Source: Company data

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Business Analysis

The group's total unbilled contract value is at SGD3.7bn as of May 2019, of which SGD2bn was attributable to the projects in Singapore and the rest to its overseas projects. Since Apr 2018, the group has launched 10 development projects and sold more than 2,168 units from a total of 3,839 units. Total revenue from the presales was SGD2.4bn.

On 19 Mar, Oxley terminated the letter of intent for the sale of Mercure and Novotel Hotels and has since appointed CBRE and JLL as exclusive agents for the sale of the hotels.

On 29 Apr, it entered into a sale and purchase agreement with Golden Compass for the sale of Chevron House for SGD1.025bn.

Figure 20: 3QFY19 results

SGDm	3Q19	3Q18	YoY +/- %	9M19	9M18	YoY +/- %
Revenue	60.0	239.0	-74.9%	586.0	956.0	-38.7%
Gross Profit	11.0	36.0	-69.4%	112.0	158.0	-29.1%
Gross Profit Margin	18.3%	15.1%		19.1%	16.5%	
Profit Before Tax	73.0	30.0	143.3%	145.0	168.0	-13.7%
NPAT	66.0	30.0	120.0%	119.0	145.0	-17.9%
NPAT margin	110.0%	12.6%		20.3%	15.2%	

Source: Bloomberg, RHB

Cash and cash equivalent as at 31 Mar was SGD270m (unaudited) and total borrowings stood at SGD3.9bn. The table below shows the debt maturity profile for FY19-FY23.

FY19 plans on debt repayment. Debts for development projects will be repaid through the pre-sales proceeds collected from the purchasers who bought from the project launch.

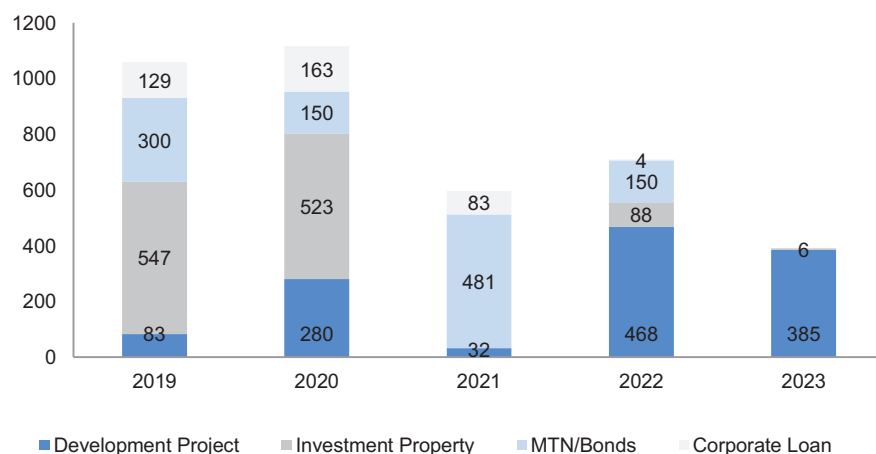
Debt on the investment property – Novotel and Mercure hotels will likely be refinanced (SGD542m) if until such time that there is no potential buyer for the hotels.

As for the medium-term note (MTN) bond and corporate loan of SGD129m, repayment will likely come from proceeds collected from:

- Initial consideration of SGD190m from the Chevron House sale;
- EUR159m from Dublin Block A4 and A5 sale, and a further EUR78m from the potential sale of A3;
- Surplus from the refinancing of hotels;
- USD204m from the Top of the Peak Cambodia.

There is also likely a surplus of refinancing from the Novotel and Mercure debt of approximately SGD125m (SGD650m minus SGD525m). The excess cash will be conserved to repay debts in the future.

Figure 21: Debt maturity profile



Source: Bloomberg, RHB

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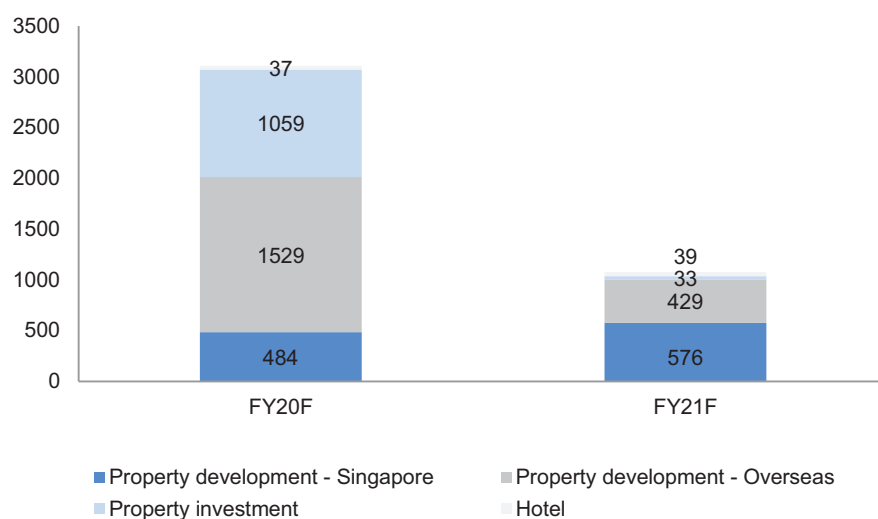
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Financial Forecasts

Revenue for FY20-21F is SGD3.11bn and SGD1.08bn. We expect the recognition of revenue from the sale of Chevron House (SGD1.025bn) in FY20F. Approximately SGD2bn of revenue will come from the property development segment, of which we estimate SGD1.53bn will come from overseas projects and SGD0.48bn from the Singapore developments. Revenue from the Royal Wharf and Dublin Landings will be the main contributor for its overseas development projects.

In FY21F, Oxley's Singapore project is expected to generate a higher contribution, in terms of percentage of overall revenue. We expect the Singapore development project and overseas project revenue to contribute SGD576m and SGD429m. Coupled with the income from property investment and hotel revenue, total revenue forecasted for FY21 is SGD1.08bn.

Figure 22: Revenue forecasts for FY20-21



Source: Bloomberg, RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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