

## MONEY TALK

### GL Ltd (GLL SP)

#### Asset Disposal Unlocks Value and Privatisation Potential

At the core of GL is its rare hotel portfolio with >4,700 rooms in prime London. UK/London hotel performance has reached a record high in 1H17 with growth expected to continue. GL is also unlocking value through non-core asset disposal with up to US\$80m gains expected. We see the potential of a privatisation, noting a prior offer of S\$1.25/share. With steady dividends, investors can get paid to wait. Initiate coverage with BUY and a conservative SOTP-based target price of S\$1.185.

#### INVESTMENT HIGHLIGHTS

- **Initiate coverage with BUY and SOTP-based target price of S\$1.185**, implying 30.9% upside. We value GL at US\$1.13b, opting to be conservative with a generous 40% discount to our SOTP valuation of US\$1.89b. GL is currently trading at only 0.8x P/B. We believe our valuation of GL's hotel and casino portfolio is conservative, and note the possible upside from the hidden value in its hotel property assets.
- **Rare hospitality assets with over 4,700 rooms in prime central London.** GL's core hotel business has a portfolio comprising 15 owned and 2 managed hotels in the UK with over 4,700 rooms sprawled over tourist hotspots in London's prime districts and another 300+ rooms in key UK locations. It also holds royalty assets over the Bass Straits, the Clermont Casino as well as 55,000 acres of land in Hawaii.
- **UK/London hotel performance at record high, growth to continue.** With the weakened sterling, UK/London hotel performance (room rates/occupancy) hit a record high in 1H17 with growth expected to continue. PwC is forecasting 3.3% growth for the full 2017 and GL is likewise guiding a similar figure for FY18 after a 7% yoy growth in sterling terms in FY17.
- **Asset disposal to unlock value with possible gains of US\$80m.** While GL has been exploring options to sell its casino and Hawaii properties for a while, we have seen more concrete results recently. There was an offer for its casino business (according to GL's FY17 annual report), and GL has finally posted its Molokai property for sale with strong buyer interest. If the Molokai sale is sold at its posted US\$260m, this could translate to gains of around US\$77m. For the casino, we expect the sale to complete before end-FY18, which could provide around 10% gains (US\$3m). We view successful disposals as catalysts that could reduce the discount facing the company.
- **New MD streamlining assets; deep discount of 0.8x P/B opens privatisation potential.** One possible reason why the asset disposals are finally happening could be because of GL's new Group Managing Director, Mr Tang Hong Cheong, who came from a strong banking background. Mr Tang is also Guoco Group's President and CEO, which leads us to believe that the decision could be to streamline assets for a potential privatisation. We further note that GL is currently trading at only 0.8x PB and that controlling shareholder and Malaysian tycoon, Mr Quek Leng Chan, had previously offered to privatise GL at S\$1.25/share in 2005.
- **Healthy balance sheet and steady dividends mean investors get paid to wait.** We expect net debt to drop from US\$182.2m (FY17) to net cash of US\$23.4m (FY20) and net financing cost to drop to US\$7.7m in FY20. With a healthy balance sheet and steady dividends (GL has been paying stable dividends for more than the past decade, and we expect the 2.2 S cents dividends to continue), investors can get paid to wait for positive share price catalysts.

#### KEY FINANCIALS

Year to 30 Jun (US\$m)	2016	2017	2018F	2019F	2020F
Net turnover	393.9	350.2	365.9	368.3	373.0
Core EBITDA	93.7	106.5	114.8	118.0	122.0
Operating Profit	65.1	81.3	90.1	92.7	96.1
Net profit (rep./act.)	67.6	49.0	75.1	72.2	76.0
Net profit (adj.)	48.3	57.6	68.1	72.2	76.0
EPS (US cent)	3.7	4.4	5.2	5.6	5.9
P/E (x)	17.9	15.0	12.7	12.0	11.4
P/B (x)	0.8	0.8	0.8	0.7	0.7
EV/EBITDA (x)	11.6	9.9	8.5	7.7	6.9
Dividend yield (%)	2.4	2.4	2.4	2.4	2.4
Net margin (%)	12.3	16.4	18.6	19.6	20.4
Net debt/ (cash) to equity (%)	20.6	17.4	9.5	3.7	(1.9)
Interest cover (x)	(11.6)	(9.5)	(11.9)	(13.6)	(15.8)

Source: Bloomberg, UOB Kay Hian

## BUY

(Initiate Coverage)

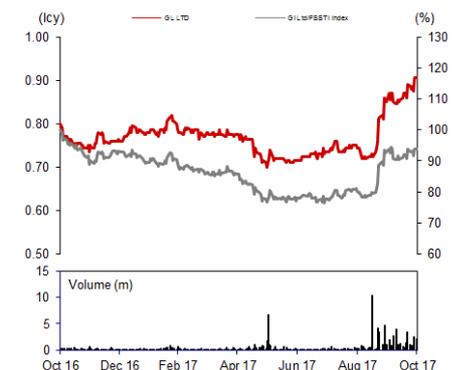
Share Price	S\$0.905
Target Price	S\$1.185
Upside	+30.9%

#### COMPANY DESCRIPTION

GL is an investment holding company. The company holds investments in the areas of hotels and resorts, and portfolio investments. GL also invests in property for residential and tourism purposes.

GICS sector	Consumer
Bloomberg ticker:	GLL SP
Shares issued (m):	1,368.1
Market cap (S\$m):	1,238.1
Market cap (US\$m):	908.2
3-mth avg t'over (US\$m):	0.6

#### PRICE CHART



Source: Bloomberg

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## Valuation

**Initiate coverage with BUY and SOTP-based target price of S\$1.185.** The UK's tourism sector is a rare bright spot against the backdrop of Brexit. We like GL for its: a) solid portfolio of rare hospitality assets in London, b) continued strong hotel performance, c) healthy balance sheet with steady dividend payments, d) potential asset disposal to unlock value, and e) potential privatisation arising from asset streamlining.

We value GL at US\$1,132.2m, or S\$1.185/share, based on SOTP valuation: DCF for its Brass Straits concession; and cost and comparable method for its hotels and Molokai properties.

Currently, GL has 15 owned and 2 managed hotels, and 5,065 rooms under management, with the majority sprawled all over tourist hotspots in London's prime district of Mayfair and Belgravia.

### FIGURE 1: VALUATION

Business	(US\$m)
Hotels	1,557.9
Bass Straits concession	173.5
Molokai properties	260.0
Add: Cash	147.8
Less: Debt	252.1
<b>SOTP Valuation</b>	<b>1,887.1</b>
Discount (%)	40
<b>Fair Value</b>	<b>1,132.2</b>
Weighted number of shares (m)	1,299.8
<b>Value per share (US\$)</b>	<b>0.87</b>
Exchange rate (US\$/SG\$)	1.36
<b>Value per share (S\$)</b>	<b>1.185</b>

Source: UOB Kay Hian

**UK hotel transactions remain resilient.** Despite uncertainties due to Brexit, the UK hotel market reached £2b in 1H17 and is set to reach £5.1b for 2017, up 28% yoy. The investment market was driven by individual sales in London as investors continue to demonstrate considerable appetite for big ticket purchases that promise stable long-term income. Savills and PwC noted that the average value per key has risen over the past 12 months.

Going forward, competitive pressures from offshore capital seeking trophy assets should maintain per key values of hotels at the upper end of the spectrum.

**Hotel portfolio worth US\$1,557.9m.** Hotel transactions in London yielded an average €0.32m per key in 2016, with the following price per key for different categories of hotels: €0.61m for 5-star, €0.41 for 4-star and €0.21 for 3-star. We have applied these benchmarks to GL's portfolio of owned hotels, taking into account the leasehold status of each hotel, and arrived at a portfolio value of US\$1,557.9m (€1: £0.85, £1:US\$1.31). We believe this estimate is conservative as we had assumed short-lease hotels (less than 50 years) to be at book value. Figure 3 shows our analysis of the impact on GL's hotel value under different exchange rates (GBP:USD).

FIGURE 2: 2016 HOTEL TRANSACTIONS

Property	Location	Rooms	Price (€m)	Price per Room (€)
<b>5-stars hotel</b>				
Peninsula London	London	190	127	0.61
InterContinental London*	London	453	127	0.67
<b>4-stars hotel</b>				
DoubleTree by Hilton – Tower of London	London	582	336	0.56
DoubleTree by Hilton – Docklands Riverside	London	378	95	0.41
Radisson Blu Edwardian	London	330	83	0.58
The Cranley	London	39	22	0.25
<b>3-stars hotel</b>				
Hampton Inn Gatwick	London	192	27	0.21
Hub by Premier Inn King's Cross	London	389	99	0.14
Hub by Premier Inn Lillie Road	London	83	13	0.25
Premier Inn	London	128	28	0.16
Premier Inn Slough	London	131	17	0.21
London Liverpool Street Travelodge	London	142	51	0.13
Travelodge London Hackne	London	80	17	0.36
Travelodge Royal Scot	London	408	91	0.22
Park House Travelodge Hotel	London	113	19	0.22
				0.16

\* InterContinental London was bought at €127m for 50% stake  
Source: Hodges Ward Elliott, UOB Kay Hian

FIGURE 3: TARGET EXCHANGE RATE VALUATION RANGE

% chg in Exchange Rate (%)	Target Exchange Rate (GBP:USD)	Hotel Valuation (US\$m)
15	1.51	1,792
10	1.44	1,714
5	1.38	1,636
0	1.31	1,558
-5	1.24	1,480
-10	1.18	1,402
-15	1.11	1,324

Source: UOB Kay Hian

**Bass Straits concession worth US\$173.5m.** We value the concession at US\$173.5m, based on DCF methodology and assuming an effective lifespan of 23 years (until 2040), 10% WACC and cash inflow of US\$17.3m, US\$18.2m and US\$19.1m in 2018-20 respectively. We based our cash inflow projections and long-term oil prices according to Bloomberg's consensus oil price.

**Opting to be conservative with a generous 40% discount.** Based on £1:US\$1.31, we derive a SOTP-based target price of S\$1.18. We opt to be conservative and give a generous 40% discount (noting the volatility brought about by Brexit on the sterling pound and accounting for this risk by taking an additional 10% discount to the 30% holding company discount applied to GL's fair value). Figure 4 shows our analysis of the SOTP-based target price to discount factor and changes in exchange rate (GBP:USD).

FIGURE 4: SENSITIVITY ANALYSIS (DISCOUNT FACTOR AND CHANGE IN EXCHANGE RATE)

		Change in Exchange Rate (%)								
		-20.0	-15.0	-10.0	-5.0	0.0	+5.0	+10.0	+15.0	+20.0
Discount	0.25	1.254	1.306	1.362	1.420	1.481	1.542	1.606	1.674	1.744
	0.30	1.170	1.219	1.271	1.325	1.382	1.439	1.499	1.562	1.628
	0.35	1.087	1.132	1.180	1.230	1.283	1.336	1.392	1.450	1.512
	0.40	1.003	1.045	1.089	1.136	1.185	1.234	1.285	1.339	1.395
	0.45	0.920	0.958	0.999	1.041	1.086	1.131	1.178	1.227	1.279
	0.50	0.836	0.871	0.908	0.946	0.987	1.028	1.071	1.116	1.163
	0.55	0.752	0.784	0.817	0.852	0.889	0.925	0.964	1.004	1.047

Source: UOB Kay Hian

## Peer Comparison

**Hotel business: Deep discount at 6.6x 2018F EV/EBITDA, or 50.7% discount to peers' average.** While the increasing popularity of "asset-light" business model and its associated lower gearing does not make for easy comparison, we think GL's hotel valuation is undemanding in relation to European peers which are trading at an average EV/EBITDA of 13.4x. We derive GL's 2018F EV/EBITDA based on share price of S\$0.905 (US\$1:\$1.36) and 2018F hotel EBITDA of US\$93.3m.

The perennial underperformance of its property development (Molokai Island) and gaming (Clermont Club) businesses has largely marred the earnings quality of GL's hotel business, resulting in an overhang on its share price. One-off legal complications in relation to terminated leases also distracted investors from the strength of GL's performance in FY17.

Casting the one-off lease complications behind them, lower hotel lease rates and acquisition prices in yesteryears put GL in an enviable position to deliver strong earnings even as it doubles down on refurbishment efforts in its largest hotel (Hard Rock Hotel London, previously The Cumberland) in 2018.

GL's established status as a major player in the London hotel market and its diverse array of offerings near tourist hotspots only underline the quality of its portfolio and the massive discount of its share price to its fair value. We think the potential sale of Clermont Club and Molokai Island will unmask the true potential of GL's hospitality assets and trigger a re-examination of its fair value. Moreover, the upward momentum in big-ticket transactions in the London hotel market and continued strong investor demand for trophy assets might highlight the substantial hidden value in GL.

FIGURE 5: PEER COMPARISON

Company	Ticker	Price @ 30 Oct 17 (Icy)	Market Cap (US\$m)	FY	PE 2017F (x)	P/B 2017F (x)	EV/ EBITDA 2017F (x)	Yield 2017F (%)	ROE 2017F (%)	Net Gearing (%)
Intercontinental Hotels Group	IHG LN	4,183.00	10,444	Dec 16	23.2	n.a.	14.6	2.1	n.a.	n.a
Whitbread Plc	WTB LN	3,689.00	8,893	Feb 17	14.4	2.4	8.9	2.7	17.5	35.3
Pphe Hotel Group Ltd	PPH LN	1,040.00	578	Dec 16	15.5	n.a.	10.5	2.2	7.7	186.5
Millennium & Copthorne Hotel	MLC LN	586.50	2,503	Dec 16	18.7	0.7	12.7	1.5	n.a.	22.3
Accor Sa	AC FP	42.69	14,341	Dec 16	44.1	1.9	25.4	1.6	8.2	26.1
Melia Hotels International	MEL SM	11.49	3,064	Dec 16	22.2	1.6	10.5	1.1	7.6	38.0
Nh Hotel Group Sa	NHH SM	5.33	2,166	Dec 16	41.9	1.6	11.1	0.9	4.3	62.8
<b>Average</b>					<b>25.7</b>	<b>1.7</b>	<b>13.4</b>	<b>1.7</b>	<b>9.1</b>	<b>61.8</b>

Source: Bloomberg, UOB Kay Hian

FIGURE 6: GL HOTEL EV/EBITDA MULTIPLE

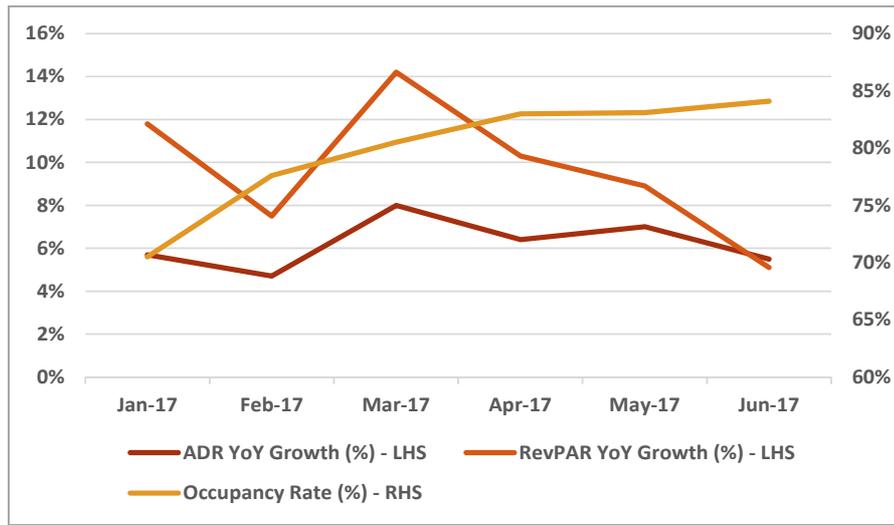
Description	(US\$m)
Enterprise Value	1,049.6
Less: Brass Straits concession, Molokai properties	433.5
<b>Enterprise Value of Hotel</b>	<b>616.1</b>
2018F Hotel EBITDA	93.3
<b>EV/EBITDA Multiple (x)</b>	<b>6.60</b>

Source: UOB Kay Hian

## Industry Outlook: Continued growth from UK/London hotels

**Record 1H17 performance from UK hotels.** According to STR Global, the UK hotels' occupancy, average daily rate (ADR) and revenue per available room (RevPAR) hit record highs in 1H17. The UK hotels recorded a 1.7% yoy increase in occupancy to 75.1%, a 4.7% yoy increase in ADR to £89.33 and a 6.5% yoy increase in RevPAR to £67.12. Likewise, performances of London hotels have been positive with continuous growth in ADR likely due to the weaker sterling pound.

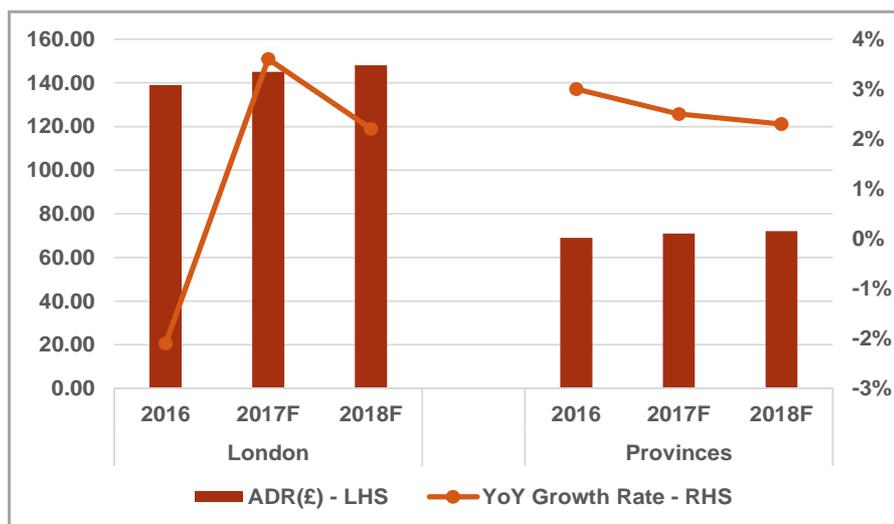
FIGURE 7: 1H17 LONDON HOTEL PERFORMANCE



Source: STR Global

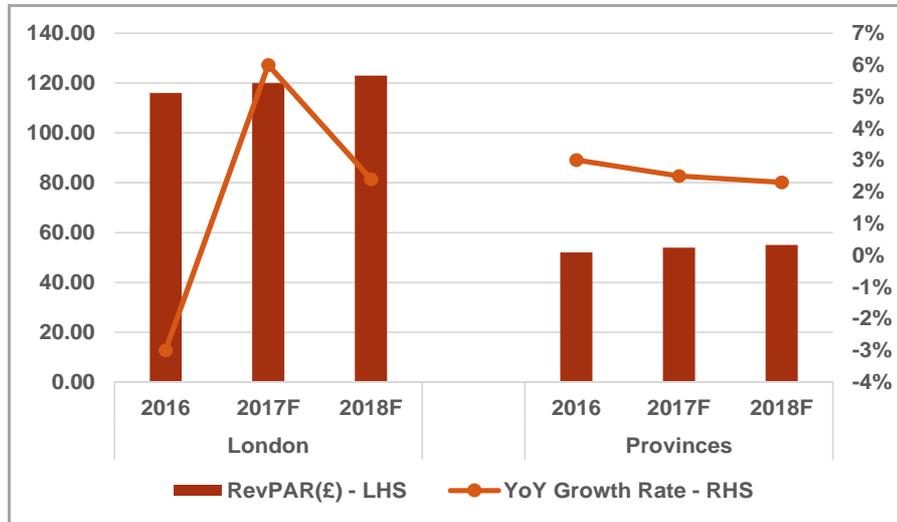
**6.0% increase in RevPar expected in 2017.** Going forward, PwC forecasts strong growth for UK (and London) hotels for 2017 and 2018. In London, PwC is expecting supply growth in 2017 and possibly 2018. However, as two-thirds of new rooms comprise branded budget, PwC believes non-budget operators (such as GL) should still be able to benefit from stronger demand driven by the weak sterling pound.

FIGURE 8: UK HOTEL ADR FORECAST



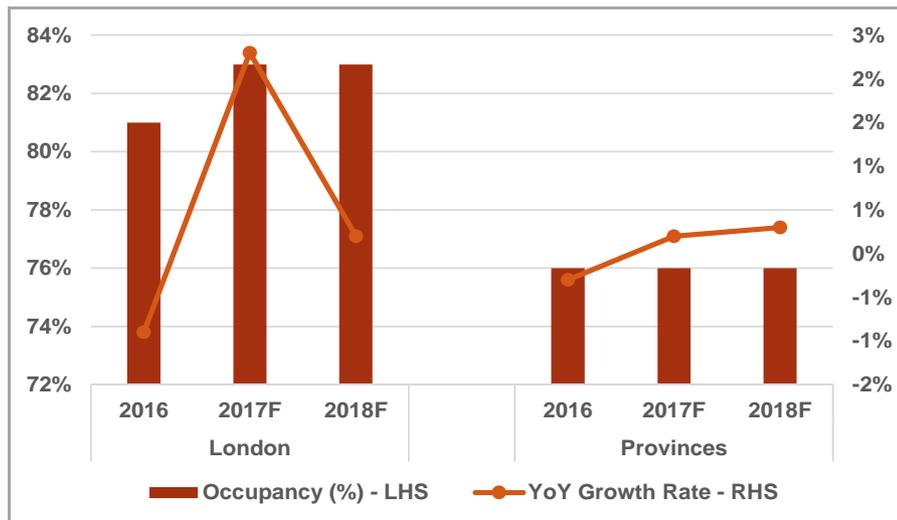
Source: PwC

FIGURE 9: UK HOTEL REVPAR FORECAST



Source: PWC

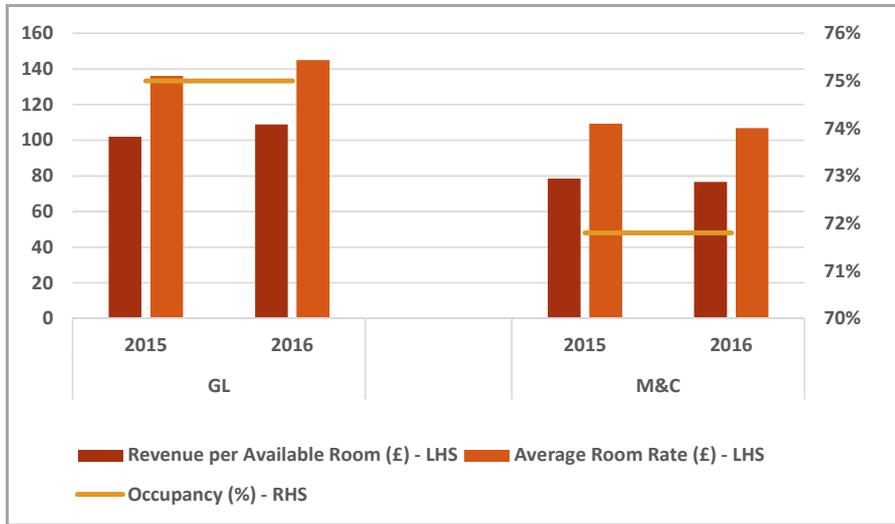
FIGURE 10: UK HOTEL OCCUPANCY FORECAST



Source: PWC

**CDL signals confidence in hospitality sector, unveiling plan to buy remaining M&C stake.** Local juggernaut property developer, City Development (CDL), announced a possible cash offer of 552.5 pence a share for London-listed hotelier, Millennium & Copthorne Hotels (M&C), signalling its confidence in the sector. The offer is about 21% premium over the prior market day's closing price and values M&C at around 12x EV/EBITDA (peers trade at an average 13.4x EV/EBITDA).

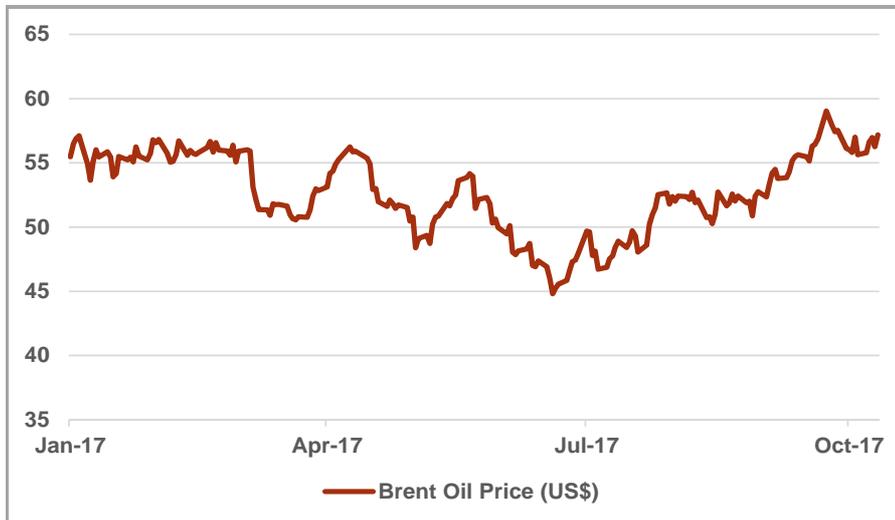
FIGURE 11: GL VS M&C



Source: GL, M&C, UOB Kay Hian

**Oil prices likely to stay range-bound.** Potential supply disruption of non-OPEC production (Turkey, Iraq) and positive comments from major producers on oil rebalancing progress likely predicated the recent rally in Brent crude prices. However, the consensus has kept oil price forecasts at US\$56-57/bbl for 2018 and this is similar to GL's expectations of a range-bound market for oil prices. Bloomberg's consensus oil prices are US\$53.50, US\$56.30, US\$58.90 and US\$62.00 for 2017-20 respectively.

FIGURE 12: BRENT OIL PRICE

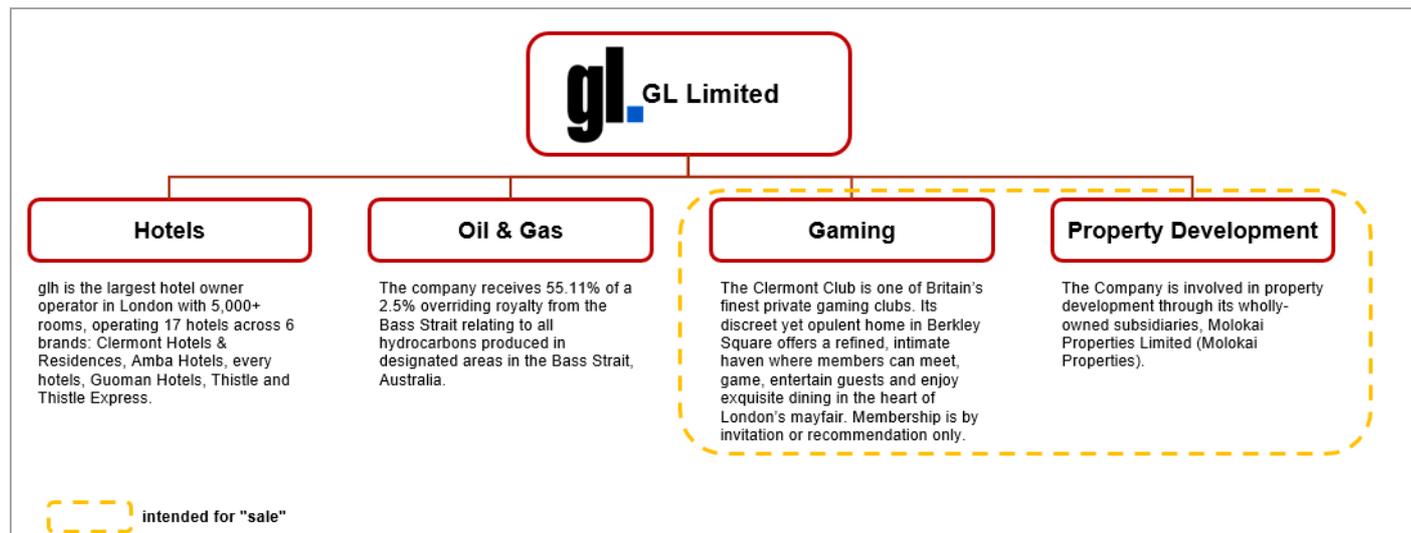


Source: investing.com

**Business Outlook: Unlocking Value Through Asset Disposal**

**Sale of Clermont casino on the horizon.** Other than its hospitality and Bass Straits assets, GL intends to sell its remaining assets - the Clermont Casino and the Molokai properties. According to GL's FY17 annual report, it has received a non-binding offer from an interested buyer for the Clermont casino and given no further write-downs, the selling price should be close to book value. We believe the deal could be completed as soon as 1H18.

FIGURE 13: CORPORATE STRUCTURE



Source: GL, UOB Kay Hian

**Strong buyer interest for 55,000 acres of land in Molokai, Hawaii.** GL is also putting up its 55,575 acres of land on the island of Molokai in Hawaii for sale. At a price tag of around US\$260m and book value of US\$182.4m, this could translate to a profit of around US\$77m. There is a legal motion pending but we opine that this is largely due to native resistance (GL denies any breach of agreement). The realty broker has reported strong buyer interest with a number of people committed enough to buy the property that they have passed through the first phase of due diligence. The nearby island of Lanai of 89,600 acres was sold to Oracle's Larry Ellison for a reported US\$300m in 2012.

FIGURE 14: MOLOKAI, HAWAII



Source: Bloomberg, Richard Cooke III/Courtesy Carvill Sotheby's

**Sale of Clermont casino and Molokai properties likely a priority with new MD.** With Mr Tang Hong Cheong appointed Group Managing Director in Sep 16, we believe that the sale of the remaining assets is likely a priority, perhaps from the group level. Other than his expertise and experience as a senior banker in the Hong Leong Group, Mr Tang is also currently President and CEO of Guoco Group.

**Previous privatisation offer at S\$1.25/share.** With the new MD, we note how GL's assets are finally being streamlined, with the possibility of privatisation. Malaysian tycoon and controlling shareholder, Mr Quek Leng Chan, has been trying to take private the companies under his control. We note the previous offer to take GL private was at S\$1.25/share in 2005, leaving the possibility of another offer being made in the future.

FIGURE 15: QUEK LENG CHAN'S OFFERS TO PRIVATISE COMPANIES CONTROLLED BY HIM

	Ticker	Year of Offer	Price before Privatisation	First Privatisation Offer	Second Privatisation Offer	Latest Price as at 19 Oct 17	% chg in Privatisation Price and Latest Price
Guoco Group	53 HK	2012	HK\$66	HK\$88	HK\$100	HK\$126	90.9
Hong Leong Capital*	HLG MK	2013	RM1.42	RM1.71		RM10.20	618.3
GL (previously Guoco Leisure)	GLL SP	2005		S\$1.20	S\$1.25	S\$0.86	-31.2

\* Suspended from Bursa Malaysia due to insufficient spread  
Source: Respective companies, Capital IQ, UOB Kay Hian

## Hospitality Business

**Hotel refurbishment programme nearly completed.** GL has completed the refurbishment of two of the three hotels placed under its hotel refurbishment programme. For FY18, refurbishment will only affect a small number (approximately 250 rooms in each quarter) of the group's total rooms available (more than 5,000 rooms).

**Cumberland Hotel to be rebranded as Hard Rock London.** The remaining Cumberland Hotel will be rebranded and launched as Hard Rock Hotel London likely during the summer of 2018. We believe, like the other refurbished hotels, refurbishment for the Cumberland will be beneficial in the long run. Furthermore, the tie-up and rebranding as Hard Rock Hotel London should help further elevate GL's hotel revenue.

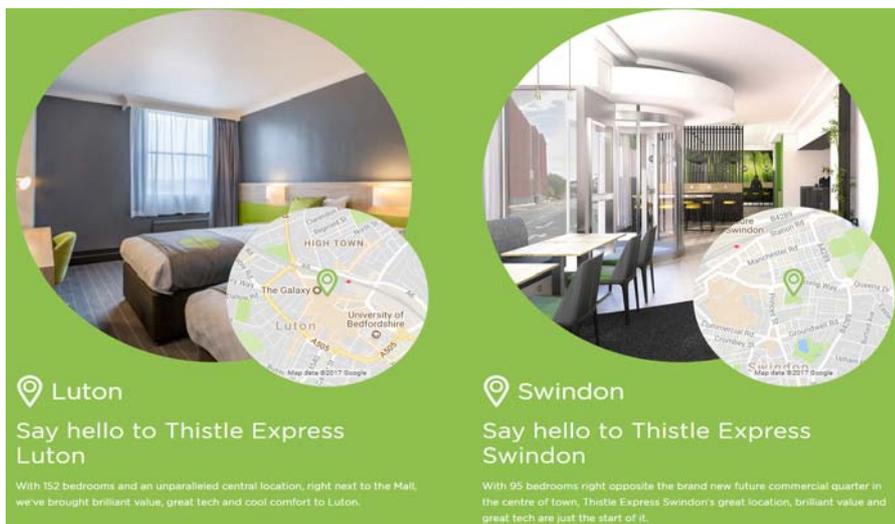
FIGURE 16: GUOMAN'S CUMBERLAND HOTEL TO BECOME HARD ROCK LONDON



Source: GL

**Two new hotels under Thistle Express.** GL's new hotel brand - Thistle Express - started this year with two new openings, Thistle Express Luton and Thistle Express Swindon. The new hotel brand aims to offer modern comfort and technology (smart TVs, unlimited coffee & tea, free breakfast, express checkout etc) at well-connected locations in the UK.

FIGURE 17: TWO NEW HOTELS UNDER THISTLE EXPRESS



Source: GL

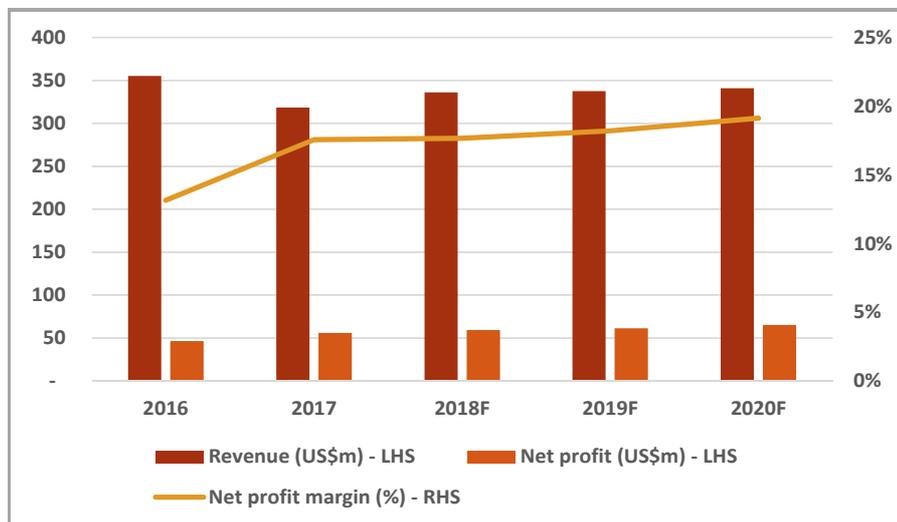
**3% RevPar growth in FY18.** In FY17, GL's hotel RevPAR in GBP terms rose 7% yoy on the back of a 7% yoy improvement in the average room rate. However, hotel revenue expressed in USD terms decreased 10% yoy due to the weakening of the GBP against the USD. Going forward, management is guiding RevPAR growth of 3% for FY18, a conservative figure compared to the industry's.

## Financial Outlook: London Hospitality Sector – The Best Has Yet to Come

**Hotels benefitting from a weaker sterling.** As the weak sterling pound makes UK holidays more attractive to foreign visitors, UK hotels continue to see strong occupancy even as supply is set to increase by 5.8% in 2017. London is the centre for business, finance and culture for the UK and its hospitality sector is likely to remain buoyant in 2018. We forecast hotel revenue to grow at 2.3% CAGR in FY17-20 (€1:US\$1.31) assuming average occupancy rate of 74-75% and RevPar growing at 3.0%, 2.0% and 1.0% in FY18-20 respectively, as we factor in new hotel openings and refurbishments of existing hotels.

There is no expansion during our forecast period of FY18-20 with 5,065 rooms under management (Figure 16). We have factored in the expropriation of land by the UK Department for Transport and the associated loss of available rooms of a Thistle brand hotel with a targeted transfer of land and property deed and title by 1H18.

FIGURE 18: HOTEL REVENUE & NET PROFIT



Source: GL, UOB Kay Hian

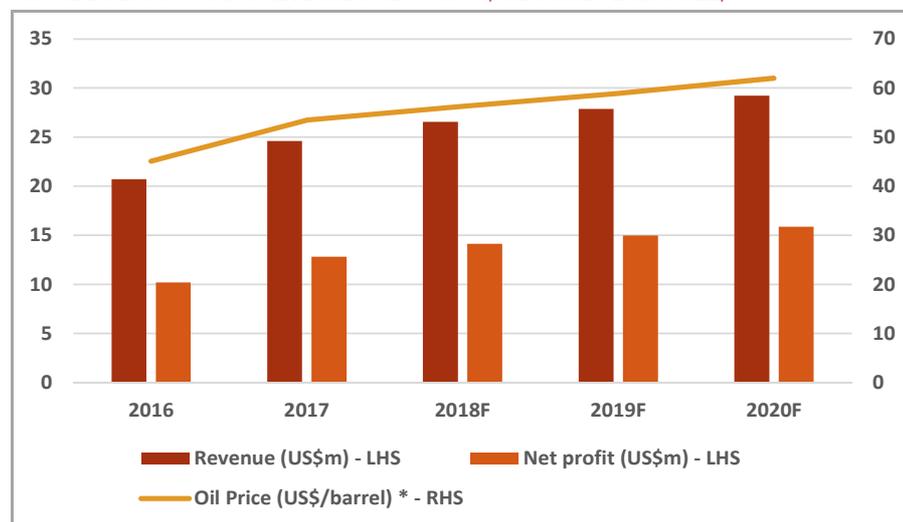
FIGURE 19: HOTELS UNDER MANAGEMENT AND TOTAL NUMBER OF AVAILABLE ROOMS

Hotel	Number Of Rooms
The Royal Horseguards	282
Hard Rock Hotel London	1,019
The Tower Hotel	801
The Grosvenor	345
Amba Hotel Marble Arch	692
Amba Hotel Charing Cross	239
every Hotel Piccadilly	82
every Hotel Bloomsbury	95
every Hotel Leicester Square	108
Thistle City Barbican	463
Thistle Hyde Park	54
Thistle London Heathrow	264
Thistle Kensington Gardens	175
Thistle Poole	70
Thistle Holborn	129
Thistle Express Luton	152
Thistle Express Swindon	95
<b>Total rooms under management</b>	<b>5,065</b>

Source: GL, UOB Kay Hian

**Bass Straits continues to be an important earnings contributor.** As oil prices crawled out of the sub US\$40/barrel zone, the rising oil prices continue to underscore the improvement in GL's royalty income derived from its Bass Straits concession. Our FY18-20 revenue forecasts of US\$26.6m, US\$27.9m and US\$29.2m respectively are based on Bloomberg's consensus oil prices of US\$53.50, US\$56.30, US\$58.90 and US\$62.00 in 2017-20.

FIGURE 20: BASS STRAITS REVENUE & NET PROFIT, OIL PRICE PER BARREL,



\*Oil price/barrel is based on calendar year ending 31 Dec

Source: GL, UOB Kay Hian

## Clermont Club to be sold and property development business to breakeven

**Clermont Club to be sold in 1H18...** London's gaming market is undergoing a paradigm shift as competitive pressures from traditional powerhouses like Las Vegas and Macau continue to pile on the pressure while burgeoning upstarts in other parts of Asia threaten to take away market shares. We do not foresee a fast turnaround for Clermont Club as it seeks to redefine its attraction and target audience. In light of the competitive environment, we view the potential sale of Clermont Club positively and believe the deal could be completed as soon as 1H18. We assume Clermont Club to be sold in FY18 with a 10% gain on disposal which works out to a cash inflow of US\$32.3m (£1:US\$1.31).

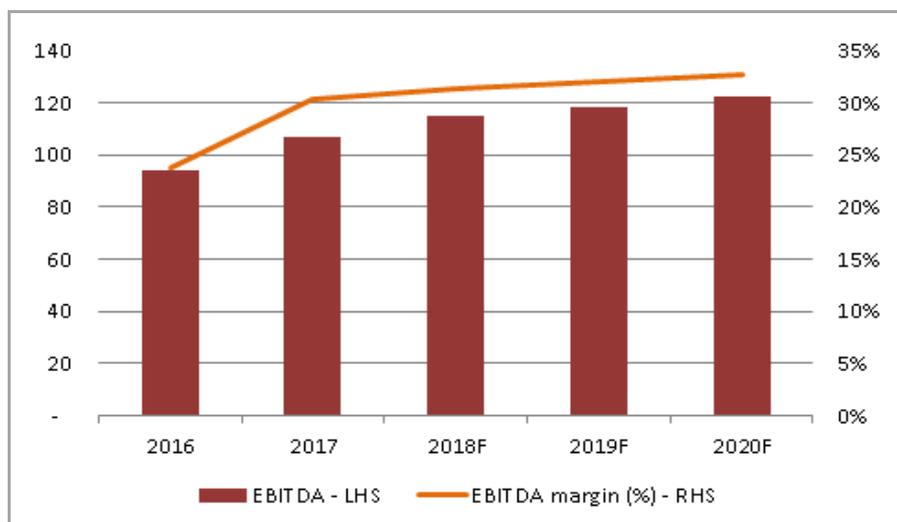
**...while property development business to break even.** Nearly 10 years after shutting operations at the Molokai Ranch, negotiations with the local community continues to be at a standstill. Barring a sale of the asset, options to improve the revenue of this business remains limited. While Molokai Island is still in GL's books, we posit that one of management's key goals is to limit the net cash outflow arising from the business and continued cost control measures should see the property development business break even in FY18. We assume zero profit contribution from the property development business in FY18-20.

**Asset monetisation will unlock tremendous value.** Amid the overhang caused by the underperformances of Clermont Club and Molokai Island, management continues to explore avenues to unlock value. Possible asset sales should remove the drag on earnings and free up cash flows on GL's hotel operations. The associated cash inflow from any disposal will enable GL to pursue expansion for its hotel business. We also do not discount the possibility of a special dividend arising from any potential sales.

**EBITDA margins lifted by hotel and property development businesses.** The booming tourism economy in the UK should support GL's strong hotel EBITDA margins even as it shoulders the double whammy of a Thistle Euston's closure and the set-up costs of two new Thistle Express hotels. We foresee hotel EBITDA margins to be sustained at about 28% and EBITDA at US\$93.3m, US\$94.9m and US\$97.3m in FY18-20 respectively.

Overall, GL's EBDITA margin will rise to 32.7% in FY20 as the property development business breaks even and hotels continue their strong EBITDA contributions. In FY18-20, we forecast GL's EBITDA at US\$114.8m, US\$118.0m and US\$122.0m respectively.

FIGURE 21: GL EBITDA AND EBITDA MARGINS

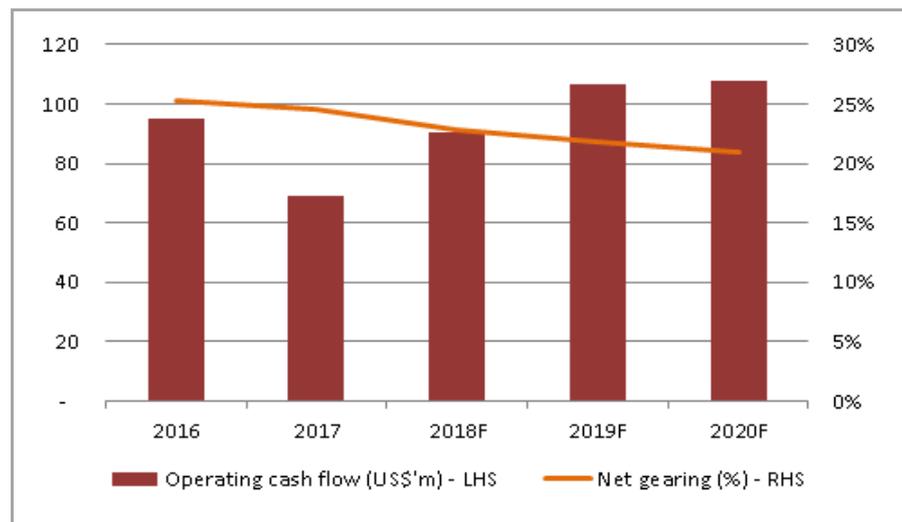


Source: GL, UOB Kay Hian

**Strong hotel earnings will create strong balance sheet.** Divestments of Clermont Club and Thistle Euston coupled with the strong hotel business will only add on to GL's rapidly improving balance sheet. We estimate a total cash inflow of US\$45.2m arising from the disposal of Clermont Club and Thistle Euston.

We expect robust operating cash flows of US\$90.5m, US\$106.5m and US\$109.3m in FY18-20 respectively which should continue to sustain dividends of 2.2 S cents in the three years. Net gearing will also trend downwards to 20.9% as GL grows its cash pile.

FIGURE 22: NET GEARING AND OPERATING CASH INFLOW



Source: GL, UOB Kay Hian

## Company Background: Over 4700 hotel rooms in prime London

Founded in 1961, GL (formerly GuocoLeisure or BIL International) is the SGX-listed hospitality arm of Guoco Group. GL's core hospitality business operates out of GLH Hotels, the largest owner-operator hotel company in London with 16 hotels in the UK, including 14 hotels in top London locations.

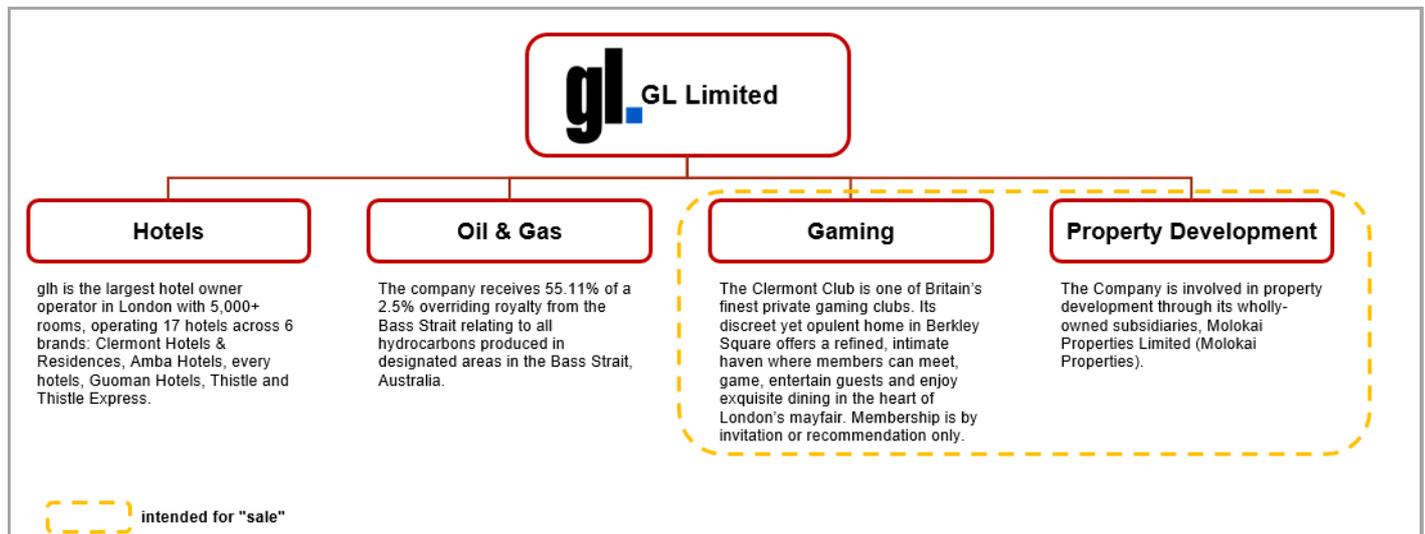
### FIGURE 23: TIMELINE

1961	The group was established in New Zealand as Brierley Investments Ltd (BIL) in 1961. Founded by Sir Ronald Brierley, BIL's initial focus was to acquire substantial shareholdings in public companies in Australia and New Zealand.
1980	By the 1980s, BIL had made numerous global investments with shareholdings in over 300 companies. In the late-1980s, BIL began to realign its strategy by focusing on a smaller number of assets with a core of trading subsidiaries and associated companies.
1997	The Asian economic crisis in 1997-98 led the Board to initiate a review of BIL's corporate philosophy and investment strategy. This resulted in the disposal of a number of non-performing investments.
2000	Year 2000 represented a significant milestone for BIL as the group shifted its primary stock exchange listing from New Zealand to Singapore, and its management team proceeded to restructure the group's investment portfolio.
2007	In Oct 07, the group changed its name to GuocoLeisure Ltd.
2015	In Oct 15, the group changed its name to GL Ltd.

Source: GL

Other than its hospitality business, GL also owns: a) 2.5% royalty granted by BHP/ExxonMobil on the gross value of all hydrocarbons produced and recovered in designated areas within the Bass Straits of Australia, b) property development including 55,000 acres of land in Molokai Island, Hawaii, and c) Clermont Club, an exclusive casino in Mayfair, London.

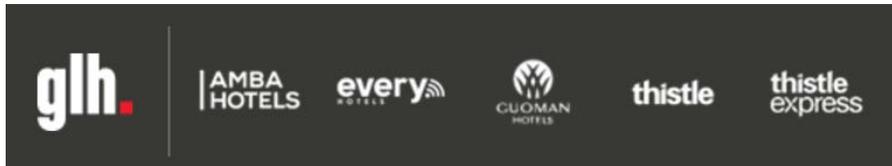
### FIGURE 24: CORPORATE STRUCTURE



Source: GL, UOB Kay Hian

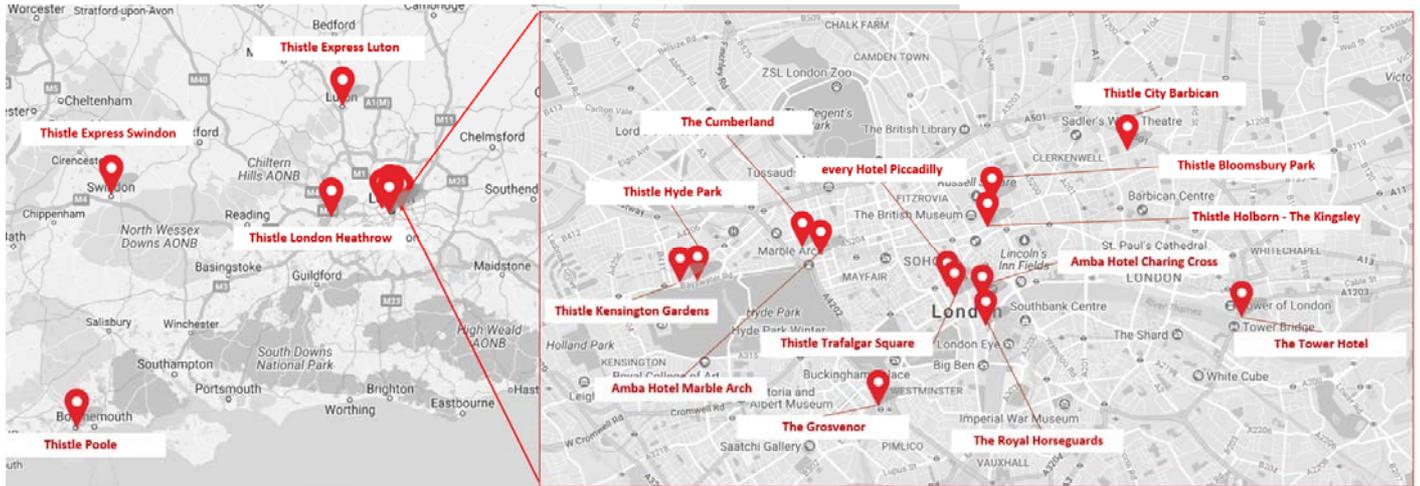
**17 hotels with 4,700+ rooms in prime London and 300+ in other key UK locations.** GLH Hotels has a portfolio of 17 hotels in the UK. In addition to the older Guoman and Thistle brands, there has been three newer brand additions: a) Amba, a global four-star hotel brand; b) every, a four-star limited-feature category hotel brand with a focus on technology; and c) Thistle Express, a Thistle brand for located at key locations outside London. Of these, more than 4,700 rooms are available in prime locations across London while 300+ rooms are in other key UK locations.

FIGURE 25: GLH BRANDS



Source: GL

FIGURE 26: GLH LOCATIONS IN UK



Source: GL

FIGURE 27: GLH AWARDS AND ACCOLADES



Source: GL

## Risk Factors

**Fallout from Brexit.** One of the greatest uncertainties facing the UK is Brexit. The weakening sterling pound is one example of how Brexit could have an impact on GL. In this case, it has a beneficial impact as the weakened sterling pound encourages tourism but negative impact in terms of reporting currency. There is a great deal of uncertainty as to how Brexit would eventually take place and as such investors have to be aware of the geopolitical risks involved.

**Foreign-currency fluctuations.** The weakening sterling pound has already had an impact on GL's hospitality profits and balance sheet which is reported in US dollars. Along with other currencies such as the Australian dollar from its other profit streams, we note the risks of weaker foreign currencies against the Singapore dollar as GL is traded in the Singapore dollar. Nonetheless, GL actively manages its exposure to foreign currencies through derivative financial instruments.

**Oil prices.** A large part of GL's profits is generated from its Bass Straits royalty, which is heavily influenced by global oil prices. A significant drop in oil prices will have a negative impact on GL's bottom line, however, the reverse is also true if oil prices move up.

**Intensifying competition.** With supply expected to increase faster than demand in London, competition will undoubtedly intensify. However, we note that GL's brand value and that its London hotels are primarily operating in the more premium segment should shield most of the impact (as most of the rooms are in the branded budget segment).

**Geopolitical risks and external events affecting tourism and property development.** The hospitality and property development industries are extremely susceptible to external events such as terrorism, natural disasters, economic slowdown or even a disease outbreak. For example, London hotel occupancy rates fell in Jun 17 following a terrorist attack. However, London hotels have shown resilience and GL has typically weathered through these tragedies well.

## Financial Statements

### PROFIT & LOSS

Year to 30 Jun (US\$m)	2017	2018F	2019F	2020F
Net turnover	350.2	365.9	368.3	373.0
EBITDA	106.5	114.8	118.0	122.0
Deprec. & amort.	(25.2)	(24.7)	(25.3)	(25.9)
EBIT	81.3	90.1	92.7	96.1
JV/Associate contributions	-	-	-	-
Net interest income/ (expense)	(11.2)	(9.7)	(8.7)	(7.7)
<b>Pre-tax profit</b>	<b>63.2</b>	<b>87.4</b>	<b>84.0</b>	<b>88.4</b>
Tax	(14.3)	(12.3)	(11.8)	(12.4)
Minorities	0.1	-	-	-
<b>Net profit</b>	<b>49.0</b>	<b>75.1</b>	<b>72.2</b>	<b>76.0</b>
Net profit (adj.)	57.6	68.1	72.2	76.0

### CASH FLOW

Year to 30 Jun (US\$m)	2017	2018F	2019F	2020F
<b>Operating</b>	<b>69.1</b>	<b>90.5</b>	<b>106.5</b>	<b>109.3</b>
Pre-tax profit	63.2	87.4	84.0	88.4
Tax	(9.5)	(12.3)	(11.8)	(12.4)
Depre. & Amort.	25.2	24.7	25.3	25.9
Share of assoc.	-	-	-	-
Working Capital Changes	(20.5)	(11.9)	0.4	(0.4)
Other Operating CF	10.7	2.7	8.7	7.7
<b>Investing</b>	<b>(11.2)</b>	<b>18.9</b>	<b>(14.7)</b>	<b>(14.9)</b>
Capex	(16.0)	(26.3)	(14.7)	(14.9)
Dividend Income	0.2	-	-	-
Proceeds from sale of assets	4.6	45.2	-	-
Others	-	-	-	-
<b>Financing</b>	<b>(32.4)</b>	<b>(31.5)</b>	<b>(29.7)</b>	<b>(28.7)</b>
Dividend payments	(20.5)	(21.9)	(21.0)	(21.0)
Issue of shares	-	-	-	-
Proceeds from borrowings	-	-	-	-
Loan repayment	-	-	-	-
Others/ interest paid	(11.9)	(9.7)	(8.7)	(7.7)
<b>Net cash inflow/ (outflow)</b>	<b>25.5</b>	<b>77.9</b>	<b>62.1</b>	<b>65.6</b>
<b>Beginning cash and cash equivalents</b>	<b>45.2</b>	<b>69.9</b>	<b>147.8</b>	<b>209.9</b>
Changes due to forex impact	(0.8)	-	-	-
<b>Ending cash and cash equivalent</b>	<b>69.9</b>	<b>147.8</b>	<b>209.9</b>	<b>275.5</b>

### BALANCE SHEET

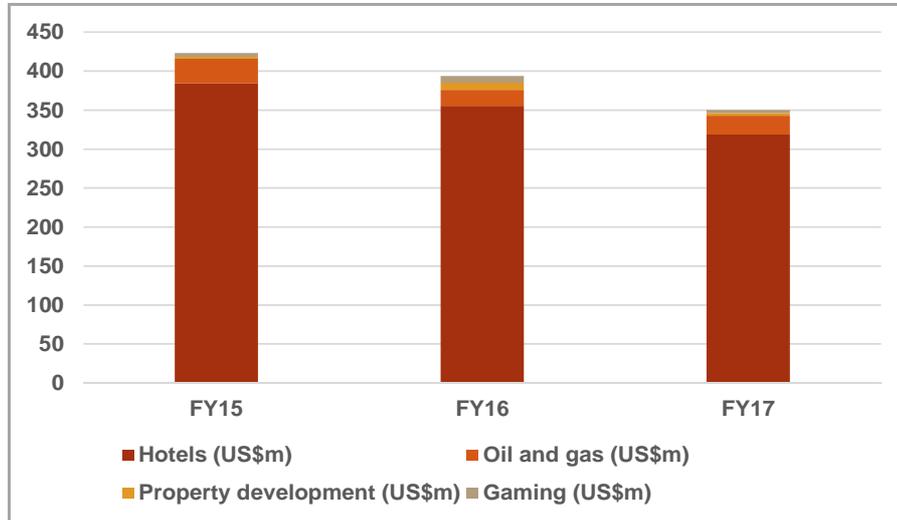
Year to 30 Jun (US\$m)	2017	2018F	2019F	2020F
Fixed asset	985	980	972	964
Other LT asset	113	74	71	68
Cash/ ST Investment	76	148	210	276
Other Current Asset	238	247	247	248
<b>Total Asset</b>	<b>1,412</b>	<b>1,448</b>	<b>1,500</b>	<b>1,555</b>
ST Debt	6	-	-	-
Other Current Liabilities	85	74	74	74
LT Debt	252	252	252	252
Other LT Liabilities	22	22	22	22
Shareholders' equity	1,050	1,103	1,154	1,209
Minority interest	(3)	(3)	(3)	(3)
<b>Total liabilities &amp; equity</b>	<b>1,412</b>	<b>1,448</b>	<b>1,500</b>	<b>1,555</b>

### KEY METRICS

Year to 30 Jun (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	30.4	31.4	32.0	32.7
Pre-tax margin	18.0	23.9	22.8	23.7
Net margin	16.4	18.6	19.6	20.4
ROA	4.0	4.8	4.9	5.0
ROE	5.5	6.3	6.4	6.4
<b>Growth</b>				
Turnover	(11.1)	4.5	0.7	1.3
EBITDA	13.7	7.8	2.8	3.4
Pre-tax profit	(15.5)	38.3	(3.9)	5.2
Net profit	27.5	53.3	(3.8)	5.3
Net profit (adj.)	(19.3)	18.2	6.1	5.3
EPS	(19.3)	18.2	6.1	5.3
<b>Leverage</b>				
Debt to total assets	18.3	17.4	16.8	16.2
Debt to equity	24.6	23.4	22.3	21.3
Net debt/(cash) to total assets	12.9	7.2	2.8	(1.5)
Interest cover (x)	(9.5)	(11.9)	(13.6)	(15.8)

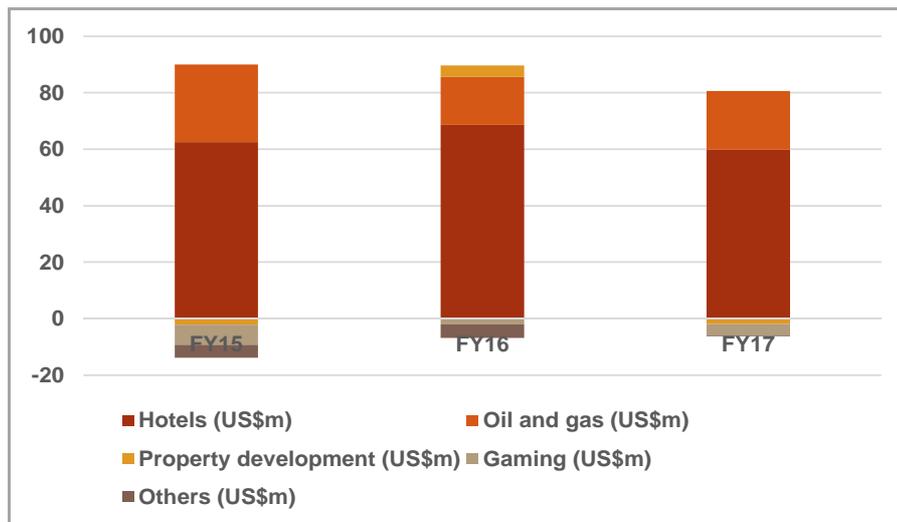
## Appendix I: Business Segment

### REVENUE BY SEGMENT



Source: GL

### OPERATING PROFIT BY SEGMENT



Source: GL

## Appendix II: Management Overview

### BOARD OF DIRECTORS

#### **KWEK LENG HAI**

**Non-Independent**

**Non-Executive Chairman**

**Member, Remuneration Committee and Nominating Committee**

Mr Kwek was appointed to the Board on 17 May 05 and was last re-elected as a Director at the company's annual general meeting on 17 Oct 14.

Mr Kwek is the Chairman of Guoco Group Ltd and the Chairman of Lam Soon (Hong Kong) Ltd, both listed on the Main Board of The Stock Exchange of Hong Kong Ltd. His directorships in other public listed companies include Hong Leong Bank Bhd (listed on the Main Market of Bursa Malaysia Securities Bhd) and GuocoLand Ltd (listed on Singapore Exchange Securities Trading Ltd). He is also a director of Hong Leong Company (Malaysia) Bhd and Bank of Chengdu Co Ltd.

Mr Kwek qualified as a chartered accountant of the Institute of Chartered Accountants in England and Wales and has extensive experience in financial services, investment services, manufacturing and real estate.

#### **TANG HONG CHEONG**

**Non-Independent**

**Executive Director**

**Group Managing Director**

Mr Tang was appointed as a Director and the Group Managing Director of the company on 15 Sep 16 and was re-elected at the company's annual general meeting on 24 Oct 16.

Mr Tang held various senior management positions in different companies within the Hong Leong Group. He was the President/Finance Director of HL Management Co Sdn Bhd, a Hong Leong Group subsidiary as well as the non-executive chairman of GLM REIT Management Sdn Bhd, the Manager of Tower Real Estate Investment Trust (listed on the Main Market of Bursa Malaysia Securities Bhd).

Mr Tang is a member of the Malaysian Institute of Accountants and has more than 40 years' broad-based and C-suite expertise in finance, treasury, risk management, operations and strategic planning. He possesses in-depth knowledge of the investment, manufacturing, financial services, property development, gaming and hospitality industries.

Since 1 Sep 16, Mr Tang has been a director and the President & Chief Executive Officer of Guoco Group Ltd and a non-executive director of Lam Soon (Hong Kong) Ltd, as well as a non-executive director of GuocoLand Ltd.

#### **PHILIP BURDON**

**Independent**

**Non-Executive Deputy Chairman**

**Chairman, Remuneration Committee and Nominating Committee**

Mr Burdon was appointed to the Board on 10 Nov 98 and was re-elected as a Director at the company's annual general meeting on 24 Oct 16.

Mr Burdon is respected as a successful businessman and distinguished politician in New Zealand. He was a senior Cabinet Minister in the New Zealand Government from 1990 to 1996 holding key trade and commerce portfolios.

He was previously a director of Superannuation Investments Ltd, MFL Mutual Fund Ltd, ING Property Trust Management Ltd and IAG Ltd.

Mr Burdon graduated in law from Canterbury University, New Zealand.

#### **TIMOTHY TEO LAI WAH**

**Independent**

**Non-Executive Director**

**Chairman, Audit and Risk Management Committee**

Mr Teo was appointed to the Board on 1 Jul 13 and was re-elected as a Director at the company's annual general meeting on 24 Oct 16.

Mr Teo serves on the boards of St Luke Elder Care and Jurong Health Fund.

Mr Teo is also a Board member of GuocoLand Ltd.

Mr Teo was Director in charge of foreign exchange, money market, gold and commodities management in Government of Singapore Investment Corp, Singapore from 1998 to 2007. Prior to this, he was Director of Nuri Holdings (S) Pte Ltd, Singapore, as consultant for risk management in Jakarta and Los Angeles from 1994 to 1998. Mr Teo was also with JP Morgan for 20 years in various overseas locations at senior management level (Managing Director) in Global Markets.

Mr Teo holds a Master's degree in Business Administration from Macquarie University, Sydney, Australia.

Source: GL

## JENNIE CHUA

**Independent**

**Non-Executive Director**

**Member, Audit and Risk Management Committee**

**Member, Remuneration Committee and Nominating Committee**

Ms Chua was appointed to the Board on 1 Aug 12 and was re-elected as a Director at the company's annual general meeting on 16 Oct 15.

She is Chairman of Alexandra Health System Pte Ltd (Koo Teck Puat Hospital, Yishun Community Hospital, Geriatric Education and Research Institute Ltd, Woodlands Integrated Health Campus) and Chairman of Singapore Film Commission Advisory Committee. She is the Deputy Chairman of Temasek Foundation.

Ms Chua is a member of Singapore's Pro-Enterprise Panel and a Board Director of MOH Holdings Pte Ltd. She also sits on MOH Holdings Healthcare Infrastructure and Planning Committee.

Ms Chua is a Justice of the Peace and Singapore's Non-Resident Ambassador to The United Mexican States.

Ms Chua is a Board Director of GuocoLand Ltd and Far East Orchard Ltd.

Previous positions held include Chairman of Raffles International, President & CEO of Raffles Holdings, and CEO of The Ascott Ltd. She was Chairman of Community Chest and Sentosa Cove. She was also the first and only woman Chairman of the Singapore International Chamber of Commerce in its 179-year history.

Ms Chua holds a Bachelor of Science degree from the School of Hotel Administration, Cornell University, New York, USA.

Awards and accolades which she has received include President's Special Recognition for Volunteerism & Philanthropy, Singapore National Day Awards including the Meritorious Service Medal, Outstanding Contribution to Tourism Award, Women's World Excellence Awards, and Travel Personality of the Year Award, amongst others.

## MR VINCENT TOE TEOW HENG

**Independent and Non-Executive Director**

Mr Vincent Toe Teow Heng holds a Bachelor of Business (First Class Honours, Gold Medal) degree from the Nanyang Technological University, graduating at the top of his class, and obtained his Chartered Financial Analyst certification in 1997. Mr Toe worked in DBS Bank Ltd and JP Morgan Chase & Co (investment banking division). He was formerly an Associate Director of UBS AG in Hong Kong and Singapore, which he was actively involved in the Transport, Leisure and Hotel industries' M&A advisory in Asia. Previously, he was the director of certain companies which operate primarily in China, including but not limited to Yangzijiang Shipbuilding (Holdings) Ltd and China Sunshine Chemical Holdings. He is the Independent director of Tianjin Zhong Xin Pharmaceutical Co. since May 13. Mr Toe is currently the CEO of a fund management company in Singapore (ICH Gemini).

## MR QIANG ZHI YUAN

**Independent and Non-Executive Director**

Mr Qiang Zhi Yuan has a PhD in management (accounting), is a professor at Tianjin University of Finance and Economics, a member of the American Management Association and China Market Association, the vice president of Tianjin Science Research Association, a senior management consultant registered with the Certified Management Consultant (CMC). He was also the former director and former deputy director of economics research centre of Tianjin University of Finance and Economics, the vice president, president and vice Chairman of Tianjin Northern Talent Co Ltd. From Jun 09 to May 14, he worked as the dean in Graduate School of Modern Economics Management of Tianjin University of Finance and Economics. From Aug 07 to Dec 13, he was appointed as independent directors in Tianjin Lisheng Pharmaceutical Co. Since Jun 14 to present, he is the professor in Graduate School of Modern Economics Management of Tianjin University of Finance and Economics.

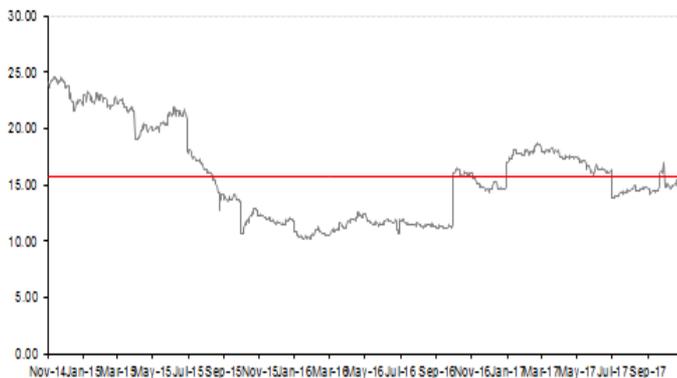
Source: GL

## MONEY TALK

### Bloomberg Consensus

Recommendation	Buy	Sell	Hold	Valuation Ratios	6/16	6/17	6/18E	6/19E	
30/10/2017	100%	0%	0%	P/E	11.8	13.7	16.6	16.6	
Target Price			0.87	EV/EBIT	12.6	11.5	-	-	
Upside			(4.4%)	EV/EBITDA	9.3	8.6	10.2	9.9	
				P/S	2.0	1.9	2.5	2.5	
				P/B	0.8	0.6	0.9	0.8	
				Div Yield	2.6%	3.1%	3.0%	3.0%	
Income Statement	6/16	6/17	6/18E	6/19E	Profitability Ratios %				
Revenue	547	488	495	507	Gross Margin	57.8	60.1	-	-
Gross Income	316	293	n.a.	n.a.	EBITDA Margin	27.7	28.4	29.3	29.7
Operating Income	112	103	n.a.	n.a.	Operating Margin	20.5	21.2	-	-
Pretax Income	104	88	94	100	Profit Margin	17.2	14.0	14.0	14.2
Net Income Adjusted*	94	68	69	72	Return on Assets	4.4	3.4	4.2	4.3
EPS Adjusted	0.07	n.a.	0.06	0.06	Return on Equity	6.1	4.7	4.8	4.9
Dividends Per Share	0.02	0.02	0.03	0.03					
Payout Ratio (%)	33	42	51	51					
EBITDA	152	138	145	151					
Peer Comparison	Ticker	Price @ 30 Oct 17 (lcy)	Market Cap (US\$m)	----PE----		----P/B----		Yield FY17F (%)	
				FY16F (x)	FY17F (x)	FY16F (x)	FY17F (x)		
Emperor Intl Hldg Ltd	163 HK	2.72	1,282	n.a.	2.9	0.4	0.4	3.8	
Chinney Investment	216 HK	3.83	271	6.8	5.0	0.4	0.4	1.3	
China Jinmao Holdings Group	817 HK	3.56	4,872	12.8	9.1	1.2	1.0	5.7	
Cheuk Nang Holdings Ltd	131 HK	5.04	343	7.9	5.9	0.5	0.5	4.0	
Yt Realty Group Ltd	75 HK	2.42	248	5.4	n.a.	1.3	n.a.	n.a.	
Skyfame Realty Holdings Ltd	59 HK	2.28	765	51.3	n.a.	3.0	n.a.	n.a.	
International Business SettI	147 HK	0.53	1,381	n.a.	n.a.	n.a.	7.9	-	
<b>Average</b>				<b>16.9</b>	<b>5.7</b>	<b>1.1</b>	<b>2.0</b>	<b>3.0</b>	
GI Ltd	GLL SP	0.91	908	12.5	17.1	0.8	0.8	2.4	

Price Earnings Ratio (3 years average)



— PE Ratio (x)      — 3 Yr Average

Price to Book Ratio (3 years average)



— PB Ratio (x)      — 3 Yr Average

Source: Bloomberg, UOB Kay Hian

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