Uni-Asia Group Limited

(UAG SP/UAFC.SP)

Upside as trade war averted

BUY - Maintain

Price as of 22 May 2018	1.41
12M target price (S$)	2.00
Previous target price (S$)	1.81
Upside (%)	42.0

Trading data

Mkt Cap (S$m) / (US$m)	66.2 / 49
Issued Shares (m)	47.0
Ave Daily Traded (3-Month) Vol / Val	0.0m / $0.0m
52 week lo / hi	$1.16 / $1.55
Free Float	51.0%

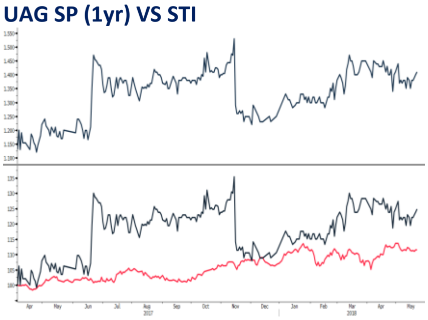
Major Shareholders

Yamasa Co Ltd	33.5%
Evergreen Int'l	10.0%

Previous Recommendations

Date	Rating	Share Price (S$)	Target Price (S$)
16-Mar-18	BUY	1.430	1.810
13-Dec-17	BUY	1.230	1.850
21-Aug-17	BUY	1.370	1.920
19-Jun-17	BUY	1.170	1.920

UAG SP (1yr) VS STI



Source: Bloomberg

Joel Ng
65 6202 1192
joel.ng@kgi.com

See the last page for important disclosures.

Event

1Q18 results in line. 1Q18 net profit surged 57% YoY to US$3.2mn net profit - making up 49% of our 2018 full-year forecasts – on increased contribution from its hotels and property investments. Property and hotels profits rose 92% YoY to US$1.8mn, with its Japan investment properties earnings increasing 54% YoY to US$1.8mn and as its hotel business reported a slight profitability of US$0.2mn from a loss in the prior year period.

US and China pledge to avert trade war. Over the weekend, two of the world's largest economies agreed to stop slapping tariffs on each other and would seek to enhance trade cooperation in areas such as energy, agriculture, health care, high-tech products and finance. We expect the easing of trade tensions to be beneficial for its shipping segment, which makes up 33% of our fair valuation for Uni-Asia. The Baltic Dry Index (BDI) – a good gauge for its marine business – has rebounded 55% from its 52-week lows and is currently at around 1,250 pts.

Hotel operations set to benefit from Tokyo 2020 Olympics and Rugby World Cup 2019. Uni-Asia will be managing 21 hotels in Japan with a total of 3,156 rooms - an increase of 7% from our 2017 forecast - by 2019. This will be an important milestone as earnings contribution from hotel operations can potentially provide a recurring net profit of US$1.5-2.5m p.a. when it achieves this scale.

Valuation & Action

We reiterate our **BUY recommendation and fair value of S$2.00**, based on the sum-of-the-parts (SOTP) valuation of its 3 businesses. Our TP is an implied 0.55x 2018F BVPS and 11x 2018F EPS. Uni-Asia's shipping, property and hotel business contribute 33%, 38% and 29%, respectively, to our total SOTP-derived fair value.

Uni-Asia is positioned to ride the growth in its 3 business segments: 1) dry bulk shipping recovery, 2) completion of its 2nd/3rd HK property and investment into its 4th/5th HK property in 1H18, and 3) an increase in hotel rooms under operations ahead of two of the world's largest sporting events to be held in Japan.

Risks

Uni-Asia's shipping business (40% of Uni-Asia's FY16 revenues) is cyclical in nature.

Financials & Key Operating Statistics

YE Dec (US$m)	2016	2017	2018F	2019F	2020F
Revenue	86.3	103.9	106.4	112.7	117.0
PATMI	-14.2	6.2	6.5	7.4	8.3
Core PATMI	-1.8	6.2	6.5	7.4	8.3
Core EPS	-3.9	13.2	13.8	15.9	17.6
Core EPS grth (%)	-144.7	-439.9	3.8	15.2	10.8
Core P/E (x)	-27.8	8.2	7.9	6.8	6.2
DPS (SGCents)	3.0	6.3	6.3	6.3	6.3
Div Yield (%)	2.1	4.4	4.4	4.4	4.4
Net Margin (%)	-16.4	6.0	6.1	6.6	7.1
Gearing (%)	119.0	129.6	127.4	112.3	100.8
Price / Book (x)	0.4	0.4	0.4	0.4	0.4
ROE (%)	-11.3	4.6	4.6	5.0	5.3

Source: Company Data, KGI Research

SOTP Valuation

We used a SOTP valuation and an exchange rate of 1.30 SGD/USD to derive our fair value of S$2.00. Our fair value is an implied 0.55x 2018F BVPS and 11x 2018F EPS. In summary, Uni-Asia's shipping, property and hotel business contribute 33%, 38% and 29%, respectively, to our total SOTP-derived fair value.

Uni-Asia's shipping segment consists of 24 ships: 9 small handysize dry bulk carriers, 1 wholly-owned dry bulk carrier, 1 wholly-owned containership, and 13 ships under joint-investments. We applied a 70% discount to the net book value of its vessels. In our view, this valuation does not factor in the improving outlook in the dry bulk shipping sector. FY16 was an exceptionally difficult year for the dry bulk sector following the decline to an all-time low for the Baltic Dry Index (BDI), which resulted in Uni-Asia having to take impairments and provision of US$12m during this period. However, the BDI, which tracks the cost of shipping commodities such as iron ore and coal around the world, has started to recover on the back of improving supply-demand dynamics of dry bulk carriers.

Its properties segment is divided into investments in Hong Kong commercial buildings and small residential properties in Tokyo. It currently has three Hong Kong commercial projects under construction to be completed progressively over the next three years. We applied a 30% to the net book value of its properties, which we believe conservatively values the potential upside when the properties are completeds. Hong Kong and Japanese properties have seen continual cap rate compression since 2016.

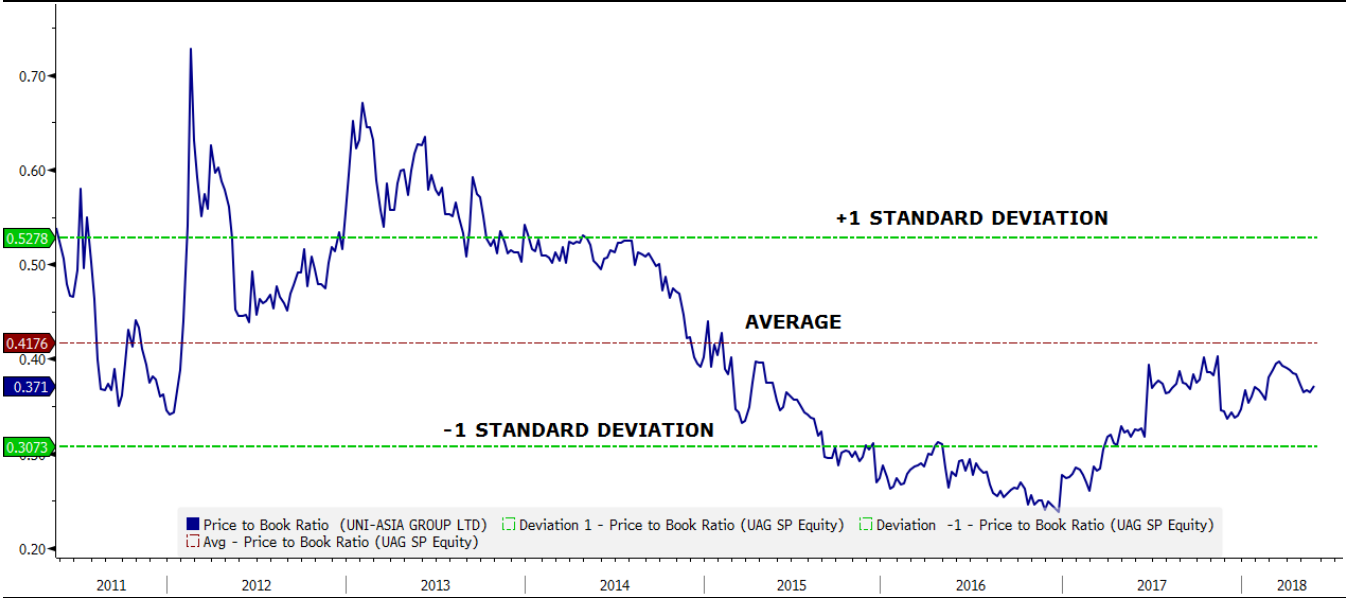
Finally, we valued Uni-Asia's hotel management business at 15x 2018F EPS, which is more than a 50% discount to the hotel management peers' average 25x 2018F EPS. The group aims to have >3,100 rooms under management by 2019F, which we expect to help contribute at least US$1.5mm to US$2.5mn in recurring net profit by 2020F. We find this segment the most promising among Uni-Asia's business segment in terms of contribution to the group's bottom line in the next three years. It has managed to grow this segment's profit before tax to US$1.0m in 2016 from just US$0.1m in 2014.

Figure 1: SOTP valuation of Uni-Asia's businesses

Business Segments	FY17F NAV (US$m) KGI Est.	Valuation	Value (US$m)	Value (S$m)	Remarks
Shipping	79.2	0.3x FY18 P/B	23.8	30.9	Dry bulk shipping peers trading at 0.5 - 1.5x P/B
Properties	39.1	0.7x FY18 P/B	27.4	35.6	Value of properties is split between HK (40%) and Japan (60%). HK developers are trading at 0.7x P/B while Japan developers at 1.4x P/B.
Hotel	5.2	15x FY18F P/E	21.2	27.6	Hotel management peers are trading at >20x historical P/E
Total Equity Value			72.3	94.1	
Shares outstanding (m)			47.0		
TP (US$)		SGD/USD 1.3	1.54		
TP (S$)			2.00		
Upside (%)			*38%*		
Implied FY18F P/B (x)			0.55		
Implied FY18F P/E (x)			11.2		

Source: KGI Research

Figure 2: Uni-Asia is still trading below its 7-year P/B Average despite improving fundamentals

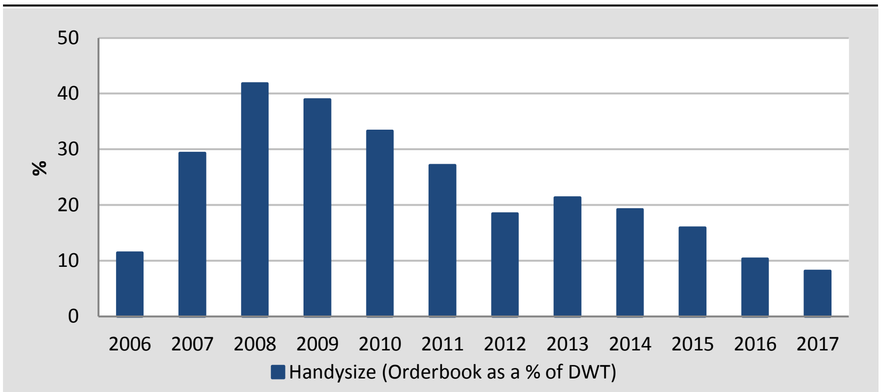


Source: Bloomberg

Turnaround in bulk shipping. A contracting orderbook and low future new orders due to limited financing availability are keeping a check on future deliveries. The orderbook for handysize dry bulk carrier as a percentage of the total fleet, which is a strong indicator of future deliveries, currently stands at a decade low. The handysize orderbook-to-delivery ratio has dropped to 8% from a high of 41% before the onset of the global financial crisis in 2008.

Dry-bulk rates still on uptrend in 2018. Based on a Bloomberg survey, dry-bulk tanker rates are still estimated to rise another 17% in 2018 after rising more than 60% in 2017. Barring a trade-war between the US and China, dry-bulk rates are expected to benefit from demand growth of 2.6% outpacing supply growth of 2.1%, according to forecasts by Clarksons. Growth in dry-bulk shipment is driven by demand for iron ore, coking coal and soybeans.

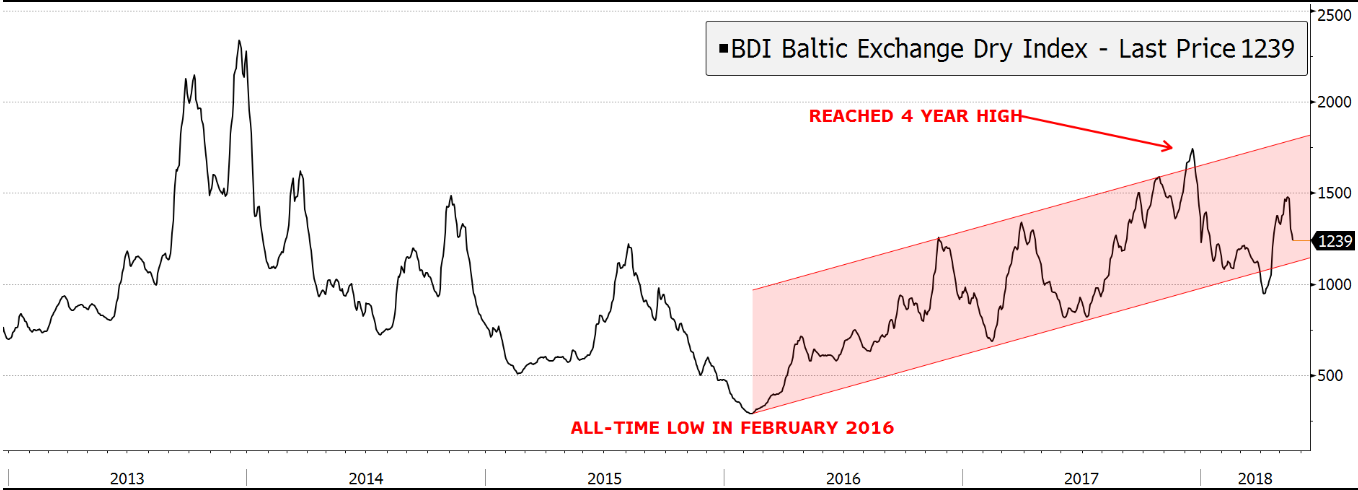
Figure 3: Orderbook as a percentage of total fleet is at a record low



Source: Bloomberg, KGI Research

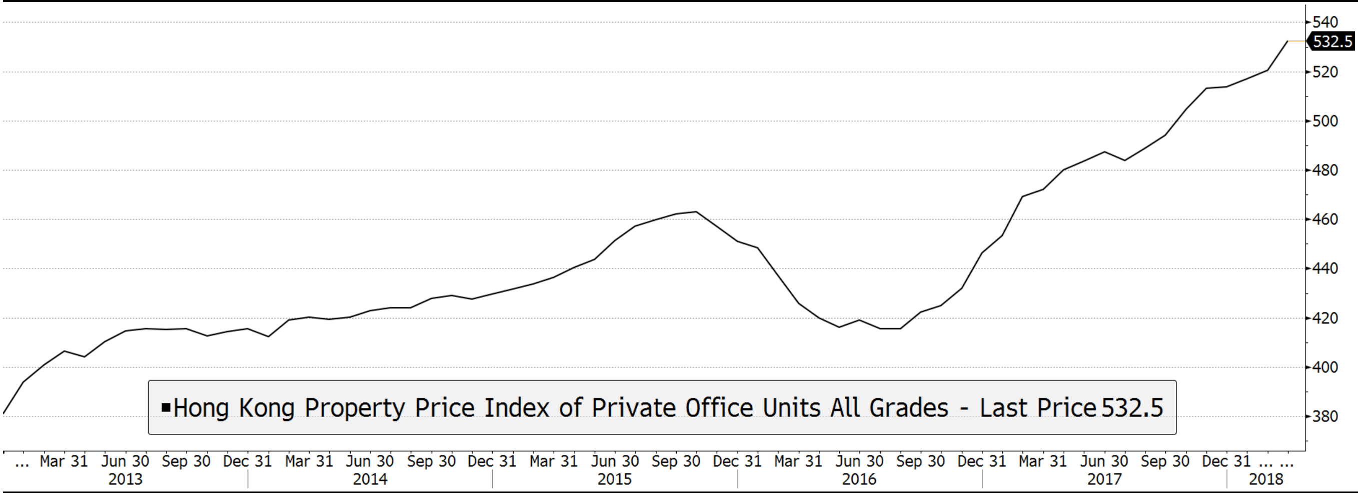
Increased scrapping may help supply-demand balance. The dry bulk carrier supply-side may grow slower-than-expected due to higher scrapping. The environmental regulations on Ballast Water Treatment System (BWTS) and the International Maritime Organization's (IMO) regulation on use of low sulphur fuel oil in 2020 may result in high scrapping of old tonnages (>20 years old). Ship owners may prefer to scrap their old tonnage, with low earnings potential, than incur additional cost on scrubber and Ballast Water Treatment Systems.

Figure 4: The Baltic Dry Index (BDI) is beginning to show signs of recovery on better market dynamics. The BDI is a good indicator of the level of global trade for commodities such as iron ore, coal and grains.



Source: Bloomberg

Figure 5: Hong Kong Property Price Index of private office units (All Grades)



Source: Bloomberg

1Q18 results breakdown

Figure 6: Revenue and net income breakdown between its business segments

(US$'000)		First Quarter 2018	First Quarter 2017	% Change
Shipping (and related financial services)	Revenue	11,982	10,945	9%
	Net Profit / (Loss)	2,620	2,392	10%
Property and Hotels (and related financial services)	Revenue	13,603	12,048	13%
	Net Profit / (Loss)	1,805	939	92%
Headquarters *Headquarters' shared corporate services*	Revenue	18	13	38%
	Net Profit / (Loss)	(1,109)	(1,222)	(9%)
Group Total	Revenue	25,550	22,954	11%
	Net Profit / (Loss)	3,316	2,109	57%

Source: Company presentation slides

Financials

YE 31 Dec					
INCOME STATEMENT (US$m)	2016	2017	2018F	2019F	2020F
Revenue	**86.3**	**103.9**	**106.4**	**112.7**	**117.0**
Cost of sales	0.0	0.0	0.0	0.0	0.0
Gross Profit	**86.3**	**103.9**	**106.4**	**112.7**	**117.0**
Other operating income/(expenses)	0.0	0.0	0.0	0.0	0.0
Profit from Operations	**6.0**	**15.4**	**12.8**	**13.5**	**14.0**
Finance income/(expenses)	(5.4)	(6.2)	(5.3)	(4.9)	(4.4)
Share of JV results	0.2	0.0	2.0	2.0	2.0
Exceptionals/Investment income	(12.3)	0.0	0.0	0.0	0.0
Profit before Tax	**(11.5)**	**9.2**	**9.5**	**10.7**	**11.6**
Income tax	(0.7)	(0.3)	(0.3)	(0.3)	(0.4)
Non-controlling interests	(1.9)	(2.6)	(2.7)	(2.9)	(3.0)
PATMI	**(14.2)**	**6.2**	**6.5**	**7.4**	**8.3**
PATMI Normalized	(1.8)	6.2	6.5	7.4	8.3

BALANCE SHEET (US$m)	2016	2017	2018F	2019F	2020F
Cash and cash equivalents	35.6	40.6	11.2	10.5	5.1
Trade and other receivables	8.8	14.7	15.0	15.9	16.5
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	15.1	35.4	35.4	35.4	35.4
Current Assets	**59.5**	**90.6**	**61.6**	**61.8**	**57.0**
Property, plant and equipment	195.3	222.9	-5.9	-17.5	-29.5
Other non-current assets	73.0	56.3	58.0	59.8	61.5
Non-current Assets	**268.2**	**279.3**	**52.1**	**42.3**	**32.1**
Total assets	**327.7**	**369.9**	**113.7**	**104.1**	**89.1**
Trade and other payables	8.8	11.7	0.0	0.0	0.0
Borrowings (current)	54.3	66.5	68.1	72.1	74.9
Other current liabilities	3.6	3.0	3.2	3.3	3.3
Current Liabilities	**66.7**	**81.1**	**71.3**	**75.4**	**78.2**
Borrowings (non-current)	131.1	150.3	123.2	104.4	86.7
Other non-current liabilities	4.0	2.5	2.5	2.5	2.5
Non-current liabilities	**135.1**	**152.8**	**125.7**	**106.9**	**89.2**
Shareholders equity	121.7	128.4	131.0	134.6	139.1
Non-controlling interests	4.2	7.6	10.3	13.2	16.2
Total Equity	**125.9**	**136.0**	**141.3**	**147.8**	**155.2**
Total Liabilities and Equity	**327.7**	**369.9**	**338.3**	**330.1**	**322.6**

CASH FLOW STATEMENT (US$m)	2016	2017	2018F	2019F	2020F
Net income before tax	(11.5)	9.2	9.5	10.7	11.6
Depreciation & non cash adjustments	26.6	14.9	12.8	18.1	12.0
Change in Working Capital	2.9	(3.0)	(11.8)	(0.7)	(0.4)
Income Tax Paid	(0.3)	(0.7)	(0.0)	(0.3)	(0.3)
Interest Paid	(5.4)	(6.2)	(5.5)	(5.1)	(4.6)
CF from operating activities	**12.3**	**14.1**	**4.9**	**22.7**	**18.2**
Purchase/Disposal of PPE	(25.6)	(34.5)	(5.0)	(5.0)	(5.0)
Other CFI	0.0	0.0	0.0	0.0	0.0
CF from investing activities	**(10.5)**	**(8.5)**	**(5.0)**	**(5.0)**	**(5.0)**
Dividends Paid	(2.2)	0.0	(3.8)	(3.8)	(3.8)
Debt Raised / (Repaid)	12.5	5.8	(25.5)	(14.7)	(15.0)
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(0.3)	0.0	0.0	0.0	0.0
CF from financing activities	**5.2**	**(0.7)**	**(29.4)**	**(18.5)**	**(18.8)**
Net increase in cash & cash equiv.	5.2	5.0	(29.3)	(0.7)	(5.4)
FX effects	(1.8)	0.1	0.1	0.1	0.1
Beginning Cash	30.3	35.6	40.6	11.2	10.5
Ending Cash	**35.6**	**40.6**	**11.2**	**10.5**	**5.1**

KEY RATIOS	2016	2017	2018F	2019F	2020F
Profitability					
Core EPS	(3.9)	13.2	13.8	15.9	17.6
Core EPS Growth (%)	(144.7)	(439.9)	3.8	15.2	10.8
DPS (SGD Cents)	3.0	6.3	6.3	6.3	6.3
Dividend Yield (%)	2.1	4.3	4.3	4.3	4.3
Profitability					
EBITDA margin	19.3%	25.1%	22.3%	22.3%	22.3%
Net margin	-16.4%	6.0%	6.1%	6.6%	7.1%
ROE	-11.3%	4.6%	4.6%	5.0%	5.3%
ROA	-4.3%	1.7%	5.7%	7.2%	9.3%
Financial Structure (x)					
Interest coverage	1.1	2.5	2.3	2.7	3.0
Total Debt/Equity	1.5	1.6	1.4	1.2	1.0
Net Gearing	1.2	1.3	1.3	1.1	1.0

Source: KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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