



Uni-Asia Group Limited

(UAG SP/UAFC.SP)

Shipping upcycle; rates at multi-year highs

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- **Better days are ahead after a challenging 2020.** Japan hotels and bulk shipping, UAG's key revenue contributor, were significantly impacted by the outbreak of the pandemic last year. However, 2021 is a significant improvement for the group as it looks for new opportunities to embark on with its stronger balance sheet.
- **We upgrade to Outperform and raise our TP to S\$0.91.** Valuations are attractive amid the bulk carrier upcycle and resilient property markets in Japan and HK.

Financials & Key Operating Statistics					
YE Dec (US\$m)	2019	2020	2021F	2022F	2023F
Revenue	136.0	45.9	55.6	56.7	59.8
PATMI	5.8	-7.7	8.6	6.5	7.0
Core PATMI	5.8	-13.9	8.6	6.5	7.0
Core EPS	7.4	-17.6	11.0	8.2	9.0
Core EPS grth (%)	-78.7	-337.1	-162.2	-25.1	9.1
Core P/E (x)	6.7	-2.8	4.5	6.0	5.5
DPS (SGCents)	4.2	4.2	3.5	3.0	3.0
Div Yield (%)	6.4	6.4	5.3	4.5	4.5
Net Margin (%)	4.3	-16.8	15.5	11.4	11.8
Gearing (%)	68.6	71.4	62.3	51.5	39.9
Price / Book (x)	0.2	0.2	0.2	0.2	0.2
ROE (%)	4.6	-6.5	6.9	5.0	5.3

Source: Company Data, KGI Research

2020 business review. In 2020, UAG's Japan hotel business was significantly impacted by Covid-19. At first, the group trimmed its stake in the hotel business from 99.0% to 49.5%, but completely exited in 1Q2021 when business conditions worsened. Meanwhile, the bulk shipping business segment, the group's other major revenue contributor, recognised US\$7.9mn of impairment for shipping assets due to the severe deterioration of charter rates in 1H2020. Taken together, this resulted in a FY2020 full-year loss of US\$7.5mn for the group (vs FY2019's US\$6.6mn net profit).

On a positive note. While UAG's two main businesses suffered last year, its fee-based shipping business generated a profit of S\$0.8mn in FY2020 despite US\$1.1mn of impairments taken. In addition, its property-related businesses in HK and Japan contributed total profits of US\$4.3mn for the year. The property segment is split between the US\$2.3mn profits contribution from HK commercial properties that were mainly from fair valuation gain, and the US\$2.0mn from Japan property businesses which included ALERO residential property development and the healthcare & property asset management.

Table 1: UAG segmental breakdown (excludes hotel operations)

Total income (US\$'000)	2020	2019	Change YoY (%)
Charter income	30,396	36,525	-17%
Fee Income	7,771	7,790	-0%
Investment Returns	6,153	8,776	-30%
Interest Income	750	1,052	-29%
Other Income	873	402	+117%
Total income	45,943	54,545	-16%

Source: Company data, KGI Research

OUTPERFORM - Upgrade

Price as of 21 May 21 (SGD)	0.66	Performance (Absolute)	
12M TP (\$)	0.91	1 Month (%)	8.9
Previous TP (\$)	0.54	3 Month (%)	9.8
Upside (%)	38	12 Month (%)	49.7

Trading data

Mkt Cap (\$mn)	52
Issued Shares (mn)	79
Vol - 3M Daily avg (mn)	0.1
Val - 3M Daily avg (\$mn)	0.1
Free Float (%)	50.8%

Perf. vs STI Index (Red)



Major Shareholders

Yamaso Co	30.0%
Evergreen Int'l	9.0%
Ham Yong Kwan	7.6%

Previous Recommendations

25-Aug-20	NEUTRAL	\$0.54
31-Mar-20	NEUTRAL	\$0.62
12-Mar-20	NEUTRAL	\$0.62

1Q2021 business update: brighter days ahead. As UAG has changed to semi-annual reporting, it has instead provided a 1Q2021 business update. It will announce 1H2021 results (w/ sales and earnings figures) on or before 31 August 2021. Based on the latest business update, 2021 is off to a great start. Its shipping business, which now makes up 60-70% of revenue, has strongly recovered. As a recap, the group has ten dry bulk carriers directly owned by the group and eight dry bulks under its joint-venture entities (UAG has an average 18% stake in the JV shipping entities).

Dry bulk shipping boom. Since the start of 2021, the super-charged rally in commodity prices has made shipping the most expensive in more than ten years. The recovery in commodities and dry bulk shipping is driven mainly by the strong demand for almost every kind of commodity on the back of broad-based economic recovery and massive stimulus measures worldwide. Earlier this month, the Baltic Dry Index (BDI) rose above 3000, the highest since 2010. UAG is a key beneficiary of this boom and managed to achieve average daily charter rates of ~US10k for its dry bulk carriers, a 34% YoY improvement from US\$7.4k in 1Q2020.

Valuation & Action: We upgrade to **OUTPERFORM** and raise our TP to S\$0.91, based on SOTP valuations. We raise the multiples for the shipping business to 0.5x FY2021F P/B from 0.2x FY2020F P/B previously while maintaining 0.5x FY2021F P/B for the HK and Japan property business. Balance sheet remains healthy as it continues to pare down debt, and we forecast dividends to recover to 3.5/3.0/3.0 Sing cents for FY2021/22/23F (40-48% payout ratio), an implied 5% yield.

Risks: The longer-than-expected impact of COVID-19 outbreak on global economic growth will have an outsized impact on the shipping and hospitality sectors.

SOTP Valuation

We used an SOTP valuation and an exchange rate of 1.33 USD/SGD to derive our fair value of S\$0.91. Our fair value is an implied 0.44x 2021F P/B. In summary, Uni-Asia's shipping and property businesses contribute 41% and 59%, respectively, to our total SOTP-derived fair value.

Key changes to SOTP valuation. We have removed the hotel management business' valuations. We originally expected this segment to be the most promising business segment prior to the severe impact of Covid-19 on the hospitality industry. On a positive note, multiples for Shipping is raised to 0.5x FY2021F P/B to reflect the strong recovery of the shipping segment.

Handysize bulk carrier specialist. Uni-Asia's shipping segment consists of 19 ships: 10 handysize dry bulk carriers, 1 wholly-owned containership (UAG is looking to dispose this asset this year), and 8 ships under joint-investments (UAG has an average 18% stake in JV vessels). We applied a 50% discount to the net book value of its vessels. In our view, this valuation is conservative and is based on book values that have largely been written down since FY16. To date, it has written down more than US\$20mn on its shipping assets.

Resilient asset management and property business. Its properties segment is divided into investments in HK commercial buildings and development of small scale residential properties in Tokyo. It currently has five HK commercial projects under construction, all of them expected to be completed progressively over the next three years. However, sales of the HK commercial units are delayed to at least 2H2021 in light of travel restrictions, and we forecast sales to pick up in 2022.

Looking at its Japan residential business, projects under the ALERO brand name are progressing as planned as rents have largely held up in Tokyo while property sale prices have remained stable.

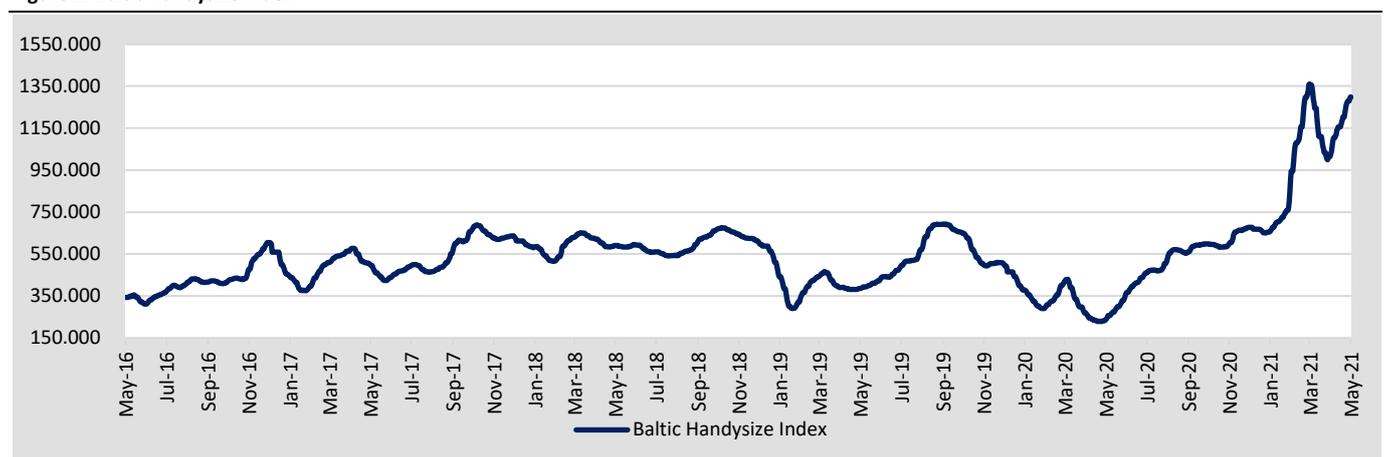
We applied a 50% to the net book value of its HK and Japan properties and developments, which we believe conservatively values the potential upside when the properties are completed.

Figure 1: SOTP Valuation

Business Segments	FY21F NAV (US\$m) KGI Est.	Valuation	Value (US\$m)	Value (S\$m)	Remarks
Shipping	44.5	0.5x FY21F P/B	22.3	29.6	Dry bulk shipping peers trading at 0.5 - 1.5x P/B
Properties	63.1	0.5x FY19 P/B	31.5	41.9	Value of properties is split between HK (40%) and Japan (60%). HK developers are trading at 0.6x - 1.2 P/B while Japan developers at 1.4x P/B.
Total Equity Value			53.8	71.5	
Shares outstanding (m)			78.6		
TP (US\$)		USD/SGD 1.33	0.68		
TP (S\$)			0.91		
Upside (%)			38%		
Implied FY21F P/B (x)			0.44		
Implied FY21F P/E (x)			6.2		

Source: KGI Research

Figure 2: Baltic Handysize Index



Source: Bloomberg, KGI Research

Renewals and charter rates. The charters for the group's 10 wholly-owned bulk carrier fleet is due for renewal in 2021 and 2022. In 1Q2021, UAG renewed or extended 6 ships, while the charters of the remaining ships will be fixed in the second half of this year. However, we do note that those that were renewed/extended were for durations ranging from around 6 months to 1 year. In our view, this could actually work in UAG's favour as we continue to hold a positive view of the commodities market going into 2H2021.

UAG managed to achieve daily charter rates of US\$10,005 in 1Q2021, a significant increase from US\$7,442 in 1Q2020.

Dry bulk carriers supply-demand dynamics are favourable.

In the last shipping super cycle (2006-2008), new handysize orders made up as much as 50% of the total fleet, driven by significant speculative demand and easy financing.

Ever since the bust after the global financial crisis in 2008-2009, recent orderbook has fallen to a multi-decade low of between 2-4% of the current fleet size. In addition, supply of handysize carriers could be further constrained considering that around 20% of the handysize fleet are 20 years and older.

Overall, we expect UAG's existing fleet of 10 handysize carriers with an average age of 9 years to be a significant beneficiary of the current upcycle in the dry bulk market.

Figure 3: UAG's wholly-owned dry bulk portfolio

No.	Name of Ship	Capacity (DWT)	Type	Year Build	Age	Shipyard
1	M/V Uni Challenge	29,078	Bulker	2012	9	Y-Nakanishi
2	M/V Uni Wealth	29,256	Bulker	2009	12	Y-Nakanishi
3	M/V Uni Auc One	28,709	Bulker	2007	14	Shin-Kurushima
4	M/V Victoria Harbour	29,100	Bulker	2011	10	Y-Nakanishi
5	M/V Clearwater Bay	29,118	Bulker	2012	9	Y-Nakanishi
6	M/V ANSAC Pride	37,094	Bulker	2013	8	Onomichi
7	M/V Island Bay	37,649	Bulker	2014	7	Imabari
8	M/V Inspiration Lake	37,706	Bulker	2015	6	Imabari
9	M/V Glengyle	37,679	Bulker	2015	6	Imabari
10	M/V Uni Bulker	37,700	Bulker	2016	5	Imabari
					Average	9

Source: Company data, KGI Research

KGI's Ratings	Rating	Definition
	Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
	Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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