COMPANY UPDATE

Marine; Property ▪ Singapore

Uni-Asia Group Limited

(UAG SP/UAFC.SP)

Stronger-than-expected dry bulk shipping market

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- **Dry bulk market going strong.** High iron ore imports into China and strong soya bean exports from the US and Brazil are driving the dry bulk carrier market to its highest since 2010.
- **Maintain Outperform while raising TP to S$1.42.** Valuations are attractive amid the stronger-than-expected bulk carrier upcycle. Our new TP implies a 0.68x FY2021F P/B, which is still a conservative 30% discount to international peers who are trading above 1.0x P/B.

Financials & Key Operating Statistics

YE Dec (US$m)	2019	2020	2021F	2022F	2023F
Revenue	136.0	45.9	59.6	58.6	59.8
PATMI	5.8	-7.7	9.2	7.1	7.6
Core PATMI	5.8	-13.9	9.2	7.1	7.6
Core EPS	7.4	-17.6	11.7	9.0	9.7
Core EPS grth (%)	-78.7	NA	NA	-22.5	6.8
Core P/E (x)	9.3	-3.9	6.0	7.7	7.2
DPS (SGCents)	4.2	4.2	3.5	3.0	3.0
Div Yield (%)	4.5	4.5	3.8	3.2	3.2
Net Margin (%)	4.3	-16.8	15.4	12.1	12.7
Gearing (%)	68.6	71.4	61.3	49.3	37.2
Price / Book (x)	0.3	0.3	0.3	0.3	0.3
ROE (%)	4.6	-6.5	7.3	5.5	5.7

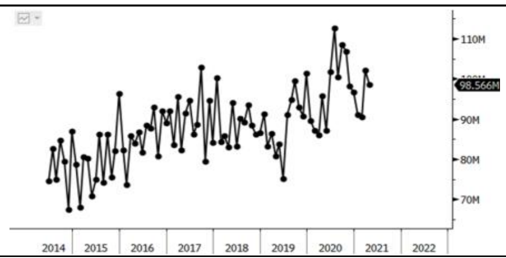
Source: Company Data, KGI Research

To the moon. It is not only meme stocks that are reaching for the moon. Record demand for consumer goods and commodities, together with supply-chain disruptions, are driving charter rates for container liners and dry bulk carriers to their highest in more than ten years (triple from last year).

1H2021 results to provide confirmation. UAG will be announcing 1H2021 results on 13 August, after market hours. We expect the group's fleet of 18 bulk carriers (10 wholly owned and 8 under JV entities) to drive financial performance.

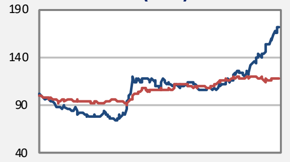
Key drivers of the current boom. There are three key commodities driving the current demand for dry bulk carriers. These three commodities, which we highlight below, account for almost two thirds of the global dry-bulk trade based on a tonnage basis.

Figure 1: China iron ore imports (metric tonnes)



Source: Bloomberg

The first is China's iron ore imports. Seaborne supply of iron ore is the largest dry bulk commodity in terms of tonnage, accounting for 29% of total tonnage. China is the largest importer and accounts for more than 70% of global seaborne iron ore in 2019. In the first five months (Jan-May) of the year, China's iron ore imports rose 6% YoY to 471.8mn tonnes. The resumption of Brazilian iron ore exports after two challenging years is likely to provide further tailwinds for dry bulk charter rates since they have longer haul lengths.

OUTPERFORM - Maintain			
Price as of 6 Jul 21 (SGD)	0.93	**Performance (Absolute)**	
12M TP ($)	1.42	1 Month (%)	20.8
Previous TP ($)	0.91	3 Month (%)	60.5
Upside (%)	53	12 Month (%)	74.8
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	73		
Issued Shares (mn)	79		
Vol - 3M Daily avg (mn)	0.2		
Val - 3M Daily avg ($mn)	0.1		
Free Float (%)	50.8%		
Major Shareholders		**Previous Recommendations**	
Yamaso Co	30.0%	24-May-21	OP $0.91
Evergreen Int'l	9.0%	25-Aug-20	NEUTRAL $0.54
Ham Yong Kwan	7.6%	31-Mar-20	NEUTRAL $0.62

The second driver is coal. Coal is the second largest dry bulk commodity that accounts for around 23% of seaborne tonnage. According to Clarksons Research, coking and thermal coal demand in 2021 is forecasted to increase by 6% and 4%, respectively. Ironically, the resilience in seaborne coal tonnage was partially driven by China's ban on Australian coal, which has caused China to increase its coal imports from Indonesia, Russia, South Africa, the US and Canada.

The third driver is grain and soybean exports from the US and Brazil. China, the world's top importer of soybeans, ramped up its soybean purchase from the US as part of the Phase One trade deal. China has brought in 38.2mn tonnes of soybeans in the Jan-May 2021 period, up 13% from the same period in 2020, as the country worked to rebuild its hog population.

Valuation & Action: We maintain an **OUTPERFORM rating while raising our** TP to S$1.42, based on SOTP valuations. The favourable supply-demand dynamics for handysize dry bulk carriers should benefit the group over our forecast period. We raise the multiples for the shipping business to 0.8x FY2021F P/B (previously 0.5x FY2021F P/B); we also raise our multiple for its Japan & HK property business to 0.6x FY2021F P/B. Its balance sheet remains healthy as it continues to pare down debt; this will likely be a precursor to higher dividends.

Risks: A supply-demand imbalance in the dry bulk shipping sector that leads to a drop in charter rates will have the largest short-term impact on UAG's earnings.

Please see last page for important disclosures.

SOTP Valuation

We used an SOTP valuation and an exchange rate of 1.33 USD/SGD to derive our fair value of S$1.42. Our fair value is an implied 0.68x 2021F P/B. In summary, Uni-Asia's shipping and property business now contribute 52% (previously 41%) and 48% (previously 59%), respectively, to our total SOTP-derived fair value.

Key changes to SOTP valuation. Multiples for Shipping is raised to 0.8x FY2021F P/B to reflect the strong recovery in dry bulk charter rates.

Right time right place: 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 20% 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. Valuations of globally listed dry bulk companies (Diana Shipping, Eagle Bulk Shipping, Genco Shipping & Trading, Golden Ocean Group) have risen to above 1.0x P/B in 2021.

Dry bulk carrier values are up 20-30% YTD. Dry bulk carrier values have risen by 20-30% this year, according to VesselsValue, driven by a combination of tight capacity and rising scrap values.

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.

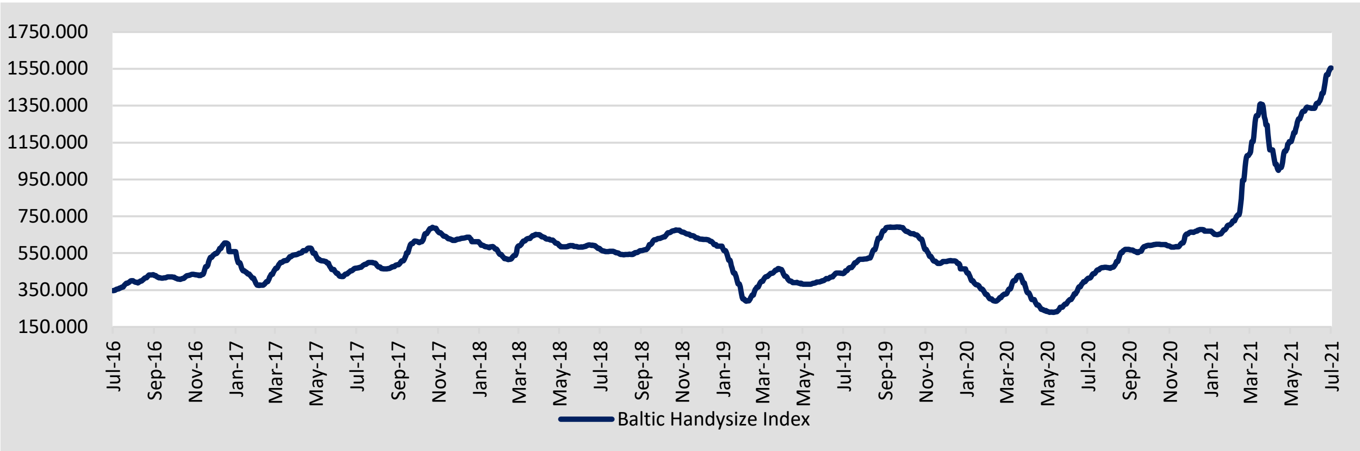
We applied a 40% to the net book value of its HK and Japan properties and developments, which we believe conservatively values the potential upside when the properties are completed.

Figure 2: SOTP Valuation

Business Segments	FY21F NAV (US$m) KGI Est.	Valuation	Value (US$m)	Value (S$m)	Remarks
Shipping	54.5	0.8x FY21F P/B	43.6	58.0	Dry bulk shipping peers are trading at an average of 1.0x P/B
Properties	67.2	0.6x FY21F P/B	40.3	53.6	Value of properties is split between HK (40%) and Japan (60%). HK developers are trading at 0.6x - 1.2 P/B while Japan developers at 1.4x P/B.
Total Equity Value			83.9	111.6	
Shares outstanding (m)			78.6		
TP (US$)		USD/SGD 1 .33	1.07		
TP (S$)			1.42		
Upside (%)			*53%*		
Implied FY21F P/B (x)			0.68		
Implied FY21F P/E (x)			9.2		

Source: KGI Research

Figure 3: Baltic Handysize Index is at the highest since 2008



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 note that vessels which 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 seaborne 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. This should continue to rise in 2Q2021 on positive market trends.

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 4: 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.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

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