

CHINA
DEVELOPMENT
FINANCIAL

Uni-Asia Group Limited

(UAG SP/UAFC.SP)

Good set of results; Trading at attractive valuations

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- 2Q19 results within expectations; 1H18 profits make up 79% of our full-year forecast.
- We reiterate our BUY recommendation and fair value target of S\$2.00. Our TP is an implied 0.55x 2018F BVP and 11x EPS.
- Uni-Asia is currently trading at only 7.5/6.6/5.9x 2018/19/20F EPS while offering a decent dividend yield of 4.6%.

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)	-26.6	7.8	7.5	6.6	5.9
DPS (\$Gcents)	3.0	6.3	6.3	6.3	6.3
Div Yield (%)	2.2	4.6	4.6	4.6	4.6
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

2Q18 results in line. 2Q18 net profit declined 11% YoY to US\$3.0mn due to fair valuation loss for some container and product tankers and higher expenses from new hotels in Japan. The weakness in its shipping and hotel businesses was offset by US\$3.1mn in fair value gains from the final recognition from its 2nd HK commercial property. We are not concerned on the decline in earnings YoY as 1H18 earnings already makes up almost 80% of our full-year forecast. Rather, focus should be on the positive trends that its three business segments are riding on over the next 12 months.

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 3,152 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. However, new accounting standards in IFRS 16 will require companies to bring most leases on-balance sheet from Jan-2019. Although this is not expected to have any operational impact (e.g., cash flows) on Uni-Asia's hotel business, it may have to recognise losses in the next 1-2 years due to front-loaded pattern of expenses under the new accounting standards. We have not made any changes to our forecasts and maintain our valuation methodology as we still expect core-earnings to be profitable.

Dry bulk still improving despite global trade uncertainty. Uni-Asia's average charter rate increased to US\$9,875/day in 1H18 following the trough rate of US\$9,317/day in 2016. The Baltic Dry Index (BDI) has remained resilient around the

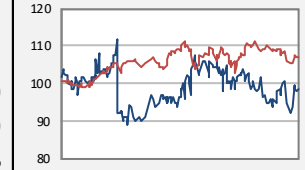
Buy - Maintain

Price as of 20 Aug 18 (SGI)	1.35	Performance (Absolute)	
12M TP (\$)	2.00	1 Month (%)	0.7
Previous TP (\$)	2.00	3 Month (%)	-2.9
Upside (%)	48.3	12 Month (%)	3.0

Trading data

Mkt Cap (\$mn)	63
Issued Shares (mn)	47
Vol - 3M Daily avg (mn)	0.0
Val - 3M Daily avg (\$mn)	0.0
Free Float (%)	99.0%

Perf. vs STI Index (Red)



Major Shareholders

Yamaso Co	33.5%	Previous Recommendations	
Evergreen Int'l	10.0%	22-May-18	BUY \$2.00
		16-Mar-18	BUY \$1.81
		15-Dec-18	BUY \$1.85

US\$1,600 levels since mid-July, despite the ongoing trade tension between the US and China. Fundamentally, the supply-demand dynamics of dry bulk carriers remain positive. According to Clarksons Research, global seaborne dry bulk trade is estimated to grow 2.7% in 2018, compared to 2.5% growth in the bulk carrier fleet in 2018 and 2019.

Hong Kong property investments. Uni-Asia currently has two more HK commercial property investments which it has yet to recognise gains on. It invested HK\$50mn/US\$6.4mn in its 3rd HK property project and HK\$20mn/US\$2.6mn in its 4th HK property project. The projects are expected to be completed in 2019 and 2020.

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 3rd HK property in 2019, 4th HK property in 2020 and another investment into its 5th property later this year, 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, which may result in impairments to its shipping assets.

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 two Hong Kong commercial projects under construction to be completed progressively over the next two years, and is looking to invest in another HK commercial project this year. We applied a 30% to the net book value of its properties, which we believe conservatively values the potential upside when the properties are completed. Hong Kong and Japanese properties have seen continual cap rate compression since 2016.

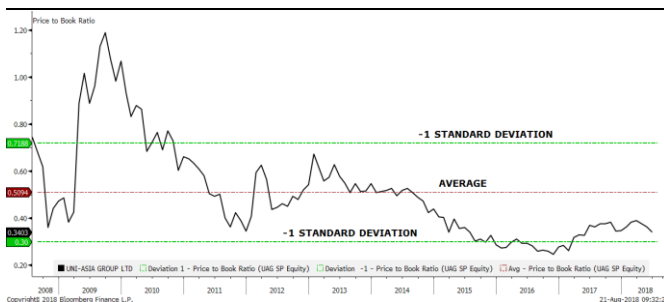
Finally, we valued Uni-Asia's hotel management business at 15x 2018F EPS, which is more than a 50% discount to the hotel management peers' average 25x 2018F EPS. The group aims to have >3,100 rooms under management by 2019F, which we expect to help contribute at least US\$1.5mm to US\$2.5mn in recurring 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	FY18F 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 (%)			48%		
Implied FY18F P/B (x)			0.55		
Implied FY18F P/E (x)			11.2		

Source: Company data, KGI Research

Figure 2: 10-years P/B graph



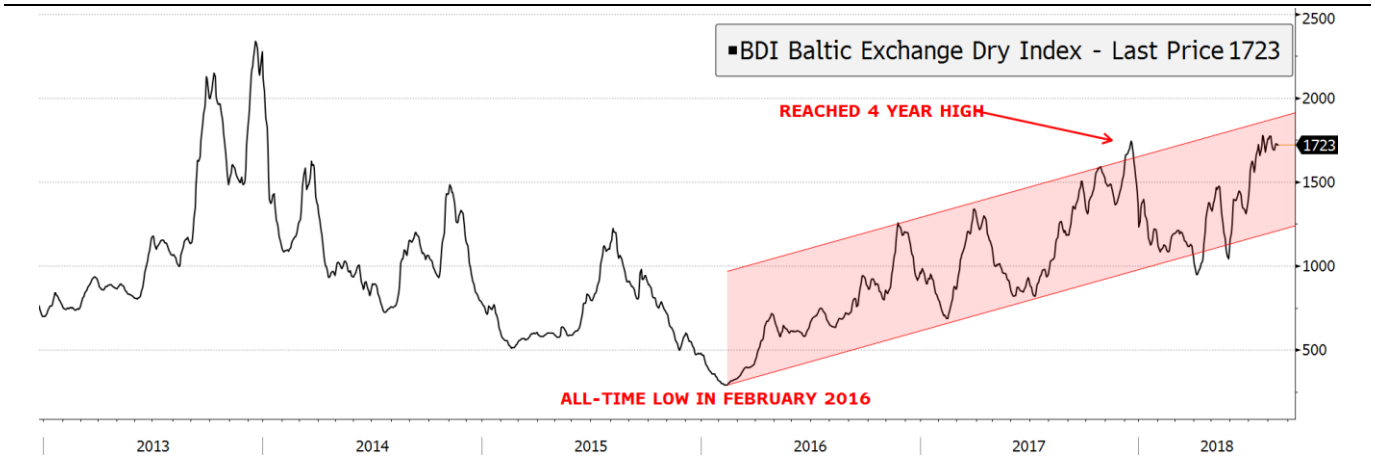
Source: Bloomberg, KGI Research

50% discount to book is attractive and offers limited downside risk. We think downside risk for Uni-Asia is limited given that its P/B valuation is near trough levels. The stock is currently trading at close to 1SD below its 10-year P/B average.

Industry Review

Dry bulk segment unfazed. The BDI – a traditional barometer of the health of the dry bulk industry and global economy - has remained resilient despite trade tensions between the US and China. The BDI has surged almost 500% since its February 2016 bottom. We believe the worst is over for dry bulk rates and expect further improvements as supply is expected to grow in lockstep with demand in 2018, according to forecasts by Clarksons Research.

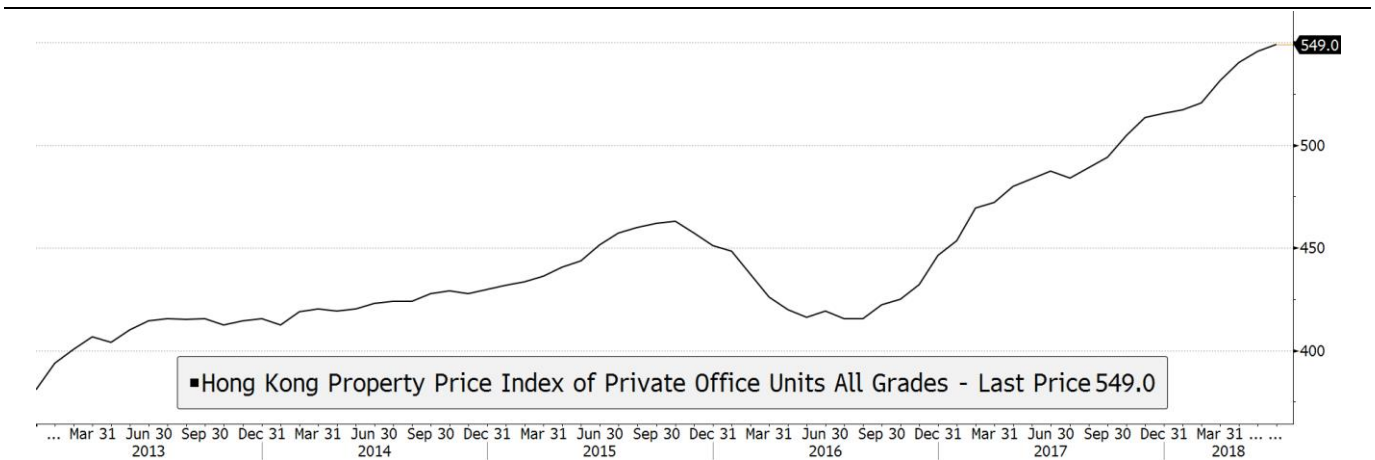
Figure 3: The Baltic Dry Index (BDI) is beginning to show signs of recovery on better market dynamics. The BDI is a good indicator of the level of global trade for commodities such as iron ore, coal and grains.



Source: Bloomberg, KGI Research

Hong Kong office market still going strong. According to data by Colliers, office leasing activity remained strong throughout 2Q18 as vacancy rates continued to drop while rents increased. This was led by China-based financial companies, company relocations and aggressive expansion of co-working operators.

Figure 4: Hong Kong Property Price Index of private office units (All Grades)



Source: Bloomberg, 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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