

CHINA
DEVELOPMENT
FINANCIAL

Uni-Asia Group Limited

(UAG SP/UAFC.SP)

Looking forward to Tokyo 2020

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- Uni-Asia reported US\$0.3mn in 3Q19 PATMI, a reversal from the US\$0.2mn loss in 3Q18.
- We focus on UAG's Japan-based businesses in this report given the favourable tailwinds from the 2020 Olympics and the growth of its asset management business.
- We reiterate our OUTPERFORM recommendation and fair value target of S\$1.24. Our fair value price implies a conservative 0.6x 2020F BVP and 8.5x EPS, supported by an attractive 5.5% dividend yield.

Financials & Key Operating Statistics

YE Dec (US\$m)	2017	2018	2019F	2020F	2021F
Revenue	103.9	123.3	125.1	130.5	136.1
PATMI	6.2	1.2	7.8	8.8	9.6
Core PATMI	6.2	16.4	7.8	8.8	9.6
Core EPS	13.2	35.0	10.0	11.1	12.2
Core EPS grth (%)	-439.9	164.1	-71.5	11.7	9.5
Core P/E (x)	4.2	1.6	5.6	5.0	4.6
DPS (SGCents)	6.3	7.0	4.0	4.0	4.2
Div Yield (%)	8.6	9.6	5.5	5.5	5.8
Net Margin (%)	6.0	1.0	6.3	6.7	7.0
Gearing (%)	129.6	102.9	98.8	86.3	73.8
Price / Book (x)	0.2	0.2	0.3	0.3	0.3
ROE (%)	4.6	0.9	5.6	5.9	6.2

Source: Company Data, KGI Research

3Q19 summary. UAG's reported a decent set of 3Q19 results despite headwinds from its shipping business and a decline in fee income from lower deal transactions. Its hotel business continued to grow from strength to strength as 3Q19 hotel income rose 6% YoY to US\$21.4mn on the back of higher occupancy rates. The group managed to pare down debt by US\$37.1mn while increasing its cash holdings to US\$57.3mn. As a result, gearing (total debt/equity) improved to 1.12x as at end Sep-19 from 1.36x as at end Dec-18.

The improved balance sheet and future cash flows will likely be deployed into its Japan businesses in the near to medium term. The group was initially planning on investing in a 7th property project in Hong Kong, but this was placed on hold given the uncertainties in the city. UAG still has three ongoing Hong Kong commercial projects slated for completion in 2020, 2021 and 2022.

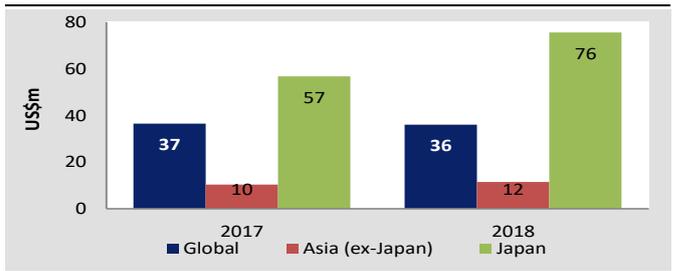
Japan hour. We highlight UAG's Japan businesses in this report given the favourable tailwinds from the Summer Olympics next year and the potential for the group to increase recurring revenue through its asset management of hospitality, healthcare and residential properties.

Japan contributed 55-61% of UAG's total income in 2017 and 2018, and represents businesses such as ship finance arrangement, investments and asset management of properties and hotels. UAG's hotel operations are operated under the Hotel Vista brand, while its residential projects are operated under the ALERO brand. This year, UAG started managing healthcare assets and had eight facilities under management as of June 2019.

OUTPERFORM - Maintain

Price as of 29 Nov 19 (SGD)	0.73	Performance (Absolute)	
12M TP (\$)	1.24	1 Month (%)	1.4
Previous TP (\$)	1.24	3 Month (%)	-0.6
Upside (%)	70	12 Month (%)	-0.2
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	57		
Issued Shares (mn)	79		
Vol - 3M Daily avg (mn)	0.1		
Val - 3M Daily avg (\$mn)	0.1		
Free Float (%)	50.8%		
Major Shareholders		Previous Recommendations	
Yamaso Co	30.0%	26-Sep-19	OP \$1.24
Evergreen Int'l	9.0%	28-Aug-19	OP \$1.24
		17-May-19	OP \$1.24

Figure 1: Revenue by geography



Source: Company data, KGI Research

40mn visitors next year. UAG currently has 2,515 rooms under management in Japan and plans to increase this to 2,710 by the end of 2019, and to 3,401 rooms by 2020. Occupancy at UAG's hotels improved to 85.9% in 3Q19 from 83.8% in 2Q19 and 82.3% in 3Q18. We expect an uplift in hotel occupancy and rates as Japan aims to attract 40mn visitors in 2020 as it hosts the Olympics.

Valuation & Action: UAG's valuations are trading at distressed levels, which we believe does not justify its diversified business model and potential growth from hotel management. Even if we were to strip out UAG's highly cyclical shipping business, we estimate a minimum S\$0.82 fair value target. We thus reiterate our **OUTPERFORM** recommendation and fair value of S\$1.24, based on a sum-of-the-parts (SOTP) valuation of its three businesses. Our TP implies a conservative 0.6x FY20F BVPS and 8.5x FY20F EPS, supported by an attractive 5.5% dividend yield.

Risks: Shipping slowdown as the trade-war escalates. Decline in Hong Kong property market due to the ongoing protests.

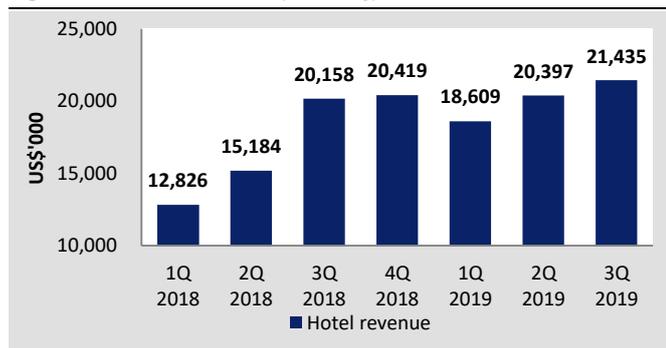
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Japan Focus: Hotels, Residential and Healthcare

UAG operates its Japan-based hotels under the Vista Hotel Management (VHM) subsidiary. The hotels cater mainly to business travellers, with corporate clients making up around 54% of total guests. UAG does not own the hotels. Instead, it operates the hotels under the Hotel Vista brand, while also offering other services such as development advisory, renovations and improvement management to the hotel owners.

In 3Q19, VHM reported a 6% YoY increase in revenues to US\$21.5mn but reported an 81% decrease in net profit due mainly to the effects of the new accounting rules under IFRS 16. As of 3Q19, VHM operated 15 hotel from third-party owners, which required the group to recognise US\$260.6mn of Right-of-use assets (ROU) on its balance sheet, translating to additional depreciation (US\$16mn in 9M19) and lease interest expense (US\$3.5mn in 9M19). AS VHM is expected to open five new hotels over the coming year, we should see a more substantial negative impact from IFRS 16 in UAG's FY2019 net profit. However, we note that there is no impact on cash flows or business operations of the group under the new accounting standards.

Figure 2: Hotel revenue trend (Quarterly)



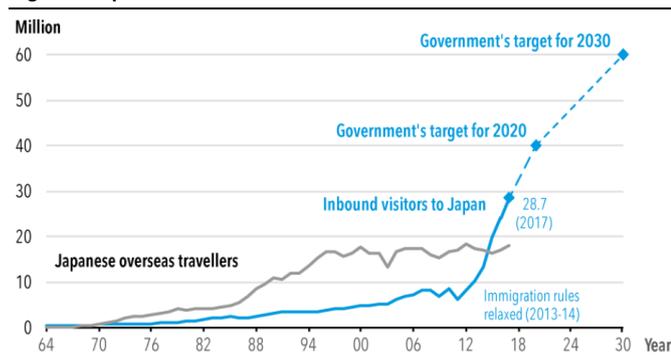
Source: Company data, KGI Research

UAG hotels to get a boost from the 2020 Summer Olympics.

The Tokyo 2020 Olympics and Paralympics will see over 15,000 athletes from 207 countries participate in games that will kick off on 24 July and run until 9 August. Shortly after, the Paralympic Games will start from 25 August and last until 6 September.

The Tokyo 2020 Olympics is expected to boost Japan's economy through increased infrastructure spending and a surge in tourism arrivals. While infrastructure spending will taper off after the games, the impact on tourism will likely have a more lasting effect and add momentum to inbound visitors. In 2018, Japan attracted a record 31.2mn visitors, representing a 9% YoY increase and its seventh straight year of increase. The country aims to attract 40mn foreign tourists by the Tokyo Olympics next year and targets 60mn visitors by 2030.

Figure 3: Japan aims to attract 40mn visitors in 2020



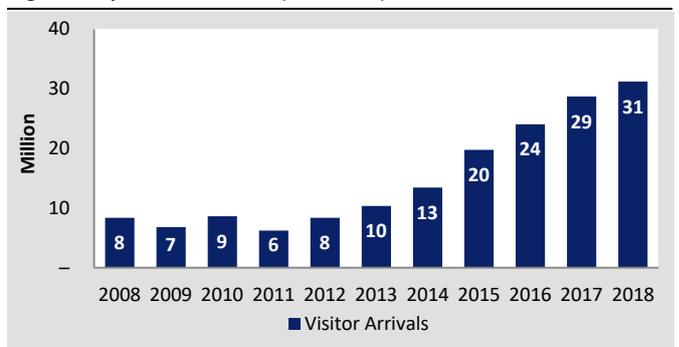
Source: Japan National Tourism Organisation (JNTO), Capital Group

Figure 4: New hotels to be operated

Hotel Name	Opening date	Remarks
Hotel Vista Fukuoka Nakasu-Kawabata	3 December 2019	Located in Nakasu/Tenjin area in Fukuoka City. Construction has been completed with 204 rooms and a big common bath.
Hotel Vista Osaka Namba	27 February 2020	Located in Namba area, famous commercial area in southern part of Osaka city. Hotel will have 121 rooms.
Hotel Vista Premio Osaka Honmachi	Spring 2020	Located in the centre of Osaka and has 272 rooms.
Hotel Vista Tokyo Tsukiji	Summer 2020	Located in Tsukiji area just next to Ginza. The hotel has 149 rooms.
Hotel Vista Matsuyama	Summer 2020	Located in Matsuyama city, the most populous city in Shikoku island. The hotel has 140 rooms.

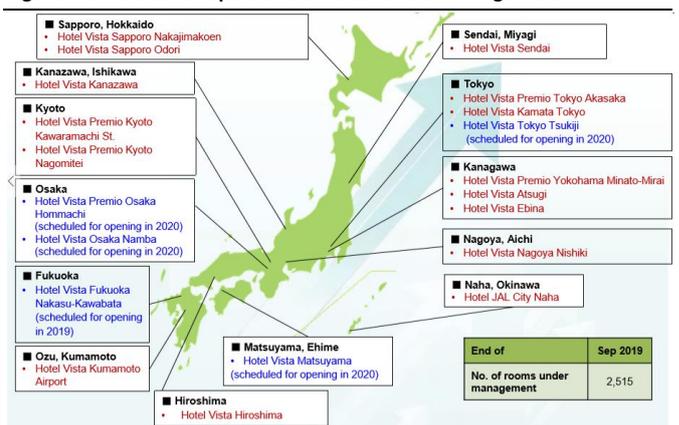
Source: Company data, KGI Research

Figure 5: Japan visitor arrivals (2008-2018)



Source: Japan National Tourism Organisation (JNTO)

Figure 6: UAG's current portfolio of hotels under management



Source: Company

Tokyo residential property investments

Often overlooked by investors, this business is highly profitable and provides a recurring income stream. UAG's ALERO projects are usually low-rise buildings with between 10 and 30 units. UAG's ALERO projects have consistently been able to generate more than 20% Internal Rate of Return (IRR) for an investment period of two years. At its current size, UAG is able to complete 7 to 8 of such projects in a given year; management has indicated that it is on the lookout for new opportunities to expand its portfolio of residential projects. Once projects are sold, UAG earns recurring income by providing management services, which includes rent collection and property maintenance.

For now, UAG's development of residential project is concentrated in Tokyo given the positive tailwinds of a robust property market in the capital. Demand for this type of residential properties is driven by Tokyo's increasing population as young people come to the capital for study and work.

Figure 7: Under its ALERO brand, UAG develops, sells and subsequently manages the properties for the owners



Source: KGI Research

Healthcare Asset Management

UAG manages eight healthcare facilities in Japan as of June 2019. In line with management's comments, the group will have more resources to expand this business as part of its asset management strategy to generate recurring income.

Figure 8: Four healthcare facilities managed by UAG



Source: Company presentation slides

SOTP Valuation

We used an SOTP valuation and an exchange rate of 1.30 SGD/USD to derive our fair value of S\$1.24. Our fair value is an implied 0.6x 2020F BVPS and 8.5x 2020F EPS. In summary, Uni-Asia's shipping, property and hotel business contribute 34%, 39% and 28%, 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 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. 2H18 was a volatile period for the bulk freight market due to sentimental shifts amid the US-China trade war. In the worst-case scenario where we ascribe a zero net value on all its shipping assets, we still derive a fair value of S\$0.82 for UAG.

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 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 2019F EPS, which is more than a 50% discount to the hotel management peers' average 25x 2019F EPS. The group aims to have 3,401 rooms under management by 2020, which we expect to help contribute at least US\$1.5mm to US\$2.5mm in recurring core net profit by then (based on pre-IFRS 16 accounting standards). We find this segment the most promising among Uni-Asia's business segment in terms of contribution to the group's bottom line beyond 2021.

Figure 9: SOTP valuation of Uni-Asia's businesses

Business Segments	FY18		Value (US\$m)	Value (S\$m)	Remarks
	NAV (US\$m) KGI Est.	Valuation			
Shipping	84.3	0.3x FY18 P/B	25.3	32.9	Dry bulk shipping peers trading at 0.5 - 1.5x P/B
Properties	41.2	0.7x FY18 P/B	28.8	37.5	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		15x FY19F P/E	20.7	27.0	Hotel management peers are trading at >20x historical P/E
Total Equity Value			74.9	97.3	
Shares outstanding (m)			78.6		
TP (US\$)			SGD/USD 1.3		
TP (S\$)			0.95		
Upside (%)			1.24		
			74%		
Implied FY20F P/B (x)			0.55		
Implied FY20F P/E (x)			8.5		

Source: Company data, KGI Research

Figure 10: 10-years P/B graph



Source: Bloomberg, KGI Research

70% 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.

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