KGI CHINA DEVELOPMENT FINANCIAL

# Uni-Asia Group Limited

(UAG SP/UAFC.SP)

## Placement successful; firm dividend policy until FY20

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- UAG has successfully raised S$5.4mn through the placement to 40 institutional and private investors.
- It has also announced a dividend policy of a payout ratio of at least 35% and 40% of profits (excluding one-off items) for FY19 and FY20, respectively, to be paid out on a semi-annual basis from 2Q19 onwards.
- Given the better business outlook in FY19 and the guidance on dividends until FY20, we reiterate our BUY recommendation and fair value target of S$1.86. Our TP is an implied 0.6x 2019F BVP and 9.5x EPS.

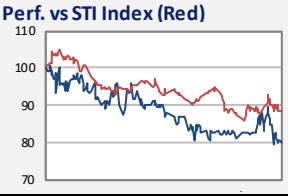
**Financials & Key Operating Statistics**

| 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 | 15.0 | 16.7 | 18.3 |
| Core EPS grth (%) | -439.9 | 164.1 | -57.2 | 11.7 | 9.5 |
| Core P/E (x) | 6.7 | 2.5 | 5.9 | 5.3 | 4.8 |
| DPS (SGCents) | 6.3 | 7.0 | 6.3 | 6.3 | 6.3 |
| Div Yield (%) | 5.4 | 6.1 | 5.4 | 5.4 | 5.4 |
| Net Margin (%) | 6.0 | 1.0 | 6.3 | 6.7 | 7.0 |
| Gearing (%) | 129.6 | 102.9 | 99.1 | 86.7 | 74.2 |
| Price / Book (x) | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 |
| ROE (%) | 4.6 | 0.9 | 5.6 | 6.0 | 6.2 |

*Source: Company Data, KGI Research*

**Buy - Maintain**

| | | | |
|---|---|---|---|
| Price as of 8 Apr 19 (SGD) | 1.15 | **Performance (Absolute)** | |
| 12M TP ($) | 1.86 | 1 Month (%) | -5.7 |
| Previous TP ($) | 2.07 | 3 Month (%) | -1.7 |
| Upside (%) | 62 | 12 Month (%) | -17.1 |
| **Trading data** | | **Perf. vs STI Index (Red)** | |
| Mkt Cap ($mn) | 60 | | |
| Issued Shares (mn) | 52 | | |
| Vol - 3M Daily avg (mn) | 0.1 | | |
| Val - 3M Daily avg ($mn) | 0.1 | | |
| Free Float (%) | 50.8% | | |
| **Major Shareholders** | | **Previous Recommendations** | |
| Yamaso Co | 33.5% | 14-Mar-19 | BUY $2.07 |
| Evergreen Int'l | 10.0% | 20-Aug-19 | BUY $2.00 |
| | | 22-May-18 | BUY $2.00 |




**New institutional investors.** UAG announced that it had successfully placed out 5.4mn shares and raised around S$5.4mn in net proceeds. Among the 40 investors who invested included funds such as Judah Value Activist Fund, Hibiki Path Value Fund and Golden Hill investments. The placement shares were issued at S$1.08, a 10% discount to the VWAP done on 25 March 2019.

**Increased liquidity.** In addition to utilising the proceeds to invest into property and hotel projects in Japan and Hong Kong, the placement helps to broaden its shareholder base and to potentially increase the trading liquidity of its shares.

**Attractive 6.0% dividend.** The directors have proposed a 6.25 SG cents final dividend and 0.75 cents special dividend for FY18. The total 7.0 cents dividend is an attractive 6.0% dividend yield. The proposed dividend is subject to shareholders' approval at the upcoming AGM in April, with the ex-date scheduled on the 6th of May.

**Dividend policy.** The board has adopted a dividend policy of paying dividends of not less than 35% and 40% of the group's net profits, excluding non-recurring and one-off items for FY19 and FY20. It will also pay dividends on a semi-annual basis from 2Q19 onwards.

**Improving fundamentals.** We expect all three of its business segments to perform better YoY in FY19. UAG's hotel operations will be managing 2,871 rooms by FY19 and 3,553 rooms by FY20. We may possibly see an uplift in hotel occupancy and rates over the next two years as Japan hosts the Rugby World Cup in 2019 and the Tokyo Olympics in 2020. Meanwhile, its HK property business is expected to provide it with a steady stream of profits until 2022, and the group continues to recycle capital into new projects.

**Shipping business.** This was a key underperforming segment in FY18 due to the US$15mn in non-cash valuation and impairment losses on its shipping assets. However, the Baltic Dry Index (BDI) is stabilising and the easing of trade tensions and stimulus measures in China may reverse the decline over the next two quarters. In the worst-case scenario where we ascribe a zero value on all its shipping assets, we derive a target price of S$1.23.

**Valuation & Action:** Given the better business outlook across its three segments in FY19 and firm guidance on dividends until FY20, we reiterate our **BUY** recommendation and fair value of S$1.86, based on the sum-of-the-parts (SOTP) valuation of its three businesses.

Our TP is an implied 0.6x 2019F BVPS and 9.5x 2019F EPS. UAG is positioned to ride the growth in its three business segments: 1) dry bulk shipping recovery in 2019, 2) HK property business earnings visibility until 2022, and 3) an increase in hotel rooms under management ahead of two of the world's largest sporting events to be held in Japan.

**Risks:** UAG's shipping business (30% of Uni-Asia's FY18 revenues) is cyclical in nature, which may result in impairments to its shipping assets.

***This report is prepared by KGI Securities (Singapore) under the SGX StockFacts Research Programme. See the last page for important disclosures.***

## SOTP Valuation

We used an SOTP valuation and an exchange rate of 1.30 SGD/USD to derive our fair value of S$1.86. Our fair value is an implied 0.6x 2018F BVPS and 9.5x 2019F 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 for its shipping assets. 2H18 was a volatile period for the bulk freight market due to sentimental shifts amid the US-China trade war. There are two positive trends to look forward to in 2019 for the bulk markets. The first is the easing of trade tensions between the US and China and the second is the infrastructure stimulus measures in China.

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. It has invested in another two HK commercial projects recently. 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.

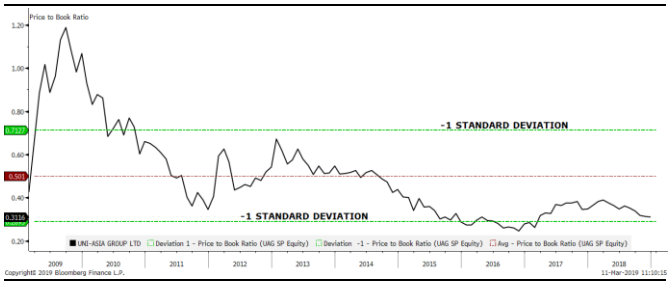
Finally, we valued Uni-Asia's hotel management business at 15x 2019F EPS, which is more than a 50% discount to the hotel management peers' average 25x 2019F EPS. The group aims to have 3,553 rooms under management by 2020, which we expect to help contribute at least US$1.5mm to US$2.5mn in recurring 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 1: SOTP valuation of Uni-Asia's businesses**

| Business Segments | FY18 NAV (US$m) KGI Est. | Valuation | Value (US$m) | Value (S$m) | Remarks |
|---|---|---|---|---|---|
| Shipping | 84.3 | 0.3x FY18 P/B | 25.3 | 32.9 | Dry bulk shipping peers trading at 0.5 - 1.5x P/B |
| Properties | 41.2 | 0.7x FY18 P/B | 28.8 | 37.5 | Value of properties is split between HK (40%) and Japan (60%). HK developers are trading at 0.7x P/B while Japan developers at 1.4x P/B. |
| Hotel | | 15x FY19F P/E | 20.7 | 27.0 | Hotel management peers are trading at >20x historical P/E |
| Total Equity Value | | | 74.9 | 97.3 | |
| Shares outstanding (m) | | | 52.4 | | |
| TP (US$) | | SGD/USD 1.3 | 1.43 | | |
| TP (S$) | | | 1.86 | | |
| Upside (%) | | | *62%* | | |
| Implied FY19F P/B (x) | | | 0.57 | | |
| Implied FY19F P/E (x) | | | 9.5 | | |

*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.

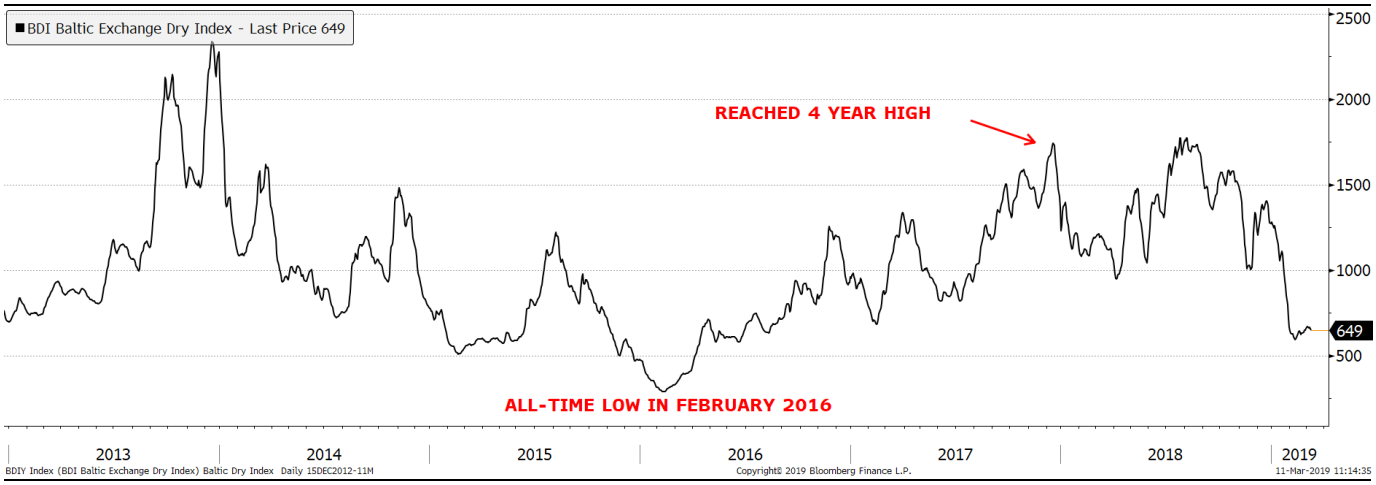
## Industry Review

**Bulk shipping weakness.** The BDI – a traditional barometer of the health of the dry bulk industry and global economy – remained resilient until about 3Q 2018. Concerns on global trade flows amid the US-China trade war had a negative impact on the BDI in 4Q 2018 and 1Q 2019. China's economic slowdown and weak Chinese iron ore, coal and grain imports caused dry cargo rates to plummet.

The BDI declined to a two-year low in 1Q 2019 and have pressured shares of dry bulk companies including Diana, Star Bulk, Golden Ocean and Scorpio Bulkers.

Despite the weakness in the BDI and shares of other dry bulk shipping companies, we expect UAG's shipping segment to remain profitable given the long-term nature of its contracts.

**Figure 3: Baltic Dry Index (BDI)**

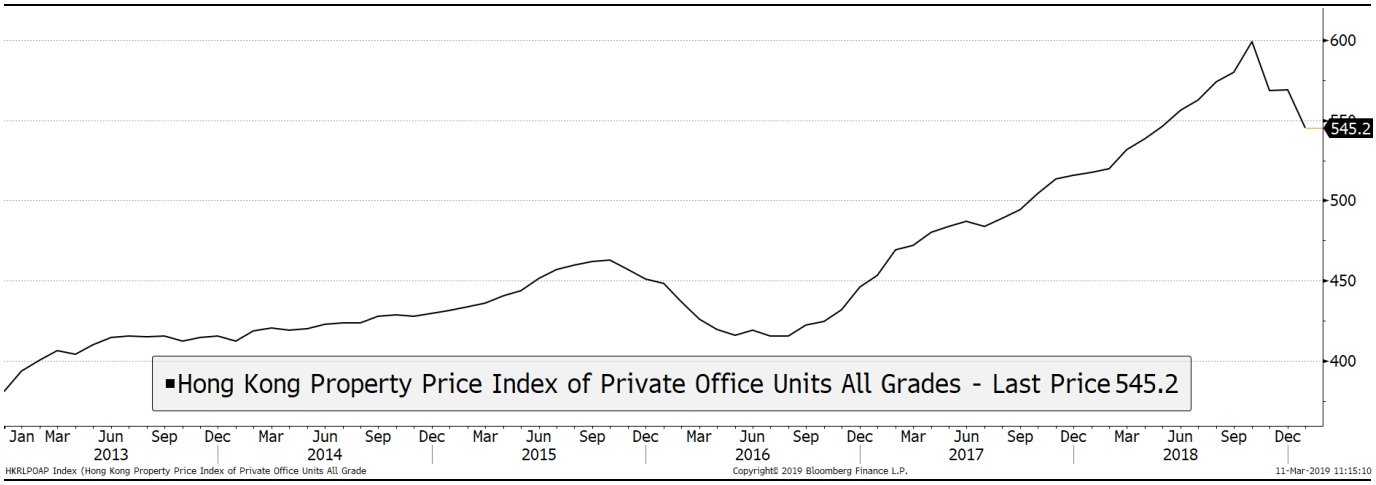



*Source: Bloomberg, KGI Research*

**Hong Kong office market slowing down.** After two years of above-average performance, HK's private office unit index had a sharp correction in 4Q 2018 but still remains higher YoY. HK's economic outlook for the year largely depends on the outcome of the US-China trade negotiations.

Even with the market sentiment turning negative in 4Q 2018, institutional investors remained confident of HK's property market, according to a survey by Colliers. The survey also showed that investors are taking a wait-and-see approach. With the prospects of lesser rate hikes in 2019, we may possibly see investors return once prices have stabilized.

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




*Source: Bloomberg, KGI Research*

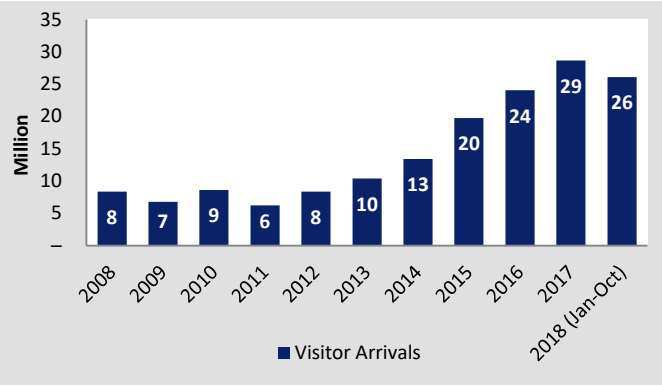
**UAG's Hotel business to get a boost from from two of the world's largest sporting events**

Japan will be hosting two of the world's largest sporting events: the Rugby World Cup (RWC) in 2019 and the Tokyo Olympics in 2020.

As a result, UAG's Vista hotels in Japan may possibly see a boost in both occupancy and hotel rates over the next two years.

**Healthy momentum.** Japan attracted a record 28.7mn visitors in 2017, representing a 19% YoY increase and its sixth straight annual increase. 2018 is expected to be another record year as January to October arrivals have already reached 26.1mn.

**Figure 5: Japan visitor arrivals (2008-2018 Oct)**




*Source: Japan National Tourism Organisation (JNTO) *2018 figures only include Jan-Oct*

## 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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