COMPANY UPDATE

Marine; Property ▪ Singapore

Uni-Asia Group Limited

(UAG SP/UAFC.SP)

Bonus for shareholders

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- UAG reported a 10% YoY increase in 1Q19 net profits to US$3.7mn.
- The group also announced a one bonus share for every two existing ordinary shares.
- We re-iterate our BUY recommendation and fair value target of S$1.86. Our fair value target implies a conservative 0.6x 2019F BVP and 9.5x EPS.

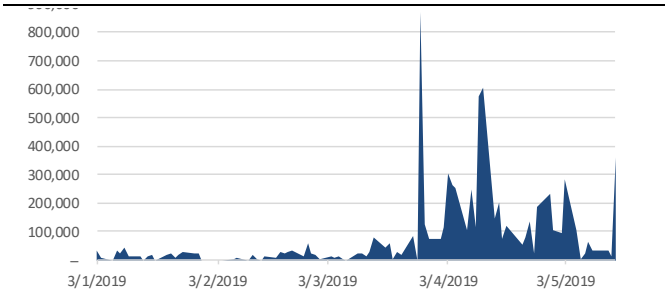
Financials & Key Operating Statistics

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)	6.6	2.5	5.8	5.2	4.8
DPS (SGCents)	6.3	7.0	6.3	6.3	6.3
Div Yield (%)	5.5	6.2	5.5	5.5	5.5
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	0.3	0.3	0.3
ROE (%)	4.6	0.9	5.6	6.0	6.2

Source: Company Data, KGI Research

Bonus. UAG announced on 15 May 2019 that it is proposing one bonus share for every two existing ordinary shares. As at the date of the announcement, UAG had 52.4mn shares, which would increase to 78.6mn after the bonus issue. The bonus issue is to encourage trading liquidity of shares and to reward shareholders. The proposed bonus issue is in addition to an earlier placement done in April 2019, which is also part of the management's initiative to increase its shareholder base and to help in trading liquidity.

Figure 1: Trading volume has noticeably increased since April

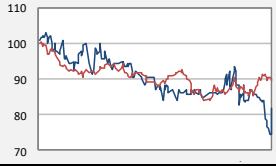


Source: Bloomberg, KGI Research

1Q19 business review. Except for UAG's charter income, all its other business units reported a YoY improvement. The 11% decline in charter income was due to a vessel disposal in 2Q18, as well as weakness in the dry bulk market due to the Brazilian dam disaster and slower trade in general. We had initially expected a recovery in 1Q19 but renewed trade tensions between China and the US may derail the sector recovery in 2019. 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.

Buy - Maintain

Price as of 16 May 19 (SGD)	1.13	**Performance (Absolute)**	
12M TP ($)	1.86	1 Month (%)	1.9
Previous TP ($)	2.07	3 Month (%)	1.1
Upside (%)	64	12 Month (%)	-12.9
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	59		
Issued Shares (mn)	52		
Vol - 3M Daily avg (mn)	0.1		
Val - 3M Daily avg ($mn)	0.1		
Free Float (%)	50.8%		
Major Shareholders		**Previous Recommendations**	
Yamaso Co	33.5%	9-Apr-19	BUY $1.86
Evergreen Int'l	10.0%	14-Mar-19	BUY $2.07
		20-Aug-19	BUY $2.00



Sale of hotel offset by new accounting rules. UAG reported a US$4.2mn profit from the sale of a hotel, which significantly helped to offset the negative impact from the new accounting rules under IFRS 16. Under IFRS 16 which took effect in 2019, all long-term hotel and ship leases of UAG are reflected on its balance sheet as assets and associated liabilities. As a result, it reported a depreciation of right-of-use assets of US$5.2mn in 1Q19, offset by a decline in hotel operating lease expense of US$2.4mn.

Valuation & Action: 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 FY19F BVPS and 9.5x FY19F EPS. We expect two out of three of its business segments to be key drivers of growth in FY19F. UAG's hotel operations will be managing 2,871 rooms by FY19F 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.

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.

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.

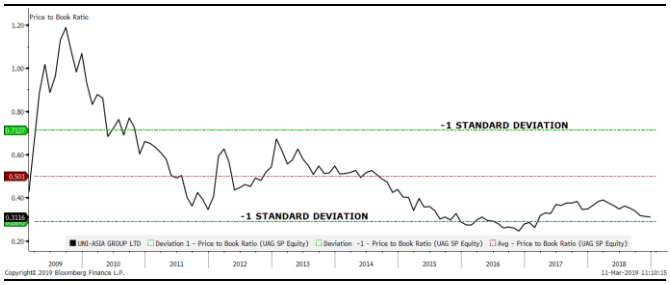
Finally, we valued Uni-Asia's hotel management business at 15x 2019F EPS, which is more than a 50% discount to the hotel management peers' average 25x 2019F EPS. The group aims to have 3,553 rooms under management by 2020, which we expect to help contribute at least US$1.5mm to US$2.5mn in recurring 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 2: 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 (%)			*64%*		
Implied FY19F P/B (x)			0.57		
Implied FY19F P/E (x)			9.5		

Source: Company data, KGI Research

Figure 3: 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.

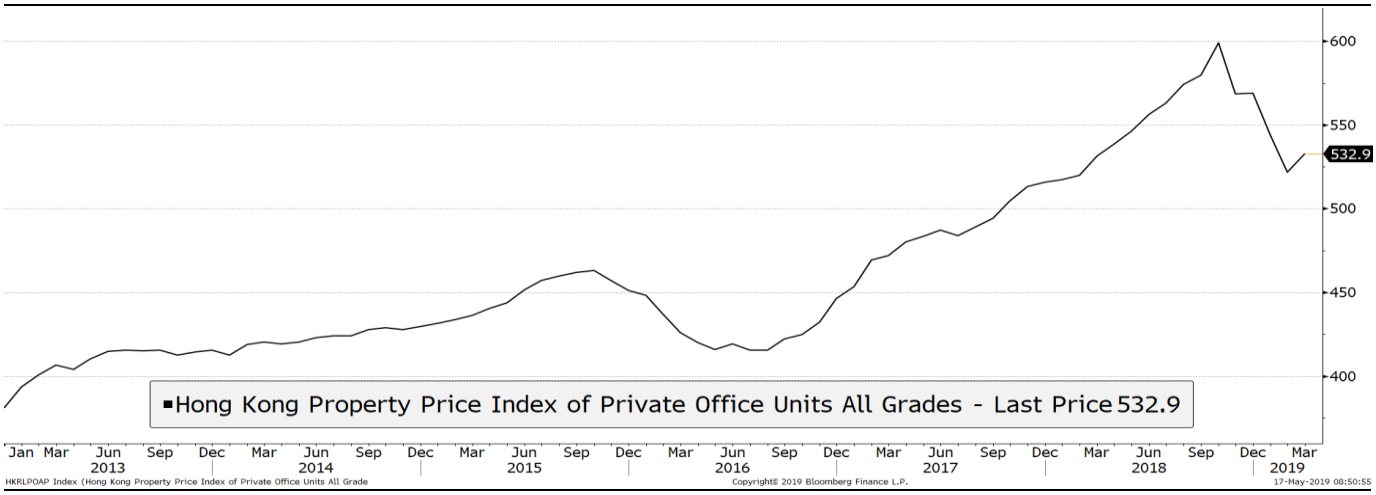
Figure 4: Baltic Dry Index (BDI)

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



Source: Bloomberg, KGI Research

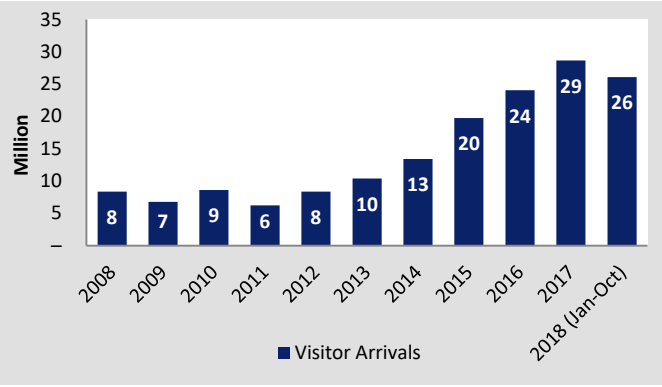
UAG's Hotel business to get a boost from two of the world's largest sporting events

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 6: 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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