KGI CHINA DEVELOPMENT FINANCIAL

Uni-Asia Group Limited

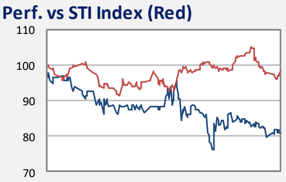
(UAG SP/UAFC.SP)

Good first half as it keeps up positive momentum

Joel Ng / 65 6202 1192 / joel.ng@kgi.com

- UAG reported a 52% YoY increase in 2Q19 PATMI to US$3.0mn, driven mainly by the US$3.9mn fair value gains from its Hong Kong office property projects.
- The group announced a maiden interim dividend of 2 Sing cents for 1H19, payable on 27 September 2019. Its full-year dividend yield is at an attractive 5.5%.
- We re-iterate our OUTPERFORM recommendation and fair value target of S$1.24. Our fair value target implies a conservative 0.6x 2020F BVP and 8.5x EPS.

OUTPERFORM - Maintain			
Price as of 26 Aug 19 (SGD)	0.73	**Performance (Absolute)**	
12M TP ($)	1.24	1 Month (%)	-1.4
Previous TP ($)	1.24	3 Month (%)	-2.2
Upside (%)	70	12 Month (%)	-11.7
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)	0.0		
Free Float (%)	50.8%		
Major Shareholders		**Previous Recommendations**	
Yamaso Co	33.5%	17-May-19	OP $1.24
Evergreen Int'l	10.0%	9-Apr-19	OP $1.24
		14-Mar-19	OP $1.38



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

2Q19 results review. Top line increased by 23% YoY to US$36mn, driven mainly by a 34% rise in hotel income to US$20mn, and a 75% surge in investment returns due to fair value gains from the group's 2nd and 3rd Hong Kong commercial office property projects. Fair value gains from its Hong Kong projects contributed US$3.9mn in 2Q19, an increase from US$3.1mn in 2Q18. UAG's shipping segment continued to be an underperformer as net profit declined 52% YoY to US$0.6mn in 2Q19 given the weaker bulker market in 1H19. UAG declared its maiden interim dividend of 2 Sing cents, in line with its earlier commitment to pay at least 35% of its net profits for FY19. The 2 Sing cents dividend are payable on 27th September 2019.

Shipping recovery. The 4% YoY decline in charter income was due to a vessel disposal in 2Q18, as well as weakness in the dry bulk market. It now has 11 wholly-owned/majority owned vessels contributing to charter income compared to 12 in the prior year period. We had initially expected a recovery in 1Q19 but renewed trade tensions between China and the US derailed the sector recovery. Looking ahead, the Baltic Handysize Index (BHSI), a good proxy for the group's vessels, is firmly on an uptrend after hitting a trough of 290 pts in February 2019. Since then, the BHSI has more than doubled to 619 pts in August 2019.

Still some time until the pre-sales of its 4th Hong Kong project. It is still too early to determine the full extent that the ongoing protests are having on investors' confidence in Hong Kong. But at least in the short-term, Hong Kong investors have focused their attention on Singapore. According to Cushman & Wakefield, Hong Kong investors have deployed around US$1.4bn in Singapore commercial properties in 1H19, the first time that Singapore is the favoured destination for them. UAG has a total of 6 property projects in Hong Kong, of which, the 1st has been completed, the 2nd and 3rd have been fully sold, while projects 4, 5 and 6 are still under development. UAG still has sufficient time for the situation in Hong Kong to improve until the pre-sales of its 4th project in 1H20. Meanwhile, the 5th and 6th projects are scheduled for pre-sales further out from 2021 onwards.

Higher hotel occupancy. UAG currently has 2,515 rooms under management and plans to increase this to 2,710 by the end of 2019, and to 3,401 rooms by 2020. Occupancy has improved significantly to 83.8% in 2Q19, an increase from 77.4% in 2Q18. We expect 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. Japan attracted a record 31.2mn visitors in 2018, representing a 9% YoY increase and its seventh straight year of growth. 2019 is expected to be another record year, with May tourist arrivals increasing to around 2.8mn visitors, or a 3.7% YoY increase.

Valuation & Action: We reiterate our **OVERWEIGHT** recommendation and fair value of S$1.24 (previously S$1.86 on a pre-bonus share base of 52.4mn), based on a sum-of-the-parts (SOTP) valuation of its three businesses. Our TP is an implied 0.6x FY20F BVPS and 8.5x FY20F EPS. We expect two out of three of its business segments to be key drivers of earnings growth in FY19F and FY20F.

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

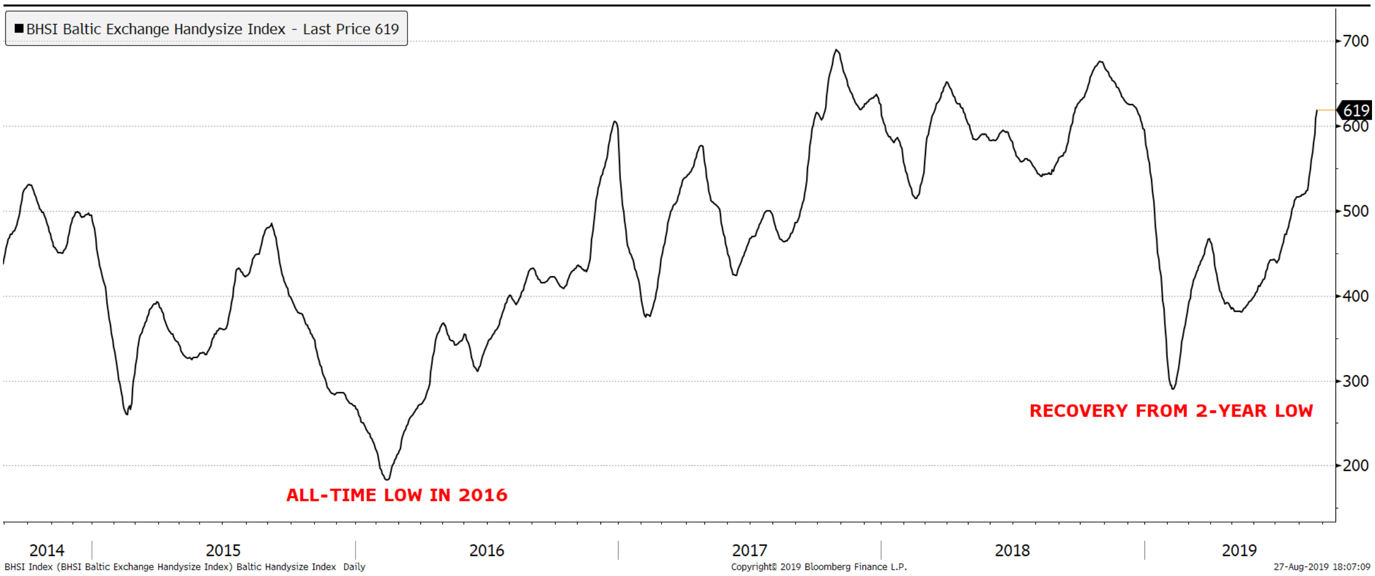
This report is prepared by KGI Securities (Singapore) under the SGX StockFacts Research Programme. See the last page for important disclosures.

Industry Review

Bulk shipping recovery. 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 Baltic Handysize Index (BHSI) is a better reflection of UAG's shipping business. The index touched a multi-year low in 1Q19 but has since more than doubled. Dayrates for the Handysize bulk carriers have lagged behind the bigger carriers, but may potentially catch up later this year. This is a positive turn of events as the downturn of the bulk carrier market in early 2019 was reported to be the second worst decline on record.

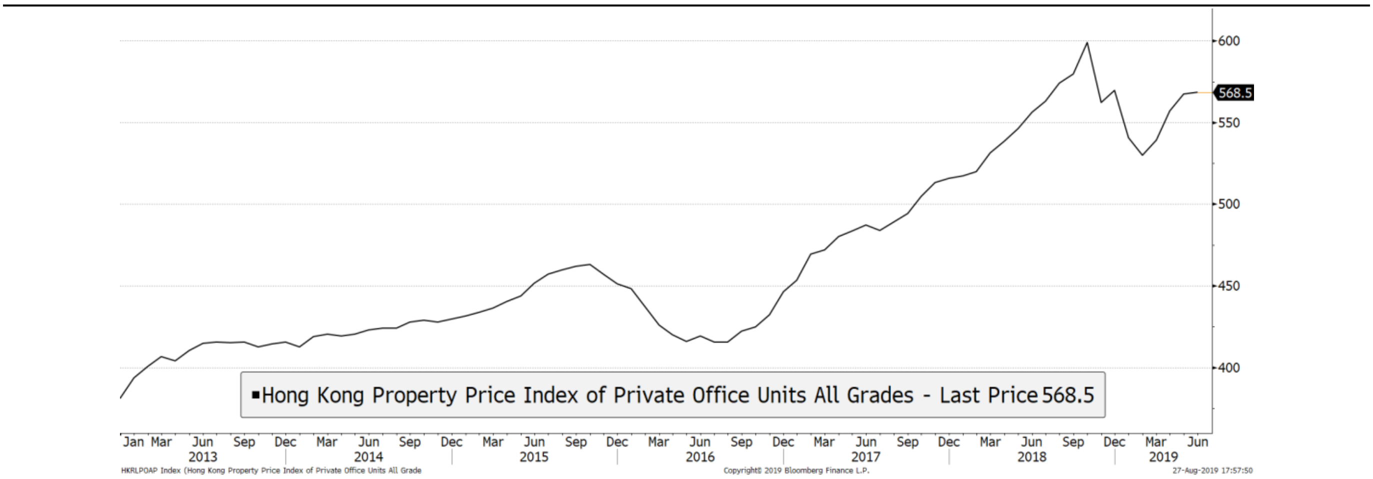
Figure 1: Baltic Exchange Handysize Index (BHSI)



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. As of the latest data for the month of June, HK property price index for all office grades is showing signs of moderating once again. HK's economic outlook for the year largely depends on the outcome of the US-China trade negotiations and on the peaceful resolution to the protests which has been ongoing since March 2019.

Figure 2: Hong Kong Property Price Index of private office units (All Grades)

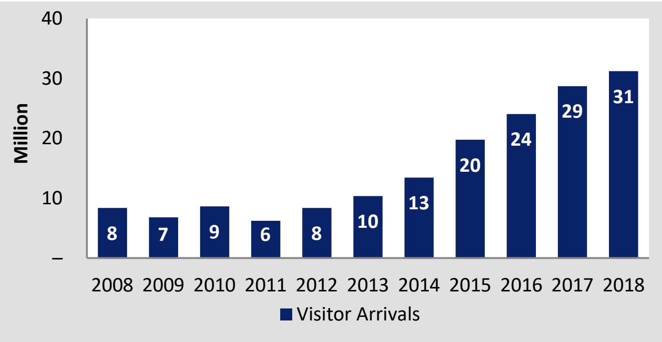


Source: Bloomberg, KGI Research

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. These two evens are widely expected to benefit the country's economy as a whole on the back of the surge in tourist arrivals and increased spending.

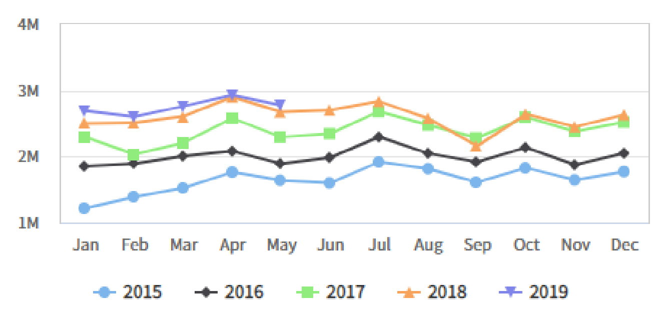
Figure 3: Japan visitor arrivals (2008-2018)



Source: Japan National Tourism Organisation (JNTO)

Japan attracted a record 31.2mn visitors in 2018, representing a 9% YoY increase and its seventh straight year of growth. 2019 is expected to be another record year, with May tourist arrivals increasing to around 2.8mn visitors, or a 3.7% YoY increase. Japan had already attracted a record 13.8mn visitors for the January to May period.

Figure 4: Tourist arrivals by months



Source: Japan National Tourism Organisation (JNTO)

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 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.

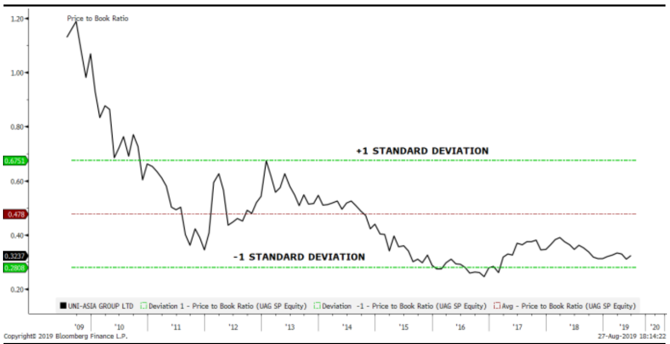
Finally, we valued Uni-Asia's hotel management business at 15x 2019F EPS, which is more than a 50% discount to the hotel management peers' average 25x 2019F EPS. The group aims to have 3,401 rooms under management by 2020, which we expect to help contribute at least US$1.5mm to US$2.5mn in recurring 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 5: SOTP valuation of Uni-Asia's businesses

Business Segments	FY18 NAV (US$m) KGI Est.	Valuation	Value (US$m)	Value (S$m)	Remarks
Shipping	84.3	0.3x FY18 P/B	25.3	32.9	Dry bulk shipping peers trading at 0.5 - 1.5x P/B
Properties	41.2	0.7x FY18 P/B	28.8	37.5	Value of properties is split between HK (40%) and Japan (60%). HK developers are trading at 0.7x P/B while Japan developers at 1.4x P/B.
Hotel		15x FY19F P/E	20.7	27.0	Hotel management peers are trading at >20x historical P/E
Total Equity Value			74.9	97.3	
Shares outstanding (m)			78.6		
TP (US$)		SGD/USD 1.3	0.95		
TP (S$)			1.24		
Upside (%)			*70%*		
Implied FY20F P/B (x)			0.57		
Implied FY20F P/E (x)			8.5		

Source: Company data, KGI Research

Figure 6: 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.

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.

SGX StockFacts Research Programme

This report is prepared by KGI Securities (Singapore) Pte. Ltd. ("KGISS") under the SGX StockFacts Research Programme ("Programme") administered by Singapore Exchange ("SGX"). KGISS will receive fees from the account maintained by SGX for providing research coverage on each participating company ("Listco") under the Programme.