

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.

#### 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 4<sup>th</sup> 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

#### OUTPERFORM - Maintain

Price as of 26 Aug 19 (SGD)	0.73	<b>Performance (Absolute)</b>	
12M TP (\$)	1.24	1 Month (%)	-1.4
Previous TP (\$)	1.24	3 Month (%)	-2.2
Upside (%)	70	12 Month (%)	-11.7
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
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%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
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

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 4<sup>th</sup> project in 1H20. Meanwhile, the 5<sup>th</sup> and 6<sup>th</sup> 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.

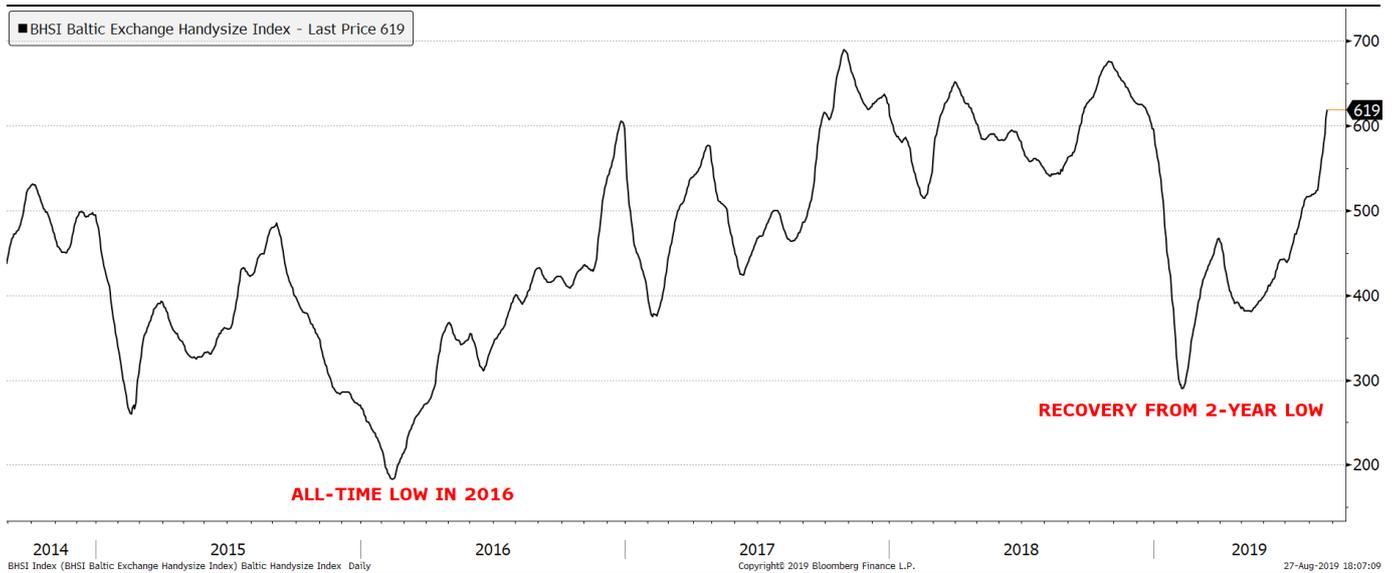
*This report is prepared by KGI Securities (Singapore) under the SGX StockFacts Research Programme. See the last page for important disclosures.*

## 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.

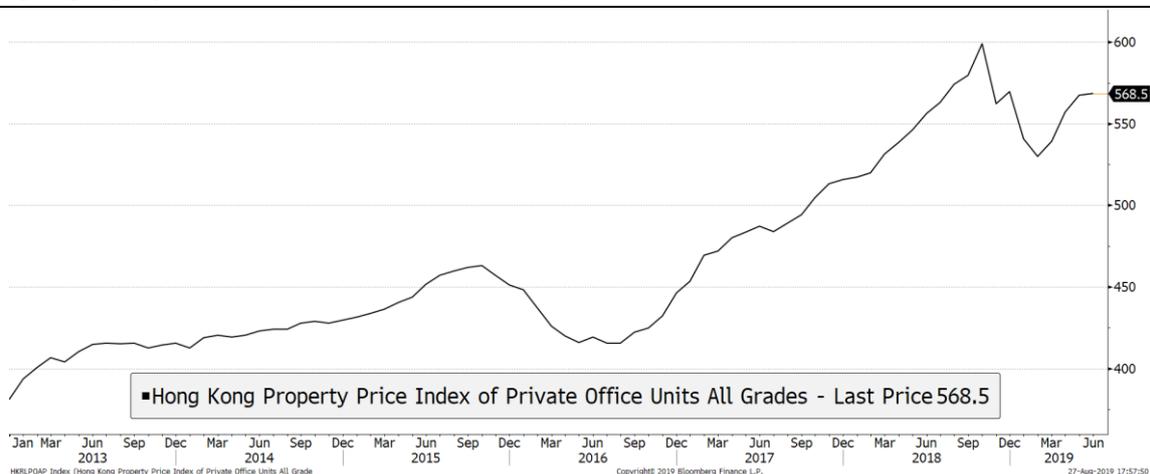
Figure 1: Baltic Exchange Handysize Index (BHSI)



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)

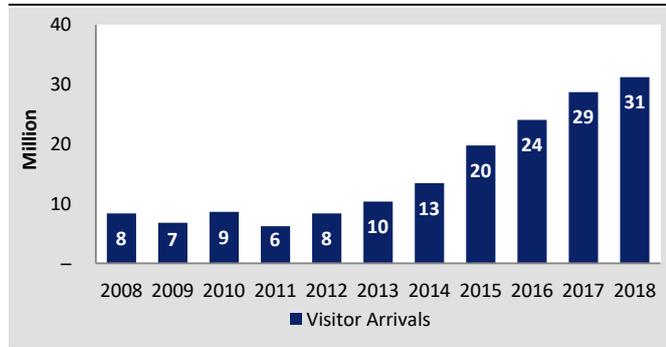


Source: Bloomberg, KGI Research

**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 events are widely expected to benefit the country’s economy as a whole on the back of the surge in tourist arrivals and increased spending.

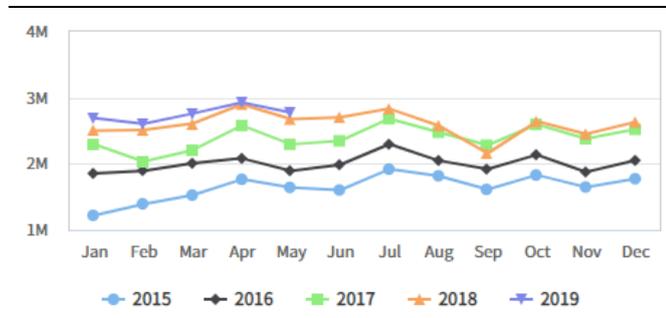
**Figure 3: Japan visitor arrivals (2008-2018)**



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\$2.5mm 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 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.

<b>KGI's Ratings</b>	<b>Rating</b>	<b>Definition</b>
	<b>Outperform (OP)</b>	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.
	<b>Neutral (N)</b>	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.
	<b>Underperform (U)</b>	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.
	<b>Not Rated (NR)</b>	The stock is not rated by KGI Securities.
	<b>Restricted (R)</b>	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.

## Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2019. KGI Securities (Singapore) Pte. Ltd. All rights reserved.

### 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.