

Uni-Asia Group Limited

(UAG SP/UAFC.SP)

Site visit to UAG's Tokyo hotels and residential properties

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- We recently visited UAG's hotel business and residential developments in Tokyo.
- Japan's tourism sector may reach new heights from hosting two of the world's largest sporting events.
- The country is currently hosting the 2019 Rugby World Cup, which ongoing from now until 2 November. Meanwhile, it is also preparing for the Tokyo Olympics scheduled for 24 July to 9 August 2020.
- We reiterate 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.

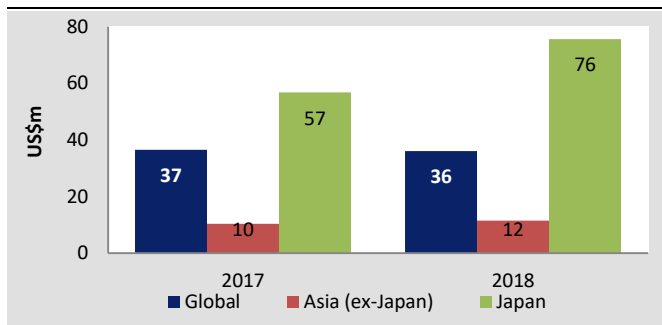
Financials & Key Operating Statistics

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

Uni-Asia: Tokyo drift. We had the opportunity to visit UAG's hotel business and small residential projects in Tokyo recently. 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 hotel operations. UAG's hotel operations are operated under the Hotel Vista brand, while its small residential projects are under the ALERO brand.

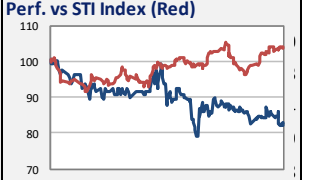
Figure 1: Revenue by geography



Source: Company data, KGI Research

Hotels are hot in Japan. 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 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. Even before the uplift from two of the world's largest

OUTPERFORM - Maintain

Price as of 25 Sep 19 (SGD)	0.71	Performance (Absolute)	
12M TP (\$)	1.24	1 Month (%)	0.0
Previous TP (\$)	1.24	3 Month (%)	-3.3
Upside (%)	74	12 Month (%)	-10.4
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	56		
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%	28-Aug-19	OP \$1.24
Evergreen Int'l	10.0%	17-May-19	OP \$1.24
		9-Apr-19	OP \$1.24

sporting events, tourist arrivals had already risen 9% YoY to a record 31.2mn visitor arrivals in 2018.

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

Valuation & Action: UAG's valuations are trading at distressed levels, which we believe is not justified given its diversified businesses and potential growth from its hotel operations. Even if we were to strip out its highly cyclical shipping business, we estimate UAG's minimum fair value to be around S\$0.82. We thus reiterate our **OVERWEIGHT** 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 6% dividend yield.

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

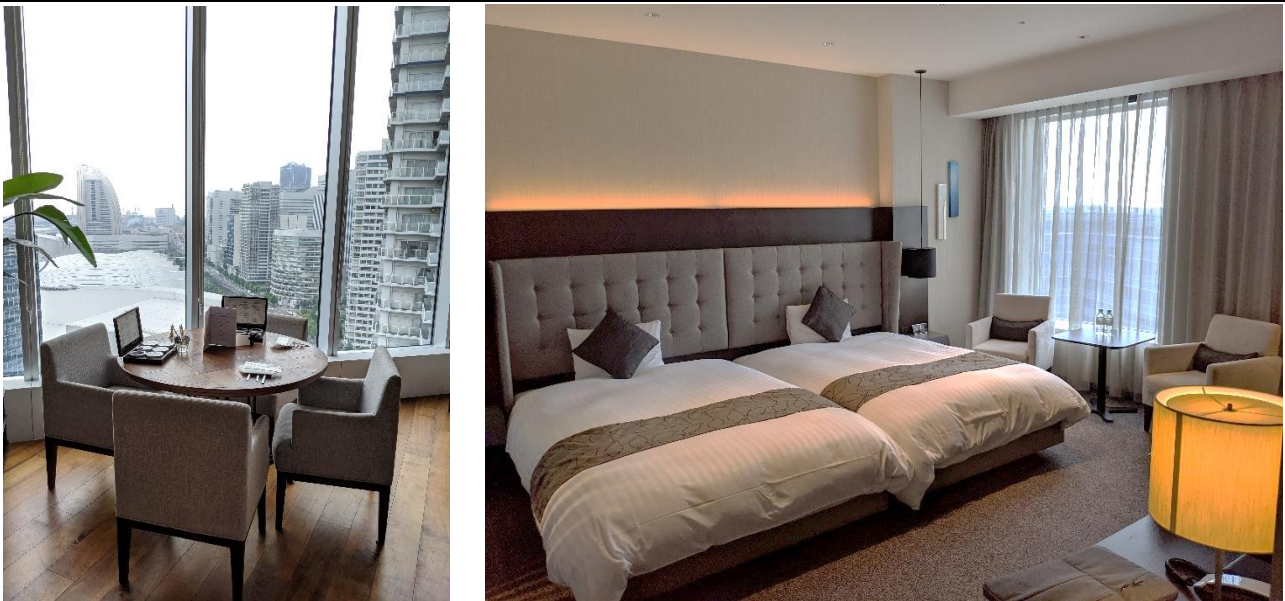
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Site visit – Tokyo, Japan

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.

The highlight of the site-visit would probably be the 232-room Hotel Vista Premio Yokohama Minato-Mirai located in Yokohama, Kanagawa. The hotel ranks highly on online travel websites, which is not surprising given the great location and the stunning views of Tokyo Bay.

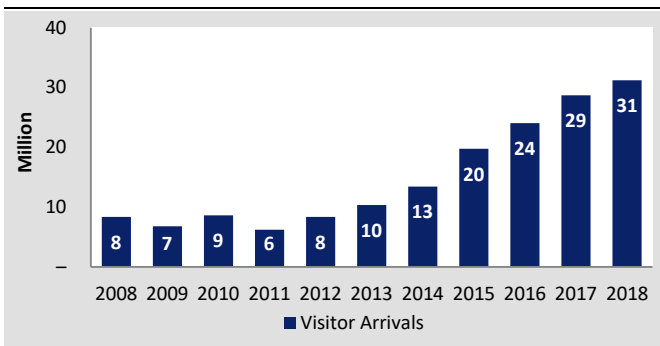
Figure 2: Hotel Vista Premio Yokohama Minato-Mirai, one of Vista's most prominent hotel located at a prime location overlooking Tokyo Bay



Source: 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.

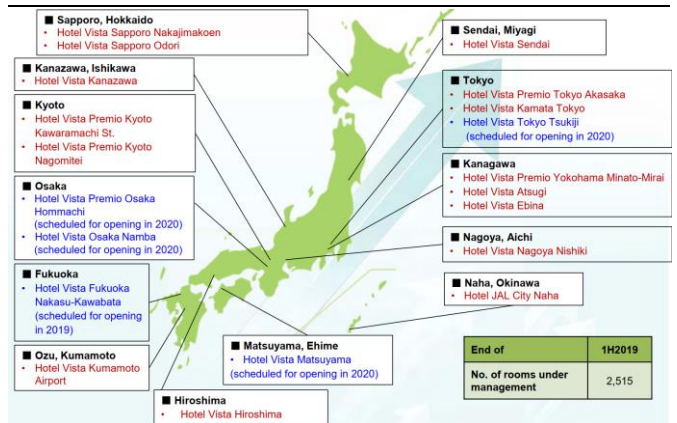
Figure 3: Japan visitor arrivals (2008-2018)



Source: Japan National Tourism Organisation (JNTO)

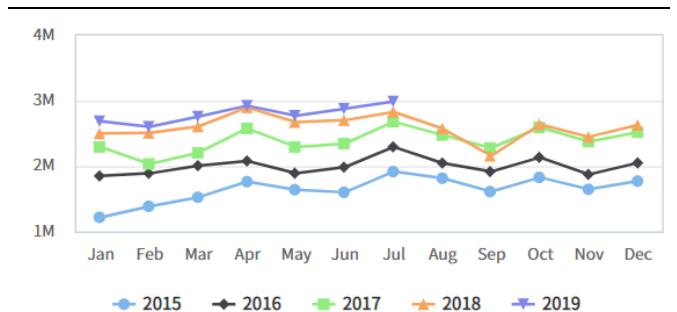
Japan attracted a record 31.2mn visitors in 2018, representing a 9% YoY increase and its seventh straight year of growth. 2019 is expected to be another record year, with July tourist arrivals increasing 6% YoY to almost 3.0mn visitors (Figure 5).

Figure 4: Current portfolio of hotels under operations



Source: Company

Figure 5: Tourist arrivals by months



Source: Japan National Tourism Organisation (JNTO)

Tokyo residential property investments

UAG invests and develops small residential property projects in Tokyo under the ALERO brand. These projects are typically 4-5 storey buildings with 10-30 units of studio or maisonette type flats and are popular with singles or couples. UAG completes an average of 7-8 projects per annum and generates an attractive 20% IRR for an investment period of two years. At the moment, UAG is only concentrating the development of its residential projects in Tokyo given the positive tailwinds of a robust property market in the capital. Demand for these type of residential properties are driven by Tokyo's increasing population, which in turn is mainly driven by young people flocking to the capital for study and work.

Figure 6: ALERO Shinjuku-Seven. UAG develops, sells and subsequently manages the properties for the owners.



Source: KGI Research

Figure 7: A 4-story cat-friendly condo. This project was recently completed in July 2019 and has a total of 23 units.



Source: KGI Research

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.

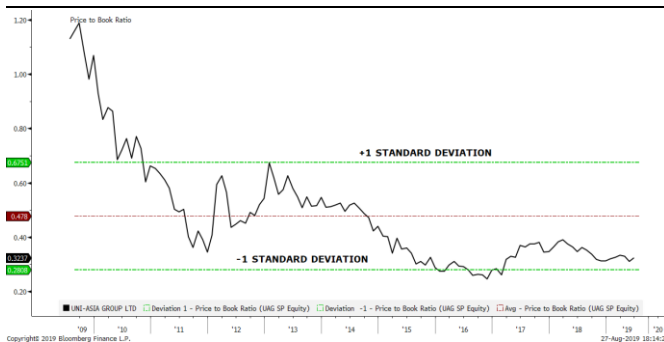
Finally, we valued Uni-Asia's hotel management business at 15x 2019F EPS, which is more than a 50% discount to the hotel management peers' average 25x 2019F EPS. The group aims to have 3,401 rooms under management by 2020, which we expect to help contribute at least US\$1.5mm to US\$2.5mm in recurring 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 8: 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 9: 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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	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.
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