KGI CHINA DEVELOPMENT FINANCIAL

COMPANY UDPATE Marine; Property ▪ Singapore

Uni-Asia Group Limited

(UAG SP/UAFC.SP)

Well-positioned for growth; opportunity to accumulate

BUY - Maintain

Price as of 13 Dec 2017	1.23
12M target price (S$)	1.85
Previous target price (S$)	1.92
Upside (%)	50.4

Trading data

Mkt Cap (S$m) / (US$m)	57.8 / 43
Issued Shares (m)	47.0
Ave Daily Traded (3-Month) Vol / Val	0.1m / $0.1m
52 week lo / hi	$0.94 / $1.55
Free Float	100.0%

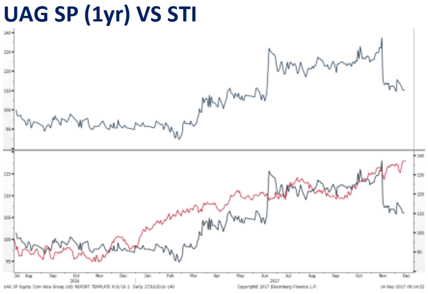
Major Shareholders

Yamasa Co Ltd	33.5%
Evergreen Int'l	10.0%

Previous Recommendations

Date	Rating	Share Price (S$)	Target Price (S$)
21-Aug-17	BUY	1.370	1.920
19-Jun-17	BUY	1.170	1.920

UAG SP (1yr) VS STI



Source: Bloomberg

Event

Uni-Asia's share price has declined around 15% since its recent peak in November following the announcement of its 3Q17 results. The sell-off may be unjustified given that results were in-line with our estimates. Furthermore, Uni-Asia continues to make good progress in all three of its business units.

Bulk shipping fundamentals steadily improving. The Baltic Dry Index (BDI) has risen to its highest level in more than three years amid a recovery in iron ore and coal prices. We note the recovery in the BDI is also due to the better supply-demand balance of dry bulk vessels; orders as a percentage of total tonnage has declined to a more sustainable level.

Uplift from hotel business ahead of Tokyo 2020 Olympics and Rugby World Cup 2019. In its hotel business, Uni-Asia will be operating 16 hotels with 2,650 rooms in Japan by FY18, in-line with the group's target of having 3,000 rooms under its management by FY19. This will be an important milestone as earnings contribution from hotel operations by itself can potentially provide a recurring net profit of US$2.0-2.5m p.a. when it achieves this scale.

Balance sheet improvement in 1H18. In the short-term, Uni-Asia's balance sheet is expected to improve in 1H18 as it recognises the bulk of profits and cash inflow from the completion of its 2nd HK property.

Valuation & Action

We reiterate our **BUY recommendation and fair value of S$1.85**, based on the sum-of-the-parts (SOTP) valuation of its 3 business segments. Our TP is an implied 0.5x FY17F P/B and 8.2x FY17F P/E. Uni-Asia is positioned to ride the growth in its 3 business segments as 1) we expect a dry bulk shipping recovery, 2) completion of its second Hong Kong property which we estimate would yield US$5m profit this year and a signficant cash inflow (KGI estimate: US$15-20m) in 1H18, and 3) an increase in hotel rooms under operations ahead of two of the world's largest sporting events to be held in Japan – the Rugby World Cup 2019 and Tokyo 2020 Olympics.

Risks

Uni-Asia's shipping business (40% of Uni-Asia's FY16 revenues) is cyclical in nature. The dry bulk segment has been particularly challenging in the last five years due to the oversupply of vessels in the industry.

Financials & Key Operating Statistics

YE Dec (US$m)	2015	2016	2017F	2018F	2019F
Revenue	77.1	86.3	90.6	97.1	103.6
PATMI	2.7	-14.2	7.8	6.7	7.3
Core PATMI	4.1	-1.8	7.8	6.7	7.3
Core EPS	8.7	-3.9	16.7	14.2	15.5
Core EPS grth (%)	125.6	na	na	-15.0	9.6
Core P/E (x)	10.4	-23.4	5.5	6.4	5.9
DPS (SGCents)	6.3	3.0	4.0	4.0	4.0
Div Yield (%)	5.1	2.4	3.3	3.3	3.3
Net Margin (%)	3.5	-16.4	8.6	6.9	7.1
Gearing (%)	95.6	119.0	111.7	99.7	83.7
Price / Book (x)	0.3	0.4	0.3	0.3	0.3
ROE (%)	1.9	-11.3	5.9	4.8	5.0

Source: Company Data, KGI Research

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See the last page for important disclosures.

SOTP Valuation

We used a SOTP valuation and an exchange rate of 1.35 SGD/USD to derive our fair value of S$1.85. Our fair value is an attractively implied 0.5x FY17 P/B and 8.2x FY17F P/E. In summary, Uni-Asia's shipping, property and hotel business contribute 37%, 43% and 21%, 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 does not factor in the improving outlook in the dry bulk shipping sector. FY16 was an exceptionally difficult year for the dry bulk sector following the decline to an all-time low for the Baltic Dry Index (BDI), which resulted in Uni-Asia having to take impairments and provision of US$12m during this period. However, the BDI, which tracks the cost of shipping commodities such as iron ore and coal around the world, has started to recover on the back of improving supply-demand dynamics of dry bulk carriers.

Its properties segment is divided into investments in two commercial buildings in Hong Kong and small residential properties in Tokyo. One Hong Kong property project is expected to be completed in 2H17 and the other office property to be completed by FY19. 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 within the next two years. Hong Kong and Japanese properties have seen continual cap rate compression in 2016 and 2017.

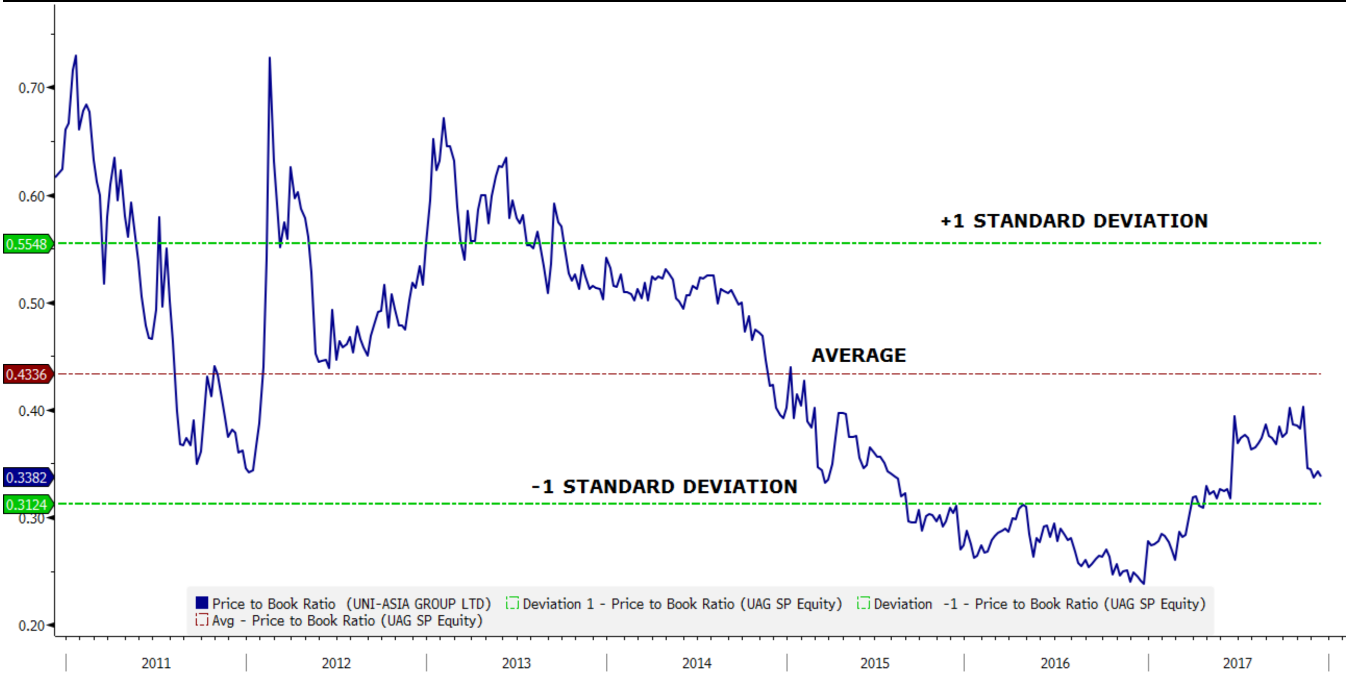
Finally, we valued Uni-Asia's hotel management business at 10x FY17F P/E, which is more than a 50% discount to the hotel management peers' average 25x FY17F P/E. The group aims to have 3,000 rooms under management by FY19, which we expect to help contribute at least US$2.5m in recurring net profit by FY20. We find this segment the most promising among Uni-Asia's business segment in terms of contribution to the group's bottom line in the next three years. It has managed to grow this segment's profit before tax to US$1.0m in FY16 from just US$0.1m in FY14.

Figure 1: SOTP valuation of Uni-Asia's businesses

Business Segments	FY17F NAV (US$m) KGI Est.	Valuation	Value (US$m)	Value (S$m)	Remarks
Shipping	79.2	0.3x FY17F P/B	23.8	32.1	Dry bulk shipping peers trading at 0.5 - 1.5x P/B
Properties	39.1	0.7x FY17F P/B	27.4	37.0	Value of properties is split between HK (40%) and Japan (60%). HK developers are trading at 0.7x P/B while Japan developers at 1.4x P/B.
Hotel	5.2	10x FY18F P/E	13.2	17.8	Hotel management peers are trading at >20x historical P/E
Total Equity Value			64.4	86.9	
Shares outstanding (m)			47.0		
TP (US$)		SGD/USD 1.35	1.37		
TP (S$)			1.85		
Upside (%)			*50%*		
Implied FY17F P/B (x)			0.51		
Implied FY17F P/E (x)			8.2		

Source: KGI Research

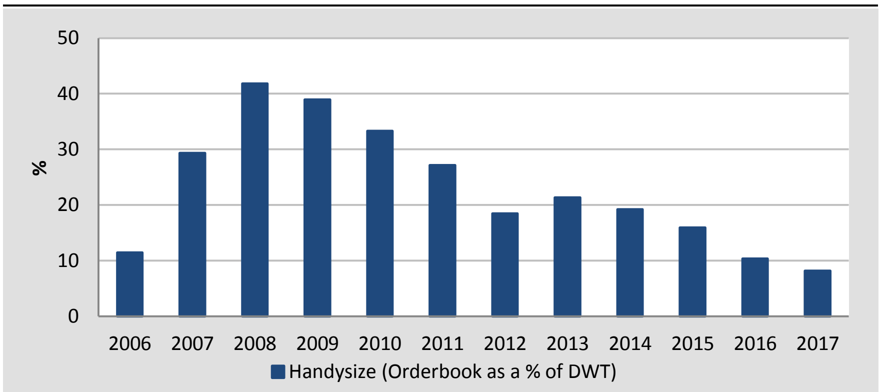
Figure 2: Uni-Asia is still trading below its 7-year P/B Average despite improving fundamentals



Source: Bloomberg

Turnaround in bulk shipping. A contracting orderbook and low future new orders due to limited financing availability are keeping a check on future deliveries. The orderbook for handysize dry bulk carrier as a percentage of the total fleet, which is a strong indicator of future deliveries, currently stands at a decade low. The handysize orderbook-to-delivery ratio has dropped to 8% from a high of 41% before the onset of the global financial crisis in 2008.

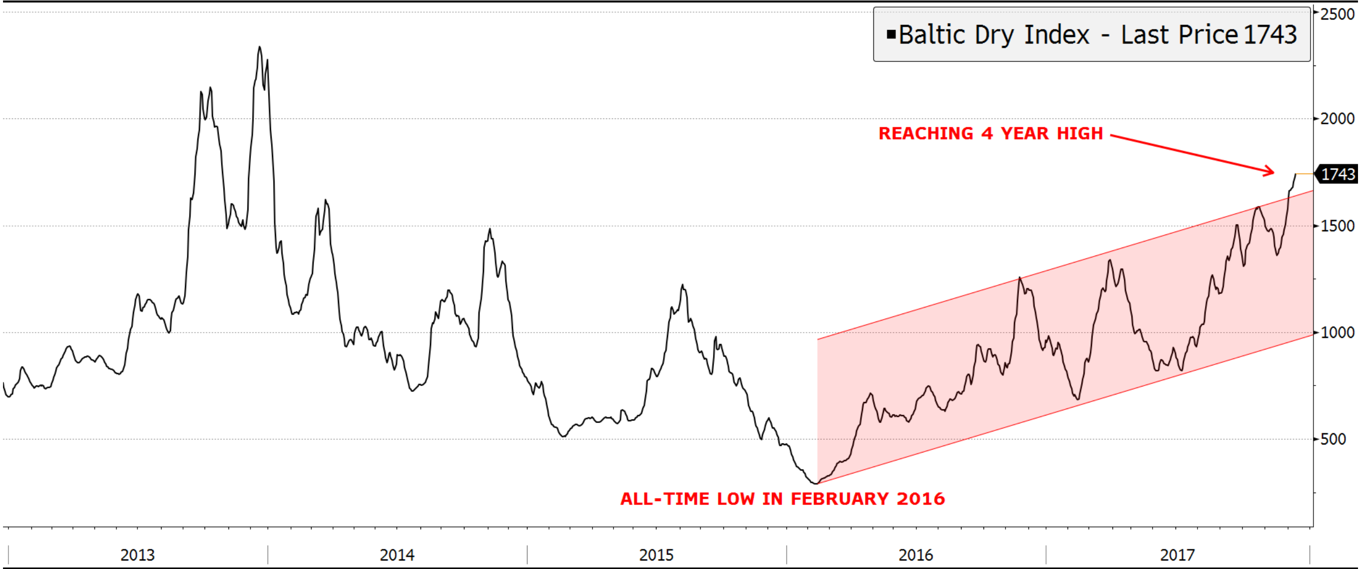
Figure 3: Orderbook as a percentage of total fleet is at a record low



Source: Bloomberg, KGI Research

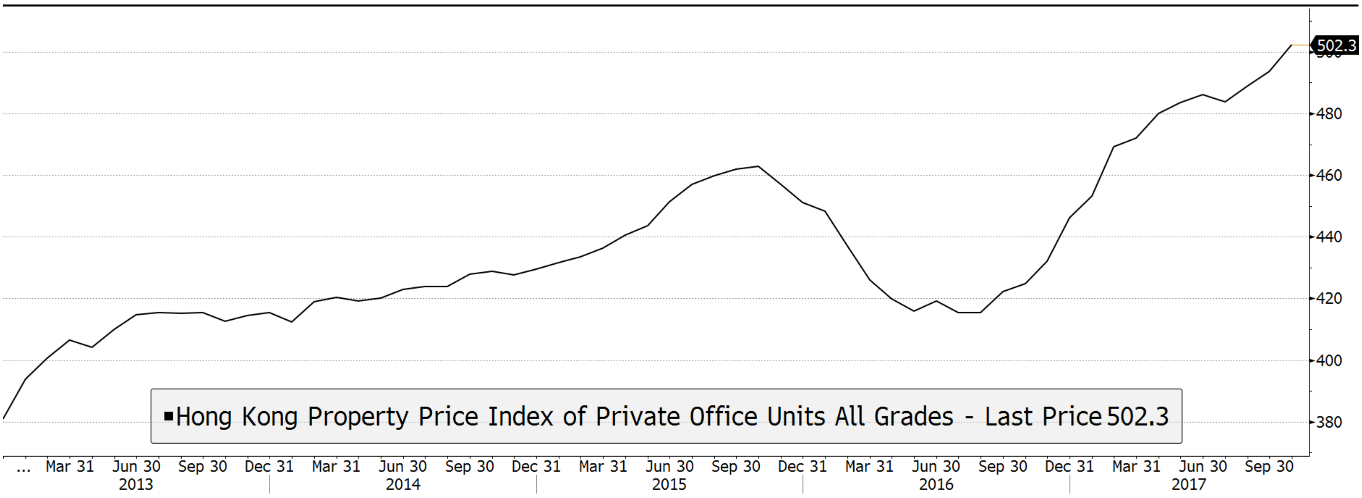
Increased scrapping may help supply-demand balance. The dry bulk carrier supply-side may grow slower-than-expected due to higher scrapping. The environmental regulations on Ballast Water Treatment System (BWTS) and the International Maritime Organization's (IMO) regulation on use of low sulphur fuel oil in 2020 may result in high scrapping of old tonnages (>20 years old). Ship owners may prefer to scrap their old tonnage, with low earnings potential, than incur additional cost on scrubber and Ballast Water Treatment Systems.

Figure 4: The Baltic Dry Index is beginning to show signs of recovery as dry bulk demand is expected to grow 3% and supply side growth slows to 1% from 2017. The BDI is a good indicator of the level of global trade for commodities such as iron ore, coal and grains.



Source: Bloomberg

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



Source: Bloomberg

3Q17 results breakdown

Figure 6: Revenue and net income breakdown between its business segments

(US$'000)		3rd Quarter 2017	3rd Quarter 2016	3rd Quarter % Change	9 months ended 30 September 2017	9 months ended 30 September 2016	9 months ended 30 September % Change
Shipping (and related financial services)	Revenue	9,127	8,501	7%	31,185	23,274	34%
	Net Profit / (Loss)	413	(1,025)	N/M	5,360	(3,758)	N/M
Property and Hotels (and related financial services)	Revenue	16,340	14,531	12%	42,494	41,433	3%
	Net Profit / (Loss)	1,181	1,596	(26%)	4,440	7,617	(42%)
Headquarters Headquarters' shared corporate services	Revenue	7	10	(30%)	33	29	14%
	Net Profit / (Loss)	(1,427)	(1,289)	11%	(4,112)	(3,365)	(22%)
Group Total	Revenue	25,418	22,956	11%	73,550	64,481	14%
	Net Profit / (Loss)	167	(719)	N/M	5,688	493	N/M

Source: Company presentation slides

Financials

YE 31 Dec					
INCOME STATEMENT (US$m)	2015	2016	2017F	2018F	2019F
Revenue	**77.1**	**86.3**	**90.6**	**97.1**	**103.6**
Cost of sales	0.0	0.0	0.0	0.0	0.0
Gross Profit	**77.1**	**86.3**	**90.6**	**97.1**	**103.6**
Other operating income/(expenses)	0.0	0.0	0.0	0.0	0.0
Selling and distribution	0.0	0.0	0.0	0.0	0.0
Admin	0.0	0.0	0.0	0.0	0.0
Profit from Operations	**10.3**	**6.0**	**7.2**	**7.8**	**8.3**
Finance income/(expenses)	(4.1)	(5.4)	(2.3)	(1.9)	(1.6)
Share of JV results	(0.9)	0.2	5.0	3.0	3.0
Exceptionals/Investment income	(1.4)	(12.3)	0.0	0.0	0.0
Profit before Tax	**3.9**	**(11.5)**	**10.0**	**8.8**	**9.6**
Income tax	(0.4)	(0.7)	(0.6)	(0.6)	(0.6)
Non-controlling interests	(0.8)	(1.9)	(1.5)	(1.6)	(1.7)
PATMI	**2.7**	**(14.2)**	**7.8**	**6.7**	**7.3**
PATMI Normalized	4.1	(1.8)	7.8	6.7	7.3
BALANCE SHEET (US$m)	2015	2016	2017F	2018F	2019F
Cash and cash equivalents	30.3	35.6	18.9	17.5	24.5
Trade and other receivables	9.3	8.8	9.2	9.9	10.5
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	24.9	15.1	15.1	15.1	15.1
Current Assets	**64.6**	**59.5**	**43.3**	**42.5**	**50.1**
Property, plant and equipment	0.0	195.3	189.1	182.1	169.3
Other non-current assets	77.9	73.0	74.7	76.6	78.4
Non-current Assets	**77.9**	**268.2**	**263.8**	**258.7**	**247.8**
Total assets	**142.4**	**327.7**	**307.1**	**301.2**	**297.9**
Trade and other payables	6.4	8.8	0.0	0.0	0.0
Borrowings (current)	54.5	54.3	57.0	61.1	65.1
Other current liabilities	0.8	3.6	3.3	3.3	3.3
Current Liabilities	**61.8**	**66.7**	**60.3**	**64.3**	**68.5**
Borrowings (non-current)	109.8	131.1	110.1	94.4	80.6
Other non-current liabilities	2.3	4.0	4.0	4.0	4.0
Non-current liabilities	**112.2**	**135.1**	**114.1**	**98.4**	**84.5**
Shareholders equity	138.1	121.7	127.0	131.1	135.9
Non-controlling interests	2.1	4.2	5.7	7.3	9.0
Total Equity	**140.2**	**125.9**	**132.7**	**138.4**	**144.9**
Total Liabilities and Equity	**314.2**	**327.7**	**307.1**	**301.2**	**297.9**
CASH FLOW STATEMENT (US$m)	2015	2016	2017F	2018F	2019F
Net income before tax	3.9	(11.5)	10.0	8.8	9.6
Depreciation & non cash adjustments	13.4	26.6	13.4	13.9	19.3
Change in Working Capital	(2.9)	2.9	(6.7)	1.9	1.9
Income Tax Paid	0.0	(0.3)	(0.9)	(0.6)	(0.6)
Interest Paid	(4.1)	(5.4)	(4.9)	(4.5)	(4.2)
CF from operating activities	**10.3**	**12.3**	**11.0**	**19.5**	**26.1**
Purchase/Disposal of PPE	(86.8)	(25.6)	(5.0)	(5.0)	(5.0)
Other CFI	0.0	0.0	0.0	0.0	0.0
CF from investing activities	**(83.6)**	**(10.5)**	**(5.0)**	**(5.0)**	**(5.0)**
Dividends Paid	(2.2)	(2.2)	(2.5)	(2.5)	(2.5)
Debt Raised / (Repaid)	73.9	12.5	(18.3)	(11.6)	(9.8)
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(0.5)	(0.3)	0.0	0.0	0.0
CF from financing activities	**67.5**	**5.2**	**(20.9)**	**(14.1)**	**(12.4)**
Net increase in cash & cash equiv.	(6.0)	5.2	(16.6)	(1.4)	7.0
FX effects	(0.2)	(1.8)	(1.8)	(1.8)	(1.8)
Beginning Cash	36.3	30.3	35.6	18.9	17.5
Ending Cash	**30.3**	**35.6**	**18.9**	**17.5**	**24.5**
KEY RATIOS	2015	2016	2017F	2018F	2019F
Profitability					
Core EPS	8.7	(3.9)	16.7	14.2	15.5
Core EPS Growth (%)	125.6	(144.7)	(527.9)	(15.0)	9.6
DPS (SGD Cents)	6.3	3.0	4.0	4.0	4.0
Dividend Yield (%)	5.1	2.4	3.3	3.3	3.3
Profitability					
EBITDA margin	13.4%	19.3%	20.3%	20.3%	20.3%
Net margin	3.5%	-16.4%	8.6%	6.9%	7.1%
ROE	1.9%	-11.3%	5.9%	4.8%	5.0%
ROA	1.9%	-4.3%	2.6%	2.2%	2.5%
Financial Structure (x)					
Interest coverage	2.5	1.1	1.5	1.7	2.0
Total Debt/Equity	1.2	1.5	1.3	1.1	1.0
Net Gearing	1.0	1.2	1.1	1.0	0.8

Source: KGI Research

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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