



CHINA  
DEVELOPMENT  
FINANCIAL

# Uni-Asia Group Limited

(UAG SP/UAFC.SP)

## BUY - Maintain

Price as of 15 Mar 2018	1.45
12M target price (S\$)	1.81
Previous target price (S\$)	1.85
Upside (%)	24.6

## Trading data

Mkt Cap (S\$m) / (US\$m)	68.1 / 52
Issued Shares (m)	47.0
Ave Daily Traded (3-Month) Vol / Val	0.0m / \$0.0m
52 week lo / hi	\$1.02 / \$1.55
Free Float	51.0%

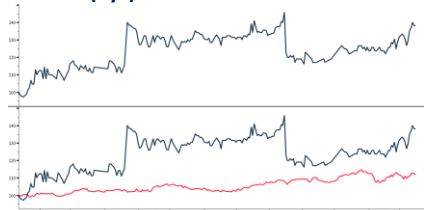
## Major Shareholders

Yamasa Co Ltd	33.5%
Evergreen Int'l	10.0%

## Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
13-Dec-17	BUY	1.230	1.850
21-Aug-17	BUY	1.370	1.920
19-Jun-17	BUY	1.170	1.920

## UAG SP (1yr) VS STI



Source: Bloomberg

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

See the last page for important disclosures.

## Surprise 6.25 cents dividend; Upside from HK property

### Event

**Turnaround with surprise dividend uplift.** 4Q17 PATMI of US\$1.4mn was a huge turnaround from the US\$13.6mn losses incurred in the same period last year. Revenues in 4Q17 rose 39% YoY due mainly to growth in its hotel income (+18% YoY) and a surge in investment returns (+294% YoY). Uni-Asia recognised a higher-than-expected US\$6.8mn fair value gain for its 2<sup>nd</sup> HK project, offset by fair value losses for its tankers and containership investments. Excluding the fair value losses from its shipping investments, 4Q17 earnings could have been US\$4.3mn or 134% higher. It declared a 6.25 SG cents full-year dividend - double that given out in 2016 - implying a decent 4.3% dividend yield.

**Firm bulk shipping fundamentals.** Despite retracing back from its 4-year high in Dec-17, the Baltic Dry Index (BDI) has continued to remain above 1000pts 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 in Japan, Uni-Asia will be operating 21 hotels with 2,952 rooms by 2019. This will be an important milestone as earnings contribution from hotel operations can potentially provide a recurring net profit of US\$2.0-2.5m p.a. when it achieves this scale.

### Valuation & Action

We reiterate our **BUY recommendation and fair value of S\$1.81**, based on the sum-of-the-parts (SOTP) valuation of its 3 business segments. Our TP is an implied 0.5x FY18F P/B and 10x FY18F P/E. Uni-Asia is positioned to ride the growth in its 3 business segments: 1) dry bulk shipping recovery, 2) completion of its 2<sup>nd</sup>/3<sup>rd</sup> HK property and investment into its 4<sup>th</sup>/5<sup>th</sup> HK property 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. In the short term, its balance sheet is expected to improve as it receives cash inflow from the completion of its 2<sup>nd</sup> HK property.

### 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)	2016	2017	2018F	2019F	2020F
Revenue	86.3	103.9	106.4	112.7	117.0
PATMI	-14.2	6.2	6.5	7.4	8.3
Core PATMI	-1.8	6.2	6.5	7.4	8.3
Core EPS	-3.9	13.2	13.8	15.9	17.6
Core EPS grth (%)	-144.7	-439.9	3.8	15.2	10.8
Core P/E (x)	-28.6	8.4	8.1	7.0	6.3
DPS (SGCents)	3.0	6.3	6.3	6.3	6.3
Div Yield (%)	2.1	4.3	4.3	4.3	4.3
Net Margin (%)	-16.4	6.0	6.1	6.6	7.1
Gearing (%)	119.0	129.6	127.4	112.3	100.8
Price / Book (x)	0.4	0.4	0.4	0.4	0.4
ROE (%)	-11.3	4.6	4.6	5.0	5.3

Source: Company Data, KGI Research

## SOTP Valuation

We used a SOTP valuation and an exchange rate of 1.30 SGD/USD to derive our fair value of S\$1.81. Our fair value is an implied 0.5x FY18 P/B and 10x FY18F 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.

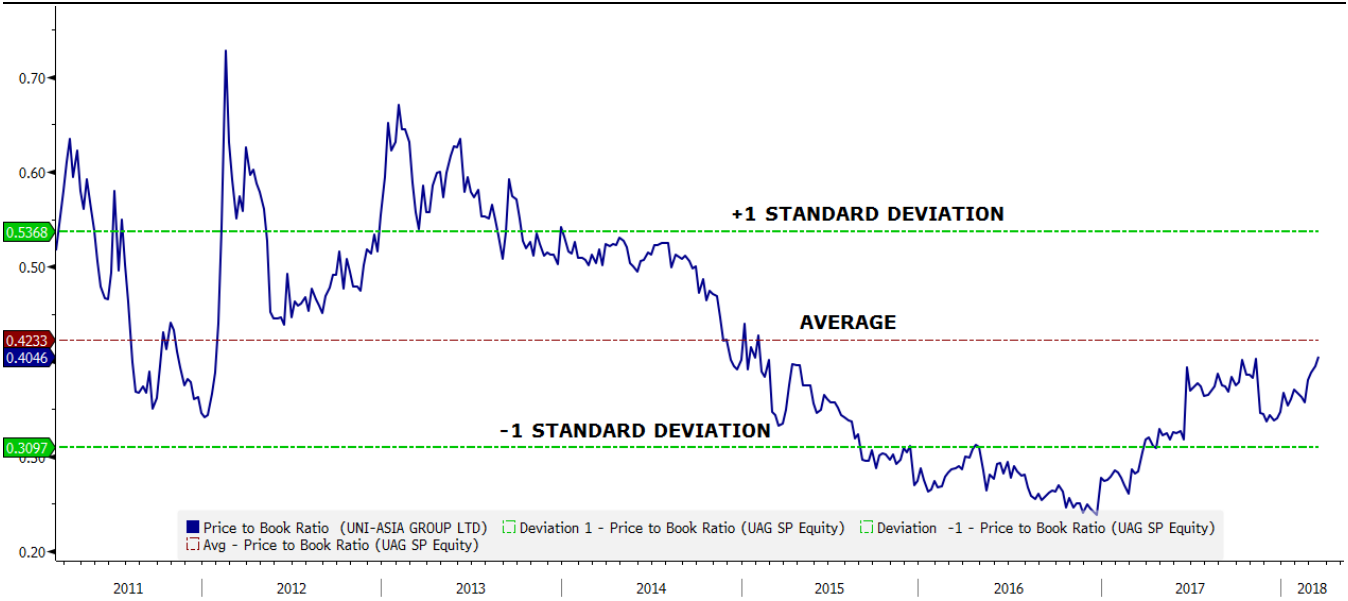
Finally, we valued Uni-Asia's hotel management business at 10x FY17F P/E, which is more than a 50% discount to the hotel management peers' average 25x FY17F P/E. The group aims to have 3,000 rooms under management by FY19, which we expect to help contribute at least US\$2.5m in recurring net profit by 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 FY17 P/B	23.8	30.9	Dry bulk shipping peers trading at 0.5 - 1.5x P/B
Properties	39.1	0.7x FY17 P/B	27.4	35.6	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	14.1	18.4	Hotel management peers are trading at >20x historical P/E
Total Equity Value			65.3	84.9	
Shares outstanding (m)			47.0		
TP (US\$)		SGD/USD 1.3	1.39		
TP (S\$)			1.81		
Upside (%)			25%		
Implied FY18F P/B (x)			0.49		
Implied FY18F P/E (x)			10.1		

Source: KGI Research

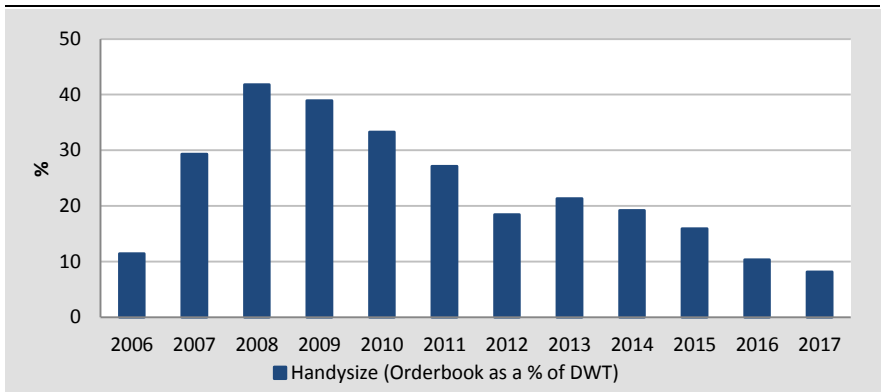
Figure 2: Uni-Asia is still trading below its 7-year P/B Average despite improving fundamentals



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.

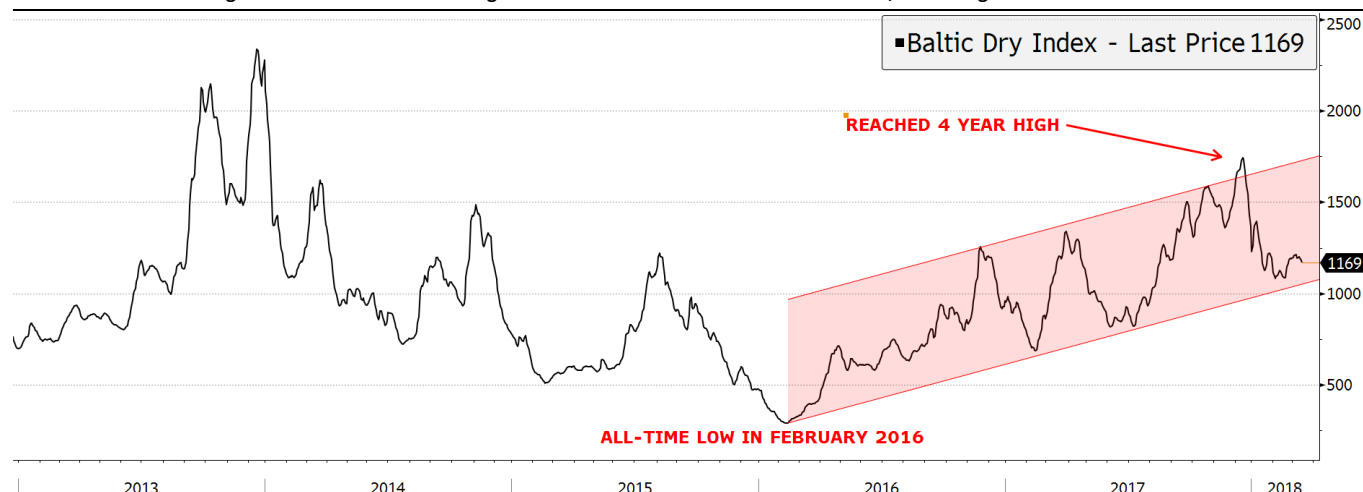
Figure 3: Orderbook as a percentage of total fleet is at a record low



Source: Bloomberg, KGI Research

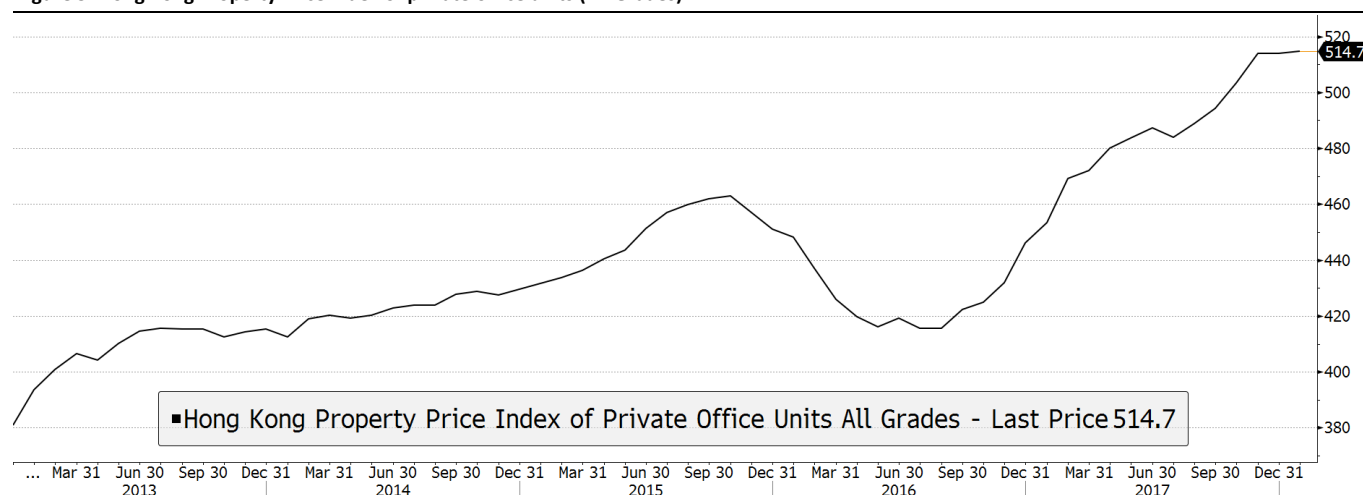
**Increased scrapping may help supply-demand balance.** The dry bulk carrier supply-side may grow slower-than-expected due to higher scrapping. The environmental regulations on Ballast Water Treatment System (BWTS) and the International Maritime Organization’s (IMO) regulation on use of low sulphur fuel 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

### 4Q17 results breakdown

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

(US\$'000)		4 <sup>th</sup> Quarter			Financial Year		
		2017	2016	% Change	2017	2016	% Change
<b>Shipping</b> (and related financial services)	Revenue	8,796	7,130	23%	39,981	30,404	31%
	Net Profit / (Loss)	(1,941)	(14,454)	(87%)	3,419	(18,212)	NM
<b>Property and Hotels</b> (and related financial services)	Revenue	21,560	16,524	30%	64,054	57,957	11%
	Net Profit / (Loss)	6,902	4,358	58%	11,342	11,975	(5%)
<b>Headquarters</b> <i>Headquarters' shared corporate services</i>	Revenue	21	12	75%	54	41	32%
	Net Profit / (Loss)	(1,783)	(861)	107%	(5,895)	(4,226)	39%
<b>Group Total</b>	Revenue	30,324	21,817	39%	103,874	86,298	20%
	Net Profit / (Loss)	3,178	(12,721)	NM	8,866	(12,228)	NM

Source: Company presentation slides

**Financials**

YE 31 Dec

<b>INCOME STATEMENT (US\$m)</b>	2016	2017	2018F	2019F	2020F
<b>Revenue</b>	<b>86.3</b>	<b>103.9</b>	<b>106.4</b>	<b>112.7</b>	<b>117.0</b>
Cost of sales	0.0	0.0	0.0	0.0	0.0
<b>Gross Profit</b>	<b>86.3</b>	<b>103.9</b>	<b>106.4</b>	<b>112.7</b>	<b>117.0</b>
Other operating income/(expenses)	0.0	0.0	0.0	0.0	0.0
<b>Profit from Operations</b>	<b>6.0</b>	<b>15.4</b>	<b>12.8</b>	<b>13.5</b>	<b>14.0</b>
Finance income/(expenses)	(5.4)	(6.2)	(5.3)	(4.9)	(4.4)
Share of JV results	0.2	0.0	2.0	2.0	2.0
Exceptionals/Investment income	(12.3)	0.0	0.0	0.0	0.0
<b>Profit before Tax</b>	<b>(11.5)</b>	<b>9.2</b>	<b>9.5</b>	<b>10.7</b>	<b>11.6</b>
Income tax	(0.7)	(0.3)	(0.3)	(0.3)	(0.4)
Non-controlling interests	(1.9)	(2.6)	(2.7)	(2.9)	(3.0)
<b>PATMI</b>	<b>(14.2)</b>	<b>6.2</b>	<b>6.5</b>	<b>7.4</b>	<b>8.3</b>
PATMI Normalized	(1.8)	6.2	6.5	7.4	8.3
<b>BALANCE SHEET (US\$m)</b>	2016	2017	2018F	2019F	2020F
Cash and cash equivalents	35.6	40.6	11.2	10.5	5.1
Trade and other receivables	8.8	14.7	15.0	15.9	16.5
Inventory	0.0	0.0	0.0	0.0	0.0
Other current assets	15.1	35.4	35.4	35.4	35.4
<b>Current Assets</b>	<b>59.5</b>	<b>90.6</b>	<b>61.6</b>	<b>61.8</b>	<b>57.0</b>
Property, plant and equipment	195.3	222.9	-5.9	-17.5	-29.5
Other non-current assets	73.0	56.3	58.0	59.8	61.5
<b>Non-current Assets</b>	<b>268.2</b>	<b>279.3</b>	<b>52.1</b>	<b>42.3</b>	<b>32.1</b>
<b>Total assets</b>	<b>327.7</b>	<b>369.9</b>	<b>113.7</b>	<b>104.1</b>	<b>89.1</b>
Trade and other payables	8.8	11.7	0.0	0.0	0.0
Borrowings (current)	54.3	66.5	68.1	72.1	74.9
Other current liabilities	3.6	3.0	3.2	3.3	3.3
<b>Current Liabilities</b>	<b>66.7</b>	<b>81.1</b>	<b>71.3</b>	<b>75.4</b>	<b>78.2</b>
Borrowings (non-current)	131.1	150.3	123.2	104.4	86.7
Other non-current liabilities	4.0	2.5	2.5	2.5	2.5
<b>Non-current liabilities</b>	<b>135.1</b>	<b>152.8</b>	<b>125.7</b>	<b>106.9</b>	<b>89.2</b>
Shareholders equity	121.7	128.4	131.0	134.6	139.1
Non-controlling interests	4.2	7.6	10.3	13.2	16.2
<b>Total Equity</b>	<b>125.9</b>	<b>136.0</b>	<b>141.3</b>	<b>147.8</b>	<b>155.2</b>
<b>Total Liabilities and Equity</b>	<b>327.7</b>	<b>369.9</b>	<b>338.3</b>	<b>330.1</b>	<b>322.6</b>
<b>CASH FLOW STATEMENT (US\$m)</b>	2016	2017	2018F	2019F	2020F
Net income before tax	(11.5)	9.2	9.5	10.7	11.6
Depreciation & non cash adjustments	26.6	14.9	12.8	18.1	12.0
Change in Working Capital	2.9	(3.0)	(11.8)	(0.7)	(0.4)
Income Tax Paid	(0.3)	(0.7)	(0.0)	(0.3)	(0.3)
Interest Paid	(5.4)	(6.2)	(5.5)	(5.1)	(4.6)
<b>CF from operating activities</b>	<b>12.3</b>	<b>14.1</b>	<b>4.9</b>	<b>22.7</b>	<b>18.2</b>
Purchase/Disposal of PPE	(25.6)	(34.5)	(5.0)	(5.0)	(5.0)
Other CFI	0.0	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>(10.5)</b>	<b>(8.5)</b>	<b>(5.0)</b>	<b>(5.0)</b>	<b>(5.0)</b>
Dividends Paid	(2.2)	0.0	(3.8)	(3.8)	(3.8)
Debt Raised / (Repaid)	12.5	5.8	(25.5)	(14.7)	(15.0)
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(0.3)	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>5.2</b>	<b>(0.7)</b>	<b>(29.4)</b>	<b>(18.5)</b>	<b>(18.8)</b>
Net increase in cash & cash equiv.	5.2	5.0	(29.3)	(0.7)	(5.4)
FX effects	(1.8)	0.1	0.1	0.1	0.1
Beginning Cash	30.3	35.6	40.6	11.2	10.5
<b>Ending Cash</b>	<b>35.6</b>	<b>40.6</b>	<b>11.2</b>	<b>10.5</b>	<b>5.1</b>
<b>KEY RATIOS</b>	2016	2017	2018F	2019F	2020F
<b>Profitability</b>					
Core EPS	(3.9)	13.2	13.8	15.9	17.6
Core EPS Growth (%)	(144.7)	(439.9)	3.8	15.2	10.8
DPS (SGD Cents)	3.0	6.3	6.3	6.3	6.3
Dividend Yield (%)	2.1	4.3	4.3	4.3	4.3
<b>Profitability</b>					
EBITDA margin	19.3%	25.1%	22.3%	22.3%	22.3%
Net margin	-16.4%	6.0%	6.1%	6.6%	7.1%
ROE	-11.3%	4.6%	4.6%	5.0%	5.3%
ROA	-4.3%	1.7%	5.7%	7.2%	9.3%
<b>Financial Structure (x)</b>					
Interest coverage	1.1	2.5	2.3	2.7	3.0
Total Debt/Equity	1.5	1.6	1.4	1.2	1.0
Net Gearing	1.2	1.3	1.3	1.1	1.0

Source: KGI Research

**KGI's Ratings**

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
<b>BUY</b>	>10% total return over the next 12 months
<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

**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.

**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.

Copyright 2018. KGI Securities (Singapore) Pte. Ltd. All rights reserved.