RESULTS UPDATE — Marine; Property ▪ Singapore

KGI CHINA DEVELOPMENT FINANCIAL

Uni-Asia Group Limited

(UAG SP/UAFC.SP)

Looking forward to a better year

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- UAG reported a US$2.3mn loss in its 4Q18 results due to US$9mn in impairment/valuation losses related to its shipping assets. Excluding these non-cash expenses, UAG's 4Q18 profits would have come in at US$5.3mn.
- It proposed 6.25 Sing cents final and 0.75 Sing cents special dividend for FY18, which translates to an attractive 5.7% dividend yield.
- We expect all three of its business segments to perform better in 2019.
- We thus reiterate our BUY recommendation and fair value target of S$2.07. Our TP is an implied 0.6x 2019F BVP and 9.5x EPS.

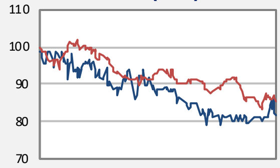
Financials & Key Operating Statistics

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	16.7	18.6	20.4
Core EPS grth (%)	-439.9	164.1	-52.3	11.7	9.5
Core P/E (x)	7.0	2.6	5.5	5.0	4.5
DPS (SGCents)	6.3	7.0	6.3	6.3	6.3
Div Yield (%)	5.2	5.8	5.2	5.2	5.2
Net Margin (%)	6.0	1.0	6.3	6.7	7.0
Gearing (%)	129.6	102.9	98.4	85.6	72.7
Price / Book (x)	0.3	0.3	0.3	0.3	0.3
ROE (%)	4.6	0.9	5.6	5.9	6.1

Source: Company Data, KGI Research

Buy - Maintain

Price as of 13 Mar 19 (SGD)	1.20	**Performance (Absolute)**	
12M TP ($)	2.07	1 Month (%)	0.8
Previous TP ($)	2.00	3 Month (%)	1.7
Upside (%)	73	12 Month (%)	-14.6
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	56		
Issued Shares (mn)	47		
Vol - 3M Daily avg (mn)	0.0		
Val - 3M Daily avg ($mn)	0.0		
Free Float (%)	50.8%		
Major Shareholders		**Previous Recommendations**	
Yamaso Co	33.5%	20-Aug-19	BUY $2.00
Evergreen Int'l	10.0%	22-May-18	BUY $2.00
		16-Mar-18	BUY $1.81



Kitchen sinking. For the full-year FY18, the group recognised US$15.2mn in non-cash valuation and impairment losses, mainly due to its shipping assets. As a result, the value of its joint-investment containerships have been reduced to zero on its balance sheet and risks of further impairment losses from containerships are minimal. On a positive note and more importantly, cash flow from operations have improved every year since FY14 - from US$4.8mn in FY14 to US$17mn in FY18 – such that it was able to increase FY18 dividends to 7.0 Sing cents, or an implied 5.7% div yield. Net gearing improved to 103% at end-2018 from 130% at end-2017.

Hotel operations set to benefit from Tokyo 2020 Olympics and Rugby World Cup 2019. Uni-Asia will be managing 2,871 rooms by 2019 and 3,553 rooms by 2020. We estimate hotel operations can provide a recurring core net profit of US$1.5-2.5m p.a. by 2021. However, due to the new accounting standards IFRS 16, UAG will recognise long-term operating leases on its balance sheet from Jan-2019 onwards. Although this is not expected to have any operational impact (e.g., cash flows) on UAG's hotel business, this business segment is estimated to recognise losses in the next 2 years due to front-loading of expenses under IFRS 16. We have not made any changes to our forecasts and maintain our valuation methodology as we still expect core-earnings to be profitable.

Dry bulk weighs on share price. The Baltic Dry Index (BDI) dropped to a 2-year low of 595 pts in February 2019 amid uncertainty over the US-China trade war. We believe UAG's share price already reflects the weakness in the shipping sector. Looking forward, the easing of trade tensions and increase in demand from new stimulus measures in China may reverse the decline over the last two quarters.

Hong Kong properties providing good income over the next four years. UAG is expected to recognise profits from one HK property project per annum until 2022. It invested US$6.4mn in its 3rd HK property project and US$2.6mn in its 4th HK property project. These projects are scheduled to be completed in 2019 and 2020, and will allow the group to recycle the gains into new projects. It recently invested a combined US$11.5mn in two more HK properties which will be completed in 2021 and 2022. Management will continue to focus on more opportunities in the HK commercial market, which could provide further upside to this segment.

Valuation & Action: We reiterate our **BUY** recommendation and fair value of S$2.07, based on the sum-of-the-parts (SOTP) valuation of its three businesses. Our TP is an implied 0.6x 2019F BVPS and 9.5x 2019F EPS. UAG is positioned to ride the growth in its three business segments: 1) dry bulk shipping recovery in 2019, 2) HK property business earnings visibility until 2022, and 3) an increase in hotel rooms under management ahead of two of the world's largest sporting events to be held in Japan.

Risks: UAG's shipping business (30% of Uni-Asia's FY18 revenues) is cyclical in nature, which may result in impairments to its shipping assets.

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

SOTP Valuation

We used an SOTP valuation and an exchange rate of 1.30 SGD/USD to derive our fair value of S$2.07. Our fair value is an implied 0.6x 2018F BVPS and 9.5x 2019F 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 for its shipping assets. 2H18 was a volatile period for the bulk freight market due to sentimental shifts amid the US-China trade war. There are two positive trends to look forward to in 2019 for the bulk markets. The first is the easing of trade tensions between the US and China and the second is the infrastructure stimulus measures in China.

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 3,553 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 1: SOTP valuation of Uni-Asia's businesses

Business Segments	FY18 NAV (US$m) KGI Est.	Valuation	Value (US$m)	Value (S$m)	Remarks
Shipping	84.3	0.3x FY18 P/B	25.3	32.9	Dry bulk shipping peers trading at 0.5 - 1.5x P/B
Properties	41.2	0.7x FY18 P/B	28.8	37.5	Value of properties is split between HK (40%) and Japan (60%). HK developers are trading at 0.7x P/B while Japan developers at 1.4x P/B.
Hotel		15x FY19F P/E	20.7	27.0	Hotel management peers are trading at >20x historical P/E
Total Equity Value			74.9	97.3	
Shares outstanding (m)			47.0		
TP (US$)		SGD/USD 1.3	1.59		
TP (S$)			2.07		
Upside (%)			*73%*		
Implied FY19F P/B (x)			0.57		
Implied FY19F P/E (x)			9.5		

Source: Company data, KGI Research

Figure 2: 10-years P/B graph

Source: Bloomberg, KGI Research

50% 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.

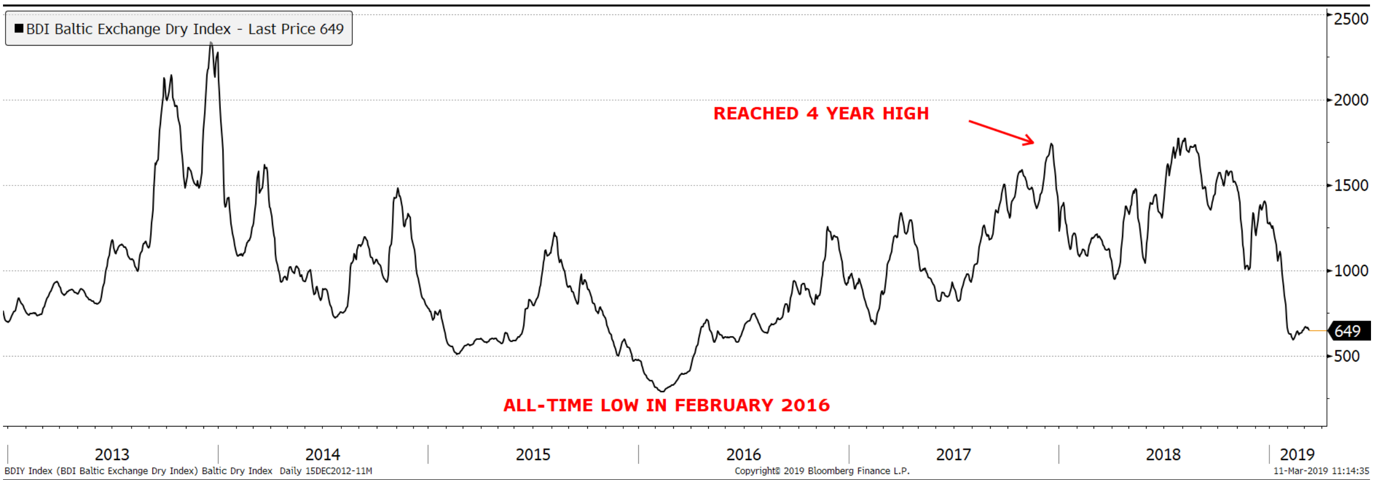
Industry Review

Bulk shipping weakness. 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 BDI declined to a two-year low in 1Q 2019 and have pressured shares of dry bulk companies including Diana, Star Bulk, Golden Ocean and Scorpio Bulkers.

Despite the weakness in the BDI and shares of other dry bulk shipping companies, we expect UAG's shipping segment to remain profitable given the long-term nature of its contracts.

Figure 3: Baltic Dry Index (BDI)

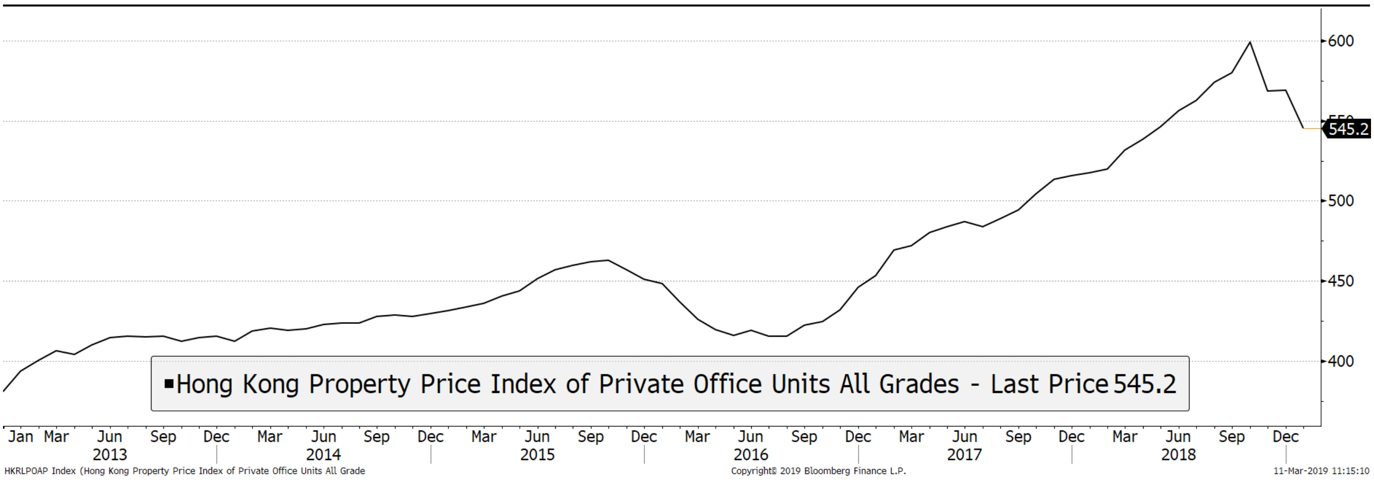


Source: Bloomberg, KGI Research

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. HK's economic outlook for the year largely depends on the outcome of the US-China trade negotiations.

Even with the market sentiment turning negative in 4Q 2018, institutional investors remained confident of HK's property market, according to a survey by Colliers. The survey also showed that investors are taking a wait-and-see approach. With the prospects of lesser rate hikes in 2019, we may possibly see investors return once prices have stabilized.

Figure 4: Hong Kong Property Price Index of private office units (All Grades)



Source: Bloomberg, KGI Research

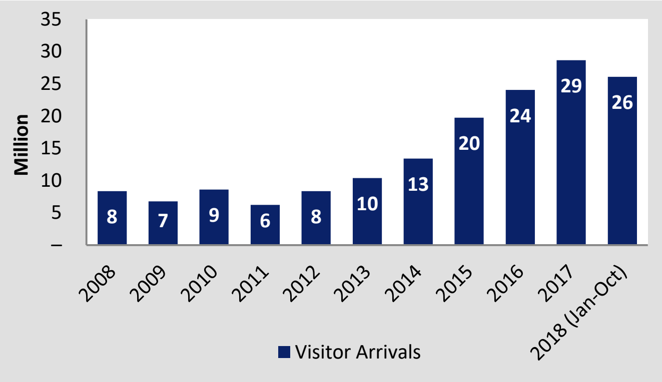
UAG's Hotel business to get a boost from from two of the world's largest sporting events

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.

As a result, UAG's Vista hotels in Japan may possibly see a boost in both occupancy and hotel rates over the next two years.

Healthy momentum. Japan attracted a record 28.7mn visitors in 2017, representing a 19% YoY increase and its sixth straight annual increase. 2018 is expected to be another record year as January to October arrivals have already reached 26.1mn.

Figure 5: Japan visitor arrivals (2008-2018 Oct)



*Source: Japan National Tourism Organisation (JNTO) *2018 figures only include Jan-Oct*

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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