

Uni-Asia Group Limited

Overweight

Current Price	\$S\$1.35
Fair Value	\$S\$1.85
Up / (downside)	37.0%

Stock Statistics

Market cap	\$S\$63.4m
52-low	\$S\$0.935
52-high	\$S\$1.370
Avg daily vol	13,119
No of share	46.98m
Free float	51%

Key Indicators

ROE 17F	5.4%
ROA 17F	2.1%
P/BK	0.37x
Net gearing	125%

Major Shareholders

Yamasa Co., Ltd	33.5%
Evergreen Int. S.A.	10.0%

Historical Chart



Source: Bloomberg

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Dry Bulk Shipping to Gain from One Belt One Road Policy

- US\$890 billion of projects in 64 countries.** We see heightened global infrastructure spending under China's one belt one road (OBOR) policy as a potential catalyst that will support the ongoing recovery in the dry bulk sector. According to the China Development Bank, some 900 projects worth US\$890 billion are currently under way or planned. While the opening of land routes under the OBOR initiative will pose competition to sea routes, dry bulk shippers will benefit in the interim owing to demand for resources such as iron ore to support China's production of infrastructure related goods and machinery and to support construction in participating countries.
- Fewer newbuilds to constrain capacity growth.** Conversely, dry bulk shippers have been careful to expand their fleets, only taking delivery of previously ordered vessels. As of 9 June, the number of bulk carriers on order has halved from a year ago, dropping from 490 to 257 vessels. The cautious build-up in vessels suggests that shippers remain wary of previous excess capacity in the industry and are unprepared for any uptick in demand in the future, which should provide a floor to shipping rates. World trade volume probably grew by about 5.6% year-on-year in March. However, dry bulk capacity has expanded only by 3.4%. World trade volume growth has exceeded dry bulk capacity growth for the past three years with trade growth outpacing capacity growth the most in 1Q 2017.
- More stable charter rates in second half.** Unfortunately, the Baltic Dry Index may take time to return to the end March high of 1,282, having retreated by 34% to 848 currently. The current weakness is due to slower demand as iron ore inventory in China have climbed to levels exceeding that of 2010. Given the steep correction in dry bulk rates in the last 2.5 months, we can expect rates to rise gradually in 2H17. Overall, the longer-term drivers remain intact and the Baltic Dry Index is still 46.5% higher in 2017 year-to-date compared to the whole of 2016, based on average daily data. That said, Uni-Asia is not subjected to daily fluctuations in charter rates as most of its vessels are chartered out on long term contracts.
- What's next after recent restructuring?** Uni-Asia reported a positive set of results for 1Q17, swinging from a net loss of US\$0.73m to a net profit attributable to shareholders of US\$2.1m. Gains were driven by the shipping business which reported a net profit of US\$2.4m from a loss of US\$0.3m a year ago. The property and hotels business reported a net profit of US\$0.9m, before unallocated overheads. We expect Uni-Asia to remain profitable in 2Q17. Previously, Uni-Asia's profitability was affected by losses from its ship investments. Potential catalysts include any further corporate actions after Uni-Asia's recent move to incorporate itself in Singapore rather than in the Cayman Islands. In this update, we peg our valuation of Uni-Asia at the peer average of 0.5x P/B or \$S\$1.85 from \$S\$1.615 previously.

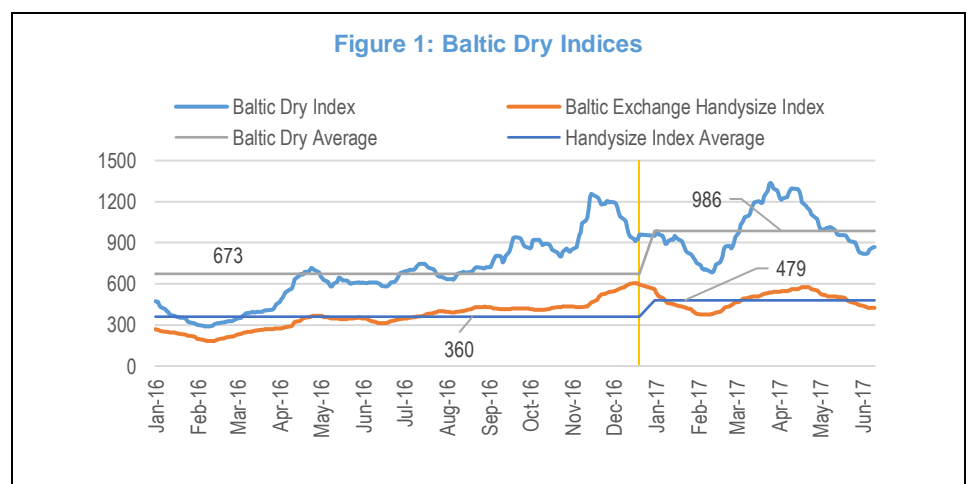
Key Financial Data (US\$ m, FYE Dec)	2014	2015	2016	2017F	2018F	2019F
Sales	67.13	77.05	86.30	104.73	123.14	135.06
Gross Profit	5.61	8.91	-6.29	14.43	18.05	21.78
Net Profit	2.15	2.70	-14.17	6.68	7.48	10.12
EPS (cents)	4.58	5.74	-30.15	14.22	15.92	21.54
EPS growth (%)	-60.5	25.4	-625.3	-147.2	11.9	35.3
PER (x)	23.29	17.13	-3.18	6.73	6.02	4.44
NTA/share (cents)	2.92	2.94	2.59	2.71	2.85	3.04
DPS (cents)	6.25	6.25	3.00	3.00	3.00	3.00
Div Yield (%)	4.63	4.63	2.22	2.22	2.22	2.22

Source: Company, NRA Capital forecasts

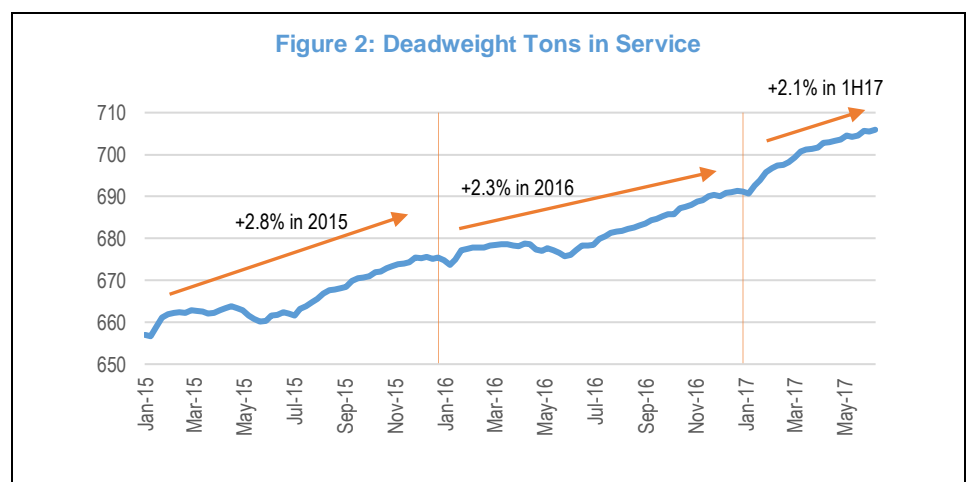
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Capacity growth in 2017 driven by fewer demolitions. Figures 2 and 3 shows that capacity measured by deadweight tons (DWT) in service has grown at a faster pace than in 2016. For instance, DWT in service grew by 2.1% in 1H17 compared to only 2.3% for the whole of 2016. We are not too concerned by the faster increase in capacity as it was partially driven by fewer vessel demolitions from 2H16. In fact, the number of vessel demolitions has increased in 2Q17, in line with the lower charter rates.

The number of vessels on order has dropped by an even steeper rate from 352 at the end of 2016 to 257 as of 9 June. In a nutshell, short term capacity growth is influenced by charter rates and vessel demolitions, but longer-term capacity growth as dictated by new vessels on order appears to be subdued.



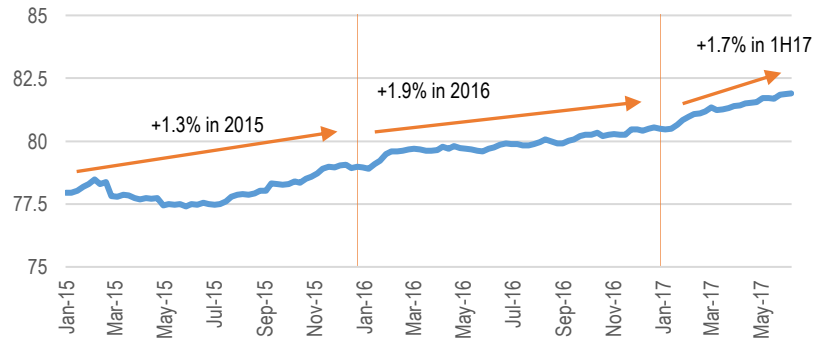
Source: Bloomberg, NRA Capital



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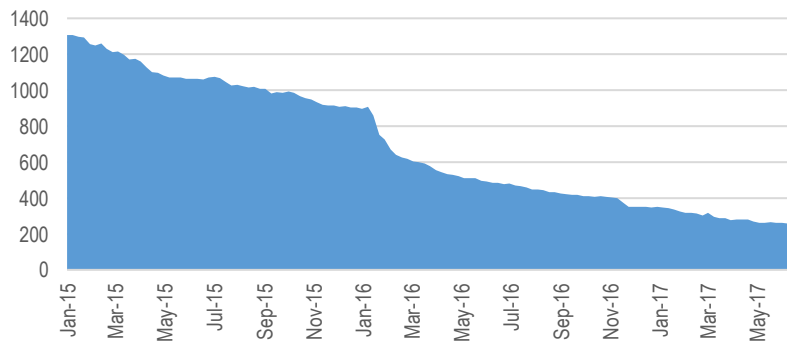
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Figure 3: Deadweight Tons in Service (Handysize)



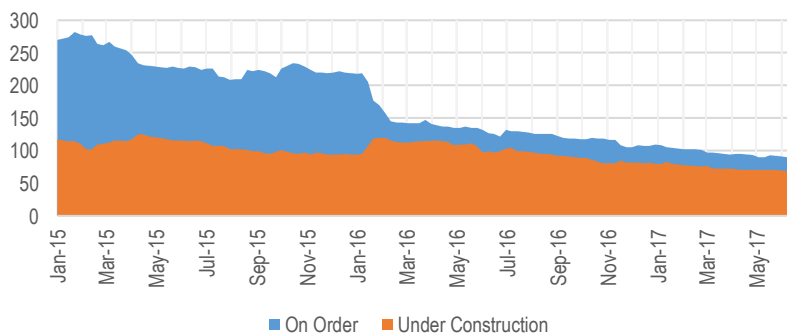
Source: Bloomberg, NRA Capital

Figure 4: Number of Bulk Carriers on Order



Source: Bloomberg, NRA Capital

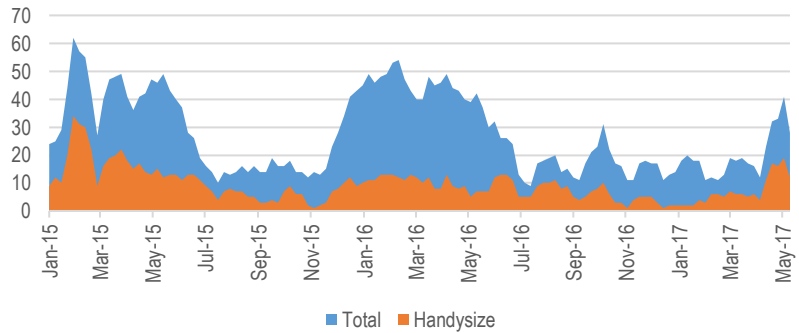
Figure 5: Number of Bulk Carriers on Order (Handysize)



Source: Bloomberg, NRA Capital

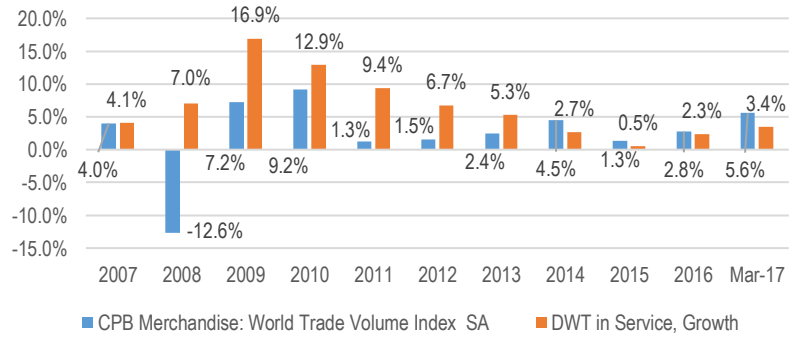
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Figure 6: Number of Bulk Carrier Demolitions



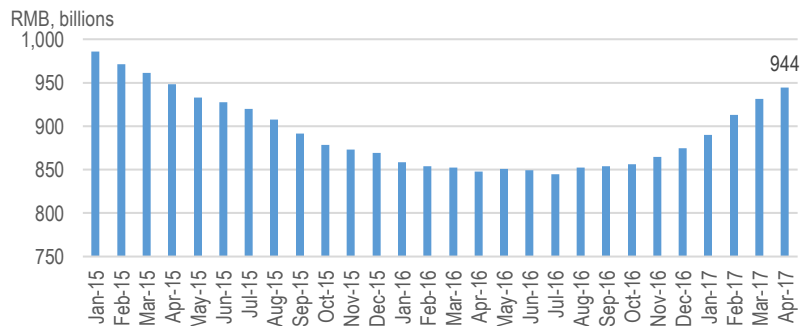
Source: Bloomberg, NRA Capital

Figure 7: World Trade Growth vs DWT-in-Service Growth



Source: Bloomberg, NRA Capital

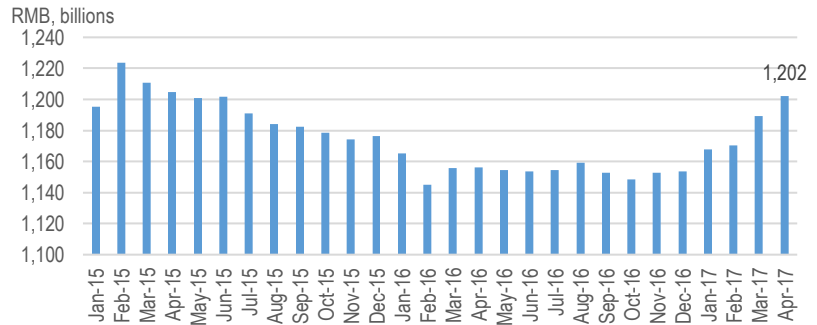
Figure 8: China Total Imports (12-month average)



Source: Bloomberg, NRA Capital

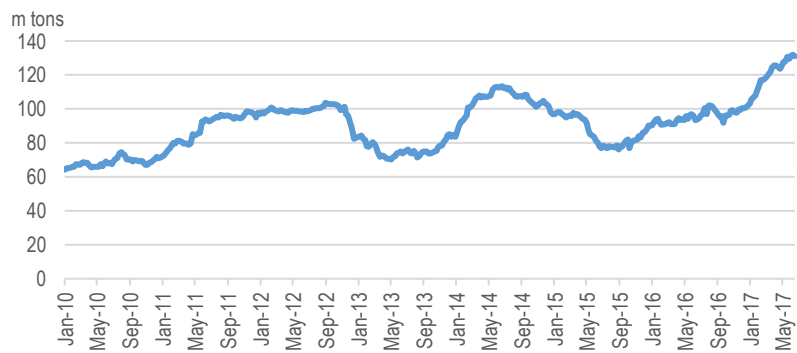
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Figure 9: China Total Exports (12-month average)



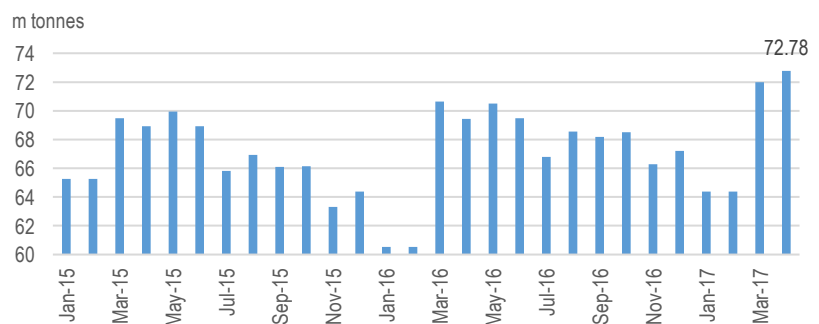
Source: Bloomberg, NRA Capital

Figure 10: China Iron Ore Inventory, Total



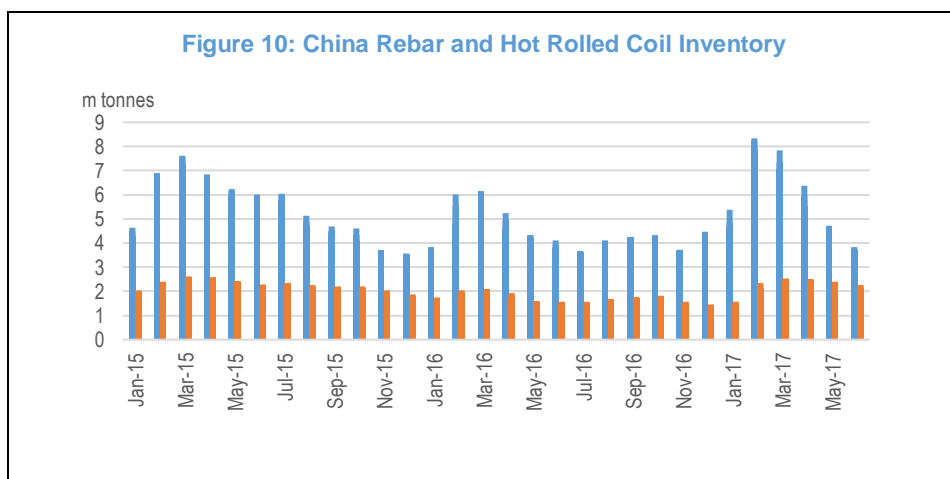
Source: Bloomberg, NRA Capital

Figure 10: China Crude Steel Output



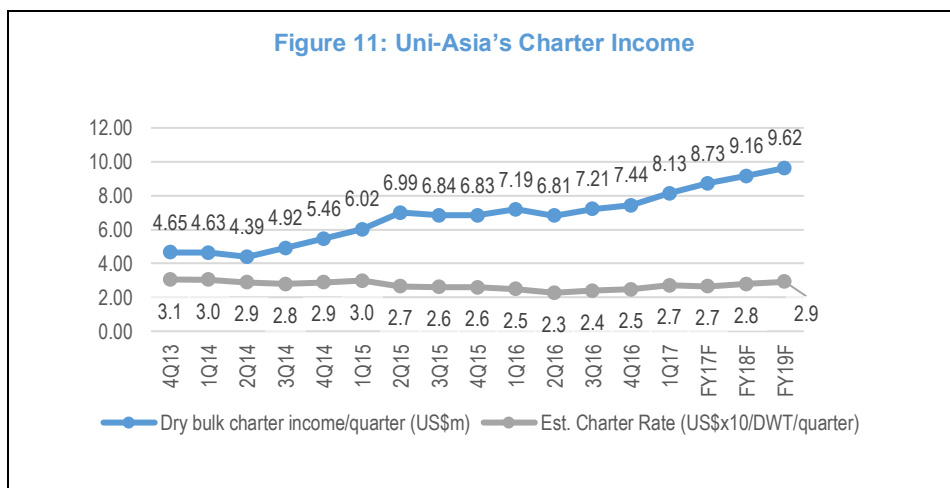
Source: Bloomberg, NRA Capital

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Source: Bloomberg, NRA Capital

Iron ore inventory tracking steel production growth. While we highlight rising iron ore inventory as a concern that may slow demand for dry bulk shipping in 2H17, steel crude steel output also grew to 72.8m tons in April, up 4.8% from a year ago. Rebar inventory continues to be consumed while that of hot rolled coil rose by 40% from a year ago. On balance, we reckon that China may slow its demand for iron ore in the second half to clear inventories. That said, robust steel production and the lack of inventory in certain products such as rebar suggests that inventory destocking will likely be temporal.



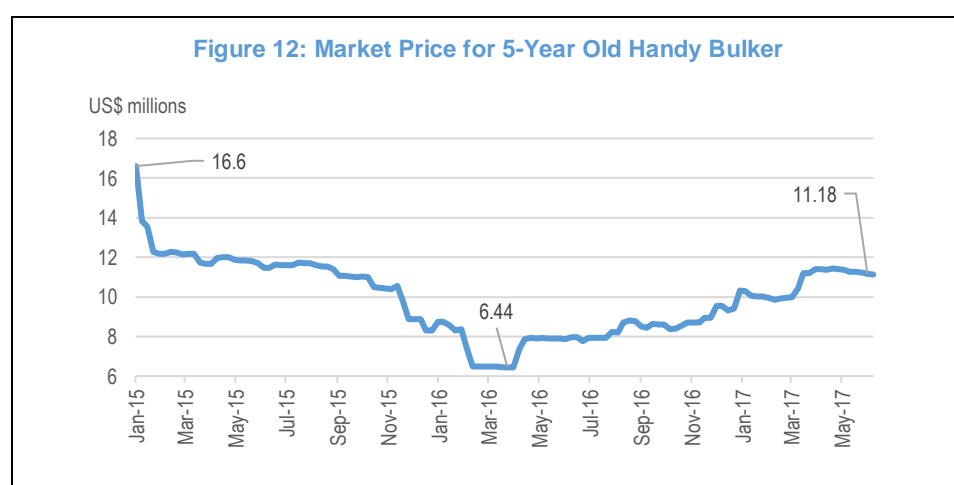
Source: Company, NRA Capital

Forecasts. We now expect Uni-Asia's average charter rate to grow by 10% in 2017 from that of 2016. Previously, we have assumed 5% growth. We also noted that vessel operating costs dropped in 1Q17. Hence, we assumed that vessel operating costs will remain flat in 2017. Based on these assumptions, we expect Uni-Asia to report PATMI of US\$6.68m for FY17, compared to a loss of US\$14.2m in 2016. FY16 losses included US\$8.6m of impairment of PPE and non-cash investment losses from Uni-Asia's shipping portfolio, as well as US\$3.5m of provision for an onerous hotel operating contract. We expect these write-offs and provisions to not recur in 2017 on the back of a more positive outlook.

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Recommendation. Our updated peer set trades at 0.01x to 1.07x P/BV. Based on the peer average of 0.5x book value, we value Uni-Asia at S\$1.845 per share. Previously, we have valued Uni-Asia at 0.4x P/BV or S\$1.615 per share. Implicitly, we are valuing Uni-Asia's business at the same P/B multiple as the shipping business. Based on a USDSGD rate of 1.39, our valuation of S\$1.845 and projected EPS of 14.22 cents for FY17, a reasonable earnings yield of 10.7% is derived. Therefore, the ability of Uni-Asia to meet earnings forecasts will be crucial towards the upside presented by us.

On balance, we remain bullish on Uni-Asia and maintain our Overweight rating with a high-average return and low-average risk classification. We have previously deemed Uni-Asia as an average risk prospect. However, the improvement in profitability in 1Q17 has given us comfort to lower the "risk" classification. Our view is further supported by prices for 5-year old handy bulkers, which have remained stable at around US\$11m despite the recent drop in dry bulk rates. We also highlight that the average dry bulk shipping company in our peer set has seen its market capitalisation grow by 124% over the past year. Conversely, Uni-Asia remains a laggard, appreciating by just 16.3% during the same period.



Source: Bloomberg, NRA Capital

Figure 13: Key Forecasting Assumptions

	2014	2015	2016	2017F	2018F	2019F
Charter income and vessel cost assumptions						
Bulk rate (US\$/DWT/month), % change		-7.0%	-10.5%	10.0%	5.0%	5.0%
DWT x Months (Uni-Asia Shipping)	2,010,308	2,972,308	3,564,308	3,949,308	3,949,308	3,949,308
Charter Income (US\$m)						
Uni-Asia Shipping	19.40	26.68	28.65	34.91	36.66	38.49
Non-Consolidated		3.79	5.61	6.83	7.17	7.53
Vessel operating cost per DWT per month (US\$m)	-4.13	-4.08	-4.46	-4.46	-4.68	-4.91
Hotel operation business						
No of Room x Months	16,548	16,548	18,313	20,850	26,584	29,328
Average daily room rate (US\$/night)	70.44	67.17	76.40	78.69	81.05	83.48
Hotel income (based on 30 days per month, US\$m)	34.97	33.35	41.97	49.22	64.64	73.45
Fee and other income (assume flat from 2016, US\$m)	7.28	8.56	7.22	7.22	7.22	7.22
Interest income (US\$m)	0.82	0.72	0.72	0.83	0.93	1.05
-based on 1.5% pa over projected loans receivable, cash, pledged deposits and finance lease receivable						
Investment returns (US\$m)	4.67	3.96	2.13	5.72	6.52	7.32
-based on 8% return on investments and investment properties. Portfolio assumed to grow US\$10m pa						
Total income (US\$m)	67.13	77.05	86.30	104.73	123.14	135.06

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No of employees	271	271	322	354	427	462
Cost per staff (US\$ per year)	-51,882	-47,509	-45,817	-45,817	-47,191	-48,607
Hotel lease expense per room per month (US\$)	-717.91	-684.49	-788.78	-765.12	-742.17	-719.90
Hotel operating expense per room per month (US\$)	-896.42	-821.61	-940.21	-940.21	-968.41	-997.46
Employee benefits expense	-14.06	-12.88	-14.75	-16.23	-20.14	-22.43
Amortisation and depreciation	-6.10	-9.63	-10.65	-12.11	-11.98	-11.85
Vessel operating expenses	-8.31	-13.61	-18.32	-21.59	-22.67	-23.80
Hotel lease expenses	-11.88	-11.33	-14.45	-15.95	-19.73	-21.11
Hotel operating expenses	-14.83	-13.60	-17.22	-19.60	-25.74	-29.25
Other expenses	-5.58	-5.14	-4.83	-4.83	-4.83	-4.83
Impairment, provisions and FX loss	-0.76	-1.96	-12.38	0.00	0.00	0.00
Total operating expenses	-61.52	-68.15	-92.59	-90.30	-105.09	-113.28
Profit before tax	3.25	3.90	-11.48	8.27	9.26	12.53
PATMI	2.15	2.70	-14.17	6.68	7.48	10.12

Source: NRA Capital

Figure 14: Peer Comparison Table – Most peers have been rated higher

Company Name	Primary Exchange	Mkt Cap (\$m) in Jun 2016	Mkt Cap (\$m) as of 20 Jun 2017	% Change	P/BV	T12 Return on Com. Equity
Uni-Asia Group Limited	SG	54.50	63.42	16.3%	0.37	5.36*
D/S Norden A/S	DK	749.77	1,051.0	40.2%	0.92	-5.99
Pacific Basin Shipping Ltd	HK	487.27	1,213.9	149.1%	0.84	-8.60
Diana Shipping Inc	US	267.17	528.4	97.8%	0.30	-14.88
Scorpio Bulkers Inc	US	286.34	658.2	129.9%	0.51	-10.83
Golden Ocean Group Ltd	US	460.98	1,003.0	117.6%	0.56	-6.00
Malaysian Bulk Carriers Bhd	MY	286.00	231.5	-19.1%	1.07	-56.52
Star Bulk Carriers Corp	US	178.47	755.9	323.5%	0.51	-11.20
Navios Maritime Holdings Inc	US	119.57	178.7	49.5%	0.16	-9.15
Eagle Bulk Shipping Inc	US	28.24	458.5	1523.5%	0.64	-40.37
Genco Shipping & Trading Ltd	US	53.36	439.7	724.0%	0.31	-17.20
Safe Bulkers Inc	US	115.97	308.5	166.0%	0.40	-9.37
Jinhui Shipping & Transportation Ltd	NO	64.77	118.1	82.4%	0.25	-74.00
DryShips Inc	US	21.10	39.7	88.3%	0.01	-53.73
Average		239.92	537.3	124.0%	0.50	-24.45

*Based on FY17 forecasts. Source: Bloomberg, NRA Capital

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Profit & Loss (US\$ m, FYE Dec)	2014	2015F	2016F	2017F	2018F	2019F
Revenue (total income less invt ret, interest & other income)	61.10	71.61	82.05	96.79	114.30	125.30
Operating expenses	-54.66	-56.55	-69.56	-78.20	-93.11	-101.43
EBITDA	6.43	15.05	12.49	18.60	21.19	23.87
Depreciation & amortisation	-6.10	-9.63	-10.65	-12.11	-11.98	-11.85
EBIT	0.34	5.42	1.84	6.49	9.21	12.02
Net interest expense & invt income	2.91	-1.52	-9.84	1.79	0.05	0.52
Associates' contribution	0.00	0.00	-3.48	0.00	0.00	0.00
Exceptional items	0.00	0.00	-3.48	0.00	0.00	0.00
Pretax profit	3.25	3.90	-14.96	8.27	9.26	12.53
Tax	-1.14	-0.38	-0.75	-1.24	-1.39	-1.88
Minority interests	0.04	-0.82	-1.94	-0.35	-0.39	-0.53
Net profit	2.15	2.70	-17.64	6.68	7.48	10.12
Shares at year-end (m), based on post 10-1 consolidation	46.98	46.98	46.98	46.98	46.98	46.98
Balance Sheet (US\$ m, as at Dec)	2014	2015F	2016F	2017F	2018F	2019F
PPE	130.44	171.72	195.25	193.15	191.17	189.32
Intangible assets	0.07	0.07	0.00	0.00	0.00	0.00
Investments and other long-term assets	78.46	77.81	72.96	82.96	92.96	102.96
Total non-current assets	208.97	249.60	268.22	276.11	284.13	292.28
Cash and equivalents	41.51	36.34	39.87	46.77	55.38	70.85
Trade debtors	2.97	3.81	3.81	5.74	6.75	7.40
Prepayments, deposits and other receivables	2.84	5.49	4.97	4.97	4.97	4.97
Investments and other current assets	2.60	18.91	10.81	10.79	10.79	10.79
Total current assets	49.92	64.55	59.45	68.27	77.88	94.00
Trade creditors	2.42	2.78	2.96	3.71	4.32	4.66
Short-term borrowings	22.94	54.52	54.29	78.14	82.20	87.92
Other current liabilities	4.98	4.50	9.45	9.45	9.45	9.45
Total current liabilities	30.34	61.80	66.70	91.30	95.97	102.02
Long-term borrowings	87.87	109.84	131.13	117.21	123.31	131.88
Other long-term liabilities	2.26	2.33	3.95	3.95	3.95	3.95
Total long-term liabilities	90.13	112.18	135.08	121.16	127.26	135.83
Shareholders' funds	137.41	138.07	121.71	127.38	133.85	142.97
Minority interests	1.00	2.10	4.19	4.54	4.93	5.46
NTA/share (US\$)	2.92	2.94	2.59	2.71	2.85	3.04
Total Assets	258.88	314.15	327.67	344.38	362.01	386.28
Total Liabilities + S'holders' funds	258.88	314.15	327.67	344.38	362.01	386.28
Cash Flow (US\$ m, FYE Dec)	2014	2015F	2016F	2017F	2018F	2019F
Pretax profit	3.25	3.90	-11.48	8.27	9.26	12.53
Depreciation & non-cash adjustments	3.90	12.12	24.43	12.26	13.98	13.53
Working capital changes	-1.41	-5.57	0.64	-1.18	-0.40	-0.32
Cash tax paid	-0.94	-0.15	-1.25	-1.24	-1.39	-1.88
Cash flow from operations	4.80	10.30	12.33	18.12	21.45	23.87
Capex	-33.22	-79.70	-18.79	-10.00	-10.00	-10.00
Net investments & sale of FA	-8.81	0.70	-7.89	-4.28	-3.48	-2.68
Others	5.87	-4.62	16.19	0.29	0.27	0.26
Cash flow from investing	-36.17	-83.62	-10.49	-13.99	-13.21	-12.43
Debt raised/(repaid)	24.68	53.56	21.05	9.93	10.16	14.29
Equity raised/(repaid)	0.00	0.00	0.00	0.00	0.00	0.00
Dividends paid	-2.34	-2.22	-2.19	-1.01	-1.01	-1.01
Others & exchange rate effects	-2.22	15.99	-15.49	-6.15	-8.79	-9.25
Cash flow from financing	20.12	67.33	3.37	2.77	0.37	4.03
Change in cash	-11.25	-5.99	5.22	6.90	8.61	15.47
Change in net cash/(debt)	-38.12	-58.73	-17.52	-3.03	-1.56	1.18
Ending net cash/(debt)	-69.3	-128.0	-145.5	-148.6	-150.1	-148.9
KEY RATIOS (FYE Dec)	2014	2015F	2016F	2017F	2018F	2019F
Revenue growth (%)	-4.1	17.2	14.6	18.0	18.1	9.6
EBITDA growth (%)	0.1	134.0	-17.1	48.9	14.0	12.7
Pretax margins (% of Revenue)	5.3	5.4	-18.2	8.5	8.1	10.0
Net profit margins (% of Revenue)	3.5	3.8	-21.5	6.9	6.5	8.1
Effective tax rates (%)	-35.1	-9.7	5.0	-15.0	-15.0	-15.0
Net dividend payout (%)	103.2	81.0	-7.1	15.1	13.6	10.0
ROE (%)	1.6	2.0	-10.9	5.4	5.7	7.3
Free cash flow yield (%)	-68.8	-160.7	4.0	9.1	18.1	25.1

Source: Company, NRA Capital forecasts

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