Logistics

Singapore

November 1, 2021

Maybank Kim Eng

Uni-Asia Group (UAG SP)

Full steam ahead

Not Rated

Share Price SGD 1.40

Finding strength in diversity

Uni-Asia Group (UAG) is an alternative investment company that focuses on two key businesses, namely Shipping and Property. The Group specialises in creating growth opportunities and providing integrated services relating to such alternative investments. By having a diversified portfolio of counter cyclical asset holdings, UAG is less susceptible to the downside risk of a particular segment and more resilient in the long run.

Beneficiary of dry bulk rally

Charter income surged 46% YoY to USD20m for 1H21, buoyed by a strong improvement in the dry bulk market. In fact, spot charter rates for handysize vessels have breached USD30,000 a day compared to UAG's all-in operating costs (including depreciation) for its vessels of around USD9,000/day. As such, the Group's shipping division is expected to outperform, especially when the charters for its 10 wholly-owned dry bulk carriers are progressively due for renewal in 2H21-1H22.

On track for V-shape recovery

Without the drag from its hotel operating business, which was deconsolidated from the Group in Jun 2020, UAG recently posted a strong turnaround with 1H21 earnings of USD7m, reversing a net loss of USD10m a year ago. Backed by its robust operating cashflow, it is also working on several deals and new business opportunities such as property projects in Japan to further expand its income stream.

Still trading at below book value

Based on consensus estimates, UAG is expected to post net profit of USD14.8m and USD16.4m for FY21 and FY22 respectively. Meanwhile, the Group continues to strengthen its balance sheet with net gearing improving to 0.51x as at end-Jun 2021 (FY20: 0.66x). The stock is currently valued at c.5x FY22E P/E and 0.64x P/B with dividend yield of 3% (including interim DPS of 2¢). Key risk includes correction in dry bulk freight market amid concerns on supply/demand imbalance and China's economic slowdown.

FYE Dec (USD m)	FY16A	FY17A	FY18A	FY19A	FY20A
Revenue	86	104	123	136	46
EBITDA	3	0	9	0	0
Core net profit	(14)	6	1	6	(8)
Core EPS (cts)	(27.8)	12.2	2.4	10.4	(56.5)
Core EPS growth (%)	nm	nm	(80.6)	340.1	nm
Net DPS (cts)	2.0	4.2	4.2	4.2	1.0
Core P/E (x)	nm	5.1	24.6	5.3	nm
P/BV (x)	0.2	0.3	0.2	0.3	0.2
Net dividend yield (%)	4.2	6.7	7.2	7.6	2.2
ROAE (%)	(10.9)	5.0	1.0	4.6	(11.5)
ROAA (%)	(4.4)	1.8	0.4	1.3	(1.8)
EV/EBITDA (x)	64.0	nm	18.5	nm	nm
Net gearing (%) (incl perps)	113.7	104.5	93.6	310.6	67.0

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Company Description

Uni-Asia Group engages in the provision of finance arrangement and investment management of alternative assets including shipping & real estates.

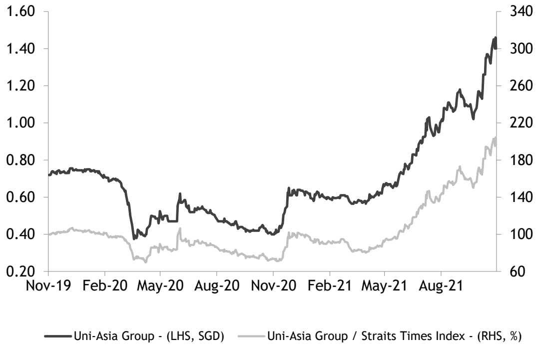
Statistics

52w high/low (SGD)	1.46/0.40
3m avg turnover (USDm)	0.2
Free float (%)	37.3
Issued shares (m)	79
Market capitalisation	SGD110.0M
	USD82M

Major shareholders:

Yamasa Co. Ltd.	30.0%
HAM YONG KWAN	10.0%
Evergreen International SA	8.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	23	44	250
Relative to index (%)	18	44	168

Source: FactSet

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Value Proposition

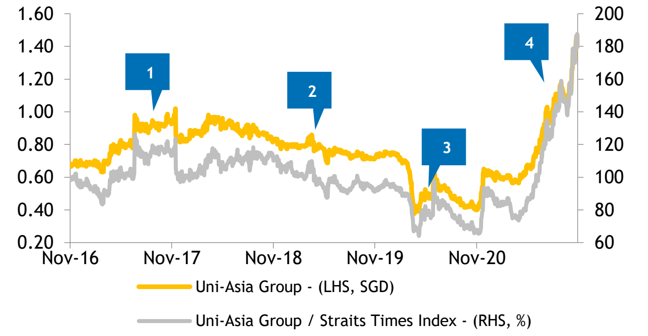
- Two complementary divisions – shipping and property with very different business cycle.
- Diversified portfolio of alternative investments makes the Group less susceptible to downside risks of a particular asset class and more resilient over the long run.
- UAG's shipping assets contribute to its recurring charter income, while property assets are primarily developed and sold for attractive returns.
- Explores new business opportunities as well as investment structures to expand income stream and returns from its property business in Japan.

Business strategy

Source: Company

Price Drivers

Historical share price trend



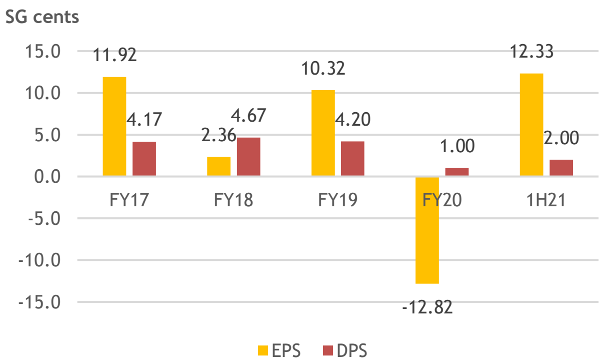
Source: Company, Maybank Kim Eng

1. Completed a scheme of arrangement where Singapore incorporated Uni-Asia Group did a share-swap with the shareholders of Uni-Asia Holdings. Following which, Uni-Asia Group was listed on 2 Jun 2017 and Uni-Asia Holdings was delisted from the SGX-mainboard.
2. In Mar 2019, the Group placed out 5.4m new shares to several institutional and high-networth investors to improve trading liquidity.
3. Disposed 49.5% of Uni-Asia Hotels for JYP14,850, with a remaining stake of 49.5%. Hotel operating business was deconsolidated from the Group financials from end-Jun 2020.
4. Made a JPY100m investment to operate an initial target of five group homes for the disabled in Japan.

Financial Metrics

- In line with its deleveraging strategy, the Group has been reducing its total and short-term borrowings over the years. Net gearing was 0.51x as at end-Jun 2021.
- The Group recorded an operating margin of 28.9% for 1H21 due to lower finance cost and amortisation/depreciation expenses.
- It aims to actively manage its capital allocation to enhance the firm's long-term financial stability and liquidity position.
- Growing recurring income base and strong operating cashflow to ensure a sustainable dividend yield.

EPS and DPS



Source: Company

Swing Factors

Upside

- Stronger-than-expected dry bulk market and daily charter rate.
- Faster recovery in Hong Kong's commercial and industrial real estate market.
- New business opportunities, particularly property projects in Japan.

Downside

- Retreat in freight rates due to increased supply or weaker demand, especially from China.
- Lower-than-expected investment returns for its property projects in HK and Japan.
- Resurgence of Covid-19 in its key markets.

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1. Key highlights

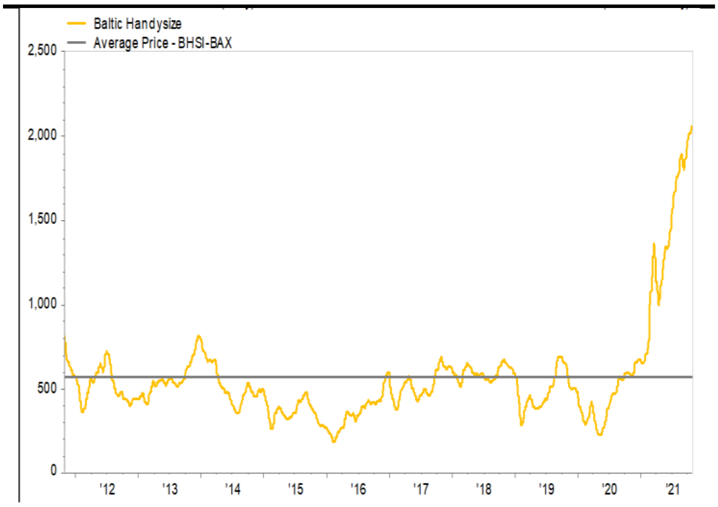
1.1 Shipping

Commodities boom spurs dry bulk rally

As more countries gradually reopen and recover from the pandemic, dry bulk market freight rates hit a decade high, driven by robust demand for key commodities, as well as weather-induced supply tightness and port congestion caused by stringent Covid-19 protocols. 4Q is also typically the strongest period of the year, and hence, industry watchers expect the fundamentals to remain sound and freight rates to stay elevated.

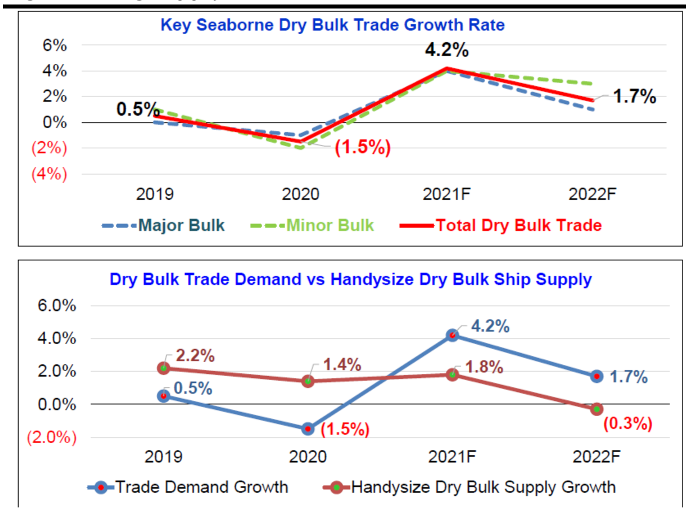
Clarksons Research forecasts global dry bulk seaborne trade to grow by 4.2% YoY in 2021 and 1.7% YoY in 2022 while total handysize dry bulk fleet capacity is projected to grow by only 1.8% YoY in 2021 and decline 0.3% YoY in 2022. With the rate of growth of demand for dry bulk carriers outpacing tonnage supply growth given thin newbuilding orderbook, the market is likely to remain buoyant next year.

Fig 1: Baltic Handysize Index on the tear



Source: Factset

Fig 2: Strong supply & demand fundamentals



Source: Clarksons Research

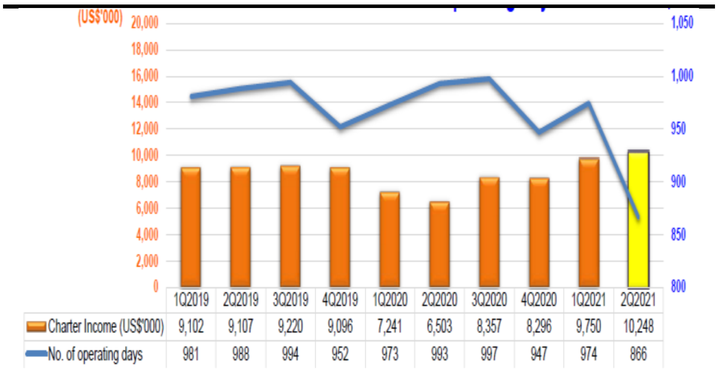
This bodes well for UAG as the charters for all 10 wholly-owned dry bulk carriers are due for renewal in 2H21 to 2022 and the Group will be able to fully capitalise on the current shipping upcycle.

Fig 3: UAG's wholly-owned dry bulk portfolio

	Name of Ship	Capacity	Type	Year of Built	Shipayard	Charter Renewal
1	M/V Uni Challenge	29,078 DWT	Bulker	2012	Y-Nakanishi	2H21
2	M/V Uni Wealth	29,256 DWT	Bulker	2009	Y-Nakanishi	2H21
3	M/V Uni Auc One	28,709 DWT	Bulker	2007	Shin-Kurushima	2H21
4	M/V Victoria Harbour	29,100 DWT	Bulker	2011	Y-Nakanishi	2H21
5	M/V Clearwater Bay	29,118 DWT	Bulker	2012	Y-Nakanishi	2H21
6	M/V ANSAC Pride	37,094 DWT	Bulker	2013	Onomichi	2H21
7	M/V Island Bay	37,649 DWT	Bulker	2014	Imabari	2H22
8	M/V Inspiration Lake	37,706 DWT	Bulker	2015	Imabari	1H22
9	M/V Glengyle	37,679 DWT	Bulker	2015	Imabari	1H22
10	M/V Uni Bulker	37,700 DWT	Bulker	2016	Imabari	1H22

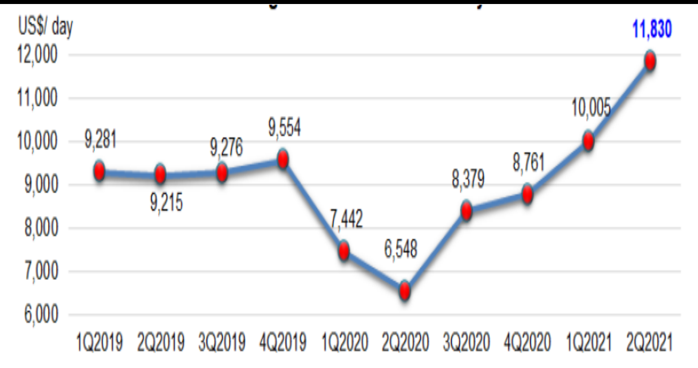
Source: Company

Fig 4: Charter income and no. of operating days



Source: Company

Fig 5: Average charter hire rate per day



Source: Company

1.2 Property

Hong Kong Property

Hong Kong's commercial/industrial property market stayed sluggish due to the adverse impact from Covid-19. However, there are some market optimism that the territory's real estate market could bottom-out in 2H21. This comes as Hong Kong's economic recovery remains on track, with real GDP growing by an estimate of 7.8% YoY for 1H21. In fact, the Hong Kong government recently revised upwards its 2021 GDP growth forecast to 5.5%-6.5% in view of the strong external demand for its exports.

Fig 6: Fourth and fifth HK property project

4th HK Property Project – T18	
Investment:	HKD26.5 million or around USD3.4 million (2.5% effective ownership)
Location:	18 - 20 Tai Chung Road, Tsuen Wan, Hong Kong
Project:	An office building to be ready for occupation in Q3 2021
Current status:	Construction has been completed and the building is in the final approval stage for occupation. Ground floor shops were all sold and presale of office units are underway.

5th HK Property Project – T73	
Investment:	HKD33.8 million or around USD4.3 million (7.5% effective ownership)
Location:	71 – 75 Chai Wan Kok Street, Tsuen Wan, Hong Kong
Project:	An industrial building which was completed in Jun 2021
Current status:	Final approval for occupation has been obtained. Office units in the project are on sale in the market.

Source: Company

Fig 7: Both projects ready for pre-sale

Source: Company

As the government relaxes its border restriction with mainland due to mass vaccination and containment of the pandemic, Hong Kong could see a recovery in market sentiment. The Group's 4th and 5th projects are ready for pre-sale, and its local partner - First Group Holdings is spearheading these projects. It has been speaking to property agents and potential buyers with pre-sale of these projects to be launched at an appropriate time.

Japan Property

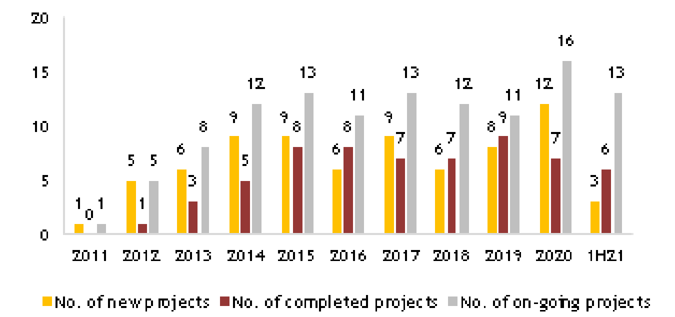
The Group's small residential property projects, known as "ALERO" series remain quite resilient despite the COVID-19 situation in Japan. These projects are typically 4-5 storey buildings with 10-30 studios or maisonette-type flats, and are popular with working singles/couple. UAG would purchase suitable land, develop the projects, lease out, and may hold for rental income or sell for investment gain.

Management claims that they have very stringent criteria in selecting new ALERO projects, and will not compromise internal assessment requirements to chase after new projects. As such, every project that the Group invested in had been profitable since it started the ALERO series in 2011.

Fig 8: ALERO projects

Source: Company

Fig 9: Total number of projects on hand

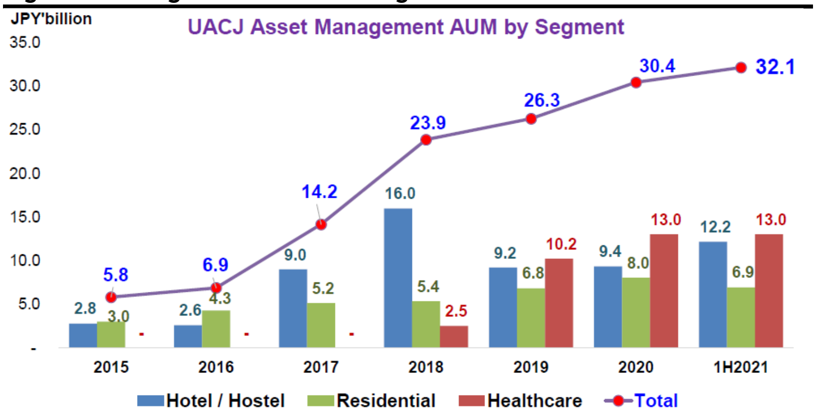


Source: Company

The AUM by subsidiary Uni-Asia Capital (Japan) has increased from about JPY30b (as at end-2020) to ~JPY32b in 1H21. The portfolio includes hotel/hostel property assets (JPY12.2b), residential property assets (JPY6.9b), as well as healthcare property assets (JPY13.0b).

Meanwhile, UAG is also exploring new business opportunities as well as investment structures to expand asset management fee income and returns from its property business in Japan.

Fig 10: Growing assets under management



Source: Company

2. Corporate information

Listed on the SGX-mainboard in Aug 2007, UAG is an alternative investment company specialising in creating alternative investment opportunities. Given its extensive know-how and network, the Group's alternative investment targets are mainly in cargo ships and properties.

To improve investment returns, UAG also provides integrated services for the invested assets, including acting as operator for commercial maritime vessels and invested real estate, which comprises commercial and residential properties.

Fig 11: Two complementary businesses

Source: Company

The Group's maritime investment assets are primarily wholly-owned ships contributing recurring charter income and operating cashflows. On the other hand, property investment assets are primarily developed and sold for capital returns and investing/operating cashflows. Property investment assets are continually being recycled.

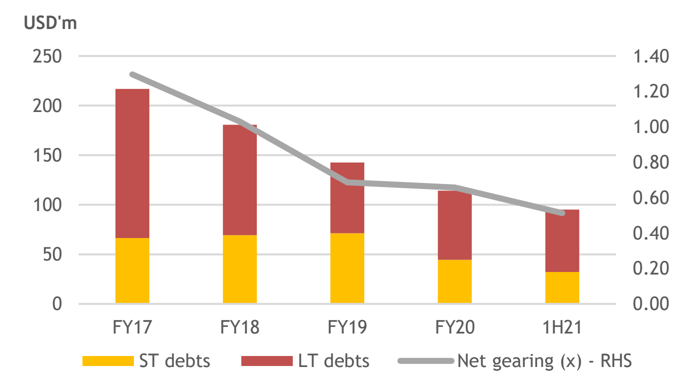
These two asset classes highly complement each other and help to achieve sustainable recurring income and cashflows. This enables UAG to gradually reduce its borrowings over the years as part of the Group's deleveraging strategy.

Fig 12: 1H21 P&L summary

(USD'm)	1H21	1H20	Chg (%)
Charter Income	20.0	13.7	45.5
Fee Income	2.9	4.8	(39.4)
Sale of property under development	5.1	-	N.M
Investment Returns	2.5	2.2	13.6
Interest Income	0.1	0.5	(85.6)
Other Income	1.1	0.3	263.4
Total Income	**31.7**	**21.6**	**46.9**
Operating Margin	28.9%	N.M	N.M
Net Profit/(Loss) After Tax from Continuing Operations	7.0	(10.0)	N.M
Net Gain from Discontinued Operation	-	6.1	N.M
Profit/(Loss) for the period	**7.0**	**(3.9)**	**N.M**

Source: Company

Fig 13: Improving leverage ratio



Source: Company

3. Risks

Cyclical shipping market

According to the National Bureau of Statistics, China's economic growth slowed to 4.9% YoY in 3Q21. After strong performance in 1H21, the Chinese government seems keen to clamp down on the steel and other heavy industries to limit emissions. It remains unclear how strictly these measures will be enforced and whether they will start to constrain economic growth in the longer run. If so, this could negatively affect the dry bulk market and freight rate, which may lead to derating of the stock.

Fig 14: UAG's historical P/B trading band

Source: FactSet

Rising competition for ALERO projects

In 2020, when the pandemic first broke out, there were anxieties in the market, which presented opportunities for the Group to acquire new projects at competitive prices. However, in 2021, more players are now chasing suitable land with higher acquisition costs. As a result, the Group has less new projects in 1H21 with potentially lower investment returns.

Lacklustre recovery in HK property market

The Hong Kong commercial real estate market has been impacted by Covid-19 travel restrictions between China and the territory, as more than half the buyers of those assets come from the mainland. Hence, it is likely that the Hong Kong office market will remain inactive or slow until these travel restrictions are gradually eased. This may result in further delay of UAG's plan to launch the pre-sale of its projects until the situation improves.

4. Key management

Michio Tanamoto, Executive Chairman

Mr. Michio Tanamoto was appointed Executive Chairman of Uni-Asia Group on 30 Apr'20. He was appointed Chairman and CEO in Apr'14, before he relinquished his position as CEO in 2020 as part of the Group's succession planning. He is one of the founders who established the Company in 1997 and has been a director since then. He has over 38 years of experience in financial sector, having based in Japan, Hong Kong and Singapore. In 1980, Mr. Tanamoto joined The Hokkaido Takushoku Bank. Between 1988 and 1993, he was a senior manager of Takugin International (Asia) in Hong Kong, the offshore merchant banking arm of The Hokkaido Takushoku Bank. Following which, Mr. Tanamoto was a deputy general manager of the Singapore Branch of The Hokkaido Takushoku Bank from 1995 to 1997. Mr. Tanamoto is also currently Managing Director of Uni-Asia Capital (Singapore) and also a Director of the Company's subsidiaries including Uni-Asia Holdings, Uni-Asia Capital Company, Uni-Asia Capital (Japan), and Uni-Asia Investment. He obtained a bachelor's degree in law from Hitotsubashi University of Japan in 1980.

Kenji Fukuyado, Chief Executive Officer

Mr. Kenji Fukuyado was appointed CEO of Uni-Asia Group on 30 Apr'20, and concurrently Chairman of the Group's Management Committee and Review Committee. He was appointed as an Executive Director in March 2018. Mr. Fukuyado joined the Group in 2001 and was the Managing Director of Uni-Asia Finance Corporation (Japan) from May'03 to Dec'05. He was transferred to the Group's head office in Hong Kong in Jan'06 and was Head of Structure Finance Department from Jan'06 to Dec'09. Between Jan'10 and Jan'13, he was Head of Maritime Investment Department. In Feb'13, he was appointed Managing Director of the Group, responsible for Maritime Asset Management. Mr. Fukuyado has over 30 years of experience in the finance industry, with expertise in structured finance including tax lease, asset finance, loan syndication, corporate finance and asset management. Between 1987 and 1998, he worked for The Hokkaido Takushoku Bank. in Japan and Hong Kong. Mr. Fukuyado is currently Chairman of Uni-Asia Shipping and Uni-Asia Capital (Japan)., and also a director of the company's subsidiaries including Uni-Asia Holdings, Uni-Ships and Management, Uni-Asia Capital Company, and Uni-Asia Investment. Mr. Fukuyado graduated with a bachelor's degree in law from Waseda University in 1987.

Lim Kai Ching, Group Chief Financial Officer

Mr. Lim Kai Ching joined Uni-Asia in Jun'11 and was subsequently appointed Group CFO on 5 Jan'15. He has over 20 years of experience in areas including finance, accounting, risk management, investment, audit and investor relations. Prior to joining Uni-Asia, Mr. Lim worked for State Street Fund Services (Singapore). Between Apr'08 to Jan'09, he was the Financial Controller of a China-based seafood processing company. From Jun'07 to Apr'08, he was Vice President with the Group, responsible for its on-going listing matters and financial reporting of private shipping fund for which the Group acts as fund manager. Between Jun'99 and Jun'07, Mr. Lim was with Government of Singapore Investment Corporation. He graduated with a Bachelor of Accountancy (Honours) from Nanyang Technological University and is a member of the Institute of Singapore Chartered Accountants.

FYE 31 Dec	FY16A	FY17A	FY18A	FY19A	FY20A
Key Metrics					
P/E (reported) (x)	nm	4.9	27.6	5.3	nm
Core P/E (x)	nm	5.1	24.6	5.3	nm
P/BV (x)	0.2	0.3	0.2	0.3	0.2
P/NTA (x)	0.2	0.3	0.2	0.3	0.2
Net dividend yield (%)	4.2	6.7	7.2	7.6	2.2
FCF yield (%)	nm	nm	27.1	89.9	nm
EV/EBITDA (x)	64.0	nm	18.5	nm	nm
EV/EBIT (x)	64.0	17.8	18.4	31.6	nm
INCOME STATEMENT (USD m)					
Revenue	86.3	103.9	123.3	136.0	45.9
EBITDA	2.8	0.0	9.3	0.0	0.0
Depreciation	(10.6)	(10.2)	(10.4)	(32.4)	(25.3)
Amortisation	(0.0)	0.0	(0.0)	0.0	0.0
EBIT	2.8	10.9	9.3	13.7	(2.3)
Net interest income /(exp)	(5.4)	(5.6)	(6.2)	(10.1)	(4.5)
Associates & JV	0.0	(0.6)	(1.3)	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(11.7)	9.2	4.4	9.3	(11.9)
Income tax	(0.7)	(0.3)	(0.4)	(0.9)	(1.3)
Minorities	(1.9)	(2.6)	(2.7)	(0.8)	(0.4)
Discontinued operations	0.0	0.0	0.0	0.0	6.3
Reported net profit	(14.2)	6.2	1.2	5.8	(14.0)
Core net profit	(14.2)	6.2	1.2	5.8	(7.7)
BALANCE SHEET (USD m)					
Cash & Short Term Investments	42.3	74.7	55.9	60.9	40.7
Accounts receivable	22.6	14.3	15.2	16.9	1.6
Inventory	0.0	0.0	0.0	0.0	6.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	195.3	222.9	177.9	464.2	146.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	67.6	57.9	85.2	52.1	54.1
Total assets	**327.7**	**369.9**	**334.2**	**594.1**	**249.5**
ST interest bearing debt	54.3	66.5	69.2	95.0	48.0
Accounts payable	0.0	0.0	0.0	0.0	0.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	131.1	150.3	111.5	357.5	72.7
Other liabilities	16.0	17.0	20.0	16.0	9.0
Total Liabilities	**201.8**	**233.9**	**200.7**	**468.0**	**130.1**
Shareholders Equity	121.7	128.4	127.2	125.6	118.5
Minority Interest	4.2	7.6	6.1	0.5	0.9
Total shareholder equity	**125.9**	**136.0**	**133.3**	**126.1**	**119.3**
Total liabilities and equity	**327.7**	**369.9**	**334.2**	**594.1**	**249.5**
CASH FLOW (USD m)					
Pretax profit	(11.7)	9.2	4.4	9.3	(11.9)
Depreciation & amortisation	10.6	0.0	10.4	0.0	0.0
Adj net interest (income)/exp	(5.2)	(5.5)	(5.7)	(10.3)	(7.5)
Change in working capital	0.6	(2.8)	(2.2)	2.1	(1.8)
Cash taxes paid	1.3	0.9	(0.3)	1.2	0.7
Other operating cash flow	7.9	(7.3)	(0.8)	(7.6)	(8.3)
Cash flow from operations	7.7	9.2	11.8	34.4	2.8
Capex	(25.6)	(16.1)	(1.3)	(2.8)	(2.1)
Free cash flow	(20.1)	(7.9)	8.2	27.7	(0.5)
Dividends paid	(2.2)	(1.0)	(2.2)	(3.8)	(1.2)
Equity raised / (purchased)	0.0	0.0	0.0	4.0	0.0
Change in Debt	12.5	5.8	(37.7)	(37.0)	(2.1)
Other invest/financing cash flow	18.2	11.9	37.3	53.1	2.8
Effect of exch rate changes	(1.8)	0.1	0.3	0.4	1.1
Net cash flow	3.7	4.4	2.4	12.6	(23.5)

FYE 31 Dec	FY16A	FY17A	FY18A	FY19A	FY20A
Key Ratios					
Growth ratios (%)					
Revenue growth	12.0	20.4	18.7	10.3	(66.2)
EBITDA growth	(84.7)	nm	nm	nm	na
EBIT growth	(68.2)	284.3	(14.3)	47.4	nm
Pretax growth	nm	nm	(52.5)	113.1	nm
Reported net profit growth	nm	nm	(80.2)	373.9	nm
Core net profit growth	nm	nm	(80.2)	373.9	nm
Profitability ratios (%)					
EBITDA margin	3.3	0.0	7.6	0.0	0.0
EBIT margin	3.3	10.5	7.6	10.1	nm
Pretax profit margin	nm	8.8	3.5	6.8	nm
Payout ratio	nm	34.2	175.8	40.3	nm
DuPont analysis					
Net profit margin (%)	nm	6.0	1.0	4.3	nm
Revenue/Assets (x)	0.3	0.3	0.4	0.2	0.2
Assets/Equity (x)	2.7	2.9	2.6	4.7	2.1
ROAE (%)	(10.9)	5.0	1.0	4.6	(11.5)
ROAA (%)	(4.4)	1.8	0.4	1.3	(1.8)
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	55.0	63.9	43.1	42.5	72.2
Days inventory outstanding	nm	nm	nm	nm	40.5
Days payables outstanding	6.6	nm	nm	nm	nm
Dividend cover (x)	(13.9)	2.9	0.6	2.5	(56.5)
Current ratio (x)	nm	nm	nm	nm	nm
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.7	1.3	1.9
Net gearing (%) (incl perps)	113.7	104.5	93.6	310.6	67.0
Net gearing (%) (excl. perps)	113.7	104.5	93.6	310.6	67.0
Net interest cover (x)	0.5	1.9	1.5	1.4	na
Debt/EBITDA (x)	nm	nm	19.4	nm	nm
Capex/revenue (%)	29.7	15.5	1.1	2.1	4.6
Net debt/ (net cash)	143.1	142.1	124.8	391.6	80.0

Source: Company; Maybank

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