

Uni-Asia Finance Corporation

Long-term Turnaround Play

Uni-Asia Finance Corporation's (Uni-Asia) share price has fallen by 67% over the last two years to S\$0.167 per share and it is now trading at 0.47x of its book value only. We believe that the worst time has passed. Operating results are expected to improve in the 2H FY12; to be driven by (1) fee income from structured finance and (2) higher charter income from new delivery in late June-2012.

We expect operating performance to gradually improve throughout FY15F. We also see long-term upside potential when the shipping industry recovers as Uni-Asia bought 5 bulkers at very competitive prices. Based on our conservative forecasts, our economic profit model points to an **Intrinsic Value of S\$0.240 per share (44% upside). Increase Exposure.**

Fundamental Drivers:

Waiting for the Next Tide: Although we do not expect the shipping industry to recover strongly in the near-term, we do see the potential of improved ROA from higher charter income in the longer-term when shipping industry recovers from current dire situation. Given its current low P/B of 0.47x, we believe there is huge upside potential in an industry recovery as the company has 50% of its total assets in maritime investments.

Gradual Recovery: Japan's economy grew strongly in the first half of 2012 after three consecutive quarters of recession post the 3/11 disaster in 2011. As such, we expect Uni-Asia's hotel operation and its investments in the Japan property market to benefit from Japan's economic recovery. The management is also taking cost-reduction initiatives to improve its profitability. However, we expect the recovery to be gradual and may take some time to see significant improvement.

A Sharp Investor: Its US\$2.4m investment in a Hong Kong industrial office project also yielded US\$3m of gains so far. Going forward, we expect Uni-Asia to book more gains as the company is currently exploring attractive investment opportunities in the market.

Increase Exposure

- Intrinsic Value S\$ 0.240
- Prev Close S\$ 0.167

Main Activities

Uni-Asia Finance Corporation is a structured finance arrangement and alternative assets direct investment firm. The Company's main activities are the finance arrangement of transportation related assets and the provision of ship charter arrangements and the direct investing in alternative assets such as ships, distressed assets, and real estate.

Financial Highlights

(Y/E Dec) US\$m	FY10	FY11	FY12F
Total Income	48.2	57.9	81.1
Operating Income	5.0	3.4	5.4
PATMI	2.4	1.3	2.7
EPS (US cts)	0.77	0.35	0.58

Source: Company, SIAS Research

Key ratios (FY12F)

PER	23.6
P/BV	0.48
Return on Common Equity	2.0%
Net Debt/Common Equity	1.1%
Current Ratio	1.4

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)

White (UNIAF SP)



Source: Bloomberg

52wks High-Low	S\$0.280 /S\$0.118
Number of Shares	469.79m
Market Capitalization	S\$78.5m

Analyst:

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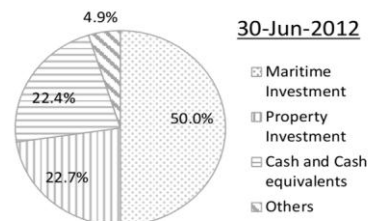
Company Introduction

Evolving over the Years: Uni-Asia was incorporated in Cayman Islands with business presence in Hong Kong back in 1997 and a focus on finance arrangement for companies in the transportation sector. Throughout the years, Uni-Asia expanded its business footprint from finance arrangement to alternative assets such as distressed assets investment funds, ship investment funds, residential properties, hotel operating management. In 2006, Uni-Asia Capital (Singapore) Limited, a subsidiary of Uni-Asia, was granted Approved Ship Investment Manager status by the Maritime and Port Authority of Singapore.

Successful Listing on SGX Main Board: Uni-Asia Finance Corporation was listed on SGX Main Board in August 2007, raising about US\$25m of net proceeds.

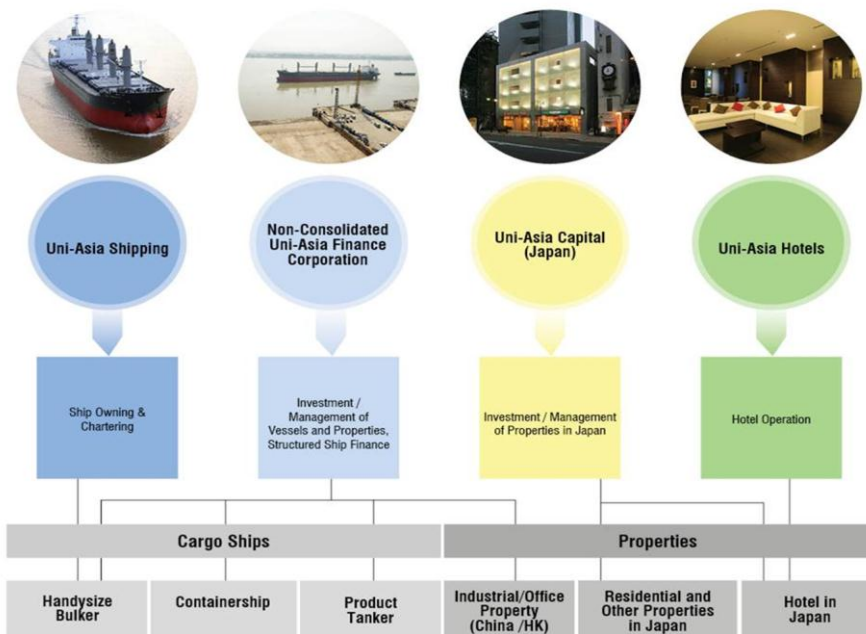
4 Business Drivers: Currently, Uni-Asia has four core businesses spanning across (1) ships management and investment, (2) ship owning & chartering, (3) investment & management of properties and (4) hotel operation in Japan. As of 30 June 2012, Uni-Asia had total assets of US\$251.3m. Of which, 50% of its assets was in maritime investment, 22.7% in property investment, 22.4% of cash and cash equivalents and others account for the remaining 4.9%.

Catalyst: With 50% of assets in Maritime Investment, a recovery in shipping industry will lift Uni-Asia's financial performance.



Position for Growth: US\$37.7m of free cash as of 30th June 2012 allows Uni-Asia to explore attractive investment opportunities and also provide financial cushion to weather through tough times.

Figure 1: Core Business



Note: "Non-Consolidated Uni-Asia Finance Corporation" comprises Uni-Asia Finance Corporation, Uni-Asia Finance Corporation (Japan), Uni-Asia Capital (Singapore) Limited, Uni Ships & Management Limited, Uni-Asia Capital Company Limited and Uni-Asia Guangzhou Property Management Company Limited.

Source: Company Data.

Income Structure: Uni-Asia has an unconventional income structure as the company has both operating and investment assets. As such, Uni-Asia derives its income from four major categories which are (1) fee income, (2) hotel income, (3) investment return and (4) interest income. More details are shown in Figure 2 & Figure 3 below.

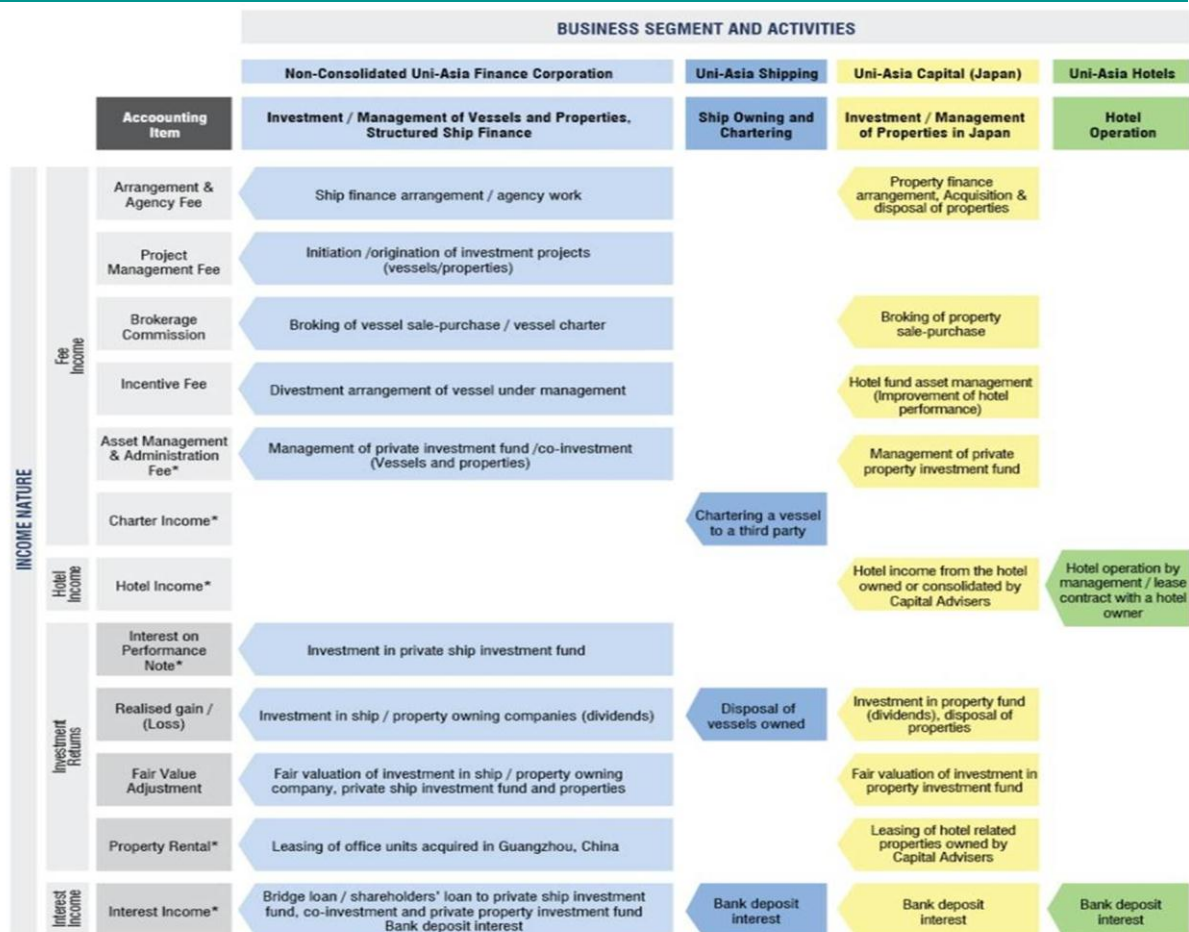
Figure 2: Income Breakdown in FY 2010 & FY 2011

YEAR ENDED 31 DECEMBER 2011

	Notes	2011 US\$'000	2010 US\$'000
Fee income	18	15,226	9,777
Hotel income		36,824	35,736
Investment returns	19	4,334	232
Interest income	20	817	522
Other income		694	1,957
Total income		57,895	48,224

Source: Annual Report 2011

Figure 3: Income Structure



* Recurrent income (Charter Brokerage Commission is also recurrent, while vessel / property brokerage commission is one-off fee income)

Source: Company Data.

Operated by Experienced Managers: Its key management personnel consists of 14 experienced managers with vast experience in their respective specializations. Most of the managers have more than 20 years of working experience in their specialized fields and two of the key staffs have more than 38 years of experience. Each of these managers has different skill sets and specialization, such as structured finance, ships chartering & operating, private equity fund management and real estate investment that are required to run Uni-Asia's different businesses. Besides, Uni-Asia also has 7 experienced board of directors overseeing the Group's strategic business plan and its management team.

Invest for the Future: After the financial crisis, Uni-Asia started ship owning business and bought 5 handy-size bulkers at very competitive price. We believe Uni-Asia is set to ride on the next boom cycle when shipping industry recovers. Currently, the company is still exploring opportunities in projects with favorable ROE.

Uni-Asia Shipping – Waiting for the Next Tide

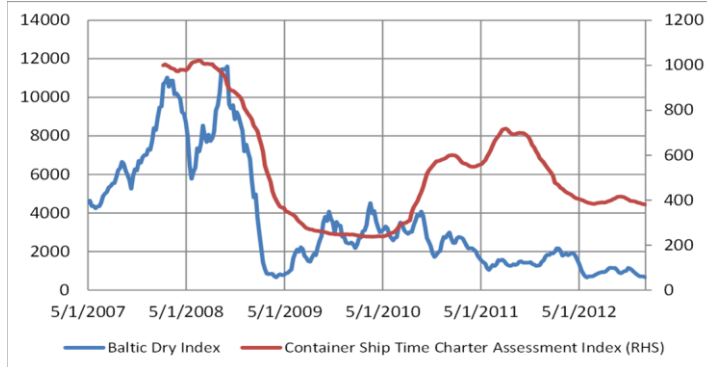
The shipping industry suffered over the last four years due to lower than anticipated demand and excessive new build orders in 2007-2008. In addition, the financial crisis in 2008 also affected its structured finance and hotel & property investment and management businesses. These factors caused the company to record losses in FY08 and FY09. Although financial performance improved in FY10 & FY11, ROIC is still way below WACC. The company's share price has fallen by about 67% over the last two years to S\$0.167.

However, we believe the worst has passed and we now expect the company to perform better in 2H FY12. Besides, we also see strong earnings growth potential in FY14 if chartering rates recover.

Ship Owning Business: After the 2008 financial crisis, Uni-Asia started the ship owning business as vessel prices fell significantly and the company reckoned that it was worthwhile to acquire the vessels themselves. As of now, four vessels were delivered with one vessel scheduled to be delivered in 3Q FY13.

Sink lesser than the Industry: The shipping division recorded profit in 2010 and 2011 while its peers remained near breakeven levels probably because Uni-Asia's vessels were acquired at favorable rates. Nonetheless, Uni-Asia Shipping was still able to generate US\$1.1m of PAT in 2011 on US\$79.5m of segment assets; translating to 1.4% ROA. Low ROA was mainly due to (1) low chartering rate in the shipping industry and (2) chartering only started in 2Q FY11.

Figure 4: Falling Shipping Rates



Source: Bloomberg

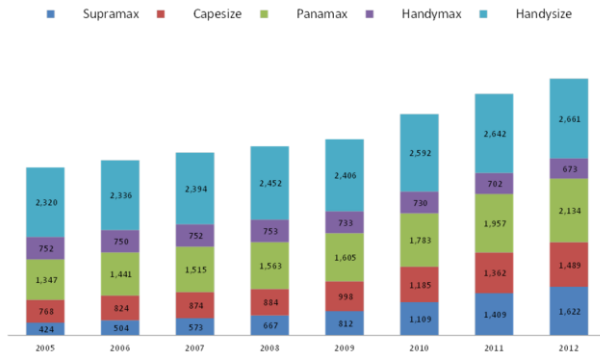
Investment Thesis Remains Intact: We are of the view that Uni-Asia's investment decision to enter the ship owning business remains sound; as the company bought these vessels at a very competitive price. On hindsight, the management may have underestimated the duration of this downturn. Currently, Uni-Asia is looking for opportunities to acquire more handy size bulk carriers, if the price is right.

Better Outlook in Handy Size Bulker Market: During the boom year in 2006/07, many players ordered huge size bulkers and hoping strong demand growth from emerging countries to continue. Currently, freight demand growth from China is falling and excess capacity may take many years to absorb. That said, handy size market is very different. During the boom year, there was relatively fewer new built in this sub-segment and the age profile of handy size vessels are getting older. We believe that there is potential in this sub-segment when the replacement cycle arrives. Besides, handy size bulker also has the flexibility to travel to smaller port.

Long-term Asset Play: In the long run, we believe that the industry will consolidate and the demand - supply equilibrium will be restored gradually. This phenomenon will give rise to profitability among shipping players. The current low interest rate environment will also help to boost economic growth and absorb excessive vessel supply in the market.

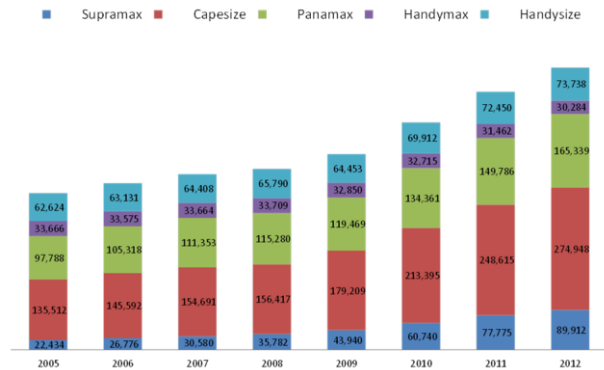
Low Investment Cost Protects the Downside: We recognize the fact that Uni-Asia's shipping business may not do well in the near future if excess capacity continues to flood the market while demand growth remains stagnant as slacking economic growth continues. That said, we are of the view that the downside is limited as shipping rate and vessels prices have fallen significantly since the previous boom cycle in 2007.

Figure 5: No. of Bulkers in Service



Source: IHS Global Limited, Bloomberg Industries

Figure 6: Bulker DWT ('000)

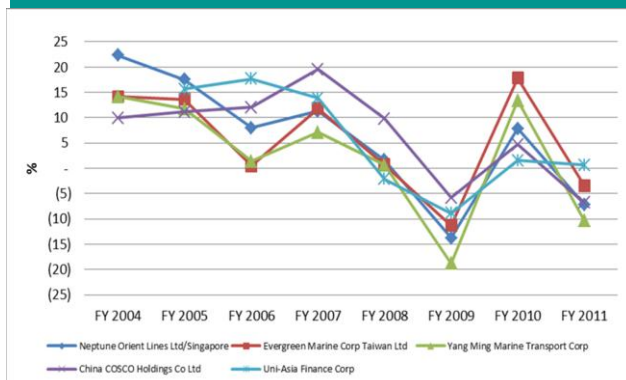


Source: IHS Global Limited, Bloomberg Industries

Outlook Improves: Number of vessels on order has been declining since the boom year in 2007/08. New supply currently stands at historical low since 2005. However, global fleet capacity continues to rise in 2012 as previous new built enter the market.

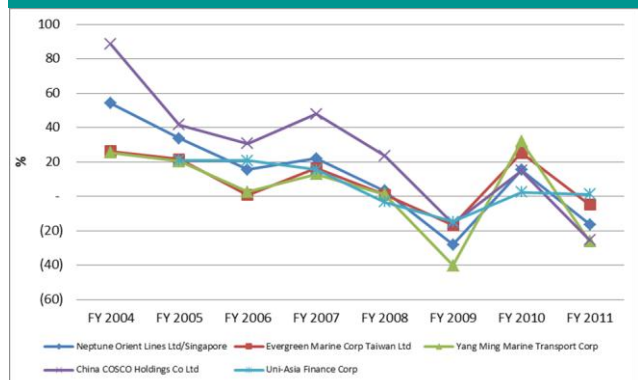
ROIC to Mean Revert: Going forward, we expect current industry excess capacity to be gradually absorbed by (1) scrapping of old vessels and (2) global demand growth, barring any unforeseen macroeconomic risk, and eventually will lead to mean reversion of ROIC in shipping industry. That said, we estimate that current excess capacity will continue until end of 2013 or early 2014 and we only expect chartering rate to rebound when demand growth outpacing supply growth.

Figure 7: Falling ROA among Ship Operators



Source: Bloomberg

Figure 8: Negative ROE in FY11



Source: Bloomberg

Causes of Losses in FY08 & FY09: The huge losses incurred in 2008/09 were due to the poor performance at the Hotel & Property Investment and Management and Structured Finance divisions while the Maritime Investment & Management division was still generating stable profits.

Future Driven by Recovery in Shipping Industry: We recognize that Uni-Asia's ROA & ROE are not strictly comparable with ship operators in the past. But we think that the correlation will be higher going forward as Uni-Asia currently has 50% of its assets in maritime investment and its future performance will be largely driven by the operating environment in shipping industry.

Figure 9: Uni-Asia Shipping Ltd – 1H FY12 Results

US\$'000	1H 2012	1H 2011	YoY %
Revenue	5,585	1,186	370.9%
Fee income (Charter Income)	5,625	1,112	405.8%
Investment returns	(70)	-	n/a
Interest income	9	1	800.0%
Other income	21	73	-71.2%
Profit from Operation	2,254	380	493.2%
Profit after Tax	1,610	247	551.8%

Source: Company Data.

1H FY12 Registered Strong Earnings Growth: Despite the challenging operating environment in shipping industry since 2007, Uni-Asia Shipping Limited was still able to turn in a small profit of US\$1.1m in FY2011, including a US\$0.72m forex loss. In 1H FY12, net profit rose substantially to US\$1.6m as compared to US\$0.25m in the previous corresponding period. Strong earnings growth in 1H FY12 was due mainly to first full half-year contribution from 3 vessels owned by the company.

Figure 10: Ship Owning Business – Financial Performance

US\$'000	2Q FY11	3Q FY11	4Q FY11	1Q FY12	2Q FY12
Charter Income	1,112	2,241	3,188	3,062	2,563
Vessels Operating Expenses	(323)	(826)	(1,148)	(1,007)	(1,119)
Gross Profit	789	1,520	1,935	2,055	1,444
Margin %	71.0%	64.8%	62.8%	67.1%	56.3%
No. of Bulkers	2	2	3	3	4
Bulker Capacity (DWT)	57,709	57,709	86,009	86,009	115,109
*Average Daily Rate	6.18	13.03	11.42	11.34	7.12

Source: Company Data, *SIAS Research estimates

Expecting Stable Contribution in 2H FY12: Average daily rate declined significantly in 2Q FY12 from US\$11.3k to US\$7.1k. This was due to (1) the new delivery did not contribute fully to the quarter and (2) some of its existing fleets were undergoing dry-docking and did not contribute income to the divisions. We expect ship owning business to continue generating stable charter income and support its growth plan in the future.

Figure 11: Vessels Portfolio – Ship Owning Business

Vessel Owned by Uni-Asia Shipping

	Type	Capacity	Year of Built	Ship yard	Charter Period												Charterer	TC/BBC	
					2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018				
1	Bulker	29,000 DWT	2011	Y-Nakanishi														Pacific Basin	TC
2	Bulker	29,100 DWT	2012	Y-Nakanishi														Pacific Basin	TC
3	Bulker	37,000 DWT	2013	Onomichi														TBN	TC
4	Bulker	28,709 DWT	2007	Shin-Kurushima														Daiichi Chuo Kisen	TC
5	Bulker	28,300 DWT	2001	Kanda														Daiichi Chuo Kisen	TC

As of 30 June 2012

	Before delivery		TC= Time Charter
	Charter contract		BBC= Bare Boat Charter

Source: Company Data

Potential Upside in FY13: Uni-Asia will take delivery of a new 37,000 DWT bulker and will charter for a 5 years period from 2H 2013 to 1H 2018. This new vessels is expected to contribute more (vs other vessels) to Uni-Asia's topline as well as bottom line as it is larger in size. A recovery in chartering rate will also benefit the company if it can renew its existing two chartering contract with *Daiichi Chuo Kisen* (Charterer) at a higher rate in 2013. We also expect Uni-Asia's shipping funds, under *Non-Consolidated Uni-Asia Finance Corporation*, to register higher investment return in FY14 if chartering rate recovers.

Non-Consolidated Uni-Asia Finance Corporation

Non-Consolidated Uni-Asia Finance Corporation (NC UAFC) is mainly involved in the investment/management of vessels and properties, as well as structured ship financing. It earns fee income from ship finance arrangement, broking of vessel transactions, management of private investment fund & co-investment and others. Other than fee income, it also earns investment returns as well as interest income.

Stable Income Generator: NC UAFC has been generating stable fee income from structured finance activities and management fees from vessels and properties under its care. Since FY10, turnover at the division was fairly stable. However, profit from operation dropped significantly in FY11 due to forex losses. Also, higher operating expenses also contributed to lower profit in FY11.

We expect profit from operation to be lower in 2H FY12 than 1H FY12 due to the absence of fair value gain from Hong Kong property project. We expect this division to record small profit in FY12.

Return from Shipping Investment can be Volatile: NC UAFC's investment returns from unlisted stakes of certain assets can be volatile, especially the shipping investments, as the asset prices are influenced by the challenging operating environment. On the bright side, the Group's aggregate investment return since 2006 has been positive.

Figure 12: Financial Performance of Non-Consolidated Uni-Asia Finance Corp

US\$'000	FY 2010	FY 2011	1H 2012	Remarks
Turnover	8,558	8,394	4,339	Stable turnover since FY2010
Fee Income	5,038	3,235	1,503	Expect stable fee income in 2H FY12; driven by structured finance arrangement fees.
Investment Returns	1,109	3,391	1,820	1H FY12 including a US\$1.6m FV gains from property project in Hong Kong
Interest Income	1,162	1,363	648	Expect stable/slightly lower interest income in 2H FY12
Other Income	1,249	404	368	
Expenses	(4,085)	(7,567)	(3,409)	
FX (loss)/gain	2,076	(463)	126	FX losses ate into profits in FY11
Profit from Operation	4,474	826	930	Expect lower profit in 2H FY12 due to the absence of one-off FV gains
Profit after Tax	4,209	444	705	

Source: Company Data

Potential Gains from HK Project: Uni-Asia has a 10.2% stake in an industrial office property project in Kwun Tong, Kowloon, Hong Kong. The site is currently being redeveloped into a 31-storey building and is expected to be completed in 4Q 2013. Currently, all saleable units are fully sold. The cost of 10.2% stake was only US\$2.4m and this investment has yielded US\$3m of gains so far. We also see potential of this investment to record another US\$1-2m of gains in FY14 when construction works is completed, if there is no cost overrun.

14 Office Units in Guangzhou: Uni-Asia also has 14 office units with a total gross floor area of 1,320 sqm in China Shine Plaza in Guangzhou China. It was acquired back in 2007 and all units are currently leased out to third parties. Despite the recent slowdown in China's economic growth, we are still seeing property developers snapping up prime office sites in Guangzhou for new development. Thus, we think that these office units are still a good long-term investment in China.

Creating Synergy with Uni-Asia Capital (Japan): Uni-Asia Capital Company Limited, a wholly owned property investment subsidiary of Uni-Asia, is also collaborating closely with UACJ in property investment and management.

UACJ first secures for and brokers/arranges investment projects, while the property investment department can choose to invest in them based on its risk/reward requirements. In 2011, Uni-Asia Capital Company Limited invested in a small residential property development project in Tokyo which was arranged by UACJ. Under this arrangement, UACJ is able to earn stable fee income while also allowing Uni-Asia Capital Company Limited to invest in attractive investment opportunities.

Uni-Asia Capital (Japan) – Leveraging on Japan Recovery

Uni-Asia Capital (Japan) Ltd. (UACJ), formerly known as Capital Advisers, mainly manages the company's property investments in Japan. UACJ generates fee income and hotel income from property finance arrangement, broking of property sale-purchase, hotel fund management and 2 hotel owned by Uni-Asia Capital (Japan).

Stable Operating Profits: This segment turned in a satisfactory US\$0.9m of profit after tax in FY11. In 1H FY12, profit from operation improved to US\$0.4m as compared to a loss of US\$0.3m in the previous corresponding period.

Figure 15: UACJ – Historical P&L

US\$'000	FY 2010	FY 2011	1H 2012	Remarks
Turnover	6,694	8,985	3,355	
Fee Income	4,795	4,799	1,336	Stable income; Expecting higher fee income in 2H FY12
Hotel Income	3,065	3,446	1,917	Hotel income improved by US\$0.33m YoY in 1H FY12
Investment Returns	(1,198)	693	98	Improved returns from residential properties and hotels in Japan
Interest Income	2	1	-	
Other Income	30	46	4	
Profit from Operation	2,463	2,301	418	Profit improved by US\$0.7m YoY in 1H FY12
Profit after Tax	(270)	970	(137)	Expecting better set of results in 2H FY12 than 1H FY12

Source: Company Data, SIAS Research

Taking Initiatives to Improve Profitability: During the 2Q FY12 results announcement, the management shared with us that UACJ is currently taking cost reduction initiatives to improve its profitability. That said, we only expect its profitability to gradually improve going forward.

Leveraging on Property Market Recovery in Japan: Investment return improved to US\$0.1m in 1H FY12 as compared to US\$0.2m losses in 1H FY11 due to improved returns of both residential properties and hotels in Japan. Currently, the company is investing in 3 small residential development projects in Tokyo metropolitan area. This investment allows UACJ to earn management fees as project manager and also generate investment return for NC UAFC at the same time. Each project has a potential development value of US\$3-4m. Assuming a 20% of profit margin, we expect these projects to yield about US\$0.6m to US\$0.8m of return each over the next 1-2 years.

Figure 16: Tokyo Residential Project



Source: Company Data

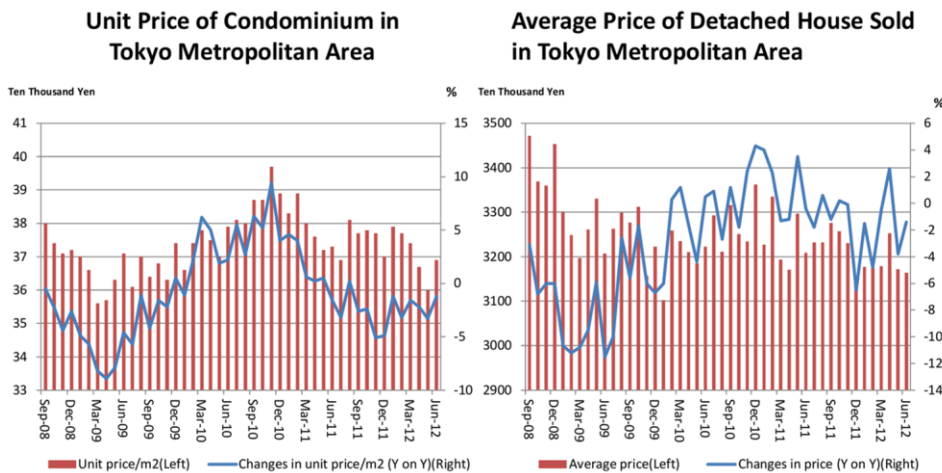
Figure 17: Tokyo Residential Project



Source: Company Data

Targeting Wealthy Individuals: Uni-Asia plans to market these residential projects to wealthy individuals in Japan who are looking for a reasonable sized investment opportunity. Property prices in Tokyo Metropolitan have been stagnant since 3/11 disaster in 2011 and have shown signs of rebound since the end of 2011. We are of the view that current low property prices make Uni-Asia's projects attractive to wealthy individuals as it offers stable monthly rental income as well as potential capital gains in a market recovery.

Figure 18: Property Prices Show Signs of Rebound



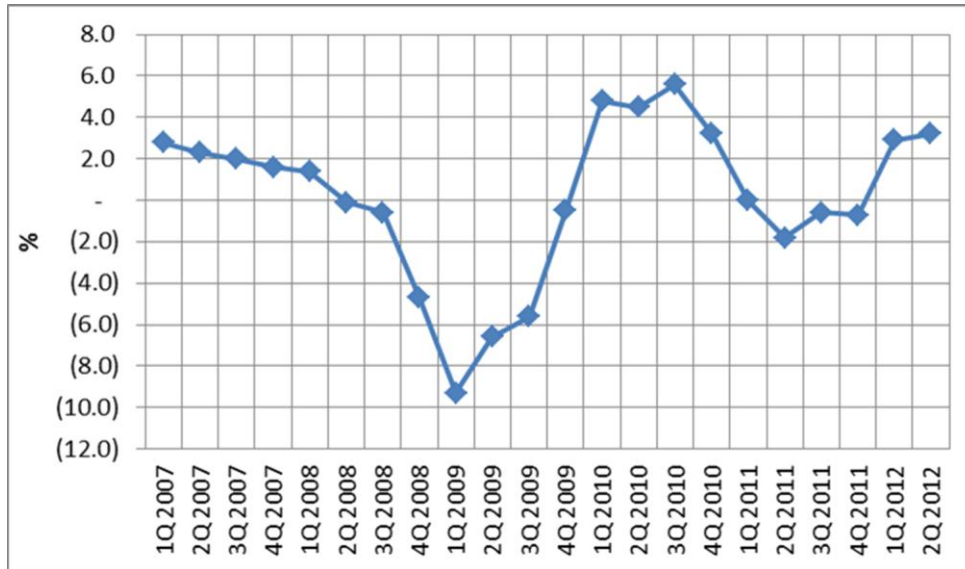
Condominium with space from 40 to 80m²

Source: The Real Estate Transaction Modernization Center Foundation
(Fudosan Ryutsu Kindaika Centre)

Source: Company Data

Japan's Economy Rebounded: After the 3/11 disaster, Japan's economy entered recession for 3 consecutive quarters in 2011. However, the economy has rebounded strongly in the first half of 2012 on the back of post-disaster reconstruction. If the pace of economic growth continues, we see the potential for UACJ to generate higher fee income and investment returns going forward.

Figure 19: Japan's Economic Growth Picking Up



Source: Economic and Social Research Institute Japan

Uni-Asia Hotels – Expecting a Turnaround Soon.....

Uni-Asia Hotels currently operates 10 hotels in Japan under the “Vista” brand name and one hotel under “JAL City” brand. According to an article from Nikkei Business on 23th July 2012, Hotel Vista is ranked No.12 out of 39 on Business Hotel Ranking in Japan. The ranking was conducted based on customer satisfaction and quality of services. Of these 11 hotels, Uni-Asia only owns 2 properties while the others are operated under leasing/management contracts.

External Factors Weighted on Profits: Uni-Asia Hotels reported more than US\$1m of net losses in FY10 & FY11. It was mainly due to high operating costs, lower room rate, and unfavorable leasing terms. In FY11, the 3/11 earth quake and the subsequent nuclear crisis in Japan hit the country’s tourism industry badly. As such, average daily room rate in FY11 was only 6,866 Yen. Besides, the strong Yen also reduced Japan’s attractiveness as a tourist destination and lowered the purchasing power of foreign tourists in Japan.

Figure 20: Uni-Asia Hotels – The Worst has Passed

US\$'000	FY 2010	FY 2011	1H 2012
Turnover	33,388	34,718	25,778
Profit from Operation	(1,466)	(895)	(439)
Profit after Tax	(1,679)	(1,066)	(460)
Occupancy Rate	76.5%	74.8%	76.7%
Average Daily Rate (Yen)	6,903	6,866	7,284

Source: Company Data

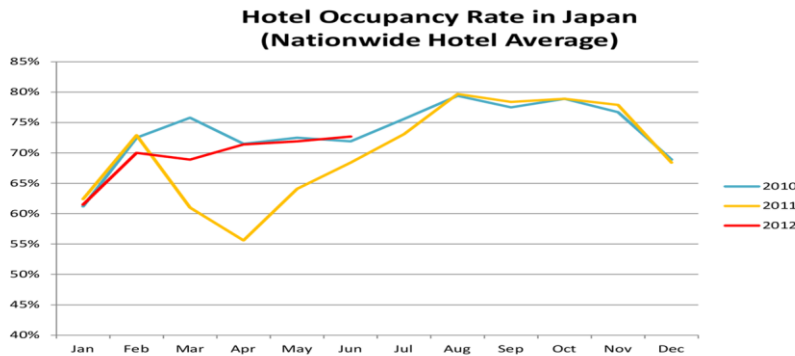
Sunny Days Ahead: In 1H FY12, the division only recorded US\$0.46m of net losses as compared to US\$1.65m of net losses in 1H FY11. This smaller net loss also included additional expenses due to the termination of operating contracts for three hotels. Following the termination of three operating contracts, we believe the profitability of Uni-Asia Hotels will gradually improve going forward. Besides, the management is also looking to improve the terms and conditions of its hotel operating leasing agreement and expanding its room under operation from current 1,914 rooms to 3,000 rooms in the future to further improve its profitability.

Expect to Break Even This Year: Demand for hotel rooms in the second half has always been seasonally stronger than in the first half in Japan. In 2H FY11, Uni-Asia Hotels registered a net profit of US\$0.58m, supported by seasonally stronger demand and a recovery in room rates.

With an increase in average daily room rate in 1H FY12 (7,284 Yen vs 6,260 Yen in 1H FY11), we expect Uni-Asia Hotels to achieve higher average daily room rate in 2H FY12 and bring in higher profit in 2H FY12 than in 2H FY11.

We are of the view that Uni-Asia Hotels will be able to break even this year, and probably record modest full year profit in FY12 for the first time since FY10. Barring any unforeseen macroeconomic risks, we believe Uni-Asia Hotels will be able to turn in higher profits in FY13.

Figure 21: Higher Demand from July to November



Source: Ohta Publications "Shuukan Hotel Restaurant" volume 47-28

Source: Company Data

Occupancy rate recovered strongly in first half of 2012 post 3/11 disaster in 2011.

Demand in second-half is expected to at least track last 2 years performance.

Foreign Exchange Risk: We are of the view that the weaker Yen will spur Japan's tourism industry and increase demand for hotel rooms in the country. As hotel operating expenses are largely fixed, any increase in hotel demand and room rate will help boost Uni-Asia Hotels' profitability. That said, a weaker Yen will also reduce the profits of Uni-Asia Hotels in US dollars. However, we think that earnings growth from improved operating efficiency will largely offset any unfavorable impact from currency translation.

Figure 22: List of Hotels Uni-Asia Hotels Operates

List of hotels we operate

	Hotel	Location	Ownership	Number of Rooms	Business Type*	Opening/Acquisition	Original Opening	Major Customers
1	Hotel Vista Kamata	Kamata, Tokyo	J-REIT	106	Lease	June-06	May-91	Business traveller
2	Hotel Vista Sapporo Nakajima Kohen	Sapporo, Hokkaido	Corporate Ownership	113	Lease	December-06	-	Business traveller
3	Hotel Vista Shimizu	Shimizu, Shizuoka	Private Fund	152	Lease	March-07	-	Business traveller
4	Hotel Vista Premio Dojima	Dojima, Osaka	Private Fund	141	Operation	August-07	August-90	Business traveller
5	Hotel Vista Hashimoto	Hashimoto, Kanagawa	J-REIT	99	Lease	August-07	December-86	Business traveller
6	Hotel Vista Aisugi	Aisugi, Kanagawa	Private Fund	165	Operation	September-07	-	Business traveller
7	Hotel Vista Kumamoto Airport	Kumamoto, Kumamoto	Capital Advisers	139	Own/operation	January-08	-	Business traveller
8	Hotel Vista Ebina	Ebina, Kanagawa	Private Fund	176	Lease	October-08	-	Business traveller
9	Hotel Vista Grande Osaka	Soemoncho, Osaka	Private Fund	304	Lease	November-08	-	Tourist
10	Hotel Vista Kyoto Hachijohguchi	Kyoto, Kyoto	Private Fund	215	Operation	June-09	-	Tourist
11	Hotel JAL City Naha	Naha, Okinawa	J-REIT	304	Lease	October-11	June-06	Tourist
	Sub Total			1,914				

* Business Type

Lease: Our hotel operating subsidiary leases-in the hotel from the owner and operates.

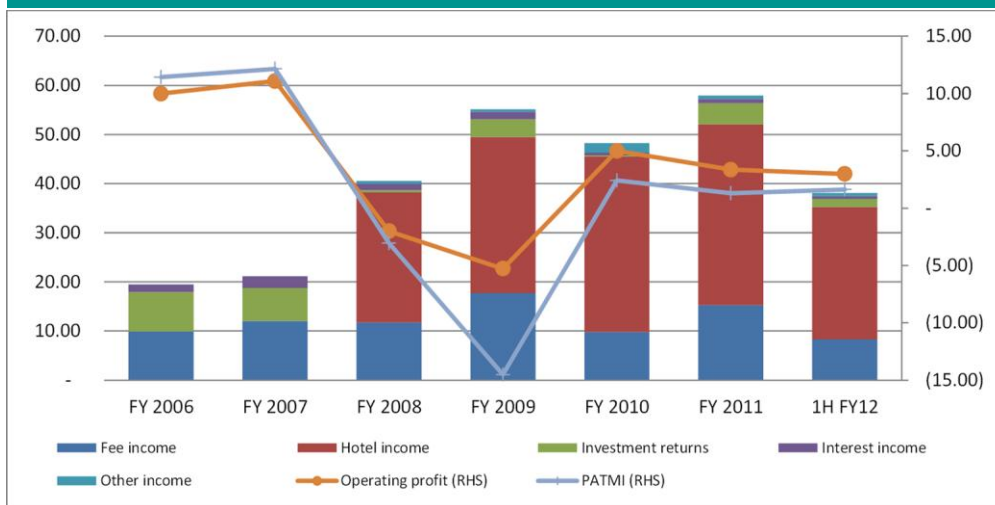
Operation: Our hotel operating subsidiary operates the hotel under the operating contract.

Source: Company Data

Riding on the Recovery

Since the financial crisis in 2008, Uni-Asia's businesses had been performing poorly. The losses in FY08/09 were attributed from its hotel & property investment and management. Although Uni-Asia turned in a small profit in FY10 & FY 11 respectively, its hotel operations continued to drag on the Group's profits.

Figure 23: Historical Total Income & Profits (US\$m)



Source: Company Data

Key Drivers in Second Half: In 1H FY12, all divisions except Uni-Asia Hotels contributed positive operating profit to the Group. In 2H FY12, we expect Uni-Asia to report higher revenue and profit than 1H FY12 from 4 key drivers: (1) *Uni-Asia Hotels is expected to turn profitable on the back of seasonally higher demand for hotel rooms in Japan,* (2) *full period contribution from new delivery in 2Q 2012 (late-June),* (3) *higher investment return from residential projects in Japan and* (4) *cost reduction exercise at Uni-Asia Capital (Japan).*

Deep Discount to Book Value: Currently, Uni-Asia is trading at 0.47x of its book value only. We believe that this deep discount is mainly due to the poor profitability as a result of industry factors. The low P/B signals that investors expect their subpar performance to continue for some time but we think that its current price is still an attractive entry point for investors who want to ride on the shipping industry recovery and are optimistic about the company's corporate restructuring.

Financial Forecast and Valuation

Gradual Recovery: We expect the abovementioned key drivers to bring in higher revenue and net profit in 2H FY12 than 1H FY12. In FY12F, we estimate net profit to come in at US\$4.3m on US\$82.2m of revenue. In 3Q FY13F, the fifth bulker will also start contributing charter income to Uni-Asia Shipping. Uni-Asia Hotels' profitability is also expected to improve going forward; on the back of Japan's economic recovery. In addition, ROE will also improve when Uni-Asia fully utilizes its US\$37.7m of free cash to buy earnings accretive assets.

Conservative Forecast: We expect Uni-Asia's business to gradually recover throughout FY15F but will continue to incur economic losses. As such, our economic profit model points to an ***Intrinsic Value of S\$0.24 per share (44% upside)***, or only 0.68x of its book value as of 2Q FY12. Hence, we currently have an ***Increase Exposure*** rating on Uni-Asia.

Our valuation model also does not factor in a shipping industry recovery. We will continue to closely monitor the developments and review our financial forecasts when we see clearer visibility in the industry.

Why We think It is Undervalued? We think that this stock is out of some institutional investors' radar because of its low trading volume and small market capitalization (S\$80m only). Since the company announced its 2Q FY12 results, its share price has remained stagnant and has been trading in the range of S\$0.16-S\$0.17 per share. Currently, there is no analyst covering Uni-Asia and we think that this could be one of the reasons that the stock has not drawn investors' interest.

Uni-Asia's profitability is however subject to the following risks:

1. A deteriorating global macroeconomic environment may continue to depress charter rates and its maritime investments will continue to generate subpar return.
2. Unfavorable foreign exchange rate movement will also reduce its profitability as Uni-Asia has currency exposure in USD, JPY and SGD.
3. Rising interest rate will increase its financing costs, and thus reducing net profit, as the company has about US\$100m of debts as of 2Q FY12.

Figure 24: Economic Profit Valuation Model

US\$m	FY2012F	FY2013F	FY2014F	FY2015F
Revenue	81.13	89.82	94.50	99.47
EBIT	5.44	10.29	13.80	17.15
Tax on EBIT	(0.71)	(1.34)	(1.79)	(2.23)
NOPLAT	4.74	8.95	12.00	14.92
Invested Capital	233.08	239.79	247.96	233.47
% of Debt	43.2%	42.2%	34.0%	33.3%
% of Equity	56.8%	57.8%	66.0%	66.7%
WACC	7.4%	7.5%	8.2%	8.2%
Capital Charge	(17.23)	(17.93)	(20.24)	(19.21)
Economic Profit	(12.50)	(8.98)	(8.24)	(4.29)
Present Value	(12.06)	(8.06)	(6.77)	(3.25)
Terminal Value	(52.16)			
Explicit Value	(42.87)			
Book Value	135.27		Risk Free Rate	1.5%
Value of Equity	92.40		Beta	1.0
Number of Shares (m)	469.8		Equity Risk Premium	9.5%
Value per Share (US\$)	0.197		Cost of Equity	11.0%
USD/SGD	1.23		Cost of Debt	2.0%
Value per Share (S\$)	0.240		LT Growth	0.0%

Source: SIAS Research

Figure 25: Financial Forecasts and Estimates

US\$m	FY2010	FY2011	FY2012F	FY2013F	FY2014F	FY2015F
Revenue	48.2	57.9	81.1	89.8	94.5	99.5
Operating Profit	5.0	3.4	5.4	10.3	13.8	17.2
PBT	2.7	1.6	3.3	8.2	12.2	15.6
PATMI	2.4	1.3	2.7	6.8	10.1	12.9
Total Current Assets	60.6	81.2	62.3	63.8	42.4	48.9
Total Non-Current Assets	107.5	168.6	195.6	202.3	209.2	208.2
Total Current Liabilities	57.1	51.1	45.2	41.2	26.2	26.2
Total Non-Current Liabilities	4.0	65.3	76.5	81.5	71.4	71.4
Total Equity	107.0	133.4	136.2	143.4	154.0	159.5
Cash from Operating Activities	0.3	1.9	0.9	3.4	6.7	9.5
Cash from Investing Activities	(36.6)	(48.3)	(23.4)	(1.5)	(3.0)	5.0
Cash from Financing Activities	6.8	71.0	3.9	1.0	(25.1)	(8.0)
Net Change in Cash	(29.5)	24.6	(18.7)	3.0	(21.4)	6.5
Return on Common Equity	2.3%	1.1%	2.0%	4.9%	6.8%	8.3%
Return on Assets	1.5%	0.6%	1.1%	2.6%	3.9%	5.1%
Net Debt / Common Equity	-0.4%	22.4%	38.6%	35.4%	30.6%	25.6%
Current Ratio	1.06	1.59	1.38	1.55	1.62	1.87
EPS (US cents)	0.77	0.35	0.58	1.44	2.15	2.74
BV / Share (US cents)	34.2	28.4	29.0	30.5	32.8	34.0
PER	26.4	48.7	23.6	9.4	6.3	5.0
P/BV	0.41	0.50	0.48	0.46	0.43	0.41

Source: Company Data, SIAS Research

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

IMPORTANT DISCLOSURE

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