RESULTS UPDATE

Marine; Property ▪ Singapore

KGI CHINA DEVELOPMENT FINANCIAL

Uni-Asia Group Limited

(UAG SP/UAFC.SP)

Hurt on all sides

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- UAG reported US$0.8mn of losses in 4Q19 compared to a US$2.3mn loss in 4Q18, due to lower charter income and investment returns. Furthermore, its profit was severely impacted by the S$5.9mn in depreciation of rights-of-use asset as it adopted the new IFRS16 accounting standards.
- The year ahead poses substantial challenges to the group as all its business segments (Bulk shipping, Hong Kong property investments, and Japan hotels) are impacted by the coronavirus outbreak.
- Given the weak outlook and lack of near term catalyst, we downgrade UAG to NEUTRAL with a lower TP of S$0.62. Its shares have declined 24% YTD and now trades at trough valuations of 0.3x 2020F P/B, 4.9x 2020F P/E and 7.1% 2020F dividend yield.

Financials & Key Operating Statistics

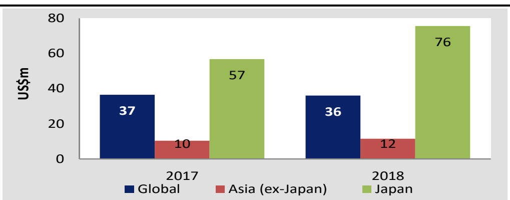
YE Dec (US$m)	2018	2019	2020F	2021F	2022F
Revenue	123.3	136.0	133.3	138.8	144.4
PATMI	1.2	5.8	6.9	9.3	10.2
Core PATMI	16.4	5.8	6.9	9.3	10.2
Core EPS	35.0	7.4	8.8	11.8	12.9
Core EPS grth (%)	164.1	-78.7	17.9	34.5	9.4
Core P/E (x)	1.2	5.8	4.9	3.6	3.3
DPS (SGCents)	7.0	4.2	4.0	4.2	4.4
Div Yield (%)	12.5	7.5	7.1	7.5	7.9
Net Margin (%)	1.0	4.3	5.2	6.7	7.0
Gearing (%)	102.9	68.6	72.2	64.2	58.1
Price / Book (x)	0.2	0.3	0.3	0.3	0.2
ROE (%)	0.9	4.6	5.3	6.9	7.2

Source: Company Data, KGI Research

FY19 summary. FY19 net profit rose to US$5.8mn from US$1.2mn in FY18, mainly due to the US$4.3mn disposal gain from the sale of a hotel in Japan and US$6.2mn investment returns from the sale of commercial projects in Hong Kong. The group has proposed a 2.2 Sing cents final dividend. Together with the 2.0 cents interim dividend, brings full-year dividend to 4.2 cents. This is an implied 7.5% yield at its current price, which has declined 24% YTD.

Tough times ahead. The COVID-19 outbreak has upended all forecasts made in our previous report in December 2019. The disruption to the global supply chain, drop in demand for shipping and the significant decline in tourism will have a negative impact on all of UAG's business segments in 2020. This is especially true for its businesses in Japan, which contributed 55-61% of the group's total income in 2017 and 2018, and represents businesses such as ship finance arrangement, investments and asset management of properties and hotels.

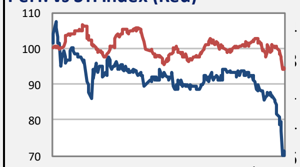
Figure 1: Revenue by geography



Source: Company data, KGI Research

NEUTRAL - Downgrade

Price as of 11 Mar 20 (SGD)	0.56	**Performance (Absolute)**	
12M TP ($)	0.62	1 Month (%)	-19.4
Previous TP ($)	1.24	3 Month (%)	-24.8
Upside (%)	10	12 Month (%)	-24.1
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	44		
Issued Shares (mn)	79		
Vol - 3M Daily avg (mn)	0.1		
Val - 3M Daily avg ($mn)	0.0		
Free Float (%)	50.8%		
Major Shareholders		**Previous Recommendations**	
Yamaso Co	30.0%	2-Dec-19	OP $1.24
Evergreen Int'l	9.0%	26-Sep-19	OP $1.24
		28-Aug-19	OP $1.24



Recession risk. Japan's economy declined an annualised 7.1% in 4Q19 and represents the steepest drop since 2014. The country's economy faces the prospects of a further decline in 1Q20 due to the impact of the coronavirus on tourism and exports. Adding fuel to the fire, the Tokyo 2020 Olympics, scheduled to be held in July and August, may possibly face delays by up to two years.

On a slightly positive note. The group is facing the challenges ahead of it with a stronger balance sheet. Net gearing (net debt/equity) has improved to 69% as at end 2019 from 103% as at end 2018. Management took a proactive approach to sell off assets last year and recycling into other long-term opportunities such as healthcare management in Japan. For the year ahead, management has stated that it will focus on its Japan residential properties, which we expect to be relatively more resilient amid the coronavirus outbreak.

Valuation & Action: We downgrade UAG to **NEUTRAL** on the back of headwinds the group will face in 2020. Our TP drops to S$0.62, based on a sum-of-the-parts (SOTP) valuation of its businesses. Valuations are at rock-bottom as it trades at 4.9x 2020F P/E, 0.3x 2020F P/B and 7.1% 2020F dividend yield.

Risks: The longer-than-expected impact of COVID-19 outbreak on global economic growth will have an outsized impact on the shipping and hospitality sectors.

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$0.62. Our fair value is an implied 0.3x 2020F BVPS and 5.4x 2020F EPS. In summary, Uni-Asia's shipping and property businesses contribute 35% and 65%, respectively, to our total SOTP-derived fair value. We have opted to remove the hotel management business from our SOTP valuations for now, and prefer to wait for clarity on the outlook and financial impact before incorporating the unit into our assessment.

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 an 80% 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 on its shipping assets.

Its properties segment is divided into investments in Hong Kong commercial buildings and development of small scale residential properties in Tokyo. It currently has four Hong Kong commercial projects under construction, expected to be completed progressively over the next three years. We applied a 50% to the net book value of its properties, which we believe conservatively values the potential upside when the properties are completed.

Finally, we have opted to exclude the hotel management business' valuations for now given that it is still loss-making (mainly due the adoption of IFRS16 accounting standards) and was in a negative NAV position as at end 2019. We previously valued UAG's hotel management business at 15x 2020F P/E, which is more than a 50% discount to the hotel management peers' average of 25x 2019 P/E. The group aims to have more than 3,000 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 (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 2: New SOTP Valuation

Business Segments	FY19 NAV (US$m) KGI Est.	Valuation	Value (US$m)	Value (S$m)	Remarks
Shipping	65.7	0.2x FY19 P/B	13.1	17.1	Dry bulk shipping peers trading at 0.5 - 1.5x P/B
Properties	48.3	0.5x FY19 P/B	24.2	31.4	Value of properties is split between HK (40%) and Japan (60%). HK developers are trading at 0.7x P/B while Japan developers at 1.4x P/B.
Hotel			–	–	As hotel operations are loss-making (mainly due to the new IFRS16 accounting standards) and has a negative NAV, we exclude its hotel business from our valuations. However, we believe the hotel business offers significant growth potential when the situation improves.
Total Equity Value			37.3	48.5	
Shares outstanding (m)			78.6		
TP (US$)		SGD/USD 1.3	0.47		
TP (S$)			0.62		
Upside (%)			*10%*		
Implied FY20F P/B (x)			0.29		
Implied FY20F P/E (x)			5.4		

Figure 3: Old SOTP valuation

Business Segments	FY18 NAV (US$m) KGI Est.	Valuation	Value (US$m)	Value (S$m)	Remarks
Shipping	84.3	0.3x FY18 P/B	25.3	32.9	Dry bulk shipping peers trading at 0.5 - 1.5x P/B
Properties	41.2	0.7x FY18 P/B	28.8	37.5	Value of properties is split between HK (40%) and Japan (60%). HK developers are trading at 0.7x P/B while Japan developers at 1.4x P/B.
Hotel		15x FY19F P/E	20.7	27.0	Hotel management peers are trading at >20x historical P/E
Total Equity Value			74.9	97.3	
Shares outstanding (m)			78.6		
TP (US$)		SGD/USD 1.3	0.95		
TP (S$)			1.24		
Upside (%)			*121%*		
Implied FY20F P/B (x)			0.55		
Implied FY20F P/E (x)			8.5		

Source: Company data, KGI Research

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

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