



# Uni-Asia Group Limited

(UAG SP/UAFC.SP)

## Delay to Olympics and travel bans a major blow to hotel business

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- Japan announced that it will be postponing the Tokyo 2020 Olympics by about one year to 23 July 2021. The games were originally scheduled to start 24 July 2020. The delay and the travel ban in effect in most parts of the world due to the COVID-19 outbreak is a major blow to Japan's tourism industry.
- UAG derives 60% of FY19 total revenues from its Japan hotel business. As a result, we lower our FY20F earnings estimates by 97% to factor in the significant impact from the lower hotel occupancy, with further downside risk that it may potentially tip into losses in the event that the COVID-19 outbreak extends beyond 3Q20. We expect UAG to cut FY20F dividend to 1.0 Sing cents, from our previous 4.0 Sing cents estimate.
- We maintain our NEUTRAL recommendation. Its shares have declined 44% YTD and now trades at trough valuations of 0.2x 2020F P/B.

Financials & Key Operating Statistics					
YE Dec (US\$m)	2018	2019	2020F	2021F	2022F
Revenue	123.3	136.0	102.7	136.5	139.7
PATMI	1.2	5.8	0.2	9.2	9.9
Core PATMI	16.4	5.8	0.2	9.2	9.9
Core EPS	35.0	7.4	0.3	11.7	12.6
Core EPS grth (%)	164.1	-78.7	-96.1	3914.6	8.1
Core P/E (x)	0.9	4.1	105.8	2.6	2.4
DPS (SGCents)	7.0	4.2	1.0	4.0	4.0
Div Yield (%)	17.5	10.5	2.5	10.0	10.0
Net Margin (%)	1.0	4.3	0.2	6.7	7.1
Gearing (%)	102.9	68.6	77.2	70.4	63.6
Price / Book (x)	0.1	0.1	0.1	0.1	0.1
ROE (%)	0.9	4.6	0.2	7.0	7.2

Source: Company Data, KGI Research

**Olympics postponed.** The International Olympic Committee (IOC) announced on 30 March that the Tokyo 2020 Olympics, which was originally scheduled to start on 24 July 2020, will be delayed to 23 July 2021 due to the COVID-19 outbreak. COVID-19 has so far infected more than 0.7 million people worldwide and has resulted in more than 33,000 deaths.

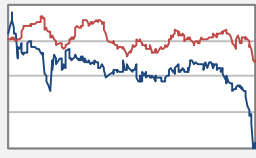
**Japan tourism target derailed.** Prior to the COVID-19 outbreak, Japan had targeted to attract 40mn tourists in 2020, or an implied 24% YoY increase. The country attracted 31.9mn tourists in 2019, of which, 9.5mn were from China. The global travel bans have resulted in February 2020 visitor arrivals to Japan declining by 58% YoY, according to the Japan National Tourism Organisation. Visitors from China declined by a much larger 88% YoY.

Table 1: UAG segmental breakdown

Total income (US\$'000)	FY2019	FY2018	Change YoY (%)
Charter income	36,525	39,644	-8%
Hotel income	81,244	68,587	+18%
Other income	18,243	15,050	+21%
<b>Total income</b>	<b>136,012</b>	<b>123,281</b>	<b>+10%</b>

Source: Company data, KGI Research

### NEUTRAL - Maintain

Price as of 11 Mar 20 (SGD)	0.40	<b>Performance (Absolute)</b>	
12M TP (\$)	0.62	1 Month (%)	-38.0
Previous TP (\$)	0.62	3 Month (%)	-46.7
Upside (%)	54	12 Month (%)	-37.8
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	31.0		
Issued Shares (mn)	79		
Vol - 3M Daily avg (mn)	0.1		
Val - 3M Daily avg (\$mn)	0.0		
Free Float (%)	50.8%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Yamaso Co	30.0%	12-Mar-20	NEUTRAL \$0.62
Evergreen Int'l	9.0%	2-Dec-19	OP \$1.24
		26-Sep-19	OP \$1.24

**UAG's hotel business.** UAG's hotel business was performing well prior the COVID-19 outbreak. Total revenues from the hotel business rose 18% YoY to US\$81mn in FY19 and contributed 60% of the group's total revenues. This was on the back of a multi-year record occupancy of 83.3% in FY19, an increase from 80.5% in FY18 and 82.0% in FY17.

**Valuation & Action:** We maintain our **NEUTRAL** recommendation on UAG despite the 50% upside to our fair value, as we expect significant earnings decline this year, as well as the lack of any positive short-term catalysts. Furthermore, downside risks remain in the event that the COVID-19 outbreak extends beyond 3Q20. Factoring in all the headwinds from its hotel business and weakness in the bulk shipping sector, we cut our FY20F earnings by 97%, and push back earnings recognition from its HK commercial properties to FY21F.

**Dividend cut.** We expect UAG to cut FY20F dividend to 1.0 Sing cents, down 75% from our previous estimates of 4.0 Sing cents, as we believe it will be prudent for management to conserve cash amid the risk of a prolonged downtown in the global economy. On a slightly positive note, its 69% net gearing is within comfortable levels going into the current economic crisis, while we understand from management that its bankers remain supportive of its business.

**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. 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\$2.5mm 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 1: 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\$)			0.47		
TP (S\$)			0.62		
Upside (%)			54%		
Implied FY20F P/B (x)			0.30		
Implied FY20F P/E (x)			163.2		

Figure 2: Old SOTP valuation (December 2019)

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\$)			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

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