



# Uni-Asia Group Limited

## (UAG SP/UAFC.SP)

### Minimising risk by restructuring exposure to hospitality sector

Joel Ng / 65 6202 1192 / joel.ng@kgi.com

- UAG reported a net loss of US\$3.9mn in 1H20, a reversal from the US\$6.8mn profit in 1H19. We estimate a net loss of only US\$1.0mn when we account for the gains from the partial sale of the hotel business, offset by impairments.
- We cut FY20/21/22F dividends to 1.0/1.5/1.8 Sing cents, from our previous 4.0 Sing cents forecast, implying a dividend payout ratio of 20/28/32%.
- Maintain NEUTRAL and lower TP to S\$0.54. While valuations are cheap, UAG faces strong headwinds over the next 6-12 months.

Financials & Key Operating Statistics					
YE Dec (US\$m)	2018	2019	2020F	2021F	2022F
Revenue	123.3	136.0	44.1	51.8	53.3
PATMI	1.2	5.8	-6.9	5.4	5.8
Core PATMI	16.4	5.8	2.1	5.4	5.8
Core EPS	35.0	7.4	2.6	6.9	7.3
Core EPS grth (%)	164.1	-78.7	-64.9	165.7	5.6
Core P/E (x)	1.0	4.5	12.8	4.8	4.6
DPS (SGCents)	7.0	4.2	0.5	1.0	1.5
Div Yield (%)	15.6	9.3	1.1	2.2	3.3
Net Margin (%)	1.0	4.3	-15.7	10.5	10.8
Gearing (%)	102.9	68.6	82.5	75.1	71.7
Price / Book (x)	0.1	0.2	0.2	0.2	0.2
ROE (%)	0.9	4.6	-5.8	4.4	4.5

Source: Company Data, KGI Research

**1H20 financial review.** Total income fell 25% YoY to US\$21.6mn, led mainly by the 25% YoY decline in charter income and 61% drop in investment returns. Charter income fell as average charter rates plunged to around US\$7,000/day in 1H20 from >US\$9,000/day in 2012-2019. As a result, the shipping business reported a net loss of US\$11.2mn in 1H20, which also included US\$8.3mn impairment of vessels, and US\$1.1mn impairment of a loan receivable. Excluding the total impairment of US\$9.0mn, UAG would have reported an operating profit of US\$1.7mn in 1H20. We estimate a net loss of US\$1.0mn when we factor in the US\$9.0mn impairment and US\$6.1mn gain from the partial sale of its hotel business.

Table 1: UAG segmental breakdown

Total income (US\$'000)	1H2020	1H2019	Change YoY (%)
Charter income	13,743	18,209	-25%
Fee Income	4,828	4,313	+12%
Investment Returns	2,206	5,696	-61%
Interest Income	487	462	+5%
Other Income	295	151	+95%
<b>Total income</b>	<b>21,559</b>	<b>28,831</b>	<b>-25%</b>

Source: Company data, KGI Research

**Reduced exposure to hotel business, but now highly subjected to volatility in the shipping sector.** In 2Q20, UAG reduced its stake in Uni-Asia Hotels Limited (UA Hotels), its Japan-based hotel management business, to 49.5%, down from 100%. With the divestment of 50.5% in UA Hotels to the management team of UA Hotels, UAG no longer consolidates the financials of UA Hotels into its financial statements but will only recognise contributions under

NEUTRAL - Maintain			
Price as of 25 Aug 20 (SGD)	0.45	<b>Performance (Absolute)</b>	
12M TP (\$)	0.54	1 Month (%)	-9.7
Previous TP (\$)	0.62	3 Month (%)	4.2
Upside (%)	20	12 Month (%)	-32.2
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	35.0		
Issued Shares (mn)	79		
Vol - 3M Daily avg (mn)	0.0		
Val - 3M Daily avg (\$mn)	0.0		
Free Float (%)	50.8%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Yamaso Co	30.0%	31-Mar-20	NEUTRAL \$0.62
Evergreen Int'l	9.0%	12-Mar-20	NEUTRAL \$0.62
		2-Dec-19	OP \$1.24

associate income. This is perhaps a prudent move to avoid further risks from the hotel management business given how depressed occupancy and average daily rates are for all its hotels. Its hotel business reported a net loss of US\$18.3mn in 1H20.

However, the partial divestment of UA Hotels has now thrown a wrench into our original investment thesis of UAG's growth prospects, as the hotel management business was the biggest contributor to recurring income and expected to be the key earnings driver in the medium to long term. Moving forward, charter income from shipping will contribute at least 60% of total income.

#### Bright spot from asset management and property business.

Looking at its Japan residential business, projects under the ALERO brand name are progressing as planned as rents have largely held up in Tokyo while property sale prices have remained stable. UAG's property business, excluding the losses from the hotel segment, reported a net profit of US\$2.8mn in 1H20. UAG invested US\$11.6mn into Alero projects in 1H20 and an additional US\$11.4mn in the 7<sup>th</sup> and 8<sup>th</sup> Hong Kong property projects.

**Valuation & Action:** We maintain **NEUTRAL** despite the 30% upside to our S\$0.54 fair value, as we expect weak earnings over the next 6-12 months. Furthermore, we expect UAG to cut FY20/21/22F dividend to 1.0/1.5/1.8 Sing cents, down 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 downturn in the global economy.

**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.

## SOTP Valuation

We used an SOTP valuation and an exchange rate of 1.35 USD/SGD to derive our fair value of S\$0.54. 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 given the uncertainty in the hospitality sector.

Uni-Asia's shipping segment consists of 22 ships: 10 small handysize dry bulk carriers, 1 wholly-owned containership, and 11 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 five 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.

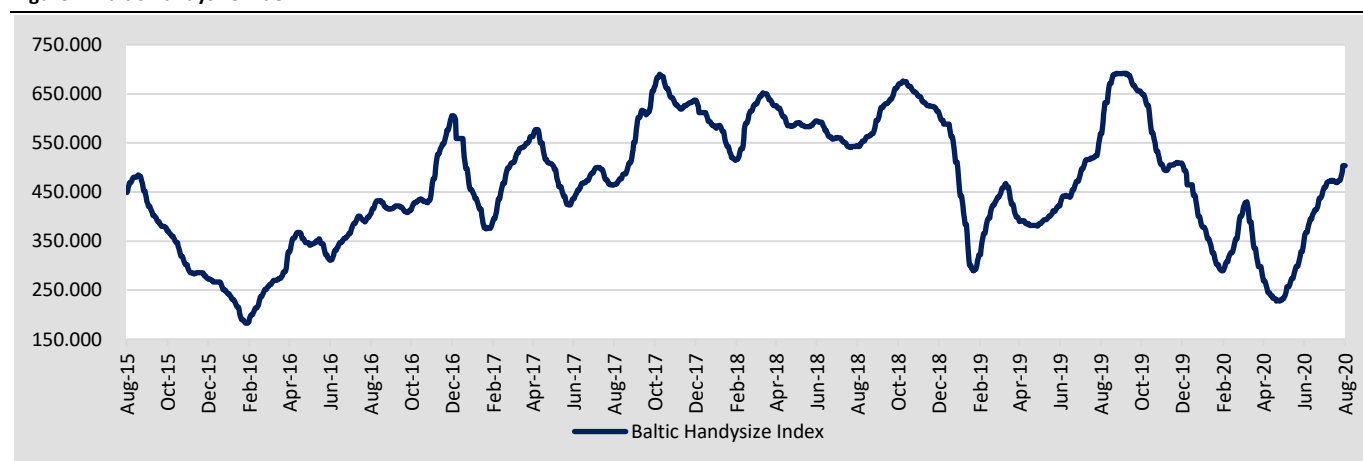
We have opted to exclude the hotel management business' valuations for now given that it is still loss-making. We previously valued UAG's hotel management business at 15x 2020F P/E, which is more than a 50% discount to the hotel management peers' average of 25x 2019 P/E. The group aims to have more than 3,000 rooms under management by 2020, which we expected to contribute at least US\$1.5mm to US\$2.5mn in recurring core net profit (based on pre-IFRS 16 accounting standards) before the Covid-19 pandemic hit. We originally expected this segment to be the most promising business segment prior to the severe impact of Covid-19 on the hospitality industry.

Figure 1: SOTP Valuation

Business Segments	FY20F NAV (US\$m) KGI Est.	Valuation	Value (US\$m)	Value (S\$m)	Remarks
Shipping	36.0	0.2x FY20F P/B	7.2	9.7	Dry bulk shipping peers trading at 0.5 - 1.5x P/B
Properties	48.3	0.5x FY19 P/B	24.2	32.6	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, we exclude its hotel business from our valuations.
Total Equity Value			31.4	42.4	
Shares outstanding (m)			78.6		
TP (US\$)			0.40		USD/SGD 1.35
TP (S\$)			0.54		
Upside (%)			35%		

Source: KGI Research

Figure 2: Baltic Handysize Index



Source: Bloomberg, KGI Research

<b>KGI's Ratings</b>	<b>Rating</b>	<b>Definition</b>
	<b>Outperform (OP)</b>	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.
	<b>Neutral (N)</b>	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.
	<b>Underperform (U)</b>	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.
	<b>Not Rated (NR)</b>	The stock is not rated by KGI Securities.
	<b>Restricted (R)</b>	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.

## Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2020. KGI Securities (Singapore) Pte. Ltd. All rights reserved.