



Uni-Asia Group Limited

(UAG SP/CHJ.SP)

Significantly undervalued amid the ongoing bulk shipping upcycle

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- Strength to strength.** UAG reported FY2021 net profit of US\$18mn, the highest since its IPO. This was on the back of a decade-high charter rates for bulk carriers. Balance sheet has strengthened significantly, with debt levels dropping to US\$84mn as at end Dec 2021 from US\$114mn in the prior year period. As a result of the stellar results and stronger balance sheet, the group is proposing a final dividend of S\$0.03 and a S\$0.02 special dividend, bringing the total year-end dividend to S\$0.05 (Ex-div 19 May 2022).
- Maintain Outperform while raising our TP to S\$1.66.** Despite the 100% rally of its shares over the past year, UAG's valuations remain attractive amid the stronger-than-expected bulk carrier upcycle. Our TP implies a very conservative 0.67x FY2022F P/B, which is more than 30% discount to int'l peers who are trading >1.0x P/B.

| Financials & Key Operating Statistics | | | | | |
|---------------------------------------|-------|------|-------|-------|-------|
| YE Dec (US\$m) | 2020 | 2021 | 2022F | 2023F | 2024F |
| Revenue | 45.9 | 69.4 | 71.3 | 69.0 | 66.4 |
| PATMI | -7.7 | 18.2 | 18.7 | 18.6 | 17.6 |
| Core PATMI | -13.9 | 18.5 | 18.7 | 18.6 | 17.6 |
| Core EPS | -17.6 | 23.5 | 23.8 | 23.6 | 22.4 |
| Core EPS grth (%) | NA | NA | 1.4 | -0.9 | -5.2 |
| Core P/E (x) | -4.9 | 3.7 | 3.6 | 3.7 | 3.9 |
| DPS (\$GCents) | 4.2 | 7.0 | 4.5 | 4.5 | 4.5 |
| Div Yield (%) | 3.7 | 6.1 | 3.9 | 3.9 | 3.9 |
| Net Margin (%) | -16.8 | 26.2 | 26.3 | 26.9 | 26.5 |
| Gearing (%) | 71.4 | 38.9 | 40.8 | 27.3 | 16.7 |
| Price / Book (x) | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| ROE (%) | -6.5 | 13.7 | 12.8 | 11.6 | 10.2 |

Source: Company Data, KGI Research

FY2022 review. UAG reported a FY2021 net profit of US\$18.0mn, a significant turnaround from the US\$7.5mn loss in FY2020, and the highest profit since its IPO in 2007. The stellar performance was on the back of FY2021 total revenue surging 51% YoY to US\$69.4mn, driven by higher charter income and the sale of properties under development. Net gearing improved to 0.63x as at end Dec-2021 from 0.95x as at end Dec-2020. NAV increased to US\$1.69 as at end Dec-2021, or equivalent to S\$2.25 based on 1.33 USD/SGD. The group will be rewarding shareholders with a total dividend of 5.0 sing cents (comprising 3.0 final and 2.0 special) for 2H2021, which in addition to the 2.0 sing cents interim dividend, marks the highest dividend in 10 years.

Table 1: Revenue breakdown in 1H2021 and 2021

| Revenue US\$'000 | 2H2021 | 1H2021 | HoH Change % | FY2021 | FY2022 | YoY Change % |
|--------------------------------------|---------------|---------------|--------------|---------------|---------------|--------------|
| Charter income | 27,807 | 19,998 | 39% | 47,805 | 30,396 | 57 |
| Fee Income | 2,806 | 2,925 | -4% | 5,731 | 7,771 | -26% |
| Sale of properties under development | 4,403 | 5,091 | -21% | 9,134 | - | N/M |
| Investment Returns | 2,926 | 2,505 | 17 | 5,431 | 6,153 | -12% |
| Interest Income | 19 | 70 | -73% | 89 | 750 | -88% |
| Other income | 173 | 1,072 | -84% | 1,245 | 873 | 43 |
| Total income | 37,774 | 31,661 | 19 | 69,435 | 45,943 | 51 |

Source: Company data, KGI Research

| OUTPERFORM - Maintain | | | |
|----------------------------|-------|---------------------------------|-----------|
| Price as of 2 Mar 22 (SGD) | 1.15 | Performance (Absolute) | |
| 12M TP (\$) | 1.66 | 1 Month (%) | 2.7 |
| Previous TP (\$) | 1.56 | 3 Month (%) | -12.0 |
| Upside (%) | 44 | 12 Month (%) | 99.9 |
| Trading data | | Perf. vs STI Index (Red) | |
| Mkt Cap (\$mn) | 90 | | |
| Issued Shares (mn) | 79 | | |
| Vol - 3M Daily avg (mn) | 0.1 | | |
| Val - 3M Daily avg (\$mn) | 0.1 | | |
| Free Float (%) | 50.8% | | |
| Major Shareholders | | Previous Recommendations | |
| Yamaso Co | 30.0% | 22-Nov-21 | OP \$1.56 |
| Evergreen Int'l | 9.0% | 17-Aug-21 | OP \$1.56 |
| Ham Yong Kwan | 7.6% | 7-Jul-21 | OP \$1.42 |

Smaller vessels are still in hot demand. The Baltic Handysize Index (BHI) dropped by 50% from October 2021 to January 2022 but rebounded by more than 40% since the start of February 2022. Even then, BHI at where it stands now is still at levels that are more than double the average rates seen over the past 10 years as demand for smaller vessels have continued to find support amid an already stretched global supply chain. Eight of UAG's wholly-owned dry bulks will renew in 2022, and another two in 1Q2023 (Figure 4). Unlike previous rounds of bull markets in the handysize dry bulk shipping market, this upcycle seems more robust given the better dynamics in the market.

HK and Japan business update. In our last report dated 22 Nov 2021, we had expected UAG's five HK commercial properties to begin contributing from 2H2022 onwards. However, this will likely be delayed to 2023 given the current situation in HK. Meanwhile, UAG's property assets under management (AUM) rose to JPY32.7bn as at end-4Q2021, up from JPY30.4bn as at end-2020. UAG will continue to increase property assets under management in Japan to increase the asset management fee derived from this segment.

Valuation & Action: We maintain our **OUTPERFORM** rating while raising our **TP to S\$1.66 (prev. S\$1.56)**, based on SOTP valuations. The favourable supply-demand dynamics for handysize dry bulk carriers should benefit the group over our forecast period. We maintain our multiple-based valuation for the shipping business at 0.8x FY2022F P/B and 0.6x FY2021F P/B for the Japan & HK property business.

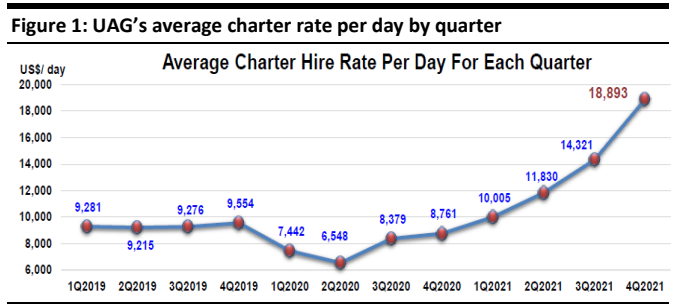
Risks: A supply-demand imbalance in the dry bulk shipping sector that leads to a drop in charter rates will have the largest short-term impact on UAG's earnings.

Please see last page for important disclosures.

Bulk carrier market

Overall, we expect UAG’s existing fleet of 10 handysize carriers with an average age of 10 years to be a significant beneficiary of the ongoing upcycle in the dry bulk market. UAG now trades at almost half its book value, which we believe severely undervalues the market value of its bulk carriers.

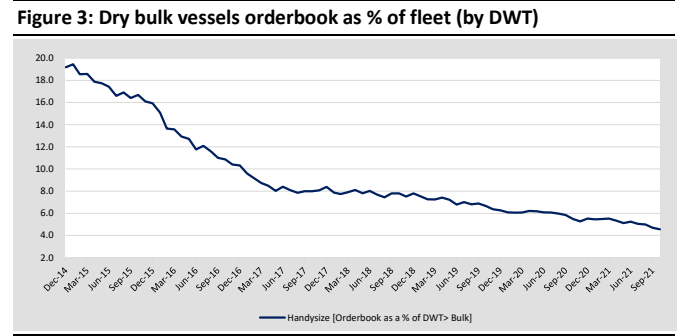
Higher average charter rates. UAG’s average charter rate increased from US\$14,321 in 3Q2021 to US\$18,893 in 4Q2021. This marks the sixth consecutive quarter of QoQ increase. The group will be renewing the charters for its 10-wholly owned vessels in 2022 and 1Q2023.



Source: Company

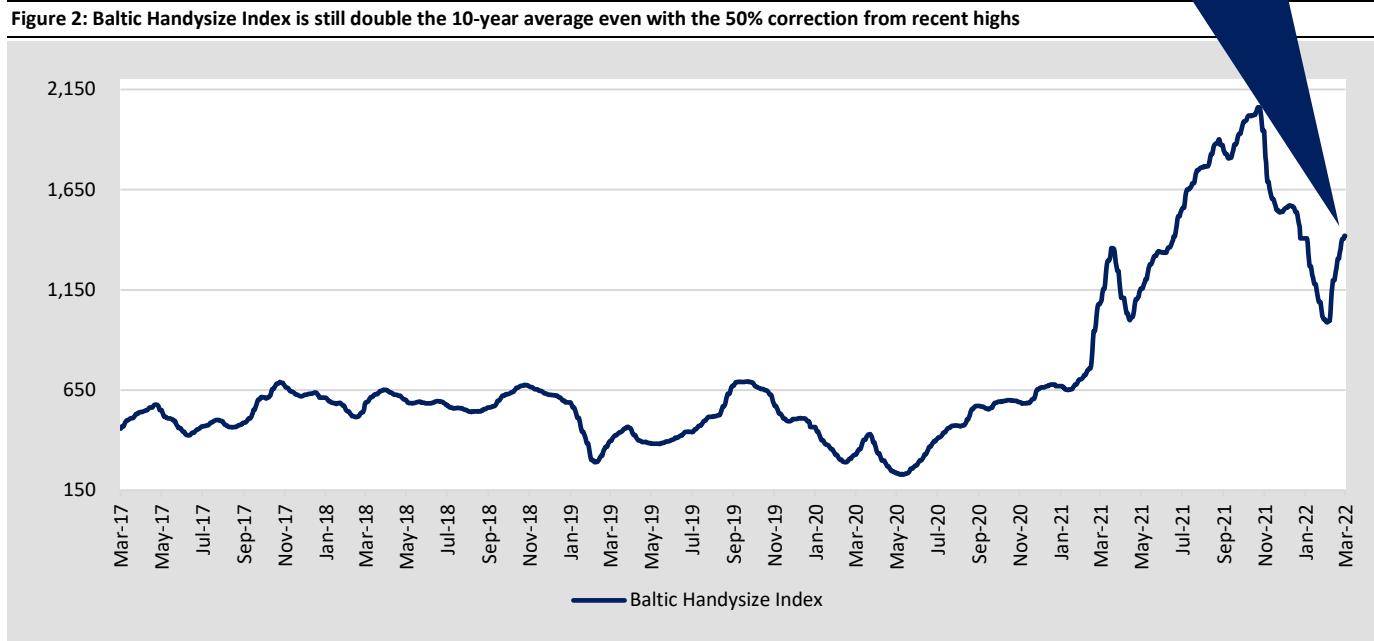
Dry bulk carriers supply-demand dynamics are favourable. In the last shipping super cycle (2006-2008), new handysize orders made up as much as 50% of the total fleet, driven by significant speculative demand and easy financing.

Ever since the bust after the global financial crisis in 2008-2009, recent orderbook for handysize bulk carriers has fallen to a multi-decade low of 4.6% of the current fleet size by deadweight tonnage (dwt). In addition, supply of handysize carriers could be further constrained considering that around 20% of the global handysize fleet are 20 years and older.



Source: Clarksons, Bloomberg Intelligence

We expect the Baltic Handysize Index to recover or remain around these levels given the favourable dynamics for these smaller vessels.



Source: Bloomberg, KGI Research

SOTP Valuation

We used an SOTP valuation and an exchange rate of 1.33 USD/SGD to derive our fair value of S\$1.66, an increase from our previous TP of S\$1.56 in our previous reported dated 22 November 2022. Our fair value is an implied 0.67x 2022F P/B. In summary, Uni-Asia's shipping and property business now contribute 67% and 33% respectively, to our total SOTP-derived fair value.

Right time right place: Handysize bulk carrier specialist. Uni-Asia's shipping segment consists of 18 ships: 10 wholly-owned handysize dry bulk carriers and 8 ships under joint-investments (UAG has an average 18% stake in JV vessels).

We applied a 20% 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. Valuations of globally listed dry bulk companies (Diana Shipping, Eagle Bulk Shipping, Genco Shipping & Trading, Golden Ocean Group, Pacific Basin Shipping) have risen to above 1.0x P/B in 2021 and remains above in 2022.

Resilient asset management and property business. Its properties segment is divided into investments in HK commercial buildings and development of small-scale residential properties in Tokyo. It currently has five HK commercial projects under construction, all of them expected to be completed progressively over the next three years. However, sales of the HK commercial units are delayed to at least 2H2022 in light of what's happening in HK, and we forecast sales to pick up by 2023.

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.

We applied a 40% to the net book value of its HK and Japan properties and developments, which we believe conservatively values the potential upside when the properties are completed.

Figure 4: UAG's wholly-owned dry bulk portfolio

| No. | Name of Ship | Capacity (DWT) | Type | Year Built | Age | Shipyard | Charter Renewal |
|-----|----------------------|----------------|--------|------------|----------------|----------------|-----------------|
| 1 | M/V Uni Challenge | 29,078 | Bulker | 2012 | 10 | Y-Nakanishi | 1Q2022 |
| 2 | M/V Uni Wealth | 29,256 | Bulker | 2009 | 13 | Y-Nakanishi | 2Q2022 |
| 3 | M/V Uni Auc One | 28,709 | Bulker | 2007 | 15 | Shin-Kurushima | 1Q2022 |
| 4 | M/V Victoria Harbour | 29,100 | Bulker | 2011 | 11 | Y-Nakanishi | 1Q2022 |
| 5 | M/V Clearwater Bay | 29,118 | Bulker | 2012 | 10 | Y-Nakanishi | 1Q2022 |
| 6 | M/V ANSAC Pride | 37,094 | Bulker | 2013 | 9 | Onomichi | 1Q2023 |
| 7 | M/V Island Bay | 37,649 | Bulker | 2014 | 8 | Imabari | 4Q2022 |
| 8 | M/V Inspiration Lake | 37,706 | Bulker | 2015 | 7 | Imabari | 2Q2022 |
| 9 | M/V Glengyle | 37,679 | Bulker | 2015 | 7 | Imabari | 3Q2022 |
| 10 | M/V Uni Bulker | 37,700 | Bulker | 2016 | 6 | Imabari | 1Q2023 |
| | | | | | Average | 10 | |

Source: Company data, KGI Research

Figure 5: SOTP Valuation

| Business Segments | FY21F NAV (US\$m) KGI Est. | Valuation | Value (US\$m) | Value (S\$m) | Remarks |
|------------------------|----------------------------|----------------|---------------|--------------|--|
| Shipping | 82.3 | 0.8x FY22F P/B | 65.8 | 87.6 | Dry bulk shipping peers are trading at an average of 1.0x P/B |
| Properties | 53.4 | 0.6x FY22F P/B | 32.1 | 42.6 | Value of properties is split between HK (40%) and Japan (60%). HK developers are trading at 0.6x - 1.2 P/B while Japan developers at 1.4x P/B. |
| Total Equity Value | | | 97.9 | 130.2 | |
| Shares outstanding (m) | | | 78.6 | | |
| TP (US\$) | | USD/SGD 1.33 | 1.25 | | |
| TP (S\$) | | | 1.66 | | |
| Upside (%) | | | 44% | | |
| Implied FY21F P/B (x) | | | 0.74 | | |
| Implied FY21F P/E (x) | | | 5.3 | | |

Source: KGI Research

KGI's Ratings

| Rating | Definition |
|-------------------------|---|
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