COMPANY UPDATE

Marine; Property ▪ Singapore

Uni-Asia Group Limited

(UAG SP/CHJ.SP)

Bumper year ahead for Handysize

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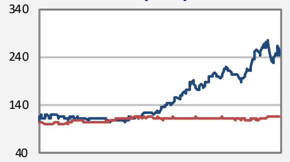
- **Still going strong.** UAG provided a 9M21 business update. While no revenue and earnings were disclosed, the overall tone was positive. Industry trends for handysize dry bulk carriers remain supportive, even with the recent correction of the Baltic Dry Bulk indices. Meanwhile, HK's property market is expected to improve upon the reopening of borders with China.
- **Maintain Outperform and S$1.56 TP.** Despite the 125% YTD rally of its shares, UAG's valuations are attractive amid the stronger-than-expected bulk carrier upcycle. Our TP implies a 0.7x FY2021F P/B, which is still a conservative 30% discount to int'l peers who are trading >1.0x P/B.

OUTPERFORM - Maintain			
Price as of 19 Nov 21 (SGD)	1.34	**Performance (Absolute)**	
12M TP ($)	1.56	1 Month (%)	-5.7
Previous TP ($)	1.56	3 Month (%)	24.6
Upside (%)	16	12 Month (%)	152.9
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	104		
Issued Shares (mn)	79		
Vol - 3M Daily avg (mn)	0.3		
Val - 3M Daily avg ($mn)	0.4		
Free Float (%)	50.8%		
Major Shareholders		**Previous Recommendations**	
Yamaso Co	30.0%	17-Aug-21	OP $1.56
Evergreen Int'l	9.0%	7-Jul-21	OP $1.42
Ham Yong Kwan	7.6%	24-May-21	OP $0.91



Financials & Key Operating Statistics

YE Dec (US$m)	2019	2020	2021F	2022F	2023F
Revenue	136.0	45.9	63.0	63.6	63.1
PATMI	5.8	-7.7	12.4	13.2	14.1
Core PATMI	5.8	-13.9	12.4	13.2	14.1
Core EPS	7.4	-17.6	15.8	16.8	17.9
Core EPS grth (%)	-78.7	NA	NA	5.8	6.9
Core P/E (x)	13.5	-5.7	6.4	6.0	5.6
DPS (SGCents)	4.2	4.2	4.2	4.2	4.2
Div Yield (%)	3.1	3.1	3.1	3.1	3.1
Net Margin (%)	4.3	-16.8	19.7	20.7	22.3
Gearing (%)	68.6	71.4	57.5	39.9	23.5
Price / Book (x)	0.5	0.5	0.5	0.4	0.4
ROE (%)	4.6	-6.5	9.7	9.6	9.6

Source: Company Data, KGI Research

Strength to strength. UAG did not provide any revenue or profit numbers in its 3Q business update. However, the disclosure of 9M2021 cash flows showed a positive picture. UAG generated US$19.1mn of operating cashflows in 9M2021, a significant increase from US$4.8mn generated in 9M2020. It paid back around US$28mn in debt, bringing total borrowings down to US$85.1mn as at end-3Q2021. When accounting for the US$33.4mn in cash, net debt was only US$57.3mn.

Resilient demand for handysize dry bulk carriers. Despite the 25% correction in the Baltic Handysize Index, Handysize charter rates in the market remain above US$25,000 per day vs UAG's average charter income of US$14,321 in 3Q2021, leaving more upside as we head into 2022. Six of UAG's wholly owned dry bulks will renew in 2H2021, three will renew in 1H2022 and one in 2H2022 (Figure 4). We expect Handysize charter rates to remain resilient at these levels amid a historically low order book, rising scrap rates and further cuts in operating speeds.

Dry bulk seaborne trade expected to remain healthy. The US recently passed the US$1 trillion infrastructure plan that will ramp up demand for steel and other construction materials, thus driving up bulk shipping demand. The global economy is expected to expand 4.4% in 2022, with the potential to pick up in the second half of 2022 as supply chain problems are resolved. This is positive for dry bulk shipping companies as Seaborne trade is traditionally correlated with economic growth.

Bear markets are the authors of bull markets. The dry bulk shipping market went through a challenging decade driven by the excess supply before the global financial crisis. The current decade is setting up for a much tighter market due to discipline among ship owners, led partly by the reluctance to build new vessels that may become obsolete in 2030 when ships are required to cut carbon emissions by 40%.

HK and Japan business update. UAG's five HK commercial properties will likely only contribute from 2H2022 onwards, given the relatively high HK office vacancy rates and weak leasing demand. Marketing of properties may start to pick up in 2H2022 upon the reopening of borders with China. Bloomberg reported that there could be a limited capacity reopening in January 2022. Meanwhile, UAG's property assets under management (AUM) rose to JPY32.0bn as at end-3Q2021, up from JPY30.4bn as at end-2020.

Valuation & Action: We maintain our **OUTPERFORM rating** and **TP of 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 FY2021F P/B and 0.6x FY2021F P/B for the Japan & HK property business. UAG's continues to pare down debt; this will likely be a precursor to higher full year dividends. **UAG will report its FY2021 results on or before 28 Feb 2022.**

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.

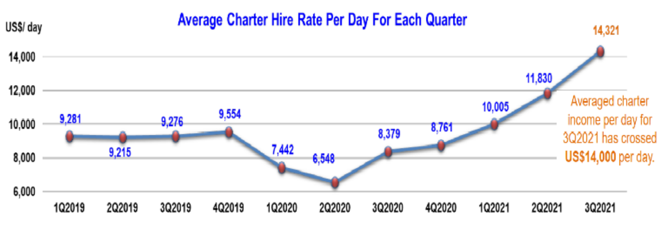
Please see last page for important disclosures.

Bulk carrier market

Record demand for consumer goods and commodities, together with supply-chain disruptions, are driving charter rates for container liners and dry bulk carriers to their highest in more than ten years. Overall, we expect UAG's existing fleet of 10 handysize carriers with an average age of 9 years to be a significant beneficiary of the current upcycle in the dry bulk market.

Higher average charter rates. UAG's average charter rate increased from US$11,830 in 2Q2021 to US$14,321 in 3Q2021. This marks the fifth consecutive quarter of QoQ increase. The group will be renewing the charters for its 10-wholly owned vessels in 2H2021 and 2022.

Figure 1: UAG's average charter rate per day by quarter

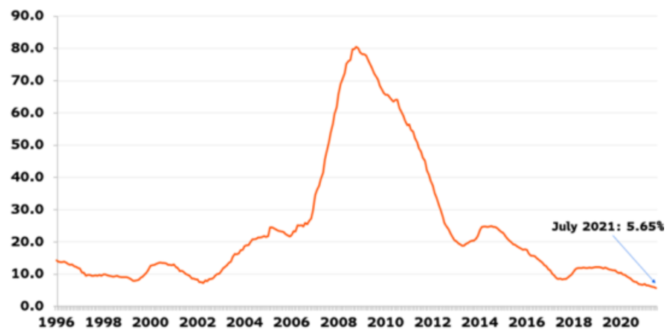


Source: Company

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 has fallen to a multi-decade low of 5.7% 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.

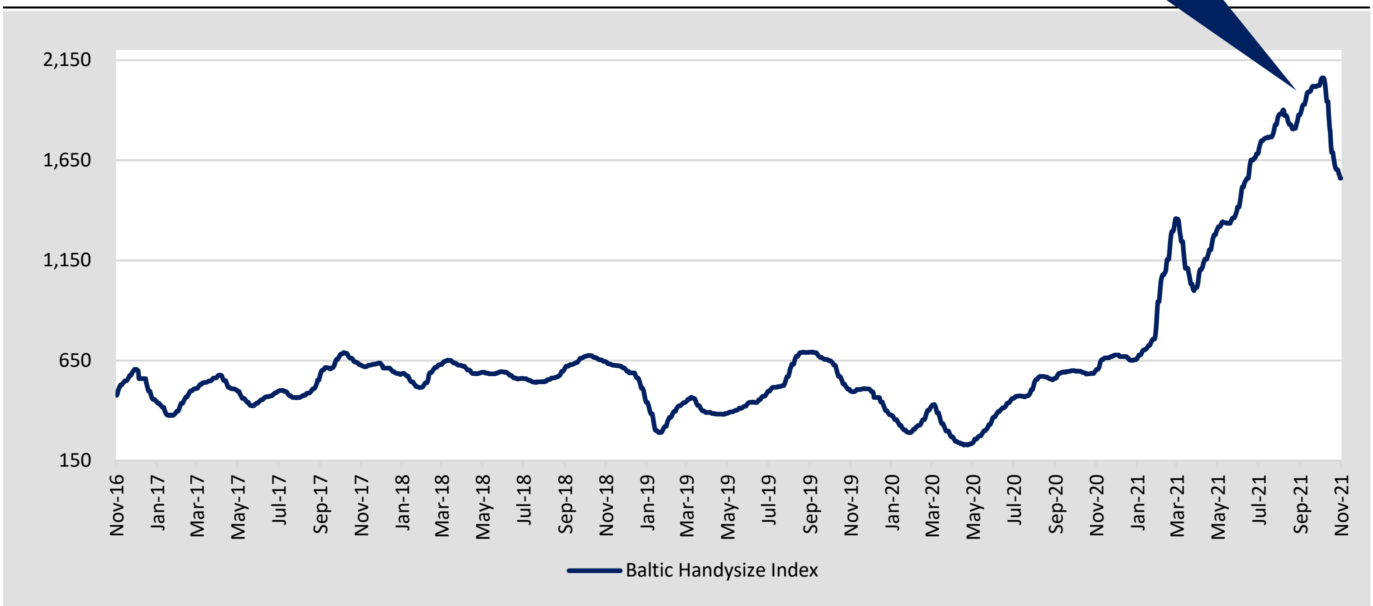
Figure 3: Dry bulk vessels orderbook as % of fleet (by DWT)



Source: Clarksons, Bloomberg Intelligence

Despite the recent 25% correction in the Baltic Handysize Index, we expect it to recover or remain around these levels given the favourable dynamics for these smaller vessels.

Figure 2: Baltic Handysize Index is at the highest since 2008, even with the recent 25% correction



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$1.56. Our fair value is an implied 0.73x 2021F P/B. In summary, Uni-Asia's shipping and property business now contribute 52% and 48% respectively, to our total SOTP-derived fair value.

Key changes to SOTP valuation. Multiples for Shipping is raised to 0.8x FY2021F P/B to reflect the strong recovery in dry bulk charter rates. This is still a discount to peers trading above 1.0x P/B.

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.

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 1H2022 in light of travel restrictions, and we forecast sales to pick up by 2H2022.

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

Name of Ship	Capacity (DWT)	Type	Year Built	Age	Shipyard	Charter Renewal
M/V Uni Challenge	29,078	Bulker	2012	9	Y-Nakanishi	2H2021
M/V Uni Wealth	29,256	Bulker	2009	12	Y-Nakanishi	2H2021
M/V Uni Auc One	28,709	Bulker	2007	14	Shin-Kurushima	2H2021
M/V Victoria Harbour	29,100	Bulker	2011	10	Y-Nakanishi	2H2021
M/V Clearwater Bay	29,118	Bulker	2012	9	Y-Nakanishi	2H2021
M/V ANSAC Pride	37,094	Bulker	2013	8	Onomichi	2H2021
M/V Island Bay	37,649	Bulker	2014	7	Imabari	2H2022
M/V Inspiration Lake	37,706	Bulker	2015	6	Imabari	1H2022
M/V Glengyle	37,679	Bulker	2015	6	Imabari	1H2022
M/V Uni Bulker	37,700	Bulker	2016	5	Imabari	1H2022
			Average	**9**		

Source: Company data, KGI Research

Figure 5: SOTP Valuation

Business Segments	FY21F NAV (US$m) KGI Est.	Valuation	Value (US$m)	Value (S$m)	Remarks
Shipping	64.5	0.8x FY21F P/B	51.6	68.7	Dry bulk shipping peers are trading at an average of 1.0x P/B
Properties	67.2	0.6x FY21F P/B	40.3	53.6	Value of properties is split between HK (40%) and Japan (60%). HK developers are trading at 0.6x - 1.2 P/B while Japan developers at 1.4x P/B.
Total Equity Value			91.9	122.2	
Shares outstanding (m)			78.6		
TP (US$)		USD/SGD 1 .33	1.17		
TP (S$)			1.56		
Upside (%)			*16%*		
Implied FY21F P/B (x)			0.73		
Implied FY21F P/E (x)			7.4		

Source: 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.
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Not Rated (NR)	The stock is not rated by KGI Securities.
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