

### COMPANY UPDATE

## Uni-Asia Group (UAG SP)

Incoming Record-Breaking 2021 And 2022; Too Cheap To Ignore

**Uni-Asia provided a 9M21 update, which highlighted a potential record high in 2021. The incoming 4Q winter heating season in the northern hemisphere is expected to keep the dry bulk market busy; beyond that, we believe freight rates will stay elevated at least until end-22 given the favourable demand-supply imbalance. We are of the view that the valuation is too cheap to ignore. Maintain BUY with an unchanged target price of S\$2.34, pegged to 8x 2021F PE (-1SD to the mean).**

### WHAT'S NEW

- 9M21 operating cash flow more than tripled yoy.** Uni-Asia Group (Uni-Asia) reported 3Q21 operating cash flow (OCF) of US\$11.0m, exceeding 3Q20's US\$2.9m and 1H21's US\$8.1m. For 9M21, OCF of US\$19.1m more than tripled yoy (9M20: US\$4.8m). Assuming stable depreciation, finance charges and absence of any one-offs in working capital, we estimate 9M21 net profit to be in the range of US\$10m-12m (2020: US\$7.7m loss), almost matching the group's record-high net profit of US\$12.1m in 2007 since its IPO. Additionally, we see a high probability of an upside surprise in its 2021 dividend payout ratio. As a gauge, a 30% dividend payout of our 2021/22F net profit forecasts of US\$17.1m/US\$19.6m translates to 8.8/10 S cents DPS, or 6.7%/7.6% 2021/22F yield.
- Charter income anticipated to continue northward.** Industry expert Marsoft expects the dry bulk market to remain strong going into the 4Q winter heating season in the northern hemisphere, as many countries look to alternative fuel sources, including coal, due to disruptions in gas supplies and soaring gas prices. Structurally, seaborne dry bulk demand is projected to grow by 4.1% in 2021 and 1.8% in 2022 vs total dry bulk ship supply growth of 3.5% and 1.5% respectively, according to Clarksons Research. Specifically, the handysize ship supply is projected to grow by a slower rate of 2.7%/0.6% in 2021/22.
- Baltic Dry Index not a good reflection of Baltic Handysize Index.** While the Baltic Dry Index (BDI) is generally used by the industry as an indicator of drybulk freight rates, the composite index consists of sub-indices such as Baltic Capesize Index (40%), Baltic Panamax Index (30%) and Baltic Supramax Index (30%). Typically, as handysize drybulk vessels (<40,000 dwt) are the smallest in size across the dry bulkers, it is the most versatile in: 1) cargo loads such as soft commodities, cement, clinker, mineral sands, coal and steel products, and b) transit routes permitted. Conversely, the larger Capesize (~180,000 dwt) and Panamax (~80,000 dwt) vessels are most cost effective in transporting raw commodities (coal, iron ore), hence their rates are also the most sensitive to any demand-supply changes. As a gauge, the BDI has fallen 50% over 7 Oct to 15 Nov 21. This compares to the 20% dip in Baltic Handysize Index over the same period.

### KEY FINANCIALS

Year to 31 Dec (US\$m)	2019	2020	2021F	2022F	2023F
Net turnover	54.5	45.9	65.4	74.3	68.6
EBITDA	29.1	4.5	32.1	35.5	31.6
Operating profit	17.5	(7.4)	21.5	24.9	21.0
Net profit (rep./act.)	5.8	(7.7)	17.1	19.6	15.9
Net profit (adj.)	8.1	(14.0)	17.1	19.6	15.9
EPS (S\$ cents)	10.3	(17.9)	21.7	25.0	20.2
PE (x)	9.6	n.m.	4.6	4.0	4.9
P/B (x)	0.6	0.7	0.6	0.5	0.5
EV/EBITDA (x)	4.7	30.9	4.3	3.9	4.4
Dividend yield (%)	3.1	0.7	3.7	4.5	4.5
Net margin (%)	10.7	(16.8)	26.1	26.4	23.1
Net debt/(cash) to equity (%)	68.9	66.3	45.3	25.9	12.4
Interest cover (x)	4.9	1.0	9.3	10.4	9.2
ROE (%)	4.6	n.a.	13.6	14.1	10.4
Consensus net profit	-	-	14.8	16.4	15.0
UOBKH/Consensus (x)	-	-	1.16	1.20	1.06

Source: Uni-Asia, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.32
Target Price	S\$2.34
Upside	+77.3%

### COMPANY DESCRIPTION

Uni-Asia Group operates as an alternative investment company. It offers structured finance, ship charter arrangement, shipping and maritime asset management, real estate investment, and other related services. Uni-Asia Group serves customers in Asia.

### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	UAG SP
Shares issued (m):	78.6
Market cap (S\$m):	105.3
Market cap (US\$m):	77.8
3-mth avg daily t'over (US\$m):	0.3

### Price Performance (%)

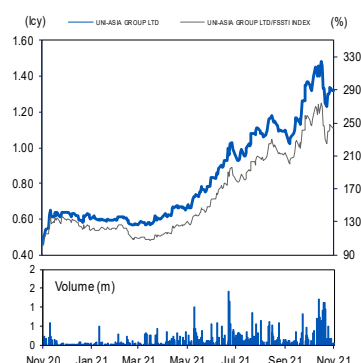
52-week high/low	S\$1.48/S\$0.435			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(0.7)	20.7	103.0	204.5	125.2

### Major Shareholders

Yamasa Company Ltd	30.0
Ham Yong Kwan	10.0
Evergreen International S.A.	8.9

FY21 NAV/Share (US\$)	1.67
FY21 Net Debt/Share (US\$)	0.76

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

• **Renewal of vessels' rate to boost earnings.** Of the 10 wholly-owned dry bulk carriers, four are up for renewal in 4Q21, four in 1Q22 and the remaining two in 2Q22 and 4Q22 respectively. Based on conservative average charter rate/day of US\$15,000 and US\$12,459 for 4Q21 and 2021 respectively, our estimates suggest a significant turnaround in 2H21 EPS of 4.57 US cents (2H20: -4.97 US cents) and 2021 at 21.7 US cents (2020: -9.8 US cents). With the expectation for charter rates to remain elevated in 2022 given the industry supply shortage, this suggests a further revenue growth of 15% next year, which translates to another record-high EPS of 25.0 US cents (+15.2% yoy) in 2022.

### EARNINGS REVISION/RISK

• No changes to our forecasts.

### VALUATION/RECOMMENDATION

• **Maintain BUY with unchanged target price of S\$2.34**, pegged to 8x 2021F PE (-1 SD to the mean). This compares to regional peers which trade at an average 8.4x 2022F PE.

• **Too cheap to ignore.** At S\$1.32, Uni-Asia trades at 4.5x 2021F PE, 3.9x 2022F PE and 1.8x annualised 3Q21 P/CF. We are of the view that valuations for Uni-Asia are too cheap to ignore for a stock with strong earnings profile going forward.

### SHARE PRICE CATALYST

- Higher-than-expected freight rates in the handysize segment.
- Better-than-expected cost management.

### COMPARISON BETWEEN BHSI AND AVERAGE CHARTER RATE/DAY (US\$)

Period	Baltic Handysize Index (BHSI)			Uni-Asia Group			
	Index	Yoy (%)	Qoq (%)	Average charter rate/day (US\$)	Yoy (%)	Qoq (%)	
1Q19	413.3	-28.8%	-35.3%	9,281	-1.6%	-2.9%	
2Q19	406.5	-32.4%	-1.6%	9,215	-5.8%	-0.7%	
3Q19	578.9	2.1%	42.4%	9,276	-8.9%	0.7%	
4Q19	557.2	-12.8%	-3.8%	9,554	0.0%	3.0%	
1Q20	361.6	-12.5%	-35.1%	7,442	-19.8%	-22.1%	
2Q20	288.2	-29.1%	-20.3%	6,548	-28.9%	-12.0%	
3Q20	509.5	-12.0%	76.8%	8,379	-9.7%	28.0%	
4Q20	622.3	11.7%	22.2%	8,761	-8.3%	4.6%	
1Q21	907.3	150.9%	45.8%	10,005	34.4%	14.2%	
2Q21	1,246.9	332.7%	37.4%	11,830	80.7%	18.2%	
3Q21	1,790.1	251.4%	43.6%	14,321	70.9%	21.1%	
4Q21 (to date)	1,904.4	206.0%	6.4%				

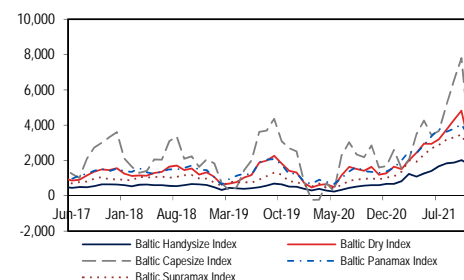
Source: Bloomberg, Uni-Asia

### PEER COMPARISON

Company	Bloomberg Ticker	Trading Curr (TC)	Price @ 15 Nov 21 (TC)	Market Cap (USD)	PE			PB		EV/EBITDA		Yield 2021F (%)	Net Gearing (%)
					2020	2021F	2022F	2021F	2022F	2021F	2022F		
Uni-Asia Group	UAG SP	S\$	1.32	77	n.a.	4.5	3.9	0.6	0.5	5.1	4.0	3.8	45.3
Pan Ocean Co Ltd	028670 KS	₩	5,740.00	2,603	9.9	6.9	7.3	0.9	0.8	6.1	5.6	0.9	43.3
Sitc	1308 HK	HK\$	24.75	8,519	11.8	8.8	8.1	4.9	4.1	7.0	6.4	6.5	3.6
U-Ming Marine	2606 TT	NT\$	54.20	1,649	12.8	11.7	10.7	1.8	1.8	8.6	8.2	2.2	58.5
Cosco Shipping P	1199 HK	HK\$	6.66	2,834	7.9	7.8	7.2	0.5	0.5	13.6	13.1	5.1	40.7
Shun Tak Holding	242 HK	HK\$	2.09	810	6.2	5.8	4.6	n.a.	n.a.	n.a.	n.a.	n.a.	33.2
Soonest Express	2643 TT	NT\$	71.70	77	8.5	9.1	n.a.	n.a.	n.a.	n.a.	n.a.	5.6	(62.1)
Samudera Ship	SAMU SP	S\$	0.48	192	5.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.0	8.5
Singap Shipping	SSCL SP	S\$	0.28	81	8.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.8	6.2
<b>Average</b>					<b>8.9</b>	<b>8.4</b>	<b>7.6</b>	<b>2.0</b>	<b>1.8</b>	<b>8.8</b>	<b>8.3</b>	<b>3.3</b>	<b>16.5</b>

Source: UOB Kay Hian, Bloomberg

### BALTIC DRY INDEX (BDI)



Source: Bloomberg, UOB Kay Hian

### BALTIC HANDYSIZE INDEX



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2020	2021F	2022F	2023F
<b>Net turnover</b>	45.9	65.4	74.3	68.6
EBITDA	4.5	32.1	35.5	31.6
Deprec. & amort.	11.9	10.6	10.6	10.6
EBIT	(7.4)	21.5	24.9	21.0
Associate contributions	(0.4)	(0.1)	0.0	0.0
Net interest income/(expense)	(4.5)	(3.5)	(3.4)	(3.4)
<b>Pre-tax profit</b>	<b>(12.3)</b>	<b>17.9</b>	<b>21.5</b>	<b>17.5</b>
Tax	(1.3)	(1.0)	(1.8)	(1.7)
Minorities	(0.3)	0.1	0.0	0.0
<b>Net profit</b>	<b>(7.7)</b>	<b>17.1</b>	<b>19.6</b>	<b>15.9</b>
Net profit (adj.)	(14.0)	17.1	19.6	15.9

### BALANCE SHEET

Year to 31 Dec (US\$m)	2020	2021F	2022F	2023F
<b>Fixed assets</b>	156.4	149.8	142.9	135.9
Other LT assets	31.3	31.3	31.3	31.3
Cash/ST investment	35.5	54.4	76.0	94.4
Other current assets	26.3	27.0	27.3	27.1
<b>Total assets</b>	<b>249.5</b>	<b>262.5</b>	<b>277.5</b>	<b>288.7</b>
ST debt	44.4	44.4	44.4	44.4
Other current liabilities	12.0	12.1	12.2	12.2
LT debt	69.5	69.5	69.5	69.5
Other LT liabilities	4.1	4.1	4.1	4.1
Shareholders' equity	118.5	131.6	146.5	157.7
Minority interest	0.9	0.7	0.7	0.7
<b>Total liabilities &amp; equity</b>	<b>249.5</b>	<b>262.5</b>	<b>277.5</b>	<b>288.7</b>

### CASH FLOW

Year to 31 Dec (US\$m)	2020	2021F	2022F	2023F
<b>Operating</b>	6.8	42.8	45.2	41.2
Pre-tax profit	(6.2)	17.9	21.5	17.5
Tax	(1.3)	(1.0)	(1.8)	(1.7)
Deprec. & amort.	4.4	9.0	9.0	9.0
Associates	(0.4)	(0.1)	0.0	0.0
Working capital changes	(1.8)	(0.6)	(0.2)	0.2
Non-cash items	(24.4)	0.0	0.0	0.0
Other operating cashflows	36.5	17.6	16.7	16.1
<b>Investing</b>	<b>(3.3)</b>	<b>(2.5)</b>	<b>(2.1)</b>	<b>(2.0)</b>
Capex (growth)	(2.1)	(2.5)	(2.1)	(2.0)
Investments	(1.4)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.3	0.0	0.0	0.0
<b>Financing</b>	<b>(25.2)</b>	<b>(21.4)</b>	<b>(21.5)</b>	<b>(20.8)</b>
Dividend payments	(1.2)	(3.9)	(4.7)	(4.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	47.0	0.0	0.0	0.0
Loan repayment	(49.1)	0.0	0.0	0.0
Others/interest paid	(21.9)	(17.5)	(16.7)	(16.1)
<b>Net cash inflow (outflow)</b>	<b>(21.7)</b>	<b>18.9</b>	<b>21.7</b>	<b>18.3</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>56.1</b>	<b>35.5</b>	<b>54.4</b>	<b>76.0</b>
Changes due to forex impact	1.1	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>35.5</b>	<b>54.4</b>	<b>76.0</b>	<b>94.4</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	9.7	49.1	47.8	46.1
Pre-tax margin	(26.9)	27.4	28.9	25.6
Net margin	(16.8)	26.1	26.4	23.1
ROA	n.a.	6.7	7.3	5.6
ROE	n.a.	13.6	14.1	10.4
<b>Growth</b>				
Turnover	(15.8)	42.4	13.5	(7.7)
EBITDA	(84.7)	618.3	10.6	(10.9)
Pre-tax profit	(227.4)	n.a.	19.7	(18.2)
Net profit	(232.2)	n.a.	15.2	(19.2)
Net profit (adj.)	(272.9)	n.a.	15.2	(19.2)
EPS	(272.9)	n.a.	15.2	(19.2)
<b>Leverage</b>				
Debt to total capital	48.8	46.3	43.6	41.8
Debt to equity	96.2	86.6	77.8	72.3
Net debt/(cash) to equity	66.3	45.3	25.9	12.4
Interest cover (x)	1.0	9.3	10.4	9.2

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