

Uni-Asia Group Limited

Date: 30 August 2023

BUY (Maintained)

BBG	UAG SP	
Market Cap	S\$71.9m	
Price (30 Aug 2023)	S\$0.91	
52-week range	S\$1.094-0.713	
Target Price	S\$1.14	
Shares Outstanding	78.6m	
Free Float	58.0%	
Major Shareholder	Yamasa	30.0%
	Evergreen International	9.0%
	Mr Michio Tanamoto	4.0%

Source: Company data, Bloomberg, SAC Capital

SHARE PRICE



Source: Bloomberg, SAC Capital

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KEY FINANCIAL HIGHLIGHTS

Year ended Dec (S\$m)	2020A	2021A	2022A	2023E	2024E
Revenue	45.9	69.4	86.1	57.2	68.4
Operating Profit	(7.4)	22.2	32.5	13.6	18.0
Net profit	(7.5)	18.0	27.9	8.3	11.3
Net margin (%)	-16%	26%	32%	15%	17%
EPS (cents)	(9.5)	23.0	35.5	10.6	14.4
P/E (x)	(7.9)	3.3	2.1	7.1	5.2
P/B (x)	0.5	0.4	0.4	0.4	0.4
Net Cash / (Debt)	(78.5)	(47.1)	(25.6)	(37.5)	(54.1)
DPS (cents)	0.8	5.3	10.9	2.4	3.2
Dividend yield (%)	1%	7%	15%	3%	4%
Interest coverage ratio (x)	(1.9)	8.3	12.3	3.5	3.6
ROE (%)	-6%	14%	19%	5%	7%
ROA (%)	-3%	8%	12%	3%	4%

Lower charter rates and HK property overhang to persist

Charter rates expected to remain weak in 2H23. 1H23 revenue declined to US\$29.7m (-39% yoy) and net profit stood at US\$4.3m (-74% yoy), forming c.36% and c.20% of our full-year forecast. This comes as 2Q23 average charter rates declined to US\$10.8k per day, down c.13% qoq from US\$12.4k in 1Q23 and c.47% yoy from US\$20.4k in 2Q22. Management has guided blended spot rates of US\$10-15k for 2H23 before recovery in FY24 bolstered by improved external demand. We decrease our FY23-24E net profits to US\$8.3m and US\$11.3m respectively and revise our TP downwards to S\$1.14 using P/B of 0.45x on current NAV of US\$1.89/share (25% upside from current share price of S\$0.91). Notwithstanding, index-linked charter contracts utilized would allow for quick reaction time to capture upturns in charter rates. BHSI inflection in August signals potential recovery.

Potential for fleet disposal. The price in May for a 38-40k DWT newbuild price stands at US\$30m, almost on par with a 5-year-old 38k DWT price of US\$26m, signaling price resilience despite falling charter rates. Purchase of second-hand vessels still remain an attractive option. Management is considering the disposal of 2 older vessels should they cover loans and lead to net cash inflow and net profit.

Hong Kong property overhang. Hong Kong is experiencing spillover effects from the foundering property sector in China. Conservatively, the company does not expect contributions from Hong Kong property projects in 2H23 and 1H24.

Further expansion in Japan. After its first successful co-purchase of land outside Tokyo, it is considering similar acquisitions with other investors in Furano and Niseko. Uni-Asia earns fees for initiation of acquisitions and gains on disposals based on their stakes in the project.

Retirement of CEO. Mr. Kenji Fukuyado will be stepping down on 29 Feb 2024 and replaced by Mr Masahiro Iwabuchi, who is the current Executive Director of the Company. Mr Iwabuchi entered into 4 share purchase transactions for a total of 115,700 shares amounting S\$105,865.50 in June this year.

1H23 Updates

Charter rates expected to remain weak in 2H23. Uni-Asia reported lower 1H23 revenue of US\$29.7m (-39% yoy) and net profit of US\$4.3m (-74% yoy), forming c.36% and c.20% of our full-year forecast respectively. This comes as 2Q23 average charter rates declined to US\$10.8k per day, down c.13% qoq from US\$12.4k in 1Q23 and c.47% yoy from US\$20.4k in 2Q22. Port congestions have eased back to FY19 levels, removing most inefficiencies and bringing rates down. This is exacerbated by weakening drybulk demand driven by muted demand for iron ore and from China. Iron ore constitutes c.37% of total drybulk demand, c.72% if we include coal and agribulks. China is the main importer of drybulk, with 35% market share over the last 12 months. Faltering key demand drivers is accordingly reflected in charter rates. Management has guided blended spot rates of US\$10-15k for 2H23 before recovery in FY24 bolstered by improved external demand. As such, we decrease our net profit estimates on the back of lower charter rates. We forecast FY23 charter rate growth of -50% yoy, down from the previous forecast of -10% yoy, before a +30% yoy rebound in FY24. This brings our FY23-24E net profit down to US\$8.3m (US\$21.2m previously) and US\$11.3m (US\$23.9m previously) respectively. Notwithstanding, Uni-Asia has been closely monitoring the charter market, opting to employ more index-linked charter contracts when undergoing renewals in order to quickly benefit from potential upturns in the charter market with short reaction time. The BHSI inflection in August signals potential recovery in charter rates, which could present a leading indicator towards an uplift in top-line performance.

30 Jun 2023 NAV of US\$1.89/share would imply a P/B ratio of 0.36x. Sector average P/B of 0.92x would indicate a discount of 60%, which we believe is too wide considering the high quality of its real assets recorded at values significantly below those of the market. Taking a smaller discount of 50%, P/B of 0.45x is utilized, implying a target price of S\$1.14. We maintain a buy recommendation at revised TP of S\$1.14 (25% upside from current S\$0.91), down from S\$1.20 previously.

Industry Peers	P/B	Industry Peers	P/B
Pacific Basin Shipping Ltd	0.85	Genco Shipping & Trading Ltd	0.67
Diana Shipping Inc	0.95	Eneti Inc	0.54
Star Bulk Carriers Corp	0.98	Pangaea Logistics Solutions	0.75
Golden Ocean Group Ltd	0.91	Dorian LPG Ltd	0.92
D/S Norden	1.53	International Seaways Inc	1.22
Eagle Bulk Shipping Inc	0.79	Average	0.92

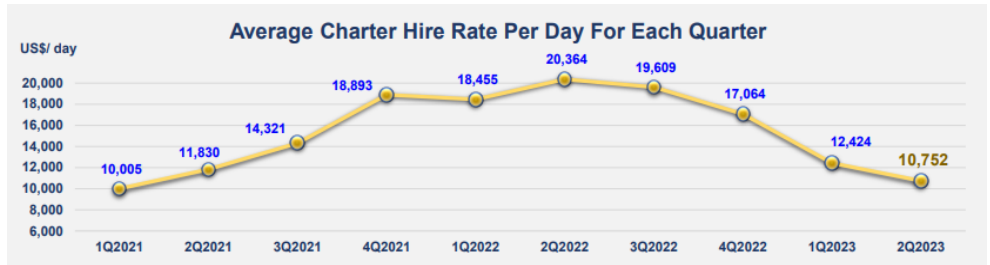
Source: Bloomberg, SAC Capital

Potential for fleet disposal. Based on Clarksons July 2023 report, the price in May for a 38-40k DWT newbuild price stands at US\$30m, almost on par with a 5-year-old 38k DWT price of US\$26m, signaling price resilience despite falling charter rates. Purchase of second-hand vessels still remain an attractive option, especially since fuel regulations for the sector have yet to be finalised. Management is considering the disposal of 2 older vessels to refresh the shipping portfolio should they fully cover loan amounts and lead to net cash inflow and net profit, benefitting the bottom-line.

Hong Kong property overhang. Hong Kong is experiencing spillover effects from the foundering property sector in China. Sentiments remain weak as investors are afraid of developers running into cashflow issues or defaulting, rendering them incapacitated. Conservatively, the company does not expect contributions from Hong Kong property projects in 2H23 and 1H24. Better results are expected should bleak conditions wane or should there be a launch of stimulus by the Chinese government to prop the sector.

Further expansion in Japan. After its first successful co-purchase of land outside Tokyo, it is considering similar acquisitions with other investors in Furano and Niseko. Japan properties continue to remain attractive as mortgage rates remain low. Uni-Asia earns fees for initiation of acquisitions and gains on disposals based on their stakes in the project.

Retirement of CEO. Mr. Kenji Fukuyado will be stepping down on 29 Feb 2024 and replaced by Mr Masahiro Iwabuchi, who is the current Executive Director of the Company. Mr Fukuyado has been with the company since 2001 and was appointed Chief Executive Officer in 2020. Mr Iwabuchi joined the company since it was established in 1997 and was appointed Executive Director in Mar 2018. He recently entered into 4 share purchase transactions for a total of 115,700 shares amounting S\$105,865.50 in June this year.

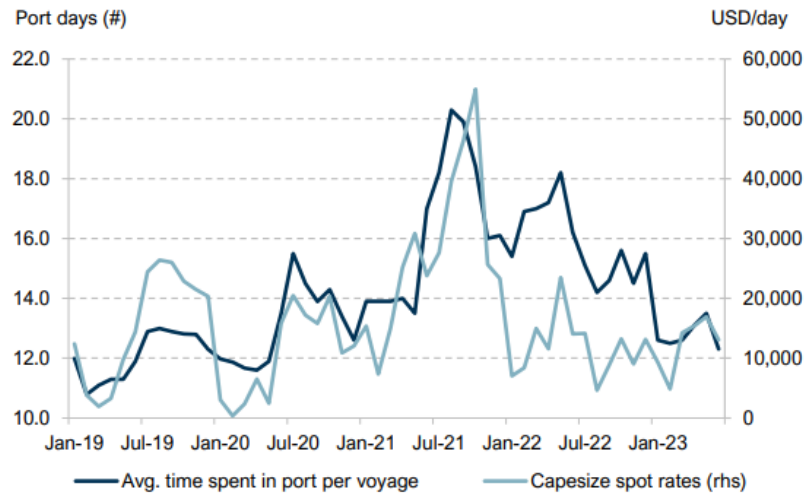


Source: Company Data, SAC Capital

Supramax & Handysize TC & Asset Markets	Annual					Monthly			Handy Markets	
	2019	2020	2021	2022	2023*	Mar	Apr	May	Jun	This Month
Timecharter Rates (Avg. \$/day)										
61k dwt 1 Year TC Rate	12,151	11,451	24,138	22,832	15,501	18,113	17,375	15,438	13,745	WEAKER -11%
58k dwt 1 Year TC Rate	10,862	9,834	21,343	20,066	13,661	15,900	15,531	13,703	11,808	WEAKER -14%
58k dwt 3 Year TC Rate	10,017	9,257	14,568	15,014	12,363	13,475	13,438	12,250	11,680	SOFTER... -5%
38k dwt 1 Year TC Rate	9,862	9,297	20,853	20,387	12,817	15,025	14,969	13,109	10,700	WEAKER -18%
38k dwt 3 Year TC Rate	9,469	9,358	14,382	14,678	12,306	13,000	13,000	12,625	12,725	STEADY... 1%
Asset Values (End Period, \$m)										
61-63k dwt Newbuild Price	25.5	24.0	32.5	30.5	33.0	32.5	32.8	33.0	33.0	STEADY... 0%
63k dwt 5 Year Old Price*	22.0	17.8	30.0	28.0	29.5	31.5	32.0	31.0	29.5	SOFTER... -5%
58k dwt 10 Year Old Price	12.5	10.8	21.0	18.0	19.8	21.0	21.5	20.5	19.8	SOFTER... -4%
38-40k dwt Newbuild Price	23.5	23.0	29.5	28.5	30.0	29.5	29.8	30.0	30.0	STEADY... 0%
38k dwt 5 Year Old Price	16.5	14.8	25.5	23.5	25.0	26.0	26.5	26.0	25.0	SOFTER... -4%

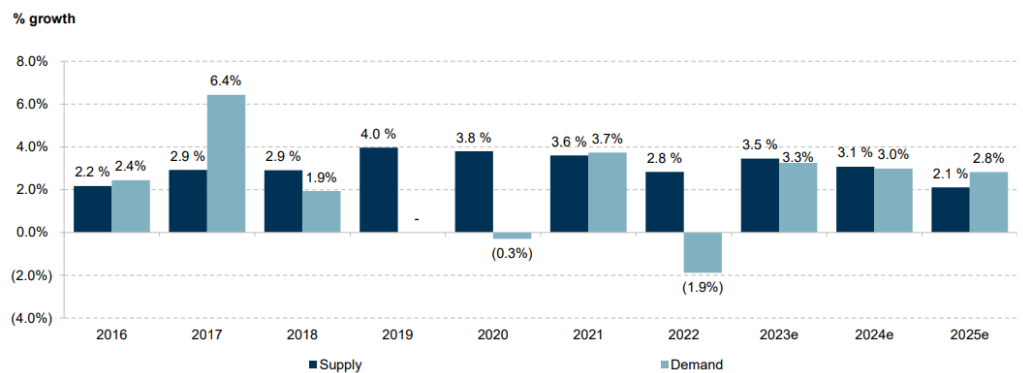
Source: Clarksons Research, SAC Capital

Drybulk: Average time spent in port per voyage (2019-23)



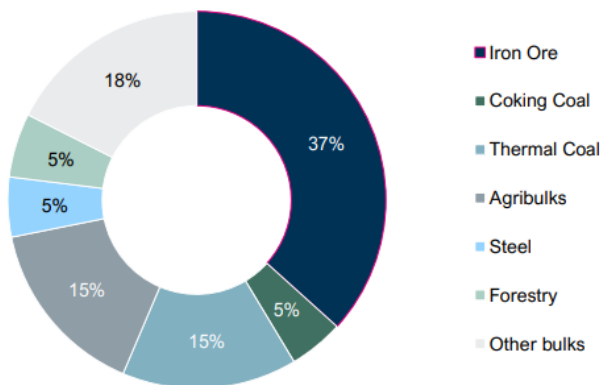
Source: Pareto Securities, Maritime Analytics, Shipping Intelligence, SAC Capital

Drybulk: Supply vs. demand (2016-25e)



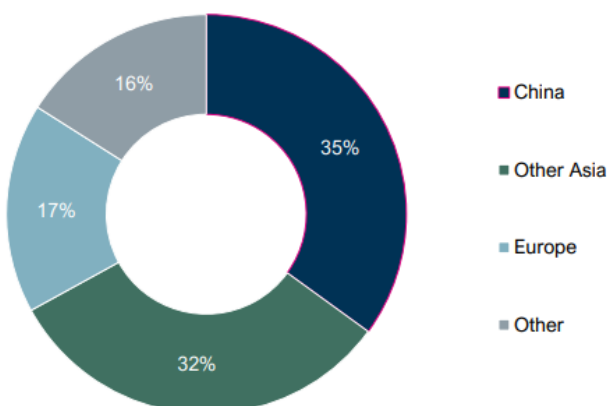
Source: Pareto Securities, Maritime Analytics, Shipping Intelligence, SAC Capital

Drybulk demand by commodity – measured by tonne-miles (2022)



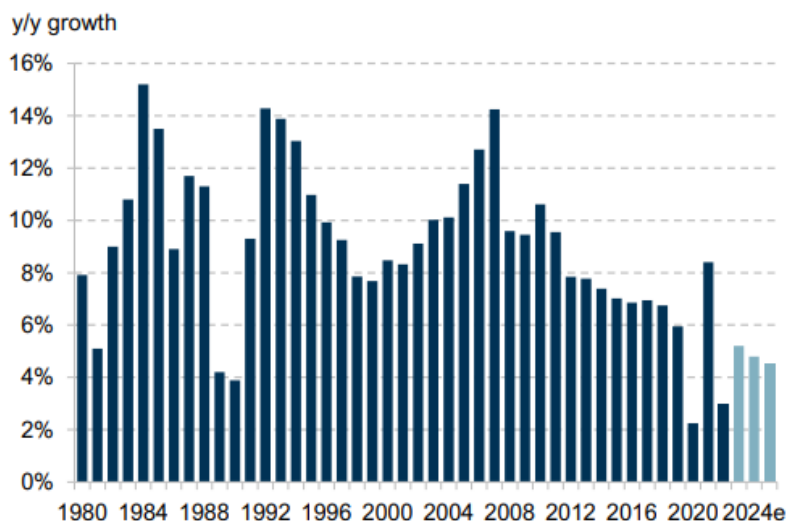
Source: Pareto Securities, Maritime Analytics, SAC Capital

Drybulk demand by import over the last 12 months



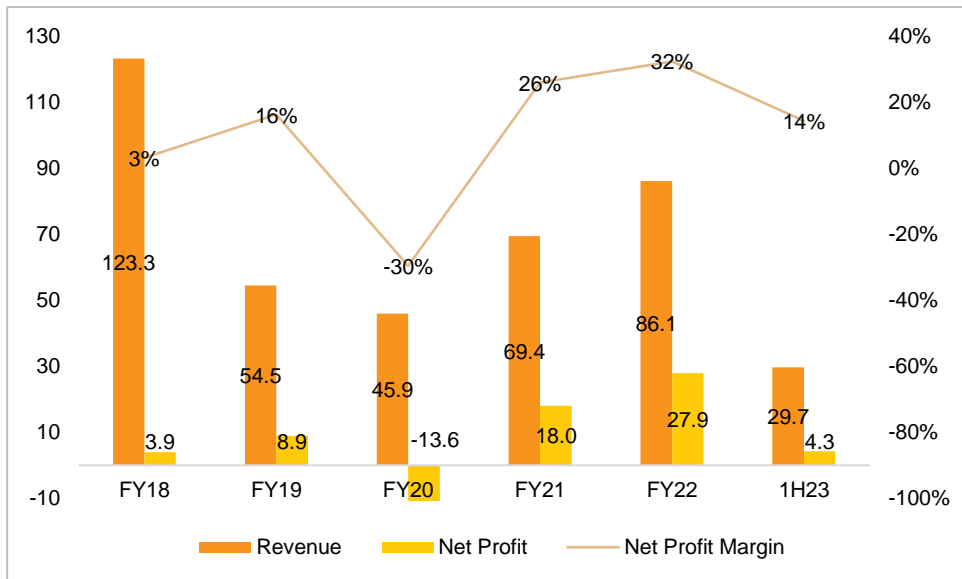
Source: Pareto Securities, Maritime Analytics, SAC Capital

China: GDP growth (1980-2025e)



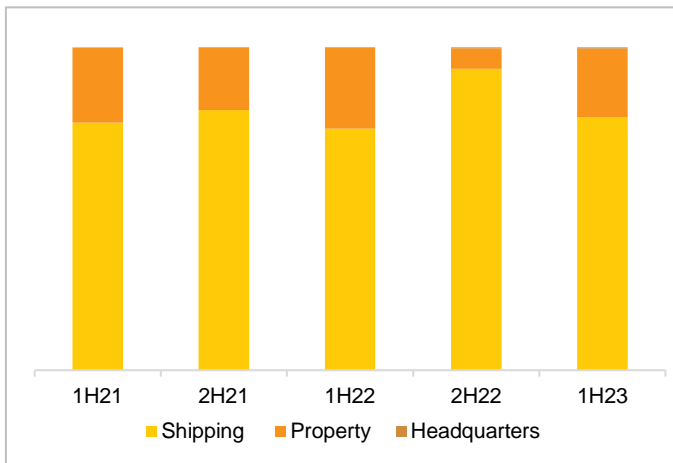
Source: Pareto Securities, Statista, Maritime Analytics, SAC Capital

Revenue, Net Profit and Net Profit Margins



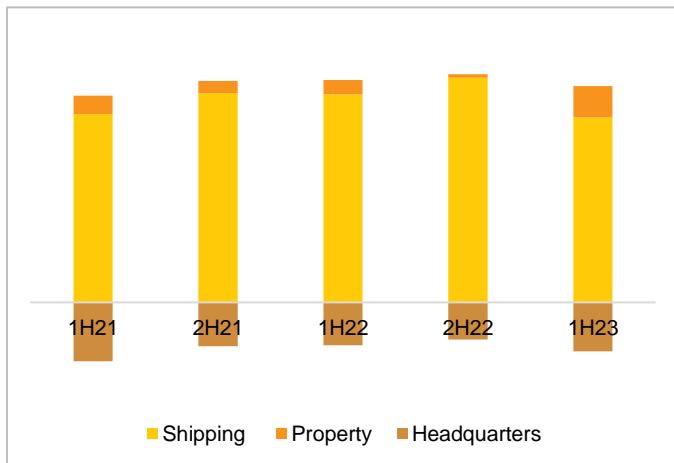
Source: Company data, SAC Capital

Revenue - Segmentation



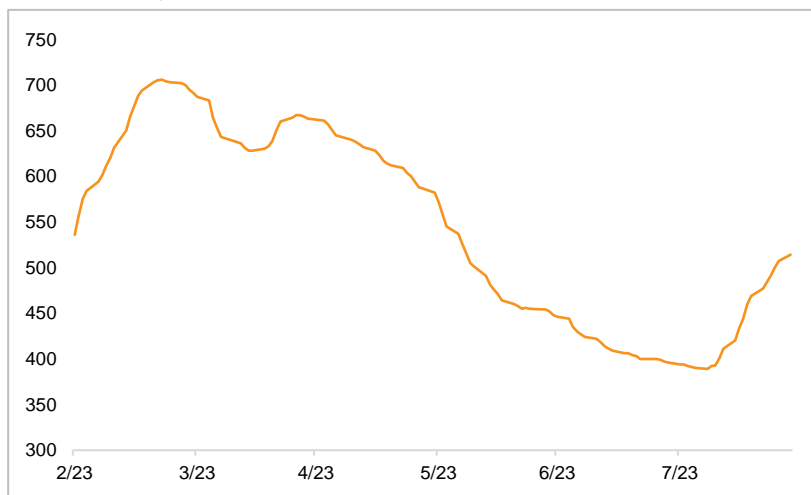
Source: Company data, SAC Capital

Net Profit - Segmentation



Source: Company data, SAC Capital

Baltic Handysize Index



Source: Company data, SAC Capital

Income Statement

FYE Dec (US\$m)	FY20	FY21	FY22	FY23E	FY24E
Turnover	45.94	69.44	86.14	57.20	68.39
Employee benefits expenses	(6.77)	(9.49)	(10.60)	(8.95)	(10.70)
Amortisation and depreciation	(10.44)	(9.48)	(9.89)	(10.74)	(11.99)
Depreciation of right-of-use assets	(1.48)	(1.57)	(1.47)	(0.61)	(0.73)
Vessel operating expenses	(17.27)	(18.55)	(22.58)	(13.10)	(15.66)
Costs of properties under development sold	0.00	(7.97)	(7.06)	(6.35)	(6.67)
Net foreign exchange gain	(0.59)	1.56	1.54	0.06	0.07
Other expenses	(4.13)	(3.05)	(3.54)	(3.92)	(4.68)
Finance costs - interest expense	(3.96)	(2.69)	(2.64)	(3.89)	(4.98)
Finance costs - lease interest	(0.38)	(0.24)	(0.10)	(0.14)	(0.17)
Finance costs - others	(0.14)	(0.14)	(0.19)	(0.18)	(0.21)
Share of results of associates	(0.01)	0.11	(0.02)	0.01	0.01
Allocation to Tokumei Kumiai investors	(0.40)	(0.29)	(0.65)	(0.49)	(0.58)
Profit before tax	(12.34)	19.00	28.93	8.91	12.08
Income tax expense	(1.27)	(0.95)	(1.04)	(0.57)	(0.78)
Profit / (loss) for the period / year	(7.47)	18.05	27.89	8.33	11.31
Profit / (loss) for the period / year attributable to:					
Owners of the parent	(7.73)	18.20	27.78	8.20	11.13
Non-controlling interests	0.26	(0.16)	0.11	0.14	0.18

Balance Sheet

FYE Dec (US\$m)	FY20	FY21	FY22	FY23E	FY24E
Investments	5.24	1.54	0.70	0.70	0.70
Properties under development	6.57	4.21	6.01	7.21	8.65
Accounts receivable	1.26	0.53	0.60	2.66	3.18
Cash and bank balances	35.48	36.73	47.07	59.69	70.46
Others	13.21	3.94	6.19	4.16	4.95
Total current assets	61.76	46.95	60.57	78.12	97.61
Investment properties	9.85	13.09	11.82	11.82	11.82
Investments	30.55	31.38	32.54	32.54	32.54
Property, plant and equipment	144.03	136.36	130.11	143.84	159.17
Others	3.28	2.96	1.62	1.74	1.91
Total non-current assets	187.71	183.79	176.09	189.94	205.44
Borrowings	44.44	22.29	31.16	31.16	31.16
Accounts payable	0.24	0.24	0.42	1.76	2.10
Other payables and accruals	5.01	6.66	8.95	4.92	5.88
Others	6.76	5.88	2.32	2.03	1.80
Total current liabilities	56.45	35.07	42.85	39.87	40.95
Borrowings	69.54	61.56	41.55	66.02	93.35
Others	4.14	1.54	1.08	1.15	1.17
Total non-current liabilities	73.68	63.10	42.63	67.17	94.53
Share capital	113.17	113.17	113.17	113.17	113.17
Reserves	0.20	(2.57)	(5.31)	(4.95)	(4.95)
Retained earnings	5.09	21.53	42.81	48.55	56.34
Total equity attributable to owners of the parent	118.46	132.13	150.67	156.77	164.56
Non-controlling interests	0.88	0.44	0.51	0.53	0.55
Total equity	119.34	132.57	151.17	157.30	165.11

Cash Flow Statement

FYE Dec (US\$m)	FY20	FY21	FY22	FY23E	FY24E
Profit / (loss) before tax	(12.34)	19.00	28.93	8.91	12.08
Gain / (loss) from discontinued operations and deconsolidation of subsidiary	6.19	0.00	0.00	0.00	0.00
Amortisation and depreciation	10.52	9.48	9.89	10.74	11.99
Changes in working capital	(1.81)	4.24	(1.87)	1.46	(4.06)
Net cash flows (used in) / generated from operating activities	6.81	28.38	34.93	19.52	19.16
Purchase of property, plant and equipment	(2.11)	(2.05)	(3.81)	(24.47)	(27.33)
Net cash flows (used in) / generated from investing activities	(3.27)	10.98	(1.11)	(21.25)	(23.47)
Proceeds from borrowings	47.02	11.83	8.28	24.47	27.33
Dividends paid	(1.22)	(1.76)	(6.48)	(2.46)	(3.34)
Net cash flows (used in) / generated financing activities	(25.25)	(36.39)	(21.51)	14.39	15.24

Ratios

FYE Dec	FY20	FY21	FY22	FY23E	FY24E
Profitability (%)					
Operating profit margin	(16.2%)	32.0%	37.8%	23.8%	26.3%
Profit / (loss) before tax margin	(26.9%)	27.4%	33.6%	15.6%	17.7%
Net margin	(16.3%)	26.0%	32.4%	14.6%	16.5%
Liquidity (x)					
Quick ratio	1.09	1.34	1.41	1.87	2.15
Gearing	(0.66)	(0.36)	(0.17)	(0.24)	(0.33)
Interest coverage ratio	(1.88)	8.28	12.32	3.50	3.62
Net debt to equity	0.66	0.36	0.17	0.24	0.33
Valuation (x)					
P/E	(7.91)	3.28	2.12	7.09	5.23
P/B	0.50	0.45	0.39	0.38	0.36
EPS (US cents)	(9.5)	23.0	35.5	10.6	14.4
Returns (%)					
Return on equity	(6.3%)	13.7%	18.5%	5.3%	6.9%
Dividend payout ratio	(7.9%)	22.9%	30.7%	30.0%	30.0%

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