Uni-Asia Group Limited

(UAG SP/UAFC.SP)

Strong 1H2021 beat, even better year ahead

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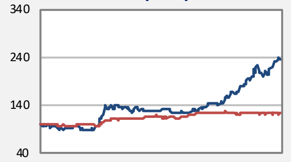
- **Higher and stronger.** UAG reported a 1H2021 profit of US$7.0mn, reversing from the US$3.9mn loss in 1H2020. The reversal was mainly on the back of the 49% YoY surge in charter income. Its balance sheet continues to improve, such that UAG was able to declare a 2.0 Sing cents dividend for 1H2021 (vs no interim dividend last year).
- **Maintain Outperform and raise TP to S$1.56 (from S$1.42).** 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 international peers who are trading above 1.0x P/B.

OUTPERFORM - Maintain			
Price as of 16 Aug 21 (SGD)	1.09	**Performance (Absolute)**	
12M TP ($)	1.56	1 Month (%)	14.1
Previous TP ($)	1.42	3 Month (%)	70.7
Upside (%)	47	12 Month (%)	135.4
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	86		
Issued Shares (mn)	79		
Vol - 3M Daily avg (mn)	0.3		
Val - 3M Daily avg ($mn)	0.2		
Free Float (%)	50.8%		
Major Shareholders		**Previous Recommendations**	
Yamaso Co	30.0%	7-Jul-21	OP $1.42
Evergreen Int'l	9.0%	24-May-21	OP $0.91
Ham Yong Kwan	7.6%	25-Aug-20	NEUTRAL $0.54



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)	11.0	-4.6	5.2	4.9	4.6
DPS (SGCents)	4.2	4.2	4.2	4.2	4.2
Div Yield (%)	3.9	3.9	3.9	3.9	3.9
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)	0.4	0.4	0.4	0.4	0.3
ROE (%)	4.6	-6.5	9.7	9.6	9.6

Source: Company Data, KGI Research

UAG has the wind behind its back. UAG reported a stellar 1H2021. The bottom line reversed from a loss of US$3.9mn in 1H2020 to a US$7.0mn profit in 1H2021, driven mainly by its shipping segment. Charter income rose 46% YoY to US$20mn as average daily charter rose to about US$10,900 in 1H2021 compared to around US$7,000 in 1H2020. As a result, its shipping business reported a profit of US$9mn in 1H2021, vs a US$11mn loss in 1H2020. UAG's balance sheet continued to strengthen, with total debt declining to US$95mn as at the end of 1H2021. Given the stronger-than-expected results and positive outlook in 2H2021 and 2022, shareholders will be rewarded with a 2.0 Sing cents interim dividend.

UAG has right assets at the right time. The broad-based increase in commodity demand and the tight supply of vessels have pushed Baltic Freight rates to their highest in more than 10 years. The market for handysize, which UAG specialises in, is even more favourable as rates rise to their highest since 2008. Current charter rates are above US$25,000 per day. 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 charter rates to remain resilient at these levels, or even increase, amid historically low order book, rising scrap rates and further cuts in operating speeds.

Upcoming short-term dry bulk demand catalysts. We are approaching the traditionally 3Q peak season as the northern hemisphere grain season begins. Furthermore, the US Senate 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. Seaborne trade is traditionally correlated to 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 property updates. The Japan property business continues to grow, with assets under management increasing from JPY30bn (end-2020) to JPY32bn (end-1H2021). Meanwhile, 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. UAG plans to market properties 4 and 5 by the end of this year, which will give us more colour on prices and demand.

Valuation & Action: We maintain an **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 balance sheet remains healthy as it continues to pare down debt; this will likely be a precursor to higher full year dividends.

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 charter rates increased from US$7,442 in 1Q2020, to US$10,005 in 1Q2021 and rising further to US$11,832 in 2Q2021. The group will be renewing the charters for its 10-wholly owned vessels in 2H2021 and 2022.

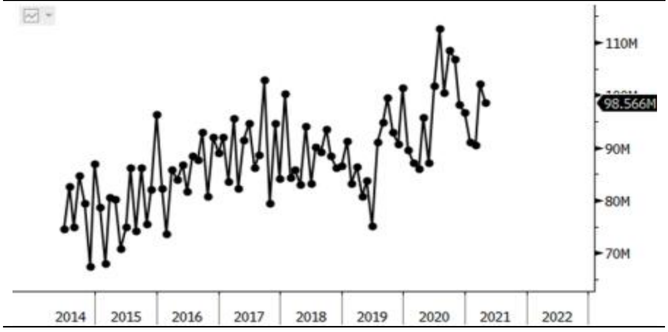
Key drivers of the current boom. There are three key commodities driving the current demand for dry bulk carriers. These three commodities, which we highlight below, account for almost two-thirds of the global dry-bulk trade based on tonnage basis.

The first is China's iron ore imports. Seaborne supply of iron ore is the largest dry bulk commodity in terms of tonnage, accounting for 29% of total tonnage. China is the largest importer and accounts for more than 70% of global seaborne iron ore in 2019. In the first five months (Jan-May) of the year, China's iron ore imports rose 6% YoY to 471.8mn tonnes. The resumption of Brazilian iron ore exports after two challenging years is likely to provide further tailwinds for dry bulk charter rates since they have longer haul lengths.

The second driver is coal. Coal is the second largest dry bulk commodity that accounts for around 23% of seaborne tonnage. According to Clarksons Research, coking and thermal coal demand in 2021 is forecasted to increase by 6% and 4%, respectively.

The third driver is grain and soybean exports from the US and Brazil. China, the world's top importer of soybeans, ramped up its soybean purchase from the US as part of the Phase One trade deal. China has brought in 38.2mn tonnes of soybeans in the Jan-May 2021 period, up 13% from the same period in 2020, as the country worked to rebuild its hog population.

Figure 2: China iron ore imports (metric tonnes)

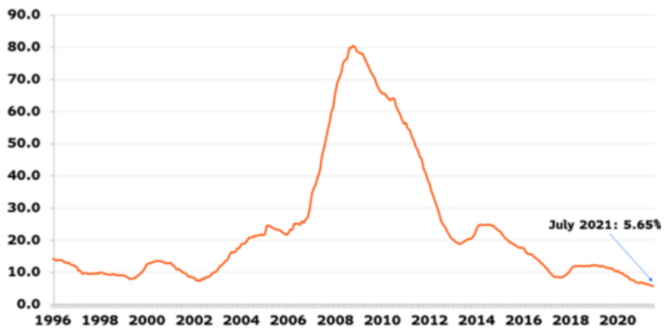


Source: Bloomberg

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.

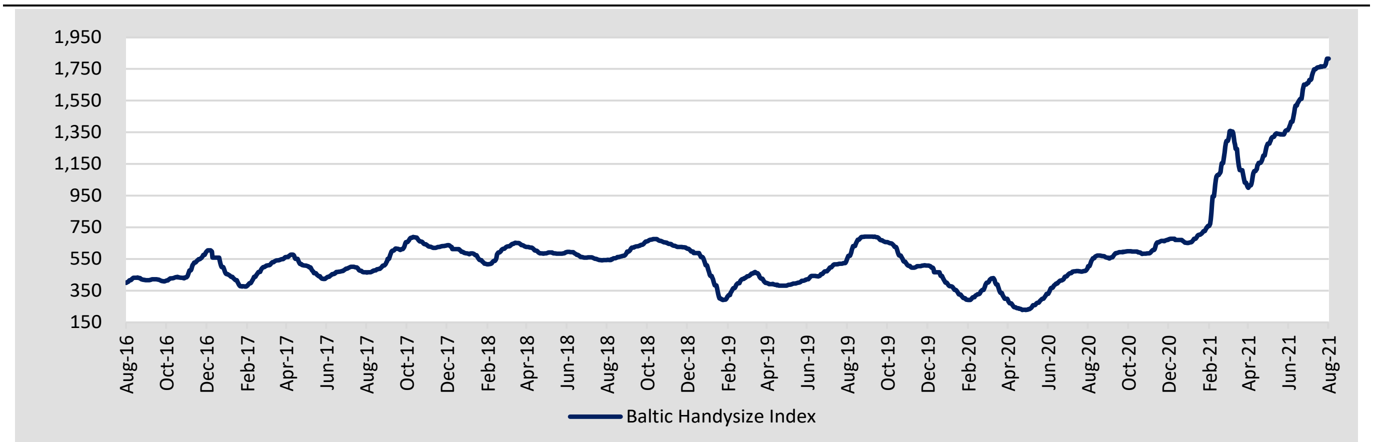
Ever since the bust after the global financial crisis in 2008-2009, recent orderbook has fallen to a multi-decade low of 5.7% of the current fleet size by deadweight tonnage (dwt). In addition, supply of handysize carriers could be further constrained considering that around 20% of the global handysize fleet are 20 years and older.

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



Source: Clarksons, Bloomberg Intelligence

Figure 1: Baltic Handysize Index is at the highest since 2008



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.

Dry bulk carrier values are up 20-30% YTD. Dry bulk carrier values have risen by 20-30% this year, according to VesselsValue, driven by a combination of tight capacity and rising scrap values.

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 2H2021 in light of travel restrictions, and we forecast sales to pick up in 2022.

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 (%)			*43%*		
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.
Underperform (U)	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
Not Rated (NR)	The stock is not rated by KGI Securities.
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