

Uni-Asia Group Limited

9 September 2024

HOLD (Previous: Buy)

| | | |
|---------------------------|-------------------------|-------|
| BBG | UAG SP | |
| Market Cap | S\$61.3m | |
| Price (9 Sep 2024) | S\$0.78 | |
| 52-week range | S\$68.5 - 95.5 | |
| Target Price | S\$0.80 | |
| Shares Outstanding | 78.6m | |
| Free Float | 58.0% | |
| Major Shareholder | Yamasa | 30.0% |
| | Evergreen International | 9.0% |
| | Ham Yong Kwan | 5.0% |

Source: Company Data, Bloomberg, SAC Capital

ANALYST

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Uncertainties on the horizon

HK a key uncertainty. 1H24 net profit came in -US\$11.8m, compared to +US\$4.3m in 1H23. The weak performance is primarily due to a US\$12.8m fair value loss for its Hong Kong property project investments as the market continues to deteriorate. Stripping the fair value loss, 1H24 net profit would have recorded about US\$1m. This points to lower profitability from its other main business segment – ship owning and chartering. 1H23 charter income fell by 22% y-y due to the prior sale of 2 out of its portfolio of 10 ships.

Repositioning its shipping fleet. Uni-Asia has been actively managing its shipping fleet to optimize returns. In November 2023, the company successfully sold its oldest 29k dwt ship. Shortly after in January 2024, it went on to sell its 2nd oldest 29k dwt ship.

Uni-Asia's fleet of eight ships comprise of 29k dwt and 37k dwt ships. That the two ships sold were 29k dwt and older is no coincidence. The smaller and older ships draw in lower average daily charter rates, dragging down the Group's average rates. 29k dwt charter rates are typically a third lower than 37k dwt.

Shipping strategy going forward. The Group has been fixing shorter charter periods for its 29k dwt ships while seeking longer charter for its more lucrative 37k dwt ships. Out of its current portfolio of eight ships, three are 29k dwt which are obvious targets for disposal and happen to be the older ones. Taking advantage of its Fort Knox balance sheet, the Group is actively looking to rebuild its fleet with newer larger ships. Its net debt (total debt minus cash) to equity is a very low 0.1x. Even though the Group would like to expand its fleet, it has remained prudent as both newbuild and secondhand bulk carrier prices have been on a tear, especially secondhand prices.

HK in a bad patch. Once the most coveted city to own a property, Hong Kong is hitting a rough patch. It appears to be so for the foreseeable future and Uni-Asia has decided to book a fair value loss of US\$12.8m. That belies its success in its HK property investments. Indeed, the Group enjoyed a cumulative cash profit of US\$ 25.2m from its invested capital of US\$ 17.5m from its first three projects. It has five ongoing projects.

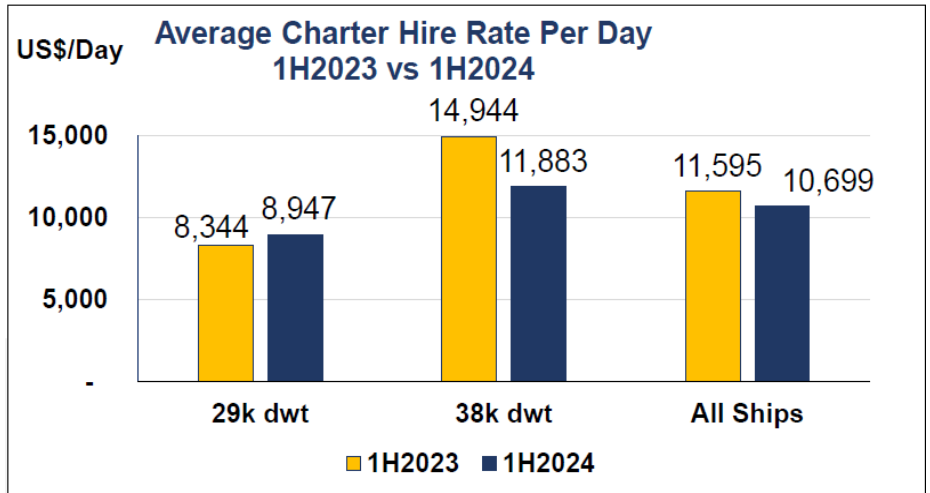
Business model still intact. Uni-Asia has positioned itself as an alternative investment manager. Despite the flux in the global shipping industry and the difficulties of the HK property market, it continues to actively manage its assets. Furthermore, the Group is a sustainability champion through its various initiatives including healthcare and solar power assets and Japan public facility.

Share price performance will be restrained by uncertainties. Hit by the HK fair values loss, we have revised FY24 net profit forecast to -US\$12.4m, implying a breakeven scenario in 2H24. We have also revised down our FY25 net profit forecast to US\$1.4m. We expect share price to perform better when its shipping transformation gains traction and the HK property market bottoms out. In the meantime, we have revised our recommendation to a HOLD from Buy with a revised price target of S\$0.80 (previous: S\$1.02).

| Year ended Dec (US\$m) | FY21 | FY22 | FY23 | FY24E | FY25E |
|------------------------|------|-------|------|-------|-------|
| Revenue | 69.4 | 86.1 | 58.0 | 35.4 | 54.3 |
| % chg | 51% | 24% | -33% | -39% | 53% |
| Operating Profit | 22.2 | 32.5 | 10.5 | -9.4 | 6.0 |
| Net profit | 18.0 | 27.9 | 5.1 | -12.4 | 1.4 |
| % chg | 55% | -82% | 30% | 60% | 35% |
| Net margin (%) | 26% | 32% | 9% | -35% | 3% |
| EPS (UScents) | 23.0 | 35.5 | 6.4 | -15.8 | 1.8 |
| P/E (x) | 2.5 | 1.6 | 9.1 | Na | 96.4 |
| P/B (x) | 0.25 | 0.22 | 0.23 | 0.24 | 0.24 |
| DPS (Scents) | 7.0 | 14.5 | 2.2 | 2.0 | 2.0 |
| Dividend yield (%) | 9.0% | 18.6% | 2.8% | 2.6% | 2.6% |

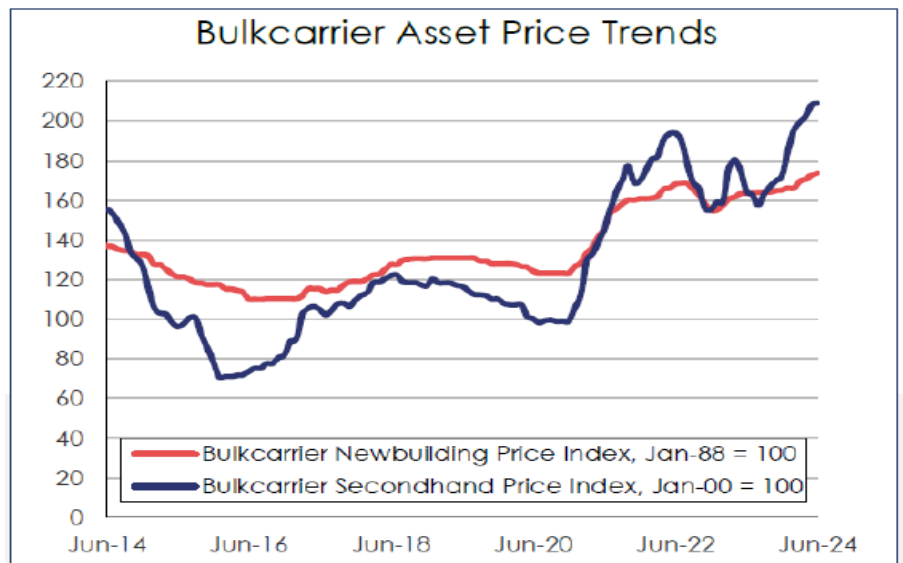
Active Alternative Asset Manager – Shipping

Uni-Asia seeks to dispose of older smaller 29k dwt ships in favour of newer larger 38k dwt for better returns



Source: Company data, SAC Capital

The rate of the Group’s shipping transformation will likely be constrained by high ship prices

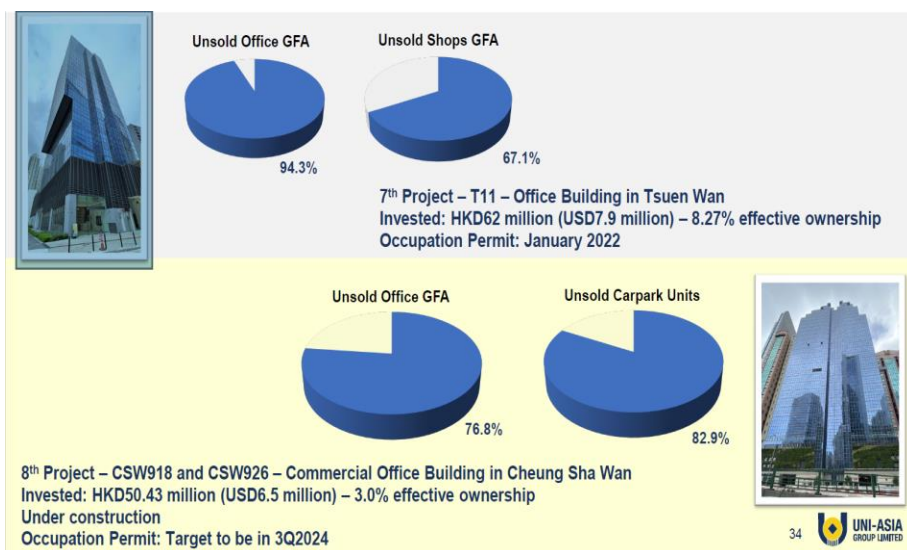
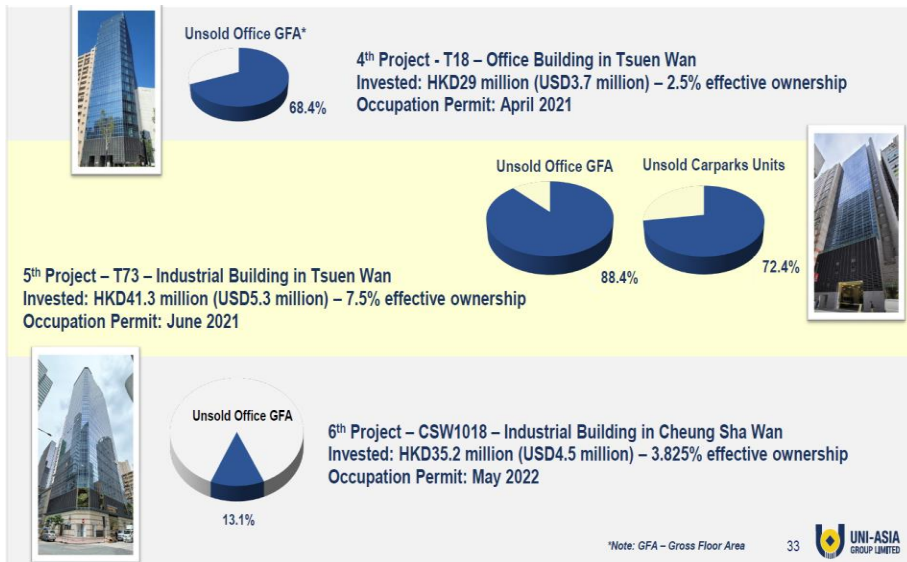


Source: Clarksons Research DBTO July 2024

Source: Company data, SAC Capital

Active Alternative Asset Manager – Property

Uni-Asia's five ongoing projects



Source: Company data, SAC Capital

Sustainability - Environmental

Central to the sustainability efforts is the fight against climate change, and the relevant transition to renewable energy and clean technology. COP28 highlighted that (i) cutting global greenhouse gas emissions by 43% by 2030 against 2019 levels; (ii) tripling of renewable energy capacity; (iii) doubling of energy efficiency improvements needs to be done to meet its goal of limiting global warming to 1.5 Degree Celsius, indicating significant headroom for improvement.

Uni-Asia is doing its part to join global efforts towards averting climate change.

Started asset management services for 3 solar power plants



UACJ Assets Under Management – Solar Power Plants

The Group's Japan subsidiary UACJ started asset management services for 3 solar power plants in Tochigi Prefecture. Tochigi Prefecture is situated north of Tokyo that encompasses part of Nikko National Park. The first of the three power plants started generating electricity from December 2023.



↑ Kami Ishikawa Solar Power Plant



← Site of Otawara Solar Power Plant



→ Site of Nasu Karasuyama Solar Power Plant

Source: Company data, SAC Capital

2nd PFI project committed to sustainable business practices



Private Finance Initiative (“PFI”) Projects

On 28 November 2023, UACJ-led consortium won the bid to develop and operate a private finance initiative (“PFI”) project called for by the Kuki City government in Saitama Prefecture in Japan. The PFI project is a public work facilities development project to build a public use facility which utilises residual heat from an existing waste treatment plant in Kuki City. The consortium will operate the facility for 20 years following the completion of the development of the facility, which is expected to take place in 2027. This is the Group's 2nd PFI project following the PFI project in Wako City, Saitama Prefecture, Japan which was completed in December 2021. This project is in line with the Group's commitment to good corporate citizenship and sustainable business practices, and its belief in creating shared value and improving the impact of its businesses on society.



Source: Company data, SAC Capital

Sustainability – Environmental (Cont'd)

Uni-Asia is a member of World Wide Fund For Nature Hong Kong.

WWF is dedicated to conservation efforts in Hong Kong and the region



Source: Company data, SAC Capital

Uni-Asia CEO Mr Iwabuchi attended the recent WWF Earth Hour event



Source: Company data, SAC Capital



Source: Company data, SAC Capital

Sustainability - Social

Apart from the widely covered environmental aspect, an equivalent pillar is the social agenda. A survey by Navex shows that less than 40% of respondents are confident that their organisations are following through with their goals.

Uni-Asia, on the other hand, has been consistent in their social efforts. And their efforts have been tangibly recognized by the communities at large.

Uni-Asia has been recognized with the “caring company” award for good corporate citizenship and its efforts to create a more inclusive society



Source: Company data, SAC Capital

Principal Subsidiary, Uni-Asia Holdings Limited was awarded 2022-2023 Good MPF Employer Award



Every year, the Mandatory Provident Fund Schemes Authority of Hong Kong (“MPF”) awards Good MPF Employer Award to specially commend and give public recognition to employers that have made continuous efforts to further enhance the retirement protection of their employees.



Our principal subsidiary in Hong Kong, Uni-Asia Holdings Limited was awarded 2022-2023 Good MPF Employer Award for the third consecutive year.



This award is an attestation to the Group’s commitment to good employment practices.



Source: Company data, SAC Capital

Sustainability – Social (Cont'd)

Community Service – Hong Kong

As part of the Group's continuing effort to contribute back to the community, on 22 September 2023, Uni-Asia Holdings Limited initiated an event to distribute meal boxes and gift bags to seniors to celebrate mid-autumn festival in Hong Kong.



Source: Company data, SAC Capital

Community Service - Singapore

On 27 October 2023, Uni-Asia Group Limited in Singapore partnered with SPD to serve people with special needs by accompanying SPD's clients on an outing to Changi Jewel.



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Source: Company data, SAC Capital

Income Statement

| FYE Dec (US\$m) | FY21 | FY22 | FY23 | FY24E | FY25E |
|--|---------------|---------------|---------------|---------------|---------------|
| Charter Income | 65.3 | 37.8 | 45.4 | 32.1 | 38.6 |
| Fee income | 6.6 | 4.7 | 4.9 | 4.7 | 4.9 |
| Sale of properties under development | 8.7 | 12.1 | 10.0 | 10.0 | 10.0 |
| Hotel income | | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment returns | 4.7 | 2.6 | 0.0 | (12.3) | 0.0 |
| Interest income | 0.2 | 0.6 | 0.6 | 0.6 | 0.4 |
| Other income | 0.7 | 0.2 | 0.3 | 0.3 | 0.5 |
| Total income | 86.1 | 58.0 | 61.2 | 35.4 | 54.3 |
| Total operating expenses | (47.2) | (53.6) | (47.5) | (44.8) | (48.3) |
| Operating profit | 22.2 | 32.5 | 10.5 | (9.4) | 6.0 |
| Finance costs - interest expense | (2.7) | (2.6) | (3.6) | (3.6) | (3.6) |
| Finance costs - lease interest | (0.2) | (0.1) | (0.0) | (0.2) | (0.2) |
| Finance costs - others | (0.1) | (0.2) | (0.1) | (0.2) | (0.2) |
| Share of results of associates | 0.1 | (0.0) | 0.0 | 0.0 | 0.0 |
| Allocation to Tokumei Kumiai investors | (0.3) | (0.6) | (0.6) | (0.6) | (0.6) |
| Total non-operating expenses | (3.3) | (3.6) | (4.3) | (4.5) | (4.6) |
| Profit before tax | 19.0 | 28.9 | 6.2 | (13.9) | 1.4 |
| Income tax expense | (1.0) | (1.0) | (1.2) | 1.5 | (0.1) |
| Net profit | 18.0 | 27.9 | 5.1 | (12.4) | 1.4 |

Balance Sheet

| FYE Dec (US\$m) | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|--------------|--------------|--------------|--------------|--------------|
| Investments | 1.5 | 0.7 | 4.3 | 2.4 | 2.6 |
| Dev properties | 4.2 | 6.0 | 0.0 | 6.7 | 6.7 |
| Derivatives | | 0.1 | 0.0 | 0.0 | 0.0 |
| Accounts receivable | 0.5 | 0.6 | 1.0 | 0.9 | 1.0 |
| Prepayments, deposits and other receivables | 3.8 | 6.1 | 2.9 | 2.7 | 2.9 |
| Tax recoverable | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Assets held for sale | | | 8.7 | 0.0 | 0.0 |
| Cash and bank balances | 36.7 | 47.1 | 38.2 | 42.0 | 28.5 |
| Total current assets | 46.9 | 60.6 | 55.3 | 54.2 | 41.3 |
| Investment properties | 13.1 | 11.8 | 9.1 | 9.1 | 9.1 |
| Investments | 31.4 | 32.5 | 33.5 | 22.6 | 22.6 |
| Investment in associates | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| PPE | 136.0 | 129.6 | 112.4 | 109.2 | 125.2 |
| Right-of-use assets | 2.3 | 1.1 | 0.4 | 1.1 | 1.1 |
| Rental deposit | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 |
| Deferred tax assets | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 |
| Total non-current | 183.4 | 175.6 | 155.9 | 142.4 | 158.4 |
| Total assets | 230.3 | 236.2 | 211.1 | 196.6 | 199.7 |
| Current Liabilities | | | | | |
| Borrowings | 22.3 | 31.2 | 9.0 | 13.6 | 13.6 |
| Lease liabilities | 3.6 | 0.6 | 0.5 | 0.6 | 0.6 |
| Due to TK investors | 1.2 | 0.9 | 0.2 | 0.2 | 0.2 |
| Accounts payable | 0.2 | 0.4 | 0.6 | 0.6 | 0.6 |
| Other payables | 6.7 | 8.9 | 4.5 | 3.6 | 5.5 |
| Derivatives | 0.4 | 0.1 | | 0.1 | 0.1 |
| Income tax payable | 0.6 | 0.8 | 0.8 | 0.8 | 0.8 |
| Total current liabilities | 35.1 | 42.9 | 15.6 | 19.2 | 21.3 |
| Borrowings | 61.6 | 41.6 | 46.6 | 37.4 | 37.4 |
| Lease liabilities | 0.8 | 0.5 | 0.0 | 0.5 | 0.5 |
| Deferred tax liabilities | 0.6 | 0.6 | 0.5 | 0.6 | 0.6 |
| Derivative financial instruments | 0.1 | | 0.0 | 0.0 | 0.0 |
| Other payables | 0.1 | | 0.0 | 0.0 | 0.0 |
| Total non-current liabilities | 63.1 | 42.6 | 47.1 | 38.5 | 38.5 |
| Share capital | 113.2 | 113.2 | 113.2 | 113.2 | 113.2 |
| Retained earnings | 21.5 | 42.8 | 41.8 | 28.2 | 29.3 |
| Hedging reserve | (0.5) | 0.0 | 0.0 | 0.4 | 0.4 |
| Exchange reserve | 0.8 | (2.5) | (3.8) | 0 | 0 |
| Capital reserve | (2.9) | (2.8) | (2.8) | (2.8) | (2.8) |
| Total equity | 132.1 | 150.7 | 148.4 | 139.0 | 140.0 |

Cash Flow Statement

| FYE Dec (US\$m) | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---------------|---------------|---------------|---------------|---------------|
| Profit / (loss) before tax | 19.0 | 28.9 | 6.2 | (0.1) | 1.4 |
| Adjustments for: | | | | | |
| Investment returns | (5.4) | (4.7) | (2.6) | 0.0 | 0.0 |
| Amortisation and depreciation | 9.5 | 9.9 | 10.8 | 10.8 | 10.8 |
| Depreciation of right-of-use assets | 1.6 | 1.5 | 0.7 | 0.7 | 0.7 |
| Gain on asset disposal | (0.4) | 0.0 | 0.0 | 0.0 | 0.0 |
| Gain on disposal of PPE | 0.0 | 0.0 | (2.3) | 0.0 | 0.0 |
| Reversal of PPE impairment (Reversal) / impairment of loan receiv | (1.1) | 0.0 | 0.0 | 0.0 | 0.0 |
| (Reversal) / impairment of receiv | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net foreign exchange gain | (1.6) | (1.5) | 0.0 | 0.0 | 0.0 |
| Interest income | (0.1) | (0.2) | (0.6) | (0.6) | (0.7) |
| Finance costs - interest expense | 2.7 | 2.6 | 3.6 | 3.6 | 3.6 |
| Finance costs - lease interest | 0.2 | 0.1 | 0.0 | 0.2 | 0.2 |
| Finance costs - others | 0.1 | 0.2 | 0.1 | 0.0 | 0.0 |
| Share of results of associates | (0.1) | 0.0 | (0.0) | (0.0) | (0.0) |
| Allocation to Tokumei Kumiai investors | 0.3 | 0.6 | 0.6 | 0.6 | 0.6 |
| Operating CF before wc chg | 24.9 | 37.4 | 15.3 | 15.0 | 16.8 |
| Changes in working capital: | | | | | |
| Net change in dev properties | 1.8 | (2.3) | 5.6 | 0.0 | 0.0 |
| Net change in AR | 0.7 | (0.1) | (0.4) | (0.3) | (0.1) |
| Net change in prepayments | (0.3) | (2.1) | 3.1 | 1.1 | (0.9) |
| Net change in accounts payable | 0.0 | 0.2 | 0.2 | (0.2) | 0.2 |
| Net change in other payables | 2.1 | 2.4 | (4.4) | (0.9) | 1.9 |
| Total change in working capital | 4.2 | (1.9) | 4.2 | (0.3) | 1.1 |
| Cash flows generated from operations | 29.1 | 35.6 | 19.6 | 14.7 | 17.9 |
| Interest received on bank balances | 0.0 | 0.2 | 0.5 | 0.6 | 0.4 |
| Tax paid | (0.7) | (0.9) | (1.1) | 1.5 | (0.1) |
| Net cash from ops | 28.4 | 34.9 | 19.0 | 16.8 | 18.3 |
| Purchase of investment properties | (4.2) | (0.3) | (1.5) | 0.0 | 0.0 |
| Purchase of investments | (3.7) | (3.2) | (7.8) | 0.0 | (0.6) |
| Sale of investment prop | | | 4.4 | 0.0 | 0.0 |
| Redemption/sale of investments | 9.0 | 6.5 | 2.9 | 0.0 | 0.0 |
| Purchase of PPE | (2.1) | (3.8) | (6.4) | 0.0 | (23.2) |
| Disposal of PPE | 0.0 | 0.0 | 7.5 | 0.0 | 0.0 |
| Disposal of asset held for sale | 9.8 | 0.0 | 0.0 | 3.4 | 0.0 |
| Net redemption from TK investors | (0.9) | (0.8) | (1.2) | 0.0 | 0.0 |
| Net loans repaid / advanced | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest received | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Income from investments | 1.1 | 0.0 | 1.2 | 0.0 | 0.0 |
| Proceeds from property rental | 0.8 | 0.6 | 0.6 | 0.0 | 0.0 |
| Net cash flows from investing | 11.0 | (1.1) | (0.1) | 3.4 | (23.8) |
| Proceeds from borrowings | 11.8 | 8.3 | 31.8 | (9.2) | 0.0 |
| Repayment of borrowings | (39.5) | (16.9) | (47.8) | 0.0 | 0.0 |
| Interests | (2.9) | (2.7) | (3.9) | (3.6) | (3.6) |
| Lease principal paid | (3.6) | (3.6) | (0.6) | 0.0 | 0.0 |
| Lease interest paid | (0.2) | (0.1) | (0.0) | (0.2) | (0.2) |
| Dividends paid | (1.8) | (6.5) | (6.0) | (3.6) | (4.3) |
| Payment to non-controlling | (0.2) | 0.0 | (0.0) | 0.0 | 0.0 |
| Net cash from financing | (36.4) | (21.5) | (26.6) | (16.5) | (8.1) |
| Net increase in cash | 3.0 | 12.3 | (7.8) | 3.7 | (13.6) |
| Beginning cash | 35.5 | 36.7 | 47.1 | 38.2 | 42.0 |
| Net cash increase | 3.0 | 12.3 | (7.8) | 3.7 | (13.6) |
| Forex effects | (1.7) | (2.0) | (1.0) | 0.1 | 0.1 |
| End cash | 36.8 | 47.1 | 38.2 | 42.0 | 28.5 |

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