

Uni-Asia Group Limited

Date: 4 July 2023

BUY (Maintained)

BBG	UAG SP
Market Cap	S\$71.9m
Price (4 July 2023)	S\$0.915
52-week range	S\$1.094-0.713
Target Price	S\$1.20
Shares Outstanding	78.6m
Free Float	58.0%
Major Shareholder	Yamasa 30.0% Evergreen International 9.0% Mr Michio Tanamoto 4.0%
P/BV (07/23)	0.35x
Net Debt to EBITDA (07/23)	0.6x

Source: Company data, Bloomberg, SAC Capital

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On track for an inflection

Charter rates on track for recovery in 2H23. The current situation has remained in line with our initial forecast ("Resilient business amid tough times" dated 18 Apr 2023) – a consolidation in 1H23 before recovery in 2H23. Management has guided with expected spot rates of US\$10-15k in 2H23, the upper limit a 21% increase from 1Q23 levels. Notwithstanding, levels at US\$15k represented a decline of ~12% from end-2022 levels. As such, we maintain our initial forecast of a 10% decline in FY23 charter rates.

Positive demand-supply trends. Tonne-mile trade demand growth has outperformed industry expectations, standing higher than dry bulk supply growth. Dynamics remain healthy and still posits a recovery.

Potential for fleet disposal. Secondhand ship prices have upheld despite falling charter rates, presenting good opportunities to realise gains through disposals. Management has alluded to disposals should a favourable price be agreed upon.

Expansion out of Tokyo. With the success of the ALERO series in Tokyo, Hokkaido appears an area of interest for further expansion. Property price hikes in Hokkaido and the low interest environment should act as demand catalysts.

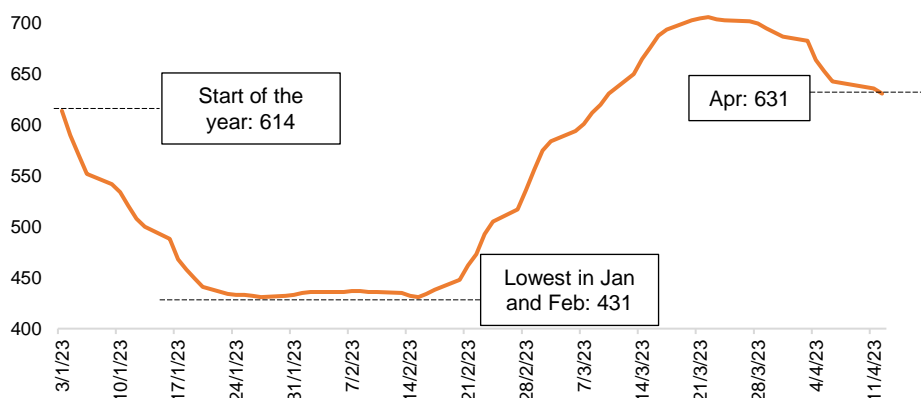
Share prices signify confidence. Executive Director Masahiro Iwabuchi purchased shares totaling 115,700 amidst share price declines.

Year ended Dec (US\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
Turnover	45.9	69.4	86.1	83.6	94.1
% change	-15.8%	51.1%	24.1%	-3.0%	12.6%
Operating Profit	(7.5)	22.3	32.5	27.7	31.8
% change	-142.6%	398.7%	46.2%	-14.8%	14.7%
Net profit	(7.5)	18.1	27.9	21.2	23.9
% change	-213.2%	341.4%	54.6%	-23.9%	12.5%
EPS (cents)	(9.5)	23.0	35.5	27.0	30.4
% change	-213.2%	341.4%	54.6%	-23.9%	12.5%
DPS (cents)	0.8	5.3	10.9	6.1	6.8
% change	-76.2%	600.0%	107.1%	-44.2%	12.5%
Net Cash / (Debt)	(78.5)	(47.1)	(25.6)	(36.9)	(47.4)
% change	9.2%	40.0%	45.6%	-43.9%	-28.6%
Valuation					
Operating Margin (%)	(16.2%)	32.0%	37.8%	33.2%	33.8%
% change	-150.6%	297.6%	17.9%	-12.1%	1.8%
P/E (x)	(7.91)	3.28	2.12	2.79	2.48
% change	-188.4%	141.4%	-35.3%	31.5%	-11.1%
Dividend Yield (%)	1.0%	7.0%	14.5%	6.1%	6.8%
% change	-76.2%	600.0%	107.1%	-44.2%	12.5%

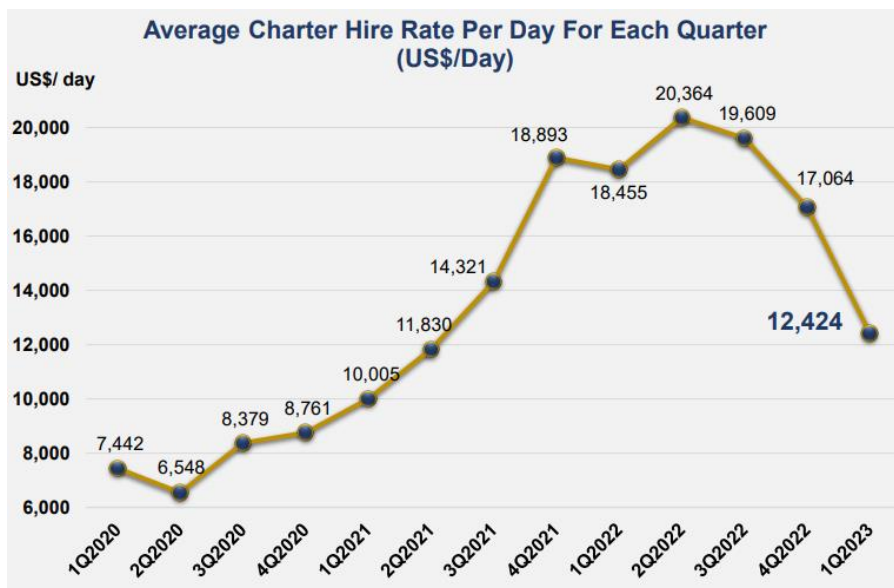
1Q23 Updates

Charter rates on track for recovery in 2H23. Based on the Baltic Handysize Index (BHSI), we see that charter rates have bottomed out at ~431 in Feb 2023, with Apr 2023 levels hovering at ~660. This is mainly attributed to economic growth and fleet supply normalization supported by China's reopening. The situation remains in line our initial forecast, where we expected a consolidation of charter rates in 1H23 before a recovery in 2H23. Compared to the Baltic Exchange Handysize spot rate of ~US\$7k as of end-Feb, current levels maintain around ~US\$10k, similarly reflecting a rebound within the shipping market on the back of firmer demand trends. The management team has guided us with expected spot rates of US\$10-15k for 2H23, with the upper limit representing a 21% increase from 1Q23 levels of ~US\$12k. Should the optimism play out, the shipping segment should observe proportionate top-line growth. An improvement notwithstanding, levels at US\$15k still meant a decline of ~12% from the end-2022 levels of ~US\$17k. As such, we maintain our initial forecast of a 10% decline in charter rates for FY23.

BHSI Index



Source: Baltic Handysize Index, Bloomberg, SAC Capital



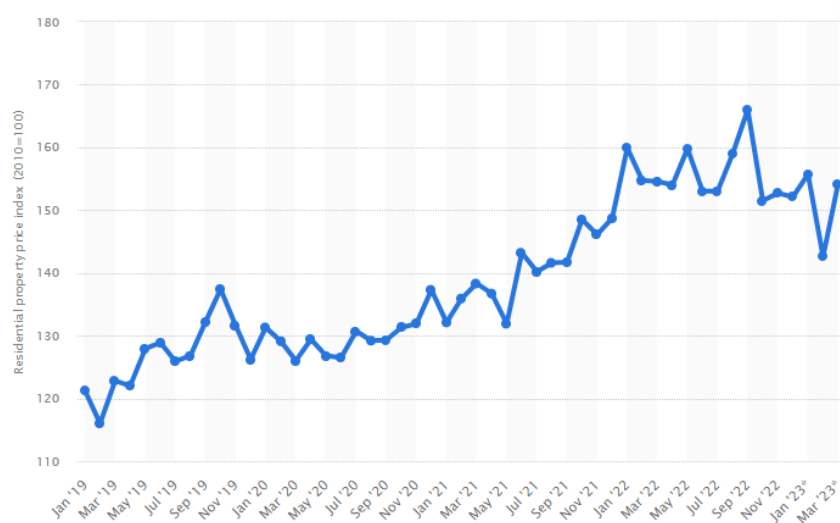
Source: Company data, SAC Capital

Positive demand-supply trends. As of Apr 23, tonne-mile trade demand growth has been forecasted at 2.5% yoy for FY23, higher than the 2.0% yoy predicted by Clarksons Research at the start of the year. This augurs well for the shipping market as the reopening of economies have outperformed industry expectations. Handysize dry bulk supply growth is forecasted at 1.7% yoy for FY23, lower than that of demand growth. Overall dry bulk orderbook remains at a near 30-year low of ~7% of fleet capacity. As such, demand-supply dynamics remain relatively healthy and still points to a recovery.

Potential for fleet disposal. Despite the decline in charter rates, secondhand ship prices have held up due to limited newbuilds. Current newbuild prices for larger handysize dry bulks stand above US\$30m, which are described as “significantly overpriced” as older vessels were bought at the mid US\$20m levels. As such, secondhand vessels remain popular for companies seeking to acquire new capacity. This presents good opportunities to dispose of vessels to realise gains while refreshing shipping portfolios by reducing the fleet age. The management has alluded to disposals if favourable prices can be agreed upon. The current market value of its portfolio of 10 vessels stands ~15% higher than its book value of US\$130m, which if fully priced in would bring the price-to-book ratio down to 0.3x from 0.35x. Should a sale be made, it would boost the company’s bottom-line while freeing up cash for further reinvestment or other expansion opportunities. Within the joint investment dry bulk portfolio, a ship held by Matin Shipping Ltd – where the company has 49% ownership – is in the midst of disposal, with proceeds reflected from 2Q23 onwards.

Expansion out of Tokyo. The ALERO series in Tokyo has performed well since 2011, and the management is looking to replicate its success in new areas. It is currently seeking out Hokkaido for development and has identified a few lands of interest. As of FY22, property investment in-Japan contributed 15% to revenue and 3% to net income. This is an underestimation of the potential of Japan as results have been deflated due to JPY’s depreciation. If we look at FY21, property investment in-Japan contributed 20% to revenue and 8% to net income. Prices of properties in Hokkaido has increased by ~25% over the last 3 years, reflecting substantial demand and ability for developers to sell at more attractive prices. Demand is also propped by low interest rates in Japan, with the Flat 35 fixed-rate plan standing at 1.68%, the benchmark for mortgage rates. Rates for variable-rate plans stand even lower. Assuming current trends hold, development in Hokkaido should bolster the property investment in-Japan segment and provide prefecture diversification.

Hokkaido Monthly Residential Property Price Index



Source: Statista, SAC Capital

Share purchases signify confidence. Executive Director of Uni-Asia, Masahiro Iwabuchi, recently entered into 4 share purchase transactions for a total of 115,700 shares amounting S\$105,865.50. Mr Iwabuchi’s purchase comes at a time when the share price has declined to S\$0.915. We believe that this signifies the Board’s confidence in the fundamentals of the company and its ability and willingness to pay dividends. It presents a good opportunity to make share purchases at compelling levels. Such moves further align the management’s interest with future prospects of the company.

Income Statement

FYE Dec (US\$m)	FY20	FY21	FY22	FY23E	FY24E
Turnover	45.94	69.44	86.14	83.55	94.07
Employee benefits expenses	(6.77)	(9.49)	(10.60)	(13.07)	(14.72)
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)	(0.89)	(1.01)
Vessel operating expenses	(17.27)	(18.55)	(22.58)	(19.13)	(21.54)
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	0.08	0.09
Other expenses	(4.13)	(3.05)	(3.54)	(5.72)	(6.44)
Finance costs - interest expense	(3.96)	(2.69)	(2.64)	(3.89)	(4.98)
Finance costs - lease interest	(0.38)	(0.24)	(0.10)	(0.21)	(0.23)
Finance costs - others	(0.14)	(0.14)	(0.19)	(0.26)	(0.29)
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)	(0.71)	(0.80)
Profit before tax	(12.34)	19.00	28.93	22.67	25.50
Income tax expense	(1.27)	(0.95)	(1.04)	(1.46)	(1.64)
Profit / (loss) for the period / year	(7.47)	18.05	27.89	21.21	23.86
Profit / (loss) for the period / year attributable to:					
Owners of the parent	(7.73)	18.20	27.78	21.08	23.68
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	3.88	4.37
Cash and bank balances	35.48	36.73	47.07	60.32	77.14
Others	13.21	3.94	6.19	6.01	6.75
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	2.57	2.89
Other payables and accruals	5.01	6.66	8.95	7.19	8.09
Others	6.76	5.88	2.32	1.98	1.28
Total current liabilities	56.45	35.07	42.85	42.90	43.42
Borrowings	69.54	61.56	41.55	66.02	93.35
Others	4.14	1.54	1.08	1.25	1.27
Total non-current liabilities	73.68	63.10	42.63	67.27	94.62
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	57.59	74.21
Total equity attributable to owners of the parent	118.46	132.13	150.67	165.81	182.43
Non-controlling interests	0.88	0.44	0.51	0.56	0.61
Total equity	119.34	132.57	151.17	166.36	183.04

Cash Flow Statement

FYE Dec (US\$m)	FY20	FY21	FY22	FY23E	FY24E
Profit / (loss) before tax	(12.34)	19.00	28.93	22.67	25.50
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)	(4.69)	(3.90)
Net cash flows (used in) / generated from operating activities	6.81	28.38	34.93	27.35	32.85
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)	(6.32)	(7.10)
Net cash flows (used in) / generated financing activities	(25.25)	(36.39)	(21.51)	10.46	11.42

Ratios

FYE Dec	FY20	FY21	FY22	FY23E	FY24E
Profitability (%)					
Operating profit margin	(16.2%)	32.0%	37.8%	33.2%	33.8%
Profit / (loss) before tax margin	(26.9%)	27.4%	33.6%	27.1%	27.1%
Net margin	(16.3%)	26.0%	32.4%	25.4%	25.4%
Liquidity (x)					
Quick ratio	1.09	1.34	1.41	1.90	2.41
Gearing	(0.66)	(0.36)	(0.17)	(0.20)	(0.22)
Interest coverage ratio	(1.88)	8.28	12.32	7.13	6.38
Net debt to equity	0.66	0.36	0.17	0.20	0.22
Valuation (x)					
P/E	(7.91)	3.28	2.12	2.79	2.48
P/B	0.50	0.45	0.39	0.36	0.32
EPS (US cents)	(9.5)	23.0	35.5	27.0	30.4
Returns (%)					
Return on equity	(6.3%)	13.7%	18.5%	12.8%	13.1%
Dividend payout ratio	(7.9%)	22.9%	30.7%	22.4%	22.4%

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