Uni-Asia Group Limited

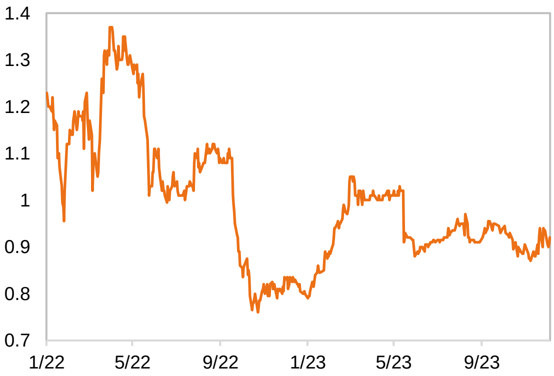
Date: 21 Dec 2023

BUY (Maintained)

BBG	UAG SP
Market Cap	S$72.3m
Price (21 Dec 2023)	S$0.92
52-week range	S$0.75-1.006
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 4.1%

Source: Company Data, Bloomberg, SAC Capital

SHARE PRICE



Source: Bloomberg, SAC Capital

ANALYST

Lim Qiuni Nicole
+65 9387 7225
niclim@saccapital.com.sg

Possible shipping recovery, spotlight on sustainability

Sustainability remains a key focus. In 2021, Uni-Asia made a JPY100m TK investment in Good Kaisha GH Property, a fund established for the purpose of real estate development and operation of 5 group homes for persons with disabilities. This is in line with the company's commitment to good corporate citizenship and sustainable business practices, while contributing back to society. Recently, Uni-Asia Capital Japan (UACJ) led a consortium that won a bid from the government to develop and operate a private finance initiative (PFI) in the Saitama Prefecture. It plans to build a public use facility comprising of a fitness centre, park, pool and bathhouse utilizing residual heat from an existing waste treatment plant. Separately, UACJ also started managing JPY 1.3bn solar power property assets in 3Q23. These projects while small provide an avenue for Uni-Asia to develop its capabilities and expertise within the space to allow progression to larger similar projects in the future. The firm acknowledges the importance and aims to contribute further towards sustainability.

Potential for recovery of charter rates entering FY24. The Baltic Handysize Index (BHSI) has reached US$831 in Dec 2023, the highest level this year and more than double the trough of US$389 in Aug 2023. While it has oscillated throughout the year, an ascending trendline has provided support to the index in 2H23 as global demand recovers. Supply of handysize ships will likely remain suppressed with vessel speed limit, low orders and a wait-and-see approach for firmer sector regulations. There seems to be a shift towards preference for larger handysizes (40-45dwt: +38% yoy, 20-30dwt: +1% yoy), perhaps weighing further on supply as only a small number are produced each year. As such, charter rate performance seems largely dependent on demand factors. Clarksons Research forecasts an increase in dry bulk trade, tonne-mile by 4.8% yoy this year (2022: -1.5% yoy). Chinese seaborne dry bulk imports, which makes up a third of global imports, have seen resilience with a 13% yoy increase for 9M23, though it remains uncertain given challenges in the property sector and sensitivity to government coal policy. Positively, minor bulk trades, a major user of handysize vessels, is likely to record higher growth in 2024-25. Rerouting of trade flows towards longer voyages similar to the Panama Canal restrictions would further act to boost tonne-mile vessel demand. It is unlikely we will observe a reversion to US$2k levels seen in 2021. Notwithstanding, improvements to the macroeconomic backdrop and sector recovery could bolster the index above US$1k (+c.20% from current levels), driving c.15% upside to shipping top-line.

Successful fleet disposal. The company completed the sale of Uni Auc One on 10 Nov 2023, a 29k dwt bulker built in 2007. It was sold above book value with no borrowings for the vessel. Cash from sale would flow in and be reflected in 2H23 results. Every US$1m in disposal profit would lift FY23E net profit by c.12%. Management is considering the further disposal of older vessels to freshen the portfolio should they cover loans and lead to net cash inflow.

KEY FINANCIAL HIGHLIGHTS

Year ended Dec (US$'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	6.4	4.7
P/B (x)	0.5	0.4	0.4	0.3	0.3
Net Cash / (Debt)	(78.5)	(47.1)	(25.6)	(43.0)	(58.0)
DPS (cents)	0.8	5.3	10.9	3.3	4.5
Dividend yield (%)	1%	7%	15%	5%	7%
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%

Spotlight on Sustainability

Count the number of times the term "sustainability" or "ESG" is mentioned by a C-suite during a meeting. Once unheard of, these have surfaced and now lie at the tip of our tongue amidst a developed world, paving the way we do business. Today, it no longer remains a question of if, but rather how we can effectively incorporate sustainability into business strategies.

Benefits of Sustainability

Broadly, Harvard Business School defines sustainability in business as the effect companies have on the environment or society. A sustainable business strategy aims to positively impact one or both of these areas, thereby helping address some of the world's most pressing problems, such as climate change, income inequality, pollution and depletion of natural resources. That is not to say that a sustainable business must forgo profits. Studies have shown that the most sustainable companies are also the most profitable. Research by economists have shown that high-sustainability companies recorded better return on assets (+34%) and return on equity (+16%) as compared to similar sized peers within the same sector.

We look at possible reasons why:

1. Employee Retention. An Ernst & Young survey showed that 89 percent of executives believe an organization with shared purpose will have greater employee satisfaction. An IDM paper indicated that 71% of employees and employment seekers consider environmentally sustainable companies more attractive employers. Similarly, according to Deloitte, a quarter of Gen-Z and millennial employees have indicated that a company having a sustainability agenda has influenced their decision to stay. This in turn creates a motivated workforce while enabling cost savings for companies who do not have to rehire and retrain new talent.

2. Brand Reputation. Multiple stakeholders are now demanding new levels of enterprise accountability. Having a sustainable strategy protects it from any improper practices that would damage the organization's reputation, costing it customers. At the same time, it has proven to reach and capture a growing audience who are concerned about sustainable practices while positioning it for positive publicity.

3. Competitive Advantage. A 2019 Nielsen survey showed that 73% of global consumers are willing to change their consumption habits to lessen their negative impact on the environment. Research Insights found that consumers are willing to pay a premium for goods from brands that are environmentally responsible, with 80% of consumers indicating that sustainability is important to them. Being an advocate for sustainability could prove beneficial by converting sustainability-minded customers.

With evident outperformance, it would make sense for investors to allocate a larger portion of their portfolio to socially responsible investment. According to Deutsche Bank, companies with high ESG ratings consistently outperform the market in both the medium and long term. This is further corroborated by the Carbon Disclosure Project, an international non-profit organization running a global disclosure system. Companies in its Carbon Disclosure Leadership Index and Carbon Performance Leadership Index, which are included based on disclosure and performance on greenhouse-gas emissions, recorded superior stock-market returns. It would seem sustainability-focused companies excel more on both fronts.

Environmental Issues

A major issue increasingly highlighted is climate change and the relevant transition to renewable energy and clean technology. Over the past two decades, the focus has been on economic development and the advancement of societies, with the environment taking a back burner. In recent years, there has been more call to action, with more voices increasing awareness of climate change and its adverse effects. Activists have been louder – crashing fashion shows, smearing pies in the faces of airline CEOs. Governments have also started prioritising the shift towards renewable energy sources, with increasing alignment between countries and ramping up of infrastructure investments. COP28 concluded with an agreement to transition away from fossil fuels in energy systems in a just, orderly and equitable manner, a result that would have been unheard of two years ago, especially in a petrostate like the United Arab Emirates. Technology will continue advancing to better meet our energy needs with innovation at the forefront driving such change. It is the hope that renewable energy will one day be able to replace the traditional fossil fuels.

For these to occur, more investments must be made into the clean energy space. According to the World Economic Forum, clean energy investments exceeded $1.4 trillion in 2022 with an average annual growth rate of 12% since 2020, accounting for three-quarters of growth in overall energy investment. Investments in renewable power, greater energy efficiency and electric vehicles are all driving the increase. This is positive, underscoring the increasing prominence and importance of the sector. Growing awareness and increasing avenues for investment (eg. Investment in clean technology such as energy storage, carbon capture) should result in exponential growth moving forward, in turn further driving innovations that will shape the role that clean energy play in our lives. Notwithstanding, 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.

Similarly, Uni-Asia has followed suite and joined global efforts towards averting climate change. In Nov 2023, Uni-Asia Capital Japan (UACJ) led a consortium that won a bid from the government to develop and operate a private finance initiative (PFI) in the Saitama Prefecture. It plans to build a public use facility comprising of a fitness centre, park, pool and bathhouse utilizing residual heat from an existing waste treatment plant. It will be funded by the government and operated by the consortium for 20 years for a fixed fee upon completion in 2027. Separately, UACJ also started managing JPY 1.3bn solar power property assets in 3Q23. There are plans to take on more of such projects, underscoring its emphasis on creating a sustainability-focused business model. All vessels in Uni-Asia's shipping portfolio are closely managed as it aims to minimize its environmental impacts. Less energy efficient ships at the end of their lifecycle are identified with plans of retirement to limit the inefficient use of energy. Vessel's fuel are strictly compliant with IMO's sulphur content regulations with Low Sulphur Fuel Oil/Marine Gas Oil largely utilized to reduce harmful emissions. The company received a certificate of compliance commending its adherence to EU MRV emission reporting regulations.

Social Issues

Apart from the widely covered environmental aspect, there lies the more obscure social agenda. Harvard Business Review defines it as efforts supporting the advancement of the well-being of people in the company's employ, supply chain or communities. An equivalent pillar, yet many companies are failing to meet commitments. A survey by Navex shows that less than 40% of respondents are confident that their organisations are following through with their goals. Notwithstanding, all 3 pillars are intertwined in many ways and it should not matter where a particular matter falls within the ESG framework. BlackRock chairman Larry Fink stated in his 2021 letter to CEOs that "it is misguided to draw such stark lies between categories" and that we should instead understand how they interact with each other.

It is therefore admirable to see companies in Singapore contributing to the cause. In 2021, Uni-Asia made a JPY100m TK investment in Good Kaisha GH Property, a fund established for the purpose of real estate development and operation of 5 group homes for persons with disabilities. The fund will be managed by UACJ. This is in line with the company's commitment to good corporate citizenship and sustainable business practices, while contributing back to society. Its principal subsidiary in Hong Kong, Uni-Asia Holdings Limited has also been awarded the Good MPF Employer Award for the third consecutive year, an accolade attesting good employment practices. Events catering to underserved communities such as seniors and the disabled are organised consistently throughout the year. It utilizes the International Group P&I Club to provide 24/7 medical support to employees working at sea and has assigned a health and safety officer onboard to enforce and oversee the well-being and safety of crew members. It is pleased to report zero work-related injuries, fatalities and ill-health in FY2023. The above are all testament to Uni-Asia's commitment to its social practices.

Conclusion

With the scrutiny on corporate efforts towards sustainability, coupled with tangible benefits experienced by high-sustainability companies, the time is now for companies to map out an effective strategy to meet its ESG goals. We have showcased Uni-Asia's commendable work towards sustainability in an effort to encourage more companies to follow suite.

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)	(2.91)	(2.91)
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

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)	(3.92)	(1.44)
Net cash flows (used in) / generated from operating activities	**6.81**	**28.38**	**34.93**	**13.85**	**21.27**
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)**	**(24.47)**	**(27.33)**
Proceeds from borrowings	47.02	11.83	8.28	24.47	27.33
Dividends paid	(1.22)	(1.76)	(6.48)	(2.63)	(3.56)
Net cash flows (used in) / generated financing activities	**(25.25)**	**(36.39)**	**(21.51)**	**17.64**	**18.41**

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	54.15	66.56
Others	13.21	3.94	6.19	3.91	3.96
Total current assets	**61.76**	**46.95**	**60.57**	**68.62**	**83.05**
Investment properties	9.85	13.09	11.82	11.82	11.82
Investments	30.55	31.38	32.54	39.09	46.28
Property, plant and equipment	144.03	136.36	130.11	143.84	159.17
Others	3.28	2.96	1.62	1.64	1.65
Total non-current assets	**187.71**	**183.79**	**176.09**	**196.38**	**218.92**
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	2.81	3.40
Total current liabilities	**56.45**	**35.07**	**42.85**	**40.65**	**42.54**
Borrowings	69.54	61.56	41.55	66.02	93.35
Others	4.14	1.54	1.08	1.08	1.08
Total non-current liabilities	**73.68**	**63.10**	**42.63**	**67.10**	**94.43**
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	48.39	55.95
Total equity attributable to owners of the parent	**118.46**	**132.13**	**150.67**	**156.61**	**164.18**
Non-controlling interests	0.88	0.44	0.51	0.64	0.82
Total equity	**119.34**	**132.57**	**151.17**	**157.25**	**165.00**

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	1.69	1.98
Gearing	(0.66)	(0.36)	(0.17)	(0.27)	(0.35)
Interest coverage ratio	(1.88)	8.28	12.32	3.50	3.62
Net debt to equity	0.66	0.36	0.17	0.27	0.35
Valuation (x)					
P/E	(7.91)	3.28	2.12	6.43	4.74
P/B	0.50	0.45	0.39	0.34	0.33
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%	31.5%	31.5%

DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Capital Private Limited ("**SAC Capital**") which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Capital and its associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance and/or capital markets related services for the company whose securities are covered in the report. SAC Capital and its related companies may from time to time perform advisory services or solicit such advisory services from the entity mentioned in this report ("**Other Services**"). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report are independent of those possible or actual business relationships as they have not and will not participate in the solicitation or provision of such business.

As at the date of this report, SAC Capital does not have proprietary positions or interests in the subject company, except for:

Party	**Quantum of position**
Nil	Nil

For services rendered in the production and distribution of this Research report, SAC Capital will receive monetary compensation payable by the subject company. The quantum of which was pre-determined prior to the writing and publication of the report and is not dependent on or affected by the recommendation made herein. The future performance of the security will not have a bearing on compensation payable for the purpose of the production of this report.

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

Analyst name	Quantum of position
Nil	Nil

ANALYST CERTIFICATION/REGULATION AC

As noted above, research analyst(s) of SAC Capital who produced this report hereby certify that

(i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);

(ii) The report was produced independently by him/her;

(iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and

(iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.