

COMPANY UPDATE

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

Going From Strength To Strength

YZJ's strong share price performance in the past week has been on the back of substantial new orders that now extend its revenue visibility out to 2027. With ytd orders of US\$5.6b, this has shattered its 2023 order win target of US\$3b – as a result we upgrade our 2023 order win target to US\$7b. We note that Chinese steel costs have come down on a yoy basis, thus potentially setting YZJ up for a strong 1H23. Maintain BUY. Target price upgraded to S\$1.65 (previously S\$1.58).

WHAT'S NEW

- **New order flows still a consistent share price driver.** Yangzijiang Shipbuilding (Holdings)'s (YZJ) recent new order win announcements have driven YZJ's share price up 14% this week. With revenue visibility now out to 2027, our bullish thesis on the company remains intact and we believe the company is well placed to win more orders for delivery between 2026-27. In 2Q23-to-date, YZJ has won new orders for 46 vessels with a total contract value of US\$4.42b.

NEW ORDER WINS ANNOUNCED IN THE PAST WEEK

Client name	Type of vessel	Delivery
A.P. Møller-Maersk	6 x 9,000TEU methanol dual-fuel containerships	2026-2027
Klaveness Combination Carriers	3 x 83,300dwt combination carriers	2026
N.A.	2 x 8,000TEU containerships	2025-2027
N.A.	4 x 950TEU methanol dual-fuel containerships	2025-2027
CMA CGM	10 x 24,000TEU LNG dual-fuel containerships	2025-2027
Mnerva Maritime & others	6 x 50,000dwt MR tankers	2025-2027
N.A.	4 x 75,000dwt LR1 tankers	2025-2027
Zodiac Maritime	1 x 114,000dwt LR2 tanker	2025-2027
N.A.	10 x 82,500dwt bulk carriers	2025-2027

Source: YZJ, UOB Kay Hian

- **Highest ever total outstanding orderbook value.** YZJ currently has 180 vessels in its orderbook totalling US\$14.6b, which is its highest ever. Ytd, the company has US\$5.6b in new orders thus exceeding its 2023 target of US\$3b. We expect management to revise this target up to at least US\$7b at its 1H23 results announcement in mid- to late-Aug 23.
- **Steel costs have moderated during 1H23.** Average steel costs for 1H23 to date of Rmb4,120/ton is 17% lower than 1H22. According to management, it imputes a cost of Rmb5,000/tonne in its shipbuilding contracts and thus the current weaker steel costs give us more confidence that could see higher yoy shipbuilding margins in its 1H23 financial results. Given that steel demand is weak across most sectors in China, costs will likely stay depressed in the near to medium term, in our view. We currently estimate a 14.5% shipbuilding margin for 2023 vs 13.5% in 2022.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	16,768	20,705	26,510	31,820	30,596
EBITDA	3,727	3,244	4,081	4,634	4,430
Operating profit	3,226	2,708	3,545	4,099	3,894
Net profit (rep./act.)	3,699	2,637	3,378	3,825	3,673
Net profit (adj.)	3,666	2,637	3,378	3,825	3,673
EPS (Fen)	92.9	66.8	85.6	96.9	93.1
PE (x)	8.3	11.6	9.1	8.0	8.3
P/B (x)	0.8	1.7	1.2	1.0	0.9
EV/EBITDA (x)	5.3	6.0	4.8	4.2	4.4
Dividend yield (%)	3.2	2.2	2.8	3.2	3.1
Net margin (%)	22.1	12.7	12.7	12.0	12.0
Net debt/(cash) to equity (%)	(22.1)	(35.4)	(45.4)	(46.4)	(47.9)
Interest cover (x)	53.3	30.4	81.5	121.7	169.7
ROE (%)	10.8	9.9	16.0	14.2	11.6
Consensus net profit	-	-	3,234	3,526	3,327
UOBKH/Consensus (x)	-	-	1.04	1.08	1.10

Source: Yangzijiang Shipbuilding (Holdings), Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.45
Target Price	S\$1.65
Upside	+13.8%
(Previous TP)	S\$1.58)

COMPANY DESCRIPTION

Established in 1956, the company is based in Jiangsu, China, and is the country's largest private shipyard. It builds a broad range of ships including containerships, bulk carriers and LNG carriers, and its client network spans North America, Europe and Asia.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	YZJSGD SP
Shares issued (m):	3,950.6
Market cap (S\$m):	5,728.4
Market cap (US\$m):	4,244.5
3-mth avg daily t'over (US\$m):	17.2

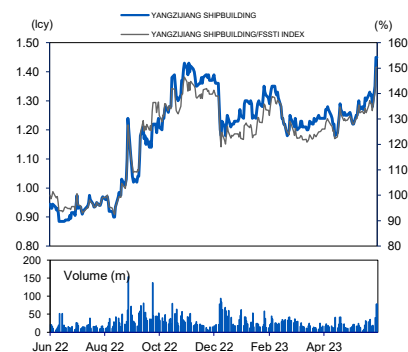
Price Performance (%)

52-week high/low	S\$1.43/S\$0.885			
1mth	3mth	6mth	1yr	YTD
16.0	18.9	5.1	57.6	6.6

Major Shareholders

	%
Ren Yuanlin	23.0
Wang Dong	10.1
T.Rowe Price	5.9
FY23 NAV/Share (Rmb)	6.38
FY23 Net Cash/Share (Rmb)	2.90

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

• **Potential for upside in dividends in 2023.** In our view, one of the major issues that YZJ faced in the past few years was its capital management. As at end-22 and on a per share basis, YZJ had Rmb1.61 or S\$0.31 per share in net cash but the company nevertheless chose to keep its 2022 dividend flat yoy at S\$0.05. Recall that at its 2022 results briefing, management stated that it will look to change its dividend policy from that of a flat payout of S\$0.04-0.05 per share to a payout ratio. This could mean upside to our S\$0.045 dividend for 2023 (or 25% payout). A payout ratio of 40% would equate to a S\$0.07 dividend, or a yield of 4.8% based on yesterday's closing price of S\$1.45. In our view, this is a positive move as a payout ratio is more flexible, aligns the interests of shareholders and management, and provides greater stability in dividend payments over time as it adjusts to changes in earnings.

EARNINGS REVISION/RISK

• **EPS upgraded.** On the back of higher orderbook win estimates, we have upgraded our earnings by 1-7% as shown in the table on the RHS. Previously, we had assumed US\$2.5b per year in order wins from 2023 to 2025, however with the new order wins announced yesterday, we have raised our order win estimates to US\$7b for 2023 and US\$3b for both 2024 and 2025. Note that while the ytd order wins have been impressively large, construction only commences in 2H24 at the earliest (since deliveries are largely between 2025-27) and thus the positive impact on revenue and profit will start in 2024.

VALUATION/RECOMMENDATION

• **Maintain our BUY recommendation with a PE-based target price of S\$1.65 (previously S\$1.58).** Our target PE multiple of 8.7x, applied to an aggregate of our 2023 and 2024 EPS forecast, is 1SD above YZJ's past five-year average of 6.5x. We view as fair given: a) the company's earnings growth in 2023 and 2024, b) sustainability of its earnings due to its US\$14b orderbook at present, and c) earnings visibility that has improved out to 2027 given the recent spate of new orders.

• **Not an expensive stock.** We note that at our fair value of S\$1.65, YZJ would trade at an undemanding 2023F P/B of 1.2x, a level that was last seen in 2012. Since its IPO in 2007, the company's average P/B is 1.3x.

SHARE PRICE CATALYST

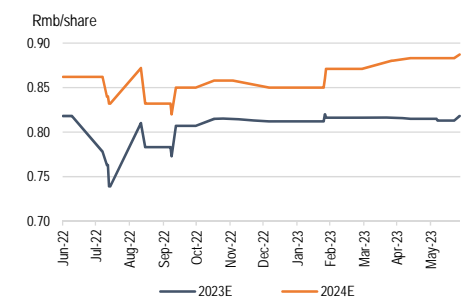
- Better capital management.
- Evidence of margin expansion from 2023 onwards.
- New orders in higher-margin shipbuilding segments, eg dual-fuel containerships, LPG tankers or large LNG carriers.
- Gains from sales of its ships and one remaining jack-up in its yard.

FIVE-YEAR PE CHART



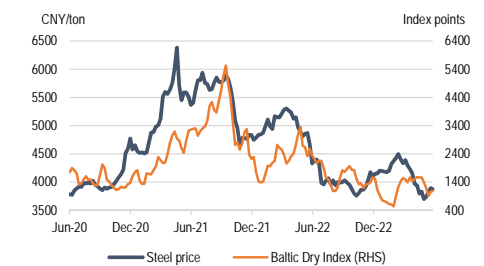
Source: Bloomberg

EARNINGS REVISION MOMENTUM



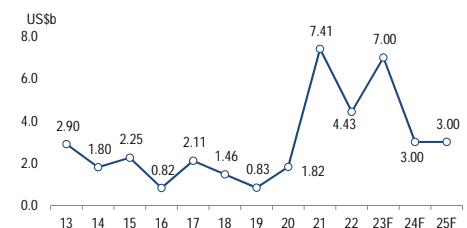
Source: Bloomberg

CHINA DOMESTIC HOT ROLLED STEEL PRICES VS BALTIC DRY INDEX



Source: Bloomberg

HISTORICAL AND FORECAST ORDER WINS



Source: Bloomberg, UOB Kay Hian

CHANGES TO EARNINGS FORECASTS

Rmbm	2023F	2024F	2025F
NPAT – was	3,334	3,674	3,435
NPAT – is	3,378	3,825	3,673
Change	1.3%	4.1%	6.9%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	20,705	26,510	31,820	30,596
EBITDA	3,244	4,081	4,634	4,430
Deprec. & amort.	536	536	536	536
EBIT	2,708	3,545	4,099	3,894
Total other non-operating income	688	676	676	677
Associate contributions	13	100	100	100
Net interest income/(expense)	(107)	(50)	(38)	(26)
Pre-tax profit	3,302	4,271	4,837	4,645
Tax	(678)	(897)	(1,016)	(976)
Minorities	12	3	4	4
Net profit	2,637	3,378	3,825	3,673
Net profit (adj.)	2,637	3,378	3,825	3,673

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	4,632	2,817	3,339	3,707
Pre-tax profit	2,625	3,374	3,821	3,670
Tax	0	0	0	0
Deprec. & amort.	536	536	536	536
Associates	(13)	(100)	(100)	(100)
Working capital changes	1,100	(493)	(417)	100
Non-cash items	0	0	0	0
Other operating cashflows	385	(500)	(500)	(499)
Investing	(877)	(905)	(905)	(905)
Capex (growth)	(905)	(905)	(905)	(905)
Capex (maintenance)	0	0	0	0
Investments	(209)	0	0	0
Proceeds from sale of assets	46	0	0	0
Others	191	0	0	0
Financing	(5,341)	(440)	(346)	(438)
Dividend payments	(975)	(940)	(846)	(940)
Issue of shares	0	0	0	0
Proceeds from borrowings	6,238	2,000	2,000	2,001
Loan repayment	(6,210)	(1,500)	(1,500)	(1,499)
Others/interest paid	(4,394)	0	0	0
Net cash inflow (outflow)	(1,585)	1,472	2,088	2,363
Beginning cash & cash equivalent	12,370	10,785	12,257	14,345
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	10,785	12,257	14,345	16,708

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	7,278	7,673	8,067	8,462
Other LT assets	2,679	2,754	2,828	2,903
Cash/ST investment	10,785	12,257	14,345	16,708
Other current assets	12,225	14,713	17,329	18,650
Total assets	32,967	37,396	42,570	46,723
ST debt	2,269	299	299	(1)
Other current liabilities	9,988	10,863	11,719	11,529
LT debt	2,298	802	503	504
Other LT liabilities	707	707	707	707
Shareholders' equity	17,573	24,595	29,216	33,863
Minority interest	132	128	124	121
Total liabilities & equity	32,967	37,396	42,570	46,723

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	15.7	15.4	14.6	14.5
Pre-tax margin	16.0	16.1	15.2	15.2
Net margin	12.7	12.7	12.0	12.0
ROA	6.2	9.6	9.6	8.2
ROE	9.9	16.0	14.2	11.6
Growth				
Turnover	23.5	28.0	20.0	(3.8)
EBITDA	(13.0)	25.8	13.6	(4.4)
Pre-tax profit	(32.3)	29.3	13.2	(4.0)
Net profit	(28.7)	28.1	13.2	(4.0)
Net profit (adj.)	(28.1)	28.1	13.2	(4.0)
EPS	(28.1)	28.1	13.2	(4.0)
Leverage				
Debt to total capital	20.5	4.3	2.7	1.5
Debt to equity	26.0	4.5	2.7	1.5
Net debt/(cash) to equity	(35.4)	(45.4)	(46.4)	(47.9)
Interest cover (x)	30.4	81.5	121.7	169.7

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