

COMPANY RESULTS

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

1H23: Solid Expansion In Shipbuilding Margins The Key Highlight

YZJ's record performance in 1H23, with net profit up 47% yoy to Rmb1.7b, was in line with estimates. While the contribution from the non-shipbuilding business fell yoy, this was more than made up for by its 17.7% shipbuilding margins that were better than our estimates. With the strong order win momentum in 1H23, management has guided for a quieter 2H as it works through its historically high orderbook of US\$14.7b with deliveries into 2027. Maintain BUY. Target price upgraded from S\$1.65 to S\$1.88.

1H23 RESULTS

12M to 30 Jun (Rmb m)	1H22	1H23	yoy	Remarks
Revenue	9,741.1	11,321.0	16.2%	- Delivered 31 vessels, record orderbook
Gross profit	1,424.0	2,109.7	48.2%	- Strong shipbuilding margins
Associates	5.5	50.21	NM	- Contributed by Jiangsu Yangzi-Mitsui JV
Pre-tax profit	1,475.7	2,188.4	48.3%	
Net profit	1,170.6	1,724.5	47.3%	- Helped by favourable forex movements and lower material costs
GP margin	14.6%	18.6%	+4.0ppt	
Pre-tax margin	15.1%	19.3%	+4.2ppt	
NP margin	12.0%	15.2%	+3.2ppt	

Source: Yangzijiang Shipbuilding (Holdings), UOB Kay Hian

1H23 RESULTS

- Stellar performance with shipbuilding driving top-line.** Yangzijiang (YZJ) reported strong 1H23 revenue growth of 16% to Rmb11.3b, translating to a 47.3% yoy increase in net profit to Rmb1.7b. Its core shipbuilding business reached a record-high top-line contribution of Rmb10.7b in 1H23 (+25% yoy), delivering 31 vessels with its run-rate ahead of its full-year target of 57 vessels. Ytd, the company has won US\$5.8b in new orders, comfortably exceeding its 2023 target by 192%. During the results briefing, management stated its belief that 2H23 could be quieter on the new order win front given that its yards are full until at least 1H27.
- 1H23 margins exceeded expectations.** YZJ saw overall improvements in margins in 1H23, led by its core shipbuilding segment with a GP margin of 17.7% (+4.9ppt yoy) which surpassed our full-year forecast of 14.5%. This was due to lower material costs and favourable US\$/Rmb foreign exchange rates. The company's shipping business, however, performed poorly due to lower charter rates for its fleet of bulk carriers.
- Strong balance sheet maintained.** YZJ's debt/equity was 0.28x as at end-1H23 and it had net cash of S\$0.27/share, or 17% of its current share price.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	16,768	20,705	24,231	30,502	34,499
EBITDA	3,727	3,244	4,230	4,752	5,318
Operating profit	3,226	2,708	3,695	4,216	4,783
Net profit (rep./act.)	3,699	2,637	3,496	3,918	4,376
Net profit (adj.)	3,666	2,637	3,496	3,918	4,376
EPS (Fen)	92.9	66.8	88.6	99.3	110.9
PE (x)	9.1	12.6	9.5	8.5	7.6
P/B (x)	0.9	1.9	1.3	1.1	1.0
EV/EBITDA (x)	5.9	6.8	5.2	4.7	4.2
Dividend yield (%)	2.9	2.0	4.3	3.0	3.4
Net margin (%)	22.1	12.7	14.4	12.8	12.7
Net debt/(cash) to equity (%)	(22.1)	(35.4)	(46.2)	(46.0)	(47.3)
Interest cover (x)	53.3	30.4	84.5	124.8	203.7
ROE (%)	10.8	9.9	16.5	14.6	13.9
Consensus net profit	-	-	3,236	3,545	3,367
UOBKH/Consensus (x)	-	-	1.08	1.11	1.30

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

BUY

(Maintained)

Share Price	S\$1.58
Target Price	S\$1.88
Upside	+19.2%
(Previous TP)	S\$1.65

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):	6,241.9
Market cap (US\$m):	4,648.8
3-mth avg daily t'over (US\$m):	22.9

Price Performance (%)

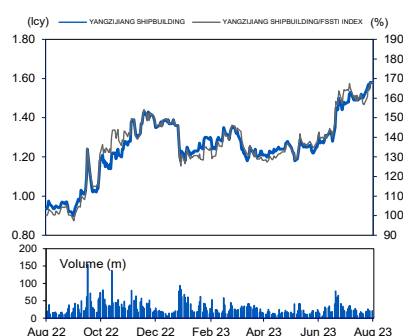
52-week high/low	S\$1.58/S\$0.900			
1mth	3mth	6mth	1yr	YTD
9.7	23.4	21.5	71.7	16.2

Major Shareholders

	%
Ren Yuanlin	23.0
Wang Dong	10.1
T.Rowe Price	5.9

FY23 NAV/Share (Rmb)	6.41
FY23 Net Cash/Share (Rmb)	2.96

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Regulatory factors should continue to boost new order wins.** Clean-energy vessels accounted for 56% of YZJ's orderbook value of US\$14.7b in 1H23 (1H22: 23%). During 1H23, YZJ also secured its first-ever methanol dual-fuel containership order. The company believes that the global fleet-renewal trend will be boosted by the International Maritime Organisation's (IMO) revised 2023 Strategy on Reduction of Greenhouse Gas Emissions from Ships which accelerated greenhouse gas reduction in the shipping industry. As a result, YZJ believes that the focus will be on methanol rather than LNG-fueled vessels. In addition to methanol having zero greenhouse gas emissions, its storage tanks are not under high pressure and are thus safer. Management also stated that retrofitting old ships with methanol-fueled engines should be reasonably simple with the near-term hurdle being the widespread supply of such engines.
- A likely pause in new order wins.** During the results call, management stated that it will continue to focus on containership orders given that containership lines have greater liquidity. However, YZJ noted that it has limited slots at the moment and is full until 1H27 so it will carefully choose its clients, resulting in what will likely be a quieter 2H23 for new orders. Management added that it will look to garner large orders for sister ships which would enable it to obtain higher shipbuilding margins due to the higher efficiency and economics from building similar vessels.
- Steel prices unlikely to increase.** Given the RMB's depreciation in the past 6-12 months, coupled with the China property sector's doldrums, YZJ believes that steel prices will remain relatively stable in the near to medium term. While lower demand from the property industry would have led to price declines in the past, YZJ has not witnessed a material falloff in overall demand given that shipbuilding demand has taken up the slack instead.
- A pricey acquisition of an additional stake in Jiangsu Yangzi-Mitsui?** On 2 Aug 23, YZJ disclosed that it increased its stake in its shipbuilding JV with Mitsui via the acquisition of an additional 5% of the issued share capital from a minority shareholder for a cash consideration of Rmb43.2m. This values the JV at around Rmb864m which is a material premium over the book value of the JV of approximately Rmb450m. Following this acquisition, YZJ's equity interest in Yangzi-Mitsui has increased from 51% to 56%, but it does not expect this acquisition to have a material impact on its earnings or book value for 2023. According to the company, the price was arrived at via a willing buyer willing seller approach, and no independent valuation of Yangzi-Mitsui was conducted.

EARNINGS REVISION/RISK

- Earnings upgraded.** We have raised our earnings estimates for 2023-24 by 2-4% with poorer earnings from shipping and other businesses somewhat offsetting our higher shipbuilding margin estimate of 16% and 15% respectively for 2023 and 2024 (previously 14% and 13% respectively). The large earnings upgrade in 2025 of 19% is the result of sustained shipbuilding margin of 15% vs 12% previously.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher PE-based target price of S\$1.88 (previously S\$1.65).** Our target PE multiple of 9.9x remains at 1.5SD above the company's five-year average of 6.6x with the upgrade coming from higher EPS estimates for both 2023 and 2024. We believe the premium to its average PE is justified given the company's earnings visibility into 2027 as well as its strong track record of safe and efficient shipbuilding for its international customer base. YZJ has an outstanding orderbook for 181 vessels worth USD14.7b as at end-1H23. We maintain our 2023 orderbook win target at US\$7b.

SHARE PRICE CATALYST

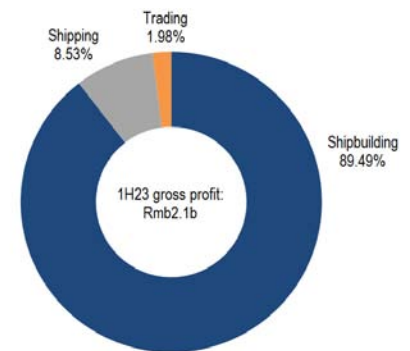
- a) Better capital management; b) new orders in higher-margin shipbuilding segments, eg dual-fuel containerships, LPG tankers or large LNG carriers; and c) safe and efficient execution of orderbook and further margin expansion into 2H23.

PE CHART



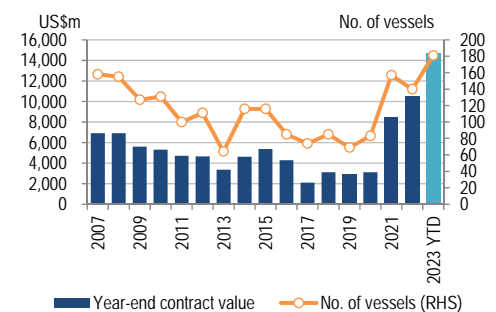
Source: Bloomberg, UOB Kay Hian

1H23: SPLIT OF GROSS PROFIT BY BUSINESS SEGMENT



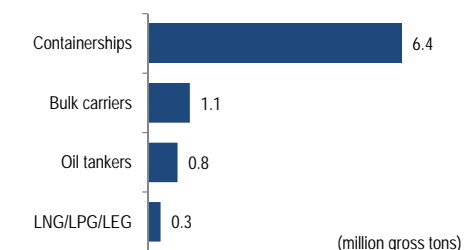
Source: YZJ

OUTSTANDING ORDERBOOK TREND



Source: YZJ

CURRENT ORDERBOOK BY TYPE OF VESSELS



Source: YZJ

CHANGES TO OUR EARNINGS FORECASTS

Rmb m	2023E	2024E	2025E
NPAT - was	3,378	3,825	3,673
NPAT - is	3,496	3,918	4,376
Change	3.5%	2.4%	19.1%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	20,705	24,231	30,502	34,499
EBITDA	3,244	4,230	4,752	5,318
Deprec. & amort.	536	536	536	536
EBIT	2,708	3,695	4,216	4,783
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	4,421	4,954	5,534
Tax	(678)	(928)	(1,040)	(1,162)
Minorities	12	3	4	4
Net profit	2,637	3,496	3,918	4,376
Net profit (adj.)	2,637	3,496	3,918	4,376

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	4,632	3,070	3,372	3,976
Pre-tax profit	2,625	3,493	3,914	4,372
Tax	0	0	0	0
Deprec. & amort.	536	536	536	536
Associates	(13)	(100)	(100)	(100)
Working capital changes	1,100	(358)	(477)	(332)
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)	(911)	(438)
Dividend payments	(975)	(940)	(1,411)	(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)	1,724	1,556	2,633
Beginning cash & cash equivalent	12,370	10,785	12,509	14,066
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	10,785	12,509	14,066	16,699

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	12,509	14,066	16,699
Other current assets	12,225	14,138	16,995	19,554
Total assets	32,967	37,074	41,956	47,618
ST debt	2,269	299	299	(1)
Other current liabilities	9,988	10,423	11,459	12,075
LT debt	2,298	802	503	504
Other LT liabilities	707	707	707	707
Shareholders' equity	17,573	24,714	28,863	34,213
Minority interest	132	128	124	120
Total liabilities & equity	32,967	37,074	41,956	47,618

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	15.7	17.5	15.6	15.4
Pre-tax margin	16.0	18.2	16.2	16.0
Net margin	12.7	14.4	12.8	12.7
ROA	6.2	10.0	9.9	9.8
ROE	9.9	16.5	14.6	13.9
Growth				
Turnover	23.5	17.0	25.9	13.1
EBITDA	(13.0)	30.4	12.3	11.9
Pre-tax profit	(32.3)	33.9	12.1	11.7
Net profit	(28.7)	32.6	12.1	11.7
Net profit (adj.)	(28.1)	32.6	12.1	11.7
EPS	(28.1)	32.6	12.1	11.7
Leverage				
Debt to total capital	20.5	4.2	2.7	1.4
Debt to equity	26.0	4.5	2.8	1.5
Net debt/(cash) to equity	(35.4)	(46.2)	(46.0)	(47.3)
Interest cover (x)	30.4	84.5	124.8	203.7

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