

COMPANY UPDATE

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

After The Containership Boom, LNG Carriers May Be The New Hope

We highlight that YZJ could announce over US\$2.4b worth of shipbuilding orders in the near term. In addition, we believe that it is in the running for a large LNG carrier order after it obtained a licence for membrane technologies. While construction of LNG carriers may lead to a mild erosion of gross margin in the medium term, the structural tailwinds, market size and potential growth are difficult to ignore, in our view. Maintain BUY. Upgrade target price to S\$1.44.

WHAT'S NEW

- LNG carriers – The new hope.** In early-Sep 22, Yangzijiang Shipbuilding (YZJ) announced that it had obtained a licence from Gaztransport & Technigaz (GTT) for the construction of vessels using GTT's Mark III membrane technologies. The technology involves cargo or fuel containment and insulation and, being widely used in the LNG shipping industry, will now enable YZJ to compete in the international market to construct LNG vessels. According to shipping industry sources, YZJ could be well placed to win new LNG carrier orders given that the Korean yards are full, and European shipowners have been looking for shipbuilding capacity.

POTENTIAL NEW ORDER WINS IN 2H22

Client	No. and type of vessel	Contract size (US\$m)
Cosmoship Management	2 x 1800TEU containerships	64
Navibulgar	4 x 32,000dwt handysize bulk carriers	128
Trawind Shipping	2 x 4,600TEU containerships	80
Mediterranean Shipping Co	12 x 16,000TEU containerships	2,160
Total		2,432

Source: Tradewinds, UOB Kay Hian

- New order outlook.** As at 1H22, YZJ's orderbook totaled US\$8.13b with deliveries stretching into 2025, with ytd order wins of US\$1.1b. Importantly, YZJ disclosed that it still has slots for large-vessel deliveries in 2024 and thus expects to capitalise on this. As shown in the chart above, YZJ has >US\$2.4b worth of orders that it has yet to announce, on top of which Celsius Tankers could place an order for >10 newbuild LNG carriers.

- Background of Celsius Tankers.** The company currently owns four LNG carriers with another nine being built at Samsung Heavy Industries' yard with delivery between 2023-25, thus bringing its fleet to 13 vessels. In Oct 21, the company had disclosed a 2025 target of 20 LNG vessels; however this appears to have been revised upwards as the global LNG trade has increased materially due to higher demand for LNG as a result of the Russian invasion of Ukraine.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	14,841	16,768	20,533	26,393	30,829
EBITDA	3,398	3,727	3,518	4,030	4,469
Operating profit	2,884	3,226	2,982	3,494	3,933
Net profit (rep./act.)	2,516	3,699	2,826	3,337	3,694
Net profit (adj.)	3,323	3,666	2,826	3,337	3,694
EPS (Fen)	84.2	92.9	71.6	84.6	93.6
PE (x)	6.1	5.6	7.2	6.1	5.5
P/B (x)	0.6	0.6	1.3	0.9	0.8
EV/EBITDA (x)	4.5	4.1	4.4	3.8	3.4
Dividend yield (%)	4.3	4.8	3.5	4.2	4.6
Net margin (%)	17.0	22.1	13.8	12.6	12.0
Net debt/(cash) to equity (%)	(7.4)	(22.1)	(33.4)	(47.3)	(50.9)
Interest cover (x)	45.1	53.3	33.8	80.5	117.3
ROE (%)	7.9	10.8	10.9	17.8	15.8
Consensus net profit	-	-	2,612	3,054	3,256
UOBKH/Consensus (x)	-	-	1.08	1.09	1.13

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

BUY

(Maintained)

Share Price	S\$1.04
Target Price	S\$1.44
Upside	+38.5%
(Previous TP)	S\$1.16)

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):	4,385.2
Market cap (US\$m):	3,054.6
3-mth avg daily t'over (US\$m):	14.3

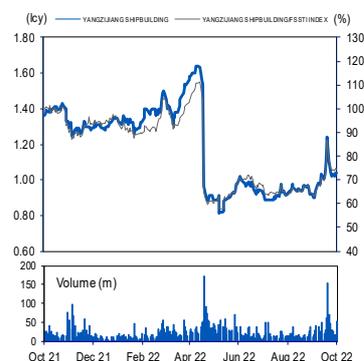
Price Performance (%)

52-week high/low	S\$1.24/S\$0.649			
1mth	3mth	6mth	1yr	YTD
14.4	16.8	46.4	49.4	59.5

Major Shareholders

	%
Ren Yuanlin	21.8
Wang Dong	10.1
T.Rowe Price	5.9
FY22 NAV/Share (Rmb)	4.10
FY22 Net Cash/Share (Rmb)	1.37

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
+65 6590 6633
adrianloh@uobkayhian.com

STOCK IMPACT

- Would LNG carriers be a profitable segment for YZJ?** Given that YZJ is a relatively new entrant in the LNG carrier market, it will likely need to sacrifice some gross margin in order to secure orders from LNG shipowners, in our view. We note that on 25 Sep 22, China Merchants ordered two 175,000cbm LNG carriers from its sister company Dalian Shipbuilding Industry Co. with an option for another four. Notably, the price of US\$200m per vessel is lower than that seen at Korean yards and thus YZJ will likely need to follow suit. Given the licence from GTT, coupled with its known shipbuilding prowess, there should be minimal execution issues from YZJ – however gross shipbuilding margins could see minor downside risk in the near to medium term.
- Resurgent LNG orders, partially due to the conflict in Ukraine.** As at end-1H22, orders for large LNG carriers (>140,000m³) were the highest in 22 years according to Clarksons. Currently, the global orderbook – filled largely by Korean shipyards – stands at 255 gas carriers with 100 of those vessels having been ordered in 2022 vs 86 orders in all of 2021. With 77 vessels expected to be delivered 2024 and a further 71 in 2025, this would substantially surpass the prior annual delivery record of 59 orders seen in 2021. In our view, a significant number of these vessels were ordered on the back of heightened sovereign risk in Russia, and thus higher risk of gas-supply disruption, due to its invasion of Ukraine. A substantial amount of LNG contract volumes have been signed in 2022 (see chart on RHS) and with the bulk of these starting up in 2026, the LNG vessels will need to be ordered in the next 12+ months in our view.
- Still holding a lot of cash.** As at end-1H22, YZJ had net cash of Rmb3.7b, equating to S\$0.19/share. While the company's capex in 2022 may increase slightly given its Rmb6m investment in the Jianying LNG terminal, management has stated that it will also look to return cash to its shareholders. However, this return of cash to shareholders may take the form of either a share buyback or a higher dividend payout ratio for its full year dividend.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of S\$1.44.** Our new target price is based on a target PE of 9.0x which is applied to our aggregate 2022 and 2023 EPS forecasts. Our target PE multiple is 1SD above YZJ's past five-year average of 6.7x (see chart on RHS). While this might be seen as aggressive given global economic headwinds, we highlight the company's earnings growth in 2023, as well as the stability of its earnings given its US\$8.13b orderbook at present. We have switched to a PE-based methodology from our prior SOTP methodology as we believe the former more accurately reflects YZJ's earnings growth. We highlight that should YZJ maintain a payout ratio of 25% for 2022 (2021: 26%), the stock would yield 4.0%, thus providing some downside support to the share price.

SHARE PRICE CATALYST

- Evidence of margin expansion from 2H22 onwards.
- New orders in the higher-margin shipbuilding segments, eg dual-fuel containerships, LPG tankers or large LNG carriers.

ONE-YEAR FORWARD P/B



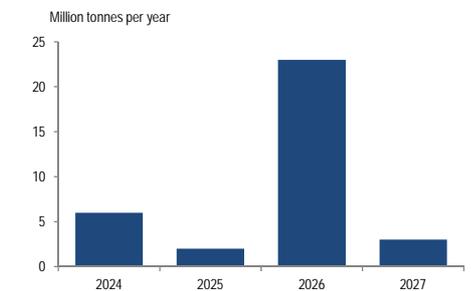
Source: Bloomberg, UOB Kay Hian

PE



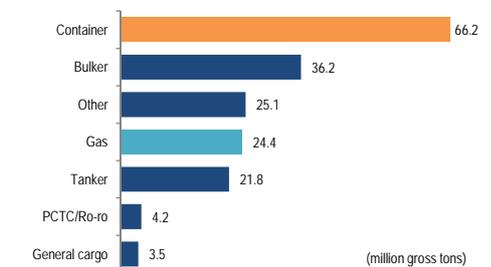
Source: Bloomberg, UOB Kay Hian

FIRM LNG DEALS SIGNED IN 2022: CONTRACT VOLUMES BY EXPECTED START YEAR



Source: S&P Global

GLOBAL NEWBUILDING ORDERBOOK BY SECTOR (1Q22)



Note: PCTC = pure car and truck carriers
Source: Lloyd's List Intelligence Consulting

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	16,768	20,533	26,393	30,829
EBITDA	3,727	3,518	4,030	4,469
Deprec. & amort.	501	536	536	536
EBIT	3,226	2,982	3,494	3,933
Total other non-operating income	1,364	676	676	676
Associate contributions	362	20	100	100
Net interest income/(expense)	(70)	(104)	(50)	(38)
Pre-tax profit	4,882	3,574	4,220	4,671
Tax	(1,155)	(751)	(886)	(981)
Minorities	(28)	3	3	4
Net profit	3,699	2,826	3,337	3,694
Net profit (adj.)	3,666	2,826	3,337	3,694

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	5,268	5,018	5,108	5,198
Other LT assets	7,792	4,317	4,391	4,466
Cash/ST investment	12,381	9,726	11,375	13,468
Other current assets	26,172	12,343	14,014	15,267
Total assets	51,612	31,404	34,888	38,398
ST debt	2,504	2,504	299	299
Other current liabilities	9,295	9,228	10,118	10,770
LT debt	1,953	1,953	802	503
Other LT liabilities	1,799	1,799	1,799	1,799
Shareholders' equity	35,923	15,782	21,734	24,895
Minority interest	138	138	135	131
Total liabilities & equity	51,612	31,404	34,888	38,398

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	6,143	2,917	2,488	3,025
Pre-tax profit	3,727	2,824	3,334	3,690
Tax	0	0	0	0
Deprec. & amort.	501	536	536	536
Associates	(362)	(20)	(100)	(100)
Working capital changes	2,737	78	(781)	(601)
Non-cash items	0	0	0	0
Other operating cashflows	(461)	(500)	(500)	(500)
Investing	315	(600)	(600)	(600)
Capex (growth)	(669)	(600)	(600)	(600)
Capex (maintenance)	0	0	0	0
Investments	(157)	0	0	0
Proceeds from sale of assets	386	0	0	0
Others	755	0	0	0
Financing	(728)	(4,971)	(240)	(332)
Dividend payments	(843)	(925)	(740)	(832)
Issue of shares	0	0	0	0
Proceeds from borrowings	4,211	2,000	2,000	2,000
Loan repayment	(3,925)	(1,500)	(1,500)	(1,500)
Others/interest paid	(172)	(4,547)	0	0
Net cash inflow (outflow)	5,730	(2,654)	1,649	2,093
Beginning cash & cash equivalent	6,651	12,381	9,726	11,375
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	12,381	9,726	11,375	13,468

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	22.2	17.1	15.3	14.5
Pre-tax margin	29.1	17.4	16.0	15.2
Net margin	22.1	13.8	12.6	12.0
ROA	7.7	6.8	10.1	10.1
ROE	10.8	10.9	17.8	15.8
Growth				
Turnover	13.0	22.5	28.5	16.8
EBITDA	9.7	(5.6)	14.6	10.9
Pre-tax profit	48.4	(26.8)	18.1	10.7
Net profit	47.0	(23.6)	18.1	10.7
Net profit (adj.)	10.3	(22.9)	18.1	10.7
EPS	10.3	(22.9)	18.1	10.7
Leverage				
Debt to total capital	11.0	21.9	4.8	3.1
Debt to equity	12.4	28.2	5.1	3.2
Net debt/(cash) to equity	(22.1)	(33.4)	(47.3)	(50.9)
Interest cover (x)	53.3	33.8	80.5	117.3

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked 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. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W