

COMPANY RESULTS

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

1H24: Powering Onwards And Upwards

YZJ reported a stellar set of results with net profit up 78% yoy on the back of stronger-than-expected shipbuilding margins as well as solid execution and delivery of vessels. Given its remarkable US\$8.5b of new orders in 1H24, we have upgraded our order win expectation to US\$10b (previously US\$7b). Maintain BUY with a higher target price of S\$3.40 as a result of upgrades in earnings forecasts for 2024-26 of 17-25%.

1H24 RESULTS

Year to 31 Dec (Rmbm)	1H23	1H24	yoy	Remarks
Revenue	11,321.0	13,048.6	15.3%	- Delivered 37 vessels; record orderbook
Gross profit	2,109.7	3,484.1	65.1%	- Strong shipbuilding margins
Associates	50.21	268.9	NM	
Pre-tax profit	2,188.4	3,664.9	67.5%	- Slightly lower-than-expected tax rate
Net profit	1,724.5	3,058.4	77.5%	- Helped by favourable forex movements and lower material costs
GP margin	18.6%	26.7%	+8.1ppt	
Pre-tax margin	19.3%	28.1%	+8.8ppt	
NP margin	15.2%	23.4%	+8.2ppt	

Source: Yangzijiang Shipbuilding (Holdings), UOB Kay Hian

RESULTS

- Stellar performance with shipbuilding margins the highlight.** Yangzijiang Shipbuilding (Holdings) (YZJ) reported better-than-expected 1H24 revenue growth of Rmb13b (+15% yoy), translating to a 78% yoy increase in net profit to Rmb3.1b. The delivery of the stellar results was on the back of its core shipbuilding business' delivery of 37 vessels in 1H24 and, on a run-rate basis, ahead of its full-year target of 57 vessels. Importantly, YZJ reported stronger-than-expected shipbuilding margins of 25.9% (2023: 21.9%) with management guiding that current margin levels are sustainable.
- Surpassing prior high for new order wins.** YZJ reported 1H24 new-order wins of US\$8.5b with US\$5.2b in new orders just in 2Q24 alone. This handily surpasses the company's US\$4.5b new order-win guidance for 2024 as well as the company's prior peak of US\$7.4b in 2021. As at end-1H24, the company had a US\$20.2b orderbook for 224 vessels of which 70% are green vessels. While management was unmoved in guiding for a higher new-order win number for end-24, we have upgraded our estimate to US\$10b from US\$7b previously.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	20,705	24,112	29,309	40,140	40,123
EBITDA	3,166	5,274	7,333	8,645	8,476
Operating profit	2,708	4,779	6,837	8,150	7,981
Net profit (rep./act.)	2,613	4,102	6,207	7,438	7,313
Net profit (adj.)	2,613	4,102	6,207	7,438	7,313
EPS (Fen)	67.0	104.7	158.4	189.8	186.6
PE (x)	22.1	14.1	9.3	7.8	7.9
P/B (x)	3.3	2.8	2.2	1.7	1.4
EV/EBITDA (x)	13.9	8.4	6.0	5.1	5.2
Dividend yield (%)	1.2	1.8	3.2	3.8	3.7
Net margin (%)	12.6	17.0	21.2	18.5	18.2
Net debt/(cash) to equity (%)	(35.4)	(52.4)	(53.1)	(53.3)	(54.3)
Interest cover (x)	29.6	54.9	62.4	331.2	599.9
ROE (%)	9.8	21.3	25.7	24.0	19.2
Consensus net profit	-	-	5,485	6,345	6,620
UOBKH/Consensus (x)	-	-	1.13	1.17	1.10

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

BUY

(Maintained)

Share Price	S\$2.73
Target Price	S\$3.40
Upside	+24.5%
(Previous TP)	S\$2.86

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):	10,785.1
Market cap (US\$m):	8,148.9
3-mth avg daily t'over (US\$m):	41.0

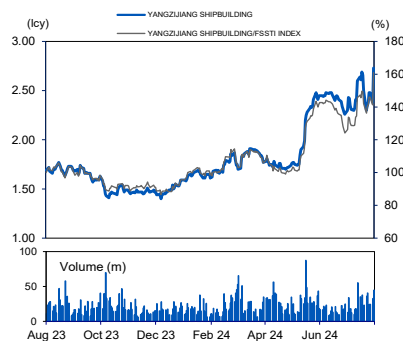
Price Performance (%)

52-week high/low	S\$2.73/S\$1.40			
1mth	3mth	6mth	1yr	YTD
20.8	56.9	69.6	62.5	83.2

Major Shareholders

Major Shareholders	%
Ren Yuanlin	21.6
Lido Point Investments	9.8
T.Rowe Price	6.0
FY24 NAV/Share (Rmb)	6.87
FY24 Net Cash/Share (Rmb)	3.65

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Looking at new order wins for 2Q24.** Containerships continue to be in high demand judging by the 28 orders for such vessels in 2Q24 alone (2023: 23 containership orders). Management reiterated that its annual new order win target for 2025 remains at US\$4.5b, stating that the current market situation is “abnormal”, thus leading to the positive surprise in 1H24. During the results call, the company commented that it would re-look at a higher annual order win target once its new yard is completed and its team can more accurately forecast its incremental production levels.
- **Positive prospects for YZJ’s new yard.** YZJ disclosed that the new Rmb3b Yangzi Hongyuan yard will take 1-2 years to construct and with completion targeted for end-26, it could start to deliver ships by mid-27. Furthermore, the company stated that no slots have been sold yet and thus it is able to accept new orders for this new yard, with the likely products being medium-sized gas carriers. Given that Yangzi Hongyuan is located right next to its Yangzi Xinfu yard, we anticipate high levels of economies of scale and efficiency given that there will be no replication of systems and management teams. In addition, the subcontractor ecosystem for the Yangzi Xinfu yard is in place and would expand to fit Yangzi Hongyuan. According to industry news, YZJ’s new yard is expected to comprise of a 300,000dwt shipyard, a 200,000dwt outfitting wharf, and a 100,000dwt dock, with an annual production capacity of approximately 800,000dwt.
- **Nonplussed by an order cancellation.** YZJ disclosed that the owner of two 175,000cbm LNG carriers had failed to secure a charter for the vessels and thus, having failed to pay the deposit, had the order cancelled. YZJ nevertheless will be completing the two vessels which will be delivered by end-25 with a view towards selling the vessels once completed.

EARNINGS REVISION/RISK

- **Upgrading earnings.** We have upgraded our earnings forecast for 2024-26 by 17-25% as seen in the table on the RHS. Our upgrade stems from higher shipbuilding margin assumptions of 25% for 2024 and 22% for 2025-26 vs our prior assumptions, which were admittedly conservative, at 18-19%. We note that each 1% change in shipbuilding margins increases 2025 net profit by 4.2%.

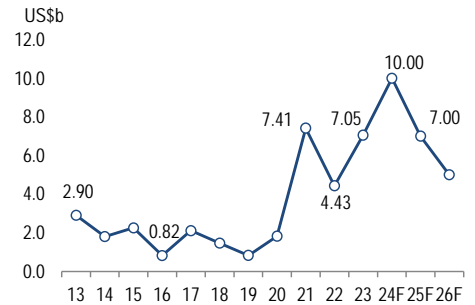
VALUATION/RECOMMENDATION

- **We reiterate our BUY recommendation on the stock with a higher PE-based target price of S\$3.40** (previously S\$2.86) due to the earnings changes outlined above. We use a target PE multiple of 9.8x which is 1SD above the company’s 10-year average of 7.0x and believe that this premium to its average PE multiple is justified given its earnings visibility that now extends into mid-28 as well as its strong track record of safe and efficient shipbuilding for its international customer base. We note that YZJ remains inexpensive relative to its regional peers, trading at 2025F P/B of 1.7x and generated an ROE of 27% in 1H24 while its Korean peers trade at 1.1-2.1x P/B with 8-14% ROE.

SHARE PRICE CATALYSTS

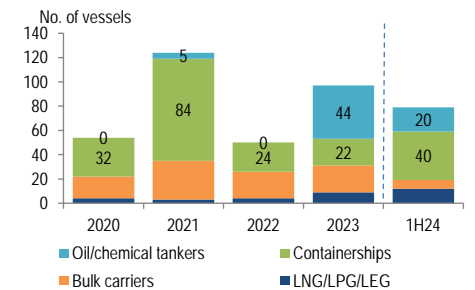
- Better capital management.
- New orders in higher-margin shipbuilding segments, eg dual-fuel containerships, oil and/or LPG tankers.
- Continued evidence that the company can maintain its high shipbuilding margins in excess of 20%.

HISTORICAL AND FORECAST ORDER WINS



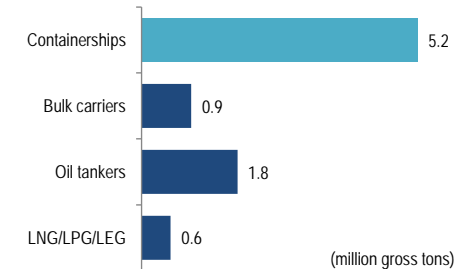
Source: YZJ

NO. OF VESSELS WON BY YEAR



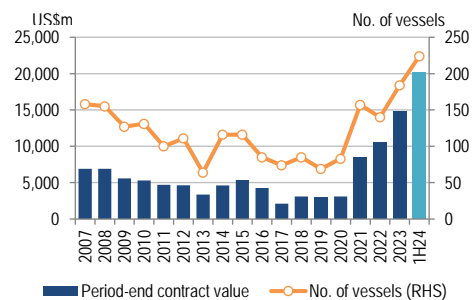
Source: YZJ

ORDERBOOK BY VESSEL TYPE (AS AT 30 JUNE)



Source: YZJ

OUTSTANDING ORDERBOOK TREND



Source: YZJ

CHANGES TO EARNINGS FORECASTS

Rmb m	2024E	2025E	2026E
NPAT - was	4,989	5,935	6,250
NPAT - is	6,207	7,437	7,312
Change	24.4%	25.3%	17.0%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	24,112	29,309	40,140	40,123
EBITDA	5,274	7,333	8,645	8,476
Deprec. & amort.	495	495	495	495
EBIT	4,779	6,837	8,150	7,981
Total other non-operating income	250	536	677	677
Associate contributions	198	540	540	540
Net interest income/(expense)	(96)	(118)	(26)	(14)
Pre-tax profit	5,131	7,796	9,341	9,184
Tax	(1,061)	(1,637)	(1,961)	(1,928)
Minorities	32	49	58	57
Net profit	4,102	6,207	7,438	7,313
Net profit (adj.)	4,102	6,207	7,438	7,313

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	7,973	5,065	6,114	6,712
Pre-tax profit	4,069	6,158	7,378	7,254
Tax	0	0	0	0
Deprec. & amort.	495	495	495	495
Associates	(198)	(540)	(540)	(540)
Working capital changes	3,373	(549)	(721)	1
Non-cash items	0	0	0	0
Other operating cashflows	233	(500)	(499)	(499)
Investing	(2,290)	(790)	(790)	(790)
Capex (growth)	(790)	(790)	(790)	(790)
Capex (maintenance)	0	0	0	0
Investments	(2,142)	0	0	0
Proceeds from sale of assets	617	0	0	0
Others	24	0	0	0
Financing	99	(869)	(1,394)	(1,710)
Dividend payments	(1,053)	(1,369)	(1,896)	(2,212)
Issue of shares	0	0	0	0
Proceeds from borrowings	3,308	2,000	2,001	2,001
Loan repayment	(2,280)	(1,500)	(1,499)	(1,499)
Others/interest paid	124	0	0	0
Net cash inflow (outflow)	5,782	3,405	3,930	4,212
Beginning cash & cash equivalent	10,778	16,561	19,966	23,896
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	16,561	19,966	23,896	28,108

BALANCE SHEET

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Fixed assets	7,219	7,518	7,817	8,116
Other LT assets	4,395	4,931	5,467	6,002
Cash/ST investment	16,561	19,966	23,896	28,108
Other current assets	12,689	15,264	19,520	21,554
Total assets	40,864	47,679	56,700	63,781
ST debt	3,965	3,965	3,965	3,965
Other current liabilities	13,611	14,221	16,058	16,056
LT debt	1,630	1,500	1,500	1,500
Other LT liabilities	515	515	515	515
Shareholders' equity	20,941	27,323	34,565	41,706
Minority interest	202	154	96	39
Total liabilities & equity	40,864	47,679	56,700	63,781

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	21.9	25.0	21.5	21.1
Pre-tax margin	21.3	26.6	23.3	22.9
Net margin	17.0	21.2	18.5	18.2
ROA	11.1	14.0	14.3	12.1
ROE	21.3	25.7	24.0	19.2
Growth				
Turnover	16.5	21.6	37.0	(0.0)
EBITDA	66.6	39.0	17.9	(2.0)
Pre-tax profit	55.4	51.9	19.8	(1.7)
Net profit	57.0	51.3	19.8	(1.7)
Net profit (adj.)	57.0	51.3	19.8	(1.7)
EPS	56.2	51.3	19.8	(1.7)
Leverage				
Debt to total capital	20.9	16.6	13.6	11.6
Debt to equity	26.7	20.0	15.8	13.1
Net debt/(cash) to equity	(52.4)	(53.1)	(53.3)	(54.3)
Interest cover (x)	54.9	62.4	331.2	599.9

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