

COMPANY UPDATE

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

The Not-so-little S-chip That Could

YZJ's strong share price performance this year reflects its stellar operational and new order win performance by riding the shipbuilding upcycle, in our view. We have upgraded our earnings by 10-30% as well as our 2024 order win expectations from US\$5b to US\$7b despite the company maintaining its guidance of US\$4.5b. Maintain BUY with a higher target price of S\$2.86 (previously S\$2.19).

WHAT'S NEW

- **Market giving due recognition to a solid business.** Yangzijiang Shipbuilding's (YZJ) strong share price performance since its 1Q24 business update on 28 Mar 24 reflects, in our view, the market recognising YZJ's management which has driven its stellar operational and new order win performance in the past few years. YZJ's ability to execute well was demonstrated by its delivery of 28 vessels or 44% of its target of 63 vessels this year, despite the long Lunar New Year holidays in February. Ytd, the stock is the best performer on the STI, up 62.4% and handily beating the STI's 2.8% gain.
- **Order wins continue to be robust.** With US\$3.32b in new orders ytd, YZJ has achieved 74% of its 2024 target of US\$4.5b vs our higher expectation of US\$5.0b. Despite this outperformance, we note that management has remained particularly conservative and stuck to its original target while we have decided to upgrade our 2024 order win expectation to an admittedly high target of US\$7b. Note that its previous annual high was US\$7.41b in 2021. For 1Q24, the company won orders for 38 vessels comprising 14 oil/chemical tankers, 12 containerships, eight gas carriers and four bulk carriers.
- **New order flows – what's exciting?** It was evident that management would continue to focus on oil tankers given that this segment is on an upswing globally and thus owners appear to be willing to put in orders. Additionally, the company believes that greener ships will be in greater demand (ie replacement of older vessels that have high emissions of sulfur, nitrous oxide and carbon dioxide) and it will be in a strong position to fill its yard slots with high-margin low-emission vessels that are dual-fueled with LNG.
- **Steel costs unlikely to increase, in management's view.** YZJ disclosed that it currently imputes a cost of Rmb4,000 per tonne for steel plates and does not believe that costs will increase in the near to medium term given that demand is weak from other sectors, particularly the property sector. In our view, stable steel costs should benefit YZJ and enable it to generate higher shipbuilding margins which the company has guided for in 2024.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2022	2023	2024F	2025F	2026F
Net turnover	20,705	24,112	31,097	39,421	42,427
EBITDA	3,166	5,274	5,925	7,100	7,485
Operating profit	2,708	4,779	5,429	6,605	6,989
Net profit (rep./act.)	2,613	4,102	4,989	5,935	6,250
Net profit (adj.)	2,613	4,102	4,989	5,935	6,250
EPS (Fen)	67.0	104.7	127.3	151.4	159.5
PE (x)	19.5	12.5	10.2	8.6	8.2
P/B (x)	2.9	2.5	2.0	1.6	1.3
EV/EBITDA (x)	12.0	7.2	6.4	5.3	5.1
Dividend yield (%)	1.3	2.1	2.9	3.4	3.6
Net margin (%)	12.6	17.0	16.0	15.1	14.7
Net debt/(cash) to equity (%)	(35.4)	(52.4)	(52.8)	(53.1)	(53.7)
Interest cover (x)	29.6	54.9	155.6	272.0	529.7
ROE (%)	9.8	21.3	21.2	20.3	17.6
Consensus net profit	-	-	4,803	5,304	5,516
UOBKH/Consensus (x)	-	-	1.04	1.12	1.13

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

BUY

(Maintained)

Share Price	S\$2.41
Target Price	S\$2.86
Upside	+18.7%
(Previous TP)	S\$2.19)

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):	9,560.4
Market cap (US\$m):	7,109.7
3-mth avg daily t'over (US\$m):	37.8

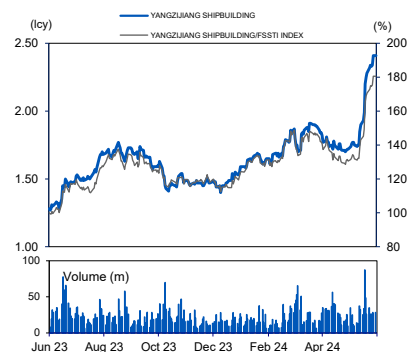
Price Performance (%)

52-week high/low	S\$2.42/S\$1.27			
1mth	3mth	6mth	1yr	YTD
42.4	30.1	64.6	89.1	62.4

Major Shareholders

	%
Ren Yuanlin	21.6
Lido Point Investments	9.8
T.Rowe Price	6.0
FY24 NAV/Share (Rmb)	6.59
FY24 Net Cash/Share (Rmb)	3.48

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
 +65 6590 6633
 adrianloh@uobkayhian.com

STOCK IMPACT

- LNG-fuelled vessels.** LNG remains the fuel of choice for lower-carbon shipping with dual-fuel methanol and ammonia engines coming in second. YZJ currently has orders for 35 LNG dual-fuel containerships (18% of its orderbook of 193 vessels) and 15 methanol dual-fuel containerships (8% of its orderbook). We believe that LNG's price competitiveness, abundant supply and well-developed infrastructure gives it an advantage over the alternatives. According to industry estimates, more than 2,400 vessels are equipped to operate on LNG globally, with another 1,000 vessels ordered that are yet to be delivered. In our view, YZJ is well placed to win more of such vessel orders with many of such new ships able to be adapted to use alternative clean fuels, such as ammonia or methanol.
- With so much cash on its balance sheet and nothing material in terms of capex, we see potential for higher dividends.** As at end-23, YZJ had Rmb16.6b in cash (+54% yoy) and total borrowings of Rmb5.6b (+22% yoy), resulting in a net cash position of nearly Rmb11b, or over S\$2b. After payout of its 2023 dividends amounting to around S\$257m, this still leaves the company with over S\$1.74b in cash, or S\$0.44 per share in cash (ie 18% of current share price). Without any onerous spending on the horizon, we believe that the company could pay out more dividends.

EARNINGS REVISION/RISK

- Upgrading earnings by 10-30%.** We have raised our earnings expectations for YZJ by 10-30% for the 2024-26E period due to a greater conviction that the company will be able to maintain its 20% shipbuilding margins in the medium to longer term. Our shipbuilding margins have been raised by 1.0ppt to 19% for 2024E, and by 1.5ppt to 18.5% for 2025-26E. We have left our gross margin assumptions for the shipping business at 42% for 2024, declining to 35% for 2025-26E.

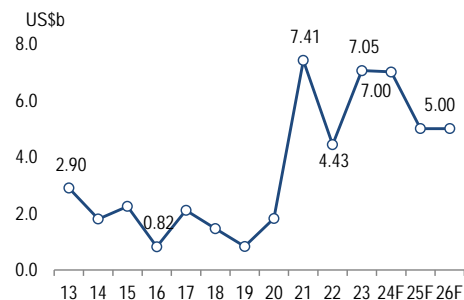
VALUATION/RECOMMENDATION

- We maintain BUY on the stock with a higher PE-based target price of S\$2.86** as we roll forward our valuation year to 2025 coupled with the earnings changes outlined above. We use a target PE of 9.0x which is 2SD above the company's five-year average of 6.0x and believe that this premium to its average PE multiple is justified given its earnings visibility that now extends into 2028 as well as its strong track record of safe and efficient shipbuilding for its international customer base. At our new target price of S\$2.86, we note that YZJ remains inexpensive relative to its regional peers, trading at 2025 P/B of 1.6x and generating an ROE of 20% while its Korean peers trade at 1.8x P/B with 9-14% ROE.

SHARE PRICE CATALYSTS

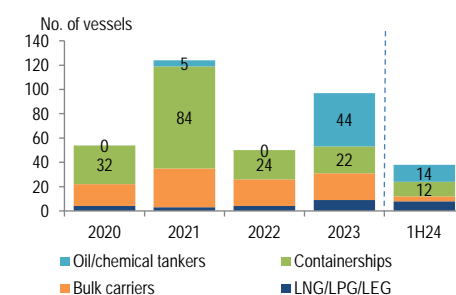
- Better capital management.
- New orders in higher-margin shipbuilding segments, eg dual-fuel containerships, oil and/or LPG tankers.
- Safe and efficient execution of orderbook and evidence that the company can maintain its high shipbuilding margins of around 20%.

HISTORICAL AND FORECAST ORDER WINS



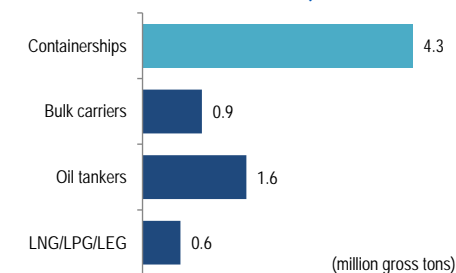
Source: YZJ

NO. OF VESSELS WON BY YEAR



Source: YZJ

ORDERBOOK BY VESSEL TYPE (AS AT 24 MAY 24)



Source: YZJ

CHANGES TO EARNINGS FORECASTS

Rmb m	2024E	2025E	2026E
NPAT - was	4,541	4,953	4,793
NPAT - is	4,989	5,935	6,250
Change	9.9%	19.8%	30.4%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Net turnover	24,112	31,097	39,421	42,427
EBITDA	5,274	5,925	7,100	7,485
Deprec. & amort.	495	495	495	495
EBIT	4,779	5,429	6,605	6,989
Total other non-operating income	250	676	677	677
Associate contributions	198	198	198	198
Net interest income/(expense)	(96)	(38)	(26)	(14)
Pre-tax profit	5,131	6,265	7,454	7,850
Tax	(1,061)	(1,316)	(1,565)	(1,649)
Minorities	32	39	46	49
Net profit	4,102	4,989	5,935	6,250
Net profit (adj.)	4,102	4,989	5,935	6,250

CASH FLOW

Year to 31 Dec (Rmbm)	2023	2024F	2025F	2026F
Operating	7,973	4,314	5,106	5,778
Pre-tax profit	4,069	4,950	5,889	6,202
Tax	0	0	0	0
Deprec. & amort.	495	495	495	495
Associates	(198)	(198)	(198)	(198)
Working capital changes	3,373	(433)	(581)	(222)
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	(792)	(989)	(1,287)
Dividend payments	(1,053)	(1,292)	(1,491)	(1,789)
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	2,732	3,327	3,701
Beginning cash & cash equivalent	10,778	16,561	19,293	22,620
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	16,561	19,293	22,620	26,321

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	4,589	4,783	4,976
Cash/ST investment	16,561	19,293	22,620	26,321
Other current assets	12,689	15,765	19,420	22,161
Total assets	40,864	47,164	54,639	61,574
ST debt	3,965	3,965	3,965	3,965
Other current liabilities	13,611	14,838	16,213	16,694
LT debt	1,630	1,500	1,500	1,500
Other LT liabilities	515	515	515	515
Shareholders' equity	20,941	26,182	32,328	38,831
Minority interest	202	163	117	68
Total liabilities & equity	40,864	47,164	54,639	61,574

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	21.9	19.1	18.0	17.6
Pre-tax margin	21.3	20.1	18.9	18.5
Net margin	17.0	16.0	15.1	14.7
ROA	11.1	11.3	11.7	10.8
ROE	21.3	21.2	20.3	17.6
Growth				
Turnover	16.5	29.0	26.8	7.6
EBITDA	66.6	12.3	19.8	5.4
Pre-tax profit	55.4	22.1	19.0	5.3
Net profit	57.0	21.6	19.0	5.3
Net profit (adj.)	57.0	21.6	19.0	5.3
EPS	56.2	21.6	19.0	5.3
Leverage				
Debt to total capital	20.9	17.2	14.4	12.3
Debt to equity	26.7	20.9	16.9	14.1
Net debt/(cash) to equity	(52.4)	(52.8)	(53.1)	(53.7)
Interest cover (x)	54.9	155.6	272.0	529.7

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 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W