

COMPANY UPDATE

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

Upgrading To BUY As Risk-Reward Looks Attractive

YZJ's stellar share price performance since the demerger of its debt investments arm in Apr 22 has led to recent profit-taking on the stock. With the potential for a doubling of dividends that could be announced at end-Feb 23 plus a potential US\$400m new order win on the cards, we upgrade YZJ to BUY. Target price remains unchanged at S\$1.55.

WHAT'S NEW

- Upgrade to BUY as risk-reward looks attractive.** Since Yangzijiang Shipbuilding (YZJ) demerged its debt investments arm in late-Apr 22, its share price has risen by >31% and easily outperformed the STI's -1.4% return over the same period. As a result, YZJ's share price (like some of the other outperformers in 2022) suffered from profit-taking in the first few trading days of 2023. In addition, the perceived "loss" of a large LNG order has added to the negative sentiment on the stock. As a result of the recent share price weakness, we now believe that YZJ's risk-reward looks attractive with nearly 30% upside to our PE-based target price of S\$1.55 and thus upgrade YZJ to a BUY.
- Potential for higher-than-expected dividends.** In our view, YZJ may announce a higher-than-expected dividend when it releases its annual results at the end of Feb 23. Historically the company has paid a dividend of S\$0.04 to \$0.05 per share, however we point out that it had around S\$0.19 per share of cash (as at end-Jun 22) and limited need to either fund: a) a debt investment arm, or b) growth or maintenance capex. Assuming it pays out half of its cash hoard, this would equate to a yield of 9.5%.
- Potential US\$400m new order win – its first in 2023.** According to industry sources, Lepta Shipping of Japan has ordered four neo-Panamax container vessels from YZJ. Note that the pricing for neo-Panamax vessels in the past two years has ranged between US\$100m-140m per vessel. Given that Lepta is: a) an existing client of YZJ's having ordered 10 container vessels from the company in 2020, and b) is a JV between Nissen Kaiun and Mitsui & Co, and with YZJ having strong ties with the latter, it should be no surprise that YZJ was the preferred shipbuilder for Lepta. We believe that YZJ has not publicly disclosed this order as it has yet to receive the first downpayment for this order.
- Receipt of winding-up application by YZJ's subsidiary a non-event in our view.** On 8 Jan 23, YZJ's dormant subsidiary, Yangzijiang Shipping, received a winding-up application that originated from a dispute regarding a US\$4.8m profit from the sale of an oil tanker. In the worst-case scenario, this level of provision amounts to <1% of our estimated 2022 earnings and thus is immaterial in our view.

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)	7.3	6.6	8.6	7.3	6.6
P/B (x)	0.7	0.7	1.5	1.1	1.0
EV/EBITDA (x)	4.2	3.8	4.0	3.5	3.2
Dividend yield (%)	3.6	4.0	3.0	3.5	3.9
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	-	-	2,543	3,158	3,372
UOBKH/Consensus (x)	-	-	1.11	1.06	1.10

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

BUY

(Upgraded)

Share Price	S\$1.21
Target Price	S\$1.55
Upside	+27.7%

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):	4,780.2
Market cap (US\$m):	3,589.0
3-mth avg daily t'over (US\$m):	36.2

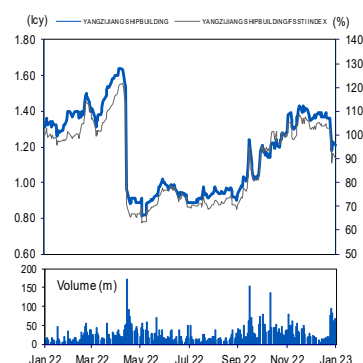
Price Performance (%)

52-week high/low	S\$1.43/S\$0.655			
1mth	3mth	6mth	1yr	YTD
(10.4)	2.5	36.7	76.5	(11.0)

Major Shareholders

	%
Ren Yuanlin	23.0
Wang Dong	10.1
T.Rowe Price	5.9
FY23 NAV/Share (Rmb)	5.64
FY23 Net Cash/Share (Rmb)	2.67

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- “Loss” of large LNG order.** On 2 Jan 23, industry sources indicated that one of China’s state-owned shipyards, China Merchants Industry Holdings, had won an order for four 180,000cbm LNG carriers (LNGC) from Celsius Tankers. As the market had been holding out hope that this could be awarded to YZJ, its perceived “loss” of this large US\$1.88b led to the stock being sold down. However after speaking to management, it appears that YZJ walked away from this large order as the margins were thinner than normal. Recall that at its 3Q22 analyst briefing, YZJ’s management had stated that it will selectively accept new orders for large LNGCs as it sees some supply chain risk for equipment and raw materials. Thus, backing away from this large order should not come as a major surprise in our view.
- Lack of newsflow until after Lunar New Year.** We highlight that YZJ is unlikely to announce any new order wins until at least mid- to late-Feb 23 as a result of the Chinese Lunar New Year. It should be noted that YZJ’s order wins in 2022 have easily exceeded expectations with nearly US\$4.2b in new orders vs guidance of US\$2b. For 2023, the company has maintained its “standard” order-win expectation of US\$2b with orders for tankers and bulk carriers rather than containerships, while LNG vessels will witness longer term growth.

EARNINGS REVISION/RISK

- None.

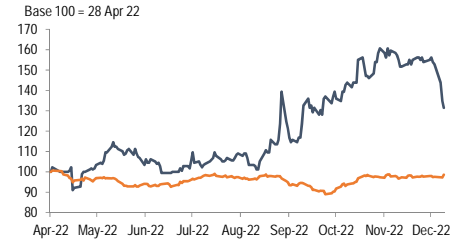
VALUATION/RECOMMENDATION

- Upgrading to BUY with a target price of S\$1.55** using a target PE multiple of 9.0x to our 2023 EPS forecast. Our target PE multiple is 1SD above YZJ’s past five-year average of 6.7x which we view as fair given the company’s earnings growth in 2023, as well as the stability of its earnings due to its US\$10.3b orderbook at present. We note that at our fair value of S\$1.55, YZJ would trade at a 2023F P/B of 1.3x.
- Apart from near-term dividend upside, YZJ’s valuations appear attractive.** Due to the recent decline in YZJ’s share price, we highlight that the stock is now trading on attractive 2023F PE and EV/EBTIDA of 7.3x and 3.5x respectively, in addition to the potential upside in dividends that could be realised in the next few months.

SHARE PRICE CATALYST

- Evidence of margin expansion from 2023 onwards.
- New orders in higher-margin shipbuilding segments, eg dual-fuel containerships, LPG tankers or large LNG carriers.

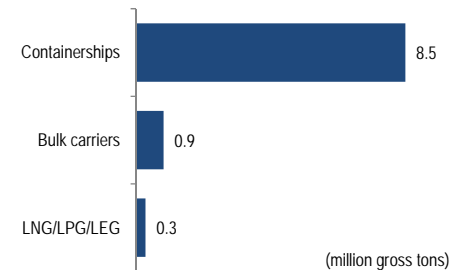
SHARE PRICE PERFORMANCE SINCE DEMERGER OF DEBT INVESTMENTS ARM



Note: Base 100 from the date of the demerger of its debt investments arm

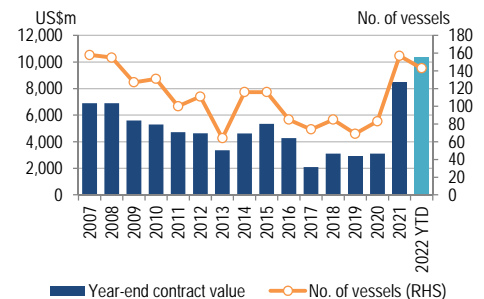
Source: Bloomberg

YZJ'S ORDERBOOK BY TYPE OF VESSEL



Source: YZJ

YZJ'S ORDERBOOK: CONTRACT VALUE VS NO. OF VESSELS



Source: YZJ

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

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