

COMPANY UPDATE

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

Continues To Execute Well

YZJ continues to execute well, delivering 18 vessels in 2Q22 to date. In our view, this operational performance is impressive given the challenges that the company has faced due to China's "dynamic zero-COVID" strategy. As a result, YZJ should be able to hit or even exceed its target of delivering 60 vessels this year. Trading at 2022F PE of 5.4x and yielding 4.7%, YZJ is a compelling and defensive stock. Maintain BUY. Target price: S\$1.16.

WHAT'S NEW

- **Executing well in 2Q22.** Our channel checks indicate that Yangzijiang Shipbuilding (Holdings) (YZJ) has had a very busy 2Q22 to date with 18 vessels having been delivered (see table overleaf). Importantly, we note that three of its 2Q22 deliveries were for the larger class of containerhips (ie larger than 10,000TEU), which we believe should generate higher shipbuilding margins for YZJ in 2022.
- **Impressive operational performance, especially in light of external hurdles.** In our view, these deliveries are even more impressive in light of the challenges that it and its suppliers have faced due to China's "dynamic zero-COVID" strategy with disruptions and delays to the domestic and international supply chain as well as labour issues. YZJ had previously disclosed that it has a target of delivering 60 vessels in 2022 – given that 34 of these vessels have been delivered thus far, the company could potentially exceed this and achieve its stretch target of 70 vessels.
- **New Changbo yard at full capacity.** YZJ disclosed that its Changbo yard, restarted at the beginning of 1H21, is already working at full capacity. Being a smaller yard, it has been deployed towards the construction of smaller-sized vessels. In the past 12 months, the yard has completed and delivered two 1,800TEU containerhips with a third one tentatively scheduled for 27 Jul 22.
- **Shipping business continues to perform well.** YZJ's fleet of 26 vessels generated a solid 40% gross margin in 2021 on the back of a 32% yoy increase in revenue. Management expects this segment to continue to perform strongly in 1H22 and highlighted that with an average age of eight years, it is a young fleet.
- **New order wins.** According to industry sources, YZJ may be in line to win new orders for LNG or dual-fuelled neo-Panamaxes (12,000-14,000TEU containerhips), 64,000dwt bulk carriers and possibly LNG carriers.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	14,841	16,768	20,393	31,191	30,799
EBITDA	3,398	3,727	3,755	4,733	4,473
Operating profit	2,884	3,226	3,255	4,233	3,973
Net profit (rep./act.)	2,516	3,699	3,316	4,093	3,898
Net profit (adj.)	3,323	3,666	3,316	4,093	3,898
EPS (Fen)	84.2	92.9	84.0	103.7	98.8
PE (x)	5.4	4.9	5.4	4.4	4.6
P/B (x)	0.5	0.5	1.1	0.8	0.7
EV/EBITDA (x)	3.8	3.4	3.4	2.7	2.8
Dividend yield (%)	4.9	5.4	4.7	5.8	5.5
Net margin (%)	17.0	22.1	16.3	13.1	12.7
Net debt/(cash) to equity (%)	(7.4)	(22.1)	(34.0)	(45.0)	(50.4)
Interest cover (x)	45.1	53.3	60.5	94.6	117.5
ROE (%)	7.9	10.8	12.8	21.3	16.2
Consensus net profit	-	-	3,119	3,557	3,491
UOBKH/Consensus (x)	-	-	1.06	1.15	1.12

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

BUY

(Maintained)

Share Price	S\$0.95
Target Price	S\$1.16
Upside	+22.8%
(Previous TP)	S\$1.95)

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 containerhips, 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):	3,753.1
Market cap (US\$m):	2,703.7
3-mth avg daily t'over (US\$m):	26.5

Price Performance (%)

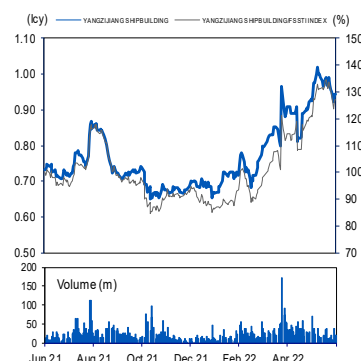
52-week high/low S\$1.02/S\$0.649

1mth	3mth	6mth	1yr	YTD
5.0	26.1	40.7	31.6	36.5

Major Shareholders

	%
Ren Yuanlin	21.8
Wang Dong	10.1
T.Rowe Price	7.0
FY22 NAV/Share (Rmb)	4.13
FY22 Net Cash/Share (Rmb)	1.40

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **YZJ completed the spin-off of YZJ Financial Holdings (YZJFH SP, Not Rated, S\$0.43)** in Apr 22 via a distribution in specie, representing a dividend distribution of Rmb20b (S\$4.26b) or S\$1.09/share by YZJ itself. Post its listing, YZJFH has no debt and around S\$4.2b in cash and short-term investments. At its current 2021 P/B of 0.5x, it is trading at the low end of its peers' P/B trading range of 0.5-2.1x. YZJ has historically generated strong operating cash flows from its debt investments business, which should support its proposed dividend policy of at least 40% of net profit after tax.

EARNINGS REVISION/RISK

- Our earnings estimates have been adjusted due to the demerger of the debt investments business. However we have not made any changes to our profit margin or earnings assumptions for the shipbuilding, ship chartering or trading business.

VALUATION/RECOMMENDATION

- **Maintain BUY with an SOTP-based target price of S\$1.16**, which has been adjusted down post the demerger of its debt investments business into YZJFH. We have used a 8x and 5x multiple for its shipbuilding and trading & other business segments respectively, thus arriving at a S\$1.13 and \$0.08/share valuation for these two segments (see table below). By using publicly-sourced replacement cost for its shipping assets, we value this segment at Rmb4.4b or \$0.24/share – this is double that of the company's carrying cost of these assets, or approximately 3x higher than its book value of \$0.09 as at end-21. At our target price, YZJ would trade at a 2022F PE of 6.7x which we do not view as stretched.
- **Inexpensive valuations.** YZJ currently trades at a 2022F PE of 5.4x which is a 17% discount to, and 1SD below, its five year average of 6.6x. While its 2022F P/B of 1.1x is higher than its past five-year average of 0.7x, we highlight that the company is forecast to increase its ROE from 10.8% in 2021 to 12.8% in 2022. In addition, assuming that YZJ maintains a payout ratio of 25% for 2022 (2021: 26%), the stock would yield 4.7% and thus provide downside support to the share price.

SUM-OF-THE-PARTS VALUATION

Business segment	Basis	Multiple (x)	Valuation			
			Rmbm	S\$m	S\$/share	
Shipbuilding	Gross profit	Rmb2,591m	8.0	20,728	4,420	1.13
Ship chartering	Replacement cost			4,353	928	0.24
Trading/Others	Gross profit	Rmb306m	5.0	1,531	326	0.08
Net debt/(cash)				-5,300	-1,130	-0.29
Total				21,312	4,544	1.16

Source: UOB Kay Hian, Fearnleys, Clarksons

SHARE PRICE CATALYST

- Evidence of margin expansion from 1H22 onwards.
- New orders in higher margin segments, eg dual-fuel containerships or LPG tankers.

DELIVERIES IN 2022 TO DATE

Delivery date	Type	Capacity	Client
Jun-22	Containership	11,800TEU	Seaspan
Jun-22	Bulk carrier	31,800dwt	Navibulgar
Jun-22	Containership	1,800TEU	Ruiyang Shipping
Jun-22	Containership	1,800TEU	SITC
Jun-22	Containership	2,400TEU	SITC
Jun-22	Containership	12,200TEU	Seaspan
May-22	Chemical tanker	13,000dwt	Tarbit
May-22	Containership	1,800TEU	SITC
May-22	LNG tank carrier	25,000dwt	Tiger Gas
Apr-22	Containership	2,400TEU	SITC
Apr-22	Chemical tanker	13,000dwt	Tarbit
Apr-22	Containership	12,200TEU	Seaspan
Apr-22	Bulk carrier	59,000dwt	Baosteel Shipping
Apr-22	Containership	1,800TEU	Huayuan Shipping

Source: YZJ

FIVE-YEAR PE CHART



Source: Bloomberg, UOB Kay Hian

FIVE-YEAR P/B CHART



Source: Bloomberg, UOB Kay Hian

BALTIC DRY INDEX



Source: Bloomberg

CHINA DOMESTIC HOT ROLLED STEEL – SPOT PRICE YTD



Source: Bloomberg

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	16,768	20,393	31,191	30,799
EBITDA	3,727	3,755	4,733	4,473
Deprec. & amort.	501	501	501	501
EBIT	3,226	3,255	4,233	3,973
Total other non-operating income	1,364	676	676	676
Associate contributions	362	362	362	362
Net interest income/(expense)	(70)	(62)	(50)	(38)
Pre-tax profit	4,882	4,230	5,220	4,972
Tax	(1,155)	(888)	(1,096)	(1,044)
Minorities	(28)	(26)	(31)	(30)
Net profit	3,699	3,316	4,093	3,898
Net profit (adj.)	3,666	3,316	4,093	3,898

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	5,268	5,018	5,143	5,267
Other LT assets	7,792	4,317	4,653	4,989
Cash/ST investment	12,381	9,868	11,249	13,764
Other current assets	26,172	12,343	15,442	15,349
Total assets	51,612	31,546	36,486	39,370
ST debt	2,504	2,504	299	299
Other current liabilities	9,295	9,228	10,877	10,850
LT debt	1,953	1,953	802	503
Other LT liabilities	1,799	1,799	1,799	1,799
Shareholders' equity	35,923	15,923	22,539	25,719
Minority interest	138	138	170	200
Total liabilities & equity	51,612	31,546	36,486	39,370

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	6,143	3,059	2,313	3,633
Pre-tax profit	3,727	3,342	4,124	3,928
Tax	0	0	0	0
Deprec. & amort.	501	501	501	501
Associates	(362)	(362)	(362)	(362)
Working capital changes	2,737	78	(1,450)	66
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)	(332)	(517)
Dividend payments	(843)	(925)	(832)	(1,017)
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	(2,512)	1,380	2,516
Beginning cash & cash equivalent	6,651	12,381	9,868	11,249
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	12,381	9,868	11,249	13,764

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	22.2	18.4	15.2	14.5
Pre-tax margin	29.1	20.7	16.7	16.1
Net margin	22.1	16.3	13.1	12.7
ROA	7.7	8.0	12.0	10.3
ROE	10.8	12.8	21.3	16.2
Growth				
Turnover	13.0	21.6	53.0	(1.3)
EBITDA	9.7	0.8	26.0	(5.5)
Pre-tax profit	48.4	(13.3)	23.4	(4.8)
Net profit	47.0	(10.3)	23.4	(4.8)
Net profit (adj.)	10.3	(9.5)	23.4	(4.8)
EPS	10.3	(9.5)	23.4	(4.8)
Leverage				
Debt to total capital	11.0	21.7	4.6	3.0
Debt to equity	12.4	28.0	4.9	3.1
Net debt/(cash) to equity	(22.1)	(34.0)	(45.0)	(50.4)
Interest cover (x)	53.3	60.5	94.6	117.5

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