

## COMPANY RESULTS

### Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

1H22: Operationally Strong, With Higher Margins Expected In 2H22

Operationally, YZJ reported a strong 1H22 with 35 vessels delivered and nearly US\$1.1b in new orders, which brought its net orderbook to US\$8.13b. Sequentially its shipbuilding margin expanded by 2ppt to 12.8% – the company expects this to continue to rise over the next 12-18 months. One-fifth of YZJ's market capitalisation is in cash, and it trades at an inexpensive 2023F PE of 5.4x. Maintain BUY. Target price: S\$1.16.

#### 1H22 RESULTS\*

6M to 30 Jun (Rmbm)	1H21	1H22	yoy	Remarks
Revenue	5,739.0	9,741.1	69.7%	- delivered 35 vessels
Gross profit	869.5	1,424.0	63.8%	
Impairments	38.8	(90.7)	NM	- fair value loss on USD/CNY forward contracts
Associates	63.8	5.5	-91.4%	
Pre-tax profit	1,233.2	1,475.7	19.7%	
Net profit	884.6	1,170.6	32.3%	- shipbuilding margins lower yoy due to higher raw materials costs
GP margin	115.2%	114.6%	-0.5ppt	
OP margin	21.5%	15.1%	-6.3ppt	
NP margin	15.4%	12.0%	-3.4ppt	

Note: \* Results are from continuing operations after the spin-off of Yangzijiang Financial in Apr 22

Source: Yangzijiang Shipbuilding (Holdings), UOB Kay Hian

## RESULTS

- **Operationally a strong set of numbers.** Yangzijiang Shipbuilding (YZJ) reported 1H22 revenue growth of 70% to Rmb9.7b, which resulted in a 32% yoy increase in net profit from continuing operations to Rmb1.2b. As guided by management and as previewed in our previous note, the company delivered 35 vessels during 1H22 which, on a run-rate basis, is ahead of its previous 2022 delivery target of 60 vessels. In our view, YZJ is highly likely to achieve its new target of 70 vessels. At the bottom line however, results missed expectations due to fair value loss on currency hedges.
- **While 1H22's shipbuilding margin of 12.8% was slightly lower than expected vs our full-year forecast of 13.5%,** due to higher raw material costs, it was positive to note that the margin was sequentially higher than the 10.8% margin achieved in 2H21. During the analyst briefing, the company stated that it expects its shipbuilding margin to continue to expand in the next 12-18 months as it transitions towards building its higher-margin orders that it garnered in 2021.

## 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)	5.4	4.9	6.4	5.4	4.9
P/B (x)	0.5	0.5	1.1	0.8	0.7
EV/EBITDA (x)	3.8	3.5	3.7	3.2	2.9
Dividend yield (%)	4.9	5.4	4.0	4.7	5.2
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	-	-	2,720	3,174	3,320
UOBKH/Consensus (x)	-	-	1.04	1.05	1.11

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

## BUY

(Maintained)

Share Price	S\$0.935
Target Price	S\$1.16
Upside	+23.6%

## 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):	3,693.8
Market cap (US\$m):	2,676.5
3-mth avg daily t'over (US\$m):	14.9

## Price Performance (%)

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

1mth	3mth	6mth	1yr	YTD
5.6	5.1	28.6	20.0	34.3

## 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)

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### STOCK IMPACT

- Outlook for new orders.** Despite having an US\$8.13b orderbook with deliveries stretching into 2025, management appeared confident in achieving US\$2b in orders this year (ytd order wins: US\$1.1b). Importantly, YZJ disclosed that despite its burgeoning orderbook, it still has slots for large-vessel deliveries in 2024 and thus expects to capitalise on this. The company stated that its clients are increasingly focusing on reducing emissions, which is why 1H22 saw a number of dual-fuel vessel orders. In the future, while dual-fuel vessels which use LNG are part of the solution to lower emissions, it is still not a zero-emissions product. As a result, the company has been working with its clients on the technology side towards ammonia-powered vessels.
- Growing its shipping business.** In 1H22, YZJ's shipping business witnessed a 2.2ppt yoy margin increase to 40.3%, underlining the continued buoyancy of this segment. Notably, the company added three vessels to its fleet - one 82,000dwt bulk carrier and two 1,800TEU containerships. During the analyst call, the company stated that these vessels were built on a speculative basis two years ago and while they are currently operating within its shipping fleet, it will look to divest them in the near to medium term.
- Still holding a lot of cash.** As at end-1H22, YZJ had net cash of Rmb3.7b, which equates to S\$0.19/share. During the analyst briefing, management stated that its capex in 2022 may increase slightly given its Rmb6m investment in the Jianying LNG terminal and will also look to return cash to its shareholders. Management however did not commit to whether this would be in the form of a share buyback or a higher dividend payout.

### EARNINGS REVISION/RISK

- Lowering earnings forecasts by 5-15%.** We have marginally lowered our gross profit margin assumptions for all three of the company's business segments by 0.5ppt to account for higher-than-expected cost inflation. We also highlight that our earnings downgrade for 2022 principally relates to fair value losses from currency hedging, both at the company and at the associate/JV level.

### VALUATION/RECOMMENDATION

- Maintain BUY with an SOTP-based target price of S\$1.16.** We have used a 8x and 5x multiple for its shipbuilding and trading & other business segments respectively, thus arriving at a S\$1.14 and S\$0.04/share valuation for these two segments (see table below). By using publicly-sourced replacement cost for its shipping assets, we value this segment at Rmb4.8b or S\$0.26/share – this is double that of the company's carrying cost of these assets, or 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 6.9x which we do not view as stretched.
- Inexpensive valuations.** YZJ currently trades at a 2023F PE of 5.4x which is an 18% discount to, and 1SD below, its five-year average of 6.6x. Its 2023F P/B of 0.8x is largely in line with its past five-year average of 0.7x. In addition, assuming that YZJ maintains a payout ratio of 25% for 2022 (2021: 26%), the stock would yield 4.0% and thus provide downside support for its share price.

### SOTP VALUATION

Business segment	Basis		Multiple (x)	Valuation		
				Rmb m	S\$m	S\$/share
Shipbuilding	Gross profit*	Rmb2,985m	8.0	20,894	4,455	1.14
Ship chartering	Replacement cost			4,799	1,023	0.26
Trading/Others	Gross profit*	Rmb156m	5.0	781	167	0.04
Net debt/(cash)				-5,300	-1,130	-0.29
<b>Total</b>				<b>21,175</b>	<b>4,515</b>	<b>1.16</b>

Note: \* average of gross profit for 2022E and 2023E

Source: UOB Kay Hian, Fearnleys, Clarksons

### SHARE PRICE CATALYST

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

### ONE-YEAR FORWARD P/B CHART



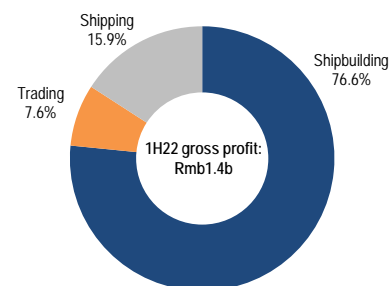
Source: Bloomberg, UOB Kay Hian

### PE CHART



Source: Bloomberg, UOB Kay Hian

### 1H22: SPLIT OF GROSS PROFIT BY BUSINESS SEGMENT



Source: YZJ

### CHANGES TO EARNINGS FORECAST

RMB m	2022F	2023F	2024F
Net profit - was	3,316	3,641	3,898
Net profit - is	2,826	3,337	3,694
Change	-14.8%	-8.3%	-5.2%

Source: UOB Kay Hian

## 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
<b>Total assets</b>	<b>51,612</b>	<b>31,404</b>	<b>34,888</b>	<b>38,398</b>
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
<b>Total liabilities &amp; equity</b>	<b>51,612</b>	<b>31,404</b>	<b>34,888</b>	<b>38,398</b>

## CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>6,143</b>	<b>2,917</b>	<b>2,488</b>	<b>3,025</b>
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)
<b>Investing</b>	<b>315</b>	<b>(600)</b>	<b>(600)</b>	<b>(600)</b>
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
<b>Financing</b>	<b>(728)</b>	<b>(4,971)</b>	<b>(240)</b>	<b>(332)</b>
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
<b>Net cash inflow (outflow)</b>	<b>5,730</b>	<b>(2,654)</b>	<b>1,649</b>	<b>2,093</b>
Beginning cash & cash equivalent	6,651	12,381	9,726	11,375
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>12,381</b>	<b>9,726</b>	<b>11,375</b>	<b>13,468</b>

## KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
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
<b>Growth</b>				
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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