

## COMPANY UPDATE

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

Valuations Starting To Look Stretched; Downgrade To HOLD

YZJ's 3Q22 update showed solid project execution with continued timely delivery of its customers' ultra-large containerships. After its strong share price performance, the company's valuations now appear stretched – and with its yard capacity full until at least 2H25, further new-order wins may not drive YZJ's share price higher. We believe much of the good news has been captured and thus downgrade YZJ to HOLD. We roll forward our valuation year to 2023, resulting in a fair value of S\$1.55.

#### WHAT'S NEW

- **Downgrade to HOLD due to valuations.** Yangzijiang Shipbuilding's (YZJ) share price has easily outperformed the STI since the demerger of its financial investments arm in Apr 22 with the stock up 70.1% vs the STI's 1.7% increase. As a result, YZJ's PE and P/B valuations now look stretched relative to its historical range with the former close to 1SD above its five-year average while its P/B is above its five-year peak. We are also cognisant that its yard capacity is full until at least 2H25 and thus any new order wins would not necessarily lead to earnings accretion until at least 2024. We therefore downgrade YZJ to a HOLD rating.
- **New order wins on pause in the near term.** During its analyst briefing for its 3Q22 business update, management commented that it will likely see a pause in new-order wins until at least mid-1Q23 given that many shipowners are travelling, coupled with the fact that an extended holiday season is around the corner. It should be noted that YZJ's order wins this year have easily exceeded expectations with nearly US\$4.2b in new orders. 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.
- **No new capacity additions.** Despite the fact that YZJ's yards are full until 2024, thus any new orders will face delivery only from 2H25 onwards, the company's management stated that it remains content with its shipyard capacity and will not look to expand either organically or via acquisitions.
- **Strong execution of current orderbook.** YZJ disclosed that as at 13 Nov 22, it had delivered 60 vessels to its customers which is ahead of its Jan 22 management plan. As previewed during its 1H22 results briefing, YZJ expects to deliver 70 vessels this year.

#### 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)                        | 8.5    | 7.7    | 10.0   | 8.4    | 7.6    |
| P/B (x)                       | 0.8    | 0.8    | 1.7    | 1.3    | 1.1    |
| EV/EBITDA (x)                 | 6.8    | 6.2    | 6.5    | 5.7    | 5.2    |
| Dividend yield (%)            | 3.1    | 3.5    | 2.6    | 3.0    | 3.4    |
| 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          | -      | -      | 2,600  | 3,140  | 3,325  |
| UOBKH/Consensus (x)           | -      | -      | 1.09   | 1.06   | 1.11   |

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

## HOLD

(Downgraded)

|               |         |
|---------------|---------|
| Share Price   | S\$1.39 |
| Target Price  | S\$1.55 |
| Upside        | +11.5%  |
| (Previous TP) | \$1.44) |

#### 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):              | 5,491.3     |
| Market cap (US\$m):             | 3,997.5     |
| 3-mth avg daily t'over (US\$m): | 28.8        |

#### Price Performance (%)

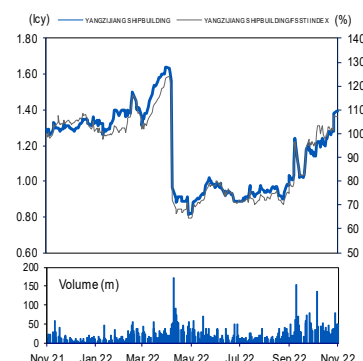
52-week high/low S\$1.38/S\$0.655

| 1mth | 3mth | 6mth | 1yr   | YTD  |
|------|------|------|-------|------|
| 18.8 | 44.8 | 69.5 | 109.0 | 99.7 |

#### Major Shareholders

|                           | %    |
|---------------------------|------|
| Ren Yuanlin               | 23.0 |
| 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

- **Overall shipbuilding margins expected to expand.** YZJ highlighted that with average steel prices in November at around Rmb4,400 per tonne, its shipbuilding margins could see some expansion for the ships that will be delivered in 2025 and 2026. While it has previously guided for flat shipbuilding margins in 2H22, it may improve in 2023 as it expects steel prices to gradually trend down. However, YZJ sounded a note of caution as some of its current construction projects commenced at a period when steel prices were high in 2021, thus limiting the margin expansion in 2023.
- **Expects to be selective for new orders for LNG carriers (LNGC).** On the analyst call, YZJ's management stated that it will selectively accept new orders for large LNGCs as it sees some supply chain risk for equipment and raw materials. While the company stated that gross profit for its LNGC construction will be good, it did not provide any guidance on the gross profit margin given that LNGCs have a longer construction period and use a larger amount of raw materials relative to other vessels and thus not comparable.
- **Still holding a lot of cash.** As at end-1H22, YZJ had net cash of Rmb3.7b, equating to S\$0.19/share. While the company's capex in 2022 may increase slightly given its Rmb6m investment in the Jianying LNG terminal, management has stated that it will also look to return cash to its shareholders. However, this return of cash to shareholders may take the form of either a share buyback or a higher dividend payout ratio for its full-year dividend.

### EARNINGS REVISION/RISK

- **None.**

### VALUATION/RECOMMENDATION

- **Downgrade to HOLD with a higher fair value of S\$1.55.** We have rolled forward our valuation year to 2023 and applied a target PE multiple of 9.0x (unchanged from previous target multiple) to our 2023 EPS forecast. Our target PE multiple is 1SD above the YZJ's past five-year average of 6.7x (see chart on RHS) 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 2023 P/B of 1.3x.

### 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.

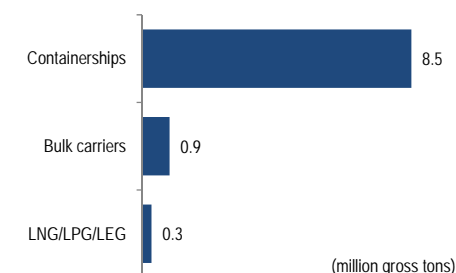
### FIVE-YEAR PE CHART



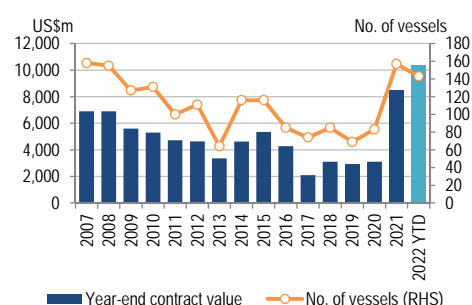
### FIVE-YEAR P/B CHART



### ORDERBOOK BY TYPE OF VESSEL



### ORDERBOOK: CONTRACT VALUE VS NO. OF VESSELS



**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)         |
| <b>Pre-tax profit</b>            | <b>4,882</b> | <b>3,574</b> | <b>4,220</b> | <b>4,671</b> |
| Tax                              | (1,155)      | (751)        | (886)        | (981)        |
| Minorities                       | (28)         | 3            | 3            | 4            |
| <b>Net profit</b>                | <b>3,699</b> | <b>2,826</b> | <b>3,337</b> | <b>3,694</b> |
| 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   |
| <b>Leverage</b>           |        |        |        |        |
| 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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