

COMPANY RESULTS

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

2022: Strong Results As Expected; Raising Orderbook Guidance To US\$3b

YZJ announced a record-high revenue of Rmb20.7b (+37% yoy) due to a 34% increase in vessels delivered. 2H22 shipbuilding gross margins improved to 13.5% and we expect further margin expansion towards the 15% level. We were disappointed that the company did not pay out more of its cash hoard, declaring a stable S\$0.05 DPS instead. With a robust orderbook of US\$11b, the company has revenue visibility up to 2026. Maintain BUY. Target price raised to S\$1.58.

2022 RESULTS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | yoy % chg | Remarks |
|-----------------------|--------|--------|-----------|---|
| Revenue | 15,137 | 20,705 | 36.8% | - Delivered 67 vessels in 2022 (2021: 50 vessels) |
| Gross profit | 2,084 | 3,197 | 53.4% | - Stronger margins due to favorable contract prices and lower steel costs |
| Operating profit | 2,596 | 3,396 | 30.8% | |
| Pre-tax profit | 2,622 | 3,302 | 26.0% | |
| PATMI* | 1,971 | 2,613 | 32.6% | |
| Gross margin | 13.8% | 15.4% | +1.6ppt | |
| PATMI margin | 13.0% | 13.6% | +0.6ppt | |

Note: * from continuing operations

Source: Yangzijiang Shipbuilding (Holdings), UOB Kay Hian

RESULTS

- Strong financial results.** Yangzijiang Shipbuilding (YZJ) announced a record-high revenue of Rmb20.7b (+37% yoy). The company's 53% yoy increase in gross profit to Rmb3.2b with a slight margin expansion at its shipbuilding segment to 13% was the key highlight. At the bottom line, the company saw a 33% yoy increase in PATMI from continuing operations to Rmb2.6b. Key to this strong result was the company delivering 67 vessels in 2022 (2021: 50 vessels) as well as a 44% yoy increase in shipping revenue arising from a larger charter fleet size and improved charter rates.
- Disappointing dividend.** YZJ declared a final dividend of S\$0.05 (2021: S\$0.045) which was disappointing in our view given that it had S\$0.31 in net cash as at end-22. While the company defended the lack of a special dividend by highlighting potential capex for shipyard expansion and/or M&A to cater to higher shipbuilding demand, we note that YZJ has ample headroom to borrow given its net cash position, and especially considering that interest rates in China appear to be trending in the opposite direction to global interest rates.

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover | 16,768 | 20,705 | 26,132 | 30,461 | 28,443 |
| EBITDA | 3,727 | 3,244 | 4,026 | 4,444 | 4,128 |
| Operating profit | 3,226 | 2,708 | 3,490 | 3,908 | 3,593 |
| Net profit (rep./act.) | 3,699 | 2,637 | 3,334 | 3,674 | 3,435 |
| Net profit (adj.) | 3,666 | 2,637 | 3,334 | 3,674 | 3,435 |
| EPS (Fen) | 92.9 | 66.8 | 84.5 | 93.1 | 87.1 |
| PE (x) | 7.4 | 10.2 | 8.1 | 7.3 | 7.8 |
| P/B (x) | 0.7 | 1.5 | 1.1 | 1.0 | 0.9 |
| EV/EBITDA (x) | 4.3 | 4.9 | 4.0 | 3.6 | 3.9 |
| Dividend yield (%) | 3.6 | 2.5 | 3.2 | 3.5 | 3.3 |
| Net margin (%) | 22.1 | 12.7 | 12.8 | 12.1 | 12.1 |
| Net debt/(cash) to equity (%) | (22.1) | (35.4) | (47.6) | (50.7) | (54.3) |
| Interest cover (x) | 53.3 | 30.4 | 80.4 | 116.7 | 158.1 |
| ROE (%) | 10.8 | 9.9 | 16.3 | 14.7 | 12.3 |
| Consensus net profit | - | - | 2,543 | 3,158 | 3,372 |
| UOBKH/Consensus (x) | - | - | 1.31 | 1.16 | 1.02 |

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

BUY

(Maintained)

| | |
|---------------|---------|
| Share Price | S\$1.33 |
| Target Price | S\$1.58 |
| Upside | +18.7% |
| (Previous TP) | S\$1.55 |

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): | 5,254.3 |
| Market cap (US\$m): | 3,912.3 |
| 3-mth avg daily t'over (US\$m): | 30.1 |

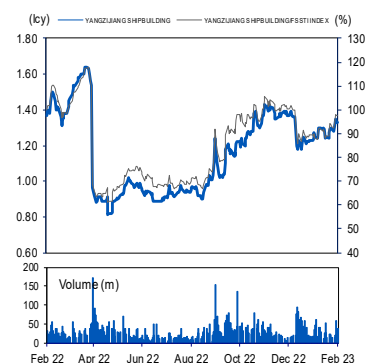
Price Performance (%)

| | |
|------------------|------------------|
| 52-week high/low | S\$1.43/S\$0.681 |
| 1mth | 8.1 |
| 3mth | (2.9) |
| 6mth | 41.5 |
| 1yr | 84.2 |
| YTD | (2.2) |

Major Shareholders

| | |
|---------------------------|------|
| Ren Yuanlin | 23.0 |
| Wang Dong | 10.1 |
| T.Rowe Price | 5.9 |
| FY23 NAV/Share (Rmb) | 6.08 |
| FY23 Net Cash/Share (Rmb) | 2.89 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **At an early stage of shipbuilding margin expansion.** Overall gross margins improved in 2022 as the company secured favourable contract prices and locked in a lower cost of steel used for its shipbuilding segment. YZJ stated that it expects its shipbuilding margins to improve in 2023 and we expect it to stabilise at around 15%.
- **Raising new order outlook to US\$3b.** Ytd in 2023, the company has clinched new orders totalling 14 vessels with a total contract size of US\$0.91b. As a result, YZJ has raised its new order outlook to US\$3b for this year, and stated that it will target mostly tankers as its clients are not placing orders for other types of vessels. In addition, the company stated that margins for bulk carriers are lower relative to other vessels and thus will leave the construction of such vessels to its other competitors. Currently, YZJ has a total outstanding orderbook of US\$11.03b for 149 vessels.
- **New orders for LNG vessels – being more circumspect.** Given that LNG vessels take about three years on average to construct vs two years for other vessels, YZJ revealed on the results call that it is taking a more measured approach since LNG carriers occupy the wharf for a longer period of time; it is being more conservative and not chasing after orders in the LNG vessel space. Nevertheless, YZJ expects the market to remain robust given supply-demand gaps due to the Russia-Ukraine war. For its current LNG carrier orders, construction is expected to start in 4Q23 and training of its workers as well and ordering of the necessary equipment are all on schedule.

EARNINGS REVISION/RISK

- **Mild upgrades.** We have raised our 2023 and 2024 earnings by 2-3% to take into account slightly higher gross profit margins for its shipbuilding segment. Our new gross profit margin estimates of 13.5% and 14.0% for 2023 and 2024 respectively are 50bps higher than previous estimates.

VALUATION/RECOMMENDATION

- **Maintain our BUY recommendation with a slightly higher target price of S\$1.58** as a result of our EPS upgrades. Our target PE multiple of 9.0x, applied to our 2023 EPS forecast, 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\$11b orderbook at present. We note that at our fair value of S\$1.58, YZJ would trade at a 2023F P/B of 1.3x.

SHARE PRICE CATALYST

- Better capital management.
- 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 P/B



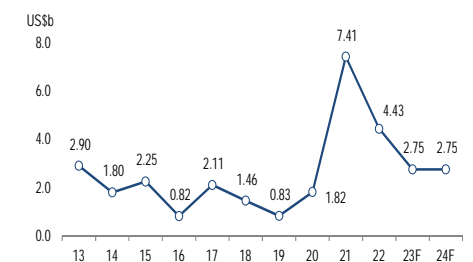
Source: Bloomberg, UOB Kay Hian

FIVE-YEAR PE



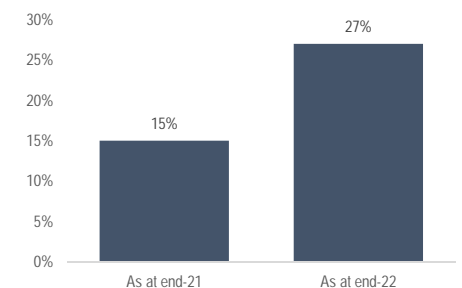
Source: Bloomberg, UOB Kay Hian

HISTORICAL AND FORECAST ORDER WINS



Source: Bloomberg, UOB Kay Hian

PERCENTAGE OF YZJ'S OUTSTANDING ORDERBOOK CLASSIFIED AS ECO-FRIENDLY



Source: YZJ

PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|----------------------------------|--------------|--------------|--------------|--------------|
| Net turnover | 20,705 | 26,132 | 30,461 | 28,443 |
| EBITDA | 3,244 | 4,026 | 4,444 | 4,128 |
| Deprec. & amort. | 536 | 536 | 536 | 536 |
| EBIT | 2,708 | 3,490 | 3,908 | 3,593 |
| Total other non-operating income | 688 | 676 | 676 | 677 |
| Associate contributions | 13 | 100 | 100 | 100 |
| Net interest income/(expense) | (107) | (50) | (38) | (26) |
| Pre-tax profit | 3,302 | 4,216 | 4,646 | 4,344 |
| Tax | (678) | (885) | (976) | (912) |
| Minorities | 12 | 3 | 4 | 3 |
| Net profit | 2,637 | 3,334 | 3,674 | 3,435 |
| Net profit (adj.) | 2,637 | 3,334 | 3,674 | 3,435 |

BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Fixed assets | 7,278 | 7,673 | 8,067 | 8,462 |
| Other LT assets | 2,679 | 2,754 | 2,828 | 2,903 |
| Cash/ST investment | 10,785 | 12,244 | 14,262 | 16,452 |
| Other current assets | 12,225 | 13,504 | 14,544 | 14,064 |
| Total assets | 32,967 | 36,175 | 39,702 | 41,882 |
| ST debt | 2,269 | 299 | 299 | (1) |
| Other current liabilities | 9,988 | 10,805 | 11,508 | 11,193 |
| LT debt | 2,298 | 802 | 503 | 504 |
| Other LT liabilities | 707 | 707 | 707 | 707 |
| Shareholders' equity | 17,573 | 23,433 | 26,560 | 29,357 |
| Minority interest | 132 | 128 | 125 | 121 |
| Total liabilities & equity | 32,967 | 36,175 | 39,702 | 41,882 |

CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|--|----------------|---------------|---------------|---------------|
| Operating | 4,632 | 2,805 | 3,269 | 3,533 |
| Pre-tax profit | 2,625 | 3,331 | 3,671 | 3,432 |
| Tax | 0 | 0 | 0 | 0 |
| Deprec. & amort. | 536 | 536 | 536 | 536 |
| Associates | (13) | (100) | (100) | (100) |
| Working capital changes | 1,100 | (462) | (337) | 165 |
| Non-cash items | 0 | 0 | 0 | 0 |
| Other operating cashflows | 385 | (500) | (500) | (499) |
| Investing | (877) | (905) | (905) | (905) |
| Capex (growth) | (905) | (905) | (905) | (905) |
| Capex (maintenance) | 0 | 0 | 0 | 0 |
| Investments | (209) | 0 | 0 | 0 |
| Proceeds from sale of assets | 46 | 0 | 0 | 0 |
| Others | 191 | 0 | 0 | 0 |
| Financing | (5,341) | (440) | (346) | (438) |
| Dividend payments | (975) | (940) | (846) | (940) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | 6,238 | 2,000 | 2,000 | 2,001 |
| Loan repayment | (6,210) | (1,500) | (1,500) | (1,499) |
| Others/interest paid | (4,394) | 0 | 0 | 0 |
| Net cash inflow (outflow) | (1,585) | 1,459 | 2,018 | 2,190 |
| Beginning cash & cash equivalent | 12,370 | 10,785 | 12,244 | 14,262 |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 10,785 | 12,244 | 14,262 | 16,452 |

KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---------------------------|--------|--------|--------|--------|
| Profitability | | | | |
| EBITDA margin | 15.7 | 15.4 | 14.6 | 14.5 |
| Pre-tax margin | 16.0 | 16.1 | 15.3 | 15.3 |
| Net margin | 12.7 | 12.8 | 12.1 | 12.1 |
| ROA | 6.2 | 9.6 | 9.7 | 8.4 |
| ROE | 9.9 | 16.3 | 14.7 | 12.3 |
| Growth | | | | |
| Turnover | 23.5 | 26.2 | 16.6 | (6.6) |
| EBITDA | (13.0) | 24.1 | 10.4 | (7.1) |
| Pre-tax profit | (32.3) | 27.7 | 10.2 | (6.5) |
| Net profit | (28.7) | 26.4 | 10.2 | (6.5) |
| Net profit (adj.) | (28.1) | 26.4 | 10.2 | (6.5) |
| EPS | (28.1) | 26.4 | 10.2 | (6.5) |
| Leverage | | | | |
| Debt to total capital | 20.5 | 4.5 | 2.9 | 1.7 |
| Debt to equity | 26.0 | 4.7 | 3.0 | 1.7 |
| Net debt/(cash) to equity | (35.4) | (47.6) | (50.7) | (54.3) |
| Interest cover (x) | 30.4 | 80.4 | 116.7 | 158.1 |

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