

COMPANY UPDATE

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

Strong Deliveries And Order Wins, With Revenue Visibility Well Into 2026

The lack of financials in its 1Q23 business update did not detract from what was a strong quarter for YZJ with 16 vessels delivered ytd and well on track to its target of 57 for the year. With US\$1.2b in new order wins, the company continues to fill its shipbuilding slots into 2026, underpinning its revenue visibility. A move towards a payout ratio instead of an absolute dividend should bolster market confidence. **Maintain BUY. Target price: S\$1.58.**

WHAT'S NEW

- **A strong qualitative update.** While Yangzijiang Shipbuilding (YZJ) reported a business update that did not contain financial numbers, it showed that execution of its shipbuilding orders continues to be strong ytd. In particular, the highlight was the delivery of two of the world's largest containerships at 24,364TEU each to its client MSC. It should be noted that the company has another four of such containerships that are currently undergoing construction. We strongly believe that YZJ will hit its target of 57 vessel deliveries this year given that ytd it has already delivered 16 vessels (or 28% of 2023 target).
- **Order wins continue to be robust.** YZJ disclosed that it had garnered US\$1.2b in new orders which means that it has achieved nearly 40% of its US\$3b orderbook expectation for 2023. In total, the company has won orders for 18 oil tankers, four bulk carriers and one LNG/LPG/LEG vessel. Despite the lack of containership orders this year, management nevertheless believes that there is still a decent possibility of more containership orders in the near term.
- **New order flows – what's exciting?** It was evident that management continues focus on oil tankers given that this segment is on an upswing globally and thus owners appear to be willing to put in orders. Additionally, the company believes that greener ships will be in greater demand (ie replacement of older vessels that have high sulfur, nitrous oxide and carbon dioxide) and it will be in a strong position to fill its yard slots with high-margin low-emission vessels that are dual-fueled with LNG.
- **Steel costs unlikely to head back up, in management's view.** YZJ disclosed that it currently imputes a cost of Rmb5,000 per tonne for steel plates for steel plates and does not believe that costs will increase in the near to medium term as demand is weak from other sectors, particularly the property sector. In our view, stable steel costs should benefit YZJ and enable it to generate higher shipbuilding margins which the company has guided for in 2023.

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) | 7.0 | 9.7 | 7.6 | 6.9 | 7.4 |
| P/B (x) | 0.7 | 1.4 | 1.1 | 0.9 | 0.8 |
| EV/EBITDA (x) | 3.9 | 4.5 | 3.6 | 3.3 | 3.5 |
| Dividend yield (%) | 3.8 | 2.6 | 3.4 | 3.7 | 3.5 |
| 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 | - | - | 3,213 | 3,440 | 3,133 |
| UOBKH/Consensus (x) | - | - | 1.04 | 1.07 | 1.10 |

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

BUY

(Maintained)

| | |
|--------------|---------|
| Share Price | S\$1.24 |
| Target Price | S\$1.58 |
| Upside | +27.4% |

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): | 4,938.2 |
| Market cap (US\$m): | 3,700.4 |
| 3-mth avg daily t'over (US\$m): | 24.3 |

Price Performance (%)

| | | | | |
|------------------|------------------|-------------|------------|------------|
| 52-week high/low | S\$1.43/S\$0.810 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 0.8 | 1.6 | 2.5 | 29.5 | (8.1) |

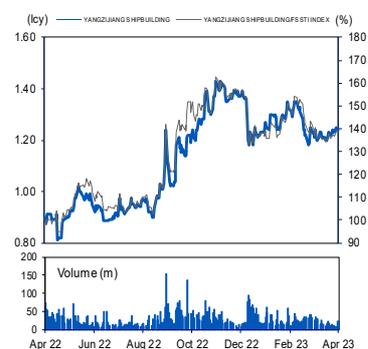
Major Shareholders

| | |
|--------------|------|
| | % |
| 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

- A more diversified orderbook.** During the analyst briefing, management highlighted its belief that it has a high quality orderbook given that is now more diversified compared with 2021 (see chart on RHS). In particular, its current orderbook has 56% containerships vs 70% in 2021. We also note that the geographical profile of its customers is much more varied at present in 2023 vs 2021 when more than half of its customers were from Canada. Nevertheless, management emphasised that the quality of the client itself matters rather than the country of origin of the orders.
- Shipping likely to disappoint in 1H23.** With the Baltic Dry Index having fallen to levels below that of 2021 and 2022, we anticipate that the segment's yoy gross profit will decline. In 2022, this segment contributed nearly 18% of the company's gross profit. During the analyst briefing, management stated that this segment will still generate profits despite the fall in shipping freight rates given that its breakeven is lower than others. During 1Q23, YZJ sold two of its vessels and should recognise a gain from these sales. We expect further sales during the course of 2023 as the company has stated that its shipping fleet is undergoing a fleet renewal programme.
- Moving to a payout ratio.** In our view, one of the major issues that YZJ faced in the past few years was its capital management. As at end-22 and on a per share basis, YZJ had Rmb1.61 or S\$0.31 per share in net cash but the company nevertheless chose to keep its 2022 dividend flat yoy at S\$0.05. At its analyst briefing yesterday, management stated that it will look to change its dividend policy from that of a 'standard' payout of S\$0.04-0.05 per share to a payout ratio. While the payout ratio has yet to be finalised, we believe that this is likely to be 35-40% of net profit. In our view, this is a positive move as a payout ratio is more flexible, aligns the interests of shareholders and management, and provides greater stability in dividend payments over time as it adjusts to changes in earnings.
- A one-off step into property.** On 29 Mar 23, YZJ announced that it had bought the 39 Robinson Road office building for S\$399m in an all-cash deal, equivalent to S\$2,360psf. YZJ itself will own 81% of the building while the remaining 19% will be owned by external parties. The company has stated that it does not intend to redevelop the building and will instead look to occupy 1-2 floors and rent the rest of it to other parties. At an assumed rental of S\$8psf, this would equate to a 4% yield. After this property purchase, YZJ will still be in a net cash position of c.S\$1.2b on our estimates which we believe is more than sufficient for its planned capex for its LNG terminal as well as any potential expansion of its Xinfu shipyard.

EARNINGS REVISION/RISK

- None.

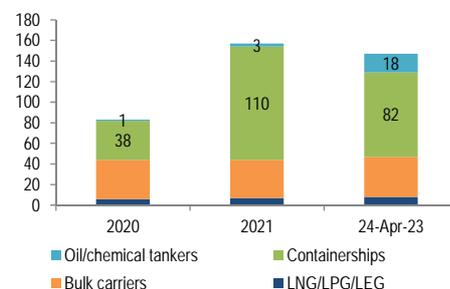
VALUATION/RECOMMENDATION

- Maintain BUY with PE-based target price of S\$1.58.** 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, a level that was last seen in 2012.

SHARE PRICE CATALYST

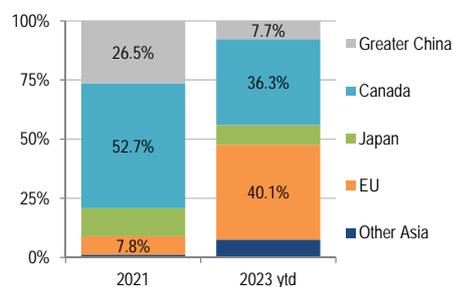
- Better capital management.
- Evidence of margin expansion from 2023 onwards.
- New orders in higher-margin shipbuilding segments, eg dual-fuel containerships, LPG tankers or large LNG carriers.
- Gains from sales of its ships and one remaining jack-up in its yard.

COMPOSITION OF ORDERBOOK BY VESSEL TYPE (NO. OF VESSELS)



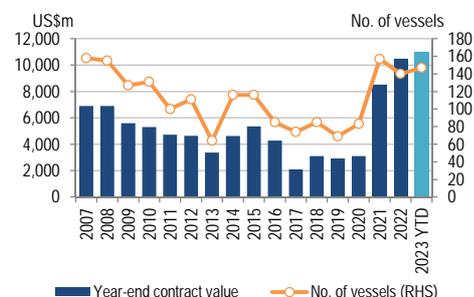
Source: YZJ

GEOGRAPHICAL BREAKDOWN OF CUSTOMERS



Source: YZJ

ORDERBOOK VS NO. OF VESSELS UNDER CONSTRUCTION



Source: YZJ

HISTORICAL AND FORECAST ORDER WINS



Source: Bloomberg, UOB Kay Hian

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 |

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 |

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 |

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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