

COMPANY UPDATE

**Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)**

Sailing Towards A Strong Year On Multiple Fronts

YZJ's 3Q23 business update indicated that the company remains on track to have another strong year for profits and new order wins, backed by an excellent track record in vessel deliveries. In 9M23, new orders for tankers have overtaken containerships. However, new global emissions standards could provide continued impetus for new orders in 2024. Maintain BUY. Raise target price to S\$1.92.

WHAT'S NEW

- **No surprises with solid outlook intact.** Yangzijiang Shipbuilding (YZJ) provided a solid 3Q23 business update, guiding that revenue trends thus far have been on track and should not provide any negative surprises to the market for the full year. Operationally, the company maintained its solid track record in delivering on its projects with two 24,000TEU containerships delivered to the Mediterranean Shipping Company being the key highlight for 3Q23.
- **Continues to experience strong order-win momentum.** As expected, order win momentum continued in 3Q23 with US\$770m in new orders. This has resulted in ytd orders worth US\$6.54b, well ahead of the company's admittedly conservative guidance of US\$3b and in line to possibly exceed our estimate of US\$7b.
- **A new phenomenon of surging tanker demand.** As presaged by management earlier in the year, YZJ has experienced very strong order wins for oil tankers this year with this segment making up 43% of the company's total order wins in 9M23 vs zero orders for such vessels in 2022. The company believes that, heading into 2024, the tanker market will remain buoyant and could see more order flow come through, driven by replacement of older vessels which do not meet new supra national emissions standards.
- **Containership outlook not as bad as feared.** During the analyst briefing, YZJ's CEO stated that while there is a meaningful supply of containerships in the next 2-3 years, the new order outlook remains reasonably solid given that new IMO regulations will drive the deeper adoption of dual-fuel LNG vessels. At present, the extremely high price of green methanol has led to a pause on orders for methanol-fueled vessels and, combined with the relatively limited supply chain for methanol, the focus is back onto LNG given the wide existence of its supply chain and reliable technology. As a result, YZJ believes that it remains in a strong competitive position to benefit from new orders, and will focus on high margin and high value ships in 2024, ie dual fuel containerships and tankers.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	16,768	20,705	24,231	30,502	34,499
EBITDA	3,727	3,244	4,230	4,752	5,318
Operating profit	3,226	2,708	3,695	4,216	4,783
Net profit (rep./act.)	3,699	2,637	3,496	3,918	4,376
Net profit (adj.)	3,666	2,637	3,496	3,918	4,376
EPS (Fen)	92.9	66.8	88.6	99.3	110.9
PE (x)	8.8	12.2	9.2	8.2	7.4
P/B (x)	0.9	1.8	1.3	1.1	0.9
EV/EBITDA (x)	5.6	6.5	5.0	4.4	3.9
Dividend yield (%)	3.0	2.1	4.4	3.1	3.5
Net margin (%)	22.1	12.7	14.4	12.8	12.7
Net debt/(cash) to equity (%)	(22.1)	(35.4)	(46.2)	(46.0)	(47.3)
Interest cover (x)	53.3	30.4	84.5	124.8	203.7
ROE (%)	10.8	9.9	16.5	14.6	13.9
Consensus net profit	-	-	3,595	4,038	4,286
UOBKH/Consensus (x)	-	-	0.97	0.97	1.02

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

BUY

(Maintained)

Share Price	S\$1.52
Target Price	S\$1.92
Upside	+26.3%
(Previous TP)	S\$1.88

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

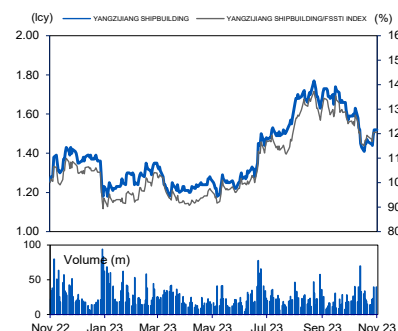
GICS sector	Industrials
Bloomberg ticker:	YZJSGD SP
Shares issued (m):	3,950.6
Market cap (S\$m):	6,004.9
Market cap (US\$m):	4,410.2
3-mth avg daily t'over (US\$m):	26.6
Price Performance (%)	
52-week high/low	S\$1.77/S\$1.18

1mth	3mth	6mth	1yr	YTD
(6.2)	(1.9)	19.7	19.7	11.8

Major Shareholders

	%
Ren Yuanlin	23.0
Wang Dong	10.1
T.Rowe Price	5.9
FY23 NAV/Share (Rmb)	6.41
FY23 Net Cash/Share (Rmb)	2.96

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Interesting comments on regional competition.** Management acknowledged that Korean yards continue to be a major force when it comes to LNG vessel construction. However, in all other shipbuilding segments, labour issues (such as workers' strikes and shortage of skilled labour) have impacted the Korean yards' competitiveness and ability to deliver on time. YZJ also highlighted that Korean yards face relatively higher costs and its supply chain is also problematic compared to Chinese yards which face more ready availability of steel due to lower demand from the property sector.
- Willing to expand, but it's all about location.** With its yard slots full until 2026 and mostly full for 1H27, management stated that it has been in regular discussion with the local government in Shanghai to explore various expansion opportunities. However, this comes with the strict proviso that it will only look to expand if there is suitable space next to its current yards. This would therefore allow YZJ to more quickly and easily expand without disrupting its current operations and extending its management. The company commented that with the overall downturn in a number of economic sectors in and around Shanghai, the local government can now assist and focus more of its attention on the shipbuilding sector, although no timeline was provided.
- Shipping likely to be sequentially stronger in 2H23.** With the Baltic Dry Index (BDI) having staged a mild recovery in 2H23, it would appear that this segment's gross profit on a sequential basis will be better. In 1H23, with the BDI averaging 1,157, YZJ's shipping segment delivered gross profit of Rmb180m (-20% yoy). With the BDI averaging 1367 in 2H23 to date and 18% higher hoh, we expect the shipping segment to post better numbers. Interestingly, management stated during the analyst briefing that it is in the process of reconfiguring five of its bulk carriers from domestic to international usage, thus underscoring the increasing importance of this business' recurring revenue stream to YZJ.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY with a slightly higher PE-based target price of S\$1.92**, which is pegged to a target PE multiple of 10.1x (+1.5SD above the company's five-year average of 6.8x). We believe the premium to its average PE multiple is justified given the company's earnings visibility into 2027 as well as its strong track record of safe and efficient shipbuilding for its international customer base. At 2024 PE of 8.2x, P/B of 1.1x and EV/EBITDA of 4.4x, we believe that the company's multiples remain inexpensive. YZJ had an outstanding orderbook for 184 vessels worth US\$14.8b as at end-3Q23, with clean energy vessels accounting for c.58% of its orderbook value. We maintain our 2023 orderbook win target at US\$7b.

SHARE PRICE CATALYSTS

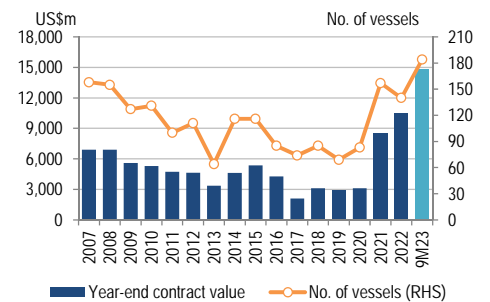
- Better capital management.
- New orders in higher-margin shipbuilding segments, eg dual-fuel containerships, oil and/or LPG tankers.
- Safe and efficient execution of orderbook and further margin expansion in 2H23.

PE CHART



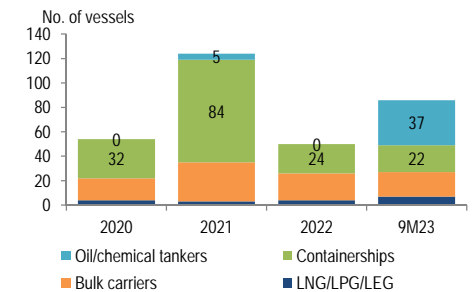
Source: Bloomberg, UOB Kay Hian

OUTSTANDING ORDERBOOK TREND



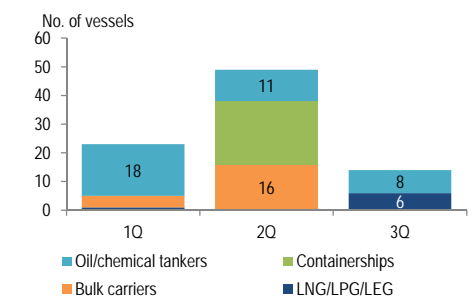
Source: YZJ

NO. OF VESSELS WON BY YEAR



Source: YZJ

NO. OF VESSELS WON BY QUARTER IN 2023



Source: YZJ

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	20,705	24,231	30,502	34,499
EBITDA	3,244	4,230	4,752	5,318
Deprec. & amort.	536	536	536	536
EBIT	2,708	3,695	4,216	4,783
Total other non-operating income	688	676	676	677
Associate contributions	13	100	100	100
Net interest income/(expense)	(107)	(50)	(38)	(26)
<b>Pre-tax profit</b>	<b>3,302</b>	<b>4,421</b>	<b>4,954</b>	<b>5,534</b>
Tax	(678)	(928)	(1,040)	(1,162)
Minorities	12	3	4	4
<b>Net profit</b>	<b>2,637</b>	<b>3,496</b>	<b>3,918</b>	<b>4,376</b>
Net profit (adj.)	2,637	3,496	3,918	4,376

### CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>4,632</b>	<b>3,070</b>	<b>3,372</b>	<b>3,976</b>
Pre-tax profit	2,625	3,493	3,914	4,372
Tax	0	0	0	0
Deprec. & amort.	536	536	536	536
Associates	(13)	(100)	(100)	(100)
Working capital changes	1,100	(358)	(477)	(332)
Non-cash items	0	0	0	0
Other operating cashflows	385	(500)	(500)	(499)
<b>Investing</b>	<b>(877)</b>	<b>(905)</b>	<b>(905)</b>	<b>(905)</b>
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
<b>Financing</b>	<b>(5,341)</b>	<b>(440)</b>	<b>(911)</b>	<b>(438)</b>
Dividend payments	(975)	(940)	(1,411)	(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
<b>Net cash inflow (outflow)</b>	<b>(1,585)</b>	<b>1,724</b>	<b>1,556</b>	<b>2,633</b>
Beginning cash & cash equivalent	12,370	10,785	12,509	14,066
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>10,785</b>	<b>12,509</b>	<b>14,066</b>	<b>16,699</b>

### 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	12,509	14,066	16,699
Other current assets	12,225	14,138	16,995	19,554
<b>Total assets</b>	<b>32,967</b>	<b>37,074</b>	<b>41,956</b>	<b>47,618</b>
ST debt	2,269	299	299	(1)
Other current liabilities	9,988	10,423	11,459	12,075
LT debt	2,298	802	503	504
Other LT liabilities	707	707	707	707
Shareholders' equity	17,573	24,714	28,863	34,213
Minority interest	132	128	124	120
<b>Total liabilities &amp; equity</b>	<b>32,967</b>	<b>37,074</b>	<b>41,956</b>	<b>47,618</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	15.7	17.5	15.6	15.4
Pre-tax margin	16.0	18.2	16.2	16.0
Net margin	12.7	14.4	12.8	12.7
ROA	6.2	10.0	9.9	9.8
ROE	9.9	16.5	14.6	13.9
<b>Growth</b>				
Turnover	23.5	17.0	25.9	13.1
EBITDA	(13.0)	30.4	12.3	11.9
Pre-tax profit	(32.3)	33.9	12.1	11.7
Net profit	(28.7)	32.6	12.1	11.7
Net profit (adj.)	(28.1)	32.6	12.1	11.7
EPS	(28.1)	32.6	12.1	11.7
<b>Leverage</b>				
Debt to total capital	20.5	4.2	2.7	1.4
Debt to equity	26.0	4.5	2.8	1.5
Net debt/(cash) to equity	(35.4)	(46.2)	(46.0)	(47.3)
Interest cover (x)	30.4	84.5	124.8	203.7

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