

### COMPANY UPDATE

## Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

Raining New Orders

Merely six days after announcing a US\$715m order win, YZJ has topped that with yesterday's announcement of US\$871m worth of orders, which brings its ytd order wins to a record US\$5.59b in 2021. Containerships continue to comprise the bulk of these orders, and we note that delivery dates for the larger vessels are being pushed to 2024. We maintain our BUY rating, as we believe the containership construction upcycle remains intact, and have upgraded our target price to S\$1.90 (previously S\$1.76).

### WHAT'S NEW

- **The new order flow continues.** Yesterday, Yangzijiang Shipbuilding (YZJ) announced new orders worth US\$871m comprising: a) six 15,000TEU containerships, b) three 3,300TEU containerships, and c) two 82,300DWT bulk carriers. It was notable that the ultra-large 15,000TEU containership order came from Seaspan, which is one of Yangzijiang's oldest clients.
- **Delivery dates are being pushed out.** As can be seen by the delivery date of 1H24 for these vessels, the company has 'run out of room' for delivery in 2023, especially for the ultra-large containerships. Even the smaller 3,300TEU containerships, which were ordered by a domestic China-based shipowner, have delivery dates starting from 2H23 and into 1H24. On the other hand, bulk carriers that are easier and faster to construct can still be delivered in 1H23.
- **A record year.** Ytd order wins for YZJ now total US\$5.59b for 100 vessels. Given that our previous order win expectation of US\$5.5b – and one that we had considered a 'stretch target' in 1Q21 – has already been exceeded, we have upgraded our new order win expectation to US\$6.5b for 2021 and US\$4.0b for 2022 (previously US\$3.5b). YZJ's orderbook now stands at US\$7.72b for 160 vessels.
- **The containership upcycle appears sustainable** as the number of containerships on order is at a 15-year low at only 302 in 2021 ytd vs 2005 when 900 of such ships were on order. Notably, the vessels that have seen a pick-up in orders are the small (1,000-4,000TEU) and large-sized (>5,000TEU) vessels. Also, we highlight that the number of vessels on order closely tracks the container time charter index, with the latter seeing a material increase ytd in 2021. One potential conclusion is that orders for new container vessels will continue to flow to shipbuilders in 2021 and 2022.

### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	23,597	14,841	24,020	33,167	41,557
EBITDA	4,166	3,398	3,938	5,173	6,307
Operating profit	3,689	2,884	3,424	4,659	5,793
Net profit (rep./act.)	3,105	2,516	2,998	3,945	4,815
Net profit (adj.)	2,905	3,323	2,998	3,945	4,815
EPS (Fen)	73.6	84.2	76.0	100.0	122.0
PE (x)	9.2	8.0	8.9	6.8	5.6
P/B (x)	0.9	0.8	0.7	0.7	0.6
EV/EBITDA (x)	5.3	6.4	5.6	4.2	3.5
Dividend yield (%)	3.4	3.3	3.7	4.5	5.5
Net margin (%)	13.2	17.0	12.5	11.9	11.6
Net debt/(cash) to equity (%)	(16.6)	(7.4)	(15.3)	(18.0)	(22.0)
Interest cover (x)	22.3	45.1	53.2	83.4	126.0
ROE (%)	10.4	7.9	8.9	10.8	12.1
Consensus net profit	-	-	2,867	3,385	3,800
UOBKH/Consensus (x)	-	-	1.05	1.17	1.27

Source: YZJ, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$1.41
Target Price	S\$1.90
Upside	+34.8 %
(Previous TP)	S\$1.76)

### 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):	3,848.5
Market cap (S\$m):	5,426.4
Market cap (US\$m):	4,035.4
3-mth avg daily t'over (US\$m):	31.5

### Price Performance (%)

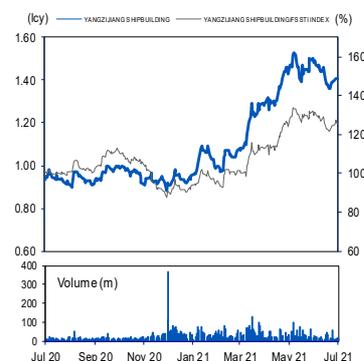
52-week high/low	S\$1.53/S\$0.880			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(6.0)	10.2	47.6	51.6	47.6

### Major Shareholders

	%
Ren Yuanlin	22.2
Wang Dong	10.2

FY21 NAV/Share (Rmb)	9.05
FY21 Net Cash/Share (Rmb)	1.39

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

**Adrian Loh**  
+65 6590 6633  
adrianloh@uobkayhian.com

### STOCK IMPACT

- Apart from yesterday's large order, YZJ announced a similarly large order merely six days ago** for 14 vessels worth a total of US\$715m. The order comprised one 9,150DWT chemical tanker, one 29,800DWT self-loading bulk carrier, two 2400TEU containerships, five 3500TEU containerships, two 11,800TEU containerships, and three 40,000m<sup>3</sup> LPG vessels. Unfortunately YZJ was less specific with delivery dates, only disclosing that deliveries will be between 2022-24. We were certainly heartened to note that YZJ continues to win orders for containerships which are relatively higher-margin vessels for the company. Importantly, the company won an order for LPG vessels, which is a first for the company, and is thus encouraging to see it breaking into a new market segment.
- Increased levels of scrapping.** Small and medium-sized containerships have seen increased levels of scrapping in the past decade with the former reaching 50% of total fleet scrapped in 2021, while 30% of the fleet of medium-sized vessels were scrapped ytd in 2021. While the supply of small feeder containerships (ie <1,000TEU) is unlikely to materially increase in the next few years, given that orders have been in single digits since 2011, orders for medium-sized vessels appear to have meaningful upside, in our view. We note from YZJ's orderbook for containerships that it has seen meaningful order flow for both the small and large vessels (see chart on RHS).

### EARNINGS REVISION/RISK

- Upgrading earnings for 2021-23.** We have raised our earnings forecasts for YZJ by 2-11% for 2021-23F to take into account yesterday's order wins as well as the order wins garnered by the company last week.

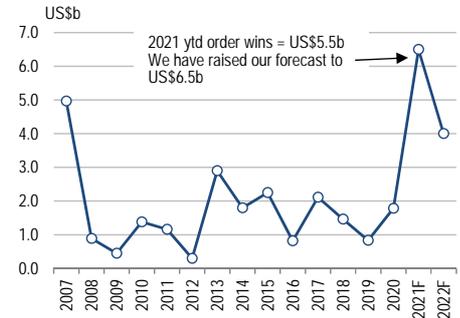
### VALUATION/RECOMMENDATION

- Maintain BUY on YZJ with an upgraded target price of S\$1.90 (previously S\$1.76)** based on a target 9.3x multiple which is 1SD above the company's past five-year average PE and pegged to our 2022 EPS estimate. We have dropped the target P/B multiple from our valuation methodology as we believe a pure PE valuation better reflects the earnings upcycle that YZJ is facing at present. We note that at our new target price of S\$1.90, YZJ's 2022F P/B multiple of 1.0x is reasonable in our view, especially given our expectation for the company to experience ROE expansion from 9.1% in 2021 to 13.3% in 2023.
- Recent share price retracement is an opportunity, in our view.** Since the beginning of May 21, YZJ's share price has fallen c.8% from its 2021 high of S\$1.53. However the stock has done very well this year, up 48% ytd, and thus it is understandable that some investors would want to take profits. Nevertheless, we believe that the stock continues to have meaningful upside as the stock is inexpensive, trading at 0.8x 2021F P/B and 9x 2021F PE, and there are more order wins to come in our view.

### SHARE PRICE CATALYST

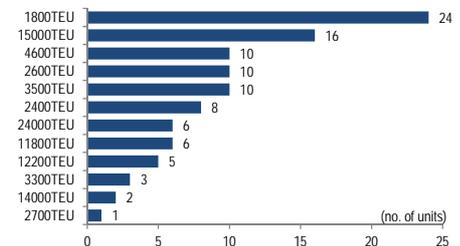
- Continued new order wins, especially from China-based clients.
- Better returns on its debt investments portfolio.

### HISTORICAL AND FORECAST NEW ORDER WINS



Source: YZJ

### YZJ'S CONTAINERSHIPS ON ORDER, BY SIZE



Source: YZJ

### 10-YEAR PE



Source: Bloomberg

### FORECAST EARNINGS CHANGES

RMB m	2021F	2022F	2023F
Net profit - was	2,927.1	3,651.2	4,356.3
Net profit - is	2,997.8	3,944.5	4,814.6
Change	2.4%	8.0%	10.5%

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Net turnover</b>	<b>14,841</b>	<b>24,020</b>	<b>33,167</b>	<b>41,557</b>
EBITDA	3,398	3,938	5,173	6,307
Deprec. & amort.	514	514	514	514
EBIT	2,884	3,424	4,659	5,793
Total other non-operating income	270	387	387	387
Associate contributions	211	211	211	211
Net interest income/(expense)	(75)	(74)	(62)	(50)
<b>Pre-tax profit</b>	<b>3,290</b>	<b>3,948</b>	<b>5,195</b>	<b>6,341</b>
Tax	(672)	(829)	(1,091)	(1,332)
Minorities	(102)	(121)	(159)	(194)
<b>Net profit</b>	<b>2,516</b>	<b>2,998</b>	<b>3,945</b>	<b>4,815</b>
Net profit (adj.)	3,323	2,998	3,945	4,815

### CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>(612)</b>	<b>2,040</b>	<b>2,934</b>	<b>3,951</b>
Pre-tax profit	2,618	3,119	4,104	5,009
Tax	0	0	0	0
Deprec. & amort.	514	514	514	514
Associates	(211)	(211)	(211)	(211)
Working capital changes	(2,962)	(1,382)	(1,473)	(1,361)
Non-cash items	0	0	0	0
Other operating cashflows	(570)	0	0	0
<b>Investing</b>	<b>(1,035)</b>	<b>(483)</b>	<b>(483)</b>	<b>(483)</b>
Capex (growth)	(288)	(483)	(483)	(483)
Capex (maintenance)	0	0	0	0
Investments	(190)	0	0	0
Proceeds from sale of assets	69	0	0	0
Others	(627)	0	0	0
<b>Financing</b>	<b>(1,903)</b>	<b>(1,165)</b>	<b>(1,261)</b>	<b>(1,453)</b>
Dividend payments	(896)	(865)	(961)	(1,154)
Issue of shares	0	0	0	0
Proceeds from borrowings	2,176	0	0	0
Loan repayment	(2,872)	(299)	(299)	(299)
Others/interest paid	(311)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>(3,550)</b>	<b>392</b>	<b>1,190</b>	<b>2,015</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>10,199</b>	<b>6,649</b>	<b>7,041</b>	<b>8,230</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>6,649</b>	<b>7,041</b>	<b>8,230</b>	<b>10,245</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Fixed assets</b>	<b>5,346</b>	<b>5,346</b>	<b>5,346</b>	<b>5,347</b>
Other LT assets	9,111	9,291	9,472	9,652
Cash/ST investment	6,649	7,041	8,230	10,245
Other current assets	23,805	27,474	30,973	34,168
<b>Total assets</b>	<b>44,911</b>	<b>49,152</b>	<b>54,021</b>	<b>59,411</b>
ST debt	2,121	299	299	299
Other current liabilities	5,842	8,129	10,156	11,989
LT debt	2,124	1,401	1,102	802
Other LT liabilities	1,448	3,248	3,248	3,248
Shareholders' equity	32,342	34,919	37,902	41,563
Minority interest	1,034	1,155	1,315	1,509
<b>Total liabilities &amp; equity</b>	<b>44,911</b>	<b>49,152</b>	<b>54,021</b>	<b>59,411</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	22.9	16.4	15.6	15.2
Pre-tax margin	22.2	16.4	15.7	15.3
Net margin	17.0	12.5	11.9	11.6
ROA	5.6	6.4	7.6	8.5
ROE	7.9	8.9	10.8	12.1
<b>Growth</b>				
Turnover	(37.1)	61.8	38.1	25.3
EBITDA	(18.4)	15.9	31.4	21.9
Pre-tax profit	(21.4)	20.0	31.6	22.1
Net profit	(19.0)	19.1	31.6	22.1
Net profit (adj.)	14.4	(9.8)	31.6	22.1
EPS	14.4	(9.8)	31.6	22.1
<b>Leverage</b>				
Debt to total capital	11.3	4.5	3.4	2.5
Debt to equity	13.1	4.9	3.7	2.7
Net debt/(cash) to equity	(7.4)	(15.3)	(18.0)	(22.0)
Interest cover (x)	45.1	53.2	83.4	126.0

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2021, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W