

Singapore Company Update

Yangzijiang Shipbuilding

Bloomberg: YZJSGD SP | Reuters: YAZG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Mar 2022

BUY

Last Traded Price (28 Mar 2022): S\$1.49 (STI : 3,431.99)
Price Target 12-mth: S\$2.15 (45% upside)

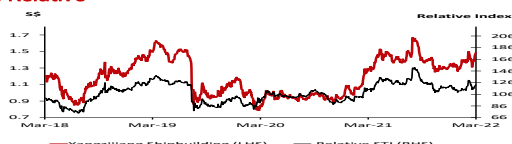
Analyst

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What's New

- Scaling up YZJFH's corporate governance with a Board of Directors comprising senior management from MAS, SGX, legal and asset management firms
- YZJFH will broaden its asset class and geographical footprint with growing sector focus on ESG, new economy, healthcare, etc.
- Potential dividend upside exists for both Yangzijiang and YZJFH
- We believe Yangzijiang stock remains undervalued and set for re-rating close to completion of YZJFH listing; reiterate BUY and TP S\$2.15

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Revenue	14,841	16,768	21,490	22,551
EBITDA	3,584	5,079	5,172	5,548
Pre-tax Profit	3,290	4,882	4,908	5,345
Net Profit	2,516	3,699	3,779	4,116
Net Pft (Pre Ex.)	2,516	3,699	3,779	4,116
Net Pft Gth (Pre-ex) (%)	(19.0)	47.0	2.2	8.9
EPS (S cts)	13.9	20.1	20.5	22.4
EPS Pre Ex. (S cts)	13.9	20.1	20.5	22.4
EPS Gth Pre Ex (%)	(17)	44	2	9
Diluted EPS (S cts)	13.9	20.1	20.5	22.4
Net DPS (S cts)	4.80	5.33	5.87	6.40
BV Per Share (S cts)	179	195	211	227
PE (X)	10.7	7.4	7.3	6.7
PE Pre Ex. (X)	10.7	7.4	7.3	6.7
P/Cash Flow (X)	nm	4.5	7.7	6.7
EV/EBITDA (X)	2.9	0.7	0.2	0.0
Net Div Yield (%)	3.2	3.6	3.9	4.3
P/Book Value (X)	0.8	0.8	0.7	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.9	10.8	10.1	10.2

Earnings Rev (%):

Consensus EPS (S cts):

Other Broker Recs:

B: 7 S: 0 H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Financial arms boosts "E" and "G" metrics

Investment Thesis:

Spin-off of investment arm improves corporate governance. The separate listing of Yangzijiang Financial Holdings (YZJFH) offers greater transparency and flexibility for investors. The appointment of senior management from MAS, SGX and law firm as directors of YZJFH could contribute to improving corporate governance practices as well.

Set to re-rate as pure proxy to shipbuilding and shipping upcycles. Post spin-off of YZJFH, Yangzijiang's shipbuilding business deserves a re-rate from the currently implied 0.8x PB and 6x PE (assumes YZJFH at a 0.7x PB) towards 1.5x PB and 12x PE on the back of a 13% ROE, 4%-5% dividend yield, and ~20% earnings CAGR.

Potential upside to earnings growth and dividend yield. A record-high order backlog of US\$8.5bn as of end-2021 will keep Yangzijiang's yards full through to 2024. We are hopeful of Yangzijiang delivering stronger-than-expected shipbuilding margins for its mainstream containership orders (~80% of orderbook). The dividend payout ratio could also be raised with every 10ppt increase, translating to a 1.5ppt higher dividend yield from the base case of 4%.

Valuation:

Our TP of S\$ 2.15 is based on a sum-of-the-parts (SOTP) valuation, pegged to a 9x PE on shipbuilding earnings, 0.7x P/BV for investments, and 1.0x P/BV for its marked-down bulk carrier/tanker fleets. This translates to a 1.09x P/BV (0.5SD above its five-year mean of 0.9x).

The stock is unwarrantedly undervalued, trading at a 0.7x P/BV and 7x PE against a 10% ROE and two-year core EPS CAGR of 13%.

Where we differ:

The market has over-penalised Yangzijiang for its debt investments, most of which are backed by collateral of 1.5-2.5x.

Key Risks to Our View:

Revenue is denominated mainly in US dollars. Assuming the net exposure of ~50% is unhedged, every 1% depreciation in the USD could lead to a 1.5% decline in earnings. Every 1% rise in steel cost, which accounts for about 20% of cost of goods sold (COGS), could result in a 0.8% drop in earnings.

At A Glance

Issued Capital (m shrs)	3,913
Mkt. Cap (\$m/US\$m)	5,831 / 4,293
Major Shareholders (%)	
Yangzi International	21.8
T Rowe Price	7.2
Blackrock Inc	5.0
Free Float (%)	61.8
3m Avg. Daily Val (US\$m)	18.8
GIC Industry : Industrials / Capital Goods	



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WHAT'S NEW

Concerns about "E" and "G" addressed

Scaling up YZJFH's corporate governance

Reputable Board of Directors. We are impressed with the board member list for YZJFH obtained from the Accounting and Corporate Regulatory Authority (ACRA), the national regulator of business entities. The board is made up of senior management from MAS, SGX, and legal and asset management firms (please refer to table below):

- Mr. Chua Kim Leng held positions as Special Advisor and Assistant Managing Director with MAS, and was responsible for the licensing and supervision of financial institutions, as well as for the anti-money laundering supervision of the financial sector.
- Mr. Chew Sutat was the Global Head of Sales & Origination in SGX before stepping down in 2021.

- Mr. Yee Kee Shian, Leon has extensive corporate law expertise.
- Mr. Ren Yuanlin, former CEO of Yangzijiang, and Mr. Toe Teow Heng are veterans in asset management and financial advisory.

We believe the appointment of these reputable industry veterans will contribute to improving the corporate governance practices of YZJFH, boosting the confidence of investors.

EDBI as strategic investors. In addition, YZJFH has also onboarded EDB Investment, the private equity arm of the Economic Development Board of Singapore, as a strategic investor. The ability to onboard government bodies and sovereign funds are generally welcomed and seen as testament of a company's good corporate governance and prospects.

Board of Directors for YZJFH

Directors	Background
Mr. Ren Yuanlin (68)	Founder, former Exec-Chairman & CEO of Yangzijiang
Mr. Toe Teow Heng (54)	2014-2020: Chief Executive of GEM Asset Management (formerly ICH Gemini) 2009-2014: Director of ICH Partners 2001-2014: CEO of ICH Capital
Mr. Chua Kim Leng (53)	25 years with MAS; Mr. Chua held positions as Special Advisor (Financial Supervision) , Assistant Managing Director in charge of the Banking & Insurance Group, and as a member of MAS Executive Committee. He was responsible for the licensing and supervision of financial institutions, as well as for the anti-money laundering supervision of the financial sector
Mr. Chew Sutat (50)	14 years with SGX; Mr. Chew was the Global Head of Sales & Origination and Senior Managing Director in SGX before stepping down in 2021
Mr. Yee Kee Shian, Leon (46)	Global Head of Corporate for Duane Morris & Selvam and leads the Banking & Finance and Energy Practice Groups. Mr. Yee has extensive corporate law expertise and regularly advises ultra-high net worth individuals, private equity funds, investment banks, and listed and private companies on corporate finance, venture capital, capital markets, takeovers, cross-border mergers and acquisitions, corporate governance, corporate restructurings, and joint ventures. He is an Advocate & Solicitor of the Supreme Court of Singapore and a Solicitor of England and Wales.

Source: ACRA

Yangzijiang Shipbuilding

Growing Green Portfolio

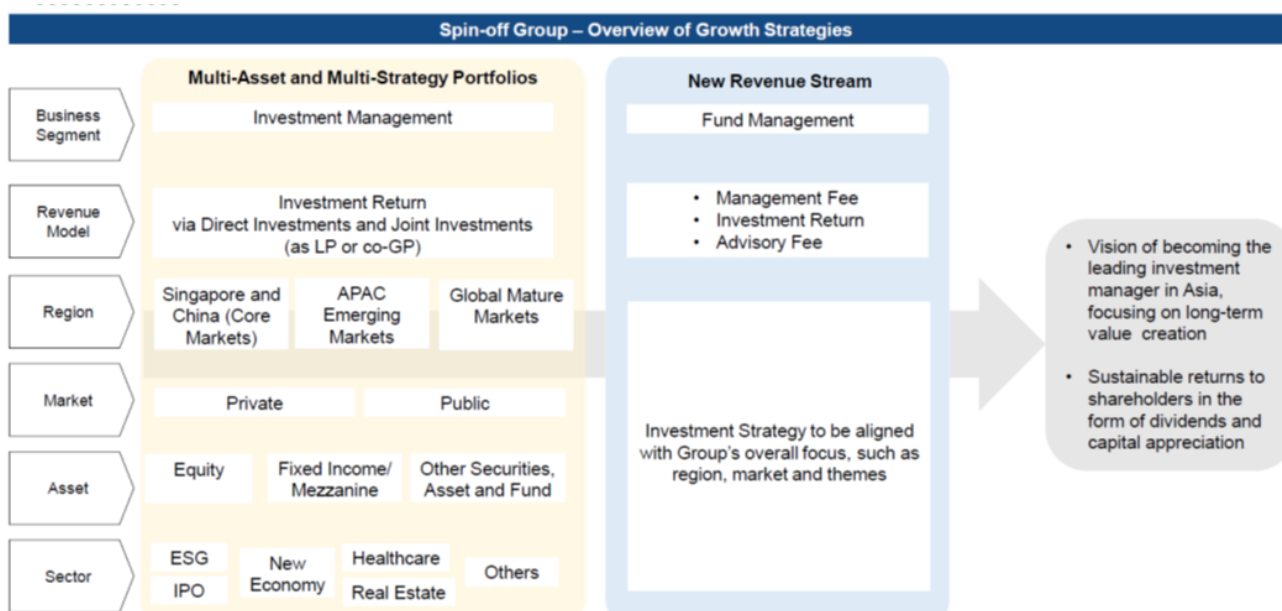
Broaden investment scope and region. Yangzi Financial will expand into the fund and wealth management business and also expand its geographical footprint in the Greater China and Southeast Asian regions.

It will broaden its investment asset class into equity, fixed income/mezzanine, and other securities, assets, and funds

with sector focus on ESG, new economy, healthcare, real estate, etc.

The investment mandate and strategies are critical determinants for earnings visibility and valuation, which we shall have more clarity on in the circular released over the next one to two weeks.

Yangzi Financial – overview of growth strategies:



Source: Company

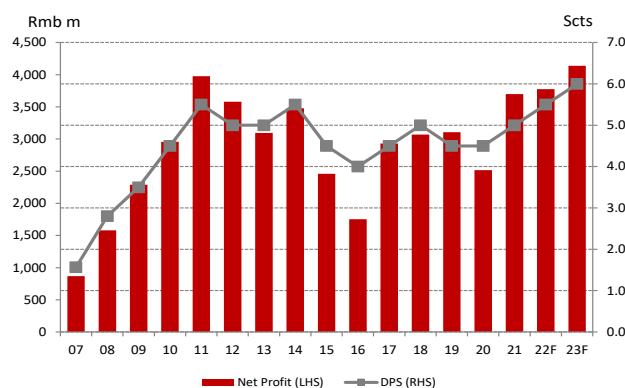
Dividend Upside Potential

Steady ~4% dividend yield. Yangzijiang has been paying ~30% of its earnings to reward shareholders with a steady dividend. We are projecting a 5.5-6.0Sct DPS for these two years, translating to a ~4% dividend yield.

Dividend payout ratio could be raised. Management has indicated it could possibly raise the dividend payout after the spin-off, given the low working capital and capex requirement for the shipyard business. As for YZJFH, a steady dividend yield could be an interesting investment angle that the new listing could consider to lure investors into holding onto YZJFH.

Based on our back-of-the-envelope calculation, every 10ppt increase in the payout ratio would increase DPS by 2Sct or a ~1.5% dividend yield.

Yangzijiang has been paying a 4.0-5.5 Sct DPS over the past 10 years



Source: Company, DBS Bank

Yangzijiang Shipbuilding

Listing of YZJFH is just around the corner

Following the SGX granting the company the conditional Eligibility-to-List on 24 Mar, Yangzijiang further updated the restructuring exercise of its investment business, YZJFH. Yangzijiang's **shareholders will receive ONE share of YZJFH via dividend-in-specie** for every Yangzijiang share held, upon successful listing. The share capital of YZJFH has increased to **S\$4.26bn, or ~S\$1.08/share** based on 3.95bn ordinary shares.

Our SOTP-based valuation of S\$2.15 for Yangzijiang valued YZJFH at a 0.7x PB, or S\$0.77, while the remaining shipbuilding-related business is valued at S\$1.38.

Assuming a fair value for YZJFH at S\$0.77 and Yangzijiang's current share price of S\$1.46, the **shipbuilding-related business is valued at only ~S\$0.69/share, implying an unwarrantedly low valuation of a 0.8x PB and ~6x PE, despite a 13% ROE and potential upside for a 4% dividend yield.**

We believe Yangzijiang is set to re-rate closer to our TP of S\$2.15 (inc. S\$0.77 for YZJFH) upon completion of the spin-off. More details will be released via a circular over the next one to two weeks. The EGM should be held at least two weeks after the dispatch of the circular. Yangzijiang **could complete the listing of YZJFH by end-Apr/early May** if it progresses smoothly as planned.

Breakdown of book value, target price, and current valuation

	BV	TP	Current Share Px*
S\$/share	1.97	2.15	1.46
Investment (YZJFH)	1.08	0.77	0.77
Shipbuilding related	0.89	1.38	0.69

*Implied valuation for shipbuilding-related business assuming YZJFH is valued at our fair value of a 0.7x PB or S\$0.77/share

Pre-spin off SOTP-based target price for Yangzijiang

Components	% stake	FY22 PATMI (\$ m)	Est. market value (\$ m)	Value per share (\$)	Basis
Shipbuilding	100%	420	3,780	0.96	9x FY22 PE
Shipping & related	100%	20	436	0.11	1.0x P/Bv
Investment	100%	330	3,035	0.77	0.7x P/Bv
		771	7,251	1.85	
Add: Net Cash		1,197	0.31		
Target price (S\$)				2.15	

Source: Company, DBS Bank

Company Background

Yangzijiang is one of the largest, most efficient, and profitable shipbuilders in China. It has moved up the value chain to produce ultra-large containerships and very large bulk carriers, as well as LNG vessels.

Yangzijiang Shipbuilding

Yangzijiang should trade at a premium to its regional peers in view of its superior financial metrics

Company	Last Px (LC)	Market cap (US\$m)	P/E		P/B Current	ROE (%)		Net D/E Current	Div Yld (%) Current
			FY21	FY22F		FY21	FY22F		
Singapore									
Keppel Corp	6.47	8,562	13.5	12.6	1.0	7.3%	7.7%	0.7	2.9%
Sembcorp Marine	0.103	2,376	nm	nm	0.8	nm	nm	0.6	nm
Yangzijiang	1.49	4,286	7.1	6.0	0.8	10.3%	11.1%	CASH	3.0%
China									
China Shipbuilding Industry Co (CSIC)	3.83	13,710	nm	nm	1.0	nm	nm	CASH	nm
Shanghai Zhenhua Heavy Industries	3.23	2,173	nm	nm	1.2	nm	nm	2.2	nm
China CSSC	17.63	12,378	146.9	76.7	1.7	1.3%	2.1%	CASH	0.2%
Korea									
Korea Shipbuilding & Offshore	90,700	5,245	31.6	13.5	0.7	1.9%	4.4%	CASH	nm
Samsung Heavy Industries	5,700	4,099	nm	178.7	1.2	nm	nm	0.3	nm
Daewoo Shipbuilding	25,900	2,271	nm	19.3	1.3	-7.3%	3.3%	0.3	nm
Average:			49.8	51.1	1.1	0.2%	4.1%	0.8	
Median:			22.5	16.4	1.1	1.3%	3.3%	0.6	

Source: Bloomberg Finance L.P., DBS Bank estimates

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Yangzijiang Shipbuilding

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Order wins (US\$ m)	830	1,770	7,410	3,000	2,500
Steel cost (RMB/t)	4,530	4,349	5,871	5,695	5,410
RMB / USD	6.80	6.60	6.60	6.70	6.80

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMBm)					
Shipbuilding	13,019	9,970	13,198	17,056	18,235
Investment	2,099	2,043	1,742	1,900	1,900
Others	8,479	2,828	1,828	2,535	2,416
Total	23,597	14,841	16,768	21,490	22,551
Gross profit (RMBm)					
Shipbuilding	1,946	2,061	1,557	2,682	3,311
Investment	1,994	1,941	1,655	1,805	1,805
Others	389	221	419	925	726
Total	4,329	4,222	3,630	5,412	5,842
Gross profit Margins (%)					
Shipbuilding	14.9	20.7	11.8	15.7	18.2
Investment	95.0	95.0	95.0	95.0	95.0
Others	4.6	7.8	22.9	36.5	30.0
Total	18.3	28.4	21.7	25.2	25.9

Income Statement (RMBm)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	23,597	14,841	16,768	21,490	22,551
Cost of Goods Sold	(19,269)	(10,619)	(13,138)	(16,079)	(16,709)
Gross Profit	4,329	4,222	3,630	5,412	5,842
Other Opng (Exp)/Inc	(321)	(1,333)	616	(752)	(789)
Operating Profit	4,007	2,889	4,247	4,660	5,053
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	117	211	362	100	100
Net Interest (Exp)/Inc	62.1	190	273	149	192
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	4,186	3,290	4,882	4,908	5,345
Tax	(890)	(672)	(1,155)	(1,129)	(1,229)
Minority Interest	(191)	(102)	(28.5)	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	3,105	2,516	3,699	3,779	4,116
Net Profit before Except.	3,105	2,516	3,699	3,779	4,116
EBITDA	4,602	3,584	5,079	5,172	5,548
Growth					
Revenue Gth (%)	1.5	(37.1)	13.0	28.2	4.9
EBITDA Gth (%)	4.8	(22.1)	41.7	1.8	7.3
Opg Profit Gth (%)	1.6	(27.9)	47.0	9.7	8.4
Net Profit Gth (Pre-ex) (%)	1.1	(19.0)	47.0	2.2	8.9
Margins & Ratio					
Gross Margins (%)	18.3	28.4	21.7	25.2	25.9
Opg Profit Margin (%)	17.0	19.5	25.3	21.7	22.4
Net Profit Margin (%)	13.2	17.0	22.1	17.6	18.3
ROAE (%)	10.3	7.9	10.8	10.1	10.2
ROA (%)	6.8	5.6	7.7	7.0	7.2
ROCE (%)	8.6	5.9	8.0	8.2	8.4
Div Payout Ratio (%)	28.4	34.4	26.5	28.5	28.6
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

Yangzijiang Shipbuilding

Interim Income Statement (RMBm)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	10,273	8,265	6,576	6,600	10,168
Cost of Goods Sold	(8,310)	(6,281)	(4,338)	(4,914)	(8,224)
Gross Profit	1,964	1,984	2,238	1,686	1,944
Other Oper. (Exp)/Inc	(198)	(437)	(896)	405	212
Operating Profit	1,765	1,547	1,342	2,091	2,156
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	66.8	49.3	162	68.3	293
Net Interest (Exp)/Inc	14.9	99.5	90.0	92.2	181
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,847	1,696	1,594	2,252	2,630
Tax	(367)	(489)	(183)	(568)	(586)
Minority Interest	(135)	(29.0)	(72.6)	(44.2)	15.8
Net Profit	1,345	1,178	1,339	1,639	2,060
Net profit bef Except.	1,345	1,178	1,339	1,639	2,060
EBITDA	2,022	1,861	1,723	2,423	2,657

Growth

Revenue Gth (%)	(22.9)	(19.5)	(20.4)	0.4	54.1
EBITDA Gth (%)	(21.6)	(8.0)	(7.4)	40.6	9.6
Opg Profit Gth (%)	(21.3)	(12.4)	(13.2)	55.8	3.1
Net Profit Gth (%)	(23.6)	(12.4)	13.7	22.4	25.7

Margins

Gross Margins (%)	19.1	24.0	34.0	25.5	19.1
Opg Profit Margins (%)	17.2	18.7	20.4	31.7	21.2
Net Profit Margins (%)	13.1	14.2	20.4	24.8	20.3

Balance Sheet (RMBm)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	5,678	5,226	5,152	4,940	4,744
Invts in Associates & JVs	1,533	1,544	1,628	1,728	1,828
Other LT Assets	7,293	7,687	6,280	6,422	6,422
Cash & ST Invts	21,552	21,926	28,599	30,696	33,371
Inventory	1,598	1,678	1,640	2,714	2,847
Debtors	4,680	3,633	4,121	4,776	4,100
Other Current Assets	3,422	3,216	4,193	4,591	5,029
Total Assets	45,756	44,911	51,612	55,866	58,341
ST Debt	2,782	2,121	2,504	2,253	2,028
Creditor	3,514	2,699	2,804	4,298	3,759
Other Current Liab	3,894	3,144	6,491	6,604	6,705
LT Debt	2,251	2,124	1,953	2,050	2,153
Other LT Liabilities	1,260	1,448	1,799	1,799	1,799
Shareholder's Equity	31,096	32,342	35,923	38,722	41,759
Minority Interests	959	1,034	138	138	138
Total Cap. & Liab.	45,756	44,911	51,612	55,866	58,341
Non-Cash Wkg. Capital	2,292	2,685	659	1,178	1,513
Net Cash/(Debt)	16,519	17,682	24,143	26,392	29,190
Debtors Turn (avg days)	75.3	102.2	84.4	75.6	71.8
Creditors Turn (avg days)	74.9	111.9	79.3	82.7	90.1
Inventory Turn (avg days)	40.8	59.0	47.8	50.7	62.2
Asset Turnover (x)	0.5	0.3	0.3	0.4	0.4
Current Ratio (x)	3.1	3.8	3.3	3.3	3.6
Quick Ratio (x)	2.6	3.2	2.8	2.7	3.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	10.5	5.2	6.3	4.6	4.8
Z-Score (X)	2.9	2.8	2.9	2.9	2.9

Source: Company, DBS Bank

Yangzijiang Shipbuilding

Cash Flow Statement (RMBm)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	4,186	3,290	4,882	4,908	5,345
Dep. & Amort.	477	483	471	412	396
Tax Paid	(781)	(863)	(698)	(1,015)	(1,129)
Assoc. & JV Inc/(loss)	(117)	(211)	(362)	(100.0)	(100.0)
Chg in Wkg. Cap.	985	(2,962)	2,737	(633)	(436)
Other Operating CF	(142)	(348)	(888)	0.0	0.0
Net Operating CF	4,609	(612)	6,143	3,573	4,076
Capital Exp. (net)	(530)	(219)	(283)	(200)	(200)
Other Invt. (net)	0.0	0.0	0.0	0.0	0.0
Invt. in Assoc. & JV	(149)	10.4	204	0.0	0.0
Div from Assoc & JV	139	70.5	0.0	0.0	0.0
Other Investing CF	(172)	(897)	394	(1,034)	0.0
Net Investing CF	(712)	(1,035)	315	(1,234)	(200)
Div Paid	(990)	(896)	(843)	(981)	(1,079)
Chg in Gross Debt	811	(696)	286	(153)	(123)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(128)	(311)	(172)	0.0	0.0
Net Financing CF	(307)	(1,903)	(728)	(1,134)	(1,202)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	3,589	(3,550)	5,730	1,205	2,674
Opg CFPS (S cts)	19.5	13.0	18.5	22.9	24.5
Free CFPS (S cts)	22.0	(4.6)	31.9	18.3	21.1

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	03 May 21	1.47	1.80	BUY
2:	06 Aug 21	1.50	1.95	BUY
3:	05 Nov 21	1.29	1.95	BUY
4:	01 Mar 22	1.44	2.15	BUY

Source: DBS Bank

Analyst: Pei Hwa HO

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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Yangzijiang Shipbuilding

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