

COMPANY RESULTS

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

2021: Better Than Expected Due To Non-Operating Items

YZJ's PATMI of Rmb3.7b (+47% yoy) was better than expected due to non-operating items. 2H21's gross margin of 10.8% for shipbuilding should be the trough and we expect it to expand towards the 15% level towards 2H22. YZJ's 10% yoy earnings growth this year will be underpinned by a 20% increase in vessel deliveries and continued strong shipping performance. The company will spin off its investment arm via a 1:1 distribution in specie in 1H22. Maintain BUY. Target price: S\$1.95.

2021 RESULTS

| Year to 31 Dec (Rmbm) | 2020 | 2021 | % chg yoy | Remarks |
|-----------------------|--------|--------|-----------|---|
| Revenue | 14,841 | 16,768 | 13.0% | - Delivered 50 vessels in 2021 (2020: 45 vessels) |
| Gross profit | 4,222 | 3,630 | -14.0% | - Core shipbuilding margins were lower but that |
| Operating profit | 3,154 | 4,590 | 45.5% | was expected due to higher steel costs and RMB |
| Pre-tax profit | 3,290 | 4,882 | 48.4% | |
| PATMI | 2,516 | 3,699 | 47.0% | - Helped by higher interest and dividend income |
| Gross margin | 28.4% | 21.7% | -6.8ppt | |
| PATMI margin | 17.0% | 22.1% | -5.1ppt | |

Source: Yangzijiang Shipbuilding (Holdings), UOB Kay Hian

2021 RESULTS

- Strong bottom line that beat our and consensus' estimates.** Yangzijiang (YZJ) reported revenue of Rmb17b (+13% yoy), which generated PATMI of Rmb3.7b (+47% yoy) and exceeded expectations. The bottom line was helped by forex hedging gains, reversals of impairments and higher interest income. The company declared an in-line DPS of S\$0.05 for 2021 (2020: \$0.045).
- Shipbuilding margins appear to have troughed.** YZJ delivered 50 vessels during the course of 2021 (2020: 45 vessels) with 27 of these in 2H21. As expected, the company's shipbuilding margins fell hoh in 2H21 to 10.8% (1H21: 13.5%) due to progressive construction of ships with lower margins, exacerbated by higher steel prices and a stronger RMB vs USD. As these ships are completed and delivered over the course of 2022, we expect shipbuilding margins to expand towards the 13-15% region. YZJ is targeting delivery of 60 ships in 2022 which should well underpin its earnings growth.
- Spin-off of its investment business onto the SGX Main Board** appears to be on track, with the company having applied for listing by way of an introduction on 11 Feb 22. YZJ is targeting a valuation of Rmb20b for this business, which was its book value as at end-21 (more details on this spin-off on the next page).

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2020 | 2021 | 2022F | 2023F | 2024F |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover | 14,841 | 16,768 | 21,438 | 30,863 | 26,333 |
| EBITDA | 3,398 | 3,727 | 4,717 | 6,036 | 5,207 |
| Operating profit | 2,884 | 3,226 | 4,216 | 5,535 | 4,706 |
| Net profit (rep./act.) | 2,516 | 3,699 | 4,070 | 5,114 | 4,473 |
| Net profit (adj.) | 3,323 | 3,666 | 4,070 | 5,114 | 4,473 |
| EPS (Fen) | 84.2 | 92.9 | 103.2 | 129.6 | 113.4 |
| PE (x) | 7.6 | 6.9 | 6.2 | 4.9 | 5.7 |
| P/B (x) | 0.8 | 0.7 | 0.6 | 0.5 | 0.5 |
| EV/EBITDA (x) | 3.6 | 3.3 | 2.6 | 2.1 | 2.4 |
| Dividend yield (%) | 3.5 | 3.9 | 4.9 | 6.2 | 5.4 |
| Net margin (%) | 17.0 | 22.1 | 19.0 | 16.6 | 17.0 |
| Net debt/(cash) to equity (%) | (7.4) | (22.1) | (30.5) | (32.5) | (37.5) |
| Interest cover (x) | 45.1 | 53.3 | 76.0 | 120.6 | 136.7 |
| ROE (%) | 7.9 | 10.8 | 10.4 | 11.6 | 9.3 |
| Consensus net profit | - | - | 3,786 | 4,430 | 5,343 |
| UOBKH/Consensus (x) | - | - | 1.07 | 1.15 | 0.84 |

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

BUY

(Maintained)

| | |
|---------------|---------|
| Share Price | S\$1.38 |
| Target Price | S\$1.95 |
| Upside | +41.4% |
| (Previous TP) | S\$2.00 |

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): | 3,913.4 |
| Market cap (S\$m): | 5,400.5 |
| Market cap (US\$m): | 3,975.6 |
| 3-mth avg daily t'over (US\$m): | 13.3 |

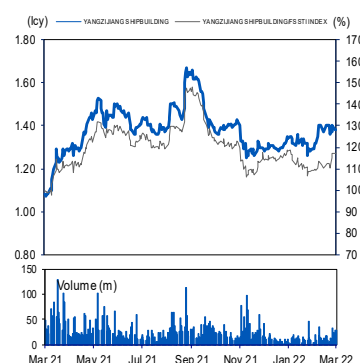
Price Performance (%)

| | | | | |
|------------------|------|-----------------|------|-----|
| 52-week high/low | | S\$1.67/S\$1.07 | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 7.0 | 6.2 | (15.9) | 29.0 | 3.0 |

Major Shareholders

| | |
|---------------------------|-------|
| | % |
| Ren Yuanlin | 22.2 |
| Wang Dong | 10.2 |
| FY22 NAV/Share (Rmb) | 10.93 |
| FY22 Net Cash/Share (Rmb) | 3.34 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
+65 6590 6633
adrianloh@uobkayhian.com

STOCK IMPACT

- **Can shipbuilding margins trend up in 2022?** On the results call, YZJ's management pointed out that steel plate prices have presently stabilised at Rmb6,000/tonne, below the peak of around Rmb7,000/tonne. In 2022, it does not expect material price increases and thus its shipbuilding contracts, struck when steel prices were in the Rmb6,500-7,000/tonne range, would be much more profitable. Nevertheless, YZJ's management guided for margins to remain in the low teens in 1H22 and once its low margin-contracts are completed, its margins should trend higher in 2H22.
- **Shipping business continues to perform well.** YZJ's fleet of 26 vessels generated a solid 40% gross margin in 2021 on the back of a 32% increase in revenue. Its management expects this segment to continue performing strongly in 1H22 and highlighted that with an average age of eight years, it is a young fleet. In addition, YZJ disclosed that this fleet has a relatively low carrying value of Rmb2.18b, or only US\$18m per vessel. Note that in 2021, it sold two vessels and recognised a gain of Rmb70m (US\$11.1m).
- **Investment segment.** On a yoy basis, YZJ's debt investment portfolio was flat at Rmb16.6b. However, its interest income in 2H21 declined 7% hoh and 13% yoy as average interest rates continued to trend downwards.
- **Spin off of YZJ Financial Holdings (YZJFH).** We believe that YZJ will announce an EGM imminently to seek shareholders' approval for the distribution in specie wherein YZJ shareholders will receive one YZJFH share for every YZJ share owned. On the results call, the company stated that it plans to transfer 25% of its total assets of Rmb20b out of China to Singapore and acquire a Capital Markets Services license for wealth and investment management, with the ultimate aim of managing its own as well as third party funds. Although 80% of its investments are currently in debt and private equity, YZJ plans to reposition the portfolio by going up the risk curve into private debt, credit and equities, as well as public credit and equities, and plans to invest around 40% of its portfolio outside China.

EARNINGS REVISION/RISK

- **Slight changes.** We have made very mild adjustments to our earnings forecasts, lowering 2022 numbers by 2% as a result of anticipated margin compression in 1H22 for the shipbuilding segment.

VALUATION/RECOMMENDATION

- **Maintain BUY and with a slightly lower target price of S\$1.95** due to our small downgrade in our 2022 EPS. We use a target PE multiple of 9.3x (+1SD above YZJ's five-year average) which is applied to our 2022 EPS estimate. At our target price, the company would trade at a P/B of 0.9x which we believe is fair.
- **Looking more inexpensive.** We continue to believe that the stock remains inexpensive as it is trading at 2022 multiples of 6.2x PE, 2.6x EV/EBITDA and 0.6x P/B. We highlight that YZJ's end-21 net cash per share was S\$0.43, which equates to 31% of the company's current share price.

SHARE PRICE CATALYST

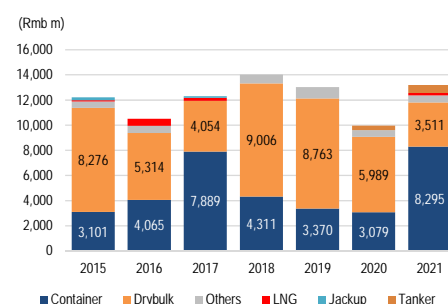
- Evidence of margin expansion from 1H22 onwards.
- New orders in higher margin segments, eg dual-fuel containerships or LPG tankers.
- Demerger of its debt investments business from the core shipbuilding business.

5 YEAR PE



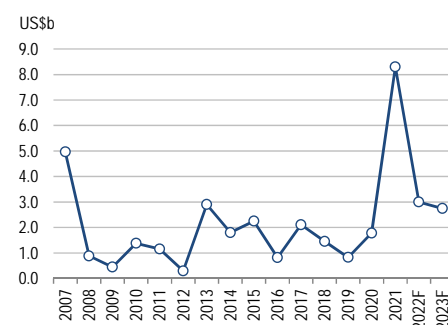
Source: Bloomberg, UOB Kay Hian

SHIPBUILDING REVENUE BY VESSEL



Source: YZJ

ANNUAL ORDER WINS



Source: YZJ, UOB Kay Hian

FORECAST EARNINGS CHANGES

| RMB m | 2022F | 2023F |
|------------------|-------|-------|
| Net profit - was | 4,149 | 5,089 |
| Net profit - is | 4,070 | 5,114 |
| Change | -1.9% | 0.5% |

Source: UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2021 | 2022F | 2023F | 2024F |
|----------------------------------|--------------|--------------|--------------|--------------|
| Net turnover | 16,768 | 21,438 | 30,863 | 26,333 |
| EBITDA | 3,727 | 4,717 | 6,036 | 5,207 |
| Deprec. & amort. | 501 | 501 | 501 | 501 |
| EBIT | 3,226 | 4,216 | 5,535 | 4,706 |
| Total other non-operating income | 1,364 | 676 | 676 | 676 |
| Associate contributions | 362 | 362 | 362 | 362 |
| Net interest income/(expense) | (70) | (62) | (50) | (38) |
| Pre-tax profit | 4,882 | 5,192 | 6,523 | 5,706 |
| Tax | (1,155) | (1,090) | (1,370) | (1,198) |
| Minorities | (28) | (31) | (39) | (34) |
| Net profit | 3,699 | 4,070 | 5,114 | 4,473 |
| Net profit (adj.) | 3,666 | 4,070 | 5,114 | 4,473 |

BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2021 | 2022F | 2023F | 2024F |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Fixed assets | 5,268 | 5,392 | 5,517 | 5,642 |
| Other LT assets | 7,792 | 8,128 | 8,464 | 8,800 |
| Cash/ST investment | 12,381 | 14,251 | 16,141 | 19,398 |
| Other current assets | 26,172 | 27,747 | 31,071 | 29,492 |
| Total assets | 51,612 | 55,518 | 61,193 | 63,332 |
| ST debt | 2,504 | 299 | 299 | 0 |
| Other current liabilities | 9,295 | 10,024 | 11,748 | 10,952 |
| LT debt | 1,953 | 1,102 | 802 | 802 |
| Other LT liabilities | 1,799 | 1,799 | 1,799 | 1,799 |
| Shareholders' equity | 35,923 | 42,124 | 46,335 | 49,535 |
| Minority interest | 138 | 169 | 209 | 243 |
| Total liabilities & equity | 51,612 | 55,518 | 61,193 | 63,332 |

CASH FLOW

| Year to 31 Dec (Rmbm) | 2021 | 2022F | 2023F | 2024F |
|---|---------------|---------------|---------------|----------------|
| Operating | 6,143 | 2,896 | 3,192 | 4,929 |
| Pre-tax profit | 3,727 | 4,102 | 5,153 | 4,507 |
| Tax | 0 | 0 | 0 | 0 |
| Deprec. & amort. | 501 | 501 | 501 | 501 |
| Associates | (362) | (362) | (362) | (362) |
| Working capital changes | 2,737 | (845) | (1,601) | 783 |
| Non-cash items | 0 | 0 | 0 | 0 |
| Other operating cashflows | (461) | (500) | (500) | (500) |
| Investing | 315 | (600) | (600) | (600) |
| Capex (growth) | (669) | (600) | (600) | (600) |
| Capex (maintenance) | 0 | 0 | 0 | 0 |
| Investments | (157) | 0 | 0 | 0 |
| Proceeds from sale of assets | 386 | 0 | 0 | 0 |
| Others | 755 | 0 | 0 | 0 |
| Financing | (728) | (425) | (702) | (1,072) |
| Dividend payments | (843) | (925) | (1,202) | (1,572) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | 4,211 | 2,000 | 2,000 | 2,000 |
| Loan repayment | (3,925) | (1,500) | (1,500) | (1,500) |
| Others/interest paid | (172) | 0 | 0 | 0 |
| Net cash inflow (outflow) | 5,730 | 1,871 | 1,889 | 3,257 |
| Beginning cash & cash equivalent | 6,651 | 12,381 | 14,251 | 16,141 |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 12,381 | 14,251 | 16,141 | 19,398 |

KEY METRICS

| Year to 31 Dec (%) | 2021 | 2022F | 2023F | 2024F |
|---------------------------|--------|--------|--------|--------|
| Profitability | | | | |
| EBITDA margin | 22.2 | 22.0 | 19.6 | 19.8 |
| Pre-tax margin | 29.1 | 24.2 | 21.1 | 21.7 |
| Net margin | 22.1 | 19.0 | 16.6 | 17.0 |
| ROA | 7.7 | 7.6 | 8.8 | 7.2 |
| ROE | 10.8 | 10.4 | 11.6 | 9.3 |
| Growth | | | | |
| Turnover | 13.0 | 27.9 | 44.0 | (14.7) |
| EBITDA | 9.7 | 26.6 | 28.0 | (13.7) |
| Pre-tax profit | 48.4 | 6.4 | 25.6 | (12.5) |
| Net profit | 47.0 | 10.0 | 25.6 | (12.5) |
| Net profit (adj.) | 10.3 | 11.0 | 25.6 | (12.5) |
| EPS | 10.3 | 11.0 | 25.6 | (12.5) |
| Leverage | | | | |
| Debt to total capital | 11.0 | 3.2 | 2.3 | 1.6 |
| Debt to equity | 12.4 | 3.3 | 2.4 | 1.6 |
| Net debt/(cash) to equity | (22.1) | (30.5) | (32.5) | (37.5) |
| Interest cover (x) | 53.3 | 76.0 | 120.6 | 136.7 |

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