

COMPANY UPDATE

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

Still A Compelling Story

While the spin-off of YZJ's investments business could be a near-term share price catalyst, we also point out that the company had a busy 1Q22 in delivering more than 12 vessels, an admirable job given that it was a holiday-shortened quarter with the Chinese New Year in February. In addition, we highlight that based on second-hand values of its 26 vessels, YZJ's shipping assets are worth double its current carrying value. Maintain BUY. Target price: S\$1.95.

WHAT'S NEW

- **All systems go for the investments spin-off.** YZJ Financial Holdings (YZJFH) will imminently be spun out from Yangzijiang Shipbuilding (Holdings) (YZJ) via a distribution in specie wherein YZJ shareholders will receive one YZJFH share for every YZJ share they hold. According to the company, this represents a dividend distribution of Rmb20b, equating to S\$4.26b or S\$1.09/share. The company has already obtained in-principal approval from SGX and is awaiting other regulatory approvals as well as shareholder approval from an EGM, which will be convened soon.
- **A busy quarter.** Our channel checks indicate that YZJ had a very busy 1Q22 with 12 vessels delivered; however the table below does not capture all of its vessel deliveries. Nevertheless, with a 2022 target of delivering 60 vessels, a simplistic calculation of the company's run rate indicates that it is on target – especially accounting for the fact that 1Q22 was a shortened quarter given the Chinese New Year holidays in early February. We also note that two of these deliveries were for the larger class of containerships which should generate higher shipbuilding margins for YZJ.
- **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% yoy increase in revenue. Management expects this segment to continue to perform strongly in 1H22 and highlighted that with an average age of eight years, it is a young fleet. Our valuation of this fleet, based on current second-hand prices of similar ships, equates to over US\$687m (Rmb4.4b) or S\$0.24/share (see table below). This market-based valuation of its fleet is double that of YZJ's disclosure that its shipping assets had a relatively low carrying value of Rmb2.2b as at end-21. Note that in 2021, the company sold two vessels and recognised a profit of Rmb70m.

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)	8.8	8.0	7.2	5.7	6.5
P/B (x)	0.9	0.8	0.7	0.6	0.6
EV/EBITDA (x)	4.8	4.4	3.5	2.7	3.1
Dividend yield (%)	3.0	3.3	4.3	5.4	4.7
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	-	-	3,748	4,472	4,618
UOBKH/Consensus (x)	-	-	1.09	1.14	0.97

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

BUY

(Maintained)

Share Price	S\$1.58
Target Price	S\$1.95
Upside	+23.5%

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):	6,026.7
Market cap (US\$m):	4,444.4
3-mth avg daily t'over (US\$m):	20.5

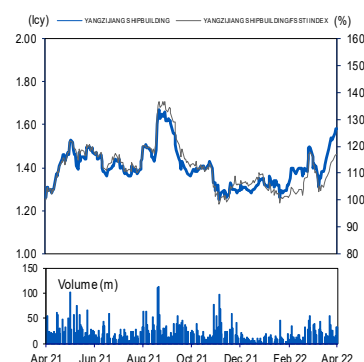
Price Performance (%)

52-week high/low	S\$1.67/S\$1.25			
1mth	3mth	6mth	1yr	YTD
6.9	14.9	12.4	19.4	14.9

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

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KEY VESSELS DELIVERED IN 1Q22

Vessel name	Type	Capacity	Delivered
MSC Washington	Containership	14,000TEU	Mar-22
SITC Jade	Containership	1,800TEU	Mar-22
Benefactor	Bulk carrier	82,000dwt	Mar-22
Rostrum America	Bulk carrier	40,000dwt	Feb-22
SITC Sun Yuncheng	Containership	24,00TEU	Feb-22
New Mingzhu 92	Containership	1,000TEU	Feb-22
Perelik	Bulk carrier	31,800dwt	Jan-22
Nord Andromeda	Bulk carrier	82,300dwt	Jan-22
Rich Rainforest	Bulk carrier	82,000dwt	Jan-22
GCL Dunkirk	Bulk carrier	180,000dwt	Jan-22
SITC Decheng	Containership	2,400TEU	Jan-22
Tiger Longkou	LNG tank carrier	25,000dwt	Jan-22

Source: YZJ

STOCK IMPACT

- **Watching China's escalating COVID-19 case numbers.** According to management, the current COVID-19 movement restrictions have had some disruption on YZJ's shipyard operations; however it believes that the financial impact is not material thus far.

EARNINGS REVISION/RISK

- **No earnings changes at present.** However, we highlight potential downside risk to earnings should China's COVID-19 restrictions increase, given that YZJ's shipyard assets are entirely located in China. Should shipyard operations be affected, this would hamper the company's ability to deliver on its target of 60 ships that it has planned for 2022, thus negatively impacting the company's profitability as milestone payments would then be delayed.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of S\$1.95** based on 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. We continue to believe that YZJ remains inexpensive as it is trading at 2022 multiples of 6.2x PE and 0.6x P/B. We highlight that end-21 net cash per share was S\$0.43, which equates to 27% of the company's share price.
- **What would a sum-of-the-parts valuation look like?** In the table below, we have used a 10x and 5x multiple for its shipbuilding and trading & other business segments respectively, thus arriving at a S\$1.41 and S\$0.08/share valuation for these two segments. By using publicly-sourced replacement cost for its shipping assets, we value this segment at Rmb4.4b which is double that of the company's carrying cost of these assets. Lastly, we have used YZJ's disclosed net tangible assets of Rmb20b or S\$1.09/share for its investments segment. All these result in a total valuation of S\$2.12/share for YZJ which is nearly 9% higher than our current PE-based target price.

SUM-OF-THE-PARTS VALUATION

Business segment	Basis		Multiple (x)	Valuation		
				Rmbm	S\$m	S\$/share
Shipbuilding	Gross profit	Rmb2,591m	10.0	25,909.4	5,524.4	1.41
Ship chartering	Replacement cost			4,352.9	928.1	0.24
Trading/Others	Gross profit	Rmb306m	5.0	1,531.1	326.5	0.08
Investments	Net tangible assets			19,998.2	4,264.0	1.09
Net debt/(cash)				-12,850.2	-2,739.9	-0.70
Total				38,941.4	8,303.1	2.12

Source: UOB Kay Hian, Fearnleys, Clarksons

SHARE PRICE CATALYST

- Evidence of margin expansion from 1H22 onwards.
- New orders in higher-margin segments, eg dual-fuel containerships or LPG tankers.

FIVE-YEAR PE



Source: Bloomberg, 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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