

COMPANY UPDATE

Yangzijiang Shipbuilding (Holdings) (YZJSGD SP)

Shipbuilding Business Materially Undervalued

We highlight that YZJ's current share price, excluding YZJFH, implies a P/B of less than 0.5x which in our view materially undervalues the company. Since its IPO in 2007, YZJ has significantly grown and transformed its shipbuilding business, and in addition has the tailwind of high asset prices and charter rates that will benefit its shipping fleet. Our pro forma SOTP valuation for YZJ ex-YZJFH is S\$1.16. Maintain BUY. Target price: S\$1.95.

WHAT'S NEW

- **What does YZJ's valuation look like without the investment arm?** Yangzijiang's (YZJ) book value per share excluding Yangzijiang Financial Holding (YZJFH) would equate to S\$0.96 per share as at end-21, comprising of: a) S\$0.75 for the shipbuilding segment, b) S\$0.09 for the shipping business, and c) S\$0.12/share for the trading business. If we subtract YZJFH's book value of S\$1.09 from yesterday's closing share price of S\$1.56, the remaining value of S\$0.47 implies a P/B of 0.49x which is a material undervaluation of the company in our view.
- **Comparing then and now.** We believe that the current valuation for YZJ ex YZJFH does not recognise how the company has transformed its shipbuilding business in the past 15 years. As seen in the table below, the 2007-21 period saw the company doubling the number of its yards to four at present and more importantly, its orderbook in terms of compensated gross tonnage (CGT) has increased by 3.5x to 8.8m tonnes. This indicates that the productivity and amount of work that YZJ puts into a new ship order has grown materially in the past 15 years.

COMPARING YZJ IN 2007 VS 2021

Year to 31 Dec (Rmbm)		2007A	2021A	2022E
No. of yards		2	4	4
New order wins	US\$ m	5.0	8.3	2.5
Orderbook (as at 31 Dec)	US\$ b	7.0	8.5	
Orderbook (as at 31 Dec)	Million CGT*	2.0	8.8	
Shipbuilding segment only				
Revenue	Rmb m	3,855	13,198	17,869
Gross profit	Rmb m	885	1,557	2,591
Gross margin	%	23.0%	11.8%	14.5%
Equity - Shipbuilding segment only	Rmb m	1,993	13,976	
BVPS	S\$/share	0.12	0.75	

Note: * compensated gross tonnage (an indicator of the amount of work that is necessary to build a given ship)
Source: YZJ

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)	8.7	7.9	7.1	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 (%)	3.1	3.4	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	-	-	3,856	4,578	4,612
UOBKH/Consensus (x)	-	-	1.06	1.12	0.97

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

BUY

(Maintained)

Share Price	S\$1.56
Target Price	S\$1.95
Upside	+25.0%

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):	6,162.9
Market cap (US\$m):	4,519.3
3-mth avg daily t'over (US\$m):	24.2

Price Performance (%)

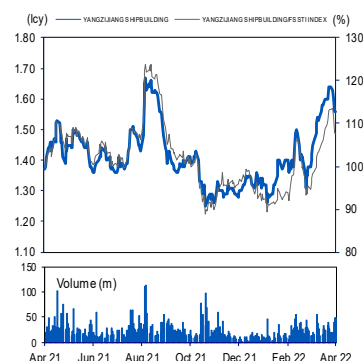
52-week high/low	S\$1.67/S\$1.25			
1mth	3mth	6mth	1yr	YTD
13.0	16.4	10.6	14.7	16.4

Major Shareholders

	%
Ren Yuanlin	21.8
Wang Dong	10.1
T.Rowe Price	7.0

FY22 NAV/Share (Rmb)	10.93
FY22 Net Cash/Share (Rmb)	3.34

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Growth in shipbuilding revenues and profitability.** Looking at other metrics, YZJ's shipbuilding revenues rose by 2.4x between 2007 and 2021 (9% CAGR) while gross profit grew by nearly 76% over the same period (4% CAGR). While gross margins have halved during that period, we would note that 2007 was the peak of the previous shipbuilding cycle while we are arguably at the early stage of the current shipbuilding cycle, and we have forecasted for YZJ's shipbuilding margins to expand in 2022.
- Update on the spin-off.** YZJFH have been spun out from YZJ via a distribution in specie wherein YZJ's shareholders will receive one YZJFH share for every YZJ share they hold. This represents a dividend distribution of Rmb20b, equating to S\$4.26b or S\$1.09/share, and was overwhelmingly approved by the company's shareholders at its AGM on 18 Apr 22. As a result, YZJFH will be listed on 28 Apr 22 at 1pm, and shareholders as at the close of business on 22 Apr 22 will be entitled to this distribution in specie.
- Watching China's escalating COVID-19 case numbers.** According to the company's 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.
- SOTP excluding YZJFH.** In the table below, we have used an 8x and 5x multiple for its shipbuilding and trading & other business segments respectively, thus arriving at a S\$1.13 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 or S\$0.24/share – this is double that of the company's carrying cost of these assets, or approximately 3x higher than its book value of \$0.09 as at end-21. We have omitted YZJ's net tangible assets of S\$1.09/share for YZJFH, and assumed that YZJ will continue to be in a net cash position after the listing of YZJFH, thus arriving at a pro forma SOTP valuation of S\$1.16/share for YZJ.

PRO FORMA SOTP VALUATION EX-YZJFH

Business segment	Basis	Multiple (x)	Valuation			
			Rmb m	S\$m	S\$/share	
Shipbuilding	Gross profit	Rmb2,591m	8.0	20,728	4,420	1.13
Ship chartering	Replacement cost			4,353	928	0.24
Trading/Others	Gross profit	Rmb306m	5.0	1,531	326	0.08
Net debt/(cash)				-5,300	-1,130	-0.29
Total				21,312	4,544	1.16

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 CHART



Source: Bloomberg, UOB Kay Hian

BOOK VALUE OF YZJ EX FINANCIALS VS CURRENT SHARE PRICE

Business segment	BVPS (S\$/share)
Shipbuilding	0.75
Shipping	0.09
Trading & others	0.12
YZJ excl. financials	0.96
YZJ Financial Holdings	1.09
Current share price	1.56
Stub value	0.47
Implied P/B	0.49x
10-year mean P/B	0.79x

Source: YZJ

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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