

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 Feb 2024

BUY

Last Traded Price (28 Feb 2024): S\$1.74 (STI : 3,138.93)

Price Target 12-mth: S\$2.10 (21% upside) (Prev S\$1.90)

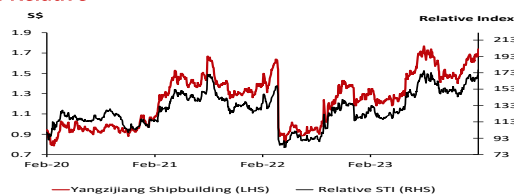
Analyst

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What's New

- 2H23 net profit beat street expectations on strong shipbuilding margin expansion
- Lifting FY24 order win target by 50% to US\$4.5bn; raising FY24-25 forecasts by 21%
- Final dividend of 6.5 Scts translates to c.4% yield, in line with payout ratio of 33%
- Reiterate BUY; TP lifted to S\$2.10

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2022A	2023A	2024F	2025F
Revenue	20,705	24,112	25,283	25,927
EBITDA	3,511	5,237	6,042	6,514
Pre-tax Profit	3,497	5,131	6,146	6,686
Net Profit	2,807	4,102	4,789	5,208
Net Pft (Pre Ex.)	2,613	4,102	4,789	5,208
Net Pft Gth (Pre-ex) (%)	32.6	57.0	16.8	8.8
EPS (S cts)	13.3	19.4	22.7	24.7
EPS Pre Ex. (S cts)	12.4	19.4	22.7	24.7
EPS Gth Pre Ex (%)	32	57	17	9
Diluted EPS (S cts)	13.3	19.4	22.7	24.7
Net DPS (S cts)	4.94	6.42	7.41	8.39
BV Per Share (S cts)	83.2	99.1	115	133
PE (X)	13.1	9.0	7.7	7.1
PE Pre Ex. (X)	14.1	9.0	7.7	7.1
P/Cash Flow (X)	7.9	4.6	11.2	7.8
EV/EBITDA (X)	8.3	5.0	4.0	3.3
Net Div Yield (%)	2.8	3.7	4.3	4.8
P/Book Value (X)	2.1	1.8	1.5	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	10.5	21.3	21.1	19.9
Earnings Rev (%):			21	21
Consensus EPS (S cts):			20.1	21.3
Other Broker Recs:		B: 7	S: 0	H: 0

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

Making New Highs

Investment Thesis:

Leading shipbuilder poised to ride the clean energy wave.

Yangzijiang is the largest and best-managed private shipbuilder in China and has a wide economic moat to compete against Chinese and Korean peers. It has at least a 5-ppt cost advantage through yard optimization as well as superior project execution and cost control. It successfully made a foray into the LNG carrier market and targets to improve its corporate ESG.

ESG advancement, LNG carrier orders and earnings growth are key catalysts.

Yangzijiang's improving corporate governance and pivot towards cleaner vessels such as dual-fuel containerships and gas carriers, which now account for ~58% of orderbook, could draw more interest from ESG funds. Securing more orders for LNG carriers allows Yangzijiang to scale up and strengthen its market positioning. The LNG carrier market has high technical barriers to entry and could provide Yangzijiang the next leap of growth. Market has yet to fully appreciate the earnings growth potential from its record order backlog.

Record high order backlog boosts earnings visibility through

2026. Yangzijiang's yards are full through 2026 with an orderbook of US\$14.5bn. This is expected to propel an earnings CAGR of ~10% in the next two years, driven by both revenue growth and margin expansion, as over 70% of its orderbook is made up of containership orders that command higher value and margins. We expect further uplift in its orderbook, boosted by potential orders for large LNG carriers.

Reiterate BUY; TP S\$2.10, based on 1.8x FY24F P/BV (10.2x implied

PE), justified by its high 20% ROE and 4% dividend yield. This points to 21% upside potential. We believe 60% of the re-rating could come from earnings growth and 40% from an uplift in the valuation multiple from 8x towards 10x PE, on the back of 1) more LNG carrier orders; and 2) ESG improvement.

Key Risks

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)	3,951
Mkt. Cap (S\$m/US\$m)	6,874 / 5,106
Major Shareholders (%)	
YANGZI INTERNATIONAL	21.6
Lido Point Investments Ltd	10.0
T Rowe Price Group I	8.3
Free Float (%)	60.1
3m Avg. Daily Val (US\$m)	17.6
GIC Industry :	Industrials / Capital Goods



Watchlist the stock on Insights Direct to receive prompt updates

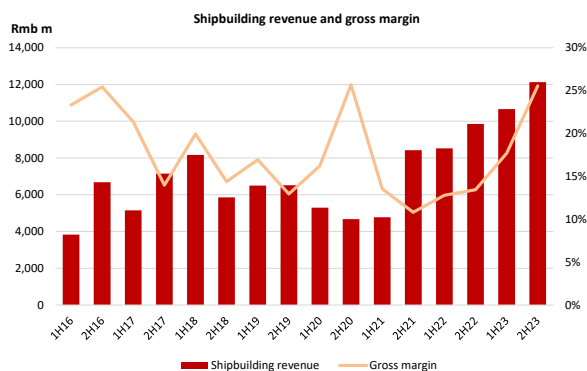
WHAT'S NEW

Record profit in FY23

A fabulous 2H23. Net profit surged 38% h-o-h and 65% y-o-y to Rmb2.4bn, beating street estimates by over 20%. The outperformance came from much stronger shipbuilding margin, widening 7.8ppt h-o-h to 25.5%, driven by higher newbuild prices as well as favourable USD and steel cost. This brings full year net profit to all-time high of Rmb4.1bn, surpassing last record profit of c.\$4bn in 2011.

Shipbuilding gross margin widened to 25.5% (+7.8ppt h-o-h) in 2H23, from 17.7% in 1H23, 13.5% in 2H22, and trough of 10.8% in 2H21. This is attributable to favourable forex and steel cost. In addition, Yangzijiang progressively executed the higher value and margin contracts secured since 2021. Revenue and margins are expected to expand further as it recognizes the bulk of the profit margin closer to delivery of these vessels. In addition, steel cost, which is expected to hover round Rmb4,000/t levels, bodes well for further margin expansion.

Shipbuilding margin rebounded strongly



Source: Company, DBS Bank Ltd

Secured US\$1.35bn new orders YTD; raising 2024 order target by 50% to US\$4.5bn. Yangzijiang has clinched orders totaled US\$7.05bn in FY23 and ~US\$1.35bn YTD. Management expects strong order momentum to continue and raises its order target for FY24 to US\$4.5bn (from US\$3bn previously), citing robust demand for clean energy vessels and higher value contracts in containership and tanker space.

Revenue coverage of over 4-years. Yangzijiang's orderbook stood at all time high of US\$14.5bn, of which 58% are clean energy vessels. Based on Yangzijiang's revenue maximum run rate of c. US\$3.3bn a year, current orderbook implies over 4-years revenue coverage, which is higher than the ideal range of

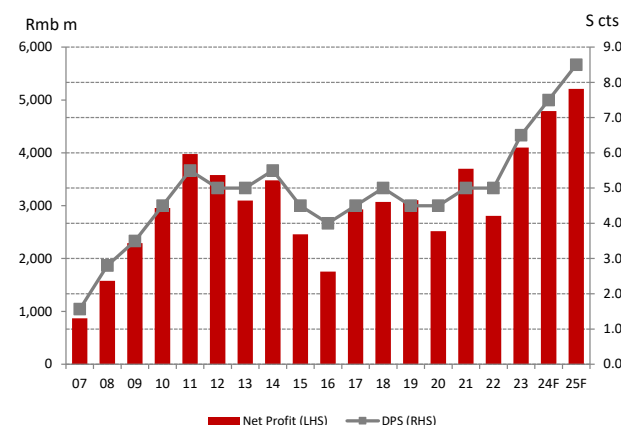
2-3x. We could expect some efficiency and productivity gain from repeated orders.

Net cash of ~55 Scts. Yangzijiang's balance sheet remains very healthy post spin-off of investment arm. As of end-2023, the group has c.Rmb6bn net cash or ~55 Scts per share. The group has collected or sold the whole Rmb1.5bn legacy non-performing debt investment at book.

Earnings revisions. The strong 2H23 results reinforced our positive views on Yangzijiang's earnings growth. We have tweaked our assumptions on revenue and margins. As a result, our FY24/25F earnings forecasts are raised by c.20%. Our new forecasts imply a 2-year CAGR of 13%. Accordingly, our TP is raised to S\$2.10 (1.8x FY24F PB)

DPS raised to 7.5-8.5 Sct (from 6-7 Scts previously) following earnings revisions, still based on similar 33% payout ratio. This implies 4.3-4.9% dividend yield. We believe there is room for upward revisions of payout ratio. Assuming a 40% payout, DPS could be lifted to 9.0-10 Scts during the period, implying a 5.2-5.7% dividend yield.

All-time-high dividends



Source: Company, DBS Bank Ltd

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

Interim Income Statement (RMBm)

FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Revenue	10,964	11,321	12,791	16.7	13.0
Cost of Goods Sold	(9,191)	(9,211)	(9,491)	3.3	3.0
Gross Profit	1,773	2,110	3,301	86.1	56.4
Other Oper. (Exp)/Inc	(100)	(134)	(732)	633.8	446.1
Operating Profit	1,673	1,976	2,568	53.5	30.0
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	8	50	148	nm	194.4
Net Interest (Exp)/Inc	146	162	226	55.0	39.0
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	1,827	2,188	2,942	61.1	34.4
Tax	(371)	(464)	(597)	61.0	28.7
Minority Interest	(14)	1	31	nm	nm
Net Profit	1,442	1,726	2,376	64.7	37.6
Net profit bef Except.	1,442	1,726	2,376	64.7	37.6
EBITDA	1,864	2,269	2,969	59.3	30.8
Margins (%)					
Gross Margins	16.2	18.6	25.8		
Opg Profit Margins	15.3	17.5	20.1		
Net Profit Margins	13.2	15.2	18.6		

Source of all data: Company, DBS Bank Ltd

Peer comparison

Company	Last Px (LC)	Market cap (US\$m)	P/E		P/B		ROE (%)			Net D/E Current	Div Yld (%) Current
			FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY25F		
Singapore											
Seatrium	0.09	4,614	30x	13x	0.8x	0.7x	2.8%	6.1%	7.8%	0.2x	nm
Yangzijiang	1.72	5,051	9x	8x	1.6x	1.4x	18.6%	17.9%	13.6%	CASH	2.9%
Korea											
HD Korea Shipbuilding & Offshore	116,400	6,164	11x	6x	0.8x	0.7x	7.1%	12.7%	20.9%	0.0x	nm
HD Hyundai Heavy Industries	119,100	7,912	307x	25x	2.0x	1.8x	0.5%	7.9%	13.2%	0.3x	nm
Hyundai Mipo	62,900	1,880	nm	32x	1.2x	1.2x	-4.3%	3.5%	9.9%	CASH	nm
Samsung Heavy Industries	8,030	5,288	nm	25x	2.0x	1.8x	nm	nm	nm	0.6x	nm
Hanwha Ocean	24,500	5,605	37x	16x	1.6x	1.4x	4.6%	9.8%	12.4%	2.2x	nm
China											
China CSSC	34.01	21,129	51x	23x	3.1x	2.8x	6.1%	11.9%	14.9%	CASH	0.1%
China Shipbuilding Industry Co (CSIC)	4.66	14,760	nm	36x	1.3x	1.2x	-0.9%	3.5%	6.4%	CASH	nm
		Average:	74x	21x	1.6x	1.4x	3.6%	9.0%	12.4%	0.7x	nm
		Median:	34x	23x	1.6x	1.4x	2.8%	7.9%	12.6%	0.3x	nm

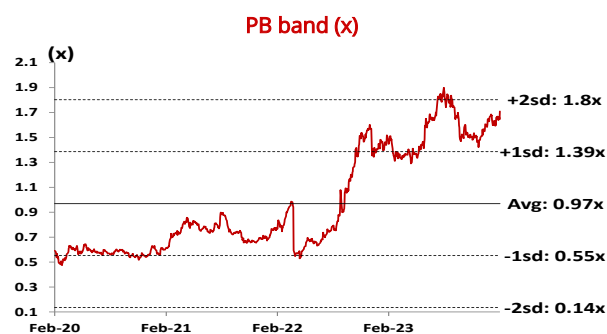
Source: Bloomberg Finance L.P

Yangzijiang Shipbuilding

Historical PE and PB band



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



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

Key Assumptions

FY Dec	2021A	2022A	2023A	2024F	2025F
Order wins (US\$ m)	7,410	4,430	7,100	4,500	3,000
Steel cost (RMB/t)	5,871	5,812	4,650	5,115	5,370
RMB / USD	6.60	6.70	6.80	6.80	6.80

Segmental Breakdown

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenues (RMBm)					
Shipbuilding	13,198	18,372	22,788	23,902	24,497
Investment	960	1,383	1,022	981	1,030
Shipping	979	950	303	400	400
Total	15,137	20,705	24,112	25,283	25,927
Gross profit (RMBm)					
Shipbuilding	1,557	2,415	4,986	5,742	6,173
Investment	385	563	352	343	361
Shipping	142	219	72.7	96.0	96.0
Total	2,084	3,197	5,410	6,182	6,630
Gross profit Margins (%)					
Shipbuilding	11.8	13.1	21.9	24.0	25.2
Investment	40.1	40.7	34.4	35.0	35.0
Shipping	14.5	23.0	24.0	24.0	24.0
Total	13.8	15.4	22.4	24.4	25.6

Source: Company, DBS Bank Ltd

Yangzijiang Shipbuilding

Income Statement (RMBm)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	15,137	20,705	24,112	25,283	25,927
Cost of Goods Sold	(13,053)	(17,508)	(18,702)	(19,101)	(19,297)
Gross Profit	2,084	3,197	5,410	6,182	6,630
Other Opng (Exp)/Inc	173	(151)	(866)	(708)	(728)
Operating Profit	2,258	3,046	4,544	5,473	5,902
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	96.2	13.1	198	150	200
Net Interest (Exp)/Inc	268	243	388	523	584
Exceptional Gain/(Loss)	1,727	195	0.0	0.0	0.0
Pre-tax Profit	4,349	3,497	5,131	6,146	6,686
Tax	(622)	(678)	(1,061)	(1,352)	(1,471)
Minority Interest	(28.5)	(12.1)	32.1	(5.0)	(7.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	3,699	2,807	4,102	4,789	5,208
Net Profit before Except.	1,971	2,613	4,102	4,789	5,208
EBITDA	2,847	3,511	5,237	6,042	6,514
Growth					
Revenue Gth (%)	2.0	36.8	16.5	4.9	2.5
EBITDA Gth (%)	(20.6)	23.3	49.2	15.4	7.8
Opg Profit Gth (%)	(21.9)	34.9	49.2	20.4	7.8
Net Profit Gth (Pre-ex) (%)	(21.7)	32.6	57.0	16.8	8.8
Margins & Ratio					
Gross Margins (%)	13.8	15.4	22.4	24.4	25.6
Opg Profit Margin (%)	14.9	14.7	18.8	21.6	22.8
Net Profit Margin (%)	24.4	13.6	17.0	18.9	20.1
ROAE (%)	10.8	10.5	21.3	21.1	19.9
ROA (%)	7.7	6.6	11.1	11.1	11.1
ROCE (%)	4.8	7.5	14.4	14.8	14.4
Div Payout Ratio (%)	28.0	37.1	33.1	32.7	34.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Interim Income Statement (RMBm)

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Revenue	8,537	9,741	10,964	11,321	12,791
Cost of Goods Sold	(8,139)	(8,317)	(9,191)	(9,211)	(9,491)
Gross Profit	398	1,424	1,773	2,110	3,301
Other Oper. (Exp)/Inc	523	(51.5)	(99.8)	(134)	(732)
Operating Profit	921	1,372	1,673	1,976	2,568
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	27.9	5.48	7.58	50.2	148
Net Interest (Exp)/Inc	176	97.7	146	162	226
Exceptional Gain/(Loss)	973	195	0.0	0.0	0.0
Pre-tax Profit	2,098	1,670	1,827	2,188	2,942
Tax	(53.9)	(307)	(371)	(464)	(597)
Minority Interest	15.8	1.44	(13.5)	1.49	30.6
Net Profit	2,060	1,365	1,442	1,726	2,376
Net profit bef Except.	1,087	1,171	1,442	1,726	2,376
EBITDA	1,178	1,647	1,864	2,269	2,969
Growth					
Revenue Gth (%)	29.3	14.1	12.6	3.3	13.0
EBITDA Gth (%)	(29.4)	39.8	13.2	21.7	30.8
Opg Profit Gth (%)	(31.1)	49.0	21.9	18.1	30.0
Net Profit Gth (%)	25.7	(33.7)	5.6	19.7	37.6
Margins					
Gross Margins (%)	4.7	14.6	16.2	18.6	25.8
Opg Profit Margins (%)	10.8	14.1	15.3	17.5	20.1
Net Profit Margins (%)	24.1	14.0	13.2	15.2	18.6

Source: Company, DBS Bank Ltd

Yangzijiang Shipbuilding

Balance Sheet (RMBm)

FY Dec	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	6,335	7,278	7,219	7,100	6,989
Invt in Associates & JVs	1,628	501	721	871	1,071
Other LT Assets	5,097	2,178	3,674	3,647	3,647
Cash & ST Invt	28,599	12,480	16,580	17,914	20,464
Inventory	1,640	1,231	919	1,453	1,490
Debtors	4,121	3,670	4,671	6,321	6,482
Other Current Assets	4,193	5,629	7,081	7,789	8,567
Total Assets	51,612	32,967	40,864	45,093	48,706
ST Debt	2,504	2,269	3,965	3,569	3,212
Creditor	2,804	3,172	3,672	4,515	4,630
Other Current Liab	6,491	6,815	9,939	10,202	10,321
LT Debt	1,953	2,298	1,630	1,711	1,797
Other LT Liabilities	1,799	707	515	515	515
Shareholder's Equity	35,923	17,573	20,941	24,373	28,017
Minority Interests	138	132	202	207	214
Total Cap. & Liab.	51,612	32,967	40,864	45,093	48,706
Non-Cash Wkg. Capital	659	543	(940)	846	1,588
Net Cash/(Debt)	24,143	7,912	10,985	12,634	15,455
Debtors Turn (avg days)	93.5	68.7	63.1	79.3	90.1
Creditors Turn (avg days)	80.0	64.0	68.6	80.0	88.4
Inventory Turn (avg days)	48.2	30.7	21.6	23.2	28.4
Asset Turnover (x)	0.3	0.5	0.7	0.6	0.6
Current Ratio (x)	3.3	1.9	1.7	1.8	2.0
Quick Ratio (x)	2.8	1.3	1.2	1.3	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	6.3	18.8	4.8	5.7	6.0

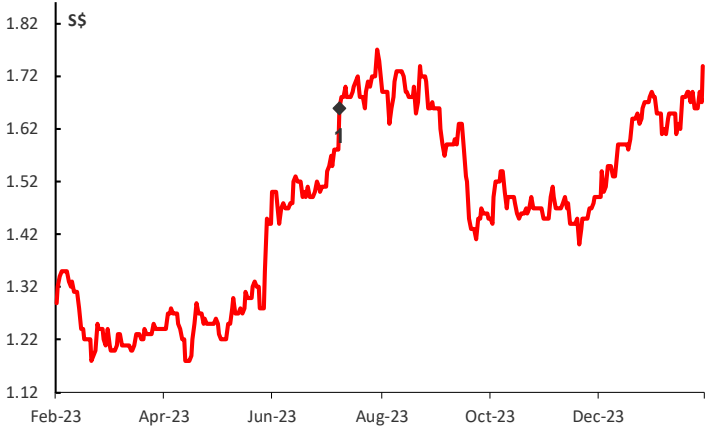
Cash Flow Statement (RMBm)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	4,349	3,497	5,131	6,146	6,686
Dep. & Amort.	493	452	496	421	415
Tax Paid	(698)	(723)	(731)	(1,089)	(1,352)
Assoc. & JV Inc/(loss)	(96.2)	(13.1)	(198)	(150)	(200)
Chg in Wkg.Cap.	2,737	1,100	3,373	(2,049)	(861)
Other Operating CF	(643)	320	(96.4)	0.0	0.0
Net Operating CF	6,143	4,632	7,974	3,278	4,688
Capital Exp.(net)	(283)	(858)	(268)	(300)	(300)
Other Invt.(net)	0.0	0.0	(2,093)	0.0	0.0
Invt in Assoc. & JV	204	(118)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	394	99.9	70.9	45.6	0.0
Net Investing CF	315	(877)	(2,290)	(254)	(300)
Div Paid	(843)	(975)	(1,024)	(1,356)	(1,564)
Chg in Gross Debt	286	28.4	1,028	(315)	(271)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(172)	(4,394)	95.6	0.0	0.0
Net Financing CF	(728)	(5,341)	99.1	(1,671)	(1,836)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	5,730	(1,585)	5,783	1,353	2,552
Opg CFPS (S cts)	16.2	16.7	21.8	25.2	26.3
Free CFPS (S cts)	27.9	17.9	36.5	14.1	20.8

Source: Company, DBS Bank Ltd

Yangzijiang Shipbuilding

Target Price & Ratings 12-mth History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	07 Aug 23	1.66	1.90	BUY

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

Source: DBS Bank Ltd

Analyst: Pei Hwa HO

DBS Bank Ltd 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

Completed Date: 29 Feb 2024 11:00:58 (SGT)

Dissemination Date: 29 Feb 2024 12:25:31 (SGT)

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

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