

Singapore Company Guide

Yangzijiang Shipbuilding

Version 14 | Bloomberg: YZJSGD SP | Reuters: YAZG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Aug 2018

BUY

Last Traded Price (8 Aug 2018): S\$0.99 (STI : 3,326.74)

Price Target 12-mth: S\$1.82 (83% upside)

Analyst

Pei Hwa HO +65 6682 3714 peihwa@db.com

What's New

- 2Q18 figures beat expectations on strong shipbuilding earnings
- Core shipbuilding margins expanded 4.2ppts q-o-q to 21.5% aided by deliveries of 10 higher-margin, large vessels
- Order wins could exceed target; raise FY18/19 profits to Rmb2.8bn
- Reiterate BUY; undervalued at trading near net cash levels; TP S\$1.82

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2016A	2017A	2018F	2019F
Revenue	15,089	19,206	20,289	19,968
EBITDA	4,122	3,655	3,987	4,252
Pre-tax Profit	2,773	3,487	3,808	3,834
Net Profit	1,752	2,931	2,792	2,829
Net Pft (Pre Ex.)	2,284	2,642	2,544	2,829
Net Pft Gth (Pre-ex) (%)	20.0	15.7	(3.7)	11.2
EPS (S cts)	9.17	14.8	14.2	14.4
EPS Pre Ex. (S cts)	12.0	13.3	12.9	14.4
EPS Gth Pre Ex (%)	20	12	(3)	11
Diluted EPS (S cts)	9.17	14.8	14.2	14.4
Net DPS (S cts)	4.04	4.55	4.55	4.55
BV Per Share (S cts)	119	131	141	151
PE (X)	10.9	6.7	7.0	6.9
PE Pre Ex. (X)	8.3	7.5	7.7	6.9
P/Cash Flow (X)	4.7	13.6	25.1	9.4
EV/EBITDA (X)	2.9	2.6	2.5	2.3
Net Div Yield (%)	4.1	4.6	4.6	4.6
P/Book Value (X)	0.8	0.8	0.7	0.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.9	12.1	10.4	9.8

Earnings Rev (%):			18	19
Consensus EPS (S cts):			12.2	11.3
Other Broker Recs:	B: 10	S: 1	H: 1	

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

Raising the bar

Reiterate BUY; TP unchanged at S\$1.82. Yangzijiang is a steal, trading near net cash (including HTM investments) of 91 Scts, undervalued at 0.7x P/BV, a c.20% discount to global peers, notwithstanding its more attractive 10% ROE and 5% yield. The astounding 2Q profit soaring 67% q-o-q serves as a confidence booster on Yangzijiang's shipbuilding profitability. It is a prime beneficiary of stronger USD and among the best proxies for shipping and shipbuilding recovery.

One of the world's best-managed and profitable shipyards. Core shipbuilding revenue is backed by its healthy order backlog of US\$4bn (~2x revenue coverage) as at end-June 2018. Better returns from the investment segment provides a cushion to its recurring income stream. It is the largest and most cost-efficient private shipbuilder in China, Yangzijiang is well positioned to ride sector consolidation and shipbuilding recovery. Its strategy to move up into the LNG/LPG vessel segment with a Japanese partner strengthens the longer-term prospects of the company.

Where we differ: We have been more bullish on the sector's recovery and believe Yangzijiang deserves to re-rate, catalysed by order wins and newbuild price increases eventually. The shipping demand growth could outstrip supply growth in 2018-2019. Profitability improvement of shipping companies should drive demand for newbuild vessels and higher newbuild prices.

Valuation:

We value Yangzijiang based on sum-of-parts (SOP) methodology. We arrive at a target price of S\$1.82, after applying 12x FY18F PE on shipbuilding earnings, 1.5x P/BV for bulk carriers and 1.1x P/BV for investments. Our TP translates into 1.3x P/BV, which is approximately 0.4SD below historical mean (2.0x) since listing.

Key Risks to Our View:

USD depreciation and hike in steel cost. Revenue is denominated mainly in USD, and only half is naturally hedged. If the net exposure is unhedged, every 1% USD depreciation could lead to a 2% decline in earnings. Every 1% rise in steel costs, which accounts for about 20% of COGS, could result in 0.8% drop in earnings.

At A Glance

Issued Capital (m shrs)	3,946
Mkt. Cap (S\$m/US\$m)	3,906 / 2,873
Major Shareholders (%)	
Yangzi International	25.4
Lido Point Investments Ltd	10.0
Hongkong Hengyuan Investment Ltd	7.7
Free Float (%)	57.1
3m Avg. Daily Val (US\$m)	20.1

ICB Industry : Industrials / Industrial Engineering

WHAT'S NEW

2Q18 beat expectations

2Q18 results exceed expectations. Yangzijiang's reported headline PATMI of Rmb995m (+38% y-o-y; +67% q-o-q) in 2Q18. This brings 1H18 net profit to Rmb1.6bn (+15% y-o-y; +3% h-o-h), making up ~67% of ours and consensus' full-year expectations. This is way above expectations of Rmb600m a quarter, driven by stronger-than-expected shipbuilding earnings.

Shipbuilding margin expanded to 21.5% from 17.3% in 1Q18. Core shipbuilding gross margin expanded 1.8ppts y-o-y and 4.2ppts q-o-q to 21.5% in the quarter, boosted by the all-time high quarterly deliveries of 20 vessels, consisting of the higher margins contracts - 2 units of 400,000 DWT bulkers, 5 units of 10,000 TEU containerships and 3 units of 11,800 TEU containerships, which we believe command margins of ~25% on average.

Core shipbuilding revenue was also higher in the quarter, surging 78% q-o-q on the back of higher shipbuilding activity and disposal of the cancelled 10,000 TEU containerships (~Rmb550m). We expect margins to moderate to 15-17% going forward.

Write off prepayment to a supplier in financial difficulties. The stellar performance was partially offset by a write-off for trade receivables amounting to Rmb229m, which we understand was relating to prepayment to one of their long-term copper cable suppliers which is undergoing financial restructuring.

Yangzijiang has also made provisions for HTM investments totalling Rmb133m out of prudence as pledged shares by two borrowers were suspended and triggered margin calls. This is a pre-emptive measure as borrowers are required to top up the collaterals. The provision was offset by forex gain of Rmb101m, and Rmb20m gain from acquisition of subsidiary (Huayuan Logistic Group).

Investment segment saw net interest income rising 27% q-o-q to Rmb369m, achieving higher investment return of 13%, vs 10% a quarter ago. This was largely attributable to step-up of coupon for an USD140m investment (from 6% to 10%), which has been redeemed in 3Q18. The credit tightening in China has driven up the investment return from 8% to nearly 10% and could potentially rise to 12%. Investment segment remains a vital pillar for Yangzijiang, particularly during shipbuilding downturn. It generated >Rmb1bn interest income a year, offering stable recurring income and bolstering dividend payout.

Secured 13 new orders worth c.US\$710m in 2Q18.

Yangzijiang has secured 13 new orders worth c.US\$710m in 2Q, comprising:

- One unit of 180,000 DWT bulk carriers

- Three units of 82,000 DWT bulk carriers
- Two units of 208,000 DWT bulk carriers
- Two units of 2,400 TEU containerships
- Five units of 12,690 TEU containerships

YTD wins amounted to ~US\$980m and appears to be on track to meet our full-year expectation of US\$2bn this year.

Order wins might surprise on the upside. We sense that management appears more upbeat on shipbuilding outlook. While competition remains keen, shipping companies are more eager to take deliveries now than before in anticipation of demand growth.

Recall that in 1Q18, there were four vessels terminated, including two units of 1,900 TEU containerships and two units of 36,500 DWT bulk carriers, which contract value totalled ~US\$88m, based on our estimates. All of the four terminated contracts have not started construction. Management do not foresee further cancellations in the near future.

Orderbook stood at US\$4.0bn, down from US\$4.5bn a quarter ago given the strong revenue recognition in 2Q. This implies revenue coverage of c. 2-years. Yangzijiang is ranked no.1 in China and no.4 in the world based on outstanding order book.

Yard running at full steam; Tai Chang yard could be re-activated. Management shared that their main facilities, New Yangzi and Xinfu yards, are operating at 110% utilisation. It plans to reactivate the smaller offshore Tai Chang yard, that had been shut down given the decision to stay away from offshore projects. The yard has the capacity to deliver 10-12 units of mid-sized bulk carriers p.a. when fully ramped up in two years. We believe the Tai Chang yard will eventually be focusing on building clean energy vessels.

Solid balance sheet. Including HTM investments, Yangzijiang is in net cash, equivalent to 91 Scts per share or 66% of its NTA. This bodes well for M&A activities.

Earnings revisions. We are raising our FY18/19 profit forecast from ~Rmb2.4bn to Rmb2.8bn, taking into account the outperformance in 2Q, higher-than-expected profit margins, and accelerated revenue recognition.

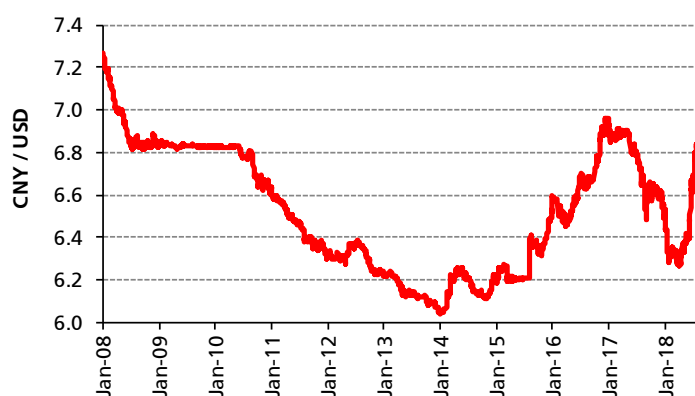
Our target price is largely unchanged at S\$1.82 as the higher shipbuilding valuation is offset by lower valuation multiple for investment (1.1x PBvs 1.3x PB previously) to reflect higher risk premium on the back of credit tightening in China.

Quarterly / Interim Income Statement (RMBm)

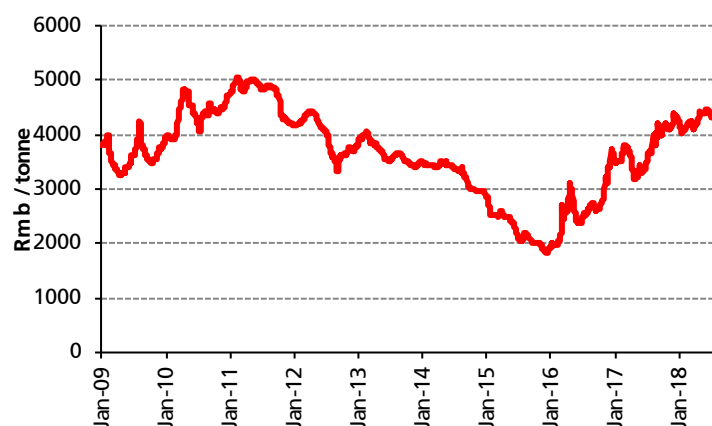
FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Revenue	3,791	4,963	7,964	110.0	60.4
Cost of Goods Sold	(2,986)	(4,104)	(6,402)	114.4	56.0
Gross Profit	805	860	1,562	94.1	81.7
Other Oper. (Exp)/Inc	(29.7)	(55.0)	(204)	589.0	271.4
Operating Profit	775	805	1,357	75.1	68.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	(25.9)	(5.5)	14.3	nm	nm
Net Interest (Exp)/Inc	19.4	14.7	4.92	(74.7)	(66.4)
Exceptional Gain/(Loss)	134	0.0	0.0	nm	-
Pre-tax Profit	902	814	1,377	52.6	69.2
Tax	(148)	(182)	(241)	62.6	32.0
Minority Interest	(34.2)	(36.2)	(141)	(311.7)	288.8
Net Profit	720	595	995	38.2	67.2
Net profit bef Except.	586	595	995	69.7	67.2
EBITDA	887	943	1,521	71.5	61.3
Margins (%)					
Gross Margins	21.2	17.3	19.6		
Opg Profit Margins	20.4	16.2	17.0		
Net Profit Margins	19.0	12.0	12.5		

Source of all data: Company, DBS Bank

Strengthening USD benefits Yangzijiang

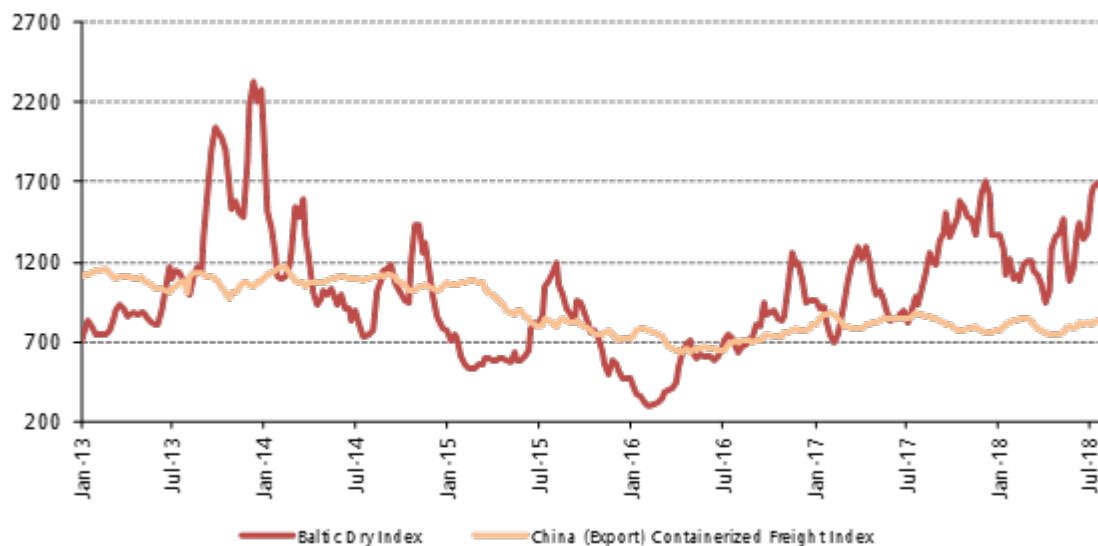


Steel cost seems stabilizing at ~Rmb4500/t level



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

Baltic Dry Index has spiked up while Containerized Freight Index gradually inching up



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

Yangzijiang is 0.7x correlated to Straits Times Index (STI); 0.6x correlated to Shanghai Composite Index (SSEC)



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

Global shipyard peer comparison

	Last Px (LC)	Market cap (US\$m)	P/E		P/B	ROE (%)		Net D/E
Company			FY18F	FY19F	Current	FY18F	FY19F	Current
Singapore								
Keppel Corp	6.92	9,198	12.7	11.7	1.08	8.7%	8.6%	0.44
Sembcorp Industries	2.77	3,630	14.5	10.7	0.82	5.0%	6.5%	0.86
Sembcorp Marine	1.75	2,680	nm	62.5	1.57	-0.7%	2.3%	1.11
Yangzijiang	0.99	2,865	8.2	8.8	0.74	9.2%	8.4%	CASH
China								
China Shipbuilding Industry Co (CSIC)	4.11	13,751	66.3	45.7	1.12	2.3%	3.3%	CASH
Shanghai Zhenhua Heavy Industries	4.28	2,505	34.8	26.8	1.25	3.2%	4.6%	1.81
China CSSC	10.26	2,068	47.3	32.3	0.96	1.9%	2.8%	0.27
Korea								
Hyundai Heavy Industries	112,500	6,949	nm	60.5	0.63	-1.7%	1.4%	0.09
Samsung Heavy Industries	6,620	3,725	nm	268.3	0.42	-3.6%	0.3%	0.52
Daewoo Shipbuilding	26,700	2,556	7.4	10.8	0.77	11.6%	7.2%	1.12
		Average:	20.8	54.7	0.9	3.7%	4.7%	0.78
		Median:	13.6	26.8	0.8	3.2%	4.6%	0.69

Source of all data: Company, DBS Bank

SOTP valuation

Components	% stake	FY18 PATMI (S\$ m)	Est. market value (S\$ m)	Value per share (S\$)	Basis		Remark
Shipbuilding	100%	313	3,759	0.95	12x FY18 PE	0.5SD above historical mean since listing	
Shipping & related	100%					Book value of the 10 vessels has been marked	
		12	239	0.06	1.5x P/Bv	down by 50%.	
Investment	100%	180	2,894	0.73	1.1x P/Bv	15% discount to SG banks' mean of 1.3x	
		505	6,892	1.75			
Add: Net Cash			265	0.07			
Target price (S\$)				1.82			
Implied FY18 P/B				1.3		Implied 0.4SD below mean (2.1x)	
Implied FY18 PE				12.9		Implied 0.7SD above mean (9.2x)	

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Healthy order backlog offers revenue visibility. Orderbook stood at US\$4.0bn as at end-June 2018, implying a healthy book-to-bill ratio of c.2x, providing revenue visibility for the next two years. Yangzijiang is now ranked no.1 in China and no.4 in the world by orderbook. Contract wins grew 155% y-o-y to US\$2.1bn in 2017. Management targets to secure new orders of ~US\$1.8bn this year to maintain a revenue coverage of c.2x, a healthy level for orderbook replenishment and optimisation of operational activities. YTD, Yangzijiang has clinched US\$980m worth of new contracts.

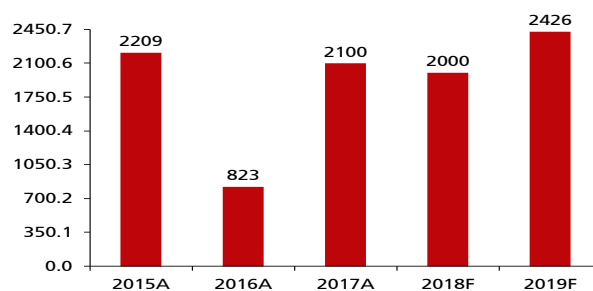
Shipping recovery. Global orderbook-to-fleet ratio has dropped to ~10% from the peak of ~55% in 2008, implying low-to-mid single-digit new supply these two years. On the scrapping side, the new Ballast Water Management Convention rule, that came into force in September 2017, would encourage the demolition of old vessels in the medium term as shipowners are granted a 2-year extension for compliance. This is expected to drive the recovery of shipping market, led by dry bulk segment, thus boosting newbuild demand.

Recognition of deferred income cushions downturn. Post financial crisis, Yangzijiang has adopted more prudent provision and accounting policies. For instance, it extended the warranty provision (2% of sales in 2012-2015; 1% from 2016 onwards) from one year to three. The reversal of the warranty provision will be captured under COGS and boost margins. We also expect the recognition of the remaining Rmb158m exceptional gains for the old yard's relocation fee in FY18 (in the form of government subsidies, Rmb557m out of total of Rmb715m was recognised in FY15). The remaining ~Rmb600m of forfeited deposits from terminated vessels would also be recognised in 2018-2020. In addition, given the improving secondhand prices, Yangzijiang could potentially dispose the 13 terminated newbuild vessels at a gain. It recorded Rmb61m profit for the disposal of two bulk carriers in 3Q17.

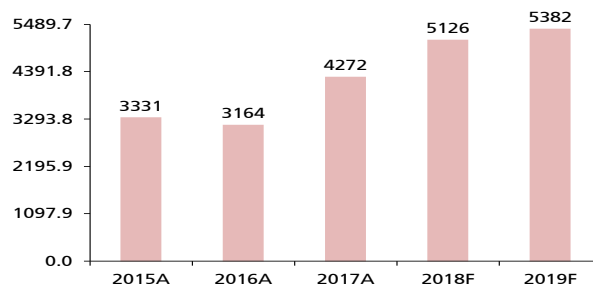
Exploring M&A opportunities for long-term growth. The Chinese shipbuilding industry has shrunk from over 3,000 yards to less than 100 currently. Further consolidation is underway, probably ending with 20-30 survivors, and Yangzijiang will surely make the list. It has emerged stronger in the past few cycles with Executive Chairman, Mr Ren Yuanlin at the helm. Mr Ren, ranked 82 in Lloyd's List of Top 100 most influential people in shipping, is highly respected for his great foresight, strategic sense, and cost and cash management.

Production efficiency and cost control. Yangzijiang enjoys 5-ppt higher margins vis-à-vis peers. This is achievable through its premium newbuild prices and better payment terms among Chinese yards, as well as production efficiency and cost control.

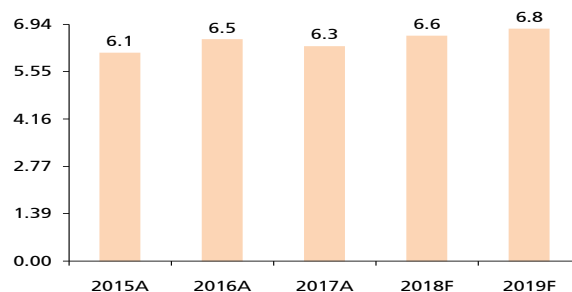
Order wins (US\$ m)



Steel cost (RMB/t)



RMB / USD



Source: Company, DBS Bank

Balance Sheet:

Sound balance sheet. As at June 2018, including held-to-maturity (HTM) investments, Yangzijiang was in net cash, equivalent to 91 Scts per share or ~66% of its NTA. It is expected to churn positive free cash flow in the light of its minimal capex requirements.

Share Price Drivers:

Contract win is traditionally the leading indicator of shipbuilders' share price performance and earnings. In particular, Yangzijiang is gaining a good foothold in the "high-specs" vessel space, which has long been dominated by its Korean peers.

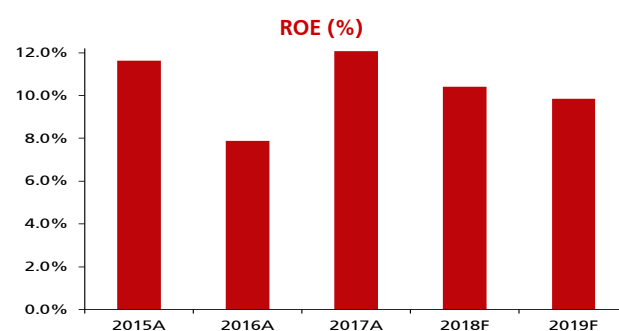
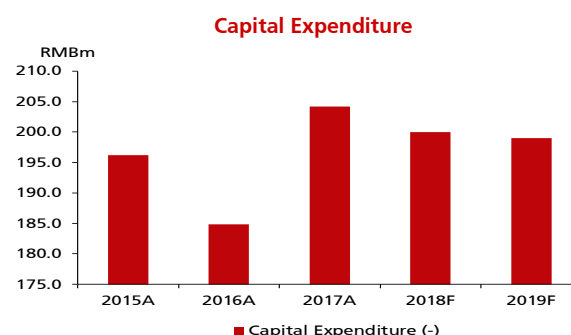
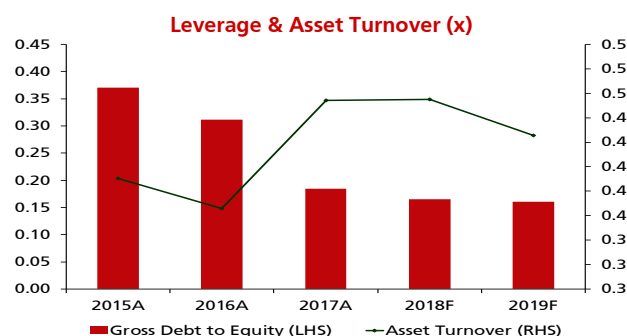
Key Risks:

Prolonged industry downturn. The shipping market of bulk carriers and containerships remains challenging in view of the influx of new capacity and slower-than-expected demand growth amid China's economic slowdown. The prolonged downturn could affect Yangzijiang's order wins and share price.

USD depreciation and hike in steel cost. Revenue is denominated mainly in USD, and only half is naturally hedged. Assuming the net exposure is unhedged, every 1% USD depreciation could lead to a 2% earnings decline. Every 1% rise in steel costs, which account for about 20% of COGS, could result in a 0.8% drop in bottom line.

Company Background

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



Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017A	2018F	2019F
Order wins (US\$ m)	2,209	823	2,100	2,000	2,426
Steel cost (RMB/t)	3,331	3,164	4,272	5,126	5,382
RMB / USD	6.10	6.50	6.30	6.60	6.80

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (RMBm)					
Shipbuilding	12,209	10,515	12,301	13,810	13,479
Investment	1,326	1,067	1,111	1,229	1,238
Others	2,480	3,507	5,794	5,250	5,250
Total	16,014	15,089	19,206	20,289	19,968
Gross profit (RMBm)					
Shipbuilding	2,375	2,594	2,100	2,281	2,301
Investment	1,253	1,002	1,056	1,167	1,176
Others	91.5	40.9	156	325	325
Total	3,719	3,637	3,312	3,774	3,802
Gross profit Margins (%)					
Shipbuilding	19.5	24.7	17.1	16.5	17.1
Investment	94.5	93.9	95.1	95.0	95.0
Others	3.7	1.2	2.7	6.2	6.2
Total	23.2	24.1	17.2	18.6	19.0

Income Statement (RMBm)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	16,014	15,089	19,206	20,289	19,968
Cost of Goods Sold	(12,295)	(11,453)	(15,894)	(16,515)	(16,166)
Gross Profit	3,719	3,637	3,312	3,774	3,802
Other Opng (Exp)/Inc	(757)	3.56	(139)	(216)	40.7
Operating Profit	2,963	3,640	3,173	3,558	3,843
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	(59.7)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(335)	(276)	25.2	2.23	(9.1)
Exceptional Gain/(Loss)	557	(531)	290	248	0.0
Pre-tax Profit	3,185	2,773	3,487	3,808	3,834
Tax	(731)	(927)	(395)	(783)	(843)
Minority Interest	5.36	(93.5)	(160)	(233)	(161)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	2,460	1,752	2,931	2,792	2,829
Net Profit before Except.	1,903	2,284	2,642	2,544	2,829
EBITDA	3,506	4,122	3,655	3,987	4,252
Growth					
Revenue Gth (%)	4.3	(5.8)	27.3	5.6	(1.6)
EBITDA Gth (%)	(19.1)	17.6	(11.3)	9.1	6.6
Opg Profit Gth (%)	(24.1)	22.9	(12.8)	12.1	8.0
Net Profit Gth (Pre-ex) (%)	(45.3)	20.0	15.7	(3.7)	11.2
Margins & Ratio					
Gross Margins (%)	23.2	24.1	17.2	18.6	19.0
Opg Profit Margin (%)	18.5	24.1	16.5	17.5	19.2
Net Profit Margin (%)	15.4	11.6	15.3	13.8	14.2
ROAE (%)	11.6	7.9	12.1	10.4	9.8
ROA (%)	6.0	4.2	6.9	6.3	6.0
ROCE (%)	7.2	7.5	8.7	8.5	8.5
Div Payout Ratio (%)	31.5	44.1	30.7	32.0	31.6
Net Interest Cover (x)	8.8	13.2	NM	NM	424.5

Source: Company, DBS Bank

Quarterly / Interim Income Statement (RMBm)

FY Dec	2Q2017	3Q2017	4Q2017	1Q2018	2Q2018
Revenue	3,791	4,378	6,355	4,963	7,964
Cost of Goods Sold	(2,986)	(3,705)	(5,410)	(4,104)	(6,402)
Gross Profit	805	674	944	860	1,562
Other Oper. (Exp)/Inc	(29.7)	75.3	(170)	(55.0)	(204)
Operating Profit	775	749	774	805	1,357
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(25.9)	31.3	(4.5)	(5.5)	14.3
Net Interest (Exp)/Inc	19.4	21.8	(9.6)	14.7	4.92
Exceptional Gain/(Loss)	134	156	0.0	0.0	0.0
Pre-tax Profit	902	958	760	814	1,377
Tax	(148)	(38.6)	(34.0)	(182)	(241)
Minority Interest	(34.2)	(53.3)	(48.0)	(36.2)	(141)
Net Profit	720	866	678	595	995
Net profit bef Except.	586	710	678	595	995
EBITDA	887	916	834	943	1,521

Growth

Revenue Gth (%)	(19.0)	15.5	45.1	(21.9)	60.4
EBITDA Gth (%)	(12.9)	3.3	(9.0)	13.2	61.3
Opg Profit Gth (%)	(11.4)	(3.4)	3.4	4.0	68.7
Net Profit Gth (Pre-ex) (%)	(12.2)	21.1	(4.5)	(12.2)	67.2

Margins

Gross Margins (%)	21.2	15.4	14.9	17.3	19.6
Opg Profit Margins (%)	20.4	17.1	12.2	16.2	17.0
Net Profit Margins (%)	19.0	19.8	10.7	12.0	12.5

Balance Sheet (RMBm)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	6,402	5,477	4,821	4,592	4,382
Invts in Associates & JVs	1,423	887	1,395	1,395	1,395
Other LT Assets	7,614	8,668	7,704	7,745	8,229
Cash & ST Invts	12,241	14,856	15,574	15,043	15,750
Inventory	1,613	2,032	2,628	3,121	3,072
Debtors	6,197	5,347	5,290	6,763	6,656
Other Current Assets	5,756	3,966	5,960	7,152	8,583
Total Assets	41,246	41,234	43,373	45,811	48,066
ST Debt	2,209	2,579	2,532	1,772	1,241
Creditor	5,042	4,906	5,859	6,763	6,656
Other Current Liab	3,689	4,165	5,185	4,764	4,825
LT Debt	6,074	4,645	2,359	2,948	3,686
Other LT Liabilities	1,874	1,739	922	922	922
Shareholder's Equity	21,799	22,692	25,885	27,777	29,712
Minority Interests	560	507	632	865	1,026
Total Cap. & Liab.	41,246	41,234	43,373	45,811	48,066
Non-Cash Wkg. Capital	4,835	2,274	2,835	5,509	6,830
Net Cash/(Debt)	3,959	7,632	10,684	10,322	10,824
Debtors Turn (avg days)	147.2	139.6	101.1	108.4	122.6
Creditors Turn (avg days)	167.2	166.4	127.5	143.2	155.4
Inventory Turn (avg days)	56.3	61.0	55.2	65.2	71.7
Asset Turnover (x)	0.4	0.4	0.5	0.5	0.4
Current Ratio (x)	2.4	2.2	2.2	2.4	2.7
Quick Ratio (x)	1.7	1.7	1.5	1.6	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	2.4	2.6	(4.2)	4.2	4.0
Z-Score (X)	2.1	2.2	2.4	2.4	2.4

Source: Company, DBS Bank

Cash Flow Statement (RMBm)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	3,185	2,773	3,487	3,808	3,834
Dep. & Amort.	543	542	483	429	410
Tax Paid	(606)	(670)	(584)	(1,203)	(783)
Assoc. & JV Inc/(loss)	0.0	59.7	0.0	0.0	0.0
Chg in Wkg.Cap.	260	191	(1,131)	(2,254)	(1,381)
Other Operating CF	353	1,181	(811)	0.0	0.0
Net Operating CF	3,735	4,076	1,445	779	2,079
Capital Exp.(net)	(196)	(185)	204	(200)	(199)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(554)	166	(545)	0.0	0.0
Div from Assoc & JV	28.7	341	71.5	0.0	0.0
Other Investing CF	784	(1,428)	(377)	894	(63.9)
Net Investing CF	63.3	(1,107)	(646)	694	(263)
Div Paid	(958)	(818)	(754)	(900)	(894)
Chg in Gross Debt	516	(1,058)	(1,943)	(170)	205
Capital Issues	0.0	0.0	1,008	0.0	0.0
Other Financing CF	(16.4)	0.0	0.0	0.0	0.0
Net Financing CF	(458)	(1,876)	(1,690)	(1,070)	(688)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	3,340	1,093	(890)	404	1,128
Opg CFPS (\$ cts)	18.2	20.3	13.0	15.4	17.6
Free CFPS (\$ cts)	18.5	20.4	8.33	2.95	9.57

Source: Company, DBS Bank

Target Price & Ratings History



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

Source: DBS Bank

Analyst: Pei Hwa HO

DBS Bank recommendations are based on 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 catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 10 Aug 2018 08:16:31 (SGT)

Dissemination Date: 10 Aug 2018 09:27:18 (SGT)

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

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate¹ does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests² in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS") or their subsidiaries and/or other affiliates have proprietary positions in Keppel Corporation, Sembcorp Industries, Sembcorp Marine, Yangzijiang Shipbuilding, recommended in this report as of 29 Jun 2018.
2. Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

Compensation for investment banking services:

3. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Keppel Corporation, Sembcorp Industries, as of 29 Jun 2018.
4. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Directorship/trustee interests:

5. Danny Teoh Leong Kay, a member of DBS Group Holdings Board of Directors, is a Director of Keppel Corporation as of 30 Jun 2018


Disclosure of previous investment recommendation produced:

6. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates in the preceding 12 months.

¹ An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

² Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	<p>This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"). DBS holds Australian Financial Services Licence no. 475946.</p> <p>DBSVS is exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. DBSVS is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws.</p> <p>Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.</p>
Hong Kong	<p>This report has been prepared by a person(s) who is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Bank (Hong Kong) Limited, a registered institution registered with the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).</p> <p>For any query regarding the materials herein, please contact Carol Wu (Reg No. AH8283) at equityresearch@db.com</p>
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	<p>This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.</p> <p style="text-align: right;">  Wong Ming Tek, Executive Director, ADBSR </p>
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.

United Kingdom	<p>This report is produced by DBS Bank Ltd which is regulated by the Monetary Authority of Singapore.</p> <p>This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom.</p> <p>In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.</p>
Dubai International Financial Centre	<p>This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.</p>
United Arab Emirates	<p>This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.</p>
United States	<p>This report was prepared by DBS Bank Ltd. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.</p>
Other jurisdictions	<p>In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.</p>

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Limited

Contact: Carol Wu
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand