

Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Oct 2018

Yangzijiang Shipbuilding (YZJSGD SP) : BUY

Mkt. Cap: US\$3,525m | **3m Avg. Daily Val:** US\$20.8m

Last Traded Price (11 Oct 2018): S\$1.23

Price Target 12-mth: S\$1.82 (48% upside)

Analyst

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Marching into LNG space with Mitsui

- Established shipbuilding JV with Mitsui
- Paving way into large scale LNG carriers
- JV can potentially lift 2019 contract wins by 20%
- Reiterate BUY and TP S\$1.82

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)	9.14	14.8	14.2	14.3
EPS Pre Ex. (S cts)	11.9	13.3	12.9	14.3
EPS Gth Pre Ex (%)	20	12	(3)	11
Diluted EPS (S cts)	9.14	14.8	14.2	14.3
Net DPS (S cts)	4.03	4.53	4.53	4.53
BV Per Share (S cts)	118	130	141	151
PE (X)	13.5	8.3	8.7	8.6
PE Pre Ex. (X)	10.3	9.2	9.5	8.6
P/Cash Flow (X)	5.8	16.9	31.1	11.7
EV/EBITDA (X)	4.0	3.9	3.7	3.4
Net Div Yield (%)	3.3	3.7	3.7	3.7
P/Book Value (X)	1.0	0.9	0.9	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	7.9	12.1	10.4	9.8

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

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Yangzijiang has entered into a joint venture agreement with MES-SC and **Mitsui** to establish a new shipbuilding company ("the New Joint Venture") in China.

The registered share capital of the New Joint Venture will be up to USD99.9m, and total **capital expected to be employed could amount to USD299m**.

What's the impact

This is a highly anticipated **positive development** for Yangzijiang as management shared intention to collaborate with a Japanese shipyard to tap the fast-growing gas carrier market.

The JV is a **win win partnership**. Mitsui's branding and expertise will enable Yangzijiang to make forays into the **large LNG carrier** market while shifting production base to China enhances Mitsui's cost competitiveness.

The production base for the JV will be at Yangzijiang's existing **Taicang yard in Jiangsu, China**. The facility was previously acquired for offshore rigbuilding projects, but the plan was subsequently abolished after it completed its only jackup rig project. The initial capital will be used to upgrade the facility and for working capital purposes.

The JV yard is expected to **commence operations in April 2019**, pending relevant licenses and approvals from authorities. In the meantime, the JV could jointly develop and market for large LNG carrier contracts (170-180k cbm) which are typically worth USD180-200m. Assuming two new contracts are secured, it could lift Yangzijiang's new wins from typical **USD2bn to USD2.4bn or ~20% increase next year**.

Flash Note

As Yangzijiang will hold a 51% stake in the New Joint Venture, the consolidation method would be adopted. We reckon earnings contribution will be relatively small in the initial years given the learning curve, production ramp up, longer delivery lead time of >3-years for large LNG carriers and prudent margin recognition for the initial projects. On a ballpark calculation, assuming two 170-180k cbm LNG carrier newbuild contracts a year, we might see **3-5% bottomline boost in 2020**. The contribution should be **much bigger thereafter** upon successful on time on budget delivery and scaling up its LNG carrier building capability.

Recommendation

Yangzijiang's share prices have done very well the past 3-months, **rising ~50% from its low of 85 Scts** in mid-July. Given current market jitters, we could see **profit-taking pressure** on the stock in the near term.

Nevertheless, we remain **optimistic on Yangzijiang's earnings delivery (beneficiary of stronger USD) and prospects** especially after this JV would pave the way into the LNG carrier market. **Reiterate buy, TP \$1.82**. Current valuation remains **undemanding at 0.8-0.9x book against 10% ROE and 4% dividend yield**.

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

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