

# Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

15 Aug 2019

## Yangzijiang Shipbuilding (YZJSGD SP) : BUY

Mkt. Cap: US\$2,978m | 3m Avg. Daily Val: US\$21.4m

Last Traded Price ( 8 Aug 2019): S\$1.04

Price Target 12-mth: S\$1.82 (75% upside)

### Analyst

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### Clearing the air on Chairman's assistance in investigations

- Refuting allegations on Chairman's disappearance and Yangzijiang's implication in investigations
- Business and operations of the Group are unaffected with CEO at the helm
- While overhang may persist, knee-jerk share price reaction seems overdone
- Reiterate BUY; TP unchanged at S\$1.82

### Forecasts and Valuation

FY Dec (RMBm)	2017A	2018A	2019F	2020F
Revenue	19,206	23,238	23,597	23,664
EBITDA	3,655	5,046	4,462	4,781
Pre-tax Profit	3,487	4,565	4,321	4,444
Net Profit	2,931	3,614	3,349	3,383
Net Pft (Pre Ex.)	2,642	3,614	3,101	3,383
Net Pft Gth (Pre-ex) (%)	15.7	36.8	(14.2)	9.1
EPS (S cts)	15.0	18.1	16.8	17.0
EPS Pre Ex. (S cts)	13.5	18.1	15.6	17.0
EPS Gth Pre Ex (%)	14	34	(14)	9
Diluted EPS (S cts)	15.0	18.1	16.8	17.0
Net DPS (S cts)	4.41	4.90	4.90	4.90
BV Per Share (S cts)	129	145	157	169
PE (X)	7.0	5.8	6.2	6.2
PE Pre Ex. (X)	7.8	5.8	6.7	6.2
P/Cash Flow (X)	13.0	16.0	9.6	6.5
EV/EBITDA (X)	2.9	1.4	1.4	1.0
Net Div Yield (%)	4.2	4.7	4.7	4.7
P/Book Value (X)	0.8	0.7	0.7	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.1	13.2	11.1	10.4

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 has happened?

Yangzijiang's stock price tumbled 20% on high volume of c.84m shares (3-4x usual daily volume) before a trading halt was called last Thursday morning on swirling rumours in the market.

Executive Chairman and controlling shareholder (21.6% stake) of Yangzijiang, **Mr Ren Yuanlin (Ren)**, has reportedly been missing since June, with rumours implicating he is involved in the government's anti-corruption investigations into **Mr. Liu Jianguo (Liu)**, former party secretary of Jingjiang City, where Yangzijiang's shipyards are located.

Global shipping news service TradeWinds reported that Mr. Liu, a "veteran political patron of the shipbuilding industry", was under probe for "serious disciplinary violations" by **Beijing's Central Commission for Discipline Inspection (CCDI)**, which is the organisation under the Communist Party of China that investigates infringements by party members.

The article states that Mr Liu's career had been "especially closely connected" with Yangzijiang. In 2014, Mr. Liu, who has since retired from his position as Jinjiang Party Secretary, was appointed as Chairman of the management committee of the Jiangsu Yuanlin Charity Foundation set up by Mr. Ren, funded by his personal annual dividends (~S\$40-50m p.a.) received from his shareholding in Yangzijiang.

### Yangzijiang's response

In the company's reply to SGX's query on the unusual share price movement last Thursday, Yangzijiang provided possible explanations to the rumours about *Mr. Ren and the group being spread on certain publications*. It has since instructed *Duane Morris & Selvam LLP to provide legal advice*.



## Flash Note

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### Key points of clarification:

1. Yangzijiang has acknowledged that **Mr Ren**, Executive Chairman and controlling shareholder (c.21.6% stake) of the company is currently ***assisting in a confidential investigation carried out by certain PRC governmental authorities.***
2. To the best of the Board's knowledge, **besides Mr. Ren, none** of the other Directors and the group's executive officers have been requested by any PRC governmental authorities to **assist with or to be involved in the investigation.** **None** of Mr. Ren Yuanlin, or any of the other Directors and executive officers as well as companies in the group, are the **subject matter of the investigation.**
3. Mr. Ren had a **decision-making role in respect of major matters** of the company, including his recent approval of 2Q19 financial results. However, starting 9 Aug, Mr Ren has been **granted a leave of absence** by the Board to expedite the completion of the investigation so that he may resume his full-time duties as soon as possible. During his absence, **Mr Ren Letian, CEO and alternate director to Mr Ren, will assume his role as a Director.**
4. The **businesses and operations of Yangzijiang**, including micro-finance and financing businesses **are unaffected** by the investigation and continue to operate as usual.

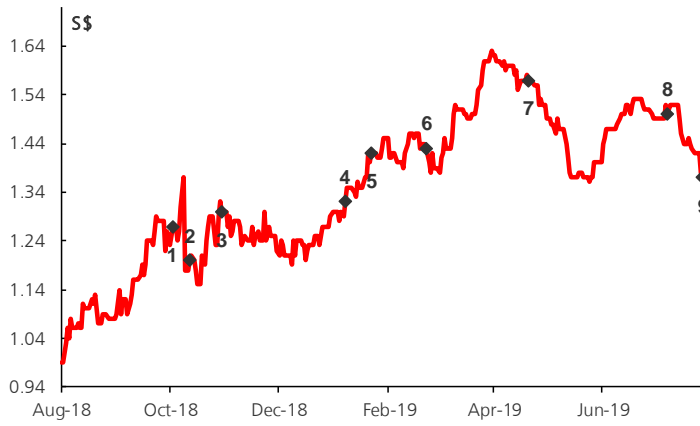
### Our thoughts

1. The clarification should **alleviate some concerns** over the shipyard's involvement in the investigation. Day-to-day operations seem unaffected at this juncture. CEO Mr Ren Letian is capable to run the company given that he had been rotated to manage various divisions of the shipyard for nearly 10 years prior to his appointment as CEO in Mar-2015.
2. **Order win momentum**, which was expected to pick up strongly over the next few months, would be crucial, serving as a confidence booster on the yard's operations and ability to win new contracts.
3. Chairman's assistance in the **investigation could remain an overhang** and cause volatility in share price until the dust settles.
4. Having said that, **share price decline appears overdone with 25% plunge over 2 days**, considering yards' non-involvement in the investigation as well as intact operations and fundamentals of the group at this point.

Reiterate our BUY and TP S\$1.82. Including financial assets, net cash stands at c.95 Scts out of its book value per share of ~S\$1.55. Stock will resume trading from 15 Aug morning.

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Target Price & Ratings History



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

Source: DBS Bank

Analyst: Pei Hwa HO

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*\*Share price appreciation + dividends*

Completed Date: 15 Aug 2019 07:58:54 (SGT)

Dissemination Date: 15 Aug 2019 09:09:26 (SGT)

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