

Singapore Company Guide

Yangzijiang Shipbuilding

Version 22 | Bloomberg: YZJSGD SP | Reuters: YAZG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Apr 2020

BUY

Last Traded Price (7 Apr 2020): S\$0.915 (STI: 2,571.89)

Price Target 12-mth: S\$1.50 (63% upside)

Analyst

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What's New

- Executive Chairman retiring but retains advisory role
- Shipyard operations almost back to normal
- Sustainable DPS of at least 4 Scts, representing 4.4% yield
- Reiterate BUY; TP S\$1.50

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2018A	2019A	2020F	2021F
Revenue	23,238	23,597	20,133	22,405
EBITDA	4,391	4,602	3,864	4,137
Pre-tax Profit	3,910	4,186	3,515	4,160
Net Profit	3,070	3,105	2,640	3,206
Net Pft (Pre Ex.)	3,070	3,105	2,640	2,958
Net Pft Gth (Pre-ex) (%)	16.2	1.1	(15.0)	12.0
EPS (S cts)	15.7	15.8	13.6	16.5
EPS Pre Ex. (S cts)	15.7	15.8	13.6	15.2
EPS Gth Pre Ex (%)	14	1	(14)	12
Diluted EPS (S cts)	15.7	15.8	13.6	16.5
Net DPS (S cts)	5.00	4.50	4.00	4.50
BV Per Share (S cts)	149	160	169	182
PE (X)	5.8	5.7	6.7	5.5
PE Pre Ex. (X)	5.8	5.7	6.7	6.0
P/Cash Flow (X)	13.6	3.9	6.1	6.0
EV/EBITDA (X)	0.9	0.5	0.0	0.0
Net Div Yield (%)	5.5	4.9	4.4	4.9
P/Book Value (X)	0.6	0.6	0.5	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	11.2	10.3	8.3	9.4
Earnings Rev (%):			-	-
Consensus EPS (S cts):			14.6	14.7
Other Broker Recs:		B: 8	S: 1	H: 2

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

Back in full force

Yangzijiang remains a bargain, trading 13% below its net cash of ~S\$1.05 per share, overly penalised by macro concerns. Trading at 0.5x P/BV despite superior financials of 8-9% ROE and sustainable DPS of at least 4 Scts (~4% dividend yield at current share price), we believe the low valuation is unwarranted. Despite operating in a cyclical industry, Yangzijiang has demonstrated its resiliency during industry downturns with decent profits and dividends.

One of the world's best managed and profitable shipyards.

Core shipbuilding revenue is backed by its order backlog of US\$2.9bn (~1.5x revenue coverage) as at Dec 2019. Investment segment generates stable recurring income. As the largest and most cost efficient private shipbuilder in China, Yangzijiang is well positioned to ride on the sector consolidation and shipbuilding recovery. The company's strategy to move up the value chain into the LNG/LPG vessel segment strengthens its longer-term prospects.

Where we differ: We believe critical catalysts are Yangzijiang's successful strategy to expand into the LNG carrier and tanker markets, and overall recovery in the shipping and shipbuilding segments leading to margin improvements.

Valuation:

Our target price of S\$ 1.50 is based on sum-of-parts, pegged to 8x FY20F PE shipbuilding earnings, 1x P/BV for bulk carriers and 0.9x P/BV for investments. This translates into 0.9x P/BV, which is 0.5SD below its 10-year mean of 1.4x.

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 1.5% decline in earnings. Every 1% rise in steel cost, which accounts for about 20% of COGS, could result in 0.8% drop in earnings.

At A Glance

Issued Capital (m shrs)	3,919
Mkt. Cap (S\$m/US\$m)	3,586 / 2,507
Major Shareholders (%)	
Yangzi International	21.8
Lido Points Investments	10.1
Blackrock	5.0
Free Float (%)	63.1
3m Avg. Daily Val (US\$m)	21.5
GIC Industry : Industrials / Capital Goods	



Live more, Bank less

Yangzijiang Shipbuilding

WHAT'S NEW

Shipyard activities back to normal

Retirement of Executive Chairman, Mr Ren Yuanlin, who is turning 66 years old. Mr Ren will remain as Honorary Chairman of Yangzijiang and serve in an advisory role to the management team. His son, current CEO of the Group, Mr Ren Letian, will double as Executive Chairman with effect from 30 April 2020.

We do not expect any material impact on operations. Mr Ren Letian has succeeded his father as CEO since Mar-2015, after rotating to manage various divisions of the shipyard for nearly 10 years prior to his appointment. The shipbuilding business has done relatively well in the past four years under his leadership as Chairman took a step back to focus on the Investment segment. The smooth operations during Mr Ren's 5-month leave of absence last year is another testament to the new management team.

Shipyard back in full force. As management guided during last results briefing in early Mar, shipyard operations ramped up from 20-30% then to **more than 80% by end Mar and is nearly operating at full capacity now.**

Potential impact from COVID-19. While production activity has resumed, there could be potential short-term business impact from the COVID-19 global outbreak: 1) Finalisation of new orders could be delayed in view of the lockdown in the US / Europe; and 2) Risks of delivery rescheduling or contract cancellations by shipowners could heighten if pandemic is prolonged.

We believe such an impact is short term and manageable as economic activities should gradually resume once the outbreak is under control. As the most well-run privately-owned shipyard in China which was established in the 1960s, Yangzijiang has demonstrated its ability to weather through industry challenges and **emerge stronger with a capable management team and robust balance sheet.** In addition, the current global order backlog for ships is at a historical low level since 2004.

Stronger USD and lower steel costs are mitigating factors.

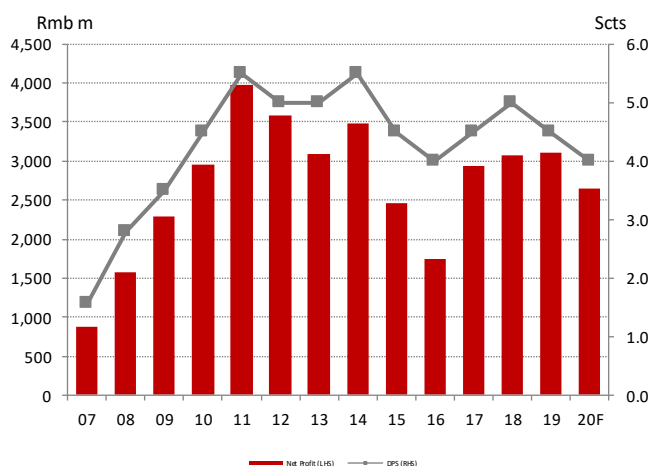
Yangzijiang is a beneficiary of stronger USD as revenue is denominated mainly in USD, and only half is naturally

hedged. The USD has been fairly strong, hovering at around the 7 Rmb/USD level. Every 1% USD appreciation could lead to a 1.5% increase in earnings. Meanwhile, steel cost has been softening since the middle of 2019, from Rmb4000/ton to Rmb3,800/ton at end-2019 and is Rmb3,600/ton currently. Every 1% drop in steel cost, which accounts for about 20% of COGS, could result in a 0.8% increase in earnings, with a 6-month lag.

Investment income to bolster dividend payments; expect 4 Scts DPS representing 4.4% yield at current share price.

Investment return from financial assets contributed ~Rmb1.8bn or c.58% of PATMI in 2019 and a similar return can be expected in 2020F. Even if we assume zero profits from shipbuilding business, Investment income alone is more than enough to support **4 Scts dividend** payout which amounts to Rmb780m or 43% of profit of Investment segment.

Yangzijiang has been paying at least 4 Scts DPS in the past 10 years



Source: Company, DBS Bank

Yangzijiang Shipbuilding

CRITICAL DATA POINTS TO WATCH

Critical Factors

Order backlog offers revenue visibility. Orderbook stood at US\$2.9n as at end-Dec 2019, implying a book-to-bill ratio of c.1.5x, providing revenue visibility for the next 1.5 years. Yangzijiang is now ranked no.1 in China and no.5 in the world by orderbook. Contract wins were sluggish in 2019, declining ~45% y-o-y to US\$830m, partly affected by uncertainty over IMO 2020 and the US-China trade war. Management targets to secure new orders of ~US\$1.5-2bn a year to maintain revenue coverage of c.2x, a healthy level for orderbook replenishment and optimisation of operational activities. YTD wins stood at US\$334m with potential additional US\$920m from Tiger Group if options exercised.

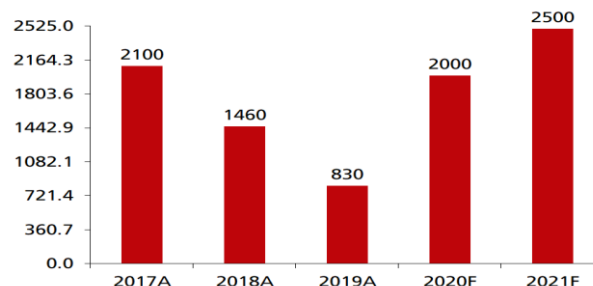
Shipping recovery. Global orderbook-to-fleet ratio has dropped to <10% from the peak of ~55% in 2008, implying new supply in the low-to-mid single digits in these two years. Newbuild activities are expected to pick up as shipowners, who held back ordering pending clarity on implementation of IMO 2020, proceed with their order placements this year.

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 would boost margins. We also expect the recognition of the remaining Rmb158m exceptional gains for the old yard's relocation fee in FY21 (in the form of government subsidies, Rmb557m out of a total of Rmb715m was recognised in FY15). The remaining ~Rmb300m of forfeited deposits from terminated vessels would also be recognised in 2020. In addition, given 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. The reversal of foreseeable losses totaling Rmb588m in 2020 would also bolster shipbuilding margins by 4%.

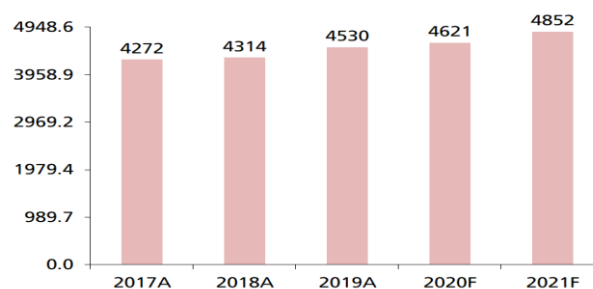
Exploring M&A opportunities for long-term growth. The Chinese shipbuilding industry has shrunk from over 3,000 yards to less than 100 currently. Further consolidation is underway, probably ending with 20-30 survivors, and Yangzijiang will surely make the list. It has emerged stronger in the past few 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 achieved through its premium newbuild prices and better payment terms among Chinese yards, as well as production efficiency and cost control.

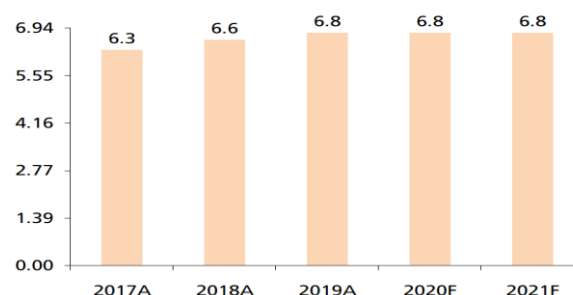
Order wins (US\$ m)



Steel cost (RMB/t)



RMB / USD



Source: Company, DBS Bank

Yangzijiang Shipbuilding

Balance Sheet:

Sound balance sheet. As at Dec 2019, including financial assets at amortised cost, Yangzijiang was in a net cash position, equivalent to S\$1.05 per share or ~65% of its NTA. It is expected to churn positive free cash flow in the light of its minimal capex requirements.

Share Price Drivers:

Contract wins is traditionally the leading indicator of shipbuilders' share price performance and earnings. Yangzijiang is gaining a good foothold in the "high-specs" vessel space, which has long been dominated by its Korean peers. The successful penetration into the **LNG carrier** space is a key catalyst, in our view.

Key Risks:

Prolonged industry downturn. The ongoing US-China trade dispute and COVID-19 outbreak could affect economic growth and derail recovery in the shipping market for bulk carriers and containerships. In addition, competition among yards remains keen. The prolonged shipbuilding downturn could affect Yangzijiang's order wins and share price.

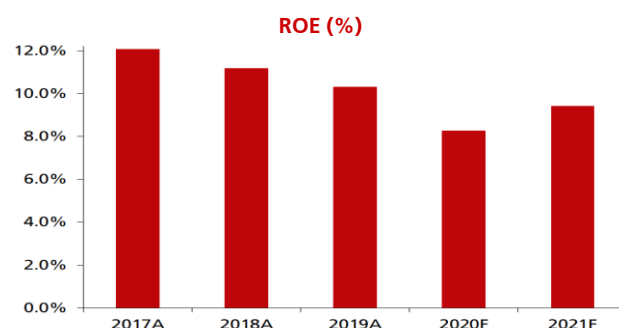
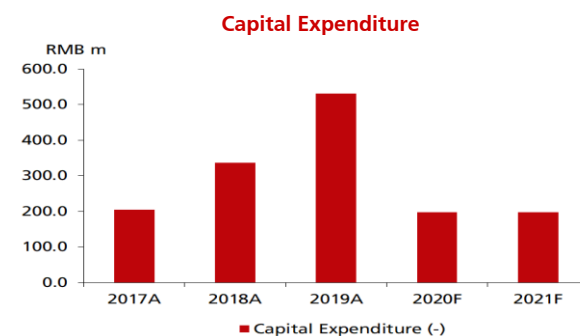
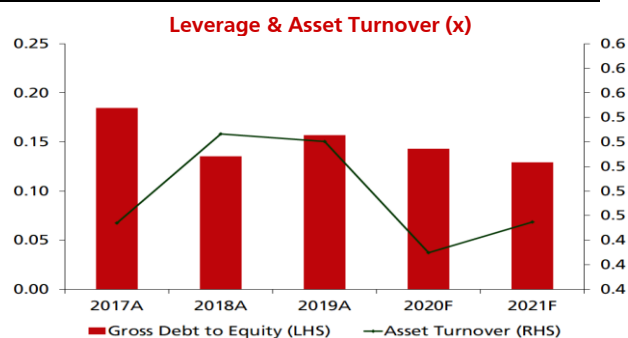
USD depreciation and hike in steel cost. Revenue is denominated mainly in USD, and only half is naturally hedged. Assuming the net exposure is unhedged, every 1% USD depreciation could lead to a 1.5% earnings decline. Every 1% rise in steel cost, which accounts for about 20% of COGS, could result in a 0.8% drop in earnings.

Environment, Social, Governance:

Yangzijiang's Bloomberg ESG Disclosure Score had improved from 2015-2017. The group has built up R&D capabilities in fuel-efficient and lower-emission green vessels, in support of the cleaner energy trend. Believing in giving back to society, over the years, the group and Mr. Ren Yuanlin, the Executive Chairman, have given hundreds of millions of RMB to society for various purposes.

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

Yangzijiang Shipbuilding

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Order wins (US\$ m)	2,100	1,460	830	2,000	2,500
Steel cost (RMB/t)	4,272	4,314	4,530	4,621	4,852
RMB / USD	6.30	6.60	6.80	6.80	6.80

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (RMBm)					
Shipbuilding	12,301	14,023	13,019	11,122	13,259
Investment	1,111	1,612	1,890	1,611	1,406
Others	5,794	7,603	8,687	7,400	7,740
Total	19,206	23,238	23,597	20,133	22,405
Gross profit (RMBm)					
Shipbuilding	2,100	2,471	1,939	1,281	1,833
Investment	1,056	1,534	1,798	1,531	1,335
Others	156	106	591	702	707
Total	3,312	4,112	4,329	3,514	3,876
Gross profit Margins (%)					
Shipbuilding	17.1	17.6	14.9	11.5	13.8
Investment	95.1	95.2	95.1	95.0	95.0
Others	2.7	1.4	6.8	9.5	9.1
Total	17.2	17.7	18.3	17.5	17.3

Income Statement (RMBm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	19,206	23,238	23,597	20,133	22,405
Cost of Goods Sold	(15,894)	(19,127)	(19,269)	(16,619)	(18,529)
Gross Profit	3,312	4,112	4,329	3,514	3,876
Other Opng (Exp)/Inc	(179)	(167)	(321)	(104)	(172)
Operating Profit	3,133	3,944	4,007	3,410	3,704
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	40.1	(85.8)	117	0.0	0.0
Net Interest (Exp)/Inc	25.2	51.7	62.1	105	208
Exceptional Gain/(Loss)	290	0.0	0.0	0.0	248
Pre-tax Profit	3,487	3,910	4,186	3,515	4,160
Tax	(395)	(830)	(890)	(703)	(782)
Minority Interest	(160)	(9.8)	(191)	(171)	(171)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	2,931	3,070	3,105	2,640	3,206
Net Profit before Except.	2,642	3,070	3,105	2,640	2,958
EBITDA	3,655	4,391	4,602	3,864	4,137
Growth					
Revenue Gth (%)	27.3	21.0	1.5	(14.7)	11.3
EBITDA Gth (%)	(11.3)	20.1	4.8	(16.0)	7.1
Opg Profit Gth (%)	(13.9)	25.9	1.6	(14.9)	8.6
Net Profit Gth (Pre-ex) (%)	15.7	16.2	1.1	(15.0)	12.0
Margins & Ratio					
Gross Margins (%)	17.2	17.7	18.3	17.5	17.3
Opg Profit Margin (%)	16.3	17.0	17.0	16.9	16.5
Net Profit Margin (%)	15.3	13.2	13.2	13.1	14.3
ROAE (%)	12.1	11.2	10.3	8.3	9.4
ROA (%)	6.9	7.0	6.8	5.6	6.5
ROCE (%)	8.6	9.2	8.6	7.0	7.3
Div Payout Ratio (%)	30.2	31.8	28.1	29.4	27.2
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

Yangzijiang Shipbuilding

Quarterly / Interim Income Statement (RMBm)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	4,945	6,291	7,033	5,424	4,849
Cost of Goods Sold	(4,256)	(5,125)	(5,834)	(4,364)	(3,946)
Gross Profit	689	1,166	1,199	1,060	904
Other Oper. (Exp)/Inc	200	(198)	74.7	(194)	(4.8)
Operating Profit	888	969	1,273	866	899
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(92.7)	73.1	(22.7)	(23.2)	89.9
Net Interest (Exp)/Inc	1.97	23.7	23.5	29.9	(15.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	798	1,065	1,274	873	974
Tax	(273)	(224)	(298)	(153)	(214)
Minority Interest	177	(16.9)	(39.4)	(17.6)	(117)
Net Profit	702	824	936	702	642
Net profit bef Except.	702	824	936	702	642
EBITDA	877	1,186	1,393	987	1,035

Growth

Revenue Gth (%)	(7.9)	27.2	11.8	(22.9)	(10.6)
EBITDA Gth (%)	(16.4)	35.2	17.5	(29.1)	4.8
Opg Profit Gth (%)	(0.6)	9.0	31.5	(32.0)	3.8
Net Profit Gth (Pre-ex) (%)	(9.9)	17.4	13.6	(25.0)	(8.5)

Margins

Gross Margins (%)	13.9	18.5	17.0	19.5	18.6
Opg Profit Margins (%)	18.0	15.4	18.1	16.0	18.5
Net Profit Margins (%)	14.2	13.1	13.3	12.9	13.2

Balance Sheet (RMBm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	4,821	5,163	5,678	5,422	5,185
Invt in Associates & JVs	1,395	1,454	1,533	1,533	1,533
Other LT Assets	7,704	7,144	7,293	6,861	6,666
Cash & ST Invt	15,574	18,824	21,552	23,654	25,700
Inventory	2,628	2,606	1,598	2,196	2,444
Debtors	5,290	5,051	4,680	4,474	4,979
Other Current Assets	5,960	4,669	3,422	3,764	4,141
Total Assets	43,373	44,911	45,756	47,903	50,645
ST Debt	2,532	1,149	2,782	2,504	2,254
Creditor	5,859	4,195	3,514	4,474	4,668
Other Current Liab	5,185	5,688	3,894	3,308	3,387
LT Debt	2,359	2,895	2,251	2,363	2,481
Other LT Liabilities	922	1,166	1,260	1,260	1,260
Shareholder's Equity	25,885	29,102	31,096	32,863	35,293
Minority Interests	632	717	959	1,130	1,302
Total Cap. & Liab.	43,373	44,911	45,756	47,903	50,645
Non-Cash Wkg. Capital	2,835	2,443	2,292	2,653	3,509
Net Cash/(Debt)	10,684	14,780	16,519	18,787	20,965
Debtors Turn (avg days)	101.1	81.2	75.3	83.0	77.0
Creditors Turn (avg days)	127.5	98.7	74.9	90.2	92.2
Inventory Turn (avg days)	55.2	51.4	40.8	42.8	46.8
Asset Turnover (x)	0.5	0.5	0.5	0.4	0.5
Current Ratio (x)	2.2	2.8	3.1	3.3	3.6
Quick Ratio (x)	1.5	2.2	2.6	2.7	3.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	(4.2)	8.3	10.5	4.1	4.2
Z-Score (X)	2.8	2.8	2.7	2.8	2.9

Source: Company, DBS Bank

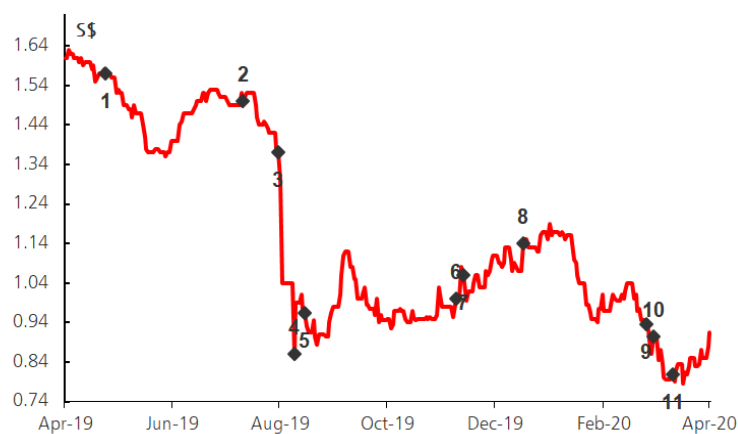
Yangzijiang Shipbuilding

Cash Flow Statement (RMBm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	3,487	3,910	4,186	3,515	4,160
Dep. & Amort.	483	532	477	455	436
Tax Paid	(584)	(637)	(781)	(1,289)	(703)
Assoc. & JV Inc/(loss)	(40.1)	85.8	(117)	0.0	0.0
Chg in Wkg.Cap.	(1,131)	(2,445)	985	226	(935)
Other Operating CF	(633)	(139)	(142)	0.0	0.0
Net Operating CF	1,582	1,307	4,609	2,906	2,958
Capital Exp.(net)	204	(337)	(530)	(198)	(197)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(545)	(187)	(149)	0.0	0.0
Div from Assoc & JV	71.5	184	139	0.0	0.0
Other Investing CF	(514)	1,248	(172)	1,568	705
Net Investing CF	(783)	908	(712)	1,370	508
Div Paid	(754)	(870)	(990)	(873)	(776)
Chg in Gross Debt	(1,943)	(782)	811	(166)	(132)
Capital Issues	1,008	0.0	0.0	0.0	0.0
Other Financing CF	0.0	(165)	(128)	0.0	0.0
Net Financing CF	(1,690)	(1,816)	(307)	(1,039)	(908)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(890)	399	3,589	3,238	2,558
Opg CFPS (S cts)	14.1	19.2	18.5	13.8	20.1
Free CFPS (S cts)	9.30	4.95	20.8	14.0	14.2

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Apr 19	1.57	1.82	BUY
2:	17 Jul 19	1.50	1.82	BUY
3:	06 Aug 19	1.37	1.82	BUY
4:	15 Aug 19	0.86	1.82	BUY
5:	21 Aug 19	0.97	1.82	BUY
6:	15 Nov 19	1.00	1.68	BUY
7:	19 Nov 19	1.06	1.68	BUY
8:	23 Dec 19	1.14	1.68	BUY
9:	02 Mar 20	0.94	1.50	BUY
10:	06 Mar 20	0.91	1.50	BUY
11:	17 Mar 20	0.81	1.50	BUY

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

Source: DBS Bank

Analyst: Pei Hwa HO

DBS Bank 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

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

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