

Singapore Flash Note

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DBS Group Research . Equity

15 Jun 2020

Yangzijiang Shipbuilding (YZJSGD SP) : BUY

Mkt. Cap: US\$2,758m | **3m Avg. Daily Val:** US\$18.1m

Last Traded Price (12 Jun 2020): S\$0.98

Price Target 12-mth: S\$1.40 (43% upside)

Analyst

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New orders in sight despite COVID-19

- Reportedly bagged orders worth US\$353m
- Korean yards' massive LNG orders from Qatar is positive for shipbuilding industry
- Decent dividend yield of 4%
- Reiterate BUY; TP S\$1.40 offers 43% upside potential

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)	15.3	15.4	13.2	16.1
EPS Pre Ex. (S cts)	15.3	15.4	13.2	14.8
EPS Gth Pre Ex (%)	14	1	(14)	12
Diluted EPS (S cts)	15.3	15.4	13.2	16.1
Net DPS (S cts)	4.87	4.38	3.89	4.38
BV Per Share (S cts)	145	156	165	177
PE (X)	6.4	6.4	7.4	6.1
PE Pre Ex. (X)	6.4	6.4	7.4	6.6
P/Cash Flow (X)	15.1	4.3	6.7	6.6
EV*/EBITDA (X)	1.3	0.9	0.5	0.0
Net Div Yield (%)	5.0	4.5	4.0	4.5
P/Book Value (X)	0.7	0.6	0.6	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	11.2	10.3	8.3	9.4

* EV calculation Includes financial investment maturing within one year.

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

New orders worth US\$353m in the bag? TradeWinds reported last week that Yangzijiang has secured up to 12 newbuilding orders to construct bulkers and multipurpose vessels worth approx. US\$353m, from Shanghai Ganlu and Tiger Group.

While these contracts are likely pending final negotiations or downpayment and materialise in batches, it is certainly remarkable amid the market slowdown due to the COVID-19 pandemic, **demonstrating Yangzijiang's industry leadership and competitive edge.**

If concluded, these contracts will lift YTD wins to ~US\$770m, **forming 38-51% of Yangzijiang's annual new orders target** of US\$1.5-2.0bn.

As a recap, Tiger is founded by former CEO of Seaspan, which is also a long-standing customer of Yangzijiang. It placed orders for two **14k TEU containerships** with Yangzijiang in mid-Mar with **options to build eight similar units worth up to US\$920m to be exercised in 2020.**

Korean yards' mega LNG carrier orders from Qatar is positive for shipbuilding industry. Early this month, Qatar Petroleum awarded US\$19bn mega LNG carrier orders to the Korean Trio. Over 100 units of LNG carriers are expected to be delivered through to 2027. This is expected to fill up on average 20-30% of Korean yards capacity over the next 7-8 years, which would ease some pressure to fill yard capacity and thus reduce overall industry competition for new orders.



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Still a bargain at 10% discount to its net cash of ~S\$1.09 per share. Stock is attractive at 0.6x P/BV and 7x FY20F PE despite offering 8-9% ROE and 4% dividend yield.

Yangzijiang has demonstrated its resilience during industry downturns with decent profits and dividends, supported by a strong balance sheet.

SOTP valuation of Yangzijiang

Components	% stake	FY20 PATMI (\$ m)	Est. market value (\$ m)	Value per share (\$)	Basis	Remark
Shipbuilding	100%	273	2,186	0.56	8x FY20 PE	10-year mean (8x)
Shipping & related Investment	100%	17	319	0.08	0.7x P/Bv	0.7x Book value of the 23 vessels which half has been marked down by 50%.
	100%	237	1,947	0.50	0.7x P/Bv	SG banks' trough valuation peg of 0.7x
		528	4,453	1.14		
Add: Net Cash			1,033	0.26		
Target price (\$)				1.40		
Share capital (m shares)				3,918.8		

Source: Company, DBS Bank

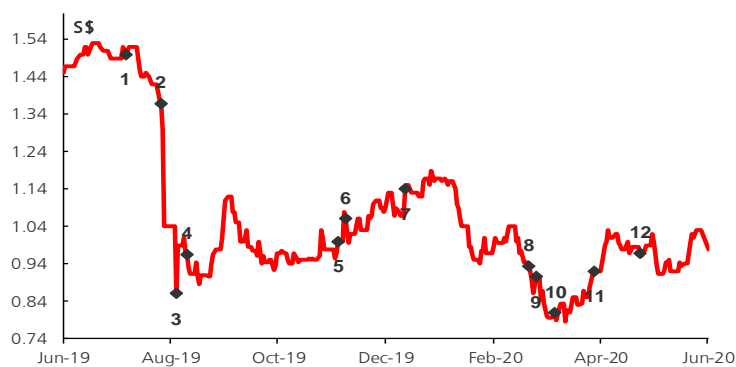
Shipyards peer comparison

Company	Last Px (LC)	Market cap (US\$m)	P/E		P/B	ROE (%)		Net D/E	Div Yld (%)
			FY19F	FY20F	Current	FY19F	FY20F	Current	Current
Singapore									
Keppel Corp	6.04	7,887	15	13.1	1.0	6.1%	7.0%	0.8	3.3%
Sembcorp Industries	2.00	2,562	12	9.0	0.6	4.7%	6.4%	1.2	2.5%
Sembcorp Marine	0.575	863	nm	nm	0.6	-4.2%	-1.4%	1.9	nm
Yangzijiang	0.98	2,755	7.4	7.1	0.6	8.3%	8.3%	CASH	4.6%
China									
China Shipbuilding Industry Co (CSIC)	4.08	13,133	141	107.4	1.1	0.8%	0.9%	CASH	0.2%
Shanghai Zhenhua Heavy Industries	2.90	1,763	nm	nm	1.1	na	na	2.0	1.7%
China CSSC	18.01	10,734	52	43.4	1.8	nm	nm	CASH	nm
Korea									
Korea Shipbuilding & Engineering	94,600	5,558	29	24.2	0.6	1.8%	2.1%	0.1	nm
Samsung Heavy Industries	6,710	3,509	NM	nm	0.8	-4.7%	-0.2%	0.6	nm
Daewoo Shipbuilding	26,100	2,323	14	20.7	0.7	4.6%	3.1%	0.1	nm
		Average:	21.7	19.6	0.9	2.4%	3.6%	1.0	
		Median:	14.7	16.9	0.7	4.6%	3.1%	0.8	

Sembcorp Industries and Sembcorp Marine data are based on bloomberg consensus

Source: Company, Bloomberg Finance L.P., DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Jul 19	1.50	1.82	BUY
2:	06 Aug 19	1.37	1.82	BUY
3:	15 Aug 19	0.86	1.82	BUY
4:	21 Aug 19	0.97	1.82	BUY
5:	15 Nov 19	1.00	1.68	BUY
6:	19 Nov 19	1.06	1.68	BUY
7:	23 Dec 19	1.14	1.68	BUY
8:	02 Mar 20	0.94	1.50	BUY
9:	06 Mar 20	0.91	1.50	BUY
10:	17 Mar 20	0.81	1.50	BUY
11:	08 Apr 20	0.92	1.50	BUY
12:	04 May 20	0.97	1.40	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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