

# Singapore Company Update

# Yangzijiang Shipbuilding

Bloomberg: YZJSGD SP | Reuters: YAZG.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Sep 2020

## BUY

Last Traded Price (31 Aug 2020): S\$0.915 (STI : 2,532.51)  
Price Target 12-mth: S\$1.40 (53% upside)

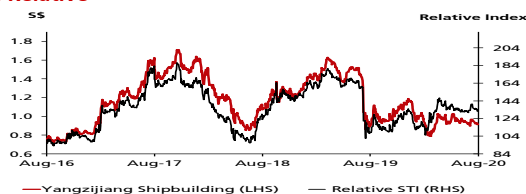
### Analyst

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### What's New

- Secured US\$184m of new orders in Aug; lifting YTD wins to US\$701m or 47% of full year target
- Order wins gaining momentum; expect some conversions from the US\$1.3bn options
- US's recent sanction against China Shipyard Group's 722nd Research Institute could channel some newbuild orders to non-SOE yards like Yangzijiang
- Reiterate BUY; TP S\$1.40

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2018A	2019A	2020F	2021F
Revenue	23,238	23,597	19,333	18,733
EBITDA	4,391	4,602	3,943	3,674
Pre-tax Profit	3,910	4,186	3,594	3,698
Net Profit	3,070	3,105	2,632	2,802
Net Pft (Pre Ex.)	3,070	3,105	2,632	2,554
Net Pft Gth (Pre-ex) (%)	16.2	1.1	(15.2)	(2.9)
EPS (S cts)	15.3	15.5	13.3	14.1
EPS Pre Ex. (S cts)	15.3	15.5	13.3	12.9
EPS Gth Pre Ex (%)	14	1	(14)	(3)
Diluted EPS (S cts)	15.3	15.5	13.3	14.1
Net DPS (S cts)	4.90	4.41	3.92	4.41
BV Per Share (S cts)	146	157	166	176
PE (X)	6.0	5.9	6.9	6.5
PE Pre Ex. (X)	6.0	5.9	6.9	7.1
P/Cash Flow (X)	14.0	4.0	6.1	6.8
EV/EBITDA (X)	1.0	0.6	0.1	0.0
Net Div Yield (%)	5.4	4.8	4.3	4.8
P/Book Value (X)	0.6	0.6	0.6	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	11.2	10.3	8.2	8.3
<b>Earnings Rev (%):</b>			0	0
<b>Consensus EPS (S cts):</b>			12.8	12.6
<b>Other Broker Recs:</b>		B: 6	S: 2	H: 2

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



### Brain Box

Brain Box (Pilot Research Platform). Is available to Institutional Investors on Demand. Please contact your DBSV Institutional sales rep for a demonstration.

### Orders picking up steam

#### Investment Thesis:

A bargain - trading below cash of S\$1.13/share and unjustifiably low 0.6x P/BV despite superior financials of 8% ROE and sustainable DPS of >4 Scts (~4% dividend yield), presenting good opportunities to longer-term investors.

**Distinctive economic moat as the largest and most cost-efficient private shipbuilder in China.** Yangzijiang has demonstrated earnings resilience during downturns, bolstered by strong balance sheet with stable recurring investment income.

**Key catalysts** include sizeable contract flows and progress into LNG carrier market.

#### Valuation:

Our TP of S\$1.40 is based on sum-of-parts, pegged to 8x FY20F PE on shipbuilding earnings and 0.7x P/BV for investments, and 0.7x P/BV for bulk carrier/tanker fleet. This translates to 0.8x P/BV (0.5 SD below 5-year mean of 0.9x).

#### Where we differ:

Yangzijiang's successful strategy to expand into the **LNG carrier** and tanker markets, and overall shipping recovery should lead to margin improvements. Market has overpenalised Yangzijiang for its **debt investments**, not realising most investments are backed by collateral of 1.5-2.5x.

#### Key Risks to Our View:

Revenue is denominated mainly in **USD**. If the net exposure at ~50% is unhedged, every 1% USD depreciation could lead to a 1.5% decline in earnings. Every 1% rise in **steel cost**, which accounts for about 20% of COGS, could result in a 0.8% drop in earnings.

#### At A Glance

Issued Capital (m shrs)	3,919
Mkt. Cap (S\$m/US\$m)	3,586 / 2,640
Major Shareholders (%)	
Yangzi International	21.8
Lido Point Investments Ltd	10.1
Blackrock	5.0
Free Float (%)	62.5
3m Avg. Daily Val (US\$m)	11.3
<b>GIC Industry</b> : Industrials / Capital Goods	



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## Yangzijiang Shipbuilding

### WHAT'S NEW

#### Orders flowing in

**Clinched new orders worth ~US\$184m in Aug.** Yangzijiang has secured orders for **six 1.8k TEU feeder containerships orders totaling US\$126m**, with options to build another six similar vessels; and two units of **82k dwt bulk carriers worth ~US\$58m** in Aug-2020.

**Endorsement from repeat customer.** The 6+6 feeder containership orders were placed by SITC International Holdings Co., Ltd. ("SITC"), a Hong Kong-listed intra-Asian container liner shipping operating 82 containerships, ranked 17<sup>th</sup> globally in terms of shipping capacity. This is the fourth batch of orders placed by SITC the past four years, a strong endorsement on Yangzijiang's vessel quality.

**Yangzijiang's YTD wins lifted to ~US\$701m**, making up 47% of its target of US\$1.5bn for 2020. This is certainly commendable given the pandemic and low industry contracting level, demonstrating Yangzijiang's market leadership and capability.

**We are hopeful of Yangzijiang meeting its order target.** The group has US\$1.3bn options that could be exercised by the end of the year. We understand that enquiries and negotiations with customers have picked up, which could lead to firm orders in the near future.

#### Yangzijiang – YTD order wins and key outstanding options

Date announced	Type of vessel	No. of units	Job scope	Value, Est (US\$ m)
Feb-20	Bulk carriers	2	40k DWT bulk carriers	50
Feb-20	Bulk carriers	2	82k DWT bulk carriers	54
Mar-20	Containership	2	14k TEU containerships	230
Mar-20	Bulk carriers	1	82k DWT bulk carriers	26
May-20	Containership	4	1k TEU containership	54
Jun-20	Bulk carriers	2	LNG-tank carriers	63
Jun-20	Bulk carriers	2	56k DWT bulk carriers	39
Aug-20	Bulk carriers	2	82k DWT bulk carriers	58
Aug-20	Containership	6	1.8k TEU containerships	126
<b>Total FY20 YTD order wins for Yangzijiang</b>				<b>701</b>
<b>Options</b>				
Mar-20	Containership	8	14k TEU containerships	920
Jun-20	LNG tank carriers	8	LNG-tank carriers	251
Aug-20	Containership	6	1.8k TEU containerships	126
				<b>1,297</b>

Source: Company, DBS Bank

**Yangzijiang could benefit from US's sanction against largest Chinese SOE shipbuilder - China Shipbuilding Group's research unit – 722<sup>nd</sup> Research Institute.** On 26 Aug, The Bureau of Industry and Security (BIS) in the U.S. Department of Commerce (Commerce) added 24 Chinese companies to the Entity List for their role in helping the Chinese military construct and militarise the internationally condemned artificial islands in the South China Sea. This includes a **research unit, 722nd Research Institute, under China Shipbuilding Group (CSG)**. CSG is the merged entity of two largest SOE shipbuilding conglomerates - China State Shipbuilding Co (CSSC) and China Shipbuilding Industry Co (CSIC) - with total assets of over US\$110bn. China

Shipbuilding Group's 722nd Research Institute specialises in communication systems.

While there have been no material trades done between the US and CSG, the sanction is imposed on a specific research institute within CSG and not the entire shipyard group. We are not sure if **some international shipowners might avoid placing newbuild ship orders with CSG as well** given the political uncertainty and potential risks. In that case, Korean yards and leading private Chinese shipyards like Yangzijiang could benefit.

## Yangzijiang Shipbuilding

### Container and Bulker shipping markets are improving.

Charter rates for both started to improve in late 1H20, led by the larger vessel sizes, with Baltic Dry Index (BDI) and China (Export) Containerized Freight Index (CCFI) as at end-August up by ~360% and ~10% respectively from the mid-May low.

**Bulk carriers:** Bulk carrier capacity is expected to grow 3.1% this year, but seaborne dry bulk trade is projected to decline by 3.9%, with severe impact from the Covid-19 pandemic which had suppressed freight rates in 1H20. With demand recovering, a healthier iron ore supply and robust Chinese demand for a range of commodities have lent support to bulk carrier market, while a nascent recovery in industrial activity in some regions has been visible in 3Q20. Outlook is getting brighter going into 2021 with a c.5.5% projected increase in bulker demand, against fleet growth of c.1%.

**Containerships:** Containership capacity growth is set to slow to 1.5% in 2020 while seaborne box trade is expected to contract by 5.5% in TEU-miles due to the pandemic. Nevertheless, box shipping markets are improving. The freight market has more than regained lost ground in the

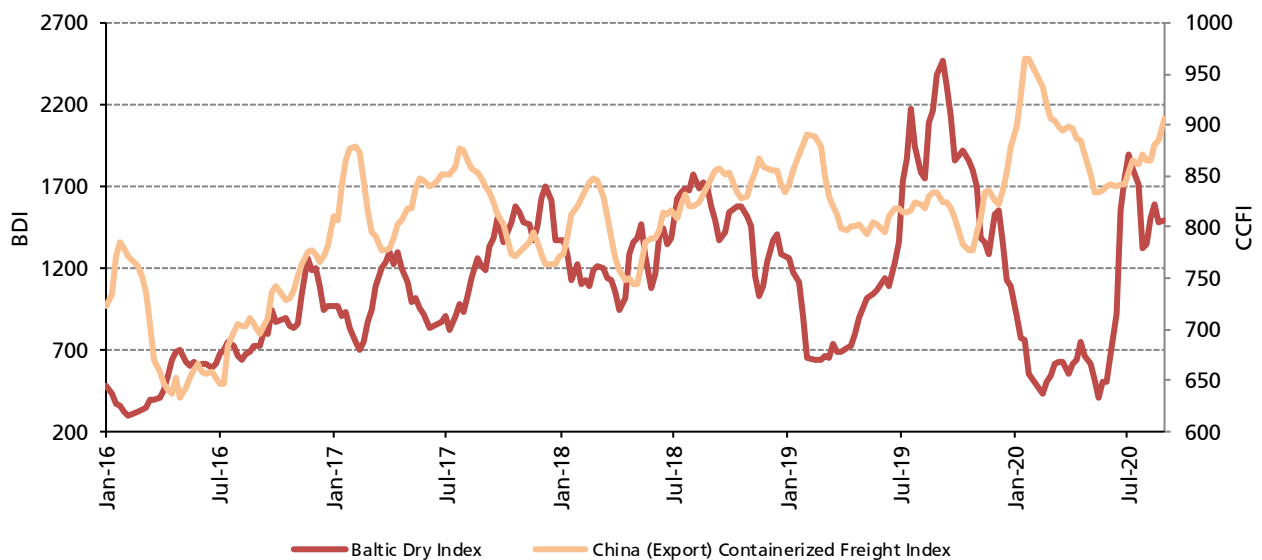
recent month, backed by robust operator capacity management. With volume improvement underway, Clarksons expects to see 2019 levels regained in 2021 (TEU-mile trade growth projected at 6.3%).

**Low orderbook to fleet; order replenishment expected.** Order backlog for containerships and bulk carriers are near historical lows with orderbook to fleet standing at <9% and 7% respectively, suggesting low new deliveries over the next 3 years. As freight rates and demand recover and travel bans gradually ease, we should see more conclusion of orders ahead.

### Company Background

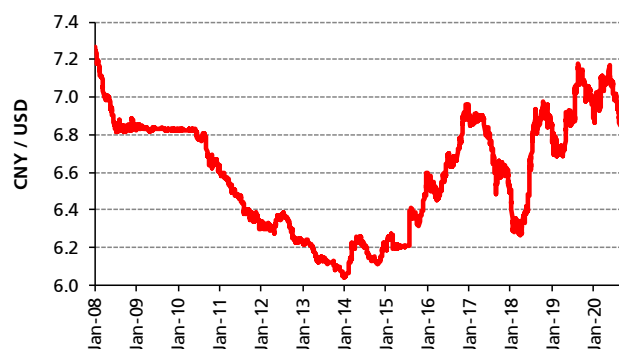
Yangzijiang is one of the largest, most efficient and most profitable shipbuilders in China. It has moved up the value chain to produce mega containerships and very large bulk carriers, as well as LNG vessels.

### Rebound of freight rates since Jun-2020



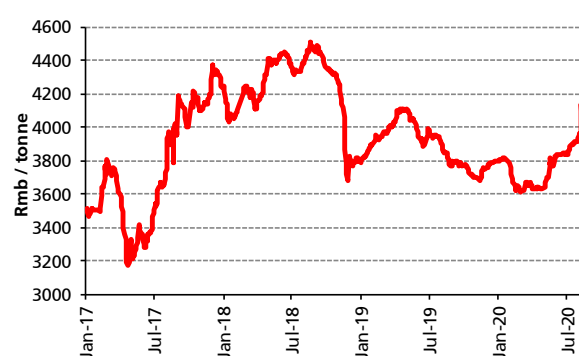
Source: Bloomberg Finance L.P., DBS Bank

### Favourable Forex – strong USD



Source: Bloomberg Finance L.P., DBS Bank

### Higher steel cost has an adverse impact on margins



Source: Bloomberg Finance L.P., DBS Bank

### Peer comparison table

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
<b>Singapore</b>									
Keppel Corp	4.58	6,128	62	11.2	0.8	0.2%	6.7%	0.8	3.3%
Sembcorp Industries	1.87	2,457	21	9.6	0.6	1.7%	6.3%	1.2	2.7%
Sembcorp Marine	0.205	316	nm	nm	0.3	-9.2%	-3.1%	1.9	nm
Yangzijiang	0.915	2,637	7.1	7.2	0.6	7.9%	7.8%	CASH	4.9%
<b>China</b>									
China Shipbuilding Industry Co (CSIC)	4.85	16,148	101	88.2	1.3	1.3%	1.4%	CASH	nm
Shanghai Zhenhua Heavy Industries	3.08	1,981	nm	nm	1.2	na	na	2.0	1.6%
China CSSC	20.89	13,642	nm	nm	2.1	nm	nm	CASH	nm
<b>Korea</b>									
Korea Shipbuilding & Engineering	86,200	5,137	26	22.2	0.5	1.9%	2.1%	0.1	nm
Samsung Heavy Industries	5,160	2,737	nm	nm	0.7	-15.4%	-2.3%	0.6	nm
Daewoo Shipbuilding	22,150	2,000	8	13.5	0.6	7.4%	4.0%	0.1	nm
<b>Average:</b>			25.0	12.8	0.8	-0.8%	3.1%	1.0	
<b>Median:</b>			21.5	11.2	0.6	1.7%	4.0%	0.8	

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

## Yangzijiang Shipbuilding

### SOTP-based Valuation

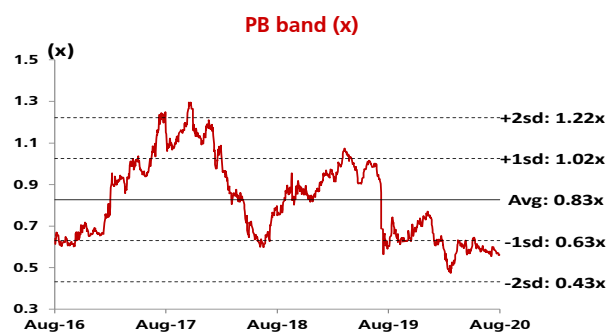
Components	% stake	FY20 PATMI (\$ m)	Est. market value (\$ m)	Value per share (\$)	Basis	Remark
Shipbuilding	100%	272	2,173	0.55	8x FY20 PE	10-year mean (8x)
Shipping & related	100%	17	319	0.08	0.7x P/Bv	0.7x Book value of the 23 vessels which half has been marked down by 50%.
Investment	100%	237	1,947	0.50	0.7x P/Bv	SG banks' trough valuation peg of 0.7x
		526	4,439	1.13		
Add: Net Cash			1,033	0.26		
Target price (\$)				1.40		

Source: Company, DBS Bank

### Historical PE and PB band



Source: Bloomberg Finance L.P., DBS estimates



Source: Bloomberg Finance L.P., DBS estimates

## Yangzijiang Shipbuilding

### Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Order wins (US\$ m)	2,100	1,460	830	1,500	2,500
Steel cost (RMB/t)	4,272	4,314	4,530	4,666	4,899
RMB / USD	6.30	6.60	6.80	6.80	6.80

### Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
<b>Revenues (RMBm)</b>					
Shipbuilding	12,301	14,023	13,019	11,122	10,427
Investment	1,111	1,612	1,890	1,611	1,406
Others	5,794	7,603	8,687	6,600	6,900
<b>Total</b>	<b>19,206</b>	<b>23,238</b>	<b>23,597</b>	<b>19,333</b>	<b>18,733</b>
<b>Gross profit (RMBm)</b>					
Shipbuilding	2,100	2,471	1,939	1,348	1,232
Investment	1,056	1,534	1,798	1,531	1,335
Others	156	106	591	690	695
<b>Total</b>	<b>3,312</b>	<b>4,112</b>	<b>4,329</b>	<b>3,569</b>	<b>3,262</b>
<b>Gross profit Margins (%)</b>					
Shipbuilding	17.1	17.6	14.9	12.1	11.8
Investment	95.1	95.2	95.1	95.0	95.0
Others	2.7	1.4	6.8	10.5	10.1
<b>Total</b>	<b>17.2</b>	<b>17.7</b>	<b>18.3</b>	<b>18.5</b>	<b>17.4</b>

### Income Statement (RMBm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	19,206	23,238	23,597	19,333	18,733
Cost of Goods Sold	(15,894)	(19,127)	(19,269)	(15,764)	(15,471)
<b>Gross Profit</b>	<b>3,312</b>	<b>4,112</b>	<b>4,329</b>	<b>3,569</b>	<b>3,262</b>
Other Opng (Exp)/Inc	(179)	(167)	(321)	(180)	(142)
<b>Operating Profit</b>	<b>3,133</b>	<b>3,944</b>	<b>4,007</b>	<b>3,389</b>	<b>3,120</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	40.1	(85.8)	117	100	120
Net Interest (Exp)/Inc	25.2	51.7	62.1	105	210
Exceptional Gain/(Loss)	290	0.0	0.0	0.0	248
<b>Pre-tax Profit</b>	<b>3,487</b>	<b>3,910</b>	<b>4,186</b>	<b>3,594</b>	<b>3,698</b>
Tax	(395)	(830)	(890)	(791)	(725)
Minority Interest	(160)	(9.8)	(191)	(171)	(171)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>2,931</b>	<b>3,070</b>	<b>3,105</b>	<b>2,632</b>	<b>2,802</b>
Net Profit before Except.	2,642	3,070	3,105	2,632	2,554
EBITDA	3,655	4,391	4,602	3,943	3,674
<b>Growth</b>					
Revenue Gth (%)	27.3	21.0	1.5	(18.1)	(3.1)
EBITDA Gth (%)	(11.3)	20.1	4.8	(14.3)	(6.8)
Opg Profit Gth (%)	(13.9)	25.9	1.6	(15.4)	(7.9)
Net Profit Gth (Pre-ex) (%)	15.7	16.2	1.1	(15.2)	(2.9)
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	17.2	17.7	18.3	18.5	17.4
Opg Profit Margin (%)	16.3	17.0	17.0	17.5	16.7
Net Profit Margin (%)	15.3	13.2	13.2	13.6	15.0
ROAE (%)	12.1	11.2	10.3	8.2	8.3
ROA (%)	6.9	7.0	6.8	5.6	5.8
ROCE (%)	8.6	9.2	8.6	6.7	6.1
Div Payout Ratio (%)	30.2	31.8	28.1	29.5	31.1
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

## Yangzijiang Shipbuilding

### Quarterly Income Statement (RMBm)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Revenue	6,291	7,033	5,424	4,849	3,497
Cost of Goods Sold	(5,125)	(5,834)	(4,364)	(3,946)	(2,783)
<b>Gross Profit</b>	<b>1,166</b>	<b>1,199</b>	<b>1,060</b>	<b>904</b>	<b>714</b>
Other Oper. (Exp)/Inc	(198)	74.7	(194)	(4.8)	(209)
<b>Operating Profit</b>	<b>969</b>	<b>1,273</b>	<b>866</b>	<b>899</b>	<b>505</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	73.1	(22.7)	(23.2)	89.9	6.38
Net Interest (Exp)/Inc	23.7	23.5	29.9	(15.0)	74.6
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>1,065</b>	<b>1,274</b>	<b>873</b>	<b>974</b>	<b>586</b>
Tax	(224)	(298)	(153)	(214)	(172)
Minority Interest	(16.9)	(39.4)	(17.6)	(117)	(10.3)
<b>Net Profit</b>	<b>824</b>	<b>936</b>	<b>702</b>	<b>642</b>	<b>404</b>
Net profit bef Except.	824	936	702	642	404
EBITDA	1,186	1,393	987	1,035	638

### Growth

Revenue Gth (%)	27.2	11.8	(22.9)	(10.6)	(27.9)
EBITDA Gth (%)	35.2	17.5	(29.1)	4.8	(38.3)
Opg Profit Gth (%)	9.0	31.5	(32.0)	3.8	(43.8)
Net Profit Gth (Pre-ex) (%)	17.4	13.6	(25.0)	(8.5)	(37.1)

### Margins

Gross Margins (%)	18.5	17.0	19.5	18.6	20.4
Opg Profit Margins (%)	15.4	18.1	16.0	18.5	14.4
Net Profit Margins (%)	13.1	13.3	12.9	13.2	11.5

### 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	1,633	1,753
Other LT Assets	7,704	7,144	7,293	6,861	6,666
Cash & ST Invt	15,574	18,824	21,552	23,720	25,461
Inventory	2,628	2,606	1,598	2,109	2,043
Debtors	5,290	5,051	4,680	4,296	4,163
Other Current Assets	5,960	4,669	3,422	3,764	4,141
<b>Total Assets</b>	<b>43,373</b>	<b>44,911</b>	<b>45,756</b>	<b>47,804</b>	<b>49,410</b>
ST Debt	2,532	1,149	2,782	2,504	2,254
Creditor	5,859	4,195	3,514	4,296	3,903
Other Current Liab	5,185	5,688	3,894	3,395	3,329
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	32,854	34,881
Minority Interests	632	717	959	1,130	1,302
<b>Total Cap. &amp; Liab.</b>	<b>43,373</b>	<b>44,911</b>	<b>45,756</b>	<b>47,804</b>	<b>49,410</b>
Non-Cash Wkg. Capital	2,835	2,443	2,292	2,478	3,115
Net Cash/(Debt)	10,684	14,780	16,519	18,853	20,726
Debtors Turn (avg days)	101.1	81.2	75.3	84.7	82.4
Creditors Turn (avg days)	127.5	98.7	74.9	93.1	99.5
Inventory Turn (avg days)	55.2	51.4	40.8	44.2	50.4
Asset Turnover (x)	0.5	0.5	0.5	0.4	0.4
Current Ratio (x)	2.2	2.8	3.1	3.3	3.8
Quick Ratio (x)	1.5	2.2	2.6	2.7	3.1
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)	2.9	2.8	3.0	2.9	2.9

Source: Company, DBS Bank

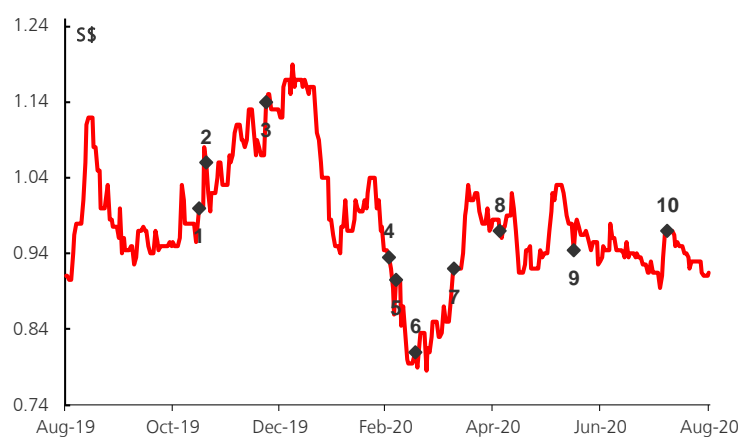
## Yangzijiang Shipbuilding

### Cash Flow Statement (RMBm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	3,487	3,910	4,186	3,594	3,698
Dep. & Amort.	483	532	477	455	436
Tax Paid	(584)	(637)	(781)	(1,289)	(791)
Assoc. & JV Inc/(loss)	(40.1)	85.8	(117)	(100.0)	(120)
Chg in Wkg.Cap.	(1,131)	(2,445)	985	313	(571)
Other Operating CF	(633)	(139)	(142)	0.0	0.0
<b>Net Operating CF</b>	<b>1,582</b>	<b>1,307</b>	<b>4,609</b>	<b>2,973</b>	<b>2,653</b>
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
<b>Net Investing CF</b>	<b>(783)</b>	<b>908</b>	<b>(712)</b>	<b>1,370</b>	<b>508</b>
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
<b>Net Financing CF</b>	<b>(1,690)</b>	<b>(1,816)</b>	<b>(307)</b>	<b>(1,039)</b>	<b>(908)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(890)	399	3,589	3,304	2,253
Opg CFPS (S cts)	13.8	18.8	18.1	13.4	16.3
Free CFPS (S cts)	9.11	4.85	20.4	14.0	12.4

Source: Company, DBS Bank

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Nov 19	1.00	1.68	BUY
2:	19 Nov 19	1.06	1.68	BUY
3:	23 Dec 19	1.14	1.68	BUY
4:	02 Mar 20	0.94	1.50	BUY
5:	06 Mar 20	0.91	1.50	BUY
6:	17 Mar 20	0.81	1.50	BUY
7:	08 Apr 20	0.92	1.50	BUY
8:	04 May 20	0.97	1.40	BUY
9:	15 Jun 20	0.95	1.40	BUY
10:	07 Aug 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

Completed Date: 1 Sep 2020 08:31:15 (SGT)

Dissemination Date: 1 Sep 2020 08:46:21 (SGT)

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

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