

# Yangzijiang Shipbuilding (YZJSGD SP)

Industrial - Shipbuilding

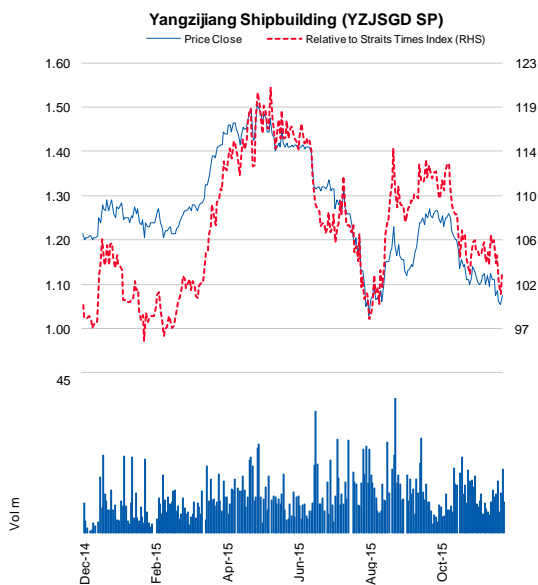
Market Cap: USD2,917m

**Buy** (Maintained)

 Target Price: **SGD1.61**

 Price: **SGD1.08**

## Orderbook Boosted To Five-Year High

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	12.7m/8.97m
Cons. Upside (%)	27.8
Upside (%)	49.8
52-wk Price low/high (SGD)	1.03 - 1.51
Free float (%)	64
Share outstanding (m)	3,832
<b>Shareholders (%)</b>	
Ren Yuanlin	26.0
Lido Point Investments	10.3
Hong Kong Hengyuan Investment	8.7

<b>Share Performance (%)</b>					
	YTD	1m	3m	6m	12m
Absolute	(10.8)	(3.2)	(7.7)	(23.8)	(10.4)
Relative	4.4	(2.0)	(6.8)	(10.2)	1.7

Yangzijiang announced that it has secured a net 10 new orders worth USD626m, which include four 11,800TEU containerships, the largest to be built by a private Chinese yard. Maintain BUY with a SGD1.61 SOP-based TP (50% upside). A customer made a tactical shift to cancel one bulk carrier, replacing it with three combination carriers of a slightly larger size. These orders take Yangzijiang's orderbook to a five-year high of c.USD5.4bn.

- ◆ **Another step up the value chain.** Yangzijiang Shipbuilding (YZJ)'s new orders comprise four 11,800 twenty-foot equivalent (TEU) containerships, two 1,668TEU containerships, two 29,800 deadweight-ton (dwt) self-unloading vessels and three 83,500dwt combination carriers. The 11,800 TEU containerships are the largest ever to be built by a private yard in China, taking YZJ another step up the technological value chain. These orders will be delivered in 2018.
- ◆ **Customer adds a net two vessels in tactical shift.** One customer terminated a 82,000dwt bulk carrier (likely due to persistent weakness in the dry bulk sector) in 4Q15, replacing the order with the three 83,500dwt combination carriers. The customer agreed to let YZJ keep the 10% deposit for the bulk carrier as compensation.
- ◆ **Exceeds USD2bn order win target.** These contracts propel the company's FY15 orders YTD to 37 vessels worth USD2.25bn, with just one cancellation. It also pushes YZJ's orders won above its own USD2bn target for this year. In addition, there are 13 outstanding options comprising two 1,668TEU containerships, two 1,900TEU containerships, three 29,800dwt self-unloading vessels and six 83,500dwt combination carriers. The options may be worth c.USD400m.
- ◆ **Margin decline already priced in.** At 0.84 FY15F P/BV, c.6x FY16-17F P/E's and <3x EV/EBITDAs, we believe that margin concerns are already priced in. The high orderbook could drive revenue growth, which should offset the margin decline to allow the company to deliver a stable c.CNY3bn bottomline annually. Maintain BUY, with an unchanged SGD1.61 SOP-based TP.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (CNYm)	14,339	15,354	18,781	20,398	21,395
Reported net profit (CNYm)	3,096	3,483	3,203	3,253	3,009
Recurring net profit (CNYm)	3,096	3,483	3,203	3,253	3,008
Recurring net profit growth (%)	(13.5)	12.5	(8.0)	1.6	(7.5)
Recurring EPS (CNY)	0.81	0.91	0.83	0.85	0.78
DPS (CNY)	0.24	0.24	0.24	0.24	0.24
Recurring P/E (x)	6.12	5.44	5.91	5.82	6.29
P/B (x)	1.06	0.92	0.84	0.76	0.71
P/CF (x)	na	2.08	8.29	7.22	7.51
Dividend Yield (%)	4.9	4.9	4.9	4.9	4.9
EV/EBITDA (x)	2.96	3.23	2.68	2.66	2.73
Return on average equity (%)	18.6	18.2	14.9	13.7	11.7
Net debt to equity (%)	19.3	9.8	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			5.7	9.7	6.1

Source: Company data, RHB

Lee Yue Jer, CFA +65 6232 3898

[lee.yue.jer@rhbgroup.com](mailto:lee.yue.jer@rhbgroup.com)

## Financial Exhibits

Profit & Loss (CNYm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	14,339	15,354	18,781	20,398	21,395
Cost of sales	(9,577)	(11,210)	(14,603)	(16,112)	(17,659)
<b>Gross profit</b>	<b>4,762</b>	<b>4,144</b>	<b>4,178</b>	<b>4,286</b>	<b>3,736</b>
Gen & admin expenses	(352)	(435)	(420)	(380)	(380)
Other operating costs	193	481	762	450	650
<b>Operating profit</b>	<b>4,602</b>	<b>4,190</b>	<b>4,519</b>	<b>4,356</b>	<b>4,006</b>
Operating EBITDA	4,887	4,600	4,959	4,777	4,432
Depreciation of fixed assets	(285)	(410)	(440)	(421)	(426)
<b>Operating EBIT</b>	<b>4,602</b>	<b>4,190</b>	<b>4,519</b>	<b>4,356</b>	<b>4,006</b>
Net income from investments	(1)	8	10	20	20
Interest income	259	-	61	69	80
Interest expense	(241)	(245)	(389)	(233)	(210)
Exceptional income - net	-	-	-	-	1
<b>Pre-tax profit</b>	<b>4,620</b>	<b>3,953</b>	<b>4,202</b>	<b>4,212</b>	<b>3,896</b>
Taxation	(1,542)	(472)	(966)	(927)	(857)
Minority interests	18	2	(32)	(33)	(30)
<b>Profit after tax &amp; minorities</b>	<b>3,096</b>	<b>3,483</b>	<b>3,203</b>	<b>3,253</b>	<b>3,009</b>
<b>Reported net profit</b>	<b>3,096</b>	<b>3,483</b>	<b>3,203</b>	<b>3,253</b>	<b>3,009</b>
<b>Recurring net profit</b>	<b>3,096</b>	<b>3,483</b>	<b>3,203</b>	<b>3,253</b>	<b>3,008</b>

Source: Company data, RHB

Cash flow (CNYm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
<b>Operating profit</b>	<b>4,602</b>	<b>4,190</b>	<b>4,519</b>	<b>4,356</b>	<b>4,006</b>
<b>Depreciation &amp; amortisation</b>	<b>285</b>	<b>410</b>	<b>440</b>	<b>421</b>	<b>426</b>
<b>Change in working capital</b>	<b>(1,229)</b>	<b>(1,595)</b>	<b>(102)</b>	<b>(1,066)</b>	<b>(925)</b>
Other operating cash flow	(6,326)	6,891	(1,279)	(0)	1
<b>Operating cash flow</b>	<b>(2,668)</b>	<b>9,896</b>	<b>3,578</b>	<b>3,712</b>	<b>3,508</b>
Interest received	-	-	61	69	80
Interest paid	-	(321)	(389)	(233)	(210)
Dividends received	21	31	-	-	-
Tax paid	(1,001)	(492)	(966)	(927)	(857)
<b>Cash flow from operations</b>	<b>(3,648)</b>	<b>9,113</b>	<b>2,284</b>	<b>2,621</b>	<b>2,521</b>
Capex	(1,031)	(729)	(300)	(500)	(500)
Other new investments	(115)	(1,573)	791	500	0
Other investing cash flow	9	908	1,000	-	(0)
<b>Cash flow from investing activities</b>	<b>(1,137)</b>	<b>(1,395)</b>	<b>1,491</b>	<b>0</b>	<b>(500)</b>
Dividends paid	(936)	(960)	(1,064)	(1,064)	(1,064)
Proceeds from issue of shares	91	-	-	-	-
Increase in debt	5,206	(5,523)	(50)	(500)	(1,000)
Other financing cash flow	(227)	(19)	-	-	(0)
<b>Cash flow from financing activities</b>	<b>4,134</b>	<b>(6,502)</b>	<b>(1,115)</b>	<b>(1,564)</b>	<b>(2,064)</b>
Cash at beginning of period	2,087	1,436	2,653	5,313	6,370
<b>Total cash generated</b>	<b>(650)</b>	<b>1,216</b>	<b>2,660</b>	<b>1,057</b>	<b>(44)</b>
<b>Implied cash at end of period</b>	<b>1,436</b>	<b>2,653</b>	<b>5,313</b>	<b>6,370</b>	<b>6,326</b>

Source: Company data, RHB

## Financial Exhibits

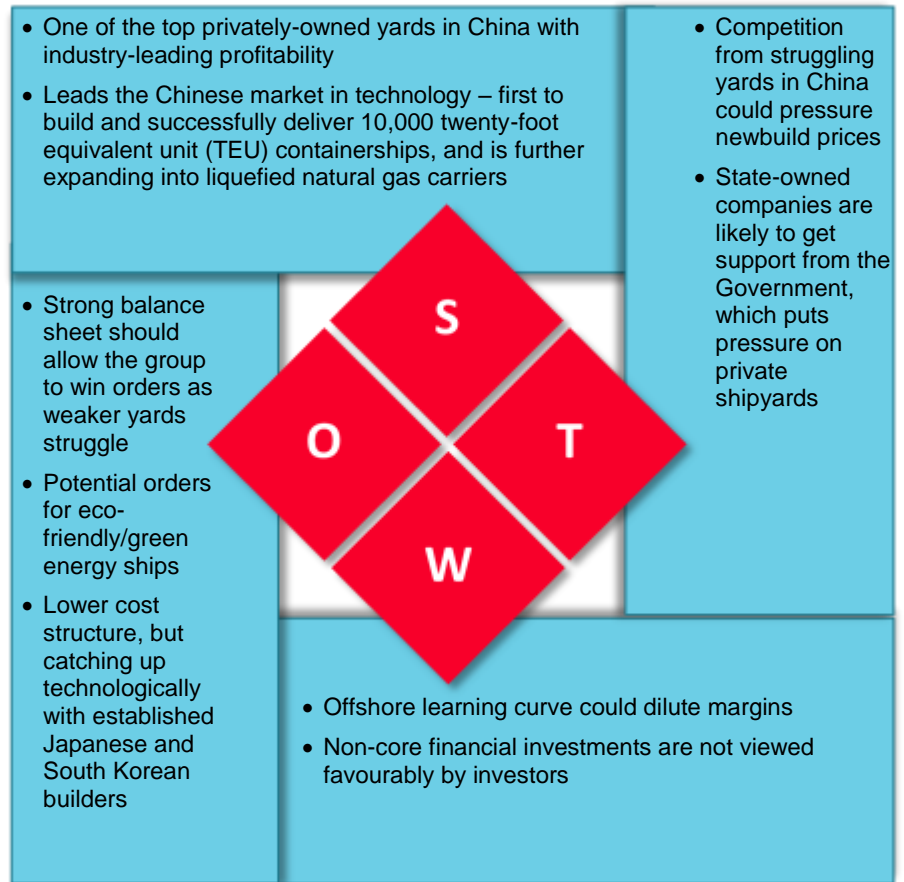
Balance Sheet (CNYm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	9,853	5,978	8,639	9,696	9,652
Inventories	1,463	2,015	1,544	2,235	2,931
Accounts receivable	6,879	6,721	7,718	8,383	8,792
Other current assets	9,893	11,048	9,438	9,590	9,684
<b>Total current assets</b>	<b>28,089</b>	<b>25,762</b>	<b>27,338</b>	<b>29,904</b>	<b>31,059</b>
Total investments	6,899	6,321	5,819	5,339	5,359
Tangible fixed assets	6,884	7,249	7,109	7,188	7,262
Intangible assets	0	2	2	2	2
Total other assets	1,339	1,443	1,443	1,443	1,443
Total non-current assets	15,122	15,016	14,373	13,972	14,066
<b>Total assets</b>	<b>43,211</b>	<b>40,778</b>	<b>41,712</b>	<b>43,876</b>	<b>45,125</b>
Short-term debt	12,241	5,414	3,500	3,500	2,500
Accounts payable	5,633	5,723	5,145	5,589	5,862
Other current liabilities	4,568	4,227	3,618	3,618	3,619
<b>Total current liabilities</b>	<b>22,442</b>	<b>15,364</b>	<b>12,263</b>	<b>12,706</b>	<b>11,980</b>
Total long-term debt	1,133	2,636	4,500	4,000	4,000
Other liabilities	1,363	1,702	1,702	1,702	1,702
<b>Total non-current liabilities</b>	<b>2,496</b>	<b>4,338</b>	<b>6,202</b>	<b>5,702</b>	<b>5,702</b>
<b>Total liabilities</b>	<b>24,938</b>	<b>19,702</b>	<b>18,465</b>	<b>18,408</b>	<b>17,682</b>
Share capital	6,333	6,263	6,263	6,263	6,263
Retained earnings reserve	11,468	14,210	16,349	18,538	20,482
<b>Shareholders' equity</b>	<b>17,801</b>	<b>20,473</b>	<b>22,612</b>	<b>24,801</b>	<b>26,745</b>
Minority interests	472	603	635	668	698
Other equity	-	(0)	0	0	(0)
<b>Total equity</b>	<b>18,273</b>	<b>21,076</b>	<b>23,247</b>	<b>25,468</b>	<b>27,443</b>
<b>Total liabilities &amp; equity</b>	<b>43,211</b>	<b>40,778</b>	<b>41,712</b>	<b>43,876</b>	<b>45,125</b>

Source: Company data, RHB

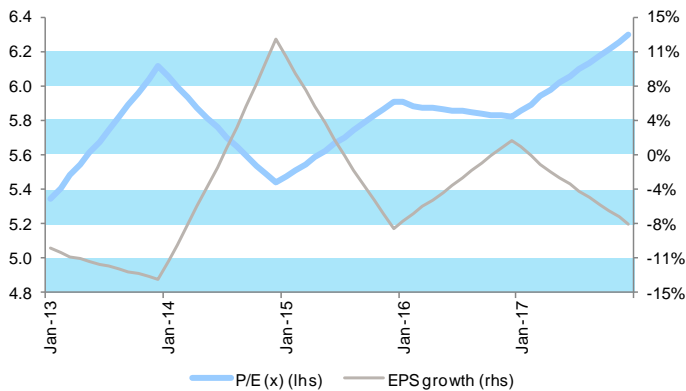
Key Ratios (CNY)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(3.1)	7.1	22.3	8.6	4.9
Operating profit growth (%)	(0.1)	(9.0)	7.9	(3.6)	(8.0)
Net profit growth (%)	(13.5)	12.5	(8.0)	1.6	(7.5)
EPS growth (%)	(13.5)	12.5	(8.0)	1.6	(7.5)
BVPS growth (%)	14.8	15.0	10.4	9.7	7.8
Operating margin (%)	32.1	27.3	24.1	21.4	18.7
Net profit margin (%)	21.6	22.7	17.1	15.9	14.1
Return on average assets (%)	8.1	8.3	7.8	7.6	6.8
Return on average equity (%)	18.6	18.2	14.9	13.7	11.7
Net debt to equity (%)	19.3	9.8	(2.7)	(8.6)	(11.5)
DPS	0.24	0.24	0.24	0.24	0.24
Recurrent cash flow per share	(0.95)	2.38	0.60	0.68	0.66

Source: Company data, RHB

## SWOT Analysis

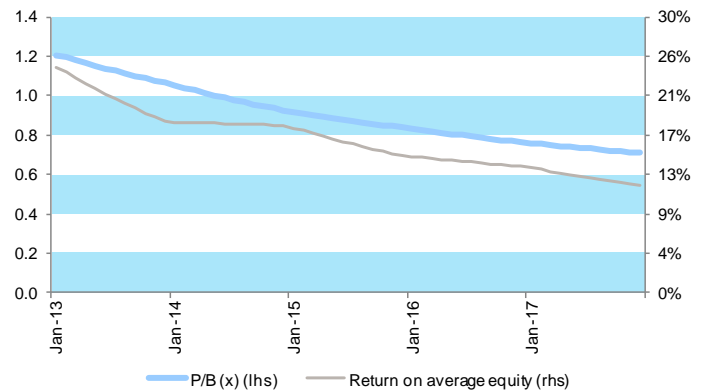


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

Yangzijiang is a leading non state-owned shipbuilder in China with expertise in containerships and bulk cargo carriers, and a company that is also spearheading Chinese shipyards' move into gas carriers. It is the single most profitable shipyard in China with the lowest cost structure.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-11-04	Buy	1.61	1.25
2015-08-06	Buy	1.68	1.26
2015-05-05	Buy	1.92	1.44
2015-03-02	Buy	1.68	1.21
2014-08-06	Buy	1.68	1.10
2014-04-30	Buy	1.55	1.10
2014-04-02	Buy	1.58	1.11
2014-03-20	Buy	1.58	1.07
2014-02-28	Buy	1.55	1.14
2013-11-14	Buy	1.50	1.16

Source : RHB, Bloomberg

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**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

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**Not Rated:** Stock is not within regular research coverage

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**Kuala Lumpur**

**RHB Research Institute Sdn Bhd**  
Level 11, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur  
Malaysia  
Tel : +(60) 3 9280 2185  
Fax : +(60) 3 9284 8693

**Hong Kong**

**RHB Securities Hong Kong Ltd.**  
12<sup>th</sup> Floor  
World-Wide House  
19 Des Voeux Road  
Central, Hong Kong  
Tel : +(852) 2525 1118  
Fax : +(852) 2810 0908

**Singapore**

**RHB Research Institute Singapore  
Pte Ltd (formerly known as DMG & Partners Research  
Pte Ltd)**  
10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : +(65) 6533 1818  
Fax : +(65) 6532 6211

**Jakarta**

**PT RHB Securities Indonesia**  
Wisma Mulia, 20th Floor  
Jl. Jenderal Gatot Subroto No. 42  
Jakarta 12710, Indonesia  
Tel : +(6221) 2783 0888  
Fax : +(6221) 2783 0777

**Shanghai**

**RHB (China) Investment Advisory Co. Ltd.**  
Suite 4005, CITIC Square  
1168 Nanjing West Road  
Shanghai 20041  
China  
Tel : +(8621) 6288 9611  
Fax : +(8621) 6288 9633

**Bangkok**

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +(66) 2 862 9999  
Fax : +(66) 2 862 9799