

Yangzijiang Shipbuilding (YZJSGD SP)

Share Price: SGD1.26

MCap (USD): 3.5B

Singapore

Target Price: SGD1.12 (-11%)

ADTV (USD): 11M

Oil & Gas

SELL

 (Unchanged)

Can't Sail Against The Tide

- 3Q15 ahead on higher shipbuilding gross margins due to strong USD. Several one-off losses offset by large government compensation. Raise FY15 EPS by 7% but cut FY16 by 19%.
- Tough shipbuilding industry weighs on contract prices. Expect deeper margin deterioration.
- Maintain SELL. SOTP TP unchanged at SGD1.12.

What's New

3Q15 PATMI of CNY680.7m (-16.1% YoY, -34.0% QoQ) is slightly ahead of our expectations on better shipbuilding gross margins of 18.5% (2Q15: 14.8%, 3Q14: 21.1%). The latter benefited from a stronger USD. 9M15 PATMI of CNY2,418.1m (-15.0% YoY) formed 82%/80% of our/consensus FY15E. There were many one-offs in 3Q15: a CNY207m loss from the disposal of AFS assets (A-shares); a CNY101m loss from the disposal of its property investment; and forex items. These were offset by a CNY557m government compensation for the relocation of its old yard, which we had originally incorporated into our FY16 forecasts.

What's Our View

YTD order wins of USD1.63b fall short of its last guidance of USD2.0b by Sep 2015. This could be blamed on customer hesitation amid an uncertain shipping market and competitive price offers. YZJ remains confident of reaching its USD2.0b target, though it admits that the shipbuilding outlook has gotten tougher. What we see is weakening prices that validate our view of a more severe deterioration in its shipbuilding margins. This is reflected in our more-pessimistic FY17 net-profit forecast that is 24% below consensus despite 11% higher revenue. Its new products, LNG/VLGC vessels, are also likely to yield lower margins.

Default risks for its held-to-maturity assets are another concern, although it has trimmed its portfolio by CNY1.1b to CNY9.7b since 2Q. We raise FY15 EPS by 7% but cut FY16 EPS by 19% for its one-offs. Our SOTP TP stays at SGD1.12 after our rollover to FY16.

FYE Dec (CNY m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	14,338.6	15,353.6	16,598.2	17,822.1	19,943.5
EBITDA	4,845.5	3,918.1	4,462.7	3,199.4	3,182.0
Core net profit	3,095.9	3,482.9	3,169.7	2,393.9	2,142.8
Core EPS (CNY)	0.81	0.91	0.83	0.62	0.56
Core EPS growth (%)	(13.5)	12.5	(9.0)	(24.5)	(10.5)
Net DPS (CNY)	0.24	0.26	0.25	0.25	0.25
Core P/E (x)	7.1	6.3	6.9	9.1	10.2
P/BV (x)	1.2	1.1	1.0	0.9	0.9
Net dividend yield (%)	4.2	4.5	4.4	4.4	4.4
ROAE (%)	18.6	18.2	14.6	10.2	8.7
ROAA (%)	8.1	8.3	7.7	5.7	5.0
EV/EBITDA (x)	5.3	6.2	4.9	7.1	7.3
Net debt/equity (%)	19.8	10.1	net cash	1.9	3.3

Key Data

52w high/low (SGD)	1.51/1.03
3m avg turnover (USDm)	11.0
Free float (%)	47.1
Issued shares (m)	3,837
Market capitalization	SGD4.8B
Major shareholders:	
-Newyard Worldwide Holding Ltd.	26.1%
-Lido Point Investments Ltd.	10.3%
-Hong Kong Hengyuan Investment Co. Ltd.	8.2%

Share Price Performance



— Yangzijiang - (LHS, SGD) — Yangzijiang / Straits Times Index - (RHS, %)

	1 Mth	3 Mth	12 Mth
Absolute(%)	10.5	(0.8)	12.0
Relative to index (%)	2.9	5.6	22.9

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	5	3	6
	Maybank Consensus		% +/-
Target Price (SGD)	1.12	1.32	(15.4)
'15 PATMI (CNYm)	3,170	3,079	3.0
'16 PATMI (CNYm)	2,394	2,977	(19.6)

Source: FactSet; Maybank

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Figure 1: Quarterly profit and loss

FYE Dec (CNY m)	3Q15	2Q15	3Q14	% chg QoQ	% chg YoY	Comments
Revenue	4,135.6	5,710.0	3,742.7	(27.6)	10.5	More vessels delivered and higher trading business in 3Q15 vs 3Q14.
Cost of sales	(3,159.0)	(4,680.2)	(2,678.8)	(32.5)	17.9	
Gross profit	976.6	1,029.8	1,063.9	(5.2)	(8.2)	Lower YoY due to lower-margin contracts.
Other income	39.6	64.7	68.7	(38.7)	(42.3)	Lower interest income from restricted cash as this was used to pay down bank borrowings.
Other gains/(losses)	241.9	412.1	74.7	(41.3)	223.8	- CNY207m loss on disposal of AFS (CNY1.2b of A-shares on book). - CNY101m loss on disposal of Jiangsu Hengyuan Real Estate. - CNY158m forex loss. - CNY557m compensation from Chinese government for yard relocation. - CNY85m reversal of HTM impairment.
Expenses						
- Administrative	(71.7)	(91.3)	(88.7)	(21.4)	(19.1)	
- Finance	(221.7)	(66.1)	(95.0)	235.5	133.3	Mainly due to CNY130m of revaluation loss on USD debt worth about USD700m.
Associates/JVs	3.8	0.4	2.4	808.0	55.3	
PBT	968.5	1,349.6	1,026.0	(28.2)	(5.6)	
Income tax	(277.7)	(310.2)	(214.3)	(10.5)	29.6	
Net profit	690.7	1,039.4	811.8	(33.5)	(14.9)	
Minority interest	(10.1)	(8.8)	(0.6)	14.7	1576.9	
PATMI	680.7	1,030.6	811.2	(34.0)	(16.1)	

Source: Company, Maybank KE

Figure 2: Quarterly breakdown

FYE Dec (CNY m)	3Q15	2Q15	3Q14	% chg QoQ	% chg YoY	Comments
Shipbuilding-related segment						
Shipbuilding revenue	3,344.7	3,758.9	3,078.0	(11.0)	8.7	9 vessels delivered in 3Q15 (2Q15: 11, 3Q14: 8).
COGS	(2,726.0)	(3,203.9)	(2,427.9)	(14.9)	12.3	
Gross Profit	618.7	554.9	650.1	11.5	(4.8)	
Margin (%)	18.5	14.8	21.1	3.7ppts	(2.6)ppts	Lower YoY due to lower-margin contracts. Higher QoQ due to USD strength.
Trading revenue	375.8	1,418.2	215.1	(73.5)	74.7	
COGS	(370.8)	(1,390.7)	(210.9)	(73.3)	75.8	
Gross Profit	5.0	27.5	4.2	(81.8)	18.5	
Margin (%)	1.3	1.9	2.0	(0.6)ppt	(0.6)ppt	
Others revenue	55.1	51.8	16.5	6.6	233.2	
COGS	(51.4)	(49.3)	(13.2)	4.3	290.1	
Gross Profit	3.7	2.5	3.4	52.3	10.9	
Margin (%)	6.8	4.7	20.4	2.0ppts	(13.6)ppts	
Investment segment						
Held-to-maturity investment						
Revenue	335.6	446.4	406.8	(24.8)	(17.5)	
Cost	(9.9)	(34.3)	(25.9)	(71.1)	(61.8)	
Gross profit	325.7	412.2	380.9	(21.0)	(14.5)	
Margins (%)	97.1	92.3	93.6	4.7ppts	3.4ppts	
Micro finance business						
Revenue	24.4	34.7	26.3	(29.9)	(7.3)	
Cost	(0.8)	(2.0)	(0.9)	(58.0)	(6.6)	
Gross profit	23.5	32.8	25.4	(28.2)	(7.3)	
Margins (%)	96.6	94.3	96.6	2.3ppts	(0.0)ppt	

Source: Company, Maybank KE

Figure 3: 9M profit and loss

FYE Dec (CNY m)	9M15	9M14	% chg YoY	MBKE FY15E	As % of FY15E	Comments
Revenue	12,889.1	11,571.6	11.4	16,598.2	78	
Cost of sales	(10,099.4)	(8,276.2)	22.0	(13,086.4)	77	
Gross profit	2,789.7	3,295.4	(15.3)	3,511.7	79	
Other income	231.4	375.7	(38.4)	331.2	70	
Other gains/(losses)	782.8	109.3	616.3	520.0	151	
Expenses						
- Administrative	(231.8)	(281.8)	(17.7)	(351.9)	66	
- Finance	(338.2)	(294.6)	14.8	(220.3)	154	Higher due to revaluation loss on USD debt in 3Q15.
Associates/JVs	3.9	(12.9)	(129.9)	(1.0)	(386)	
PBT	3,237.7	3,191.1	1.5	3,789.8	85	
Income tax	(792.0)	(341.0)	132.3	(869.5)	91	
Net profit	2,445.8	2,850.2	(14.2)	2,920.4	84	
Minority interest	(27.6)	(3.8)	627.2	(36.0)	77	
PATMI	2,418.1	2,846.4	(15.0)	2,956.4	82	

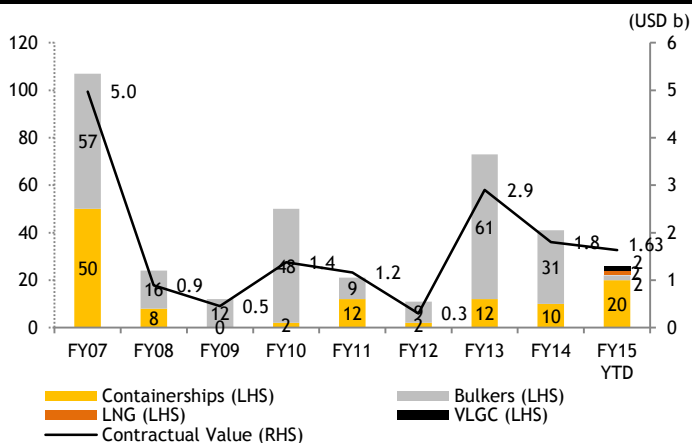
Source: Company, Maybank KE

Figure 4: 9M breakdown

FYE Dec (CNY m)	9M15	9M14	% chg YoY	Comments
Shipbuilding-related segment				
Shipbuilding revenue	9,430.6	8,263.5	14.1	
COGS	(7,773.2)	(6,364.8)	22.1	
Gross Profit	1,657.4	1,898.8	(12.7)	
Margin (%)	17.6	23.0	(5.4)ppts	Lower YoY due to lower-margin contracts.
Trading revenue	2,149.5	1,689.5	27.2	
COGS	(2,113.9)	(1,656.4)	27.6	
Gross Profit	35.6	33.1	7.4	
Margin (%)	1.7	2.0	(0.3)ppt	
Others revenue	175.4	195.0	(10.1)	
COGS	(148.4)	(166.1)	(10.6)	
Gross Profit	26.9	28.8	(6.6)	
Margin (%)	15.3	14.8	0.6ppt	
Investment segment				
Held-to-maturity investment				
Revenue	1,048.3	1,344.0	(22.0)	
Cost	(59.6)	(86.2)	(30.9)	
Gross profit	988.7	1,257.7	(21.4)	
Margins (%)	94.3	93.6	0.7 ppt	
Micro finance business				
Revenue	85.3	79.6	7.2	
Cost	(4.3)	(2.7)	59.5	
Gross profit	81.0	76.9	5.3	
Margins (%)	95.0	96.6	(1.6)ppt	

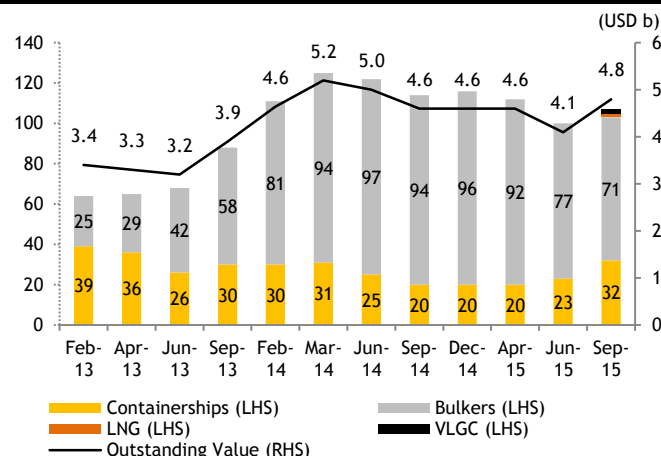
Source: Company, Maybank KE

Figure 5: Shipbuilding order wins



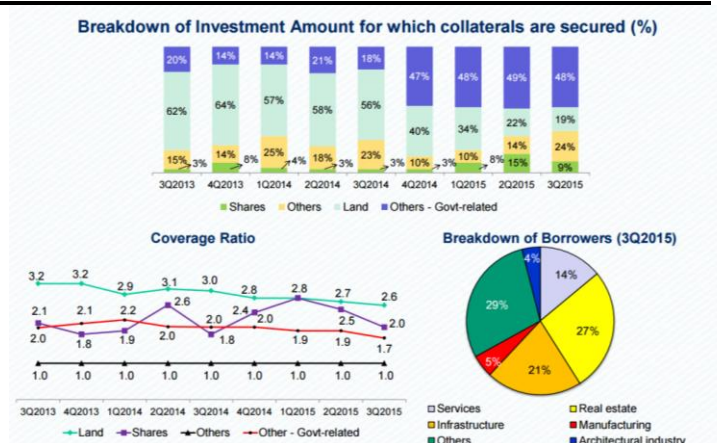
Source: Company

Figure 6: Shipbuilding order book



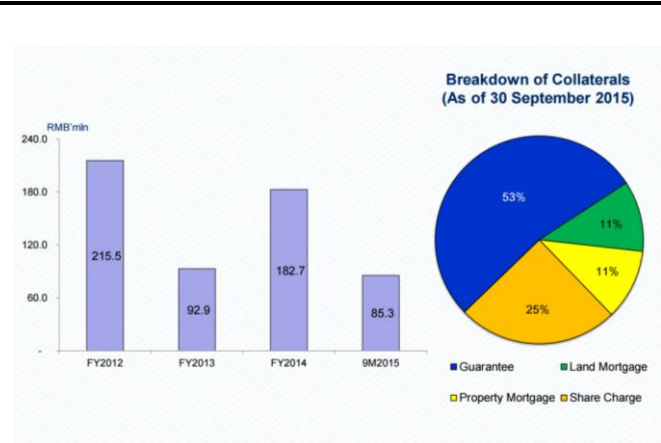
Source: Company

Figure 7: Held-to-maturity assets



Source: Company

Figure 8: Micro-financing



Source: Company

Figure 9: SOTP valuation

We have lowered shipyard valuation from 0.9x to 0.8x P/BV as its 5-year mean has moved lower. We also roll forward to FY16E P/BV.

	Valuation basis	SGD '000	per share (SGD)
Core shipyard value	0.8x FY16E P/BV, -1SD of 5-year mean	2,485	0.65
HTM assets	10% disc to book	1,812	0.47
Valuation		4,297	1.12

Source: Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	7.1	6.3	6.9	9.1	10.2
Core P/E (x)	7.1	6.3	6.9	9.1	10.2
P/BV (x)	1.2	1.1	1.0	0.9	0.9
P/NTA (x)	1.2	1.1	1.0	0.9	0.9
Net dividend yield (%)	4.2	4.5	4.4	4.4	4.4
FCF yield (%)	nm	38.2	17.9	nm	2.5
EV/EBITDA (x)	5.3	6.2	4.9	7.1	7.3
EV/EBIT (x)	5.6	6.8	5.3	8.2	8.4

INCOME STATEMENT (CNY m)

Revenue	14,338.6	15,353.6	16,598.2	17,822.1	19,943.5
Gross profit	4,761.9	4,143.9	3,597.8	3,020.6	3,086.8
EBITDA	4,845.5	3,918.1	4,462.7	3,199.4	3,182.0
Depreciation	(266.1)	(359.2)	(379.2)	(405.3)	(429.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	4,579.4	3,558.9	4,083.5	2,794.0	2,752.3
Net interest income / (exp)	41.1	385.9	(14.3)	339.4	(61.4)
Associates & JV	(1.0)	7.8	5.0	5.0	5.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	4,619.6	3,952.6	4,074.2	3,138.5	2,695.8
Income tax	(1,542.2)	(471.8)	(940.6)	(784.6)	(593.1)
Minorities	18.5	2.1	36.0	40.0	40.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	3,095.9	3,482.9	3,169.7	2,393.9	2,142.8
Core net profit	3,095.9	3,482.9	3,169.7	2,393.9	2,142.8

BALANCE SHEET (CNY m)

Cash & Short Term Investments	9,853.2	5,978.4	8,650.6	6,955.7	6,895.7
Accounts receivable	7,941.4	8,821.1	10,033.8	10,835.8	12,153.1
Inventory	1,463.1	2,015.1	1,780.9	2,027.6	2,309.1
Property, Plant & Equip (net)	5,793.0	6,116.5	6,537.3	6,932.0	7,302.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	604.7	809.0	1,009.0	1,209.0	1,409.0
Other assets	17,555.8	17,037.9	13,718.6	13,595.4	13,484.4
Total assets	43,211.2	40,778.0	41,730.1	41,555.4	43,553.4
ST interest bearing debt	12,240.6	5,414.2	2,571.7	2,469.3	2,579.7
Accounts payable	5,633.0	5,722.7	4,808.3	4,055.2	4,618.3
LT interest bearing debt	1,132.8	2,636.2	5,377.2	4,938.6	5,159.3
Other liabilities	5,932.0	5,929.0	5,594.0	5,399.0	5,399.0
Total Liabilities	24,938.3	19,702.0	18,351.2	16,862.5	17,756.7
Shareholders Equity	17,800.8	20,473.4	22,812.4	24,166.3	25,310.1
Minority Interest	472.1	602.6	566.6	526.6	486.6
Total shareholder equity	18,272.9	21,076.0	23,379.0	24,692.9	25,796.7
Total liabilities and equity	43,211.2	40,778.0	41,730.1	41,555.4	43,553.4

CASH FLOW (CNY m)

Pretax profit	4,619.6	3,952.6	4,074.2	3,138.5	2,695.8
Depreciation & amortisation	266.1	359.2	379.2	405.3	429.8
Adj net interest (income)/exp	49.2	(385.9)	14.3	(339.4)	61.4
Change in working capital	(7,639.0)	5,331.2	505.9	(1,996.4)	(1,035.8)
Cash taxes paid	(1,542.2)	(471.8)	(940.6)	(784.6)	(593.1)
Other operating cash flow	1,909.4	1,110.6	1,489.5	922.8	795.6
Cash flow from operations	(3,668.7)	9,082.4	4,723.4	176.8	1,340.3
Capex	(1,030.7)	(729.4)	(800.0)	(800.0)	(800.0)
Free cash flow	(4,699.4)	8,353.0	3,923.4	(623.2)	540.3
Dividends paid	(938.4)	(960.2)	(999.0)	(999.0)	(999.0)
Equity raised / (purchased)	91.1	0.0	0.0	0.0	0.0
Change in Debt	5,205.7	(5,523.7)	(101.5)	(541.0)	331.1
Other invest/financing cash flow	(309.5)	(653.3)	1,361.5	468.2	67.4
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(650.4)	1,215.7	4,184.4	(1,694.9)	(60.0)

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	(3.1)	7.1	8.1	7.4	11.9
EBITDA growth	0.7	(19.1)	13.9	(28.3)	(0.5)
EBIT growth	0.2	(22.3)	14.7	(31.6)	(1.5)
Pretax growth	4.2	(14.4)	3.1	(23.0)	(14.1)
Reported net profit growth	(13.5)	12.5	(9.0)	(24.5)	(10.5)
Core net profit growth	(13.5)	12.5	(9.0)	(24.5)	(10.5)
Profitability ratios (%)					
EBITDA margin	33.8	25.5	26.9	18.0	16.0
EBIT margin	31.9	23.2	24.6	15.7	13.8
Pretax profit margin	32.2	25.7	24.5	17.6	13.5
Payout ratio	29.7	28.3	30.1	39.9	44.5
DuPont analysis					
Net profit margin (%)	21.6	22.7	19.1	13.4	10.7
Revenue/Assets (x)	0.3	0.4	0.4	0.4	0.5
Assets/Equity (x)	2.4	2.0	1.8	1.7	1.7
ROAE (%)	18.6	18.2	14.6	10.2	8.7
ROAA (%)	8.1	8.3	7.7	5.7	5.0
Liquidity & Efficiency					
Cash conversion cycle	65.0	70.0	111.2	149.3	161.2
Days receivable outstanding	185.4	196.5	204.5	210.8	207.5
Days inventory outstanding	46.0	55.9	52.6	46.3	46.3
Days payables outstanding	166.4	182.3	145.8	107.8	92.6
Dividend cover (x)	3.4	3.5	3.3	2.5	2.2
Current ratio (x)	1.3	1.7	2.5	2.7	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	2.1	2.3	2.5	2.5
Net debt/equity (%)	19.8	10.1	net cash	1.9	3.3
Net interest cover (x)	na	na	nm	na	44.8
Debt/EBITDA (x)	2.8	2.1	1.8	2.3	2.4
Capex/revenue (%)	7.2	4.8	4.8	4.5	4.0
Net debt/ (net cash)	3,520.2	2,071.9	(701.8)	452.2	843.3

Source: Company; Maybank

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