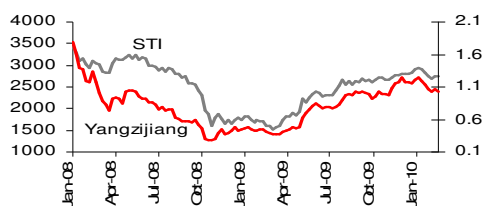


24 February 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$1.12
Fair Value: S\$1.32


Yangzijiang Shipbuilding

Good set of FY09 results

Good set of FY09 results. Yangzijiang Shipbuilding (YZJ) reported a 44% rise in FY09 revenue to RMB10.6b and a 45% increase in net profit to RMB2.29b, with both metrics exceeding our full-year estimates by about 8%. 4Q09 revenue, core net profit and PATMI also improved on a sequential basis. Gross profit margin, though slightly lower at 19.7% in 4Q09 compared to 20.2% in 3Q09, is close to its two-year average of 19.8%. The group delivered 40 vessels in FY09 compared to 27 vessels in FY08, and plans to increase the number to 48 ships this year.

Secured new shipbuilding contracts. The group continued to secure new shipbuilding contracts to build four 92,500 DWT bulkers (value undisclosed), providing support to its order book of US\$5.6b for 127 vessels (73 are for bulk carriers and the rest containerships) as at 31 Dec 09. YZJ also does not expect any cancellation for its existing contracts. We understand that demand is mainly from small- and medium-sized shipping companies that operate in China's coastal region instead of large shippers such as NOL and Cosco.

Dual listing for range of new initiatives. Gross margin for the shipbuilding business is likely to trend lower in the long run, but the group is trying to use volume to support incremental profits. More importantly, Yangzijiang is developing its ship breaking business and is also looking for a partner to go into the offshore marine business. The group is also upgrading its vessels to increase fuel efficiency, amongst other features, as management expects demand for greener vessels to increase in 2011 and beyond. The first two initiatives are especially capital intensive, and we understand that YZJ may dual-list in Hong Kong or Taiwan to raise funds for which is estimated around US\$200m. Management comments, however, that current valuations seem a little low, so they are not rushing into it.

Maintain BUY. The group has declared a final dividend of 3.5 S cents per share compared to last year's 2.8 S cents. This latest set of results is laudable amidst a challenging environment. YZJ has been delivering consistently better performance year after year with relatively few negative surprises compared to peers in the same industry, illustrating its good execution ability and management control. We have raised our fair value estimate to S\$1.32 (prev S\$1.28) after tweaking our estimates. Maintain **BUY**.

Reuters Code	YAZG.SI
ISIN Code	BS6
Bloomberg Code	YZJ SP
Issued Capital (m)	3,654
Mkt Cap (S\$/US\$m)	4,092 / 2,900
Major Shareholders	
Newyard Worldwide	24.19%
Lido Point Invnt	13.97%
Free Float (%)	45.2%
Daily Vol 3-mth ('000)	17,823
52 Wk Range	0,360 - 1.280

(RMB m)	FY08	FY09	FY10F	FY11F
Revenue	7359.1	10623.6	11185.8	12263.8
Gross Profit	1363.0	2234.7	2237.2	2452.8
P/NTA (x)	4.3	3.1	2.3	1.9
EPS (cts)	45.1	62.7	58.2	56.0
PER (x)	11.7	8.4	9.0	9.4

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Yangzijiang's Key Financial Data

Yangzijiang Results Year Ended 31 Dec (RMB m)	4Q09 (RMB m)	4Q08 (RMB m)	% Chg (YoY)	3Q09 (RMB m)	% Chg (QoQ)
Revenue	3,443.4	1,868.5	84.3%	2,591.4	32.9%
Gross profit	677.1	238.1	184.4%	523.3	29.4%
Other income	180.6	122.0	48.0%	88.0	105.3%
Other gains/losses	-61.3	73.2	NM	35.5	NM
Admin and finance expenses	-67.7	-33.1	104.5%	-51.2	32.2%
Others	0.7	0.1	502.7%	-2.7	NM
Pre-tax profit	729.4	400.3	82.2%	592.9	23.0%
Tax	-84.3	-5.2	1514.4%	-38.6	118.1%
Minority interests	-	-	NM	-	NM
Net profit	645.1	395.1	63.3%	554.2	16.4%

Yangzijiang's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F	As at 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F
Revenue	7,359.1	10,623.6	11,185.8	12,263.8	Cash and cash equivalents	3,060.4	3,807.0	4,607.0	4,647.8
Gross profit	1,363.0	2,234.7	2,237.2	2,452.8	Other current assets	12,741.5	10,887.9	12,445.1	14,922.2
Other income	232.4	360.5	282.0	130.0	Property, plant, and equipment	1,961.6	1,966.6	2,534.4	2,586.2
EBITDA	1,563.6	2,327.2	2,313.7	2,466.1	Total assets	18,220.0	20,396.0	22,685.3	24,862.4
Finance costs	225.8	352.1	275.0	123.0	Debt	490.0	907.1	1,000.0	1,000.0
Associates	-2.8	-3.4	0.0	0.0	Current liabilities excluding debt	13,278.5	12,984.3	13,196.9	13,471.6
Others	274.2	178.7	180.0	100.0	Total liabilities	13,904.5	14,085.7	14,374.8	14,634.7
Pre-tax profit (excl EI)	1,352.1	2,377.0	2,266.1	2,305.9	Shareholders equity	4,315.4	6,310.3	8,310.5	10,227.7
Pre-tax profit	1,699.9	2,549.6	2,446.1	2,405.9	Total equity	4,315.4	6,310.3	8,310.5	10,227.7
Profit attributable to shareholders	1,579.8	2,290.0	2,128.1	2,045.1	Total equity and liabilities	18,220.0	20,396.0	22,685.3	24,862.4
CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Dec (RMB m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Op profit before working cap. chang	1,535.5	2,370.4	2,306.7	2,497.0	EPS (RMB cents)	45.1	62.7	58.2	56.0
Working cap, taxes and int	1,069.8	-140.6	-1,913.0	-2,808.0	NTA per share (RMB cents)	122.0	171.5	226.2	278.7
Net cash from operations	2,578.2	2,215.7	393.6	-311.0	Gross profit margin (%)	18.5	21.0	20.0	20.0
Purchase of PP&E	-464.5	-138.6	-200.0	-200.0	Net profit margin (%)	21.5	21.6	19.0	16.7
Other investing flows	-2,955.4	-1,434.9	734.3	679.7	PER (x)	11.7	8.4	9.0	9.4
Investing cash flow	-3,419.9	-1,573.5	534.3	479.7	Price/NTA (x)	4.3	3.1	2.3	1.9
Financing cash flow	-536.7	104.4	-127.9	-127.9	EV/EBITDA (x)	10.1	7.0	6.8	6.3
Net cash flow	-1,378.4	746.6	800.1	40.8	Dividend yield (%)	2.2	2.8	2.8	2.8
Cash at beginning of year	4,438.8	3,060.4	3,807.0	4,607.0	ROE (%)	36.6	36.3	25.6	20.0
Cash at end of year	3,060.4	3,807.0	4,607.0	4,647.8	Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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Head of Research

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