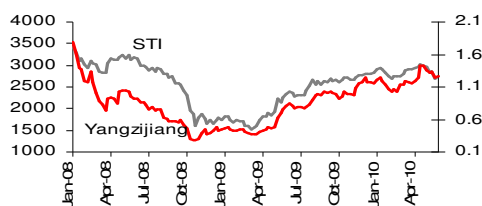


4 June 2010

Maintain

HOLD

Previous Rating: HOLD

Current Price: S\$1.27
Fair Value: S\$1.60


Reuters Code	YAZG.SI
ISIN Code	BS6
Bloomberg Code	YZJ SP
Issued Capital (m)	3,654
Mkt Cap (S\$m/US\$m)	4,640 / 3,297
Major Shareholders	
Newyard Worldwide	24.19%
Lido Point Invnt	13.97%
Free Float (%)	45.2%
Daily Vol 3-mth ('000)	33,142
52 Wk Range	0.735 - 1.570

(RMB m)	FY08	FY09	FY10F	FY11F
Revenue	7359.1	10623.6	12748.3	14308.0
Gross Profit	1363.0	2234.7	2549.7	2861.6
P/NTA (x)	4.9	3.5	2.7	2.2
EPS (cts)	45.1	62.7	64.9	64.4
PER (x)	13.2	9.5	9.2	9.3

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Yangzijiang Shipbuilding

Thoughts about its exposure to Europe

Significant exposure to Europe. Yangzijiang Shipbuilding (YZJ) has seen its share price fall by about 17% from its peak in April. Investors are likely to be concerned about its exposure to Europe, which contributed 78% of revenue in FY09 and 67% in FY08. The Greek debt crisis and possible spillover effects in the Eurozone may have an effect on Yangzijiang due to 1) potentially fewer orders from the region that the group clearly depends on, 2) possible order cancellations or delays from affected ship owners, and 3) depreciation of the EUR against the RMB, which may affect the group since a significant portion of its sales goes to European customers and costs are denominated in CNY.

Measures to counter the above. Regarding the above concerns, the first factor is not a huge cause of concern, in our view. Market players have been expecting minimal new orders especially from large shipping companies, given the industry's overcapacity. YZJ has also been focusing its efforts to cater to domestic demand, especially since demand for coastal-plying vessels in China is still holding up. In April this year, the group secured six orders for bulk carriers from China's Fujian Provincial Communication Transportation Group, which will serve power plants located along some of China's rivers. The second factor is comparatively more troubling, as a full-blown crisis in the Eurozone will affect the broader economy and European ship owners will not be spared. However, the danger of a total fall-out in the Eurozone is still contained for now, and the possibility of order cancellations should be lower than delays for the same reasons that YZJ has been able to avoid cancellations so far since the start of the 2008 financial crisis: 1) significant upfront payment from customers, 2) good execution of orders, 3) strict adherence to delivery schedule timing to avoid arguments with customers, amongst others. For the last factor, the group enters into forward contracts to hedge sales proceeds denominated in foreign currencies, and the financial impact will depend on the effectiveness of these contracts.

Maintain HOLD. YZJ has proven its execution ability by weathering the crises well so far, but it is imperative that management control remains strong as it attempts to drive down costs at a time when pricing pressure is apparent. We keep our fair value estimate of S\$1.60 but given the uncertainty of the ongoing PPLH deal and the Eurozone crisis, we maintain our **HOLD** rating on YZJ.

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	12,748.3	14,308.0	Cash and cash equivalents	3,060.4	3,807.1	3,525.2	5,577.4
Gross profit	1,363.0	2,234.7	2,549.7	2,861.6	Other current assets	12,741.5	10,903.0	13,484.1	14,732.2
Other income	232.4	360.5	282.0	130.0	Property, plant, and equipment	1,961.6	1,966.6	2,534.4	3,186.2
EBITDA	1,563.6	2,327.2	2,591.8	2,829.9	Total assets	18,220.0	20,411.2	23,142.5	26,702.0
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	12,999.5	13,907.0	15,749.6
Others	274.2	178.7	180.0	100.0	Total liabilities	13,904.5	14,100.9	15,084.8	16,912.7
Pre-tax profit (excl EI)	1,352.1	2,377.0	2,544.2	2,669.8	Shareholders equity	4,315.4	6,310.3	8,057.6	9,789.2
Pre-tax profit	1,699.9	2,549.6	2,724.2	2,769.8	Total equity	4,315.4	6,310.3	8,057.6	9,789.2
Profit attributable to shareholders	1,579.8	2,290.0	2,370.1	2,354.3	Total equity and liabilities	18,220.0	20,411.2	23,142.5	26,702.0

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	2,370.6	2,591.8	2,867.9	EPS (RMB cents)	45.1	62.7	64.9	64.4
Working cap, taxes and int	1,042.8	-154.8	-2,164.5	202.7	NTA per share (RMB cents)	122.0	171.5	219.3	266.7
Net cash from operations	2,578.2	2,215.9	427.3	3,070.6	Gross profit margin (%)	18.5	21.0	20.0	20.0
Purchase of PP&E	-464.5	-138.6	-200.0	-800.0	Net profit margin (%)	21.5	21.6	18.6	16.5
Other investing flows	-2,955.4	-1,434.9	113.6	404.3	PER (x)	13.2	9.5	9.2	9.3
Investing cash flow	-3,419.9	-1,573.5	-86.4	-395.7	Price/NTA (x)	4.9	3.5	2.7	2.2
Financing cash flow	-536.7	104.4	-622.7	-622.7	EV/EBITDA (x)	11.7	8.1	7.4	6.1
Net cash flow	-1,378.4	746.8	-281.9	2,052.2	Dividend yield (%)	2.2	2.8	2.8	2.8
Cash at beginning of year	4,438.8	3,060.4	3,807.1	3,525.2	ROE (%)	36.6	36.3	29.4	24.1
Cash at end of year	3,060.4	3,807.1	3,525.2	5,577.4	Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

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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For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research

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