

Ren of Yangzijiang Financial looks forward to better FY2023; eyes funding of LNG and quarry projects

BY THE EDGE SINGAPORE

On the morning of March 1, Ren Yuanlin made his very first in-person visit to the new Singapore office of Yangzijiang Financial Holding (YFH). No thanks to the travel restrictions in China, it was his first visit in three years.

Moments before he showed up, his colleagues from YFH and Yangzijiang Shipbuilding Holdings (YZJ), from which YFH was spun out last April, left their desks and waited at the lift lobby, cheering and clapping as he stepped out of the lift.

Barely five hours before the market opened that same morning, YFH had released its financial results for FY2022 ended December 2022. Despite the 50% y-o-y drop in earnings to \$162 million, YFH's share price did not fall. Instead, it ended the day at 37 cents, up 5.71%. "Worst could be over," reads a March 1 report by CGS-CIMB analysts Izabella Tan and Lim Siew Khee, who have an "add" call and 64 cents target price on the stock.

The big drop in YFH's bottom line was due to \$153.6 million in provisions from its debt investment portfolio, which included a couple of big borrowers in the real estate sector. Provisions were made for other borrowers in consumer services, retailing and construction too.

In an interview with *The Edge Singapore*, Ren, executive chairman of YFH, acknowledged that FY2022 was not as good as expected. "The three-year pandemic has caused lots of damage. China has become disjointed from the world economy and its growth has stalled. We've all been hurt," says Ren, adding that YFH, like many Chinese listed companies, had taken the opportunity to increase allowances.

However, Ren is certain that its performance in FY2023 should be better than that in FY2022. There are both external and company-specific factors why he feels so confident. First, China has finally eased its pandemic restrictions — albeit later than most other countries. "The lover is late, but she has shown up nonetheless," says Ren. Next, the Chinese government, with the conclusion of the legislative meetings throughout this month, will now focus on repairing the economy, he adds.

While YFH did not do as well for FY2022 as expected, it was also a year of transition as the company under CEO Vincent Toe put in place the structures and platforms to steadily shift its assets out of China and use Singapore as the base to capture new growth across the Asean, targeting returns of 6%–8%. For example, YFH announced on March 6 it was partnering with Tahan Capital Management to invest in private credit assets in Asia.

According to COO cum CFO Liu Hua, the company's logo, which is made up of two keys, symbolises the company's ability to raise funds and create investment opportunities in or out of China. For Ren, another positive aspect of FY2023 is that with the very conservative policy and allowances made for FY2022, it is operating this year on a cleaner slate. "We won't be afraid if there are new surprises," says Ren.

Real estate 'tumour'

In FY2022, a big chunk of the allowances came from YFH's exposure to China's property sector. YFH provides financing to developers by forming joint ventures to undertake development projects and secure priority in receiving interest payments above principal repayment. As the Chinese property market had been in the doldrums in recent years, many of the pro-



Ren during his first visit to Singapore after three years. The three-year pandemic has caused a lot of damage in China, he says

jects launched in FY2022 did not do well or were withheld from sale.

The situation stands in contrast to the red-hot growth in previous years when both volume and prices rose rapidly. In 2017, President Xi Jinping made the famous proclamation that houses were meant to be lived in and not for speculation, casting a pall over the industry as various tightening measures were implemented. Most notably, developers, often heavily geared, face the so-called "three red lines". Buyers, on the other hand, face restrictions on the number of properties they can buy and stricter terms regarding the loans they can take up.

However, Ren is confident that the property market won't be allowed to collapse. Vice-premier Liu He, speaking at the recent World Economic Forum, noted that China's property sector accounts for nearly 40% of profits in the banking sector, 50% of local government revenue (mainly in the form of land sales) and for property buyers, 60% of their assets. As such, the property sector is akin to a "tumour" in the Chinese economy that could not be forcibly removed but something that has to be allowed to co-exist, reasons Ren.

In a clear policy reversal since late last year, some local governments have been allowed to introduce certain policies friendlier to their respective provinces or cities. This has led to some tepid signs of recovery in recent months but Ren is careful to hold the view that the market is merely being prevented from worsening further. On his part, he will not force YFH's property borrowers to make good their arrears. Neither would he take control of the collateralised projects and sell them to recover the principal amounts borrowed as that would only further undermine the market. According to Ren, some of his borrowers from the property sector have started repaying late interest and even some of their principals. Hopefully, this will improve with time. "Let the market digest and ease the pressure," says Ren.

'Gasification of Yangtze River'

Apart from the property sector, Ren is leaning on his familiar playground to help YFH grow. The Yangtze River, which gave YZJ its name,

is not just an important water source but also a key transport link. Thousands of ships ply up and down the river, delivering commodities and finished goods from one inland port to another.

Under the so-called "gasification of the Yangtze River" plan, ships plying this vital economic link are to convert from burning diesel to cleaner gas. By doing so, the ports and the densely-populated towns and cities located adjacent to them will suffer less air pollution.

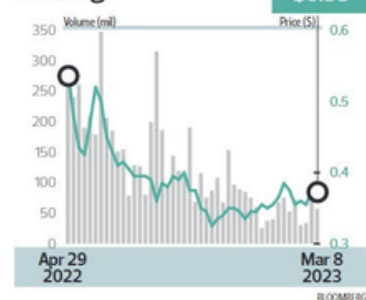
To support this shift, the ships will need various refuelling facilities up and down the river and a string of LNG terminals has been planned. Not all will be built from scratch and some are to be refurbished from existing facilities. What is certain though is that plenty of investment is needed to convert the whole industry from diesel to LNG.

YZJ is already positioning itself as a key player in this shift. On Feb 23, the company, headed by Ren's son Letian, announced that it was spending RMB430.1 million (\$83.75 million) to acquire the remaining 45% stake in Jiasheng Terminal which it did not yet own. The terminal, carried in YZJ's accounts at a net book value of RMB66.5 million as at Aug 31, 2022, was previously owned by Norway's Odjfell. Back in July 2019, YZJ had paid US\$46 million for the first 55% stake.

With full control of the Jiasheng Terminal, YZJ plans to convert Jiasheng Terminal's petrochemical terminal site and adjacent land to an LNG terminal facility. According to YZJ, the acquisition will help diversify its revenue stream and expand its maritime value chain through the provision of LNG terminal services as well as LNG storage and distribution in the future where demand for LNG is seen to grow, says YZJ, which in recent months announced it had won new orders to build LNG carriers instead of just containerships and bulk carriers which have been its mainstay. For its part, YFH will leverage its familiarity with the industry and its home ground advantage to play an active funding and investing role for the emerging LNG economy in the area, says Ren.

For Ren, playing a key role in growing this industry is a continuation of the debt invest-

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ment activities YFH has been undertaking as the previous investment and financing business of YZJ. While there is plenty of cash sloshing around in China's mainstream banking system, many smaller privately-owned entities have not been able to tap this funding pool readily. This is where YFH steps in to meet the funding needs of these smaller non-state-owned companies. "Funding the maritime industry is our unique selling point," says Ren.

Another industry that has caught Ren's eye is mining resources. With roads, highways, railroads and other infrastructure projects ongoing, there is plenty of demand for stone quarries to keep producing. In contrast to mines of metal ore which tend to be controlled by SOEs, there is more room for private sector companies to be quarry operators, as local governments are more willing to sell mining rights to make up for the loss of revenue from land sales in the property market. This means there will be more financing opportunities for YFH, says Ren.

Buybacks to continue

YFH started trading on April 29, 2022 at 69 cents. Its share price has since halved to a level that is around a third of its NAV at \$1.05 as at Dec 31, 2022.

Not long after the decline started, YFH launched a share buyback programme, committing to spend up to \$250 million to buy back up to 10% of its shares.

Ren, citing his own position as YFH's single largest shareholder, told *The Edge Singapore* in a previous interview that he was ready to buy back shares under his own account, upon the company buyback programme hitting the 10% limit. Up until Oct 31, YFH had spent \$99 million to buy back 6.6% of the shares.

On March 8, the company resumed its buybacks, paying 38 cents each for 5 million shares, bringing the total shares bought back to more than 264.6 million, equivalent to 6.698% of the share base, spending more than \$100 million.

At the coming AGM likely to be held in April, YFH will again seek a buyback mandate from shareholders so that it can continue to buy back those shares and cancel them, thereby lifting earnings and asset value per share. Ren has also reiterated his stance of personally buying back shares if need be.

Ren is unabashedly saying YFH shares at current levels are of good value. He reasons that the dividend of 1.8 cents that was declared for FY2022 offers a yield of around 4.74% based on its March 6 closing price of 38 cents — returns which are not easy to get elsewhere. "The share price is already 'lying flat'. Even if it 'sits up', that's a significant gain — more so if it 'stands up'," says Ren. ■