Guangdong Songfa Ceramics Co (603268.SS)

HK NDR takeaways: order winning remains strong, with further capacity expansion details confirmed; Buy

603268.SS	12m Price Target: **Rmb200.00**	Price: **Rmb192.40**	Upside: **4.0%**

BUY

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We hosted post-result NDR for Songfa Ceramics/ Hengli Heavy Industry (603268.SS) in Hong Kong today, the first NDR in Hong Kong since the company's listing. The management attendees include Ms. Xu, Board Secretary, and Mr. Zhang, Investor Relations Manager. We believe **the key takeaways support our bullish view on the China shipbuilding sector and Songfa Ceramics/ Hengli Heavy Industry:** 1) The company's order winning is enjoying strong momentum, **with 253 vessel orders secured in 7M26, and mgmt guide >300 vessels of order wins in 2026**. Mgmt indicate that they are also under negotiation on an LNG carriers order. 2) **Per the company, gross margin should improve sequentially from 2Q, supported by a better product mix and operating efficiency,** with gross margin of 15-20% for dry bulkers, 25-30% for tankers, and close to 30% for VLCCs and containerships, and VLAC margin could be even slightly higher than containership's. 3) Beyond the phase III drydock that commenced operation from June-2026, **the company plans to start operation for a Phase III floating dock around end-2026 and a Phase IV drydock in early 2027, which would nearly double the existing capacity**. 4) **Management don't see any downward pressure on new ship building prices from their capacity expansion,** as the phase IV capacity will be ramped up to full utilization in stages dependent on the ship order demand. 5) The company currently has **annual capacity for 180 two-stroke marine engines, and targets to expand to 300 units per annum by end-2027, which will support their ship deliveries of 80+/ >100 in 2026/27 and finally c200 if all four-phase capacity runs at full utilization.**

- **Order-winning momentum remains strong:** Mgmt noted that Hengli secured 253 vessel orders in 7M26 (up from 207 in 1H26), of which tankers/containerships/bulkers/very large ammonia carriers (VLACs) accounted for 40%/35%/21%/4% respectively, per Clarksons. Mgmt expect to exceed its

Key Data

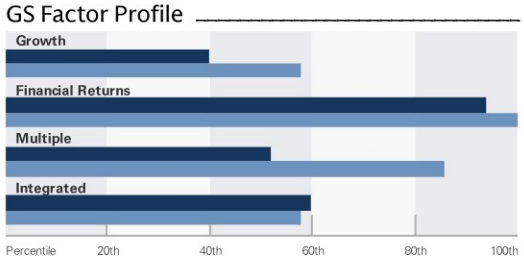
Market cap: Rmb196.0bn / $29.2bn
Enterprise value: Rmb196.3bn / $29.3bn
3m ADTV: Rmb1.3bn / $192.7mn
China
Asia Transportation
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (Rmb mn)	21,539.6	54,791.2	72,576.6	75,490.8
EBITDA (Rmb mn)	4,104.8	13,306.7	18,794.1	21,492.4
EPS (Rmb)	2.73	9.60	14.18	16.65
P/E (X)	17.8	20.0	13.6	11.6
P/B (X)	5.0	7.5	5.0	3.6
Dividend yield (%)	0.0	0.5	0.7	0.9
N debt/EBITDA (ex lease,X)	1.8	(0.1)	(0.8)	(1.3)
CROCI (%)	28.5	44.5	55.0	61.6
FCF yield (%)	(24.0)	0.7	7.6	7.9

	3/26	6/26	9/26E	12/26E
EPS (Rmb)	1.13	2.59	2.87	3.20

GS Factor Profile



603268.SS relative to Asia ex. Japan Coverage
603268.SS relative to Asia Transportation

Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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BUY

Guangdong Songfa Ceramics Co (603268.SS)

Rating since Apr 2, 2026

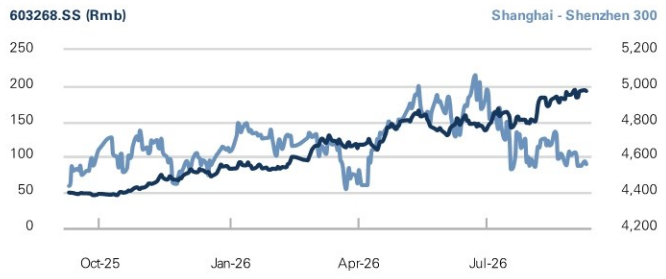
Ratios & Valuation

	12/25	12/26E	12/27E	12/28E
P/E (X)	17.8	20.0	13.6	11.6
P/B (X)	5.0	7.5	5.0	3.6
FCF yield (%)	(24.0)	0.7	7.6	7.9
EV/EBITDAR (X)	13.6	14.3	9.7	7.8
EV/EBITDA (excl. leases) (X)	13.3	14.3	9.7	7.8
CROCI (%)	28.5	44.5	55.0	61.6
ROE (%)	41.7	53.7	44.2	35.9
Net debt/equity (%)	90.8	1.2	(34.3)	(50.0)
Net debt/equity (excl. leases) (%)	77.6	(3.0)	(36.8)	(51.6)
Interest cover (X)	6.0	12.9	24.2	43.9
Days inventory outst, sales	59.5	54.7	61.3	63.7
Receivable days	3.0	1.4	1.8	2.0
Days payable outstanding	254.1	221.2	262.0	286.9
DuPont ROE (%)	28.1	36.6	36.6	30.9
Turnover (X)	0.4	0.6	0.6	0.6
Leverage (X)	5.2	3.6	2.9	2.3
Gross cash invested (ex cash) (Rmb)	21,316.7	29,555.5	29,197.6	30,768.2
Average capital employed (Rmb)	10,909.9	20,985.4	25,062.2	25,771.8
BVPS (Rmb)	9.74	25.48	38.73	53.96

Growth & Margins (%)

	12/25	12/26E	12/27E	12/28E
Total revenue growth	277.6	154.4	32.5	4.0
EBITDA growth	595.4	224.2	41.2	14.4
EPS growth	1,083.1	251.0	47.7	17.5
DPS growth	NM	NM	51.9	17.5
EBIT margin	16.7	22.3	24.3	26.8
EBITDA margin	19.1	24.3	25.9	28.5
Net income margin	12.3	17.4	19.9	22.5

Price Performance



	3m	6m	12m
Absolute	30.9%	53.1%	287.3%
Rel. to the Shanghai - Shenzhen 300	35.4%	56.5%	279.5%

Source: FactSet. Price as of 8 Sep 2026 close.

Income Statement (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Total revenue	21,539.6	54,791.2	72,576.6	75,490.8
Cost of goods sold	(17,223.7)	(41,171.0)	(53,516.6)	(53,737.8)
SG&A	(710.3)	(1,376.1)	(1,458.2)	(1,516.8)
R&D	–	–	–	–
Other operating inc./(exp.)	–	–	–	–
EBITDA	**4,104.8**	**13,306.7**	**18,794.1**	**21,492.4**
Depreciation & amortization	(499.3)	(1,062.5)	(1,192.3)	(1,256.2)
EBIT	**3,605.6**	**12,244.2**	**17,601.8**	**20,236.2**
Net interest inc./(exp.)	(556.9)	(894.0)	(612.2)	(279.8)
Income/(loss) from associates	–	–	–	–
Pre-tax profit	**3,181.3**	**11,395.9**	**16,989.6**	**19,956.4**
Provision for taxes	(526.7)	(1,886.6)	(2,548.4)	(2,993.5)
Minority interest	–	–	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**2,654.6**	**9,509.3**	**14,441.2**	**16,963.0**
Post-tax exceptionals	–	–	–	–
Net inc. (post-exceptionals)	**2,654.6**	**9,509.3**	**14,441.2**	**16,963.0**
EPS (basic, pre-except) (Rmb)	**2.73**	**9.60**	**14.18**	**16.65**
EPS (diluted, pre-except) (Rmb)	**2.73**	**9.60**	**14.18**	**16.65**
EPS (basic, post-except) (Rmb)	**2.73**	**9.60**	**14.18**	**16.65**
EPS (diluted, post-except) (Rmb)	**2.73**	**9.60**	**14.18**	**16.65**
DPS (Rmb)	–	0.93	1.42	1.67
Div. payout ratio (%)	0.0	9.7	10.0	10.0

Balance Sheet (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Cash & cash equivalents	7,215.2	15,485.3	24,215.4	33,575.4
Accounts receivable	122.5	311.5	412.7	429.2
Inventory	5,175.2	11,242.6	13,147.7	13,202.0
Other current assets	16,519.7	33,157.4	42,403.4	44,550.7
Total current assets	**29,032.5**	**60,196.9**	**80,179.1**	**91,757.3**
Net PP&E	18,136.7	31,172.1	31,406.7	31,609.3
Net intangibles	2,076.4	2,115.0	2,158.1	2,206.5
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	146.5	146.5	146.5	146.5
Total assets	**49,392.0**	**93,630.4**	**113,890.4**	**125,719.5**
Accounts payable	15,216.6	34,681.2	42,148.4	42,322.6
Short-term debt	10,908.2	10,908.2	7,908.2	4,908.2
Short-term lease liabilities	217.7	190.8	170.2	154.9
Other current liabilities	5,497.1	13,761.9	18,182.5	18,906.9
Total current liabilities	**31,839.6**	**59,542.1**	**68,409.3**	**66,292.5**
Long-term debt	3,643.6	3,797.9	1,797.9	297.9
Long-term lease liabilities	1,032.2	904.5	807.0	734.1
Other long-term liabilities	3,424.5	3,424.5	3,424.5	3,424.5
Total long-term liabilities	**8,100.3**	**8,126.9**	**6,029.4**	**4,456.5**
Total liabilities	**39,939.9**	**67,669.0**	**74,438.7**	**70,749.0**
Preferred shares	–	–	–	–
Total common equity	9,452.1	25,961.5	39,451.7	54,970.6
Minority interest	**--**	**--**	**--**	**--**
Total liabilities & equity	**49,392.0**	**93,630.4**	**113,890.4**	**125,719.5**
Net debt, adjusted	7,336.6	(779.3)	(14,509.4)	(28,369.4)

Cash Flow (Rmb mn)

	12/25	12/26E	12/27E	12/28E
Net income	2,654.6	9,509.3	14,441.2	16,963.0
D&A add-back	499.3	1,062.5	1,192.3	1,256.2
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	(5,217.9)	4,835.2	635.6	(1,319.6)
Other operating cash flow	334.8	–	–	–
Cash flow from operations	**(1,729.3)**	**15,407.1**	**16,269.0**	**16,899.6**
Capital expenditures	(9,630.5)	(14,136.5)	(1,470.0)	(1,507.2)
Acquisitions	–	–	–	–
Divestitures	21.5	–	–	–
Others	(34.2)	–	–	–
Cash flow from investing	**(9,643.3)**	**(14,136.5)**	**(1,470.0)**	**(1,507.2)**
Repayment of lease liabilities	–	–	–	–
Dividends paid (common & pref)	–	–	(950.9)	(1,444.1)
Inc/(dec) in debt	10,172.4	154.3	(5,000.0)	(4,500.0)
Other financing cash flows	6,043.6	6,845.3	(118.0)	(88.3)
Cash flow from financing	**16,216.0**	**6,999.6**	**(6,068.9)**	**(6,032.5)**
Total cash flow	**4,843.5**	**8,270.2**	**8,730.1**	**9,360.0**
Free cash flow	(11,359.8)	1,270.6	14,799.0	15,392.4

Source: Company data, Goldman Sachs Research estimates.

300-vessel target in 2026 and prioritize higher-value orders, including tankers, containerships and VLACs, for the remainder of the year. Mgmt indicate that they are also under negotiation on an LNG carriers order. **Mgmt expect healthy demand from feeder containership and VLCCs, and are constructive on bulker demand, supported by the Simandou iron ore project, and resilient coal shipping demand, and they also believe VLAC demand should benefit from environmental requirement**. Hengli's orderbook has evolved from bulker-focused in 2024 to a more diversified mix, with bulkers now only accounting for c.30% and tankers/containerships making up the remaining 40%/30% in terms of no of ships per mgmt. Clarksons data shows their orderbook consists of 43%/35%/20%/2% from containerships / tankers/ dry bulkers/ LPG carriers in terms of CGTs.

- **Gross margin should improve sequentially from 2Q, supported by a better product mix and operating efficiency**: Hengli's 2Q26 gross margin reached a record 25%, up 3.5ppts QoQ and 2.9ppts YoY (see our 2Q26 earnings review). Management expect further improvement from 3Q, as the product mix is shifting towards higher-value vessels such as containerships, tankers and VLACs. **Management guide gross margin of 15-20% for dry bulkers, 25-30% for tankers, and close to 30% for VLCCs and containerships, and VLAC margin could be even slightly higher than containership's.** Higher newbuilding prices should provide additional upside, with current VLCC and large containership orders priced at approximately US$120-130mn and US$220-240mn respectively, broadly in line with market prices. However, RMB appreciation remains a headwind, given Hengli's limited hedging position, while management note that Rmb has largely stablized in Q3.
- **Capacity expansion for new phase III floating dock and phase IV two dry docks**: The phase III's dry dock commenced operations in Jun-26, following the earlier start of block construction (see our note). A full utilization of three-phase capacity would increase Hengli's annual steel-processing capacity to 3.0mn tons across Phases I, II and III's drydock, and we estimate the annual shipbuilding capacity will reach 4mn CGTs. **Going forward**, the company's **Phase IV capacity is planned to include two dry docks measuring 1,298m in length and 146m in breadth**, with **initial production targeted to start from early 2027**, while **steel cutting or hull-block construction is to start in Q4, which suggests an earlier revenue/ profit recognition**. Before phase IV, there will be a **phase III floating dock, consisting of two docks of 1,200m in length and 60m in breadth each, to commence operation around end-2026, similarly with the steel cutting or block construction to start in Q3. We estimate that phase III floating dock and phase IV dry docks could double the shipbuilder's existing capacity.** On the other hand, **management don't see any downward pressure on the new ship building prices from their capacity expansion,** as the phase IV capacity will be ramped up to full utilization in stages dependent on the ship order demand. Following approximately Rmb30bn of Capex invested in Phases I, II and III's drydock, mgmt expects to invest another c.Rmb20bn in Phase III's floating dock, Phase IV and associated components (engines and power generators) production.
- **In-house marine-engine capacity will support shipyard expansion**:Hengli

currently has **annual capacity for 180 two-stroke marine engines, and targets to add another 120 units capacity**, **bringing total planned capacity to 300 units per annum by end-2027.** The company will prioritize the engine production for their internal use as Hengli's **vessel delivery is expected to increase from 80+ in 2026 to >100 in 2027, and finally to 200 if all four-phase capacity runs at full utilization.**

Investment Thesis - Guangdong Songfa Ceramics

We are Buy rated on Guangdong Songfa Ceramics, **whose primary asset, Hengli Heavy Industry, appears well positioned to become the second-largest shipbuilder globally by 2027E (GSe)**. We expect Hengli to be a major capacity addition player with a 29% CAGR in 2025-27E, factoring in the completion of its phase III yard, vs. a 3% CAGR for global peers. We expect this to drive its capacity market share to 7% by end-2026E and reduce its orderbook cover years to 2.7x (vs. global / China avg 3.6x/4.0x), one of the lowest among global major shipyards. On the other hand, we expect the tanker super-cycle and an aging fleet to continue to bring new tanker orders, driving the orderbook to rise by c.50% to US$39bn. Risks: Delays in ship delivery or new capacity release; Higher-than-expected steel prices; Less-than-expected new order wins; Lower-than-expected ASP; Stronger-than-expected RMB appreciation vs. USD; Faster-than-expected capacity expansion from other shipyards. Key catalysts: Earnings uptrend and new order wins.

Price Target Risks and Methodology - Guangdong Songfa Ceramics Co

Our 12-m target price of Rmb200/share is based on a 2028E P/E of 12x, based on the average of Chinese and Korean shipyards. Risks: Delays in ship delivery or new capacity release; Higher-than-expected steel prices; Less-than-expected new order wins; Lower-than-expected ASP; Stronger-than-expected RMB appreciation vs. USD; Faster-than-expected capacity expansion from other shipyards.

Disclosure Appendix

Reg AC

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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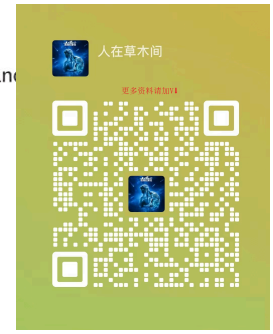
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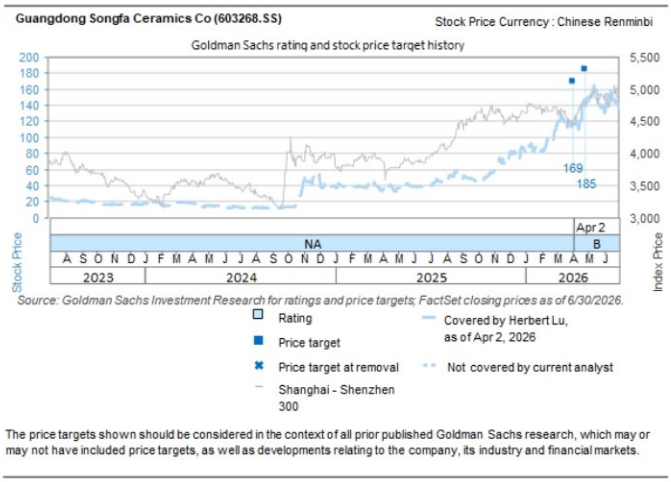
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Price target and rating history chart(s)



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Target price history table(s)

Guangdong Songfa Ceramics Co (603268.SS)

Date of report	Target price (Rmb)	Closing price (Rmb)
07-Jul-26	200.00	160.37
27-Apr-26	185.00	138.92
02-Apr-26	169.00	116.99

Price targets shown in table(s) are unadjusted for corporate actions.

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