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China CSSC Holdings - A

NDR meeting takeaways: More Middle East LNG carrier opportunities, margins and deliveries skew to upside

Overweight

600150.SS, 600150 CH
Price (16 Sep 26):Rmb37.79

Price Target (Dec-27):Rmb50.00

Infrastructure, Industrials & Transport

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We hosted China CSSC Holdings (CSSC) management for an NDR lunch on 16 September. Our key incremental takeaways are: **(1) management is discussing additional LNG carrier projects with Middle Eastern customers** beyond its existing ADNOC orders, while the tanker replacement cycle remains strong and dry bulk is only beginning to recover; **(2) management expects gross margins to improve in 2H26 and 2027 as higher-priced 2023–2024 orders enter delivery**, creating upside risk to our forecasts if mix and operating leverage improve faster than assumed; and **(3) larger gantry cranes, dock extensions and tandem construction could accelerate vessel completion** and reopen earlier delivery slots, providing additional upside through faster revenue recognition. Labor and critical equipment are not constraining the production ramp, while FX hedges should limit the impact of recent Rmb appreciation. We retain our forecasts and OW rating, but see upside risk from margins and faster deliveries as CSSC converts backlog faster.

- **Demand broadening beyond the current backlog.** Management is discussing additional LNG carrier projects with Middle Eastern customers beyond their existing ADNOC orders, supporting further penetration into a segment historically dominated by Korean yards. Tanker newbuilding prices remain on an upward trajectory as a multi-year replacement cycle unfolds, while improving freight rates, aging fleets and greater owner interest suggest the dry bulk ordering cycle is only beginning. Cruise ships provide smaller additional optionality through the recent domestic 2+1 and overseas 2+3 MOUs.
- **Margin outlook carries upside risk.** Management expects gross margins to improve further in 2H26 and 2027 as higher-priced 2023–2024 orders enter delivery, product mix improves and greater output dilutes fixed costs. Our 2H26E GPM already rises to 18.1% from 17.0% in 1H26, and we retain our forecasts following the NDR. However, stronger high-value vessel mix and faster operating leverage could drive margins above our assumptions. FX hedging should moderate the impact of recent Rmb appreciation, while steel and critical equipment costs remain manageable.
- **Crane upgrades could accelerate deliveries.** CSSC is raising effective capacity through larger gantry cranes, dock extensions and tandem construction rather than greenfield yards. Jiangnan has added a 1,600-tonne crane, Waigaoqiao is adding an approximately 2,200-tonne crane, and GSI is installing 900-tonne, 600-tonne and 400-tonne lifting equipment. Larger cranes allow yards to assemble fewer, larger vessel blocks, reducing dock time and increasing annual batches. These relatively low-capex projects could accelerate deliveries, reopen some earlier slots and bring revenue recognition forward, while labor and equipment supply are not currently constraining the production ramp.

See page 10 for analyst certification and important disclosures, including non-US analyst disclosures.

Relevant reports

- Yangzijiang Shipbuilding Holdings Ltd: Potential US$3bn order lifts wins above guidance and strengthens visibility through 2030 (14 Sep)
- Guangdong Songfa - A: Scaling ships and engines together; raise PT to Rmb265 (9 Sep)
- Yangzijiang Shipbuilding Holdings Ltd: Confidence up, upside on deck — Upgrade to OW (8 Sep)
- China Shipbuilding: Monthly snapshot (August 2026): Large containership demand returns (8 Sep)
- Yangzijiang Shipbuilding Holdings Ltd: Takeaways from management 4Q26 outlook call: >30% GPM, even on MR tankers; another capacity expansion back on the table (3 Sep)
- China CSSC Holdings - A: 2Q26 earnings review: margin resilience strengthens earnings visibility; post-1H orders broaden upside (31 Aug)
- Guangdong Songfa - A: 1H26 results review: Raising estimates; bigger upgrade still ahead? PT raised to Rmb230 (24 Aug)
- Yangzijiang Shipbuilding Holdings Ltd: Closing the valuation gap, waiting on the orders — raise PT; maintain Neutral (19 Aug)
- Yangzijiang Shipbuilding Holdings Ltd: 1H26 earnings beat: Strong execution offsets FX headwinds (6 Aug)
- China Shipbuilding: Monthly snapshot (July 2026): Rotation continues as the cycle broadens (6 Aug)
- China CSSC Holdings - A: Positive profit alert reinforces our earnings thesis; recent pullback offers an attractive entry point (14 Jul)
- China Shipbuilding: Multi-year earnings visibility; initiate on Songfa and CSSC at OW; assume coverage of YZJ at N (9 Jul)

Detailed management takeaways

Demand rotation should extend the shipbuilding cycle

- Management remains highly optimistic about the current shipbuilding cycle. Demand has rotated from containerships into PCTCs and tankers, while dry bulk could become the next vessel category to recover.
- The current cycle differs from previous cycles because different vessel types are recovering at different times. A slowdown in one category does not necessarily signal the end of the overall shipbuilding cycle.
- Fleet renewal remains the underlying driver. Commercial vessels generally operate for more than 20 years, while environmental requirements, fuel transition and demand for greater operating efficiency are accelerating replacement.
- Geopolitical disruption and restrictions at major waterways provide additional support by increasing voyage distances and absorbing effective vessel supply.
- Management said current inquiries are broad-based rather than concentrated in one vessel type. CSSC's comprehensive product portfolio allows the group to adjust its

order mix as demand rotates.

Containership and PCTC demand has lasted longer than expected

- The market previously expected containership orders to have peaked, but Waigaoqiao recently secured twelve 22,000-TEU containerships at attractive prices.
- Management indicated pricing of approximately US$240mn per vessel and said the overall contract could provide a meaningful amount of annual revenue for Waigaoqiao.
- The order demonstrates that large-containership demand has not ended as quickly as previously expected.
- PCTC orders have also remained resilient. The market expected Chinese automakers to pause after placing substantial orders in 2022–2023, but new PCTC orders have continued into 2026, including a recent sizable contract secured by GSI.
- Management said owner behavior has become more decisive. Owners previously hesitated over fuel choices, scrubbers and other specifications, but are now prioritizing access to delivery slots.
- Recent orders are increasingly highly specified, including dual-fuel propulsion, wind-assisted equipment and other energy-saving systems. Management said owners are now more willing to pay for higher specifications rather than delay ordering.

Tanker cycle has further to run

- Tankers are currently among the strongest vessel segments. Secondhand vessel values have risen sharply, with management referring to prices of approximately US $200mn for certain vessels.
- Management believes tanker newbuilding prices remain on an upward trajectory. Order volumes typically increase first as owners secure available slots, with prices strengthening further once yard capacity fills.
- Tanker spot rates are exceptionally strong, with management referring to certain VLCC routes reaching approximately US$700k/day.
- Management does not see tanker demand as solely driven by current geopolitical disruption. The fleet faces meaningful replacement requirements over the next three to five years.
- Environmental regulations, fuel transition and demand for more efficient vessels provide additional structural support for replacement.
- Management believes tanker demand and newbuilding prices should remain supported even if current freight rates normalize from unusually high levels.

Dry bulk is only beginning to recover

- Dry bulk could become the next major source of orders. A large proportion of the existing fleet was ordered during the 2000–2010 cycle and is approaching its replacement window.
- Bulk carriers are flexible assets that can transport iron ore, coal, grain and other commodities. They are relatively easy to redeploy and sell, making them accessible to both traditional owners and financial investors.

- Management has seen several positive signals, including higher freight rates, recovering owner appetite and greater willingness to invest in new vessels.
- CSSC Shipping's four-vessel order at its Chengxi yard was highlighted as another positive signal. Management said CSSC Shipping follows a countercyclical strategy and would not have ordered the vessels without seeing potential for asset values to improve.
- Yards are increasingly reluctant to allocate scarce forward capacity to low-priced bulk carrier orders. This could support pricing as demand recovers.
- Longer voyage distances caused by disruption at major waterways can also absorb effective dry bulk capacity.
- Management believes dry bulk is approaching a stronger period but stopped short of saying that a full ordering cycle has already begun.

More Middle East LNG opportunities

- Management is discussing additional LNG carrier projects with Middle Eastern customers beyond CSSC's existing ADNOC orders.
- CSSC's LNG carrier customers include owners from China, Japan, the Middle East and Singapore. Management highlighted the Middle East as an area where further projects remain under discussion.
- Large LNG carriers remain the key area of direct competition between Chinese and Korean shipbuilders. Korean yards retain greater historical experience and market share, but management believes the gap is narrowing across technology, pricing, delivery efficiency and customer acceptance.
- Management said only a limited number of yards can build large LNG carriers. Within CSSC Group, three yards have or are developing the required capabilities.
- LNG carrier construction capacity remains constrained. Management noted that yards may prefer simpler vessel types when alternative orders offer attractive returns, limiting the supply response in LNG carriers.
- Management referred to current LNG carrier newbuilding prices of around US $260mn and believes prices could rise further if demand strengthens.
- CSSC uses GTT's established membrane-containment technology, as do Korean and Japanese yards. Management does not see a need to replace a mature global technology ecosystem simply to achieve complete technological independence.
- Korea's constrained yard capacity, labor shortages and strikes provide further opportunities for Chinese yards.

Cruise ships provide another potential growth area

- Management highlighted cruise ships as another potential source of future demand. Global cruise demand is recovering, while specialist European cruise yards have delivery schedules extending well into the 2030s.
- Management said cruise ships are among the most technically complex commercial vessels and that only a small number of shipbuilders possess the required design, supply-chain and project-management capabilities.
- CSSC has already demonstrated its ability to build large cruise ships. Management cited cruise construction as an example of the group's ability to manufacture the

most technically demanding vessel types.

- Management believes CSSC's cruise capabilities differentiate the company from most other Chinese shipbuilders and provide another potential source of high-value orders.
- Cruise construction also supports broader development of the domestic marine-equipment and interior supply chain.

This cycle has not triggered a 2007-style capacity response

- Global shipbuilding completions reached approximately 96–100mn dwt in 2025. With major yards generally operating at full utilization, management views this level as a reasonable indication of current effective global capacity.
- Management highlighted the absence of aggressive greenfield expansion as the key difference from the 2007–2008 cycle.
- During the previous cycle, state-owned groups, private yards and new entrants launched large capacity-building programs. This ultimately created severe excess capacity after the financial crisis.
- Established Chinese and Korean yards are not undertaking similarly aggressive expansion in the current cycle. Most investment is focused on restarting existing facilities, upgrading equipment and improving productivity.
- Some private yards have reactivated idle capacity, but management believes the increase remains limited relative to global shipbuilding capacity.
- New docks and yards require regulatory approval, while the largest shipbuilders remain cautious about adding completely new facilities.
- Management emphasized that a competitive shipyard requires design capabilities, skilled labor, equipment suppliers, subcontractors, financing and customer recognition. A large dock alone does not constitute effective capacity.
- China's global market share continues to increase. Management cited China at more than 80% of global new orders, more than 70% of the orderbook and more than 60% of completions.
- Shipbuilding is simultaneously technology-, capital- and labor-intensive. Management believes China's integrated industry clusters cannot be quickly replicated in India, Vietnam or other lower-cost countries.

CSSC is unlocking capacity through productivity

- CSSC is not pursuing extensive greenfield dock construction. The company is increasing capacity within its existing footprint through larger gantry cranes, dock extensions, larger vessel blocks, tandem construction and automation.
- Jiangnan has added a 1,600-tonne gantry crane, while Waigaoqiao is adding an approximately 2,200-tonne crane.
- GSI is installing 900-tonne, 600-tonne and 400-tonne lifting equipment, while a Dalian-based yard is also increasing its lifting capacity.
- Management described shipbuilding as assembling building blocks. Larger cranes allow yards to use fewer but larger blocks, reducing the amount of assembly work completed inside the dock and shortening the construction cycle.
- A Tianjin-based yard is extending an existing dock to support tandem construction.

This allows part of the next vessel to be built while the current vessel remains in the dock.

- Management indicated that tandem construction could increase the Tianjin yard's annual construction batches from approximately five to six toward eight.
- These projects require relatively limited capital. Some crane and process upgrades can be invested in, completed and begin generating returns within the same year.
- China CSSC Holdings delivered 161 vessels in 2025 and 102 vessels in 1H26, reflecting higher production efficiency and utilization.
- Management did not provide one standardized group-level capacity increase because each yard has different facilities, products and orderbooks.
- Each yard is becoming more specialized. Dalian Shipbuilding focuses on VLCCs and other large tankers, Jiangnan on gas carriers and other higher-end vessels, and Waigaoqiao on large containerships, cruise ships and its other core products.
- Repeated construction of the same vessel designs improves procurement, block production and assembly efficiency. Management believes greater batch production strengthens cost control and pricing power.

Higher-priced backlog should support further margin improvement

- By 2024, CSSC's major yards had returned to positive gross profit as most legacy low-priced contracts were worked through.
- Deliveries in 2025–2026 are increasingly drawn from orders signed in 2023–2024, particularly the more attractively priced contracts secured from 2H23 onward.
- Management expects gross margin to improve further in 2H26 and 2027 as these higher-priced orders enter delivery.
- Margin improvement should also be supported by a richer vessel mix, greater production volumes and fixed-cost dilution.
- As annual output increases, expenses associated with docks, wharves, factories and equipment can be allocated across more vessels.
- The delivery mix is changing. Containerships previously represented a larger proportion of deliveries, while tankers, gas carriers and other higher-value vessel types are increasing their contribution.
- Management did not provide specific numerical margin guidance.

FX exposure is substantially protected

- Newbuilding contracts are predominantly denominated in U.S. dollars, while most production costs are in Rmb. Only a relatively small proportion of equipment expenses is paid in U.S. dollars.
- CSSC uses financial derivatives based on the timing of future contractual receipts.
- Initial payments already collected represent U.S. dollar assets that can be converted into Rmb when required. Hedging primarily covers future contractual installments that have not yet been received.
- Management cited approximately US$35bn of FX hedges against at least US$50bn of related contract value.

- Management said these hedges cover a substantial proportion of future net U.S. dollar receipts.
- The impact of recent Rmb appreciation on 2H26 and 2027 earnings should therefore be moderated by the company's existing hedges.
- Currency movements will still affect reported earnings, but management does not expect earnings to move fully in line with changes in the spot exchange rate.

Steel and critical equipment costs remain manageable

- Ship-plate prices are currently slightly above Rmb4,000/tonne, compared with close to Rmb8,000/tonne during the 2007–2008 shipbuilding peak.
- Management estimated Chinese shipbuilding steel demand at approximately 17–20mn tonnes, compared with national steel capacity exceeding 1bn tonnes.
- Steel prices are therefore driven more by property, infrastructure and the broader economy than by shipbuilding demand alone.
- Main engines and other critical equipment can become bottlenecks during a shipbuilding upcycle.
- CSSC benefits from an integrated marine-equipment supply chain and its approximately 20% interest in China Shipbuilding Industry Group Power. The parent group also prioritizes critical equipment supply to CSSC yards.
- Management highlighted MAN and WinGD as the two principal global marine-engine technology platforms. CSSC Group's ownership of WinGD strengthens its position in propulsion technology and equipment supply.
- Management views supply-chain security as an important advantage over less-integrated yards and new entrants.

Labor is not constraining the production ramp

- Management has not seen labor shortages comparable to those experienced by Korean shipbuilders.
- Weakness in Chinese property and construction has redirected some skilled workers toward shipbuilding.
- As a central SOE, CSSC has established recruitment, compensation and training systems that support workforce stability.
- Private yards may offer higher wages to attract workers, but management believes this also results in higher production costs.
- Outsourcing is common throughout the shipbuilding industry. Specialized subcontractors handle blocks, bows, sterns, welding and other processes, supporting flexibility and localized batch production.
- CSSC is increasing the use of automation and robots in standardized processes such as welding. Current implementation focuses on specific production processes rather than fully automating the shipbuilding system.

Order quality remains healthy

- Payment terms have improved with the market. Established customers generally pay at least approximately 10% upfront, the current median initial payment is approximately 20%, and 30% represents particularly favorable terms.

- Initial payments depend on customer quality, vessel type, order size, delivery timing and the broader commercial relationship.
- Owners may wait three to five years to receive a vessel, so a higher initial payment creates a meaningful funding burden. Pricing, delivery slots, order size and payment terms are therefore negotiated together.
- Financially driven orders remain rare. Only a small number of customers with financial-investor backgrounds have appeared.
- Management has not seen the widespread speculative contract trading that characterized the later stages of the previous cycle.

Key risks and other considerations

- Management identified a global financial crisis similar to 2008 as the clearest systemic risk. Shipping and shipbuilding depend heavily on financing, so a major financial shock could affect shipowner funding, vessel values and order execution.
- Management has not yet seen typical cycle-peak signals such as a rapid decline in demand, disorderly industry expansion or widespread speculative ordering.
- CSSC is awaiting the formal investigation into the Qingdao Beihai accident. Production and deliveries are currently continuing according to existing schedules.
- Management did not confirm whether the authorities would conduct an industry-wide inspection or quantify any potential delivery impact.
- U.S. Section 301 measures initially affected market sentiment and ordering decisions, but management believes the impact subsequently weakened.
- Management said China's integrated shipbuilding ecosystem and dominant global order share make it difficult to relocate meaningful shipbuilding capacity to other countries.
- Naval and commercial facilities can overlap, but CSSC's broad yard network allows different commitments to be incorporated into production planning.
- Management does not expect naval work to materially crowd out commercial-vessel deliveries.

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Investment Thesis, Valuation and Risks

China CSSC Holdings - A *(Overweight; Price Target: Rmb50.00)*

Investment Thesis

Maintain Overweight. CSSC is the flagship listed platform of China's state-owned shipbuilding industry following the CSSC-CSIC merger. We expect higher-priced backlog, improving throughput and a richer vessel mix to drive earnings through 2028E, with GPM rising to 19.9% by 2028E. We view potential further shipbuilding asset injections from CSSC Group as unmodeled upside.

Valuation

We value CSSC using a forward P/E methodology that reflects its long-cycle earnings profile and delayed earnings recognition. We see further upside as our 2028E NPAT is 10% above consensus, while margin resilience and potential throughput gains increase our confidence in late-cycle earnings delivery. Our Rmb50 price target is based on 11.1x 2028E P/E, the Chinese and Korean 2-yr forward average since 2023. Potential asset injections from CSSC Group, further SOE reform and additional productivity improvements provide potential upside not captured in our base case.

Risks to Rating and Price Target

Key risks include weaker margins or new-order pricing, an earlier shipbuilding downturn, execution delays, sustained Rmb appreciation, and weaker-than-expected SOE integration benefits.

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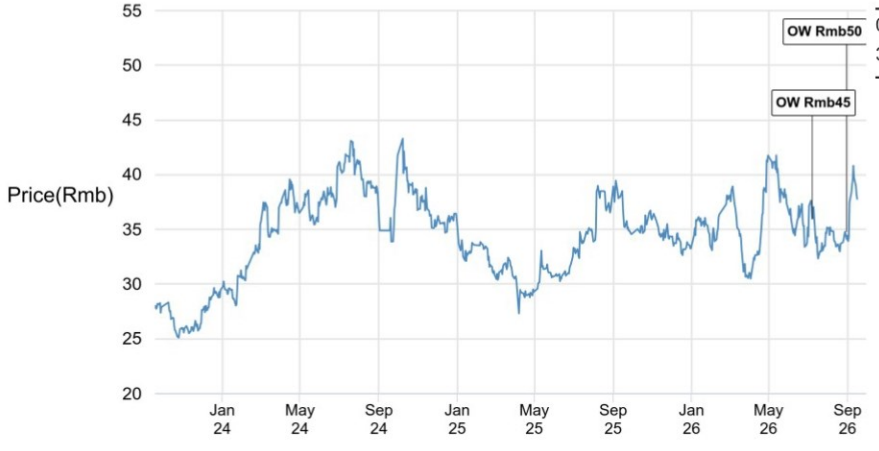
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China CSSC Holdings - A (600150.SS, 600150 CH) Price Chart



Date	Rating	Price (Rmb)	Price Target (Rmb)
09-Jul-26	OW	35.98	45
31-Aug-26	OW	34.78	50

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jul 09, 2026. All share prices are as of market close on the previous business day.

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