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Guangdong Songfa - A

MSC adds 20 post-Panamax ships; expanded capacity filled through 2029

Overweight

603268.SS, 603268 CH
Price (20 Oct 26):Rmb190.70
Price Target (Dec-27):Rmb267.00

Infrastructure, Industrials & Transport

Beatrice Lam AC
(852) 2800-8738
beatrice.lam@jpmorgan.com

Karen Li, CFA
(852) 2800-8589
karen.yy.li@jpmorgan.com
J.P. Morgan Securities (Asia Pacific) Limited/ J.P. Morgan Broking (Hong Kong) Limited

MSC's latest 20-vessel order reinforces our positive stance on Songfa, whose shares have corrected 14% from their Sept peak vs a 7% decline in the CSI 300. We highlight three takeaways: (1) MSC has ordered another 20 24,000-TEU post-Panamax containerships, worth an indicative US$4.9bn, bringing its cumulative Hengli orders to 70 vessels; (2) our proprietary orderbook analysis shows the 2029–30 backlog rising 27% to 8.40mn CGT, with capacity now fully committed through 2029 even after the initial Phase 4 expansion; and (3) the 2030 backlog has jumped 39%, shifting the investment debate from capacity utilization to future margins and earnings growth. The recent selloff, driven by broader market weakness and concerns over potential US shadow-fleet sanctions relief, contrasts with strengthening fundamentals. With significant hurdles to implementing sanctions relief and the 3Q26 results due on 28 October, we see an attractive entry point. Reiterate OW.

- **MSC adds 20 post-Panamax ships; cumulative orders reach 70.** Linerlytica reported on 20 October that MSC ordered another 20 24,000-TEU containerships at Hengli, scheduled for delivery in 2029–30. At the benchmark newbuilding price of US$247mn per vessel, the order represents an indicative US$4.9bn. Our tracking shows MSC has contracted 42 vessels at Hengli in 2026, including 22 22,000-TEU ships in June–July and 20 24,000-TEU ships in September. Together with Maersk's 20 18,600-TEU vessels, Hengli secured 40 large containership orders from the two carriers in September alone. The latest MSC order, alongside Maersk's recent contract, further demonstrates Hengli's rapid market share gains in high-value containership construction, challenging established Chinese and Korean shipbuilders.
- **2029 capacity fully booked; 2030 becomes the next growth opportunity.** Our analysis of orders captured by Clarksons shows Hengli's 2029–30 backlog increasing 27% to 8.40mn CGT since our earlier monthly snapshot. The 2029 backlog rose 24% to 6.83mn CGT, now 113% of 2028 levels versus 93% previously, while 2030 increased 39% to 1.57mn CGT. These figures understate the full backlog as Clarksons does not capture all contracts. More importantly, Hengli's capacity is already fully committed through 2029, including the initial Phase 4 expansion. This substantially reduces the risk of from its capacity expansion, shifting the key question toward profitability on contracted vessels and the pace of 2030 order intake.
- **Buy the dip; 3Q26 results the next catalyst.** Songfa has fallen 14% from its Sept peak, underperforming the CSI 300 by approximately 7ppt, amid market-wide fund flows and concerns over potential US sanctions relief for shadow-fleet tankers. While effective sanctions relief could materially weaken tanker newbuilding demand, we remain skeptical of its implementation given regulatory and operational hurdles, as discussed in our earlier report. In contrast, Hengli's latest order wins confirm strong demand for its expanded capacity. We see an attractive risk-reward ahead of 3Q26 results on 28 Oct (next Wednesday), when sequential revenue growth and gross margin progression will be the key indicators of earnings delivery (see preview). Stay OW.

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	69	5	98	96	72
Growth	4	10	16	100	95
Momentum	3	1	6	8	82
Quality	8	1	100	100	89
Low Vol	79	93	91	58	22

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

Beatrice Lam AC
(852) 2800-8738
beatrice.lam@jpmorgan.com

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Price Performance



	YTD	1m	3m	12m
Abs	128.7%	-8.3%	29.4%	274.7%
Rel	134.6%	-3.8%	31.0%	278.0%

Company Data

Shares O/S (mn)	897
52-week range (Rmb)	228.00-49.50
Market cap ($ mn)	25,591
Exchange rate	6.68
Free float (%)	17.4%
3M ADV (mn)	6.81
3M ADV ($ mn)	186.8
Volatility (90 Day)	59
Index	SHASHR
BBG ANR (Buy | Hold | Sell)	13|0|0

Key Metrics (FYE Dec)

Rmb in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	21,639	57,914	96,214	117,728
Adj. EBITDA	4,046	14,075	22,107	30,395
Adj. EBIT	3,606	13,160	20,900	29,115
Adj. net income	2,655	10,002	16,898	24,470
Adj. EPS	2.96	9.82	16.59	24.02
BBG EPS	-	8.63	16.04	23.41
Cashflow from operations	(1,458)	23,620	19,908	31,026
FCFF	(10,584)	9,364	12,220	25,625
Margins and Growth				
Revenue Growth Y/Y (%)	275.0%	167.6%	66.1%	22.4%
EBITDA margin	18.7%	24.3%	23.0%	25.8%
EBITDA Growth Y/Y (%)	618.6%	247.9%	57.1%	37.5%
EBIT margin	16.7%	22.7%	21.7%	24.7%
Net margin	12.3%	17.3%	17.6%	20.8%
Adj. EPS growth	1038.5%	231.7%	68.9%	44.8%
Ratios				
Adj. tax rate	16.6%	16.6%	16.6%	16.6%
Interest cover	6.9	10.3	25.9	NM
Net debt/Equity	0.2	NM	NM	NM
Net debt/EBITDA	0.6	NM	NM	NM
ROCE	23.5%	34.8%	36.2%	44.4%
ROE	41.7%	55.8%	51.4%	50.8%
Valuation				
FCFF yield	(6.2%)	4.8%	6.3%	13.2%
Dividend yield	0.0%	2.1%	3.5%	5.0%
EV/Revenue	8.5	3.0	1.7	1.2
EV/EBITDA	45.7	12.1	7.4	4.8
Adj. P/E	64.4	19.4	11.5	7.9

Summary Investment Thesis and Valuation

Investment Thesis

We rate Guangdong Songfa Overweight and retain it as our top pick among Chinese shipbuilders. We forecast a 56% NPAT CAGR over 2026-28, driven by the ramp-up of Phases 3 and 4, higher utilization, an improving vessel mix and increasing vertical integration. The existing orderbook supports our shipbuilding delivery forecasts of 2.1mn/4.1mn/5.8mn CGT in 2026/27/28, while earlier delivery slots and relationships with leading global shipowners support further market share gains. Engines are also becoming a second earnings platform, with annual capacity expected to increase from 180 units currently to 300 units in 2027, and external sales extending beyond Songfa's internal requirements. Our forecasts retain upside from a stronger high-value vessel mix, engine capacity beyond 300 units and a potential LNG carrier breakthrough.

Valuation

We value Guangdong Songfa using a 2028E P/E framework, reflecting the long-cycle nature of commercial shipbuilding and allowing time for its capacity and margin ramp to mature. Our Dec-27 PT of Rmb267 is based on an 11.1x 2028E P/E, equivalent to the historical average rolling 24-month forward Asian shipbuilding sector multiple. We believe the sector average multiple appropriately balances Songfa's superior earnings growth, expanding engine platform and potential upside from LNG carriers against the execution and industry-cycle risks associated with its rapid expansion.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Asia Pac ex JP	0.12	0.13
Region: China	0.07	0.10
Macro:		
Citi Economic Surprise - EM	0.31	0.21
Markit EM Composite PMI SA	0.23	0.17
JPM EM Currency(EMCI) Fixing	-0.32	-0.12
Quant Styles:		
Quality	0.15	0.15
Momentum	0.17	0.12
Growth	0.15	0.09

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

Beatrice Lam [AC]
(852) 2800-8738
beatrice.lam@jpmorgan.com

J.P.Morgan

Relevant reports

- Yangzijiang Shipbuilding Holdings Ltd: More orders in hand, more capacity in sight; raise PT to S$6.70 (16 Oct)
- China Shipbuilding: 3Q26 preview – A seasonal breather, a margin opportunity; buy on dips (12 Oct)
- China Shipbuilding: Monthly snapshot (September 2026): Capacity ramp meets sustained demand (7 Oct)
- Yangzijiang Shipbuilding Holdings Ltd: US$900mn HMM order adds earnings without displacing 2030 post-Panamax container slots (21 Sep)
- Guangdong Songfa - A: Positive newsflow reinforces OW: Maersk containership order, LNG carrier plans and new earnings streams (21 Sep)
- China CSSC Holdings - A: NDR meeting takeaways: More Middle East LNG carrier opportunities, margins and deliveries skew to upside (16 Sep)
- 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 (25 Aug)
- Yangzijiang Shipbuilding Holdings Ltd: Closing the valuation gap, waiting on the orders — raise PT; maintain Neutral (20 Aug)
- Yangzijiang Shipbuilding Holdings Ltd: Post-1H26-earnings briefing takeaways: >35% GPM achievable in FY27E-28E; large containership demand surprises (7 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)

Beatrice Lam AC
(852) 2800-8738
beatrice.lam@jpmorgan.com

J.P.Morgan

Investment Thesis, Valuation and Risks

Guangdong Songfa - A *(Overweight; Price Target: Rmb267.00)*

Investment Thesis

We rate Guangdong Songfa Overweight and retain it as our top pick among Chinese shipbuilders. We forecast a 56% NPAT CAGR over 2026-28, driven by the ramp-up of Phases 3 and 4, higher utilization, an improving vessel mix and increasing vertical integration. The existing orderbook supports our shipbuilding delivery forecasts of 2.1mn/4.1mn/5.8mn CGT in 2026/27/28, while earlier delivery slots and relationships with leading global shipowners support further market share gains. Engines are also becoming a second earnings platform, with annual capacity expected to increase from 180 units currently to 300 units in 2027, and external sales extending beyond Songfa's internal requirements. Our forecasts retain upside from a stronger high-value vessel mix, engine capacity beyond 300 units and a potential LNG carrier breakthrough.

Valuation

We value Guangdong Songfa using a 2028E P/E framework, reflecting the long-cycle nature of commercial shipbuilding and allowing time for its capacity and margin ramp to mature. Our Dec-27 PT of Rmb267 is based on an 11.1x 2028E P/E, equivalent to the historical average rolling 24-month forward Asian shipbuilding sector multiple. We believe the sector average multiple appropriately balances Songfa's superior earnings growth, expanding engine platform and potential upside from LNG carriers against the execution and industry-cycle risks associated with its rapid expansion.

Risks to Rating and Price Target

Key downside risks include slower-than-expected commissioning and utilization of Phases 3 and 4, weaker global shipbuilding demand resulting in lower order intake or vessel prices, and delays in converting the scheduled orderbook into construction revenue and deliveries. A weaker-than-expected vessel mix, slower engine-capacity ramp, lower external engine sales or delays in component localization could reduce our margin and earnings forecasts. RMB appreciation, rising steel and equipment costs, supply chain constraints, additional financing requirements and broader sanctions or trade restrictions affecting Hengli Group could also weigh on earnings and valuation.

Beatrice Lam AC
(852) 2800-8738
beatrice.lam@jpmorgan.com

J.P.Morgan

Guangdong Songfa - A: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**5,771**	**21,639**	**57,914**	**96,214**	**117,728**
COGS	(4,940)	(17,224)	(42,866)	(70,445)	(84,493)
Gross profit	**764**	**4,316**	**14,782**	**25,326**	**32,764**
SG&A	(285)	(544)	(1,216)	(3,752)	(2,825)
Adj. EBITDA	**563**	**4,046**	**14,075**	**22,107**	**30,395**
D&A	(146)	(441)	(915)	(1,206)	(1,280)
Adj. EBIT	**417**	**3,606**	**13,160**	**20,900**	**29,115**
Net Interest	(150)	(585)	(1,372)	(853)	1
Adj. PBT	**331**	**3,181**	**11,993**	**20,262**	**29,340**
Tax	(107)	(527)	(1,991)	(3,363)	(4,870)
Minority Interest	0	0	0	0	0
Adj. Net Income	**224**	**2,655**	**10,002**	**16,898**	**24,470**
Reported EPS	0.26	2.96	9.82	16.59	24.02
Adj. EPS	**0.26**	**2.96**	**9.82**	**16.59**	**24.02**
DPS	**0.00**	**0.00**	**3.93**	**6.64**	**9.61**
Payout ratio	0.0%	0.0%	40.0%	40.0%	40.0%
Shares outstanding	863	897	1,019	1,019	1,019

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	2,372	7,215	29,194	31,165	37,048
Accounts receivable	235	122	232	356	436
Inventories	1,852	5,175	4,763	5,870	5,281
Other current assets	8,397	21,817	21,514	22,746	22,236
Current assets	**10,769**	**29,032**	**50,708**	**53,912**	**59,285**
PP&E	3,961	15,065	26,504	27,653	27,732
LT investments	-	-	-	-	-
Other non current assets	3,422	3,455	6,455	12,455	16,455
Total assets	**19,443**	**49,392**	**85,553**	**95,950**	**105,443**
Short term borrowings	1,838	5,887	10,597	8,000	0
Payables	8,767	15,217	21,433	23,482	28,164
Other short term liabilities	2,068	10,736	15,290	15,290	15,290
Current liabilities	**12,672**	**31,840**	**47,320**	**46,772**	**43,455**
Long-term debt	1,502	3,644	7,101	5,000	0
Other long term liabilities	3,492	8,100	11,831	9,879	4,978
Total liabilities	**16,164**	**39,940**	**59,151**	**56,651**	**48,433**
Shareholders' equity	3,279	9,452	26,402	39,300	57,010
Minority interests	0	0	0	0	0
Total liabilities & equity	**19,443**	**49,392**	**85,553**	**95,950**	**105,443**
BVPS	**3.80**	**10.54**	**25.92**	**38.58**	**55.96**
y/y Growth	*40619.1%*	*177.4%*	*145.9%*	*48.9%*	*45.1%*
Net debt/(cash)	968	2,315	(11,496)	(18,165)	(37,048)

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operating activities	**(2,881)**	**(1,458)**	**23,620**	**19,908**	**31,026**
o/w Depreciation & amortization	146	441	915	1,206	1,280
o/w Changes in working capital	(3,401)	(5,123)	11,347	965	5,292
Cash flow from investing activities	**(4,837)**	**(9,600)**	**(15,076)**	**(7,872)**	**(4,805)**
o/w Capital expenditure	(4,848)	(9,630)	(15,400)	(8,400)	(5,400)
as % of sales	*84.0%*	*44.5%*	*26.6%*	*8.7%*	*4.6%*
Cash flow from financing activities	**7,998**	**16,406**	**13,434**	**(10,065)**	**(20,338)**
o/w Dividends paid	(50)	(315)	0	(4,001)	(6,759)
o/w Shares issued/(repurchased)	2,500	3,935	6,948	0	0
o/w Net debt issued/(repaid)	3,196	10,172	8,167	(4,698)	(13,000)
Net change in cash	**293**	**5,308**	**21,979**	**1,971**	**5,883**
Adj. Free cash flow to firm	**(7,616)**	**(10,584)**	**9,364**	**12,220**	**25,625**
y/y Growth	*522.7%*	*39.0%*	*(188.5%)*	*30.5%*	*109.7%*

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	13.2%	19.9%	25.5%	26.3%	27.8%
EBITDA margin	9.8%	18.7%	24.3%	23.0%	25.8%
EBIT margin	7.2%	16.7%	22.7%	21.7%	24.7%
Net profit margin	3.9%	12.3%	17.3%	17.6%	20.8%
ROE	13.7%	41.7%	55.8%	51.4%	50.8%
ROA	1.8%	7.7%	14.8%	18.6%	24.3%
ROCE	8.4%	23.5%	34.8%	36.2%	44.4%
SG&A/Sales	4.9%	2.5%	2.1%	3.9%	2.4%
Net debt/Equity	0.3	0.2	NM	NM	NM
Net debt/EBITDA	1.7	0.6	NM	NM	NM
Sales/Assets (x)	0.5	0.6	0.9	1.1	1.2
Assets/Equity (x)	7.6	5.4	3.8	2.8	2.1
Interest cover (x)	3.8	6.9	10.3	25.9	NM
Operating leverage	20060.2%	278.3%	158.1%	88.9%	175.8%
Tax rate	32.3%	16.6%	16.6%	16.6%	16.6%
Revenue y/y Growth	770.7%	275.0%	167.6%	66.1%	22.4%
EBITDA y/y Growth	1139.9%	618.6%	247.9%	57.1%	37.5%
EPS y/y Growth	(966.7%)	1038.5%	231.7%	68.9%	44.8%

Valuation	FY24A	FY25A	FY26E	FY27E	FY28E
P/E (x)	733.5	64.4	19.4	11.5	7.9
P/BV (x)	50.2	18.1	7.4	4.9	3.4
EV/EBITDA (x)	325.9	45.7	12.1	7.4	4.8
Dividend Yield	0.0%	0.0%	2.1%	3.5%	5.0%

Source: Company reports and J.P. Morgan estimates.
Note: Rmb in millions (except per-share data).Fiscal year ends Dec. o/w - out of which



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Guangdong Songfa - A (603268.SS, 603268 CH) Price Chart



Date	Rating	Price (Rmb)	Price Target (Rmb)
09-Jul-26	OW	167.77	210
25-Aug-26	OW	180.93	230
09-Sep-26	OW	192.40	265
12-Oct-26	OW	203.50	267

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.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
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IB clients**	83%	81%	72%
JPMS Equity Research Coverage*	51%	37%	12%
IB clients**	95%	93%	88%

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