

13 January 2023

Yinson Holdings

Completion of FPSO Adoon Contract

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YINSON's FPSO Adoon contract has been successfully completed, after having operated for 16 years, with Addax exercising the option to purchase the FPSO at the end of the contract period. Overall, we are neutral, given that this has been well anticipated. This would allow YINSON to better reallocate its resources to newer upcoming projects (e.g. Agogo FPSO) that will likely be awarded in the coming months. Maintain **OUTPERFORM**, albeit with a slightly lowered SoP-TP of RM3.05.

End of FPSO Adoon contract. YINSON announced that it has successfully completed its contract for FPSO Adoon, which has been operating at Block OML 123 offshore Nigeria. The contract has already been operating for 16 years, with an original period of 8 years until 2014 coupled with extensions of 8 more years up until 2022. The contract was then further extended by the client Addax Petroleum Development (Nigeria) Limited through consecutive monthly extensions until January 2023. Following so, Addax exercised its contractual option to purchase the FPSO at the end of the contract period, and the sale was completed on 11 January 2023.

Neutral on the contract expiration. Overall, we are neutral over the completion of the contract, given that it was well anticipated. The sale of the FPSO will allow YINSON to recycle its capital and better allocate its resources onto newer upcoming projects (mentioned below), with the FPSO remaining on the field under the operation of the new owners.

Anticipation of new contracts. We believe an official charter contract award for the Agogo FPSO is likely to be finalised in the coming weeks. According to industry sources, the contract is expected to be 15 firm years plus 5 yearly extensions, with first oil expected in late-2025. We estimate the total capex to be ~USD1.5b (assuming 100% stake), with total contract value surpassing the USD5b-mark – thus making it one of YINSON's biggest contracts in its order book. Overall, given how tight the current global FPSO market is at the moment, we believe any new tenders or contract wins would yield attractive returns and financing options.

Forecasts. We lowered our FY24F earnings by 4% to account for the cessation of FPSO Adoon.

Maintain OUTPERFORM, albeit with a slightly lowered SoP-TP of RM3.05 (from RM3.15 previously), after making adjustments following the cessation of FPSO Adoon. Our valuation has already included one new win assumption, based on: (i) capex of ~USD1b, (ii) IRR of 13%, and (iii) WACC of 6%. Note that our valuations have also included a 5% ESG premium, based on our in-house 4-star ESG rating.

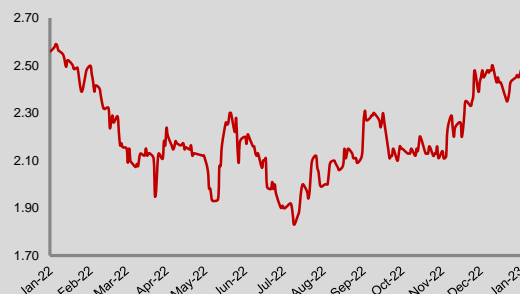
We continue to like YINSON for: (i) its strong market position, with a fleet of nine FPSOs (including three on order) – making them the fourth largest FPSO player in the world and the largest amongst Malaysia-based players, (ii) its strong management team, given its untainted track record of project deliveries thus far, and (iii) its conscious decision to diversify into non-fossil energy sectors (e.g. solar, battery technology) to future-proof its earnings sustainability.

Risks to our call include: (i) crude oil prices falling below hurdle rates for floating production projects, (ii) counter-party risk for FPSO contracts, and (iii) project execution risks including cost overrun, delays and downtimes.

OUTPERFORM ↔

Price : RM2.55
Target Price : RM3.05 ↓

Share Price Performance



KLCI	1,488.66
YTD KLCI chg	-0.5%
YTD stock price chg	4.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	YNS MK Equity
Market Cap (RM m)	7,384.0
Shares Outstanding	2,895.7
52-week range (H)	2.60
52-week range (L)	1.83
3-mth avg daily vol:	2,376,585
Free Float	39%
Beta	0.9

Major Shareholders

Yinson Legacy Sdn Bhd	19.8%
Employees Provident Fund	17.5%
Kumpulan Wang Persaraan	7.1%

Summary Earnings Table

FY Jan (RM m)	2022A	2023F	2024F
Turnover	3,607	5,327	4,191
EBIT	1,097	950	987
PBT	716	692	700
Net Profit (NP)	401	502	505
Core Net Profit	411	502	505
Consensus (NP)		472	659
Earnings Revision (%)		-	4.2
Core EPS (sen)	14.2	17.3	17.4
Core EPS growth (%)	-35.5	22.2	0.5
DPS (sen)	6.0	6.0	6.0
BV/Share (RM)	0.83	0.94	1.06
Core PER (x)	18.0	14.7	14.6
PBV (x)	3.1	2.7	2.4
Gearing (x)	2.5	2.8	3.0
Dividend Yield (%)	2.4	2.4	2.4

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Sum-of-Parts valuations		
<u>Division</u>	<u>RM m</u>	<u>Valuation Basis</u>
FPSO PTSC Lam Son (49%)	449.3	Based on discounting rate of 6%
FSO PTSC Bien Dong 01 (49%)	251.7	Based on discounting rate of 5%
FPSO John Agyekum Kufour (74%)	2,511.7	Based on discounting rate of 6%
FPSO Helang	1,357.5	Based on discounting rate of 5%
FPSO Abigail-Joseph	1,450.2	Based on discounting rate of 5%
FPSO Anna Nery (65%)	2,288.1	Based on discounting rate of 6%
FPSO Atlanta	967.2	Based on discounting rate of 6%
FPSO Maria Quitéria	2,599.5	Based on discounting rate of 7%
New win assumption	2,421.3	Based on discounting rate of 6%
Estimated holding co net investment costs	(5,924.0)	
Total	8,372.4	
Number of shares	2,895.7	
ESG premium / discount	5%	
SoP value per share (RM)	3.05	

Source: Company, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Jan (RM m)	2020A	2021A	2022A	2023F	2024F	FY Jan	2020A	2021A	2022A	2023F	2024F
Revenue	2,519	4,849	3,607	5,327	4,191	Growth (%)					
Operating Profit	519	928	1,097	950	987	Turnover	143.4	92.5	-25.6	47.7	-21.3
Interest Exp	(198)	(319)	(388)	(282)	(311)	Op. Profit	0.5	78.8	18.2	-13.4	3.9
Associate & JV	10	(29)	7	24	24	PBT	-3.7	75.2	23.4	-3.3	1.2
PBT	331	580	716	692	700	Net Profit	-17.4	189.5	-35.5	22.2	0.5
Taxation	(70)	(168)	(192)	(125)	(126)	Profitability (%)					
Net Profit	210	315	401	502	505	Oper. Margin	20.6	19.1	30.4	17.8	23.6
Core Net Profit	220	637	411	502	505	PBT Margin	13.1	12.0	19.9	13.0	16.7
						Net Margin	42.3	8.7	13.1	11.4	9.4
						Eff. Tax Rate	21.1	29.0	26.8	18.0	18.0
						ROA	2.3	5.4	2.7	2.9	2.5
						ROE	13.4	34.6	17.1	18.4	16.5
						DuPont Analysis					
						N. Margin (%)	8.7	13.1	11.4	9.4	12.0
						Assets T/O (x)	0.3	0.4	0.2	0.3	0.2
						Lev. Factor (x)	5.8	6.5	6.3	6.4	6.5
						ROE (%)	13.4	34.6	17.1	18.4	16.5
						Leverage					
						Debt/Asset (x)	0.4	0.5	0.6	0.6	0.6
						Debt/Equity (x)	1.1	1.7	2.1	2.3	2.6
						N. Debt/(Cash)	2554.2	4285.0	5899.0	7570.5	9239.7
						N. D/Equity (x)	1.6	2.3	2.5	2.8	3.0
						Valuations					
						EPS (sen)	7.6	22.0	14.2	17.3	17.4
						DPS (sen)	6.0	6.0	6.0	6.0	6.0
						BVPS (RM)	0.6	0.6	0.8	0.9	1.1
						PER (x)	33.6	11.6	18.0	14.7	14.6
						Div. Yield (%)	2.4	2.4	2.4	2.4	2.4
						P/BV (x)	4.5	4.0	3.1	2.7	2.4
Balance Sheet											
FY Jan (RM m)	2020A	2021A	2022A	2023F	2024F						
Fixed Assets	4,844	4,006	3,822	5,822	7,822						
Int. Assets	395	338	297	297	297						
Other FA	1,991	4,864	7,490	7,490	7,490						
Inventories	22	3	1	1	1						
Receivables	321	397	471	471	471						
Other CA	667	457	265	265	265						
Cash	1,276	1,821	2,859	3,188	3,518						
Total Assets	9,515	11,886	15,205	17,534	19,864						
Payables	493	817	809	809	809						
ST Borrowings	476	794	648	648	648						
Other ST Lia.	545	241	167	167	167						
LT Borrowings	3,354	5,312	8,110	10,110	12,110						
Other LT Lia.	873	696	732	732	732						
Minorities Int.	290	339	486	486	486						
Perpetual Sec.	1,848	1,848	1,848	1,848	1,848						
Net Assets	1,636	1,839	2,405	2,734	3,064						
Share Capital	1,107	1,126	1,134	1,134	1,134						
Reserves	529	713	1,271	1,600	1,930						
Equity	1,636	1,839	2,405	2,734	3,064						
Cashflow Statement											
FY Jan (RM m)	2020A	2021A	2022A	2023F	2024F						
Operating CF	737	-800	-1045	1200	1237						
Investing CF	-1231	-262	-800	-2000	-2000						
Financing CF	711	1517	1963	1129	1094						

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.505	0.630	24.75%	2,988.6	N	12/2022	12.4	11.7	7.9%	-5.1%	4.1	4.3	0.6	16.8%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.45	1.70	17.24%	1,678.8	Y	12/2022	10.2	11.2	170.1%	10.1%	14.2	12.9	1.2	8.6%	0.0	0.0%
DIALOG GROUP BHD	OP	2.59	3.10	19.69%	14,614.3	Y	06/2023	9.5	9.9	5.1%	4.8%	27.4	26.1	2.7	10.2%	2.8	1.1%
MISC BHD	MP	7.25	7.30	0.69%	32,362.2	Y	12/2022	43.1	33.8	1.9%	-21.6%	16.8	21.4	0.9	5.6%	33.0	4.6%
PETRONAS CHEMICALS GROUP BHD	OP	8.35	11.00	31.74%	66,800.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	9.6	12.1	1.7	19.0%	43.6	5.2%
PETRONAS DAGANGAN BHD	MP	22.12	23.90	8.05%	21,975.2	Y	12/2022	70.4	74.0	27.6%	5.2%	31.4	29.9	3.9	12.5%	70.4	3.2%
PETRON MALAYSIA REFINING & MARKETING BHD	MP	4.51	4.65	3.10%	1,217.7	Y	12/2022	161.1	98.1	82.8%	-39.1%	2.8	4.6	0.5	20.1%	16.0	3.5%
UZMA BHD	OP	0.555	0.670	20.72%	195.4	Y	06/2023	6.6	7.3	57.9%	11.4%	8.5	7.6	0.4	4.3%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.160	0.160	0.00%	1,314.5	Y	12/2022	(0.7)	1.1	-135.6%	41.3%	N.A.	15.2	0.6	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.695	0.890	28.06%	538.1	Y	12/2022	6.2	9.9	101.7%	60.5%	11.3	7.0	0.8	7.8%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.55	3.05	19.61%	7,384.0	N	01/2023	17.3	17.4	22.1%	0.6%	14.7	14.6	2.7	19.5%	6.0	2.4%
Sector Aggregate					151,068.7					4.7%	-15.4%	12.7	15.0	1.5	11.1%		1.8%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★	★	
	Anti-Corruption Policy	★	★	★	★	
	Emissions Management	★	★	★	★	
SPECIFIC	Transition to Low-Carbon Future	★	★	★	★	
	Conservation & Biodiversity	★	★	★	★	
	Effluent/Waste Management	★	★	★	★	
	Water Management	★	★	★		
	Supply Chain Management	★	★	★	★	
	Energy efficiency	★	★	★		
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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