

30 March 2022

Energy & Petrochemicals | Offshore & Marine

## Yinson (YNS MK)

**Buy** (Maintained)

### Bright Prospects Ahead; Keep BUY

Target Price (Return): MYR6.49 (+45%)  
 Price (Market Cap): MYR4.49 (USD1,135m)  
 ESG score: 3.20 (out of 4)  
 Avg Daily Turnover (MYR/USD) 5.40m/1.29m

- **Keep BUY and new TP of MYR6.49 from MYR7.18, 45% upside.** Removing one-off items and engineering, procurement, construction, installation and commissioning (EPCIC) gains, FY22 (Jan) results came in within our expectations. FPSO demand remains robust amidst tight supply, which give contractors more bargaining power. We expect strong earnings growth in FY24F-25F once Yinson achieves final acceptance of the three new projects.
- **FY22 core profit of MYR312m (-14% YoY) was within our expectations,** at 96% and 83% of our and Street full-year estimates. We believe Street numbers would have been distorted, as some regarded EPCIC earnings as core profit. A second interim DPS was declared, bringing FY22 DPS to 6 sen – as expected.
- **4QFY22 core earnings fell 13% QoQ to MYR75m,** dragged by losses from the renewables segment as a result of higher administrative cost and one-off re-financing costs as well as higher tax expenses. It comes after stripping off a MYR6m net FX gain, MYR29m FV loss on other investments and MYR20m in EPCIC gains. FY22 core earnings fell 14% YoY, dragged by lower contributions from VLCCs and higher operating costs. This was partially cushioned by the FPSO Abigail Joseph contribution. Note that the renewables segment, which encapsulates the solar asset in India, has generated stable revenue of MYR72m but recorded net losses of MYR10m as mentioned above.
- **Outlook.** The conversion of FPSO Anna Nery is progressing well, at c.90% completion currently. While it is uncertain as to whether it will be affected by the lockdown in China moving forward, the alternative plan is to complete the conversion at other yards before sailing away and the FPSO operations are set to kickstart by 1QCY23. Management guided that overall global FPSO demand remains robust and Yinson has been receiving queries from potential clients. The group is currently interested in six projects, including four projects in Angola and one project in Suriname. The remaining one is the re-deployment opportunity for Lamson in Vietnam. It is also comfortable to secure one large and one medium size project. As for the renewable energy (RE) segment, Yinson is targeting to secure a 3GW pipeline by end-2022 and expand the operating portfolio of 5-10GW by 2028 in 5-7 markets.
- **Keep BUY.** We slashed FY23F-24F earnings by 10-13%, factoring in higher financing costs and FY25F earnings of MYR834m (+83% YoY) introduced assuming maiden contribution from the PDB and Atlanta projects. Our SOP-derived TP is lowered to MYR6.49 after earnings adjustments and net debt update. Our ex-bonus and rights TP (before exercise of warrants) is MYR2.56 based on the Scenario 3 assumptions stated in the circular. Our TP also incorporates a 4% ESG premium. Downside risks: Further contract terminations and weaker-than-expected operating uptime for existing vessels.

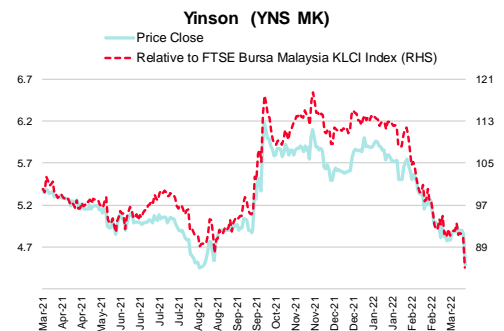
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(25.2)	(14.6)	(23.0)	(14.8)	(16.7)
Relative	(26.2)	(13.0)	(25.5)	(17.1)	(15.0)
52-wk Price low/high (MYR)	4.45 – 6.18				



Source: Bloomberg

#### Overall ESG Score: 3.20 (out of 4)

##### E: GOOD

Yinson makes good effort to track its greenhouse gas (GHG) emissions, and pledges to be involved in green projects, such as the "Carbon Disclosure Project". It also goes one step further to track and disclose GHG emissions of each of its assets and office spaces. There is also disclosure on water usage treatment and responsible management of waste at its assets. The company is targeting to achieve carbon neutral by 2030 and net zero carbon by 2050. The recent aggressive expansion in renewable energy (RE) and green technologies should improve its scores in the longer run.

##### S: GOOD

Yinson has robust health and safety policies in place and tracks loss-time injuries and total recordable incidents, with current levels at a level below the industry average. It actively participates in community engagement activities, through partnerships with Teach for Malaysia, and various charity works through its business units, eg Desktop Donation in Ghana and Pink Ribbon Cause in Oslo.

##### G: EXCELLENT

Yinson's board largely meets the requirement of Bursa Malaysia and the Malaysian Code on Corporate Governance. Its directors are skilled and from diverse backgrounds, and women are also represented. It provides timely, consistent, and accurate information to shareholders that are adequately prepared. It also has procedures that ensure shareholder rights are protected.

Forecasts and Valuation	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
Total turnover (MYRm)	4,849	3,607	1,599	2,274	2,981
Recurring net profit (MYRm)	362	312	314	455	834
Recurring net profit growth (%)	51.8	(13.9)	0.7	44.7	83.3
Recurring P/E (x)	13.57	15.75	15.64	10.81	5.90
P/B (x)	2.7	2.0	1.9	1.6	1.3
P/CF (x)	na	na	8.16	4.06	3.03
Dividend Yield (%)	1.3	1.3	1.3	1.3	1.3
EV/EBITDA (x)	7.38	7.67	10.05	7.24	5.18
Return on average equity (%)	18.1	18.9	12.4	16.0	24.3
Net debt to equity (%)	106.8	124.7	135.7	127.9	100.8

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

30 March 2022

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## Financial Exhibits

Asia	Financial summary (MYR)	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
Malaysia	Recurring EPS	0.33	0.28	0.29	0.42	0.76
Energy & Petrochemicals	DPS	0.06	0.06	0.06	0.06	0.06
<b>Yinson</b>	BVPS	1.68	2.20	2.42	2.78	3.48
YNS MK	Return on average equity (%)	18.1	18.9	12.4	16.0	24.3
Buy						
	Valuation metrics	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
	Recurring P/E (x)	13.57	15.75	15.64	10.81	5.90
	P/B (x)	2.7	2.0	1.9	1.6	1.3
	FCF Yield (%)	(21.5)	(22.5)	(18.3)	(5.9)	12.7
	Dividend Yield (%)	1.3	1.3	1.3	1.3	1.3
	EV/EBITDA (x)	7.38	7.67	10.05	7.24	5.18
	EV/EBIT (x)	9.82	9.80	14.91	10.16	6.68
	Income statement (MYRm)	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
	Total turnover	4,849	3,607	1,599	2,274	2,981
	Gross profit	1,301	1,308	1,065	1,633	2,228
	EBITDA	1,234	1,402	1,173	1,706	2,312
	Depreciation and amortisation	(306)	(305)	(382)	(491)	(518)
	Operating profit	928	1,097	791	1,215	1,795
	Net interest	(319)	(388)	(303)	(380)	(465)
	Pre-tax profit	580	716	508	845	1,339
	Taxation	(168)	(192)	(117)	(194)	(308)
	Reported net profit	315	401	314	455	834
	Recurring net profit	362	312	314	455	834
	Cash flow (MYRm)	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
	Change in working capital	166	21	(171)	70	74
	Cash flow from operations	(775)	(1,045)	602	1,211	1,622
	Capex	(282)	(63)	(1,500)	(1,500)	(1,000)
	Cash flow from investing activities	(287)	(800)	(1,500)	(1,500)	(1,000)
	Dividends paid	(168)	(126)	(66)	(66)	(66)
	Cash flow from financing activities	1,517	1,963	537	537	187
	Cash at beginning of period	1,276	1,821	2,859	2,499	2,747
	Net change in cash	455	118	(360)	249	810
	Ending balance cash	1,731	1,939	2,499	2,747	3,557
	Balance sheet (MYRm)	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
	Total cash and equivalents	1,821	2,859	2,499	2,747	3,557
	Tangible fixed assets	4,006	3,822	4,940	5,949	6,431
	Total investments	444	559	559	559	559
	Total assets	11,886	15,205	15,942	17,390	18,881
	Short-term debt	794	648	3,968	4,223	4,330
	Total long-term debt	5,325	8,119	5,402	5,750	5,896
	Total liabilities	7,860	10,466	10,877	11,741	12,267
	Total equity	4,026	4,739	5,064	5,649	6,614
	Total liabilities & equity	11,886	15,205	15,942	17,390	18,881
	Key metrics	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
	Revenue growth (%)	92.5	(25.6)	(55.7)	42.2	31.1
	Recurrent EPS growth (%)	51.8	(13.9)	0.7	44.7	83.3
	Gross margin (%)	26.8	36.3	66.6	71.8	74.7
	Operating EBITDA margin (%)	25.4	38.9	73.4	75.0	77.6
	Net profit margin (%)	6.5	11.1	19.7	20.0	28.0
	Dividend payout ratio (%)	20.9	16.4	20.9	14.4	7.9
	Capex/sales (%)	5.8	1.7	93.8	66.0	33.5
	Interest cover (x)	2.91	2.83	2.29	2.92	3.55

Source: Company data, RHB

30 March 2022

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Figure 1: Yinson's results review

FYE Jan (MYRm)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)	Comments
<b>Revenue</b>	<b>1,247.0</b>	<b>820.0</b>	<b>741.0</b>	(10%)	(41%)	<b>4,848.6</b>	<b>3,607.0</b>	(26%)	
<b>EBITDA</b>	<b>333.0</b>	<b>340.0</b>	<b>352.0</b>	4%	6%	<b>1,234.5</b>	<b>1,402.0</b>	14%	
Depreciation	(75.0)	(78.0)	(81.0)	4%	8%	<b>(305.7)</b>	(305.0)	(0%)	
<i>EBITDA Margin (%)</i>	26.7	41.5	47.5			25.5	38.9		
<b>EBIT</b>	<b>258.0</b>	<b>262.0</b>	<b>271.0</b>	3%	5%	<b>928.8</b>	<b>1,097.0</b>	18%	
Interest expense	(77.0)	(96.0)	(112.0)	17%	45%	<b>(319.6)</b>	(388.0)	21%	
Other operating cost	(63.0)	(60.0)	(106.0)	77%	68%	<b>(431.6)</b>	(312.0)	(28%)	
Other operating income	3.0	8.0	56.0	600%	1,767%	<b>59.1</b>	101.0	71%	
JVs	(23.0)	0.0	(4.0)	nm	(83%)	<b>(28.9)</b>	7.0	(124%)	
EI/Others	(16.0)	12.0	(10.0)	(183%)	(38%)	<b>(47.5)</b>	89.0	(287%)	
<b>Pretax profit</b>	<b>158.0</b>	<b>166.0</b>	<b>155.0</b>	(7%)	(2%)	<b>580.3</b>	<b>716.0</b>	23%	
<i>Pretax Margin (%)</i>	12.7	20.2	20.9			12.0	19.9		
Tax	(56.0)	(40.0)	(61.0)	53%	9%	<b>(167.7)</b>	(192.0)	15%	
<i>Effective tax rate (%)</i>	(35.4)	(24.1)	(39.4)			(28.9)	(26.8)		
Minority Interest	(35.0)	(28.0)	(29.0)	4%	(17%)	<b>(97.9)</b>	(123.0)	26%	
<b>Net Profit</b>	<b>67.0</b>	<b>98.0</b>	<b>65.0</b>	(34%)	(3%)	<b>314.8</b>	<b>401.0</b>	27%	
<b>Core Profit</b>	<b>83.0</b>	<b>86.0</b>	<b>75.0</b>	(13%)	(10%)	<b>362.3</b>	<b>312.0</b>	(14%)	Within expectations. 4QFY22 earnings were derived after stripping off a MYR6m net FX gain, MYR29m FV loss on other investments and MYR20m in EPCIC gains.
<i>Net Margin (%)</i>	6.7	10.5	10.1			7.5	8.6		

Source: Company data, RHB

Figure 2: SOP valuation

Vessel	NPV (MYRm)	Remarks
FPSO Adoon	138.2	DCF, WACC of 6.5%.
PTSC Bien Dong 01	38.0	DCF, WACC 6.5%.
FPSO John Agyekum Kufuor	3,422.4	DCF, WACC of 6.5%, 74%.
FPSO Helang	1,708.3	DCF, WACC of 6.6%.
FPSO Abigail-Joseph	1,651.5	DCF, WACC of 7.4%.
FPSO Anna Nery	3,193.9	DCF, WACC of 7.0%, 65% stake.
Project PDB	2,850.0	DCF, WACC of 7.0%, USD1bn capex, IRR 15%
Project Atlanta	918.2	DCF, WACC of 7.0%, USD400m capex, IRR 13%.
Minus net debt	(5,908.0)	
Total	7,861.2	
Shares outstanding (m)	1,259.0	15% higher than current share base
ESG premium	4%	
<b>SOP-based TP</b>	<b>6.49</b>	
<b>Ex-TP post rights and bonus</b>	<b>2.56</b>	MYR1.26bn rights proceeds with the 1.1bn rights issue

Source: RHB

## Recommendation Chart

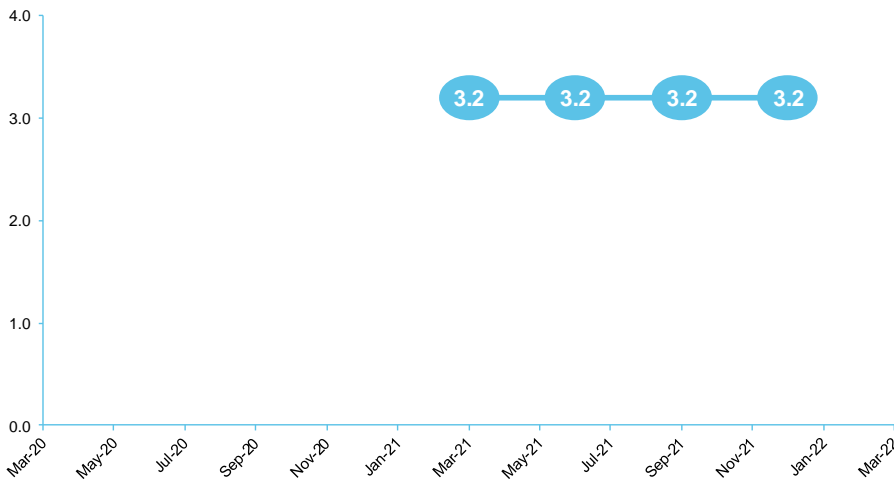


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-12-20	Buy	7.18	5.61
2021-10-07	Buy	7.40	6.10
2021-09-23	Buy	5.81	4.90
2021-08-27	Buy	5.87	4.90
2021-08-23	Buy	5.50	4.64
2021-06-28	Buy	6.38	5.00
2021-06-17	Buy	6.46	5.00
2020-10-18	Neutral	5.64	5.43
2020-07-10	Buy	7.77	6.01
2020-03-26	Buy	7.60	5.20
2020-01-31	Buy	8.22	6.20

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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