

23 December 2022

Energy & Petrochemicals | Offshore & Marine

## Yinson (YNS MK)

**Buy** (Maintained)

### Preparing For a Higher Jump; Keep BUY

Target Price (Return): MYR3.15 (29.6%)  
 Price (Market Cap): MYR2.43 (USD1,590m)  
 ESG score: 3.20 (out of 4)  
 Avg Daily Turnover (MYR/USD) 5.04m/1.11m

- **Stay BUY, with new TP of MYR3.15 from MYR3.28, 30% upside.** Removing the one-off items and EPCIC gains, 9MFY23 (Jan) results came in below our estimate due to a higher cost base. Management guided that the likely peaked administrative cost will be offset by new projects once they achieve first oil. Meanwhile, we expect finalisation of the Agogo project in the near term and continue to see progression in its renewable ventures.
- **9MFY23 core profit of MYR146m (-36% YoY) is below our estimate** – at 55% and 36% of our and Street full-year forecasts due to higher-than-expected operating costs. We believe Street estimates may not be a good comparison, as other analysts regard Yinson's EPCIC earnings as core profit.
- **3QFY23 core earnings dropped 44% QoQ to MYR34m**, no thanks to higher administrative and finance costs. It comes after stripping off a MYR8m net FX gain and MYR113m in EPCIC gains. Revenue surged by 7% QoQ, mainly due to higher conversion revenue. Cumulatively, 9MFY23 core earnings fell 38% YoY, no thanks to lower renewable energy contributions, higher finance costs and overhead costs. This was partly cushioned by stronger FPSO operations (favourable FX impact led). The renewable energy segment, which encapsulates the solar asset in India, generated stable revenue of MYR57m but recorded a net loss of MYR10m due to unfavourable FX movements and lower other income.
- **Outlook.** FPSO Anna Nery is on track to achieve first oil by 1QCY23. Both FPSO Maria Quitéria and Atlanta (project Enauta) are on track for conversion, being 25% and 30% completed. Management guided that the administrative cost would be approaching peak levels amidst several ongoing project conversions and is expected to be offset by these new projects once they achieve first oil. Following the award of USD218m preliminary contract for FPSO Agogo, which is regarded as an upfront payment, Yinson is looking to finalise a long term charter contract in the near term. Meanwhile, the FPSO market remains robust with more new projects from Petrobras in Brazil. On the other hand, we are guided that 270MW out of the 485MW wind projects in Ceará, Brazil have been approved for construction and management aims to start construction work next year once the power purchase agreement (PPA) is secured. We expect better earnings contribution from the renewables segment once the 285MW solar plant achieves its completion at Nokh Solar Park in India.
- **We cut FY23F-25F earnings by 3-14% to reflect the higher cost base.** FY23F-24F EPCIC revenue should be maintained, led by contributions from FPSO Maria Quitéria and Atlanta. Post earnings adjustments, our SOP-based TP is cut to MYR3.15 (with a 4% ESG premium). Downside risks: Further contract terminations and weaker-than-expected operating uptime for existing vessels.

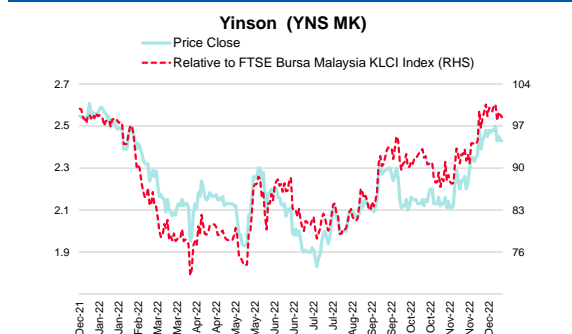
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.8)	10.5	5.7	15.7	(4.1)
Relative	(0.5)	8.6	3.7	13.1	(2.0)
52-wk Price low/high (MYR)				1.83 – 2.61	



Source: Bloomberg

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

##### E: GOOD

Yinson tracks its GHG emissions, and pledges to be involved in green projects, eg a zero-emissions FPSO concept. It also discloses GHG emissions of each asset and office space, water usage treatment and responsible management of waste at its assets. It targets to be 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. Even so, GHG emissions in FY22 increased in absolute numbers by 132%, to 1.3m tCO<sub>2</sub>e.

##### S: GOOD

Yinson has robust health and safety policies in place and tracks loss-time injuries and total recordable incidents. In FY22, it did not record any fatalities and its lost-time injury frequency stayed at zero. It participates in community activities and charity works, eg via Yinson Scholars in Ghana and an education programme partnership with Dream Learn Work to support students in Brazil.

##### G: EXCELLENT

The Board largely meets the requirement of Bursa Malaysia and the Malaysian Code on Corporate Governance with 54.5% independent members. Directors are skilled and from diverse backgrounds. Women are also represented, at 36.4%. It provides timely, consistent, and accurate

Forecasts and Valuation	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
Total turnover (MYRm)	4,849	3,607	1,543	2,274	2,981
Recurring net profit (MYRm)	362	312	222	405	735
Recurring net profit growth (%)	51.8	(13.9)	(28.7)	82.0	81.7
Recurring P/E (x)	20.57	23.88	33.50	18.41	10.14
P/B (x)	4.1	3.1	2.9	2.6	2.1
P/CF (x)	na	na	15.27	6.38	4.89
Dividend Yield (%)	0.8	0.8	0.8	0.8	0.8
EV/EBITDA (x)	9.44	9.48	13.48	9.77	7.67
Return on average equity (%)	18.1	18.9	8.9	14.8	22.6
Net debt to equity (%)	106.8	124.7	146.4	157.4	144.3

Source: Company data, RHB

See important disclosures at the end of this report

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

## Financial Exhibits

Asia	Financial summary (MYR)	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
Malaysia	Recurring EPS	0.12	0.10	0.07	0.13	0.24
Energy & Petrochemicals	DPS	0.02	0.02	0.02	0.02	0.02
<b>Yinson</b>	BVPS	0.60	0.78	0.84	0.95	1.17
YNS MK	Return on average equity (%)	18.1	18.9	8.9	14.8	22.6
Buy						
Valuation basis	Valuation metrics	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
SOP	Recurring P/E (x)	20.57	23.88	33.50	18.41	10.14
	P/B (x)	4.1	3.1	2.9	2.6	2.1
	FCF Yield (%)	(14.2)	(14.9)	(17.6)	(17.9)	(6.4)
	Dividend Yield (%)	0.8	0.8	0.8	0.8	0.8
	EV/EBITDA (x)	9.44	9.48	13.48	9.77	7.67
	EV/EBIT (x)	12.55	12.11	20.34	13.82	10.00
Key drivers	Income statement (MYRm)	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
i. New project wins;	Total turnover	4,849	3,607	1,543	2,274	2,981
ii. Early delivery of FPSO Anna Nery.	Gross profit	1,301	1,308	1,027	1,633	2,228
	EBITDA	1,234	1,402	1,093	1,672	2,223
	Depreciation and amortisation	(306)	(305)	(369)	(491)	(518)
	Operating profit	928	1,097	724	1,181	1,705
	Net interest	(319)	(388)	(330)	(405)	(498)
	Pre-tax profit	580	716	384	780	1,211
	Taxation	(168)	(192)	(88)	(179)	(279)
	Reported net profit	315	401	222	405	735
	Recurring net profit	362	312	222	405	735
Key risks	Cash flow (MYRm)	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
i. Unable to win new jobs;	Change in working capital	166	21	(177)	76	74
ii. Contract terminations.	Cash flow from operations	(775)	(1,045)	488	1,167	1,524
	Capex	(282)	(63)	(1,800)	(2,500)	(2,000)
	Cash flow from investing activities	(287)	(800)	(1,800)	(2,500)	(2,000)
	Dividends paid	(168)	(126)	(61)	(61)	(61)
	Cash flow from financing activities	1,517	1,963	542	542	192
	Cash at beginning of period	1,276	1,821	2,859	2,089	1,297
	Net change in cash	455	118	(770)	(791)	(284)
	Ending balance cash	1,731	1,939	2,089	1,297	1,013
Company Profile	Balance sheet (MYRm)	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
Yinson is one of the world's FPSO and FSO service providers.	Total cash and equivalents	1,821	2,859	2,089	1,297	1,013
	Tangible fixed assets	4,006	3,822	5,253	7,262	8,745
	Total investments	444	559	559	559	559
	Total assets	11,886	15,205	15,829	17,253	18,651
	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	10,856	11,741	12,267
	Total equity	4,026	4,739	4,973	5,512	6,384
	Total liabilities & equity	11,886	15,205	15,829	17,253	18,651
	Key metrics	Jan-21	Jan-22	Jan-23F	Jan-24F	Jan-25F
	Revenue growth (%)	92.5	(25.6)	(57.2)	47.4	31.1
	Recurrent EPS growth (%)	51.8	(13.9)	(28.7)	82.0	81.7
	Gross margin (%)	26.8	36.3	66.6	71.8	74.7
	Operating EBITDA margin (%)	25.4	38.9	70.9	73.5	74.6
	Net profit margin (%)	6.5	11.1	14.4	17.8	24.7
	Dividend payout ratio (%)	19.5	15.3	27.6	15.2	8.3
	Capex/sales (%)	5.8	1.7	116.7	110.0	67.1
	Interest cover (x)	2.91	2.83	2.10	2.84	3.38

Source: Company data, RHB

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Figure 1: Yinson's results review

FYE Jan (MYRm)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)	Comments
<b>Revenue</b>	<b>820.0</b>	<b>1,620.0</b>	<b>1,737.0</b>	7%	112%	<b>2,866.0</b>	<b>4,362.0</b>	52%	Mainly due to EPCIC revenue related to FPSO Maria Quitéria and Atlanta
<b>EBITDA</b>	<b>340.0</b>	<b>470.0</b>	<b>510.0</b>	9%	50%	<b>1,050.0</b>	<b>1,367.0</b>	30%	
Depreciation	(78.0)	(84.0)	(87.0)	4%	12%	<b>(224.0)</b>	<b>(254.0)</b>	13%	
<i>EBITDA Margin (%)</i>	41.5	29.0	29.4			36.6	31.3		
<b>EBIT</b>	<b>262.0</b>	<b>386.0</b>	<b>423.0</b>	10%	61%	<b>826.0</b>	<b>1,113.0</b>	35%	
Interest expense	(96.0)	(133.0)	(161.0)	21%	68%	<b>(276.0)</b>	<b>(405.0)</b>	47%	
Other operating cost	(60.0)	(97.0)	(105.0)	8%	75%	<b>(206.0)</b>	<b>(283.0)</b>	37%	
Other operating income	8.0	14.0	23.0	64%	188%	<b>45.0</b>	<b>60.0</b>	33%	
JVs	0.0	(6.0)	(4.0)	(33%)	<i>n.m.</i>	<b>11.0</b>	<b>(13.0)</b>	(218%)	
EI/Others	12.0	82.0	121.0	48%	908%	<b>99.0</b>	<b>272.0</b>	175%	
<b>Pretax profit</b>	<b>166.0</b>	<b>247.0</b>	<b>258.0</b>	4%	55%	<b>561.0</b>	<b>695.0</b>	24%	
<i>Pretax Margin (%)</i>	20.2	15.2	14.9			19.6	15.9		
Tax	(40.0)	(84.0)	(81.0)	(4%)	103%	<b>(131.0)</b>	<b>(216.0)</b>	65%	
<i>Effective tax rate (%)</i>	(24.1)	(34.0)	(31.4)			(23.4)	(31.1)		
Minority Interest	(28.0)	(20.0)	(22.0)	10%	(21%)	<b>(94.0)</b>	<b>(61.0)</b>	(35%)	
<b>Net Profit</b>	<b>98.0</b>	<b>143.0</b>	<b>155.0</b>	8%	58%	<b>336.0</b>	<b>418.0</b>	24%	
<b>Core Profit</b>	<b>86.0</b>	<b>61.0</b>	<b>34.0</b>	(44%)	(60%)	<b>237.0</b>	<b>146.0</b>	(38%)	Below expectations. 3QFY23 earnings were derived after stripping off MYR8m in net FX gains, and MYR113m in EPCIC gains.
<i>Net Margin (%)</i>	10.5	3.8	2.0			8.3	3.3		

Source: Company data, RHB

Figure 2: SOP valuation

Vessel	NPV (MYRm)	Remarks
FPSO Adoon	0.0	We assume that there will be no contract renewal.
PTSC Bien Dong 01	19.6	DCF, WACC 6.5%.
FPSO John Agyekum Kufuor	3,217.9	DCF, WACC of 6.5%, 74%.
FPSO Helang	1,681.7	DCF, WACC of 6.6%.
FPSO Abigail-Joseph	1,575.0	DCF, WACC of 7.4%.
FPSO Anna Nery	4,041.6	DCF, WACC of 7.0%, 65% stake.
Project PDB	4,167.5	DCF, WACC of 7.0%, USD1bn capex, IRR 15%.
Project Atlanta	767.0	DCF, WACC of 7.0%, USD400m capex, IRR 13%.
Project Agogo	1,074.1	DCF, WACC of 7.5%, USD1.55bn capex, IRR 10%, 100% equity stake.
Minus net debt	(7,241.9)	
Total	9,302.5	
Shares outstanding (m)	3,066.5	Excluding outstanding warrants.
ESG premium	4%	
<b>SOP-based TP</b>	<b>3.15</b>	

Source: RHB

## Recommendation Chart

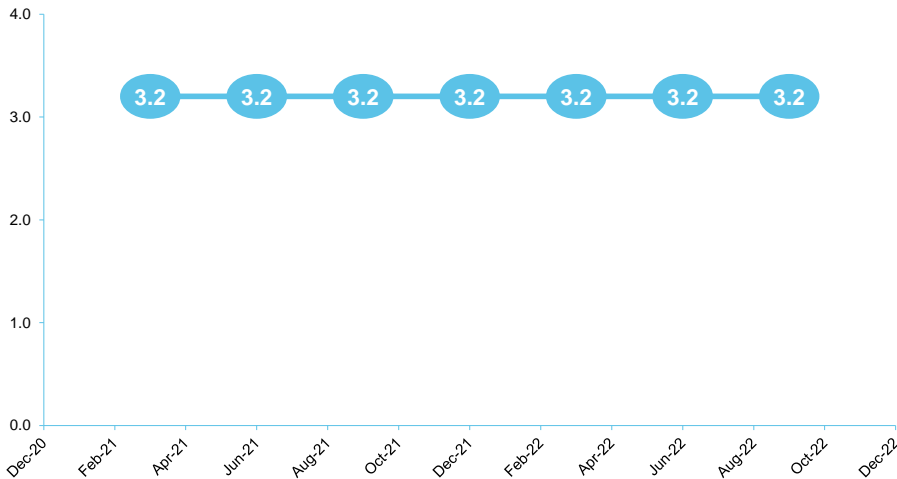


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-12-05	Buy	3.28	2.39
2022-09-23	Buy	2.91	2.26
2022-09-07	Buy	2.83	2.27
2022-08-01	Buy	2.83	2.12
2022-06-24	Buy	2.83	1.99
2022-03-30	Buy	3.25	1.98
2021-12-20	Buy	3.59	2.44
2021-11-15	Buy	3.70	2.50
2021-10-07	Buy	3.70	2.65
2021-09-23	Buy	2.90	2.13
2021-08-27	Buy	2.94	2.13
2021-08-23	Buy	2.75	2.02
2021-06-28	Buy	3.19	2.17
2021-06-17	Buy	3.23	2.17
2021-03-26	Neutral	2.82	2.31

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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