COMPANY RESULTS

Yinson (YNS MK)

1HFY23: Core Non-EPCIC Profits Beat Expectations On O&M Adjustments

Yinson recorded higher-than-expected O&M income, as rates were adjusted to reflect higher oil price levels in 1HFY23, even though the FPSO base rates were unchanged. Also, as FPSO Anna Nery's delivery remains solid, its first oil may be earlier than expected (by end of FY23). Hence we raise FY23 earnings by 13%. We also factor higher contract win potential as Yinson remains the biggest beneficiary of FPSO demand. Retain BUY with higher target price of RM3.30.

1HFY23 RESULTS

Year to 31 Jan (RMm)	2QFY23	qoq % chg	yoy % chg	FY22 (RMm)	yoy % chg	Comments
Revenue	1,620.0	61.2	53.7	2,625.0	28.3	RM25m qoq increase on O&M rates
EBIT	386.0	27.0	30.8	690.0	22.3	
EBIT margin (%)	*23.8%*	*-6.4%*	*-4.2%*	*26.3%*	*-1.3%*	
Finance costs	(133.0)	19.8	38.5	(244.0)	35.6	Reflecting higher loan and interest rates
Associates	(4.0)	33.3	(144.4)	(9.0)	(181.8)	Higher costs incurred for GreenTech
Pre-tax profit	247.0	30.0	18.8	437.0	10.6	
Reported profit	143.0	19.2	13.5	263.0	10.5	
Core profit	103.0	(8.8)	(9.6)	216.0	1.4	2Q/ 1HFY23 EPCIC : RM78m/ RM139m

**Note: We do not forecast EPCIC FL gains given the complex nature of forecasting construction progress*

Source: Yinson, UOB Kay Hian

RESULTS

- **1HFY23 core profit above expectation, at 57%/53% of our/consensus' forecasts.** The positive deviation was largely due to increased operational and maintenance (O&M) rates for FPSO JAK, FPSO Abigail Joseph and FPSO Adoon, which contributed about RM25m higher revenue qoq, and this more than offset some RM13m additional maintenance costs qoq for FPSO JAK and FPSO Helang. The O&M rate adjustment mainly reflects higher oil prices, even though the FPSOs' base rates are unchanged. As O&M rates are adjustable on a monthly basis, the respective O&M works may again reflect weaker oil price levels in 2HFY23. Still, as execution remains solid, and as FPSO Anna Nery may start first oil before the closing of FY23, we deem the results to have exceeded expectations. Our earlier forecasts were conservative to factor in uncertainties from supply chain disruptions.

- **Balance sheet.** Loan base surged qoq from RM9b to RM10b. While such a large loan base may worry investors, net gearing had declined to 0.95x as its equity base is adjusted higher after the rights issue completion. If the RM1.8b perpetual securities are treated as debt and factored into net gearing, the ratio would reflect 2.0x vs 2.7x qoq. The group's adjusted net debt/EBITDA (including associates) went up from 3.3x to 3.5x qoq, but this ratio is still very healthy relative to peers and standard covenants of 5x.

KEY FINANCIALS

Year to 31 Jan (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	4,849	3,607	1,652	2,404	2,593
EBITDA	1,143	1,391	1,436	2,011	2,253
Operating profit	837	1,086	1,111	1,578	1,821
Net profit (rep./act.)	359	455	438	723	906
Net profit (adj.)	402	457	424	723	906
EPS (sen)	11.7	13.3	12.4	21.1	26.4
PE (x)	19.6	17.2	18.6	10.9	8.7
P/B (x)	4.3	3.3	2.2	2.1	1.9
EV/EBITDA (x)	11.4	9.4	9.1	6.5	5.8
Dividend yield (%)	2.6	4.3	4.3	4.3	4.3
Net margin (%)	7.4	12.6	26.5	30.1	34.9
Net debt/(cash) to equity (%)	116.3	138.7	107.5	110.0	101.8
Interest cover (x)	3.6	3.6	3.2	4.6	5.6
ROE (%)	10.0	11.5	9.1	13.1	15.4
Consensus net profit	-	-	409	639	761
UOBKH/Consensus (x)	-	-	1.04	1.13	1.19

Source: Yinson, Bloomberg, UOB Kay Hian

** Past revenues combined construction revenues; core profits excluded finance lease/ construction effects*

BUY

(Maintained)

Share Price	RM2.30
Target Price	RM3.30
Upside	+43.6%
(Previous TP	*RM3.05)*

COMPANY DESCRIPTION

One of the largest pure global FPSO operators.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	YNS MK
Shares issued (m):	2,903.9
Market cap (RMm):	6,678.9
Market cap (US$m):	1,462.2
3-mth avg daily t'over (US$m):	1.0

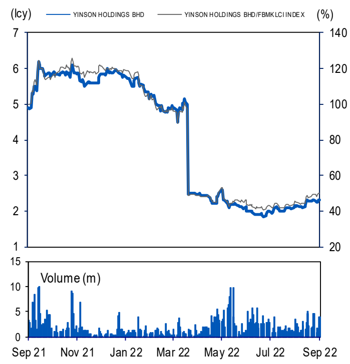
Price Performance (%)

52-week high/low RM2.69/RM1.83

1mth	3mth	6mth	1yr	YTD
10.6	9.5	6.9	8.0	(11.8)

Major Shareholders	%
Yinson Legacy	16.6
EPF	16.8
-	-
FY23 NAV/Share (RM)	1.04
FY23 Net Debt/Share (RM)	1.70

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **EPCIC operations update.** Our forecasts exclude Engineering, Construction, Procurement, Installation and Commissioning (EPCIC) finance lease (FL) profit, which was RM139m in 1HFY23. The EPCIC income mainly reflects FPSO Parque das Baleias (PDB), which started construction in China since the previous quarter and is at 40% completion, and the construction of FPSO Atlanta that also started in 2QFY23, at 18% completion, until its first oil by mid-24. Better margins were achieved due to economies of scale.
- **FPSO Anna Nery on track for Jan 23 first oil.** FPSO Anna Nery sailed out from China on 8 July and is expected to arrive in Brazil by end-Sep 22. Management guided that first oil can be achieved on 1 Jan 23. Due to Yinson's execution, we believe the FPSO Anna Nery may be Petrobras' first FPSO to start up with an all-electric concept (which maximises electric energy usage on equipment of the whole FPSO) to drive down emissions. This will be a powerful testament to Yinson's ESG achievement. Regarding a potential partial stake divestment (up to 25-30%) with strategic partners like K-Line, management guided that the divestment decision can still be made a few months after the first oil (potentially mid-23), which will be important for the group to free up capital for future projects, given that its IPO-spin-off plans have also been delayed due to current unfavourable market conditions.
- **Higher FPSO bidbook, benefitting from energy security demand.** Yinson is recently "booked" for the FPSO PAJ for BP, Angola, for a potential 20-year lease, although the exclusivity arrangement will still be under negotiations for the final terms until 2024. Yinson was also recently mentioned by Upstream to be the chosen FPSO contractor for FPSO Agogo for Eni, also in Angola, with first oil estimated at 2026. As the terms are not yet finalised, and the funding structure (including whether the client is opened for upfront capex payments), we assume a rough US$1b NPV per FPSO (before loans). Having said, Yinson is still keen to bid for more FPSO projects, including the recent Petrobras 20-year FPSO tender for the Campos revitalisation project.
- **ESG: Renewable energy (RE) update.** The Rising Sun Energy (RSE) solar assets in India recorded RM14m loss on the back of RM2m EBITDA for 2QFY23, vs RM8m loss and RM5m EBITDA in 1QFY23. The weakness mainly reflected the weaker rupee against the US dollar, and also some deferred accounting recognition of carbon credits due to regulatory delays. Yinson made a lot of progress to secure potential RE capacities worldwide, with a recent example being a potential pipeline of 486MW wind energy projects in Brazil, that Yinson entered in Mar 22 along with the existing Brazilian wind partners. Currently, Yinson has a potential 1.5GW of RE global pipelines, split between 0.5GW for solar and 0.9GW for wind projects, although most of them will take up to two years to secure the respective power purchase agreements and terms to conclude the commercial operation dates.

EARNINGS REVISION/RISK

- **Raise FY23-25 earnings forecasts by 13%/3%/3%.** We raise our O&M assumptions for the various FPSOs given the profit outperformance, even though O&M may be weaker in 2HFY23, as we believe oil price will remain high for a prolonged period. We also now assume FPSO Anna Nery to contribute to about one month of earnings for FY23, vs 1QFY24 previously.

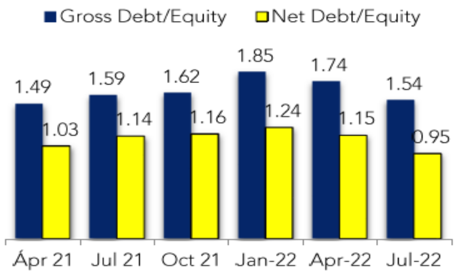
VALUATION/RECOMMENDATION

- **Maintain BUY with adjusted SOTP-based target price of RM3.30 (from RM3.05).** This implies 33x FY23F PE, or 15x FY25 PE once Anna Nery and Atlanta are making full contributions. We now raise contract win potential from RM2.05 to RM2.30 (about RM7b) to factor in two FPSO projects, although there is room for further upside as we await updates the finalised contract terms. We continue to like Yinson for its execution, and its current valuation has ignored future FPSO projects and the long-term value of non-O&G ventures.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

- **Environmental**
  - **Advanced in carbon (CO2) reduction.** Outlined climate goals roadmap to reach carbon-neutral status by 2030 and net-zero carbon status by 2050.
  - **Advanced in non-O&G diversification.** Targets 3GW renewable energy (RE) pipeline by end-22, and 5-10GW operating portfolio by 2029.
  - **Safety (HSE).** Nil Lost Time Injury (LTI) Frequency in FY21 (FY20: 0.71).
- **Social**
  - Ranked top for active stakeholder engagements with bankers/ clients/ investors.
- **Governance**
  - Most advanced in self-monitoring and reporting of its environmental contribution
  - 50% of its board members are independent despite having family representation.

QUARTERLY GEARING MOVEMENT



	As at Jul 22 Unaudited	
Current Ratio (Current Assets / Current Liabilities)	1.81	
	Include EPCIC	Exclude EPCIC
Net Debt/Annualised EBITDA	3.59	2.19
Net Adjusted Debt*/ Adjusted Annualised EBITDA*	3.42	2.00
Net Adjusted Debt*/ Adjusted Annualised Core EBITDA*	3.48	2.05

Source: Yinson

POTENTIAL FPSO PROJECTS

Client	FPSO	Capex * (US$)apex
Eni	Agogo	1.5b
BP	PAJ	1-1.5b
Total	Maka Suriname	1-1.5b
Repsol	Area 29, Mexico (Yinson exited bidding for this project)	1-1.5b

Source: Yinson
**Capex estimates is by Energy Maritime Associates*

SOTP VALUATION (@RM4.30/US$)

FY23F	Valuation	RM
FPSO Adoon	DCF (Blended IRR 11-12%, WACC 6.9%)	0.07
FPSO JAK, firm contract only	DCF (IRR 14%, WACC 6.9%, 74% stake)	0.79
FSO Bien Dong	DCF, step-down	0.04
FPSO Ca Rong Do	DCF (removed, pending update on force majeure)	0.00
MOPU	11x P/E	0.30
FPSO Helang (Layang), firm only	DCF, US$280m capex + US$50m residual value	0.35
FPSO Abigail-Joseph (AJ), firm	DCF (IRR 25%, WACC 6.9%)	0.02
Lam Son redeployment	Assumed discount from original value	0.07
FPSO Marlim 2 (Ana Nery)	DCF (IRR 17%, WACC 6.9%, 75% stake)	1.21
PDB, Enauta, and others	Include chance of more contract wins	2.30
(-) Minus net debt	Refinanced loan of FPSO JAK, FPSO Helang, and all perpetuals	-1.85
SOTP (diluted)	RM3.4b shares include warrants conversion	3.30
Implied FY23F PE	-	33.1x
Implied FY25F PE	-	14.7x

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Net turnover	3,607	1,652	2,404	2,593
EBITDA	1,391	1,436	2,011	2,253
Deprec. & amort.	305	326	432	432
EBIT	1,086	1,111	1,578	1,821
Total other non-operating income	67	14	0	0
Associate contributions	7	0	0	0
Net interest income/(expense)	(388)	(455)	(433)	(406)
Pre-tax profit	770	656	1,146	1,415
Tax	(192)	(157)	(263)	(311)
Minorities	(123)	(60)	(159)	(198)
Net profit	455	438	723	906
Net profit (adj.)	457	424	723	906

BALANCE SHEET

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Fixed assets	3,822	4,684	5,439	6,193
Other LT assets	7,787	8,787	8,287	8,287
Cash/ST investment	2,859	3,241	1,552	1,497
Other current assets	737	677	772	818
Total assets	15,205	17,389	16,049	16,796
ST debt	648	1,130	1,282	1,287
Other current liabilities	976	718	509	481
LT debt	8,110	7,927	6,497	6,415
Other LT liabilities	732	1,695	1,528	1,865
Shareholders' equity	4,253	5,409	5,660	6,094
Minority interest	486	510	574	653
Total liabilities & equity	15,205	17,389	16,049	16,796

CASH FLOW

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Operating	(1,045)	884	1,220	1,490
Pre-tax profit	716	656	1,146	1,415
Tax	302	(157)	(263)	(311)
Deprec. & amort.	305	326	432	432
Associates	(7)	0	0	0
Working capital changes	(2,415)	60	(94)	(46)
Other operating cashflows	54	0	0	0
Investing	(800)	(1,200)	(1,200)	(1,200)
Capex (growth)	(172)	(1,200)	(1,200)	(1,200)
Investments	(128)	0	0	0
Others	(500)	0	0	0
Financing	1,963	698	(1,709)	(345)
Dividend payments	(343)	(343)	(343)	(343)
Issue of shares	0	0	0	0
Proceeds from borrowings	2,339	1,200	1,200	1,200
Loan repayment	0	(1,383)	(2,630)	(1,282)
Others/interest paid	(33)	1,224	64	79
Net cash inflow (outflow)	118	382	(1,688)	(55)
Beginning cash & cash equivalent	1,821	2,859	3,241	1,552
Changes due to forex impact	920	0	0	0
Ending cash & cash equivalent	2,859	3,241	1,552	1,497

KEY METRICS

Year to 31 Jan (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	38.6	86.9	83.6	86.9
Pre-tax margin	21.4	39.7	47.6	54.6
Net margin	12.6	26.5	30.1	34.9
ROA	3.4	2.7	4.3	5.5
ROE	11.5	9.1	13.1	15.4
Growth				
Turnover	(25.6)	(54.2)	45.5	7.9
EBITDA	21.7	3.3	40.0	12.1
Pre-tax profit	23.4	(14.8)	74.7	23.5
Net profit	26.7	(3.7)	65.0	25.2
Net profit (adj.)	13.8	(7.2)	70.5	25.2
EPS	13.8	(7.2)	70.5	25.2
Leverage				
Debt to total capital	64.9	60.5	55.5	53.3
Debt to equity	205.9	167.4	137.4	126.4
Net debt/(cash) to equity	138.7	107.5	110.0	101.8
Interest cover (x)	3.6	3.2	4.6	5.6

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