COMPANY RESULTS

Yinson (YNS MK)

FY22: Results Deemed In Line Despite Higher Opex For Renewables

There were no surprises in Yinson's FPSO income (non-EPCIC basis), although we now expect higher opex for RE projects in the pipeline, until they are converted to operational capacities. FPSO Marlim may likely deliver on time, despite China's recent lockdowns. After small adjustments to profit forecasts, we now assume a higher dilution scenario from the rights issue. Maintain BUY, with an adjusted post-rights target price of RM5.95 (or RM2.98 after bonus issue).

FY22 RESULTS

Year to 31 Jan (RMm)	4QFY22	qoq % chg	yoy % chg	FY22 (RMm)	yoy % chg	Comments
Revenue	741.0	(9.6)	(40.6)	3,607.0	(25.6)	4QFY22/FY22 EPCIC : RM392m/2.2b
EBIT	271.0	3.4	5.1	1,097.0	18.2	
EBIT margin (%)	36.6%	4.6%	15.9%	30.4%	16.6%	
Finance costs	(112.0)	16.7	45.5	(388.0)	21.6	Higher; tail end of Marlim's conversion
Associates	(4.0)	n.a.	(82.6)	7.0	(124.1)	Losses from Bien Dong
Pre-tax profit	155.0	(6.6)	(1.9)	716.0	23.4	
Reported profit	65.0	(33.7)	(3.0)	401.0	27.3	
Core profit	77.0	(31.9)	(2.5)	403.0	12.8	4QFY22/FY22 EPCIC : RM20m/112m

**Note: We do not forecast EPCIC FL gains given the complex nature of forecasting construction progress*
Source: Yinson, UOB Kay Hian

RESULTS

- **FY22 core profit in line at 98/105% of our/consensus' forecast.** This excludes Engineering, Construction, Procurement, Installation and Commissioning (EPCIC) finance lease (FL) profit of RM112m, and various other non-recurring items. As expected, 4QFY22 non-EPCIC income from the FPSO operations improved qoq and yoy, given higher mix of earnings from existing FPSOs (including FPSO Abigail Joseph) as there are no more Very Large Crude Carrier (VLCC) contributions. This also offset poor performance from the JV FSO Bien Dong, which recorded loss towards end FY22.

- **RE may face higher opex in our forecast years.** The solar assets in India recorded RM9m profit for the full year, and outperformed on power generation and EBITDA by 1% and 16% respectively vs management's target. However, the overall renewable energy (RE) division recorded loss of RM8m/10m for 4QFY22/FY22 respectively. To be clear, this has nothing to do with rising inflation costs, but arose from the continuous cost of development to bring its existing 1498 MW of project pipeline in the development stage to the sanction and construction phase. As these costs will need to be expensed (vs capitalised), we do not treat them as non-recurring items and expect persistent opex given Yinson's long-term targets for RE capacity.

KEY FINANCIALS

Year to 31 Jan (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	4,849	3,607	1,578	2,295	2,475
EBITDA	1,099	1,337	1,307	1,908	2,159
Operating profit	793	1,032	996	1,495	1,747
Net profit (rep./act.)	315	401	375	687	876
Net profit (adj.)	357	403	375	687	876
EPS (sen)	31.5	35.5	33.0	60.5	77.1
PE (x)	14.3	12.7	13.6	7.4	5.8
P/B (x)	2.8	2.1	2.0	1.7	1.4
EV/EBITDA (x)	10.2	8.4	8.5	5.9	5.2
Dividend yield (%)	1.3	2.2	2.2	2.2	2.2
Net margin (%)	6.5	11.1	23.8	29.9	35.4
Net debt/(cash) to equity (%)	116.3	138.7	128.8	122.0	104.4
Interest cover (x)	3.4	3.4	3.1	4.7	5.6
ROE (%)	8.8	10.1	8.7	14.9	17.0
Consensus net profit	-	-	430	607	954
UOBKH/Consensus (x)	-	-	0.87	1.13	0.92

Source: Yinson, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM4.49
Target Price	RM5.95
Upside	+32.5%
(Previous TP	*RM7.60)*

COMPANY DESCRIPTION

One of the largest pure global FPSO operators.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	YNS MK
Shares issued (m):	1,065.2
Market cap (RMm):	4,782.6
Market cap (US$m):	1,135.0
3-mth avg daily t'over (US$m):	1.3

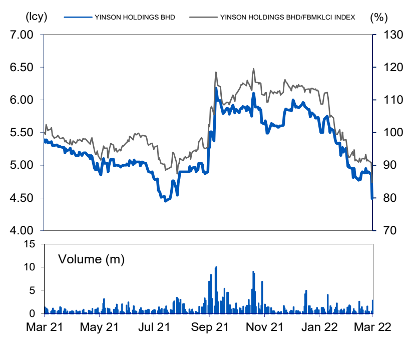
Price Performance (%)

52-week high/low RM6.18/RM4.45

1mth	3mth	6mth	1yr	YTD
(14.6)	(23.0)	(14.8)	(16.7)	(25.2)

Major Shareholders	%
Yinson Legacy	16.6
EPF	15.9
FY23 NAV/Share (RM)	2.23
FY23 Net Debt/Share (RM)	4.97

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Balance sheet.** Loan base surged qoq from RM7.3b to RM8.8b (RM4b of non-recourse debt), and net gearing increased to 1.24x. If the RM1.8b perpetual securities are treated as debt and factored in the net gearing, the ratio as at end-FY22 is at 3.3x. The group disclosed for the first time its net debt/EBITDA (including associates) ratios on group-wise basis and pure non-EPCIC basis (as per RHS). We understand that while banks will look at the group-wise basis for the purpose of assessing covenants, the total leverage remains healthy and below peers' average. We note there was a surge in restricted cash by about RM0.9b yoy to RM1.4b (out of total cash of RM2.9b), pledged as buffer accounts to service the loan especially for FPSO Marlim.

- **Comparison of different methods on cash flow.** For the convenience of readers who may be confused with the negative operating cash flow (OCF) of RM1.05b due to the nature of the FL, management disclosed that the OCF between EPCIC and non-EPCIC was RM1.5b in outflow and RM731m in inflow respectively. FPSO Marlim 2 is now almost 90% completed, with the naming ceremony expected in the coming two months. Hence, the EPCIC income for the FPSO conversion in the income quarters may be negative given the tail end of the conversion and the nature of FL (higher finance costs offsetting lower EPCIC revenue). There is no EPCIC contribution from Enauta and Parque Das Baleias (PDB) yet, although both vessels have arrived at the yard. FL accounting mandate reasonable costs and revenue to be recognised after certain thresholds, ie a certain level of project completion.

- **Contingency plans to deliver FPSO Marlim on time.** The FPSO, which is expected to commence first oil in early-23, may face a risk of further delay in Cosco Qidong yard. This is given that Qidong is located next to Shanghai, and may face COVID-19 lockdowns depending on the spread of the virus in China. While management updated that there is no stop order so far, if such an event occurs, they have set plans to sail the FPSO to another yard in the region, like Singapore, to complete outstanding works.

EARNINGS REVISION/RISK

- **Adjust FY23-24F earnings by -6/+2%.** For investors who prefer to analyse without lumpy finance lease effects, we have not forecast construction profits. However, we reduce FY23 earnings by assuming higher opex for RE division (not related to the Indian solar assets), offset by higher contribution from FPSO Marlim in FY24, as we now assume a stronger likelihood of on-time delivery of the FPSO. FY25 earnings are expected to be lifted by partial contributions from Enauta and FPSO PDB.

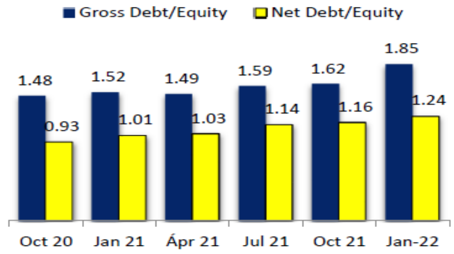
VALUATION/RECOMMENDATION

- **Maintain BUY with more diluted SOTP-based target price of RM5.95.** Our new post-rights target price (or RM2.98 after bonus issue but before warrants conversion), implies 18x FY23F PE, or 7.6x FY24 PE once Marlim starts up. Our valuation still factors in contract win potential of another FPSO, on top of Enauta and PDB. Given the recent movement of Yinson's share price, we now assume a higher dilution from the potential rights issue and bonus issue exercise, from our earlier post-rights target price of RM7.60. Our new assumption is based on "Scenario 3" as per Yinson's circular on the exercises, which may raise up to 1.2b new rights shares (after bonus issue), and this is for the event of unexpected circumstances beyond Yinson's control. In this case, we assume the recent share price movement may qualify. The exercises are expected to complete by mid-22.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

- **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.

GEARING MOVEMENT, QUARTERLY



	As at Jan 21 Audited		As at Jan 22 Unaudited	
Current Ratio (Current Assets / Current Liabilities)	1.45		2.21	
	Include EPCIC	Exclude EPCIC	Include EPCIC	Exclude EPCIC
Net Debt/Annualised EBITDA	3.54	2.01	4.20	3.37
Net Adjusted Debt*/ Adjusted Annualised EBITDA*	3.23	2.56	3.88	2.97
Net Adjusted Debt*/ Adjusted Annualised Core EBITDA*	2.68	2.12	3.85	2.94

Source: Yinson

SOTP VALUATION (@RM4.10/US$)

FY22F	Valuation	RM
FPSO Adoon	DCF (Blended IRR 11-12%, WACC 6.9%)	0.22
FPSO JAK, firm contract only	DCF (IRR 14%, WACC 6.9%, 74% stake)	2.42
FSO Bien Dong	DCF, step-down	0.12
FPSO Ca Rong Do	DCF (removed, pending update on force majeure)	0.00
MOPU	11x P/E	0.07
FPSO Helang (Layang), firm only	DCF, US$280m capex + US$50m residual value	0.89
FPSO Abigail-Joseph (AJ), firm	DCF (IRR 25%, WACC 6.9%)	1.03
Lam Son redeployment	Assumed discount from original value	0.14
FPSO Marlim 2 (Ana Nery)	DCF (IRR 17%, WACC 6.9%, 75% stake)	3.63
PDB, Enauta, and others	Include chance of more contract wins	5.53
(-) Minus net debt	Refinanced loan of FPSO JAK, FPSO Helang, and all perpetuals	(6.07)
(-) Rights issue		(2.03)
SOTP (diluted)		5.95
Implied FY23F PE	-	18x

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Net turnover	3,607	1,578	2,295	2,475
EBITDA	1,337	1,307	1,908	2,159
Deprec. & amort.	305	310	412	412
EBIT	1,032	996	1,495	1,747
Total other non-operating income	67	0	0	0
Associate contributions	7	0	0	0
Net interest income/(expense)	(388)	(428)	(407)	(382)
Pre-tax profit	716	569	1,088	1,364
Tax	(192)	(136)	(250)	(300)
Minorities	(123)	(57)	(151)	(188)
Net profit	401	375	687	876
Net profit (adj.)	403	375	687	876

BALANCE SHEET

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Fixed assets	3,822	4,700	5,476	6,252
Other LT assets	7,787	7,287	6,787	6,787
Cash/ST investment	2,859	3,409	1,887	1,999
Other current assets	737	655	745	789
Total assets	15,205	16,051	14,894	15,827
ST debt	648	1,130	1,282	1,287
Other current liabilities	976	714	498	461
LT debt	8,110	7,927	6,497	6,415
Other LT liabilities	732	1,387	1,220	1,556
Shareholders' equity	4,253	4,385	4,829	5,462
Minority interest	486	509	569	644
Total liabilities & equity	15,205	16,051	14,894	15,827

CASH FLOW

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Operating	(1,045)	825	1,160	1,432
Pre-tax profit	716	569	1,088	1,364
Tax	302	(136)	(250)	(300)
Deprec. & amort.	305	310	412	412
Associates	(7)	0	0	0
Working capital changes	(2,415)	82	(90)	(44)
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	926	(1,483)	(120)
Dividend payments	(114)	(114)	(114)	(114)
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	(262)	1,223	60	75
Net cash inflow (outflow)	118	550	(1,523)	112
Beginning cash & cash equivalent	1,821	2,859	3,409	1,887
Changes due to forex impact	920	0	0	0
Ending cash & cash equivalent	2,859	3,409	1,887	1,999

KEY METRICS

Year to 31 Jan (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	37.1	82.8	83.1	87.2
Pre-tax margin	19.9	36.0	47.4	55.1
Net margin	11.1	23.8	29.9	35.4
ROA	3.0	2.4	4.4	5.7
ROE	10.1	8.7	14.9	17.0
Growth				
Turnover	(25.6)	(56.3)	45.5	7.8
EBITDA	21.6	(2.3)	46.0	13.2
Pre-tax profit	23.5	(20.6)	91.3	25.4
Net profit	27.3	(6.4)	83.0	27.5
Net profit (adj.)	12.8	(6.9)	83.0	27.5
EPS	12.8	(6.9)	83.0	27.5
Leverage				
Debt to total capital	64.9	64.9	59.0	55.8
Debt to equity	205.9	206.5	161.1	141.0
Net debt/(cash) to equity	138.7	128.8	122.0	104.4
Interest cover (x)	3.4	3.1	4.7	5.6

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