

COMPANY RESULTS

Yinson (YNS MK)

1QFY23: Core Non-EPCIC Profits In Line

There were generally no surprises in Yinson's non-EPCIC results, although the profits surged yoy with good cost control, we conservatively assume cost inflation impact in subsequent quarters that may hit the non-O&G business. Yinson's execution remains solid for FPSO Marlim, and it should be able to repeat the same for FPSO PDB even if China's lockdown re-emerges. FPSO bidbook is higher. Maintain BUY, with a diluted target price of RM3.05.

1QFY23 RESULTS

Year to 31 Jan (RMm)	1QFY23	qoq % chg	yoy % chg	Comments
Revenue	1,005	35.6	1.3	Higher FPSO revenue offset lower EPCIC revenue
EBIT	304	12.2	13.0	Non-EPCIC income for 1QFY23/ 1QFY22: RM127m/ RM99m
EBIT margin (%)	30.2%	-6.3%	3.1%	EPCIC income for 1QFY23/ 1QFY22: RM36m/ RM41m
Finance costs	111.0	(0.9)	32.1	Drawdown of Marlim loans
Associates	(3.0)	(25.0)	(250.0)	FPSO JAK's O&M is now classified as a subsidiary
Pre-tax profit	190.0	22.6	1.6	
Reported profit	120.0	84.6	7.1	With RM16m loss in other business (Greentech: RM2m loss)
Core profit	113.0	46.8	14.1	Mainly exclude RM16m forex gain

Source: Yinson, UOB Kay Hian

RESULTS

- 1QFY23 core profit in line at 30%/27% of our/consensus forecasts.** Our forecasts exclude the engineering, construction, procurement, installation and commissioning (EPCC) finance lease (FL) profit. Non-EPCIC profits gained significantly yoy, with EBITDA also stronger at RM279m (1QFY22: RM232m), and these more than offset losses in non-O&G operations. This was partly due to higher variable FPSO income, which may have exercised the escalation rate to factor in higher oil prices and inflation, although the base FPSO rates in general do not have provisions that correlate to oil prices. One example being FPSO John Agyekum Kufuor (JAK), whereby its operation & maintenance (O&M) unit is now classified as a subsidiary (vs JV previously) due to better operational control, resulting in a RM4m gain yoy (before minority interests).
- Cash flow and balance sheet.** Non-EPCIC operating cash flow improved yoy, similar to EBITDA. Loan base surged qoq from RM8.7b to RM9.3b, though net gearing normalised slightly from 1.2x to 1.1x, due to higher cash of RM3.2b. Note that RM1.6b cash is restricted (1QFY22: RM0.4b) for the purposes of FPSO Marlim (Anna Nery). Including the RM1.8b perpetual securities, net gearing would be about 2.7x. The adjusted net debt/EBITDA (including associates) is lower at 2.1x vs 2.9x qoq, for non-EPCIC operations.

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	1,372	1,981	2,223
Operating profit	837	1,086	1,047	1,548	1,791
Net profit (rep./act.)	359	455	390	700	882
Net profit (adj.)	402	457	376	700	882
EPS (sen)	11.7	13.3	11.0	20.4	25.7
PE (x)	18.0	15.8	19.2	10.3	8.2
P/B (x)	3.9	3.0	3.1	2.8	2.4
EV/EBITDA (x)	10.1	8.3	8.4	5.8	5.2
Dividend yield (%)	2.8	4.7	4.7	4.7	4.7
Net margin (%)	7.4	12.6	23.6	29.1	34.0
Net debt/(cash) to equity (%)	116.3	138.7	140.7	143.2	131.1
Interest cover (x)	3.6	3.6	3.0	4.6	5.5
ROE (%)	10.0	11.5	9.3	16.3	19.2
Consensus net profit	-	-	410	619	813
UOBKH/Consensus (x)	-	-	0.92	1.13	1.08

Source: Yinson, Bloomberg, UOB Kay Hian

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

BUY

(Maintained)

Share Price	RM2.11
Target Price	RM3.05
Upside	+44.5%
(Previous TP)	RM2.98

COMPANY DESCRIPTION

One of the largest pure global FPSO operators.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	YNS MK
Shares issued (m):	2,095.0
Market cap (RMm):	5,192.9
Market cap (US\$m):	1,178.6
3-mth avg daily t'over (US\$m):	1.3

Price Performance (%)

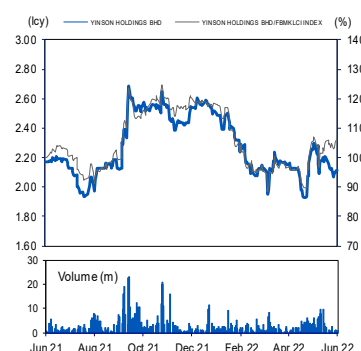
52-week high/low RM2.69/RM1.93

1mth	3mth	6mth	1yr	YTD
(6.6)	(0.5)	(17.2)	(2.7)	(19.1)

Major Shareholders

	%
Yinson Legacy	16.6
EPF	15.9
FY23 NAV/Share (RM)	0.68
FY23 Net Debt/Share (RM)	1.71

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Renewable energy (RE) update.** The solar assets in India recorded RM2m loss and RM1m EBITDA, vs RM2m loss and RM3m EBITDA yoy, with lower revenue by RM1.3m to RM3.8m yoy in 1QFY23. The carbon credit that was sold during the quarter is not yet recognised, as regulatory registration is delayed. Once registration is done, the outstanding carbon credits since 1QFY23 will be accounted for as potentially lumpy revenue, and most of it will flow directly to the bottom line. The second solar plant has yet to begin major construction, due to delays from the client (ie permitted delays). However, with the orders of long-lead items (solar panel costs had surged by 30%), if the tariffs are not allowed for adjustments, the second solar plant may have lower returns.
- Other non-EPCIC operations update.** On the EBIT level, the other non-O&G operations saw a loss of RM16m vs RM14m yoy. Part of this is higher opex for GreenTech (the electric vehicle charger JV) in which we understand amounted to RM2m, or RM8m annualised. For the O&G EPCIC operations, the lower profit yoy relates to the near-completion of FPSO Anna Nery's construction. About 60% of the EPCIC revenue (60%) arises from FPSO Parque das Baleias (PDB) which started construction in China.
- FPSO Anna Nery is close to sailaway and on track for first oil in early-23.** This FPSO was not affected by China's lockdown. However, FPSO PDB's execution could be a concern if China's lockdown happens again, as long as zero-COVID policy retains. FPSO contractors can issue force majeure notices and request for extension of time (EOI). We understand that Petrobras does not fix clauses for permitted delays (by months). There are clauses for late delivery charges (LD).
- >60% of total loans are fixed rates.** Compared with end-FY22 whereby about 85% of the total RM8.7b was of floating rate, Yinson had utilised swaps to convert most of the project loans into fixed rates, amounting to RM5.5b. The remaining project loans that are on floating rates are hedged. 30% of the remaining floating rate, unhedged loans is corporate debt. The new loan for FPSO PDB is targeted for 6% IR, vs the RM1b sustainable sukuk (raised last year) at 5.5% IR, and the RM0.3b Indian rupee loans which was refinanced from 10.5% to 8.25%. The Indian loan's IR renewal cycle is five years.
- Higher FPSO bidbook.** Previously, Yinson said it was keen on: a) FPSO Cameia (Total, Angola), b) FPSO Maka (Total, Suriname), and c) FPSO PAJ (BP, Angola). Recently, Yinson, along with MISC and Bumi Armada, are competing in bids for FPSO Agogo (ENI, Angola), which was reported at US\$1.5b in capex and 20 years firm tenure. Out of the four projects, Yinson believes Agogo is the closest to an award. Yinson's strategic review of either roping in strategic investors, or launching a hive-off initial public offering of its FPSO unit, could generate the capital for future FPSO projects; but even without this plan, the group is able to fund at least one more project.

EARNINGS REVISION/RISK

- Retain earnings forecasts.** FPSO projects remain on track, and we have assumed higher finance costs yoy. Although the 1QFY23 profits appear to be ahead of our full-year numbers, we remain conservative assuming unexpected cost inflation.

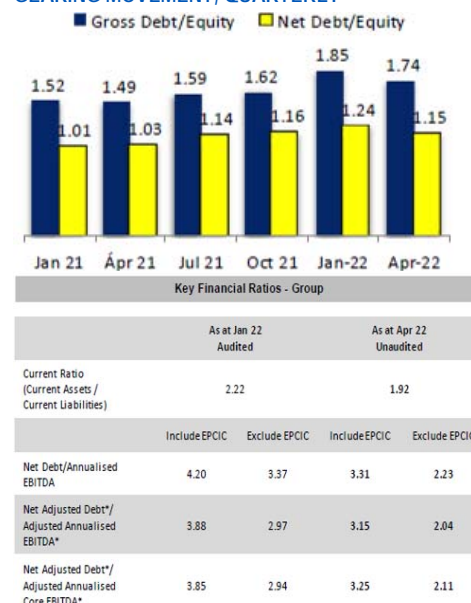
VALUATION/RECOMMENDATION

- Maintain BUY with an adjusted SOTP-based target price of RM3.05.** This implies 27.8x FY23F PE, or 14.1x FY25 PE on full Marlim contributions. Our valuation is adjusted for higher WACC and US\$, and with full dilution assuming all RM0.3b warrants are converted (exercise price: RM2.29). We maintain contract win potential of a mid-sized FPSO and Enauta. We continue to like Yinson for its execution, and current market price offers value without pricing in future FPSO projects or the long-term value of the non-O&G ventures.

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 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



*Adjusted Cash includes joint ventures' and associates' cash.
 *Adjusted EBITDA includes joint ventures and associates' annualised EBITDA.
 Source: Yinson

SOTP VALUATION (@RM4.30/US\$)

FY23F	Valuation	RM
FPSO Adoon	DCF (Blended IRR 11-12%, WACC 7.4%)	0.07
FPSO JAK, firm contract only	DCF (IRR 14%, WACC 7.4%, 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 7.4%)	0.02
Lam Son redeployment	Assumed discount from original value	0.07
FPSO Marlim 2 (Ana Nery)	DCF (IRR 17%, WACC 7.4%, 75% stake)	1.21
PDB, Enauta, and others	Include chance of more contract wins	2.05
(-) Minus net debt	Refinanced loan of FPSO JAK, FPSO Helang, and all perpetuals	(1.85)
SOTP (diluted)	RM3.4b shares include warrants conversion	3.05
Implied FY23F PE	-	27.8x
Implied FY25F PE	-	14.1x

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	1,372	1,981	2,223
Deprec. & amort.	305	326	432	432
EBIT	1,086	1,047	1,548	1,791
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	592	1,116	1,385
Tax	(192)	(142)	(257)	(305)
Minorities	(123)	(60)	(159)	(198)
Net profit	455	390	700	882
Net profit (adj.)	457	376	700	882

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	7,287	6,787	6,787
Cash/ST investment	2,859	3,192	1,481	1,402
Other current assets	737	677	772	818
Total assets	15,205	15,840	14,478	15,201
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	1,387	1,220	1,556
Shareholders' equity	4,253	4,169	4,397	4,807
Minority interest	486	510	574	653
Total liabilities & equity	15,205	15,840	14,478	15,201

CASH FLOW

Year to 31 Jan (RMm)	2022	2023F	2024F	2025F
Operating	(1,045)	835	1,197	1,467
Pre-tax profit	716	592	1,116	1,385
Tax	302	(142)	(257)	(305)
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	333	(1,712)	(78)
Beginning cash & cash equivalent	1,821	2,859	3,192	1,481
Changes due to forex impact	920	0	0	0
Ending cash & cash equivalent	2,859	3,192	1,481	1,402

KEY METRICS

Year to 31 Jan (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	38.6	83.1	82.4	85.7
Pre-tax margin	21.4	35.8	46.4	53.4
Net margin	12.6	23.6	29.1	34.0
ROA	3.4	2.5	4.6	5.9
ROE	11.5	9.3	16.3	19.2
Growth				
Turnover	(25.6)	(54.2)	45.5	7.9
EBITDA	21.7	(1.3)	44.3	12.2
Pre-tax profit	23.4	(23.1)	88.4	24.2
Net profit	26.7	(14.4)	79.6	26.0
Net profit (adj.)	13.8	(17.8)	86.3	26.0
EPS	13.8	(17.8)	86.3	26.0
Leverage				
Debt to total capital	64.9	65.9	61.0	58.5
Debt to equity	205.9	217.2	176.9	160.2
Net debt/(cash) to equity	138.7	140.7	143.2	131.1
Interest cover (x)	3.6	3.0	4.6	5.5

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