



Company report

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YINSON HOLDINGS

(YNS MK EQUITY, YINS.KL)

22 Dec 2020

Boost from finance lease EPCIC recognition

BUY

(Maintained)

Rationale for report: Company results

Price	RM5.42
Fair Value	RM7.20
52-week High/Low	RM7.42/RM4.24

Key Changes

Fair value	↔
EPS	↓

YE to Jan	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	2,519.3	4,567.1	3,118.9	2,846.3
Core net profit (RM mil)	241.5	614.1	537.5	527.9
FD Core EPS (sen)	22.1	56.1	49.1	48.2
FD Core EPS growth (%)	(9.5)	154.3	(12.5)	(1.8)
Consensus Net Profit (RM mil)	-	411.7	433.0	432.1
DPS (sen)	6.0	6.0	6.0	6.0
PE (x)	24.6	9.7	11.0	11.2
EV/EBITDA (x)	10.9	6.8	7.5	7.8
Div yield (%)	1.1	1.1	1.1	1.1
ROE (%)	6.2	10.0	13.4	11.8
Net Gearing (%)	73.3	83.6	84.0	84.0

Stock and Financial Data

Shares Outstanding (million)	1,094.7
Market Cap (RM mil)	5,933.5
Book Value (RM/share)	3.18
P/BV (x)	1.7
ROE (%)	6.2
Net Gearing (%)	73.3

Major Shareholders	Lim Han Weng (22.8%) EPF (15.5%) KWAP (10.0%)
Free Float	50.5
Avg Daily Value (RM mil)	6.7

Price performance	3mth	6mth	12mth
Absolute (%)	(9.5)	(8.3)	(17.3)
Relative (%)	(17.7)	(16.1)	(19.1)



Investment Highlights

- We maintain our BUY recommendation on Yinson Holdings (Yinson) with an unchanged sum-of-parts-based fair value of RM7.20/share (Exhibit 3), which implies an FY22F PE of 18x.
- While our fair value is unchanged, we have raised FY21F–FY23F earnings by 7%–41% largely due to the profit recognition of the engineering, procurement, construction, installation and commissioning (EPCIC) phase of the group's floating, production storage and offloading (FPSO) vessels — the Nigeria-based Abigail-Joseph and Petrobras' Anna Nery.
- Under the finance lease accounting methodology adopted by Yinson, the Abigail-Joseph's EPCIC revenue and profit will be recognised at the point of first oil, similar to an outright sale as with Helang in December last year. However, for Anna Nery, the EPCIC contribution will be recognised over the 3-year construction period until the handover in FY24F (Exhibit 6). Our FY21F–FY23F assumptions have now incorporated the EPCIC margins at 10%–12%.
- Recall that this accounting treatment is unlike Yinson's operating lease treatment, which recognises a more stable profit profile only after achieving first oil for the John Agyekum Kufour FPSO in Ghana and Knock Adoon in Nigeria.
- As we forewarned earlier, the group recognised a lumpy one-off EPCIC profit for the Abigail-Joseph FPSO in 3QFY21, as the fully completed vessel has been on a standby charter rate since July this year until finally achieving first oil on 28 October 2020 at the Anyala & Madu fields in Block OML 83 & 85, off Nigeria. However, this was offset by the US\$20mil (RM85mil) loss of deposit for the aborted acquisition of Singapore-based Ezion Ltd.
- Yinson's 9MFY21 core net profit of RM500mil (excluding impairments, forex, refinancing charges and acquisition write-offs) came in above expectations, exceeding our and consensus' FY21F earnings largely due to the EPCIC accounting treatment for the new FPSOs.
- Hence, the group's 3QFY21 core net profit rose 92% QoQ to RM262mil mainly from the one-off EPCIC contribution of Abigail-Joseph. On a YoY comparison, Yinson's 9MFY21 core net profit surged 3.3x from the commencement of Abigail-Joseph in 3QFY21 together with Anna Nery's EPCIC contribution.
- Following our earnings revision, the stock currently trades at a bargain FY22F PE of only 11x for a globally recognised FPSO player with a healthy balance sheet and a formidable outstanding order book of RM41bil (US\$10bil), which translates to a robust 13x FY21F revenue.

EXHIBIT 1: RESULTS SUMMARY

YE 31 Jan (RMmil)	9MFY20	9MFY21	YoY (%)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)
Revenue	663.4	3,601.6	>100	241.0	995.6	2,262.3	>100	>100
EBITDA	536.6	998.5	86.1	192.2	367.2	418.3	13.9	>100
Net interest expense	(124.6)	(229.2)	83.9	(44.6)	(70.7)	(71.3)	0.9	60.1
Depreciation & amortization	(178.8)	(230.7)	29.0	(62.7)	(77.2)	(77.7)	0.7	24.0
Associates & JV	11.7	(5.9)	(>100)	(0.1)	(2.4)	(1.2)	(48.4)	(>100)
Exceptionals	(9.9)	(110.4)		(1.1)	(43.8)	(84.8)		
Pre-tax Profit	234.9	422.3	79.8	83.7	173.1	183.2	5.9	>100
Taxation	(50.5)	(111.7)	>100	(15.9)	(45.2)	(46.3)	2.5	>100
Minorities	(39.5)	(62.9)	59.4	(13.8)	(27.5)	(36.1)	31.4	>100
Net Profit	145.0	247.8	70.9	54.0	100.4	100.7	0.4	86.6
Core Net Profit *	151.4	499.7	>100	153.7	136.7	261.9	91.5	70.4
EPS (sen)	13.2	22.7	71.9	4.9	9.2	9.2	0.4	87.8
Gross DPS (sen)	4.0	4.0	0.0	-	4.0	-	n/a	n/a
BV/Share (RM)	1.58	1.70	7.6	1.58	1.68	1.70	1.2	7.6
EBITDA margin (%)	80.9	27.7		79.7	36.9	18.5		
Pretax margin (%)	35.4	11.7		34.7	17.4	8.1		
Effective tax rate (%)	21.5	26.4		19.0	26.1	25.3		

* from Yinson's investor slide: PAT- MI

Source: Bursa Malaysia

EXHIBIT 2: RESULTS BREAKDOWN

YE 31 Jan (RMmil)	9MFY20	9MFY21	YoY (%)	3QFY20	2QFY21	3QFY21	QoQ (%)	YoY (%)
EPCIC	n/a	2,560.7	n/m	n/a	654.6	1,906.1	>100	n/m
Non-EPCIC	655.5	1,039.1	n/m	245.1	344.1	354.6	3.0	44.6
Offshore Production & Marine	655.5	3,599.8	>100	245.1	998.7	2,260.7	>100	>100
Other operations	7.9	1.8	(77.0)	(4.2)	(3.1)	1.7	>100	>100
Revenue	663.4	3,601.6	>100	241.0	995.6	2,262.3	>100	>100
EPCIC	n/a	354.4	n/m	n/a	117.6	236.9	>100	n/m
Non-EPCIC	353.4	468.1	32.5	131.6	326.6	141.5	(56.7)	7.5
Offshore Production & Marine	353.4	822.5	>100	131.6	284.7	378.4	32.9	>100
Other operations	13.5	(147.2)	(>100)	3.8	(28.8)	(119.3)	>100	(>100)
Renewables	353.4	(4.5)	32.5	0.0	(3.3)	(1.2)	(63.9)	n/m
EBIT	720.2	670.8	(6.9)	135.4	252.7	257.8	2.0	90.4
EBIT margin (%)	108.6	18.6		56.2	25.4	11.4		
EPCIC	53.9	22.8		n/a	18.0	12.4		
Non-EPCIC	353.4	45.0		131.6	94.9	39.9		
Offshore Production & Marine	53.9	22.8		53.7	28.5	16.7		

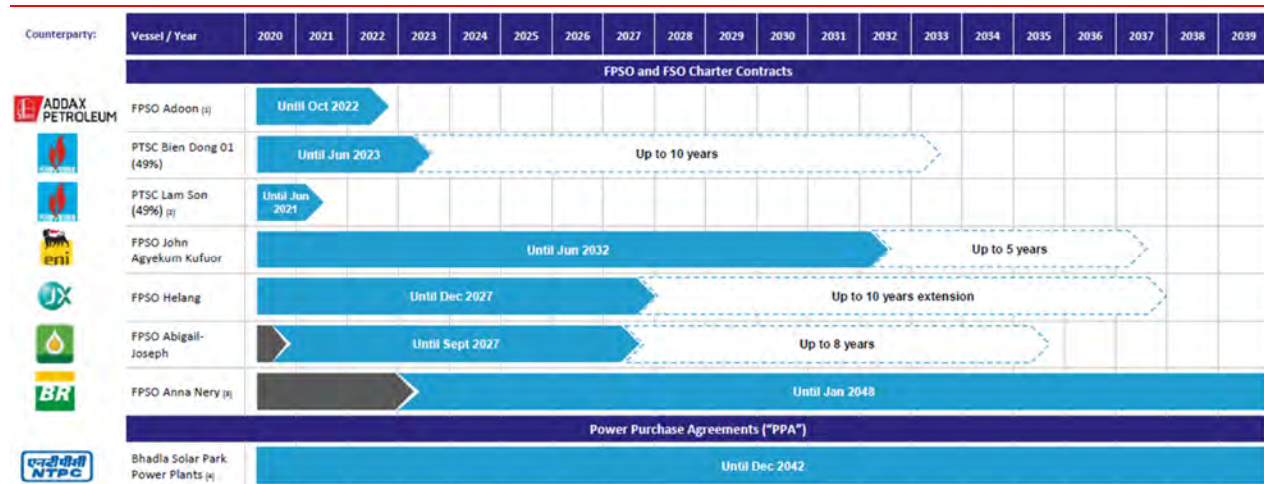
Source: Bursa Malaysia

EXHIBIT 3: SUM-OF-PARTS BREAKDOWN

	Effective stake %	Valuation Methodology RMmil
FPSO Adoon	100.0	348.0 WAC of 6.5% for cashflows up to Oct 2023.
FSO PTSC Bien Bong 01	49.0	191.9 WAC of 6.5% for cashflows up to June 2023.
FPSO PTSC Lam Son	49.0	58.4 WAC at 6.5% for \$50k daily charter to June 2021
FPSO John Agyekum Kufuor in OCTP, Ghana	74.0	1,378.1 Assumed capex of US\$1bil, WAC of 6.5%, project IRR of 12%, fixed contract term 15 years until June 2032
FPSO Helang, Block SK10, Sarawak	100.0	1,180.1 Assumed capex of US\$380m, WACC of 6.5% and project IRR of 12% with firm charter until Dec 2027 plus 10 year extension options
FPSO Abigail-Joseph (Anyala & Madu), Nigeria	100.0	1,386.7 Assume zero capex, cashflows until Sep 2027 and WACC of 6.5% until Sept 2027
FPSO Marlim 2, Brazil (Anna Nery)	65.0	2,531.3 Assumed capex of US\$1bil, WAC of 7.5%, project IRR of 18%, fixed contract term 25 years until Jan 2048
Rising Son solar power plant, India	95.0	66.7 140MW capacity, WACC of 10% until Dec 2042
Operating units		7,141.1
Holding company's shareholders' funds as at 31 January 2020		1,466.5
Less: Investment cost of subsidiaries and associates		(927.0)
Add: US\$49mil sale for 8.5%-10% stake in Marlim 2 to K Line		200.9
Sum-of-parts valuation (RMmil)		7,881.5
No of shares (mil)		1,094.7
SOP/share (RM/share)		7.20
Implied FY22F PE		18

Source: AmInvestment Bank

EXHIBIT 4: YINSON'S ORDER BOOK DURATION



Source: Yinson's IR slide

EXHIBIT 5: FPSO ORDERS

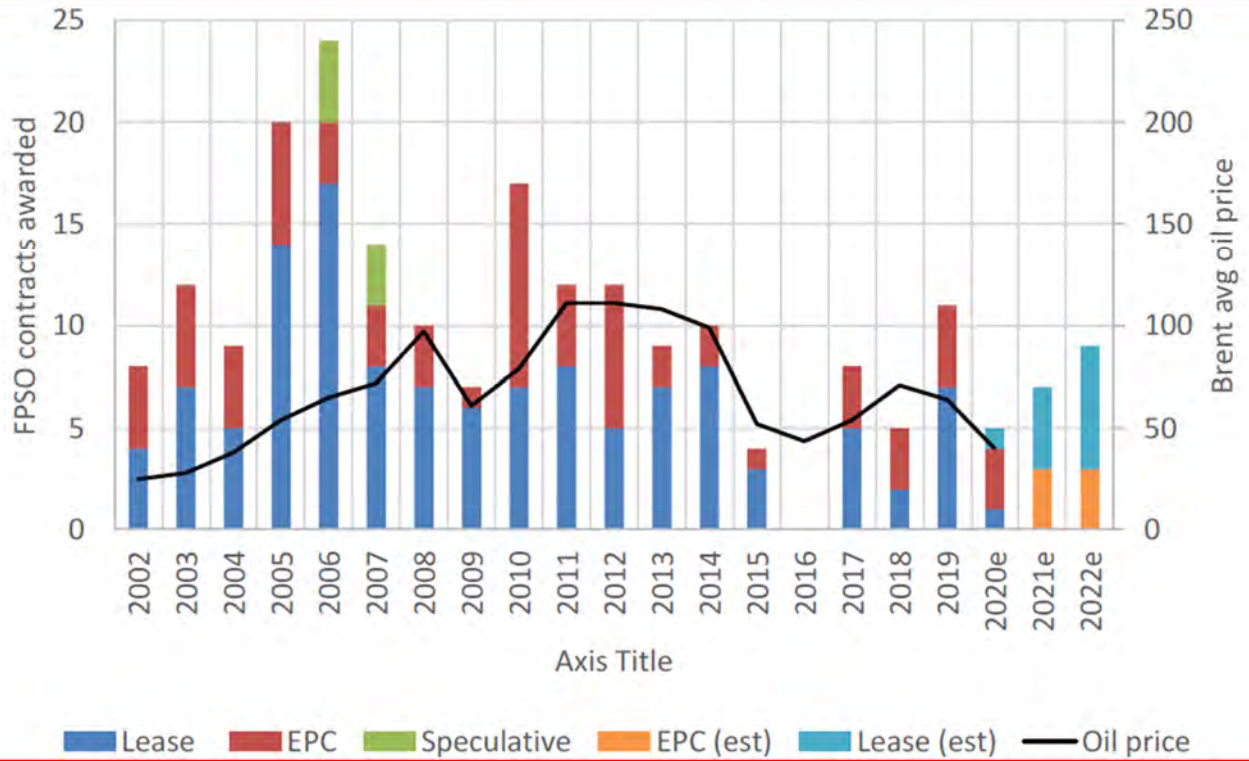
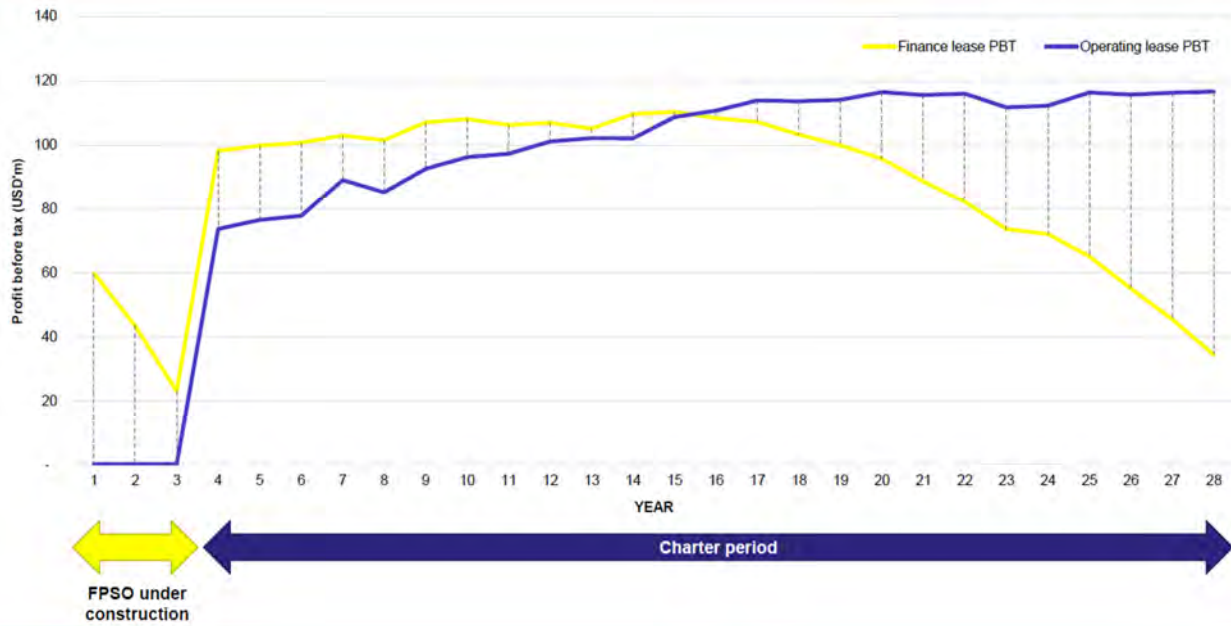


EXHIBIT 6: PROFIT RECOGNITION OF FINANCE VS. OPERATING LEASE



Source: Yinson

EXHIBIT 7: PB BAND CHART

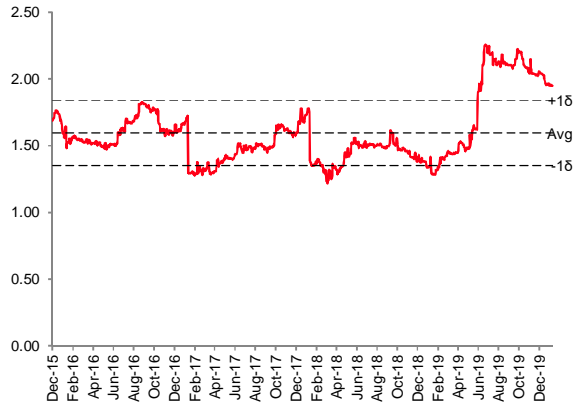


EXHIBIT 8: PE BAND CHART

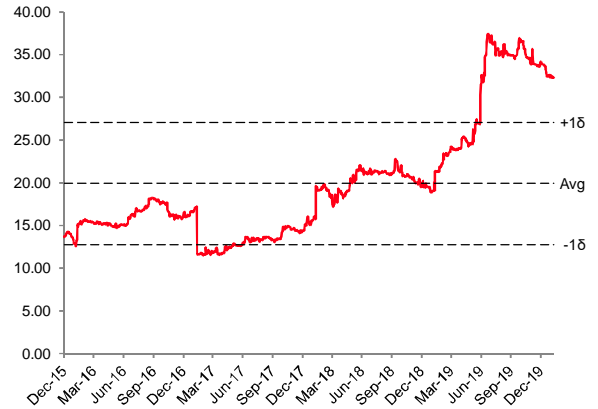


EXHIBIT 9: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jan)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,034.9	2,519.3	4,567.1	3,118.9	2,846.3
EBITDA	814.0	779.7	1,332.3	1,269.0	1,273.5
Depreciation/Amortisation	(284.5)	(251.1)	(272.9)	(288.8)	(294.2)
Operating income (EBIT)	529.5	528.6	1,059.5	980.2	979.2
Other income & associates	12.8	10.4	24.2	24.2	24.2
Net interest	(167.0)	(176.4)	(217.0)	(231.4)	(238.2)
Exceptional items	(31.4)	(31.6)	(251.9)	-	-
Pretax profit	343.9	331.1	614.6	772.9	765.2
Taxation	(79.5)	(69.8)	(190.6)	(170.0)	(168.3)
Minorities/pref dividends	(29.5)	(51.4)	(61.9)	(65.4)	(68.9)
Net profit	234.9	209.9	362.1	537.5	527.9
Core net profit	266.3	241.5	614.1	537.5	527.9
Balance Sheet (RMmil, YE 31 Jan)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	5,298.2	4,843.6	6,070.7	7,081.9	8,087.7
Intangible assets	401.5	394.8	375.1	356.4	338.5
Other long-term assets	534.8	1,990.6	1,956.4	1,925.8	1,898.5
Total non-current assets	6,234.5	7,229.0	8,402.3	9,364.0	10,324.7
Cash & equivalent	1,217.3	1,276.2	1,519.7	1,558.9	1,727.3
Stock	9.9	22.1	24.3	26.7	29.4
Trade debtors	282.1	321.4	337.5	354.3	372.0
Other current assets	339.5	666.7	700.1	735.1	771.8
Total current assets	1,848.8	2,286.4	2,581.5	2,675.0	2,900.6
Trade creditors	371.2	493.4	518.1	544.0	571.2
Short-term borrowings	401.4	476.0	523.6	576.0	633.6
Other current liabilities	546.1	544.8	739.0	733.0	755.2
Total current liabilities	1,318.7	1,514.3	1,780.7	1,853.1	1,960.0
Long-term borrowings	2,748.4	3,354.4	4,154.4	4,554.4	5,054.4
Other long-term liabilities	392.2	872.9	916.5	962.3	1,010.4
Total long-term liabilities	3,140.6	4,227.2	5,070.9	5,516.7	6,064.8
Shareholders' funds	3,321.3	3,483.6	3,780.1	4,251.9	4,714.1
Minority interests	302.7	290.2	352.1	417.5	486.4
BV/share (RM)	3.04	3.18	3.45	3.88	4.31
Cash Flow (RMmil, YE 31 Jan)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	343.9	331.1	614.6	772.9	765.2
Depreciation/Amortisation	284.5	251.1	272.9	288.8	294.2
Net change in working capital	484.8	(257.7)	167.2	(34.3)	(7.8)
Others	(295.3)	214.7	(430.5)	(423.3)	(427.4)
Cash flow from operations	817.9	539.2	624.1	604.1	624.2
Capital expenditure	(1,047.5)	(296.5)	(1,500.0)	(1,300.0)	(1,300.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(1,047.5)	(296.5)	(1,500.0)	(1,300.0)	(1,300.0)
Debt raised/(repaid)	(29.6)	(75.8)	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(65.6)	(65.7)	(65.7)	(65.7)	(65.7)
Others	(167.0)	(176.4)	(217.0)	(231.4)	(238.2)
Cash flow from financing	(262.2)	(317.9)	(282.7)	(297.1)	(303.9)
Net cash flow	(491.8)	(75.2)	(1,158.6)	(993.0)	(979.8)
Net cash/(debt) b/f	(3,307.6)	(3,491.0)	(3,234.2)	(4,007.0)	(4,583.5)
Net cash/(debt) c/f	(3,799.4)	(3,566.2)	(4,392.8)	(5,000.1)	(5,563.3)
Key Ratios (YE 31 Jan)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	13.7	143.4	81.3	(31.7)	(8.7)
EBITDA growth (%)	19.7	(4.2)	70.9	(4.8)	0.4
Pretax margin (%)	33.2	13.1	13.5	24.8	26.9
Net profit margin (%)	22.7	8.3	7.9	17.2	18.5
Interest cover (x)	3.2	3.0	4.9	4.2	4.1
Effective tax rate (%)	23.1	21.1	31.0	22.0	22.0
Dividend payout (%)	27.9	31.3	18.1	12.2	12.4
Debtors turnover (days)	108	44	26	40	47
Stock turnover (days)	3	2	2	3	4
Creditors turnover (days)	123	63	40	62	72

Source: Company, AmInvestment Bank Bhd estimates

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