



Company report

YINSON HOLDINGS

(YNS MK EQUITY, YINS.KL)

10 June 2021

Pre-FEED for 2 huge FPSO projects

BUY

(Maintained)

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Rationale for report: Company update

| | |
|------------------|---------------|
| Price | RM5.00 |
| Fair Value | RM7.20 |
| 52-week High/Low | RM6.56/RM4.51 |

Key Changes

| | |
|------------|---|
| Fair value | ↕ |
| EPS | ↕ |

| YE to Jan | FY21 | FY22F | FY23F | FY24F |
|-------------------------------|---------|---------|---------|---------|
| Revenue (RM mil) | 4,849.0 | 3,119.0 | 2,504.7 | 2,366.1 |
| Core net profit (RM mil) | 637.0 | 556.6 | 542.0 | 584.8 |
| FD Core EPS (sen) | 58.2 | 50.8 | 49.5 | 53.4 |
| FD Core EPS growth (%) | 163.8 | (12.6) | (2.6) | 7.9 |
| Consensus Net Profit (RM mil) | - | 467.3 | 451.7 | 590.3 |
| DPS (sen) | 6.0 | 6.0 | 6.0 | 7.0 |
| PE (x) | 8.6 | 9.8 | 10.1 | 9.4 |
| EV/EBITDA (x) | 6.3 | 8.0 | 8.3 | 7.5 |
| Div yield (%) | 1.2 | 1.2 | 1.2 | 1.4 |
| ROE (%) | 8.8 | 14.2 | 12.3 | 11.9 |
| Net Gearing (%) | 116.3 | 112.8 | 110.6 | 91.2 |

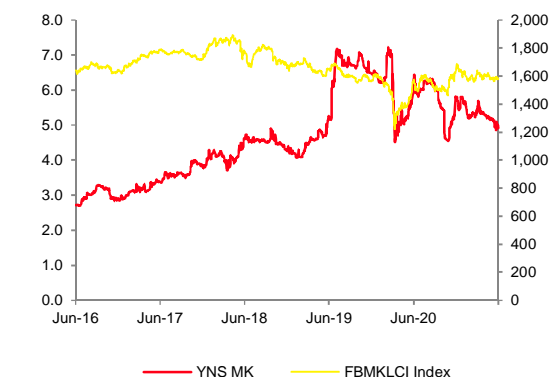
Stock and Financial Data

| | |
|------------------------------|---------|
| Shares Outstanding (million) | 1,094.7 |
| Market Cap (RM mil) | 5,473.7 |
| Book Value (RM/share) | 3.37 |
| P/BV (x) | 1.5 |
| ROE (%) | 8.8 |
| Net Gearing (%) | 116.3 |

| | |
|--------------------|----------------------|
| Major Shareholders | Lim Han Weng (22.8%) |
| | EPF (15.1%) |
| | KWAP (10.1%) |

| | |
|--------------------------|------|
| Free Float | 50.5 |
| Avg Daily Value (RM mil) | 5.0 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|-------|--------|--------|
| Absolute (%) | (6.5) | (13.0) | (20.5) |
| Relative (%) | (4.0) | (9.5) | (20.8) |



Investment Highlights

- We maintain BUY on Yinson Holdings (Yinson) with an unchanged fair value of RM7.20/share based on an ESG-adjusted sum-of-parts valuation. This reflects a premium of 3% for our ESG rating of 4 stars given that the group is currently the first oil & gas service provider to proactively invest into renewable energy, and implies an FY22F PE of 15x on par with the FBMKLCI.
- *Upstream* reported that Yinson has been selected by Total to perform preliminary front-end engineering design (pre-FEED) for 2 floating production, storage and offloading (FPSO) projects to be installed in Block 20/21 in Angola, Africa and Block 58 in Suriname, South America. The pre-FEED, the first undertaken by Yinson's Oslo office for a fee, will provide technical and commercial lease & operate proposals to Total within 8 months from the agreement date.
- The topside design will be performed by Technip Energies, a key partner with Yinson for the pre-FEED. The Angola project will be installed at water depths of 1,400 metres, 160km from Luanda, while the Suriname project will be installed at around 2,000 metres, 150km from Paramaribo.
- Including Yinson, we understand that there are 2–3 contractors who were selected to undertake this job. This will allow Total to choose the best engineering design which could lead to the winner securing the FPSO charters involving substantive vessel capex of US\$1bil–US\$1.5bil each.
- As *Upstream* reported that the other pre-FEED providers could be Japan-based Modec and a JV between Saipem and BW Offshore, we caution that Yinson will need to provide the best FEED to be in the pole position to secure these FPSO charters.
- Even so, this positive news comes on the back of recent developments that Yinson is again poised to secure the Parque das Baleias (PDB) FPSO charter from Petrobras' re-tendering exercise. Yinson emerged as the sole bidder in an earlier tender following the disqualification of a consortium of Norway-based Bluewater and Saipem.
- *Upstream* reported that the group submitted a very competitive day rate of US\$645,750 for the PDB charter, comprising the bareboat charter of US\$571,500 and services rate of 394,930 Brazilian reais (US\$74,250).
- Recall that Yinson was already planning for a rights issue with its US\$1bil Anna Nery project for Petrobras and potentially fresh renewable energy (RE) projects. If Yinson were to secure all 3 of these FPSOs, we estimate that the group will need to undertake a rights issue of up to RM2.3bil assuming 100% equity stakes with capex of US\$800mil for PDB and US\$1bil each for the Suriname & Angola projects.

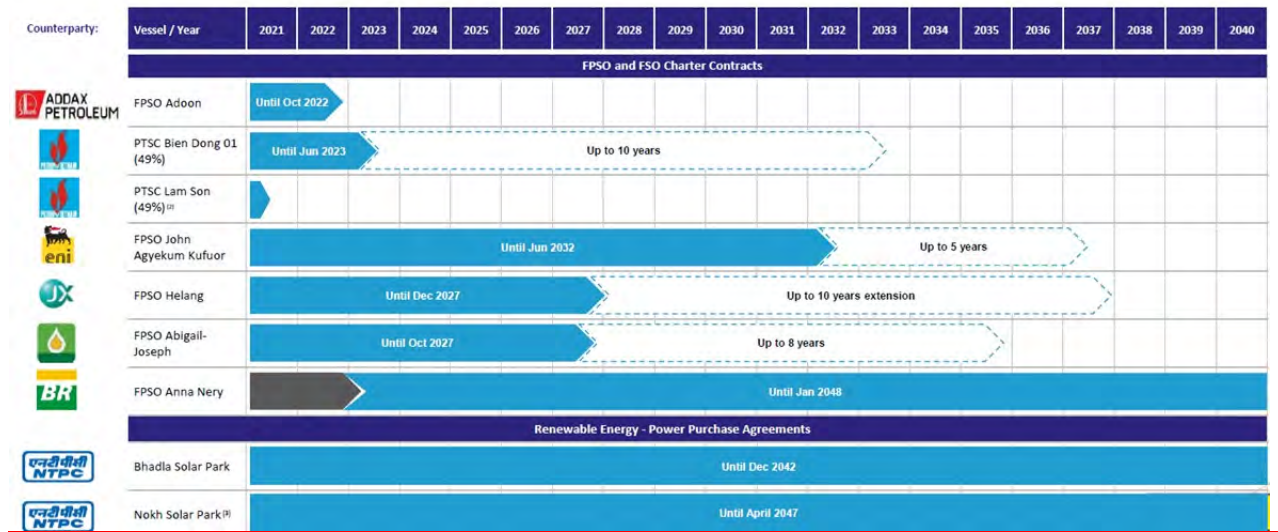
- Assuming a conservative project IRR of 12% and 20:80 equity-to-debt financing ratio together with the dilution from issuance of rights shares at a 30% discount to its current market price, we estimate that these 3 massive projects will slightly raise Yinson's current SOP by 10% to RM7.95/share.
- Given the energy transition's impact on oil & gas project financing, if the equity-to-debt financing ratio is required to be higher at 30:70 for all 3 projects, Yinson's SOP could decline by 7% instead. However, we expect the group to mitigate any potential value dilution by disposing of part of its equity stakes in the projects to other strategic shareholders such as Sumitomo Corp and Kawasaki Kisen Kaisha Ltd, which currently have equity stakes of 25% and 10% respectively in Yinson's Anna Nery FPSO.
- Besides oil & gas projects, Yinson remains on the prowl for additional RE projects in India. As it could opt to recycle RE capital later at lower interest costs post-development, we remain sanguine on Yinson's energy transition strategy that is well ahead of its peers and should garner ESG-supported premium valuations over the longer term against Tesla's forward PE of over 600x.
- The stock currently trades at a bargain FY22F PE of only 10x for a globally recognised FPSO player with a healthy balance sheet and a formidable outstanding order book of RM41bil (US\$10bil), translating to a robust 13x FY22F revenue.

EXHIBIT 1: SUM-OF-PARTS BREAKDOWN

| | Effective stake % | Valuation RMmil | Methodology |
|--|----------------------|--------------------|--|
| FPSO Adoon | 100.0 | 348.0 | WAC of 6.5% for cashflows up to Oct 2023. |
| FPSO 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 | 1,364.3 | 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 | 2,240.2 | Assumed capex of US\$1bil, WAC of 7.5%, project IRR of 18%, fixed contract term 25 years until Jan 2048 |
| Rising Sun's Bhadla solar power plant, India | 95.0 | 66.7 | 140MW capacity, WACC of 10% until Dec 2042 |
| Rising Sun's Nokh solar power plant, India | 80.0 | 75.7 | 190MW capacity, WACC of 10% for 25 years |
| Operating units | | 6,911.9 | |
| 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) | | 7,652.3 | |
| No of shares (mil) | | 1,094.7 | |
| SOP/share (RM/share) | | 6.99 | |
| ESG premium (%) | | 3.0 | |
| ESG-adjusted SOP/share (RM/share) | | 7.20 | |
| Implied FY22F PE | | 14 | |

Source: AmInvestment Bank

EXHIBIT 2: YINSON'S ORDER BOOK DURATION (US\$10BIL)



Source: Yinson's IR slide

EXHIBIT 3: PB BAND CHART

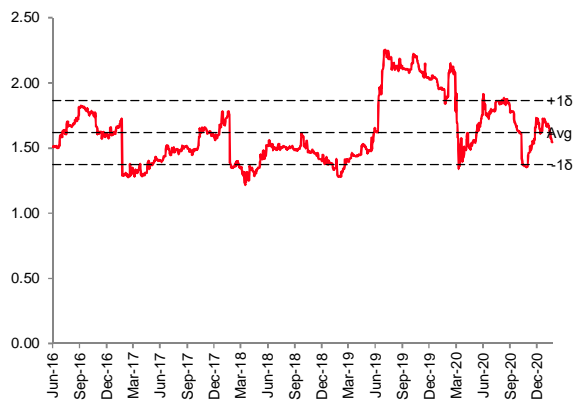


EXHIBIT 4: PE BAND CHART

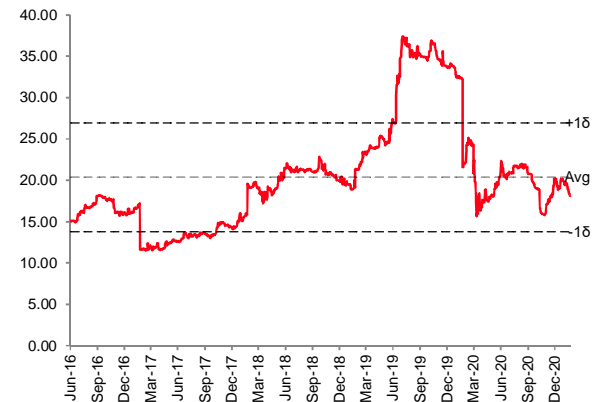


EXHIBIT 5: ESG RATING

| | | | | | |
|---------------------------------|---|---|---|---|---|
| Overall | ★ | ★ | ★ | ★ | |
| Zero-carbon initiatives | ★ | ★ | ★ | ★ | |
| Work site safety | ★ | ★ | ★ | ★ | ★ |
| Migrant worker welfare | ★ | ★ | ★ | | |
| Corporate social responsibility | ★ | ★ | ★ | ★ | |
| Pollution control | ★ | ★ | ★ | ★ | |
| Supply chain auditing | ★ | ★ | ★ | | |
| Corruption-free pledge | ★ | ★ | ★ | | |
| Accessibility & transparency | ★ | ★ | ★ | ★ | |

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank

EXHIBIT 6: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Jan) | FY20 | FY21 | FY22F | FY23F | FY24F |
|---|------------------|------------------|------------------|------------------|------------------|
| Revenue | 2,519.3 | 4,849.0 | 3,119.0 | 2,504.7 | 2,366.1 |
| EBITDA | 779.7 | 1,541.0 | 1,269.0 | 1,273.5 | 1,366.7 |
| Depreciation/Amortisation | (251.1) | (306.0) | (187.9) | (198.2) | (232.5) |
| Operating income (EBIT) | 528.6 | 1,235.0 | 1,081.1 | 1,075.2 | 1,134.3 |
| Other income & associates | 10.4 | (29.0) | 24.2 | 24.2 | 24.2 |
| Net interest | (176.4) | (304.0) | (307.8) | (316.2) | (315.8) |
| Exceptional items | (31.6) | (322.0) | - | - | - |
| Pretax profit | 331.1 | 580.0 | 797.4 | 783.2 | 842.6 |
| Taxation | (69.8) | (168.0) | (175.4) | (172.3) | (185.4) |
| Minorities/pref dividends | (51.4) | (97.0) | (65.4) | (68.9) | (72.5) |
| Net profit | 209.9 | 315.0 | 556.6 | 542.0 | 584.8 |
| Core net profit | 241.5 | 637.0 | 556.6 | 542.0 | 584.8 |
| Balance Sheet (RMmil, YE 31 Jan) | FY20 | FY21 | FY22F | FY23F | FY24F |
| Fixed assets | 4,844.0 | 4,002.0 | 5,114.1 | 6,215.8 | 6,483.4 |
| Intangible assets | 395.0 | 338.0 | 321.1 | 305.0 | 289.8 |
| Other long-term assets | 2,082.0 | 4,860.0 | 4,791.9 | 4,729.1 | 4,671.2 |
| Total non-current assets | 7,321.0 | 9,200.0 | 10,227.1 | 11,250.0 | 11,444.4 |
| Cash & equivalent | 1,276.0 | 1,821.0 | 1,873.8 | 2,028.2 | 2,360.0 |
| Stock | 22.0 | 3.0 | 3.3 | 3.6 | 4.0 |
| Trade debtors | 322.0 | 333.0 | 349.7 | 367.1 | 385.5 |
| Other current assets | 574.0 | 529.0 | 555.5 | 583.2 | 612.4 |
| Total current assets | 2,194.0 | 2,686.0 | 2,782.2 | 2,982.2 | 3,361.8 |
| Trade creditors | 493.0 | 862.0 | 905.1 | 950.4 | 997.9 |
| Short-term borrowings | 476.0 | 794.0 | 873.4 | 960.7 | 1,056.8 |
| Other current liabilities | 545.0 | 241.0 | 252.9 | 263.8 | 277.6 |
| Total current liabilities | 1,514.0 | 1,897.0 | 2,031.4 | 2,174.9 | 2,332.3 |
| Long-term borrowings | 3,354.0 | 5,312.0 | 5,712.0 | 6,212.0 | 6,012.0 |
| Other long-term liabilities | 873.0 | 652.0 | 684.6 | 718.8 | 754.8 |
| Total long-term liabilities | 4,227.0 | 5,964.0 | 6,396.6 | 6,930.8 | 6,766.8 |
| Shareholders' funds | 3,484.0 | 3,686.0 | 4,176.9 | 4,653.2 | 5,161.4 |
| Minority interests | 290.0 | 339.0 | 404.4 | 473.3 | 545.8 |
| BV/share (RM) | 3.18 | 3.37 | 3.82 | 4.25 | 4.71 |
| Cash Flow (RMmil, YE 31 Jan) | FY20 | FY21 | FY22F | FY23F | FY24F |
| Pretax profit | 331.1 | 580.0 | 797.4 | 783.2 | 842.6 |
| Depreciation/Amortisation | 251.1 | 306.0 | 187.9 | 198.2 | 232.5 |
| Net change in working capital | (165.8) | 118.0 | 11.6 | 10.5 | 13.5 |
| Others | (755.8) | (3,536.3) | (319.4) | (331.1) | (345.1) |
| Cash flow from operations | (339.4) | (2,532.3) | 677.6 | 660.9 | 743.5 |
| Capital expenditure | (296.9) | 536.0 | (1,300.0) | (1,300.0) | (500.0) |
| Net investments & sale of fixed assets | - | - | - | - | - |
| Others | - | - | - | - | - |
| Cash flow from investing | (296.9) | 536.0 | (1,300.0) | (1,300.0) | (500.0) |
| Debt raised/(repaid) | (75.3) | (31.0) | - | - | - |
| Equity raised/(repaid) | - | - | - | - | - |
| Dividends paid | (65.7) | (65.7) | (65.7) | (65.7) | (76.6) |
| Others | (176.4) | (304.0) | (307.8) | (316.2) | (315.8) |
| Cash flow from financing | (317.3) | (400.7) | (373.5) | (381.9) | (392.4) |
| Net cash flow | (953.6) | (2,397.0) | (995.9) | (1,021.0) | (148.9) |
| Net cash/(debt) b/f | (1,932.4) | (2,554.0) | (4,285.0) | (4,711.6) | (5,144.5) |
| Net cash/(debt) c/f | (2,886.0) | (4,951.0) | (5,280.9) | (5,732.7) | (5,293.4) |
| Key Ratios (YE 31 Jan) | FY20 | FY21 | FY22F | FY23F | FY24F |
| Revenue growth (%) | 143.4 | 92.5 | (35.7) | (19.7) | (5.5) |
| EBITDA growth (%) | (4.2) | 97.6 | (17.7) | 0.4 | 7.3 |
| Pretax margin (%) | 13.1 | 12.0 | 25.6 | 31.3 | 35.6 |
| Net profit margin (%) | 8.3 | 6.5 | 17.8 | 21.6 | 24.7 |
| Interest cover (x) | 3.0 | 4.1 | 3.5 | 3.4 | 3.6 |
| Effective tax rate (%) | 21.1 | 29.0 | 22.0 | 22.0 | 22.0 |
| Dividend payout (%) | 31.3 | 20.9 | 11.8 | 12.1 | 13.1 |
| Debtors turnover (days) | 44 | 25 | 40 | 52 | 58 |
| Stock turnover (days) | 2 | 1 | - | 1 | 1 |
| Creditors turnover (days) | 63 | 51 | 103 | 135 | 150 |

Source: Company, AmInvestment Bank Bhd estimates

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